

Transforming healthcare 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 2018. The information in this PDF has been derived from the audited financial statements 2018 of Koninklijke Philips N.V. Ernst & Young Accountants has issued unqualified auditors' reports on these financial statements.

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IFRS basis of presentation

The financial information included in this document is based on IFRS, as explained in Significant accounting policies, of the Annual Report 2018, unless otherwise indicated.

References to Philips

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

Philips Lighting/Signify

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

Dutch Financial Markets Supervision Act

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

Statutory financial statements and management report

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

Front cover: In 2018, Philips launched its Lumify with Reacts mobile tele-ultrasound solution in Kenya and Nigeria. This solution is based on Philips' Lumify portable ultrasound system and powered by Innovative Imaging Technologies' Reacts collaborative platform. It connects clinicians in real time by turning a compatible smart device into an integrated tele-ultrasound solution, combining two-way audio-visual calls with live ultrasound streaming.

1 Message from the CEO

“Our transformation into a customer-centric solutions company is gathering momentum, and with our focus on innovation and continuous improvement we will unlock further value.” **Frans van Houten**, CEO Royal Philips

Dear Stakeholder,

In 2018 we made further progress on our journey to extend our leadership as a health technology company. In my frequent meetings with our hospital customers, they tell me how they appreciate our strategy and are keen to engage with us. They want to know more about our innovative solutions – suites of systems, smart devices, software and services – that can help them deliver on the Quadruple Aim of improved patient experience, better health outcomes, improved staff experience, and lower cost of care. At the same time, we see a real interest among consumers, healthcare professionals, insurers and policy makers to help people towards a healthier lifestyle and support primary and secondary prevention of health challenges. We see this as a validation of our strategy to drive technology innovation along the health continuum and disease pathways. As a result, we have seen growing demand for our products and solutions, an increase in long-term strategic partnerships, and substantial growth of order intake.

With comparable sales growth of 5%^{*)} and the Adjusted EBITA^{*)} margin improving by 100 basis points to 13.1% in 2018, we continue to deliver on our financial targets. Having said that, our performance at segment level shows we still have scope for further improvement. Our Diagnosis & Treatment businesses had a very good year in terms of sales growth, order intake growth and improved earnings. At Connected Care & Health Informatics, topline growth was flat and we continued to make substantial investments in R&D, but the expanding order book gives us confidence we are on the right path to boost growth. Personal Health had a slower year, in part due to internal execution challenges, but we have taken decisive action. We are confident about the road ahead, given the exciting array of innovative new products and services we are bringing onto the market. We also made a number of complementary acquisitions in 2018 to strengthen businesses across our portfolio.

In light of the continuous performance improvement over the last three years and the strength of our balance sheet, we propose to increase the dividend by 6%.

While the current geopolitical and macroeconomic uncertainty is a challenge, we are making progress with our ‘self-help’ initiatives to address headwinds such as

trade tariffs and emerging-market currency volatility, for instance by adjusting our supply base, leveraging our multi-modality factories, and extending our productivity plans. Last year I wrote that making further progress on product performance and quality was our highest priority for 2018. We continue to invest substantially in driving quality and compliance, and while there is still work to do, we are starting to reap the benefits of our improvement efforts, positioning us well for the future.

Transforming healthcare through innovation

Meeting the growing demand and improving the delivery of care while containing costs – that is the very substantial challenge faced by health systems around the world. It is driving the shift towards value-based care, the consolidation of hospitals into Integrated Delivery Networks, and the consumerization of healthcare, as well as increasing the importance of preventative care, early disease detection, and the management of chronic disease *outside* the hospital.

Innovative health technology is helping to transform healthcare, supporting improved outcomes as well as productivity gains. The growing role of data, informatics and Artificial Intelligence (AI) is having a major impact, principally in the areas of precision diagnosis, clinical decision support, care orchestration, telehealth and, not least, in helping consumers to live a healthy life or cope with chronic disease. In this market, which has attractive growth rates and profit pools, we have strong positions across the health continuum.

At Philips, we believe in *integrated, connected* care – connecting consumers/patients, providers and payers more effectively and leveraging informatics for better outcomes at lower cost.

We enable clinicians to make precision diagnosis and deliver personalized, minimally invasive therapies through our digital imaging and clinical informatics solutions. A shining example is our Azurion image-guided therapy platform, which has secured a +300 basis points gain in market share and over 1,000 orders since its launch in 2017.

We empower care professionals with healthcare informatics solutions like our IntelliSpace Portal data integration, visualization and analysis platform for enhanced diagnostic confidence, and monitoring,

predictive analytics solutions like our IntelliVue Guardian with Early Warning Scoring, which enables nursing staff to identify patients whose condition may be deteriorating rapidly.

We enable people to recover, or live with chronic disease, at home, thanks to solutions such as our new Trilogy Evo home ventilation platform plus Care Orchestrator cloud-based management system. Likewise, we enable people to stay healthy and prevent disease by means of connected products like our Pregnancy+ parenting app and our Sonicare DiamondClean electric toothbrush with Sonicare app, which includes teledentistry and automatic brush-head reordering services.

Joining up the dots from the ICU to the home, our HealthSuite platforms support the seamless flow of data needed to care for people in real time, wherever they are.

Our innovation strength has been key to these transformational solutions, and I am convinced there is even better to come. We continue to maintain a high level of investment in R&D, with a strong focus on software and data science, and we now apply the Quadruple Aim as a guide in all our development choices, so that our innovations have maximum impact and are fully scalable.

Delivering on our sustainability commitments

Reflecting our commitment to the United Nations' Sustainable Development Goals, we continue to embed sustainability deeper in the way we do business. With its focus on access to care, circular economy and climate action, our 'Healthy people, Sustainable planet' program is the vehicle that will enable us to deliver on these commitments. In December 2018, Philips became the world's first health technology company to have its CO₂ emission targets approved by the Science Based Targets initiative. Our sustainability performance received renewed recognition when – in the first year since our reclassification to the Health Care Equipment & Services industry group – we took second place in the 2018 Dow Jones Sustainability Index. With health systems the world over increasingly keen to reduce their environmental footprint, we remain convinced that sustainability can be a key competitive differentiator.

Roadmap to win

With our transformation into a customer-first solutions company gathering pace, we have identified three main drivers of continued growth and improved profitability: *Better serve customers and improve quality; Boost growth in core business; Win with solutions along the health continuum.*

We believe that by engaging more deeply with our customers and consumers, making it easier for them to do business with us, developing more compelling solutions, and acting with increased agility, speed and efficiency, we will deliver greater value for all our stakeholders.

This means making a big step up in quality, operational excellence and productivity, and continuing to drive the digital transformation in every area of our business. It means capturing geographic growth opportunities and pivoting to consultative customer partnerships and business models that offer a much deeper relationship, with recurring revenue streams. In that regard, our multi-year 'patient monitoring as a service' agreement with Miami's Jackson Health System and our medical technology partnership agreements with Children's Health hospital in Dallas and Munich Municipal Hospital are a blueprint for the way to go. It also means continuing the shift from products to innovative value-added, integrated solutions, supported by organic growth and disciplined M&A.

Together, these measures will drive sustained performance improvement as we pursue our overall targets of 4-6% comparable sales growth^{*)} and an Adjusted EBITA^{*)} margin improvement of 100 basis points on average per year for the period 2017-2020. We also expect to increase the annual free cash flow^{*)} to above EUR 1.5 billion by 2020.

In the end, culture is foundational to our strategic ambitions. At Philips we place five key elements high on our culture agenda: putting customers first, acting with quality and integrity, teaming up to win, taking ownership to deliver fast, and improving and inspiring each other. These behaviors create a shared understanding of how we *all* need to act in order to delight the customer and drive market success.

In conclusion

On a personal note, I would like to thank our customers, shareholders and other stakeholders for the confidence they have shown in Philips over the past year. I would also like to thank our employees for their hard work and dedication, as we seek to combine day-to-day performance with a profound, customer-focused transformation.

Pleased with the progress we are making, yet conscious that we still have a way to go, I strongly believe that the combination of our sense of purpose, innovation strength, culture of customer centricity and deep commitment to continuous improvement is a potent recipe for Philips to win and make the world healthier and more sustainable.

Frans van Houten
Chief Executive Officer

^{*)} Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 56](#).

2 Board of Management and Executive Committee

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 and the Executive Committee since April 2011

For a full résumé, click [here](#)

Sophie Bechu

Born 1960, French/American

Executive Vice President

Chief of Operations

For a full résumé, click [here](#)

Abhijit Bhattacharya

Born 1961, Indian

Executive Vice President

Member of the Board of Management since December 2015

Chief Financial Officer

For a full résumé, click [here](#)

Rob Cascella

Born 1954, American

Executive Vice President

Chief Business Leader of Diagnosis & Treatment

For a full résumé, click [here](#)

Marnix van Ginneken

Born 1973, Dutch/American

Executive Vice President

Member of the Board of Management since November 2017

Chief Legal Officer

For a full résumé, click [here](#)

Andy Ho

Born 1961, Chinese

Executive Vice President

Market Leader of Philips Greater China

For a full résumé, click [here](#)

Roy Jakobs

Born 1974, Dutch/German

Executive Vice President

Chief Business Leader of Personal Health

For a full résumé, click [here](#)

Henk Siebren de Jong

Born 1964, Dutch

Executive Vice President

Chief of International Markets

For a full résumé, click [here](#)

Ronald de Jong

Born 1967, Dutch

Executive Vice President

Chief Human Resources Officer, Chairman Philips Foundation

For a full résumé, click [here](#)

Carla Kriwet

Born 1971, German

Executive Vice President

Chief Business Leader of Connected Care & Health Informatics

For a full résumé, click [here](#)

Vitor Rocha

Born 1969, Brazilian/American

Executive Vice President

Market Leader of Philips North America

For a full résumé, click [here](#)

Jeroen Tas

Born 1959, Dutch

Executive Vice President

Chief Innovation and Strategy Officer

For a full résumé, click [here](#)

This page reflects the composition of the Executive Committee as per December 31, 2018. As announced on January 10, 2019, Philips has realigned the composition of its reporting segments. Effective as of January 1, 2019, the Sleep & Respiratory Care business has shifted from the Personal Health segment to the renamed Connected Care segment and most of the Healthcare Informatics business have shifted from the renamed Connected Care segment to the Diagnosis & Treatment segment. The Diagnosis & Treatment segment is comprised of two clusters: Precision Diagnosis led by Rob Cascella and Image-Guided Therapy led by Bert van Meurs. Mr. van Meurs was also appointed as a member of the Executive Committee, effective as of January 1, 2019.

3 Strategy and Businesses

3.1 Transforming healthcare through innovation

Healthcare challenges the world over

All around the world, trends such as growing, aging populations, the increase in chronic illnesses and changing reimbursement systems have created a need for more efficient, effective and sustainable models of care. At the same time, a growing focus on healthy living and prevention means people are looking for new ways to monitor and manage their health. In underserved communities, meanwhile, access to care remains a pressing issue.

A clear vision guiding our actions

Led by our vision of making the world healthier and more sustainable through innovation, Philips is driving the digital health revolution to unlock the value of seamless care, helping people to look after their health at every stage of life – with the goal of improving the lives of 3 billion people a year by 2025.

This ambition demands an approach that addresses both the social and ecological dimensions, as reflected in our commitment to the United Nations' Sustainable Development Goals 3, 12 and 13:

- Ensure healthy lives and promote well-being for all at all ages
- Ensure sustainable consumption and production patterns
- Take urgent action to combat climate change and its impacts

With its focus on access to care, circular economy and climate action, our 'Healthy people, Sustainable planet' program, running from 2016-2020, is designed to help us deliver on these commitments.

Innovating care

The desire for affordable and effective healthcare delivery, without compromising the future availability of natural resources, is driving the adoption of value-based care. This will first require a shift from volume to value, which Philips is driving through innovation, as well as by transforming the way we engage with customers and shape business models. Secondly, it will require the balance to shift from acute and episodic care more towards primary and secondary preventative care in the community and home, improving overall population health.

At Philips, we like to visualize healthcare as a continuum since it puts people at the center and supports the idea of *care pathways*. Believing that healthcare should be seamless, efficient and effective, we 'join up the dots' for our customers and consumers. Data and informatics will play an ever-increasing role in helping people to live healthily and/or cope with disease, and in enabling care providers to meet people's needs, deliver better outcomes and improve productivity.

Applying our extensive consumer insights, we develop locally relevant, connected solutions that support healthier lifestyles, prevent or cure disease, and help people to live well with chronic disease, also in the home and community settings. In hospitals, we are teaming up with healthcare providers in long-term strategic partnerships to innovate and transform the way care is delivered.

We listen closely to our customers' needs and together we co-create solutions – suites of systems, smart devices, software and services that drive improvements in patient outcomes, quality of care delivery and cost productivity. Increasingly, we are partnering with our customers in new business models where we take co-responsibility for our customers' key performance indicators.



Integrated solutions addressing the Quadruple Aim

Philips sees significant value in *integrated* healthcare, applying the power of predictive data analytics and artificial intelligence at the point of care, while at the same time optimizing care delivery across the health continuum. This includes an increased focus on both primary and secondary prevention and population health management programs.

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

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

Underpinning these 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.

By addressing healthcare as a ‘connected whole’ in this way, we are able to unlock gains and efficiencies and drive innovations that help our customers to deliver on the Quadruple Aim of value-based healthcare: improved patient experience, better health outcomes, improved staff experience, and lower cost of care.

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

The road ahead

As we continue on our health technology journey, the drivers set out in the roadmap below are designed to deliver higher levels of customer value and quality, boost growth, and deliver winning solutions – all coming together to improve performance and results.



3.2 How we create value

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

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

Human

- Employees 77,400, 120 nationalities, 38% female
- Philips University 1,200 new courses, 700,000 hours, 550,000 training completions
- 29,977 employees in growth geographies
- Focus on Inclusion & Diversity

Intellectual

- Invested in R&D EUR 1.76 billion (Green Innovation EUR 228 million)
- Employees in R&D 10,528 across the globe including growth geographies

Financial

- Equity EUR 12.1 billion
- Net debt*) EUR 3.1 billion

Manufacturing

- Employees in production 30,925
- Manufacturing sites 39, cost of materials used EUR 4.8 billion
- Total assets EUR 26.0 billion
- Capital expenditure EUR 422 million

Natural

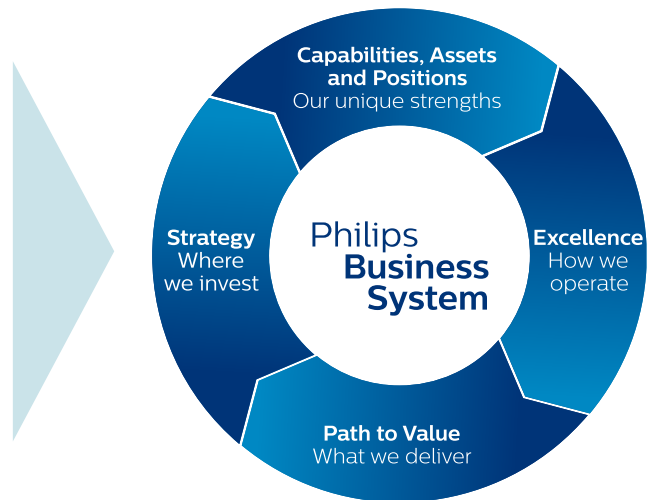
- Energy used in manufacturing 3,062 terajoules
- Water used 891,000 m³
- Recycled plastics in our products 1,840 tonnes
- 19 'zero waste to landfill' sites
- Pledge to take back all medical equipment by 2025

Social

- Philips Foundation
- Stakeholder engagement
- New volunteering policy

Philips 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, shareholders, and other stakeholders.



Strategy - Where we invest

We manage our portfolio with clearly defined strategies and allocate resources to maximize value creation.

Capabilities, Assets and Positions - Our unique strengths

We strengthen and leverage our core Capabilities, Assets and Positions as they create differential value: deep customer insight, technology innovation, our brand, global footprint, and our people.

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.

Human

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

Intellectual

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

Financial

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

Manufacturing

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

Natural

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

Social

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

Value outcomes

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

Human

- Employee Engagement Index 74% favorable
- Sales per employee EUR 234,121

Intellectual

- New patent filings 1,120
- IP Royalties Adjusted EBITA^{*)} EUR 272 million
- 141 design awards

Financial

- Comparable sales growth^{*)} 5%
- 64% Green Revenues
- Adjusted EBITA^{*)} as a % of sales 13.1%
- Net cash provided by operating activities EUR 1.8 billion
- Net capital expenditures EUR 796 million

Manufacturing

- EUR 18.1 billion revenues from products and solutions sold

Natural

- 12% revenues from circular propositions
- Net CO₂ emissions down to 436 kilotonnes
- 257,000 tonnes (estimated) materials used to put products on the market
- Waste down to 24.5 kilotonnes, of which 84% recycled

Social

- Brand value USD 12.1 billion (Interbrand)
- Partnerships with UNICEF, Red Cross, Amref and Ashoka

Societal impact

The societal impact of Philips through its supply chain, its operations, and its products and solutions

Human

- Employee benefit expenses EUR 5,287 million
- Appointed 77% of our senior positions from internal sources
- 21% of Leadership positions held by women

Intellectual

- Around 40% of revenues from new products and solutions introduced in the last three years

Financial

- Market capitalization EUR 28.3 billion at year-end
- Long-term credit rating A- (Fitch), Baa1 (Moody's), BBB+ (Standard & Poor's)
- Dividend EUR 738 million

Manufacturing

- 90% electricity from renewable sources
- 240,000 employees impacted at suppliers participating in the 'Beyond Auditing' program

Natural

- Environmental impact Philips operations down to EUR 175 million
- 1st health technology company to have its CO₂ reductions assessed and approved by the Science Based Targets initiative

Social

- 1.54 billion Lives Improved (2.24 billion including Signify), of which 175 million in underserved communities
- Income tax paid EUR 301 million; the geographic statutory income tax rate is 25% of the result before tax

^{*)} Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 56](#).

3.3 Our businesses

Our reporting structure in 2018

Koninklijke Philips N.V. (Royal Philips) is the parent company of the Philips Group, headquartered in Amsterdam, the Netherlands. The company is managed by 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 2018, the reportable segments were Diagnosis & Treatment businesses, Connected Care & Health Informatics businesses, and Personal Health businesses, each having been responsible for the management of its business worldwide. Additionally, Philips identifies the reportable segment Other. The results in this report are based on the 2018 structure shown below:

Philips			
Diagnosis & Treatment businesses	Connected Care & Health Informatics businesses	Personal Health businesses	Other
Diagnostic Imaging Image-Guided Therapy Ultrasound	Monitoring & Analytics Therapeutic Care Healthcare Informatics Population Health Management	Health & Wellness Personal Care Domestic Appliances Sleep & Respiratory Care	Innovation IP Royalties Central costs Other
Focus of external reporting			

To further align its businesses with customer needs, Philips announced in January 2019 the realignment of the three reportable segments – Diagnosis & Treatment, Connected Care & Health Informatics and Personal Health – effective January 1, 2019. The most notable changes are the shift of the Sleep & Respiratory Care business from the Personal Health segment to the renamed Connected Care segment and the shift of the Healthcare Informatics business (excluding the Tasy EMR business and IntelliSpace Enterprise Edition) from the Connected Care segment to the Diagnosis & Treatment segment.

