



## Philips reports Q4 sales of EUR 5.3 billion, with 5% comparable sales growth; net income from continuing operations amounted to EUR 476 million and Adjusted EBITA margin increased 140 basis points to 16.7%

Amsterdam, January 30, 2018

### Fourth-quarter highlights

- Sales amounted to EUR 5.3 billion, with comparable sales growth of 5%
- Comparable order intake increased 7% compared to Q4 2016
- Net income from continuing operations, which included a one-time non-cash tax charge of EUR 72 million, increased to EUR 476 million, compared to EUR 465 million in Q4 2016
- Adjusted EBITA margin improved by 140 basis points to 16.7% of sales, compared to 15.3% of sales in Q4 2016
- Income from operations (EBIT) increased to EUR 723 million, compared to EUR 693 million in Q4 2016
- Operating cash flow totaled EUR 1,202 million, compared to EUR 758 million in Q4 2016; free cash flow increased to EUR 948 million, compared to EUR 551 million in Q4 2016

### Full-year highlights

- Sales increased to EUR 17.8 billion, with comparable sales growth of 4%
- Comparable order intake increased 6% compared to 2016
- Net income from continuing operations, which included a one-time non-cash tax charge of EUR 72 million, increased to EUR 1,028 million, compared to EUR 831 million in 2016
- Adjusted EBITA margin improved by 110 basis points to 12.1% of sales, compared to 11.0% of sales in 2016
- Income from operations (EBIT) amounted to EUR 1,517 million, compared to EUR 1,464 million in 2016
- Operating cash flow totaled EUR 1.9 billion, compared to EUR 1.2 billion in 2016; free cash flow increased to EUR 1,185 million, compared to EUR 429 million in 2016
- Proposal to maintain dividend at EUR 0.80 per share

#### Frans van Houten, CEO:

*“2017 was a good year, as we continued the transformation of Philips into a focused leader in health technology and delivered on our improvement targets for the year. I am pleased that we delivered 4% comparable sales growth, an Adjusted EBITA margin increase of 110 basis points, and a strong EUR 1.2 billion free cash flow. We strengthened our strategic platforms through targeted acquisitions, introduced several breakthrough innovations, secured multiple long-term strategic partnerships, and we deconsolidated Philips Lighting as we decreased our shareholding to below 30%.*”

*Philips’ performance in the fourth quarter demonstrates that we are gaining momentum. We finished 2017 on a firm note by delivering comparable order intake growth of 7%, and comparable sales growth of 5%, which was driven by our Personal Health*

businesses and Diagnosis & Treatment businesses. We achieved a strong Adjusted EBITA margin improvement of 140 basis points, driven by higher volumes, procurement and productivity savings, and increased free cash flow to EUR 948 million.

We further strengthened our portfolio through targeted acquisitions across the health continuum. The integration of these acquisitions is on track. I would like to highlight that the productivity improvements for Spectranetics are ahead of plan, and we successfully launched the Stellarex drug-coated balloon in the US. Furthermore, the integration of Volcano has been completed as planned. This business delivered high-teens comparable sales growth in 2017, driven by the strong performance of our diagnostic catheters, and we further improved gross margins by 10 percentage points in the past two years.

I am pleased that our organic growth initiatives are delivering tangible results, such as the strong order intake growth in our Digital Pathology Solutions business, the double-digit growth of our Sleep & Respiratory Care devices, and the continued success of Philips OneBlade. This revolutionary hybrid styler generated annual sales of more than EUR 100 million within 18 months of its launch.

We expect our markets to grow at 3–5% on a comparable basis in 2018. Combined with our strong order book, we are confident that we will deliver on our mid-term targets of 4–6% comparable sales growth and on average an annual 100 basis points improvement in Adjusted EBITA margin this year. Given the phasing of our order book, we expect improvements to be at the back end of the year.”

## Business segments

In the fourth quarter, all business segments continued to deliver operational improvements and increased profitability.

In the Diagnosis & Treatment businesses, comparable order intake increased by a strong 12%, driven by North America and China. Comparable sales increased by 6%, reflecting high-single-digit growth in Ultrasound and mid-single-digit growth in Image-Guided Therapy and Diagnostic Imaging. The Adjusted EBITA margin was 90 basis points higher compared to the same period last year, mainly driven by higher volumes, procurement savings and other cost productivity.

The 6% comparable sales growth of the Personal Health businesses was driven by high-single-digit growth in Health & Wellness and Sleep & Respiratory Care. The Adjusted EBITA margin improved by 70 basis points, driven by higher volume and procurement savings, partly offset by investments in advertising & promotion.

In the Connected Care & Health Informatics businesses, comparable sales increased by 2%, with high-single-digit growth in Healthcare Informatics and low-single-digit growth in Patient Care & Monitoring Solutions. The Adjusted EBITA margin improved by 190 basis points, partly driven by procurement savings and other cost productivity. Comparable order intake showed a low-single-digit decline in the quarter as certain expected large orders were postponed to 2018.

Philips' ongoing focus on innovation through organic and inorganic growth initiatives resulted in the following highlights in the quarter:

- As part of Philips' new introductions to drive growth in Diagnostic Imaging, the company launched its digital MR Prodiva 1.5T system, which provides enhanced clinical performance and increased productivity. Philips also introduced the latest configuration of its IQon Spectral CT, which is optimized to support the needs of emergency and oncology care. Moreover, since the third quarter, Philips has been shipping Vereos, the world's first and only fully digital PET/CT system, which is achieving market success due to its superb resolution, accuracy and efficiency.
- Philips strengthened its Radiology Solutions offering with the acquisition of Analytical Informatics. Their suite of workflow improvement applications complements Philips' PerformanceBridge Practice to enable imaging departments to make data-driven improvement decisions. For example, Philips and Banner Health extended their partnership to include adoption of Philips' PerformanceBridge Practice across Banner's 28 radiology departments.
- Philips signed several multi-year agreements including a 10-year agreement with Children's Hospital & Medical Center of Omaha in the US to help drive innovation in pediatric care. The company also won a multi-modality tender at the University Hospital of Schleswig-Holstein to provide medical equipment for the hospital's radiology and neuroradiology departments. In addition, the German Armed Forces will adopt Philips' Lumify app-based ultrasound solution as standard equipment for doctors and paramedics in emergency and rescue operations.
- Expanding its health informatics portfolio, Philips acquired interoperability provider Forcare in the Netherlands. Philips also partnered with US-based Nuance to bring Artificial Intelligence into radiology reporting by leveraging functionalities from Philips' Illumeo and Nuance's PowerScribe 360. Furthermore, Philips launched its new IntelliSpace Enterprise Edition for Radiology, providing radiology departments with comprehensive tools to increase efficiency and enhance throughput.
- In China, Philips partnered with Oranger, a service provider specialized in chronic respiratory disease management, and Health 100, the largest health examination organization in China, to provide integrated solutions for chronic respiratory diseases that cover screening, referral, treatment and recovery.
- To further expand its Population Health Management business, Philips acquired VitalHealth, whose highly complementary portfolio of advanced analytics, care coordination, patient engagement and outcome management solutions will support Philips' commitment to deliver integrated solutions for care providers.

- As a driver of new care models, Philips teamed up with leading telehealth provider American Well to jointly deliver virtual care solutions around the world by embedding American Well's mobile telehealth services into an array of Philips solutions, starting with the Philips Avent uGrow parenting platform, giving parents 24/7 access to professional medical consultations.
- Strengthening its leadership in patient monitoring solutions, Philips received FDA 510(k) clearance to market the IntelliVue X3 patient monitor, which provides continuous monitoring for the most critical patients during in-hospital transport. The IntelliVue X3 already had CE marking and was released in Europe in mid-2017.

## Cost savings

Philips' productivity programs delivered annual savings of EUR 483 million, ahead of the targeted savings of EUR 400 million. In the quarter, procurement savings amounted to EUR 81 million, led by the DfX program, while other productivity programs generated savings of EUR 52 million.

## Capital allocation

Philips continues to progress with its EUR 1.5 billion share buyback program, which was initiated in the third quarter of 2017 for capital reduction purposes. Details about the transactions to date can be found [here](#).

## Regulatory update

Following the US Food and Drug Administration (FDA) inspection of the Cleveland facility (Illinois) in the third quarter of 2017, Philips submitted its response to the inspectional observations for review by the FDA. In December 2017, the company had a constructive meeting with the FDA. Philips will continue to drive its Quality Management System improvement program, and provide monthly status reports to the FDA highlighting the progress in addressing the observations.

On October 31, 2017, a US Federal court formally approved a consent decree that had been agreed to by Philips and the US government, as announced in Philips' press release on October 11, 2017. Philips is proceeding in line with the terms of the consent decree, which include inspections by independent auditors. As planned, Philips has resumed shipments of its HS1 AEDs globally, as well as consumables, accessories and service parts for all of its defibrillators. Additionally, the company resumed shipments of its FRx and FR3 AEDs to a key market outside of the US in January 2018 and aims to expand these shipments to other markets outside of the US in the remainder of the first quarter of 2018.

## Philips Lighting

As of December 31, 2017, Philips' shareholding in Philips Lighting was 29.01% of Philips Lighting's issued share capital. As a result, Philips no longer has control over Philips Lighting and has ceased to consolidate Philips Lighting. The remaining interest in Philips Lighting is presented as an investment included in 'Assets classified as held for sale' in the financial statements of Royal Philips as from the end of November 2017. Philips' net income in the fourth quarter included EUR 562 million related to Philips Lighting's results in the fourth quarter until the date of deconsolidation and a deconsolidation gain, all of which is reported in Discontinued operations.

Philips Lighting will publish results for the fourth quarter and full year 2017 on February 2, 2018.

## Conference call and audio webcast

Frans van Houten, CEO, and Abhijit Bhattacharya, CFO, will host a conference call for investors and analysts at 10:00 am CET today to discuss the results. A live audio webcast of the conference call will be available on the Philips Investor Relations website and can be accessed [here](#).

