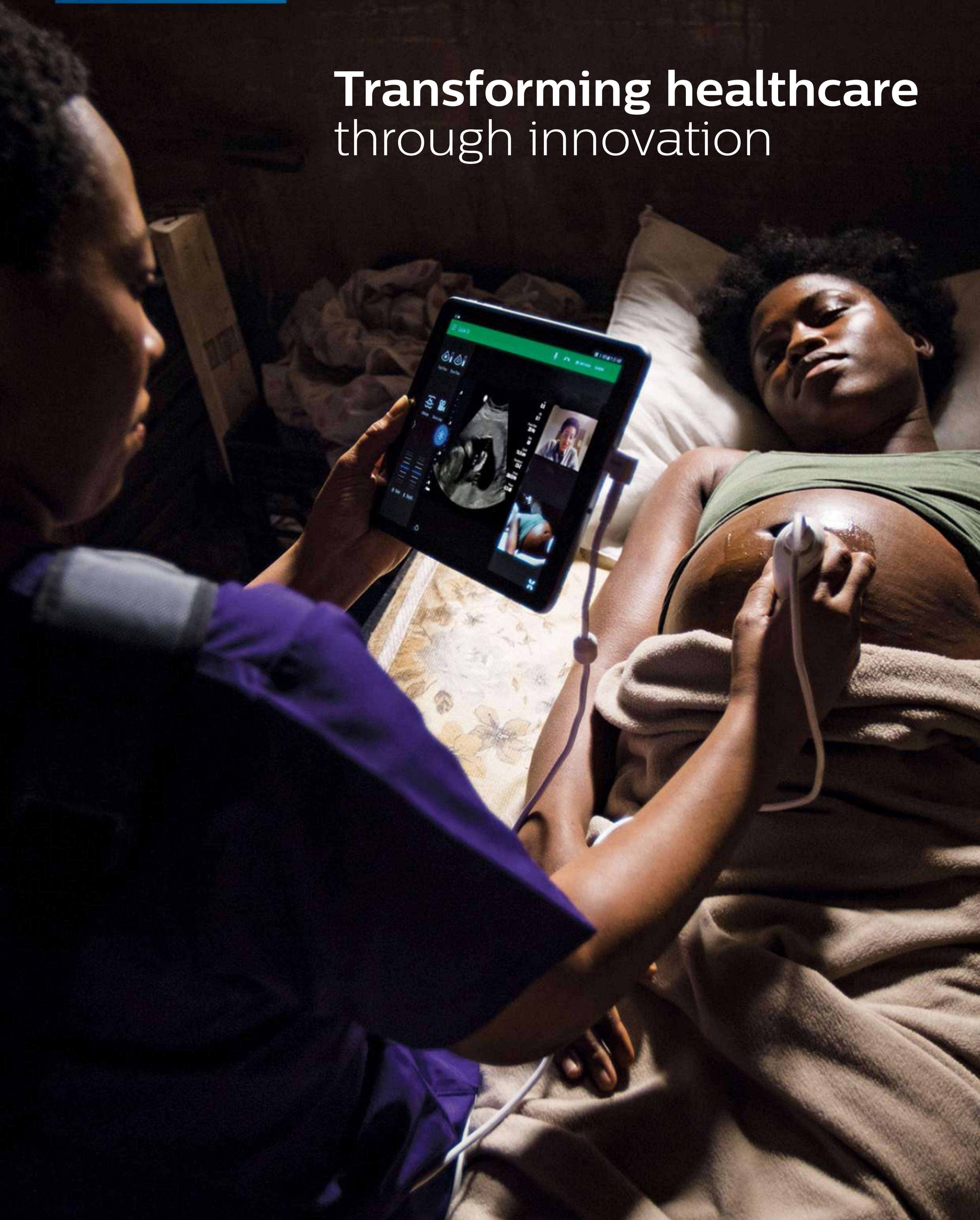
PHILIPS

Annual Report 2018

Transforming healthcare through innovation



Contents

1	**Message from the CEO**	3
2	**Board of Management and Executive Committee**	5
3	**Strategy and Businesses**	6
3.1	Transforming healthcare through innovation	6
3.2	How we create value	8
3.3	Our businesses	10
3.4	Our commitment to Quality, Regulatory Compliance and Integrity	19
4	**Financial performance**	21
4.1	Performance review	21
4.2	Investor information	35
5	**Societal impact**	38
5.1	Social performance	38
5.2	Environmental performance	43
6	**Risk management**	50
6.1	Our approach to risk management	50
6.2	Risk categories and factors	53
6.3	Strategic risks	54
6.4	Operational risks	55
6.5	Compliance risks	57
6.6	Financial risks	59
7	**Supervisory Board**	61
8	**Supervisory Board report**	62
8.1	Report of the Corporate Governance and Nomination & Selection Committee	66
8.2	Report of the Remuneration Committee	68
8.3	Report of the Audit Committee	74
8.4	Report of the Quality & Regulatory Committee	75
9	**Corporate governance**	76
9.1	Board of Management and Executive Committee	76
9.2	Supervisory Board	80
9.3	General Meeting of Shareholders	84
9.4	Meeting logistics and other information	85
9.5	Investor Relations	87
10	**Other information**	90
10.1	Reconciliation of non-IFRS information	90
10.2	Five-year overview	99
10.3	Forward-looking statements and other information	100
10.4	Definitions and abbreviations	101
11	**Statements**	104
11.1	Group financial statements	104
11.2	Company financial statements	180
11.3	Sustainability statements	196

IFRS basis of presentation
The financial information included in this document is based on IFRS, as explained in Significant accounting policies, starting on page 112, unless otherwise indicated.

