Annual Report 2017

Analyst selection

Addressing healthcare challenges through innovation

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 2017. The information in this PDF has been derived from the audited financial statements 2017 of Koninklijke Philips N.V.
Ernst & Young Accountants has issued unqualified auditors' reports on these financial statements.

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Grey text indicates parts not included in this selection from the Philips Annual Report 2017.

1 Message from the CEO

"I am pleased with our transformation progress to become a focused leader in health technology and see tremendous further potential to grow Philips' market positions and expand margins." **Frans van Houten**, CEO Royal Philips

Dear Stakeholder,

2017 was a good year of solid progress for Philips, as we continued our transformation to become a focused leader in health technology and delivered on our improvement targets for the year. In line with our commitments we delivered 4% comparable sales growth[1], resulting in a 10-basis-point gain in market share. We also improved operating profitability, with an Adjusted EBITA[1] margin increase of 110 basis points, and generated a strong EUR 1.2 billion free cash flow[1]. This underscores our ability to stay the course, in this case against a background of challenging economic circumstances in Europe and considerable uncertainty in the US around healthcare policy.

Our organic growth initiatives are delivering tangible results. Overall we recorded 6% order growth for the year. In Diagnostic Imaging, for instance, we ended the year with high-single-digit order growth and realized market share gains in China and India, driven by the renewal of 60% of our portfolio. We also noted a strong increase in order intake in our Digital Pathology Solutions business, double-digit growth of our Sleep & Respiratory Care devices, and the continued success of our OneBlade hybrid facial hair styler. And we introduced several important innovations, gained traction with our solutions approach – securing multiple long-term strategic partnerships – and continued to invest in quality and talent.

We further strengthened our portfolio through targeted acquisitions, the largest being Spectranetics, a global leader in vascular intervention and lead management solutions. The integration of these acquisitions is on track. Toward the end of the year we deconsolidated Philips Lighting as we reduced our shareholding to below 30%, in line with our stated aim to fully sell down our stake.

2017 saw the completion of the industry reclassification of our stock to Healthcare at all major indices. Our customers and the financial markets appreciate the way we have pivoted and executed on our strategic roadmap. And we increased our brand value to USD 11.5 billion in the 2017 Interbrand ranking.

Continuing to drive our five-year 'Healthy people, sustainable planet' program, with its focus on Circular Economy, Access to Care and Climate Action, we improved the lives of 2.2 billion people around the world in 2017, and we again received top rankings from leading indices such as the Dow Jones Sustainability Index and the Carbon Disclosure Project. At the United Nations in September we made an extended commitment to improve the lives of 300 million people in underserved healthcare communities by 2025.

Overall, I am pleased with the progress we made in 2017. Our purpose is very clear. We are here to improve health and healthcare through innovations! We have a vibrant, highly committed workforce, with employee engagement consistently above the high-performing norm and rising from 74% to 76% this year. We have good momentum on our way to position ourselves for a future with higher growth and earnings potential. Clearly, we can still improve operational excellence: making further progress on product performance and our commitment to quality is our highest priority for 2018. However, I am very confident in our ability to capture the opportunities and deal with the challenges ahead, as we work toward our goal of improving the lives of 3 billion people a year by 2025.

Innovating with purpose

In the face of growing and aging populations, the rise of chronic diseases, and global resource constraints, health systems the world over are under enormous strain. Digital technology is transforming the healthcare industry, increasingly shifting value towards software and services. It also has the potential to enable more and more people to actively take ownership of their health and well-being.

For Philips – with leadership positions in both personal health and professional healthcare – we see that innovation can transform the delivery of care across the health continuum, enabling new relationships between care providers and patients/consumers, and driving better patient outcomes, higher productivity and a better user experience for all concerned.

[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report

We are driving this transformation in different ways:

- By offering consumers connected solutions – like our Sonicare DiamondClean Smart oral care and DreamWear sleep therapy solutions – that support superior preventive care and those living with chronic disease respectively.
- By giving clinicians the solutions they need to perform care with better outcomes and higher productivity, such as our Healthcare Informatics solutions. These support first-time-right diagnosis and increase productivity by integrating radiology, pathology and genomics information at the point of care, with AI-driven clinical decision support.
- By empowering clinicians to deliver precision treatments supported by ground-breaking innovations for image-guided therapies, including our advanced live image-guidance solutions, hybrid operating rooms and smart devices such as our diagnostic and therapeutic catheters.
- By enabling the seamless flow of data needed to care for patients in real time wherever they are, by 'joining up the dots' from the ICU to the home with our HealthSuite digital platforms and patient monitoring solutions, again supported by powerful algorithms that can predict adverse patient incidents hours in advance.

All of this with the objective of supporting the shift to value-based healthcare, a model that aims to improve patient outcomes while at the same time increasing productivity – that is *innovation with purpose*. And there's more to come from our pipeline, thanks to our consistently high levels of investment in R&D, where some 60% of our people are focused on software and data science.

The road forward

Looking ahead, we see significant opportunities to further increase the value we deliver – by boosting growth in our existing core business, growing in adjacencies, and driving customer and operational excellence. We know that our strategy has traction, so now it is execution that matters most.

Boosting growth in core business

One of the ways we will capture new growth in our core business is by continuing to leverage products and solutions that have worked well in mature markets and bringing them to growth geographies where we have a strong footprint and brand recognition – as we have done with our Sonicare power toothbrushes in China.

In addition, we are increasingly partnering with hospital customers in new business models, engaging in long-term strategic partnerships to innovate value-added, integrated solutions that deliver better outcomes and higher productivity.

We now have over 110 of these long-term partnerships, up from 60-plus in 2016, and the number continues to rise. The combination of compelling solutions and consultative partnership contracts drives above-average growth rates and a higher proportion of recurring revenues.

Growing in adjacencies

We have completed two substantial M&A transactions over the last few years, Volcano and Spectranetics. These were targeted to meet our strategic objectives, to complement our leadership in cardiovascular interventions with smart devices, so that we can support complete vascular procedures. Volcano has worked out very well, having risen to double-digit growth and much improved profitability since we integrated the business; and we have similar expectations of Spectranetics, as we leverage our post-merger integration capabilities to unlock maximum value.

Another route to growth in adjacencies is through organic growth and investments in R&D. To extend our strong portfolio in patient monitoring, for example, we have invested in medical-grade wearables so that patients don't need to be wired up but can be continuously measured, wherever they are. We continue to invest in Digital Pathology, as we believe the digitization of tissue slides is going to completely transform the clinical practice of pathology. We are pleased we are now able to market our IntelliSite Pathology Solution for primary diagnostic use in the USA, and we have since seen a sharp increase in order growth.

At the same time, we do not need to do everything ourselves. In 2017, for example, we entered into a partnership with B. Braun to innovate and accelerate growth in ultrasound-guided regional anesthesia and vascular access. And we have a host of other value-adding alliances where we have decided we can better expand our capabilities through partnering, rather than going it alone.

Continuing the digital transformation of Philips is absolutely fundamental to our future. We continue to invest in our secure HealthSuite digital eco-system platform – to enable digital health propositions that connect consumers and doctors to Philips through the cloud, enabling new business models and unlocking new revenue streams. We currently have over 30 cloud-connected propositions in the market.

Today, we sell a large proportion of our Personal Health products through online channels, aided by digital marketing. And now we are transferring that marketing capability to our health systems channels, so that we become more effective at reaching healthcare professionals. We are also connecting our back-office systems to our customers to enable new recurring revenue streams and enhanced customer loyalty in Software as a Service and Product as a Service business models.

Driving customer and operational excellence
To ensure that our solutions are truly customer-centric, we use 'design thinking' and our proven 'Co-create' methodology, whereby we come together with healthcare professionals to explore how our combined knowledge, resources and shared vision could improve the delivery of care.

In our drive for operational excellence we continue with disciplined implementation of the Philips Business System and Lean principles. The adoption of Hoshin methodology to plan and drive execution has yielded significant gains across the group. Our productivity measures will add up to over EUR 1.2 billion over the three-year period 2017-2019, having delivered around EUR 480 million in 2017.

We continue to drive quality and regulatory performance improvement throughout the company. Nevertheless, we did not fully deliver to our 2017 plan as we continue to address two significant regulatory challenges that arose from years ago. We must continue our improvement journey forcefully.

Building on the strong 6% order growth for the full year 2017, consistent execution on these value drivers will enable us to deliver, in 2018, on our medium-term targets of 4-6% comparable sales growth[1] and an average annual improvement in Adjusted EBITA[1] margin of 100 basis points.

In conclusion

We have made strong progress in our transformation to become a focused leader in health technology. Going forward, we are committed to single-mindedly improve performance and attain higher levels of growth. To this end we are continuing to strengthen our culture – putting our customers first, acting with quality and integrity, teaming up to win, taking ownership to deliver fast, and learning, improving and inspiring each other, every step of the way.

I am confident that, by doing so, we will be able to expand our strong positions across the health continuum, extend our solutions capability to address our customers' unmet needs, and deliver the full benefits of data-enabled connected care.

It only remains for me to thank our customers, shareholders and other stakeholders for the support they continue to give us. And to thank our Philips people around the world for their tremendous engagement and efforts over the past year.

Frans van Houten
Chief Executive Officer

[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report

2 Our strategic focus

2.1 Addressing health challenges through innovation

All around the world, resource constraints are driving a shift to value-based healthcare – a system that aims to increase access to care and improve patient outcomes while also raising cost productivity. At the same time, aging populations and the rise of chronic diseases like heart disease and respiratory conditions are driving up demand for healthcare.

In parallel, a growing focus on healthy living and prevention means more and more people are looking for new ways to proactively monitor and manage their health, also in home and community settings. And the digitalization of healthcare has reached the point where value is shifting from stand-alone products to solutions combining systems, smart devices, software and services, which deliver greater benefits to customers.

Philips sees significant value in more integrated forms of healthcare, unlocking the power of data and artificial intelligence at the point of care, while at the same time optimizing care delivery across the health continuum. This includes putting increased emphasis on both primary and secondary prevention and population health management programs.

At Philips, we are striving to make the world healthier and more sustainable through innovation, with the goal of improving the lives of 3 billion people a year by 2025.

In today's increasingly connected world, the convergence of Philips' consumer technologies that facilitate healthy living, medical technologies that help clinicians to deliver better diagnosis and treatment, and cloud-based technologies that support data sharing and analysis, will be a key enabler of more effective, lower-cost integrated health solutions.

We like to visualize healthcare as a continuum since it suggests the notion of continuous care. And it becomes very compelling when one thinks of this continuum as being *connected*.

By addressing healthcare as a 'connected whole' in this way, we can unlock gains and efficiencies and drive innovations that help deliver on the 'quadruple aim': enhancing the patient experience, improving health outcomes, lowering the cost of care, and improving the work life of care providers.

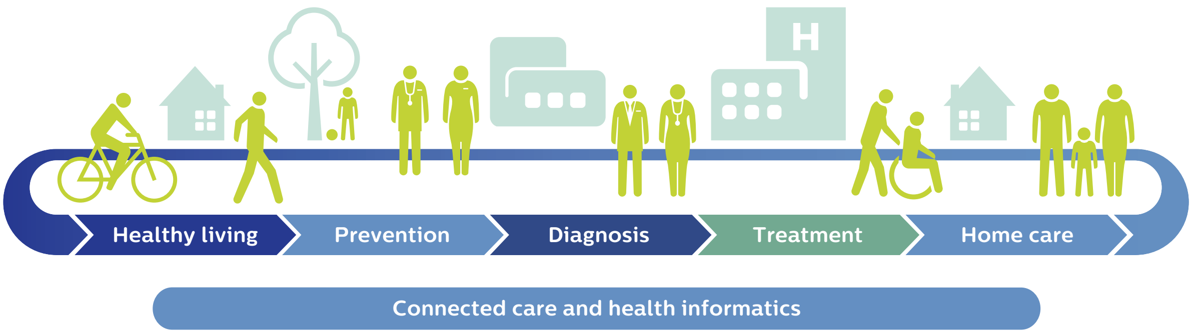
With our global reach, deep insights and leading innovations, we are uniquely positioned in 'the last yard' to consumers and care providers, delivering:

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

Underpinning these solutions, and spanning the health continuum, our connected care and health informatics 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.

We are focusing on end-to-end pathways – at present primarily cardiology, oncology, respiratory care, and pregnancy and parenting – where we believe our integral approach can add even greater value for our customers.



More and more, we are teaming up with hospital and health systems to understand their needs, provide integrated solutions, and engage in multi-year cooperation to drive improvements in terms of patient outcomes, quality of care delivery and cost productivity.

In this context, we are pioneering new business models that fit our customers' needs better. These include Technology Managed Services, as well as Software as a Service and Product as a Service models. We have also started to take co-accountability for our customers' patient outcomes and productivity.

As we embark on the next phase of our health technology journey, the drivers below are designed to help deliver higher levels of customer value and quality, boost growth, deliver winning solutions, and improve our results:

Focus on	Driven by	Resulting in	
Growth in core businesses	• Capture geographic growth opportunities • Pivot to consultative customer partnerships and business models • Drive innovative value-added, integrated solutions	Revenue growth Margin expansion Increased cash generation Improved return on invested capital	**Increased shareholder value**
Growth in adjacencies	• Portfolio extensions through M&A, organic investments and partnerships		
Customer and operational excellence	• Continue to lead the digital transformation • Improve customer experience, quality systems, operational excellence and productivity		

2.2 How we create value

Meeting people's unmet needs

At Philips, value creation always starts with listening to people in local markets – consumers, doctors, nurses, hospital executives and administrators – so we understand the specific challenges they face in their day-to-day work.

This gives us a deep insight into their needs and aspirations. We then apply our innovative competencies, strong brand, global footprint and talented, engaged people – often in long-term partnerships – to deliver solutions that meet these needs, making the world healthier and more sustainable.

To measure the impact we are having around the world, we have developed our independently verified Lives Improved model. We take a two-dimensional approach – social and ecological – to improving people's lives. Products and solutions that directly support the curative (care) or preventive (well-being) side of people's health, determine the contribution to the social dimension. The contribution to the ecological dimension is determined by means of our Green Products and Solutions portfolio.

Our business system

With its four interlocking elements, the Philips Business System (PBS) is designed to help us deliver on our mission and vision – and to ensure that success is repeatable. As we execute our strategy and invest in the best opportunities, leverage our unique strengths and become operationally excellent, we will be able to consistently deliver value to our customers, consumers and other stakeholders.

- **Strategy – Where we invest:** We manage our businesses with clearly defined strategies to deliver solutions across the health continuum and allocate resources to maximize value creation.
- **Capabilities, Assets and Positions – Our unique strengths:** We strengthen and leverage our core Capabilities, Assets and Positions – our deep customer insights, technological innovation, global footprint, our people, and the trusted Philips brand – as they create differential value.
- **Excellence – How we operate:** We are a learning organization that applies common operating principles and practices to deliver to our customers with excellence.
- **Path to Value – What we deliver:** We define and execute business plans that deliver sustainable results along a credible Path to Value.

The 'Creating value for our stakeholders' diagram, based on the International Integrated Reporting Council framework, shows how – with the Philips Business System at the heart of our endeavors – we use six different forms of capital to drive value in the short, medium and long term. All numbers are for the year ended December 31, 2017.

Capital input

The capitals (resources and relationships) that Philips draws upon for its business activities

Human
- Employees **73,951**, **120** nationalities, **36%** female
- Philips University **1,200** new courses, **830,000** hours, **570,000** training completions
- **27,997** employees in growth geographies
- New **Inclusion & Diversity** programs

Intellectual
- Invested in R&D **EUR 1.76 billion** (Green Innovation **EUR 233 million**)
- Employees in R&D **9,787** across the globe including growth markets

Financial
- Net debt **EUR 2.8 billion**
- Equity **EUR 12.0 billion**
- Market capitalization **EUR 29.2 billion**

Manufacturing
- Manufacturing sites **38**, cost of materials used **EUR 4.9 billion**
- Total assets **EUR 25.3 billion**
- Capital expenditure **EUR 420 million**

Natural
- Energy used in manufacturing **3,072 terajoules**
- Water used **888,000 m³**
- Recycled plastics in our products **1,850 tonnes**

Social
- Philips Foundation
- Stakeholder engagement
- New volunteering policy

Value outcomes

The result of the application of the capitals to Philips' business activities and processes as shaped by the Philips Business System

Human
- Employee Engagement Index **76%** positive
- Sales per employee **EUR 240,429**
- Employee benefit expenses **EUR 5,824 million**

Intellectual
- New patent filings **1,200**
- IP Royalties Adjusted EBITA **EUR 225 million**
- **165** design awards

Financial
- Comparable sales growth **4%**
- Adjusted EBITA[1] as a % of sales **12.1%**
- Net cash provided by operating activities **EUR 1,870 million**
- Net capital expenditures **EUR 685 million**
- Dividend **EUR 742 million**
- Corporate taxes paid **EUR 349 million**
- **60%** Green Revenues

Manufacturing
- **EUR 17.8 billion** products and solutions sold, with **2.2 billion** Lives improved

Natural
- **11%** revenues from circular propositions
- Net CO_2 emissions **627 kilotonnes**
- **245,000 tonnes** (estimated) products put on the market
- **24.6 kilotonnes** waste, of which **80%** recycled
- Environmental impact Philips' operations **EUR 200 million**

Social
- Brand value **USD 11.5 billion**
- Partnerships with UNICEF, Red Cross and Ashoka

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 raise the funds we need from shareholders and other capital providers. We allocate this capital to the businesses and markets we think offer the best prospects for growth and returns.

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.

[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

3 Group performance

"2017 was a year of solid progress, as we generated sales of EUR 17.8 billion underpinned by a 4% comparable sales growth, improved our operating profitability margin by 110 basis points, delivered a strong operating cash flow of EUR 1.9 billion, reduced our interest expenses by over EUR 100 million and increased net income from continuing operations to EUR 1,028 million." **Abhijit Bhattacharya**, CFO Royal Philips

3.1 Financial performance

Management summary

- Sales rose to EUR 17.8 billion, a nominal increase of 2%, which reflected 3% nominal growth in the Personal Health businesses and Diagnosis & Treatment businesses and flat year-on-year sales in the Connected Care & Health Informatics businesses. On a comparable basis[1] the 4% growth was driven by 6% growth in the Personal Health businesses and 3% growth in the Connected Care & Health Informatics and Diagnosis & Treatment businesses.

- As of December 31, 2017, Philips' shareholding in Philips Lighting was decreased to 29.01% of Philips Lighting's issued share capital. As a result, Philips no longer has control over Philips Lighting and has ceased to consolidate Philips Lighting. With the completion of this transaction, Philips reached an important milestone in pivoting Philips into a focused health technology company. For further information, refer to sub-section 3.1.1, Philips Lighting sell-down, of this Annual Report.

- Net income amounted to EUR 1.9 billion and increased by EUR 379 million compared to 2016, driven by improvements in operational performance, lower net financial expenses and higher discontinued operations results, partly offset by higher restructuring and acquisition-related charges and higher income taxes, which included a tax charge of EUR 171 million due to the US Tax Cuts and Jobs Act. Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis.

- Adjusted EBITA[1] totaled EUR 2.2 billion, or 12.1% of sales, an increase of EUR 232 million, or 110 basis points as a % of sales, compared to 2016. The productivity programs delivered annual savings of approximately EUR 483 million, ahead of the targeted savings of EUR 400 million, and included approximately EUR 260 million procurement savings, led by the Design for Excellence (DfX) program, and EUR 223 million savings from other productivity programs.

- Net cash provided by operating activities amounted to EUR 1.9 billion and increased by EUR 700 million compared to 2016. Free cash flow[1] amounted to EUR 1.2 billion and increased by EUR 756 million compared to 2016. The increase was mainly driven by higher earnings and the dividend related to the retained interest in the combined businesses of Lumileds and Automotive, lower outflows related to pension de-risking settlements, as well as the cash outflows in Q4 2016 of EUR 280 million related to the Masimo agreements. For further information on the Masimo agreements, refer to note 19, Provisions.

- On June 28, 2017, Royal Philips announced a EUR 1.5 billion share buyback program. Philips started the program in the third quarter of 2017 and continues to make progress. As the program was initiated for capital reduction purposes, Philips intends to cancel all of the shares acquired under the program.

- In line with our mission to improve people's lives, we have embedded sustainability at the heart of our business processes, and Philips was named industry leader in the Dow Jones Sustainability Index for the 3rd year in a row. In the Carbon Disclosure Project, we achieved the highest score for the 5th year in a row. Green Revenues, including products and solutions sales, increased to 60% of total revenues in 2017.

[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

Philips Group
Key data in millions of EUR unless otherwise stated
2015-2017

	2015	2016	2017
Sales	16,806	17,422	17,780
Nominal sales growth	16%	4%	2%
Comparable sales growth[1]	4%	5%	4%
Income from operations	658	1,464	1,517
as a % of sales	*3.9%*	*8.4%*	*8.5%*
Financial expenses, net	(359)	(442)	(137)
Investments in associates	30	11	(4)
Income taxes	(169)	(203)	(349)
Income from continuing operations	160	831	1,028
Discontinued operations	479	660	843
Net income	638	1,491	1,870
Adjusted EBITA[1]	1,688	1,921	2,153
as a % of sales	*10.0%*	*11.0%*	*12.1%*
Other indicators			
Net income attributable to shareholders per common share in EUR:			
basic	0.68	1.58	1.78
diluted	0.68	1.56	1.75
Net cash provided by operating activities	*598*	*1,170*	*1,870*
Net capital expenditures	*(752)*	*(741)*	*(685)*
Free cash flow[1]	(154)	429	1,185

1) Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

3.1.1 Philips Lighting sell-down

In September 2014, Philips announced its plan to sharpen its strategic focus by establishing two stand-alone companies focused on the HealthTech and Lighting opportunities respectively. To this end, a stand-alone structure was established for Philips Lighting within the Philips Group, effective February 1, 2016. Then, on May 27, 2016, Philips Lighting was listed and started trading on Euronext in Amsterdam under the symbol 'LIGHT'. Following the listing of Philips Lighting, Philips retained a 71.23% stake. The Initial Public Offering resulted in a net cash inflow of EUR 863 million and an increase of shareholders' equity of EUR 109 million.

In the course of 2017, Philips successfully completed three accelerated bookbuild offerings to institutional investors of a total of 65.35 million shares in Philips Lighting, gradually reducing Philips' stake in Philips Lighting's issued share capital to 29.01% by the end of 2017.

The first two transactions in February and April 2017, involving 48.25 million shares, resulted in a net cash inflow of EUR 1,065 million and had a positive impact on shareholders' equity of the Company of EUR 327 million. In April 2017, we concluded that a loss of control was highly probable due to further sell-downs of the remaining shares within one year. From that date Lighting was presented as a discontinued operation.

In November 2017, by selling another 17.1 million shares, Philips lost control, resulting in the deconsolidation of Philips Lighting. The sale of shares resulted in a net cash inflow of EUR 544 million and a gain of EUR 599 million recognized in Discontinued operations.

As of December 31, 2017, the retained interest in Philips Lighting represents a value of EUR 1,264 million. Philips will sell down its retained interest in Philips Lighting within one year and it is therefore presented under Assets classified as held for sale. The current position of 29.01% is a temporary position which fits in our overall single coordinated plan to sell Philips Lighting in its entirety. Consequently, any future results related to the retained interest – like value adjustments, results upon disposal and dividends – will be reflected in Discontinued operations.

Subsequent to deconsolidation, Philips recognized a valuation loss of EUR 104 million in discontinued operations related to the retained interest, reflecting the stock price developments of Philips Lighting until December 31, 2017.

3.1.2 Results of operations

Sales

The composition of sales growth in percentage terms in 2017, compared to 2016, is presented in the table below.

Philips Group
Sales growth composition in %
2017 versus 2016

	nominal growth	currency effects	consolidation changes	comparable growth[1]
Personal Health	3.0	1.9	0.7	5.6
Diagnosis & Treatment	3.1	2.0	(1.6)	3.5
Connected Care & Health Informatics	0.2	1.9	1.1	3.2
HealthTech Other	(13.2)	0.2	0.1	(12.9)
Philips Group	**2.1**	**1.9**	**(0.1)**	**3.9**

1) Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

Group sales amounted to EUR 17,780 million in 2017 and increased 2% on a nominal basis. Adjusted for a 1.8% negative currency effect and consolidation impact, comparable sales[1] were 4% above 2016.

Our Personal Health businesses' sales amounted to EUR 7,310 million, which was EUR 211 million higher than in 2016, or 3% higher on a nominal basis and 6% higher on a comparable basis[1]. For further information, refer to sub-section 4.1.3, Financial performance, of this Annual Report.

1) Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

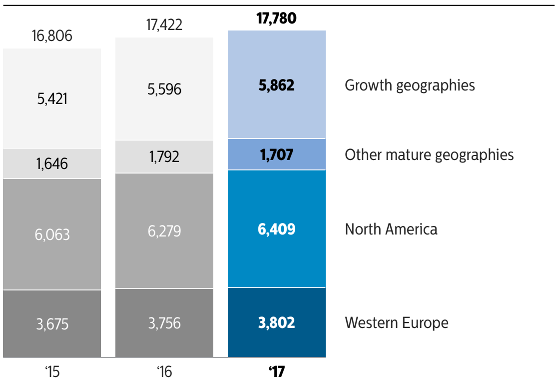
Our Diagnosis & Treatment businesses' sales amounted to EUR 6,891 million, which was EUR 205 million higher than in 2016, or 3% higher on both a nominal and a comparable basis[1]. For further information, refer to sub-section 4.2.3, Financial performance, of this Annual Report.

Our Connected Care & Health Informatics businesses' sales amounted to EUR 3,163 million, which was EUR 5 million higher than in 2016, flat year-on-year on a nominal basis and 3% higher on a comparable basis[1]. For further information, refer to sub-section 4.3.3, Financial performance, of this Annual Report.

HealthTech Other reported sales of EUR 415 million, which was EUR 63 million lower than in 2016. For further information, refer to sub-section 4.4.3, Financial performance, of this Annual Report.

Performance per geographic cluster

Philips Group
Sales by geographic cluster in millions of EUR
2015 - 2017



Nominal sales growth by geographic cluster in %
2015 - 2017

	2015	2016	2017
Mature geographies[1]	16.0	3.9	0.8
Growth geographies	15.3	3.2	4.8
Philips Group	**15.8**	**3.7**	**2.1**

1) Mature geographies include Western Europe, North America and Other mature geographies.

Comparable sales growth by geographic cluster[1] in %
2015 - 2017

	2015	2016	2017
Mature geographies[2]	2.7	3.3	1.9
Growth geographies	8.1	8.4	8.0
Philips Group	**4.4**	**4.9**	**3.9**

1) Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.
2) Mature geographies include Western Europe, North America and Other mature geographies.

Sales in mature geographies were EUR 91 million higher than in 2016, or 1% higher on a nominal basis and 2% higher on a comparable basis[1]. Sales in Western Europe were 1% higher than in 2016 on a nominal basis and 3% higher on a comparable basis[1]. Comparable sales in Western Europe reflected mid-single-digit growth in the Connected Care & Health Informatics businesses and Personal Health businesses, and flat year-on-year sales in the Diagnosis & Treatment businesses. Sales in North America increased by EUR 130 million, or 2% on a nominal basis and 3% on a comparable basis[1]. Comparable sales in North America reflected mid-single-digit growth in the Connected Care & Health Informatics businesses and low-single-digit growth in the Personal Health businesses and Diagnosis & Treatment businesses. Sales in other mature geographies decreased by 5% on a nominal basis and by 2% on a comparable basis[1] .Comparable sales in other mature geographies showed low-single-digit growth in the Diagnosis & Treatment businesses, while the Connected Care & Health Informatics businesses and Personal Health businesses recorded a low-single-digit decline.

In growth geographies, sales were EUR 266 million higher than in 2016 and increased 5% on a nominal basis. The 8% increase on a comparable basis[1] reflected double-digit growth in the Personal Health businesses, high-single-digit growth in the Diagnosis & Treatment businesses and low-single-digit growth in the Connected Care & Health Informatics businesses. The increase was driven by double-digit growth in Middle East & Turkey and high-single-digit growth in China, Latin America and Central & Eastern Europe.

Gross margin

In 2017, Philips' gross margin increased to EUR 8,181 million, or 46.0% of sales, from EUR 7,939 million, or 45.6% of sales, in 2016. Gross margin in 2017 included EUR 98 million of restructuring and acquisition-related charges, whereas 2016 included EUR 22 million of restructuring and acquisition-related charges. 2017 also included EUR 40 million of charges related to quality and regulatory actions, EUR 14 million of charges related to the consent decree focused on the defibrillator manufacturing in the US, and a EUR 36 million net release of provisions. Gross margin in 2016 also included a EUR 12 million net release of provisions and EUR 4 million of charges related to the separation of the Lighting business. The year-on-year increase was mainly driven by improved operational performance in the Personal Health, Diagnosis & Treatment and Connected Care & Health Informatics businesses, partly offset by higher restructuring and acquisition-related charges.

Selling expenses

Selling expenses amounted to EUR 4,398 million in 2017, or 24.7% of sales, compared to EUR 4,142 million, or 23.8% of sales, in 2016. Selling expenses in 2017 included EUR 127 million of restructuring and acquisition-related charges, compared to EUR 47 million in 2016. Selling expenses in 2017 also included EUR 9 million related to the separation of the Lighting

1) Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

business and EUR 4 million of charges related to the consent decree. Selling expenses in 2016 also included EUR 38 million related to the separation of the Lighting business.

General and administrative expenses

General and administrative expenses decreased to EUR 577 million, or 3.2% of sales, in 2017, compared to EUR 658 million, or 3.8% of sales, in 2016. 2017 included EUR 19 million of restructuring and acquisition related-charges, compared to EUR 5 million in 2016. General and administrative expenses in 2017 also included charges of EUR 21 million related to the separation of the Lighting business. 2016 also included charges of EUR 109 million related to the separation of the Lighting business, a EUR 26 million impairment of real estate assets, as well as a EUR 46 million gain from the settlement of a pension-related claim.

Research and development expenses

Research and development costs increased from EUR 1,669 million, or 9.6% of sales, in 2016 to EUR 1,764 million, or 9.9% of sales, in 2017. Research and development costs in 2017 included EUR 72 million of restructuring and acquisition-related charges, compared to EUR 21 million in 2016. 2017 also included charges of EUR 22 million related to portfolio rationalization measures, EUR 7 million of charges related to quality and regulatory actions, and EUR 2 million of charges related to the consent decree. The year-on-year increase was mainly due to higher restructuring and acquisition-related charges. Excluding these charges, research and development costs amount to 9.3% of sales.

Philips Group
Research and development expenses
in millions of EUR unless otherwise stated
2015 - 2017

	2015	2016	2017
Personal Health	383	412	415
Diagnosis & Treatment	596	629	715
Connected Care & Health Informatics	386	388	399
HealthTech Other	189	217	221
Legacy Items	8	23	14
Philips Group	**1,562**	**1,669**	**1,764**
as % of sales	*9.3%*	*9.6%*	*9.9%*

Net income, Income from operations (EBIT) and Adjusted EBITA[1)]

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 sales, Income from operations and Adjusted EBITA[1)] according to the 2017 segment classifications.

Philips Group
Sales, Income from operations and Adjusted EBITA[1)]
in millions of EUR unless otherwise stated
2016 - 2017

	Sales	Income from opera-tions	%	Adjusted EBITA[1)]	%
2017					
Personal Health	7,310	1,075	*14.7%*	1,221	*16.7%*
Diagnosis & Treatment	6,891	488	*7.1%*	716	*10.4%*
Connected Care & Health Informatics	3,163	206	*6.5%*	372	*11.8%*
HealthTech Other	415	(149)		(109)	
Legacy Items	1	(103)		(48)	
Philips Group	**17,780**	**1,517**	***8.5%***	**2,153**	***12.1%***
2016					
Personal Health	7,099	953	*13.4%*	1,108	*15.6%*
Diagnosis & Treatment	6,686	546	*8.2%*	631	*9.4%*
Connected Care & Health Informatics	3,158	275	*8.7%*	324	*10.3%*
HealthTech Other	478	(129)		(66)	
Legacy Items	1	(181)		(76)	
Philips Group	**17,422**	**1,464**	***8.4%***	**1,921**	***11.0%***

[1)] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

Net income increased by EUR 379 million compared to 2016, driven by improvements in operational performance, lower net financial expenses and higher discontinued operations results, partly offset by higher restructuring and acquisition-related charges and higher income taxes, which included a total non-cash tax charge of EUR 171 million due to the US Tax Cuts and Jobs Act.

In 2017, Income from operations increased by EUR 53 million year-on-year to EUR 1,517 million, or 8.5% of sales. Restructuring and acquisition-related charges amounted to EUR 316 million, including the charges related to Spectranetics, compared to EUR 94 million in 2016. Income from operations in 2017 also included EUR 47 million of charges related to quality and regulatory actions, EUR 31 million of charges related to the separation of the Lighting business, EUR 26 million of provisions related to the CRT (Cathode Ray Tube) litigation in the US, EUR 22 million of charges related to portfolio rationalization measures, EUR 20 million of charges related to the consent decree focused on the defibrillator manufacturing in the US, a EUR 59 million net gain from the sale of real estate assets, and a EUR 36 million net release of provisions. 2016 also included EUR 152 million of charges related to the separation of the Lighting business, a EUR 26 million impairment of real estate assets, a EUR 12 million net release of provisions, and a EUR 46 million gain from the settlement of a pension-related claim.

[1)] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

Adjusted EBITA[1] amounted to EUR 2,153 million, or 12.1% of sales, and improved by EUR 232 million or 110 basis points as a % of sales compared to 2016. The improvement was mainly attributable to higher volumes, procurement savings and other cost productivity.

Personal Health businesses

In 2017, Income from operations amounted to EUR 1,075 million, or 14.7% of sales, an increase of EUR 122 million and a margin increase of 130 basis points compared to 2016. Adjusted EBITA[1] amounted to EUR 1,221 million, or 16.7% of sales, an increase of EUR 113 million or 110 basis points as a % of sales compared to 2016. For further information, refer to sub-section 4.1.3, Financial performance, of this Annual Report.

Diagnosis & Treatment businesses

In 2017, Income from operations amounted to EUR 488 million, or 7.1% of sales, a decrease of EUR 58 million and a margin decrease of 110 basis points compared to 2016. Adjusted EBITA[1] amounted to EUR 716 million, or 10.4% of sales, an increase of EUR 85 million or 100 basis points as a % of sales year-on-year. For further information, refer to sub-section 4.2.3, Financial performance, of this Annual Report.

Connected Care & Health Informatics businesses

In 2017, Income from operations totaled EUR 206 million, or 6.5% of sales, a decrease of EUR 69 million and a margin decrease of 220 basis points as a % of sales compared to 2016. Adjusted EBITA[1] totaled EUR 372 million, or 11.8% of sales, an increase of EUR 48 million or 150 basis points as a % of sales year-on-year. For further information, refer to sub-section 4.3.3, Financial performance, of this Annual Report.

HealthTech Other

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

In 2017, Income from operations amounted to a net cost of EUR 149 million, compared to a net cost of EUR 129 million in 2016. Adjusted EBITA[1] amounted to a net cost of EUR 109 million, compared to EUR 66 million in 2016. For further information, refer to sub-section 4.4.3, Financial performance, of this Annual Report.

Legacy Items

Income from operations in 2017 amounted to a loss of EUR 103 million, and improved by EUR 78 million compared to 2016. For further information, refer to sub-section 4.5.1, Financial performance, of this Annual Report.

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
2015 - 2017

	2015	2016	2017
Interest expense (net)	(300)	(299)	(182)
Sale of securities	20	3	1
Impairments	(46)	(24)	(2)
Other	(33)	(122)	46
Financial income and expenses	**(359)**	**(442)**	**(137)**

Net interest expense in 2017 was EUR 117 million lower than in 2016, mainly driven by lower interest expenses on net debt[1], as a result of the bond redemptions. Other financial income amounted to EUR 46 million in 2017, mainly due to dividend income related to the retained interest in the combined businesses of Lumileds and Automotive. For further information, refer to note 7, Financial income and expenses.

Income taxes

Income taxes amounted to EUR 349 million, compared to EUR 203 million in 2016. The effective income tax rate in 2017 was 25.3%, compared to 19.9% in 2016. This increase was largely due to a tax charge of EUR 72 million for a valuation adjustment of Philips' US deferred tax assets following the enactment of the US Tax Cuts and Jobs Act in December 2017.

For 2018, we expect our effective tax rate to be within the range of 26%-28%, depending on the geographical mix of taxable income.

Investment in associates

Results related to investments in associates decreased from a gain of EUR 11 million in 2016 to a loss of EUR 4 million in 2017, mainly due to an impairment of EUR 4 million and lower share of income of associates in 2017 compared to 2016.

Discontinued operations

Discontinued operations consist primarily of the segment Lighting, the combined Lumileds and Automotive businesses, and certain divestments formerly reported as discontinued operations. The results related to these businesses are reported under Discontinued operations in the Consolidated statements of income and Consolidated statements of cash flows.

In 2017, Philips completed several transactions in Philips Lighting shares, which reduced the interest in this company from 71.23% as of December 31, 2016 to 29.01% as of December 31, 2017. In April 2017, triggered by a sale of Philips Lighting shares, we concluded that a loss of control was highly probable due to further sell-downs of the remaining shares within one year. From that date Lighting was presented as a discontinued operation. In November 2017 Philips lost control, resulting in the deconsolidation of Philips Lighting.

[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

On June 30, 2017, Philips completed the sale of an 80.1% interest in the combined Lumileds and Automotive businesses to certain funds managed by affiliates of Apollo Global Management, LLC. The combined businesses of Lumileds and Automotive were reported as discontinued operations as from the end of November 2014.

Philips Group
Discontinued operations, net of income taxes
in millions of EUR
2015 - 2017

	2015	2016	2017
Lighting	247	244	896
The combined Lumileds and Automotive businesses	233	282	(29)
Other	(1)	134	(24)
Discontinued operations, net of income taxes	**479**	**660**	**843**

Net income of Discontinued operations
Discontinued operations results increased by EUR 183 million, mainly due to a EUR 599 million net gain from the deconsolidation of Philips Lighting, partly offset by a EUR 104 million charge related to the change in value of the retained interest in Philips Lighting, a tax charge of EUR 99 million due to the US Tax Cuts and Jobs Act, and the exclusion of the operational results of the combined businesses of Lumileds and Automotive from Discontinued operations following the divestment in Q2 2017. The year 2016 included the Funai arbitration award.

For further information, refer to note 3, Discontinued operations and assets classified as held for sale.

Net income
Net income amounted to EUR 1,870 million, an increase of EUR 379 million compared to 2016, driven by improvements in operational performance, lower net financial expenses and higher discontinued operations results, partly offset by higher restructuring and acquisition-related charges and higher income taxes, which included a tax charge of EUR 171 million due to the US Tax Cuts and Jobs Act.

Basic earnings per common share from net income attributable to shareholders increased from EUR 1.58 per common share in 2016 to EUR 1.78 per common share in 2017.

Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis.

Non-controlling interests
Net income attributable to non-controlling interests increased from EUR 43 million in 2016 to EUR 214 million in 2017, mainly as a result of three sales transactions in Philips Lighting shares, which reduced the interest in this company from 71.23% as of December 31, 2016 to 29.01% as of December 31, 2017. Philips Lighting was deconsolidated as from the end of November 2017.

3.1.3 Advertising and promotion
Philips' total advertising and promotion expenses were EUR 939 million in 2017, an increase of EUR 24 million compared to 2016. The total advertising and promotion investment as a percentage of sales was 5.3% in 2017 and was in line with 2016.

Philips' brand value increased by 2% to over USD 11.5 billion as measured by Interbrand. In the 2017 listing, Philips is ranked the 41st most valuable brand in the world.

3.1.4 Pensions
In 2017, the total costs of post-employment benefits amounted to EUR 69 million for defined-benefit plans and EUR 315 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 37 million in 2017.

The overall funded status and balance sheet improved in 2017, mainly due to the transfer of Lighting to Discontinued operations and an additional contribution of EUR 219 million in the US.

2017 included a settlement of the Brazil pension plans leading to a decrease of the defined-benefit obligation of EUR 345 million and the recognition of a settlement loss of EUR 1 million.

In 2016, the total costs of post-employment benefits amounted to EUR 29 million for defined-benefit plans and EUR 299 million for defined-contribution plans. The net interest cost for defined-benefit plans was EUR 48 million in 2016.

2016 included a legal claim settlement gain of EUR 46 million related to the UK pension plan.

The overall funded status and balance sheet improved in 2016, mainly due to contributions of EUR 250 million in the US, partly offset by an increase of the defined-benefit obligation due to lower discount rates.

For further information, refer to note 20, Post-employment benefits.

3.1.5 Restructuring and acquisition-related charges and goodwill impairment charges

Philips Group
Restructuring and related charges in millions of EUR
2015 - 2017

	2015	2016	2017
Restructuring and related charges per segment:			
Personal Health	38	16	8
Diagnosis & Treatment	25	6	63
Connected Care & Health Informatics	37	9	81
HealthTech Other	(20)	27	59
Legacy Items	1		
Philips Group	**81**	**58**	**211**
Cost breakdown of restructuring and related charges:			
Personnel lay-off costs	105	63	150
Release of provision	(55)	(34)	(37)
Restructuring-related asset impairment	26	14	77
Transfer to Assets held for sales			(5)
Other restructuring-related costs	5	14	27
Philips Group	**81**	**58**	**211**

In 2017, Income from operations included net restructuring charges totaling EUR 211 million. The most significant restructuring projects impacted the Connected Care & Health Informatics businesses, Diagnosis & Treatment businesses and HealthTech Other businesses and mainly took place in the Netherlands and the US. The restructuring comprised mainly product portfolio rationalization and the reorganization of global support functions.

In 2016, Income from operations included net charges totaling EUR 58 million for restructuring. The most significant restructuring projects were mainly related to overhead cost reduction programs in HealthTech Other and took place in the Netherlands.

For further information on restructuring, refer to note 19, Provisions.

Philips Group
Acquisition-related charges in millions of EUR
2015 - 2017

	2015	2016	2017
Acquisition-related charges per segment:			
Personal Health	(1)		3
Diagnosis & Treatment	107	31	88
Connected Care & Health Informatics	1	4	10
HealthTech Other		1	5
Philips Group	**107**	**37**	**106**

In 2017, acquisition-related charges amounted to EUR 106 million. The Diagnosis & Treatment businesses recorded EUR 88 million of acquisition-related charges, mainly related to the acquisition of Spectranetics, a US-based global leader in vascular intervention and lead management solutions. Acquisition-related charges relating to Volcano were also included as part of the Diagnosis & Treatment businesses' acquisition-related charges.

The 2016 acquisition-related charges amounted to EUR 37 million. The Diagnosis & Treatment businesses recorded EUR 31 million of acquisition-related charges, mainly related to Volcano.

In 2017, in addition to the annual goodwill-impairment tests for Philips, trigger-based impairment tests were performed during the year, resulting in a goodwill impairment of EUR 9 million.

In 2016, in addition to the annual goodwill-impairment tests for Philips, trigger-based impairment tests were performed during the year, resulting in a goodwill impairment of EUR 1 million.

For further information on goodwill sensitivity analysis, please refer to note 11, Goodwill.

3.1.6 Acquisitions and divestments

Acquisitions

In 2017, Philips completed several acquisitions, with The Spectranetics Corporation (Spectranetics) being the largest. Spectranetics is a US-based global leader in vascular intervention and lead management solutions and is present in 11 countries. Acquisitions in 2017 and prior years led to acquisition and post-merger integration charges of EUR 88 million in the Diagnosis & Treatment businesses and EUR 10 million in the Connected Care & Health Informatics businesses.

In 2016, Philips completed two acquisitions, the largest being Wellcentive, a leading US-based provider of population health management software solutions. Acquisitions in 2016 and prior years led to acquisition and post-merger integration charges of EUR 31 million in the Diagnosis & Treatment businesses and EUR 4 million in the Connected Care & Health Informatics businesses.

Divestments

Apart from the sale of interest in Lumileds and Philips Lighting, Philips completed two divestments during 2017 for an aggregate cash consideration of EUR 54 million.

For details regarding the sale of interests in Lumileds and Philips Lighting, reference is made to note 3, Discontinued operations and assets classified as held for sale and sub-section 3.1.1, Philips Lighting sell-down, of this Annual Report.

For details, please refer to note 4, Acquisitions and divestments.

3.1.7 Changes in cash and cash equivalents, including cash flows

The movement in cash and cash equivalents for the years ended December 31, 2015, 2016 and 2017 are presented and explained below:

Condensed consolidated cash flow statements[1]
in millions of EUR
2015 - 2017

	2015	2016	2017
Beginning cash balance	1,873	1,766	2,334
Net cash provided by operating activities	*598*	*1,170*	*1,870*
Net capital expenditures	*(752)*	*(741)*	*(685)*
Free cash flows[2]	(154)	429	1,185
Acquisitions and divestments of businesses	(1,046)	(197)	(2,280)
Other cash flow from investing activities	(53)	(156)	(234)
Treasury share transactions	(425)	(526)	(414)
Change in debt	1,252	(1,611)	(205)
Dividend paid to shareholders of the Company	(298)	(330)	(384)
Sale of shares of Philips Lighting		825	1,060
Other cash flow items	80	(18)	(186)
Net cash flows from discontinued operations	537	2,151	1,063
Ending cash balance	**1,766**	**2,334**	**1,939**

[1] Please refer to section 11.7, Consolidated statements of cash flows, of this Annual Report.
[2] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

Net cash provided by operating activities

Net cash provided by operating activities amounted to EUR 1,870 million in 2017, which was EUR 700 million higher than in 2016, mainly due to EUR 379 million higher earnings in 2017 and the higher outflows recorded in 2016 related to the Masimo agreements.

Net cash provided by operating activities amounted to EUR 1,170 million in 2016, which was EUR 572 million higher than in 2015, mainly due to EUR 853 million higher earnings and EUR 198 million net improvements in working capital-related inflows. Net cash provided by operating activities in 2015 included EUR 382 million cash outflows related to CRT litigation claims and higher pension de-risking settlements. 2016 also included EUR 280 million outflow related to the Masimo agreements (refer to note 19, Provisions) and a EUR 91 million premium payment related to the October 2016 bond redemption.

Net cash used for investing activities

In 2017, acquisitions of businesses (including acquisition of investments in associates) amounted to a cash outflow of EUR 2,344 million, which included the acquisition of Spectranetics for EUR 1.9 billion. Net cash proceeds from divestment of businesses amounted to EUR 64 million and were received mainly from divested businesses held for sale. Other investing activities mainly included EUR 295 million net cash used for foreign exchange derivative contracts related to activities for funding and liquidity management, partly offset by EUR 90 million received related to TPV Technology Limited loans.

In 2016, acquisitions of businesses (including acquisition of investments in associates) amounted to a cash outflow of EUR 197 million, which included the acquisition of Wellcentive. Other investing activities mainly included EUR 128 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

Net cash provided by financing activities in 2017 was EUR 55 million. Philips' shareholders were given EUR 742 million in the form of a dividend, of which the cash portion of the dividend amounted to EUR 384 million. Net cash proceeds of EUR 1,060 million related to the sales of shares in Philips Lighting. Change in net debt[1] mainly reflected EUR 1.2 billion cash outflow related to the bond redemption and EUR 1 billion cash inflow from bonds issued. Additionally, net cash outflows for share buy-back and share delivery totaled EUR 414 million.

Net cash used for financing activities in 2016 was EUR 1,643 million. Philips' shareholders were given EUR 732 million in the form of a dividend, of which the cash portion of the dividend amounted to EUR 330 million. Net cash proceeds of EUR 825 million related to the sales of shares in Philips Lighting. Change in net debt[1] mainly reflected the repayment of a loan related to the Volcano acquisition of EUR 1,186 million. Additionally, net cash outflows for share buy-back and share delivery totaled EUR 526 million.

Cash flows from discontinued operations

Discontinued operations cash flows in millions of EUR
2015 -2017

	2015	2016	2017
Cash flows from operating activities	761	1,037	350
Cash flows from investing activities	(203)	(112)	856
Cash flows from financing activities	(20)	1,226	(144)
Total discontinued operations cash flows	**537**	**2,151**	**1,063**

In 2017, cash flows from operating activities reflect the period prior to the divestment of the combined Lumileds and Automotive business (six months of cash flows) and prior to the deconsolidation of Lighting (eleven months of cash flows). In 2017, cash flows from investing activities includes the net cash outflow related to the deconsolidation of Philips Lighting of EUR 175 million, consisting of EUR 545 million proceeds from the sale of shares on November 28, 2017, offset by the deconsolidation of EUR 720 million of cash and cash equivalents, and proceeds of EUR 1.1 billion received from the sale of the combined Lumileds and Automotive businesses.

[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

In 2016, cash flows from investing activities includes EUR 144 million cash inflow related to the Funai arbitration and cash flows from financing activities includes new funding of EUR 1.2 billion attracted by Philips Lighting.

3.1.8 Financing

Condensed consolidated balance sheets for the years 2015, 2016 and 2017 are presented below:

Philips Group
Condensed consolidated balance sheet[1] in millions of EUR
2015 - 2017

	2015	2016	2017
Intangible assets	12,216	12,450	11,054
Property, plant and equipment	2,322	2,155	1,591
Inventories	3,463	3,392	2,353
Receivables	5,287	5,636	4,148
Assets held for sale	1,809	2,180	1,356
Other assets	4,080	4,123	2,874
Payables	(5,604)	(6,028)	(4,492)
Provisions	(4,243)	(3,606)	(2,059)
Liabilities directly associated with assets held for sale	(407)	(525)	(8)
Other liabilities	(3,204)	(3,052)	(2,017)
Net asset employed	**15,719**	**16,725**	**14,799**
Cash and cash equivalents	1,766	2,334	1,939
Debt	(5,760)	(5,606)	(4,715)
Net debt[2]	**(3,994)**	**(3,272)**	**(2,776)**
Non-controlling interests	(118)	(907)	(24)
Shareholders' equity	(11,607)	(12,546)	(11,999)
Financing	**(15,719)**	**(16,725)**	**(14,799)**

[1] Please refer to section 11.6, Consolidated balance sheets, of this Annual Report
[2] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

3.1.9 Debt position

Total debt outstanding at the end of 2017 was EUR 4,715 million, compared with EUR 5,606 million at the end of 2016.

Philips Group
Balance sheet changes in debt in millions of EUR
2015 - 2017

	2015	2016	2017
New borrowings/repayments short-term debt	(1,241)	1,319	4
New borrowings long-term debt	(94)	(1,304)	(1,115)
Repayments long-term debt	104	362	1,332
Forward contracts			(1,018)
Currency effects, consolidation changes and other	(425)	(223)	347
Transfer to liabilities directly associated with assets held for sale			1,342
Changes in debt	**(1,656)**	**154**	**891**

In 2017, total debt decreased by EUR 891 million compared to 2016. New borrowings of long-term debt of EUR 1,115 million were mainly due to the issuance of EUR 500 million floating-rate bonds due 2019 and EUR 500 million fixed-rate bonds due 2023. Repayments of long-term debt amounted to EUR 1,332 million, mainly due to the early redemption of the 5.750% bonds due 2018 in the aggregate principal amount of USD 1,250 million. Payment obligations from forward contracts are mainly related to the EUR 1.5 billion share buyback program for capital reduction purposes announced on June 28, 2017 and are recorded as a financial liability under Long-term and Short-term debt. Other changes mainly resulting from consolidation and currency effects led to a decrease of EUR 347 million. EUR 1,342 million was transferred to Liabilities directly associated with assets held for sale, mainly Lighting debt.

In 2016, total debt decreased by EUR 154 million compared to 2015. New borrowings of EUR 1,304 million were mainly due to new loan facilities for Philips Lighting of EUR 740 million and USD 500 million to replace intragroup financing from Royal Philips. Repayments amounted to EUR 1,681 million, mainly due to the repayment of a USD 1,300 million bridge loan used for the Volcano acquisition, as well as the early redemption of USD 285 million in the aggregate principal amount of USD bonds. Other changes resulting from consolidation and currency effects led to an increase of EUR 223 million.

At the end of 2017, long-term debt as a proportion of the total debt stood at 86% with an average remaining term of 7.6 years, compared to 72% and 7.8 years at the end of 2016.

For further information, please refer to note 18, Debt.

3.1.10 Liquidity position

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.

As of December 31, 2016, including the cash position (cash and cash equivalents), as well as its then existing EUR 2.3 billion committed revolving credit facilities (including EUR 1.8 billion for Royal Philips and EUR 500 million for Philips Lighting), the Philips Group had access to available liquidity of EUR 4,634 million, versus Gross Debt (including short and long-term) of EUR 5,606 million.

Philips Group
Liquidity position in millions of EUR
2015 - 2017

	2015	2016	2017
Cash and cash equivalents	1,766	2,334	1,939
Committed revolving credit facilities/CP program/Bilateral loan	1,800	2,300	1,000
Liquidity	**3,566**	**4,634**	**2,939**
Available-for-sale financial assets at fair value	75	36	49
Short-term debt	(1,665)	(1,585)	(672)
Long-term debt	(4,095)	(4,021)	(4,044)
Net available liquidity resources	**(2,119)**	**(936)**	**(1,728)**

As at December 31, 2017, the reduction in net available liquidity resources compared to 2016 was mainly driven by the refinancing of the revolving credit facility and the transfer of the net liquidity of Philips Lighting (including cash and cash equivalents, short-term debt and long-term debt) into Discontinued operations.

Royal Philips has a EUR 1 billion committed revolving credit facility which was signed in April 2017 and will mature in April 2022. The facility can be used for general group purposes, such as a backstop of its Commercial Paper Programme.

The Commercial Paper Programme amounts to USD 2.5 billion, under which Royal Philips can issue commercial paper up to 364 days in tenor, both in the US and in Europe, in any major freely convertible currency. As of December 31, 2017, Royal Philips did not have any loans outstanding under these facilities.

Additionally, Philips held EUR 49 million of equity investments in available-for-sale financial assets (fair value at December 31, 2017). Refer to note 13, Other financial assets. Furthermore, Philips is also a shareholder in Philips Lighting (EUR 1,264 million at year-end 2017) which is publicly listed and classified as asset held for sale.

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. Our net debt[1] position is managed in such a way that we seek to retain a strong investment grade credit rating. Furthermore, the Group's aim when managing the net debt[1] position is dividend stability and a pay-out ratio of 40% to 50% of continuing net income after adjustments. 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 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 note 18, Debt.

As at January 20, 2017, Philips early-redeemed the outstanding 5.750% bonds due 2018 having an aggregate principal amount of USD 1,250 million.

As at September 6, 2017, Philips successfully issued EUR 500 million floating-rate bonds due 2019 and EUR 500 million fixed-rate bonds due 2023. The net proceeds of the offering were used for the refinancing of the EUR 1 billion loan which was entered into for the purpose of financing the acquisition of Spectranetics and for general purposes.

Philips pools cash from subsidiaries to the extent legally and economically feasible. Cash not pooled remains available for local operational or investment needs. The company also 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 requirements.

3.1.11 Shareholders' equity

Shareholders' equity decreased by EUR 547 million in 2017 to EUR 11,999 million at December 31, 2017. The decrease was mainly due to the negative impact of currency translation differences of EUR 984 million, share repurchases made in the open market over the course of the year, the purchase of forward contracts of EUR 1,079 million, and dividend payments to shareholders of Koninklijke Philips N.V. of EUR 384 million (including tax and service charges). This was mainly offset by net results of EUR 1,870 million and the sale of Philips Lighting shares of EUR 327 million.

