



Q2 2021 Results

Monday, 26th July 2021

Operator

Welcome to the Royal Philips Second Quarter and Semi-annual 2021 Results Conference Call on Monday, 26 July 2021. During the call, hosted by Mr Frans van Houten, CEO, and Mr Abhijit Bhattacharya, CFO, all participants will be in a listen-only mode. After the introduction there will be opportunities to ask questions. If any participant has difficulty hearing the conference at any time, please press the * followed by the 0 on your telephone for operator assistance. Please note that this call will be recorded and a replay will be available on the Investor Relations website on Royal Philips.

I will now hand the conference over to Mr Leandro Mazzone, Head of Investor Relations. Please go ahead, sir.

Introduction

Leandro Mazzone

Head of Investor Relations, Royal Philips

Good morning and welcome to Philips' second quarter 2021 results conference call. Joining me today are our CEO, Frans van Houten, and our CFO, Abhijit Bhattacharya. Frans and Abhijit will take you through our strategic and financial highlights for the period, and after that, we will take your questions.

Our press release and the related information slide deck were published at 07.00 CET this morning, both are available on our Investor Relations website. A full transcript of this call will also be made available today on the website.

As mentioned in the press release, adjusted EBITA is defined as income from operations excluding amortisation of acquired intangible assets, impairment of goodwill and other intangible assets, restructuring charges, acquisition-related costs, and significant one-off items. Comparable growth for sales and orders are adjusted for currency and portfolio changes.

As of Q1 2021, the Domestic Appliances business has reported as discontinued operations. Sales and results from this business are no longer included in the result of continuing operations and relevant assets and liabilities are reported under 'Assets and liabilities held for sale'. All forward-looking projections exclude the Domestic Appliances business.

Over to you, Frans.

Second-quarter Highlights

Frans van Houten

Chief Executive Officer, Royal Philips

Yeah, thanks. Hello, everyone, and thank you for joining us today. I hope that you and your families are keeping safe and well. Let me upfront mention the upcoming few sections related to the component quality issue in our sleep apnea therapy devices that we announced back in June. I value to talk about that first, as you understand, because of the impact that it is having on patients as well as their well-being, which is at the heart of everything we do at

Philips. I want you to know that we have mobilised the necessary resources across the company to address this issue effectively, and I will come back later in this call with more details.

Zooming out, the COVID-19 pandemic is clearly not over, and our teams are very focussed on delivering against what we call the triple duty of care of meeting customer needs, safeguarding the health and safety of employees, ensuring business continuity.

Despite the impact of COVID, we delivered actually strong performance momentum in all our businesses, except for the Sleep & Respiratory Care business. This resulted in 9% comparable sales growth, an adjusted EBITA margin increase of almost 300 basis points, and free cash flow of €167 million for the Group in the second quarter. We are very encouraged by the close to 30% comparable order intake growth for the Diagnosis & Treatment business, with all major markets contributing, driven by the improvement of hospital CapEx and elective procedures and a very positive customer response to our innovative products and solutions.

Order intake for the Connected Care businesses decreased, of course, following the exceptional growth of last year, as well as the headwinds in the Sleep & Respiratory Care business. Personal Health delivered strong 33% revenue growth in the quarter.

Now, I would like to provide some colour on some of our initiatives to respond to the needs of today's hospital leaders across the global, as they plan for the future.

Highlighting our strength in smart diagnostic systems, in the second quarter, we introduced the Spectral CT 7500. Let me spend a minute on this innovation as it is quite impactful.

With the launch of the Icon in 2016, the established category of detector-based spectral computer tomography (CT). The Spectral CT 7500 is an important expansion to our portfolio and it delivers high-quality spectral images for the broadest patient base of any company, including cardiac, paediatric, and bariatric patients. It's the only system that makes spectral data available on 100% of the scans, allowing clinicians to adapt their protocols for different patients, thus eliminating the need of special workflows or multiple re-scans. It is also the only system that provides spectral imaging for interventional procedures.

The Spectral CT 7500 was extremely well received by customers and further expands our comprehensive CT portfolio, which is continuing its double-digit growth trajectory from last year.

We also launched IntraSight Mobile, a fully mobile interventional suite system to assist with coronary and peripheral artery disease procedures. IntraSight Mobile offers users in hospitals and office-based labs the integration, flexibility and affordability for intravascular imaging, physiology measurements and co-registration for seamless workflows and enhanced patient care.

Our Image-Guided Therapy devices portfolio continues to gain significant traction, as we announced a series of important achievements in this business in the quarter. For example, the first structural heart repair procedure using our 3D intracardiac echocardiography catheter VeriSight Pro was performed at the Mayo Clinic.

We also announced progress on several clinical studies, including the positive two-year clinical study results for the Tack Endovascular System for dissection repair, the first patient

enrolment in the DEFINE GPS multicentre study to drive the adoption of iFR for percutaneous coronary interventions based on clinical evidence, and the start of the WE-TRUST multicentre stroke study to shorten treatment times by identifying, planning and treating ischaemic stroke patients in the interventional suite.

Importantly, we continue to grow market share in our core businesses, through deeper, more comprehensive customer partnerships. During the second quarter, we signed several new long-term strategic partnerships in – ranging – countries ranging from North America, Europe, Latin America, and the Middle East. This builds on the strength of our portfolio and demonstrates the trust that hospital leaders have in our ability to enhance health outcomes, lower the cost of care, and improve patient and staff experience.

In Personal Health, we introduced the Sonicare 9900 Prestige globally, which leverages AI to optimise the user's brushing technique, ensuring full coverage of the mouth, and instil brushing habits that improve oral health.

We also expanded our leading male grooming portfolio with the introduction of the Shaver Series 9000 with SkinIQ technology in China, that leverages AI and sensors to offer a personalised shave tailored to each unique skin and hair type, and it will be launched in North America and Europe in the second half of this year.

The integrations of the recently acquired BioTelemetry and Capsule businesses are progressing very well. Reactions from customers to the expanded portfolio of end-to-end patient care management solutions from the hospital all the way to the home have been very positive. We already see strong, joint customer wins and funnel, including several major integrated delivery networks adopting these in the United States. We are also in the process of aligning assets, capabilities and product roadmaps which is a step towards joint R&D activity and platform development.

On a different angle, in line with our plans, on 1st July the Domestic Appliances business became a standalone entity, and we are on track to complete the sale of this business to Hillhouse Capital in the third quarter, of course, subject to customary conditions.

Also important, today, we announced a new share buyback programme for capital reduction purposes for an amount of up to €1.5 billion, and Abhijit will later on cover that in more detail.