## Philips performance

**Key data** in millions of EUR unless otherwise stated

|   | Q4 2016 | Q4 2017 |
|---|---------|---------|
| Sales   | 5,306   | 5,303   |
| Nominal sales growth  | 5%      | 0%      |
| Comparable sales growth*  | 5%      | 5%      |
| Income from operations (EBIT)   | 693     | 723     |
| as a % of sales   | 13.1%   | 13.6%   |
| Financial expenses, net   | (67)    | (9)     |
| Investments in associates   | -       | (2)     |
| Income taxes  | (161)   | (237)   |
| Income from continuing operations   | 465     | 476     |
| Discontinued operations   | 175     | 423     |
| Net income  | 640     | 899     |
| Net income attributable to shareholders per common share (in EUR) - diluted <sup>1)</sup> | 0.67    | 0.91    |
| EBITA*  | 753     | 790     |
| as a % of sales   | 14.2%   | 14.9%   |
| Adjusted EBITA*   | 811     | 884     |
| as a % of sales   | 15.3%   | 16.7%   |
| Adjusted EBITDA*  | 991     | 1,072   |
| as a % of sales   | 18.7%   | 20.2%   |

<sup>1)</sup> The year-on-year increase in net income attributable to Philips shareholders was mainly due to the further sell-down of Philips' interest in Philips Lighting

- Comparable sales growth was 5%, driven by mid-single-digit growth in the Personal Health businesses and Diagnosis & Treatment businesses and low-single-digit growth in the Connected Care & Health Informatics businesses.
- Comparable order intake\* showed 7% growth, reflecting double-digit growth in the Diagnosis & Treatment businesses and a low-single-digit decline in the Connected Care & Health Informatics businesses, as certain expected large orders were postponed to 2018.
- EBITA increased by EUR 37 million and the margin increased by 70 basis points compared to Q4 2016.
- Adjusted EBITA improved by EUR 73 million and the margin improved by 140 basis points compared to Q4 2016. The improvement was mainly attributable to higher volumes, procurement savings and other cost productivity.
- Restructuring and acquisition-related charges amounted to EUR 107 million, including the charges related to the acquisition of Spectranetics, compared to EUR 63 million in Q4 2016. EBITA in Q4 2017 also included EUR 4 million of charges related to the separation of the Lighting business, EUR 20 million of charges related to the consent decree focused on the defibrillator manufacturing in the US, and a EUR 36 million release of a provision. Q4 2016 EBITA also included EUR 31 million of charges related to the separation of the Lighting business, a EUR 26 million impairment of real estate assets, a EUR 46 million gain from the settlement of a pension-related claim and a EUR 15 million net release of provisions.
- Adjusted EBITDA improved by EUR 81 million and the margin increased by 150 basis points compared to Q4 2016.
- Net financial expenses decreased by EUR 58 million year-on-year, mainly due to lower interest expenses on net debt, as a result of the bond redemptions, and dividend income related to the retained interest in the combined businesses of Lumileds and Automotive received in Q4 2017. Q4 2016 included a release of an interest provision related to the Masimo litigation, offset by financial charges related to the redeemed notes in January 2017.
- Income tax increased by EUR 76 million, mainly due to a one-time non-cash tax charge of EUR 72 million recorded in Income from continuing operations due to a valuation adjustment of Philips' US deferred tax assets following the enactment of the US Tax Cuts and Jobs Act ('US Tax Reform') in December 2017.
- Discontinued operations results increased by EUR 248 million, mainly due to a EUR 599 million net gain from the deconsolidation of Lighting, partly offset by a one-time non-cash tax charge of EUR 99 million due to the US Tax Reform, a EUR 104 million charge related to the market value of the retained interest in Philips Lighting, and the exclusion of the operational results of the combined businesses of Lumileds and Automotive from Discontinued operations following the divestment in Q2 2017.
- Net income increased by EUR 259 million compared to Q4 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 total one-time non-cash tax charges of EUR 171 million due to the US Tax Reform.

\* Non-GAAP financial measure. Refer to [Reconciliation of non-GAAP information](#), of this document.

**Sales per geographic cluster** in millions of EUR unless otherwise stated

|                          | Q4 2016      | Q4 2017      | % change  |             |
|--------------------------|--------------|--------------|-----------|-------------|
|                          |              |              | nominal   | comparable* |
| Western Europe           | 1,171        | 1,201        | 3%        | 4%          |
| North America            | 1,847        | 1,871        | 1%        | 5%          |
| Other mature geographies | 529          | 466          | (12)%     | (3)%        |
| Total mature geographies | 3,547        | 3,538        | (0)%      | 3%          |
| Growth geographies       | 1,759        | 1,765        | 0%        | 7%          |
| <b>Philips Group</b>     | <b>5,306</b> | <b>5,303</b> | <b>0%</b> | <b>5%</b>   |

- Sales in growth geographies increased by 7% on a comparable basis, mainly driven by Central & Eastern Europe, Middle East & Turkey and China. In mature geographies, sales increased by 3% on a comparable basis, driven by mid-single-digit growth in North America and Western Europe, partly offset by a low-single-digit decline in other mature geographies.
- Comparable order intake\* in growth geographies showed double-digit growth, reflecting double-digit growth in Asia Pacific and high-single-digit growth in China and Latin America. In mature geographies, comparable order intake\* showed low-single-digit growth, reflecting low-single-digit growth in North America, Western Europe and other mature geographies.

**Cash balance** in millions of EUR

|  | Q4 2016      | Q4 2017      |
|--|--------------|--------------|
| <b>Beginning cash balance</b>                    | <b>1,859</b> | <b>1,604</b> |
| <i>of which discontinued operations</i>          |              | 605          |
| <i>of which continuing operations</i>            | 1,859        | 999          |
| Free cash flow*                                  | 551          | 948          |
| <i>Net cash provided by operating activities</i> | 758          | 1,202        |
| <i>Net capital expenditures</i>                  | (207)        | (254)        |
| Net cash used for other investing activities     | (20)         | (160)        |
| Treasury shares transactions                     | (60)         | (341)        |
| Changes in debt                                  | (453)        | (64)         |
| Other cash flow items                            | 29           | 2            |
| Net cash flows from discontinued operations      | 427          | (50)         |
| <b>Ending cash balance</b>                       | <b>2,334</b> | <b>1,939</b> |

- Net cash flows from operating activities increased by EUR 444 million. Free cash flow increased by EUR 397 million, mainly due to cash outflows in Q4 2016 of EUR 280 million related to the Masimo agreements and a EUR 91 million premium payment related to the October 2016 bond redemption.
- Net cash used for other investing activities in Q4 2017 mainly included acquisitions.
- Treasury share transactions in Q4 2017 mainly included the share buyback program for capital reduction purposes and the share repurchase program for the Long Term Incentive (LTI) and employee stock purchase plans.
- Changes in debt in Q4 2016 reflected a EUR 431 million outflow related to the October 2016 bond redemption and a further debt repayment in November 2016.
- Net cash flows from discontinued operations included EUR 545 million proceeds related to the sale of a further interest in Philips Lighting, mainly offset by the deconsolidation of Philips Lighting's cash and cash equivalents.

\* Non-GAAP financial measure. Refer to [Reconciliation of non-GAAP information](#), of this document.

## Performance per segment

### Personal Health businesses

Key data in millions of EUR unless otherwise stated

|                               | Q4 2016 | Q4 2017 |
|-------------------------------|---------|---------|
| Sales                         | 2,165   | 2,181   |
| Sales growth                  |         |         |
| Nominal sales growth          | 6%      | 1%      |
| Comparable sales growth*      | 7%      | 6%      |
| Income from operations (EBIT) | 347     | 370     |
| as a % of sales               | 16.0%   | 17.0%   |
| EBITA*                        | 381     | 404     |
| as a % of sales               | 17.6%   | 18.5%   |
| Adjusted EBITA*               | 394     | 412     |
| as a % of sales               | 18.2%   | 18.9%   |
| Adjusted EBITDA*              | 461     | 476     |
| as a % of sales               | 21.3%   | 21.8%   |

- Comparable sales growth was 6% and reflected high-single-digit growth in Health & Wellness and Sleep & Respiratory Care and mid-single-digit growth in Domestic Appliances and Personal Care.
- Comparable sales in growth geographies showed double-digit growth, mainly driven by double-digit growth in Asia Pacific and India and high-single-digit growth in Central & Eastern Europe and China. Mature geographies recorded mid-single-digit growth, reflecting double-digit growth in other mature geographies, mid-single-digit growth in Western Europe and low-single-digit growth in North America.
- EBITA increased by EUR 23 million and the margin improved by 90 basis points compared to Q4 2016.
- Adjusted EBITA increased by EUR 18 million and the margin improved by 70 basis points compared to Q4 2016. The increase was attributable to higher volumes and procurement savings, partly offset by investments in advertising & promotion.
- Restructuring and acquisition-related charges amounted to EUR 8 million, compared to EUR 13 million in Q4 2016. In Q1 2018, restructuring and acquisition-related charges are expected to total approximately EUR 5 million.
- Adjusted EBITDA improved by EUR 15 million and the margin increased by 50 basis points compared to Q4 2016.

### Diagnosis & Treatment businesses

Key data in millions of EUR unless otherwise stated

|                               | Q4 2016 | Q4 2017 |
|-------------------------------|---------|---------|
| Sales                         | 2,032   | 2,092   |
| Sales growth                  |         |         |
| Nominal sales growth          | 3%      | 3%      |
| Comparable sales growth*      | 3%      | 6%      |
| Income from operations (EBIT) | 260     | 247     |
| as a % of sales               | 12.8%   | 11.8%   |
| EBITA*                        | 269     | 266     |
| as a % of sales               | 13.2%   | 12.7%   |
| Adjusted EBITA*               | 284     | 311     |
| as a % of sales               | 14.0%   | 14.9%   |
| Adjusted EBITDA*              | 329     | 361     |
| as a % of sales               | 16.2%   | 17.3%   |

- Comparable sales growth was 6%, driven by high-single-digit growth in Ultrasound and mid-single-digit growth in Image-Guided Therapy and Diagnostic Imaging.
- Growth geographies achieved high-single-digit growth, mainly driven by double-digit growth in China and Middle East & Turkey, partly offset by a mid-single-digit decline in Latin America. Mature geographies recorded mid-single-digit growth, driven by high-single-digit growth in North America and low-single-digit growth in Western Europe and other mature geographies.
- EBITA decreased by EUR 3 million and the margin declined by 50 basis points compared to Q4 2016, mainly due to higher restructuring and acquisition-related charges.
- Adjusted EBITA increased by EUR 27 million and the margin improved by 90 basis points year-on-year, mainly driven by higher volumes, procurement savings and other cost productivity.
- Restructuring and acquisition-related charges were EUR 45 million, including the charges related to the acquisition of Spectranetics, compared to EUR 15 million in Q4 2016. In Q1 2018, restructuring and acquisition-related charges are expected to total approximately EUR 60 million.
- Adjusted EBITDA increased by EUR 32 million and the margin increased by 110 basis points compared to Q4 2016.