As of January 1, 2019, Philips’ reporting segments are composed as follows:

Diagnosis & Treatment, which unites the businesses related to the promise of precision diagnosis and disease pathway selection, and the businesses related to image-guided, minimally invasive treatments. This segment comprises the Diagnostic Imaging, Ultrasound, Healthcare Informatics and Image-Guided Therapy businesses.

Connected Care, which focuses on patient care solutions, advanced analytics and patient and workflow optimization inside and outside the hospital, and aims to unlock synergies from integrating and optimizing patient care pathways and leveraging provider-payer-patient business models. This segment comprises the Monitoring & Analytics, Therapeutic Care, Population Health Management, and Sleep & Respiratory Care businesses (including the Home Respiratory Care business).

Personal Health, which focuses on healthy living and preventative care. This segment comprises the Personal Care, Domestic Appliances, Oral Healthcare, and Mother & Child Care businesses.

3.3.1 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.

About Diagnosis & Treatment businesses in 2018

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 the Quadruple Aim – an improved patient experience, better health outcomes, an improved staff experience and lower cost of care – by connecting people, data and technology. 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 precise 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 extract and analyze 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 continue to expand 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 2018, Philips completed the roll-out of its new Ingenia range of digital MR systems. This was part of a broader renewal of the company's Diagnostic Imaging portfolio, 70% of which has been introduced in the past two years. 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 Image-Guided Therapy, iFR – a technology used to assess coronary lesions that is unique to Philips – continued to gain traction and was incorporated into the European Society of Cardiology's updated guidelines for revascularization. We continued to expand our portfolio in Image-Guided Therapy with the acquisition of EPD Solutions, an innovator in image-guided procedures for cardiac arrhythmias. We announced a partnership with Innovative Imaging Technologies to launch an industry-first integrated tele-ultrasound solution based on Philips' Lumify portable ultrasound system. We also announced a partnership agreement with innovative women's health company Hologic to offer care professionals integrated solutions comprising diagnostic imaging modalities, advanced

informatics and services for the screening, diagnosis and treatment of women.

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

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

Philips is one of the world's leading health technology companies (based on sales) along with Medtronic, General Electric and Siemens Healthineers. The competitive landscape in the healthcare industry is evolving with the emergence of new market players.

In 2018, the Diagnosis & Treatment segment consisted of the following areas of business:

- **Diagnostic Imaging:** Magnetic Resonance Imaging, Computed Tomography, Advanced Molecular Imaging, Diagnostic X-Ray, as well as integrated clinical solutions, which include radiation oncology treatment planning, disease-specific oncology solutions and X-Ray dose management
- **Image-Guided Therapy:** interventional X-ray systems, encompassing cardiology, radiology and surgery, and interventional imaging and therapy devices that include Intravascular Ultrasound (IVUS), fractional flow reserve (FFR) and instantaneous wave-free ratio (iFR), and atherectomy catheters and drug-coated balloons for the treatment of coronary artery and peripheral vascular disease
- **Ultrasound:** imaging products focused on diagnosis, treatment planning and guidance for cardiology, general imaging, obstetrics/gynecology, and point-of-care applications, as well as proprietary software capabilities to enable advanced diagnostics and interventions.

Diagnosis & Treatment
Total sales by business as a %
 2018



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

Sales channels are a mix of a direct sales force, especially in all the larger markets, 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.

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

At year-end 2018, Diagnosis & Treatment had 27,381 employees worldwide.

With regard to regulatory compliance and quality, please refer to [Our commitment to Quality, Regulatory Compliance and Integrity, starting on page 19](#).

With regard to sourcing, please refer to Supplier indicators, of the Annual Report 2018.

2018 business highlights

Continuing the renewal of its diagnostic imaging portfolio, Philips launched the Ingenia Elition 3.0T and Ingenia Ambition 1.5T MR systems. Both systems offer superb image quality while performing exams up to 50% faster. An industry first, the Ingenia Ambition enables imaging departments to perform more productive, helium-free operations. The company also received CFDA approval to market its advanced Vereos Digital PET/CT in China.

The expansion of the Ultrasound business beyond its core strength in cardiac ultrasound into attractive adjacencies continues to be successful, driven by innovations such as an advanced transducer optimized for OB/GYN and General Imaging applications, and the telehealth capabilities of its Lumify app-based ultrasound solution.

As a leader in image-guided therapy, Philips launched its EPIQ CVxi ultrasound system combined with the latest version of its unique EchoNavigator software specifically designed for minimally invasive structural heart repairs, a fast-growing image-guided therapy segment.

Philips' Image-Guided Therapy Devices continued its strong momentum, supported by a growing amount of clinical data. Results from the DEFINE FLAIR trial demonstrated that an iFR-guided strategy reduces costs, improves patient comfort compared to an FFR-guided strategy, and delivers consistent patient outcomes. The adoption of Philips' proprietary iFR technology also reached a major milestone after its inclusion in the European Society of Cardiology's updated guidelines for the assessment of coronary artery lesions.

To further strengthen Philips' businesses through targeted acquisitions, the company acquired EPD Solutions, an innovator that has developed a breakthrough technology for image-guided treatments for cardiac arrhythmia.

Philips launched an extension to the successful Azurion image-guided therapy platform, setting a new standard in the industry. Azurion with FlexArm includes innovations for optimal visualization across the whole patient in 2D and 3D to simplify and enhance a broad range of procedures. Additionally, Philips announced the enrolment of the first patient in the new Stellarex ILLUMENATE Below-the-Knee (BTK) Investigational Device Exemption (IDE) study in the US.

3.3.2 Connected Care & Health Informatics businesses

Dr. Carla Kriwet is Chief Business Leader of the Connected Care & Health Informatics businesses segment. Prior to assuming her current role in February 2017, 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 a member of the Supervisory Boards of Carl Zeiss AG and Save the Children Germany.

About Connected Care & Health Informatics businesses in 2018

Spanning the entire health continuum, the Connected Care & Health Informatics businesses (as per the 2018 reporting structure) aim to improve patient outcomes, increase efficiency and enhance patient and caregiver satisfaction, driving towards 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 optimized patient and data flow, a smooth integration process, improved workflow, customized training and improved accessibility across our application landscape.

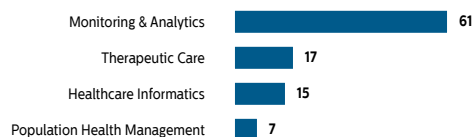
This requires a secure common digital platform that connects and aligns consumers, patients, payers and healthcare providers. Philips' platforms aggregate and leverage information from clinical, personal and historical data to support care providers in delivering first-time-right diagnoses and treatment. Philips continually builds out new capabilities within Philips HealthSuite – a cloud-based connected health ecosystem of devices, apps and digital tools – to accomplish just that. For information on how Philips manages cybersecurity risk, please refer to Operational risks, of the Annual Report 2018.

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 issues. Our integrated and data-driven approach promotes seamless patient care, helps identify risks and needs of different groups within a population, and provides clinical decision support.

In 2018, the Connected Care & Health Informatics segment consisted of the following areas of business:

- **Monitoring & Analytics** is a solutions business enabling smart decision-making for caregivers, administrators and patients, to help control costs, increase efficiency, and support better health. Monitoring & Analytics solutions encompass: integrated patient monitoring systems for all price levels, wearable biosensors, advanced intelligence platforms providing key insights and clinical decision support to clinicians when and where they need it, for real-time clinical information at the patient's bedside; patient analytics, including diagnostic ECG data management for improved quality of cardiac care; the eICU/Tele-ICU program. Monitoring & Analytics also includes maintenance, clinical and IT services as well as consumables.
- **Therapeutic Care** is expanding access to and quality of respiratory care, resuscitation, and emergency care solutions (including devices, services, and digital/data solutions). Hospital Respiratory Care (HRC) and Emergency Care & Resuscitation (ECR) solutions are helping caregivers both inside and outside the hospital, 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. In 2018, Philips acquired Remote Diagnostic Technologies (RDT), a UK-based leading innovator of advanced solutions for the pre-hospital market providing monitoring, cardiac therapy and data management. RDT's portfolio of comprehensive connected emergency care solutions complements and strengthens Philips' current range of proven monitoring and therapeutic products and solutions to help emergency medical services, hospitals and lay responders accelerate the delivery of care at the scene.
- **Healthcare Informatics**: This business includes: 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. 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. The acquisition of interoperability software solutions provider Forcare provides Philips with critical standards and interoperability expertise to interconnect healthcare information systems, share and exchange clinical data, and offer secure and reliable access to digital health information for medical staff and patients across multiple organizations and care settings.
- **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 support outside the hospital (telehealth, remote patient monitoring, personal emergency response systems and care coordination) to improve the experience of elderly people and those living with chronic conditions; actionable programs to predict risk (including medication and care compliance, outreach, and fall prediction); cloud-based solutions for health organizations to manage population health. Leveraging our acquisitions of Wellcentive, VitalHealth and BlueWillow Systems, 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 %
 2018



Revenue is earned through the sale of products and solutions, customer services fees and software license fees. Where bundled offerings result in solutions for our customers or offerings are based on number of people being monitored, we see more usage-based earnings models.

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

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

At year-end 2018, Connected Care & Health Informatics had 10,517 employees worldwide.

With regard to regulatory compliance and the consent decree agreed to by Philips and the US government, as announced in Philips' press release on October 11, 2017, please refer to [Consent Decree, starting on page 20](#).

With regard to sourcing, please refer to Supplier indicators, of the Annual Report 2018.

2018 business highlights

Building on its strengths in healthcare informatics, Philips entered into a multi-year partnership agreement with St. Andrew's Toowoomba Hospital in Australia for the hospital-wide installation of Philips Tasy and an integrated EMR system improving patient care and safety, hospital management, supply and financials. Philips will fully digitize the hospital's entire care management processes and enable anytime, anywhere access to clinical analytics.

Philips partnered with Children's Health in Dallas – one of the top pediatric hospitals in the US – to improve pediatric care with its patient monitoring and healthcare informatics solutions.

Philips acquired Remote Diagnostic Technologies, a leading provider of advanced monitoring, cardiac therapy and data management solutions for the pre-hospital market. RDT's portfolio will complement Philips' Therapeutic Care business and strengthen its

leadership position in the estimated EUR 1.4 billion resuscitation and emergency care market.

Highlighting Philips' leadership in healthcare informatics, IntelliSpace Portal, Philips' advanced data integration, visualization and analysis platform, was named 2018 Category Leader in the Advanced Visualization category in the 2018 Best in KLAS: Software & Services report.

Philips and Miami's Jackson Health System – one of the largest public health systems in the US – entered into an agreement involving an industry-first 'enterprise patient monitoring as a service' business model. This will enable Jackson to standardize patient monitoring at all acuity levels for each care setting across its network for a per-patient fee.

Partnering with Showa University, Philips launched the first tele-intensive care eICU program in Japan. This delivers near real-time remote patient monitoring and early intervention through predictive analytics and advanced audio-visual technology. It has already been successfully implemented in the US, the UK, Australia and the Middle East.

To expand its leadership in patient monitoring solutions, Philips launched FocusPoint, a web-based operational performance management application for its patient monitoring solutions. The application aggregates, processes and stores statistical and alert information, which are presented on a dashboard for optimal management of the technology.

Philips partnered with the Dana-Farber Cancer Institute to deploy best practices in cancer care. The incorporation of the Institute's Clinical Pathways in Philips' IntelliSpace Oncology Platform will help oncologists reach the most appropriate cancer treatments for patients, based on a unified view of the patient across diagnostic modalities and the embedded knowledge of both partners.

NewYork-Presbyterian Hospital selected Philips' IntelliSpace Enterprise Edition as its in-hospital clinical decision support platform to help address the Quadruple Aim of improved patient experience, better health outcomes, improved staff experience, and lower cost of care across its sites.

Leveraging Philips' expertise in remote monitoring solutions, the company partnered with Dartmouth-Hitchcock Health in the US to implement Philips' eICU technology at their hospital sites. Following the success of similar programs across the globe, Dartmouth-Hitchcock Health is the latest health system to incorporate this telehealth model to improve critical care support across multiple sites.

3.3.3 Personal Health businesses

Roy Jakobs was appointed Chief Business Leader of the Personal Health businesses effective October 1, 2018, succeeding Egbert van Acht. Roy joined Philips in 2010

as Chief Marketing Officer for Philips Lighting and in 2012 he became Market Leader for Philips Middle East & Turkey. Between 2015 and 2018 he led the Domestic Appliances business group.

About Personal Health businesses in 2018

Our Personal Health businesses (as per the 2018 reporting structure) play an important role on the health continuum – in the healthy living, prevention and home care stages – delivering integrated, connected and personalized solutions that support healthier lifestyles and those living with chronic disease.

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

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

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

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, in 2018, ResMed in Sleep & Respiratory Care.

In 2018, the Personal Health segment consisted of the following areas of business:

- **Health & Wellness:** oral healthcare, mother and child care
- **Sleep & Respiratory Care:** healthy sleeping, respiratory care
- **Personal Care:** male grooming, beauty
- **Domestic Appliances:** food preparation, home care

Personal Health
Total sales by business as a %
2018



Through our Personal Health businesses, we offer a broad range of solutions in various consumer price segments, always aiming to offer and realize premium value. We continue to rationalize our portfolio of locally

relevant innovations and increase its accessibility, particularly in lower-tier cities in growth geographies. We are well positioned to capture further growth in online sales and continue to build our digital and e-commerce capabilities.

We are leveraging connectivity to offer new business models, partnering with other players in the health ecosystem with the goal of extending opportunities for people to live healthily, prevent or manage disease. We are engaging consumers in their health journey in new and impactful ways through social media and digital innovation. For example, with the introduction of the Philips Sonicare Solutions Teledentistry Service in 2018, Philips' Sonicare complete oral care solution has become even more wide-reaching, enabling professional, remote dental consultations. The Philips Sonicare app acts as a 'virtual hub' for personal oral healthcare, helping users to manage their complete oral care on a daily basis and share brushing data with their dental practitioners, putting personalized guidance and advice at their fingertips.

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

The revenue model is mainly based on product sale at the point in time the products are delivered to the end-user or wholesalers or distributors. In Sleep & Respiratory Care, revenue is generated both through product sales and through rental models whereby revenue is generated over time.

Under normal economic conditions, Philips' Personal Health businesses experience seasonality, with higher sales around key national and international events and holidays.

At year-end 2018, Personal Health employed 22,471 people worldwide.

With regard to regulatory compliance and quality, please refer to [Our commitment to Quality, Regulatory Compliance and Integrity, starting on page 19](#).

With regard to sourcing, please refer to Supplier indicators, of the Annual Report 2018.

2018 business highlights

In line with Philips' focus on innovation, the company launched the new Philips Sonicare ProtectiveClean power toothbrush in North America, with further roll-out around the world. This introduction will further boost the profitable growth of the Oral Healthcare business.

Philips completely renewed the high-end range of its leading male grooming portfolio with the introduction of the Series 9000 Prestige shaver, which cuts facial hair feeling as close as a wet blade, while being very gentle

on the skin. In 2018 we passed the all-time milestone of 1 billion shavers sold – a landmark achievement by our Personal Care business.

Philips continued the roll-out of its OneBlade male grooming innovation, adding another 10 countries, with many more to follow, on the way to being a EUR 200 million business just a few years after its launch.

At IFA 2018, Philips introduced the High-Speed Connected Blender, which can help people achieve specific health goals, such as boosting their energy, reducing their sugar and calorie intake, or increasing their general well-being.

The app Pregnancy+ by Philips Avent is designed to support a healthy full-term pregnancy plus a safe delivery and gives expectant parents a comprehensive guide through all stages of pregnancy.

Philips' Sleep & Respiratory Care business continues to gain traction for its market-leading home ventilation offerings, such as the new Trilogy Evo ventilator platform, which is the only portable life support solution designed to stay with patients as they change care environments. Integrated with Care Orchestrator, Philips' sleep and respiratory care cloud-based management system, Trilogy Evo will help to ease the burden of managing chronic conditions such as Chronic Obstructive Pulmonary Disease (COPD) by allowing physicians, clinicians, and care providers to collaborate and coordinate care from hospital to home by storing their patient prescription and therapy information in a single secure location.

Philips acquired NightBalance, a digital health scale-up company based in the Netherlands that has developed an innovative, easy-to-use device to treat positional obstructive sleep apnea and positional snoring.

At the consumer electronics show CES 2018, Philips introduced SmartSleep, the world's first and only clinically proven wearable solution for consumers to improve deep sleep quality for people who do not get enough sleep. SmartSleep joins Philips' growing portfolio of smart digital platforms and intelligent solutions that give consumers data-driven insights into their health and access to professional expertise and advice.

Highlighting the success of Philips' patient-centric product designs in sleep care, Philips has sold more than 10 million DreamWear CPAP masks and cushions in just three years after the Dream Family platform introduction, growing the DreamWear patient interface sales faster than the market.

3.3.4 Other

In our external reporting on Other we report on the items Innovation & Strategy, IP Royalties, Central costs, and other small items.

About Other

Innovation & Strategy

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

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

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

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

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

Chief Technology Office (CTO) and Product Engineering organization

The CTO and Product Engineering organization is a group of innovation teams that orchestrates innovation across Philips' businesses and markets, initiating game-changing innovations that disrupt and cross boundaries in health technology to address opportunities for better clinical and economic outcomes and support the associated transformation of Philips into a digital solutions company. It encompasses the following organizations:

- **Innovation Management**, responsible for end-to-end innovation strategy and portfolio management, integrated roadmaps linked to solutions, New Business Creation Excellence, 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 and clinical research at sites across the globe.
- **Philips HealthWorks**, responsible for accelerating breakthrough innovation. HealthWorks incubates early-stage ventures and engages with the external start-up ecosystem.
- **I2M Excellence** is a global program driven centrally to improve and harmonize Philips' capabilities, processes and tools.
- **The Chief Architect Office**, responsible for defining, steering and ensuring compliance and uptake of the Philips HealthSuite architecture for configurable and interoperable digital propositions.
- **The Software and System Engineering Centers of Excellence**, driving adoption of industry best practices in writing and maintaining application-level software, modular and configurable system design and model-based system engineering.
- **Philips Innovation Services** provides hardware and embedded software development & engineering, technology consulting, and low-volume specialized manufacturing.

Philips HealthSuite

Philips HealthSuite constitutes our common digital framework that connects consumers, patients, healthcare providers, payers and partners in a cloud-based connected health ecosystem of devices, apps and tools.

- **HealthSuite Digital Platform (HSDP)** is the secure Philips cloud and IoT (Internet of Things) solution that forms the basis for our digital software stack, with key functionalities including hosting, authorization, connecting, storing, sharing, and analysis of data and applications. New functionality is continuously being added to the platform, like building blocks for federated data management, workflow management, and patient engagement.
- **HealthSuite Premise** is the recently launched extension of HSDP to form a hybrid-cloud solution, offering more flexibility in deployment and implementation.

The Philips HealthSuite Platforms are managed and orchestrated across Innovation & Strategy and all Philips businesses. The majority of professional and consumer-oriented digital propositions offered by Philips leverage HealthSuite, and there is also a growing number of third-party customers doing the same.