Let me now speak about the planned field actions in Sleep & Respiratory Care. This is of course a major correction, and we take it very seriously. As mentioned, we have mobilised the necessary resources across the company to address the issue. This is done due to possible risk of degradation of the sound abatement foam embedded in the devices. At the same time, we realise that the field action itself has temporarily also a significant impact to patients. We are fully prepared to start with comprehensive repair and replacement actions for the affected units. We are still in discussions with the relevant regulatory authorities to obtain authorisation to start deploying the repair kits and replacement devices that we are producing. For example, we have submitted the relevant applications to the FDA in June. We have already increased the overall production of DreamStation 1 and DreamStation 2 devices, as well as repair kits from 30,000 units per week to 55,000 units per week as of the start of the third quarter. And we expect to reach 80,000 units per week in the fourth quarter, which

underpins our expectation to address all devices in scope within 12 months of regulatory approval.

As a consequence of the prioritisation of the repair and replace actions, we are currently not taking new orders for sleep therapy systems while masks and other consumables of course continue to be sold. As a reference, before COVID-19, the annual revenue in our Sleep business was close to €1.1 billion, with approximately 60% from systems and 40% from masks and consumables. In the longer term, we do not expect this issue to have a substantial impact on the fundamentals of our Sleep Respiratory Care business, nor on the gross dynamics of this market.

We have a market-leading innovative product portfolio in these businesses and continue to work closely and transparently with physicians, customers and patients to ensure that we address this issue as quickly as possible.

Following our voluntary field safety notice, for which we have assumed a worst-case scenario, we are still conducting research and further tests to get insights, so that we are better able to scope possible patient risk. To be clear, we do not have data at this point, such as preclinical or clinical study results indicating that exposure to the particulates or emitted chemicals related to the sound abatement foam will lead to disease, while at this point, we cannot exclude it either.

The various regulators around the world have made their own interpretation of the field safety notice in the data, also weighing the patient risks and benefits. As a result, we are seeing some variance in what regulators are advising patients in this matter. I would like to point you to the table in the investor presentation.

As I know this is on your mind, I can say that some civil complaints and personal injury claims have been filed in courts against Philips. It is, however, far too early to draw any conclusion to talk about the merits of the claims or speculate about Philips' exposure. In due course, we will be able to assess the merits of any claim, and we intend to defend our position vigorously, supported by the further test data that we are gathering. Obviously, the timelines that may apply to the handling of claims is not yet clear.

I also want to talk about the broader context of quality across Philips. In the last few years, we have made strong progress in our quality culture and approach, improved design controls, improved post-market surveillance, and improvements in the way that we handle corrective and preventative actions. The affected products were designed and have been in full compliance with appropriate standards at the time of release and commercialisation, and the component issue was identified through our own post-market surveyance processes.

Overall, the robustness of our processes has increased a lot. That doesn't mean of course that we are done. This journey remains a top priority for all of us at Philips. I want again to reiterate that patient well-being is at the heart of everything we do.

To round off, looking ahead, while we continue to see uncertainty related to the impact of COVID across the world and the impact of electronic component shortages, our overall financial guidance remains within the earlier guided rates.

I am pleased with the progress that we're making on the strategic roadmap as well as the strong performance momentum in all our businesses, except for Sleep & Respiratory Care.

We are working hard on the field action and our journey to health tech leadership continues. We are executing on a clear strategy to help transform healthcare along the health continuum, combining smart systems, devices, informatics, data and services. And I am convinced – and I want to repeat that – that the growth and the margin profile of our company remains very well-underpinned.

And with that, I will turn the call to Abhijit.

Financial Results

Abhijit Bhattacharya

Chief Financial Officer, Royal Philips

Thank you, Frans. And thank you all for joining us today. Let me provide some colour on the second quarter comparable sales growth of 9%, which was even 17%, if you exclude the Sleep & Respiratory Care business. Let me remind you that our comparable sales growth does not include double-digit growth of BioTelemetry and Capsule, which will take into the comparable growth only after one year after acquisition.

The Diagnosis & Treatment businesses comparable sales growth was 16% in the quarter, with double-digit growth across Diagnostic Imaging, Ultrasound, Image-Guided Therapy, and Enterprise Diagnostic Imaging informatics.

We were particularly pleased to see the very strong growth in our Image-Guided Therapy business, driven by traction in both Systems and the Devices businesses. The volume of elective procedures continue to track above pre-COVID levels during the second quarter, and we expect this to continue as hospitals normalise their operations and also work through the backlog of patients.

The sales for the Connected Care businesses declined 16% in Q2, driven by a substantial decline in the Sleep & Respiratory Care business on the back of a very strong Q2 last year, as well as the headwind related to the field action. Patient Monitoring comparable sales grew mid-single-digit as we continue to successfully convert the strong order book in this business and perform well above even the 2019 levels.

Personal Health delivered a comparable sales growth of 33%, driven by consumer demand for our new product innovations with good growth momentum across all geographies. All Personal Health businesses grew strong double-digit. It is important to note that two phasing factors also have a positive impact on the growth rate of Personal Health in the quarter. The first being the impact of the shift of Amazon Prime Day from Q3 last year, back to Q2 in 2021. The second, was the impact of the legal and fiscal disentanglement of Domestic Appliances as of 1st July. This meant that our IT systems related to Personal Health had to be shut down in the first week of July, leading to some pre-deliveries in June, so as not to affect supplies during the cutover period. We estimate that these factors had a positive impact of five percentage points on the growth of Personal Health in the quarter.

Consumer sales through digital channels represents 45% of the total sales for Personal Health in Q2, and our shift to direct-to-consumer continues to gain momentum.

With the strong performance in the second quarter, we closed the first half of the year with a 9% comparable sales growth and an adjusted EBITA margin increase of 330 basis points compared to last year.

Excluding the Sleep & Respiratory Care business, comparable sales growth was 14% in the first half of the year.

Moving on to orders, I am pleased to share that the Diagnosis & Treatment comparable order intake grew close to 30% in Q2, driven by strong double-digit growth in Magnetic Resonance, Computer Tomography, Ultrasound and Image-Guided Therapy. This is due to positive market conditions, as well as the strong comparative momentum of our portfolio. As a result, we saw further increase of an already strong order book in these businesses in the quarter. Comparable order intake in Connected Care declined over 50% on the back of around 170% growth in Q2, driven by the spike in COVID-19 generated demand.

While we continue to expect demand for ventilators and patient monitors to normalise in the course of 2021, activity levels are expected to remain higher than in 2019 in these businesses.

I am pleased that we continue to experience very positive competitive momentum of our monitoring solutions in the ICU and in other care settings.

Let me now turn to the profitability development in the second quarter, adjusted EBITA for the group increased 280 basis points to €532 million, which is 12.6% of sales. In Diagnosis and Treatment, the adjusted EBITA increased 450 basis points to 13.2% of sales, mainly driven by sales growth and productivity. Connected Care delivered an adjusted EBITA margin of 11.3% of sales, mainly due to the impact from lower sales in the Sleep and Respiratory Care business, partly offset by the results of our productivity programmes. In Personal Health, the adjusted EBITA was 17%, up from 5.6% last year, driven by sales growth, while we continue to execute on the planned higher investments in advertising in Personal Health. We continue to focus on driving productivity and are executing initiatives that will deliver on the cumulative net savings of €2 billion by 2025. These initiatives delivered €90 million savings in the second quarter, more specifically €44 million through procurement programmes, 13 million in supply chain productivity, and 16 million overhead cost reduction.