The number of outstanding common shares of Royal Philips at December 31, 2017 was 926 million (2016: 922 million). At the end of 2017, the Company held 14.7 million shares in treasury to cover the future delivery of shares (2016: 7.2 million shares). This was in connection with the 20.8 million rights outstanding at the end of 2017 (2016: 33.5 million rights) under the Company's long-term incentive plans. At the end of 2017, the Company held 4.6 million shares for cancellation (2016: 0 shares). In 2016, Philips purchased call options on Philips shares to hedge the majority of the options granted to employees until 2013. As of December 31, 2017 Philips held 6.3 million call options as a hedge of 6.8 million remaining options granted to employees. In order to hedge share buy-back commitments, Philips also entered into several forward contracts in 2017. The total of forward contracts amounted to EUR 1.1 billion in 2017, of which EUR 60 million matured in 2017.

3.1.12 Cash obligations

Contractual cash obligations

The table below presents a summary of the Group's fixed contractual cash obligations and commitments at December 31, 2017. These amounts are an estimate of future payments, which could change as a result of various factors such as a change in interest rates, contractual provisions, as well as changes in our business strategy and needs. Therefore, the actual payments made in future periods may vary from those presented in the table below:

[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

Philips Group
Contractual cash obligations[1,2] in millions of EUR
2017

		Payments due by period			
	total	less than 1 year	1-3 years	3-5 years	after 5 years
Long-term debt[3]	4,314	465	1,170	878	1,801
Finance lease obligations	306	93	131	53	29
Short-term debt	120	120			
Operating leases	741	172	226	147	196
Derivative liabilities	370	167	109		95
Interest on debt	1,785	132	252	226	1,175
Purchase obligations[4]	480	145	217	86	31
Trade and other payables	2,090	2,090			
Contractual cash obligations	**10,205**	**3,383**	**2,105**	**1,389**	**3,328**

1) Obligations in this table are undiscounted
2) This table excludes pension 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 short-term portion of long-term debt and excludes finance 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.

Philips has no material commitments for capital expenditures.

Certain Philips suppliers factor their trade receivables from Philips with third parties through supplier finance arrangements. At December 31, 2017 approximately EUR 286 million of the Philips accounts payable were known to have been sold onward under such arrangements whereby Philips confirms invoices. Philips continues to recognize these liabilities as trade payables and will settle the liabilities in line with the original payment terms of the related 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 note 20, Post-employment benefits.

The Company had EUR 112 million restructuring-related provisions by the end of 2017, of which EUR 87 million is expected to result in cash outflows in 2018. Refer to note 19, Provisions for details of restructuring provisions.

A proposal will be submitted to the upcoming Annual General Meeting of Shareholders to declare a dividend of EUR 0.80 per common share (up to EUR 750 million if all shareholders would elect cash), in cash or shares at the option of the shareholder, against the net income for 2017. Further details will be given in the agenda for the Annual General Meeting of Shareholders, to be held on May 3, 2018.

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 2016 and 2017. Remaining off-balance-sheet business and credit-related guarantees provided on behalf of third parties and associates decreased by EUR 11 million during 2017 to EUR 17 million (December 31, 2016: EUR 28 million).

3.1.13 Procurement

In spite of a challenging market environment, Philips came through with the 2017 procurement performance commitment. These results were driven by optimizing costs via various programs, including many DfX events, Total Cost of Ownership (TCO) programs and negotiations to secure the best possible outcome and overcome market headwinds.

Global growth is strengthening but the longer-term challenges remain. Policy stimulus supported the upturn, but the private investment recovery was modest. Continued reliance on credit to fund growth is heightening the risk of an eventual adjustment in China. In addition, a further shift toward protectionist policies in the US and a growing trend in Europe is a distinct threat. The currency risk remains in 2018 as the euro appreciated strongly against the US dollar and Chinese renminbi in 2017. Geopolitical tensions, terrorism and the European challenge with refugees could also play a key role in the outlook in several economies.

The higher commodity market prices over the last year created a challenging environment for Philips. The situation in 2018 will remain the same or will be more challenging, judging by the continuation of the economic improvement, speculation on further pick-up in commodity demand, and actual material market price increases over 2017. The low price levels of raw materials and energy during the period 2015-2016 have led to reduced investment in future supply. This creates the risk of new headwinds once real consumption picks up significantly again and the supply-demand situation reverses.

3.1.14 Real estate

Philips is present in more than 75 countries globally and has its corporate headquarters located in Amsterdam, the Netherlands. In 2017, we further increased the efficiency of our global Real Estate footprint by reducing the space provision by approximately 8%. Our real estate sites are spread across the globe, with key manufacturing and R&D sites in the Americas, Asia and Europe. As our company is very dynamic in streamlining and developing its business portfolio, the real estate activities go hand-in-hand with that. In 2017, we made several adjustments to our footprint in the US (i.e. Foster City Pittsburgh, Nashville Tennessee, and Cambridge Massachusetts), but also in India (i.e. Chennai, Bangalore) and China (i.e. Shanghai), to optimize our global business solutions. We also rightsized and upgraded our Paris and Warsaw offices in EMEA and started to build our global business solutions in India, Poland and the United States. To attract new R&D talent we grew locations in Foster City, Bangalore, Pittsburgh, Moscow and others. With all these adjustments we have established a better balanced real estate footprint globally, which also enables our businesses to be close to their customer base. 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 3% and to ensure that the right level of space efficiency and flexibility is in place to follow our business developments. The net book value of our land and buildings as at December 31, 2017, represented EUR 584 million, and construction in progress represented EUR 31 million. Our current facilities are in generally good operating condition and are adequate to meet the requirements of our present and foreseeable future operations.

3.1.15 Analysis of 2016 compared to 2015

The analysis of the 2016 financial results compared to 2015, 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 2017, which will be filed electronically with the US Securities and Exchange Commission.

Content you didn't download

3.5 Proposed distribution to shareholders

Pursuant to article 34 of the articles of association of Royal Philips, a dividend will first be declared on preference shares out of net income. The remainder of the net income, after any retention by way of reserve with the approval of the Supervisory Board, shall be available for distribution to holders of common shares subject to shareholder approval after year-end. As of December 31, 2017, the issued share capital consists only of common shares; no preference shares have been issued. Article 33 of the articles of association of Royal Philips gives the Board of Management the power to determine what portion of the net income shall be retained by way of reserve, subject to the approval of the Supervisory Board.

A proposal will be submitted to the upcoming Annual General Meeting of Shareholders to declare a dividend of EUR 0.80 per common share (up to EUR 750 million if all shareholders would elect cash), in cash or in shares at the option of the shareholder, against the net income for 2017.

If the above dividend proposal is adopted, the shares will be traded ex-dividend as of May 7, 2018 at the New York Stock Exchange and Euronext Amsterdam. In compliance with the listing requirements of the New York Stock Exchange and the stock market of Euronext Amsterdam, the dividend record date will be May 8, 2018.

Shareholders will be given the opportunity to make their choice between cash and shares between May 9, 2018 and June 1, 2018. If no choice is made during this election period the dividend will be paid in cash. On June 1, 2018 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 Koninklijke Philips N.V. at Euronext Amsterdam on May 30 and 31, and June 1, 2018. 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 5, 2018. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 6, 2018. 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 4, 2018.

Further details will be given in the agenda for the 2018 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).

In 2017, a dividend of EUR 0.80 per common share was paid in cash or shares, at the option of the shareholder. For 48.3% of the shares, the shareholders elected for a share dividend resulting in the issue of 11,264,163 new common shares, leading to a 1.2% dilution. EUR 384 million was paid in cash. See also chapter 15, Investor Relations, of this Annual Report.

The balance sheet presented in this report, as part of the Company financial statements for the period ended December 31, 2017, is before appropriation of the result for the financial year 2017.

4 Segment performance

Our structure in 2017

Koninklijke Philips N.V. (‘Royal Philips’ or the ‘Company’) is the parent company of the Philips Group (‘Philips’ or the ‘Group’), headquartered in Amsterdam, the Netherlands. The Company is managed by the members of the Executive Committee (comprising the Board of Management and certain key officers) under the supervision of the Supervisory Board. The Executive Committee operates under the chairmanship of the Chief Executive Officer and shares responsibility for the deployment of Philips’ strategy and policies, and the achievement of its objectives and results.

In September 2014, Philips announced its plan to sharpen its strategic focus by establishing two stand-alone companies focused on the HealthTech and Lighting opportunities respectively. To this end, a stand-alone structure was established for Philips Lighting within the Philips Group, effective February 1, 2016. Then, on May 27, 2016, Philips Lighting was listed and started trading on Euronext in Amsterdam under the symbol ‘LIGHT’. Following the listing of Philips Lighting, Philips retained a 71.225% stake. In the course of 2017, Philips gradually reduced its stake in Philips Lighting’s issued share capital to approximately 29.01%, in line with its stated objective to fully sell down its stake in Philips Lighting within one year.

Following the latter accelerated bookbuild offering on November 28, 2017, Philips no longer has control over Philips Lighting and ceased to consolidate Philips Lighting as from the end of November 2017.

The reportable segments are Personal Health businesses, Diagnosis & Treatment businesses, and Connected Care & Health Informatics businesses, each being responsible for the management of its business worldwide. Additionally, Philips identifies HealthTech Other and Legacy Items, as shown below:

Personal Health businesses	Diagnosis & Treatment businesses	Connected Care & Health Informatics businesses	HealthTech Other	Legacy Items
Health & Wellness	Diagnostic Imaging	Patient Care & Monitoring Solutions	Innovation	Legacy litigation
Personal Care	Image-Guided Therapy	Healthcare Informatics	Emerging Businesses	Separation cost
Domestic Appliances	Ultrasound	Population Health Management	IP Royalties	
Sleep & Respiratory Care			Central costs	
			Other	

Focus of external reporting

4.1 Personal Health businesses

Egbert van Acht was appointed Chief Business Leader of the Personal Health businesses effective October 1, 2017, succeeding Pieter Nota. Egbert joined Philips in 2002 and has held various senior leadership roles in the company. Most recently, he led the Health & Wellness business group for seven years. Egbert started his career at Procter & Gamble.

4.1.1 About 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 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.

Through our various businesses, Personal Health has delivered sustained strong growth and margin expansion in recent years, driven by five main factors:

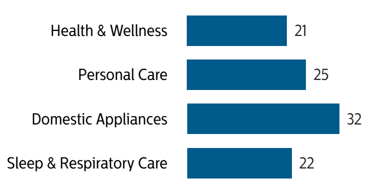
- Share gains in growing markets
- Geographical expansion with proven propositions
- Innovation at the forefront of digital health
- High-impact consumer marketing programs
- Leadership in online sales

Through 2017, we have driven above-market growth and stepped up profitability into the mid-teens, building on a strong track record. Personal Health has many distinct product categories and associated competitors, including Procter & Gamble in Personal Care and Oral Healthcare, Groupe SEB in Domestic Appliances and ResMed in Sleep & Respiratory Care.

In 2017, the Personal Health segment consisted of the following areas of business:

- **Health & Wellness**: mother and child care, oral healthcare
- **Personal Care**: male grooming, beauty
- **Domestic Appliances**: kitchen appliances, coffee, air, garment care, floor care
- **Sleep & Respiratory Care**: sleep, respiratory care, respiratory drug delivery

Personal Health
Total sales by business as a %
2017



Through our Personal Health businesses, we offer a broad range of products in various consumer price segments, always aiming to realize premium value. We continue to expand our portfolio 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 also continue to roll-out high-impact consumer marketing programs in support of key innovations. In 2017, we further rolled out Philips OneBlade, accompanied by an innovative Digital Advocacy Marketing Program, for which we received a Euro Gold Effie Award 2017 in the category 'Product/Service launch'.

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

We are leveraging connectivity to engage consumers in new and impactful ways through social media and digital innovation. For example, in 2017 we launched the Philips Sonicare DiamondClean Smart toothbrush, a complete oral care solution for a healthier mouth. This toothbrush gives users exceptional results thanks to new, high-performance brush heads and personalized coaching enabled by smart sensor technology. Via the Philips HealthSuite digital platform, the app is a virtual hub for personal oral healthcare, enabling users to manage their brushing and breath quality on a daily basis, share results with their dental practitioners, and receive personalized guidance and advice.

Under normal economic conditions, Philips' Personal Health businesses experience seasonality, with higher sales in the fourth quarter.

In 2017, Personal Health employed 23,170 people worldwide. The global sales and service organization covered more than 50 mature and growth geographies. In addition, we operated manufacturing and business creation organizations in Argentina, Austria, Brazil, China, India, Indonesia, Italy, the Netherlands, Romania, the UK and the US.

Philips' Personal Health businesses are subject to regulatory requirements in the markets where they operate. This includes the European Union's Waste from Electrical and Electronic Equipment (WEEE), Restriction of Hazardous Substances (RoHS), Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), Energy-using Products (EuP) requirements and Product Safety Regulations. We have a growing portfolio of medically regulated products in our Health & Wellness, Personal Care and Sleep & Respiratory Care businesses. For these products we are subject to the applicable requirements of the US FDA, the European Medical Device Directive, the CFDA in

China and comparable regulations in other countries. Through our growing beauty, oral healthcare and mother and child care product portfolio the range of applicable regulations has been extended to include requirements relating to cosmetics and, on a very small scale, pharmaceuticals.

With regard to quality, please refer to section 3.4, Our commitment to Quality, of this Annual Report.

With regard to sourcing, please refer to sub-section 13.3.9, Supplier indicators, of this Annual Report.

4.1.2 2017 business highlights

At the International Dental Show in Germany, the world's leading trade fair for the dental sector, Philips introduced the Philips Sonicare DiamondClean Smart toothbrush and Philips Sonicare Breath care system with breath analyzer, an all-in-one connected oral care platform. Philips also presented the results of a new clinical study demonstrating the effectiveness of Philips Sonicare power toothbrushes and Philips AirFloss Ultra.

Philips acquired UK-based Health & Parenting, a leading developer of mobile applications for expectant and new parents, used by one in two expectant mothers in the UK.

As a driver of new care models, Philips teamed up with leading telehealth provider American Well to jointly deliver virtual care solutions around the world by embedding American Well's mobile telehealth services into an array of Philips solutions, starting with the Philips Avent uGrow parenting platform, giving parents 24/7 access to professional medical consultations.

Launched less than two years ago, the revolutionary OneBlade hybrid styler, which can trim, edge and shave any length of male facial hair, generated annual sales of more than EUR 100 million within 18 months of its launch.

Building on the company's market-leading propositions in healthy eating, Philips launched the latest generation of the Philips Airfryer, which features an innovative technology to prepare tasty, healthier food with little to no oil. As a leader in this category, Philips has sold close to 10 million Airfryers globally to date.

Philips' Sleep & Respiratory Care business continues to grow in respiratory care, with strong acceptance of its market-leading home ventilation offerings. This portfolio was further extended with the launch of the connected Trilogy ventilator in North America, linking it to Philips' unique patient management solution Care Orchestrator. In sleep care, continued mask share gains were driven by strong traction of the DreamWear family of masks, including the recently introduced DreamWear Pillow mask.

Philips acquired Respiratory Technologies, a US-based provider of an innovative airway clearance solution for patients with chronic respiratory conditions.

In China, Philips partnered with Oranger, a service provider specialized in chronic respiratory disease management, and Health 100, the largest health examination organization in China, to provide integrated solutions for chronic respiratory diseases that cover screening, referral, treatment and recovery. As part of the agreement, Philips acquired a minority interest in Oranger.

Building on its strategy to deliver relevant solutions and business models, Philips acquired Australian Pharmacy Sleep Services (APSS), a pioneer in pharmacy sleep testing. APSS will complement Philips' sleep and respiratory care portfolio and will help to accelerate the business's home sleep testing offering through the pharmacy channel in Australia.

4.1.3 Financial performance

Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis.

Personal Health
Key data in millions of EUR unless otherwise stated
2015 - 2017

	2015	2016	2017
Sales	6,751	7,099	7,310
Sales growth			
Nominal sales growth	14%	5%	3%
Comparable sales growth[1]	5%	7%	6%
Income from operations	736	953	1,075
as a % of sales	*10.9%*	*13.4%*	*14.7%*
Adjusted EBITA[1]	966	1,108	1,221
as a % of sales	*14.3%*	*15.6%*	*16.7%*

[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report

In 2017, sales amounted to EUR 7,310 million, a nominal increase of 3% compared to 2016. Excluding a 3% negative currency impact, comparable sales[1] were 6% higher year-on-year, driven by high-single-digit growth in Health & Wellness and mid-single-digit growth in Sleep & Respiratory Care, Domestic Appliances and Personal Care. Green Revenues amounted to EUR 4,237 million, or 58% of total segment sales.

Sales in growth geographies increased 7% on a nominal basis and on a comparable basis[1] growth geographies showed double-digit growth, reflecting double-digit growth in Latin America, Middle East & Turkey and India, and high-single-digit growth in China and Central & Eastern Europe. Mature geographies increased 1% on a nominal basis and on a comparable basis recorded low-single-digit growth, driven by mid-single-digit

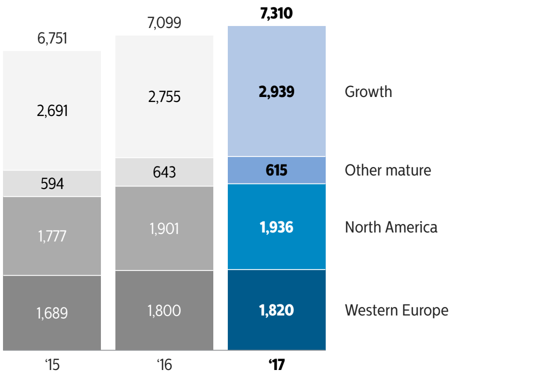
[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

growth in Western Europe and low-single-digit growth in North America, partly offset by a low-single-digit decline in other mature geographies.

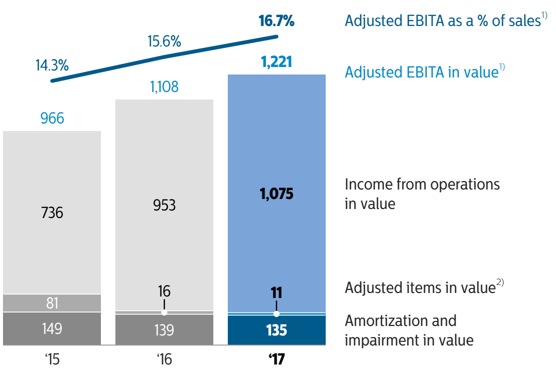
Income from operations in 2017 increased to EUR 1,075 million, or 14.7% of sales compared to EUR 953 million, or 13.4% of sales in 2016. The year 2017 included EUR 136 million of amortization charges, mainly related to intangible assets in Sleep & Respiratory Care, compared to 2016 which include EUR 139 million of amortization charges, mainly related to intangible assets at Sleep & Respiratory Care. Restructuring and acquisition-related charges were EUR 11 million, compared to EUR 16 million in 2016.

Adjusted EBITA[1] increased by EUR 113 million or 110 basis points as a % of sales compared to 2016. The increase was attributable to higher volumes and procurement savings, partly offset by investments in advertising & promotion.

Personal Health
Sales per geographic cluster in millions of EUR
2015 - 2017



Personal Health
Income from operations and Adjusted EBITA [1]
in millions of EUR unless otherwise stated
2015 - 2017



1) Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report
2) Adjusted items include restructuring, acquisition-related and other charges

4.1.4 Healthy people, sustainable planet

Sustainability continued to play an important role in the Personal Health businesses in 2017, with the main focus on optimizing the sustainability performance of our products and operations. Green Revenues – i.e. sales of products and solutions which meet or exceed our minimum requirements in the area of energy consumption, packaging and/or substances of concern – accounted for 58% of total sales in 2017. All Green Products with rechargeable batteries exceed the stringent California energy efficiency standard by at least 10%. And over 70% of total consumer sales are PVC- and/or BFR-free products (excluding power cords).

As part of our Circular Economy program we have continued to increase the use of recycled materials in our products. Over 1,850 tons of recycled plastics were used in kitchen appliances, vacuum cleaners, irons, air purification and coffee machines, compared to 1,440 tons in 2016. The revenue from Circular Products reached over EUR 473 million in 2017, comprised of turnover generated from performance- and access-based business models in Sleep & Respiratory Care and products with recycled plastic materials. Furthermore, circular opportunities across multiple products have been explored through pilots with access-based business models, which have the potential to generate future circular revenues. To maximize the use of resources and capture value from our commercial returns, pilots are running to sell refurbished products to our consumers – at the same time, capabilities are also being developed to enable the scale-up of these pilots.

As a concrete example of our commitment to sustainability we have improved the design of the 2000 Series Air Cleaner to ensure it meets the green product requirements. This means that the device meets the Chinese requirements for high cleaning energy efficiency, is free of polyvinylchloride (except power cord) and has over 600 grams of recycled plastics in the interior parts of the product.

In our operations, we continue to make positive progress towards our ultimate aim of having carbon-neutral production sites by 2020. In 2017, 47% of the electricity used in manufacturing sites came from renewable sources and 85% of the industrial waste was recycled. We sent 6% of our manufacturing waste to landfill in 2017. At the end of 2017, 9 out of 18 Personal Health businesses' manufacturing sites reported zero waste to landfill, with five achieving this status during the year. Based on detailed action plans we are working closely with the remaining sites to achieve zero waste to landfill status by the end of 2020.

1) Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

4.2 Diagnosis & Treatment businesses

The Chief Business Leader of the Diagnosis & Treatment businesses segment, Rob Cascella, joined Philips in April 2015. He has more than 30 years of experience in the healthcare industry and has served on the boards of several companies, including 10 years as President and later CEO of Hologic Inc.

4.2.1 About Diagnosis & Treatment businesses

Our Diagnosis & Treatment businesses are foundational to our health technology strategy, delivering on the promise of precision medicine and least-invasive treatment and therapy. We enable our customers to realize the full potential of their 'quadruple aim' – to improve outcomes, lower the cost of care delivery and enhance patient and staff experiences – by enabling first-time-right diagnosis and treatment. We are focused on solutions (consisting of suites of systems, smart devices, software and services) that are robust and easy to use, while providing the most efficient path to obtaining a definitive diagnosis by integrating multiple sources of information and combining the data to create a comprehensive patient view. By bringing together imaging morphology, pathology and genomics, we are able to interrogate and extract the information needed to offer highly personalized care. Informatics is central to everything we do: our KLAS-awarded IntelliSpace Portal platform, for example, provides artificial intelligence to make more consistent decisions, as well as making it easier to share and collaborate.

We are expanding the applications for image-guided treatment and therapy – where clinicians are provided with the technology necessary to determine the presence of disease, guide procedures, deliver least-invasive treatment, and confirm effectiveness. Our solutions enable patient-specific treatment planning and selection, simplify complex procedures through integrated real-time guidance, and provide clinically proven treatment solutions. In 2017, we reinforced our leadership in image-guided therapy solutions with the global launch of Philips Azurion, the next-generation image-guided therapy platform that enables clinicians to perform a wide range of routine and complex procedures, helping them to optimize interventional lab performance and provide superior care. We provide image guidance both in our proprietary products and by partnering with radiation therapy companies like Elekta and IBA to deliver real-time, precise cancer treatment.

In 2017, Philips made two significant acquisitions to further strengthen our Diagnosis & Treatment businesses. Spectranetics' portfolio – including laser atherectomy catheters, the AngioSculptX drug-coated scoring balloon and the Stellarex drug-coated balloon – is highly complementary to Philips' and will support our expansion in image-guided therapy devices – specifically addressing peripheral vascular disease. Furthermore, to reinforce our leadership position in ultrasound, Philips acquired TomTec Imaging Systems, a leading provider of clinical applications and intelligent image-analysis software.

In addition to our solutions for disease-specific clinical pathways, we provide a range of technologies to help our customers improve their operations and workflow. In 2017 we continued to build out our comprehensive PerformanceBridge suite of software services designed to improve radiology department operations, e.g. by providing practice management, dose management and service analytics. And we received FDA clearance for IntelliSpace Portal 9.0 and a range of innovative applications for radiology. The platform gives clinicians a comprehensive view of each patient, enabling efficient diagnosis of a broad range of conditions.

Our Diagnosis & Treatment businesses' value proposition to customers is based on leveraging our extensive clinical experience with our broad portfolio of technologies – making us uniquely capable to provide meaningful solutions that ultimately can 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:

- driving operational excellence in Diagnostic Imaging by delivering integrated products that are robust in design, easy to use, and promote efficient workflow
- enhancing our offerings in oncology, cardiology and radiology and expanding our solutions offering, which comprises systems, smart devices, software and services
- leveraging the Volcano and Spectranetics acquisitions and driving expansion into devices for treatment
- addressing underpenetrated adjacencies in general imaging and obstetrics/gynecology in Ultrasound, as well as expanding in point-of-care with new products and our partnership with B.Braun to innovate and accelerate growth in ultrasound-guided regional anesthesia and vascular access.

Philips is one of the world's leading health technology companies (based on sales) along with Medtronic, General Electric and Siemens. The competitive landscape in the healthcare industry is evolving with the emergence of new market players. The United States, our largest market, represented 34% of Diagnosis & Treatment's global sales in 2017, followed by China, Japan and Germany. Growth geographies accounted for 34% of Diagnosis & Treatment's sales. In 2017, Diagnosis & Treatment had 25,757 employees worldwide.

Through 2017 we consistently focused on our value-creation strategy to ensure continued growth and margin improvement.

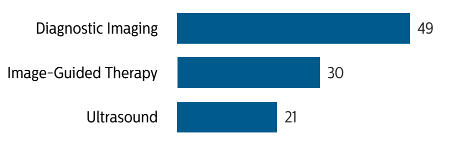
In 2017, the Diagnosis & Treatment segment consisted of the following areas of business:

- **Diagnostic Imaging**: Magnetic Resonance Imaging, Computed Tomography, Advanced Molecular Imaging, Diagnostic X-Ray, which includes digital X-ray and mammography, and 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 cardiology, radiology and surgery, and interventional imaging and therapy devices that include Intravascular Ultrasound (IVUS), Fractional Flow Reserve (FFR) 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 intervention.

Diagnosis & Treatment
Total sales by business as a %
2017



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.

Sales channels are a mix of a direct sales force, especially in all the larger markets, combined with online sales portal and distributors – this varies by product, market and price segment. Sales are mostly driven by a direct sales force that has an intimate knowledge of the procedures for which our devices are used, and visits our customer base frequently.

Philips' Diagnosis & Treatment businesses are committed to compliance with regulatory product approval and quality system requirements in every market we serve, by addressing specific requirements of local and national regulatory authorities including the US FDA, the CFDA in China and comparable agencies in other countries, as well as 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) regulations.

The imaging businesses and image processing applications are governed by regulatory approvals in the markets that we serve. In almost all cases, new products that we introduce are subject to a regulatory approval process (e.g. 510k for FDA approvals in the USA). Failing to comply with the regulatory requirements can have severe consequences. The number and diversity of regulatory bodies in the various markets we operate in globally adds complexity and time to product introductions. Regulatory approval is a prerequisite for market introduction of medical devices.

With regard to the US Food and Drug Administration (FDA) inspection of the Cleveland facility (Illinois, USA) and Philips' Management System improvement program, please refer to section 3.4, Our commitment to Quality, of this Annual Report.

With regard to sourcing, please refer to sub-section 13.3.9, Supplier indicators, of this Annual Report.

4.2.2 2017 business highlights

Philips reinforced its leadership in image-guided therapy solutions with the global launch of Philips Azurion, the next-generation image-guided therapy platform that enables clinicians to perform a wide range of routine and complex procedures, helping them to optimize interventional lab performance and provide superior care.

To further strengthen its Diagnosis & Treatment businesses, Philips acquired Spectranetics. Its highly complementary portfolio, including laser atherectomy catheters, the AngioSculptX drug-coated scoring balloon and the Stellarex drug-coated balloon, will support Philips' expansion in image-guided therapy devices. Furthermore, to reinforce its leadership position in ultrasound, Philips acquired TomTec Imaging Systems, a leading provider of clinical applications and intelligent image-analysis software.

Philips Volcano continued its strong performance as the business reached an important milestone with the results of two large clinical trials demonstrating the benefits of Philips' Instant Wave-Free Ratio (iFR) technology compared to Fractional Flow Reserve (FFR), the current standard, removing a critical barrier for the use and adoption of iFR to decide, guide and confirm appropriate therapies.

B. Braun and Philips entered into a strategic alliance to innovate and accelerate growth in ultrasound-guided regional anesthesia and vascular access. The alliance launched Xperius, a new co-branded mobile ultrasound system specifically designed as the platform to support current and future integrated solutions in this fast-growing market.

Further strengthening its portfolio of imaging solutions, Philips received FDA 510(k) clearance for its ElastQ ultrasound imaging technology for non-invasive assessment of liver conditions. Philips also launched Access CT, a new CT system designed for healthcare organizations seeking to establish or enhance CT imaging capabilities at affordable cost.

Building on its portfolio of long-term strategic partnerships, Philips signed multiple new agreements. For example, Philips has partnered with the Singapore Institute of Advanced Medicine Holdings to provide its new oncology center with a range of Philips' advanced diagnostic imaging systems, combined with clinical informatics and services for a multi-year term.

Philips continued its strong growth momentum in China, driven by its innovative consumer health and professional healthcare portfolio, focused initiatives to step up market share and customer partnerships. This is illustrated by the double-digit growth in Diagnostic Imaging order intake[1], which was in part driven by the strong traction in the private hospital segment, such as the new strategic partnership with Health 100, the largest health examination organization in China.

Driving its expansion in the fast-growing Obstetrics and Gynecology segment, Philips introduced new OB/GYN ultrasound innovations that are designed to support earlier, easier and more confident diagnoses. Highlighted features include anatomical-intelligence clinical decision support and workflow enhancements such as fingertip control and enhanced imaging versatility.

As part of Philips' new introductions to drive growth in diagnostic imaging, the company launched its digital MR Prodiva 1.5T system, which provides enhanced clinical performance and increased productivity, and introduced the latest configuration of its IQon Spectral CT, which is optimized to support the needs of emergency and oncology care. Moreover, since the third quarter of 2017, Philips has been shipping Vereos, the world's first and only fully digital PET/CT system, which is achieving market success due to its superb resolution, accuracy and efficiency.

Philips strengthened its Radiology Solutions offering with the acquisition of Analytical Informatics. Their suite of workflow improvement applications complements Philips' PerformanceBridge Practice to enable imaging departments to make data-driven improvement decisions. For example, Philips and Banner Health extended their partnership to include adoption of Philips' PerformanceBridge Practice across Banner's 28 radiology departments.

4.2.3 Financial performance

Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis.

Diagnosis & Treatment
Key data in millions of EUR unless otherwise stated
2015 - 2017

	2015	2016	2017
Sales	6,484	6,686	6,891
Sales growth			
Nominal sales growth	23%	3%	3%
Comparable sales growth[1]	6%	4%	3%
Income from operations	322	546	488
as a % of sales	*5.0%*	*8.2%*	*7.1%*
Adjusted EBITA[1]	515	631	716
as a % of sales	*7.9%*	*9.4%*	*10.4%*

In 2017, sales amounted to EUR 6,891 million, 3% higher than in 2016 on a nominal basis. Excluding a 1% negative currency effect, comparable sales[1] increased by 3%, driven by mid-single-digit growth in Ultrasound and Image-Guided Therapy and low-single-digit growth in Diagnostic Imaging. Green Revenues amounted to EUR 5,096 million, or 74% of total segment sales.

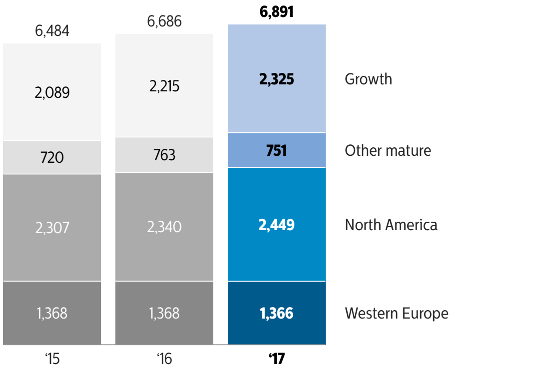
From a geographic perspective, nominal sales increased by 5% in growth geographies and on comparable sales[1] showed high-single-digit growth, mainly driven by double-digit growth in China and high-single-digit growth in Latin America. Sales in mature geographies showed a 2% increase on a nominal basis and on a comparable basis recorded low-single-digit-growth, reflecting low-single-digit growth in North America and other mature geographies, while sales in Western Europe were flat year-on-year.

Income from operations decreased to EUR 488 million, or 7.1% of sales, compared to EUR 546 million, or 8.2% of sales, in 2016. The year 2017 included EUR 55 million of amortization charges, mainly related to intangible assets in Image-Guided Therapy compared to 2016, which included EUR 48 million of amortization charges, mainly related to acquired intangible assets in Image-Guided Therapy. Restructuring and acquisition-related charges were EUR 151 million, compared to EUR 37 million in 2016. The year 2017 also included charges of EUR 22 million related to portfolio rationalization measures.

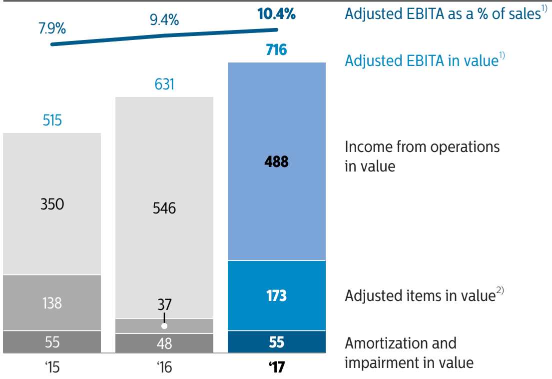
Adjusted EBITA[1] increased by EUR 85 million or 100 basis points as a % of sales year-on-year. The increase was mainly attributable to higher volumes.

[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

Diagnosis & Treatment
Sales per geographic cluster in millions of EUR
2015 - 2017



Diagnosis & Treatment
Income from operations and Adjusted EBITA[1]
in millions of EUR unless otherwise stated
2015 - 2017



[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report

[2] Adjusted items include restructuring, acquisition-related and other charges

4.2.4 Healthy people, sustainable planet

Sustainability continued to play an important role in the Diagnosis & Treatment businesses in 2017. Philips continues to improve lives around the globe by developing diagnosis and treatment solutions that enable first-time-right diagnosis, precision interventions and therapy, while respecting the boundaries of natural resources.

In 2017, Green Revenues in Diagnosis & Treatment amounted to EUR 5,096 million, thanks to a large portfolio of Philips Green Products and Solutions that support energy efficiency, materials reduction and other sustainability goals. Philips actively collaborates with care providers around the globe to look for ways to minimize the environmental impact of healthcare. In a project together with Rijnstate Hospital in Arnhem (Netherlands), Philips has calculated that this hospital is saving about 64,000 kWh of electricity annually simply by powering-off imaging systems after hours. Philips has received third-party confirmation from COCIR that we are the frontrunner in MRI energy efficiency according to the COCIR SRI methodology and that our performance is 30% better than the industry average.

Supporting the transition to a circular economy, we have continued to expand the Diamond Select refurbishment program, spare parts recovery and SmartPath upgrading program for all modalities in the Diagnosis & Treatment portfolio. Philips is committed to 'closing the loop' on all large medical imaging equipment that becomes available to us. This means that we will actively pursue the trade-in of equipment such as MRI, CT and cardiovascular systems and we will take full control to ensure that all traded-in materials are repurposed in a responsible way. We plan to continue to expand these practices until we have covered all professional healthcare equipment.

Also in our operations we continue to make positive progress towards a circular economy by recycling 71% of our industrial waste. At the end of 2017, 5 out of 15 Diagnosis & Treatment businesses' manufacturing sites reported zero waste to landfill. Based on detailed action plans we are working closely with the remaining sites to achieve zero waste to landfill status by the end of 2020.

4.3 Connected Care & Health Informatics businesses

Dr. Carla Kriwet is Chief Business Leader of the Connected Care & Health Informatics businesses segment. She was appointed to this role in February 2017, succeeding Jeroen Tas. Prior to assuming her current role, Carla led Philips' Patient Care & Monitoring Solutions business group and was the Philips Market Leader of Germany, Austria & Switzerland. Before this, she held leadership positions with ABB Daimler Benz, The Boston Consulting Group, Linde AG and Draegerwerk in Europe and Asia. Carla is also Vice-Chairperson of Zeiss Meditec AG.

4.3.1 About Connected Care & Health Informatics businesses

Spanning the entire health continuum, the Connected Care & Health Informatics businesses aim to improve patient outcomes, increase efficiency and drive toward value-based care. Our solutions build on Philips' strength in patient monitoring and clinical 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 a smooth integration process, improved workflow, customized training and improved accessibility across our application landscape.

This requires a 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 continually builds out new capabilities within Philips HealthSuite – a cloud-based connected health ecosystem of devices, apps and digital tools – to accomplish just that.

Philips delivers personalized insights by applying predictive analytics and artificial intelligence across our solutions. As an 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 problems. 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.

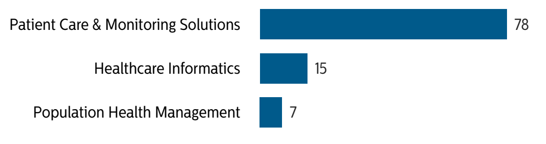
In 2017, the Connected Care & Health Informatics segment consisted of the following areas of business:

- **Patient Care & Monitoring Solutions**: Enterprise-wide patient monitoring solutions, from value solutions to sophisticated solutions, for real-time clinical information at the patient's bedside; patient analytics, patient monitoring and clinical decision support systems, including diagnostic ECG data management for improved quality of cardiac care; therapeutic care, including cardiac resuscitation, emergency care solutions, invasive and non-invasive ventilators for acute and sub-acute hospital environments and respiratory monitoring devices; consumables across the patient monitoring and therapeutic care businesses; customer service, including clinical, IT, technical and remote customer propositions.
Effective 2018, Patient Care & Monitoring Solutions will transition into two focused business groups – Monitoring & Analytics and Therapeutic Care – to allow us to better fulfill the specific customer needs of each business.

- **Healthcare Informatics**: Advanced healthcare IT, clinical and advanced visualization and quantification informatics solutions for radiology, cardiology and oncology departments; Universal Data Management solutions, Picture Archiving and Communication Systems (PACS) and fully integrated Electronic Medical Record (EMR) systems to support healthcare enterprises in optimizing health system performance; advanced clinical and hospital IT platforms which are leveraged across Philips. Our IntelliSpace Portal application platform is recognized as industry-leading by KLAS. Today, with the role of the hospital CIO as a key decision maker increasing, integrated informatics solutions address challenges across the enterprise. We use artificial intelligence at the point of care to optimize the clinician experience, help improve productivity and total cost of ownership, and streamline patient experiences across the clinical pathway. Proof of clinical and economic outcomes, connectivity and cybersecurity are key priorities of our engagement with our customers.

- **Population Health Management**: Our services and solutions leverage data, analytics and actionable workflow products for solutions to improve clinical and financial results and increase patient engagement, satisfaction and compliance. These solutions include: technology-enabled monitoring and intervention (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. Leveraging the 2016 acquisition of Wellcentive, a leading US-based provider of population health management software solutions, our solutions enable health systems to analyze their patient population along clinical and financial criteria, coordinate care outside the hospital, and engage patients in their health. They help drive quality improvement and business transformation for those transitioning to value-based care.

Connected Care & Health Informatics
Total sales by business as a %
2017



In 2017, Connected Care & Health Informatics had 10,949 employees worldwide.

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

Sales channels include a mix of a direct salesforce (especially in larger markets), 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 like monitoring-as-a-service, outcome-based models (pay based on clinical and economical outcomes) and provider market models allowing providers to provide prices for episodes of care.

Philips' Connected Care & Health Informatics businesses are committed to compliance with regulatory product approval and quality system requirements in every market we serve, by addressing specific requirements of local and national regulatory authorities including the US FDA, the CFDA in China and comparable agencies in other countries, as well as 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) regulations.

The connected care and health informatics applications are governed by regulatory approvals in the markets that we serve. In almost all cases, new products that we introduce are subject to a regulatory approval process (e.g. 510k for FDA approvals in USA, CE Mark in the European Union). Failing to comply with the regulatory requirements of the target markets can prevent shipment of products. The number and diversity of regulatory bodies in the various markets we operate in globally adds complexity and time to product introductions. Regulatory approval is a prerequisite for market introduction.

With regard to the consent decree agreed to by Philips and the US government, as announced in Philips' press release on October 11, 2017, please refer to section 3.4, Our commitment to Quality, of this Annual Report

With regard to sourcing, please refer to sub-section 13.3.9, Supplier indicators, of this Annual Report.

4.3.2 2017 business highlights

Demonstrating the success of telehealth technologies, Emory Healthcare (US) achieved savings of USD 4.6 million over a period of 15 months by using Philips' eICU platform. Similarly, with the help of Philips' Intensive Ambulatory Care program, Banner Health (US) reduced hospitalizations for chronically ill patients with multiple conditions by nearly 50%, reducing overall cost of care by more than one third.

Expanding its health informatics portfolio, Philips launched its IntelliSpace Enterprise Edition, an industry-first managed service solution for hospital-wide clinical informatics and data management. The high-performance, secure and scalable health informatics platform enables health systems to manage the growth and cost of their clinical enterprise with a pay-per-use model.

In line with Philips' focus on solutions selling, the company signed several multi-year agreements. For example, in Italy Philips signed a long-term strategic partnership agreement with the San Giovanni Calibita Fatebenefratelli Hospital in Rome to provide medical technologies, clinical informatics and services for state-of-the-art mother and child care. In the US, Philips expanded its relationship with Advocate Health Care, the largest health system in Illinois, to assist them in standardizing their clinical IT and patient monitoring solutions across the enterprise for improved patient outcomes and predictable costs. Furthermore, Philips signed an agreement with Lakeland Health in the US for advanced monitoring of patients in the hospital's general ward with the Philips IntelliVue Guardian Solution with Early Warning Scoring.

Demonstrating further progress on advanced data analytics, Philips received FDA clearance for its IntelliSpace Portal 10 and a range of innovative applications for radiology. The platform gives clinicians a comprehensive view of each patient, helping them to diagnose conditions. Further highlighting its leadership in health informatics, Philips signed several multi-year agreements with hospitals in the US to provide them with enterprise imaging informatics solutions.

Philips signed a new 10-year Managed Equipment Services agreement for patient monitoring solutions with Le Confluent, one of the top three private hospitals in France for cardiovascular care.

Expanding its health informatics portfolio, Philips acquired interoperability provider Forcare in the Netherlands. Philips also partnered with US-based

Nuance to bring Artificial Intelligence into radiology reporting by leveraging functionalities from Philips' Illumeo and Nuance's PowerScribe 360. Furthermore, Philips launched its new IntelliSpace Enterprise Edition for Radiology, providing radiology departments with comprehensive tools to increase efficiency and enhance throughput.

To further expand its Population Health Management business, Philips acquired VitalHealth, whose highly complementary portfolio of advanced analytics, care coordination, patient engagement and outcome management solutions will support Philips' commitment to deliver integrated solutions for care providers.

4.3.3 Financial performance

Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis.

Connected Care & Health Informatics
Key data in millions of EUR unless otherwise stated
2015 - 2017

	2015	2016	2017
Sales	3,022	3,158	3,163
Sales growth			
Nominal sales growth	13%	5%	0%
Comparable sales growth[1]	0%	4%	3%
Income from operations	173	275	206
as a % of sales	*5.7%*	*8.7%*	*6.5%*
Adjusted EBITA[1]	294	324	372
as a % of sales	*9.7%*	*10.3%*	*11.8%*

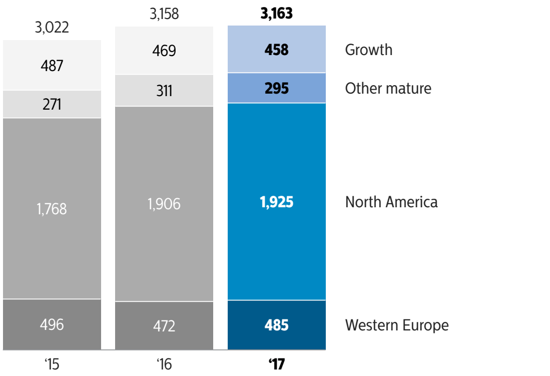
In 2017, sales amounted to EUR 3,163 million and remained flat compared with 2016 on a nominal basis. The 3% increase on a comparable basis[1] was driven by mid-single-digit growth in Patient Care & Monitoring Solutions and low-single-digit growth in Healthcare Informatics. Green Revenues amounted to EUR 1,373 million, or 43% of segment sales.

From a geographic perspective, sales on a nominal basis decreased by 2% in growth geographies; on a comparable basis sales[1] showed low-single-digit growth, mainly driven by low-single-digit growth in China. Sales in mature geographies increased by 1% on a nominal basis and showed low-single-digit growth on a comparable basis, driven by mid-single-digit growth in Western Europe and North America, partly offset by a low-single-digit decline in other mature geographies.

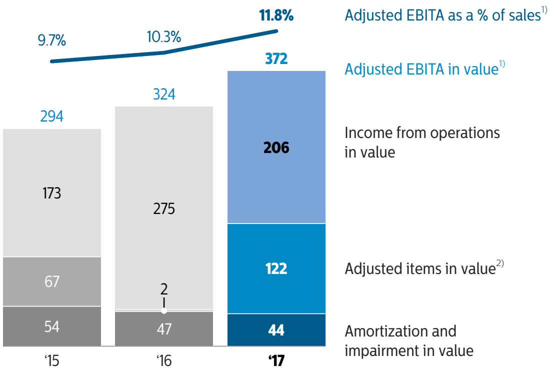
Income from operations in 2017 decreased to EUR 206 million compared to EUR 275 million in 2016. The year 2017 included EUR 44 million of amortization charges, mainly related to acquired intangible assets in Population Health Management compared to 2016 which included EUR 46 million of amortization charges, mainly related to acquired intangible assets at Population Health Management and Patient Care & Monitoring Solutions. Restructuring and acquisition-related charges amounted to EUR 91 million compared to EUR 14 million in 2016. The year 2017 also included EUR 47 million of charges related to quality and regulatory actions, EUR 20 million of charges related to the consent decree focused on the defibrillator manufacturing in the US and a EUR 36 million net release of provisions.

Adjusted EBITA[1] improved by EUR 48 million or 150 basis points as a % of sales year-on-year, mainly due to higher volumes, procurement savings and other cost productivity.

Connected Care & Health Informatics
Sales per geographic cluster in millions of EUR
2015 - 2017



Connected Care & Health Informatics
Income from operations and Adjusted EBITA[1]
in millions of EUR unless otherwise stated
2015 - 2017



[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report
[2] Adjusted items include restructuring, acquisition-related and other charges

[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

4.3.4 Healthy people, sustainable planet

Sustainability continued to play an important role in the Connected Care & Health Informatics businesses in 2017.

Green Revenues in Connected Care & Health Informatics amounted to EUR 1,373 million, 43% of total segment sales, with substantial contributions from all businesses. This reflects a continuous effort to improve energy efficiency, materials reductions and other green focus areas. With the growth of our software products and services and platform solutions, we are reducing our environmental footprint in a number of ways. For instance through software products that can replace hardware and the virtualization of servers. And indirectly through eHealth and connected care solutions that enable hospital workers to deliver faster, more personalized care while at the same time reducing transport to and from hospital.

In the transition towards a circular economy, we are actively pursuing innovations in design and business models that will help us 'close the loop'. This includes working together with customers and suppliers on improving takeback and upgrades of monitors. We are also working on closing loops for medical consumables and sensors, partly through partnerships with suppliers of refurbished materials. With our platform solutions like PACS and EMR, we continue to support fast, first-time-right diagnosis of patients, while at the same time helping hospitals to make efficient use of resources.

Also in our operations, we continue to make positive progress towards a circular economy by recycling 69% of our industrial waste. At the end of 2017, 3 out of 5 Connected Care & Health Informatics businesses' manufacturing sites reported zero waste to landfill. Based on detailed action plans we are working closely with the remaining sites to achieve zero waste to landfill status by the end of 2020.

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4.4 HealthTech Other

In our external reporting on HealthTech Other we report on the items Innovation, Emerging Businesses, IP Royalties, Central costs and Other.

4.4.1 About HealthTech Other

Innovation & Strategy

The central Innovation & Strategy organization includes, among others, the Chief Technology Office, Research, Digital Platforms, the Chief Medical Office, Innovation Services, Design, Strategy, and Sustainability. Key locations include Eindhoven (Netherlands), Cambridge (USA), Bangalore (India) and Shanghai (China).

Innovation & Strategy is responsible for collaborating with the operating businesses and the markets to continuously update the company strategy, in line with our growth and profitability ambitions, in the context of the changing competitive landscape and market trends, while fully leveraging Philips' capabilities, assets and positions.

Innovation & Strategy facilitates innovation from idea to market as co-creator and strategic partner for the Philips businesses and complementary partners. It does so through cooperation between research, design, marketing, strategy and businesses in interdisciplinary teams along the innovation chain, from front-end to first-of-a-kind proposition development. In addition, it opens up new value spaces beyond the direct scope of current businesses, 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 effectiveness and efficiency, capture and generate new ideas, enhance technology partnering capabilities, and share the related financial exposure.

Finally, Innovation & Strategy also has the functional responsibility for R&D, Innovation, Design, Medical Affairs, and Sustainability, with representatives or teams embedded in the business groups. Innovation & Strategy sets the agenda and drives continuous improvement in the efficiency and effectiveness of innovation, as well as the creation and adoption of digital platforms, and the uptake of new technologies such as data science and artificial intelligence.

The CTO organization

The CTO organization is an integrated group of innovation organizations that plays a strong role in orchestrating innovation across Philips' businesses and markets, as well as initiating game-changing innovation that disrupts and crosses boundaries in health technology.

The CTO organization includes the following organizations:

- **Innovation Management,** responsible for end-to-end innovation strategy and portfolio management, integrated roadmaps linked to solutions and our designated 'health spaces', the common components strategy, R&D competency management, innovation performance management and public funding programs.
- **Philips Research,** the co-creator and strategic partner of the Philips businesses, markets and complementary open innovation ecosystem participants driving front-end innovation.
- **The Clinical Research Board**, responsible for managing key global academic accounts and positioning Philips as a leading partner for clinical research.
- **The Chief Architect Office,** responsible for defining, steering and ensuring compliance and uptake of the Philips Unified Architecture, software harmonization and standards.
- **Philips HealthWorks,** responsible for de-risking and accelerating breakthrough innovation and for driving a mindset change towards a more entrepreneurial and open innovation culture. HealthWorks incubates early-stage ventures and engages with the external start-up ecosystem.
- **HealthSuite Insights**, our data science and artificial intelligence platform and entrepreneurial team, offering a consistent set of tools, technologies, and proprietary clinical assets for data scientists and development teams to use in analyzing their data. Our customers can leverage existing assets, or build and host new assets on Philips' infrastructure as part of our data science marketplace.

One of the ventures reporting into the Chief Technology Office is **Philips Photonics**, a global leader in VCSEL technology. VCSELs are infrared lasers for a rapidly growing range of consumer and professional applications like gesture control, environmental sensing, precise scene illumination for surveillance cameras and ultra-fast data communication.

Philips HealthSuite Digital Platforms

The Philips HealthSuite Digital Platforms are our common digital framework that connects consumers, patients and healthcare providers in a cloud-based connected health ecosystem of devices, apps and tools.

- **HealthSuite Cloud** allows Philips and our partners to create the next generation of connected health and wellness innovations from a clinical and technical perspective.
- **HealthSuite Premise** enables our customers to host their own data, control the flow of information between their own systems and the cloud, and still benefit from the digital capabilities that we have to offer.

- **HealthSuite Insights**, already mentioned above, is our data science and AI platform, which can also be deployed in the cloud or on-premise.
- **HealthSuite Consumer Engagement** is our platform for reusable components across our consumer and IoT (Internet of Things) landscape. A common architecture not only enables shorter development times and lower costs – it also enables seamless interoperability across businesses and propositions, creating stronger and more unique value propositions.
- **HealthSuite Clinical Platform** provides a consistent clinical user experience across enterprise, diagnostic imaging and interventional systems.

The Philips HealthSuite Digital Platforms are managed and orchestrated across Innovation & Strategy and all Philips businesses.

Chief Medical Office

The Chief Medical Office is responsible for clinical innovation and strategy, health economics and market access, and medical thought leadership. This includes engaging with stakeholders across the care continuum to extend Philips' leadership in health technology and acting with agility on new value-based reimbursement models that benefit the patient 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, leveraging clinical and scientific knowledge, fostering peer-to-peer relationships in relevant medical communities, liaising with medical regulatory bodies, and supporting clinical and marketing evidence development.

Philips Design

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

Philips Design partners with stakeholders across the organization to develop methodologies and enablers to define value propositions, implement data-enabled design tools and processes to create meaning from data and leverage Cocreate methodologies to define solutions with all key stakeholders. Our design-thinking Cocreate approach facilitates collaboration with customers and patients to create solutions that are tailored specifically to the challenges facing them today, as local circumstances and workflows are key ingredients in the successful implementation of solutions to the challenges our customers face.

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 Design received 165 awards in 2017.

Innovation Services

Innovation Services offers a wide range of expert services in technology development, realization and industry consulting, ranging from mechatronics and systems engineering, to micro-electro mechanical systems and devices. Its skills are leveraged by Philips' businesses, markets and Innovation & Strategy in all regions.

Innovation Hubs

To ensure a critical mass of innovation capabilities that leverage the strengths of relevant innovation health technology ecosystems and that can optimally serve market-driven innovation as well as new business creation, we have established four Innovation Hubs for the Philips Group: Cambridge (US), Eindhoven (Netherlands), Bangalore (India) and Shanghai (China). Each Hub includes a combination of technical, design and clinical capabilities, representing Group Innovation & Strategy, selected R&D groups from our businesses, market innovation teams and other functions. These Hubs, where most of the Group Innovation & Strategy organization is concentrated, complement the business-specific innovation capabilities of our R&D centers that are integrated in our global business sites.

- **The Philips Innovation Center Eindhoven** is Philips' largest Innovation Hub worldwide, hosting the global headquarters of many of our innovation organizations.
- **The Philips Cambridge, MA, Innovation Labs** is home to both researchers and employees from other innovation functions and ventures. Being within close proximity to the MIT campus and clinical collaboration partners allows researchers to collaborate easily with MIT faculties and PhD students on jointly defined research programs, as well as to participate in Open Innovation projects.
- **The Philips Innovation Campus Bangalore** hosts activities from most of our operating businesses, Research, Design, IP&S and IT. R&D activities at the site include Diagnostic Imaging, Patient Care & Monitoring Solutions, Sleep & Respiratory Care, Personal Health, and Healthcare Informatics. The campus works with growth geographies to build market-specific solutions, and several businesses have also located business organizations focusing on growth geographies at the site.
- **The China Innovation Hub** in Shanghai combines digital innovation, research and solutions development capabilities responsible for developing locally and globally relevant innovations.

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 global business sites.