\* Non-GAAP financial measure. Refer to [Reconciliation of non-GAAP information](#), of this document.

## Connected Care & Health Informatics businesses

Key data in millions of EUR unless otherwise stated

|                               | Q4 2016 | Q4 2017 |
|-------------------------------|---------|---------|
| Sales                         | 955     | 912     |
| Sales growth                  |         |         |
| Nominal sales growth          | 4%      | (5)%    |
| Comparable sales growth*      | 4%      | 2%      |
| Income from operations (EBIT) | 171     | 159     |
| as a % of sales               | 17.9%   | 17.4%   |
| EBITA*                        | 184     | 169     |
| as a % of sales               | 19.3%   | 18.5%   |
| Adjusted EBITA*               | 177     | 186     |
| as a % of sales               | 18.5%   | 20.4%   |
| Adjusted EBITDA*              | 211     | 222     |
| as a % of sales               | 22.1%   | 24.3%   |

- Comparable sales growth was 2% and reflected high-single-digit growth in Healthcare Informatics and low-single-digit growth in Patient Care & Monitoring Solutions.
- Comparable sales in growth geographies showed a mid-single-digit decline, reflecting a double-digit decline in Middle East & Turkey and Africa, partly offset by double-digit growth in India. Mature geographies posted mid-single-digit growth, driven by high-single-digit growth in North America, partly offset by a low-single-digit decline in Western Europe and a double-digit decline in other mature geographies.
- EBITA decreased by EUR 15 million and the margin declined by 80 basis points compared to Q4 2016, mainly due to higher restructuring and acquisition-related charges.
- Adjusted EBITA increased by EUR 9 million, driven by procurement savings and other cost productivity, and the margin improved by 190 basis points year-on-year.
- Restructuring and acquisition-related charges were EUR 33 million, compared to EUR 8 million in Q4 2016. EBITA in Q4 2017 also included EUR 20 million of charges related to the consent decree focused on the defibrillator manufacturing in the US and a EUR 36 million release of a provision. EBITA in Q4 2016 included a EUR 15 million net release of provisions. In Q1 2018, restructuring and acquisition-related charges are expected to total approximately EUR 20 million. Charges related to the consent decree are expected to total approximately EUR 20 million in Q1 2018.
- Adjusted EBITDA improved by EUR 11 million and the margin increased by 220 basis points compared to Q4 2016.

## HealthTech Other

Key data in millions of EUR

|                               | Q4 2016 | Q4 2017 |
|-------------------------------|---------|---------|
| Sales                         | 153     | 119     |
| Income from operations (EBIT) | (87)    | (45)    |
| EBITA*                        | (83)    | (41)    |
| Adjusted EBITA*               | (29)    | (19)    |
| IP Royalties                  | 95      | 67      |
| Innovation                    | (61)    | (56)    |
| Central costs                 | (61)    | (26)    |
| Other                         | (2)     | (5)     |
| Adjusted EBITDA*              | 6       | 18      |

- Sales decreased by EUR 34 million, mainly due to lower royalty income.
- EBITA increased by EUR 42 million, mainly driven by lower Central costs and lower restructuring and acquisition-related charges; and in addition there was a EUR 26 million impairment of real estate assets in Q4 2016.
- Adjusted EBITA increased by EUR 10 million, mainly driven by lower Central costs, partly offset by lower royalty income.
- Restructuring and acquisition-related charges amounted to EUR 21 million, compared to EUR 28 million in Q4 2016. EBITA in Q4 2016 also included a EUR 26 million impairment of real estate assets. In Q1 2018, restructuring and acquisition-related charges are expected to total approximately EUR 15 million.
- Adjusted EBITDA improved by EUR 12 million compared to Q4 2016.

## Legacy Items

Income from operations (EBIT) in millions of EUR

|                               | Q4 2016 | Q4 2017 |
|-------------------------------|---------|---------|
| Separation costs              | (31)    | (4)     |
| Other                         | 32      | (5)     |
| Income from operations (EBIT) | 1       | (8)     |

- Income from operations (EBIT) in Q4 2017 mainly included EUR 4 million of charges related to the separation of the Lighting business and EUR 8 million of charges related to movements in environmental provisions. Q4 2016 included a EUR 46 million gain from the settlement of a pension-related claim.

\* Non-GAAP financial measure. Refer to [Reconciliation of non-GAAP information](#), of this document.

## Discontinued operations

Discontinued operations, net of income taxes in millions of EUR

|   | Q4 2016    | Q4 2017    |
|---|------------|------------|
| Lighting  | 85         | 562        |
| The combined Lumileds and Automotive businesses     | 89         | (116)      |
| Other   | 1          | (23)       |
| <b>Discontinued operations, net of income taxes</b> | <b>175</b> | <b>423</b> |

- Discontinued operations results of Lighting increased by EUR 477 million, mainly due to a EUR 599 million net gain from the deconsolidation as from the end of November 2017, partly offset by a EUR 104 million charge related to the market value of the retained interest in Philips Lighting.
- Discontinued operations results of the combined businesses of Lumileds and Automotive decreased by EUR 205 million, mainly due to a one-time non-cash tax charge of EUR 107 million recorded due to the US Tax Reform and the exclusion of the operational results of the combined businesses of Lumileds and Automotive from Discontinued operations following the divestment in Q2 2017.

## Proposed distribution

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

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

Shareholders will be given the opportunity to make their choice between cash and shares between May 9, 2018 and June 1, 2018. If no choice is made during this election period the dividend will be paid in cash. On June 1, 2018 after close of trading, the number of share dividend rights entitled to one new common share will be determined based on the volume-weighted average price of all traded common shares Koninklijke Philips N.V. at Euronext Amsterdam on May 30 and 31, and June 1, 2018. The company will calculate the number of share dividend rights entitled to one new common share (the ratio), such that the gross dividend in shares will be approximately equal to the gross dividend in cash. The ratio and the number of shares to be issued will be announced on June 5, 2018. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 6, 2018.

Further details will be given in the agenda for the 2018 Annual General Meeting of Shareholders. All dates mentioned remain provisional until then.

# Full-year highlights

## Philips performance

Key data in millions of EUR unless otherwise stated

|   | January to December |        |
|---|---------------------|--------|
|   | 2016                | 2017   |
| Sales   | 17,422              | 17,780 |
| Nominal sales growth  | 4%                  | 2%     |
| Comparable sales growth*  | 5%                  | 4%     |
| Income from operations (EBIT)   | 1,464               | 1,517  |
| as a % of sales   | 8.4%                | 8.5%   |
| Financial expenses, net   | (442)               | (137)  |
| Investments in associates   | 11                  | (4)    |
| Income taxes  | (203)               | (349)  |
| Income from continuing operations   | 831                 | 1,028  |
| Discontinued operations   | 660                 | 843    |
| Net income  | 1,491               | 1,870  |
| Net income attributable to shareholders per common share (in EUR) - diluted <sup>1)</sup> | 1.56                | 1.75   |
| EBITA*  | 1,707               | 1,787  |
| as a % of sales   | 9.8%                | 10.1%  |
| Adjusted EBITA*   | 1,921               | 2,153  |
| as a % of sales   | 11.0%               | 12.1%  |
| Adjusted EBITDA*  | 2,613               | 2,832  |
| as a % of sales   | 15.0%               | 15.9%  |

<sup>1)</sup> The year-on-year increase in net income attributable to Philips shareholders was mainly due to the further sell-down of Philips' interest in Philips Lighting

- Comparable sales growth was 4%, driven by mid-single-digit growth in the Personal Health businesses and low-single-digit growth in the Diagnosis & Treatment businesses and the Connected Care & Health Informatics businesses. Sales in growth geographies showed high-single-digit growth, driven by double-digit growth in Middle East & Turkey and high-single-digit growth in China, Latin America and Central & Eastern Europe. Mature geographies posted low-single-digit growth, reflecting low-single-digit growth in Western Europe and North America and a low-single-digit decline in other mature geographies.
- Currency-comparable order intake showed 6% growth, reflecting high-single-digit growth in the Diagnosis & Treatment businesses and low-single-digit growth in the Connected Care & Health Informatics businesses. On a geographic basis, growth geographies achieved high-single-digit growth, mainly driven by double-digit growth in China and Middle East & Turkey. North America and other mature geographies recorded low-single-digit growth and Western Europe was flat year-on-year.
- EBITA increased by EUR 80 million and the margin increased by 30 basis points compared to 2016.
- Adjusted EBITA improved by EUR 232 million and the margin improved by 110 basis points compared to 2016. The improvement was mainly attributable to higher volumes, procurement savings and other cost productivity.
- Restructuring and acquisition-related charges amounted to EUR 316 million, including the charges related to the acquisition of Spectranetics, compared to EUR 94 million in 2016. EBITA in 2017 also included EUR 47 million of charges related to quality and regulatory actions, EUR 31 million of charges related to the separation of the Lighting business, EUR 26 million of charges related to the CRT litigation provision 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 release of a provision. EBITA in 2016 also included EUR 152 million of charges related to the separation of the Lighting business, a EUR 26 million impairment of real estate assets, a EUR 46 million gain from the settlement of a pension-related claim and a EUR 12 million net release of provisions.
- Adjusted EBITDA increased by EUR 219 million and the margin increased by 90 basis points compared to 2016.
- Net financial expenses decreased by EUR 305 million year-on-year, mainly due to lower interest expenses on net debt, as a result of the bond redemptions, and dividend income related to the retained interest in the combined businesses of Lumileds and Automotive. The year 2016 included financial charges related to the redeemed notes in October 2016 and January 2017, partly offset by a release of an interest provision related to the Masimo litigation. Interest expenses in 2017 were reduced by more than EUR 100 million in line with our plan.