The restructuring, acquisition-related and other charges were €264 million, higher than guidance, mainly due to the €250 million provision increase related to the field action that we announced last month.

Financial income and expenses were an expense of €7 million and included the positive impact from the increase in value of our minority participations. The adjusted dilutive EPS from continuing operations increased to €0.40 in Q2 compared to €0.27 last year.

In the first half of the year, adjusted diluted EPS from continuing operations grew almost 70% to €0.69.

Free cash was an inflow of €167 million in the quarter. In the first half of the year, free cash was an inflow of €336 million compared to an inflow of €197 million last year.

Let me provide some guidance for certain areas of our business. In the segment 'other', we expect an adjusted EBITA loss of around €110 million for the full year 2021. This is €10 million better than our prior guidance, due to lower costs year to date.

The EBITA loss in this segment is expected to be around €290 million this year, or €50 million worse than our prior guidance, mainly due to a loss related to the divestments recognised in the second quarter.

For Q3, we expect a net loss of around €45 million at the adjusted EBITA level, and around €110 million at the EBITA level for segment others.

In line with our previous guidance, restructuring charges are expected to be 70 to 80 basis points, and acquisition related costs are expected to be around 70 basis points in 2021.

We continue to expect one time EU MDR and concentrically related costs around €40 million in the year.

Financial income and expenses are expected to be a net cost of around €115 million in 2021. This is lower than our previous guidance of €140 million, largely due to the increase in value of our minority participation, and assumes no one-off gains or losses in the rest of the year.

We currently expect effective tax rate to be in the mid-single-digit in 2021. This is significantly lower than our previous guidance due to one-off tax benefits relating to business transfers which result in the recognition of some tax assets. Our mid-term guidance of 24%-26% effective tax rate excluding incidentals remains valid.

Today we announced a new share buyback programme for capital reduction purposes for an amount of up to €1.5 billion in line with our balanced capital allocation policy. At the current share price, the programme represents a total of approximately 37 million shares, or 4% of the total shares outstanding. We expect to start the programme in the third quarter and to complete it within three years through forward purchase transactions and/or open market purchases. This new programme reflects our confidence in the execution of our strategy and financial trajectory.

Moreover, under the ongoing 1.5 billion share buyback programme for capital reduction purposes which was initiated in the first quarter of 2019, we repurchased shares in the open market and entered into a number of forward transactions. 2.4 million shares were delivered in June 2021, with an additional 18 million shares expected to be delivered via outstanding forward contracts through the remainder of the year. These 20.5 million shares will be cancelled by 31st December, resulting in a reduction of 2% of the outstanding shares and an estimated reduction of the total number of issued shares to 897 million compared to 917 million shares at the end of Q2.

More details are available on our investor relations website.

To conclude, let me reiterate what we've stated at the start of the year: Given the comparison base of 2020, we expected overall performance to be stronger in the first half of 2021 and this has been confirmed by our performance in Q1 and Q2. As Frans said, there is no change to our earlier guided range. Our adjusted EBITA margin outlook is a year-on-year step up of 60 basis points with low to mid-single comparable sales growth. This will be driven by the

momentum of a strong performance in all our businesses, offsetting to a significant degree the decline in Sleep and Respiratory Care.

Overall, we expect double-digit growth in Diagnosis and Treatment and Personal Health this year, while Connected Care sales are expected to decline in the high teens range.

Let me remind you that Connected Care faces a high comparison base from the spike in COVID-19 generated demand that resulted in 22% sales growth for the full year and 32% in the second half of last year. In addition, we have the negative impact on the Sleep and Respiratory Care business.

We expect performance in the second half of 2021 to be back-end loaded, given the comparison base of 2020 in Connected Care. The phasing impacts and the phasing impacts that I mentioned for Personal Health, and the estimated timing of installations of our very strong order book. With that, I'm happy to take your questions along with Frans. Thank you.

Q&A

Operator: Thank you, sir. If any participants would like to ask a question, please press the star followed by the one on your telephone. If you wish to cancel this request, please press the star followed by the two. Please limit yourselves to one question with a maximum of one follow-up. This will give more people the opportunity to ask questions. If you're using speaker equipment today, please lift the handset before making your selections. There will be a short pause while participants register for a question. The first question comes from Veronika Dubajova from Goldman Sachs. Please state your question.

Veronika Dubajova (Goldman Sachs): Hi, guys. Good morning, and I hope you're doing well. Two questions for me, please. The first one just isn't just an update, Frans, and when do you think you will get the emergency use authorisation in US to commence the repairs?

And I guess maybe if you can comment on some of the other major markets and what the timeframe is, is looking like at this stage for you to commence the works, that would be really helpful.

And if you've had any feedback so far from the regulatory agencies on the repair process, and their thoughts on that, apologies, I know it's pretty broad, but it's a big theme of focus.

And my second question is on the guidance, just, I've been wondering if you can narrow it down for us, low to mid-single digits is a pretty wide range. So I just would love to understand kind of where in that range you feel most comfortable? And maybe the kind of tweak to that margin guidance, you're no longer up to the 80 basis points, what has changed for you? Is it transport costs, is it shortages, is it raw materials, or something else that's kind of leading you now towards the lower end of that 60 to 80 basis point range? Thanks, guys.

Frans van Houten: Yeah, hi, Veronica, good morning to you. Let me try to tell you as much as possible on all the ins and outs of the field action.

First of all, you know, we have engaged with all the regulators around the world on the field safety notice. And it's interesting that they observe differences in the risk benefit interpretation that regulators then take, right? And that's why we have included the page

that some regulators for inspection of—guide for continued use, while waiting for the repair and others point to the doctor.

Then on the repair procedures, let me point out that there's multiple devices within the platform family of Dream Stations 1, we have submitted multiple packages to the FDA for regulatory approval, that so-called 806 form, for the emergency field action. The FDA has engaged on these submissions and we have already had several rounds of queries on those procedures with asks for more data, and so on.

I cannot exactly predict when we get approval, I can only say that FDA is on top of it, and working very diligently. Let's say experience would show that a kind of an eight-week approximate throughput time on an 806 could be expected, right? But that's out of prior experience not necessarily related to this case.

In anticipation, we have already produced repair kits and we've also even placed stocks in bonded warehouses in a few countries in the world so that we can move quickly out of the gate, right? And so we are all ready to go. Right? And I would expect that imminently we should be able to give updates on that.

Does that answer your question on the upgrade process Veronica? Maybe I'll let you react immediately on that.