Emerging Businesses

Emerging Businesses is a business group dedicated to a mission of bringing intelligence to advance diagnosis in pathology and neurology and to guide therapy. It includes, among others:

- **Digital & Computational Pathology** is focused on two key missions: to digitize diagnosis in anatomic pathology, and to use Artificial Intelligence to aid detection of disease and progression to reduce inter-observer variability and improve outcomes. Philips is the global market leader in routine primary diagnosis using Digital Pathology and the only company in the market to have an FDA-approved solution for primary diagnosis.
- **Philips Neuro** is focused on a mission to advance neuroscience for better care. The business provides an integrated neurology solution comprising Full Head HD EEG with diagnostic imaging to map brain activity and anatomy for a wide range of neuro disorders, and uses machine learning to improve diagnosis of various neuro disorders. In June 2017, Philips acquired Electrical Geodesics, Inc., a US-based company that designs, develops and commercializes a range of non-invasive technologies used to monitor and interpret brain activity.

IP Royalties

Philips Intellectual Property & Standards 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 62,000 patent rights, 37,600 trademarks, 47,800 design rights and 3,000 domain names. Philips filed 1,200 new patents in 2017, with a strong focus on the growth areas in health and well-being.

IP&S participates in the setting of standards to create new business opportunities for the Philips operating businesses. A substantial portion of revenue and costs is allocated to the operating businesses. Philips believes its business as a whole is not materially dependent on any particular patent or license, or any particular group of patents and licenses.

Central costs

The central cost organization supports the creation of value, connecting Philips with key stakeholders, especially our employees, customers, governments and society. It includes the Executive Committee, Brand Management, Sustainability, New Venture Integration, the Group functions related to strategy, human resources, legal and finance, as well as country and regional management. It also includes functional services to businesses in areas such as IT, Real Estate and Accounting, thereby helping to drive global cost efficiencies.

4.4.2 2017 business highlights

Highlighting Philips' leadership in digital pathology, the Pathology Institute in Hall (Austria) and the Pathology Institute at Tirol Kliniken Innsbruck (Austria) fully digitized their diagnostic process with Philips' comprehensive IntelliSite Pathology Solution.

In the 2017 Interbrand annual ranking of the world's most valuable brands, Philips ranked #41 with an increased estimated brand value of USD 11.5 billion.

Philips' IntelliSite Pathology Solution is currently the only digital pathology solution in the US to receive FDA clearance for primary diagnostic use. This achievement reinforces Philips' leadership in digital pathology, a solution that is central to the diagnosis of complex diseases such as cancer.

Philips was named Industry Leader in the Diversified Industrials category in the 2017 Dow Jones Sustainability Index for the third year in a row, achieving best-in-class scores in several categories, including corporate governance, climate strategy and operational eco-efficiency.

Philips signed an agreement for a new EUR 1 billion Revolving Credit Facility with an interest rate that is dependent on the company's year-on-year improvement in its sustainability performance.

Philips was one of the signatories to the Dutch Gold Sector International Responsible Business Conduct (IRBC) Agreement, which aims to ensure greater respect for human rights, the environment and biodiversity throughout the chain, from mining to recycling.

4.4.3 Financial performance

Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis.

HealthTech Other
Key data in millions of EUR
2015 - 2017

	2015	2016	2017
Sales	503	478	415
Income from operations	49	(129)	(149)
Adjusted EBITA[1]	8	(66)	(109)
IP Royalties	284	286	225
Innovation	(186)	(207)	(212)
Central costs	(83)	(137)	(105)
Other	(7)	(8)	(17)

[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

In 2017, sales amounted to EUR 415 million compared to EUR 478 million in 2016, mainly due to lower royalty income.

In 2017, Income from operations totaled to EUR (149) million compared to EUR (129) million in 2016. The year 2017 included restructuring and acquisition-related charges of EUR 64 million and a EUR 59 million net gain from the sale of real estate assets. The year 2016 included restructuring and acquisition-related charges of EUR 28 million and a EUR 26 million impairment of real estate assets. The year-on-year decrease was mainly due to lower royalty income, higher restructuring and acquisition-related charges and higher provision-related charges, partly offset by lower Central costs.

Adjusted EBITA[1] decreased by EUR 43 million compared to 2016, mainly due to lower royalty income and higher provision-related charges in Other, partly offset by lower Central costs.

4.5 Legacy Items

Legacy Items consists mainly of separation costs, legacy legal items, legacy pension costs, environmental provisions and stranded costs.

4.5.1 Financial performance

Legacy Items
Key data in millions of EUR unless otherwise stated
2015 - 2017

	2015	2016	2017
Separation costs	(183)	(152)	(31)
Other	(439)	(29)	(73)
Income from operations	**(622)**	**(181)**	**(103)**

Income from operations in 2017 mainly included EUR 31 million of charges related to the separation of the Lighting business, EUR 26 million of provisions related to the CRT litigation in the US, EUR 15 million of costs related to environmental provisions, and EUR 14 million of stranded costs related to the combined Lumileds and Automotive businesses.

[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

5 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;
- Adjusted EBITA;
- 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 (and ratios based on 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. Furthermore, they may not be indicative of Philips' future results and should not be construed as an indication that Philips' future results will be unaffected by exceptional or non-recurring items.

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 note 1, Significant accounting policies, to the Philips Group financial statements, 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 under review 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 (second order effects) are not taken into account.

Philips Group
Sales growth composition per segment in %
2015 - 2017

	nominal growth	currency effects	consolidation changes	comparable growth
2017 versus 2016				
Personal Health	3.0	1.9	0.7	5.6
Diagnosis & Treatment	3.1	2.0	(1.6)	3.5
Connected Care & Health Informatics	0.2	1.9	1.1	3.2
HealthTech Other	(13.2)	0.2	0.1	(12.9)
Philips Group	**2.1**	**1.9**	**(0.1)**	**3.9**
2016 versus 2015				
Personal Health	5.2	2.0	0.0	7.2
Diagnosis & Treatment	3.1	0.9	(0.4)	3.6
Connected Care & Health Informatics	4.5	0.1	(0.1)	4.5
HealthTech Other	(5.0)	0.0	0.0	(5.0)
Philips Group	**3.7**	**1.1**	**0.1**	**4.9**
2015 versus 2014				
Personal Health	13.5	(8.6)	0.0	4.9
Diagnosis & Treatment	22.7	(10.9)	(5.7)	6.1
Connected Care & Health Informatics	12.6	(12.2)	0.0	0.4
HealthTech Other	3.3	(0.3)	(1.9)	1.1
Philips Group	**15.8**	**(9.9)**	**(1.5)**	**4.4**

Philips Group
Sales growth composition per geographic cluster in %
2015 - 2017

	nominal growth	currency effects	consolidation changes	comparable growth
2017 versus 2016				
Western Europe	1.2	1.1	0.5	2.8
North America	2.1	2.0	(1.4)	2.7
Other mature geographies	(4.7)	2.6	**(0.1)**	(2.2)
Mature geographies	**0.8**	**1.7**	**(0.6)**	**1.9**
Growth geographies	**4.8**	**2.3**	**0.9**	**8.0**
Philips Group	**2.1**	**1.9**	**(0.1)**	**3.9**
2016 versus 2015				
Western Europe	2.2	1.9	0.2	4.3
North America	3.6	(0.4)	(0.2)	3.0
Other mature geographies	8.9	(6.2)	(0.4)	2.3
Mature geographies	**3.9**	**(0.5)**	**(0.1)**	**3.3**
Growth geographies	**3.2**	**4.6**	**0.6**	**8.4**
Philips Group	**3.7**	**1.1**	**0.1**	**4.9**
2015 versus 2014				
Western Europe	6.3	(2.2)	(1.2)	2.9
North America	23.8	(18.8)	(2.6)	2.4
Other mature geographies	12.6	(5.4)	(4.2)	3.0
Mature geographies	**16.0**	**(11.0)**	**(2.3)**	**2.7**
Growth geographies	**15.3**	**(7.3)**	**0.1**	**8.1**
Philips Group	**15.8**	**(1.5)**	**(9.9)**	**4.4**

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 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.

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. Below is a reconciliation of Adjusted EBITA to the most directly comparable IFRS measure, Net income, for the years indicated. 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 unless otherwise stated
2015 - 2017

	Philips Group	Personal Health	Diagnosis & Treatment	Connected Care & Health Informatics	HealthTech Other	Legacy Items
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 expense	263					
Financial income	(126)					
Income from operations	**1,517**	**1,075**	**488**	**206**	**(149)**	**(103)**
Amortization of acquired intangible assets	260	135	55	44	26	
Impairment of goodwill	9				9	
EBITA	1,787	1,211	543	250	(114)	(103)
Restructuring and acquisition-related charges	316	11	151	91	64	
Other items	50		22	31	(59)	55
Adjusted EBITA	**2,153**	**1,221**	**716**	**372**	**(109)**	**(48)**
Sales	17,780	7,310	6,891	3,163	415	1
Adjusted EBITA *as a % of sales*	*12.1%*	*16.7%*	*10.4%*	*11.8%*		
2016						
Net Income	**1,491**					
Discontinued operations, net of income taxes	(660)					
Income tax expense	203					
Investments in associates, net of income taxes	(11)					
Financial expenses	507					
Financial income	(65)					
Income from operations	**1,464**	**953**	**546**	**275**	**(129)**	**(181)**
Amortization of acquired intangible assets	242	139	48	46	9	
Impairment of goodwill	1			1		
EBITA	1,707	1,092	594	322	(120)	(181)
Restructuring and acquisition-related charges	94	16	37	14	28	(1)
Other items	120			(12)	26	106
Adjusted EBITA	**1,921**	**1,108**	**631**	**324**	**(66)**	**(76)**
Sales	17,422	7,099	6,686	3,158	478	1
Adjusted EBITA *as a % of sales*	*11.0%*	*15.6%*	*9.4%*	*10.3%*		
2015						
Net Income	**638**					
Discontinued operations, net of income taxes	(479)					
Income tax expense	169					
Investments in associates, net of income taxes	(30)					
Financial expenses	453					
Financial income	(94)					
Income from operations	**658**	**736**	**322**	**173**	**49**	**(622)**
Amortization of acquired intangible assets	273	149	55	54	15	
EBITA	931	885	377	227	64	(622)
Restructuring and acquisition-related charges	186	37	131	38	(19)	(1)
Other items	571	44	7	29	(37)	528
Adjusted EBITA	**1,688**	**966**	**515**	**294**	**8**	**(95)**
Sales	16,806	6,751	6,484	3,022	503	46
Adjusted EBITA *as a % of sales*	*10.0%*	*14.3%*	*7.9%*	*9.7%*		

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 because certain excluded items can vary significantly depending on specific underlying transactions or events, and 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, may not be indicative of future results. A reconciliation from net income to Adjusted EBITDA is provided below.

Philips Group
Reconciliation of Net income to Adjusted EBITDA in millions of EUR
2015 - 2017

	Philips Group	Personal Health	Diagnosis & Treatment	Connected Care & Health Informatics	HealthTech Other	Legacy Items
2017						
Net income	1,870					
Discontinued operations, net of income taxes	(843)					
Income tax expense	349					
Investment in associates, net of income taxes	4					
Financial expense	263					
Financial income	(126)					
Income from operations	**1,517**	**1,075**	**488**	**206**	**(149)**	**(103)**
Depreciation, amortization and impairment of assets	1,025	371	267	208	177	2
Impairment of goodwill	9				9	
Restructuring costs	211	8	63	81	59	
Acquisition-related charges	106	3	88	10	5	
Other items	50		22	31	(59)	55
Adding back impairment of fixed assets included in restructuring and acquisition-related changes and other items	(86)	(1)	(44)	(34)	(7)	-
Adjusted EBITDA	**2,832**	**1,456**	**884**	**502**	**36**	**(46)**
2016						
Net income	1,491					
Discontinued operations, net of income taxes	(660)					
Income tax expense	203					
Investment in associates, net of income taxes	(11)					
Financial expense	507					
Financial income	(65)					
Income from operations	**1,464**	**953**	**546**	**275**	**(129)**	**(181)**
Depreciation, amortization and impairment of assets	976	385	229	184	177	2
Impairment of goodwill	1			1		
Restructuring costs	58	16	6	9	27	(1)
Acquisition-related charges	37		31	4	1	
Other items	120			(12)	26	106
Adding back impairment of fixed assets included in restructuring and acquisition-related changes and other items	(42)	-	(4)	(4)	(34)	
Adjusted EBITDA	**2,613**	**1,353**	**808**	**458**	**68**	(74)
2015						
Net income	638					
Discontinued operations, net of income taxes	(479)					
Income tax expense	169					
Investment in associates, net of income taxes	(30)					
Financial expense	453					
Financial income	(94)					
Income from operations	**658**	**736**	**322**	**173**	**49**	**(622)**
Depreciation, amortization and impairment of assets	972	375	249	198	156	(7)
Restructuring costs	81	38	25	37	(20)	(1)
Acquisition-related charges	107	(1)	107	1		
Other items	571	44	7	29	(37)	528
Adding back impairment of fixed assets included in restructuring and acquisition-related changes and other items	(80)	(4)	(62)	(14)		
Adjusted EBITDA	**2,307**	**1,188**	**648**	**424**	**149**	**(102)**

Free cash flow

Free cash flow is defined as net cash provided by 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 operating activities and net cash provided 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 Group
Composition of free cash flow in millions of EUR
2015 - 2017

	2015	2016	2017
Net cash provided by operating activities	598	1,170	1,870
Net capital expenditures	(752)	(741)	(685)
Purchase of intangible assets	*(105)*	*(95)*	*(106)*
Expenditures on development assets	*(291)*	*(301)*	*(333)*
Capital expenditures on property, plant and equipment	*(432)*	*(360)*	*(420)*
Proceeds from sales of property, plant and equipment	*76*	*15*	*175*
Free cash flow	**(154)**	**429**	**1,185**

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 and group equity in millions of EUR unless otherwise stated
2015-2017

	2015	2016	2017
Long-term debt	4,095	4,021	4,044
Short-term debt	1,665	1,585	672
Total debt	5,760	5,606	4,715
Cash and cash equivalents	1,766	2,334	1,939
Net debt	**3,994**	**3,272**	**2,776**
Shareholders' equity	11,607	12,546	11,999
Non-controlling interest	118	907	24
Group equity	**11,725**	**13,453**	**12,023**
Net debt : group equity ratio	**25:75**	**20:80**	**19:81**

Comparable order intake

Comparable order intake is reported for equipment and software and is defined as the total contractually committed amount to be delivered within a specified timeframe excluding the effects of currency movements and changes in consolidation. Comparable order intake does not derive from the financial statements and thus a quantitative reconciliation is 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.

6 Risk management

6.1 Our approach to risk management

The Executive Committee, supported by the Risk Management Support Team, oversees and manages risks associated with Philips' strategy and activities. The Risk Management Support Team consists of a number of functional experts covering the various categories of enterprise risk and supports by increasing the understanding of the enterprise risk profile and continuously working to improve the enterprise risk management framework. The Executive Committee is ultimately responsible for identifying the critical risks and for the implementation of appropriate risk responses. The Supervisory Board is periodically updated about enterprise risks and the risk management process in Philips.

Philips believes risk management is a value creating activity and as such it is an integral element of the Philips Business System (PBS). Risk management and control supports us in taking sound risk-reward strategic decisions to maximize value creation, it supports sustainable results on our Path to Value, it protects our key strengths (Capabilities, Assets, and Positions) and it supports process excellence.

Philips' risk management focuses on the following risk categories: Strategic, Operational, Compliance and Financial risks. The main risks within these categories are further described in section 6.2, Risk categories and factors, of this Annual Report. The overview highlights the material risks known to Philips, which could hinder it in achieving its strategic and financial business objectives. The risk overview may, however, not include all the risks that may ultimately affect Philips. Some risks not yet known to Philips, or currently believed not to be material, could ultimately have a major impact on Philips' businesses, objectives, revenues, income, assets, liquidity or capital resources.

All forward-looking statements made on or after the date of this Annual Report and attributable to Philips are expressly qualified in their entirety by the factors described in the cautionary statement included in chapter 17, Forward-looking statements and other information, of this Annual Report and the overview of risk factors described in section 6.2, Risk categories and factors, of this Annual Report.

Risk Management Framework

Risk management and control forms an integral part of the Philips business planning and performance review cycle. The company's risk and control policy is designed to provide reasonable assurance that objectives are met by integrating risk assessment in the strategic planning process, integrating management control into the daily operations, ensuring compliance with legal requirements and safeguarding the integrity of the company's financial reporting and its related disclosures. It makes management responsible for identifying the critical business risks and for the implementation of appropriate risk responses. Philips' risk management approach is embedded in the areas of Corporate Governance, elements of the Philips Business System (Strategic Investment Decision Making, Asset Protection, Operational Excellence, Planning & Performance Cycle), Philips Business Control Framework and Philips General Business Principles. Structured risk assessments take place according to the Philips process standard for managing risk.

Risk appetite

Philips' risk management policy addresses risks related to different categories: Strategic, Operational, Compliance and Financial risks. The Executive Committee and management consider risk appetite when taking decisions and seek to manage risks consistently within the risk appetite. Risk boundaries are set in the various parts of our governance framework including (but not limited to) our Strategy, General Business Principles (GBP), Policies, Philips Business System (PBS), Budgets and Authority schedules. Risk appetite is different for the various risk categories:

- Strategic risks and opportunities may affect Philips' strategic ambitions. Strategic risks include economic and political developments and the need to anticipate and respond timely to market circumstances. Philips is prepared to take considerable strategic risks in a responsible way given the necessity to invest in research & development and manage the portfolio of businesses, including acquisitions and divestments, in a highly uncertain global political and economic environment. Philips carefully evaluates if risk taking is justified in light of Strategic Fit, Portfolio Balance, and overall Value creation ambitions. Philips seeks to avoid risks which dilute or contradict our Brand promise.
- Operational risks include adverse developments resulting from internal processes, people and systems, or from external events that are linked to the actual running of each business (examples are solution and product creation and supply chain management). Our focus on Quality, Excellence and Productivity enhancement guide the day-to-day running and the continuous improvement of our business. Philips takes a calculated approach aimed to optimize the upside and minimize the downside of risks due to the need for high quality of its products and services, reliable and secure IT systems and sustainability commitments.

- Compliance risks cover unanticipated failures to implement, or comply with, appropriate laws, regulations, policies and procedures. Philips attaches prime importance to product quality and safety, including full compliance with regulations and quality standards applicable to our products and services. Being a responsible company everyone in Philips is expected to always act with integrity. Philips rigorously enforces compliance of General Business Principles throughout the Company. Philips has a zero tolerance policy towards non-compliance in relation to breaches of its General Business Principles.
- Financial risks include risks related to Treasury, Accounting and Reporting, Pensions and Tax. Philips is prudent with regard to financial risks as the financial sustainability of the company and investor commitment depends on it. Philips is averse to risks which jeopardize a sustained "Investment grade" credit rating and risks which impede the reliability of our financial reporting. Risk appetite is described further in various chapters of this annual report, including note 29, Details of treasury / other financial risks.

Philips does not classify these risk categories in order of importance.

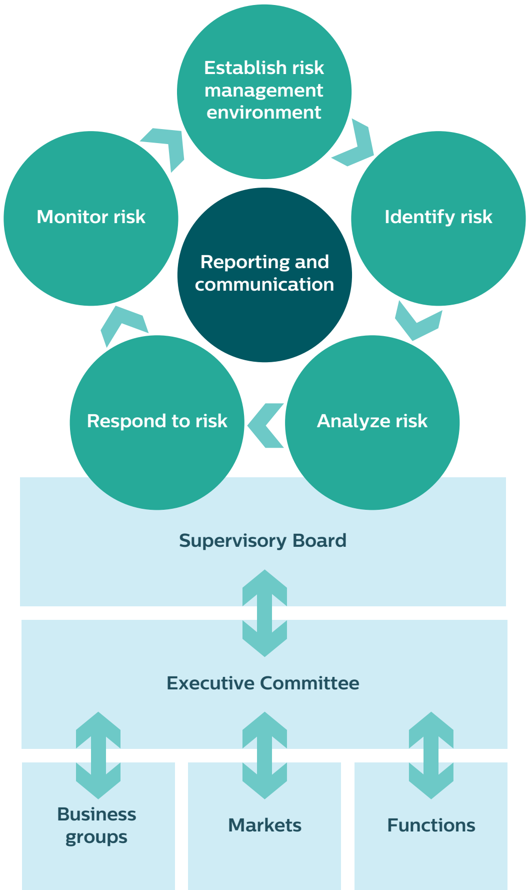
Corporate Governance

Corporate governance is the system by which a company is directed and controlled. Philips believes that good corporate governance is a critical factor in achieving business success. Good corporate governance derives from, among other things, effective internal controls and high ethical standards. The quality of Philips' system of risk management, business control and other findings of internal and external audits are reported to and discussed by the Audit Committee of the Supervisory Board. Internal auditors monitor the quality of risk management and business controls through the execution of the risk based audit plan as approved by the Audit Committee of the Supervisory Board.

Audit & Risk committees at Group level, Business Groups, Markets and key Functional areas meet quarterly, chaired by first line leadership, to address weaknesses in risk management and business controls structure as reported by internal and external auditors or revealed by self-assessment of management and to take corrective action where necessary. In addition to the Audit Committee, the Quality and Regulatory (Q&R) Committee of the Supervisory Board assists the Supervisory Board in fulfilling its oversight responsibilities particularly in respect of the quality of the Company's products, systems, services and software and the development, testing, manufacturing, marketing and servicing thereof, and regulatory requirements relating thereto. As such, the Q&R Committee supports the Company's risk management in the relevant risk areas. An in-depth description of Philips' corporate governance structure can be found in chapter 10, Corporate governance, of this Annual Report.

Risk Management

Taking risks is an inherent part of entrepreneurial behavior and well-structured risk management allows management to take risks in a controlled manner. In order to provide a comprehensive view of Philips' risks, structured risk assessments take place according to the Philips process standard for risk management, combining elements of a top-down and bottom-up approach. The process is supported by workshops with management at Business, Market and Group Function levels. During 2017, several risk management workshops were held.



Key elements of the Philips risk management policy are:

- Annual risk assessment for the Group, Business Groups, Markets and key Functions as part of the annual update of the strategic plan. Risks are assessed and prioritized on their impact on objectives, likelihood of occurrence and effectiveness of controls. Management is accountable for the timely development of effective risk responses.

- Developments in the risk profile and management's initiatives to improve risk responses are explicitly discussed and monitored during the quarterly Audit & Risk Committees and in the Quarterly Performance Reviews (QPR).
- As an integral part of the strategy review, the Executive Committee annually assesses the enterprise risk profile, including appropriate risk scenarios and sensitivity analysis, and reviews the potential impact of the enterprise risk profile versus the Group's risk appetite. This risk assessment is based on the latest annual risk assessments of the Group, Business Groups, Markets and key Functions and changes to these, if any, as reported during the periodic review meetings, findings from Philips Internal Audit, Legal and Insurance, the Materiality analysis as described in chapter 13, Sustainability statements, of this Annual Report, views from key stakeholders, external analysis, and risks reported in the annual certification statement on Risk Management and Business Controls.
- Developments in the Enterprise Risk profile and management's initiatives to improve risk responses are discussed and monitored during the quarterly Group Audit & Risk Committee.
- The Executive Committee reviews at least annually the Philips risk management approach and improves the process as required.
- The Philips risk profile and the risk management approach are discussed at least annually with the Audit Committee and with the full Supervisory Board.

Examples of measures taken during 2017 to further strengthen risk management, which have been discussed with the Audit Committee and the full Supervisory Board:

- Execution of the Enterprise Risk Management (ERM) improvement roadmap;
- The continued development of the Information Security Program in light of the increasing exposure to cybercrime and information security requirements resulting from digitalization and a focus on the Healthcare industry;
- The further development of risk management related to long-term service-based business models;
- Introduction of improved comprehensive insurance program;
- Accelerated acquisition integration supported by playbooks;
- Revised plan for GBP deployment for the next 3 years;
- Strengthened Q&R framework and oversight, standardization of Philips Quality Management System across the Company, and Quality improvement campaign;
- Closing of sale of 80.1% interest in Lumileds and sale of substantial part of Lighting resulting in deconsolidation of Philips Lighting during 2017;
- Further de-risking of pension liabilities liabilities with deficit funding in the US defined-benefit plan and settlement of the Brazilian pension plans;
- Continuous improvement of risk dialogues and continuation of risk workshops to cover Business Groups, Markets and Functions.

Philips Business Control Framework

The Philips Business Control Framework (BCF) sets the standard for risk management and business control in Philips. The objectives of the BCF are to maintain integrated management control of the company's operations, in order to ensure the integrity of the financial reporting, as well as compliance with laws and regulations. Philips has designed its BCF based on the "Internal Control-Integrated Framework (2013)" established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Philips continuously evaluates and improves its BCF to align with business dynamics and good practice.

As part of the BCF, Philips has implemented a global standard for internal control over financial reporting (ICS). ICS, together with Philips' established accounting procedures, is designed to provide reasonable assurance that assets are safeguarded, that the books and records properly reflect transactions necessary to permit preparation of financial statements, that policies and procedures are carried out by qualified personnel and that published financial statements are properly prepared and do not contain any material misstatements. ICS has been deployed in all material reporting units, where business process owners perform an extensive number of controls, document the results each quarter, and take corrective action where necessary. ICS supports business and functional management in a quarterly cycle of assessment and monitoring of its control environment. The findings of management's evaluation are reported to the Executive Committee and the Audit Committee of the Supervisory Board quarterly.

As part of the Annual Report process, management's accountability for business controls is enforced through the formal certification statement sign off by Business Group, Market and Functional management to the Executive Committee. Any deficiencies noted in the design and operating effectiveness of controls over financial reporting which were not completely remediated are evaluated at year-end by the Board of Management. The Board of Management's report, including its conclusions regarding the effectiveness of internal control over financial reporting, can be found in section 11.1, Management's report on internal control, of this Annual Report.

Philips General Business Principles

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 32 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 environments.

The GBP form an integral part of labor contracts in virtually every country in which Philips operates. It is the responsibility of each employee to live up to our GBP, and employees are requested to affirm their commitment to the principles after completing their GBP e-training. In addition, there are separate Codes of Ethics that apply to employees working in specific areas of our business, i.e. the Procurement Code of Ethics and the Financial Code of Ethics. Details can be found at: www.philips.com/gbp. Executives are requested to sign off on the GBP each year to renew their awareness of and reaffirm their compliance with these principles.

Within Philips, the GBP Review Committee is ultimately responsible for the effective deployment of the GBP and for generally promoting a culture of compliance and ethics within the company. The GBP Review Committee is chaired by the Chief Legal Officer, and its members include the Chief HR Officer, the Chief of International Markets and the Chief Financial Officer. They are supported in the implementation of their initiatives by a Committee Secretariat as well as a network of GBP Compliance Officers, who are appointed in all markets, countries and at all major sites where Philips has operations. Furthermore, building on the best practices we have developed in some of our markets, in 2018 all markets will install a formal compliance committee, consisting of (at least) the market leader, the market head of legal and the market CFO, which will deal with GBP related matters on a more granular level.

As part of our unyielding effort to raise GBP awareness and foster dialog throughout the organization, each year a global GBP communications and training plan is deployed. In 2017, a number of initiatives were undertaken through various channels such as new Quick Reference Cards for at-a-glance guidance on how to handle a number of common GBP issues, as well as recurring programs such as e-learnings for selected high-risk audiences. For our GBP e-learning, we achieved a training completion rate of 96%. Many of these initiatives contributed to building momentum toward our now annual GBP Dialogue Initiative. In 2017, in order to accommodate the increased demand from the markets and business, we held our Dialogue Initiative over the course of two months beginning in May and ending in June, allowing ample time and scope for teams and leaders alike to arrange and prepare for their dialog session. During the 2017 Dialogue Initiative, more teams at Philips than ever before held open and frank discussions on what Acting with Integrity means to them, and posted pictures of their sessions on the Philips social platform using the hashtag #integritymatters.

The effect of our communication and awareness campaigns is apparent from the results of our biennial Business Integrity Survey. Via this survey, in which tens of thousands of Philips employees participated, we measure employee's perception of integrity throughout the company. For the second time running our scores improved for all the soft-controls we measure.

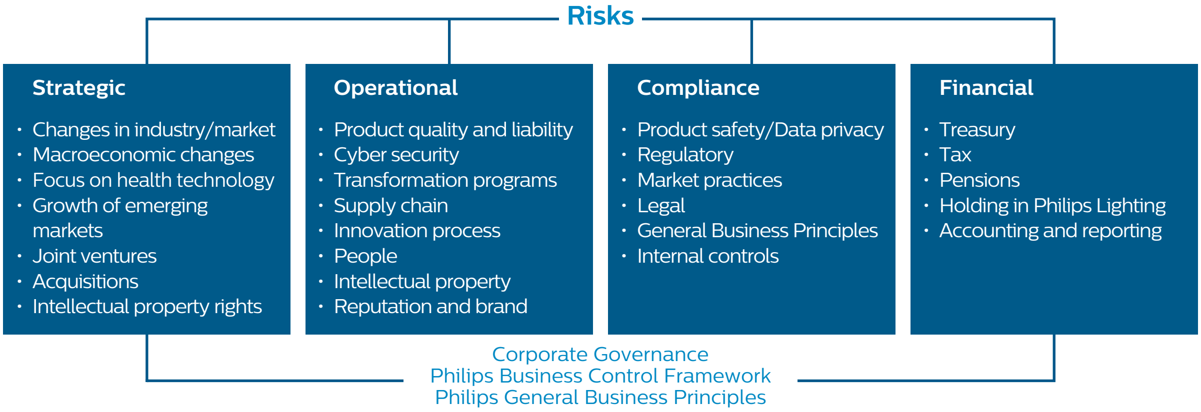
As one of our important controls for monitoring and oversight of the level of GBP compliance within Philips, we deploy quarterly the mandatory GBP self-assessment as part of our Internal Control framework. The GBP Review Committee Secretariat receives an overview of the results of this self-assessment and can take action when deemed necessary. We believe this has created a more robust network to ensure compliance throughout the organization and it has equipped us with the requisite skills and support to monitor and enhance compliance in the increasingly regulated environments in which Philips operates. Furthermore, 2017 saw the creation of a dedicated compliance monitoring team, which will leverage data analytics to quickly identify and address potential compliance issues.

The GBP are supported by established mechanisms that ensure standardized reporting and escalation of concerns where necessary. These mechanisms are based on the GBP Reporting Policy, which urges employees to report any concerns they may have regarding business conduct in relation to the GBP. They can do this either through a GBP Compliance Officer or through the Philips Ethics Line, which enables employees and also third parties to report a concern either by telephone or online in a variety of different languages 24/7 all year round. Concerns raised are registered consistently in a single database hosted outside of Philips servers to ensure confidentiality and security of identity and information. Encouraging people to submit a complaint when they have exhausted all other means of recourse had been - and will continue to be - a cornerstone of our GBP communications and awareness campaign year on year.

Financial Code of Ethics

The Company has a Financial Code of Ethics which applies to the CEO (the principal executive officer) and CFO (the principal financial and principal accounting officer), and to the senior management in the Philips Finance Leadership Team who head the Finance departments of the Company. The Company has published its Financial Code of Ethics within the investor section of its website located at www.philips.com. No changes were considered necessary and no changes have been made to the Financial Code of Ethics since its adoption and no waivers have been granted therefrom to the officers mentioned above in 2017.

For more information, please refer to sub-section 3.2.8, General Business Principles, of this Annual Report.



6.2 Risk categories and factors

In order to provide a comprehensive view of Philips' enterprise risks, structured risk assessments take place in accordance with the Philips process standard to manage risk as described in section 6.1, Our approach to risk management, of this Annual Report. As a result of this process, amongst others, the following actions were performed during 2017:

- In order to reduce its exposure to market risk, Philips continued in 2017 to sell portions of its ownership of Lighting; by the end of 2017 Philips was no longer able to exercise control over Lighting and as a result Lighting has been deconsolidated. Until the completion of the sale of its entire ownership in Philips Lighting, Philips remains exposed to risks with regard to the value of Philips Lighting.
- In 2017 the sale of 80.1% of Lumileds was completed; Philips remains exposed to risks with regard to the value of the remaining 19.9% stake in Lumileds.
- The challenging global political and economic developments had an impact on our results. We have continued to monitor the impact of economic and political developments on our results.
- Philips has strengthened its (cyber) security governance to increase the ability to detect, respond to and close (cyber) security incidents.
- Philips has continued its significant investments in its Quality Management System across the company. Changes in the company-wide quality leadership have been made and new standards and initiatives have been launched.

Philips describes the risk factors within each risk category in order of Philips' current view of expected significance, to give stakeholders an insight into which risks and opportunities it considers more prominent than others at present. The risk overview highlights the main risks and opportunities known to Philips, which could hinder it in achieving its strategic and financial business objectives. The risk overview may, however, not include all the risks that may ultimately affect Philips. Describing risk factors in their order of expected significance within each risk category does not mean that a lower listed risk factor may not have a material and adverse impact on Philips' business, strategic objectives, revenues, income, assets, liquidity, capital resources or achievement of Philips' goals. Furthermore, a risk factor described after other risk factors may ultimately prove to have more significant adverse consequences than those other risk factors. Over time Philips may change its view as to the relative significance of each risk factor.

6.3 Strategic risks

Philips may be unable to adapt swiftly to changes in industry or market circumstances, which could have a material adverse impact on its financial condition and results.

Fundamental shifts in the Healthcare industry, like the transition towards digital, may drastically change the business environment. If Philips is unable to recognize these changes in good time, is late in adjusting its business models, or if circumstances arise such as pricing actions by competitors, then this could have a material adverse effect on Philips' growth ambitions, financial condition and operating result.

As Philips' business is global, its operations are exposed to economic and political developments in countries across the world that could adversely impact its financial condition and results.

Philips ' business environment is influenced by political and economic conditions in individual and global markets. Financial markets generally showed a stable, favorable performance during 2017 with market volatility at an all-time low; towards the end of 2017 concerns emerged about potential bubbles in some financial markets. Economic growth in China seems to have stabilized. The European Union started to show clear economic growth in 2017 and so far seems unaffected by the lack of progress in the Brexit process. Political uncertainty remains a driver of potential risks in Europe. The weakened government in Great Britain continues to struggle with the Brexit negotiations. The US economy continued to perform well during 2017, but the initial optimism following the start of the new US administration in 2017 has slacked off. The long awaited US Tax Cuts and Jobs Act was only presented at the end of 2017 and it is uncertain what the impact of this tax reform will be. The US dollar lost strength versus the euro and Japanese yen during the second half of 2017; there is considerable uncertainty about the potential impact of the US Tax Cuts and Jobs Act on the strength of the US dollar. Both Brexit and the policies of the US administration may have significant impact on international trade tariffs and customs laws. Driven by political conflicts, 2017 showed further increases in the quantity and severity of cyber-attacks; some attacks (e.g. WannaCry) affected many countries and public and private organizations. The favorable macroeconomic outlook for the main geographies could quickly reverse due to political conflicts, the unknown impact of changes in US and Eurozone monetary policy and changes in government policies. Uncertainty remains as to the levels of (public) capital expenditures in general, unemployment levels and consumer and business confidence, which could adversely affect demand for products and services offered by Philips.

The general global political environment remains unfavorable for the business environment due to continued political conflicts and terrorism. Numerous other factors, such as regional political conflicts in the Middle East, Turkey, Korean peninsula and other regions, as well as large-scale (in)voluntary migration and profound social instability could continue to impact macroeconomic factors and the international capital and credit markets. It remains difficult to predict changes in, among others, US foreign policy, healthcare and trade and tax laws, the impact of which cannot be predicted. Uncertainty on the timing and the nature of Brexit may adversely affect economic growth and the business environment in the United Kingdom and the European Union. Economic and political uncertainty may have a material adverse impact on Philips' financial condition or results of operations and can also make it more difficult for Philips to budget and forecast accurately. Political instability may have an adverse impact on financial markets which could have a negative impact on the timing and revenues of the sale of the remaining interests in Lighting and the access of Philips to funding. Philips may encounter difficulty in planning and managing operations due to the lack of adequate infrastructure and unfavorable political factors, including unexpected legal or regulatory changes such as foreign exchange import or export controls, increased healthcare regulation, nationalization of assets or restrictions on the repatriation of returns from foreign investments. Given that growth in emerging market countries is correlated to US, Chinese and European economic growth and that such emerging market countries are increasingly important in Philips' operations, the above-mentioned risks are also expected to grow and could have a material adverse effect on Philips' financial condition and results.

Philips' overall risk profile is changing as a result of the focus on Health Technology.

The risk profile of Philips is expected to concentrate focus on one industry due to the dynamics of our changing products and services portfolio, acquisitions and partnerships resulting from the execution of our Health Technology strategy.

Philips' overall performance in the coming years is expected to depend on the realization of its growth ambitions and results in growth geographies.

Growth geographies are becoming increasingly important in the global market. In addition, Asia is an important production, sourcing and design center for Philips. Philips faces strong competition to attract the best talent in tight labor markets and intense competition from local companies as well as other global players for market share in growth geographies. Philips needs to maintain and grow its position in growth geographies, invest in data driven services, invest in local talent, understand developments in end-user preferences and localize the portfolio in order to stay competitive. If Philips fails to achieve these objectives, then this could have a material adverse effect on growth ambitions, financial condition and operating result.

The growth ambitions and the related financial results of Philips may be adversely affected by economic volatility inherent in growth geographies and the impact of changes in macroeconomic circumstances on growth economies.

Philips may not control joint ventures or associated companies in which it invests, which could limit the ability of Philips to identify and manage risks.

Philips has invested and may invest in joint ventures and associated companies in which Philips will have a non-controlling interest. In these cases, Philips has limited influence over, and limited or no control of, the governance, performance and cost of operations of joint ventures and associated companies. Some of these joint ventures and associated companies may represent significant investments and potentially also use Philips' brand. The joint ventures and associated companies that Philips does not control may make business, financial or investment decisions contrary to Philips' interests or may make decisions different from those that Philips itself may have made. Additionally, Philips partners or members of a joint venture or associated company may not be able to meet their financial or other obligations, which could expose Philips to additional financial or other obligations, as well as having a material adverse effect on the value of its investments in those entities or potentially subject Philips to additional claims. Lumileds is an example of a company in which Philips may continue to have a (residual) investment but does not have control.

Acquisitions could expose Philips to integration risks and challenge management in continuing to reduce the complexity of the company.

Philips' acquisitions may expose Philips in the future to integration risks in areas such as sales and service force integration, logistics, regulatory compliance, information technology and finance. Integration difficulties and complexity may adversely impact the realization of an increased contribution from acquisitions. Philips may incur significant acquisition, administrative and other costs in connection with these transactions, including costs related to the integration of acquired businesses. Acquisitions may divert management attention from other business priorities and risks.

Furthermore, organizational simplification expected to be implemented following an acquisition and the resulting cost savings may be difficult to achieve. Acquisitions may also lead to a substantial increase in long-lived assets, including goodwill. Write-downs of these assets due to business developments may have a material adverse effect on Philips' earnings (see also note 11, Goodwill).

Philips' inability to secure and maintain intellectual property rights for products, whilst maintaining overall competitiveness, could have a material adverse effect on its results.

Philips is dependent on its ability to obtain and maintain licenses and other intellectual property (IP) rights covering its products and its design and manufacturing processes. The IP portfolio is the result of an extensive patenting process that could be influenced by a number of factors, including innovation. The value of the IP portfolio is dependent on the successful promotion and market acceptance of standards developed or co-developed by Philips. This is particularly applicable to Personal Health where third-party licenses are important and a loss or impairment could have a material adverse impact on Philips' financial condition and operating results.

6.4 Operational risks

Failure to comply with quality standards, regulations and associated regulatory actions can trigger warranty and product liability claims against Philips and can lead to financial losses and adversely impact Philips' reputation, market share and brand.

Philips is required to comply with the high standards of quality in the manufacture of its medical devices. Philips hereto is subject to the supervision of various national regulatory authorities. Conditions imposed by such national regulatory authorities could result in product recalls or a temporary ban on products and/or production facilities. In addition quality issues and/or liability claims could affect Philips' reputation and its relationships with key customers (both customers for end products and customers that use Philips' products in their business processes). As a result, depending on the product and manufacturing site concerned and the severity of the quality and/or regulatory issue, this could lead to financial losses through lost revenue and costs of any required remedial actions, and have further impacts on Philips' reputation, market share and brand. Please refer to section 6.5, Compliance risks, of this Annual Report.

A breach in security of, or a significant disruption in, our information technology systems or violation of data privacy laws could adversely affect our operating results, financial condition, reputation and brand.

Philips relies on information technology to operate and manage its businesses and store confidential data (relating to employees, customers, intellectual property, suppliers and other partners); Philips' products, solutions and services increasingly contain sophisticated information technology and generate confidential data related to customers and patients. Like many other multinational companies, Philips is therefore inherently and increasingly exposed to the risk of cyber attacks. Information systems may be damaged, disrupted (including the provision of services to customers) or shut down due to (cyber) attacks by hackers, computer viruses or other malware. In addition, breaches in security of our systems (or the systems of our customers, suppliers or other business partners) could result in the misappropriation, destruction or unauthorized disclosure of confidential information (including intellectual property) or personal data belonging to us or to our employees, partners, customers or suppliers. Successful cyber-attacks may result in substantial costs and other negative consequences, which may include, but are not limited to, lost revenues, reputational damage, remediation costs, and other liabilities to regulators, customers and partners. Furthermore, enhanced protection measures can involve significant costs.

Philips has strengthened its security governance, thus increasing the ability to detect, respond to, and close incidents. Additionally foundational and risk-based security training has been provided throughout the organization. For Mergers & Acquisitions, specific attention is given to ensure a sufficient level of security maturity before and during the M&A processes, including post-merger integration. However, these efforts may prove to be insufficient or unsuccessful.

Although Philips has experienced cyber-attacks and to date has not incurred any significant damage as a result an did not incur significant monetary cost in taking corrective action, there can be no assurance that in the future Philips will be as successful in avoiding damage from cyber-attacks, which could lead to financial losses. Additionally, the integration of new companies and successful outsourcing of business processes are highly dependent on secure and well controlled IT systems.

Diversity in information technology (IT) could result in ineffective or inefficient business management. IT outsourcing and off-shoring strategies could result in complexities in service delivery and contract management.

Philips continuously seeks to create a more open, standardized and cost-effective IT landscape, including through further outsourcing, off-shoring, commoditization and ongoing reduction in the number of IT systems. These changes create risk with regard to the delivery of IT services, the availability of IT systems and the scope and nature of the functionality offered by IT systems. Philips has strengthened the security clauses in supplier contracts, has increased the compliance reviews for those contracts (internally and externally) and has instigated more reviews on key suppliers with regard to information security. However these measures may prove to be insufficient or unsuccessful.

If Philips is unable to ensure effective supply chain management, e.g. facing an interruption of its supply chain, including the inability of third parties to deliver parts, components and services on time, and if it is subject to rising raw material prices, it may be unable to sustain its competitiveness in its markets.

Philips is continuing the process of creating a leaner supply base with fewer suppliers, while maintaining dual/multiple sourcing strategies where possible. This strategy very much requires close cooperation with suppliers to enhance, among other things, time to market and quality. In addition, Philips is continuing its initiatives to replace internal capabilities with less costly outsourced products and services. These processes may result in increased dependency on external suppliers and providers. Although Philips works closely with its suppliers to avoid supply-related problems, there can be no assurance that it will not encounter supply problems in the future or that it will be able to replace a supplier that is not able to meet its demand sufficiently quickly to avoid disruptions.

Shortages or delays could materially harm its business. Most of Philips' activities are conducted outside of the Netherlands, and international operations bring challenges. For example, Philips depends partly on the production and procurement of products and parts from Asian countries, and this constitutes a risk that production and shipping of products and parts could be interrupted by regional conflicts, a natural disaster or extreme weather events resulting from climate change. A general shortage of materials, components or subcomponents as a result of natural disasters also poses the risk of unforeseeable fluctuations in prices and demand, which could have a material adverse effect on Philips' financial condition and operating results.

Philips purchases raw materials, including so-called rare earth metals, copper, steel, aluminum, noble gases and oil-related products, which exposes it to fluctuations in energy and raw material prices. In recent times, commodities have been subject to volatile markets, and such volatility is expected to continue. If Philips is not able to compensate for increased costs or pass them on to customers, price increases could have a material adverse impact on Philips' results. In contrast, in times of falling commodity prices, Philips may not fully benefit from such price decreases, since Philips attempts to reduce the risk of rising commodity prices by several means, including long-term contracting or physical and financial hedging.

Failure to drive operational excellence and productivity in Philips' solution and product creation process and/or increased speed in innovation-to-market could hamper Philips' profitable growth ambitions.

Further improvements in Philips' solution and product creation process, ensuring timely delivery of new solutions and products at lower cost and improvement in customer service levels to create sustainable competitive advantages, are important in realizing Philips' profitable growth ambitions. The emergence of new low-cost competitors, particularly in Asia, further underlines the importance of improvements in the product creation process. The success of new solution and product creation, however, depends on a number of factors, including timely and successful completion of development efforts, market acceptance, Philips' ability to manage the risks associated with new products and production ramp-up issues, the ability of Philips to attract and retain employees with the appropriate skills, the availability of products in the right quantities and at appropriate costs to meet anticipated demand and the risk that new products and services may have quality or other defects in the early stages of introduction. Accordingly, Philips cannot determine in advance the ultimate effect that new solutions and product creations will have on its financial condition and operating results. If Philips fails to create and commercialize products or fails to ensure that end-user insights are translated into solution and product creations that improve product mix and consequently contribution, it may lose its market share and competitiveness, which could have a material adverse effect on its financial condition and operating results.

Because Philips is dependent on its personnel for leadership and specialized skills, the loss of its ability to attract and retain such personnel would have an adverse effect on its business.

The attraction and retention of talented employees in sales and marketing, research and development, finance and general management, as well as of highly specialized technical personnel, especially in transferring technologies to low-cost countries, is critical to Philips' success particularly in times of economic recovery. The loss of specialized skills could also result in business interruptions. There can be no assurance that Philips will be successful in attracting and retaining highly qualified employees and key personnel needed in the future.

Risk of unauthorized use of intellectual property rights.

Philips produces and sells products and services which incorporate technology protected by intellectual property rights. Philips develops and acquires intellectual property rights on a regular basis. Philips is exposed to the risk that a third party may claim to own the intellectual property rights on technology applied in Philips products and services and that in the event that their claims of infringement of these intellectual property rights are successful, they may be entitled to damages and Philips could incur a fine.

Any damage to Philips' reputation could have an adverse effect on its businesses and brand.

Philips is exposed to developments which could affect its reputation. Such developments could be of an environmental or social nature, connected to the behavior of individual employees or suppliers, or could relate to adherence to regulations related to labor, human rights, health and safety, environmental and chemical management. Reputational damage could materially impact Philips' brand value, financial condition and operating results.

6.5 Compliance risks

Philips is exposed to non-compliance with product safety laws, good manufacturing practices and data privacy.

Philips' brand image and reputation would be adversely impacted by non-compliance with various product safety laws, good manufacturing practices and data protection. In light of Philips' digital strategy, data privacy laws are increasingly important. Also, Diagnosis & Treatment and Connected Care & Health Informatics are subject to various (patient) data protection and safety laws. In Diagnosis & Treatment and Connected Care & Health Informatics, privacy and product safety and security issues may arise, especially with respect to remote access or monitoring of patient data or loss of data on our customers' systems. Philips is exposed to the risk that its products, including components or materials procured from suppliers, may prove to be not compliant with safety laws, e.g. chemical safety regulations. Such non-compliance could result in a ban on the sale or use of these products.

Philips operates in a highly regulated product safety and quality environment. Philips' products are subject to regulation (e.g. the new EU Medical Devices Regulation) by various government agencies, including the FDA (US) and comparable foreign agencies (e.g. CFDA China, MHRA UK, ASNM France, BfArM Germany, IGZ Netherlands). Obtaining their approval is costly and time consuming, but a prerequisite for introducing products in the market. A delay or inability to obtain the necessary regulatory approvals for new products could have a material adverse effect on business. The risk exists that product safety incidents or user concerns could trigger FDA business reviews which, if failed, could lead to business interruption which in turn could adversely affect Philips' financial condition and operating results.

Philips' global presence exposes the company to regional and local regulatory rules, changes to which may affect the realization of business opportunities and investments in the countries in which Philips operates.

Philips has established subsidiaries in over 80 countries. These subsidiaries are exposed to changes in governmental regulations and unfavorable political developments, which may affect the realization of business opportunities or impair Philips' local investments. Philips' increased focus on the healthcare sector increases its exposure to highly regulated markets, where obtaining clearances or approvals for new products is of great importance, and where there is a dependency on the available funding for healthcare systems. In addition, changes in government reimbursement policies may affect spending on healthcare.

Philips is exposed to governmental investigations and legal proceedings with regard to possible anti-competitive market practices.

National and European authorities are focused on possible anti-competitive market practices. Philips' financial position and results could be materially affected by an adverse final outcome of governmental investigations and litigation, as well as any potential related claims. In the past Philips has been subject to such investigations, litigation and related claims. See also note 24, Contingent assets and liabilities.

Legal proceedings covering a range of matters are pending in various jurisdictions against Philips and its current and former group companies. Due to the uncertainty inherent in legal proceedings, it is difficult to predict the final outcome.

Philips, including a certain number of its current and former group companies, is involved in legal proceedings relating to such matters as competition issues, commercial transactions, product liability, participations and environmental pollution. Since the ultimate outcome of asserted claims and proceedings, or the impact of any claims that may be asserted in the future, cannot be predicted with certainty, Philips' financial position and results of operations could be affected materially by adverse outcomes.

Please refer to note 24, Contingent assets and liabilities, for additional disclosure relating to specific legal proceedings.

Philips is exposed to non-compliance with business conduct rules and regulations.

Philips' attempts to realize its growth ambitions could expose it to the risk of non-compliance with business conduct rules and regulations, such as anti-bribery provisions. This risk is heightened in growth geographies as the legal and regulatory environment is less developed in growth geographies compared to mature geographies. Examples include commission payments to third parties, remuneration payments to agents, distributors, consultants and the like, and the acceptance of gifts, which may be considered in some markets to be normal local business practice.

Defective internal controls would adversely affect our financial reporting and management process.

The reliability of reporting is important in ensuring that management decisions for steering the businesses and managing both top-line and bottom-line growth are based on reliable data. Flaws in internal control systems could adversely affect the financial position and results and hamper expected growth.

Accurate disclosures provide investors and other market professionals with significant information for a better understanding of Philips' businesses. Imperfections or lack of clarity in disclosures could create market uncertainty regarding the reliability of the data presented and could have a negative impact on the Philips share price.

The reliability of revenue and expenditure data is key for steering the business and for managing top-line and bottom-line growth. The long lifecycle of healthcare sales, from order acceptance to accepted installation, together with the complexity of the accounting rules for when revenue can be recognized in the accounts, presents a challenge in terms of ensuring there is consistency of application of the accounting rules throughout Philips' global business.

6.6 Financial risks

Philips is exposed to a variety of treasury risks and other financial risks including liquidity risk, currency risk, interest rate risk, commodity price risk, credit risk, country risk and other insurable risk.

Negative developments impacting the liquidity of global capital markets could affect the ability of Philips to raise or re-finance debt in the capital markets or could lead to significant increases in the cost of such borrowing in the future. If the markets expect a downgrade or downgrades by the rating agencies or if such a downgrade has actually taken place, this could increase the cost of borrowing, reduce our potential investor base and adversely affect our business.

Philips operates in over 100 countries and its earnings and equity are therefore inevitably exposed to fluctuations in exchange rates of foreign currencies against the euro. Philips' sales are sensitive in particular to movements in the US dollar, Japanese yen and a wide range of other currencies from developed and emerging markets. Philips' sourcing and manufacturing spend is concentrated in the Eurozone, United States and China. Income from operations is particularly sensitive to movements in currencies from countries where the Group has no manufacturing/sourcing activities or only has manufacturing/sourcing activities on a small scale such as Japan, Canada, Australia and Great Britain and in a range of emerging markets such as Russia, Korea, Indonesia, India and Brazil.

The credit risk of financial and non-financial counterparties with outstanding payment obligations creates exposures for Philips, particularly in relation to accounts receivable with customers and liquid assets and fair values of derivatives and insurance receivables contracts with financial counterparties. A default by counterparties in such transactions can have a material adverse effect on Philips' financial condition and operating results.

Philips is exposed to interest rate risk, particularly in relation to its long-term debt position; this risk can take the form of either fair value or cash flow risk. Failure to effectively hedge this risk can impact Philips' financial condition and operating results.

For further analysis, please refer to note 29, Details of treasury / other financial risks.

Philips is exposed to tax risks, which could have a significant adverse financial impact.

Philips is exposed to tax risks, which could result in double taxation, penalties and interest payments. The source of the risks could lie in local tax rules and regulations as well as in the international and EU regulatory frameworks. These include transfer pricing risks on internal cross-border deliveries of goods and services, tax risks related to acquisitions and divestments, tax risks related to permanent establishments, tax risks relating to tax loss, interest and tax credits carried forward and potential changes in tax law that could result in higher tax expenses and payments. The risks may have a significant impact on local financial tax results which in turn could adversely affect Philips' financial condition and operating results.

The value of the deferred tax assets such as tax losses carried forward is subject to availability of sufficient taxable income within the tax loss-carry-forward period, but also availability of sufficient taxable income within the foreseeable future in the case of tax losses carried forward with an indefinite carry-forward period. The ultimate realization of the Company's deferred tax assets, including tax losses and tax credits carried forward, is dependent upon the generation of future taxable income in the countries where the temporary differences, unused tax losses and unused tax credits were incurred and upon periods during which the deferred tax assets become deductible. Additionally, in certain instances, realization of such deferred tax assets is dependent upon the successful execution of tax planning strategies. Accordingly, there can be no absolute assurance that all deferred tax assets, such as (net) tax losses and credits carried forward, will be realized.

The US Tax Cuts and Jobs Act enacted in December 2017 has both positive and negative consequences for Philips. Philips has significant tax assets and liabilities in the US as it is an important market for Philips with substantial sales, manufacturing sites and material acquisitions during the past few years. The US Tax Cuts and Jobs Act introduced complex new rules, and further clarifications and guidance by the US authorities are anticipated. These could have a significant financial impact for which Philips will continue monitoring and analyzing any updated guidance.

For further details, please refer to the tax risks paragraph in note 8, Income taxes.

Philips has defined-benefit pension plans and other post-retirement plans in a number of countries. The funded status and the cost of maintaining these plans are influenced by movements in financial market and demographic developments, creating volatility in Philips' financials.

A significant proportion of (former) employees in Europe and North and Latin America is covered by defined-benefit pension plans and other post-retirement plans. The accounting for such plans requires management to make estimates on assumptions such as discount rates, inflation, longevity, expected cost of medical care and expected rates of compensation. Movements (e.g. due to the movements of financial markets) in these assumptions can have a significant impact on the Defined Benefit Obligation and net interest cost. A negative performance of the financial markets could have a material impact on cash funding requirements and net interest cost and also affect the value of certain financial assets and liabilities of the company.

Philips is exposed to uncertainty on the timing and proceeds of a sale of Philips Lighting

In 2016, Philips separated its Lighting business and on May 27, 2016, Philips Lighting was listed on the Amsterdam Stock Exchange. Since then Philips Lighting operates as a separate listed company. Philips has subsequently sold a substantial part of its ownership in Philips Lighting and deconsolidated Philips Lighting in 2017. Philips' overall objective is to fully divest its ownership of Philips Lighting. The nature or form, timing and the level of proceeds from this divestment process are uncertain. The timing and level of proceeds will depend on general market conditions and investor appetite for companies of this size and nature. Philips no longer has control over Philips Lighting and has deconsolidated the assets, liabilities and financial results of Philips Lighting. While Philips holds Philips Lighting as an asset held for sale, Philips' earnings will be affected by changes in the fair value of Philips Lighting.