\* Non-GAAP financial measure. Refer to [Reconciliation of non-GAAP information](#), of this document.

- Income tax increased by EUR 146 million, mainly due to higher income and a one-time non-cash tax charge of EUR 72 million due to the US Tax Reform.
- Discontinued operations results increased by EUR 183 million, mainly due to a EUR 599 million net gain from the deconsolidation of Lighting, partly offset by a EUR 104 million charge related to the market value of the retained interest in Philips Lighting, a one-time non-cash tax charge of EUR 99 million due to the US Tax Reform, 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.
- 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 one-time non-cash tax charge of EUR 171 million due to the US Tax Reform.

## Performance per segment

### Personal Health businesses

**Key data** in millions of EUR unless otherwise stated

|                               | January to December |       |
|-------------------------------|---------------------|-------|
|                               | 2016                | 2017  |
| Sales                         | 7,099               | 7,310 |
| Sales growth                  |                     |       |
| Nominal sales growth          | 5%                  | 3%    |
| Comparable sales growth*      | 7%                  | 6%    |
| Income from operations (EBIT) | 953                 | 1,075 |
| as a % of sales               | 13.4%               | 14.7% |
| EBITA*                        | 1,092               | 1,211 |
| as a % of sales               | 15.4%               | 16.6% |
| Adjusted EBITA*               | 1,108               | 1,221 |
| as a % of sales               | 15.6%               | 16.7% |
| Adjusted EBITDA*              | 1,353               | 1,456 |
| as a % of sales               | 19.1%               | 19.9% |

- Comparable sales growth was 6%, driven by high-single-digit growth in Health & Wellness and mid-single-digit growth in Sleep & Respiratory Care, Domestic Appliances and Personal Care.
- Comparable sales in 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 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.
- EBITA increased by EUR 119 million and the margin increased by 120 basis points compared to 2016.
- Adjusted EBITA increased by EUR 113 million and the margin improved by 110 basis points compared to 2016. The increase was attributable to higher volumes and procurement savings, partly offset by investments in advertising & promotion.
- Restructuring and acquisition-related charges were EUR 11 million, compared to EUR 16 million in 2016.
- Adjusted EBITDA increased by EUR 103 million and the margin increased by 80 basis points compared to 2016.

### Diagnosis & Treatment businesses

**Key data** in millions of EUR unless otherwise stated

|                               | January to December |       |
|-------------------------------|---------------------|-------|
|                               | 2016                | 2017  |
| Sales                         | 6,686               | 6,891 |
| Sales growth                  |                     |       |
| Nominal sales growth          | 3%                  | 3%    |
| Comparable sales growth*      | 4%                  | 3%    |
| Income from operations (EBIT) | 546                 | 488   |
| as a % of sales               | 8.2%                | 7.1%  |
| EBITA*                        | 594                 | 543   |
| as a % of sales               | 8.9%                | 7.9%  |
| Adjusted EBITA*               | 631                 | 716   |
| as a % of sales               | 9.4%                | 10.4% |
| Adjusted EBITDA*              | 808                 | 884   |
| as a % of sales               | 12.1%               | 12.8% |

- Comparable sales growth was 3%, driven by mid-single-digit growth in Ultrasound and Image-Guided Therapy and low-single-digit growth in Diagnostic Imaging.
- Comparable sales in growth geographies showed high-single-digit growth, mainly driven by double-digit growth in China and high-single-digit growth in Latin America. Mature geographies 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.
- EBITA decreased by EUR 51 million and the margin declined by 100 basis points compared to 2016, mainly due to higher restructuring and acquisition-related charges.
- Adjusted EBITA increased by EUR 85 million and the margin improved by 100 basis points year-on-year. The increase was mainly attributable to higher volumes.
- Restructuring and acquisition-related charges were EUR 151 million, including the charges related to the acquisition of Spectranetics, compared to EUR 37 million in 2016. EBITA in 2017 included charges of EUR 22 million related to portfolio rationalization measures.
- Adjusted EBITDA increased by EUR 76 million and the margin increased by 70 basis points compared to 2016.

\* Non-GAAP financial measure. Refer to [Reconciliation of non-GAAP information](#), of this document.

## Connected Care & Health Informatics businesses

Key data in millions of EUR unless otherwise stated

|                               | January to December |       |
|-------------------------------|---------------------|-------|
|                               | 2016                | 2017  |
| Sales                         | 3,158               | 3,163 |
| Sales growth                  |                     |       |
| Nominal sales growth          | 5%                  | 0%    |
| Comparable sales growth*      | 4%                  | 3%    |
| Income from operations (EBIT) | 275                 | 206   |
| as a % of sales               | 8.7%                | 6.5%  |
| EBITA*                        | 322                 | 250   |
| as a % of sales               | 10.2%               | 7.9%  |
| Adjusted EBITA*               | 324                 | 372   |
| as a % of sales               | 10.3%               | 11.8% |
| Adjusted EBITDA*              | 458                 | 502   |
| as a % of sales               | 14.5%               | 15.9% |

- Comparable sales growth was 3%, driven by mid-single-digit growth in Patient Care & Monitoring Solutions and low-single-digit growth in Healthcare Informatics.
- Comparable sales in growth geographies showed low-single-digit growth, mainly driven by low-single-digit growth in China. Mature geographies posted low-single-digit growth, driven by mid-single-digit growth in Western Europe and North America, partly offset by a low-single-digit decline in other mature geographies.
- EBITA decreased by EUR 72 million and the margin decreased by 230 basis points compared to 2016, mainly due to higher restructuring and acquisition-related charges.
- Adjusted EBITA improved by EUR 48 million and the margin increased by 150 basis points year-on-year, mainly due to higher volumes, procurement savings and other cost productivity.
- Restructuring and acquisition-related charges amounted to EUR 91 million, compared to EUR 14 million in 2016. EBITA in 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 release of a provision. EBITA in 2016 included a EUR 12 million net release of provisions.
- Adjusted EBITDA increased by EUR 44 million and the margin increased by 140 basis points compared to 2016.

## HealthTech Other

Key data in millions of EUR

|                               | January to December |       |
|-------------------------------|---------------------|-------|
|                               | 2016                | 2017  |
| Sales                         | 478                 | 415   |
| Income from operations (EBIT) | (129)               | (149) |
| EBITA*                        | (120)               | (114) |
| Adjusted EBITA*               | (66)                | (109) |
| IP Royalties                  | 286                 | 225   |
| Innovation                    | (207)               | (212) |
| Central costs                 | (137)               | (105) |
| Other                         | (8)                 | (17)  |
| Adjusted EBITDA*              | 68                  | 36    |

- Sales decreased by EUR 63 million, mainly due to lower royalty income.
- EBITA increased by EUR 6 million, mainly driven by a real estate gain, in addition to a real estate impairment in 2016, and by lower Central costs, partly offset by lower royalty income and higher restructuring and acquisition-related charges.
- The Adjusted EBITA decline was mainly due to lower royalty income and higher provision-related charges in Other, partly offset by lower Central costs.
- Restructuring and acquisition-related charges amounted to EUR 64 million, compared to EUR 28 million in 2016. EBITA in 2017 also included a EUR 59 million net gain from the sale of real estate assets. EBITA in 2016 included a EUR 26 million impairment of real estate assets.
- Adjusted EBITDA decreased by EUR 32 million.

## Legacy Items

Income from operations (EBIT) in millions of EUR

|                                      | January to December |              |
|--------------------------------------|---------------------|--------------|
|                                      | 2016                | 2017         |
| Separation costs                     | (152)               | (31)         |
| Other                                | (29)                | (73)         |
| <b>Income from operations (EBIT)</b> | <b>(181)</b>        | <b>(103)</b> |

- Income from operations (EBIT) mainly included EUR 31 million of charges related to the separation of the Lighting business, EUR 26 million of provisions related to the CRT litigation in the US, EUR 15 million of costs related to environmental provisions, and EUR 14 million of stranded costs related to the combined Lumileds and Automotive businesses. The year 2016 included a EUR 46 million gain from the settlement of a pension-related claim and a EUR 13 million charge related to provisions originating from the separation of the Lighting business.

\* Non-GAAP financial measure. Refer to [Reconciliation of non-GAAP information](#), of this document.

## Discontinued operations

Discontinued operations, net of income taxes in millions of EUR

|   | January to December |            |
|---|---------------------|------------|
|   | 2016                | 2017       |
| Lighting  | 244                 | 896        |
| The combined Lumileds and Automotive businesses     | 282                 | (29)       |
| Other   | 134                 | (24)       |
| <b>Discontinued operations, net of income taxes</b> | <b>660</b>          | <b>843</b> |

- Discontinued operations results of Lighting increased by EUR 652 million, mainly due to a EUR 599 million net gain from the deconsolidation as from the end of November 2017, partly offset by a EUR 104 million charge related to the market value of the retained interest in Philips Lighting.
- Discontinued operations results of the combined businesses of Lumileds and Automotive decreased by EUR 311 million, mainly due to a one-time non-cash tax charge of EUR 107 million recorded due to the US Tax Reform and the exclusion of the operational results of the combined businesses of Lumileds and Automotive from Discontinued operations following the divestment in Q2 2017.
- Discontinued operations results from Other discontinued operations decreased by EUR 158 million year-on-year, mainly due to the Funai arbitration award in 2016.

## Forward-looking statements and other important information

### Forward-looking statements

This document and the related oral presentation, including responses to questions following the presentation, contain 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 the strategy, estimates of sales growth, future Adjusted EBITA, future developments in Philips' organic business and the completion of acquisitions and divestments. By their nature, these statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these statements.

These factors include but are not limited to: global economic and business conditions; developments within the euro zone; 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 tax reform in the US; 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, including Spectranetics; 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 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 the Risk management chapter included in the Annual Report 2016.

### Third-party market share data

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

### Use of non-GAAP information

In presenting and discussing the Philips Group financial position, operating results and cash flows, management uses certain non-GAAP financial measures. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent IFRS measures and should be used in conjunction with the most directly comparable IFRS measures. Non-GAAP 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-GAAP measures to the most directly comparable IFRS measures is contained in this document. Further information on non-GAAP measures can be found in the Annual Report 2016. Comparable order intake and Adjusted EBITDA are measures included to enhance comparability with other companies.