Veronika Dubajova: No, that's really helpful. Thanks, Frans.

Frans van Houten: Good. Then, Abhijit, the guidance with how many digits behind the comma.

Abhijit Bhattacharya: Veronika, I would love to do that. We have six months to go. There are you know, as we've said a lot of uncertainties, be it COVID, the component shortage et cetera. We have a strong order book and good demand. So I think yes, if you take low to mid-single digit, you know, it can be from zero to six. So I understand the range is wide, but, you know, somewhere in between is I think a fair indication of where we are likely to end.

The margin guidance is not really a change. So, I've seen different people reacting differently. Look, you know, we've just seen where we are in the process. We are half a year down and we think the 60 basis points step up year on year with the issues that we have in Sleep and Respiratory Care, I think with what we know today is, is just a more accurate view of where we will end up. That's it.

Frans van Houten: Yeah, let me just reiterate, you know, we, the whole company is completely geared up to compensate for the revenue loss in Sleep. And there are so many opportunities that we are chasing and pursuing that, perhaps that creates the less, the lower-than-normal kind of ability to precisely nail, but don't read anything in it. You know, we're all over it. And we remain very confident around our ability to perform.

Veronika Dubajova: Excellent, thank you both. And Frans, if I can just quickly on the, you said that you've had some conversations with the FDA on the EUA. Just kind of curious, anything surprising? I'm not familiar with how much back and forth happens on these things, but I'm just curious if you're hearing anything from them that would make you less confident on that eight-week timeline for the EUA.

Frans van Houten: All the questions are completely understandable and legitimate. And I think they point to the complexity of this whole area around VOCs, right? I'm sure that we will get other questions during this call. But let's say the FDA has asked us to provide data that the replacement material is safe and sound, right? I mean, if you boil it all down, everybody wants to assure that if you go out with a repair and replace action on a couple of millions of devices that you do that in the full knowledge that it is sound, is a good solution. I think that in my own words, if I put it like that, it describes it. So I think it is diligent and the only unfortunate thing is it takes time. And patients are, you know, wanting to get this dealt with as soon as possible because not using the therapies is also giving a lot of discomfort and harm.

Veronika Dubajova: Understood. Thank you guys so much. Super helpful.

Operator: The next question comes from Patrick Wood from Bank of America. Please state your question.

Patrick Wood (Bank of America): Perfect. Thank you very much. I'll just ask the two up front if that's all right. So I guess, tediously on the Sleep side as well, I'm just curious how the order book sort of developed through the quarter and the revenue line. Obviously, thank you Abhijit for commenting around the group numbers with and without Sleep sort of playing around with that I get the sense that, you know, towards the end of the month, presumably the Sleep hardware business was down like 90% or something. But I could be wrong about that. I'm just curious how that business developed through the quarter and, and whether you think that reflects just purely the repair action or a little bit of kind of consumer anger, I guess, on the issue?

And then the second one, I'm just curious, thank you Frans for your commentary around, you know, the group and the product qualities and those sorts of things. But you know, do you feel that maybe internally how things are structured within Philips, how you know, information gets fed up to the executive team, is that something that you're looking at changing or considering to sort of help mitigate issues or surprises? Or is that an unreasonable expectation and you think things are kind of working all right as they are?

Frans van Houten: Okay, Abhijit, will you take the first?

Abhijit Bhattacharya: Yeah, no, I, you know, overall, the Sleep business developed as we expected. You know, once we announced the repair action then basically we didn't sell any more of the systems, right. So the masks sales continued, actually masks sales were pretty good. So there, we don't have an issue. And, you know, normally the Sleep systems businesses, towards the end of the quarter bulk of the deals are done. So yes, you're right, Patrick, towards the end of the quarter you really see the comparable decrease year on year, but not something that we were not expecting to happen. So no surprises there.

Frans van Houten: Yeah. Then Patrick, on your second question. Already several years ago, as we moved from a conglomerate organisation with a holding model towards an operating company focused on health technology, we did change our Q&R organisation. At that time and think of it I don't know exactly, we call it exactly but think of it like five years ago, we moved the reporting line of all quality and regulatory people to the functional leader of Q&R. Right? So we have the chief medical officer, we have a chief quality and regulatory officer, and the chief quality and regulatory officer reports directly to me. And, and all the

resources, all 4,000 of them in the company, functionally report into the head of quality and regulatory.

So that's my first point. Second point, the learnings out of previous audits, 483s and inspections have pointed to the need to strengthen what is called post market surveyance, PMS, and here, we have made actually a tonne of progress. We've also implemented a company wide information system called Trackwise, where all complaints are registered and thanks to IT can also be analysed more easily.

Now, we get a couple of million data points into that system per year. So you need to do a lot of analytics. The post market surveyance process has led us to detect the issue at hand here, right. So remember, we have, since inception, sold more than 10 million, 12 million of these devices. We track complaints coming in. And then at some point in time, you notice that there is a pattern, instead of just incidents. So in the beginning, you get one complaint here, one complaint there, it's not a pattern, it doesn't get recognised as a pattern. But as more recently, we detected it as a pattern, we did additional investigations like you are expected to, and that led us to, to come out in, in Q1, in Q2 with the information that you know. So this is something we detected through our own PMS processes. And I would say that is to be expected from a healthcare company and that process is working.

Then you initiate your corrective and preventative actions, that leads to further insights, for example, around design controls and how robust these design controls are. I think and I claim that over the last several years, we have made a tonne of progress, right? That doesn't mean that the journey is over. But I feel good about how this will stand up to scrutiny. And for sure, we are anticipating that we will get regulatory investigations to, you know, please explain to us what exactly has happened. Also, such a regulatory investigation is normal and should be expected with a field safety notice of this magnitude.

But I think we are prepared for that. We think to the best of our knowledge and integrity, we have acted in a way we should act. So therefore I don't anticipate a need for a change of, change of ways of working. And your specific point, you know, how does information move?

Well, we think that information gets reported up quickly and transparently in the company. I have no other information at this time to assume the opposite. And so hopefully that helps you a bit.

Patrick Wood: It does. Thank you for the commentary, guys.

Operator: The next question comes from Hassan Al-Wakeel from Barclays. Please state your question.

Hassan Al-Wakeel (Barclays): Thanks for taking my questions. I have three, please. Firstly, could you talk about current manufacturing capacity within Sleep and where this sits relative to your 3.5 million installed base? What are the costs to increase capacity here?

Secondly, could you talk a bit about the momentum in North America? How did order intake within D&T fare and what about MRI where I believe the number was plus 45% in Q1?

And then finally following up on the guidance, could you talk about your confidence around top line guidance based on where your order books sits today? And then also on margins given the quantum of higher margin Sleep sales that you will lose over the course of the year,

and do you assume any impact to the mask business as part of this year's guidance? Thank you.