Philips is exposed to a number of financial reporting risks, i.e. the risk of material misstatements or errors in its financial reporting.

A risk rating is assigned for each risk identified, based on the likelihood of occurrence and the potential impact of the risk on the financial statements and related disclosures. In determining the probability that a risk will result in a misstatement of a more than inconsequential amount or of a material nature, the following factors are considered to be critical: complexity of the associated accounting activity or transaction process, history of accounting and reporting errors, likelihood of significant (contingent) liabilities arising from activities, exposure to losses, existence of a related party transaction, volume of activity and homogeneity of the individual transactions processed, and changes in accounting characteristics in the prior period compared to the period before that.

For important critical reporting risk areas identified within Philips we refer to the "Use of estimates" section in note 1, Significant accounting policies, as the Company assessed that reporting risk is closely related to the use of estimates and application of judgment.

7 Management

Koninklijke Philips N.V. is managed by an Executive Committee which comprises the members of the Board of Management and certain key officers from functions, businesses and markets.

The Executive Committee operates under the chairmanship of the Chief Executive Officer and shares responsibility for the deployment of Philips' strategy and policies, and the achievement of its objectives and results.

Under Dutch Law, the Board of Management is accountable for the actions of the Executive Committee and has ultimate responsibility for the management and external reporting of Koninklijke Philips N.V. and is answerable to shareholders at the Annual General Meeting of Shareholders. Pursuant to the two-tier corporate structure, the Board of Management is accountable for its performance to a separate and independent Supervisory Board.

The Rules of Procedure of the Board of Management and Executive Committee are published on the Company's website (www.philips.com/investor).

Frans van Houten

Born 1960, Dutch
Chief Executive Officer (CEO)
Chairman of the Board of Management since April 2011
Responsibilities: Chairman of the Executive Committee, Business Transformation, Internal Audit, Quality and Regulatory, Marketing
For a full résumé, click here

Egbert van Acht

Born 1965, Dutch
Executive Vice President
Responsibilities: Personal Health Businesses
For a full résumé, click here

Sophie Bechu

Born 1960, French/American
Executive Vice President
Responsibilities: Chief of Operations, Order to Cash Excellence, Procurement, Global Services, Quality and Regulatory
For a full résumé, click here

Abhijit Bhattacharya

Born 1961, Indian
Executive Vice President &
Chief Financial Officer (CFO)
Member of the Board of Management since December 2015
Responsibilities: Finance, Capital structure, Mergers & Acquisitions, Investor Relations, Information Technology, Global Business Services, Group Security and Participations
For a full résumé, click here

Rob Cascella

Born 1954, American
Executive Vice President
Responsibilities: Diagnosis & Treatment Businesses
For a full résumé, click here

Marnix van Ginneken

Born 1973, Dutch/American
Executive Vice President &
Chief Legal Officer (CLO)
Member of the Board of Management since November 2017
Responsibilities: Legal, Compliance, Intellectual Property & Standards
For a full résumé, click here

Andy Ho

Born 1961, Chinese
Executive Vice President
Responsibilities: Greater China Market
For a full résumé, click here

Henk de Jong

Born 1964, Dutch
Executive Vice President
Responsibilities: Chief of International Markets (all except Greater China & North America), Market-to-Order Excellence
For a full résumé, click here

Ronald de Jong

Born 1967, Dutch
Executive Vice President
Responsibilities: Chief Human Resources Officer, Culture
Chairman of the Philips Foundation
For a full résumé, click here

Carla Kriwet

Born 1971, German
Executive Vice President
Responsibilities: Connected Care & Health Informatics businesses
For a full résumé, click here

Brent Shafer[1]

Born 1957, American
Executive Vice President
Responsibilities: North American Market

Jeroen Tas

Born 1959, Dutch
Executive Vice President
Responsibilities: Chief Innovation and Strategy Officer. Innovation, Strategy & Alliances, Design, Sustainability, Medical Affairs, Innovation-to-Market Excellence, Platforms, Emerging Businesses
For a full résumé, click here

[1] Left the Executive Committee on January 10, 2018 and was succeeded on the same date by Vitor Rocha, who has led the Philips Ultrasound Business Group since 2014.

8 Supervisory Board

The Supervisory Board supervises the policies of the Board of Management and Executive Committee and the general course of affairs of Koninklijke Philips N.V. and advises the executive management thereon. The Supervisory Board, in the two-tier corporate structure under Dutch law, is a separate and independent corporate body.

The Rules of Procedure of the Supervisory Board are published on the Company's website. For details on the activities of the Supervisory Board, see chapter 9, Supervisory Board report, of this Annual Report and section 10.2, section 10.2, Supervisory Board, of this Annual Report.

Jeroen van der Veer

Born 1947, Dutch[2),3)]
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 ING Groep N.V. Member of the Supervisory Board of Royal Boskalis Westminster N.V. and Statoil 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

Born 1959, Indian[1)]
Member of the Supervisory Board since 2012; second term expires in 2020

Former Vice President - Asia Pacific & Japan - Global Industries and Strategic Alliances Hewlett Packard Enterprise. Currently non-Executive Board Member of ICICI Bank Limited.

Orit Gadiesh

Born 1951, Israeli/American[1)]
Member of the Supervisory Board since 2014; first term expires in 2018

Currently Chairman of Bain & Company and Member of the Foundation Board of the World Economic Forum (WEF). Also serves on the Supervisory Board of Renova AG and is a member of the United States Council of Foreign Relations.

Christine Poon

Born 1952, American[2),3),4)]
Vice-chairman and Secretary
Chairman of the Quality & Regulatory Committee
Member of the Supervisory Board since 2009; third term expires in 2021

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

Heino von Prondzynski

Born 1949, German/Swiss[2),3),4)]
Chairman of the Remuneration Committee
Member of the Supervisory Board since 2007; third term expires in 2019

Former member of the Corporate Executive Committee of the F. Hofmann-La Roche Group and former CEO of Roche Diagnostics. Currently Chairman of the Supervisory Board of Epigenomics AG, member of the Supervisory Board of HTL Strefa and Lead Director of Quotient Ltd.

David Pyott

Born 1953, British[1),4)]
Member of the Supervisory Board since 2015; first term expires in 2019

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., BioMarin Pharmaceutical Inc. and privately-held Rani Therapeutics and Chairman of Bioniz Therapeutics. Also member of the Governing Board of the London Business School, President of the International Council of Ophthalmology Foundation and member of the Advisory Board of the Foundation of the American Academy of Ophthalmology.

Jackson Tai

Born 1950, American[1),4)]
Chairman of Audit Committee
Member of the Supervisory Board since 2011; second term expires in 2019

Former Vice-Chairman and CEO of DBS Group and DBS Bank Ltd and former Managing Director at J.P. Morgan & Co. Incorporated. Currently a member of the Boards of Directors of Eli Lilly and Company, HSBC Holdings PLC and Mastercard. Also Non-Executive Director of Canada Pension Plan Investment Board.

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

11 Group financial statements

11.4 Consolidated statements of income

Philips Group
Consolidated statements of income in millions of EUR unless otherwise stated
For the years ended December 31

		2015	2016	2017
6	Sales	16,806	17,422	17,780
	Cost of sales	(9,594)	(9,484)	(9,600)
	Gross margin	**7,212**	**7,939**	**8,181**
	Selling expenses	(4,048)	(4,142)	(4,398)
	General and administrative expenses	(1,003)	(658)	(577)
	Research and development expenses	(1,562)	(1,669)	(1,764)
6	Other business income	89	17	152
6	Other business expenses	(30)	(23)	(76)
6	**Income from operations**	**658**	**1,464**	**1,517**
7	Financial income	94	65	126
7	Financial expenses	(453)	(507)	(263)
	Investments in associates, net of income taxes	30	11	(4)
	Income before taxes	**329**	**1,034**	**1,377**
8	Income tax expense	(169)	(203)	(349)
	Income from continuing operations	**160**	**831**	**1,028**
3	Discontinued operations, net of income taxes	479	660	843
	Net income	**638**	**1,491**	**1,870**
	Attribution of net income			
	Net income attributable to Koninklijke Philips N.V. shareholders	624	1,448	1,657
	Net income attributable to non-controlling interests	14	43	214

Philips Group
Earnings per common share attributable to Koninklijke Philips N.V. shareholders in EUR unless otherwise stated
For the years ended December 31

		2015	2016	2017
	Basic earnings per common share in EUR			
9	Income from continuing operations attributable to shareholders	0.16	0.86	0.88
9	Net income attributable to shareholders	0.68	1.58	1.78
	Diluted earnings per common share in EUR			
9	Income from continuing operations attributable to shareholders	0.16	0.85	0.86
9	Net income attributable to shareholders	0.68	1.56	1.75

The accompanying notes are an integral part of these consolidated financial statements.

Amounts may not add up due to rounding.

11.5 Consolidated statements of comprehensive income

Philips Group
Consolidated statements of comprehensive income in millions of EUR
For the years ended December 31

Note		2015	2016	2017
	Net income for the period	**638**	**1,491**	**1,870**
20	Pensions and other post-employment plans:			
	Remeasurements	(101)	(96)	102
8	Income tax effect on remeasurements	9	28	(78)
	Revaluation reserve:			
	Release revaluation reserve	(9)	(4)	
	Reclassification directly into retained earnings	9	4	
	Total of items that will not be reclassified to Income Statement	**(92)**	**(68)**	**25**
3	Currency translation differences:			
	Net current period change, before tax	643	219	(1,177)
8	Income tax effect on net current-period change	187	2	39
	Reclassification adjustment for (gain) loss realized, in discontinued operations	(1)		191
13	Available-for-sale financial assets:			
	Net current period change, before tax	33	(44)	(66)
8	Income tax effect on net current-period change			(1)
	Reclassification adjustment for (gain) loss realized , in continued operations	(4)	24	1
	Cash flow hedges:			
	Net current period change, before tax	(38)	3	33
8	Income tax effect on net current period change	-	(9)	(3)
	Reclassification adjustment for (gain) loss realized, in continued operations	63	5	(17)
	Total of items that are or may be reclassified to Income Statement	**883**	**200**	**(1,000)**
	Other comprehensive income for period	**791**	**132**	**(975)**
	Total comprehensive income for the period	**1,429**	**1,623**	**895**
	Total comprehensive income attributable to:			
	Shareholders of Koninklijke Philips N.V.	1,415	1,550	805
	Non-controlling interests	14	73	90

The accompanying notes are an integral part of these consolidated financial statements.

Amounts may not add up due to rounding.

11.6 Consolidated balance sheets

Philips Group
Consolidated balance sheets in millions of EUR unless otherwise stated
As of December 31

Note		2016	2017
	Non-current assets		
2 10	Property, plant and equipment	2,155	1,591
2 11	Goodwill	8,898	7,731
2 12	Intangible assets excluding goodwill	3,552	3,322
16	Non-current receivables	155	130
5	Investments in associates	190	142
13	Other non-current financial assets	335	587
28	Non-current derivative financial assets	59	22
8	Deferred tax assets	2,759	1,598
14	Other non-current assets	92	75
	Total non-current assets	**18,195**	**15,198**
	Current assets		
15	Inventories	3,392	2,353
13	Current financial assets	101	2
14	Other current assets	486	392
28	Current derivative financial assets	101	57
8	Income tax receivable	154	109
16 25	Current receivables	5,327	3,909
3	Assets classified as held for sale	2,180	1,356
29	Cash and cash equivalents	2,334	1,939
	Total current assets	**14,075**	**10,117**
	Total assets	**32,270**	**25,315**
	Equity		
17	Shareholders' equity	12,546	11,999
	Common shares	*186*	*188*
	Reserves	*1,280*	*385*
	Other	*11,080*	*11,426*
17	Non-controlling interests	907	24
	Group equity	**13,453**	**12,023**
	Non-current liabilities		
18	Long-term debt	4,021	4,044
28	Non-current derivative financial liabilities	590	216
19 20	Long-term provisions	2,926	1,659
8	Deferred tax liabilities	66	33
22	Other non-current liabilities	741	474
	Total non-current liabilities	**8,344**	**6,426**
	Current liabilities		
18	Short-term debt	1,585	672
28	Current derivative financial liabilities	283	167
8	Income tax payable	146	83
25	Accounts payable	2,848	2,090
21	Accrued liabilities	3,034	2,319
19 20	Short-term provisions	680	400
3	Liabilities directly associated with assets held for sale	525	8
22	Other current liabilities	1,372	1,126
	Total current liabilities	**10,473**	**6,866**
	Total liabilities and group equity	**32,270**	**25,315**

The accompanying notes are an integral part of these consolidated financial statements.

Amounts may not add up due to rounding.

11.7 Consolidated statements of cash flows

Philips Group
Consolidated statements of cash flows in millions of EUR
For the years ended December 31

		2015	2016	2017
	Cash flows from operating activities			
	Net income	638	1,491	1,870
	Discontinued operations, net of income taxes	(479)	(660)	(843)
	Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
	Depreciation, amortization, and impairments of fixed assets	972	976	1,025
	Impairment of goodwill and other non-current financial assets	48	24	15
	Net gain on sale of assets	(83)	(3)	(107)
	Interest income	(44)	(43)	(40)
	Interest expense on debt, borrowings and other liabilities	274	294	186
	Income taxes	169	203	349
	Investments in associates, net of income taxes	(10)	(11)	-
	Decrease (increase) in working capital	(67)	131	101
	Decrease (increase) in receivables and other current assets	*97*	*(89)*	*64*
	Decrease (increase) in inventories	*(6)*	*(63)*	*(144)*
	Increase (decrease) in accounts payable, accrued and other current liabilities	*(158)*	*283*	*181*
	Decrease (increase) in non-current receivables, other assets and other liabilities	86	(160)	(358)
19	Increase (decrease) in provisions	(343)	(647)	(252)
	Other items	(129)	76	377
	Interest paid	(261)	(296)	(215)
	Interest received	44	42	40
	Dividends received from investments in associates	15	48	6
	Income taxes paid	(232)	(295)	(284)
	Net cash provided by (used for) operating activities	**598**	**1,170**	**1,870**
	Cash flows from investing activities			
	Net capital expenditures	(752)	(741)	(685)
	Purchase of intangible assets	*(105)*	*(95)*	*(106)*
	Expenditures on development assets	*(291)*	*(301)*	*(333)*
	Capital expenditures on property, plant and equipment	*(432)*	*(360)*	*(420)*
3	*Proceeds from sales of property, plant and equipment*	*76*	*15*	*175*
23	Net proceeds from (cash used for) derivatives and current financial assets	(72)	(117)	(198)
23	Purchase of other non-current financial assets	(20)	(53)	(42)
23	Proceeds from other non-current financial assets	39	14	6
4	Purchase of businesses, net of cash acquired	(1,118)	(197)	(2,344)
3	Proceeds from sale of interests in businesses, net of cash disposed of	71	-	64
	Net cash used for investing activities	**(1,852)**	**(1,092)**	**(3,199)**
	Cash flows from financing activities			
18	Proceeds from issuance (payments) of short-term debt	1,249	(1,377)	12
18	Principal payments on short-term portion of long-term debt	(91)	(357)	(1,332)
18	Proceeds from issuance of long-term debt	94	123	1,115
17	Re-issuance of treasury shares	81	80	227
17	Purchase of treasury shares	(506)	(606)	(642)
5	Proceeds from sales of Philips Lighting shares		863	1,065
5	Transaction costs paid for sales of Philips Lighting shares		(38)	(5)
17	Dividends paid to shareholders of Koninklijke Philips N.V.	(298)	(330)	(384)
	Dividends paid to non-controlling interests		(2)	(2)
	Net cash provided by (used for) financing activities	**529**	**(1,643)**	**55**
	Net cash provided by (used for) continuing operations	**(724)**	**(1,566)**	**(1,274)**
3	**Net cash provided by (used for) discontinued operations**	**537**	**2,151**	**1,063**
	Net cash provided by (used for) continuing and discontinued operations	**(187)**	**585**	**(211)**
	Effect of changes in exchange rates on cash and cash equivalents	80	(17)	(184)
	Cash and cash equivalents at the beginning of the year	1,873	1,766	2,334
	Cash and cash equivalents at the end of the year	**1,766**	**2,334**	**1,939**

The accompanying notes are an integral part of these consolidated financial statements. For a number of reasons, principally the effects of translation differences and consolidation changes, certain items in the statements of cash flows do not correspond to the differences between the balance sheet amounts for the respective items.

Amounts may not add up due to rounding.

11.8 Consolidated statements of changes in equity

Philips Group
Consolidated statements of changes in equity in millions of EUR unless otherwise stated
For the year ended December 31

		reserves				other					
	common share	revaluation reserve	currency translation differences[1]	available-for-sale financial assets	cash flow hedges	capital in excess of par value	retained earnings[2]	treasury shares at cost	total shareholders' equity	non-controlling interests	Group equity
Balance as of Jan. 1, 2015[2]	**187**	**13**	**229**	**27**	**(13)**	**2,181**	**8,755**	**(547)**	**10,832**	**101**	**10,933**
Total comprehensive income (loss)		(9)	829	29	25		541		1,415	14	1,429
Dividend distributed	3					429	(730)		(298)		(298)
Movement in non-controlling interests - Other										3	3
Cancellation of treasury shares	(4)						(513)	517			
Purchase of treasury shares							(12)	(495)	(507)		(507)
Re-issuance of treasury shares						(23)	(57)	162	82		82
Share-based compensation plans						101			101		101
Income tax share-based compensation plans						(19)			(19)		(19)
Balance as of Dec. 31, 2015[2]	**186**	**4**	**1,058**	**56**	**12**	**2,669**	**7,985**	**(363)**	**11,607**	**118**	**11,725**
Total comprehensive income (loss)		(4)	191	(20)	(1)		1,384		1,550	73	1,623
Dividend distributed	4					398	(732)		(330)		(330)
IPO Philips Lighting			(15)		(1)		125		109	716	825
Cancellation of treasury shares	(4)						(446)	450			
Purchase of treasury shares								(589)	(589)		(589)
Re-issuance of treasury shares						(122)	(35)	231	74		74
Share call options							(103)	90	(13)		(13)
Share-based compensation plans						119			119		119
Income tax share-based compensation plans						19			19		19
Balance as of Dec. 31, 2016 [2]	**186**		**1,234**	**36**	**10**	**3,083**	**8,178**	**(181)**	**12,546**	**907**	**13,453**
Total comprehensive income (loss)			(823)	(66)	12		1,681		805	90	895
Dividend distributed	2					356	(742)		(384)	(94)	(478)
Sales of shares of Philips Lighting			(19)				346		327	712	1,039
Deconsolidation Philips Lighting						(66)	54		(12)	(1,590)	(1,602)
Purchase of treasury shares								(318)	(318)		(318)
Re-issuance of treasury shares						(205)	3	334	133		133
Forward contracts							(1,018)	(61)	(1,079)		(1,079)
Share call options							95	(255)	(160)		(160)
Share-based compensation plans						151			151		151
Income tax share-based compensation plans						(8)			(8)		(8)
Balance as of Dec. 31, 2017	**188**		**392**	**(30)**	**23**	**3,311**	**8,596**	**(481)**	**11,999**	**24**	**12,023**

The accompanying notes are an integral part of these consolidated financial statements.

[1] Cumulative translation adjustments related to Investments in associates were EUR 46 million at December 31, 2017 (2016: EUR 40 million, 2015: EUR 34 million).
[2] The presentation of prior-year information has been updated to address two tax related adjustments as explained in note 1, Significant accounting policies.

Amounts may not add up due to rounding.

11.9 Notes

Notes to the Consolidated financial statements of the Philips Group

Prior-period financial statements have been restated for the treatment of the segment Lighting as a discontinued operation (see note 3, Discontinued operations and assets classified as held for sale). Movement schedules of balance sheet items include items from continuing and discontinued operations and therefore cannot be reconciled to income from continuing operations and cash flow from continuing operations only.

1 Significant accounting policies

The Consolidated financial statements in the Group financial statements section have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code.

All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective 2017 have been endorsed by the EU; consequently, the accounting policies applied by Koninklijke Philips N.V. (hereafter: the 'Company' or 'Philips') also comply with IFRS as issued by the IASB. These accounting policies have been applied by group entities.

The Consolidated financial statements have been prepared under the historical cost convention, unless otherwise indicated.

The Consolidated financial statements are presented in euros, which is the presentation currency. Due to rounding, amounts may not add up precisely to totals provided.

On February 20, 2018, the Board of Management authorized the Consolidated financial statements for issue. The Consolidated financial statements as presented in this report are subject to adoption by the Annual General Meeting of Shareholders, to be held on May 3, 2018.

Use of estimates

The preparation of the Consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These estimates inherently contain a degree of uncertainty. Actual results may differ from these estimates under different assumptions or conditions.

In the process of applying the accounting policies, management has made estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the reported amounts of assets and liabilities within the next financial year, as well as to the disclosure of contingent liabilities at the date of the Consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company evaluates these estimates and judgments on an ongoing basis and bases the estimates on historical experience, current and expected future outcomes, third-party evaluations and various other assumptions that Philips believes are reasonable under the circumstances. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Company's control and are reflected in the assumptions if and when they occur. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. The Company revises material estimates if changes occur in the circumstances or there is new information or experience on which an estimate was or can be based.

The areas where the most significant judgments and estimates are made are goodwill, deferred tax asset recoverability including assessment on valuation adjustment following the enactment of the US Tax Cuts and Jobs Act in December 2017, impairments, financial instruments, the accounting for an arrangement containing a lease, revenue recognition (multiple element arrangements), tax risks and other contingencies, assessment of control (including 'de facto' control of Philips Lighting), classification of assets and liabilities held for sale and the presentation of items of profit and loss and cash flows as continued or discontinued, as well as when determining the fair values of acquired identifiable intangible assets and investments based on an assessment of future cash flows. For further discussion on these significant judgements and estimates, reference is made to the respective notes within these Consolidated financial statements that relate to the above topics.

Further judgment is applied when analyzing impairments of goodwill and intangible assets not yet ready for use that are performed annually and whenever a triggering event has occurred to determine whether the carrying value exceeds the recoverable amount. These analyses are generally based on estimates of future cash flows. Furthermore, the Company applies judgment when actuarial assumptions are established to anticipate future events that are used in calculating post-employment benefit expenses and liabilities. These factors include assumptions with respect to interest rates, rates of increase in healthcare costs, rates of future compensation increases, turnover rates and life expectancy.

Changes 2015 and 2016

Accounting policies have been applied consistently for all periods presented in these consolidated financial statements, except for the items mentioned below. In addition, certain prior-year amounts have been reclassified to conform to the current year presentation.

Changes processed in 2017 affecting 2016 and 2015

Tax adjustments

Two tax related adjustments were identified in 2017, relating to tax expense understatements for years prior to 2016. These adjustments affected the previously issued financial statements for a number of years up to and until December 31, 2015, including an impact on net income of EUR 20 million in 2015 and EUR 55 million to opening retained earnings in 2016.

If these adjustments had been processed in 2017, the impact would have been material for 2017 and as such the adjustments were processed in 2015 and 2016, since it was concluded that the year-by-year understatements were immaterial for the years up to and including 2016.

Change in Balance Sheet presentation

Philips has changed the presentation of the Consolidated balance sheets by removing certain disaggregated line items and sub-totals, not affecting the totals presented. Since this information is already included in the relevant notes to the Consolidated financial statements, the line items have been removed to improve readability.

Change in Investments in associates presentation

In order to improve comparability and keep consistency with peer practice, Philips has changed the presentation of the line item Investments in associates and moved it into the subtotal Income before taxes in the Consolidated statements of income. This change did not impact the results of operations or financial position.

Change in Cash Flows presentation

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations requires that the net cash flows attributable to the operating, investing and financing activities of discontinued operations are disclosed in the Consolidated financial statements of Philips. These disclosures may be presented either in the Consolidated statements of cash flows or in the notes to the Consolidated financial statements. In order to improve readability and enhance the focus of the cash flow statement on the HealthTech cash flows, in 2017 Philips made the policy choice to disclose the net cash provided by (used for) discontinued operations as one line in the Consolidated statements of cash flows. The breakdown of the operating, investing and financing cash flow activities included in note 3, Discontinued operations and assets classified as held for sale.

Changes processed in 2016 affecting 2015

Change in Segment reporting

In 2016, Philips established two stand-alone companies focused on the HealthTech and Lighting opportunities. As part of this separation, Philips changed the way it allocated resources and analyzes its performance based on the revised segment structure. Accordingly, from 2016 the operational reportable segments for the purpose of the disclosures required by IFRS 8 Operating Segments were Personal Health businesses, Diagnosis & Treatment businesses, Connected Care & Health Informatics businesses and Lighting, each being responsible for the management of its business worldwide. Additionally, HealthTech Other and Legacy Items are included in note 2, Information by segment and main country. The new segment structure had no impact on the cash-generating units disclosed in note 11, Goodwill.

Consequential changes to comparative segment disclosures were processed in note 14, Other assets, note 16, Receivables, and note 19, Provisions. 2015 segment results have been reclassified according to the revised reporting structure. Segment information can be found in note 2, Information by segment and main country.

Specific choices within IFRS

In certain instances IFRS allows alternative accounting treatments for measurement and/or disclosure. Philips has adopted one of the treatments as appropriate to the circumstances of the Company. The most important of these alternative treatments are mentioned below.

Tangible and intangible fixed assets

Under IFRS, an entity shall choose either the cost model or the revaluation model as its accounting for tangible and intangible fixed assets. In this respect, items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The useful lives and residual values are evaluated annually. Furthermore, the Company chose to apply the cost model, meaning that costs relating to product development, the development and purchase of software for internal use and other intangible assets are capitalized and subsequently amortized over the estimated useful life. Further information on Tangible and Intangible fixed assets can be found in note 10, Property, plant and equipment and note 12, Intangible assets excluding goodwill , respectively.

Employee benefit accounting

IFRS does not specify how an entity should present its service costs related to pensions and net interest on the net defined-benefit liability (asset) in the Statement of income. With regards to these elements, the Company presents service costs in Income from operations and the net interest expenses related to defined-benefit plans in Financial expense.

Furthermore, when accounting for the settlement of defined-benefit plans the Company made the accounting policy choice to adjust the amount of the plan assets transferred for the effect of the asset ceiling.

Further information on employee benefit accounting can be found in note 20, Post-employment benefits.

Cash flow statements

Under IFRS, an entity shall report cash flows from operating activities using either the direct method (whereby major classes of gross cash receipts and gross cash payments are disclosed) or the indirect method (whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows). In this respect, the Company chose to prepare the cash flow statements using the indirect method.

Furthermore, interest cash flows are presented in cash flows from operating activities rather than in cash flows from financing or investing activities, because they enter into the determination of profit or loss. The Company chose to present dividends paid to shareholders of Koninklijke Philips N.V. as a component of cash flows from financing activities, rather than to present such dividends as cash flows from operating activities, which is an allowed alternative under IFRS.

Consolidated statements of cash flows can be found in section 11.7, Consolidated statements of cash flows, of this Annual Report.

Policies that are more critical in nature

Revenue recognition

Revenue from the sale of goods in the course of the ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue for sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of the goods can be estimated reliably, there is no continuing involvement with goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

Transfer of risks and rewards varies depending on the individual terms of the contract of sale. For consumer-type products in the segment of Personal Health businesses these criteria are met at the time the product is shipped and delivered to the customer and title and risk have passed to the customer (depending on the delivery conditions) and acceptance of the product has been obtained. Examples of delivery conditions are ‘Free on Board point of delivery’ and ‘Costs, Insurance Paid point of delivery’, where the point of delivery may be the shipping warehouse or any other point of destination as agreed in the contract with the customer and where title and risk for the goods pass to the customer.

Revenues of transactions that have separately identifiable components are recognized based on their relative fair values. These transactions mainly occur in the segments Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses and include arrangements that require subsequent installation and training activities in order to become operable for the customer. Revenue recognition is deferred until the installation has been completed and the product is ready to be used by the customer in the way contractually agreed.

Revenues are recorded net of sales taxes, customer discounts, rebates and similar charges. For products for which a right of return exists during a defined period, revenue recognition is determined based on the historical pattern of actual returns, or in cases where such information is not available, revenue recognition is postponed until the return period has lapsed. Return policies are typically based on customary return arrangements in local markets.

In the case of loss under a sales agreement, the loss is recognized immediately.

Expenses incurred for shipping and handling of internal movements of goods are recorded as cost of sales. Shipping and handling related to sales to third parties are recorded as selling expenses. When shipping and handling is part of a project and billed to the customer, then the related expenses are recorded as cost of sales. Shipping and handling billed to customers is recognized as revenues. Service revenue related to repair and maintenance activities for goods sold is recognized ratably over the service period or as services are rendered.

A provision for product warranty is made at the time of revenue recognition and reflects the estimated costs of replacement and free-of-charge services that will be incurred by the Company with respect to the products. For certain products, the customer has the option to purchase an extension of the warranty, which is subsequently billed to the customer. Revenue recognition occurs on a straight-line basis over the extended warranty contract period.

Revenue from services is recognized when the Company can reliably measure the amount of revenue and the associated cost related to the stage of completion of a contract or transaction, and the recovery of the consideration is considered probable. Royalty income from intellectual property rights, which is generally earned based upon a percentage of sales or a fixed amount per product sold, is recognized on an accrual basis based on actual or reliably estimated sales made by a licensee. Royalty income from an agreement with lump-sum consideration is recognized on accrual basis based on the contractual terms and substance of the relevant agreement with a licensee.

Grants from governments are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the Statement of income as a reduction of the related costs over the period necessary to match them with the costs that they are intended to compensate. Grants related to assets are deducted from the cost of the asset and presented net in the section 11.6, Consolidated balance sheets, of this Annual Report.

Income taxes

Income taxes comprises current and deferred tax. Income tax is recognized in the Statement of income except to the extent that it relates to items recognized directly within equity or in other comprehensive income. Current tax is the expected taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Tax liabilities are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact the income tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are recognized, using the balance sheet method, for the expected tax consequences of temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill; the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries, joint ventures and associates where the reversal of the respective temporary difference can be controlled by the Company and it is probable that it will not reverse in the foreseeable future. Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax assets originated and during the periods when the deferred tax assets become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

Deferred tax liabilities for withholding taxes are recognized for subsidiaries in situations where the income is to be paid out as dividend in the foreseeable future and for undistributed earnings of unconsolidated companies to the extent that these withholding taxes are not expected to be refundable or deductible. Changes in tax rates and tax laws are reflected in the period when the change has been enacted or substantively enacted by the reporting date.

Any subsequent adjustment to a tax asset or liability that originated in discontinued operations, due to a change in the tax base or its measurement, is allocated to discontinued operations (i.e. backwards tracing). Examples are a tax rate change or change in retained assets or liabilities directly relating to the discontinued operation. Any subsequent change to the recognition of deferred tax assets is allocated to the component in which the taxable gain is or will be recognized. The above principles are applied to the extent the ‘discontinued operations’ is sufficiently separable from continuing operations.

Further information on income tax can be found in note 8, Income taxes.

Provisions

Provisions are recognized if, as a result of a past event, the Company has a present legal or constructive obligation, the amount can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money. The increase in the provision due to passage of time is recognized as interest expense. The accounting and presentation for some of the Company's provisions is as follows:

- Product warranty – A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighing of possible outcomes against their associated probabilities.
- Environmental provisions – Measurement of liabilities associated with environmental obligations is based on current legal and constructive requirements. Liabilities and expected insurance recoveries, if any, are recorded separately. The carrying amount of environmental liabilities is regularly reviewed and adjusted for new facts and changes in law.
- Restructuring-related provisions – The provision for restructuring mainly relates to the estimated costs of initiated restructurings, 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. When such restructurings require discontinuance and/or closure of lines of activities, the anticipated costs of closure or discontinuance are included in restructuring provisions. A liability is recognized for those costs only when the Company has a detailed formal plan for the restructuring and has raised a valid expectation with those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. Before a provision is established, the Company recognizes any impairment loss on the assets associated with the restructuring.
- Litigation provisions – In relation to legal claim provisions and settlements, the relevant balances are transferred to Other liabilities at the point the amount and timing of cash outflows are no longer uncertain. Settlements which are agreed for amounts in excess of existing provisions are reflected as increases of Other liabilities.

Further information on provisions can be found in note 19, Provisions.

Goodwill

The measurement of goodwill at initial recognition is described under Basis of consolidation note. Goodwill is subsequently measured at cost less accumulated impairment losses. Further information on goodwill can also be found in note 11, Goodwill.

Intangible assets other than goodwill

Acquired finite-lived intangible assets are amortized using the straight-line method over their estimated useful life. The useful lives are evaluated annually. Intangible assets are initially capitalized at cost, with the exception of intangible assets acquired as part of a business combination, which are capitalized at their acquisition date fair value.

The Company expenses all research costs as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized as an intangible asset if the product or process is technically and commercially feasible, the Company has sufficient resources and the intention to complete development and can measure the attributable expenditure reliably.

The capitalized development expenditure comprises of all directly attributable costs (including the cost of materials and direct labor). Other development expenditures and expenditures on research activities are recognized in the Statement of income. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses. Amortization of capitalized development expenditure is charged to the Statement of income on a straight-line basis over the estimated useful lives of the intangible assets.

Further information on intangible assets other than goodwill can be found in note 12, Intangible assets excluding goodwill.

Discontinued operations and non-current assets held for sale

Non-current assets and disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations; is a part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or is a subsidiary acquired exclusively with a view to sell.

In case a discontinued operation is sold in stages as part of a single coordinated plan until completely sold, then the Investment in associate that is recognized upon sale of a portion that results in Philips having significant influence in the operation (rather than control), is continued to be treated as discontinued operation provided that the held for sale criteria are met.

Non-current assets held for sale and discontinued operations are carried at the lower of carrying amount or fair value less cost of disposal. Any gain or loss from disposal, together with the results of these operations until the date of disposal, is reported separately as discontinued operations. The financial information of discontinued operations is excluded from the respective captions in the Consolidated financial statements and related notes for all periods presented. Comparatives in the balance sheet are not represented when a non-current asset or disposal group is classified as held for sale. Comparatives are represented for presentation of discontinued operations in the Statement of cash flow and Statement of income.

Adjustments in the current period to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period are classified separately in Discontinued operations. Circumstances to which these adjustments may relate include resolution of uncertainties that arise from the terms of the disposal transaction, such as the resolution of purchase price adjustments and indemnifications, resolution of uncertainties that arise from and are directly related to the operations of the component before its disposal, such as environmental and product warranty obligations retained by the Company, or the settlement of employee benefit plan obligations provided that the settlement is directly related to the disposal transaction.

Further information on discontinued operations and non-current assets held for sale can be found in note 3, Discontinued operations and assets classified as held for sale.

Impairment

Impairment of goodwill and intangible assets not yet ready for use

Goodwill and intangible assets not yet ready for use are not amortized but tested for impairment annually and whenever impairment indicators require. In case of goodwill and intangible assets not yet ready for use, either internal or external sources of information are considered indicators that an asset or a CGU may be impaired. In most cases the Company identified its cash-generating units for goodwill at one level below that of an operating segment. Cash flows at this level are substantially independent from other cash flows and this is the lowest level at which goodwill is monitored by the Executive Committee. In 2017 the Company performed and completed goodwill annual impairment tests in the fourth quarter, in line with 2016. In prior year, the Company also performed goodwill annual impairment tests in the second quarter, which was in line with 2015. An impairment loss is recognized in the Statement of income whenever and to the extent that the carrying amount of a cash-generating unit exceeds the unit's recoverable amount, which is the greater of its value in use and fair value less cost of disposal. Value in use is measured as the present value of future cash flows expected to be generated by the asset. Fair value less cost of disposal is measured as the amount obtained from a sale of an asset in an arm's length transaction, less costs of disposal.

Further information on impairment of goodwill and intangible assets not yet ready for use can be found in note 11, Goodwill and note 12, Intangible assets excluding goodwill respectively.

Impairment of non-financial assets other than goodwill, intangible assets not yet ready for use, inventories and deferred tax assets

Non-financial assets other than goodwill, intangible assets not yet ready for use, inventories and deferred tax assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is assessed by a comparison of the carrying amount of an asset with the greater of its value in use and fair value less cost of disposal. Value in use is measured as the present value of future cash flows expected to be generated by the asset. Fair value less cost of disposal is measured as the amount obtained from a sale of an asset in an arm's length transaction, less costs of disposal. If the carrying amount of an asset is deemed not recoverable, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the recoverable amount. The review for impairment is carried out at the level where cash flows occur that are independent of other cash flows.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if and to the extent there has been a change in the estimates used to determine the recoverable amount. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the section 11.4, Consolidated statements of income, of this Annual Report.

Impairment of financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. In the case of available-for-sale financial assets, a significant or prolonged decline in the fair value of the financial asset below its cost is considered an indicator that the financial assets are impaired. If any such evidence exists for available-for sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the Statement of income - is reclassified from the fair value reserve in equity (through Other comprehensive income) to the Statement of income.

If objective evidence indicates that financial assets that are carried at cost, such as loans and receivables, need to be tested for impairment, calculations are based on information derived from business plans and other information available for estimating their fair value, which is based on estimated future cash flows discounted at the asset's original effective interest rate. Any impairment loss is charged to the Statement of income.

An impairment loss related to financial assets is reversed if in a subsequent period the fair value increases and the increase can be related objectively to an event occurring after the impairment loss was recognized. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized. Reversals of impairment are recognized in the Statement of income except for reversals of impairment of available-for-sale equity securities, which are recognized in Other comprehensive income.

Further information on financial assets can be found in note 13, Other financial assets.

Other policies

Basis of consolidation

The Consolidated financial statements comprise the financial statements of Koninklijke Philips N.V. and all subsidiaries that the Company controls, i.e. when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when Philips has less than a majority of the voting or similar rights of an investee, Philips considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement(s) with the other vote holders of the investee, rights arising from other contractual arrangements and the Company's voting rights and potential voting rights. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases. All intercompany balances and transactions have been eliminated in the Consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Loss of control

Upon the loss of control, the Company derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in the Statement of income. If the Company retains any interest in the previous subsidiary, then such interest is measured at fair value at the date the control is lost. Subsequently it is accounted for as either an equity accounted investee (associate) or as an available-for-sale financial asset, depending on the level of influence retained. Further information on loss of control can be found in note 3, Discontinued operations and assets classified as held for sale.

Business combinations

Business combinations are accounted for using the acquisition method. Under the acquisition method, the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree are recognized at the acquisition date, which is the date on which control is transferred to the Company.

The Company measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Company incurs are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date and initially is presented in Long-term provisions. When the timing and amount of the consideration become more certain, it is reclassified to Accrued liabilities. If the contingent consideration that meets the definition of a financial instrument is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the Statement of income.

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Further information on business combinations can be found in note 4, Acquisitions and divestments.

Acquisitions of and adjustments to non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Investments in associates (equity-accounted investees)

Associates are all entities over which the Company has significant influence, but no control. Significant influence is presumed with a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The carrying amount of an investment includes the carrying amount of goodwill identified on acquisition. An impairment loss on such investment is allocated to the investment as a whole.

The Company's share of the net income of these companies is included in Investments in associates, net of income taxes in the Statement of income, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. Dilution gains and losses arising from investments in associates are recognized in the Statement of income as part of Investments in associates, net of income taxes. When the Company's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term loans) is reduced to zero and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Remeasurement differences of an equity stake resulting from gaining control over the investee previously recorded as associate are recorded under Investments in associates.

Further information on investments in associates can be found in note 5, Interests in entities .

Foreign currencies

Foreign currency transactions

The financial statements of all group entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The euro (EUR) is the functional currency of the Company and presentation currency of the Group financial statements. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of income, except when deferred in Other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign currency differences arising from translations are recognized in the Statement of income, except for available-for-sale equity investments which are recognized in Other comprehensive income. If there is an impairment which results in foreign currency differences being recognized, then these differences are reclassified from Other comprehensive income to the Statement of income.

All exchange difference items are presented as part of Cost of sales, with the exception of tax items and financial income and expense, which are recognized in the same line item as they relate to in the Statement of income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency using the exchange rate at the date the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the transaction date.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euros at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euros at exchange rates at the dates of the transactions.

Foreign currency differences arising on translation of foreign operations into euros are recognized in Other comprehensive income, and presented as part of Currency translation differences in Equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to Non-controlling interests.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the Currency translation differences related to the foreign operation is reclassified to the Statement of income as part of the gain or loss on disposal. When the Company disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the respective proportion of the cumulative amount is reattributed to Non-controlling interests. When the Company disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the Statement of income.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments are recognized initially at fair value when the Company becomes a party to the contractual provisions of the instrument.

Purchases and sales of financial assets in the normal course of business are accounted for at the trade date. Dividend and interest income are recognized when earned. Gains or losses, if any, are recorded in Financial income and expense.

Non-derivative financial instruments comprise cash and cash equivalents, receivables, other non-current financial assets, debt and other financial liabilities that are not designated as hedges.

Cash and cash equivalents

Cash and cash equivalents include all cash balances, money market funds and short-term highly liquid investments with an original maturity of three months or less that are readily convertible into known amounts of cash.

Further information on cash and cash equivalents can be found in note 23, Cash flow statement supplementary information.

Receivables

Receivables are carried at the lower of amortized cost or the present value of estimated future cash flows, taking into account discounts given or agreed. The present value of estimated future cash flows is determined through the use of value adjustments for uncollectible amounts. As soon as individual trade accounts receivable can no longer be collected in the normal way and are expected to result in a loss, they are designated as doubtful trade accounts receivable and valued at the expected collectible amounts. They are written off when they are deemed to be uncollectible because of bankruptcy or other forms of receivership of the debtors. The allowance for the risk of non-collection of trade accounts receivable takes into account credit-risk concentration, collective debt risk based on average historical losses, and specific circumstances such as serious adverse economic conditions in a specific country or region.

The Company derecognizes receivables on entering into factoring transactions if the Company has transferred substantially all risks and rewards or if Philips does not retain control over receivables.

Further information on receivables can be found in note 16, Receivables.

Other non-current financial assets

Other non-current financial assets include held-to-maturity investments, loans receivable and available-for-sale financial assets and financial assets at fair value through profit or loss.

Held-to-maturity investments are those debt securities which the Company has the ability and intent to hold until maturity. Held-to-maturity debt investments are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts using the effective interest method.

Loans receivable are stated at amortized cost, less impairment.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the other categories of financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in Other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to the Statement of income.

Available-for-sale financial assets including investments in privately-held companies that are not associates, and do not have a quoted market price in an active market and whose fair value could not be reliably determined, are carried at cost.

A financial asset is classified as fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in the Statement of income. Attributable transaction costs are recognized in the Statement of income as incurred.

Further information on other non-current financial assets can be found in note 13, Other financial assets.

Equity

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. Where the Company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental transaction costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Call options on own shares are treated as equity instruments.

Dividends are recognized as a liability in the period in which they are declared and approved by Shareholders. The income tax consequences of dividends are recognized when a liability to pay the dividend is recognized.

Further information on equity can be found in note 17, Equity.

Debt and other liabilities

Debt and liabilities other than provisions are stated at amortized cost.

Derivative financial instruments, including hedge accounting

The Company uses derivative financial instruments principally to manage its foreign currency risks and, to a more limited extent, for managing interest rate and commodity price risks. All derivative financial instruments are accounted for at the trade date and classified as current or non-current assets or liabilities based on the maturity date or the earlier termination date. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related. The Company measures all derivative financial instruments at fair value derived from market prices of the instruments, or calculated as the present value of the estimated future cash flows based on observable interest yield curves, basis spread, credit spreads and foreign exchange rates, or from option pricing models, as appropriate. Gains or losses arising from changes in fair value of derivatives are recognized in the Statement of income, except for derivatives that are highly effective and qualify for cash flow or net investment hedge accounting.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge are recorded in Other comprehensive income until the Statement of income is affected by the variability in cash flows of the designated hedged item. To the extent that the hedge is ineffective, changes in the fair value are recognized in the Statement of income.

The Company formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is established that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively. When hedge accounting is discontinued because it is expected that a forecasted transaction will not occur, the Company continues to carry the derivative on the Balance sheet at its fair value, and gains and losses that were accumulated in Other comprehensive income are recognized immediately in the same line item as they relate to in the Statement of income.

Foreign currency differences arising on the retranslation of financial instruments designated as a hedge of a net investment in a foreign operation are recognized directly as a separate component of equity through Other comprehensive income, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in the Statement of income.

Offsetting and master netting agreements

The Company presents financial assets and financial liabilities on a gross basis as separate line items in the Consolidated balance sheet.

Master netting agreements may be entered into when the Company undertakes a number of financial instrument transactions with a single counterparty. Such an agreement provides for a net settlement of all financial instruments covered by the agreement in the event of default or certain termination events on any of the transactions. A master netting agreement may create a right of offset that becomes enforceable and affects the realization or settlement of individual financial assets and financial liabilities only following a specified termination event. However, if this contractual right is subject to certain limitations then it does not necessarily provide a basis for offsetting unless both of the offsetting criteria are met, i.e. there is a legally enforceable right and an intention to settle net or simultaneously.

Property, plant and equipment

The costs of property, plant and equipment comprise all directly attributable costs (including the cost of material and direct labor).

Depreciation is generally calculated using the straight-line method over the useful life of the asset. Gains and losses on the sale of property, plant and equipment are included in Other Business Income. Costs related to repair and maintenance activities are expensed in the period in which they are incurred unless leading to an extension of the original lifetime or capacity.

Plant and equipment under finance leases and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset. The gain realized on sale and operating leaseback transactions that are concluded based upon market conditions is recognized at the time of the sale in Other Business Income, in the Consolidated statements of income.

Further information on property, plant and equipment can be found in note 10, Property, plant and equipment.

Leased assets

Leases in which the Company is the lessee and has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The interest element of the finance cost is charged to the Statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding rental obligations, net of finance charges, are included in other short-term and other non-current liabilities. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the assets and the lease term.

Leases in which the Company is the lessee and in which substantially all risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in the Statement of income on a straight-line basis over the term of the lease.

Inventories

Inventories are stated at the lower of cost or net realizable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of conversion of inventories include direct labor and fixed and variable production overheads, taking into account the stage of completion and the normal capacity of production facilities. Costs of idle facility and abnormal waste are expensed. The cost of inventories is determined using the first-in, first-out (FIFO) method. Inventory is reduced for the estimated losses due to obsolescence. This reduction is determined for groups of products based on sales in the recent past and/or expected future demand.

Further information on inventories can be found in note 15, Inventories.

Employee benefit accounting

A defined-contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined-contribution pension plans are recognized as an employee benefit expense in the Statement of income in the periods during which services are rendered by employees.

A defined-benefit plan is a post-employment benefit plan other than a defined-contribution plan. Plans for which the Company has no legal or constructive obligation to pay further amounts, but to which it does pay non-fixed contributions, are also treated as a defined-benefit plan. The net pension asset or liability recognized in the Consolidated balance sheets in respect of defined-benefit post-employment plans is the fair value of plan assets less the present value of the projected defined-benefit obligation at the balance sheet date. The defined-benefit obligation is calculated annually by qualified actuaries using the projected unit credit method. Recognized assets are limited to the present value of any reductions in future contributions or any future refunds. The net pension liability is presented as a long-term provision, no distinction is made for the short-term portion.

For the Company's major plans, a full discount rate curve of high-quality corporate bonds is used to determine the defined-benefit obligation. The curves are based on Towers Watson's rate methodology which uses data of corporate bonds rated AA or equivalent. For the other plans a single point discount rate is used based on corporate bonds for which there is a deep market and the plan's maturity. Plans in countries without a deep corporate bond market use a discount rate based on the local sovereign curve and the plan's maturity.

Pension costs in respect of defined-benefit post-employment plans primarily represent the increase of the actuarial present value of the obligation for post-employment benefits based on employee service during the year and the interest on the net recognized asset or liability in respect of employee service in previous years.

Remeasurements of the net defined-benefit asset or liability comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (excluding interest). The Company recognizes all remeasurements in Other comprehensive income.

The Company recognizes gains and losses on the settlement of a defined-benefit plan when the settlement occurs. The gain or loss on settlement is the difference between the present value of the defined-benefit obligation being settled, as determined on the date of settlement, and the settlement price, including any plan assets transferred and any payments made directly by the Company in connection with the settlement. In this respect, the amount of the plan assets transferred is adjusted for the effect of the asset ceiling. Past service costs following from the introduction of a change to the benefit payable under a plan or a significant reduction of the number of employees covered by a plan (curtailment), are recognized in full in the Statement of income.

Further information on post-employment benefit accounting can be found in note 20, Post-employment benefits.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Company recognizes a liability and an expense for bonuses and incentives based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments.

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods, such as jubilee entitlements. That benefit is discounted to determine its present value. Remeasurements are recognized in the Statement of income in the period in which they arise.

Further information on other employee benefits can be found in note 19, Provisions under Other provisions section.

Share-based payment

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in note 26, Share-based compensation.

The grant-date fair value of equity-settled share-based payment awards granted to employees is recognized as personnel expense, with a corresponding increase in equity, over the vesting period of the award. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant-date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant-date fair value. No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met.

When an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss. The dilutive effect of outstanding options and shares is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in note 9, Earnings per share).

Financial income and expenses

Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, net gains on the disposal of available-for-sale financial assets, net fair value gains on financial assets at fair value through profit or loss, net gains on the remeasurement to fair value of any preexisting available-for-sale interest in an acquiree, and net gains on foreign exchange impacts that are recognized in the Statement of income.

Interest income is recognized on accrual basis in the Statement of income, using the effective interest method. Dividend income is recognized in the Statement of income on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Financial expenses comprise interest expenses on borrowings, unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, net fair value losses on financial assets at fair value through profit or loss, impairment losses recognized on financial assets (other than trade receivables), net interest expenses related to defined-benefit plans and net losses on foreign exchange impacts that are recognized in the Statement of income.

Further information on financial income and expenses can be found in note 7, Financial income and expenses.

Financial guarantees

The Company recognizes a liability at the fair value of the obligation at the inception of a financial guarantee contract if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The guarantee is subsequently measured at the higher of the best estimate of the obligation or the amount initially recognized less, when appropriate, cumulative amortization.

Cash flow statements

Cash flows arising from transactions in a foreign currency are translated in the Company's functional currency using the exchange rate at the date of the cash flow. Cash flows from derivative instruments that are accounted for as cash flow hedges are classified in the same category as the cash flows from the hedged items. Cash flows from other derivative instruments are classified as investing cash flows.

Segment information

Operating segments are components of the Company's business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Executive Committee of the Company). The Executive Committee decides how to allocate resources and assesses performance. Reportable segments comprise the operating segments Personal Health businesses, Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses. Additionally, Philips identifies HealthTech Other and Legacy Items. Segment accounting policies are the same as the accounting policies applied by the Company.

Earnings per Share

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the Net income (loss) attributable to shareholders by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the Net income (loss) attributable to shareholders and the weighted average number of common shares outstanding during the period, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprises forward purchase contracts entered into in 2017, restricted shares, performance shares and share options granted to employees.

Further information on earnings per share can be found in note 9, Earnings per share.

New standards and interpretations

IFRS accounting standards adopted as from 2017

Changes to policies, following from amendments to standards, interpretations and the annual improvement cycles, effective 2017, did not have a material impact on the Group financial statements.

IFRS accounting standards to be adopted as from 2018 and onwards

A number of new standards and amendments to existing standards have been published and are mandatory for the Company beginning on or after January 1, 2018 or later periods, and the Company has not early-adopted them. Those which may be the most relevant to the Company are set out below. Changes to other standards, following from amendments and the annual improvement cycles, are not expected to have a material impact on the Company's financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

The new standard also introduces expanded disclosure requirements to IFRS 7 Financial Instruments: Disclosures and changes in presentation to IAS 1 Presentation of Financial Statements. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The Company finalized the implementation of IFRS 9, except for the determination of the final IFRS 7 disclosures to be included in the Annual Report for 2018. These will be finalized in the coming year. The Company will adopt the new standard on the required effective date and will not restate comparative information. During 2017, Philips performed a detailed impact assessment of all three aspects of IFRS 9. Overall, the Company expects no significant impact on its statement of financial position and equity.

Classification and measurement

The Company noted no significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. The investments in equity shares are currently classified as available-for-sale financial assets with gains and losses recorded in other comprehensive income. Upon adopting IFRS 9, certain financial investments amounting to EUR 21 million (impact on Company financial statements is EUR 14 million) will change classification and measurement from Other comprehensive income to Fair value through profit or loss (FVPL). The related fair value gains of EUR 5 million (impact on Company financial statements is EUR 5 million) will be transferred from the available-for-sale financial assets reserve to Retained earnings on January 1, 2018.

The remaining available-for-sale equity investments amounting to EUR 396 million (impact on Company financial statements is EUR 130 million) will continue to be measured at fair value through Other comprehensive income as the Company has chosen the fair value through other comprehensive income (FVOCI) election for such investments. Accordingly, the new guidance will not affect the classification and measurement of these financial assets. However, gains or losses realized on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to Retained earnings.

The debt investments of the Company amounting to EUR 29 million (impact on Company financial statements is nil) that are currently classified as available-for-sale will satisfy the conditions for classification as at FVOCI and hence there will be no change to the accounting for these assets.

The Company has debt investment amounting to EUR 0.6 million (impact on Company financial statements is nil) currently classified as held-to-maturity and measured at amortized cost which meets the conditions for classification at amortized cost under IFRS 9.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Company analyzed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required except for receivables which are factored. The business model for such factored receivables amounting to EUR 48 million (impact on Company financial statements is nil) is hold to collect and sell and hence they will be booked at FVOCI.

There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Company does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

Impairment
The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. The expected credit losses include forward-looking elements on all possible default events as well as historical loss data. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Company will apply the simplified approach and record lifetime-expected losses on all trade receivables. Based on the assessments undertaken to date, the Company expects no material increase in the loss allowance for debt investments and financial assets held at amortized cost. Additionally the Company also assessed the impact of the new impairment model on its intercompany financial assets (including receivables) recognized in the Company financial statements and concluded that there is no material increase in the loss allowance.

Hedge accounting
The Company has completed updates to its internal documentation and monitoring processes and concluded that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. Changes in the fair value of foreign exchange forward contracts attributable to forward points and in the time value of the option contracts will in future be deferred in costs of hedging reserve within equity. The deferred amounts will be recognized against the related hedged transaction when it occurs.

The Company has chosen not to retrospectively apply IFRS 9 on transition regarding the forward points of the forward contracts under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Philips' financial statements.

Transition
IFRS 9 must be applied for financial years commencing on or after January 1, 2018 and it is fully endorsed by the EU. The Company will apply the new rules retrospectively from January 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated in 2018.

IFRS 15 Revenue from Contracts with Customers
The IASB has issued a new standard that specifies how and when revenue is recognized and prescribes more informative and relevant disclosures. The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and a number of revenue-related interpretations.

The new standard provides a single, principles-based five-step model to be applied to all contracts with customers and is based on the principle that revenue is recognized when control of a good or service transfers to a customer. Furthermore, it provides new guidance on whether revenue should be recognized at a point in time or over time. The standard also introduces new guidance on costs of fulfilling and obtaining a contract, specifying the circumstances in which such costs should be capitalized. Costs that do not meet the criteria must be expensed when incurred.