Innovation Hubs

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

- **Philips Innovation Center Eindhoven** is Philips' largest cross-functional Innovation Hub worldwide, hosting the global headquarters of many of our innovation organizations as well as many collaboration partnerships. Many of the company's core research programs are run from here.
- **Philips Innovation Center Cambridge, MA** is focused on Data Science and AI, among other things. Being within close proximity to the MIT campus and clinical collaboration partners allows researchers to collaborate easily on jointly defined research programs, validate clinical relevance, as well as to participate in Open Innovation projects.
- **Philips Innovation Center Bangalore** hosts activities from most of our operating businesses, Research, Design, Intellectual Property & Standards, and IT. This is our largest software-focused site, with over 3,500 engineers. The Center works with growth geographies to build market-specific solutions, and several businesses have also located business organizations focusing on growth geographies at the site.
- **Philips Innovation Center Shanghai** combines digital innovation, research and solutions development for the China market, while several of its locally relevant innovations are also finding their way globally.

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

Chief Medical Office

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

Leveraging the knowledge and expertise of the medical professional community across Philips, the Chief Medical Office includes many healthcare professionals who practice in the world's leading health systems. Supporting the company's objectives across the health continuum, its activities include strategic guidance built on clinical and scientific knowledge, 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 the user experiences of our 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 Co-create methodologies to define solutions. Our Co-create approach facilitates collaboration with customers and patients to create solutions that are tailored specifically to the challenges facing them, as local circumstances and workflows are key ingredients in the successful implementation of solutions.

To ensure that we connect end users along the health continuum we create a consistent experience across all touchpoints. A key enabler for this is a consistent and differentiating design language that applies to software, hardware and services across our operating businesses. In recognition of our continued excellence, Philips Design received 141 awards in 2018.

Emerging Businesses

Emerging Businesses is a business group in emerging spaces with a mission to bring intelligence to diagnosis in pathology and neurology and to guide therapy. It includes:

- **Digital & Computational Pathology** digitizes diagnosis in anatomic pathology and uses Artificial Intelligence to aid detection of disease and progression to reduce inter-observer variability and improve outcomes. 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.

IP Royalties

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

Royal Philips' total IP portfolio currently consists of 65,000 patent rights, 39,400 trademarks, 61,300 design rights and 3,200 domain names. Philips filed 1,120 new patents in 2018, with a strong focus on the growth areas in health technology services and solutions.

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. License fees and royalties are earned on the basis of usage, or fixed fees over the term of the contract.

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

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

Real estate

Philips is present in more than 70 countries globally and has its corporate headquarters located in Amsterdam, the Netherlands. Our real estate sites are well spread around the globe, with key manufacturing and R&D sites in the Americas, Asia and Europe. In 2018, we reduced our footprint in India (Chennai, Pune), Indonesia (Jakarta) and China. We also rightsized and upgraded our Milan, Madrid, Zurich and Herrsching sites in Europe and expanded our global business solutions in India, Poland and the United States. To attract R&D talent, we invested in R&D locations such as Bangalore, Shanghai, Eindhoven and others. We also made strategic investments in manufacturing sites in the Americas and Asia. The vast majority of our locations consist of leased property, and we manage these closely to keep the overall vacancy rates of our property below 5% and to ensure the right level of space efficiency and flexibility to follow our business dynamic. The net book value of our land and buildings at December 31, 2018, represented EUR 621 million; construction in progress represented EUR 46 million. Our current facilities are adequate to meet the requirements of our present and foreseeable future operations.

3.4 Our commitment to Quality, Regulatory Compliance and Integrity

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

For Philips, as a business with a significant global footprint, compliance with evolving regulations and standards including data privacy and cybersecurity has resulted, and may continue to result, in increased costs, new compliance challenges, and the threat of increased regulatory enforcement activity. Our business relies on the secure electronic transmission, storage and hosting of sensitive information, including personal information, protected health information, financial information, intellectual property and other sensitive information related to our customers and workforce. For information on how Philips manages cybersecurity risk, please refer to Operational risks, of the Annual Report 2018.

Philips actively maintains FDA/ISO Quality Systems globally that establish standards for its product design, manufacturing, and distribution processes. Our businesses are subject to compliance with regulatory product approval and quality system requirements in every market we serve, and to specific requirements of local and national regulatory authorities including the US FDA, the NMPA 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), Energy-using Products (EuP) and Product Safety Regulations. We have a growing portfolio of medically regulated products in our Health & Wellness, Personal Care and Sleep & Respiratory Care businesses. Through our growing oral healthcare, mother and child care and beauty product portfolio the range of applicable regulations has been extended to include requirements relating to cosmetics and, on a very small scale, pharmaceuticals.

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

In the EU, a new Medical Device Regulation (EU MDR) was published in 2017, which will impose significant additional pre-market and post-market requirements. Since the announcement of the EU MDR, Philips has been developing a comprehensive strategic plan to ensure compliance with the MDR requirements that will

come into effect by May 2020. The company has engaged in a top-to-bottom review of our full portfolio of products and solutions that fall under the mandate, and has developed a robust and detailed framework for a seamless transition by the time the Medical Device Regulation is operative. We will make a one-time EU MDR investment, estimated at EUR 45 million, in 2019, in addition to ongoing compliance costs for the new regulations of around EUR 25 million per year. We believe the global regulatory environment will continue to evolve, which could impact the cost, the time needed to approve, and ultimately, our ability to maintain existing approvals or obtain future approvals for our products.

Philips is committed to delivering the highest quality products, services and solutions compliant to all applicable laws and standards. We are investing substantially in driving quality into our culture, reaping the benefits of our improvement efforts addressing the past and positioning for the future. We will continue to raise the performance bar. Quality is embedded in the evaluation of all senior management. With consistency of purpose, top-down accountability, standardization, leveraging continuous improvement we aim to drive greater speed in the adoption of a quality mindset throughout the enterprise.

While pursuing our business objectives, we aim to be a responsible partner in society, acting with integrity towards our employees, customers, business partners and shareholders, as well as the wider community in which we operate. The Philips General Business Principles (GBP) 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. More information on the Philips GBP can be found in Our approach to risk management, of the Annual Report 2018. The results of the monitoring measures in place are given in General Business Principles, of the Annual Report 2018.

3.4.1 Consent Decree

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

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

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

4 Financial performance

“2018 was a year of solid progress, as we increased sales to EUR 18.1 billion, representing 5% comparable sales growth, improved our operating profitability margin by 100 basis points, delivered a strong operating cash flow of EUR 1.8 billion, and increased income from continuing operations to EUR 1.3 billion.” **Abhijit Bhattacharya**, CFO Royal Philips

4.1 Performance review

Management summary

- Sales rose to EUR 18.1 billion, a nominal increase of 2%, which reflected 5% nominal growth in the Diagnosis & Treatment businesses, a 3% sales decline in the Connected Care & Health Informatics businesses and a 1% decline in the Personal Health businesses. On a comparable basis^{*)} the 5% growth reflected 7% growth in the Diagnosis & Treatment businesses, higher IP royalty income, 3% growth in the Personal Health businesses, and flat sales in the Connected Care & Health Informatics businesses.
- Net income amounted to EUR 1.1 billion, a decrease of EUR 773 million compared to 2017, mainly due to the deconsolidation of Signify (formerly Philips Lighting). Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis.
- Adjusted EBITA^{*)} totaled EUR 2.4 billion, or 13.1% of sales, an increase of EUR 213 million, or 100 basis points as a % of sales, compared to 2017. The productivity programs delivered annual savings of approximately EUR 466 million, ahead of the targeted savings of EUR 400 million, and included approximately EUR 269 million procurement savings, led by the Design for Excellence (DfX) program, and EUR 197 million savings from other productivity programs.
- Net cash provided by operating activities amounted to EUR 1.8 billion, a decrease of EUR 90 million compared to 2017, as higher earnings were offset by higher working capital outflows. Free cash flow^{*)} amounted to EUR 984 million, which includes a EUR 176 million outflow related to pension liability de-risking and an early bond redemption.
- On June 28, 2017, Philips announced a EUR 1.5 billion share buyback program for capital reduction purposes. Under that program, which was initiated in the third quarter of 2017, Philips repurchased shares in the open market and entered into a number of forward transactions, some of which are to be settled in Q2 2019. As the program was initiated for capital reduction purposes, Philips intends to cancel all of the shares acquired under the program.
- On January 29, 2019, Philips announced a new share buyback program for an amount of up to EUR 1.5 billion. Philips started the program in the first quarter of 2019 and expects to complete it within two years. As the program was initiated for capital reduction purposes, Philips intends to cancel all shares acquired under the program. The program will be executed by an intermediary to allow for purchases in the open market during both open and closed periods.
- As of December 31, 2018, Philips' shareholding in Signify (formerly Philips Lighting) was 16.5% of Signify's issued share capital. For further information, refer to [Sell-down Signify shares \(former Philips Lighting\)](#), starting on page 38.

The year 2017

- 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^{*)} 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.
- In the course of 2017, Philips' shareholding in Philips Lighting was decreased to 29.01% of Philips Lighting's issued share capital through multiple

accelerated bookbuild offerings to institutional investors. As a result, Philips no longer has control over Philips Lighting and has ceased to consolidate Philips Lighting as from the end of November 2017. With these sell-down transactions, Philips reached an important milestone in pivoting Philips into a focused health technology company. For further information, refer to [Philips Lighting sell-down, starting on page 38](#).

- 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 EBITA¹⁾ 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 flow²⁾ 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 [Provisions note, starting on page 0](#).

Philips Group
Key data in millions of EUR unless otherwise stated
2016 - 2018

	2016	2017	2018
Sales	17,422	17,780	18,121
Nominal sales growth	4%	2%	2%
Comparable sales growth ¹⁾	5%	4%	5%
Income from operations	1,464	1,517	1,719
as a % of sales	8.4%	8.5%	9.5%
Financial expenses, net	(442)	(137)	(213)
Investments in associates, net of income taxes	11	(4)	(2)
Income tax expense	(203)	(349)	(193)
Income from continuing operations	831	1,028	1,310
Discontinued operations, net of income taxes	660	843	(213)
Net income	1,491	1,870	1,097
Adjusted EBITA ¹⁾	1,921	2,153	2,366
as a % of sales	11.0%	12.1%	13.1%
Income from continuing operations attributable to shareholders ²⁾ per common share (in EUR) - diluted ³⁾	0.89	1.08	1.39
Adjusted income from continuing operations attributable to shareholders ²⁾ per common share (in EUR) - diluted ¹⁾	1.24	1.54	1.76

¹⁾ Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 56](#).

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

³⁾ The presentation of 2017 information has been updated compared to the information previously published to adjust for elements of Net income that were attributable to discontinued operations.

¹⁾ Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 56](#).

4.1.1 Results of operations

Sales

The composition of sales growth in percentage terms in 2018, compared to 2017 and 2016, is presented in the table below.

Philips Group
Sales in millions of EUR unless otherwise stated
2016 – 2018

	2016	2017	2018
Diagnosis & Treatment businesses	6,686	6,891	7,245
Nominal sales growth (%)	3.1	3.1	5.1
Comparable sales growth (%) ¹⁾	3.6	3.5	6.8
Connected Care & Health Informatics businesses	3,158	3,163	3,084
Nominal sales growth (%)	4.5	0.2	(2.5)
Comparable sales growth (%) ¹⁾	4.5	3.2	0.3
Personal Health businesses	7,099	7,310	7,228
Nominal sales growth (%)	5.2	3.0	(1.1)
Comparable sales growth (%) ¹⁾	7.2	5.6	3.3
Other	479	416	564
Philips Group	17,422	17,780	18,121
Nominal sales growth (%)	3.7	2.1	1.9
Comparable sales growth (%) ¹⁾	4.9	3.9	4.7

¹⁾ Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 56](#).

Group sales amounted to EUR 18,121 million in 2018, an increase of 2% on a nominal basis. Adjusted for a 2.8% negative currency effect and consolidation impact, comparable sales^{*)} were 5% above 2017.

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^{*)} were 4% above 2016.

Diagnosis & Treatment businesses

In 2018, sales amounted to EUR 7,245 million, 5% higher than in 2017 on a nominal basis. Excluding a 1.7% negative currency effect and consolidation impact, comparable sales^{*)} increased by 7%, reflecting double-digit growth in Image-Guided Therapy and Ultrasound and low-single-digit growth in Diagnostic Imaging.

In 2017, sales amounted to EUR 6,891 million, 3% higher than in 2016 on a nominal basis. Excluding a 1% negative currency effect and consolidation impact, comparable sales^{*)} increased by 3%, driven by mid-single-digit growth in Ultrasound and Image-Guided Therapy and low-single-digit growth in Diagnostic Imaging.

Connected Care & Health Informatics businesses

In 2018, sales amounted to EUR 3,084 million, a decrease of 2% on a nominal basis compared to 2017. Excluding a 3% negative currency effect and consolidation impact, comparable sales^{*)} remained flat, reflecting low-single-digit growth in Healthcare

Informatics while Monitoring & Analytics and Therapeutic Care remained flat year-on-year. Therapeutic Care includes a negative impact from the consent decree of a 135 basis points.

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^{*)} was driven by mid-single-digit growth in Patient Care & Monitoring Solutions and low-single-digit growth in Healthcare Informatics.

Personal Health businesses

In 2018, sales amounted to EUR 7,228 million, a nominal decrease of 1% compared to 2017. Excluding a 4% negative currency effect and consolidation impact, comparable sales^{*)} were 3% higher year-on-year, reflecting high-single-digit growth in Sleep & Respiratory Care and low-single-digit growth in Personal Care and Domestic Appliances, while Health & Wellness remained flat year-on-year.

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^{*)} 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.

Other

In 2018, sales amounted to EUR 564 million, compared to EUR 416 million in 2017. The increase was mainly due to higher IP royalty income and revenue from innovation. Following deconsolidation at the end of November 2017, license income from Signify (formerly Philips Lighting) is reported as third-party sales.

In 2017, sales amounted to EUR 416 million compared to EUR 479 million in 2016, mainly due to lower royalty income.

Performance per geographic cluster

Philips Group
Sales by geographic area in millions of EUR unless otherwise stated
2016 – 2018

	2016	2017	2018
Western Europe	3,756	3,802	3,990
North America	6,279	6,409	6,338
Other mature geographies	1,792	1,707	1,892
Total mature geographies	11,826	11,918	12,221
Nominal sales growth (%)	3.9	0.8	2.5
Comparable sales growth (%) ¹⁾	3.3	1.9	3.3
Growth geographies	5,596	5,862	5,901
Nominal sales growth (%)	3.2	4.8	0.7
Comparable sales growth (%) ¹⁾	8.4	8.0	7.6
Philips Group	17,422	17,780	18,121

¹⁾ Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 56](#).

Sales in mature geographies in 2018 were EUR 303 million higher than in 2017, or 3% higher on both a nominal and a comparable basis^{*)}. Sales in Western Europe were 5% higher year-on-year on a nominal

basis and 3% higher on a comparable basis^{*)}. Comparable sales^{*)} in Western Europe reflected high-single-digit growth in the Connected Care & Health Informatics businesses, mid-single-digit growth in the Diagnosis & Treatment businesses, and a low-single digit decline in the Personal Health businesses. Sales in North America decreased by EUR 72 million, or 1% on a nominal basis, and increased 1% on a comparable basis^{*)}. Comparable sales^{*)} in North America reflected mid-single-digit growth in the Diagnosis & Treatment businesses, flat sales in the Personal Health businesses, and a mid-single-digit decline in the Connected Care & Health Informatics businesses. Sales in other mature geographies increased by 11% on a nominal basis and by 14% on a comparable basis^{*)}. Comparable sales^{*)} in other mature geographies showed high-single-digit growth in the Personal Health businesses and mid-single-digit growth in the Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses.

Sales in mature geographies were EUR 92 million higher in 2017 than in 2016, or 1% higher on a nominal basis and 2% higher on a comparable basis^{*)}. Sales in Western Europe were 1% higher than in 2016 on a nominal basis and 3% higher on a comparable basis^{*)}. 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^{*)}. 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^{*)}. 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.

Sales in growth geographies in 2018 were EUR 39 million higher than in 2017, an increase of 1% on a nominal basis. The 8% increase on a comparable basis^{*)} reflected double-digit growth in the Diagnosis & Treatment businesses and high-single-digit growth in the Connected Care & Health Informatics businesses and Personal Health businesses. The increase was driven by double-digit growth in Latin America and mid-single-digit growth in China.

In growth geographies, sales were EUR 266 million higher in 2017 than in 2016 and increased 5% on a nominal basis. The 8% increase on a comparable basis^{*)} 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.

Diagnosis & Treatment businesses

Philips Group
Diagnosis & Treatment businesses sales in millions of EUR unless otherwise stated
 2016 - 2018

	2016	2017	2018
Western Europe	1,368	1,366	1,463
North America	2,340	2,449	2,592
Other mature geographies	763	751	775
Total mature geographies	4,471	4,566	4,829
Growth geographies	2,215	2,325	2,416
Sales	6,686	6,891	7,245
Nominal sales growth (%)	3%	3%	5%
Comparable sales growth (%) ¹⁾	4%	3%	7%

¹⁾ Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 56](#).

From a geographic perspective, nominal sales in growth geographies increased by 4% in 2018, while comparable sales^{*)} showed double-digit growth, driven by double-digit growth in China and Latin America. Sales in mature geographies increased by 6% on a nominal basis, while comparable sales^{*)} showed mid-single-digit growth, reflecting mid-single-digit growth in North America, Western Europe and other mature geographies.

From a geographic perspective, nominal sales increased by 5% in growth geographies in 2017 and on comparable sales^{*)} 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.

Connected Care & Health Informatics businesses

Philips Group
Connected care & Health Informatics in millions of EUR unless otherwise stated
 2016 - 2018

	2016	2017	2018
Western Europe	472	485	554
North America	1,906	1,925	1,774
Other mature geographies	311	295	297
Total mature geographies	2,689	2,705	2,624
Growth geographies	469	458	460
Sales	3,158	3,163	3,084
Nominal sales growth (%)	5%	0%	(2)%
Comparable sales growth (%) ¹⁾	4%	3%	0%

¹⁾ Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 56](#).

From a geographic perspective, sales on a nominal basis remained flat in growth geographies in 2018 and on a comparable basis^{*)} showed high-single-digit growth, reflecting double-digit growth in Latin America and low-single-digit growth in China. Sales in mature geographies decreased by 3% on a nominal basis and showed a low-single-digit decline on a comparable

basis^{*)}, reflecting high-single-digit growth in Western Europe and mid-single-digit growth in other mature geographies, offset by a mid-single-digit decline in North America.

From a geographic perspective, sales on a nominal basis decreased by 2% in growth geographies in 2017 and on a comparable basis sales^{*)} 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.

Personal Health businesses

Philips Group

Personal Health In millions of EUR unless otherwise stated
2016 - 2018

	2016	2017	2018
Western Europe	1,800	1,820	1,797
North America	1,901	1,936	1,894
Other mature geographies	643	615	636
Total mature geographies	4,344	4,371	4,327
Growth geographies	2,755	2,939	2,901
Sales	7,099	7,310	7,228
Nominal sales growth (%)	5%	3%	(1)%
Comparable sales growth (%) ¹⁾	7%	6%	3%

¹⁾ Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 56](#).

Sales in growth geographies decreased 1% on a nominal basis in 2018 and on a comparable basis^{*)} showed high-single-digit growth, reflecting double-digit growth in Central & Eastern Europe, high-single-digit growth in Latin America, and low-single-digit growth in Middle East & Turkey. Sales in mature geographies decreased 1% on a nominal basis and on a comparable basis^{*)} showed low-single-digit growth, reflecting high-single-digit growth in other mature geographies, flat sales in North America, and a low-single-digit decline in Western Europe.

Sales in growth geographies increased 7% on a nominal basis in 2017 and on a comparable basis^{*)} 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 growth in Western Europe and low-single-digit growth in North America, partly offset by a low-single-digit decline in other mature geographies.