Frans van Houten: Great questions as usual, Hassan. Well, let me first reiterate what I said about manufacturing capacity. And I mentioned that we are ramping up capacity for the replacement and repair actions from 30,000 to already 55,000 a week. Currently aiming at 80,000 by the beginning of the fourth quarter. Right, now if you multiply that times the number of weeks, then you get to somewhere between 3.5 and 4 million units, right, and hence the 12 months expected throughput time on this.

We have not specifically mentioned the cost of increasing capacity. But I would reassure you that that is not the big issue here. We would be able to go faster if, from a supply constraints point of view, we would get our hands on the scarce materials from some of our suppliers. So we have been helping our suppliers with mould capacity, et cetera, so that they can ramp up faster. And if we see that they can go faster, then we aim to shorten the 12 months, if possible. It's too early to speculate on that. But certainly, that would be our aim, because that's better for patients. But obviously, the sooner we can resume sales, that's better for our own business.

Maybe on the back of it, I would like to share with you the feedback that we have been getting from distributors and doctors. They all say that the manner in which we deal with this issue is more important than the issue itself. They realised that a technical component issue can happen, but the way we deal with it is important. And so far, we have only been getting positive feedback in the way we have been able to handle it. Also, the supplemental clinical information that was provided to doctors a couple of weeks ago, I assume that you have seen it, it was very much appreciated.

What we also hear is that nobody has appetite for a monopolistic market situation and they expect Philips to be able to quickly recover its position in the market and resume, let's say, our strong preference. What doctors also point to is the strong analytical capacity of the, of our systems, helping them to understand the trend line of patients. So the whole informatics part of our devices and as they provide information to the doctors is quoted as a strength.

So we are under the conviction that we will regain our market position, or at least close to, pretty fast after we are able to resume production for commercial purposes. And as I said we will do that as fast as possible.

Now, in the meantime, I think I have given my colleague Abhijit some time to look up all the numbers of the other questions. Abhijit?

Abhijit Bhattacharya: Yeah, I think overall for North America, the order intake, especially in Precision Diagnosis was very solid upwards of the 40%. MR was lower, because you know, Hassan, we had a big order intake in Q1. So Q2 was low single digit, but for the first half, very strongly in double digit territory. Our X-ray business had huge order intake, our CT business huge order intake, and very nicely the Ultrasound business also had a very, very strong order intake. So I think momentum in the US is very good for us at this stage.

Frans van Houten: And then the margin composition?

Abhijit Bhattacharya: If you look at the impact on masks is to the extent that the masks went with the systems, we lose some of those sales, although we are, we have programmes

in place in the third and fourth quarter to see how we can compensate for that. But it does have overall a negative impact on the mix in Sleep and Respiratory because of course Sleep is a high margin business and some of the compensation is coming through oxygen concentrators et cetera which is a lower margin profile.

But overall for CC, that is a relatively small impact because patient monitoring is also growing.

Frans van Houten: And on that maybe if we take the question wider Hassan, then of course the patient monitoring is a very beautiful, profitable business that continues to grow strong throughout the year continues to grow. Also some governments are doing stockpile programmes on monitoring and the continue to see the application of patient monitoring in other care settings.

And also in D&T strong growth in Image-Guide d Therapy and the devices with a very strong margin profile by now also helps us to continue our margin trajectory, so that's it.

Operator: The next question comes from Michael Jungling from Morgan Stanley. Please state your question.

Michael Jungling (Morgan Stanley): Thank you and good morning and I have two questions please. Firstly on the recall, you highlighted in your slide deck that 2.2 million people have registered out of the 3.5 million machines. Do you know what proportion of those 2.2 million are in the US? How many patients highlighted that they actually have an issue with it for Dream Station 1. And I surprise that it's no higher than the 2.2 million at this stage.

And then question number two is also on the recall, but really focus on the foam of the Dream Station 1. Was that foam FDA approved by the vendor who you sourced it from and are you able to tell us with the manufacturers of that foam? Thank you.

Frans van Houten: The 2.2 million registrations are more in the US than the normal proportion of our business walls right, so over what was it? 65% of the expected to be affected devices are in US, but the proportion of registrations in the US is higher. That's also because we were out of the gate faster with the patient engagement programme and the network of the in-needs is very strong in the US whereas in some of the international markets it takes a bit longer to reach people, but we expect that to catch up soon.

And obviously most of the reports are with DS 1 because that's by far the vast majority of devices affected. So unless I misunderstand your question, it's logical that the vast majority of these registrations are DS 1 users.

On the foam, I value to state that when the product DS 1 was released, it was tested against all the standards in place including VOC standards at that time, right, and the product of course met all those standards otherwise it would never have been released. The foam has been used for over ten years and we never had any issue with it, but whether the manufacturer itself had its own approvals, I'm over asked here at this moment, but I repeat that we have been using this foam for ten years in Dream Station 1 and prior generations, and never had issues with it.

Michael Jungling: Okay thanks. Kind of a follow-up on the question that I asked about of the 2.2 million patients who have registered, have you been able to collect data to see what the issue is, why they have filed, what they register?

Frans van Houten: We are still doing analytics on that database and so I cannot give you more data than that we have. Just on the first pass of analytics to take out duplicates because that was the first issue that we needed to deal with, and now we're mapping it on registrations and when the products were produced and so on. I prefer to do a thorough job on analytics before I answer your question.

Michael Jungling: Okay and Frans, you didn't answered the question about who the foam manufacturer is? Can you highlight that, please, could you mention that?

Frans van Houten: Yeah, I realised that I didn't answer that, but so I'm not going to answer that.

Michael Jungling: Okay, thank you.

Operator: The next question comes from Kate Kalashnikova from Citi. Please state your question.

Kate Kalashnikova (Citi): Hello. This is Kate Kalashnikova from Citi. I've got three questions on Sleep, I'm afraid. So firstly, Philips supplemental information sheet sent to doctors in July. It mentioned this toxicity was noted for the extraction concentration and also that two [inaudible] show the positive mutagenic response. What chemical specifically is the document referring to because the chemical specifically mentioned in the release such as CG, CGI and GEG they're not proven clastogen in human. So would be very helpful if you could clarify this.

And secondly, Phillips changed the sound basement foam in DreamStation 2 to silicon. Why have you made this decision if there were no safety risks identified for PEE BR foam in Dream Station 1? And finally, what proportion of patient normally start sleep therapies and discontinue perhaps even while [inaudible]. And what proportion of users in the US regularly use ozone cleaner? Thank you.

Frans van Houten: Hi Kate. With regards to the characterisation of the volatile organic compounds, that is a very complex matter. And the supplemental information that we refer to indeed mentioned several gases and we also observed that some people have misinterpreted the type of gases, and therefore took a more let's say, serious interpretation than perhaps was justified.

We have also on request of the regulators started slate of additional test to further characterise what gases are to be determined and to how to characterise them. I can tell you that we have not detected TDI or TDA in those samples that were tested in the lab, right, but as I said further researches is ongoing.