### Use of fair-value measurements

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 data are not readily available, fair values are estimated using appropriate valuation models and unobservable inputs. Such fair value estimates require management to make significant assumptions with respect to future developments, which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the Annual Report 2016 and Semi-Annual Report 2017. In certain cases independent valuations are obtained to support management's determination of fair values.

### Presentation

All amounts are in millions of euros unless otherwise stated. Due to rounding, amounts may not add up precisely to totals provided. All reported data is unaudited. Financial reporting is in accordance with the accounting policies as stated in the Annual Report 2016, unless otherwise stated. The presentation of certain prior-year information has been adjusted to conform to the current-year presentation.

### Market Abuse Regulation

This press release contains inside information within the meaning of Article 7(1) of the EU Market Abuse Regulation.

## Condensed consolidated statements of income

Condensed consolidated statements of income in millions of EUR unless otherwise stated

|  | Q4           |              | January to December |              |
|--|--------------|--------------|---------------------|--------------|
|  | 2016         | 2017         | 2016                | 2017         |
| <b>Sales</b>   | 5,306        | 5,303        | 17,422              | 17,780       |
| Cost of sales  | (2,824)      | (2,741)      | (9,484)             | (9,600)      |
| <b>Gross margin</b>  | <b>2,482</b> | <b>2,563</b> | <b>7,939</b>        | <b>8,181</b> |
| Selling expenses   | (1,166)      | (1,236)      | (4,142)             | (4,398)      |
| General and administrative expenses  | (173)        | (146)        | (658)               | (577)        |
| Research and development expenses  | (449)        | (461)        | (1,669)             | (1,764)      |
| Impairment of goodwill   | -            | -            | (1)                 | (9)          |
| Other business income  | 7            | 27           | 17                  | 152          |
| Other business expenses  | (9)          | (23)         | (22)                | (67)         |
| <b>Income from operations</b>  | <b>693</b>   | <b>723</b>   | <b>1,464</b>        | <b>1,517</b> |
| Financial income   | 16           | 31           | 65                  | 126          |
| Financial expenses   | (83)         | (40)         | (507)               | (263)        |
| Investments in associates  | -            | (2)          | 11                  | (4)          |
| <b>Income before taxes</b>   | <b>626</b>   | <b>713</b>   | <b>1,034</b>        | <b>1,377</b> |
| Income taxes   | (161)        | (237)        | (203)               | (349)        |
| <b>Income from continuing operations</b>   | <b>465</b>   | <b>476</b>   | <b>831</b>          | <b>1,028</b> |
| Discontinued operations - net of income taxes  | 175          | 423          | 660                 | 843          |
| <b>Net income</b>  | <b>640</b>   | <b>899</b>   | <b>1,491</b>        | <b>1,870</b> |
| <b>Attribution of net income for the period</b>  |              |              |                     |              |
| Net income attributable to Koninklijke Philips N.V. shareholders   | 626          | 860          | 1,448               | 1,657        |
| Net income attributable to Non-controlling interests   | 14           | 39           | 43                  | 214          |
| <b>Earnings per common share attributable to Koninklijke Philips N.V. shareholders</b>   |              |              |                     |              |
| Weighted average number of common shares outstanding<br>(after deduction of treasury shares) during the period (in thousands): |              |              |                     |              |
| - basic  | 923,018      | 932,754      | 918,016             | 928,798      |
| - diluted  | 933,552      | 947,857      | 928,789             | 945,132      |
| Net income attributable to shareholders in EUR:  |              |              |                     |              |
| - basic  | 0.68         | 0.92         | 1.58                | 1.78         |
| - diluted  | 0.67         | 0.91         | 1.56                | 1.75         |
| Net income from continuing operations attributable to shareholders in EUR:   |              |              |                     |              |
| - basic  | 0.50         | 0.51         | 0.90                | 1.11         |
| - diluted  | 0.50         | 0.50         | 0.89                | 1.09         |

Amounts may not add up due to rounding.

## Condensed consolidated statements of comprehensive income

Condensed consolidated statements of comprehensive income in millions of EUR unless otherwise stated

|  | January to December |                |
|--|---------------------|----------------|
|  | 2016                | 2017           |
| <b>Net income for the period</b>   | <b>1,491</b>        | <b>1,870</b>   |
| Pensions and other post-employment plans:  |                     |                |
| Remeasurement  | (96)                | 102            |
| Income tax effect on remeasurements  | 28                  | (78)           |
| Revaluation reserve:   |                     |                |
| Release revaluation reserve  | (4)                 |                |
| Reclassification directly into retained earnings                                 | 4                   |                |
| <b>Total of items that will not be reclassified to profit or loss</b>            | <b>(68)</b>         | <b>25</b>      |
| Currency translation differences:  |                     |                |
| Net current-period change, before tax  | 219                 | (1,177)        |
| Income tax effect on net current-period change                                   | 2                   | 39             |
| Reclassification adjustment for (loss) gain realized, in discontinued operations |                     | 191            |
| Available-for-sale financial assets:   |                     |                |
| Net current-period change, before tax  | (44)                | (66)           |
| Income tax effect on net current-period change                                   |                     | (1)            |
| Reclassification adjustment for (loss) gain realized, in continued operations    | 24                  | 1              |
| Cash flow hedges:  |                     |                |
| Net current-period change, before tax  | 3                   | 33             |
| Income tax effect on net current period change                                   | (9)                 | (3)            |
| Reclassification adjustment for (loss) gain realized, in continued operations    | 5                   | (17)           |
| <b>Total of items that are or may be reclassified to profit or loss</b>          | <b>200</b>          | <b>(1,000)</b> |
| <b>Other comprehensive income (loss) for the period</b>                          | <b>132</b>          | <b>(975)</b>   |
| <b>Total comprehensive income for the period</b>                                 | <b>1,623</b>        | <b>895</b>     |
| Shareholders of Koninklijke Philips N.V.   | 1,550               | 805            |
| Non-controlling interests  | 73                  | 90             |

Amounts may not add up due to rounding.

## Condensed consolidated balance sheets

Condensed consolidated balance sheets in millions of EUR

|   | December 31, 2016    | December 31, 2017 |
|---|----------------------|-------------------|
| <b>Non-current assets:</b>                                |                      |                   |
| Property, plant and equipment                             | 2,155                | 1,591             |
| Goodwill  | 8,898                | 7,731             |
| Intangible assets excluding goodwill                      | 3,552                | 3,322             |
| Non-current receivables                                   | 155                  | 130               |
| Investments in associates                                 | 190                  | 142               |
| Other non-current financial assets                        | 335                  | 587               |
| Non-current derivative financial assets                   | 59                   | 22                |
| Deferred tax assets                                       | 2,759 <sup>1)</sup>  | 1,598             |
| Other non-current assets                                  | 92                   | 75                |
| <b>Total non-current assets</b>                           | <b>18,195</b>        | <b>15,198</b>     |
| <b>Current assets:</b>                                    |                      |                   |
| Inventories   | 3,392                | 2,353             |
| Other current financial assets                            | 101                  | 2                 |
| Other current assets                                      | 486                  | 392               |
| Current derivative financial assets                       | 101                  | 57                |
| Income tax receivable                                     | 154                  | 109               |
| Receivables   | 5,327                | 3,909             |
| Assets classified as held for sale                        | 2,180                | 1,356             |
| Cash and cash equivalents                                 | 2,334                | 1,939             |
| <b>Total current assets</b>                               | <b>14,075</b>        | <b>10,117</b>     |
| <b>Total assets</b>                                       | <b>32,270</b>        | <b>25,315</b>     |
| <b>Equity</b>   |                      |                   |
| Shareholders' equity                                      | 12,546 <sup>1)</sup> | 11,999            |
| <i>Common shares</i>                                      | 186                  | 188               |
| <i>Reserves</i>   | 1,280                | 385               |
| <i>Other</i>  | 11,080 <sup>1)</sup> | 11,426            |
| Non-controlling interests                                 | 907                  | 24                |
| <b>Group equity</b>                                       | <b>13,453</b>        | <b>12,023</b>     |
| <b>Non-current liabilities:</b>                           |                      |                   |
| Long-term debt  | 4,021                | 4,044             |
| Non-current derivative financial liabilities              | 590                  | 216               |
| Long-term provisions                                      | 2,926 <sup>1)</sup>  | 1,659             |
| Deferred tax liabilities                                  | 66                   | 33                |
| Other non-current liabilities                             | 741                  | 474               |
| <b>Total non-current liabilities</b>                      | <b>8,344</b>         | <b>6,426</b>      |
| <b>Current liabilities:</b>                               |                      |                   |
| Short-term debt   | 1,585                | 672               |
| Current derivative financial liabilities                  | 283                  | 167               |
| Income tax payable  | 146                  | 83                |
| Accounts payable  | 2,848                | 2,090             |
| Accrued liabilities                                       | 3,034                | 2,319             |
| Short-term provisions                                     | 680                  | 400               |
| Liabilities directly associated with assets held for sale | 525                  | 8                 |
| Other current liabilities                                 | 1,372                | 1,126             |
| <b>Total current liabilities</b>                          | <b>10,473</b>        | <b>6,866</b>      |
| <b>Total liabilities and group equity</b>                 | <b>32,270</b>        | <b>25,315</b>     |

<sup>1)</sup> The presentation of prior-year information has been adjusted to conform to the current-year presentation.

Amounts may not add up due to rounding.