Gross margin

In 2018, Philips' gross margin increased to EUR 8,554 million, or 47.2% of sales, from EUR 8,181 million, or 46.0% of sales, in 2017. Gross margin in 2018 included EUR 79 million of restructuring and acquisition-related charges, whereas 2017 included EUR 98 million of restructuring and acquisition-related charges. 2018 also included EUR 28 million of charges related to the

consent decree focused on defibrillator manufacturing in the US. Gross margin in 2017 also included EUR 40 million of charges related to quality and regulatory actions, EUR 14 million of charges related to the consent decree and a EUR 36 million net release of legal provisions. The year-on-year increase was mainly driven by improved operational performance in the Diagnosis & Treatment businesses, Personal Health businesses and higher IP royalty income.

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 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 4,500 million in 2018, or 24.8% of sales, compared to EUR 4,398 million, or 24.7% of sales, in 2017. Selling expenses in 2018 included EUR 86 million of restructuring and acquisition-related charges, compared to EUR 127 million in 2017. Selling expenses in 2018 also included a EUR 18 million charge related to the conclusion of the European Commission investigation into retail pricing and EUR 16 million related to the consent decree. Selling expenses in 2017 also included EUR 9 million related to the separation of Philips Lighting and EUR 4 million of charges related to the consent decree.

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 Philips Lighting 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 Philips Lighting.

General and administrative expenses

General and administrative expenses increased to EUR 631 million, or 3.5% of sales, in 2018, compared to EUR 577 million, or 3.2% of sales, in 2017. 2018 included EUR 29 million of restructuring and acquisition related-charges, compared to EUR 19 million in 2017. 2017 also included charges of EUR 21 million related to the separation of Philips Lighting.

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 Philips Lighting. 2016 also included charges of EUR 109 million related to the separation of Philips Lighting, 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 decreased from EUR 1,764 million, or 9.9% of sales, in 2017 to EUR 1,759 million, or 9.7% of sales, in 2018. Research and development costs in 2018 included EUR 64 million of restructuring and acquisition-related charges, compared to EUR 72 million in 2017. 2018 also included EUR 12 million of charges related to the consent decree.

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
2016 - 2018

	2016	2017	2018
Diagnosis & Treatment	629	715	756
Connected Care & Health Informatics	388	399	371
Personal Health	412	415	425
Other	240	235	207
Philips Group	1,669	1,764	1,759
<i>As a % of sales</i>	9.6%	9.9%	9.7%

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

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

The overview below shows Income from operations and Adjusted EBITA^{*)} according to the 2018 segment classifications.

Philips Group
Income from operations and Adjusted EBITA^{*)} in millions of EUR
unless otherwise stated
2016 - 2018

	Income from operations	as a % of sales	Adjusted EBITA ^{*)}	as a % of sales
2018				
Diagnosis & Treatment	600	8.3%	838	11.6%
Connected Care & Health Informatics	179	5.8%	341	11.1%
Personal Health	1,045	14.5%	1,215	16.8%
Other	(105)		(28)	
Philips Group	1,719	9.5%	2,366	13.1%
2017				
Diagnosis & Treatment	488	7.1%	716	10.4%
Connected Care & Health Informatics	206	6.5%	372	11.8%
Personal Health	1,075	14.7%	1,221	16.7%
Other	(252)		(157)	
Philips Group	1,517	8.5%	2,153	12.1%
2016				
Diagnosis & Treatment	546	8.2%	631	9.4%
Connected Care & Health Informatics	275	8.7%	324	10.3%
Personal Health	953	13.4%	1,108	15.6%
Other	(310)		(142)	
Philips Group	1,464	8.4%	1,921	11.0%

^{*)} Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 56](#).

In 2018, net income decreased by EUR 773 million compared to 2017, mainly due to the deconsolidation of Signify.

In 2018, Income from operations increased by EUR 202 million year-on-year to EUR 1,719 million, or 9.5% of sales. Restructuring and acquisition-related charges amounted to EUR 258 million, compared to EUR 316 million in 2017. Income from operations in 2018 also included: EUR 56 million of charges related to the consent decree; EUR 18 million of the total EUR 30 million provision related to the conclusion of the European Commission investigation into retail pricing, of which the other EUR 12 million was recognized in Discontinued operations. 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; a EUR 59 million net gain from the sale of real estate assets; a EUR 36 million net release of legal provisions.

Adjusted EBITA^{*)} amounted to EUR 2,366 million, or 13.1% of sales, and improved by EUR 213 million, or 100 basis points as a % of sales, compared to 2017. The improvement was mainly due to growth, operational improvements and higher IP royalty income.

The 2018 performance resulted in an increase of Income from continuing operations per share of 29% from 1.08 in 2017 to EUR 1.39 in 2018. Adjusted income from continuing operations attributable to shareholders per common share^{*)} increased by 14% from 1.54 in 2017 to EUR 1.76 in 2018.

In 2017 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 Philips Lighting, 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 Philips Lighting, 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.

Adjusted EBITA^{*)} 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.

The 2017 performance resulted in an increase of Income from continuing operations per share of 21% from 0.89 in 2016 to EUR 1.08 in 2017. Adjusted income from continuing operations attributable to shareholders per

common share^{*)} increased by 24% from 1.24 in 2016 to EUR 1.54 in 2017.

Diagnosis & Treatment businesses

Income from operations increased to EUR 600 million, or 8.3% of sales, compared to EUR 488 million, or 7.1% of sales, in 2017. The year 2018 included EUR 97 million of amortization charges, compared to EUR 55 million in 2017. These charges mainly relate to intangible assets in Image-Guided Therapy. Restructuring and acquisition-related charges to improve productivity were EUR 142 million, compared to EUR 151 million in 2017, which also included the charges related to the acquisition of Spectranetics, as well as charges of EUR 22 million related to portfolio rationalization measures.

Adjusted EBITA^{*)} increased by EUR 122 million and the margin improved to 11.6%, mainly due to growth and operational improvements.

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, compared to EUR 48 million in 2016. These charges mainly related to 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^{*)} increased by EUR 85 million or 100 basis points as a % of sales year-on-year. The increase was mainly attributable to higher volumes.

Connected Care & Health Informatics businesses

Income from operations in 2018 decreased to EUR 179 million, compared to EUR 206 million in 2017. The year 2018 included EUR 46 million of amortization charges, compared to EUR 44 million in 2017. These charges mainly related to acquired intangible assets in Population Health Management. Restructuring and acquisition-related charges amounted to EUR 59 million, compared to EUR 91 million in 2017. The year 2018 also included EUR 56 million of charges related to the consent decree. 2017 also included EUR 47 million of charges related to quality and regulatory actions, EUR 20 million of charges related to the consent decree and a EUR 36 million net release of provisions.

Adjusted EBITA^{*)} decreased by EUR 31 million and the margin decreased to 11.1% of sales, mainly due to lower growth and adverse currency impacts.

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, compared to EUR 46 million in 2016. These charges mainly related to acquired intangible assets in Population Health Management. 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^{*)} 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.

Personal Health businesses

Income from operations in 2018 decreased to EUR 1,045 million, or 14.5% of sales, compared to EUR 1,075 million, or 14.7% of sales, in 2017, mainly due to a EUR 18 million charge related to the conclusion of the European Commission investigation into retail pricing and higher restructuring and acquisition-related charges. The year 2018 included EUR 126 million of amortization charges, compared to EUR 135 million in 2017. These charges mainly relate to intangible assets in Sleep & Respiratory Care. Restructuring and acquisition-related charges were EUR 26 million, compared with EUR 11 million in 2017.

Adjusted EBITA^{*)} decreased by EUR 6 million, while the margin improved to 16.8%, mainly due to operational improvements offset by adverse currency impacts.

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 135 million of amortization charges, compared to EUR 139 million. These charges mainly relate to intangible assets in Sleep & Respiratory Care. Restructuring and acquisition-related charges were EUR 11 million, compared to EUR 16 million in 2016.

Adjusted EBITA^{*)} 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.

Other

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

In 2018, Income from operations totaled EUR (105) million, compared to EUR (252) million in 2017. The year 2018 included: restructuring and acquisition-related charges of EUR 31 million; a gain related to divestments; a release related to a legal provision; a gain related to movements in environmental provisions. The year 2017 included: restructuring and acquisition-related charges of EUR 64 million; a EUR 59 million gain on the sale of real estate assets; EUR 31 million of charges related to the separation of Philips Lighting; EUR 26 million of provisions related to the CRT litigation in the US; EUR 15 million of costs related to environmental provisions; EUR 14 million of stranded costs related to the combined Lumileds and Automotive businesses.

Adjusted EBITA^{*)} increased by EUR 129 million compared to 2017, mainly due to higher IP royalty income and revenue from innovation.

In 2016, Income from operations totaled EUR (310) million. 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^{*)} in 2017 decreased by EUR 15 million compared to 2016, mainly due to lower royalty income and higher provision-related charges in Other, partly offset by lower Central costs.

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
2016 - 2018

	2016	2017	2018
Interest expense (net)	(299)	(182)	(157)
Sale of securities	3	1	6
Impairments	(24)	(2)	-
Other	(122)	46	(62)
Financial income and expenses	(442)	(137)	(213)

Net interest expense in 2018 was EUR 25 million lower than in 2017, mainly due to lower interest expenses on pensions and lower interest expenses on net debt^{*)}. Other financial expenses amounted to EUR 62 million in 2018, and mainly included financial charges related to the early redemption of USD bonds of EUR 46 million. Other financial income of EUR 46 million in 2017 included dividends from the combined businesses of Lumileds and Automotive. For further information, refer to [Financial income and expenses, starting on page 0](#).

Net interest expense in 2017 was EUR 117 million lower than in 2016, mainly driven by lower interest expenses on net debt^{*)}, as high cost debt was replaced with lower cost debt. 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 [Financial income and expense, starting on page 0](#).

Income taxes

Income taxes amounted to EUR 193 million, compared to EUR 349 million in 2017. The effective income tax rate in 2018 was 12.8%, compared to 25.3% in 2017. The decrease was mainly due to one-time non-cash benefits from tax audit resolutions and business integrations in 2018. Net impact of the US Tax Cuts and Jobs Act was not material in 2018.

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.

Investment in associates

Results related to investments in associates improved from a loss of EUR 4 million in 2017 to a loss of EUR 2 million in 2018, mainly due to a EUR 4 million impairment in 2017.

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

Philips Group

Discontinued operations, net of income taxes in millions of EUR
2016 – 2018

	2016	2017	2018
Signify, formerly Philips Lighting	244	896	(198)
The combined Lumileds and Automotive businesses	282	(29)	12
Other	134	(24)	(27)
Net income of Discontinued operations	660	843	(213)

Discontinued operations mainly reflects dividends received of EUR 32 million and a EUR 218 million loss related to a value adjustment of the remaining interest in Signify. In 2017, Discontinued operations included the operating results of Signify and the combined Lumileds and Automotive businesses of EUR 393 million and EUR 149 million respectively prior to their deconsolidation during the course of 2017. On June 30, 2017, Philips completed the sale of an 80.1% interest in the combined Lumileds and Automotive businesses, which resulted in a loss of EUR 72 million after tax in 2017, while 2018 included a EUR 8 million gain related to a final settlement on the sale. The year 2017 also included a EUR 599 million net gain following the deconsolidation of Signify, a EUR 104 million charge related to the market value of the retained interest in Signify, and a one-time non-cash tax charge of EUR 99 million due to the US Tax Cuts and Jobs Act.

Discontinued operations in 2017 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 Discontinued operations and assets classified as held for sale, of the Annual Report 2018

Non-controlling interests

Net income attributable to non-controlling interests decreased from EUR 214 million in 2017 to EUR 7 million in 2018, mainly due to the deconsolidation of Philips Lighting as from the end of November 2017.

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.

¹⁾ Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information](#), starting on page 56.

4.1.2 Pensions

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

The overall funded status and balance sheet improved in 2018 from EUR 972 million to EUR 834 million, mainly due to an additional contribution of EUR 130 million (USD 150 million) in the US.

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. The net interest cost for defined-benefit plans was EUR 37 million in 2017.

2017 included a settlement of the Brazil pension plans, decreasing the defined-benefit obligation by EUR 345 million and recognizing a settlement loss of EUR 1 million.

The balance sheet improved in 2017 from EUR 1,997 million to EUR 972 million, mainly due to the transfer of Lighting to Discontinued operations and an additional contribution of EUR 219 million in the US.

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.

For further information, refer to Post-employment benefits, of the Annual Report 2018 .

4.1.3 Restructuring and acquisition-related charges and goodwill impairment charges

Philips Group
Restructuring and related charges in millions of EUR
2016 – 2018

	2016	2017	2018
Restructuring and related charges per segment:			
Diagnosis & Treatment	6	63	78
Connected Care & Health Informatics	9	81	34
Personal Health	16	8	21
Other	27	59	26
Philips Group	58	211	159
Cost breakdown of restructuring and related charges:			
Personnel lay-off costs	63	150	136
Release of provision	(34)	(37)	(37)
Transfer to Assets held for sale		(5)	
Restructuring-related asset impairment	14	77	21
Other restructuring-related costs	14	27	39
Philips Group	58	211	159

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

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 Other, and mainly took place in the Netherlands and the US. The restructuring mainly comprised 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 Other and took place in the Netherlands.

For further information on restructuring, refer to Provisions, of the Annual Report 2018.

Philips Group
Acquisition-related charges in millions of EUR
2016 – 2018

	2016	2017	2018
Diagnosis & Treatment	31	88	64
Connected Care & Health Informatics	4	10	25
Personal Health		3	5
Other	1	5	5
Philips Group	37	106	99

In 2018, acquisition-related charges amounted to EUR 99 million. The Diagnosis & Treatment businesses recorded EUR 64 million of acquisition-related charges, mainly related to the acquisition of Spectranetics, a US-based global leader in vascular intervention and lead management solutions.

In 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. 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 addition to the annual goodwill-impairment tests for Philips, trigger-based impairment tests were performed during the years 2018, 2017 and 2016, resulting in no goodwill impairment, an impairment of EUR 9 million and an impairment of EUR 1 million for the respective years.

For further information on the goodwill sensitivity analysis, please refer to Goodwill, of the Annual Report 2018.

4.1.4 Acquisitions and divestments

Acquisitions

In 2018, Philips completed nine acquisitions, with EPD Solutions Ltd. (EPD) being the most notable. Acquisitions in 2018 and prior years led to acquisition and post-merger integration charges of EUR 64 million in the Diagnosis & Treatment businesses and EUR 25 million in the Connected Care & Health Informatics businesses.

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

Philips completed one divestment in 2018. The divestment involved an aggregated consideration of EUR 58 million and resulted in a gain of EUR 44 million.

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

For details, please refer to Acquisitions and divestments, of the Annual Report 2018.

4.1.5 Changes in cash and cash equivalents, including cash flows

The movements in cash and cash equivalents for the years ended December 31, 2016, 2017 and 2018 are presented and explained below:

Philips Group
Condensed consolidated cash flows statements in millions of EUR
2016 - 2018

	2016	2017	2018
Beginning cash balance	1,766	2,334	1,939
<i>Net cash flows from operating activities</i>	1,170	1,870	1,780
<i>Net capital expenditures</i>	(741)	(685)	(796)
Free cash flow ¹⁾	429	1,185	984
Other cash flows from investing activities	(352)	(2,514)	(690)
Treasury shares transactions	(526)	(414)	(948)
Changes in debt	(1,611)	(205)	160
Dividend paid to shareholders of the Company	(330)	(384)	(401)
Sale of shares of Signify (former Philips Lighting), net	825	1,060	
Other cash flow items	(18)	(186)	(3)
Net cash flows discontinued operations	2,151	1,063	647
Ending cash balance	2,334	1,939	1,688

¹⁾ Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 56](#).

Net cash provided by (used for) operating activities

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

Net cash flows 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 (used for) investing activities

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

In 2017, other cash flows from investing activities amounted to a cash outflow of EUR 2,514 million, mainly due to acquisitions of businesses (including acquisition of investments in associates) amounting to EUR 2,344 million, which included the acquisition of

Spectranetics for EUR 1,908 million. 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

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

In 2017, 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 from the sale of Signify shares amounted to EUR 1,060 million. Change in debt 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.

In 2016, 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 debt 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.

Net cash provided by (used for) discontinued operations

Philips Group

Net cash provided by (used for) discontinued operations in millions of EUR
2016 - 2018

	2016	2017	2018
Net cash provided by (used for) operating activities	1,037	350	(15)
Net cash provided by (used for) investing activities	(112)	856	662
Net cash provided by (used for) financing activities	1,226	(144)	
Net cash provided by (used for) discontinued operations	2,151	1,063	647

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

In 2017, net cash provided by (used for) operating activities amounted to EUR 350 million and reflected the period prior to the divestment of the combined Lumileds and Automotive businesses (six months of cash flows) and prior to the deconsolidation of Philips Lighting (11 months of cash flows). In 2017, net cash provided by (used for) investing activities amounted to EUR 856 million and included 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.

In 2016, net cash provided by (used for) investing activities included EUR 144 million cash inflow related to the Funai arbitration and net cash provided by (used for) financing activities included new funding of EUR 1.2 billion attracted by Philips Lighting.

¹⁾ Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 56](#).

4.1.6 Financing

Condensed consolidated balance sheets for the years 2016, 2017 and 2018 are presented below:

Philips Group
Condensed consolidated balance sheets in millions of EUR
2016 - 2018

	2016	2017	2018
Intangible assets	12,450	11,054	12,093
Property, plant and equipment	2,155	1,591	1,712
Inventories	3,392	2,353	2,674
Receivables	5,636	4,148	4,344
Assets classified as held for sale	2,180	1,356	87
Other assets	4,123	2,874	3,421
Payables	(6,028)	(4,492)	(3,957)
Provisions	(3,606)	(2,059)	(2,151)
Liabilities directly associated with assets held for sale	(525)	(8)	(12)
Other liabilities	(3,052)	(2,017)	(2,962)
Net asset employed	16,725	14,799	15,249
Cash and cash equivalents	2,334	1,939	1,688
Debt	(5,606)	(4,715)	(4,821)
Net debt ¹⁾	(3,272)	(2,776)	(3,132)
Non-controlling interests	(907)	(24)	(29)
Shareholders' equity	(12,546)	(11,999)	(12,088)
Financing	(16,725)	(14,799)	(15,249)

¹⁾ Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 56](#).

4.1.7 Debt position

Total debt outstanding at the end of 2018 was EUR 4,821 million, compared with EUR 4,715 million at the end of 2017.

Philips Group
Balance sheet changes in debt in millions of EUR
2016 - 2018

	2016	2017	2018
Repayments (new borrowings) short-term debt	1,319	4	(34)
New borrowings long-term debt	(1,304)	(1,115)	(1,287)
Repayment long-term debt	362	1,332	1,161
Forward contracts		(1,018)	124
Currency effects, consolidation changes and other	(223)	347	(70)
Transfer to liabilities directly associated with assets held for sale		1,342	
Decrease (increase) in debt	154	891	(105)

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

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 announced in June 2017. Other changes, mainly resulting from consolidation changes 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.

At the end of 2018, long-term debt as a proportion of the total debt stood at 71% with an average remaining term (including current portion) of 7.9 years, compared to 86% and 7.6 years respectively at the end of 2017.

Total debt outstanding at the end of 2017 was EUR 4,715 million, compared with EUR 5,606 million at the end of 2016, a decrease of EUR 891 million.

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, mainly 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 (including current portion) of 7.6 years, compared to 72% and 7.8 years, respectively, at the end of 2016.