The actions needed to implement IFRS 15 in the organization have been finalized and the quantitative impacts determined, except for the determination of the final IFRS 15 disclosures to be included in the Annual Report for 2018. These will be finalized in the coming year. The following main impacted areas were identified.

Royalty income
Currently the Company recognizes revenue from intellectual property (IP) royalties, which is normally generated based upon a percentage of sales or a fixed amount per product sold, on an accrual basis based on actual or reliably estimated sales made by the licensees. Revenue generated from an agreement with lump-sum consideration is recognized on accrual basis based on the contractual terms and substance of the relevant agreement with a licensee. Under IFRS 15, revenues from the licensing of intellectual property should be recognized based on a right to access the intellectual property or a right to use the intellectual property approach. Under the first option revenue is recognized over time while under the second option revenue is recognized at a point in time. As a result, this will have an impact on revenues originating from the Company's IP royalties with lump-sum consideration (within segment HealthTech Other) since under IFRS 15 such revenues will be recognized in the Statement of income at an earlier point in time rather than over time under the current methodology. An amount of EUR 34 million of deferred revenue will be recorded as an increase in retained earnings upon transition and a deferred tax asset of EUR 7 million will be released as a consequence. The net impact in equity will be EUR 25 million.

Costs of obtaining a contract
Under IFRS 15, the incremental costs of obtaining a contract with a customer are recognized as an asset if the entity expects to recover them.

The Company identified that certain sales commissions paid to third parties and internal employees that are typical for transactions in the segments Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses qualify as incremental costs of obtaining a contract. These costs are mostly paid and capitalized as prepayment upon issuance of sales orders and recognition of revenue related to the sale of goods or rendering of services. Such costs are commonly expensed in line with the revenue recognition pattern of the related goods or services. Due to these sales commissions being largely amortized within a year, the Company decided to adopt the practical expedient of expensing sales commissions when incurred. An impact of EUR 68 million will be recorded as a retained earnings decrease in equity originating from the asset derecognition upon transition, and a deferred tax liability of EUR 17 million will be released as a consequence. The net impact in equity will be EUR 51 million.

Transition
IFRS 15 must be applied for periods beginning on or after January 1, 2018 and it is fully endorsed by the EU. The Company decided to adopt IFRS 15 in its consolidated financial statements for the year ending December 31, 2018, using the modified retrospective transition approach which means that the cumulative impact of the adoption will be recognized in retained earnings as of January 1, 2018 and that comparatives will not be restated. The standard will only be applied to contracts that are not completed as of the date of initial application.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and is endorsed by the EU. It will supersede IAS 17 Leases and a number of lease-related interpretations and will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not change significantly.

The Company is in the process of implementing IFRS 16: the complete overview of existing operating lease contracts was determined (mainly real estate and car leases) and the investigation for an IT tool supporting IFRS 16 calculations and journal entries is ongoing. The new standard was discussed with management and internal stakeholders such as Treasury, Investor Relations and Human Resources so that they can work on potential adjustments to their processes, if needed. The Company is analyzing the preliminary quantitative impact of IFRS 16.

The standard will affect primarily the accounting for the Company's operating leases. As at the reporting date, Philips has non-cancellable operating lease commitments of EUR 741 million (undiscounted) as further explained in note 29, Details of treasury / other financial risks. The Company plans to use the recognition exemption for low-value leases such as IT laptops and desktops and recognize on a straight line basis as an expense in profit or loss.

Philips has not yet assessed what other adjustments, if any, are necessary, such as following the change in the definition of the lease term, the different treatment of variable lease payments, and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognized on adoption of the new standard and how this may affect the Company's profit or loss and classification of cash flows going forward.

The standard is mandatory for financial years commencing on or after January 1, 2019. The Company decided not to adopt the standard before its effective date. Philips intends to apply the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information. When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease by lease basis whether to apply a number of practical expedients on the transition. The Company is assessing the potential impact of using these practical expedients.

2 Information by segment and main country

Philips Group
Information on income statement in millions of EUR unless otherwise stated
2015 - 2017

	sales	sales including intercompany	depreciation and amortization[1]	Adjusted EBITA[2]
2017				
Personal Health	7,310	7,333	(371)	1,221
Diagnosis & Treatment	6,891	6,953	(267)	716
Connected Care & Health Informatics	3,163	3,200	(208)	372
HealthTech Other	415	559	(177)	(109)
Legacy Items	1	6	(2)	(48)
Inter-segment eliminations		(269)		
Philips Group	**17,780**	**17,780**	**(1,025)**	**2,153**
2016				
Personal Health	7,099	7,119	(385)	1,108
Diagnosis & Treatment	6,686	6,741	(229)	631
Connected Care & Health Informatics	3,158	3,213	(184)	324
HealthTech Other	478	635	(177)	(66)
Legacy Items	1	6	(2)	(76)
Inter-segment eliminations		(292)		
Philips Group	**17,422**	**17,422**	**(976)**	**1,921**
2015				
Personal Health	6,751	6,764	(375)	966
Diagnosis & Treatment	6,484	6,531	(249)	515
Connected Care & Health Informatics	3,022	3,080	(198)	294
HealthTech Other	503	670	(156)	8
Legacy Items	46	84	7	(95)
Inter-segment eliminations		(323)		
Philips Group	**16,806**	**16,806**	**(972)**	**1,688**

1) Includes impairments.
2) For reconciliation Adjusted EBITA, refer to the table below.

In 2016, Philips established two stand-alone companies focused on the HealthTech and Lighting opportunities. Following this separation, Philips changed the way it allocates resources and analyzes its performance based on a new segment structure. Accordingly, from 2016 the reportable segments for the purpose of the disclosures required by IFRS 8, Operating Segments, are Personal Health, Diagnosis & Treatment, and Connected Care & Health Informatics, each being responsible for the management of its business worldwide. Additionally, HealthTech Other and Legacy Items are included. From 2017, Lighting is reported as part of Discontinued Operations (refer to note 3, Discontinued operations and assets classified as held for sale).

Philips focuses on improving people's lives through meaningful innovation across the health continuum – from healthy living and prevention to diagnosis, treatment and home care. The Personal Health businesses deliver integrated, connected solutions that support healthier lifestyles and those living with chronic disease. The Diagnosis & Treatment businesses deliver precision medicine and least-invasive treatment and therapy to improve outcomes, lower the cost of care delivery and enhance the patient experience. The Connected Care & Health Informatics businesses deliver digital solutions that facilitate value-based care through consumer technology, patient monitoring and clinical informatics.

The Executive Committee of Philips is deemed to be the chief operating decision maker (CODM) for IFRS 8 segment reporting purposes. The key segmental performance measure is Adjusted EBITA, which Management believes is the most relevant measure to evaluate the results of the segments.

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.

Adjusted EBITA is not a recognized measure of financial performance under IFRS. Below is a reconciliation of Adjusted EBITA to the most directly comparable IFRS measure, Net income, for the years indicated. 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 from net income to Adjusted EBITA in millions of EUR
2015 - 2017

	Philips Group	Personal Health	Diagnosis & Treatment	Connected Care & Health Informatics	HealthTech Other	Legacy Items
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**	**1,075**	**488**	**206**	**(149)**	**(103)**
Amortization of acquired intangible assets	260	135	55	44	26	
Impairment of goodwill	9				9	
EBITA	1,787	1,211	543	250	(114)	(103)
Restructuring and acquisition-related charges	316	11	151	91	64	
Other items	50		22	31	(59)	55
Adjusted EBITA	**2,153**	**1,221**	**716**	**372**	**(109)**	**(48)**
2016						
Net Income	**1,491**					
Discontinued operations, net of income taxes	(660)					
Income tax expense	203					
Investments in associates, net of income taxes	(11)					
Financial expenses	507					
Financial income	(65)					
Income from operations	**1,464**	**953**	**546**	**275**	**(129)**	**(181)**
Amortization of acquired intangible assets	242	139	48	46	9	
Impairment of goodwill	1			1		
EBITA	1,707	1,092	594	322	(120)	(181)
Restructuring and acquisition-related charges	94	16	37	14	28	(1)
Other items	120			(12)	26	106
Adjusted EBITA	**1,921**	**1,108**	**631**	**324**	**(66)**	**(76)**
2015						
Net Income	**638**					
Discontinued operations, net of income taxes	(479)					
Income tax expense	169					
Investments in associates, net of income taxes	(30)					
Financial expenses	453					
Financial income	(94)					
Income from operations	**658**	**736**	**322**	**173**	**49**	**(622)**
Amortization of acquired intangible assets	273	149	55	54	15	
EBITA	931	885	377	227	64	(622)
Restructuring and acquisition-related charges	186	37	131	38	(19)	(1)
Other items	571	44	7	29	(37)	528
Adjusted EBITA	**1,688**	**966**	**515**	**294**	**8**	**(95)**

Transactions between the segments are mainly related to components and parts included in the product portfolio of the other segments. The pricing of such transactions was at cost or determined on an arm's length basis. Philips has no single external customer that represents 10% or more of sales.

Philips Group
Main countries in millions of EUR
2015 - 2017

	sales[1]	tangible and intangible assets[2]
2017		
Netherlands	414	1,154
United States	6,084	8,408
China	2,322	959
Germany	1,011	270
Japan	1,059	457
France	530	33
India	425	100
Other countries	5,935	1,263
Total main countries	**17,780**	**12,644**
2016		
Netherlands	393	1,007
United States	5,948	9,425
China	2,210	1,167
Germany	965	201
Japan	1,103	492
France	513	45
India	399	121
Other countries	5,891	2,147
Total main countries	**17,422**	**14,605**
2015		
Netherlands	374	970
United States	5,742	9,291
China	2,132	1,194
Germany	929	170
Japan	962	455
France	487	48
India	431	134
Other countries	5,749	2,276
Total main countries	**16,806**	**14,538**

1) The sales are reported based on country of destination.
2) Consists of Property plant and equipment, Intangible assets excluding goodwill and Goodwill

3 Discontinued operations and assets classified as held for sale

Discontinued operations included in the Consolidated statements of income and cash flows consist of the segment Lighting, the combined Lumileds and Automotive businesses and certain divestments formerly reported as discontinued operations. The below table summarizes the discontinued operations, net of income taxes results reported in the consolidated statements of income.

Philips Group
Discontinued operations, net of income taxes in millions of EUR
2015 - 2017

	2015	2016	2017
Lighting	247	244	896
The combined Lumileds and Automotive businesses	233	282	(29)
Other	(1)	134	(24)
Discontinued operations, net of income taxes	**479**	**660**	**843**

Lighting

In the course of 2017, Philips completed several transactions in Philips Lighting shares, which reduced the interest in this company from 71.23% as of December 31, 2016 to 29.01% as of December 31, 2017. For further details, please refer to note 5, Interests in entities.

On April 28, 2017, triggered by a sale of Philips Lighting shares, we concluded that a loss of control was highly probable due to further sell-downs of shares within one year. From that date Lighting was presented as a discontinued operation.

On November 28, 2017, triggered by an additional sale of Philips Lighting shares, Philips lost control, resulting in the deconsolidation of Philips Lighting. Upon deconsolidation, the Company recognized a gain of EUR 599 million, including a tax benefit of EUR 61 million, which was recorded in Discontinued operations. This gain is the net effect of (i) a cash consideration for shares sold in this transaction

(EUR 545 million) (ii) plus the fair value of the retained number of shares (EUR 1,368 million) (iii) less the assets held for sale and the liabilities associated with assets held for sale (EUR 2,513 million net) (iv) plus the carrying amount of Non-controlling interest related to Philips Lighting (EUR 1,481 million) and (v) less the release of balances accumulated in Other comprehensive income, mainly relating to currency translation differences (EUR 282 million).

In determining the EUR 599 million, a gain of EUR 638 million was attributable to measuring the retained interest at its fair value.

In addition, Philips recognized a valuation loss of EUR 104 million related to the retained interest in Philips Lighting subsequent to deconsolidation (see other assets classified as assets held for sale in this paragraph).

The following table, summarizes the results of Lighting included in the Consolidated statements of income as discontinued operations.

Results of Lighting in millions of EUR
2015-2017

	2015	2016	2017
Sales	7,438	7,094	6,319
Costs and expenses	(7,114)	(6,726)	(5,776)
Result on the deconsolidation of discontinued operations			538
Value adjustment retained interest			(104)
Income before tax	**324**	**368**	**977**
Income tax expense	(77)	(124)	(150)
Income tax on the deconsolidation of discontinued operations			61
US Tax Cuts and Jobs Act			8
Results from discontinued operations	**247**	**244**	**896**

As a result of Lighting being classified as a discontinued operation, the 2015 and 2016 financial statements have been restated. Apart from these changes, consequential restatements were processed in note 6, Income from operations, note 7, Financial income and expenses, note 8, Income taxes, note 9, Earnings per share, and note 20, Post-employment benefits.

Discontinued operations: Combined Lumileds and Automotive businesses

On June 30, 2017, Philips completed the sale of an 80.1% interest in the combined Lumileds and Automotive businesses to certain funds managed by affiliates of Apollo Global Management, LLC.

The combined businesses of Lumileds and Automotive were reported as discontinued operations as from the end of November 2014.

During 2017, discontinued operations results of the combined businesses of Lumileds and Automotive amounted to a loss of EUR 29 million, which consisted of a loss of EUR 72 million, net of EUR 26 million tax benefit from the sale of the majority stake, operational results of EUR 159 million, net of EUR 25 million tax expense and a tax expense of EUR 107 million as a result of the US Tax Cuts and Jobs Act.

The net of tax loss of EUR 72 million related to the sale mainly comprises of (i) net cash proceeds associated with the sale (EUR 1,067 million), (ii) plus the fair value of the retained investment (EUR 305 million), (iii) plus a tax benefit (EUR 26 million), (iv) less the book value of business-related assets and liabilities (EUR 1,533 million) and (v) plus the release of cumulative translation differences (EUR 63 million). Furthermore, a gain related to the sale of real estate was recognized in Other business income in Q1 2017. In addition, trademark license revenue is recognized in income from continuing operations as of December 2017.

In determining the EUR 72 million, a gain of EUR 13 million was attributable to measuring the retained interest at its fair value.

For details on the retained interest in the combined Lumileds and Automotive businesses we refer to note 13, Other financial assets.

The following table summarizes the results of the combined businesses of Lumileds and Automotive in the Consolidated statements of income as discontinued operations.

Philips Group
Results of combined Lumileds and Automotive businesses
in millions of EUR
2015 - 2017

	2015	2016	2017
Sales	1,619	1,711	804
Costs and expenses	(1,320)	(1,376)	(630)
Result on the sale of discontinued operations			(98)
Income before taxes	**299**	**335**	**76**
Income tax expense	(66)	(53)	(25)
Income tax on the sale of discontinued operations			26
US Tax Cuts and Jobs Act			(107)
Results from discontinued operations	**233**	**282**	**(29)**

Discontinued operations: Other

Certain other divestments reported as discontinued operations, resulted in a net loss of EUR 24 million in 2017 (2016: a net gain of EUR 134 million; 2015: a net loss of EUR 1 million).

The main result in 2016 related to the court decision in favor of Philips in an arbitration case against Funai Electric Co., Ltd. Philips started the arbitration after it terminated the agreement to transfer the Audio, Video, Media & Accessories business to Funai following a breach of contract by Funai. As a consequence the court ordered Funai to pay EUR 144 million, which includes disbursements and interest, as compensation for damages. The amount was received in the second quarter of 2016.

Discontinued operations cash flows

The following table presents the net cash flows of operating, investing and financing activities reported in the Consolidated cash flow statements.

Discontinued operations cash flows in millions of EUR
2015 -2017

	2015	2016	2017
Cash flows from operating activities	761	1,037	350
Cash flows from investing activities	(203)	(112)	856
Cash flows from financing activities	(20)	1,226	(144)
Total discontinued operations cash flows	**537**	**2,151**	**1,063**

In 2017, cash flows from operating activities reflect the period prior to the divestment of the combined Lumileds and Automotive business (six months of cash flows) and prior to the deconsolidation of Lighting (eleven months of cash flows). In 2017, cash flows from investing activities includes the net cash outflow related to the deconsolidation of Philips Lighting of EUR 175 million, consisting of EUR 545 million proceeds from the sale of shares on November 28, 2017, offset by the deconsolidation of EUR 720 million of cash and cash equivalents, and proceeds of EUR 1,067 million received from the sale of the combined Lumileds and Automotive businesses.

In 2016, cash flows from investing activities includes EUR 144 million cash inflow related to the Funai arbitration and cash flows from financing activities includes new funding of EUR 1.2 billion attracted by Philips Lighting.

Assets classified as held for sale

As of December 31, 2017, assets held for sale consisted of the retained interest in Philips Lighting for an amount of EUR 1,264 million, property, plant and equipment for an amount of EUR 40 million, and assets and liabilities directly associated with assets held for sale businesses of EUR 44 million.

Philips will sell down its retained interest in Philips Lighting within one year. Therefore, the current position of 29.01% is a temporary position which fits in our single coordinated plan to sell Philips Lighting in its entirety. Consequently any results related to the retained interest - such as value adjustments, results upon disposal and dividends - will be reflected in discontinued operation.

The valuation basis for the retained interest in Philips Lighting shares is the lower of the carrying value as per November 28, 2017 (based on the closing share price of EUR 32.975) or the value based on the stock price, less cost to sell, at reporting date. Based on the share price of Philips Lighting as of December 31, 2017 of EUR 30.60 and taking into account expected cost to sell, we recognized a loss in discontinued operations of EUR 104 million.

4 Acquisitions and divestments

2017

Philips completed ten acquisitions in 2017. The acquisitions involved an aggregated net cash outflow of EUR 2,333 million. These acquisitions had an aggregated impact on Goodwill and Other intangible assets of EUR 1,548 million and EUR 926 million respectively.

The Spectranetics Corporation (Spectranetics) is the most notable acquisition and is discussed below. The remaining nine acquisitions involved an aggregated net cash outflow of EUR 425 million. Separately, the net cash outflow ranged from EUR 3 million to EUR 117 million. These remaining acquisitions had an aggregated impact on Goodwill and Other intangible assets of EUR 293 million and EUR 252 million respectively.

On August 9, 2017 Philips completed the acquisition of Spectranetics, by acquiring all of the issued and outstanding shares of Spectranetics for USD 38.50 per share, paid in cash at completion. As of the date of acquisition, Spectranetics became a wholly owned subsidiary of Philips and was consolidated within Philips Image-Guided Therapy business as part of the Diagnosis & Treatment businesses segment.

Spectranetics is a US-based global leader in vascular intervention and lead management solutions, present in 11 countries and employs over 900 employees.

The acquisition involved a net cash outflow of EUR 1,908 million. This amount comprised the purchase price of shares (EUR 1,441 million), the settlement of share-based compensation plans (EUR 94 million), the redemption of debt (EUR 378 million) and the settlement of various other items (EUR 48 million). The overall cash position of Spectranetics on the transaction date was EUR 53 million.

Acquisition-related costs of EUR 25 million were recognized in General and administrative expenses.

The condensed opening balance sheet of Spectranetics as of August 9, 2017 was as follows:

Spectranetics
Balance sheet in millions of EUR
2017

	at acquisition date
Goodwill	1,255
Other intangible assets	674
Property, plant and equipment	69
Deferred tax assets	135
Inventories	38
Receivables and other current assets	42
Cash	53
Accounts payable and other payables	(49)
Deferred tax liabilities	(257)
Total assets and liabilities	**1,960**
Financed by equity	**(1,960)**

Opening balance positions are subject to final purchase price adjustments, expected to be processed in the first quarter of 2018. Main pending final purchase price adjustments concern Goodwill, Other Intangible assets (Customer relationships, Technology) and Deferred tax liabilities.

Goodwill recognized in the amount of EUR 1,255 million, which at the date of this report is treated as non-deductible for tax purposes, mainly represents the impact of cost synergies. Cost synergies relate to expected lower General and administrative expenses and Selling expenses subsequent to the integration of Spectranetics.

Receivables and other current assets include value adjustments of EUR 3 million, representing the best estimate at the acquisition date of the contractual cash flows not expected to be received.

Other intangible assets were comprised of the following:

Spectranetics
Other intangible assets in millions of EUR unless otherwise stated
2017

	amount	amortization period in years
Customer relationships	372	20
Technology	297	15
Brand names	5	3
Total other intangible assets	**674**	

The main categories of Other intangible assets (Customer relationships and Technology) are determined using an 'income approach', which is a valuation technique that estimates the fair value of an asset based on market participants' expectations of the cash flows generated by that asset over its remaining useful life.

The fair value of the Customer relationships relates to an estimate of positive cash flows associated with incremental profits related to excess earnings until 2038, discounted at a rate of 10.5%. The fair value of Technology is based on the assumption that certain savings in royalty payments can be achieved until 2032, which are discounted at a rate ranging from 11.5% to 13.0%.

As from August 9, 2017, Spectranetics contributed sales of EUR 114 million and generated a negative net income of EUR 37 million.

Pro-forma disclosure

The following table presents 2017 year-to-date unaudited pro-forma results of Philips, assuming Spectranetics had been consolidated as of January 1, 2017.

Philips Group
Pro-forma Statements of income for Spectranetics acquisition (unaudited) in millions of EUR
2017

	Philips Group	Pro forma adjustments	Pro-forma Philips Group
Sales	17,780	156	17,936
Net income	1,870	(40)	1,830

Pro-forma information is based on historical Spectranetics and Philips performance. The following main adjustments were made to arrive at pro-forma information:

- exclusion of acquisition-related costs incurred by Spectranetics;
- inclusion of purchase price allocation effects;
- exclusion of stock based compensation costs;
- exclusion of interest costs related to debt;
- inclusion of tax benefits related to operating losses.

Divestments

Apart from the sale of the Combined Lumileds and Automotive businesses and the deconsolidation of Philips Lighting, Philips completed two divestments during 2017 at an aggregate cash consideration of EUR 54 million.

For details regarding the sale of the Combined Lumileds and Automotive businesses and the deconsolidation of Philips Lighting, reference is made to note 3, Discontinued operations and assets classified as held for sale.

2016

Acquisitions

Philips completed two acquisitions in 2016, which involved an aggregated net cash outflow of EUR 168 million.

Divestments

Philips completed six divestments during 2016. The six divestments involved an aggregated cash consideration of EUR 43 million.

5 Interests in entities

In this section we discuss the nature of the Company's interests in its consolidated entities and associates, and the effects of those interests on the Company's financial position and financial performance.

Transactions in Philips Lighting shares

In the course of 2017, Philips completed three separate transactions in Philips Lighting shares which reduced the interest in this company from 71.23% as of December 31, 2016 to 29.01% as of December 31, 2017.

In February and April 2017, the Company sold 48,250,000 shares through two accelerated bookbuild offerings to institutional investors, which resulted in a net cash inflow of EUR 1,060 million. These divestment transactions did not impact the profit and loss account of the Company because subsequent to these transactions Philips Lighting continued to be fully consolidated as it was controlled by Royal Philips. The two offerings had a positive impact on Shareholders' equity of the Company of EUR 327 million. This amount includes (i) the difference between the proceeds and the carrying value of the shares sold in these transactions (increase of EUR 352 million), (ii) costs related to the accelerated bookbuild offering which were directly recognized in Shareholders' equity (decrease of EUR 6 million) and (iii) certain reallocations of currency translation adjustments to Non-controlling interests (decrease of EUR 19 million).

On November 28, 2017, the Company sold 17,100,000 shares through an accelerated bookbuild offering to institutional investors. This transaction triggered a loss of control by the Company, resulting in a deconsolidation of Philips Lighting. Upon deconsolidation of Philips Lighting, the Company recognized a gain of EUR 599 million before tax, which was recorded in Discontinued operations. For further details regarding this result, reference is made to note 3, Discontinued operations and assets classified as held for sale.

Group companies

Set out below is a list of material subsidiaries as per December 31, 2017 representing greater than 5% of either the consolidated group Sales, Income from operations or Net income (before any intra-group eliminations) of Group legal entities. All of the entities are fully consolidated in the group accounts of the Company.

Philips Group
Interests in group companies in alphabetical order
2017

Legal entity name	Principal country of business
370 West Trimble Road LLC	United States
Metaaldraadlampenfabriek "Volt" B.V.	Netherlands
Philips (China) Investment Company, Ltd.	China
Philips Consumer Lifestyle B.V.	Netherlands
Philips Domestic Appliances and Personal Care Company of Zhuhai SEZ, Ltd.	China
Philips Electronics Hong Kong Limited	Hong Kong
Philips Electronics Nederland B.V.	Netherlands
Philips Electronics UK Limited	United Kingdom
Philips GmbH	Germany
Philips Japan, Ltd.	Japan
Philips Medical Systems Nederland B.V.	Netherlands
Philips Medizin Systeme Hofheim-Wallau GmbH	Germany
Philips North America LLC	United States
Philips Oral Healthcare, LLC	United States
Philips Ultrasound, Inc.	United States
Respironics, Inc.	United States
RI Finance, Inc.	United States
RIC Investments, LLC	United States

Information related to Non-controlling interests

As of December 31, 2017, four consolidated subsidiaries are not wholly owned by Philips (December 31, 2016: five). Until November 28, 2017, a significant subsidiary that was consolidated but not wholly owned was Philips Lighting. Due to the deconsolidation of Philips Lighting, the Non-controlling interest related to this company was derecognized.

The following is unaudited summarized financial information extracted from Philips Lighting's consolidated statements of income for 2016 and 2017.

Philips Group
Summarized financial information for Philips Lighting (unaudited)
in millions of EUR

	2016	2017
	Philips Lighting	Philips Lighting
Sales to thirds	7,115	6,965
Net income	185	281

Investments in associates

Philips has investments in a number of associates. None of them (except Philips Lighting) are regarded as individually material. The interest in Philips Lighting is treated as an asset classified as held for sale. For further details on the accounting treatment, we refer to note 3, Discontinued operations and assets classified as held for sale.

The summarized financial information of Philips Lighting, not adjusted for the percentage of ownership held by Philips, is presented below and is based on the unaudited published financial results for the full year on February 2, 2018.

Summarized income statement of Philips Lighting (unaudited)
in millions of EUR

	2017
Sales to thirds	6,965
Income before taxes	441
Net financial income/expense	(43)
Income taxes	(117)
Net income	**281**

Summarized net asset value of Philips Lighting (unaudited)
in millions of EUR

	2017
Current assets	3,372
Non-current assets	3,306
Total assets	**6,678**
Current liabilities	(2,216)
Non-current liabilities	(2,140)
Net assets value	**2,321**

Involvement with unconsolidated structured entities

Philips founded three Philips Medical Capital (PMC) entities, in the United States, France and Germany, in which Philips holds a minority interest. Philips Medical Capital, LLC in the United States is the most significant entity. PMC entities provide healthcare equipment financing and leasing services to Philips customers for diagnostic imaging equipment, patient monitoring equipment, and clinical IT systems.

The Company concluded that it does not control, and therefore should not consolidate the PMC entities. In the United States, PMC operates as a subsidiary of De Lage Landen Financial Services, Inc. The same structure and treatment is applied to the PMC entities in the other countries, with other majority shareholders. Operating agreements are in place for all PMC entities, whereby acceptance of sales and financing transactions resides with the respective majority shareholder. After acceptance of a transaction by PMC, Philips transfers significant risk and rewards and does not retain any obligations towards PMC or its customers, from the sales contracts.

At December 31, 2017, Philips' stake in Philips Medical Capital, LLC amounted to EUR 29 million (December 31, 2016: EUR 25 million).

6 Income from operations

For information related to Sales on a segment and geographical basis, see note 2, Information by segment and main country.

Philips Group
Sales and costs by nature in millions of EUR
2015 - 2017

	2015	2016	2017
Sales	16,806	17,422	17,780
Costs of materials used	(5,188)	(5,030)	(4,918)
Employee benefit expenses	(5,638)	(5,298)	(5,824)
Depreciation and amortization	(972)	(976)	(1,025)
Shipping and handling	(547)	(545)	(602)
Advertising and promotion	(862)	(915)	(939)
Lease expense, net[1]	(250)	(223)	(227)
Other operational costs[2]	(2,751)	(2,963)	(2,804)
Other business income (expenses)	60	(6)	76
Income from operations	**658**	**1,464**	**1,517**

[1] Lease expense includes EUR 38 million (2016: EUR 30 million, 2015: EUR 33 million) of other costs, such as fuel and electricity, and taxes to be paid and reimbursed to the lessor

[2] Other operational costs contain items which are dissimilar in nature and individually insignificant in amount to disclose separately. These costs contain among others expenses for outsourcing services, mainly in IT and HR, 3rd party workers, consultants, warranty, patents, costs for travelling, external legal services and EUR 90 million government grants recognized in 2017 (2016: EUR 79 million, 2015: EUR 58 million). The grants mainly relate to research and development activities and business development

Sales composition

Philips Group
Sales composition in millions of EUR
2015 - 2017

	2015	2016	2017
Goods[1]	13,175	13,568	13,974
Services[1]	3,215	3,478	3,477
Royalties	416	375	329
Sales	**16,806**	**17,422**	**17,780**

[1] Prior period amounts have been revised to adjust the presentation of revenue related to certain software solutions as well as discounts related to services rendered in 2016. The amount of EUR 403 million was reclassified from Goods to Services in 2016 (EUR 178 million in 2015). These adjustments did not affect the primary Consolidated financial statements of any of the prior years.

Costs of materials used

Cost of materials used represents the inventory recognized in cost of sales.

Employee benefit expenses

Philips Group
Employee benefit expenses in millions of EUR
2015 - 2017

	2015	2016	2017
Salaries and wages[1]	4,342	4,422	4,856
Post-employment benefits costs	705	279	347
Other social security and similar charges:			
- Required by law	480	489	514
- Voluntary	110	108	108
Employee benefit expenses	**5,638**	**5,298**	**5,824**

[1] Salaries and wages includes EUR 122 million (2016: EUR 95 million, 2015 EUR 82 million) of share-based compensation expenses.

The employee benefit expenses relate to employees who are working on the payroll of Philips, both with permanent and temporary contracts.

For further information on post-employment benefit costs, see note 20, Post-employment benefits.

For details on the remuneration of the members of the Board of Management and the Supervisory Board, see note 27, Information on remuneration.

Employees

The average number of employees by category is summarized as follows:

Philips Group
Employees in FTEs
2015 - 2017

	2015	2016	2017
Production	26,524	27,899	27,697
Research and development	8,242	9,087	9,787
Other	23,216	24,565	26,314
Employees	57,982	61,552	63,798
3rd party workers	7,900	8,050	8,098
Continuing operations	**65,882**	**69,602**	**71,895**
Discontinued operations	**48,330**	**43,971**	**43,497**
Philips Group	**114,211**	**113,572**	**115,392**

Employees consist of those persons working on the payroll of Philips and whose costs are reflected in the Employee benefit expenses table. 3rd party workers consist of personnel hired on a per-period basis, via external companies.

Philips Group
Employees per geographical location in FTEs
2015 - 2017

	2015	2016	2017
Netherlands	7,589	11,199	11,308
Other countries	58,292	58,403	60,587
Continuing operations	**65,882**	**69,602**	**71,895**
Discontinued operations	**48,330**	**43,971**	**43,497**
Philips Group	**114,211**	**113,572**	**115,392**

Depreciation and amortization

Depreciation of property, plant and equipment and amortization of intangible assets, including impairments, are as follows:

Philips Group
Depreciation and amortization[1] in millions of EUR
2015 - 2017

	2015	2016	2017
Depreciation of property, plant and equipment	422	458	437
Amortization of software	35	49	50
Amortization of other intangible assets	273	244	260
Amortization of development costs	242	225	277
Depreciation and amortization	**972**	**976**	**1,025**

[1] Includes impairments

Depreciation of property, plant and equipment is primarily included in cost of sales. Amortization of the categories of other intangible assets are reported in selling expenses for brand names and customer relationships and are reported in cost of sales for technology based and other intangible assets. Amortization of development cost is included in research and development expenses.

Shipping and handling

Shipping and handling costs are included in cost of sales and selling expenses in section 11.4, Consolidated statements of income, of this Annual Report. Further information on when costs are to be reported to cost of sales or selling expenses can be found in note 1, Significant accounting policies.

Advertising and promotion

Advertising and promotion costs are included in selling expenses in section 11.4, Consolidated statements of income, of this Annual Report.

Audit fees

The table below shows the fees attributable to the fiscal years 2015, 2016 and 2017 for services rendered by the respective Group auditors.

Philips Group
Fees in millions of EUR

	2015	2016	2017
Audit fees	15.3	18.4	16.7
- consolidated financial statements	9.8	13.4	12.5
- statutory financial statements	5.5	5.0	4.2
Audit-related fees	4.9	2.3	1.5
- acquisitions and divestments	3.6	0.9	0.0
- sustainability assurance	0.6	0.7	0.7
- other	0.7	0.7	0.8
Tax fees	1.1	0.0	0.0
- tax compliance services	1.1	0.0	0.0
Other fees	0.0	0.0	0.0
- other	0.0	0.0	0.0
Fees[1]	**21.3**	**20.7**	**18.3**

[1] Fees charged by the Dutch organization of the Philips Group auditor were EUR 9.2 million in 2017

Other business income (expenses)

Other business income (expenses) consists of the following:

Philips Group
Other business income (expenses) in millions of EUR
2015 - 2017

	2015	2016	2017
Result on disposal of businesses:			
- income	1	1	15
- expense	(2)	(4)	(5)
Result on disposal of fixed assets:			
- income	44	4	96
- expense	(1)	(1)	(1)
Result on other remaining business:			
- income	44	13	41
- expense	(27)	(17)	(62)
Impairment of goodwill[1]		(1)	(9)
Other business income (expenses)	**60**	**(6)**	**76**
Total other business income	89	17	152
Total other business expense	(30)	(23)	(76)

[1] Further information on goodwill movement can be found in note 11, Goodwill

The result on disposal of businesses was mainly due to divestment of non-strategic businesses.

The result on disposal of fixed assets was mainly due to sale of real estate assets. In 2017 income on disposal of fixed assets amounted to EUR 96 million of which EUR 59 million relates to a disposal of real estate in the US.

The result on other remaining businesses mainly relates to non-core revenue and various legal matters.

7 Financial income and expenses

Philips Group
Financial income and expenses in millions of EUR
2015 - 2017

	2015	2016	2017
Interest income	44	43	40
Interest income from loans and receivables	18	15	12
Interest income from cash and cash equivalents	26	28	28
Dividend income from available for sale financial assets	6	4	64
Net gains from disposal of financial assets	20	3	1
Net change in fair value of financial assets at fair value through profit or loss	4		7
Other financial income	20	15	14
Financial income	**94**	**65**	**126**
Interest expense	(344)	(342)	(222)
Interest on debt and borrowings	(267)	(288)	(177)
Finance charges under finance lease contract	(6)	(7)	(8)
Interest expenses - pensions	(70)	(48)	(37)
Provision-related accretion and interest	(31)	44	(22)
Net foreign exchange losses	(10)	(1)	(2)
Impairment loss of financial assets	(46)	(24)	(2)
Net change in fair value of financial assets at fair value through profit or loss		(4)	
Other financial expenses	(23)	(180)	(15)
Financial expense	**(453)**	**(507)**	**(263)**
Financial income and expenses	**(359)**	**(442)**	**(137)**

Net financial income and expense showed a EUR 137 million expense in 2017, which was EUR 305 million lower than in 2016. Net interest expense in 2017 was EUR 117 million lower than in 2016, mainly due to lower interest expenses on net debt following the bond redemptions in October 2016 and January 2017. Higher dividend income was mainly related to the retained interest in the combined businesses of Lumileds and Automotive.

Net interest expense in 2016 was EUR 2 million lower than in 2015. The impairment charges in 2016 amounted to EUR 24 million mainly due to Corindus Vascular Robotics. Lower provision-related accretion and interest in 2016 is primarily due to the release of accrued interest as a result of the settlement of the Masimo litigation. Other financial expenses included financial charges related to the early redemption of USD bonds in October 2016 and January 2017 of EUR 91 million and EUR 62 million respectively.

Net financial income and expense showed a EUR 359 million expense in 2015. Total financial income of EUR 94 million included EUR 44 million of interest income.

8 Income taxes

The income tax expense of continuing operations amounted to EUR 349 million (2016: EUR 203 million, 2015: EUR 169 million).

The components of income before taxes and income tax expense are as follows:

Philips Group
Income tax expense in millions of EUR
2015 - 2017

	2015	2016	2017
Netherlands	93	137	929
Foreign	206	886	451
Income before taxes of continuing operations[1]	**299**	**1,023**	**1,381**
Netherlands:			
Current tax (expense) benefit	47	10	(15)
Deferred tax (expense) benefit	6	(95)	(150)
Total tax (expense) benefit of continuing operations (Netherlands)	**53**	**(85)**	**(165)**
Foreign:			
Current tax (expense) benefit	(157)	(155)	(258)
Deferred tax (expense) benefit	(65)	37	73
Total tax (expense) benefit of continuing operations (foreign)	**(222)**	**(118)**	**(184)**
Income tax expense of continuing operations	**(169)**	**(203)**	**(349)**

[1] Income before tax excludes the result of investments in associates.

Income tax expense of continuing operations excludes the tax expense of the discontinued operations of EUR 182 million (2016: EUR 181 million, 2015: EUR 144 million), further detailed in section note 3, Discontinued operations and assets classified as held for sale.

The components of income tax expense of continuing operations are as follows:

Philips Group
Current income tax expense in millions of EUR
2015 - 2017

	2015	2016	2017
Current year tax (expense) benefit	(121)	(165)	(275)
Prior year tax (expense) benefit	11	20	3
Current tax (expense)	**(110)**	**(145)**	**(272)**

Philips Group
Deferred income tax expense in millions of EUR
2015 - 2017

	2015	2016	2017
Recognition of previously unrecognized tax loss and credit carryforwards	4	19	32
(Unrecognized) tax loss and credit carryforwards[1]	(9)	(56)	(9)
(Unrecognized) recognition of temporary differences[1]	(35)	31	35
Prior year tax	(6)	(1)	6
Tax rate changes	(19)	5	(72)
Origination and reversal of temporary differences, tax losses and tax credits	6	(56)	(69)
Deferred tax (expense) benefit	**(59)**	**(58)**	**(77)**

[1] Unrecognized tax loss and credit carryforwards and temporary differences are expenses, which offset the corresponding tax benefits in Origination and reversal of temporary differences, tax losses and tax credits

Philips' operations are subject to income taxes in various foreign jurisdictions. The statutory income tax rates varies up to 40.0%, which results in a difference between the weighted average statutory income tax rate and the Netherlands' statutory income tax rate of 25.0% (2016: 25.0%; 2015: 25.0%).

A reconciliation of the weighted average statutory income tax rate to the effective income tax rate of continuing operations is as follows:

Philips Group
Effective income tax rate in %
2015 - 2017

	2015	2016	2017
Weighted average statutory income tax rate in %	43.6	23.3	24.5
Recognition of previously unrecognized tax loss and credit carryforwards	(1.4)	(1.9)	(2.3)
Unrecognized tax loss and credit carryforwards	2.9	5.5	0.6
Unrecognized (recognition of) temporary differences	11.4	(3.1)	(2.6)
Non-taxable income and tax incentives	(35.5)	(8.2)	(9.8)
Non-deductible expense	33.8	9.3	6.4
Withholding and other taxes	8.3	1.2	4.0
Tax rate changes	5.9	(0.5)	5.2
Prior year tax	1.0	(1.8)	(0.6)
Tax expense (benefit) due to other tax liabilities	(12.7)	(2.6)	(1.7)
Others, net	(1.0)	(1.3)	1.5
Effective income tax rate	**56.4**	**19.9**	**25.3**

The effective income tax rate was higher than the weighted average statutory income tax rate in 2017, largely due to a tax charge recorded for the re-measurement of Philips' US deferred tax assets as a result of the enactment of the US Tax Cuts and Jobs Act in December 2017. This effect was partly offset by tax benefits from the recognition of deferred tax assets which were previously unrecognized.

Deferred tax assets and liabilities

Deferred tax assets are recognized for temporary differences, unused tax losses, and unused tax credits to the extent that realization of the related tax benefits is probable. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax assets originated and during the periods when the deferred tax assets become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Net deferred tax assets relate to the following underlying assets and liabilities and tax loss carryforwards (including tax credit carryforwards) and their movements during the years 2017 and 2016 respectively are presented in the tables below.

The net deferred tax assets of EUR 1,565 million (2016: EUR 2,692 million) consist of deferred tax assets of EUR 1,598 million (2016: EUR 2,758 million) and deferred tax liabilities of EUR 33 million (2016: EUR 66 million). The decrease in the net deferred tax assets by EUR 1,127 million is predominantly attributable to the deconsolidation of Philips Lighting (EUR 437 million) the tax rate change in the US (EUR 200 million), acquisitions (EUR 186 million) and the impact of foreign currency translation (EUR 177 million).

The tax rate change as a result of the enactment of the US Tax Cuts and Jobs Act in December 2017 resulted in EUR 200 million decrease of deferred tax assets, of which EUR 171 million is recognized as a tax expense in net income and EUR 29 million in equity. Of the total expense, EUR 99 million is presented within net income from Discontinued operations following the Company's policy to present and recognize re-measurements of deferred taxes as a result of tax rate changes based on the origin of the deferred tax (backwards tracing). As the originating tax result was based on the Lumileds and Lighting discontinued operations, the impact of the tax rate change is also recognized in Discontinued operations. The impact of the tax rate change relating to discontinued operations and equity, acquisitions and foreign currency translation are presented as 'Other' in the table below.

Of the total deferred tax assets of EUR 1,598 million at December 31, 2017 (2016: EUR 2,758 million), EUR 161 million (2016: EUR 2,054 million) is recognized in respect of entities in various countries where there have been tax losses in the current or preceding period. Management's projections support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilize these deferred tax assets.

At December 31, 2017 the temporary differences associated with investments, including potential income tax consequences on dividends, for which no deferred tax liabilities are recognized, aggregate to EUR 290 million (2016: EUR 685 million).

The company has available tax loss and credit carryforwards, which expire as follows:

Philips Group
Expiry years of net operating loss and credit carryforwards
in millions of EUR

Total	Total Balance as of December 31, 2016	Unrecognized balance as of December 31, 2016	Total Balance as of December 31, 2017	Unrecognized balance as of December 31, 2017
2017	14	-	-	-
2018	4	3	3	3
2019	58	10	5	2
2020	137	21	15	6
2021	37	3	14	2
2022	-	-	1,843	1,809
Later than 2021, respectively 2022	3,503	14	2,134	410
Unlimited	2,077	1,118	1,812	1,118
Total	**5,830**	**1,170**	**5,827**	**3,351**

At December 31, 2017, the amount of deductible temporary differences for which no deferred tax asset has been recognized in the balance sheet was EUR 42 million (2016: EUR 868 million)

Tax risks

Philips is exposed to tax risks. With regard to these tax risks a liability is recognized if, as a result of a past event, Philips has an obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. These uncertain positions are presented as Other tax liabilities in note 22, Other liabilities and include, among others, the following:

US Tax Cuts and Jobs Act

Philips assessed the impact of the material aspects of the US Tax Cuts and Jobs Act on its current and deferred tax assets and liabilities. These reported amounts may be subject to estimation uncertainty and measurement adjustments may need to be made in subsequent reporting periods as Philips will get more accurate information on the impact of the Act and the modalities of its application. The main uncertainties relate to the availability of net interest expense carryforwards and the amount of tax earnings and profits subject to tax under the mandatory deemed repatriation provisions.

Philips Group
Deferred tax assets and liabilities in millions of EUR
2017

	Balance as of January 1, 2017	recognized in income statement	Transfer to assets held for sale	other[1]	Balance as of December 31, 2017	Assets	Liabilities
Intangible assets	(676)	549	(28)	(228)	(383)	423	(806)
Property, plant and equipment	10	15		(2)	23	39	(16)
Inventories	347	(34)	(52)	(29)	231	235	(4)
Other assets	138	7	(82)	12	74	96	(22)
Pension and other employee benefits	597	(126)	(149)	(57)	265	265	-
Other liabilities	989	(288)	(8)	(158)	536	596	(61)
Deferred tax assets on tax loss carryforwards	1,288	(201)	(125)	(144)	819	819	-
Set-off deferred tax positions				-		(876)	876
Net deferred tax assets	**2,692**	**(77)**	**(444)**	**(606)**	**1,565**	**1,598**	**(33)**

[1] Other includes the movements of assets and liabilities recognized in OCI, which includes foreign currency translation differences and acquisitions, as well as the effects of US Tax Cuts and Jobs Act.

Philips Group
Deferred tax assets and liabilities in millions of EUR
2016

	Balance as of January 1, 2016	recognized in income statement	other[1]	Balance as of December 31, 2016	Assets	Liabilities
Intangible assets	(1,089)	450	(36)	(676)	542	(1,218)
Property, plant and equipment	19	1	(10)	10	64	(54)
Inventories	312	24	11	347	353	(6)
Other assets	68	32	37	138	161	(23)
Pensions and other employee benefits	707	(138)	27	597	598	(1)
Other liabilities	981	(32)	40	989	1,107	(118)
Deferred tax assets on tax loss carryforwards	1,562	(368)	93	1,288	1,288	-
Set-off deferred tax positions					(1,355)	1,355
Net deferred tax assets	**2,560**	**(30)**	**162**	**2,692**	**2,758**	**(66)**

[1] Other includes the movements of assets and liabilities recognized in OCI, which includes foreign currency translation differences, and acquisitions and divestments.

Transfer pricing risks

Philips has issued transfer pricing directives, which are in accordance with international guidelines such as those of the Organization of Economic Co-operation and Development. In order to reduce the transfer pricing uncertainties, monitoring procedures are carried out by Group Tax to safeguard the correct implementation of the transfer pricing directives.

Tax risks on general and specific service agreements and licensing agreements

Due to the centralization of certain activities (such as research and development, IT and group functions), costs are also centralized. As a consequence, these costs and/or revenues must be allocated to the beneficiaries, i.e. the various Philips entities. For that purpose, service contracts such as intra-group service agreements and licensing agreements are signed with a large number of group entities. Tax authorities review these intra-group service and licensing agreements, and may reject the implemented intra-group charges. Furthermore, buy in/out situations in the case of (de)mergers could affect the cost allocation resulting from the intragroup service agreements between countries. The same applies to the specific service agreements.

Tax risks due to disentanglements and acquisitions

When a subsidiary of Philips is disentangled, or a new company is acquired, tax risks may arise. Philips creates merger and acquisition (M&A) teams for these disentanglements or acquisitions. In addition to representatives from the involved business, these teams consist of specialists from various group functions and are formed, among other things, to identify tax risks and to reduce potential tax claims related to disentangled entities. Examples of tax risks are: applicability of participation exemptions, cost allocation issues, and issues related to (non-)deductibility.

Tax risks due to permanent establishments

A permanent establishment may arise when operations in a country involve a Philips organization in another country, there is a risk that tax claims will arise in the former country as well as in the latter country; potentially leading to double taxation.

9 Earnings per share

Philips Group
Earnings per share in millions of EUR unless otherwise stated[1)]
2015 - 2017

	2015		2016		2017	
Income from continuing operations		160		831		1,028
Income (loss) attributable to non-controlling interest		14		43		214
Income from continuing operations attributable to shareholders		**146**		**788**		**814**
Income from Discontinued operations		**479**		**660**		**843**
Net income attributable to shareholders		**624**		**1,448**		**1,657**
Weighted average number of common shares outstanding (after deduction of treasury shares) during the year		916,086,943		918,015,863		928,797,650
Plus incremental shares from assumed conversions of:						
Options	3,565,682		2,456,616		3,161,267	
Performance shares	2,479,923		6,985,509		10,757,785	
Restricted share rights	1,491,960		1,331,163		2,008,162	
Forward contracts					407,193	
Dilutive potential common shares		7,537,565		10,773,289		16,334,406
Diluted weighted average number of shares (after deduction of treasury shares) during the year		923,624,508		928,789,152		945,132,056
Basic earnings per common share in EUR[2)]						
Income from continuing operations		0.17		0.90		1.11
Income from Discontinued operations		0.52		0.72		0.91
Income from continuing operations attributable to shareholders		0.16		0.86		0.88
Net income attributable to shareholders		0.68		1.58		1.78
Diluted earnings per common share in EUR[2,3)]						
Income from continuing operations		0.17		0.89		1.09
Income from Discontinued operations		0.52		0.71		0.89
Income from continuing operations attributable to shareholders		0.16		0.85		0.86
Net income attributable to shareholders		0.68		1.56		1.75
Dividend distributed per common share in euros		0.80		0.80		0.80

1) Shareholders in this table refer to shareholders of Koninklijke Philips N.V.
2) In 2017, 2016 and 2015, respectively 0 million, 9 million and 12 million securities that could potentially dilute basic EPS were not included in the computation of dilutive EPS because the effect would have been antidilutive for the periods presented
3) The dilutive potential common shares are not taken into account in the periods for which there is a loss, as the effect would be antidilutive

10 Property, plant and equipment

Philips Group
Property, plant and equipment in millions of EUR
2017

	land and buildings	machinery and installations	other equipment	prepayments and construction in progress	total
Balance as of January 1, 2017:					
Cost	1,766	3,222	1,897	179	7,064
Accumulated depreciation	(912)	(2,546)	(1,451)		(4,909)
Book value	**854**	**676**	**446**	**179**	**2,155**
Change in book value:					
Capital expenditures	17	128	86	320	551
Assets available for use	63	117	129	(309)	-
Acquisitions	-	71	3		74
Depreciation	(60)	(205)	(169)		(434)
Impairments	(1)	(32)	(11)	-	(44)
Reclassifications	39	(47)	9	3	4
Transfer (to) from assets classified as held for sale	(284)	(186)	(82)	(44)	(596)
Translation differences and other	(44)	(32)	(35)	(9)	(120)
Total changes	**(270)**	**(185)**	**(70)**	**(39)**	**(564)**
Balance as of December 31, 2017:					
Cost	1,111	1,708	1,449	140	4,408
Accumulated depreciation	(527)	(1,217)	(1,074)		(2,818)
Book value	**584**	**491**	**376**	**140**	**1,591**

Philips Group
Property, plant and equipment in millions of EUR
2016

	land and buildings	machinery and installations	other equipment	prepayments and construction in progress	total
Balance as of January 1, 2016:					
Cost	1,864	3,260	1,873	220	7,217
Accumulated depreciation	(951)	(2,525)	(1,419)		(4,895)
Book value	**913**	**735**	**454**	**220**	**2,322**
Change in book value:					
Capital expenditures	14	142	101	318	575
Assets available for use	112	108	137	(357)	
Depreciation	(80)	(257)	(191)		(528)
Impairments	(25)	(40)	(13)	-	(78)
Transfer (to) from assets classified as held for sale	(92)	(4)	(2)	(2)	(100)
Translation differences and other	12	(8)	(40)	-	(36)
Total changes	**(59)**	**(59)**	**(8)**	**(41)**	**(167)**
Balance as of December 31, 2016:					
Cost	1,766	3,222	1,897	179	7,064
Accumulated depreciation	(912)	(2,546)	(1,451)		(4,909)
Book value	**854**	**676**	**446**	**179**	**2,155**

Land with a book value of EUR 50 million at December 31, 2017 (2016: EUR 73 million) is not depreciated. Property, plant and equipment includes financial lease assets with a book value of EUR 281 million at December 31, 2017 (2016: EUR 271 million).

The expected useful lives of property, plant and equipment are as follows:

Philips Group
Useful lives of property, plant and equipment in years

Buildings	from 5 to 50 years
Machinery and installations	from 3 to 20 years
Other equipment	from 1 to 10 years

The operating lease obligations are mainly related to the rental of buildings. A number of these leases originate from sale-and-leaseback arrangements. Operating lease payments under sale-and-leaseback arrangements for 2017 totaled EUR 31 million (2016: EUR 32 million).

The remaining minimum payments under sale-and-leaseback arrangements included in operating lease obligations above are as follows:

Philips Group
Operating lease - minimum payments under sale-and-leaseback arrangements in millions of EUR
2017

2018	31
2019	30
2020	24
2021	23
2022	20
Thereafter	91

11 Goodwill

The changes in 2016 and 2017 were as follows:

Philips Group
Goodwill in millions of EUR
2016 - 2017

	2016	2017
Balance as of January 1:		
Cost	10,704	11,151
Impairments	(2,181)	(2,253)
Book value	**8,523**	**8,898**
Changes in book value:		
Acquisitions	140	1,548
Divestments and transfers to assets classified as held for sale	(13)	(1,878)
Translation differences and other	248	(836)
Balance as of December 31:		
Cost	11,151	9,074
Impairments	(2,253)	(1,343)
Book value	**8,898**	**7,731**

In 2017, the movement of goodwill for the amount of EUR 1,548 million relates to Spectranetics for an amount of EUR 1,255 million and other acquisitions for an amount of EUR 293 million. Information on the divestment of Lighting can be found in note 3, Discontinued operations and assets classified as held for sale. The decrease of EUR 836 million is mainly due to translation differences which impacted the goodwill denominated in USD.

In 2016, goodwill increased by EUR 140 million mainly due to the acquisition of Wellcentive and PathXL. The increase of EUR 248 million is mainly due to translation differences which impacted the goodwill denominated in USD.

For impairment testing, goodwill is allocated to (groups of) cash-generating units (typically one level below segment level), which represent the lowest level at which the goodwill is monitored internally for management purposes.

Goodwill allocated to the cash-generating units Image-Guided Therapy, Patient Care & Monitoring Solutions and Sleep & Respiratory Care is considered to be significant in comparison to the total book value of goodwill for the Group at December 31, 2017. In 2016 the cash-generating unit Professional was considered to be significant in comparison to the total book value of goodwill for the Group, but this is no longer included in goodwill as at December 31, 2017 due to the divestment of Lighting. The amounts associated as of December 31, 2017, are presented below:

Philips Group
Goodwill allocated to the cash-generating units in millions of EUR
2016 - 2017

	2016	2017
Image-Guided Therapy	1,106	2,242
Patient Care & Monitoring Solutions	1,506	1,349
Sleep & Respiratory Care	1,958	1,819
Professional	1,671	
Other (units carrying a non-significant goodwill balance)	2,657	2,321
Book value	**8,898**	**7,731**

The basis of the recoverable amount used in the annual impairment tests for the units disclosed in this note is the value in use. In the annual impairment test performed in the fourth quarter of 2017, the estimated recoverable amounts of the cash-generating units tested approximated or exceeded the carrying value of the units, therefore no impairment loss was recognized.

Key assumptions - general

Key assumptions used in the impairment tests for the units were sales growth rates, EBITA and the rates used for discounting the projected cash flows. These cash flow projections were determined using the Royal Philips managements' internal forecasts that cover an initial period from 2018 to 2020. Projections were extrapolated with stable or declining growth rates for a period of 5 years, after which a terminal value was calculated. For terminal value calculation, growth rates were capped at a historical long-term average growth rate.

The sales growth rates and EBITA used to estimate cash flows are based on past performance, external market growth assumptions and industry long-term growth averages. EBITA in all units mentioned in this note is expected to increase over the projection period as a result of volume growth and cost efficiencies.