# Condensed consolidated statement of cash flows

Condensed consolidated statements of cash flows in millions of EUR

|  | January to December |                |
|--|---------------------|----------------|
|  | 2016                | 2017           |
| <b>Cash flows from operating activities</b>  |                     |                |
| Net income   | 1,491               | 1,870          |
| Results of discontinued operations - net of income tax   | (660)               | (843)          |
| Adjustments to reconcile net income (loss) to net cash provided by (used for) of operating activities: |                     |                |
| Depreciation, amortization and impairments of fixed assets   | 976                 | 1,025          |
| Impairment of goodwill and other non-current financial assets  | 24                  | 15             |
| Net loss (gain) on sale of assets  | (3)                 | (107)          |
| Interest income  | (43)                | (40)           |
| Interest expense on debt, borrowings and other liabilities   | 294                 | 186            |
| Income taxes   | 203                 | 349            |
| Results from investments in associates   | (11)                | -              |
| Decrease (increase) in working capital:  | 131                 | 101            |
| Decrease (increase) in receivables and other current assets  | (89)                | 64             |
| Decrease (increase) in inventories   | (63)                | (144)          |
| Increase (decrease) in accounts payable, accrued and other current liabilities                         | 283                 | 181            |
| Decrease (increase) in non-current receivables, other assets and other liabilities                     | (160)               | (358)          |
| Increase (decrease) in provisions  | (647)               | (252)          |
| Other items  | 76                  | 377            |
| Interest paid  | (296)               | (215)          |
| Interest received  | 42                  | 40             |
| Dividends received from investments in associates  | 48                  | 6              |
| Income taxes paid  | (295)               | (284)          |
| <b>Net cash provided by (used for) operating activities</b>  | <b>1,170</b>        | <b>1,870</b>   |
| <b>Cash flows from investing activities</b>  |                     |                |
| Net capital expenditures   | (741)               | (685)          |
| Purchase of intangible assets  | (95)                | (106)          |
| Expenditures on development assets   | (301)               | (333)          |
| Capital expenditures on property, plant and equipment  | (360)               | (420)          |
| Proceeds from sale of property, plant and equipment  | 15                  | 175            |
| Net proceeds from (cash used for) derivatives and current financial assets                             | (117)               | (198)          |
| Purchase of other non-current financial assets   | (53)                | (42)           |
| Proceeds from other non-current financial assets   | 14                  | 6              |
| Purchase of businesses, net of cash acquired   | (197)               | (2,344)        |
| Net proceeds from sale of interests in businesses, net of cash disposed of                             | -                   | 64             |
| <b>Net cash used for investing activities</b>  | <b>(1,092)</b>      | <b>(3,199)</b> |
| <b>Cash flows from financing activities</b>  |                     |                |
| Proceeds from issuance (payments) of short-term debt   | (1,377)             | 12             |
| Principal payments on short-term portion of long-term debt   | (357)               | (1,332)        |
| Proceeds from issuance of long-term debt   | 123                 | 1,115          |
| Re-issuance of treasury shares   | 80                  | 227            |
| Purchase of treasury shares  | (606)               | (642)          |
| Proceeds from sale of Philips Lighting shares  | 863                 | 1,065          |
| Transaction costs paid for sale of Philips Lighting shares   | (38)                | (5)            |
| Dividend paid to shareholders of Koninklijke Philips N.V.  | (330)               | (384)          |
| Dividends paid to non-controlling interests  | (2)                 | (2)            |
| <b>Net cash provided by (used for) financing activities</b>  | <b>(1,643)</b>      | <b>55</b>      |
| <b>Net cash provided by (used for) continuing operations</b>   | <b>(1,566)</b>      | <b>(1,274)</b> |
| <b>Net cash provided by (used for) discontinued operations</b>   | <b>2,151</b>        | <b>1,063</b>   |
| <b>Net cash provided by (used for) continuing and discontinued operations</b>                          | <b>585</b>          | <b>(211)</b>   |
| Effect of change in exchange rates on cash and cash equivalents  | (17)                | (184)          |
| Cash and cash equivalents at the beginning of the period   | 1,766               | 2,334          |
| <b>Cash and cash equivalents at the end of the period</b>  | <b>2,334</b>        | <b>1,939</b>   |

For a number of reasons, principally the effects of translation differences, certain items in the statements of cash flows do not correspond to the differences between the balance sheet amounts for the respective items.

Amounts may not add up due to rounding.

## Condensed consolidated statement of change in equity

Condensed consolidated statements of changes in equity in millions of EUR

|   | common shares | capital in excess of par value | retained earnings <sup>1)</sup> | currency translation differences | available-for-sale financial assets | cash flow hedges | treasury shares at cost | total shareholders' equity <sup>1)</sup> | non-controlling interests | total equity   |
|---|---------------|--------------------------------|---------------------------------|----------------------------------|-------------------------------------|------------------|-------------------------|--|---------------------------|----------------|
| <b>January to December</b>                |               |                                |                                 |                                  |                                     |                  |                         |  |                           |                |
| Balance as of December 31, 2016           | 186           | 3,083                          | 8,178                           | 1,234                            | 36                                  | 10               | (181)                   | 12,546                                   | 907                       | 13,453         |
| <b>Total comprehensive income (loss)</b>  |               |                                | <b>1,681</b>                    | <b>(823)</b>                     | <b>(66)</b>                         | <b>12</b>        |                         | <b>805</b>                               | <b>90</b>                 | <b>895</b>     |
| Dividend distributed                      | 2             | 356                            | (742)                           |                                  |                                     |                  | (384)                   | (94)                                     | (478)                     |                |
| Sales of shares of Philips Lighting       |               |                                | 346                             | (19)                             |                                     |                  | 327                     | 712                                      | 1,039                     |                |
| Deconsolidation Philips Lighting          |               | (66)                           | 54                              |                                  |                                     |                  | (12)                    | (1,590)                                  | (1,602)                   |                |
| Purchase of treasury shares               |               |                                |                                 |                                  |                                     |                  | (318)                   | (318)                                    | (318)                     |                |
| Re-issuance of treasury shares            |               | (205)                          | 3                               |                                  |                                     |                  | 334                     | 133                                      | 133                       |                |
| Forward contracts - share buy back        |               |                                | (1,018)                         |                                  |                                     |                  | (61)                    | (1,079)                                  | (1,079)                   |                |
| Share call options                        |               |                                | 95                              |                                  |                                     |                  | (255)                   | (160)                                    | (160)                     |                |
| Share-based compensation plans            |               | 151                            |                                 |                                  |                                     |                  |                         | 151                                      | 151                       |                |
| Income tax share-based compensation plans |               | (8)                            |                                 |                                  |                                     |                  | (8)                     | (8)                                      | (8)                       |                |
| <b>Total other equity movements</b>       | <b>2</b>      | <b>228</b>                     | <b>(1,263)</b>                  | <b>(19)</b>                      |                                     |                  | <b>(300)</b>            | <b>(1,352)</b>                           | <b>(972)</b>              | <b>(2,324)</b> |
| Balance as of December 31, 2017           | 188           | 3,311                          | 8,596                           | 392                              | (30)                                | 23               | (481)                   | 11,999                                   | 24                        | 12,023         |

<sup>1)</sup> The presentation of prior-year information has been adjusted to conform to the current-year presentation.

Amounts may not add up due to rounding.

## Reconciliation of non-GAAP information

Certain non-GAAP financial measures are presented when discussing the Philips Group's performance:

- Comparable sales growth
- EBIT
- EBITA
- Adjusted EBITA
- Adjusted EBITDA
- Free cash flow
- Net debt : group equity ratio
- Comparable order intake

The term EBIT has the same meaning as Income from operations.

Adjusted EBITA is defined as Income from operations (EBIT) excluding amortization of intangible assets (excluding software and development expenses), impairment of goodwill and other intangible assets, restructuring charges, acquisition-related costs and other significant items.

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

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

Net debt : group equity ratio is presented to express the financial strength of the Company. 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.

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.

For the definitions of the remaining non-GAAP financial measures listed above, refer to the Annual Report 2016.

In the following tables, reconciliations to the most directly comparable IFRS measures are presented.

### Sales growth composition in %

|                                     | Q4 2017        |                       |                  |                   | January to December 2017 |                       |                  |                   |
|-------------------------------------|----------------|-----------------------|------------------|-------------------|--------------------------|-----------------------|------------------|-------------------|
|                                     | nominal growth | consolidation changes | currency effects | comparable growth | nominal growth           | consolidation changes | currency effects | comparable growth |
| <b>2017 versus 2016</b>             |                |                       |                  |                   |                          |                       |                  |                   |
| Personal Health                     | 0.7%           | 0.5%                  | 5.1%             | 6.3%              | 3.0%                     | 0.7%                  | 1.9%             | 5.6%              |
| Diagnosis & Treatment               | 3.0%           | (3.3)%                | 6.1%             | 5.8%              | 3.1%                     | (1.6)%                | 2.0%             | 3.5%              |
| Connected Care & Health Informatics | (4.5)%         | 0.6%                  | 6.2%             | 2.3%              | 0.2%                     | 1.1%                  | 1.9%             | 3.2%              |
| HealthTech Other                    | (22.2)%        | (0.0)%                | 0.6%             | (21.6)%           | (13.2)%                  | 0.1%                  | 0.2%             | (12.9)%           |
| <b>Philips Group</b>                | <b>(0.1)%</b>  | <b>(0.9)%</b>         | <b>5.6%</b>      | <b>4.6%</b>       | <b>2.1%</b>              | <b>(0.1)%</b>         | <b>1.9%</b>      | <b>3.9%</b>       |