For further information, please refer to Debt, of the Annual Report 2018.

4.1.8 Liquidity position

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

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

Philips Group
Liquidity position in millions of EUR
2016 - 2018

	2016	2017	2018
Cash and cash equivalents	2,334	1,939	1,688
Committed revolving credit facilities/CP program	2,300	1,000	1,000
Liquidity	4,634	2,939	2,688
Listed equity investments at fair value	36	49	476
Short-term debt	(1,585)	(672)	(1,394)
Long-term debt	(4,021)	(4,044)	(3,427)
Net available liquidity resources	(936)	(1,728)	(1,656)

Royal Philips has a EUR 1 billion committed revolving credit facility which was signed in April 2017 and will expire in April 2023. The facility can be used for general group purposes, such as a backstop of its Commercial Paper Program.

The Commercial Paper Program amounts to USD 2.5 billion, under which Philips can issue commercial paper up to 364 days in tenor, both in the US and in Europe, in any major freely convertible currency. As of December

31, 2018, Royal Philips did not have any loans outstanding under these facilities.

Additionally, at December 31, 2018 Philips held EUR 476 million of listed (level 1) equity investments at fair value, mainly the remaining interest in Signify. Refer to [Other financial assets, starting on page 0](#) and [Fair value of financial assets and liabilities, starting on page 0](#).

Royal Philips' existing long-term debt is rated A- (with stable outlook) by Fitch, Baa1 (with stable outlook) by Moody's, and BBB+ (with stable outlook) by Standard & Poor's. As part of our capital allocation policy, our net debt^{*)} position is managed with the intention of retaining a strong investment grade credit rating. Ratings are subject to change at any time and there is no assurance that Philips will be able to achieve this goal. The Group's aim when managing the net debt^{*)} position is dividend stability and a pay-out ratio of 40% to 50% of adjusted income from continuing operations attributable to shareholders^{*)}. Royal Philips' outstanding long-term debt and credit facilities do not contain financial covenants. Adverse changes in the Company's ratings will not trigger automatic withdrawal of committed credit facilities nor any acceleration in the outstanding long-term debt (provided that the USD-denominated bonds issued by the Company in March 2008 and 2012 contain a 'Change of Control Triggering Event' and the EUR-denominated bonds contain a 'Change of Control Put Event'). A description of Philips' credit facilities can be found in Debt, of the Annual Report 2018.

Philips Group
Credit rating summary
2018

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

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

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

^{*)} Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 56](#).

4.1.9 Shareholders' equity

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

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 (for capital reduction purposes and hedging of commitments under share-based compensation plans), 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 Signify shares of EUR 327 million.

Shareholders' equity increased by EUR 939 million in 2016 to EUR 12,546 million at December 31, 2016. The increase was mainly a result of EUR 1,491 million net income, partially offset by EUR 589 million related to the purchase of shares for the share buy-back program. The dividend payment to shareholders of Koninklijke Philips N.V. in 2016 reduced equity by EUR 330 million including tax and service charges, while the delivery of treasury shares increased equity by EUR 74 million.

Share capital structure

The number of outstanding common shares of Royal Philips at December 31, 2018 was 914 million. At the end of 2018, the Company held 12.0 million shares in treasury. Of these shares, 7.9 million shares were held in treasury to cover obligations under its long-term incentive plans. After the cancellation of 24.2 million shares in November 2018, a remainder of 4.1 million shares were held to reduce share capital. In 2016, Philips purchased call options on Philips shares to hedge options granted to employees up to 2013. As of December 31, 2018, Philips held 3.8 million such options. In order to further cover obligations under its long-term incentive plans, as well as to reduce its share capital, Philips also entered into several forward contracts in 2017 and 2018. As of December 31, 2018, the outstanding forward contracts related to 28.6 million shares.

The number of outstanding common shares of Royal Philips at December 31, 2017 was 926 million. At the end of 2017, the Company held 14.7 million shares in treasury. Of these shares, 10.1 million shares were held in treasury to cover obligations under its long-term incentive plans. The remaining 4.6 million shares were held to reduce share capital. As of December 31, 2017, Philips held 6.2 million call options as a hedge of options granted to employees. As of December 31, 2017, the outstanding forward contracts related to 31.8 million shares.

The number of outstanding common shares of Royal Philips at December 31, 2016 was 922 million. At the end of 2016, the Company held 7.2 million shares in treasury to cover obligations under its long-term incentive plans.

The Company did not hold shares for capital reduction

Philips Group

Impact of share repurchase on share count in thousands of shares as of December 31 2014-2018

	2014	2015	2016	2017	2018
Shares issued	934,820	931,131	929,645	940,909	926,196
Shares in treasury	20,431	14,027	7,208	14,717	12,011
Shares outstanding	914,389	917,104	922,437	926,192	914,184
Shares repurchased	28,538	20,296	25,193	19,842	31,994
Shares cancelled	21,838	21,361	18,830		24,247

purposes. Philips purchased call options on Philips shares to hedge options granted to employees up to 2013.

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

During 2018, Royal Philips acquired shares for long-term incentive plans and capital reduction purposes via three different methods: (i) share buy-back repurchases in the open market via an intermediary, (ii) repurchase of shares via forward contracts for future delivery of shares, (iii) the unwinding of call options on own shares. In 2018, Royal Philips also used methods (i) and (ii) to acquire shares for capital reduction purposes.

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

Philips Group

Total number of shares repurchased in thousands of shares unless otherwise stated 2018

	share repurchases related to shares acquired for capital reduction	average price paid per share in EUR	shares acquired for LTI's	average price paid per share in EUR
January 2018	62	32.64		24.18
February 2018	7,183	30.83	373	30.31
March 2018	4,103	31.27	750	27.03
April 2018			512	31.54
May 2018			516	35.23
June 2018			395	36.18
July 2018			201	37.38
August 2018			198	38.29
September 2018			131	37.99
October 2018	4,140	34.02	3,172	31.89
November 2018	4,140	34.02	1,978	33.70
December 2018	4,140	34.02		
Total	23,768	32.58	8,226	32.59
of which				
<i>purchased in the open market</i>	11,348		5,008	
<i>acquired through exercise of call options/settlement of forward contracts</i>	12,420		3,218	

4.1.10 Cash obligations

Contractual cash obligations

The table below presents a summary of the Group's fixed contractual cash obligations and commitments at December 31, 2018. 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 differ from those presented in the table below:

Philips Group
Contractual cash obligations ^{1) 2)} in millions of EUR
2018

	Payments due by period				
	total	less than 1 year	1-3 years	3-5 years	after 5 years
Long-term debt ³⁾	4,358	1,136	194	501	2,527
Finance lease obligations	357	100	152	53	52
Short-term debt	164	164			
Operating leases	756	176	227	148	204
Derivative liabilities	296	179	2	114	
Interest on debt	1,632	108	207	200	1,117
Purchase obligations ⁴⁾	666	233	352	52	30
Trade and other payables	2,303	2,303			
Contractual cash obligations	10,532	4,399	1,134	1,069	3,929

¹⁾ Amounts in this table are undiscounted

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

³⁾ Long-term debt includes 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.

IFRS 16, Leases, is effective for the financial year commencing January 1, 2019. Upon adoption, the company expects to recognize a lease liability at the present value of its remaining operating lease commitments (excluding low-value leases). Refer to [Significant accounting policies, starting on page 0](#).

In January 2018, it was announced that the North American headquarters will move from Andover to Cambridge. Philips has entered into a new lease commitment commencing in 2020 with a term of 15 years and resulting in an off-balance sheet commitment of EUR 218 million.

Certain Philips suppliers factor their trade receivables from Philips with third parties through supplier finance arrangements. At December 31, 2018 approximately EUR 275 million of the Philips accounts payable were 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 Post-employment benefits, of the Annual Report 2018.

The company had EUR 114 million restructuring-related provisions by the end of 2018, of which EUR 68 million is expected to result in cash outflows in 2019. Refer to Provisions, of the Annual Report 2018 for details of restructuring provisions.

A proposal will be submitted to the Annual General Meeting of Shareholders, to be held on May 9, 2019, to declare a dividend of EUR 0.85 per common share (an increase of 6%), in cash or shares at the option of the shareholder (up to EUR 777 million if all shareholders would elect cash), against the net income for 2018. Further details will be given in the agenda for the 2019 Annual General Meeting of Shareholders.

On January 29, 2019, Philips announced a new share buyback program for an amount of up to EUR 1.5 billion, which is expected to start in the first quarter of 2019 and to be completed within two years. As the program will be initiated for capital reduction purposes, Philips intends to cancel all of the shares acquired under the program.

Guarantees

Philips' policy is to provide guarantees and other letters of support only in writing. Philips does not provide other forms of support. The total fair value of guarantees recognized on the balance sheet amounts to EUR nil million for both 2017 and 2018. Remaining off-balance-sheet business and credit-related guarantees provided on behalf of third parties and associates decreased by EUR 3 million during 2018 to EUR 40 million (December 31, 2017: EUR 44 million).

4.1.11 Sell-down Signify shares (former Philips Lighting)

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. A stand-alone structure was established for lighting activities within the Philips Group, effective February 1, 2016. On May 27, 2016, Philips Lighting (renamed Signify in 2018) was listed and started trading on Euronext in Amsterdam under the symbol 'LIGHT'. Following the listing of Signify, Philips retained a 71.23% stake.

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

The first two transactions in February and April 2017 involved 48.25 million shares. In April 2017, Philips concluded that a "loss of control" from an accounting perspective could occur due to the further sell down of the remaining shares within one year. Accordingly, from that date the lighting activities (substantially representing Signify shares) were presented as a discontinued operation.

In November 2017, by selling another 17.1 million shares, Philips lost control, resulting in the deconsolidation of Signify.

The position of 29.01% as of December 31, 2017 was a temporary position, which fitted in Philips' overall single coordinated plan to sell Signify in its entirety. Consequently, any future results related to the retained interest – like value adjustments, results upon disposal and dividends – were reflected in Discontinued operations. The Signify shares were presented as an Asset classified as held for sale.

In February 2018, Philips successfully completed a fourth accelerated bookbuild offering to institutional investors of 16.22 million shares in Signify. During that year, Philips sold Signify shares in the open market, reducing its shareholding to 16.5% of Signify's issued share capital as of December 31, 2018. As from that date, Philips no longer had board representation in the Supervisory Board of Signify. The remaining shares were reclassified to Other current financial assets, with fair value changes recognized through Other comprehensive income.

4.1.12 Procurement

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

The combination of price erosion, market growth and inflationary pressures impacted Philips suppliers across the board as the anticipated risk of market headwinds became visible. Additionally, there was tightness in the electronic component markets. The trade tensions and

US import tariffs implemented from April 2018 resulted in further direct and indirect financial headwinds. From the third quarter the impact of weaker global growth, exacerbated by a slowdown in China and uncertainty over the impact of Brexit, resulted in returned volatility in commodity and raw materials pricing.

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

The year 2017

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.

The year 2016

In the first quarter of the year, global economic growth was running at its weakest pace in three years. In June, an additional threat to future growth came in the shape of Brexit, high credit growth, debt exposures in emerging markets and volatile financial markets.

Commodity prices continued to weaken at the start of 2016. Oil and metal prices fell to extreme lows on weaker global demand, especially due to the slowdown in manufacturing activity in China, but also because of increases in inventories and supply following the past (mining) investments. Market prices for steel, however, showed increases during 2016, driven by a steeper cost curve, a consolidated market as well as a more aggressive anti-dumping approach.

For commodities, the election of Donald Trump as US President spurred price gains as investors bet that demand for materials would pick up with a focus on infrastructure and further protectionism. However, actual consumption has not yet significantly increased for most materials and the influence of speculation is hard to determine.

Oil, copper, steel and other metals all surged by over 20% in the last few months of the year to the highest price levels since mid-2015, partly driven by additional

Chinese fiscal stimulus in the form of public construction sector support and the acceleration of public-private partnership infrastructure projects.

4.1.13 Analysis of 2017 compared to 2016

The analysis of the 2017 financial results compared to 2016, 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 2018, which will be filed electronically with the US Securities and Exchange Commission.

4.2 Investor information

4.2.1 Dividend

Dividend policy

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

For 2018, the key exclusions to arrive at the adjusted income from continuing operations attributable to shareholders^{*)} are described in [Net income, Income from operations \(EBIT\) and Adjusted EBITA^{*\)} of financial performance](#), starting on page 23.

Proposed distribution

A proposal will be submitted to the Annual General Meeting of Shareholders, to be held on May 9, 2019, to declare a distribution of EUR 0.85 per common share, in cash or shares at the option of the shareholder (up to EUR 777 million if all shareholders would elect cash), against the net income for 2018.

If the above dividend proposal is adopted, the shares will be traded ex-dividend as of May 13, 2019 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 14, 2019.

Shareholders will be given the opportunity to make their choice between cash and shares between May 15, 2019 and June 7, 2019. If no choice is made during this election period the dividend will be paid in cash. On June 7, 2019 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 June 5, 6 and 7, 2019. 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 12, 2019. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 13, 2019. 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 11, 2019.

	ex-dividend date	record date	payment date
Euronext Amsterdam	May 13, 2019	May 14, 2019	June 13, 2019
New York Stock Exchange	May 13, 2019	May 14, 2019	June 13 2019

Further details will be given in the agenda for the 2019 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 2018, Philips settled a dividend of EUR 0.80 per common share, representing a total value of EUR 738 million including costs. Shareholders could elect for a cash dividend or a share dividend. Approximately 46% of the shareholders elected for a share dividend, resulting in the issuance of 9,533,223 new common shares, leading to a 1.0% dilution. The dilution caused by the newly issued dividend shares was more than offset by the cancellation of 24,246,711 shares in November 2018. The cash dividend involved an amount of EUR 400 million (including costs).

Dividends and distributions per common share

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

Philips Group Gross dividends on the common shares 2014 - 2018					
	2014	2015	2016	2017	2018
in EUR	0.80	0.80	0.80	0.80	0.80
in USD	1.09	0.89	0.90	0.90	0.94

^{*)} Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information](#), starting on page 56.

4.2.2 Share information

Philips Group

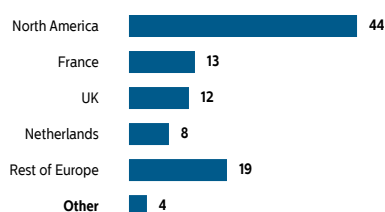
Share information at year-end 2018

Share listings	Euronext Amsterdam, New York Stock Exchange
Ticker code	PHIA, PHG
No. of shares issued	926 million
No. of shares issued and outstanding	914 million
Market capitalization	EUR 28.3 billion
Industry classification	
MSCI: Health Care Equipment	35101010
ICB: Medical Equipment	4535
Members of indices	AEX, NYSE, DJSI, STOXX Europe 600 Healthcare, MSCI Europe Health Care

The following information is based on a shareholder base analysis carried out for investor relations purposes by an independent provider in December 2018.

Philips Group

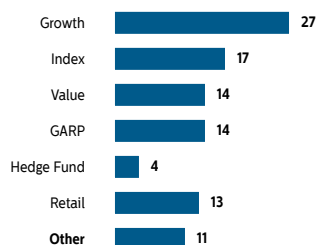
Shareholders by region at year-end 2018 ¹⁾ in %



¹⁾ Approximate split based on shareholders identified.

Philips Group

Shareholders by style at year-end 2018 ¹⁾ in %



¹⁾ Approximate split based on shareholders identified.

4.2.3 Financial calendar

Financial calendar

Annual General Meeting of Shareholders

Record date Annual General Meeting of Shareholders	April 11, 2019
Annual General Meeting of Shareholders	May 9, 2019

Quarterly reports

First quarter results 2019	April 29, 2019
Second quarter results 2019	July 22, 2019
Third quarter results 2019	October 28, 2019
Fourth quarter results 2019	January 28, 2020

2019 Annual General Meeting of Shareholders

The Agenda and the explanatory notes to the Agenda for the Annual General Meeting of Shareholders on May 9, 2019, will be published on the company's website.

For the 2019 Annual General Meeting of Shareholders, a record date of April 11, 2019 will apply. Those persons who, on that date, hold shares in the Company, and are registered as such in one of the registers designated by the Board of Management for the Annual General Meeting of Shareholders, will be entitled to participate in, and vote at, the meeting.

4.2.4 Investor contact

Shareholder services

Holders of shares listed on Euronext Amsterdam

Non-US shareholders and other non-US interested parties can make inquiries about the Annual Report 2018 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
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 2018 to:

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

Communications concerning share transfers, lost certificates, dividends and change of address should be directed to Deutsche Bank 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 Stock Purchase Plan designed for the US market. This program provides existing shareholders and interested investors with an economical and convenient way to purchase and sell Philips New York Registry shares (listed at the New York Stock Exchange) and to reinvest cash dividends. Deutsche Bank (the registrar of Philips NY Registry shares) has been authorized to implement and administer both plans for registered shareholders of and new investors in Philips NY Registry shares. Philips does not administer or sponsor the Program and assumes no obligation or liability for the operation of the plan. For further information on this program and for enrollment forms, contact:

Deutsche Bank Global Direct Investor Services

Telephone (toll-free US): +1-866-706-8374
Telephone (outside of US): +1-718-921-8137
Monday through Friday 8:00 AM EST through 8:00 PM EST

Website www.astfinancial.com
E-mail: dbemails@astfinancial.com

or write to:

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

Analysts' coverage

Philips is covered by approximately 20 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

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Amstelvein 2
1096 BC Amsterdam, The Netherlands
E-mail: group.communications@philips.com
For media contacts please refer to:
www.philips.com/a-w/about/news/contacts.html

5 Societal impact

We are a purpose-driven company, aiming to improve the lives of 3 billion people annually by 2025. Our people draw inspiration from the societal impact we achieve through our products and solutions, on both the social and environmental dimensions. In the Annual Report 2017 and 2018 we quantified the environmental impact that we have as a company in [Environmental performance, starting on page 48](#).

In 2018 we applied the True Value methodology to start quantifying our social impact. This includes the social impact in our supply chain, training of our staff, and taxes we pay. We included these impacts in [How we create value, starting on page 8](#). We have also started to quantify the most complex part, the social impact we have through our products and solutions. We will continue to calculate the impact of our products and solutions in collaboration with knowledge partners and investors.

5.1 Social performance

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

5.1.1 Improving people's lives

At Philips, we strive to make the world healthier and more sustainable through innovation. In 2012, we set ourselves the goal to improve the lives of 3 billion people a year by 2025.

To guide our efforts and measure our progress, we take a two-dimensional approach – social and ecological – to improving people's lives. Products or solutions from our portfolio that directly support the curative or preventive side of people's health determine the contribution to the social dimension. This is also our contribution to UN Sustainable Development Goal 3 ("to ensure healthy lives and promote well-being for all at all ages"). As healthy ecosystems are also needed for

people to live a healthy life, the contribution to the ecological dimension is determined by means of our steadily growing Green Products and Solutions portfolio, such as the energy-efficient products in our Personal Health businesses. This is our contribution to Sustainable Development Goal 12 ("to ensure sustainable consumption and production patterns"). Finally, our program to become carbon-neutral in our operations by 2020 contributes to SDG 13 ("take urgent action to combat climate change and its impacts").