Now, with regards to the change of the foam from Dream Station 1 to 2, you may recall that in June 2018, a new standard was published that had, let's say heightened or different requirements on VOCs than the previous standard. The new standard did have a grandfather clause for existing equipment, and therefore products that were already being produced in the past that were approved and passed did not have to be retested against the new standard.

Of course, that is provided that you don't have data and insights that your device would not be safe. I can tell you that at the time of the release of that standard and that we did not have in fact, the complained rates coming out of our post-market surveyance. And therefore, we did not initiate a design change of the DS 1 at the time because there was no reason to, right.

And let's say routinely in the medical device industry, yeah, you are faced with new standards being applied to new generations of products, and you're not going to retrofit all old systems because that will be an impossible task, right. You only do that when there is a safety concern. And as I said, when this new standard came out, we did not have that, and therefore the grandfather clause in the standard of June 2018 applied.

Then the proportion of people using ozone cleaning is, of course, we don't know that exactly, but we can tell you that aggressive marketing has taken place even to the extent that the FDA issued their own warning in the beginning of 2020. Now if we look at to correlation or let's say when did we start seeing complaints coming in the United States then the vast majority of the complaints are in 2020, right, and therefore, and also geography wise, we can, let's say, correlate to the regions where ozone cleaning was marketed more strongly. So that is where we stand. Obviously, as we – to the question of Michael, as we get more data from the registration, we will be able to do more analytics and then maybe, Kate, we can come back to your question in due course.

Kate Kalashnikova: Thanks for that. Just to clarify your answer to the first question. As you hopefully saw the TDA and TDI, they are not detected in the test done to-date. DEG was detected, but it's not with the toxic. So what chemicals are responsible for the potential, reports of potential toxicity if not TDI, TDA and given the DEG is not sort of toxic? I'm just trying to understand if you can help us a bit is really helpful.

Frans van Houten: I'm now getting assistance here from Steve.

Steve: Hi. We need to further identify those compounds. So this was done on lab-degraded foam, so that the foam was not, let's say, aged in the field. We artificially aged it to simulate the degradation. And with them, we did an extraction and we analysed other compounds in there. We could detect diethylene glycol. We – there were a number of unidentified compounds that we are now further investigating. But we did not detect TDI or TDA.

Kate Kalashnikova: Okay.

Frans van Houten: So, let's say, rounding it up, Kate, I think it is way too early to conclude that the gases have really a severe health impact. We took a worst-case approach back in April and June because that is what is expected from, let's say, a responsible manufacturer, right? If you don't know all the finite consequence, you go out first with a reasonably worst-case scenario. And then as data becomes available, later you can always reduce that rating, right. But it's – that's what we need to do according to our own quality management system, right.

And the supplemental medical information already, let's say, gave a more balanced view on it, that was appreciated. And the further test that we are conducting on a far bigger sample, and also on aged, normally and naturally aged products will also determine whether the VOCs are more initially coming out of the machine, when they are coming from the production line

or whether in the installed base is this still an issue, right. I think this is one of the critical questions to answer, right, whether patients are really exposed to VOCs or not.

So – but taking a reasonably worst-case approach is, I think, the responsible way to go about it. And then, we'll deal with the further information as it comes.

Kate Kalashnikova: Thank you so much, Frans. And just very briefly, if I may. Have you got any data that shows how ozone is accelerating a foam degradation perhaps?

Frans van Houten: Yeah. That we do. We have tested that and we see a 40 times factor of acceleration of degradation when ozone is being used. Now – and that's on an average use of ozone cleaning. And if people do that every day, of course, it goes even faster, right? But the acceleration factor caused by ozone cleaning is very, very significant, right? And otherwise, we would not call it out. It's a very aggressive cleaning method that should not be used on medical devices at all.

Operator: The next question comes from Scott Bardo from Berenberg. Please state your question.

Scott Bardo (Berenberg): Thanks very much, guys. Sorry again to focus on the Sleep and Respiratory business, please. Frans, you mentioned a lot of volatile organic compounds and I understand why. I think this is potentially the bigger consideration as compared to particulate matter. The MHRA in the UK conducted a biological safety assessment and highlighted that they did not see any volatile organic compounds of concern after 24 hours, suggesting that this was a first out-of-the-box usage issue rather than something that was sort of sustainable over prolonged periods. I wonder if you could confirm in your initial safety assessment and clinical studies whether you would agree with that observation, please? Second question please, Frans. I wonder if you could provide a little bit more details about how you intend to repair and replace. Can you give us some sort of split between repair and replacement and does that alter between geographies? Perhaps give us some sense of what you expect the profit impact as a result of no sales for CPAP devices to be for Philips including mitigation factors? Last question, please. Frans, you seem confident and pleased to hear about the ability to remediate this issue within 12 months or so. Am I right in saying then, Frans, there's no reason at this point to deter from your 2022 provision or outlook for, let's say, 5% to 6% top line growth, 60 basis points to 80 basis points margin expansion? Thank you.

Frans van Houten: Yeah. Brilliant questions, Scott. Let me indeed to cover them. Look, the MHRI test in the UK is very encouraging, right. And as I said, we have taken an initial worst-case approach to it, because in the lab tests, our resident lab – well, not resident, but our partner that does the tests for our Sleep and Respiratory Care business, this is where we discovered the VOCs. And that's on a relatively small sample size, right?

And on that basis, we took the action, right, because we could not do otherwise, right. We have found those gases in those – in that limited sample and consequently we took a reasonable worst-case approach. I told you that we have initiated a much wider sample of testing, but also we have asked multiple labs to do the testing, because we want to know the repeatability of the test in different test environments to exclude that potentially this one lab has a different approach, right. So all of that is still in the making.

Now you may say why does it take so long? Well, these tests run from multiple weeks and then on multiple devices, and then, all the molecules need to be characterised and measured for their, let's say, of the quantification.

In a way, that frustrates me as well, because I would like to do this much faster and much better. Steve also just mentioned that in the initial tests, we have taken an accelerated aging approach which these are also the message that you – that regulators will challenge us on, to say, you know maybe you should also consider other simulation environments.

So in a way, it doesn't surprise me that if you – let's say in the UK, this sample test was done, and I find it encouraging that no VOCs were found, right? But as I have not seen the raw data of the test, I mean not me not personally of course but our specialists, we cannot just draw conclusions on such a high level statement. We need to go into the weeds of that assessment.

But rest assured that we are throwing all our analytics capacity to this because clearly, we need to characterise the risks and hopefully also come to insights that the worst case approach was indeed what the word says, worst case.

Then the repair and replace split, when we built the provision on the basis of our estimates of repair and replace, we assumed an approximately 60/40 –

Abhijit Bhattacharya: Two-thirds, one-third.