Net income to Adjusted EBITA In millions of EUR unless otherwise stated

|   | Philips Group | Personal Health | Diagnosis & Treatment | Connected Care & Health Informatics | HealthTech Other | Legacy Items |
|---|---------------|-----------------|-----------------------|-------------------------------------|------------------|--------------|
| <b>Q4 2017</b>                                |               |                 |                       |                                     |                  |              |
| Net Income                                    | 899           |                 |                       |                                     |                  |              |
| Discontinued operations, net of income taxes  | (423)         |                 |                       |                                     |                  |              |
| Income taxes                                  | 237           |                 |                       |                                     |                  |              |
| Investments in associates                     | 2             |                 |                       |                                     |                  |              |
| Financial expenses                            | 40            |                 |                       |                                     |                  |              |
| Financial income                              | (31)          |                 |                       |                                     |                  |              |
| <b>Income from operations (EBIT)</b>          | <b>723</b>    | <b>370</b>      | <b>247</b>            | <b>159</b>                          | <b>(45)</b>      | <b>(8)</b>   |
| Amortization of acquired intangible assets    | 66            | 34              | 19                    | 10                                  | 4                |              |
| <b>EBITA</b>                                  | <b>790</b>    | <b>404</b>      | <b>266</b>            | <b>169</b>                          | <b>(41)</b>      | <b>(8)</b>   |
| Restructuring and acquisition-related charges | 107           | 8               | 45                    | 33                                  | 21               |              |
| Other items                                   | (12)          |                 |                       | (16)                                |                  | 4            |
| <b>Adjusted EBITA</b>                         | <b>884</b>    | <b>412</b>      | <b>311</b>            | <b>186</b>                          | <b>(19)</b>      | <b>(5)</b>   |
| <b>January to December 2017</b>               |               |                 |                       |                                     |                  |              |
| Net income                                    | 1,870         |                 |                       |                                     |                  |              |
| Discontinued operations, net of income taxes  | (843)         |                 |                       |                                     |                  |              |
| Income taxes                                  | 349           |                 |                       |                                     |                  |              |
| Investments in associates                     | 4             |                 |                       |                                     |                  |              |
| Financial expenses                            | 263           |                 |                       |                                     |                  |              |
| Financial income                              | (126)         |                 |                       |                                     |                  |              |
| <b>Income from operations (EBIT)</b>          | <b>1,517</b>  | <b>1,075</b>    | <b>488</b>            | <b>206</b>                          | <b>(149)</b>     | <b>(103)</b> |
| Amortization of acquired intangible assets    | 260           | 135             | 55                    | 44                                  | 26               |              |
| Impairment of goodwill                        | 9             |                 |                       |                                     | 9                |              |
| <b>EBITA</b>                                  | <b>1,787</b>  | <b>1,211</b>    | <b>543</b>            | <b>250</b>                          | <b>(114)</b>     | <b>(103)</b> |
| Restructuring and acquisition-related charges | 316           | 11              | 151                   | 91                                  | 64               |              |
| Other items                                   | 50            |                 | 22                    | 31                                  | (59)             | 55           |
| <b>Adjusted EBITA</b>                         | <b>2,153</b>  | <b>1,221</b>    | <b>716</b>            | <b>372</b>                          | <b>(109)</b>     | <b>(48)</b>  |
| <b>Q4 2016</b>                                |               |                 |                       |                                     |                  |              |
| Net income                                    | 640           |                 |                       |                                     |                  |              |
| Discontinued operations, net of income taxes  | (175)         |                 |                       |                                     |                  |              |
| Income tax                                    | 161           |                 |                       |                                     |                  |              |
| Investments in associates                     | 0             |                 |                       |                                     |                  |              |
| Financial expenses                            | 83            |                 |                       |                                     |                  |              |
| Financial income                              | (16)          |                 |                       |                                     |                  |              |
| <b>Income from operations (EBIT)</b>          | <b>693</b>    | <b>347</b>      | <b>260</b>            | <b>171</b>                          | <b>(87)</b>      | <b>1</b>     |
| Amortization of acquired intangible assets    | 61            | 34              | 9                     | 13                                  | 4                | 1            |
| <b>EBITA</b>                                  | <b>753</b>    | <b>381</b>      | <b>269</b>            | <b>184</b>                          | <b>(83)</b>      | <b>2</b>     |
| Restructuring and acquisition-related charges | 63            | 13              | 15                    | 8                                   | 28               | (1)          |
| Other Items                                   | (5)           |                 |                       | (15)                                | 26               | (16)         |
| <b>Adjusted EBITA</b>                         | <b>811</b>    | <b>394</b>      | <b>284</b>            | <b>177</b>                          | <b>(29)</b>      | <b>(15)</b>  |
| <b>January to December 2016</b>               |               |                 |                       |                                     |                  |              |
| Net income                                    | 1,491         |                 |                       |                                     |                  |              |
| Discontinued operations, net of income taxes  | (660)         |                 |                       |                                     |                  |              |
| Income tax                                    | 203           |                 |                       |                                     |                  |              |
| Investments in associates                     | (11)          |                 |                       |                                     |                  |              |
| Financial expenses                            | 507           |                 |                       |                                     |                  |              |
| Financial income                              | (65)          |                 |                       |                                     |                  |              |
| <b>Income from operations (EBIT)</b>          | <b>1,464</b>  | <b>953</b>      | <b>546</b>            | <b>275</b>                          | <b>(129)</b>     | <b>(181)</b> |
| Amortization of acquired intangible assets    | 242           | 139             | 48                    | 46                                  | 9                |              |
| Impairment of goodwill                        | 1             |                 |                       | 1                                   |                  |              |
| <b>EBITA</b>                                  | <b>1,707</b>  | <b>1,092</b>    | <b>594</b>            | <b>322</b>                          | <b>(120)</b>     | <b>(181)</b> |
| Restructuring and acquisition-related charges | 94            | 16              | 37                    | 14                                  | 28               | (1)          |
| Other items                                   | 120           |                 |                       | (12)                                | 26               | 106          |
| <b>Adjusted EBITA</b>                         | <b>1,921</b>  | <b>1,108</b>    | <b>631</b>            | <b>324</b>                          | <b>(66)</b>      | <b>(76)</b>  |

**Net income to Adjusted EBITDA** In millions of EUR unless otherwise stated

|   | Philips Group | Personal Health | Diagnosis & Treatment | Connected Care & Health Informatics | HealthTech Other | Legacy Items |
|---|---------------|-----------------|-----------------------|-------------------------------------|------------------|--------------|
| <b>Q4 2017</b>  |               |                 |                       |                                     |                  |              |
| Net Income  | 899           |                 |                       |                                     |                  |              |
| Discontinued operations, net of income taxes  | (423)         |                 |                       |                                     |                  |              |
| Income taxes  | 237           |                 |                       |                                     |                  |              |
| Investment in associates  | 2             |                 |                       |                                     |                  |              |
| Financial expenses  | 40            |                 |                       |                                     |                  |              |
| Financial income  | (31)          |                 |                       |                                     |                  |              |
| <b>Income from operations (EBIT)</b>  | <b>723</b>    | <b>370</b>      | <b>247</b>            | <b>159</b>                          | <b>(45)</b>      | <b>(8)</b>   |
| Depreciation, amortization and impairments of fixed assets  | 276           | 99              | 71                    | 62                                  | 45               | -            |
| Restructuring and acquisition-related charges   | 107           | 8               | 45                    | 33                                  | 21               |              |
| Other items   | (12)          |                 |                       | (16)                                |                  | 4            |
| Adding back impairment of fixed assets included in restructuring and acquisition-related charges and other items    | (22)          | (1)             | (2)                   | (16)                                | (3)              |              |
| <b>Adjusted EBITDA</b>  | <b>1,072</b>  | <b>476</b>      | <b>361</b>            | <b>222</b>                          | <b>18</b>        | <b>(4)</b>   |
| <b>January to December 2017</b>   |               |                 |                       |                                     |                  |              |
| Net Income  | 1,870         |                 |                       |                                     |                  |              |
| Discontinued operations, net of income taxes  | (843)         |                 |                       |                                     |                  |              |
| Income taxes  | 349           |                 |                       |                                     |                  |              |
| Investment in associates  | 4             |                 |                       |                                     |                  |              |
| Financial expenses  | 263           |                 |                       |                                     |                  |              |
| Financial income  | (126)         |                 |                       |                                     |                  |              |
| <b>Income from operations (EBIT)</b>  | <b>1,517</b>  | <b>1,075</b>    | <b>488</b>            | <b>206</b>                          | <b>(149)</b>     | <b>(103)</b> |
| Depreciation, amortization and impairments of fixed assets  | 1,025         | 371             | 267                   | 208                                 | 177              | 2            |
| Impairment of goodwill  | 9             |                 |                       |                                     | 9                |              |
| Restructuring and acquisition-related charges   | 316           | 11              | 151                   | 91                                  | 64               |              |
| Other items   | 50            |                 | 22                    | 31                                  | (59)             | 55           |
| Adding back of impairment of fixed assets included in restructuring and acquisition-related charges and other items | (86)          | (1)             | (44)                  | (34)                                | (7)              |              |
| <b>Adjusted EBITDA</b>  | <b>2,832</b>  | <b>1,456</b>    | <b>884</b>            | <b>502</b>                          | <b>36</b>        | <b>(46)</b>  |

**Net income to Adjusted EBITDA** In millions of EUR unless otherwise stated

|   | Philips Group | Personal Health | Diagnosis & Treatment | Connected Care & Health Informatics | HealthTech Other | Legacy Items |
|---|---------------|-----------------|-----------------------|-------------------------------------|------------------|--------------|
| <b>Q4 2016</b>  |               |                 |                       |                                     |                  |              |
| Net Income  | 640           |                 |                       |                                     |                  |              |
| Discontinued operations, net of income taxes  | (175)         |                 |                       |                                     |                  |              |
| Income taxes  | 161           |                 |                       |                                     |                  |              |
| Investment in associates  | -             |                 |                       |                                     |                  |              |
| Financial expenses  | 83            |                 |                       |                                     |                  |              |
| Financial income  | (16)          |                 |                       |                                     |                  |              |
| <b>Income from operations (EBIT)</b>  | <b>693</b>    | <b>347</b>      | <b>260</b>            | <b>171</b>                          | <b>(87)</b>      | <b>1</b>     |
| Depreciation, amortization and impairments of fixed assets  | 277           | 102             | 55                    | 47                                  | 73               | -            |
| Restructuring and acquisition-related charges   | 63            | 13              | 15                    | 8                                   | 28               | (1)          |
| Other items   | (5)           |                 |                       | (15)                                | 26               | (16)         |
| Adding back of impairment of fixed assets included in restructuring and acquisition-related charges and other items | (35)          | -               | (1)                   | -                                   | (34)             |              |
| <b>Adjusted EBITDA</b>  | <b>991</b>    | <b>461</b>      | <b>329</b>            | <b>211</b>                          | <b>6</b>         | <b>(16)</b>  |
| <b>January to December 2016</b>   |               |                 |                       |                                     |                  |              |
| Net Income  | 1,491         |                 |                       |                                     |                  |              |
| Discontinued operations, net of income taxes  | (660)         |                 |                       |                                     |                  |              |
| Income taxes  | 203           |                 |                       |                                     |                  |              |
| Investment in associates  | (11)          |                 |                       |                                     |                  |              |
| Financial expenses  | 507           |                 |                       |                                     |                  |              |
| Financial income  | (65)          |                 |                       |                                     |                  |              |
| <b>Income from operations (EBIT)</b>  | <b>1,464</b>  | <b>953</b>      | <b>546</b>            | <b>275</b>                          | <b>(129)</b>     | <b>(181)</b> |
| Depreciation, amortization and impairments of fixed assets  | 976           | 385             | 229                   | 184                                 | 177              | 2            |
| Impairment of goodwill  | 1             |                 |                       | 1                                   |                  |              |
| Restructuring and acquisition-related charges   | 94            | 16              | 37                    | 14                                  | 28               | (1)          |
| Other items   | 120           |                 |                       | (12)                                | 26               | 106          |
| Adding back of impairment of fixed assets included in restructuring and acquisition-related charges and other items | (42)          | -               | (4)                   | (4)                                 | (34)             |              |
| <b>Adjusted EBITDA</b>  | <b>2,613</b>  | <b>1,353</b>    | <b>808</b>            | <b>458</b>                          | <b>68</b>        | <b>(74)</b>  |