Through Philips products and solutions that support people's health and well-being (i.e. excluding brand licensee Signify) we improved the lives of 1.43 billion people in 2018 (2017: 1.37 billion), driven by Diagnosis & Treatment businesses (+9%) and Personal Health businesses (+5%). Our Green Products and Solutions (excluding Signify) that support a healthy ecosystem contributed 995 million lives. After the elimination of double counts – people touched multiple times – we arrived at 1.54 billion lives. This is an increase of around 45 million compared to 2017, driven by all segments, mainly in China, the ASEAN countries, the Middle East & Turkey, and Central & Eastern Europe. Including Signify, we improved the lives of 2.24 billion people in 2018.

In 2014, Philips pledged to support the United Nation's [Every Woman Every Child](#) initiative, committing to improve the lives of at least 100 million women and children in Africa and South East Asia by 2025. At the United Nations General Assembly week in September 2017, Philips made an extended commitment to improve the lives of 300 million people in underserved healthcare communities by 2025. Philips thereby recognized the often critical needs of women and children in many communities, but also the added burden arising from the increase in non-communicable diseases (NCDs) in communities already struggling without adequate access to healthcare. To monitor our progress on the extended commitment, we use the same Lives Improved methodology, and in 2018 we improved the lives of 175 million people in underserved markets with our health and well-being solutions (an increase of 22 million compared to 2017).

Lives Improved per market

The following table shows the Lives Improved metric per market.

Philips Group

Lives improved per market

Market	Lives Improved (million) ¹⁾	Population (million) ²⁾	Saturation rate (as % of population)	GDP (USD million) ³⁾
Africa	53	1,244	4%	2,334
ASEAN & Pacific	255	972	26%	6,591
Benelux	29	29	99%	1,515
Central & Eastern Europe	101	167	61%	1,850
Germany, Austria & Switzerland	94	100	94%	5,203
France	57	66	87%	2,827
Greater China	511	1,429	36%	15,057
Iberia	44	57	78%	1,680
Indian Subcontinent	221	1,551	14%	3,100
Italy, Israel & Greece	55	82	67%	2,711
Japan	41	126	33%	5,071
Latin America	178	640	28%	5,521
Middle East & Turkey	111	366	30%	3,245
Nordics	26	27	96%	1,660
North America	349	365	96%	22,247
Russia & Central Asia	63	246	25%	2,007
UK & Ireland	51	72	71%	3,191

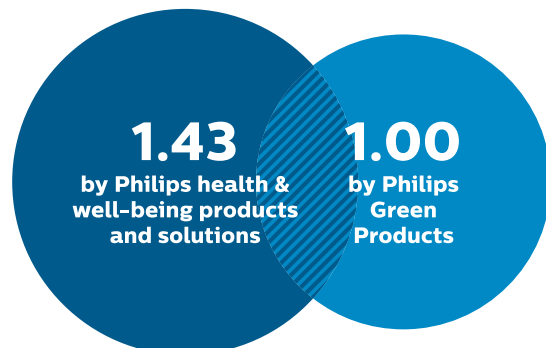
¹⁾ Source: Philips, double counts eliminated; includes Signify

²⁾ Source: The World Bank, CIA Factbook & Wikipedia

³⁾ Source: IMF, CIA, Factbook & Wikipedia

Philips Group

Lives improved in billions



Total: 1.54 billion (double counts eliminated, 2.24 billion including Signify)

 Double counts

Conceptual drawing, areas do not reflect actual proportions

5.1.2 Workforce of the Future

The challenges of the future call for a networked organization in which cross-functional teams actively draw on resources across the organization and across the world, to unite in order to achieve Philips' overall objectives. Our Workforce of the Future program represents our commitment to meet the challenge of addressing our customers' unmet needs and deliver the full benefits of data-enabled connected care by attracting, developing and retaining a workforce that will deliver the strategic capabilities we need to win.

By applying Strategic Workforce Planning, in close alignment with the strategic planning of our businesses, we identify and develop the employee capabilities needed to realize our ambitions as a health technology company. In 2018 we implemented initiatives, company-wide, that boosted the percentage of top performers in our most strategic positions to 56%, up from 45% in 2018. A key driver for this was our focus on succession planning.

We also addressed the issue of the expanding workforce and our ability to tap into the 'gig economy' and other less traditional work constructs. Building on our 2017 initiatives to better recognize the significant contribution that contingent workers make to our business success, in 2018 we introduced Total Workforce Demand Management. This Total Workforce strategy considers all sources of skills and capabilities we require in the Workforce of the Future, as well as location-related talent availability factors and labor market trends. To be ready for the future we devoted additional attention to our campus, graduate and early-career hiring focus in 2018, which resulted in a twofold increase in the number of campus hires compared with 2017.

More information on training and learning programs can be found in People development, of the Annual Report 2018.

Our focus on the Workforce of the Future will continue in 2019, with further emphasis on strategic capabilities, the expanding workforce and early-career hires.

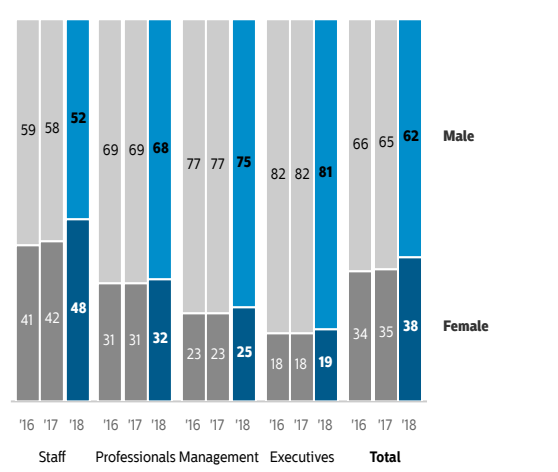
5.1.3 Inclusion & Diversity

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

In 2017 we renewed our approach to Inclusion & Diversity. We set a goal of 25% gender diversity in senior leadership positions (a subset of Management and Executive positions) by the end of 2020 (compared with 19% at the end of 2017). In 2018 we partnered with leading Inclusion & Diversity training providers to develop and start rolling out unconscious bias and inclusion trainings. We continued to strengthen our data analytics around Inclusion & Diversity to enable a fact-based approach to achieving our goals. In 2019 we will continue with these efforts to ensure that all of our leaders are trained to understand unconscious bias and are able to engage their teams in addressing this topic.

With regard to appointment and promotion opportunities, we transparently share open positions and endeavor to attract candidates from a diverse range of backgrounds and to install diverse interview panels for recruitment for all leadership positions. We enhanced our existing Inclusion & Diversity leadership training offerings and increased the number of Senior Women's Leadership Programs for the second consecutive year. In addition, we scaled up our other Women's Programs and embedded the importance of inclusion in other (Leadership) Programs.

Philips Group
Gender diversity in %
2016 - 2018



Overall gender diversity increased from 36% in 2017 to 38% in 2018. Gender diversity among Executives increased from 18% to 19% female executives. Measured against our 2020 goal of 25% gender diversity in Leadership positions, this figure rose from 19% in 2017 to 21% in 2018.

5.1.4 Our culture

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

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

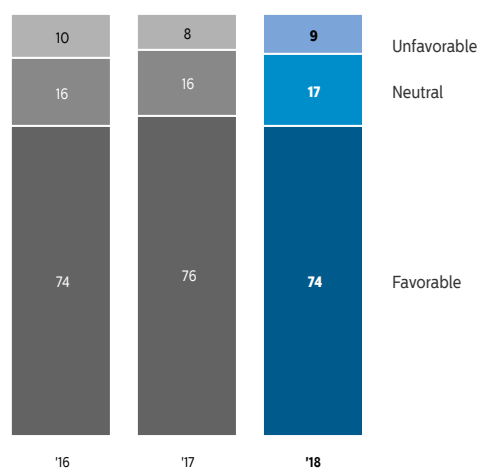
Putting our customers first must be at the heart of everything we do. Only by engaging deeply with our customers can we understand their unmet needs and deliver superior value. We also need to be conscious, at all times, of the high-stakes environment in which we now operate. This environment demands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

We staff our positions based on behavior, potential and capabilities. In 2018 we filled 77% of our Director-level and more senior positions from within the company. For these internal hires, we ensure our candidates are high performers with strong potential. In 2018, 86% of all internal promotions to Director level and more senior positions were realized by appointing top performers. We supplement this internal growth with targeted external hiring, bringing in employees with the behaviors and capabilities we require for our Workforce of the Future.

5.1.5 Employee engagement

High employee engagement is crucial to the success of our strategy. Our employee survey consistently reports high levels of employee engagement that exceed the high-performance norm of 71%, and our average engagement score for 2018 was 74%. Despite a small decrease in engagement from 2017 to 2018 we remain above the high-performance norm.

Philips Group
Employee Engagement index in %
2016 - 2018



Our quarterly employee survey help keep our finger on the pulse of employee sentiment toward the company. We listen to employees' ideas for improvement, show employees that their feedback is valued, and work to ensure that every person in our company has a role to play in creating lasting value for our customers, shareholders, and other stakeholders. In 2018 we expanded our employee listening initiatives by running regional and cross-functional dialogs. Through these dialogs we were able to gain a better understanding of the challenges that may be hindering our workforce, so that we can collaboratively identify and formulate solutions.

At Philips, we believe we perform at our best when we look after ourselves and each other. In 2018, we continued to develop our Health & Wellbeing programs, which are designed to engage our employees and empower them to adopt a healthier lifestyle and achieve a better work/life integration. Through the ongoing engagement of a network of Health & Wellbeing ambassadors, we also leveraged the energy and experience of our employees to drive local wellbeing initiatives in our markets. These included on-site exercise and fitness clubs, Mindfulness classes and Energy Management workshops.

5.1.6 Employment

In 2018, we continued to build out our health technology portfolio with targeted acquisitions in key areas including image-guided therapy, healthcare informatics, population health management, monitoring and analytics, and sleep and respiratory care, growing our employee base by a further 331 FTE.

The total number of Philips Group employees (continuing operations) was 77,400 at the end of 2018, compared to 73,951 at the end of 2017, an increase of 3,449 FTE.

Growth of our workforce in the Function R&D was the strongest driver of the increase in FTE. Together with Quality & Regulatory, Manufacturing and Sales these four functions accounted for over 70% of the FTE increase.

The increase in FTE in the segment Other with 2,956 FTE reflects, among other things, the increase in Manufacturing employees, the shift of supporting roles to a Global Business Services organization, and the expansion of the Philips Innovation Center in Bangalore.

Philips Group
Employees per segment in FTEs at year-end
2016 - 2018

	2016	2017	2018
Diagnosis & Treatment	23,791	25,757	27,381
Connected Care & Health Informatics	11,033	10,949	10,517
Personal Health	22,530	23,170	22,471
Other	13,614	14,075	17,031
Continuing operations	70,968	73,951	77,400
Discontinued operations	43,764		
Philips Group	114,731	73,951	77,400

Philips Group
Employment in FTEs
2016 - 2018

	2016	2017	2018
Balance as of January 1	112,959	114,731	73,951
Consolidation changes:			
Acquisitions	163	1,812	331
Divestments	(571)	(332)	(107)
Changes in Discontinued operations	753	(43,763)	
Other changes	1,427	1,502	3,225
Balance as of December 31	114,731	73,951	77,400

Geographic footprint

Approximately 61% (2017: 63%) of the Philips workforce is located in mature geographies and 39% (2017: 37%) in growth geographies. In 2018, the number of employees in mature geographies increased by 1,384. The number of employees in growth geographies increased by 2,065.

Philips Group
Employees per geographic cluster in FTEs at year-end
2016 - 2018

	2016	2017	2018
Western Europe	20,657	21,055	21,399
North America	19,828	20,937	21,703
Other mature geographies	3,695	3,962	4,236
Mature geographies	44,180	45,954	47,338
Growth geographies	26,788	27,997	30,062
Continuing operations	70,968	73,951	77,400
Discontinued operations	43,764		
Philips Group	114,731	73,951	77,400

Employee turnover

In 2018, employee turnover amounted to 14.2%, of which 8.6% was voluntary, compared to 13.6% (8.2% voluntary) in 2017. The slightly higher turnover in 2018 reflects the high demand for talent in the current economic circumstances. External benchmarks show that we remain well below employee turnover versus similar-sized companies and are reasonably successful in the retention of our employees.

With our focus on increasing gender diversity in leadership positions, we have been able to reduce voluntary female executive turnover from 12.9% in 2017 to 8.8% in 2018.

Philips Group
Employee turnover in %
2018

	Staff	Pro- fes- sionals	Man- age- ment	Ex- ecu- tives	Total
Female	15.6	14.4	11.4	19.1	14.9
Male	16.8	12.2	12.1	14.5	13.8
Philips Group	16.2	12.9	11.9	15.4	14.2

Philips Group
Voluntary turnover in %
2018

	Staff	Pro- fes- sionals	Man- age- ment	Ex- ecu- tives	Total
Female	8.8	9.6	6.8	8.8	9.1
Male	10.4	7.4	6.0	3.5	8.3
Philips Group	9.7	8.1	6.2	4.5	8.6

5.1.7 Human rights

We believe that businesses have the responsibility to respect human rights and the ability to contribute to positive human rights impacts. We have taken initiatives to ensure that human rights are upheld across our own operations and value chain.

In 2018, we published our Human Rights Policy, reaffirming our commitment to support and respect human rights as set out in the International Bill of Human Rights and the International Labor Organization's Declaration on Fundamental Principles and Rights at Work. In accordance with our policy, we initiated our first country-specific Human Rights Impact Assessment, and deepened our human rights due diligence process by engaging with internal and external stakeholders to identify the human rights areas of severe impact and most vulnerable groups. The result is presented in our first [Human Rights Report](#), which also contains more detailed information regarding our progress.

5.1.8 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. Details can be found at: www.philips.com/gbp.

In 2018, a total of 438 concerns were reported via the Philips Ethics Line and through our network of GBP Compliance Officers. The previous reporting period (2017) saw a total of 382 concerns, resulting in an increase of 14% in the number of reports.

This is a continuation of the upward trend reported since 2014, the year in which Philips updated its General Business Principles and deployed a strengthened global communication campaign. We believe this trend remains in line with our multi-year efforts to encourage our employees to speak up, in combination with a growing workforce.

More information on the Philips GBP can be found in Risk management, of the Annual Report 2018. The results of the monitoring measures in place are given in General Business Principles, of the Annual Report 2018

5.1.9 Health and Safety

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

We recorded 198 TRCs in 2018, a 15% improvement compared to 234 in 2017. While our workforce grew further in 2018, the TRC rate decreased from 0.36 per hundred FTEs in 2017 to 0.28 in 2018.

In 2018 we recorded 91 Lost Workday Injury Cases (LWIC). These are occupational injury cases where an injured person is unable to work for one or more days after the injury. This represents a 19% decrease compared with 113 in 2017. The LWIC rate decreased to 0.13 per 100 FTEs in 2018, compared with 0.17 in 2017. The number of Lost Workdays caused by injuries increased by 480 days (12%) to 4,650 days in 2018, mainly caused by longer recovery periods related to a limited number of incidents.

For more information on Health and Safety, please refer to Health and Safety performance, of the Annual Report 2018

5.1.10 Working with stakeholders

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

discussed is provided in Sustainability statements, of the Annual Report 2018.

For more information on our stakeholder engagement activities in 2018, please refer to Stakeholder engagement, of the Annual Report 2018.

5.1.11 Supplier sustainability

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

Supplier sustainability strategy

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

Please refer to Supplier indicators, of the Annual Report 2018 and to the Philips supplier sustainability [website](#) for more details on the Philips supplier sustainability program.

5.2 Environmental performance

In 2016 we launched our new five-year sustainability program, 'Healthy people, Sustainable planet', addressing both social and environmental challenges and including associated targets to be achieved by 2020.

Besides our social impact, we have an environmental impact through our global operations, but even more so through our products and solutions. This is our contribution to SDG 12 ("to ensure sustainable consumption and production patterns") and to SDG 13 ("take urgent action to combat climate change and its impacts").

In this Environmental performance section an overview is given of the most important environmental parameters of the 'Healthy people, Sustainable planet' program. Details can be found in the Sustainability statements, of the Annual Report 2018.

Environmental impact

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

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

An important learning that we derived from the first EP&L is that, in addition to the conversion factors, also the definition of the use case scenarios has a significant impact on the result, especially for consumer products. It is our aim to look into the feasibility of standardizing the use cases and calculation of the yearly energy consumption.

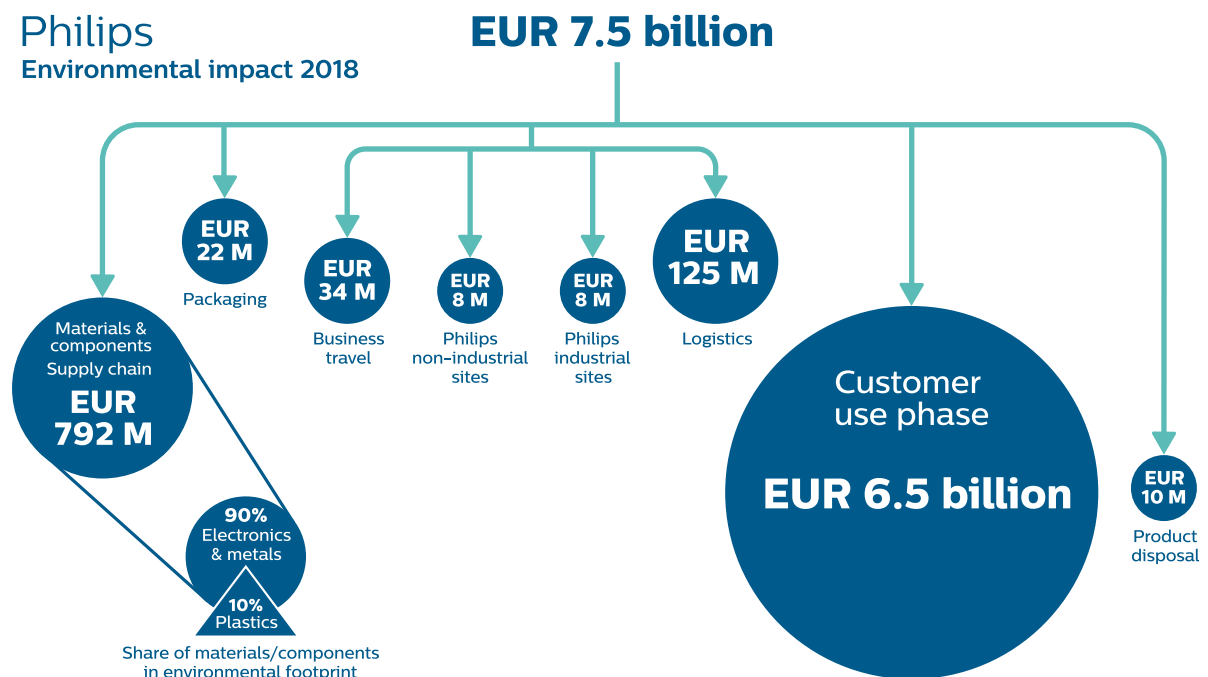
The current EP&L account only includes the hidden environmental costs. It does not yet include the benefits to society that Philips generates by improving people's lives through our products and solutions. We have a well-established methodology to calculate the number of lives we positively touch with our products and solutions. It is our aim to look into valuing these societal benefits in monetary terms as well and include them in our future EP&L account. We started to work on the latter in 2018.