Frans van Houten: Two-thirds. Thank you, Abhijit. Two-thirds, one thirds of replace versus repair, right. And part of the 806 approval that we need from the FDA relates to the repair procedure, and not just to the repair material, right. The repair procedure needs to demonstrate that after repair, you have a safe machine, right? So, you can imagine that the amount of work that you need to do on a repair action is also to validate that after the repair, the machine is good to use.

And if you give the machine back to the original user, the standard there is lower than if you give a repaired machine to a different patient, right. So, all this goes to the complexity of the repair process, and if you are optimistic then all our proposals on the repair procedure will work out, and then the proportion of repair can actually go up, right. And we have also heard from DMEs, the distributors, the they actually prefer repair over replace in many instances. And you can imagine, you can make your own interpretation why they want that, but I think it's quite obvious.

Then the revenue impact. So, we are dedicating our production capacity in Sleep to the repair and replace action, right. And that takes also then into account it's assumed proportion of repair and replace of replace two-thirds, repair one-third. If we can go faster there, of course, that would be helpful. But for now, we have taken into account that we would lose the revenue for at least 12 months after the start of the field action. And Abhijit has, I think, at some point already said that – or we have said that the Sleep business is €1.1 billion, of which approximately 60% is systems, and 40% is masks and consumables. So then you can do your math and take out 60% of the systems as lost revenue. Then – and of course we compensate that lost revenue by strengthening our other businesses.

The – on your last question, we believe that in 2022, we can maintain our capital market day guidance of 5-6% revenue growth and 60-80 basis points of profit expansion.

Scott Bardo: Thanks, Frans.

Frans van Houten: You're welcome.

Operator: The next question comes from Edward Ridley-day from Redburn. Please state your question.

Ed Ridley-Day (Redburn): Hi, good morning, and thank you for the detailed answers. One follow-up please on cost, and obviously related to supply and freight. We have heard that some of your peers reported regarding the rising costs, particularly with freight. Abhijit, can you speak to that a little, and while it seems the second quarter wasn't too badly affected, how do you see that panning out over the third and fourth quarter, both, as I say, regards to freight but also electrical components? Thank you.

Abhijit Bhattacharya: Yeah Ed, the second quarter was affected. We have offset that with the productivity programme, right. So the freight costs are at a heightened level in the first half. We'll also continue in the second half, but we are trying to mitigate as much as possible through our productivity programmes, so that's why you don't see a big dent in the overall profitability. So, if you look at – but also in the e-components, we have been hit by higher spot buy prices which is also impacting profitability, but we try to offset that, and a little bit more through productivity, so that the profit trajectory keeps improving. That's how you should look at it. And in our guidance for the year, I think we have taken all these factors into account.

Ed Ridley-Day: Thank you. And just one quick follow-up, you gave us some colour on the growth in BioTelemetry. And I don't know if you can give us more colour on the growth that you're seeing in that business this year?

Abhijit Bhattacharya: They still remain – they remain strong. Actually, they perform slightly better than the plan that we had when we acquired the company. So, both are in strong double-digit territory with good profit expansions. So, so far, we are very pleased with the way it's progressing.

Frans van Houten: Maybe that's a good seg-way also to mention that early indications are that CMS comes out with an upward reimbursement on part of the monitoring to continue – the mobile continuous monitoring. MCOT, yeah. Sorry, I got the abbreviation wrong. And so whereas, let's say, some analysts are worried about, you know, our reimbursements being cut, here actually on MCOT we see the opposite, with a small, let's say, increase, but at least it can put some worries to rest. Of course and earlier in the year we already saw that the long-term Holter was reinstated as a reimbursement. So, overall, you know, the platform of BioTel looks very exciting and we are adding, let's say, therapies to it, we are growing this internationally, it looks very good.

Ed Ridley-Day: Great, Frans, thanks very much.

Operator: The next question comes from Julien Dormois from Exane BNP Paribas. Please state your question.

Julien Dormois (Exane BNP Paribas): Hi, good morning, Frans, good morning, Abhijit. Thanks for taking my questions. I will actually try to give you a break from the Connected Care business. Could you just help us understand what was at stake in the margin

trajectory for D&T in Q2, because when I compare the margin achievements to 2019, the gain you posted in Q2 was significantly below the gain you posted in Q1, so I'm just curious whether there is a phasing issue here or anything related to the product or the geographic mix maybe.

Abhijit Bhattacharya: So tell me once more, Julien. When you say you compared D&T to...?

Julien Dormois: Yes. The margin in D&T, in comparing that to the last normal year, if I call it that way, which is 2019, if I'm right, the margin gain was about 100 bps in Q2.

Abhijit Bhattacharya: Yeah.

Julien Dormois: While it was 250 bps in Q1. So it seems – you can see it also, I'm just curious whether there is something here or it's just phasing in the business.

Abhijit Bhattacharya: I agree you should look at it as primarily phasing. I think, overall, for D&T we are on a very good trajectory. You see that the bulk of the growth, of course, that comes is in equipment sales, so that, to an extent, comes at a lower margin than the service business, so the disproportionate growth in equipment has a slight dampening effect now, but of course then, going forward, once we get the service contracts, you see then that the overall will keep improving.

Frans van Houten: And Q1 2019 was relatively low, right?

Abhijit Bhattacharya: Yeah, yeah.

Julien Dormois: Okay, okay, thanks for that. And maybe just as a follow up in the broader approach for your discussions with hospitals at this time, and maybe on a geographic basis, how do you see things evolving? I mean, you obviously posted a strong order book development in Q2, but how would you qualify the current discussions you have and how willing the hospitals are from spending more on CapEx?

Frans van Houten: A great question, Julien. Look, hospitals are in much better shape than half a year ago: elective procedures are back, hospital finances are improving, backstops are being put in place. So we have seen a strong willingness to invest and that, of course, represents itself in the 29% order growth in our D&T business. Much of that is market although, we don't have market share numbers for Q2 yet, but I would expect perhaps some market share increase, but it also generally reflects the strength in the market. Besides capital equipment, we see strong interest in telehealth and informatics, so that is also tracking very well. The stockpile programmes that we referred to is more with regards to acute care and ICU-related equipment, especially patient monitoring, which is good for us given our market-leading position there and higher margins.

The geographical angle is basically all three market clusters for Philips do very well, so we see strength across the world; North America is particularly strong, but Europe's strong, Asia, China are strong. I think we are – and I would also say hospitals are now much better able to cope with the COVID pandemic, so it looks good. I think we are on a good path for the rest of the year.

Abhijit Bhattacharya: To also clarify, if you look at Q1, the growth in our sales from 2019 was about 130 million whereas in Q2 it was 54, so that also explains a bit the operating leverage between the two years.

Julien Dormois: Makes sense. Thank you very much.

Frans van Houten: Okay. Thank you.

Operator: Please limit your questions to one question with one follow up only. The next question comes from Falco Friedrichs from Deutsche Bank. Please state your question.