Key assumptions and sensitivity analysis relating to cash-generating units to which a significant amount of goodwill is allocated

Cash flow projections of Image-Guided Therapy, Patient Care & Monitoring Solutions and Sleep & Respiratory Care are based on the key assumptions included in the table below, which were used in the annual impairment test performed in the fourth quarter:

Philips Group
Key assumptions in %
2017

	compound sales growth rate[1]			
	initial forecast period	**extra-polation period**[2]	**used to calculate terminal value**[3]	**pre-tax discount rates**
Image-Guided Therapy	5.3	4.0	2.3	10.9
Patient Care & Monitoring Solutions	3.8	4.8	2.3	12.3
Sleep & Respiratory Care	7.2	5.6	2.3	12.1

[1] Compound sales growth rate is the annualized steady growth rate over the forecast period
[2] Also referred to later in the text as compound long-term sales growth rate
[3] The historical long-term growth rate is only applied to the first year after the 5 year extrapolation period, after which no further growth is assumed for the terminal value calculation

The assumptions used for the 2016 cash flow projections were as follows:

Philips Group
Key assumptions in %
2016

	compound sales growth rate[1]			
	initial forecast period	**extra-polation period**[2]	**used to calculate terminal value**[3]	**pre-tax discount rates**
Image-Guided Therapy	7.1	5.6	2.7	12.1
Patient Care & Monitoring Solutions	6.4	4.6	2.7	14.3
Sleep & Respiratory Care	6.8	4.6	2.7	12.6
Professional	5.0	4.3	2.7	13.9

[1] Compound sales growth rate is the annualized steady growth rate over the forecast period
[2] Also referred to later in the text as compound long-term sales growth rate
[3] The historical long-term growth rate is only applied to the first year after the 5 year extrapolation period, after which no further growth is assumed for the terminal value calculation

The results of the annual impairment test of Image-Guided Therapy, Patient Care & Monitoring Solutions and Sleep & Respiratory Care indicate that a reasonably possible change in key assumptions would not cause the value in use to fall to the level of the carrying value.

Additional information relating to cash-generating units to which a non-significant amount relative to the total goodwill is allocated

In addition to the significant goodwill recorded at the units mentioned above, Home Monitoring, Population Health Management and Healthcare Informatics are sensitive to fluctuations in the assumptions as set out above.

Based on the most recent impairment test of the cash-generating unit Home Monitoring, it was noted that an increase of 90 points in the pre-tax discount rate, a 140 basis points decline in the compound long-term sales growth rate or a 12% decrease in terminal value would, individually, cause its recoverable amount to fall to the level of its carrying value. The goodwill allocated to Home Monitoring at December 31, 2017 amounts to EUR 32 million.

Based on the annual impairment test of the cash-generating unit Population Health Management, it was noted that an increase of 120 points in the pre-tax discount rate, a 400 basis points decline in the compound long-term sales growth rate or a 24% decrease in terminal value would, individually, cause its recoverable amount to fall to the level of its carrying value. The goodwill allocated to Population Health Management at December 31, 2017 amounts to EUR 187 million.

Also based on the annual impairment test of the cash-generating unit Healthcare Informatics, it was noted that an increase of 70 points in the pre-tax discount rate, a 150 basis points decline in the compound long-term sales growth rate or a 11% decrease in terminal value would, individually, cause its recoverable amount to fall to the level of its carrying value. The goodwill allocated to Healthcare Informatics at December 31, 2017 amounts to EUR 174 million.

12 Intangible assets excluding goodwill

The changes were as follows:

Philips Group
Intangible assets excluding goodwill in millions of EUR
2017

	brand names	customer relationships	technology	product development	product development construction in progress	software	other	total
Balance as of January 1, 2017:								
Cost	1,088	3,429	2,074	1,899	578	580	134	9,782
Amortization/ impairments	(633)	(2,188)	(1,491)	(1,362)	(36)	(421)	(99)	(6,230)
Book value	**455**	**1,241**	**583**	**537**	**542**	**159**	**34**	**3,552**
Changes in book value:								
Additions		-	23		338	86	3	450
Acquisitions	7	431	470			2	16	926
Amortization	(40)	(142)	(100)	(213)	-	(52)	(3)	(550)
Impairments			(12)	(43)	(27)	(1)		(83)
Assets available for use				363	(363)			
Divestments and transfers to assets classified as held for sale	(120)	(438)	(103)	(23)	(11)	(19)	(6)	(721)
Translations differences	(24)	(89)	(37)	(35)	(43)	(1)	(23)	(252)
Total changes	**(178)**	**(238)**	**241**	**49**	**(106)**	**15**	**(13)**	**(230)**
Balance as of December 31, 2017:								
Cost	670	2,342	1,985	1,848	487	605	105	8,042
Amortization/ impairments	(392)	(1,338)	(1,161)	(1,262)	(51)	(431)	(84)	(4,720)
Book value	**278**	**1,004**	**824**	**586**	**436**	**174**	**21**	**3,322**

Philips Group
Intangible assets excluding goodwill in millions of EUR
2016

	brand names	customer relationships	technology	product development	product development construction in progress	software	other	total
Balance as of January 1, 2016:								
Cost	1,102	3,324	1,977	1,668	522	522	135	9,251
Amortization/ impairments	(582)	(1,925)	(1,373)	(1,167)	(31)	(367)	(112)	(5,558)
Book value	**520**	**1,399**	**604**	**501**	**491**	**155**	**24**	**3,693**
Changes in book value:								
Additions			41		318	56	5	420
Acquisitions	1	7	21				8	37
Amortization	(50)	(201)	(98)	(229)		(55)	(2)	(635)
Impairments			(1)	(20)	(4)	(2)	-	(27)
Assets available for use				270	(270)			
Translations differences	(15)	36	15	15	7	5	1	64
Total changes	**(65)**	**(157)**	**(21)**	**36**	**51**	**4**	**11**	**(141)**
Balance as of December 31, 2016:								
Cost	1,088	3,429	2,074	1,899	578	580	134	9,782
Amortization/ impairments	(633)	(2,188)	(1,491)	(1,362)	(36)	(421)	(99)	(6,230)
Book value	**455**	**1,241**	**583**	**537**	**542**	**159**	**34**	**3,552**

The additions for 2017 contain internally generated assets of EUR 77 million (2016: EUR 52 million) for software. The acquisitions through business combinations in 2017 mainly consist of the acquired intangible assets of Spectranetics. For more information, please refer to note 4, Acquisitions and divestments.

The amortization of intangible assets is specified in note 6, Income from operations.

The estimated amortization expense for other intangible assets for each of the next five years is:

Philips Group
Estimated amortization expense for other intangible assets
in millions of EUR

2018	252
2019	243
2020	218
2021	192
2022	185

The expected useful lives of the intangible assets excluding goodwill are as follows:

Philips Group
Expected useful lives of intangible assets excluding goodwill
in years

Brand names	2-20
Customer relationships	2-25
Technology	3-20
Other	1-10
Software	1-10
Product development	3-7

The weighted average expected remaining life of brand names, customer relationships, technology and other intangible assets is 9.6 years as of December 31, 2017 (2016: 7.9 years).

At December 31, 2017 the carrying amount of customer relationships of Sleep & Respiratory Care was EUR 315 million with a remaining amortization period of 6 years (2016: EUR 427 million; 7.2 years). For the intangibles relating to the acquisition of Spectranetics refer to note 4, Acquisitions and divestments.

13 Other financial assets

The changes during 2017 were as follows:

Philips Group
Other non-current financial assets in millions of EUR
2017

	available-for-sale financial assets	**loans and receivables**	**held-to-maturity investments**	**financial assets at fair value through profit or loss**	**total**
Balance as of January 1, 2017	**172**	**134**	**2**	**27**	**335**
Changes:					
Reclassifications	(1)	2	-	1	2
Acquisitions/ additions	368	5	-	-	374
Sales/ redemptions	(23)	(8)	-	(3)	(34)
Impairment	(1)	-			(1)
Value adjustments	(46)	-		8	(39)
Translation differences and other	(24)	(20)	(1)	(6)	(50)
Balance as of December 31, 2017	**446**	**114**	**1**	**27**	**587**

Philips Group
Other non-current financial assets in millions of EUR
2016

	available-for-sale financial assets	**loans and receivables**	**held-to-maturity investments**	**financial assets at fair value through profit or loss**	**total**
Balance as of January 1, 2016	**232**	**222**	**2**	**33**	**489**
Changes:					
Reclassifications	(56)	(100)		-	(156)
Acquisitions/ additions	44	26	-	3	73
Sales/ redemptions	(3)	(22)		(1)	(26)
Impairment	(27)	-	-		(27)
Value adjustments	(19)	(2)		(8)	(29)
Translation differences and other	1	10	-	-	11
Balance as of December 31, 2016	**172**	**134**	**2**	**27**	**335**

Available-for-sale financial assets

The Company's investments in available-for-sale financial assets mainly consist of investments in common shares of companies in various industries. In 2017, the main movements in available-for-sale financial assets can be explained by transactions following the divestment of the combined Lumileds and Automotive businesses as further described in note 3, Discontinued operations and assets classified as held for sale.

The Company sold the majority stake in the combined Lumileds and Automotive businesses on June 30, 2017. The retained investment in Luminescence Coöperatief U.A., a Dutch cooperative with excluded liability (*coöperatie met uitgesloten aansprakelijkheid*), consisting of a 19.1% membership interest and a participating preferred interest received as part of the sale, is classified under available-for-sale financial assets. As of December 31, 2017, the investment was valued at EUR 243 million, reflecting a value adjustment of EUR 49 million in the second half of 2017.

Contractual obligations

The Company has entered into contracts with venture capitalists where it committed itself to make, under certain conditions, capital contributions to their investment funds to an aggregated amount of EUR 83 million (2016: EUR 90 million) until June 30, 2021. As at December 31, 2017 capital contributions already made to these investment funds are recorded as available-for-sale financial assets within Other non-current financial assets.

Current financial assets

Current financial assets decreased by EUR 99 million from EUR 101 million in 2016 to EUR 2 million in 2017. This is mainly due to the repayment of EUR 90 million of loans by TPV Technology limited.

14 Other assets

Other non-current assets

Other non-current assets in 2017 mainly related to prepaid expenses of EUR 74 million (2016: EUR 90 million).

Other current assets

Other current assets include EUR 186 million (2016: EUR 228 million) accrued income, mainly related to Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses, and EUR 206 million (2016: EUR 258 million) prepaid expense mainly related to Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses.

15 Inventories

Inventories are summarized as follows:

Philips Group
Inventories in millions of EUR
2016 - 2017

	2016	2017
Raw materials and supplies	1,040	715
Work in process	446	358
Finished goods	1,906	1,280
Inventories	**3,392**	**2,353**

The write-down of inventories to net realizable value was EUR 150 million in 2017 (2016: EUR 105 million). The write-down is included in cost of sales.

16 Receivables

Non-current receivables

Non-current receivables are associated mainly with customer financing in Diagnosis & Treatment businesses amounting to EUR 47 million (2016: EUR 47 million) and insurance receivables in Legacy Items in the US amounting to EUR 47 million (2016: EUR 55 million).

Current receivables

Current receivables at December 31, 2017 included accounts receivable net of EUR 3,609 million, accounts receivable other of EUR 278 million and accounts receivable from investments in associates of EUR 22 million.

The accounts receivable, net, per segment are as follows:

Philips Group
Accounts receivables-net in millions of EUR
2016 - 2017

	2016	2017
Personal Health	1,266	1,341
Diagnosis & Treatment	1,476	1,489
Connected Care & Health Informatics	664	706
HealthTech Other	81	72
Lighting	1,477	
Legacy Items	28	
Accounts receivable-net	**4,992**	**3,609**

The aging analysis of accounts receivable, net, is set out below:

Philips Group
Aging analysis in millions of EUR
2016 - 2017

	2016	2017
Current	4,273	3,046
Overdue 1-30 days	267	256
Overdue 31-180 days	310	242
Overdue > 180 days	142	63
Accounts receivable-net	**4,992**	**3,609**

The above net accounts receivable represent current and overdue but not impaired receivables.

The changes in the allowance for doubtful accounts receivable are as follows:

Philips Group
Allowance for doubtful accounts receivable in millions of EUR
2015 - 2017

	2015	2016	2017
Balance as of January 1	**227**	**301**	**318**
Additions charged to expense	78	76	41
Deductions from allowance[1]	(25)	(64)	(36)
Transfer to assets held for sale			(92)
Other movements	21	5	(16)
Balance as of December 31	**301**	**318**	**215**

[1] Write-offs for which an allowance was previously provided

The allowance for doubtful accounts receivable has been primarily established for receivables that are past due.

Included in the above balances as per December 31, 2017 are allowances for individually impaired receivables of EUR 197 million (2016: EUR 289 million; 2015: EUR 272 million).

17 Equity

Common shares

As of December 31, 2017, authorized common shares consist of 2 billion shares (December 31, 2016: 2 billion; December 31, 2015: 2 billion) and the issued and fully paid share capital consists of 940,909,027 common shares, each share having a par value of EUR 0.20 (December 31, 2016: 929,644,864; December 31, 2015: 931,130,387).

Preference shares

As a means to protect the Company and its stakeholders against an unsolicited attempt to obtain (de facto) control of the Company, the General Meeting of Shareholders in 1989 adopted amendments to the Company's articles of association that allow the Board of Management and the Supervisory Board to issue (rights to acquire) preference shares to a third party. The 'Stichting Preferente Aandelen Philips' has been granted the right to acquire preference shares in the Company. Such right has not been exercised as of December 31, 2017 and no preference shares have been issued. Authorized preference shares consist of 2 billion shares as of December 31, 2017 (December 31, 2016: 2 billion; December 31, 2015: 2 billion).

Options, restricted and performance shares

The Company has granted stock options on its common shares and rights to receive common shares in the future (see note 26, Share-based compensation).

Treasury shares

In connection with the Company's share repurchase programs (see next paragraph for Share repurchase methods for the purposes of share deliveries under share-based compensation plans and capital reduction), shares which have been repurchased and are held in Treasury for the purpose of (i) delivery upon exercise of options, restricted and performance share programs, and (ii) capital reduction, are accounted for as a reduction of shareholders' equity. Treasury shares are recorded at cost, representing the market price on the acquisition date. When issued, shares are removed from treasury shares on a first-in, first-out (FIFO) basis.

When treasury shares are reissued under the Company's option plans, the difference between the cost and the cash received is recorded in retained earnings. When treasury shares are reissued under the Company's share plans, the difference between the market price of the shares issued and the cost is recorded in retained earnings, the market price is recorded in capital in excess of par value.

Dividend withholding tax in connection with the Company's purchase of treasury shares for capital reduction purposes is recorded in retained earnings.

The following table shows the movements in the outstanding number of shares over the last three years:

Philips Group
Outstanding number of shares in number of shares
2015 - 2017

	2015	2016	2017
Balance as of January 1	**914,388,869**	**917,103,586**	**922,436,563**
Dividend distributed	17,671,990	17,344,462	11,264,163
Purchase of treasury shares	(20,296,016)	(25,193,411)	(19,841,595)
Re-issuance of treasury shares	5,338,743	13,181,926	12,332,592
Balance as of December 31	**917,103,586**	**922,436,563**	**926,191,723**

The following transactions took place resulting from employee option and share plans:

Philips Group
Employee option and share plan transactions
2015 - 2017

	2015	2016	2017
Shares acquired		8,601,426	15,222,662
Average market price		EUR 24.73	EUR 31.81
Amount paid		EUR 213 million	EUR 484 million
Shares delivered	5,338,743	13,181,926	12,332,592
Average price (FIFO)	EUR 30.35	EUR 25.86	EUR 27.07
Cost of delivered shares	EUR 162 million	EUR 341 million	EUR 334 million
Total shares in treasury at year-end	11,788,801	7,208,301	10,098,371
Total cost	EUR 308 million	EUR 181 million	EUR 331 million

In order to reduce share capital, the following transactions took place:

Philips Group
Share capital transactions
2015 - 2017

	2015	2016	2017
Shares acquired	20,296,016	16,591,985	4,618,933
Average market price	EUR 24.39	EUR 23.84	EUR 32.47
Amount paid	EUR 495 million	EUR 396 million	EUR 150 million
Reduction of treasury shares (shares)	21,361,016	18,829,985	
Cancellation of treasury shares	EUR 517 million	EUR 450 million	
Total shares in treasury at year-end	2,238,000		4,618,933
Total cost	EUR 55 million		EUR 150 million

Share purchase transactions related to employee option and share plans, as well as transactions related to the reduction of share capital, involved a cash outflow of EUR 642 million, which includes the impact of taxes. A cash inflow of EUR 227 million from treasury shares mainly includes settlements of share-based compensation plans.

Share repurchase methods for the purposes of share deliveries under share-based compensation plans and capital reduction

During 2017, Royal Philips repurchased shares for covering obligations resulting from past and present share-based compensation programs via three different share repurchase methods: (i) daily 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 2017, Royal Philips also entered into forward contracts with several banks to repurchase shares for capital reduction purposes. The methods (ii) and (iii) are detailed below.

Forward share repurchase contracts

In order to hedge commitments under share-based compensation plans, Philips entered into a forward contract in the first quarter of 2017. This transaction involved 3 million shares. This resulted in a reduction of Retained earnings of EUR 81 million against Short-term liabilities. In 2017, there were three exercises under the forward share buy-back contract involving 2,250,000 shares, resulting in a EUR 61 million increase in Retained earnings against Treasury shares. The remaining 750,000 shares, with a forward price of EUR 27.03, will be repurchased in the first quarter of 2018.

In order to reduce its share capital, Royal Philips also entered into six forward contracts. In 2017, EUR 998 million was deducted from Retained earnings and was recorded against Short-term liabilities. The forward contacts involved 31,020,000 shares with a settlement date varying between October 2018 and June 2019 and a weighted average forward price of EUR 32.22. For further information on the forward contracts please refer to note 18, Debt.

Share call options

During 2016 Philips bought EUR and USD-denominated call options to hedge options granted under share-based compensation plans before 2013.

In 2017, the Company unwound 5,268,741 EUR-denominated and 2,661,016 USD-denominated call options against the transfer of the same number of Royal Philips shares (7,929,757 shares) and an additional EUR 160 million cash payment to the buyer of the call options.

The number of outstanding EUR denominated options were 3,287,125 and USD-denominated options were 2,974,344, as of December 2017.

Dividend distribution

2017

In June 2017, Philips settled a dividend of EUR 0.80 per common share, representing a total value of EUR 742 million including costs. Shareholders could elect for a cash dividend or a share dividend. Approximately 48% of the shareholders elected for a share dividend, resulting in the issuance of 11,264,163 new common shares. The settlement of the cash dividend involved an amount of EUR 384 million (including costs).

A proposal will be submitted to the 2018 Annual General Meeting of Shareholders to pay a dividend of EUR 0.80 per common share, in cash or shares at the option of the shareholders, against the net income of the Company for 2017.

2016

In June 2016, Philips settled a dividend of EUR 0.80 per common share, representing a total value of EUR 732 million including costs. Shareholders could elect for a cash dividend or a share dividend. Approximately 55% of the shareholders elected for a share dividend, resulting in the issuance of 17,344,462 new common shares. The settlement of the cash dividend involved an amount of EUR 330 million (including costs)

2015

In June 2015, Philips settled a dividend of EUR 0.80 per common share, representing a total value of EUR 730 million including costs. Shareholders could elect for a cash dividend or a share dividend. Approximately 59% of the shareholders elected for a share dividend, resulting in the issuance of 17,671,990 new common shares. The settlement of the cash dividend involved an amount of EUR 298 million (including costs).

Limitations in the distribution of shareholders' equity

As at December 31, 2017, pursuant to Dutch law, certain limitations exist relating to the distribution of shareholders' equity of EUR 1,306 million. Such limitations relate to common shares of EUR 188 million, as well as to legal reserves required by Dutch law included under retained earnings of EUR 703 million, unrealized currency translation differences of EUR 393 million and unrealized gains related to cash flow hedges of EUR 23 million. The unrealized losses related to available-for-sale financial assets of EUR 30 million, qualify as a legal reserve and reduce the distributable amount due to the fact that this reserve is negative.

The legal reserve required by Dutch law of EUR 703 million included under retained earnings relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

As at December 31, 2016, these limitations in distributable amounts were EUR 2,181 million and related to common shares of EUR 186 million, as well as to legal reserves required by Dutch law included under retained earnings of EUR 715 million, unrealized currency translation differences of EUR 1,234 million, available-for-sale financial assets of EUR 36 million and unrealized gains related to cash flow hedges of EUR 10 million.

Non-controlling interests

Non-controlling interests relate to minority stakes held by third parties in consolidated group companies. In the course of 2017 non-controlling interests reduced significantly due to the deconsolidation of Philips Lighting. For further details reference is made to note 5, Interests in entities.

Capital management

Philips manages capital based upon the IFRS measures, net cash provided by operating activities and net cash used for investing activities as well as the non-IFRS measure net debt. The definition of this non-IFRS measure and a reconciliation to the IFRS measure is included below.

Net debt is defined as the sum of long and short-term debt minus cash and cash equivalents. Group equity as 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. The Philips net debt position is managed with the intention of retaining a strong investment grade credit rating. Furthermore, Philips' aim when managing the net debt position is dividend stability and a pay-out ratio of 40% to 50% of continuing net income after adjustments.

Philips Group
Composition of net debt and group equity in millions of EUR unless otherwise stated
2015-2017

	2015	2016	2017
Long-term debt	4,095	4,021	4,044
Short-term debt	1,665	1,585	672
Total debt	5,760	5,606	4,715
Cash and cash equivalents	1,766	2,334	1,939
Net debt	**3,994**	**3,272**	**2,776**
Shareholders' equity	11,607	12,546	11,999
Non-controlling interests	118	907	24
Group equity	**11,725**	**13,453**	**12,023**
Net debt : group equity ratio	**25:75**	**20:80**	**19:81**

18 Debt

Royal Philips has a USD 2.5 billion Commercial Paper Programme and a EUR 1 billion committed revolving credit facility that can be used for general group purposes, such as a backstop of its Commercial Paper Programme. As of December 31, 2017, Royal Philips did not have any loans outstanding under either facility. The EUR 1 billion committed revolving credit facility was signed effective April 21, 2017, replacing the former EUR 1.8 billion facility of the Company. The new facility has a tenor of five years and contains two 1-year extension options. In line with the previous facility, it does not have a material adverse change clause, has no financial covenants and no credit-rating-related acceleration possibilities.

The provisions applicable to all corporate USD denominated bonds issued by the Company in March 2008 and March 2012 (due 2022, 2038 and 2042) contain a 'Change of Control Triggering Event'. If the Company would experience such an event with respect to a series of corporate bonds the Company might be required to offer to purchase the bonds that are still outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any.

Furthermore, the conditions applicable to the EUR denominated corporate bonds issued in 2017 (due 2019 and 2023) contain a similar provision ('Change of Control Put Event'). Upon the occurrence of such an event, the Company might be required to redeem or purchase any of such bonds at their principal amount together with interest accrued.

In January 2017, Philips entered into a USD 1,000 million and EUR 300 million credit facility with a consortium of international banks. Under this credit facility Philips drew USD 1,000 million in January 2017; the facility was used for the early redemption of the 5.750% bonds due 2018 in the aggregate principal amount of USD 1,250 million. In Q2 2017, the drawn amount was repaid in full and the facility was cancelled.

In May 2017, EUR 1,341 million of mainly long-term Lighting debt was transferred to liabilities directly associated with assets held for sale.

In August 2017, Philips entered into a EUR 1,000 million loan for the purpose of financing The Spectranetics Corporation acquisition and for general purposes. In September 2017, Philips successfully issued EUR 500 million floating-rate bonds due 2019 and EUR 500 million fixed-rate bonds due 2023. The net proceeds of the offering were used for the repayment of the EUR 1,000 million loan entered into August 2017.

On June 28, 2017, Royal Philips announced a EUR 1.5 billion share buyback program. Philips started the program in the third quarter of 2017, and intends to complete it in two years. As the program was initiated for capital reduction purposes, Philips intends to cancel all of the shares acquired under the program. Under this program, Royal Philips has entered into a number of forward transactions with a number of financial institutions, to be settled at future dates over the course of the program. Over the second half of 2017, the nominal amount was equal to EUR 998 million. These forward contracts are accounted for as debt.

Long-term debt

Philips Group
Long-term debt in millions of EUR unless otherwise stated
2016 - 2017

	(range of) interest rates	average rate of interest	average remaining term (in years)	amount outstanding in 2017	amount due in 1 year	amount due after 1 year	amount due after 5 years	amount outstanding in 2016
USD bonds	3.8 - 7.8%	5.4%	13.3	2,137		2,137	1,305	3,608
EUR bonds	0.0 - 0.5%	0.3%	3.7	997		997	496	
Bank borrowings	0.2 - 11.0%	1.3%	2.1	190	52	138		1,470
Other long-term debt	0.0 - 2.6%	0.9%	1.1	20	19	1	-	39
Institutional financing				**3,344**	**71**	**3,273**	**1,801**	**5,117**
Finance leases	0 - 16.1%	3.4%	4.8	281	87	195	24	279
Forward contracts			1.2	970	394	576		
Long-term debt		**2.8%**	**7.6**	**4,595**	**552**	**4,044**	**1,825**	**5,396**
Corresponding data of previous year		**4.1%**	**7.8**	**5,396**	**1,375**	**4,021**	**2,454**	**4,245**

The following amounts of long-term debt as of December 31, 2017, are due in the next five years:

Philips Group
Long-term debt due in the next five years in millions of EUR
2016 - 2017

2018	552
2019	1,190
2020	103
2021	80
2022	846
Long-term debt	**2,770**
Corresponding amount of previous year	**2,942**

Philips Group
Unsecured Bonds in millions of EUR unless otherwise stated
2016 - 2017

	effective rate	2016	2017
Unsecured EUR Bonds			
Due 9/06/2023; 1/2%	0.634%		500
Due 9/06/2019; 3M Euribor +20bps			500
Unsecured USD Bonds			
Due 5/15/25; 7 3/4%	7.429%	60	53
Due 6/01/26; 7 1/5%	6.885%	130	114
Due 5/15/25; 7 1/8%	6.794%	80	70
Due 3/11/18; 5 3/4%[1]		1,187	
Due 3/11/38; 6 7/8%	7.210%	758	668
Due 3/15/22; 3 3/4%	3.906%	949	837
Due 3/15/42; 5%	5.273%	475	418
Adjustments[2]		(31)	(26)
Unsecured Bonds		**3,608**	**3,134**

1) In January 2017, Royal Philips has early redeemed the bond due in 2018 in the aggregate principal amount of USD 1,250 million.
2) Adjustments relate to both EUR and USD bonds and concern bond discounts and premium, transactions costs and fair value adjustments for interest rate derivatives.

Finance lease liabilities

The below table discloses the reconciliation between the total of future minimum lease payments and their present value.

Philips Group
Finance lease liabilities in millions of EUR
2016 - 2017

	2016			2017		
	future minimum lease payments	interest	present value of minimum lease payments	future minimum lease payments	interest	present value of minimum lease payments
Less than one year	93	8	85	93	6	87
Between one and five years	181	15	166	184	14	170
More than five years	33	5	28	29	4	24
Finance lease	**307**	**28**	**279**	**306**	**24**	**281**

Short-term debt

Philips Group
Short-term debt in millions of EUR
2016 - 2017

	2016	2017
Short-term bank borrowings	207	71
Forward contracts		49
Other short-term loans	3	
Current portion of long-term debt	1,375	552
Short-term debt	**1,585**	**672**

During 2017, the weighted average interest rate on the bank borrowings was 3.3% (2016: 5.4%). The decrease was mainly driven by a repayment of debt in Q4 2016 with high interest rate.

19 Provisions

Philips Group
Provisions in millions of EUR
2016 - 2017

	2016			2017		
	long-term	short-term	total	long-term	short-term	total
Post-employment benefit (see note 20)	1,996		1,996	973		973
Product warranty	66	193	259	44	157	201
Environmental provisions	252	69	321	140	19	160
Restructuring-related provisions	27	174	201	25	87	112
Litigation provisions	40	56	96	26	24	50
Other provisions	545	188	733	451	113	564
Provisions	**2,926**	**680**	**3,606**	**1,659**	**400**	**2,059**

Product warranty

The provisions for product warranty reflect the estimated costs of replacement and free-of-charge services that will be incurred by the Company with respect to products sold. The Company expects the provisions to be utilized mainly within the next year.

Philips Group
Provisions for product warranty in millions of EUR
2015 - 2017

	2015	2016	2017
Balance as of January 1	**302**	**289**	**259**
Changes:			
Additions	327	325	283
Utilizations	(357)	(357)	(270)
Transfer to liabilities directly associated with assets held for sale			(56)
Translation differences and other	17	2	(16)
Balance as of December 31	**289**	**259**	**201**

Environmental provisions

The environmental provisions include accrued costs recorded with respect to environmental remediation in various countries. In the United States, subsidiaries of the Company have been named as potentially responsible parties in state and federal proceedings for the clean-up of certain sites.

Provisions for environmental remediation can change significantly due to the emergence of additional information regarding the extent or nature of the contamination, the need to utilize alternative technologies, actions by regulatory authorities as well as changes in judgments and discount rates.

Approximately EUR 55 million is expected to be utilized within the next five years, with the remainder being long term. For more details on the environmental remediation reference is made to note 24, Contingent assets and liabilities.

Philips Group
Environmental provisions in millions of EUR
2015 - 2017

	2015	2016	2017
Balance as of January 1	**360**	**335**	**321**
Changes:			
Additions	27	18	18
Utilizations	(24)	(24)	(21)
Releases	(36)	(36)	(8)
Changes in discount rate	(7)	11	11
Accretion	7	7	6
Translation differences and other	8	10	(20)
Transfer to liabilities directly associated with assets held for sale			(146)
Balance as of December 31	**335**	**321**	**160**

The release of the provisions originates from additional insights in relation to factors like the estimated cost of remediation, changes in regulatory requirements and efficiencies in completion of various site work phases.

Restructuring-related provisions

Philips Group
Restructuring-related provisions in millions of EUR
2017

	Jan. 1, 2017	additions	utilizations	releases	other changes[1]	Dec. 31, 2017
Personal Health	5	14	(5)	(6)	(1)	7
Diagnosis & Treatment	13	46	(16)	(5)	(1)	38
Connected Care & Health Informatics	13	27	(12)	(6)	(1)	20
HealthTech Other	37	55	(27)	(16)	(1)	47
Lighting	133	9	(35)	(3)	(104)	
Philips Group	**201**	**150**	**(96)**	**(37)**	**(107)**	**112**

[1] Other changes primarily relate to translation differences and reclassifications to liabilities directly associated with assets held for sale.

In 2017, the most significant restructuring projects impacted Diagnosis & Treatment and HealthTech Other businesses and mainly took place in the Netherlands and the US. The restructuring comprised mainly product portfolio rationalization and the reorganization of global support functions.

The Company expects the provisions will be utilized mainly within the next year.

2016

The movements in the provisions for restructuring in 2016 by segment are presented as follows:

Philips Group
Restructuring-related provisions in millions of EUR
2016

	Jan. 1, 2016	additions	utilizations	releases	other changes[1]	Dec. 31, 2016
Personal Health	32	7	(29)	(2)	(3)	5
Diagnosis & Treatment	28	11	(19)	(6)	(1)	13
Connected Care & Health Informatics	21	11	(14)	(6)	1	13
HealthTech Other	38	35	(16)	(19)	(1)	37
Lighting	178	95	(118)	(27)	5	133
Legacy Items		(1)	(1)	(1)	3	
Philips Group	**297**	**158**	**(197)**	**(61)**	**4**	**201**

[1] Other changes primarily relate to translation differences and transfers between segments

In 2016, restructuring projects at HealthTech Other mainly took place in the Netherlands.

2015

The movements in the provisions for restructuring in 2015 are presented by segment as follows:

Philips Group
Restructuring-related provisions in millions of EUR
2015

	Jan. 1, 2015	additions	utilizations	releases	other changes[1]	Dec. 31, 2015
Personal Health	13	30	(7)	(4)		32
Diagnosis & Treatment	29	30	(24)	(7)		28
Connected Care & Health Informatics	16	20	(12)	(3)		21
HealthTech Other	87	25	(32)	(41)	(1)	38
Lighting	235	89	(114)	(33)	1	178
Legacy Items						
Philips Group	**380**	**194**	**(189)**	**(88)**		**297**

[1] Other changes primarily relate to translation differences and transfers between segments

In 2015, restructuring projects at Diagnosis & Treatment businesses, Connected Care & Health Informatics and HealthTech Other mainly took place in the US and France. Personal Health restructuring projects were mainly in Italy.

Litigation provisions

The Company and certain of its group companies and former group companies are involved as a party in legal proceedings, including regulatory and other governmental proceedings.

Philips Group
Litigation provisions in millions of EUR
2015 - 2017

	2015	2016	2017
Balance as of January 1	**653**	**578**	**96**
Changes:			
Additions	66	31	40
Utilizations[1]	(186)	(313)	(52)
Releases	(25)	(98)	(11)
Reclassifications[1]	-	(125)	2
Changes in discount rate	8	5	
Accretion	12	8	3
Translation differences	50	10	(7)
Transfer to liabilities directly associated with assets held for sale			(21)
Balance as of December 31	**578**	**96**	**50**

[1] The presentation of prior-year information has been reclassified to conform to the current-year presentation

The most significant proceedings

The majority of the movements in the above schedule related to the Cathode Ray Tube (CRT) antitrust litigation and Masimo Corporation (Masimo) patent litigation.

Cathode Ray Tube (CRT) antitrust litigation

In 2015, 2016 and 2017, the majority of the movements in relation to the CRT antitrust litigation were utilizations due to the transfer to other liabilities for which the Company was able to reach a settlement. These settlements were subsequently paid out in the respective following year.

For more details reference is made to note 24, Contingent assets and liabilities.

Masimo Corporation (Masimo) patent litigation

On October 1, 2014, a jury awarded USD 467 million to Masimo Corporation (Masimo) in a trial held before the United States District Court for the District of Delaware. The decision by the jury completed an initial phase of a three-phase trial regarding a first lawsuit started by Masimo against the Company in 2009. A second lawsuit was started by Masimo against the Company in 2016. Between the two lawsuits, claims were raised by the parties against each other relating to patent infringement and antitrust violations in the field of pulse oximetry.

On November 5, 2016, the Company and Masimo entered into a wide-ranging, multi-year business partnership involving both companies' innovations in patient monitoring and therapy solutions, ending all pending lawsuits between the two companies, including releasing the Company from paying the USD 467 million jury verdict.

The Company and Masimo also agreed to:

- a USD 300 million cash payment by Philips to Masimo;
- a one-time donation to the Masimo Foundation of USD 5 million to support the Masimo Foundation's project on patient safety and better outcomes;
- commitments of the Company with respect to sales targets, marketing and product integration over the coming years of about USD 136 million.

Entering into the agreements resulted in a payment of USD 305 million (EUR 280 million) in November 2016, a release of litigation provisions of USD 86 million (EUR 79 million) and a liability reclassification from litigation provisions to other provisions of USD 136 million (EUR 125 million).

The utilizations and reclassifications in 2016 mainly related to Masimo. Reclassifications include reclassification from litigation provisions to other provisions.

Other

The translation differences in the schedule above are mainly explained by the movements in the USD/EUR rate which impacted the litigation provisions denominated in USD.

The Company expects to use the provisions mainly within the next three years.

Other provisions

Philips Group
Other provisions in millions of EUR
2015 - 2017

	2015	2016	2017
Balance as of January 1	**575**	**604**	**733**
Changes:			
Additions	198	183	304
Utilizations	(186)	(167)	(238)
Releases	(35)	(61)	(88)
Reclassification	14	142	4
Transfer to liabilities directly associated with assets held for sale			(156)
Accretion	7	8	-
Acquisitions	24	-	62
Translation differences and other	7	24	(56)
Balance as of December 31	**604**	**733**	**564**

The main elements of other provisions are:

- provisions for possible taxes/social security of EUR 97 million (2016: EUR 131 million);
- onerous contract provisions for unfavorable supply contracts as part of divestment transactions, onerous (sub)lease contracts and expected losses on existing projects /orders totaling EUR 31 million (2016: EUR 85 million);
- provisions for employee jubilee funds EUR 57 million (2016: EUR 84 million);
- self-insurance provisions of EUR 48 million (2016: EUR 77 million);
- provisions for decommissioning costs of EUR 32 million (2016: EUR 48 million);

- provisions for rights of return of EUR 37 million (2016: EUR 46 million);
- provisions for other employee benefits and obligatory severance payments of EUR 24 million (2016: EUR 38 million);
- provisions for contingent considerations of EUR 66 million (2016: EUR 11 million);
- the release in 2017 of EUR 88 million is due to the reassessment of our positions in other provisions.

Other provisions are expected to be utilized mainly within the next five years, except for:

- provisions for employee jubilee funds of which a quarter is expected to be utilized within the next five years;
- provisions for contingent considerations of which nearly half is expected to be utilized after five years;
- provisions for decommissioning costs of which over half is expected to be utilized after five years;
- provisions for rights of return to be utilized mainly within the next year.

20 Post-employment benefits

Employee post-employment plans have been established in many countries in accordance with the legal requirements, customs and the local practice in the countries involved. All funded post-employment plans are considered to be related parties.

Most employees that take part in a Company pension plan are covered by defined-contribution (DC) pension plans. The main DC plans are in the Netherlands and the United States. The Company also sponsors a number of defined-benefit (DB) pension plans. The benefits provided by these plans are based on employees' years of service and compensation levels. The Company also sponsors a limited number of DB retiree medical plans. The benefits provided by these plans typically cover a part of the healthcare costs after retirement. The larger funded DB and DC plans are governed by independent Trustees who have a legal obligation to protect the interests of all plan members and operate under the local regulatory framework.

The average duration of the defined-benefit obligation (DBO) of the DB plans is 12 years (2016: 11 years).

The largest DB plans in 2017 are in the United States and Germany. These plans account for approximately 89% of the total DBO.

The United States

The US DB pension plans are closed plans without future pension accrual. For the funding of any deficit in the US plan the Group adheres to the minimum funding requirements of the US Pension Protection Act.

The assets of the US funded pension plans are in Trusts governed by Trustees. The excess pension plans that covered accrual above the maximum salary of the funded plan are unfunded.

Company's qualified pension commitments in the United States are partly protected via the Pension Benefit Guaranty Corporation (PBGC) which charges a fee to US companies providing DB pension plans. The fee is also dependent on the amount of unfunded liabilities.

In 2017, the Company performed an additional de-risking contribution into the US plan of EUR 219 million.

Germany

The Company has several DB plans in Germany which for the largest part are unfunded, meaning that after retirement the Company is responsible for the benefit payments to retirees.

Due to the relatively high level of social security in Germany, the Company's pension plans mainly provide benefits for the higher earners and are open for future pension accrual. Indexation is mandatory due to legal requirements. Some of the German plans have a DC design, but are accounted for as DB plans due to a legal minimum return requirement.

Company pension commitments in Germany are partly protected against employer bankruptcy via the "Pensions Sicherungs Verein" which charges a fee to all German companies providing pension promises.

Philips is one of the sponsors of Philips Pensionskasse VVaG in Germany, which is a multi-employer plan. The plan is accounted for as a DC plan.

Settlement of the Brazil pension plans in 2017

The DB and DC pension plans in Brazil that were operated by the multi-employer plan in Brazil, Philips Seguridade Social, have been fully terminated in 2017. All Philips' employees in Brazil have been transferred to an insured DC pension plan for future service.

Since all risks for the Company with respect to the DB pension plan have been eliminated, the Company recognized a settlement in 2017. The decrease of the DBO due to the settlement amounts to EUR 345 million. At the moment of the settlement the plan had a surplus. As the surplus was not recognized in the balance sheet due to the asset ceiling test, the Company only recognized the additional payments of EUR 1 million as settlement loss, as per the Company's accounting policy.

Risks related to DB plans

DB plans expose the Company to various demographic and economic risks such as longevity risk, investment risks, currency and interest rate risk and in some cases inflation risk. The latter plays a role in the assumed wage increase but more importantly in some countries where indexation of pensions is mandatory. Pension fund Trustees are responsible for and have full discretion over the investment strategy of the plan assets. In general Trustees manage pension fund risks by diversifying the investments of plan assets and by (partially) matching interest rate risk of liabilities.

The Company has an active de-risking strategy in which it constantly looks for opportunities to reduce the risks associated with its DB plans. Liability-driven investment strategies, lump sum cash-out options, buy-ins, buy-outs and a change to DC are examples of the strategy.

Investment policy in our largest pension plans

The trustees of the Philips pension plans are responsible for and have full discretion over the investment strategy of the plan assets.

The plan assets of the Philips pension plans are invested in well diversified portfolios. The interest rate sensitivity of the fixed income portfolio is closely aligned to that of the plan's pension liabilities. Any contributions from the sponsoring company are used to further increase the fixed income part of the assets. As part of the investment strategy, any additional investment returns of the return portfolio are used to further decrease the interest rate mismatch between the plan assets and the pension liabilities.

Reconciliations for the DBO and plan assets for DB plans:

Summary of pre-tax costs for post-employment benefits and reconciliations

The adjacent table contains the total of current and past service costs, administration costs and settlement results as included in Income from operations and the interest cost as included in Financial expenses.

Philips Group
Pre-tax costs for post-employment benefits in millions of EUR
2015 - 2017

	2015	2016	2017
Defined-benefit plans	566	58	95
included in Income from operations	467	(19)[1]	32
included in Financial expense	70	48	37
included in Discontinued operations	29	29	26
Defined-contribution plans	299	392	397
included in Income from operations	240	299	315
included in Discontinued operations	59	93	82
Post-employment benefits costs	**865**	**450**	**492**

[1] The net income mainly relates to the settlement of the pension related legal claim in the UK.

Philips Group
Defined-benefit obligations in millions of EUR
2016 - 2017

	2016	2017
Balance as of January 1	**4,757**	**4,987**
Service cost	44	34
Interest cost	189	126
Employee contributions	5	4
Actuarial (gains) / losses		
- demographic assumptions	(45)	(14)
- financial assumptions	208	75
- experience adjustment	(7)	(15)
(Negative) past service cost	(8)	1
Settlements	(85)	(348)
Benefits paid from plan	(239)	(172)
Benefits paid directly by employer	(76)	(52)
Transfer to Liabilities directly associated with assets held for sale[1]		(1,210)
Translation differences and other	244	(307)
Balance as of December 31	**4,987**	**3,109**
Present value of funded obligations at December 31	**3,850**	**2,476**
Present value of unfunded obligations at December 31	**1,137**	**633**

[1] The amount presented under 'Transfer to Liabilities directly associated with assets held for sale' in 2017 relates to Lighting.

Philips Group
Plan assets in millions of EUR
2016 - 2017

	2016	2017
Balance as of January 1	**2,710**	**3,095**
Interest income on plan assets	137	87
Admin expenses paid	(3)	(2)
Return on plan assets excluding interest income	41	70
Employee contributions	5	4
Employer contributions	246	263
Settlements	(33)	(348)
Benefits paid from plan	(239)	(172)
Transfer to Liabilities directly associated with assets held for sale[1]		(642)
Translation differences and other	231	(218)
Balance as of December 31	**3,095**	**2,137**
Funded status	(1,892)	(972)
Unrecognized net assets	(105)	
Net balance sheet position	**(1,997)**	**(972)**

[1] The amount presented under 'Transfer to Liabilities directly associated with assets held for sale' in 2017 relates to Lighting.

Reconciliation for the effect of the asset ceiling:

Philips Group
Changes in the effect of the asset ceiling in millions of EUR
2016 - 2017

	2016	2017
Balance as of January 1	**90**	**105**
Interest on unrecognized assets	14	4
Remeasurements	(21)	(100)
Translation differences	22	(9)
Balance as of December 31	**105**	

Due to the settlement of the Brazil pension plan there is no effect of the asset ceiling remaining as at 31 December 2017.

Plan assets allocation

The asset allocation in the Company's pension plans at December 31 was as follows:

Philips Group
Plan assets allocation in millions of EUR
2016 - 2017

	2016	2017
Assets quoted in active markets		
- Debt securities	1,085	1,142
- Equity securities	91	69
- Other	126	137
Assets not quoted in active markets		
- Debt securities	561	14
- Equity securities	811	457
- Other	421	318
Total assets	**3,095**	**2,137**

The assets in 2017 contain 37 % (2016: 58 %) unquoted assets. Plan assets in 2017 do not include property occupied by or financial instruments issued by the Company.

Assumptions

The mortality tables used for the Company's largest DB plans are:

- US: RP2014 with MP2017 improvement scale; RP2006 with MP2017 improvement scale + white collar adjustment for the unfunded excess plans
- Germany: Richttafeln 2005 Generational K.Heubeck

The weighted averages of the assumptions used to calculate the DBO as of December 31 were as follows:

Philips Group
Assumptions used for defined-benefit obligations in %
2016 - 2017

	2016	2017
Discount rate	3.8%	2.8%
Inflation rate	2.6%	2.1%
Salary increase	3.3%	2.4%

Sensitivity analysis

The tables below illustrates the approximate impact on the DBO from movements in key assumptions. The DBO was recalculated using a change in the assumptions of 1% which overall is considered a reasonably possible change. The impact on the DBO because of changes in discount rate is normally accompanied by offsetting movements in plan assets, especially when using matching strategies.

Philips Group
Sensitivity of key assumptions in millions of EUR
2017

	Defined benefit obligation
Increase	
Discount rate (1% movement)	(323)
Inflation rate (1% movement)	85
Salary increase (1% movement)	20
Longevity (see explanation)	72
Decrease	
Discount rate (1% movement)	394
Inflation rate (1% movement)	(86)
Salary increase (1% movement)	(19)

Philips Group
Sensitivity of key assumptions in millions of EUR
2016

	Defined benefit obligation
Increase	
Discount rate (1% movement)	(544)
Inflation rate (1% movement)	139
Salary increase (1% movement)	27
Longevity (see explanation)	143
Decrease	
Discount rate (1% movement)	645
Inflation rate (1% movement)	(126)
Salary increase (1% movement)	(23)

The mortality table (i.e. longevity) also impacts the DBO. The above sensitivity table illustrates the impact on the DBO of a further 10% decrease in the assumed rates of mortality for the Company's major schemes. A 10% decrease in assumed mortality rates equals improvement of life expectancy by 0.5 - 1 year.

Cash flows and costs in 2018

The Company expects considerable cash outflows in relation to post-employment benefits which are estimated to amount to EUR 399 million in 2018, consisting of:

- EUR 30 million employer contributions to funded DB plans (US: EUR 0 million, DE: EUR 23 million, Other: EUR 7 million);
- EUR 40 million cash outflows in relation to unfunded DB plans (US: EUR 9 million, DE: EUR 19 million, Other: EUR 12 million); and
- EUR 329 million employer contributions to DC plans (NL: EUR 166 million, US: EUR 109 million, Other: EUR 54 million).

The service and administration cost for 2018 is expected to amount to EUR 28 million for DB plans. The net interest cost for 2018 for the DB plans is expected to amount to EUR 25 million. The cost for DC pension plans in 2018 is equal to the expected DC cash flow.

21 Accrued liabilities

Accrued liabilities are summarized as follows:

Philips Group
Accrued liabilities in millions of EUR
2016 - 2017

	2016	2017
Personnel-related costs:		
- Salaries and wages	684	529
- Accrued holiday entitlements	154	109
- Other personnel-related costs	108	71
Fixed-asset-related costs:		
- Gas, water, electricity, rent and other	52	52
Communication and IT costs	75	42
Distribution costs	123	83
Sales-related costs:		
- Commission payable	22	7
- Advertising and marketing-related costs	183	174
- Other sales-related costs	55	38
Material-related costs	142	110
Interest-related accruals	68	38
Deferred income	957	791
Other accrued liabilities	411	273
Accrued liabilities	**3,034**	**2,319**

Deferred income is mainly related to Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses, in both 2017 and 2016.

22 Other liabilities

Other non-current liabilities

Other non-current liabilities are summarized as follows:

Philips Group
Other non-current liabilities in millions of EUR
2016 - 2017

	2016	2017
Deferred income	251	249
Other tax liability	417	161
Other liabilities	73	65
Other non-current liabilities	**741**	**474**

For further details on tax related liabilities refer to note 8, Income taxes.

Other current liabilities

Other current liabilities are summarized as follows:

Philips Group
Other current liabilities in millions of EUR
2016 - 2017

	2016	2017
Accrued customer rebates that cannot be offset with accounts receivables for those customers	593	435
Advances received from customers on orders not covered by work in process	451	372
Other taxes including social security premiums	208	164
Other liabilities	120	155
Other current liabilities	**1,372**	**1,126**

The other liabilities per December 31, 2016 and 2017 include reclassifications from litigation provisions to liabilities due to settlements reached. For more details reference is made to Litigation provisions in note 19, Provisions and to Legal proceedings in note 24, Contingent assets and liabilities.

23 Cash flow statement supplementary information

Net cash used for derivatives and current financial assets

In 2017, a total of EUR 295 million cash was paid with respect to foreign exchange derivative contracts related to activities for liquidity management and funding (2016: EUR 128 million outflow; 2015: EUR 194 million outflow). Philips also received EUR 90 million regarding the loans to TPV Technology Limited in 2017 (2016: nil, 2015: EUR 121 million inflow).

Purchase and proceeds from non-current financial assets

In 2017, the net cash outflow of EUR 36 million was mainly due to capital contribution in Gilde and Abraaj Growth Market Fund and the acquisition of other stakes.

In 2016, the net cash outflow of EUR 39 million was mainly due to the acquisition of stakes in Abraaj Growth Markets Fund.

In 2015, the net cash inflow of EUR 19 million was mainly due to net cash received from loans and sale of other stakes.

Reconciliation of liabilities arising from financing activities

Philips Group
Reconciliation of liabilities arising from financing activities in millions of EUR
2016 - 2017

	Balance as of Dec. 31, 2016	Cash flow[1]	Transfer to liabilities directly associated with assets held for sale	Currency effects and consolidation changes	Other non-cash	Balance as of Dec. 31, 2017
Long-term debt[2]	**5,396**	**(217)**	**(1,255)**	**(327)**	**998**	**4,595**
USD bonds	3,608	(1,184)		(287)	1	2,137
EUR bonds		997			-	997
Bank borrowings	1,470	(22)	(1,238)	(21)	-	190
Other long-term debt	39	(20)	-	1	(1)	20
Finance leases	279	12	(18)	(20)	29	281
Forward contracts[3]					970	970
Short-term debt[2]	**210**	**(4)**	**(86)**	**(49)**	**49**	**120**
Short-term bank borrowings	207	(3)	(84)	(49)		71
Other short-term loans	2	(1)	(2)	-		
Forward contracts[3]					49	49
Equity	**(181)**	**168**			**(1,487)**	**(1,500)**
Sale of Lighting shares net of costs		1,060			(1,060)	
Dividend payable		(478)			478	
Forward contracts[3]					(1,018)	(1,018)
Treasury shares	(181)	(414)			114	(481)

[1] Cash flow includes cash movements related to Lighting from January to April 2017, and therefore does not equal cash flow from financing activities in the consolidated statements of cash flows.
[2] Long-term debt includes the short-term portion of long-term debt, and short-term debt excludes the short-term portion of long-term debt.
[3] The forward contracts are mainly related to the share buyback program.

24 Contingent assets and liabilities

Contingent assets

As per December 31, 2017, the Company had no material contingent assets.

Contingent liabilities

Guarantees

Philips' policy is to provide guarantees and other letters of support only in writing. Philips does not stand by other forms of support. The total fair value of guarantees recognized on the balance sheet amounts to EUR nilmillion for both 2016 and 2017. Remaining off-balance-sheet business and credit-related guarantees provided on behalf of third parties and associates decreased by EUR 11 million during 2017 to EUR 17 million (December 31, 2016: EUR 28 million).

Environmental remediation

The Company and its subsidiaries are subject to environmental laws and regulations. Under these laws, the Company and/or its subsidiaries may be required to remediate the effects of certain manufacturing activities on the environment.

Legal proceedings

The Company and certain of its group companies and former group companies are involved as a party in legal proceedings, regulatory and other governmental proceedings, including discussions on potential remedial actions, relating to such matters as competition issues, commercial transactions, product liability, participations and environmental pollution.

While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal proceedings, regulatory and governmental proceedings, the Company is of the opinion that the cases described below may have, or have had in the recent past, a significant impact on the Company's consolidated financial position, results of operations and cash flows.

Cathode Ray Tubes (CRT)

Starting in 2007, competition law authorities in several jurisdictions had commenced investigations into possible anticompetitive activities in the Cathode Ray Tubes, or CRT industry. On December 5, 2012, this lead to a European Commission decision imposing fines on (former) CRT manufacturers including the Company. The European Commission imposed a fine of EUR 313 million on the Company and a fine of EUR 392 million jointly and severally on the Company and LG Electronics, Inc. In total a payable of EUR 509 million was recognized in 2012 and the fine was paid in the first quarter of 2013. The Company appealed the decision of the European Commission with the General Court and later with European Court of Justice. These appeals were denied on September 9, 2015 and September 15, 2017 respectively. No further appeals are pending.

United States

Subsequent to the public announcement of these investigations in 2007, certain Philips Group companies were named as defendants in class action antitrust complaints by direct and indirect purchasers of CRTs filed in various federal district courts in the United States. These actions alleged anticompetitive conduct by manufacturers of CRTs and sought treble damages on a joint and several liability basis. In addition, sixteen individual plaintiffs, principally large retailers of CRT products who opted out of the direct purchaser class, filed separate complaints against the Company and other defendants based on the same substantive allegations. All these actions were consolidated for pre-trial proceedings in the United States District Court for the Northern District of California. In addition, the state attorneys general of California, Florida, Illinois, Oregon and Washington filed actions against the Company and other defendants seeking to recover damages on behalf of the states and, acting as parens patriae, their consumers.

With the exception of the action brought by the state attorney of Washington, which remains pending, all other actions have been settled or otherwise resolved. The indirect purchaser settlement was approved by the United States District Court for the Northern District of California in 2016 and is now pending before the Ninth Circuit Court of Appeals.

Canada

In 2007, certain Philips Group companies were also being named as defendants in proposed class proceedings in Ontario, Quebec and British Columbia, Canada, along with numerous other participants in the industry. After years of inactivity, in 2014, plaintiffs in the Ontario action initiated the class certification proceedings leading to class certification in the second half of 2016. In 2017, a settlement in principle has been reached for all three proposed class actions.

Other jurisdictions

In 2014, the Company was named as a defendant in a consumer class action lawsuit filed in Israel in which damages are claimed against several defendants based on alleged anticompetitive activities in the CRT industry. In addition, an electronics manufacturer filed a claim against the Company and several co-defendants with a court in the Netherlands and Turkey, also seeking compensation for the alleged damage sustained as a result from the alleged anticompetitive activities in the CRT industry. In 2015 and 2016, the Company became involved in further civil CRT antitrust litigation with previous CRT customers in the United Kingdom, Germany, Brazil and Denmark. In all cases, the same substantive allegations about anticompetitive activities in the CRT industry are made and damages are sought. The Company has received indications that more civil claims may be filed in due course.

Except for what has been provided or accrued for as disclosed in note 19, Provisions and note 22, Other liabilities, the Company has concluded that due to the considerable uncertainty associated with certain of these matters, based on current knowledge, potential losses cannot be reliably estimated with respect to these matters.

Personal Health

In December 2013, the European Commission commenced an investigation into alleged restrictions of online sales of consumer electronics products and small domestic appliances. The Company was one of several companies involved in the investigation. In February 2017, the European Commission completed its preliminary investigation and opened its formal proceedings. Philips is fully cooperating with the European Commission. Due to the considerable uncertainty associated with this matter, on the basis of current knowledge, the Company has concluded that potential losses cannot be reliably estimated with respect to these matters.