Results 2018

In 2018, Philips had an environmental impact (loss) of EUR 7.5 billion, which is a 4% increase compared to the impact reported in 2017 (EUR 7.2 billion), driven by comparable sales growth^{*)} of 5%. The main environmental impact, 87% of the total, is related to the usage of our products, which is due to electricity consumption. Particulate matter formation and climate change are the main environmental impacts, accounting for 43% and 28% respectively of the total impact. The environmental costs include the environmental impact of the full lifetime of the products that we put on the market in 2018, e.g. 7 years of usage in the case of a vacuum cleaner or 10 years in the case of a medical system. As we grow our portfolio of Green Products and Solutions, we expect the environmental impact to reduce.

In 2018, we included packaging materials in the EP&L, but this did not have a material impact (EUR 22 million). Of the total 2018 impact, EUR 175 million (2%) is directly caused by Philips' own operations, mainly driven by outbound logistics. Compared to EUR 205 million in 2017, this is a 15% reduction, mainly due to the shift to energy from renewable sources in line with our ambition to become carbon-neutral in our operations by 2020.

Philips Environmental impact 2018



The environmental costs have been positively influenced by our EcoDesign efforts to increase the energy efficiency of our products. Our supply chain currently has an environmental impact of some EUR 792 million, which is 11% of our total environmental impact. The main contributors are the electronic components, cables and steel used in our products. Through our Circular Economy and Supplier Sustainability programs we will continue to focus on reducing the environmental impact caused by the materials we source and apply in our products.

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

^{*)} Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information](#), starting on page 56.

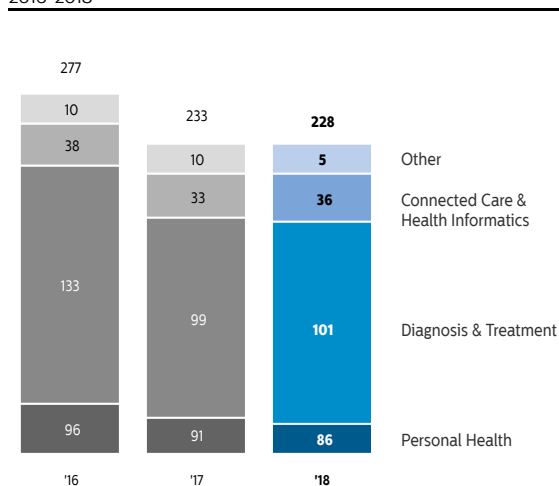
5.2.1 Green Innovation

Green Innovation is the Research & Development spend related to the development of new generations of Green Products and Solutions and Green Technologies.

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"). With regard to Sustainable Innovation spend, Philips set a target of EUR 7.5 billion (cumulative) for the period 2016–2020 as part of the 'Healthy people, Sustainable planet' program.

In 2018, Philips invested EUR 228 million in Green Innovation and some EUR 1.4 billion in Sustainable Innovation.

Philips Group
Green Innovation per segment in millions of EUR
2016–2018



Diagnosis & Treatment businesses

Philips develops innovative diagnosis and treatment solutions that support precision diagnosis and effective, minimally invasive interventions and therapy, while respecting the boundaries of natural resources. Investments in Green Innovation in 2018 amounted to EUR 101 million, broadly in line with 2017. All Philips Green Focal Areas are taken into account as we aim to reduce environmental impact over the total lifecycle. Energy efficiency is an area of focus, especially for our large imaging systems such as MRI. Philips also pays particular attention to enabling upgrading pathways, so our customers can benefit from enhancements in workflow, dose management and imaging quality with the equipment they already own. Our Diagnosis & Treatment businesses actively support a voluntary industry initiative to improve the energy efficiency of medical imaging equipment. Moreover, we are actively partnering with multiple leading care providers to look together for innovative ways to reduce the environmental impact of healthcare, for example by maximizing energy-efficient use of medical equipment and optimizing lifecycle value. Additionally, Philips aims to close the loop on all large medical equipment that

becomes available to us by the end of 2020, and to extend circular practices to all medical equipment by 2025. To achieve this target, we will actively drive trade-ins in markets where de-install, trade-in and reverse logistics capabilities are in place, and build these capabilities in countries that do not yet have them.

Connected Care & Health Informatics businesses

Philips' connected health IT solutions integrate, collect, combine and deliver quality data for actionable insights to help improve access to quality care, while respecting the boundaries of natural resources. It is our belief that well-designed e-health solutions can reduce the travel-related carbon footprint of healthcare, increase efficiency in hospitals, and improve access to care and outcomes. Investments in Green Innovation in 2018 amounted to EUR 36 million, in line with previous years. Some large Green Innovation projects will deliver new green patient monitors and ventilators in 2019, with lower environmental footprints reflecting all the Philips Green Focal Areas. Energy efficiency and material reduction are the main areas of focus.

Personal Health businesses

The continued high level of R&D investments at our Personal Health businesses is also reflected in the Green Innovation spend, which amounted to EUR 86 million in 2018, compared with EUR 91 million in 2017. Green Innovation spend in 2017 included a sizeable project in Oral Healthcare, resulting in a series of new Green Products in 2018. The Personal Health businesses continued their work on improving the energy efficiency of their products, closing the materials loop (e.g. by using recycled materials in products and packaging) and the voluntary phase-out of polyvinyl chloride (PVC), brominated flame retardants (BFR), Bisphenol A (BPA) and phthalates from, among others, food contact products. Mother & Child Care introduced a reusable sterilization box for soothers, eliminating the need for separate packaging. In our OneBlade shaver range, further progress was made in transitioning our packaging to include recycled materials.

Other

The segment Other invested EUR 5 million in Green Innovation, spread over projects focused on global challenges relating to water, air, energy, food, Circular Economy, and access to affordable healthcare. One example is the Contrast agent-free project, which is aimed at enhancing MRI imaging applications in oncology by eliminating the use of external Gadolinium-based contrast agent. This is expected to have large benefits in terms of patient management, safety, access, healthcare and environmental cost.

Circular Economy

For a sustainable world, the transition from a linear to a circular economy is essential. A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using these resources more effectively. It is a driver of innovation in the areas of material, component and product re-use, as well as new business models such as system solutions and services. At Philips, we have set ambitious targets to

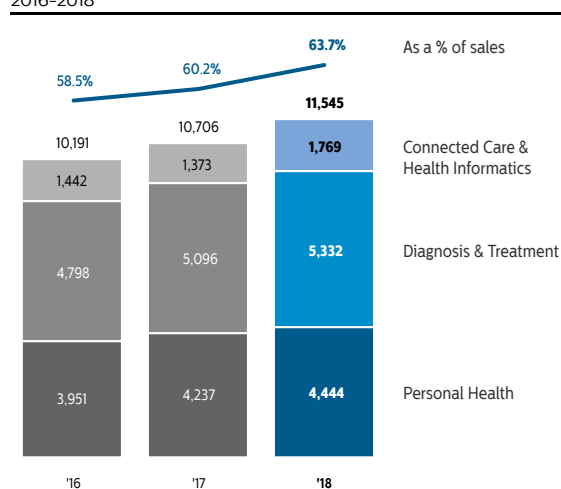
guide this journey. By 2020, we want 15% of our revenues to come from circular products and services, and we want to send zero waste to landfill in our own operations. At the beginning of 2018, we added a pledge to take back and repurpose all the large medical systems equipment (e.g. MRI and CT scanners) that our customers are prepared to return to us, and to extend those practices across our professional portfolio by 2025. In 2018, after pilot projects in Italy and Greece, we successfully launched the roll-out of a global program to achieve our ambitious circular economy goal, together with metrics to monitor progress.

For more information on our Circular Economy activities and the progress towards targets in 2018, please refer to Circular Economy, of the Annual Report 2018.

5.2.2 Green Revenues

Green Revenues are generated through products and solutions which offer a significant environmental improvement in one or more Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Circularity, and Lifetime reliability. Green Revenues increased to EUR 11.5 billion in 2018, or 63.7% of sales (60.2% in 2017), thereby reaching a record level for Philips.

Philips Group
Green Revenues per segment in millions of EUR unless otherwise stated
 2016–2018



Through our EcoDesign process we aim to create products and solutions that have significantly less impact on the environment during their whole lifecycle. Overall, the most significant improvements have been realized in energy efficiency, although there was also growing attention for hazardous substances and recyclability in all segments in 2018, the latter driven by our Circular Economy initiatives.

Diagnosis & Treatment businesses

In 2018, our Diagnosis & Treatment businesses maintained their Green Product and Solutions portfolio with redesigns of various Green Products with further environmental improvements. These products improve patient outcomes, provide better value, and help secure access to high-quality care, while reducing

environmental impact. A good example is BlueSeal magnet technology, which is designed to reduce lengthy and costly disruptions in MRI practice, and help healthcare facilities transition to more productive and sustainable helium-free operations. In 2018 we received third-party confirmation that the 2017 Philips portfolio of 1.5T MRI scanners leads the industry in terms of energy efficiency according to the COCIR SRI methodology.

Connected Care & Health Informatics businesses

Our Connected Care & Health Informatics businesses maintained their Green Product and Solutions portfolio in 2018.

Personal Health businesses

Our Personal Health businesses focus on Green Products and Solutions which meet or exceed our minimum requirements in the areas of energy consumption, packaging, and substances of concern. Green Revenues in 2018 amounted to 62% of total sales, compared to 58% in 2017. All our new consumer Green Products with rechargeable batteries (like toothbrushes, shavers, and grooming products) outperform the world's most stringent energy efficiency norm set by the US Federal government. With the introduction of the new Philips Sonicare DiamondClean toothbrush the Green Revenue percentage in the Oral Healthcare portfolio increased significantly, to over 88%. We continue to make steady progress in developing PVC/BFR-free products. More than 74% of our consumer product sales consist of PVC/BFR-free products, with the exception of the power cords, for which there are not yet economically viable alternatives available. In 2018 we introduced the PVC- and BFR-free SpeedPro Max vacuum cleaner. In the remaining 26% of consumer product sales, PVC/BFR has already been phased out to a significant extent, though not yet entirely.

5.2.3 Sustainable Operations

Philips' Sustainable Operations programs focus on the main contributors to climate change, recycling of waste, reduction of water consumption, and reduction of emissions. Full details can be found in Sustainability statements, of the Annual Report 2018.

Carbon footprint and energy efficiency

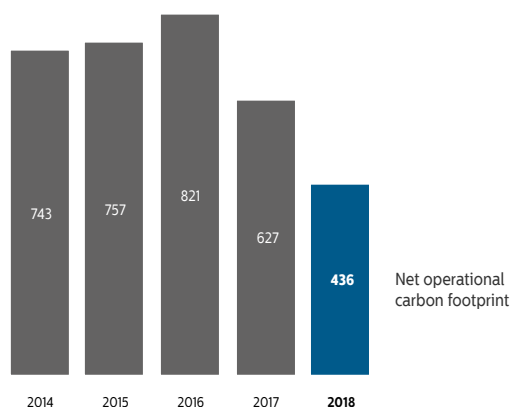
Philips has committed to becoming 100% carbon-neutral in our operations and sourcing all our electricity usage from 100% renewable sources by 2020 as our commitment to SDG 13.

Philips reports its climate performance to CDP (formerly known as the Carbon Disclosure Project), a global NGO that assesses the greenhouse gas (GHG) emission performance and management of reporting companies. For the sixth year in a row we received the Climate Leadership (A) score for our performance in 2017. In order to deliver on the carbon neutrality commitment we have set ambitious reduction targets.

In 2018, our greenhouse gas emissions resulted in 766 kilotonnes of carbon dioxide-equivalent (CO₂-e), but because of our carbon neutrality program, some of our emissions have been compensated via carbon offsets, resulting in a total of 436 kilotonnes carbon dioxide-equivalent (CO₂-e).

Philips reports all its emissions in line with the Greenhouse Gas Protocol (GHGP) as further described in Sustainability statements, of the Annual Report 2018.

Philips Group
Net operational carbon footprint in kilotonnes CO₂-equivalent
2014 - 2018



In 2018, our operational carbon intensity (in tonnes CO₂e/EUR million sales) improved by 11%, even as our company recorded 5% comparable sales growth^{*}). This still excludes the acquired carbon offsets. As part of our 'Healthy people, Sustainable planet' program we are continuing our efforts to decouple economic growth from our environmental impact.

The significant reductions in our scope 2 (indirect) emissions are mainly driven by our increased global renewable electricity share from 79% in 2017 to 90% in 2018.

All our US operations were powered by renewable electricity from the Los Mirasoles wind farm in 2018. In addition, the Krammer and Bouwdokken wind farms in the Dutch province of Zeeland, with whom we closed long-term contracts through our renewable electricity purchasing consortium with AkzoNobel, DSM and Google, started to deliver wind energy. The two Dutch wind farms will power all our operations in the Netherlands in 2019. Combined with the Los Mirasoles wind farm this covers some 52% of our total electricity demand.

Combined with the achieved energy reductions, this led to a 56% carbon reduction in our electricity consumption (scope 2) in 2018 compared to 2017.

Our business travel emissions increased by 2% compared to 2017, mainly due to an increase in air travel over shorter distances (<4,000 km) where the CO₂-e per km are higher compared to long-haul air travel,

combined with higher DEFRA emission factors for air travel. The emissions resulting from our lease cars decreased by 6% and the emissions from rental cars remained unchanged compared to 2017. In order to further decrease our business travel emissions we will continue to promote video conferencing and online collaboration as an alternative to travel, as well as promoting alternative modes of transport and electrifying our lease fleet.

As a result of our airfreight reduction program, we recorded a decrease of 9% in our logistics operations compared to 2017. Air freight shipments decreased by 19%, ocean freight increased by 32%, and road transport remained unchanged.

In 2017, we kicked off our carbon neutrality program by compensating 220 kilotonnes of carbon emissions. In 2018, we increased this to 330 kilotonnes, equivalent to the annual uptake of approximately 9 million medium-sized oak trees. This covers the total emissions of our direct emissions in our sites, all our business travel emissions and all our ocean and parcel shipments within logistics. We do so by financing carbon reduction projects in emerging regions that have a strong link with SDG 3 and SDG 12.

We are investing in several carbon emission reduction projects to gradually drive down our emissions to zero by 2020. We have selected projects in emerging regions that, in addition to generating emission reductions, also drive social, economic and additional environmental progress for the communities in which they operate, such as:

Providing access to safe drinking water while reducing wood consumption

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

Fighting against respiratory diseases and deforestation by means of clean cookstoves

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

Providing access to clean energy while improving health and education

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

Philips Group
Operational carbon footprint by scope in kilotonnes CO₂-equivalent
 2014-2018

	2014	2015	2016	2017	2018
Scope 1	40	39	42	38	40
Scope 2 (market-based)	109	106	121	58	26
Scope 2 (location-based)	210	212	252	225	227
Scope 3	594	612	658	751	700
Total (scope 1,2 (market-based), and 3)	743	757	821	847	766
Emissions compensated by carbon offset projects				220	330
Net operational carbon emissions	743	757	821	627	436

During 2018, the applied emission factors used to calculate our operational carbon footprint have been updated with the latest DEFRA (UK Department for Environment, Food & Rural Affairs) 2018 emission factors. Philips reports all its emissions in line with the Greenhouse Gas Protocol (GHGP) as further described in Data definitions and scope, of the Annual Report 2018.

Philips Group
Ratios relating to carbon emissions and energy use
 2014-2018

	2014	2015	2016	2017	2018
Operational CO₂ emissions in kilotonnes CO ₂ -equivalent	743	757	821	847	766
Operational CO₂ efficiency in tonnes CO ₂ -equivalent per million EUR sales	53.36	46.58	48.48	47.64	42.27
Operational energy use in terajoules	5,747	5,639	5,526	4,858	5,118
Operational energy efficiency in terajoules per million EUR sales	0.41	0.35	0.33	0.27	0.28

Water

Total water intake in 2018 was 891,000 m³, comparable to 2017. Personal Health, which consumes 60% of total water usage, recorded a 7% increase. The increase was mainly due to production volume increases at two manufacturing sites in Asia. Diagnosis & Treatment and Connected Care & Health Informatics showed a decrease of 8% and 13% respectively.

Philips Group
Water intake in thousands of m³
 2014-2018

	2014	2015	2016	2017	2018
Personal Health	585	614	613	496	533
Diagnosis & Treatment	392	268	269	312	288
Connected Care & Health Informatics	74	94	81	80	70
Philips Group	1,051	976	963	888	891

In 2018, 98% of water was purchased and 2% was extracted from groundwater wells.

Waste

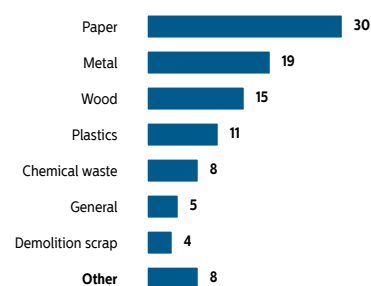
In 2018, our manufacturing sites generated 24.5 kilotonnes of waste, comparable to 2017. The Personal Health businesses contributed 61% of total waste, Diagnosis & Treatment businesses 34%, and Connected Care & Health Informatics businesses 5%.

Philips Group
Total waste in kilotonnes
 2014 - 2018

	2014	2015	2016	2017	2018
Personal Health	13.1	13.8	14.3	15.1	14.9
Diagnosis & Treatment	6.8	8.0	9.2	8.3	8.4
Connected Care & Health Informatics	1.2	1.4	1.4	1.2	1.2
Philips Group	21.1	23.2	24.9	24.6	24.5

Total waste consists of waste that is delivered for landfill, incineration or recycling (including re-use). Our sites are addressing both the recycling percentage as well as waste sent to landfill as part of the 'Healthy people, Sustainable planet' program. Materials delivered for recycling via an external contractor amounted to 21 kilotonnes, which equals 84% of total waste, a significant increase compared to 2017 (80%). Of the 16% remaining waste, 79% comprised non-hazardous waste and 21% hazardous waste. Our Zero Waste to Landfill KPI excludes one-time-only waste and waste delivered to landfill due to regulatory requirements. According to this definition, in 2018 we reported 1.7 kilotonnes of waste sent to landfill. 19 out of our 36 industrials sites achieved Zero Waste to Landfill status.

Philips Group
Industrial waste delivered for recycling in %
 2018



Philips included new reduction targets for the substances that are most relevant for its businesses in its 'Healthy people, Sustainable planet' program. In order to provide comparable information at Group level, please find the summary of the emissions of the formerly targeted substances below. Emissions of restricted substances were again zero in 2018. The level of emissions of hazardous substances decreased from 5,243 kilos in 2017 to 3,363 kilos in 2018 (-36%), mainly driven by changes in the manufacturing process resulting in lower Styrene emissions and changes in the product mix in the Personal Health businesses.

Philips Group
Restricted and hazardous substances in kilos
 2014-2018

	2014	2015	2016	2017	2018
Restricted substances	20	18	1	-	-
Hazardous substances	24,712	22,394	10,496	5,243	3,363

For more details on emissions from substances, please refer to Sustainable Operations, of the Annual Report 2018.

^{*)} Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 56](#).

6 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 Supervisory Board report, of the Annual Report 2018 and Supervisory Board, of the Annual Report 2018.

Jeroen van der Veer ^{2) 3)}

Born 1947, Dutch

Chairman

Chairman of the Corporate Governance and Nomination & Selection Committee

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

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

Neelam Dhawan ¹⁾

Born 1959, Indian

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

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

Orit Gadiesh ¹⁾

Born 1951, Israeli/American

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

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

Marc Harrison

Born 1964, American

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

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

Christine Poon ^{2) 3) 4)}

Born 1952, American

Vice-Chairwoman and Secretary

Chairwoman of the Quality & Regulatory Committee

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

Former Vice-Chairwoman of Johnson & Johnson's Board of Directors and Worldwide Chairwoman of the Pharmaceuticals Group 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 ^{2) 3) 4)}

Born 1949, German/Swiss

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. Hoffmann-La Roche Group and former CEO of Roche Diagnostics. Currently Chairman of the Supervisory Board of Epigenomics AG and Quotient Ltd, and member of the Supervisory Board of The Binding Site Group Ltd.