## Reconciliation of non-GAAP information (continued)

### Composition of free cash flow in millions of EUR

|  | January to December |              |
|--|---------------------|--------------|
|  | 2016                | 2017         |
| Cash flow provided by operating activities                   | 1,170               | 1,870        |
| Net capital expenditures:                                    | (741)               | (685)        |
| <i>Purchase of intangible assets</i>                         | (95)                | (106)        |
| <i>Expenditures on development assets</i>                    | (301)               | (333)        |
| <i>Capital expenditures on property, plant and equipment</i> | (360)               | (420)        |
| <i>Proceeds from sale of property, plant and equipment</i>   | 15                  | 175          |
| <b>Free cash flows</b>                                       | <b>429</b>          | <b>1,185</b> |

### Composition of net debt to group equity in millions of EUR unless otherwise stated

|   | December 31, 2016    | December 31, 2017 |
|---|----------------------|-------------------|
| Long-term debt  | 4,021                | 4,044             |
| Short-term debt   | 1,585                | 672               |
| <b>Total debt</b>   | <b>5,606</b>         | <b>4,715</b>      |
| Cash and cash equivalents                                   | 2,334                | 1,939             |
| <b>Net debt (total debt less cash and cash equivalents)</b> | <b>3,272</b>         | <b>2,776</b>      |
| Shareholders' equity  | 12,546 <sup>1)</sup> | 11,999            |
| Non-controlling interests                                   | 907                  | 24                |
| <b>Group equity</b>   | <b>13,453</b>        | <b>12,023</b>     |
| Net debt and Group equity                                   | 16,725               | 14,799            |
| Net debt divided by net debt and Group equity (in %)        | 20% <sup>1)</sup>    | 19%               |
| Equity divided by net debt and Group equity (in %)          | 80% <sup>1)</sup>    | 81%               |

<sup>1)</sup> The presentation of prior-year information has been adjusted to conform to the current-year presentation.

## Philips statistics

in millions of EUR unless otherwise stated

|   | 2016    |         |         |         | 2017    |         |         |         |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
|   | Q1      | Q2      | Q3      | Q4      | Q1      | Q2      | Q3      | Q4      |
| Sales   | 3,826   | 4,132   | 4,157   | 5,306   | 4,035   | 4,294   | 4,148   | 5,303   |
| Comparable sales growth*                                    | 5%      | 5%      | 5%      | 5%      | 3%      | 4%      | 4%      | 5%      |
| Gross margin  | 1,644   | 1,860   | 1,953   | 2,482   | 1,777   | 1,925   | 1,916   | 2,563   |
| as a % of sales   | 43.0%   | 45.0%   | 47.0%   | 46.8%   | 44.0%   | 44.8%   | 46.2%   | 48.3%   |
| Selling expenses  | (989)   | (999)   | (988)   | (1,166) | (1,024) | (1,091) | (1,046) | (1,236) |
| as a % of sales   | (25.8)% | (24.2)% | (23.8)% | (22.0)% | (25.4)% | (25.4)% | (25.2)% | (23.3)% |
| G&A expenses  | (145)   | (181)   | (158)   | (173)   | (151)   | (146)   | (134)   | (146)   |
| as a % of sales   | (3.8)%  | (4.4)%  | (3.8)%  | (3.3)%  | (3.7)%  | (3.4)%  | (3.2)%  | (2.8)%  |
| R&D expenses  | (380)   | (412)   | (428)   | (449)   | (431)   | (421)   | (451)   | (461)   |
| as a % of sales   | (9.9)%  | (10.0)% | (10.3)% | (8.5)%  | (10.7)% | (9.8)%  | (10.9)% | (8.7)%  |
| Income from operations (EBIT)                               | 126     | 265     | 381     | 693     | 243     | 252     | 299     | 723     |
| as a % of sales   | 3.3%    | 6.4%    | 9.2%    | 13.1%   | 6.0%    | 5.9%    | 7.2%    | 13.6%   |
| Net income  | 37      | 431     | 383     | 640     | 259     | 289     | 423     | 899     |
| Net income - shareholders per common share in EUR - diluted | 0.03    | 0.46    | 0.40    | 0.67    | 0.25    | 0.27    | 0.33    | 0.91    |
| EBITA*  | 188     | 326     | 441     | 753     | 304     | 329     | 364     | 790     |
| as a % of sales   | 4.9%    | 7.9%    | 10.6%   | 14.2%   | 7.5%    | 7.7%    | 8.8%    | 14.9%   |
| Adjusted EBITA*   | 253     | 383     | 474     | 811     | 298     | 439     | 532     | 884     |
| as a % of sales   | 6.6%    | 9.3%    | 11.4%   | 15.3%   | 7.4%    | 10.2%   | 12.8%   | 16.7%   |
| Adjusted EBITDA*  | 422     | 555     | 646     | 991     | 463     | 611     | 686     | 1,072   |
| as a % of sales   | 11.0%   | 13.4%   | 15.5%   | 18.7%   | 11.5%   | 14.2%   | 16.5%   | 20.2%   |

|   | 2016          |              |                   |                  | 2017          |              |                   |                  |
|---|---------------|--------------|-------------------|------------------|---------------|--------------|-------------------|------------------|
|   | January-March | January-June | January-September | January-December | January-March | January-June | January-September | January-December |
| Sales   | 3,826         | 7,959        | 12,116            | 17,422           | 4,035         | 8,329        | 12,477            | 17,780           |
| Comparable sales growth*                                    | 5%            | 5%           | 5%                | 5%               | 3%            | 3%           | 4%                | 4%               |
| Gross margin  | 1,644         | 3,504        | 5,457             | 7,939            | 1,777         | 3,703        | 5,618             | 8,181            |
| as a % of sales   | 43.0%         | 44.0%        | 45.0%             | 45.6%            | 44.0%         | 44.5%        | 45.0%             | 46.0%            |
| Selling expenses  | (989)         | (1,988)      | (2,976)           | (4,142)          | (1,024)       | (2,115)      | (3,162)           | (4,398)          |
| as a % of sales   | (25.8)%       | (25.0)%      | (24.6)%           | (23.8)%          | (25.4)%       | (25.4)%      | (25.3)%           | (24.7)%          |
| G&A expenses  | (145)         | (327)        | (485)             | (658)            | (151)         | (297)        | (431)             | (577)            |
| as a % of sales   | (3.8)%        | (4.1)%       | (4.0)%            | (3.8)%           | (3.7)%        | (3.6)%       | (3.5)%            | (3.2)%           |
| R&D expenses  | (380)         | (792)        | (1,220)           | (1,669)          | (431)         | (852)        | (1,303)           | (1,764)          |
| as a % of sales   | (9.9)%        | (10.0)%      | (10.1)%           | (9.6)%           | (10.7)%       | (10.2)%      | (10.4)%           | (9.9)%           |
| Income from operations (EBIT)                               | 126           | 391          | 772               | 1,464            | 243           | 495          | 794               | 1,517            |
| as a % of sales   | 3.3%          | 4.9%         | 6.4%              | 8.4%             | 6.0%          | 5.9%         | 6.4%              | 8.5%             |
| Net income  | 37            | 468          | 851               | 1,491            | 259           | 548          | 971               | 1,870            |
| Net income - shareholders per common share in EUR - diluted | 0.03          | 0.49         | 0.89              | 1.56             | 0.25          | 0.51         | 0.85              | 1.75             |
| EBITA*  | 188           | 514          | 955               | 1,707            | 304           | 634          | 997               | 1,787            |
| as a % of sales   | 4.9%          | 6.5%         | 7.9%              | 9.8%             | 7.5%          | 7.6%         | 8.0%              | 10.1%            |
| Adjusted EBITA*   | 253           | 636          | 1,110             | 1,921            | 298           | 737          | 1,269             | 2,153            |
| as a % of sales   | 6.6%          | 8.0%         | 9.2%              | 11.0%            | 7.4%          | 8.8%         | 10.2%             | 12.1%            |
| Adjusted EBITDA*  | 422           | 976          | 1,622             | 2,613            | 463           | 1,074        | 1,759             | 2,832            |
| as a % of sales   | 11.0%         | 12.3%        | 13.4%             | 15.0%            | 11.5%         | 12.9%        | 14.1%             | 15.9%            |

|  |         |         |         |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| Number of common shares outstanding (after deduction of treasury shares) at the end of period (in thousands) | 913,011 | 927,316 | 924,271 | 922,437 | 920,276 | 937,045 | 936,861 | 926,192 |
| Shareholders' equity per common share in EUR <sup>1)</sup>   | 12.29   | 12.33   | 12.51   | 13.60   | 13.74   | 13.01   | 12.12   | 12.96   |
| Net debt : group equity ratio <sup>1)</sup>  | 27:73   | 24:76   | 24:76   | 20:80   | 16:84   | 5:95    | 23:77   | 19:81   |
| Total employees  | 114,021 | 113,356 | 113,627 | 114,731 | 114,188 | 115,474 | 106,745 | 73,951  |
| of which discontinued operations   | 45,263  | 44,262  | 43,783  | 43,763  | 43,758  | 43,997  | 33,422  | -       |
| of which third-party workers   | 8,190   | 7,885   | 8,079   | 8,212   | 7,795   | 8,306   | 7,992   | 7,876   |

<sup>1)</sup> The presentation of prior year information has been adjusted to conform to current-year presentation.

\* Non-GAAP financial measure. Refer to [Reconciliation of non-GAAP information](#), of this document.