Falco Friedrichs (Deutsche Bank): Thank you, good morning. I keep it to one question, it's on the share buyback programme. So what led you to the decision to spend these €1.5 billion now for this programme rather than use it for bolt-on acquisitions to strengthen your business? Is there simply a lack of good acquisition targets you currently see or what's the reason for that?

Frans van Houten: Yeah, hi, good morning, Falco. Well, you know that in our capital markets day, what is it, one and a half years ago, we reiterated that in fact we have a balanced capital allocation policy, right? Now, what does 'balanced' mean? Organic growth, M&A, dividend and share buyback. Now, I've always said we will allocate a fair bit of capital to M&A and we did that, right? In Q1, we closed two acquisitions with approximately three billion worth of acquisitions, BioTel and Capsule. We continue to see good M&A opportunities. The share buyback programme does not limit our ability to do acquisitions. In fact, it leaves us plenty of room for further acquisitions and bolt-ons and we have every intention to also continue to evaluate opportunities as we go, right?

Now, the share buyback programme follows previous share buyback programmes. The size is about the same as what we have done previously and we have also astutely noticed the decline in the share price, all right, which makes this an opportune moment to actually go into the market with a series of forward buys to take advantage of the situation, right?

And, finally, we can say that we have confidence in our ability to perform and to generate strong cash flow, strong profitability and, therefore, the share buyback programme is a normal action in the sequence of things and if you judge us over the last five to eight years or so, we have been doing this.

Falco Friedrichs: Okay, thank you.

Frans van Houten: You're welcome.

Operator: The next question comes from Wim Gille from ABN ODDO. Please state your question.

Wim Gille (ABN AMRO – ODDO BHF): A very good morning. This is Wim Gille from ABN AMRO ODDO. I've got two questions. First on, let's say, the provisions that you've taken here, about 511 million to date, can you give us a bit of a feeling how that number is split between repair, replace and any other cost, including legal and regulatory cost there? And as a follow up there, the ozone is clearly a part of the problem, the ozone cleaning; is there a case to start legal action against the companies that have marketed ozone cleaning and try to recoup some of the costs that you are incurring for this thing?

The second question is on the margins in Connected Care. If I look at kind of, you know, the revenue levels that we see in Q2 '21 versus Q2 2019 and then look at the margins, the margins are about 100 bps lower than two years ago. How should I look at it? Is this – could

you maybe split kind of the impact from the acquisitions that you did? What's the impact on the margins that we currently see versus kind of the normalised levels in 2019? Thank you.

Abhijit Bhattacharya: I can take all of them. So the provision, as Frans mentioned, you know, we have taken two-thirds/one-third on a repair/replacement basis, so, and in that we have not included any provision for legal cases, right, so we are not able to estimate that, so we cannot take any reasonable estimate at this stage. In addition to this, there are, you know, multiple other costs. A big chunk of that pertains to the whole communication cost as well as the follow up and managing the database that will cost us a lot of money. There is, of course, within each of those categories there is material cost, there is labour cost and all of that, so it's quite an extensive calculation, but it does not include any cost taken for legal claims.

On the margin split between 2019 and '21, if you look, the sales levels are roughly the same, I think maybe 10 million more or so or 20 million more. If you take the percentage, 100 bps more. Maybe we should have made 10 million more profit, but as I explained earlier, you know, there is a mix effect and there are certain fixed costs which you cannot reduce or, let's say, adjust out of the costs, which has a small dampening effect. So I think, overall, if you look, Patient Monitoring continues to do extremely well and actually grows profitability. The acquisitions continue to do well; they were not in. They help to mitigate some of the lost sales in Sleep, so that's why you see, from a sales line, we are flattish. So maybe we are missing about 10 million and that could come largely from the mix.

Frans van Houten: And then on the question of the ozone manufacturers, really not this time and place to discuss our legal actions. Maybe somewhere in the future, when we have studied it more and we know more of the details.

Wim Gille: Thank you very much.

Operator: Unfortunately, we only have time left for one more question. The last question comes from Sezgi Oezener from HSBC. Please state your question.

Sezgi Oezener (HSBC): Hi. Thanks for taking the time to take my question. My question relates to, again, the first batches of repair and replacement kits that were shipped or already shipped out. As we're still waiting for the EUA to be approved, which material was used and are you able to estimate a cost based on the replacement and repair costs in these devices and how do these compare to the 500 million, roughly, of provisions that you set aside?

And my second question is about a few of – we saw a few positive one-offs this quarter, like a remeasurement of environmental liabilities and the favourable results in legal matters. I was just going to ask if you could elaborate a little bit on both. Thank you.

Frans van Houten: Yeah, hi, good morning. With regards to your first question, I'm afraid you may be reading too much into the first batches of repair kits that were shipped. I called it 'bonded warehouse' because it's an extension of the Pittsburgh facilities in a foreign location, right? That is the only way to do it under the regulations and, yeah, we are obviously not kind of measuring cost on a per batch basis. I mean, that would go too far, right, and certainly we have no intention to disclose the cost of every batch of repair kits. So, sorry, I can't do much with your first question.

The second one, I think, Abhijit, do you want to talk to the provisions?

Abhijit Bhattacharya: Yeah, I can, yeah. So, two things. We had a legal case for which we had taken a provision in Q3 last year and that case was actually ended up being withdrawn against us, so we had to release that provision, so that came as a goodie now, but it came as a hit last year, in Q3.

And on the environmental provisions, you know, these are long-term environmental provisions. We used to provide them on a 60-year basis and then you have to do a fair value calculation on those and because there's a large amount of volatility given the change in interest rates, we have done an extensive benchmarking and actually most companies provide that for a maximum of 30 years. So, in consultation with our auditors, we have aligned to the market practice and now we have it for 30 years, so therefore some of the provision was released. That's it.

Sezgi Oezener: Okay. And specifically against what were these? Against what kind of environmental threat or risk were these provisions taken?

Abhijit Bhattacharya: These are largely for businesses which we have sold actually many, many years ago, where there were factories and we had to do clean up in the land and those kind of things. So it takes years to do that and therefore you have to have a provision in your books to do those clean up actions.

Sezgi Oezener: Thanks very much, Abhijit.

Abhijit Bhattacharya: You're welcome.

Operator: Thank you, Mr van Houten and Mr Bhattacharya. That was the last question, please continue.

Frans van Houten: Yeah, thanks very much, everybody. Look, I fully appreciate the concern around all the open issues. I want to assure you that we are on top of it, that we are taking all the appropriate actions to deal with the patient situation as fast as we can. In the meantime, the business goes on, right? There is a lot of resilience in our other businesses and that's also why we can maintain our guidance and we look with optimism to the future. I thank you very much for staying with us and covering us. Have a great day.

Operator: This concludes the Royal Philips Second Quarter and Semi-Annual 2021 Results conference call on Monday, July 26th 2021. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]