In April 2017, the Company received a Civil Investigative Demand (CID) out of the US Attorney's Office in Northern District of Iowa. The CID relates to an evaluation of the appropriateness of certain sleep and respiratory care equipment financing programs available for Respironics' products. In addition, in late 2017, the Company received an information request from the Department of Justice regarding the relationship between Respironics' business and certain sleep centers that use Respironics' products. The Company has not been advised that any claim has been asserted by the US government in connection with these matters and it continues to cooperate fully in both inquiries.

Miscellaneous

As part of the divestment of the Television and Audio, Video, Multimedia & Accessories businesses in 2012 and 2014, the Company transferred economic ownership and control in some legal entities or divisions thereof, while retaining (partial) legal ownership. Considering the current challenging business environment, the Company might face employee and operational liabilities in case of certain adverse events.

Given the uncertain nature of the relevant events and liabilities, it is not practicable to provide information on the estimate of the financial effect, if any, or timing. The outcome of the uncertain events could have a material impact on the Company's consolidated financial position, results of operations and cash flows.

25 Related-party transactions

In the normal course of business, Philips purchases and sells goods and services from/to various related parties in which Philips typically holds between 20% and 50% equity interest and has significant influence. These transactions are generally conducted with terms comparable to transactions with third parties.

From November 28, 2017, Philips lost control over Philips Lighting but still has significant influence. This has resulted in Philips Lighting becoming a non-consolidated related party which is reported in the table below for the time period November 28 to December 31, 2017. Philips and Philips Lighting have several agreements in place which impact the related party balances disclosed. There is a Transitional Service Level Agreement, based on which Philips provides Philips Lighting with services such as IT, real estate and human resources among others. Additionally, a Trademark License Agreement was signed in which Philips Lighting uses the Philips brand name.

For details of these parties in which Philips typically holds between 20% and 50% equity interest, refer to the Investments in associates section of note 5, Interests in entities. For details on the Philips ownership changes in Lighting, refer to note 3, Discontinued operations and assets classified as held for sale.

Philips Group
Related-party transactions in millions of EUR
2015 - 2017

	2015	2016	2017
Sales of goods and services	222	207	196
Purchases of goods and services	87	81	62
Receivables from related parties	16	33	127
Payables to related parties	4	3	36

In addition to the table above, as part of its operations in the US, Philips sold non-recourse third-party receivables to PMC US amounting to EUR 151 million in 2017 (2016: EUR 139 million; 2015: EUR 129 million).

In light of the composition of the Executive Committee, the Company considers the members of the Executive Committee and the Supervisory Board to be the key management personnel as defined in IAS 24 'Related parties'.

For remuneration details of the Executive Committee, the Board of Management and the Supervisory Board see note 27, Information on remuneration.

For Post-employment benefit plans see note 20, Post-employment benefits.

26 Share-based compensation

The purpose of the share-based compensation plans is to align the interests of management with those of shareholders by providing incentives to improve the Company's performance on a long-term basis, thereby increasing shareholder value.

The Company has the following plans:

- performance shares: rights to receive common shares in the future based on performance and service conditions;
- restricted shares: rights to receive common shares in the future based on a service condition; and
- options on its common shares, including the 2012 and 2013 Accelerate! grant.

Since 2013 the Board of Management and other members of the Executive Committee are only granted performance shares. Restricted shares are granted to executives, certain selected employees and new employees. Prior to 2013 options were also granted.

Under the terms of employee stock purchase plans established by the Company in various countries, employees are eligible to purchase a limited number of Philips shares at discounted prices through payroll withholdings.

Share-based compensation costs from continuing operations were EUR 122 million (2016: EUR 95 million; 2015: EUR 82 million). This includes the employee stock purchase plan of EUR 7 million, which is not a share-based compensation that affects equity. The share-based compensation costs for staff belonging to Philips Lighting and the combined businesses of Lumileds and Automotive of EUR 42 million are included in Discontinued operations. In the Consolidated statements of changes in equity EUR 151 million is recognized in 2017 and represent the costs of the share-based compensation plans. The amount recognized as an expense is adjusted for forfeiture. USD-denominated performance shares, restricted shares and options are granted to employees in the United States only.

Performance shares

The performance is measured over a three-year performance period. The performance shares have two performance conditions, relative Total Shareholders' Return compared to a peer group of 20 companies (2016: 20 companies, 2015: 21 companies) and adjusted Earnings Per Share growth. The performance shares vest three years after the grant date. The number of performance shares that will vest is dependent on achieving the two performance conditions, which are equally weighted, and provided that the grantee is still employed with the Company.

The amount recognized as an expense is adjusted for actual performance of adjusted Earnings Per Share growth since this is a non-market performance condition. It is not adjusted for non-vesting or extra vesting of performance shares due to a relative Total Shareholders' Return performance that differs from the performance anticipated at the grant date, since this is a market-based performance condition.

The fair value of the performance shares is measured based on Monte-Carlo simulation, which takes into account dividend payments between the grant date and the vesting date by including reinvested dividends, the market conditions expected to impact relative Total Shareholders' Return performance in relation to selected peers. The following weighted-average assumptions were used for the 2017 grants:

1. Risk-free rate: (0.60)%
2. Expected share price volatility: 23%

The assumptions were used for these calculations only and do not necessarily represent an indication of Management's expectation of future developments for other purposes. The Company has based its volatility assumptions on historical experience measured over a ten-year period.

A summary of the status of the Company's performance share plans as of December 31, 2017 and changes during the year are presented below:

Philips Group
Performance shares
2017

	shares[1]	weighted average grant-date fair value
EUR-denominated		
Outstanding at January 1, 2017[2]	**7,866,754**	**25.24**
Granted	1,419,518	38.02
Vested/Issued	2,853,745	22.48
Forfeited	557,229	27.80
Adjusted Quantity[3]	526,142	26.69
Outstanding at December 31, 2017	**6,401,440**	**29.20**
USD-denominated		
Outstanding at January 1, 2017[2]	**5,162,084**	**29.56**
Granted	953,897	41.69
Vested/Issued	1,901,252	30.07
Forfeited	441,395	30.83
Adjusted Quantity[3]	341,279	30.23
Outstanding at December 31, 2017	**4,114,615**	**32.06**

[1] Excludes dividend declared on outstanding shares between grant date and vesting date that will be issued in shares (EUR-denominated: 402,240 shares and USD-denominated: 258,493 shares)
[2] The outstanding number of performance shares as per January 1, 2017 was updated to reflect the adjusted number of shares related to target EPS
[3] Adjusted quantity includes the impact from number of shares delivered in relation to the realization of 2014 plan EPS rate, and the performance adjustment on the currently vesting shares based on target EPS (2015, 2016 & 2017 plans)

At December 31, 2017, a total of EUR 103 million of unrecognized compensation costs relate to non-vested performance shares. These costs are expected to be recognized over a weighted-average period of 1.7 years.

Restricted shares

The fair value of restricted shares is equal to the share price at grant date.

The Company issues restricted shares that, in general, have a 3 year cliff-vesting period. For grants up to and including January 2013 the Company granted 20% additional (premium) shares, provided the grantee still holds the shares after three years from the delivery date and the grantee is still with the Company on the respective delivery dates. As of December 31, 2017 all restricted share plans granted before 2013 have vested except their premium shares.

A summary of the status of the Company's restricted shares as of December 31, 2017 and changes during the year are presented below:

Philips Group
Restricted shares
2017

	shares[1)2)]	weighted average grant-date fair value
EUR-denominated		
Outstanding at January 1, 2017	**1,666,960**	**24.40**
Granted	754,374	32.84
Vested/Issued	557,603	25.04
Forfeited	133,031	25.51
Outstanding at December 31, 2017	**1,730,699**	**27.79**
USD-denominated		
Outstanding at January 1, 2017	**1,711,903**	**27.78**
Granted	758,368	36.61
Vested/Issued	521,055	28.63
Forfeited	266,590	28.74
Outstanding at December 31, 2017	**1,682,625**	**31.35**

1) Excludes dividend declared on outstanding shares between grant date and vesting date that will be issued in shares (EUR-denominated: 83,184 shares and USD-denominated: 79,537 shares).
2) Excludes premium shares on Restricted shares granted before 2013. (20% additional (premium) shares that may be received if shares delivered under the plan are not sold for a three-year period).

At December 31, 2017, a total of EUR 40 million of unrecognized compensation costs relate to non-vested restricted shares. These costs are expected to be recognized over a weighted-average period of 1.4 years.

Option plans

The Company granted options that expire after ten years. These options vest after three years, provided that the grantee is still employed with the Company. All outstanding options have vested as of December 31, 2017.

The following tables summarize information about the Company's options as of December 31, 2017 and changes during the year:

Philips Group
Options on EUR-denominated listed share
2017

	options	weighted average exercise price
Outstanding at January 1, 2017	**7,052,065**	**22.49**
Exercised	2,591,755	20.42
Forfeited	60,027	20.55
Expired	1,628,073	30.96
Outstanding at December 31, 2017	**2,772,210**	**19.49**
Exercisable at December 31, 2017	**2,772,210**	**19.49**

The exercise prices range from EUR 12.63 to EUR 32.04. The weighted average remaining contractual term for options outstanding and options exercisable at December 31, 2017, was 3.0 years. The aggregate intrinsic value of the options outstanding and options exercisable at December 31, 2017, was EUR 33 million.

The total intrinsic value of options exercised during 2017 was EUR 29 million (2016: EUR 20 million, 2015: EUR 21 million).

Philips Group
Options on USD-denominated listed share
2017

	options	weighted average exercise price
Outstanding at January 1, 2017	**7,725,221**	**31.27**
Exercised	2,818,363	29.12
Forfeited	122,154	32.82
Expired	1,474,938	41.66
Outstanding at December 31, 2017	**3,309,766**	**28.41**
Exercisable at December 31, 2017	**3,309,766**	**28.41**

The exercise prices range from USD 16.76 to USD 44.15. The weighted average remaining contractual term for options outstanding and options exercisable at December 31, 2017, was 2.5 years. The aggregate intrinsic value of the options outstanding and options exercisable at December 31, 2017, was USD 31 million.

The total intrinsic value of options exercised during 2017 was USD 22 million (2016: USD 6 million, 2015: USD 8 million).

At December 31, 2017 there were no unrecognized compensation costs related to outstanding options. Cash received from exercises under the Company's option plans amounted to EUR 128 million in 2017 (2016: EUR 65 million, 2015: EUR 72 million). The actual tax deductions realized as a result of option exercises totaled approximately EUR 5 million in 2017 (2016: EUR 2 million, 2015: EUR 3 million).

The outstanding options as of December 31, 2017 are categorized in exercise price ranges as follows:

Philips Group
Outstanding options
2017

exercise price	options	intrinsic value in millions	weighted average remaining contractual term
EUR-denominated			
10-15	1,013,941	17.4	3.7 yrs
15-20	27,042	0.4	4.0 yrs
20-25	1,731,227	15.6	2.6 yrs
Outstanding options	**2,772,210**	**33.4**	**3.0 yrs**
USD-denominated			
15-20	993,732	18.8	3.6 yrs
20-25	42,728	0.7	3.4 yrs
25-30	860,950	7.0	3.3 yrs
30-35	834,242	3.8	1.9 yrs
35-40	578,114	0.7	0.3 yrs
Outstanding options	**3,309,766**	**31.1**	**2.5 yrs**

The aggregate intrinsic value in the tables and text above represents the total pre-tax intrinsic value (the difference between the Company's closing share price on the last trading day of 2017 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders if the options had been exercised on December 31, 2017.

The following table summarizes information about the Company's Accelerate! options as of December 31, 2017 and changes during the year:

Philips Group
Accelerate! options
2017

	options	weighted average exercise price
EUR-denominated		
Outstanding at January 1, 2017	**860,300**	**16.02**
Exercised	379,100	15.97
Outstanding at December 31, 2017	**481,200**	**16.06**
Exercisable at December 31, 2017	**481,200**	**16.06**
USD-denominated		
Outstanding at January 1, 2017	**257,800**	**20.02**
Exercised	87,000	20.02
Outstanding at December 31, 2017	**170,800**	**20.02**
Exercisable at December 31, 2017	**170,800**	**20.02**

The exercise prices of the Accelerate! options are EUR 15.24 and EUR 22.43 for EUR-denominated options and is USD 20.02 for USD-denominated options. The weighted average remaining contractual term for EUR-denominated Accelerate! options outstanding and exercisable at December 31, 2017 was 4.2 years. The weighted average remaining contractual term for USD-Accelerate! options outstanding and exercisable at December 31, 2017 was 4.1 years. The aggregate intrinsic value of the EUR-denominated Accelerate! options outstanding and exercisable at December 31, 2017, was EUR 7 million. The aggregate intrinsic value of the USD-denominated Accelerate! options outstanding and exercisable at December 31, 2017 was USD 3 million.

The total intrinsic value of Accelerate! options exercised during 2017 was EUR 6 million for EUR-denominated options (2016: EUR 4 million) and USD 1 million for USD-denominated options (2016: USD 1 million).

Cash received from exercises for EUR-denominated and USD-denominated Accelerate! options amounted to EUR 8 million in 2017 (2016: EUR 9 million). The actual tax deductions realized as a result of Accelerate! USD options exercises totaled approximately EUR 0.3 million in 2017 (2016: EUR 0.3 million).

27 Information on remuneration

Remuneration of the Executive Committee

In 2017, the total remuneration costs relating to the members of the Executive Committee (consisting of 12 members, including the members of the Board of Management) amounted to EUR 25,848,741 (2016: EUR 22,433,827; 2015: EUR 15,098,023) consisting of the elements in the following table.

Philips Group
Remuneration costs of the Executive Committee[1] in EUR
2015 - 2017

	2015	2016	2017
Base salary/Base compensation	5,974,928	6,388,667	8,089,063
Annual incentive[2]	2,705,560	5,746,347	6,345,576
Performance shares[3]	2,740,004	5,943,782	6,371,297
Stock options[3]	88,775	-	-
Restricted share rights[3]	91,339	764,311	885,343
Pension allowances[4]	2,193,409	1,854,129	1,886,963
Pension scheme costs	209,462	180,077	408,695
Other compensation[5]	1,094,546	1,556,514	1,861,803

1) The Executive Committee consisted of 12 members as per December 31, 2017 (2016: 12 members; 2015: 8 members)
2) The annual incentives are related to the performance in the year reported which are paid out in the subsequent year
3) Costs of performance shares, stock options and restricted share rights are based on accounting standards (IFRS) and do not reflect the value of stock options at the end of the lock up period and the value of performance shares and restricted share rights at the vesting/release date
4) Pension allowances are gross taxable allowances paid to the Executive Committee members in the Netherlands. These allowances are part of the pension arrangement
5) The stated amounts mainly concern (share of) allowances to members of the Executive Committee that can be considered as remuneration. In a situation where such a share of an allowance can be considered as (indirect) remuneration (for example, private use of the company car), then the share is both valued and accounted for here. The method employed by the fiscal authorities is the starting point for the value stated.

At December 31, 2017, the members of the Executive Committee (including the members of the Board of Management) held 541,400 (2016: 750,631; 2015: 843,461) stock options at a weighted average exercise price of EUR 19.82 (2016: EUR 21.17; 2015: EUR 18.67).

Remuneration of the Board of Management

In 2017, the total remuneration costs relating to the members of the Board of Management amounted to EUR 7,808,117 (2016: EUR 8,904,859; 2015: EUR 6,612,092), see table below. Note that Pieter Nota was succeeded as a member of the Board of Management by Marnix van Ginneken as per November 1, 2017.

Philips Group
Remuneration costs of individual members of the Board of Management in EUR
2015 - 2017

	base compen-sation/ salary	annual incentive[1]	perfor mance shares[2]	stock options[2]	restricted share rights[2]	pension allowan ces[3]	pension scheme costs	other compen-sation[4]	total costs
2017									
F.A. van Houten	1,205,000	1,270,166	1,975,277	-	4,034	537,621	25,278	84,053	5,101,429
A. Bhattacharya	687,500	553,392	669,396	-	888	210,450	25,278	100,918	2,247,822
P.A.J. Nota [5]	606,250	429,886	(1,203,992)	-	(188)	236,208	21,065	63,576	152,805
M.J. van Ginneken	91,667	69,168	100,022	-	75	27,796	4,213	13,120	306,061
	2,590,417	**2,322,612**	**1,540,703**	-	**4,809**	**1,012,075**	**75,834**	**261,667**	**7,808,117**
2016									
F.A. van Houten	1,197,500	1,354,227	1,423,538	-	12,041	536,195	24,838	126,703	4,675,042
A. Bhattacharya	650,000	540,072	362,758	-	3,341	201,524	24,838	73,642	1,856,175
P.A.J. Nota	702,500	619,745	683,101	-	9,251	277,649	24,838	56,558	2,373,642
	2,550,000	**2,514,044**	**2,469,397**	**-**	**24,633**	**1,015,368**	**74,514**	**256,903**	**8,904,859**
2015									
F.A. van Houten	1,168,750	768,920	1,273,940	17,713	28,279	529,387	25,241	78,035	3,890,265
A. Bhattacharya	23,551	11,937	8,968	-	183	7,315	886	998	53,838
R.H. Wirahadiraksa	664,583	239,250	(652,049)	12,045	(37,210)	290,772	24,002	29,477	570,870
P.A.J. Nota	672,500	383,112	605,749	12,045	21,964	270,529	26,302	104,918	2,097,119
	2,529,384	**1,403,219**	**1,236,608**	**41,803**	**13,216**	**1,098,003**	**76,431**	**213,428**	**6,612,092**

1) The annual incentives are related to the performance in the year reported which are paid out in the subsequent year. For more details on the annual incentives, see sub-section 9.2.7, 2017 Annual Incentive, of this Annual Report
2) Costs of performance shares, stock options and restricted share rights are based on accounting standards (IFRS) and do not reflect the value of stock options at the end of the lock up period and the value of performance shares and restricted share rights at the vesting/release date
3) Pension allowances are gross taxable allowances paid to members of the Board of Management. These allowances are part of the pension arrangement as agreed upon in the services contracts.
4) The stated amounts mainly concern (share of) allowances to members of the Board of Management that can be considered as remuneration. In a situation where such a share of an allowance can be considered as (indirect) remuneration (for example, private use of the company car), then the share is both valued and accounted for here. The method employed by the fiscal authorities is the starting point for the value stated
5) The performance shares granted in 2015, 2016 and 2017 to Mr. P.A.J. Nota have lapsed per October 31, 2017. The same applies to the premium shares awarded as a result of restricted share right releases in the past.

For further information on remuneration costs, see sub-section 9.2.5, Remuneration costs, of this Annual Report.

The tables below give an overview of the performance share plans and the stock option plans of the Company, held by the members of the Board of Management:

Philips Group
Number of performance shares (holdings) in number of shares
2017

	January 1, 2017	awarded 2017	awarded dividend shares 2017	realized 2017	December 31, 2017	vesting date
F.A. van Houten	65,299	-	-	69,544	-	04.28.2017
	58,636	-	1,476	-	60,112	05.05.2018
	61,336	-	1,544	-	62,880	04.29.2019
	-	73,039	1,839	-	74,878	05.11.2020
A. Bhattacharya	11,830[1]	-	-	12,598	-	04.28.2017
	12,476[1]	-	314	-	12,790	05.05.2018
	27,571	-	694	-	28,265	04.29.2019
	-	31,822	801	-	32,623	05.11.2020
M.J. van Ginneken	16,267[1]	-	-	19,150	-	04.28.2017
	18,714[1]	-	471	-	19,185	05.05.2018
	21,697[1]	-	546	-	22,243	04.29.2019
	-	18,563[1]	467	-	19,030	05.11.2020
Performance shares (holdings)	**293,826**	**123,424**	**8,152**	**101,292**	**332,006**	

[1] Awarded before date of appointment as a member of the Board of Management

At December 31, 2017, the members of the Board of Management held 333,670 stock options (2016: 476,200; 2015: 479,881) at a weighted average exercise price of EUR 18.99 (2016: EUR 19.47; 2015: EUR 19.52).

Philips Group
Stock options (holdings) in number of shares
2017

	January 1, 2017	granted	exercised	expired	December 31, 2017	grant price (in euros)	share (closing) price on exercise date	expiry date
F.A. van Houten	20,400[1]	-	-	-	20,400	22.88	-	10.18.2020
	75,000	-	-	-	75,000	20.90	-	04.18.2021
	75,000	-	-	-	75,000	14.82	-	04.23.2022
	55,000	-	-	-	55,000	22.43	-	01.29.2023
A. Bhattacharya	16,500[1]	-	-	-	16,500	22.88	-	10.18.2020
	16,500[1]	-	-	-	16,500	20.90	-	04.18.2021
	20,000[1]	-	-	-	20,000	15.24	-	01.30.2022
	16,500[1]	-	-	-	16,500	14.82	-	04.23.2022
M.J. van Ginneken	5,250[1]	-	-	-	5,250	12.63	-	04.14.2019
	6,720[1]	-	-	-	6,720	24.90	-	04.19.2020
	8,400[1]	-	-	-	8,400	20.90	-	04.18.2021
	10,000[1]	-	-	-	10,000	15.24	-	01.30.2022
	8,400[1]	-	-	-	8,400	14.82	-	04.23.2022
Stock options (holdings)	**333,670**	-	-	-	**333,670**			

[1] Awarded before date of appointment as a member of the Board of Management

Under the Long-Term Incentive Plan operative until 2013, members of the Board of Management were granted restricted share rights. During 2015 the last release of these restricted share rights took place. However, if the shares from the restricted share rights release were kept for another 3 years, members of the Board of Management received so-called 'premium shares'. As at December 31, 2017, awarded premium shares amounted to 1,334 for F.A. van Houten, 140 for A. Bhattacharya and 150 for M.J. van Ginneken (all to be released in 2018). The premium shares to A. Bhattacharya and M.J. van Ginneken result from restricted share rights grants awarded before date of appointment as a member of the Board of Management.

See note 26, Share-based compensation for further information on performance shares, stock options and restricted share rights as well sub-section 9.2.8, 2017 Long-Term Incentive Plan, of this Annual Report.

The accumulated annual pension entitlements and the pension costs of individual members of the Board of Management are as follows (in EUR):

Philips Group
Accumulated annual pension entitlements and pension-related costs in EUR
2017

	age at December 31, 2017	accumulated annual pension as of December 31, 2017[1)]	total pension related costs[2)]
F.A. van Houten	57	295,007	562,899
A. Bhattacharya	56	25,539	235,728
P.A.J. Nota	53	45,442	257,273
M.J. van Ginneken	44	37,359	32,009
Pension costs			**1,087,909**

1) Total of entitlements under Philips pension scheme, including - if applicable - transferred pension entitlements under pension scheme(s) of previous employer(s)
2) Cost related to period of board membership and include paid pension allowances as well as pension premium paid by employer to Collective Defined Contribution plan

When pension rights are granted to members of the Board of Management, necessary payments (if insured) and all necessary provisions are made in accordance with the applicable accounting principles. In 2017, no (additional) pension benefits were granted to former members of the Board of Management.

Remuneration of the Supervisory Board

The remuneration of the members of the Supervisory Board amounted to EUR 950,500 (2016: EUR 1,037,209; 2015: EUR 1,083,667). Former members received no remuneration.

At December 31, 2017 the members of the Supervisory Board held no stock options, performance shares or restricted shares.

The individual members of the Supervisory Board received, by virtue of the positions they held, the following remuneration (in EUR):

Philips Group
Remuneration of the Supervisory Board in EUR
2015 - 2017

	membership	committees	other compensation[1]	total
2017[2]				
J.A. van der Veer	135,000	25,000	7,000	167,000
C. Poon	90,000	32,500	17,000	139,500
H. von Prondzynski	80,000	32,500	19,500	132,000
J.P. Tai	80,000	32,500	32,000	144,500
N. Dhawan	80,000	13,000	27,000	120,000
O. Gadiesh	80,000	13,000	19,500	112,500
D.E.I. Pyott	80,000	23,000	32,000	135,000
	625,000	**171,500**	**154,000**	**950,500**
2016[2]				
J.A. van der Veer	135,000	26,667	7,000	168,667
C. Poon	90,000	32,500	22,000	144,500
C.J.A. van Lede (Jan.-May) [3]	33,333	4,375	2,000	39,708
E. Kist (Jan.-May)	40,000	4,167	2,000	46,167
H. von Prondzynski	80,000	25,000	19,500	124,500
J.P. Tai	80,000	34,167	32,000	146,167
N. Dhawan	80,000	13,000	27,000	120,000
O. Gadiesh	80,000	13,000	19,500	112,500
D.E.I. Pyott	80,000	23,000	32,000	135,000
	698,333	**175,876**	**163,000**	**1,037,209**
2015[2]				
J.A. van der Veer	135,000	31,667	7,000	173,667
C. Poon	90,000	17,500	15,000	122,500
C.J.A. van Lede	80,000	14,333	7,000	101,333
E. Kist	80,000	10,000	2,000	92,000
H. von Prondzynski	80,000	26,833	19,500	126,333
J.P. Tai	80,000	29,167	35,000	144,167
N. Dhawan	80,000	13,000	20,000	113,000
O. Gadiesh	80,000	13,000	17,000	110,000
D.E.I. Pyott (May-Dec.)	80,000	8,667	12,000	100,667
	785,000	**164,167**	**134,500**	**1,083,667**

1) The amounts mentioned under other compensation relate to the fee for intercontinental travel, inter-European travel (effective 2015) and the entitlement of EUR 2,000 under the Philips product arrangement
2) As of 2013, part of the remuneration of members of the Supervisory Board living in the Netherlands is subject to VAT. The amounts mentioned in this table are excluding VAT
3) After the separation of the Company, Mr. van Lede joined the Supervisory Board of Philips Lighting.

Supervisory Board members' and Board of Management members' interests in Philips shares

Members of the Supervisory Board and of the Executive Committee are prohibited from writing call and put options or similar derivatives of Philips securities.

Philips Group
Shares held by Board members[1] in number of shares
2017

	December 31, 2016	December 31, 2017
J. van der Veer	18,366	18,366
H. von Prondzynski	3,758	3,851
J.P. Tai	3,844	3,844
F.A. van Houten	189,824	233,119
A. Bhattacharya	42,913	53,974
M.J. van Ginneken	19,792	30,246

1) Reference date for board membership is December 31, 2017

28 Fair value of financial assets and liabilities

The estimated fair value of financial instruments has been determined by the Company using available market information and appropriate valuation methods. The estimates presented are not necessarily indicative of the amounts that will ultimately be realized by the Company upon maturity or disposal. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.

For cash and cash equivalents, current receivables, accounts payable, interest accrual and short-term debts, the carrying amounts approximate fair value because of the short maturity of these instruments, and therefore fair value information is not included in the table below.

The fair value of Philips' debt is estimated on the basis of the quoted market prices for certain issues, or on the basis of discounted cash flow analysis based upon market rates plus Philips' spread for the particular tenors of the borrowing arrangement. Accrued interest is not included within the carrying amount or estimated fair value of debt.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Philips Group
Fair value of financial assets and liabilities in millions of EUR
2017

	carrying amount	estimated fair value	Level 1	Level 2	Level 3
Financial assets					
Carried at fair value:					
Available-for-sale financial assets	446	446	49	29	368
Securities classified as assets held for sale	1,264	1,264	1,264		
Fair value through profit and loss	27	27		23	4
Derivative financial instruments	78	78		78	
Financial assets carried at fair value	**1,815**	**1,815**	**1,313**	**130**	**372**
Carried at (amortized) cost:					
Cash and cash equivalents	1,939				
Loans and receivables					
Current loans receivable	2				
Other non-current loans and receivables	114				
Receivables - current	3,909				
Receivables - non-current	130				
Held-to-maturity investments	1				
Financial assets carried at (amortized) costs	**6,095**				
Total financial assets	**7,909**	**1,815**	**1,313**	**130**	**372**
Financial liabilities					
Carried at fair value:					
Derivative Financial instruments	(383)	(383)		(383)	
Financial liabilities carried at fair value	**(383)**	**(383)**		**(383)**	
Carried at (amortized) cost:					
Accounts payable	(2,090)				
Interest accrual	(38)				
Debt (Corporate bond and finance lease)	(3,378)	(3,860)	(3,579)	(281)	
Debt (other bank loans, overdraft, forward contracts etc.)	(1,337)				
Financial liabilities carried at (amortized) costs	**(6,843)**	**(3,860)**	**(3,579)**	**(281)**	
Total financial liabilities	**(7,226)**	**(4,243)**	**(3,579)**	**(665)**	

Philips Group
Fair value of financial assets and liabilities in millions of EUR
2016

	carrying amount	estimated fair value	Level 1	Level 2	Level 3
Carried at fair value:					
Available-for-sale financial assets	172	172	36	29	107
Securities classified as assets held for sale	1	1			1
Fair value through profit and loss	27	27		24	3
Derivative financial instruments	160	160		160	
Financial assets carried at fair value	**360**	**360**	**36**	**213**	**111**
Carried at (amortized) cost:					
Cash and cash equivalents	2,334				
Loans and receivables					
Current loans receivable	101	101		101	
Non-current loans and receivables	134				
Loans to investment in associates					
Loans held for sale					
Receivables - current	5,327				
Receivables - non-current	155				
Held-to-maturity investments	2				
Financial assets carried at (amortized) costs	**8,053**	**101**		**101**	
Total financial assets	**8,413**	**461**	**36**	**314**	**111**
Financial liabilities					
Carried at fair value:					
Derivative financial instruments	(873)	(873)		(873)	
Financial liabilities carried at fair value	**(873)**	**(873)**		**(873)**	
Carried at (amortized) cost:					
Accounts payable	(2,848)				
Interest accrual	(68)				
Debt (Corporate bond and finance lease)	(5,095)	(5,474)	(3,990)	(1,484)	
Debt (other bank loans, overdraft etc.)	(511)				
Financial liabilities carried at (amortized) costs	**(8,522)**	**(5,474)**	**(3,990)**	**(1,484)**	
Total financial liabilities	**(9,395)**	**(6,347)**	**(3,990)**	**(2,357)**	

The table above represents categorization of measurement of the estimated fair values of financial assets and liabilities.

Specific valuation techniques used to value financial instruments include:

Level 1

Instruments included in level 1 are comprised primarily of listed equity investments classified as available-for-sale financial assets, investees and financial assets designated at fair value through profit and loss, including the investment in Philips Lighting which is held for sale as of December 31, 2017.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives or convertible bond instruments) are determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are based on observable market data, the instrument is included in level 2.

The fair value of derivatives is calculated as the present value of the estimated future cash flows based on observable interest yield curves, basis spread and foreign exchange rates.

The valuation of convertible bond instruments uses observable market quoted data for the options and present value calculations using observable yield curves for the fair value of the bonds.

Level 3

If one or more of the significant inputs are not based on observable market data, such as third-party pricing information without adjustments, the instrument is included in level 3.

The retained investment in the combined businesses of Lumileds and Automotive is classified as an available-for-sale financial asset recognized at fair value of EUR 243 million, based on a valuation model with inputs, including discount rates and multiples, which are market-corroborated to the extent possible, and hence classified as Level 3 in the fair value hierarchy.

A sensitivity analysis conducted for the combined businesses of Lumileds and Automotive as of January 2018 shows that if the earnings were to increase instantaneously by 10% from the assumption at December 31, 2017, with all other variables (including foreign exchange rates) held constant, the fair value of the asset would increase by 28%. If there was a decrease of 10% in earnings, this would reduce the market value of the asset by approximately 26%.

If the valuation multiples were to increase instantaneously by 10% from the assumption at December 31, 2017, with all other variables (including foreign exchange rates) held constant, the fair value of the asset would increase by 18% while if there was a decrease of 10% in valuation multiples, this would reduce the market value of the asset by approximately 17%.

The table below shows the reconciliation from the beginning balance to the end balance for fair value measured in Level 3 of the fair value hierarchy.

Philips Group
Reconciliation of the fair value hierarchy in millions of EUR
2017

	financial assets
Balance as of January 1, 2017	**111**
Gains and losses recognized in:	
- in profit or loss	2
- in other comprehensive income	(83)
Purchase	356
Sales	(10)
Transfer to assets held for sale	(4)
Balance as of December 31, 2017	**372**

The section below elaborates on transactions in derivatives. Transactions in derivatives are subject to master netting and set-off agreements. In the case of certain termination events, under the terms of the Master Agreement, Philips can terminate the outstanding transactions and aggregate their positive and negative values to arrive at a single net termination sum (or close-out amount). This contractual right is subject to the following:

- The right may be limited by local law if the counterparty is subject to bankruptcy proceedings;
- The right applies on a bilateral basis.

Philips Group
Financial assets subject to offsetting, enforceable master netting arrangements or similar agreements in millions of EUR
2016 - 2017

	2016	2017
Derivatives		
Gross amounts of recognized financial assets	160	78
Gross amounts of recognized financial liabilities offset in the balance sheet		
Net amounts of financial assets presented in the balance sheet	**160**	**78**
Related amounts not offset in the balance sheet		
Financial instruments	(92)	(38)
Cash collateral received		
Net amount	**68**	**39**

Philips Group
Financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements in millions of EUR
2016 - 2017

	2016	2017
Derivatives		
Gross amounts of recognized financial liabilities	(873)	(383)
Gross amounts of recognized financial assets offset in the balance sheet		
Net amounts of financial liabilities presented in the balance sheet	**(873)**	**(383)**
Related amounts not offset in the balance sheet		
Financial instruments	92	38
Cash collateral received		
Net amount	**(781)**	**(345)**

29 Details of treasury / other financial risks

Philips is exposed to several types of financial risks. This note further analyzes financial risks. Philips does not purchase or hold derivative financial instruments for speculative purposes. Information regarding financial instruments is included in note 28, Fair value of financial assets and liabilities.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk for the group is monitored through the Treasury liquidity committee, which tracks the development of the actual cash flow position for the group and uses input from a number of sources in order to forecast the overall liquidity position on both a short and long-term basis. Group Treasury invests surplus cash in money market deposits with appropriate maturities to ensure sufficient liquidity is available to meet liabilities when due.

The rating of the Company's debt by major rating services may improve or deteriorate. As a result, Philips' future borrowing capacity may be influenced and its financing costs may fluctuate. Philips has various sources to mitigate the liquidity risk for the group. At December 31, 2017, Philips had EUR 1,939 million in cash and cash equivalents (2016: EUR 2,334 million), within which short-term deposits of EUR 1,302 million (2016: EUR 1,299 million). Philips pools cash from subsidiaries to the extent legally and economically feasible; cash not pooled remains available for the Company's operational or investment needs.

Philips faces cross-border foreign exchange controls and/or other legal restrictions in a few countries that could limit its ability to make these balances available on short notice for general use by the group.

Furthermore, Royal Philips has a USD 2.5 billion Commercial Paper Programme and a EUR 1 billion committed revolving credit facility that can be used for general group purposes, such as a backstop for its Commercial Paper Programme. As of December 31, 2017, Royal Philips did not have any amounts outstanding under any of these facilities. A description of Philips' credit facilities can be found in note 18, Debt.

Additionally, Philips also held EUR 49 million of equity investments in available-for-sale financial assets (fair value at December 31, 2017). Furthermore, Philips is also a shareholder in Philips Lighting (EUR 1,264 million at year-end 2017) which is publicly listed and classified as asset held for sale.

The table below presents a summary of the Group's fixed contractual cash obligations and commitments at December 31, 2017. These amounts are an estimate of future payments which could change as a result of various factors such as a change in interest rates, contractual provisions, as well as changes in our business strategy and needs. Therefore, the actual payments made in future periods may vary from those presented in the following table:

Philips Group
Contractual cash obligations[1,2] in millions of EUR
2017

		payments due by period			
	total	**less than 1 year**	**1-3 years**	**3-5 years**	**after 5 years**
Long-term debt[3]	4,314	465	1,170	878	1,801
Finance lease obligations	306	93	131	53	29
Short-term debt	120	120			
Operating leases	741	172	226	147	196
Derivative liabilities	370	167	109		95
Interest on debt	1,785	132	252	226	1,175
Purchase obligations[4]	480	145	217	86	31
Trade and other payables	2,090	2,090			
Contractual cash obligations	**10,205**	**3,383**	**2,105**	**1,389**	**3,328**

1) Obligations in this table are undiscounted
2) This table excludes pension 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 short-term portion of long-term debt and excludes finance 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.

Certain Philips suppliers factor their trade receivables from Philips with third parties through supplier finance arrangements. At December 31, 2017 approximately EUR 286 million of the Philips accounts payable were known to have been sold onward under such arrangements whereby Philips confirms invoices. Philips continues to recognize these liabilities as trade payables and will settle the liabilities in line with the original payment terms of the related invoices.

Currency risk

Currency risk is the risk that reported financial performance or the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Philips operates in many countries and currencies and therefore currency fluctuations may impact Philips' financial results. Philips is exposed to currency risk in the following areas:

- Transaction exposures, related to anticipated sales and purchases and on-balance-sheet receivables/ payables resulting from such transactions
- Translation exposure of foreign-currency intercompany and external debt and deposits
- Translation exposure of net income in foreign entities
- Translation exposure of foreign-currency-denominated equity invested in consolidated companies
- Translation exposure to equity interests in non-functional-currency investments in associates and available-for-sale financial assets.

It is Philips' policy to reduce the potential year-on-year volatility caused by foreign-currency movements on its net earnings by hedging the anticipated net exposure of foreign currencies resulting from foreign-currency sales and purchases. In general, net anticipated exposures for the Group are hedged during a period of 15 months in layers of 20% up to a maximum hedge of 80%, using forwards and currency options. Philips' policy requires significant committed foreign currency exposures to be fully hedged, generally using forwards. However, not every foreign currency can or shall be hedged as there may be regulatory barriers or prohibitive hedging cost preventing Philips from effectively and/or efficiently hedging its currency exposures. As a result, hedging activities cannot and will not eliminate all currency risks for anticipated and committed transaction exposures.

The following table outlines the estimated nominal value in millions of EUR for committed and anticipated transaction exposure and related hedges for Philips' most significant currency exposures consolidated as of December 31, 2017:

Philips Group
Estimated transaction exposure and related hedges
in millions of EUR
2017

	Receivables		Payables	
	exposure	**hedges**	**exposure**	**hedges**
Balance as of December 31, 2017				
Exposure currency				
USD	1,217	(857)	(583)	488
JPY	666	(369)	(6)	5
CAD	272	(153)	(8)	8
GBP	245	(147)	(20)	20
CNY	178	(98)	(86)	86
AUD	175	(100)		
CHF	117	(65)	(1)	1
PLN	122	(73)		
SEK	73	(42)	(1)	1
CZK	45	(25)		
RUB	41	(41)	(2)	1
Others	244	(219)	(160)	150
Total 2017	**3,395**	**(2,189)**	**(867)**	**760**
Total 2016	**4,211**	**(2,412)**	**(1,764)**	**1,344**

The change in exposures and related hedges compared to 2016 is mainly driven by the deconsolidation of Philips Lighting. Philips uses foreign exchange spot and forward contracts, as well as zero cost collars in hedging the exposure. The derivatives related to transactions are, for hedge accounting purposes, split into hedges of on-balance-sheet accounts receivable/payable and forecasted sales and purchases. Changes in the value of on-balance-sheet foreign-currency accounts receivable/payable, as well as the changes in the fair value of the hedges related to these exposures, are reported in the income statement under costs of sales. Hedges related to forecasted transactions, where hedge accounting is applied, are accounted for as cash flow hedges. The results from such hedges are deferred in other comprehensive income within equity to the extent that the hedge is effective. As of December 31, 2017, a gain of EUR 23 million was deferred in equity as a result of these hedges (2016: EUR 10 million gain). The result deferred in equity will be released to earnings mostly during 2018 at the time when the related hedged transactions affect the income statement. During 2017, a net gain of EUR 0.1 million (2016: EUR 5 million net gain) was recorded in the consolidated statement of income as a result of ineffectiveness on certain anticipated cash flow hedges.

The total net fair value of hedges related to transaction exposure as of December 31, 2017, was an unrealized asset of EUR 21 million. An instantaneous 10% increase in the value of the EUR against all currencies would lead to an increase of EUR 102 million in the value of the derivatives; including a EUR 53 million increase related to foreign exchange transactions of the USD against the EUR, a EUR 17 million increase related to foreign exchange transactions of the JPY against the EUR, a EUR 10 million increase related to foreign exchange transactions of the GBP against the EUR, a EUR 6 million increase related to foreign exchange transactions of the PLN against the EUR and a EUR 5 million increase related to foreign exchange transactions of the CHF against the EUR.

The EUR 102 million increase includes a gain of EUR 10 million that would impact the income statement, which would largely offset the opposite revaluation effect on the underlying accounts receivable and payable, and the remaining gain of EUR 92 million would be recognized in equity to the extent that the cash flow hedges were effective.

The total net fair value of hedges related to transaction exposure as of December 31, 2016, was an unrealized asset of EUR 15 million. An instantaneous 10% increase in the value of the EUR against all currencies would lead to an increase of EUR 98 million in the value of the derivatives; including a EUR 46 million increase related to foreign exchange transactions of the USD against the EUR, a EUR 18 million increase related to foreign exchange transactions of the JPY against the EUR, a EUR 10 million increase related to foreign exchange transactions of the GBP against the EUR, and a EUR 5 million increase related to foreign exchange transactions of the AUD against the EUR.

Foreign exchange exposure also arises as a result of inter-company loans and deposits. Where the Company enters into such arrangements, the financing is generally provided in the functional currency of the subsidiary entity. The currency of the Company's external funding and liquid assets is matched with the required financing of subsidiaries, either directly through external foreign currency loans and deposits, or synthetically by using foreign exchange derivatives, including cross currency interest rate swaps and foreign exchange forward contracts. In certain cases where group companies may also have external foreign currency debt or liquid assets, these exposures are also hedged through the use of foreign exchange derivatives. Changes in the fair value of hedges related to this exposure are recognized within financial income and expenses in the statements of income. When such loans would be considered part of the net investment in the subsidiary, net investment hedging would be applied.

Translation exposure of foreign-currency equity invested in consolidated entities may be hedged. If a hedge is entered into, it is accounted for as a net investment hedge. Net current-period change, before tax, of the currency translation reserve of EUR 1,177 million relates mainly to the negative impact of the stronger EUR against the foreign currencies of countries in which Philips' operations are located. The change in currency translation reserve was mostly related to the development of the USD.

As of December 31, 2017, cross-currency interest rate swaps with a fair value liability of EUR 330 million and external bond funding for a nominal value of USD 2,535 million were designated as net investment hedges of our financing investments in foreign operations. During 2017 a total gain of EUR 1.4 million was recognized in the income statement as ineffectiveness on net investment hedges.

The total net fair value of financing derivatives as of December 31, 2017, was a liability of EUR 326 million. An instantaneous 10% increase in the value of the EUR against all currencies would lead to an increase of EUR 213 million in the value of the derivatives, including a EUR 208 million increase related to the USD.

As of December 31, 2016, cross-currency interest rate swaps with a fair value liability of EUR 726 million and external bond funding for a nominal value of USD 3,774 million were designated as net investment hedges of our financing investments in foreign operations. During 2016 a total gain of EUR 0.2 million was recognized in the income statement as ineffectiveness on net investment hedges.

The total net fair value of financing derivatives as of December 31, 2016, was a liability of EUR 728 million. An instantaneous 10% increase in the value of the EUR against all currencies would lead to an increase of EUR 53 million in the value of the derivatives, including a EUR 62 million increase related to the USD.

Philips does not currently hedge the foreign exchange exposure arising from equity interests in non-functional-currency investments in associates and available-for-sale financial assets.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Philips had outstanding debt of EUR 4,715 million (2016: EUR 5,606 million), which created an inherent interest rate risk. Failure to effectively hedge this risk could negatively impact financial results. At year-end, Philips held EUR 1,939 million in cash and cash equivalents (2016: EUR 2,334 million), and had total long-term debt of EUR 4,044 million (2016: EUR 4,021 million) and total short-term debt of EUR 672 million (2016: EUR 1,585 million). At December 31, 2017, Philips had a ratio of fixed-rate long-term debt to total outstanding debt of approximately 72%, compared to 47% one year earlier (figure updated to align definition).

A sensitivity analysis conducted as of January 2018 shows that if long-term interest rates were to decrease instantaneously by 1% from their level of December 31, 2017, with all other variables (including foreign exchange rates) held constant, the fair value of the fixed-rate long-term debt (excluding forward contracts) would increase by approximately EUR 271 million. If there was an increase of 1% in long-term interest rates, this would reduce the market value of the fixed-rate long-term debt (excluding forward contracts) by approximately EUR 271 million.

If interest rates were to increase instantaneously by 1% from their level of December 31, 2017, with all other variables held constant, the annualized net interest expense would decrease by approximately EUR 12 million. This impact was based on the outstanding net cash position (after excluding fixed-rate debt) at December 31, 2017.

A sensitivity analysis conducted as of January 2017 shows that if long-term interest rates were to decrease instantaneously by 1% from their level of December 31, 2016, with all other variables (including foreign exchange rates) held constant, the fair value of the long-term debt would increase by approximately EUR 260 million. If there was an increase of 1% in long-term interest rates, this would reduce the market value of the long-term debt by approximately EUR 259 million.

If interest rates were to increase instantaneously by 1% from their level of December 31, 2016, with all other variables held constant, the annualized net interest expense would decrease by approximately EUR 7 million. This impact was based on the outstanding net cash position (after excluding fixed-rate debt) at December 31, 2016.

Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in equity prices.

Philips is a shareholder in some publicly listed companies, including Philips Lighting and Corindus Vascular Robotics. As a result, Philips is exposed to potential financial loss through movements in their share prices. The aggregate equity price exposure in such financial assets amounted to approximately EUR

1,313 million at year-end 2017 (2016: EUR 36 million). Philips does not hold derivatives in the above-mentioned listed companies. Philips also has shareholdings in several privately-owned companies amounting to EUR 397 million, mainly consisting of the combined businesses in Lumileds and Automotive. As a result, Philips is exposed to potential value adjustments.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in commodity prices.

Philips is a purchaser of certain base metals, precious metals and energy. Philips may hedge certain commodity price risks using derivative instruments to minimize significant, unanticipated earnings fluctuations caused by commodity price volatility. The commodity price derivatives that Philips may enter into are accounted for as cash flow hedges to offset forecasted purchases. As of December 2017, Philips does not have any outstanding commodity derivatives.

As of December 2016, Philips did not have any outstanding commodity derivatives.

Credit risk

Credit risk represents the loss that would be recognized at the reporting date, if counterparties failed completely to perform their payment obligations as contracted. Credit risk is present within Philips trade receivables. To have better insights into the credit exposures, Philips performs ongoing evaluations of the financial and non-financial condition of its customers and adjusts credit limits when appropriate. In instances where the creditworthiness of a customer is determined not to be sufficient to grant the credit limit required, there are a number of mitigation tools that can be utilized to close the gap, including reducing payment terms, cash on delivery, pre-payments and pledges on assets.

Philips invests available cash and cash equivalents with various financial institutions and is exposed to credit risk with these counterparties. Philips is also exposed to credit risks in the event of non-performance by financial institutions with respect to financial derivative instruments. Philips actively manages concentration risk and on a daily basis measures the potential loss under certain stress scenarios, should a financial institution default. These worst-case scenario losses are monitored and limited by the Company.

The Company does not enter into any financial derivative instruments to protect against default by financial institutions. However, where possible the Company requires all financial institutions with which it deals in derivative transactions to complete legally enforceable netting agreements under an International Swap Dealers Association master agreement or otherwise prior to trading, and whenever possible, to have a strong credit rating from Fitch and Standard & Poor's Investor Services. Philips also regularly monitors the development of the credit risk of its financial counterparties. Wherever possible, cash is invested and financial transactions are concluded with financial institutions with strong credit ratings or with governments or government-backed institutions.

The table below shows the number of financial institutions with credit rating A- and above with which Philips has cash at hand and short-term deposits above EUR 10 million as of December 31, 2017.

Philips Group
Credit risk with number of counterparties
for deposits above EUR 10 million
2017

	10-100 million	100-500 million
AA- rated bank counterparties		2
A+ rated bank counterparties		2
A rated bank counterparties	1	3
A- rated bank counterparties		1
	1	**8**

For an overview of the overall maximum credit exposure of the group's financial assets, please refer to note 28, Fair value of financial assets and liabilities for details of carrying amounts and fair value.

Country risk

Country risk is the risk that political, legal, or economic developments in a single country could adversely impact our performance. The country risk per country is defined as the sum of the equity of all subsidiaries and associated companies in country cross-border transactions, such as intercompany loans, accounts receivable from third parties and intercompany accounts receivable. The country risk is monitored on a regular basis.

As of December 31, 2017, the Company had country risk exposure of EUR 9.3 billion in the United States, EUR 4.4 billion in the Netherlands and EUR 1.3 billion in China (including Hong Kong). Other countries higher than EUR 500 million are Japan (EUR 598 million) and the United Kingdom (EUR 534 million). Germany exceeded EUR 300 million but was less than EUR 500 million. The degree of risk of a country is taken into account when new investments are considered. The Company does not, however, use financial derivative instruments to hedge country risk.

Other insurable risks

Philips is covered for a broad range of losses by global insurance policies in the areas of property damage/ business interruption, general and product liability, transport, directors' and officers' liability, employment practice liability, crime and cyber security. The counterparty risk related to the insurance companies participating in the above-mentioned global insurance policies is actively managed. As a rule, Philips only selects insurance companies with an S&P credit rating of at least A-. Throughout the year the counterparty risk is monitored on a regular basis.

To lower exposures and to avoid potential losses, Philips has a global Risk Engineering program in place. The main focus of this program is on property damage and business interruption risks including company interdependencies. Regular on-site assessments take place at Philips locations and business-critical suppliers by risk engineers of the insurer in order to provide an accurate assessment of the potential loss and its impact. The results of these assessments are shared across the Company's stakeholders. On-site assessments are carried out against the predefined Risk Engineering standards, which are agreed between Philips and the insurers. Recommendations are made in a Risk Improvement report and are monitored centrally. This is the basis for decision-making by the local management of the business as to which recommendations will be implemented.

For all policies, deductibles are in place, which vary from EUR 0.25 million to EUR 5 million per occurrence and this variance is designed to differentiate between the existing risk categories within Philips. Above this first layer of working deductibles, Philips operates its own re-insurance captive, which during 2017 retained EUR 2.5 million per occurrence for property damage and business interruption losses and EUR 5 million in the aggregate per year. For general and product liability claims, the captive retained EUR 1.5 million per claim and EUR 6 million in the aggregate. New contracts were signed on December 31, 2017, for the coming year, whereby the re-insurance captive retentions changed. Property damage and business interruption insurance is no longer re-insured by the captive and the captive retention for general, product and cyber liability claims is set at EUR 5 million per occurrence and EUR 10 million in the annual aggregate.

30 Subsequent events

There are no significant subsequent events which require disclosure.

12 Company financial statements

Introduction

Statutory financial statements

The sections Group financial statements and Company financial statements contain the statutory financial statements of Koninklijke Philips N.V. (the Company).

A description of the Company's activities and group structure is included in the Group financial statements.

Accounting policies applied

The financial statements of the Company included in this section are prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code. Section 2:362 (8) of the Dutch Civil Code, allows companies that apply IFRS as endorsed by the European Union in their consolidated financial statements to use the same measurement principles in their company financial statements. The Company has prepared these Company financial statements using this provision.

The accounting policies are described in note 1, Significant accounting policies of the Group financial Statements and are deemed incorporated and repeated herein by reference.

Investments in group companies in the Company financial statements are accounted for using the equity method.

Presentation of Company financial statements

The structure of the Company balance sheets and Company statements of income are aligned as much as possible with the Consolidated statements in order to achieve optimal transparency between the Group financial statements and the Company financial statements. Consequently, the presentation of the Company statements deviates from Dutch regulations.

The Company balance sheet has been prepared before the appropriation of result.

Additional information

For "Additional information" within the meaning of Section 2:392 of the Dutch Civil Code, please refer to section 12.5, Independent auditor's report, of this Annual Report and note P, Appropriation of profits and profit distributions.

12.1 Statements of income

Koninklijke Philips N.V.
Statements of income in millions of EUR
For the year ended December 31

		2016	2017
A	Sales	422	363
	Cost of sales	(34)	(35)
	Gross margin	**388**	**328**
	Selling expenses	(17)	(11)
	General and administrative expenses	(21)	(27)
B	Other business income (expense)	59	489
C	**Income from operations**	**409**	**780**
D	Financial income	448	642
D	Financial expenses	(466)	(444)
	Income before taxes	**391**	**978**
E	Income tax expense	(142)	(73)
	Income after tax	**249**	**906**
H	Results relating to investments in associates	4	(109)
	Net income (loss) from group companies	1,195	860
	Net income	**1,448**	**1,657**

Amounts may not add up due to rounding.

12.2 Balance sheets before appropriation of results

Koninklijke Philips N.V.
Balance sheets in millions of EUR
As of December 31

		2016	2017
	Assets		
	Non-current assets		
	Property, plant and equipment	1	1
G	Intangible assets	80	56
H	Financial fixed assets	22,012	19,246
	Non-current receivables	79	43
	Deferred tax assets	548	457
I	Other non-current financial assets	148	171
	Total non-current assets	**22,868**	**19,974**
	Current assets		
	Current financial assets	91	1
J	Receivables	8,458	11,436
K	Cash and cash equivalents	756	1,109
	Total current assets	**9,305**	**12,546**
	Total assets	**32,173**	**32,521**
L	**Equity**		
	Common shares	186	188
	Capital in access of par value	3,083	3,311
	Legal Reserves	1,995	1,088
	Other Reserves	5,834	5,755
	Net income	1,448	1,657
	Total equity	**12,546**	**11,999**
	Liabilities		
	Non-current liabilities		
M	Long-term debt	2,602	3,843
	Long-term provisions	7	7
	Deferred tax liabilities	11	11
	Other non-current liabilities	667	356
	Total non-current liabilities	**3,287**	**4,217**
	Current liabilities		
M	Short-term debt	15,815	16,002
N	Other current liabilities	525	303
	Total current liabilities	**16,340**	**16,305**
	Liabilities and shareholders' equity	**32,173**	**32,521**

Amounts may not add up due to rounding.

12.3 Statement of changes in equity

Koninklijke Philips N.V.
Statement of changes in equity in millions of EUR
For the year ended December 31

	common shares	capital in excess of par value	available-for-sale financial assets	cash flow hedges	affiliated companies	currency translation differences	retained earnings[1]	treasury shares	net income	shareholders' equity
			legal reserves				other reserves			
Balance as of January 1, 2017	**186**	**3,083**	**36**	**10**	**715**	**1,234**	**6,015**	**(181)**	**1,448**	**12,546**
Appropriation of prior year result							1,448		(1,448)	
Net income									1,657	1,657
Release revaluation reserve										
Net current period change			(66)	33	(12)	(1,072)	436			(681)
Income tax on net current period change			(1)	(3)		39				35
Reclassification into income			1	(17)		191				175
Dividend distributed	2	356					(742)			(384)
Cancellation of treasury shares										
Purchase of treasury shares								(318)		(318)
Re-issuance of treasury shares		(205)					3	334		133
Forward contracts							(1,018)	(61)		(1,079)
Share call options							95	(255)		(160)
Share-based compensation plans		85								85
Income tax on share-based compensation plans		(8)								(8)
Balance as of December 31, 2017	**188**	**3,311**	**(30)**	**23**	**703**	**392**	**6,237**	**(481)**	**1,657**	**11,999**

[1] The presentation of prior-year information has been updated to address two tax related adjustments as explained in note 1, Significant accounting policies.