David Pyott ^{1) 4)}

Born 1953, British/American

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 Deputy Chairman of the Governing Board of London Business School, member of the Board of Trustees of California Institute of Technology, President of the International Council of Ophthalmology Foundation and member of the Advisory Board of the Foundation of the American Academy of Ophthalmology.

Paul Stoffels

Born 1962, Belgian

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

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

Jackson Tai ^{1) 4)}

Born 1950, American

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

7 Other information

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

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

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

The non-IFRS financial measures presented are not measures of financial performance or liquidity under IFRS, but measures used by management to monitor the underlying performance of Philips' business and operations and, accordingly, they have not been audited or reviewed by Philips' external auditors. 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 [Significant accounting policies, starting on page 0](#), foreign currency sales and costs are translated into Philips' presentation currency, the euro, at the exchange rates prevailing at the respective transaction dates. As a result of significant foreign currency sales and currency movements during the periods presented, the effects of translating foreign currency sales amounts into euros could have a material impact on the comparability of sales between periods. Therefore, these impacts are excluded when presenting comparable sales in euros by translating the foreign currency sales of the previous period and the current period into euros at the same average exchange rates. In addition, the years presented were affected by a number of acquisitions and divestments, as a result of which various activities were consolidated or deconsolidated. The effect of consolidation changes has also been excluded in arriving at the comparable sales. For the purpose of calculating comparable sales, when a previously consolidated entity is sold or control is lost, relevant sales for that entity of the corresponding prior year period are excluded. Similarly, when an entity is acquired and consolidated, relevant sales for that entity of the current year period are excluded.

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

Philips Group
Sales growth composition per segment in %
2016 - 2018

	nominal growth	currency effects	consolidation changes	comparable growth
2018 versus 2017				
Diagnosis & Treatment	5.1	4.1	(2.4)	6.8
Connected Care & Health Informatics	(2.5)	4.1	(1.3)	0.3
Personal Health	(1.1)	4.4	0.0	3.3
Philips Group	1.9	4.2	(1.4)	4.7
2017 versus 2016				
Diagnosis & Treatment	3.1	2.0	(1.6)	3.5
Connected Care & Health Informatics	0.2	1.9	1.1	3.2
Personal Health	3.0	1.9	0.7	5.6
Philips Group	2.1	1.9	(0.1)	3.9
2016 versus 2015				
Diagnosis & Treatment	3.1	0.9	(0.4)	3.6
Connected Care & Health Informatics	4.5	0.1	(0.1)	4.5
Personal Health	5.2	2.0	0.0	7.2
Philips Group	3.7	1.1	0.1	4.9

Philips Group
Sales growth composition per geographic cluster in %
2016 - 2018

	nominal growth	currency effects	consolidation changes	comparable growth
2018 versus 2017				
Western Europe	4.9	0.4	(2.6)	2.7
North America	(1.1)	4.4	(2.6)	0.7
Other mature geographies	10.8	4.1	(0.4)	14.5
Total mature geographies	2.5	3.1	(2.3)	3.3
Growth geographies	0.7	6.5	0.4	7.6
Philips Group	1.9	4.2	(1.4)	4.7
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)
Total 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
Total 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

Adjusted EBITA

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

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

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

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

Philips considers the use of Adjusted EBITA appropriate as Philips uses it as a measure of segment performance and as one of its strategic drivers to increase

profitability through re-allocation of its resources towards opportunities offering more consistent and higher returns. This is done with the aim of making the underlying performance of the businesses more transparent.

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

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

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

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

Philips Group

Reconciliation of Net income to Adjusted EBITA in millions of EUR unless otherwise stated
2016 - 2018

	Philips Group	Diagnosis & Treatment	Connected Care & Health Informatics	Personal Health	Other
2018					
Net Income	1,097				
Discontinued operations, net of income taxes	213				
Income tax expense	193				
Investments in associates, net of income taxes	2				
Financial expenses	264				
Financial income	(51)				
Income from operations	1,719	600	179	1,045	(105)
Amortization of intangible assets	347	97	46	126	79
EBITA	2,066	696	225	1,171	(27)
Restructuring and acquisition-related charges	258	142	59	26	31
Other items	41	-	56	18	(33)
Adjusted EBITA	2,366	838	341	1,215	(28)
2017					
Net Income	1,870				
Discontinued operations, net of income taxes	(843)				
Income tax expense	349				
Investments in associates, net of income taxes	4				
Financial expenses	263				
Financial income	(126)				
Income from operations	1,517	488	206	1,075	(252)
Amortization of intangible assets	260	55	44	135	26
Impairment of goodwill	9				9
EBITA	1,787	543	250	1,211	(217)
Restructuring and acquisition-related charges	316	151	91	11	64
Other items	50	22	31		(3)
Adjusted EBITA	2,153	716	372	1,221	(157)
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	546	275	953	(310)
Amortization of intangible assets	242	48	46	139	9
Impairment of goodwill	1		1		
EBITA	1,707	594	322	1,092	(301)
Restructuring and acquisition-related charges	94	37	14	16	27
Other items	120		(12)		132
Adjusted EBITA	1,921	631	324	1,108	(142)

Adjusted income from continuing operations attributable to shareholders

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

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

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

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

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

Adjusted income from continuing operations attributable to shareholders may be subject to limitations as an analytical tool for investors, as it excludes certain items and therefore does not reflect the expense associated with such items, which may be significant and have a significant effect on Philips' net

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

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

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

Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted is calculated by dividing the Adjusted income from continuing operations attributable to shareholders by the diluted weighted average number of shares (after deduction of treasury shares) outstanding during the period, as defined in [Significant accounting policies, starting on page 0](#), earnings per share section.

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

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

Philips Group

Adjusted income from continuing operations attributable to shareholders ¹⁾ in millions of EUR unless otherwise stated
2016-2018

	2016	2017	2018
Net income	1,491	1,870	1,097
Less: Discontinued operations, net of income taxes	(660)	(843)	213
Income from continuing operations	831	1,028	1,310
Less: Continuing operations Non-controlling interest	(4)	(11)	(7)
Income from continuing operations attributable to shareholders	827	1,017	1,303
Adjustments for:			
Amortization of acquired intangible assets	242	260	347
Impairment of goodwill	1	9	
Restructuring costs and acquisition-related charges	94	316	258
Other items	120	50	41
Net finance expenses	94		57
Tax impact of adjusted items	(225)	(194)	(365)
Adjusted income from continuing operations attributable to shareholders ²⁾	1,153	1,459	1,643
Earnings per common share:			
Income from continuing operations attributable to shareholders per common share - diluted	0.89	1.08	1.39
Adjusted income from continuing operations attributable to shareholders ¹⁾ per common share - diluted	1.24	1.54	1.76

¹⁾ Shareholders refers to shareholders of Koninklijke Philips N.V.

Adjusted EBITDA

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

Philips understands that Adjusted EBITDA is broadly used by analysts, rating agencies and investors in their evaluation of different companies because it excludes certain items that can vary widely across different industries or among companies within the same industry. Philips considers Adjusted EBITDA useful when comparing its performance to other companies in the HealthTech industry. However, Adjusted EBITDA may be subject to limitations as an analytical tool because of the range of items excluded and their significance in a given reporting period. Furthermore, comparisons with other companies may be complicated due to the absence of a standardized meaning and calculation framework. Our management compensates for the limitations of using Adjusted EBITDA by using

this measure to supplement IFRS results to provide a more complete understanding of the factors and trends affecting the business rather than IFRS results alone. In addition to the limitations noted above, Adjusted EBITDA excludes items that may be recurring in nature and should not be disregarded in the evaluation of performance. However, we believe it is useful to exclude such items to provide a supplemental analysis of current results and trends compared to other periods. This is because certain excluded items can vary significantly depending on specific underlying transactions or events. Also, the variability of such items may not relate specifically to ongoing operating results or trends and certain excluded items, while potentially recurring in future periods and may not be indicative of future results. A reconciliation from net income to Adjusted EBITDA is provided below. Net income, for the years indicated is included in the table below. Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis, resulting in them being shown on a Philips Group level only.

Philips Group
Reconciliation of Net income to Adjusted EBITDA in millions of EUR
 2016 – 2018

	Philips Group	Diagnosis & Treatment	Connected Care & Health Informatics	Personal Health	Other
2018					
Net Income	1,097				
Discontinued operations, net of income taxes	213				
Income tax expense	193				
Investments in associates, net of income taxes	2				
Financial expenses	264				
Financial income	(51)				
Income from operations	1,719	600	179	1,045	(105)
Depreciation, amortization and impairment of assets	1,089	302	176	367	244
Restructuring and acquisition-related charges	258	142	59	26	31
Other items	41	-	56	18	(33)
Adding back impairment of fixed assets included in restructuring and acquisition-related changes and other items	(15)	(7)	(9)	-	1
Adjusted EBITDA	3,093	1,036	462	1,456	139
2017					
Net Income	1,870				
Discontinued operations, net of income taxes	(843)				
Income tax expense	349				
Investments in associates, net of income taxes	4				
Financial expenses	263				
Financial income	(126)				
Income from operations	1,517	488	206	1,075	(252)
Depreciation, amortization and impairment of assets	1,025	267	208	371	179
Impairment of goodwill	9				9
Restructuring and acquisition-related charges	316	151	91	11	64
Other items	50	22	31		(3)
Adding back impairment of fixed assets included in restructuring and acquisition-related changes and other items	(86)	(44)	(34)	(1)	(7)
Adjusted EBITDA	2,832	884	502	1,456	(11)
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	546	275	953	(310)
Depreciation, amortization and impairment of assets	976	229	184	385	178
Impairment of goodwill	1		1		
Restructuring and acquisition-related charges	94	37	14	16	27
Other items	120		(12)		132
Adding back impairment of fixed assets included in restructuring and acquisition-related changes and other items	(42)	(4)	(4)	(0)	(34)
Adjusted EBITDA	2,613	808	458	1,353	(7)

Free cash flow

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

Philips discloses free cash flow as a supplemental non-IFRS financial measure, as Philips believes it is a meaningful measure to evaluate the performance of its business activities over time. Philips understands that free cash flow is broadly used by analysts, rating agencies and investors in assessing its performance. Philips also believes that the presentation of free cash flow provides useful information to investors regarding the cash generated by the Philips operations after deducting cash outflows for purchases of intangible assets, capitalization of product development, expenditures on development assets, capital expenditures on property, plant and equipment and proceeds from disposal of property, plant and equipment. Therefore, the measure gives an indication of the long-term cash generating ability of the business. In addition, because free cash flow is not impacted by purchases or sales of businesses and investments, it is generally less volatile than the total of net cash provided by (used for) operating activities and net cash provided by (used for) investing activities.

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

Philips Group
Composition of free cash flow in millions of EUR
 2016 - 2018

	2016	2017	2018
Net cash flows from operating activities	1,170	1,870	1,780
Net capital expenditures:	(741)	(685)	(796)
<i>Purchase of intangible assets</i>	(95)	(106)	(123)
<i>Expenditures on development assets</i>	(301)	(333)	(298)
<i>Capital expenditures on property, plant and equipment</i>	(360)	(420)	(422)
<i>Proceeds from disposals of property, plant and equipment</i>	15	175	46
Free cash flow	429	1,185	984

Net debt : group equity ratio

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

Philips Group
Composition of net debt to group equity in millions of EUR unless otherwise stated
 2016 - 2018

	2016	2017	2018
Long-term debt	4,021	4,044	3,427
Short-term debt	1,585	672	1,394
Total debt	5,606	4,715	4,821
Cash and cash equivalents	2,334	1,939	1,688
Net debt	3,272	2,776	3,132
Shareholders' equity	12,546	11,999	12,088
Non-controlling interests	907	24	29
Group equity	13,453	12,023	12,117
Net debt to group equity ratio	20:80	19:81	21:79

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.

7.2 Five-year overview

Philips Group
Other financial data in millions of EUR unless otherwise stated
 2014-2018

	2014	2015	2016	2017	2018
Nominal sales growth	(2)%	16%	4%	2%	2%
Comparable sales growth ¹⁾	0%	4%	5%	4%	5%
Free cash flow ¹⁾	555	(154)	429	1,185	984
PPE - Capital expenditure for the year	528	575	575	551	546
Adjusted EBITA ¹⁾	1,458	1,688	1,921	2,153	2,366
as a % of sales	10.0%	10.0%	11.0%	12.1%	13.1%
Adjusted income from continuing operations attributable to KPNV shareholders ^{1) 2)}	1,178	1,000	1,153	1,459	1,643
Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted ^{1) 2)}	1.28	1.08	1.24	1.54	1.76
Cash and cash equivalents	1,873	1,766	2,334	1,939	1,688
Net debt: group equity ratio ¹⁾	17:83	25:75	20:80	19:81	21:79
Market capitalization at year-end	22,082	21,607	26,751	29,212	28,276

¹⁾ Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 56](#).

²⁾ Shareholders refers to shareholders of Koninklijke Philips N.V.

Five-year overview (condensed)

Philips Group
Sustainability
 2014-2018

	2014	2015	2016	2017	2018
Lives improved, in billions (including Signify)	1.93	2.02	2.13	2.22	2.24
Green Revenues, as a % of total sales		56%	58%	60%	64%
Green Innovation, in millions of euros		241	277	233	228
Circular revenue		7%	9%	11%	12%
Operational carbon footprint, in kilotonnes CO ₂ -equivalent	743	757	821	847	766

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

Philips Group
Selected financial data in millions of EUR unless otherwise stated
 2014-2018

	2014	2015	2016	2017	2018
Sales	14,517	16,806	17,422	17,780	18,121
Income from operations	461	658	1,464	1,517	1,719
Financial income and expenses - net	(294)	(359)	(442)	(137)	(213)
Income (loss) from continuing operations	260	160	831	1,028	1,310
Income (loss) from continuing operations attributable to shareholders	264	146	788	814	2
Income (loss) from discontinued operations	148	479	660	843	(213)
Net income (loss)	408	638	1,491	1,870	1,097
Net income (loss) attributable to shareholders	412	624	1,448	1,657	1,090
Total assets	28,317	30,943	32,270	25,315	26,019
Net assets	10,933	11,725	13,435	12,023	12,117
Debt	4,104	5,760	5,606	4,715	4,821
Provisions	4,517	4,243	3,606	2,059	2,151
Shareholders' equity	10,832	11,607	12,546	11,999	12,088
Non-controlling interests	101	118	907	24	29
Weighted average shares outstanding:					
basic	915,193	916,087	918,016	928,798	922,987
diluted	922,714	923,625	928,789	945,132	935,851
Amount of common shares outstanding at year-end	914,389	917,104	922,437	926,192	914,184
Basic earnings per common share:					
Income (loss) from continuing operations attributable to shareholders ¹⁾	0.28	0.17	0.90	1.10	1.41
Net income (loss) attributable to shareholders	0.45	0.70	1.58	1.78	1.18
Diluted earnings per common share:					
Income (loss) from continuing operations attributable to shareholders ¹⁾	0.28	0.17	0.89	1.08	1.39
Net income (loss) attributable to shareholders	0.45	0.70	1.56	1.75	1.16
Dividend distributed per common share	0.80	0.80	0.80	0.80	0.80
Total employees at year-end (FTEs)	113,678	112,959	114,731	73,951	77,400

¹⁾ During 2018, an error was identified in certain non-controlling interests and EPS calculations for 2016 and 2017 respectively. Reference is made to the [Significant accounting policies, starting on page 0](#).

7.3 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 developments in Philips' organic business, the completion of acquisitions and divestments and future Adjusted EBITA^{*}). 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: global economic and business conditions; political instability, including developments within the European Union, with adverse impact on financial markets; the successful

implementation of Philips' strategy and the ability to realize the benefits of this strategy; the ability to develop and market new products; changes in legislation; legal claims; changes in currency exchange rates and interest rates; future changes in tax rates and regulations, including trade tariffs; pension costs and actuarial assumptions; changes in raw materials prices; changes in employee costs; the ability to identify and complete successful acquisitions, and to integrate those acquisitions into the business, the ability to successfully exit certain businesses or restructure the operations; the rate of technological changes; cyber-attacks, breaches of cybersecurity; 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 disposal by Philips of its remaining interests in Signify (formerly 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 Risk management, of the Annual Report 2018.

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 are not readily available, fair values are estimated using valuation models and unobservable inputs, which we believe are appropriate for their purpose. Such fair value estimates require management to make significant assumptions with respect to future developments which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the financial statements. In certain cases, independent valuations are obtained to support management's determination of fair values.

IFRS basis of presentation

The audited consolidated financial statements as of December 31, 2018 and 2017, and for each of the years in the three-year period ended December 31, 2018 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 2018 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, starting on page 56](#), 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).

7.4 Definitions and abbreviations

Brominated flame retardants (BFR)

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

CO₂-equivalent

CO₂-equivalent or carbon dioxide equivalent is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO₂ that would have the same global warming potential (GWP), when measured over a specified timescale (generally 100 years).

Circular economy

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

Circular Revenues

Circular Revenues are defined by revenues generated through products and solutions that meet specific Circular Economy requirements. These include performance and access-based business models, refurbished, reconditioned and remanufactured products and systems, refurbished, reconditioned and remanufactured components, upgrades or refurbishment on site or remote, and products containing at least 30% recycled plastics.

Dividend yield

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

Employee Engagement Index (EEI)

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

Energy-using Products (EuP)

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

Full-time equivalent employee (FTE)

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

Global Reporting Initiative (GRI)

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

Green Innovation

Green Innovation comprises all R&D activities directly contributing to the development of Green Products or Green Technologies.

Green Products

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

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

Green Revenues

Green Revenues are generated through products and solutions which offer a significant environmental improvement in one or more of the Green Focal Areas: Energy efficiency, Packaging, Hazardous substances,

Weight, Circularity, and Lifetime reliability. Green Revenues are determined by classifying the environmental impact of the product or solution over its total life cycle.

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

Growth geographies

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

Hazardous substances

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

Income from operations (EBIT)

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

Income from continuing operations

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

Lean

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

Lives improved by Philips

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

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 CO₂-equivalent. Philips' operational carbon footprint is calculated on a half-year basis and includes industrial sites (manufacturing and assembly sites), non-industrial sites (offices, warehouses, IT centers and R&D facilities), business travel (lease and rental cars and airplane travel) and logistics (air, sea and road transport).

Polyvinyl chloride (PVC)

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

REACH

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

Responsible Business Alliance (RBA)

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

Restriction on Hazardous Substances (RoHS)

The RoHS Directive prohibits all new electrical and electronic equipment placed on the market in the European Economic Area from containing lead, mercury, cadmium, hexavalent chromium, polybrominated 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 Development Goals

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

Sustainable Innovation

Sustainable Innovation is the Research & Development spend related to the development of new generations of products and solutions that address the United Nations Sustainable Development Goals 3 ("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. In addition, innovation spend that contributes to Green Products and healthy living at Personal Health is included. Finally, innovation spend at Other that addresses the SDGs 3 and 1 is included.

VOC

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

Voluntary turnover

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

Waste Electrical and Electronic Equipment (WEEE)

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

Weighted Average Statutory Tax Rate (WASTR)

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