Amounts may not add up due to rounding.

12.4 Notes

Notes to the Company financial statements

A Sales

Sales relate to external sales and mainly comprise license income from intellectual property rights owned by the Company.

B Other business income

Koninklijke Philips N.V.
Other Business Income in millions of EUR
2016-2017

	2016	2017
Other business income (expense) from deconsolidation of Philips Lighting		538
Other business income (expense) from sale of Lumileds		(96)
Other	59	48
Total Other Business Income	59	489

Other business income includes the result which was recognized upon the deconsolidation of Philips Lighting and also reflects a part of the result which was booked upon the sale of the combined Lumileds and Automotive businesses. For more details, please refer to note 3, Discontinued operations and assets classified as held for sale in the Group financial statements, which is deemed incorporated and repeated herein by reference.

Other includes income and expense from transactions with group companies regarding overhead services and brand license agreements.

C Sales and costs by nature

Koninklijke Philips N.V.
Sales and costs by nature in millions of EUR
2016 - 2017

	2016	2017
Sales	422	363
Costs of materials used	(6)	(5)
Employee benefit expenses	(13)	(19)
Depreciation and amortization	(14)	(30)
Advertising and promotion	(7)	(4)
Other operational costs	(31)	(15)
Other business income (expenses)	59	489
Income from operations	**409**	**780**

For a summary of the audit fees related to the Philips Group, please refer to the Group Financial statements note 6, Income from operations, which is deemed incorporated and repeated herein by reference.

D Financial income and expense

Financial income mainly consists of interest received from intercompany financing transactions. Interest received from third parties was EUR 9 million (2016: EUR 21 million).

E Income tax

Koninklijke Philips N.V. is head of the fiscal unity that exists for Dutch corporate income tax purposes.

The income tax expense of EUR 73 million reported in the Company Statements of income represents the consolidated amount of current and deferred tax expense for all members of the fiscal unity. The effective tax rate increased in 2017 compared to 2016, mainly due to changes in the contribution of income of members of the fiscal unity to the total taxable result of the fiscal unity, as compared to the Company's contribution. The effective tax rate in 2017 is low compared to the Dutch statutory tax rate of 25%, mainly due to income relating to participations not being subject to tax.

At December 31, 2017, net operating loss and tax credit carryforwards for which no deferred tax assets have been recognized in the balance sheet amount to EUR 20 million.

F Employees

The number of persons having a contract with the Company at the year-end 2017 was 8 (2016: 8):

- 3 of them had a services contract;
- 5 of them had a contract of employment.

They were all posted in the Netherlands.

For the remuneration of past and present members of both the Board of Management and the Supervisory Board, please refer to note 27, Information on remuneration, of this Annual Report, which is deemed incorporated and repeated herein by reference.

G Intangible assets

Intangible assets include mainly licenses and patents. The changes during 2017 are as follows;

Koninklijke Philips N.V.
Intangible assets in millions of EUR
2017

Balance as of January 1, 2017:	
Cost	113
Amortization/ impairments	(33)
Book value	**80**
Changes in book value:	
Reclassifications	
Additions	6
Amortization	(18)
Impairment	(12)
Total changes	**(24)**
Balance as of December 31, 2017:	
Cost	106
Amortization/ impairments	(50)
Book value	**56**

H Financial fixed assets

The investments in group companies and associates are presented as financial fixed assets in the balance sheet using the equity method, with the exception of the retained interest in Philips Lighting (presented under Investments in associates) for which we use the accounting treatment explained below. Goodwill paid upon acquisition of investments in group companies or associates is included in the net equity value of the investment and is not shown separately on the face of the balance sheet. Loans provided to group companies are stated at amortized cost, less impairment.

Investments in associates represent minority investments in various companies, with the 29.01% interest in Philips Lighting being the most notable investment. The valuation basis for the retained interest is the lower of the carrying value as per November 28, 2017 based on the closing share price of EUR 32.975 (the date of initial recognition of an investment in associate in the Company balance sheet) or the value based on the stock price, less cost to sell, at reporting date.

The changes during 2017 were as follows:

Koninklijke Philips N.V.
Financial fixed assets in millions of EUR
2017

	investments in group companies	investments in associates	loans	total
Balance as of January 1, 2017	13,891	57	8,064	22,012
Changes:				
Acquisitions/ additions	887	1,374	264	2,524
Sales/redemption	(2,247)	(7)	(1,801)	(4,055)
Net income from affiliated companies	860	(1)		859
Dividends received	(213)			(213)
Value adjustment		(109)		(109)
Translation differences	(1,036)	(5)	(731)	(1,772)
Balance as of December 2017	**12,142**	**1,308**	**5,796**	**19,246**

The changes reflected in the table above mainly relate to the sale of the combined Lumileds and Automotive businesses, the deconsolidation of Philips Lighting (both described in note 3, Discontinued operations and assets classified as held for sale) and acquisitions described in note 4, Acquisitions and divestments. These notes are part of the Group financial statements, which are deemed incorporated and repeated herein by reference.

The line acquisitions/additions relates to capital injections in group companies, internal restructurings of group companies (mainly relating to legal entities belonging to the combined Lumileds and Automotive businesses), new acquisitions and the initial recognition of Philips Lighting as an investment in associate (EUR 1,368 million).

The line sales/redemptions mainly relates to the divestment of legal entities belonging to the combined Lumileds and Automotive businesses, the deconsolidation of Philips Lighting and internal restructuring transactions.

The line dividends received represents interim dividends paid by group companies to Koninklijke Philips N.V.

The line value adjustments mainly reflects the adjustment in the value of our retained interest in Philips Lighting (EUR 104 million).

The line translation adjustments reflects value adjustments of net invested capital in foreign group companies and loans to group companies denominated in other currencies than EUR. The value decline is mainly due to the lower USD/EUR rate.

A list of investments in group companies, prepared in accordance with the relevant legal requirements (Dutch Civil Code, Book 2, Sections 379 and 414), is deposited at the Chamber of Commerce in Eindhoven, Netherlands.

I Other financial assets

The changes during 2017 were as follows:

Koninklijke Philips N.V.
Other financial assets in millions of EUR
2017

	available -for-sale financial assets	loans and receivables	financial assets at fair value through profit and loss	total
Balance as of January 1, 2017	**118**	**30**		**148**
Changes:				
Reclassifications		(1)		(1)
Acquisitions/ additions	36			36
Sales/ redemptions/ reductions	(10)	(2)	(2)	(14)
Impairments	-	-		-
Value adjustments	4	-	2	6
Translation differences	(4)	-	-	(4)
Balance as of December 31, 2017	**144**	**27**		**171**

Available-for-sale financial assets

The Company's investments in available-for-sale financial assets mainly consist of investments in common shares of companies in various industries. The line acquisitions/additions mainly relates to capital calls for certain investment funds. The line sales/redemptions/reductions relates to distribution notes from those investment funds.

J Receivables

Koninklijke Philips N.V.
Receivables in millions of EUR
2016 - 2017

	2016	2017
Trade accounts receivable	86	74
Receivables from group companies	8,176	11,183
Other receivables	50	101
Advances and prepaid expenses	12	6
Derivative instruments - assets	134	73
Receivables	**8,458**	**11,436**

The Company's receivables from group companies mainly include the receivables that arose from intercompany in house bank contracts.

K Cash and cash equivalents

Cash and cash equivalents are all freely available. The increase of cash and cash equivalents was mainly due to the proceeds from sale of combined Lumileds and Automotive businesses, disposal of Philips Lighting shares and internal cash transfers.

L Shareholders' equity

Common shares

As of December 31, 2017, authorized common shares consist of 2 billion shares (December 31, 2016: 2 billion; December 31, 2015: 2 billion) and the issued and fully paid share capital consists of 940,909,027 common shares, each share having a par value of EUR 0.20 (December 31, 2016: 929,644,864).

The following table shows the movements in the outstanding number of shares:

Koninklijke Philips N.V.
Outstanding number of shares in number of shares
2016 - 2017

	2016	2017
Balance as of January 1	**917,103,586**	**922,436,563**
Dividend distributed	17,344,462	11,264,163
Purchase of treasury shares	(25,193,411)	(19,841,595)
Re-issuance of treasury shares	13,181,926	12,332,592
Balance as of December 31	**922,436,563**	**926,191,723**

Preference shares

As a means to protect the Company and its stakeholders against an unsolicited attempt to obtain (de facto) control of the Company, the Annual General Meeting of Shareholders in 1989 adopted amendments to the Company's articles of association that allow the Board of Management and the Supervisory Board to issue (rights to acquire) preference shares to a third party. The 'Stichting Preferente Aandelen Philips' has been granted the right to acquire preference shares in the Company. Such right has not been exercised as of December 31, 2017 and no preference shares have been issued. Authorized preference shares consist of 2 billion shares as of December 31, 2017 (December 31, 2016: 2 billion).

Options, restricted and performance shares

The Company has granted stock options on its common shares and rights to receive common shares in the future. Please refer to note 26, Share-based compensation, which is deemed incorporated and repeated herein by reference.

Treasury shares

In connection with the Company's share repurchase programs (see next paragraph for Share repurchase methods for the purposes of share deliveries under share-based compensation plans and capital reduction), shares which have been repurchased and are held in Treasury for the purpose of (i) delivery upon exercise of options, restricted and performance share programs, and (ii) capital reduction, are accounted for as a reduction of shareholders' equity. Treasury shares are recorded at cost, representing the market price on the acquisition date. When issued, shares are removed from treasury shares on a first-in, first-out (FIFO) basis.

When treasury shares are reissued under the Company's option plans, the difference between the cost and the cash received is recorded in retained earnings. When treasury shares are reissued under the Company's share plans, the difference between the market price of the shares issued and the cost is recorded in retained earnings, the market price is recorded in capital in excess of par value.

Dividend withholding tax in connection with the Company's purchase of treasury shares for capital reduction purposes is recorded in retained earnings.

The following transactions took place resulting from employee option and share plans:

Koninklijke Philips N.V.
Employee option and share plan transactions
2016 - 2017

	2016	2017
Shares acquired	8,601,426	15,222,662
Average market price	EUR 24.73	EUR 31.81
Amount paid	EUR 213 million	EUR 484 million
Shares delivered	13,181,926	12,332,592
Average price (FIFO)	EUR 25.86	EUR 27.07
Cost of delivered shares	EUR 341 million	EUR 334 million
Total shares in treasury at year-end	7,208,301	10,098,371
Total cost	EUR 181 million	EUR 331 million

In order to reduce share capital, the following transactions took place:

Koninklijke Philips N.V.
Share capital transactions
2016 - 2017

	2016	2017
Shares acquired	16,591,985	4,618,933
Average market price	EUR 23.84	EUR 32.47
Amount paid	EUR 396 million	EUR 150 million
Reduction of capital stock (shares)	18,829,985	
Reduction of capital stock	EUR 450 million	
Total shares in treasury at year-end		4,618,933
Total cost		EUR 150 million

Share purchase transactions related to employee option and share plans, as well as transactions related to the reduction of share capital, involved a cash outflow of EUR 642 million, which includes the impact of taxes. A cash inflow of EUR 227 million from treasury shares mainly includes settlements of share-based compensation plans.

Share repurchase methods for the purposes of share deliveries under share-based compensation plans and capital reduction

During 2017, Royal Philips repurchased shares for covering obligations resulting from past and present share-based compensation programs via three different methods: (i) daily 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 2017, Royal Philips also entered into forward contracts with several banks to repurchase shares for capital reduction purposes. The methods (ii) and (iii) are detailed below.

Forward share repurchase contracts

In order to hedge commitments under share-based compensation plans, Philips entered into a forward contract in the first quarter of 2017. This transaction involved 3 million shares. This resulted in a reduction of Retained earnings of EUR 81 million against Short-term liabilities. In 2017, there were three settlements under the forward share buy-back contract involving 2,250,000 shares, resulting in a EUR 61 million increase in Retained earnings against Treasury shares. The remaining 750,000 shares, with a forward price of EUR 27.03, will be repurchased in the first quarter of 2018.

In order to reduce its share capital, Royal Philips also entered into six forward contracts. In 2017, EUR 998 million was deducted from Retained earnings and was recorded against Short-term liabilities. The forward contacts involved 31,020,000 shares with a settlement date varying between October 2018 and June 2019 and a weighted average forward price of EUR 32.22. For further information on the forward contracts please refer to note 18, Debt of Group financial statements, which is deemed incorporated and repeated herein by reference.

Share call options

During 2016 Philips bought EUR and USD-denominated call options to hedge options granted under share-based compensation plans before 2013.

In 2017, the Company unwound 5,268,741 EUR-denominated and 2,661,016 USD-denominated call options against the transfer of the same number of Royal Philips shares (7,929,757 shares) and an additional EUR 160 million cash payment to the buyer of the call options.

The number of outstanding EUR denominated options were 3,287,125 and USD-denominated options were 2,974,344 as of December 2017.

Dividend distribution

In June 2017, Philips settled a dividend of EUR 0.80 per common share, representing a total value of EUR 742 million including costs. Shareholders could elect for a cash dividend or a share dividend. Approximately 48% of the shareholders elected for a share dividend, resulting in the issuance of 11,264,163 new common shares. The settlement of the cash dividend involved an amount of EUR 384 million (including costs).

A proposal will be submitted to the 2018 Annual General Meeting of Shareholders to pay a dividend of EUR 0.80 per common share, in cash or shares at the option of the shareholders, against the net income of the Company for 2017.

Legal reserves

As of December 31, 2017, legal reserves relate to unrealized losses on available-for-sale financial assets of EUR 30 million (2016: EUR 36 million), unrealized gains on cash flow hedges of EUR 23 million (2016: EUR 10 million unrealized losses), ‘affiliated companies’ of EUR 703 million (2016: EUR 715 million) and unrealized currency translation gains of EUR 393 million (2016: EUR 1,234 million unrealized gains).

The item ‘affiliated companies’ relates to the ‘wettelijke reserve deelnemingen’, which is required by Dutch law. This reserve relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

Limitations in the distribution of shareholders' equity

As at December 31, 2017, pursuant to Dutch law, limitations exist relating to the distribution of shareholders' equity of EUR 1,306 million. Such limitations relate to common shares of EUR 188 million, unrealized gains related to cash flow hedges of EUR 23 million, unrealized currency translation gains of EUR 393 million and 'affiliated companies' of EUR 703 million. The unrealized losses related to available-for-sale financial assets of EUR 30 million, qualify as a legal reserve and reduce the distributable amount due to the fact that this reserve is negative.

As at December, 2016, pursuant to Dutch law, limitations exist relating to the distribution of shareholders' equity of EUR 2,181 million. Such limitations relate to common shares of EUR 186 million, as well as available-for-sale financial assets of EUR 36 million, unrealized gains related to cash flow hedges of EUR 10 million, unrealized currency translation gains of EUR 1,234 million and 'affiliated companies' of EUR 715 million.

M Debt

Long-term debt

Koninklijke Philips N.V.
Long-term debt in millions of EUR, unless otherwise stated
2016 - 2017

	(range of) interest rates	average interest rate	amount outstanding in 2017	amount due in 1 year	amount due after 1 year	amount due after 5 years	average remaining term (in years)	amount outstanding in 2016
USD bonds	3.8 - 7.8%	5.4%	2,137		2,137	1,305	13.3	3,608
EUR bonds	0.0 - 0.5%	0.3%	997		997	496	3.7	
Intercompany financing	1.3% - 3.8%	3.3%	118	118				584
Bank borrowings	0.9-0.9%	0.9%	178	44	133		2.1	200
Other long-term debt	0.0-0.9%	0.9%	19	19			1.0	37
Forward contracts			970	394	576		1.2	
			4,418	**575**	**3,843**	**1,801**		**4,429**
Corresponding amount in 2016			**4,429**	**1,827**	**2,602**	**2,424**		**5,632**

The following amounts of the long-term debt as of December 31, 2017, are due in the next five years:

Koninklijke Philips N.V.
Long-term debt due in the next five years in millions of EUR
2017

2018	575
2019	1,121
2020	44
2021	44
2022	833
Long -term debt	**2,617**
Corresponding amount in 2016	**2,005**

For redemption and other further information, refer to note 18, Debt in the group financial statements, which is deemed incorporated and repeated herein by reference.

Short-term debt

Short-term debt mainly relates to the current portion of outstanding external and intercompany long-term debt of EUR 575 million (2016: EUR 1,827 million), other debt to group companies totaling EUR 15,378 million (2016: EUR 13,976 million) and short-term bank borrowings of EUR 0.03 million (2016: EUR 7 million).

N Other current liabilities

Koninklijke Philips N.V.
Other current liabilities in millions of EUR
2016 - 2017

	2016	2017
Other short-term liabilities	12	18
Accrued expenses	181	82
Derivative instruments - liabilities	332	203
Other current liabilities	**525**	**303**

O Contractual obligations and contingent liabilities not appearing in the balance sheet

The Company has entered into contracts with venture capitalists where it committed itself to make, under certain conditions, capital contributions to their investment funds to an aggregated amount of EUR 83 million (2016: EUR 90 million) until June 30, 2021. As at December 31, 2017 capital contributions already made to this investment funds are recorded as available-for-sale financial assets within Other non-current financial assets.

General guarantees as referred to in Section 403, Book 2, of the Dutch Civil Code, have been given by the Company on behalf of several group companies in the Netherlands. The liabilities of these companies to third parties and investments in associates totaled EUR 1,224 million as of year-end 2017 (2016: EUR 1,170 million). Guarantees totaling EUR 484 million (2016: EUR 667 million) have also been given on behalf of other group companies. As at December 31, 2017 there have been no credit guarantees given on behalf of unconsolidated companies and third parties (2016: also nil).

The Company is the head of a fiscal unity that contains the most significant Dutch wholly-owned group companies. The Company is therefore jointly and severally liable for the tax liabilities of the tax entity as a whole. For additional information, please refer to note 24, Contingent assets and liabilities, which is deemed incorporated and repeated herein by reference.

P Appropriation of profits and profit distributions

Pursuant to article 34 of the articles of association of the Company, a dividend will first be declared on preference shares out of net income. The remainder of the net income, after any retention by way of reserve with the approval of the Supervisory Board, shall be available for distribution to holders of common shares subject to shareholder approval after year-end. As of December 31, 2017, the issued share capital consists only of common shares. No preference shares have been issued. Article 33 of the articles of association of the Company gives the Board of Management the power to determine what portion of the net income shall be retained by way of reserve, subject to the approval of the Supervisory Board.

A proposal will be submitted to the 2018 Annual General Meeting of Shareholders to pay a dividend of EUR 0.80 per common share, in cash or shares at the option of the shareholders, against the net income of the Company for 2017.

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Q Subsequent events
12.5 Independent auditor's report

14 Five-year overview

Prior-period amounts have been restated for the treatment of the segment Lighting as a discontinued operation (see note 3, Discontinued operations and assets classified as held for sale).

Philips Group
General data in millions of EUR unless otherwise stated
2013 - 2017

	2013	2014	2015	2016	2017
Sales	14,835	14,517	16,806	17,422	17,780
Nominal sales growth	*(1)%*	(2)%	16%	4%	2%
Comparable sales growth	3%	-	4%	5%	4%
Income from operations (loss)	1,623	461	658	1,464	1,517
Financial income and expenses - net	(325)	(294)	(359)	(442)	(137)
Income (loss) from continuing operations	846	260	160	831	1,028
Income (loss) from continuing operations attributable to shareholders	843	264	146	788	814
Income (loss) from Discontinued operations	318	148	479	660	843
Net income (loss)[2]	1,164	408	638	1,491	1,870
Net income (loss) attributable to shareholders[2]	1,161	412	624	1,448	1,657
Free cash flow[1]	26	555	(154)	429	1,185
Net assets	11,195	10,933	11,725	13,453	12,023
Total employees at year-end (FTEs)	116,082	113,678	112,959	114,731	73,951

[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report

[2] The presentation of prior-year information has been updated to address two tax related adjustments as explained in note 1, Significant accounting policies.

Philips Group
Income in millions of EUR unless otherwise stated
2013 - 2017

	2013	2014	2015	2016	2017
Income from operations	1,623	461	658	1,464	1,517
as a % of sales	*10.9%*	*3.2%*	*3.9%*	*8.4%*	*8.5%*
Adjusted EBITA[1]	1,835	1,458	1,688	1,921	2,153
as a % of sales	*12.4%*	*10.0%*	*10.0%*	*11.0%*	*12.1%*
Income taxes[2]	(425)	33	(169)	(203)	(349)
as a % of income before taxes	*(33.4)%*	*14.5%*	*(51.4)%*	*(19.7)%*	*(25.4)%*
Income (loss) from continuing operations	846	260	160	831	1,028
Net income (loss)[2]	1,164	408	638	1,491	1,870

[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

[2] The presentation of prior-year information has been updated to address two tax related adjustments as explained in note 1, Significant accounting policies.

Philips Group
Capital employed in millions of EUR unless otherwise stated
2013 - 2017

	2013	2014	2015	2016	2017
Cash and cash equivalents	2,465	1,873	1,766	2,334	1,939
Receivables and other current assets	5,220	5,591	5,655	6,169	4,468
Assets classified as held for sale	507	1,613	1,809	2,180	1,356
Inventories	3,240	3,314	3,463	3,392	2,353
Non-current financial assets/investments in associates	657	619	670	525	729
Non-current receivables/assets	1,892	2,686	3,042	3,065	1,825
Property, plant and equipment	2,780	2,095	2,322	2,155	1,591
Intangible assets	9,766	10,526	12,216	12,450	11,054
Total assets	**26,527**	**28,317**	**30,943**	**32,270**	**25,315**
Property, plant and equipment:					
Capital expenditures for the year	337	324	432	360	420
Depreciation for the year	338	356	422	458	437
Capital expenditures: depreciation	1.0	0.9	1.0	0.8	1.0

Philips Group
Financial structure in millions of EUR unless otherwise stated
2013 - 2017

	2013	2014	2015	2016	2017
Other liabilities	7,713	8,414	8,808	9,080	6,509
Liabilities directly associated with assets held for sale	348	349	407	525	8
Debt	3,901	4,104	5,760	5,606	4,715
Provisions	3,370	4,517	4,243	3,606	2,059
Total provisions and liabilities	**15,332**	**17,384**	**19,218**	**18,817**	**13,292**
Shareholders' equity	11,182	10,832	11,607	12,546	11,999
Non-controlling interests	13	101	118	907	24
Group equity and liabilities	**26,527**	**28,317**	**30,943**	**32,270**	**25,315**
Net debt: group equity ratio[1]	11:89	17:83	25:75	20:80	19:81
Market capitalization at year-end	24,340	22,082	21,607	26,751	29,212

[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

Philips Group
Key figures per share in EUR unless otherwise stated
2013 - 2017

	2013	2014	2015	2016	2017
Sales per common share	16.28	15.86	18.35	18.98	19.14
Weighted average amount of shares outstanding:					
- basic[1]	911,072	915,193	916,087	918,016	928,798
- diluted[1]	922,072	922,714	923,625	928,789	945,132
Basic earnings per common share:					
Income (loss) from continuing operations attributable to shareholders per share	0.92	0.29	0.16	0.86	0.88
Net income (loss) attributable to shareholders	1.27	0.45	0.68	1.58	1.78
Diluted earnings per common share:					
Income (loss) from continuing operations attributable to shareholders per share	0.91	0.29	0.16	0.85	0.86
Net income (loss) attributable to shareholders	1.26	0.45	0.68	1.56	1.75
Dividend distributed per common share	0.75	0.80	0.80	0.80	0.80
Total shareholder return per common share	7.50	(1.70)	0.21	6.24	3.34
Shareholders' equity per common share	12.24	11.85	12.66	13.60	12.96
Price/earnings ratio	23.58	96.60	53.55	25.89	35.84
Share price at year-end	26.65	24.15	23.56	29.00	31.54
Highest closing share price during the year	26.78	28.10	27.65	29.07	35.88
Lowest closing share price during the year	20.26	20.98	20.79	20.95	27.03
Average share price	23.33	24.00	24.51	24.75	31.58
Amount of common shares outstanding at year-end[1]	913,338	914,389	917,104	922,437	926,192

1) In thousands of shares

Philips Group
Sustainability
2013 - 2017

	2013	2014	2015	2016	2017
Lives improved, in billions[1]	1.7	1.9	2.0	2.1	2.2
Green Revenues, as a % of total sales			56%	58%	60%
Green Innovation, in millions of euros			241	277	233
Operational carbon footprint, in kilotonnes CO_2-equivalent	812	743	757	821	847
Operational energy efficiency, in terajoules per million euro sales				58	60
Total energy consumption in manufacturing, in terajoules[2]	2,936	2,888	2,939	3,070	3,072
Total carbon emissions in manufacturing, in kilotonnes CO_2-equivalent [2]	94	84	84	85	55
Water intake, in thousands m^3 [2]	1,040	1,051	976	963	888
Total waste, in kilotonnes[2]	21.0	21.1	23.2	24.9	24.6
Materials provided for recycling via external contractor per total waste, in %[2]	76%	77%	78%	79%	80%
Restricted substances, in kilos[2]	29	20	18	1	0
Hazardous substances, in kilos[2]	27,262	24,712	22,394	10,496	5,243
ISO 14001 certification, as a % of all reporting organizations[2]	86	73	75	78	82
Employee Engagement Index, % favorable	75%	72%	71%	74%	76%
Female executives, in % of total	14%	15%	19%	18%	18%
Lost Workday Injuries, per 100 FTEs	0.18	0.15	0.15	0.16	0.17
Fatalities	0	1	0	0	0
Initial and continual conformance audits, number of audits	159	200	203	195	
Suppliers audits, compliance rate, in %	75%	77%	33%	59%	81%

1) Includes Philips Lighting
2) In manufacturing excluding new aquisitions

15 Investor Relations

15.1 Key financials and dividend

Key financials

Net income attributable to shareholders of Koninklijke Philips N.V. in 2017 was EUR 1,657 million, or EUR 1.75 per common share (diluted; basic EUR 1.78 per common share). This compares to EUR 1,448 million, or EUR 1.56 per common share (diluted; basic EUR 1.58 per common share), in 2016.

Key data in millions of EUR unless otherwise stated

	2015	2016	2017
Sales	16,806	17,422	17,780
Nominal sales growth	16%	4%	2%
Comparable sales growth[1]	4%	5%	4%
Income from operations	658	1,464	1,517
as a % of sales	3.9%	8.4%	8.5%
Financial expenses, net	(359)	(442)	(137)
Investments in associates	30	11	(4)
Income taxes	(169)	(203)	(349)
Income from continuing operations	160	831	1,028
Discontinued operations	479	660	843
Net income	638	1,491	1,870
Adjusted EBITA[1]	1,688	1,921	2,153
as a % of sales	*10.0%*	*11.0%*	*12.1%*
Other indicators			
Net income attributable to shareholders per common share in EUR:			
basic	0.68	1.58	1.78
diluted	0.68	1.56	1.75
Net cash provided by operating activities	598	1,170	1,870
Net capital expenditures	(752)	(741)	(685)
Free cash flow[1]	(154)	429	1,185

[1] Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

Dividend policy

Philips' dividend policy is aimed at dividend stability and a pay-out ratio of 40% to 50% of continuing net income after adjustments.

Net income after adjustments is the base figure used to calculate the dividend pay-out for the year. For 2017, the key exclusions to arrive at net income after adjustments are the following: charges related to quality and regulatory actions, charges related to the separation of the Lighting business, charges related to the CRT litigation provision in the US, charges related to portfolio rationalization measures, charges related to the consent decree focused on the defibrillator manufacturing in the US, net gain from the sale of real estate assets, received dividend income, tax charges related to the US Tax Cuts and Jobs Act and results that are shown as Discontinued operations. Restructuring, acquisition-related and separation-related charges are also excluded.

Proposed distribution

A proposal will be submitted to the Annual General Meeting of Shareholders, to be held on May 3, 2018, to declare a distribution of EUR 0.80 per common share, in cash or shares at the option of the shareholder (up to EUR 750 million if all shareholders would elect cash), against the net income for 2017.

If the above dividend proposal is adopted, the shares will be traded ex-dividend as of May 7, 2018 at the New York Stock Exchange and Euronext Amsterdam. In compliance with the listing requirements of the New York Stock Exchange and the stock market of Euronext Amsterdam, the dividend record date will be May 8, 2018.

Shareholders will be given the opportunity to make their choice between cash and shares between May 9, 2018 and June 1, 2018. If no choice is made during this election period the dividend will be paid in cash. On June 1, 2018 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 30 and 31, and June 1, 2018. 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 5, 2018. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 6, 2018. 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 4, 2018.

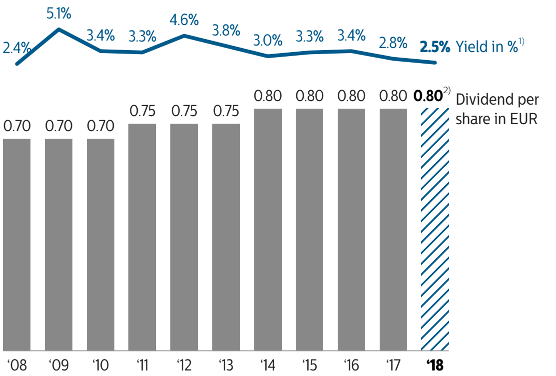
Further details will be given in the agenda for the 2018 Annual General Meeting of Shareholders. All dates mentioned remain provisional until then.

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 2017, a dividend of EUR 0.80 per common share was paid in cash or shares, at the option of the shareholder. For 48.3% of the shares, the shareholders elected for a share dividend, resulting in the issue of 11,264,163 new common shares, leading to a 1.2% dilution. EUR 384 million was paid in cash. See also section 3.5, Proposed distribution to shareholders, of this Annual Report.

	ex-dividend date	record date	payment date
Euronext Amsterdam	May 7, 2018	May 8, 2018	June 6, 2018
New York Stock Exchange	May 7, 2018	May 8, 2018	June 6, 2018

Philips Group
Dividend and dividend yield per common share
2008 - 2018



[1] Dividend yield % is as of December 31 of previous year
[2] Subject to approval by the Annual General Meeting of Shareholders in 2018

Information for investors in New York Registry shares program

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
2013 - 2017

	2013	2014	2015	2016	2017
in EUR	0.75	0.80	0.80	0.80	0.80
in USD	0.98	1.09	0.89	0.90	0.90

Exchange rates USD : EUR

The following two tables set forth, for the periods and dates indicated, certain information concerning the exchange rate for US dollars into euros based on the Noon Buying Rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate"). The Noon Buying Rate on February 9, 2018 was EUR 0.8179 per USD 1.

Exchange rate (based on the "Noon Buying Rate")
EUR per USD
2013 - 2017

	period end	average	high	low
2013	0.7257	0.7532	0.7828	0.7238
2014	0.8264	0.7533	0.8264	0.7180
2015	0.9209	0.9018	0.9502	0.8323
2016	0.9477	0.9037	0.9639	0.8684
2017	0.8318	0.8867	0.9601	0.8305

Exchange rate per month (based on the "Noon Buying Rate") EUR per USD
2017 - 2018

	highest rate	lowest rate
August, 2017	0.8545	0.8316
September, 2017	0.8513	0.8305
October, 2017	0.8636	0.8441
November, 2017	0.8638	0.8378
December, 2017	0.8529	0.8318
January, 2018	0.8388	0.8008

Unless otherwise stated, for the convenience of the reader, the translations of euros into US dollars appearing in this section have been made based on the closing rate on December 31, 2017 (USD 1 = EUR 0.8365). This rate is not materially different from the Noon Buying Rate on such date (USD 1 = EUR 0.8318).

The following table sets out the exchange rate for US dollars into euros applicable for translation of Philips' financial statements for the periods specified.

Exchange rate (based on Philips' consolidation rate)
EUR per USD
2013 - 2017

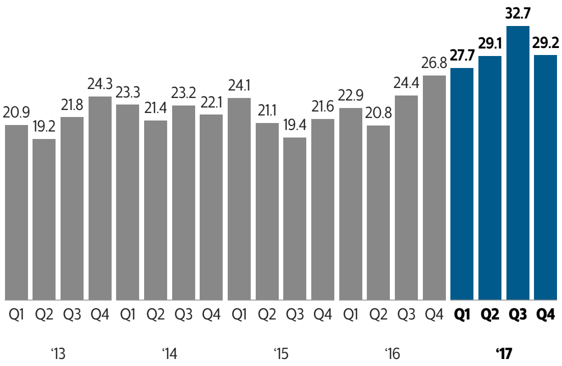
	period end	average	high	low
2013	0.7255	0.7527	0.7805	0.7255
2014	0.8227	0.7527	0.8227	0.7201
2015	0.9151	0.9007	0.9410	0.8796
2016	0.9495	0.9078	0.9495	0.8812
2017	0.8365	0.8821	0.9462	0.8365

15.2 Share information

Market capitalization

Philips' market capitalization was EUR 29.2 billion at year-end 2017. On December 31, 2017, the closing price for shares in Amsterdam was EUR 31.54 and the number of common shares issued and outstanding (after deduction of treasury shares) amounted to 926 million.

Philips Group
Market capitalization in billions of EUR
2013 - 2017



Share capital structure

During 2017, Philips' issued share capital increased by approximately 11 million common shares to approximately 941 million common shares as a result of the issuance of 11.3 million shares as elected stock dividend. As per 31 December 2017, approximately 14.7 million of the common shares issued are held by Philips as treasury shares. Out of these treasury shares, approximately 10.1 million are held to cover long-term incentive and employee stock purchase plans and approximately 4.6 million result from share repurchases made for capital reduction purposes (see below under 'Share repurchases'). The number of issued shares and outstanding as per December 31, 2017 was 926 million, up from 922 million at December 31, 2016.

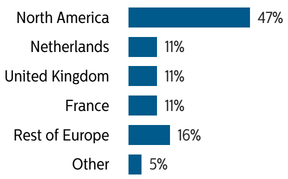
The Dutch Act on Financial Supervision imposes an obligation on persons holding certain interests to disclose (inter alia) percentage holdings in the capital and/or voting rights in the Company when such holdings reach, exceed or fall below 3, 5, 10, 15, 20, 25, 30, 40, 50, 60, 75 and 95 percent (as a result of an acquisition or disposal by a person, or as a result of a change in the company's total number of voting rights or capital issued). Certain derivatives (settled in kind or in cash) are also taken into account when calculating the capital interest. The statutory obligation to disclose capital interest does not only relate to gross long positions, but also to gross short positions. Required disclosures must be made to the Netherlands Authority for the Financial Markets (AFM) without delay. The AFM then notifies the Company of such disclosures and includes them in a register which is published on the AFM's website. Furthermore, an obligation to disclose (net) short positions is set out in the EU Regulation on Short Selling.

The AFM register shows the following notification of substantial holdings and/or voting rights at or above the 3% threshold: BlackRock, Inc.: substantial holding of 5.03% and 6.19% of the voting rights (January 5, 2017).

The AFM register also shows a notification by Philips of a substantial holding of 5.05% in its own share capital (no voting rights).

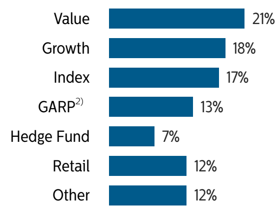
The following shareholder portfolio information is based on information provided by several large custodians and a survey conducted in December 2017.

Philips Group
Shareholders by region (approximated)[1] in %
2017



[1] Split based on identified shares in shareholder identification. Change to a new shareholder identification provider resulted in a higher amount of identified shares and some difference in allocation of the shares by region and style.

Philips Group
Shareholders by style (approximated)[1] in %
2017



[1] Split based on identified shares in shareholder identification. Change to a new shareholder identification provider resulted in a higher amount of identified shares and some difference in allocation of the shares by region and style.
[2] Growth at a reasonable price

Share repurchases

Share repurchases for capital reduction purposes

On June 28, 2017, Philips announced a EUR 1.5 billion share buyback program for capital reduction purposes, within the limits of relevant laws and regulations (in particular EC Regulation 2273/2003) and Philips' articles of association. All shares acquired under this program are held as treasury shares until they are cancelled. Philips started the purchases under this program in the third quarter of 2017 and intends to complete the program in two years. The program is being executed by means of forward contracts with financial institutions, as well as in the open market via intermediary to allow for buybacks during both open and closed periods.

In 2017, Philips entered into a number of forward contracts, for future delivery and settlement of approximately 31 million shares (in Q4 2018 and Q2 2019). Furthermore, Philips repurchased approximately 4.6 million of common shares in the open market.

By the end of 2017, Philips had completed 77% of the EUR 1.5 billion share repurchase program.

Share repurchases related to Long-Term Incentive (LTI) and employee stock purchase programs

To cover outstanding obligations resulting from past and present long-term incentive (LTI) programs, Philips repurchases Philips shares from time to time, within the limits of relevant laws and regulations (in particular EC Regulation 2273/2003) and Philips' articles of association. The shares acquired to cover such LTI positions may be held by Philips as treasury shares until these are distributed to participants. In order to acquire shares for LTI programs, Philips may repurchase shares under a discretionary management agreement with one or more intermediaries to allow for buybacks in the open market during both open and closed periods. Philips may also repurchase shares through alternative transactions, such as over-the-counter derivatives purchased from financial institutions.

In 2017, Philips acquired a total of 15.2 million shares for LTI coverage. Philips repurchased 5.0 million shares in the open market. A further 10.2 million shares were acquired under certain over-the-counter derivatives purchased in 2016 and 2017. During 2018, Philips may continue with additional repurchases, the size of which will depend on the movement of the Philips share price.

As of December 31, 2017, Philips still held 6.3 million options as a hedge of 6.8 million remaining employee options (granted until 2013), which will automatically be exercised upon the exercise of such employee options.

A total of 10.4 million shares were held in treasury by the Company on December 31, 2017 (2016: 7.2 million shares) for coverage of LTI plans. As of that date, a total of 20.8 million rights under LTI plans were outstanding (2016: 33.5 million shares).

Further details on the share repurchase programs can be found on the Investor Relations website. For more information see chapter 10, Corporate governance, of this Annual Report.

Philips Group
Impact of share repurchases on share count in thousands of shares
2013 - 2017

	2013	2014	2015	2016	2017
Shares issued	937,846	934,820	931,131	929,645	940,909
Shares in treasury	24,508	20,431	14,027	7,208	14,717
Shares outstanding	913,338	914,389	917,104	922,437	926,192
Shares repurchased	27,811	28,538	20,296	25,193	19,842
Shares cancelled	37,779	21,838	21,361	18,830	

Philips Group
Total number of shares repurchased in thousands of shares unless otherwise stated
2017

	share repurchases related to capital reduction program	average price paid per share in EUR	share repurchases related to LTI program	average price paid per share in EUR
January, 2017			1,885	28.64
February, 2017				
March, 2017			1,679	29.06
April, 2017				
May, 2017			571	32.27
June, 2017			1,730	30.03
July, 2017				
August, 2017				
September, 2017			2,227	32.02
October, 2017			1,667	35.36
November, 2017			4,579	34.12
December, 2017	4,619	32.47	886	27.86
Total	**4,619**		**15,223**	
of which				
purchased in the open market	*4,619*		*5,043*	
acquired under over-the-counter derivatives			*10,180*	

15.3 Philips' rating

Philips' existing long-term debt is rated A- by Fitch, Baa1 by Moody's and BBB+ by Standard & Poor's (all with stable outlook). As part of its capital allocation policy, Philips is committed to a strong investment grade credit rating. There is no assurance that Philips will be able to achieve this goal. Ratings are subject to change at any time. 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 contain a 'Change of Control Triggering Event' and the EUR-denominated bonds contain a 'Change of Control Put Event', as both described in more detail in note 18, Debt).

Philips Group
Credit rating summary
2017

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

15.4 Performance in relation to market indices

The common shares of the Company are listed on the stock market of Euronext Amsterdam. The New York Registry Shares of the Company, representing common shares of the Company, are listed on the New York Stock Exchange. The principal market for the common shares is Euronext Amsterdam. For the New York Registry Shares it is the New York Stock Exchange.

The following table shows the high and low closing prices of the common shares on the stock market of Euronext Amsterdam as reported in the Official Price List and the high and low closing prices of the New York Registry Shares on the New York Stock Exchange:

High and low closing price of common shares
2013 - 2018

		Euronext Amsterdam (EUR)		New York Stock Exchange (USD)	
		high	low	high	low
January, 2018		33.90	31.33	41.92	37.77
December, 2017		33.20	31.54	39.19	37.90
November, 2017		35.78	32.44	41.46	38.40
October, 2017		35.88	34.07	42.10	40.16
September, 2017		35.27	31.97	41.88	38.06
August, 2017		32.63	31.36	38.42	37.06
2017	4th quarter	35.88	31.54	42.10	37.80
	3rd quarter	35.27	30.99	41.88	35.47
	2nd quarter	33.93	29.71	38.11	31.43
	1st quarter	30.13	27.03	32.18	28.94
2016	4th quarter	29.07	26.12	30.57	28.22
	3rd quarter	26.70	21.58	29.97	24.05
	2nd quarter	25.20	21.01	28.58	23.29
	1st quarter	25.13	20.95	28.58	23.68
2015	4th quarter	25.88	21.09	27.29	23.66
	3rd quarter	25.71	20.79	28.23	23.19
	2nd quarter	27.65	22.82	30.08	25.46
	1st quarter	27.40	23.16	30.31	27.54
2014	4th quarter	24.68	20.98	31.02	26.36
	3rd quarter	25.27	22.11	32.39	29.80
	2nd quarter	25.86	22.22	35.95	30.35
	1st quarter	28.10	23.88	38.36	33.13
2013		26.78	20.26	36.97	26.60

Euronext Amsterdam

Philips Group
Share price development in Euronext Amsterdam in EUR
2016 - 2017

PHIA	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2017												
High	29.40	28.54	30.13	31.99	33.34	33.93	32.80	32.63	35.27	35.88	35.78	33.20
Low	27.14	27.03	28.45	29.71	31.32	31.10	30.99	31.36	31.97	34.07	32.44	31.54
Average	28.28	27.64	29.20	30.46	32.10	32.16	31.73	32.01	34.10	34.98	33.72	32.40
Average daily volume[1]	7.00	5.61	5.41	7.00	5.31	6.50	5.61	4.93	6.11	5.93	5.21	4.81
2016												
High	24.50	24.33	25.13	25.20	24.33	24.11	24.39	26.18	26.70	27.73	27.90	29.07
Low	22.15	20.95	23.56	23.55	22.57	21.01	21.58	23.51	25.25	26.12	26.50	26.60
Average	22.98	22.47	24.37	24.50	23.34	22.80	23.15	25.05	26.08	26.67	27.20	28.18
Average daily volume[1]	10.58	8.31	6.81	5.96	5.58	6.67	5.94	5.41	5.92	5.73	6.94	5.27

[1] In millions of shares

New York Stock Exchange

Philips Group
Share price development in New York Stock Exchange in USD
2016 - 2017

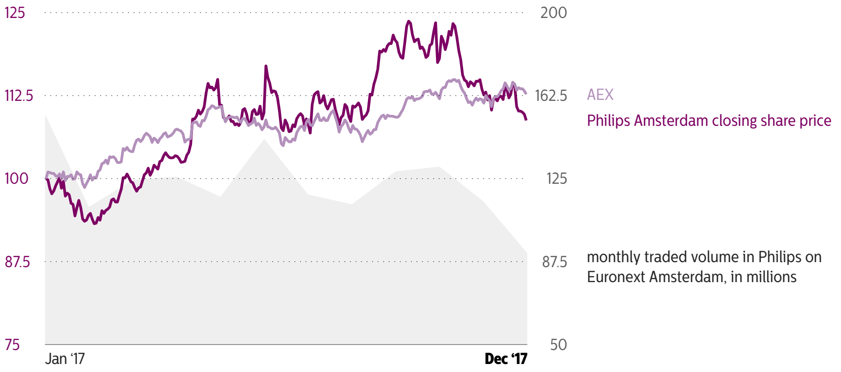
PHG	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2017												
High	30.74	30.29	32.18	34.94	36.45	38.11	38.17	38.42	41.88	42.10	41.46	39.19
Low	29.10	28.94	30.36	31.43	34.54	35.27	35.47	37.06	38.06	40.16	38.40	37.80
Average	30.04	29.42	31.25	32.67	35.51	36.18	36.66	37.79	40.70	41.13	39.56	38.30
Average daily volume[1]	1.98	1.83	1.71	1.81	1.39	1.57	1.42	0.77	1.78	1.92	1.55	0.94
2016												
High	26.68	26.57	28.58	28.58	27.62	27.11	26.74	29.11	29.97	30.19	30.55	30.57
Low	24.04	23.68	26.08	26.74	24.97	23.29	24.05	26.28	28.34	28.43	28.61	28.22
Average	24.97	25.04	27.23	27.76	26.29	25.67	25.58	28.04	29.20	29.35	29.31	29.70
Average daily volume[1]	1.72	1.73	1.71	1.26	1.00	1.23	1.98	1.92	1.41	1.10	1.41	1.45

[1] In millions of shares

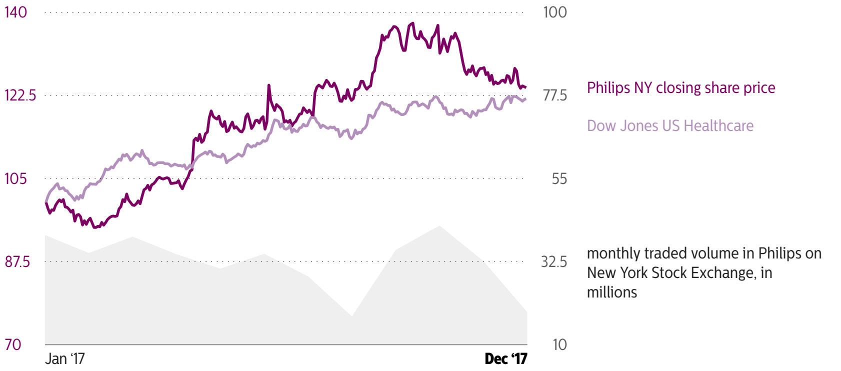
Philips Group
Share information

Share listings	Euronext Amsterdam, New York Stock Exchange
Ticker code	PHIA, PHG
No. of shares issued at Dec. 31, 2017	941 million
No. of shares outstanding issued at Dec. 31, 2017	926 million
Market capitalization at year-end 2017	EUR 29.2 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

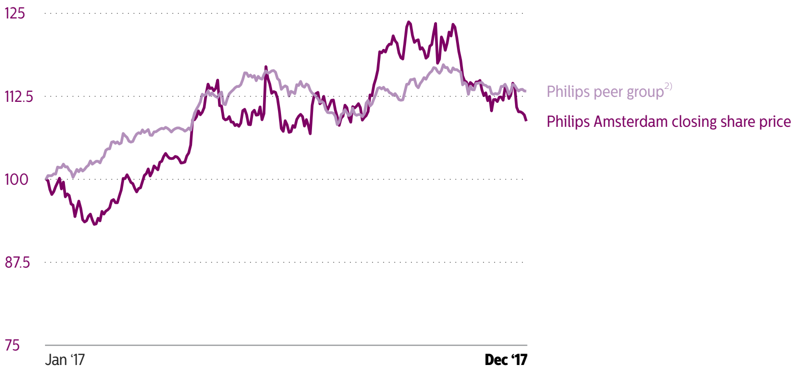
Philips Group
Relative performance: Philips and AEX (indexed)
2017



Philips Group
Relative performance: Philips and Dow Jones US Healthcare (indexed)
2017



Philips Group
Relative performance: Philips and unweighted peer group (indexed)[1]
2017



[1] The peer group companies are separately indexed, and then an unweighted average of these indexed values is used.
[2] The peer group consists of: Becton Dickinson, Boston Scientific, Cerner, Danaher, De'Longhi, Elekta, Fresenius, General Electric, Getinge, Groupe SEB, Hitachi, Hologic, Johnson & Johnson, Medtronic, Resmed, Siemens, Smith & Nephew, Stryker, Terumo. This graph is not linked to the TSR performance calculation as part of the Long-Term Incentive Plan.

15.5 Financial calendar

Financial calendar

Annual General Meeting of Shareholders	
Record date Annual General Meeting of Shareholders	April 5, 2018
Annual General Meeting of Shareholders	May 3, 2018
Quarterly reports	
First quarter results 2018	April 23, 2018
Second quarter results 2018	July 23, 2018
Third quarter results 2018	October 22, 2018
Fourth quarter results 2018	January 29, 2019

15.6 Investor contact

Shareholder services

Holders of shares listed on Euronext Amsterdam

Non-US shareholders and other non-US interested parties can make inquiries about the Annual Report 2017 to:

Royal Philips
Annual Report Office
Philips Center, HBT 12
P.O. Box 77900
1070 MX Amsterdam, The Netherlands
E-mail: annual.report@philips.com

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

ABN AMRO Bank N.V.
Department Equity Capital Markets/Corporate Broking HQ7050
Gustav Mahlerlaan 10, 1082 PP Amsterdam
The Netherlands
Telephone: +31-20-34 42000
Fax: +31-20-62 88481
E-mail: corporate.broking@nl.abnamro.com

Holders of New York Registry shares

Holders of New York Registry shares and other interested parties in the US can make inquiries about the Annual Report 2017 to:

Citibank Shareholder Service
P.O. Box 43077 Providence, Rhode Island 02940-3077
Telephone: 1-877-CITI-ADR (toll-free)
Telephone: 1-781-575-4555 (outside of US)
Fax: 1-201-324-3284
Website: www.citi.com/dr
E-mail: citibank@shareholders-online.com

Communications concerning share transfers, lost certificates, dividends and change of address should be directed to Citibank. The Annual Report on Form 20-F is filed electronically with the US Securities and Exchange Commission.

International direct investment program

Philips offers a dividend reinvestment and direct share 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 and to reinvest cash dividends. 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:

Citibank Shareholder Service
Telephone: 1-877-248-4237 (1-877-CITI-ADR)
Monday through Friday 8:30 AM EST
through 6:00 PM EST
Website www.citi.com/dr
E-mail: citibank@shareholders-online.com

or write to:

Citibank Shareholder Service
International Direct Investment Program
P.O. Box 2502, Jersey City, NJ 07303-2502

2018 Annual General Meeting of Shareholders

The Agenda and the explanatory notes to the Agenda for the Annual General Meeting of Shareholders on May 3, 2018, will be published on the Company's website.

For the 2018 Annual General Meeting of Shareholders, a record date of April 5, 2018 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.

Investor Relations activities

From time to time the Company communicates with investors via road shows, broker conferences and a Capital Markets Day, announced in advance on the Company's website. The purpose of these engagements is to inform the market of the results, strategy and decisions made, as well as to receive feedback from shareholders. Furthermore, the Company engages in bilateral communications with investors. These take place either at the initiative of the Company or at the initiative of investors. The Company is generally represented by its Investor Relations department during these interactions, however, on a limited number of occasions the Investor Relations department is accompanied by one or more members of the senior management. The subject matter of the bilateral communications ranges from individual queries from investors to more elaborate discussions following disclosures that the Company has made, such as its annual and quarterly reports. Also here, the Company is strict in its compliance with applicable rules and regulations on fair and non-selective disclosure and equal treatment of shareholders.

More information on the activities of Investor Relations can be found in chapter 10, Corporate governance, of this Annual Report.

Analysts' coverage

Philips is covered by approximately 25 analysts who frequently issue reports on the company. For a list of our current analysts, please refer to: www.philips.com/a-w/about/investor/stock-info/analyst-coverage.html

How to reach us

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16 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 enables to create more value, both by cost savings and by developing new markets or growing existing ones.

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 comprise all R&D activities directly contributing to the development of Green Products or Green Technologies.

Green Products

Green Products offer a significant environmental improvement in one or more Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Recycling and disposal 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 sector 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%, outperforming product specific eco-requirements or by being awarded with a recognized eco-performance label. Because of different product portfolios, sectors 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 of 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.

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, the Middle East (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

Initiatief Duurzame Handel (IDH)

IDH is the Dutch Sustainable Trade Initiative. It brings together government, frontrunner companies, civil society organizations and labor unions to accelerate and up-scale sustainable trade in mainstream commodity markets from the emerging countries to Western Europe.

International Standardization Organization (ISO)

The International Standardization Organization (ISO) is the world's largest developer and publisher of International Standards. ISO is a network of the national standards institutes of more than 160 countries, one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system. ISO is a non-governmental organization that forms a bridge between the public and private sectors.

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. We established our 2012 baseline at 1.6 billion a year.

Mature geographies

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

Non-Governmental Organization (NGO)

A non-governmental organization (NGO) is any non-profit, voluntary citizens' group which is organized at a local, national or international level.

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. The 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. The list of products made from polyvinyl chloride is exhaustive, ranging from phonograph records to drainage and potable piping, water bottles, cling film, credit cards and toys. More uses include window frames, rain gutters, wall paneling, doors, wallpapers, flooring, garden furniture, binders and even pens.

REACH
Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) is a European Union regulation dated 18 December 2006. REACH addresses the production and use of chemical substances, and their potential impacts 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.

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 (“to ensure healthy lives and promote well-being for all at all ages”) or 12 (“to ensure sustainable consumption and production patterns”). This includes all Diagnosis & Treatment and Connected Care & Health Informatics innovation spend. Next, innovation spend that contributes to Green Products and healthy living at Personal Health is included. Finally, innovation spend at HealthTech Other is included that addresses the SDGs 3 and 12.

Sustainable Revenues
Sustainable Revenues are revenues generated through products and solutions that address the United Nations Sustainable Development Goals 3 (“to ensure healthy lives and promote well-being for all at all ages”) or 12 (“to ensure sustainable consumption and production patterns”) and include all Diagnosis & Treatment and Connected Care & Health Informatics revenues. Next, Green Revenues and non-Green revenues that contribute to healthy living at Personal Health are included.

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 to achieve. 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.

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 which became European Law in February 2003, 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.

17 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 and future developments in our business. 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, forward-looking 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 forward-looking statements.

These factors include, but are not limited to, domestic and global economic and business conditions, developments within the euro zone, the successful implementation of our strategy and our ability to realize the benefits of this strategy, our ability to develop and market new products, changes in legislation, legal claims, changes in exchange and interest rates and regulations, changes in tax rates, pension costs and actuarial assumptions, raw materials and employee costs, our ability to identify and complete successful acquisitions and to integrate those acquisitions into our business, our ability to successfully exit certain businesses or restructure our operations, the rate of technological changes, cyber-attacks, breaches of sybersecurity political, economic and other developments in countries where Philips operates, industry consolidation and competition, and the state of international capital markets as they may affect the timing and nature of the dispositions by Philips of its remianing interests in Philips Lighting.

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 chapter 6, Risk management, of this Annual Report.

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.

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 do not exist, fair values are estimated using valuation models and unobservable inputs, which we believe are appropriate for their purpose. They 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.

IFRS basis of presentation

The audited consolidated financial statements as of December 31, 2017 and 2016, and for each of the years in the three-year period ended December 31, 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective year-end 2017 have been endorsed by the EU, except that the EU did not adopt certain paragraphs of IAS 39 applicable to certain hedge transactions. Philips has no hedge transactions to which these paragraphs are applicable. Consequently, the accounting policies applied by Philips also comply with IFRS as issued by the IASB.

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.

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).

www.philips.com/annualreport2017