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

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

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

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

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

1 Message from the CEO

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

Dear Stakeholder,

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

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

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

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

Transforming healthcare through innovation

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

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

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

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

We empower care professionals with healthcare informatics solutions like our IntelliSpace Portal data integration, visualization and analysis platform for enhanced diagnostic confidence, and monitoring, predictive analytics solutions like our IntelliVue Guardian with Early Warning Scoring, which enables nursing staff to identify patients whose condition may be deteriorating rapidly.

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

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

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

Delivering on our sustainability commitments

Reflecting our commitment to the United Nations' Sustainable Development Goals, we continue to embed sustainability deeper in the way we do business. With its focus on access to care, circular economy and climate action, our 'Healthy people, Sustainable planet' program is the vehicle that will enable us to deliver on these commitments. In December 2018, Philips became the world's first health technology company to have its CO_2 emission targets approved by the Science Based Targets initiative. Our sustainability performance received renewed recognition when – in the first year since our reclassification to the Health Care Equipment & Services industry group – we took second place in the 2018 Dow Jones Sustainability Index. With health systems the world over increasingly keen to reduce their environmental footprint, we remain convinced that sustainability can be a key competitive differentiator.

Roadmap to win

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

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

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

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

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

In conclusion

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

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

Frans van Houten
Chief Executive Officer

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 90.

2 Board of Management and Executive Committee

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

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

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

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

Frans van Houten

Born 1960, Dutch

Chief Executive Officer (CEO)

Chairman of the Board of Management and the Executive Committee since April 2011

For a full résumé, click here

Sophie Bechu

Born 1960, French/American

Executive Vice President

Chief of Operations

For a full résumé, click here

Abhijit Bhattacharya

Born 1961, Indian

Executive Vice President

Member of the Board of Management since December 2015

Chief Financial Officer

For a full résumé, click here

Rob Cascella

Born 1954, American

Executive Vice President

Chief Business Leader of Diagnosis & Treatment

For a full résumé, click here

Marnix van Ginneken

Born 1973, Dutch/American

Executive Vice President

Member of the Board of Management since November 2017

Chief Legal Officer

For a full résumé, click here

Andy Ho

Born 1961, Chinese

Executive Vice President

Market Leader of Philips Greater China

For a full résumé, click here

Roy Jakobs

Born 1974, Dutch/German

Executive Vice President

Chief Business Leader of Personal Health

For a full résumé, click here

Henk Siebren de Jong

Born 1964, Dutch

Executive Vice President

Chief of International Markets

For a full résumé, click here

Ronald de Jong

Born 1967, Dutch

Executive Vice President

Chief Human Resources Officer, Chairman Philips Foundation

For a full résumé, click here

Carla Kriwet

Born 1971, German

Executive Vice President

Chief Business Leader of Connected Care & Health Informatics

For a full résumé, click here

Vitor Rocha

Born 1969, Brazilian/American

Executive Vice President

Market Leader of Philips North America

For a full résumé, click here

Jeroen Tas

Born 1959, Dutch

Executive Vice President

Chief Innovation and Strategy Officer

For a full résumé, click here

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

3 Strategy and Businesses

3.1 Transforming healthcare through innovation

Healthcare challenges the world over

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

A clear vision guiding our actions

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

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

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

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

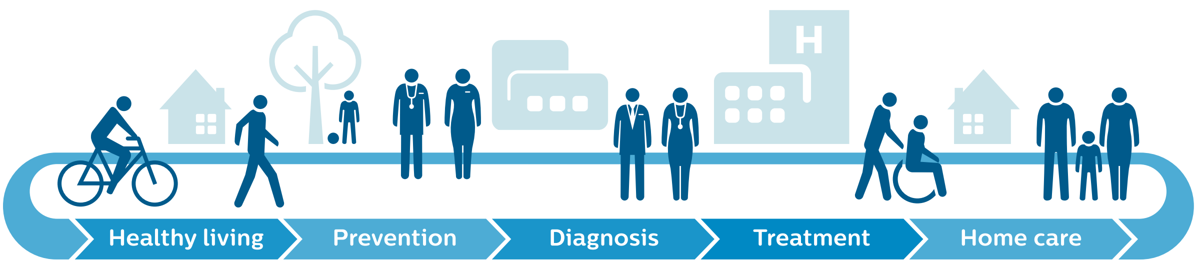
Innovating care

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

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

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

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



Integrated solutions addressing the Quadruple Aim

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

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

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

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

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

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

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

The road ahead

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

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

3.2 How we create value

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

Capital input

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

Human

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

Intellectual

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

Financial

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

Manufacturing

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

Natural

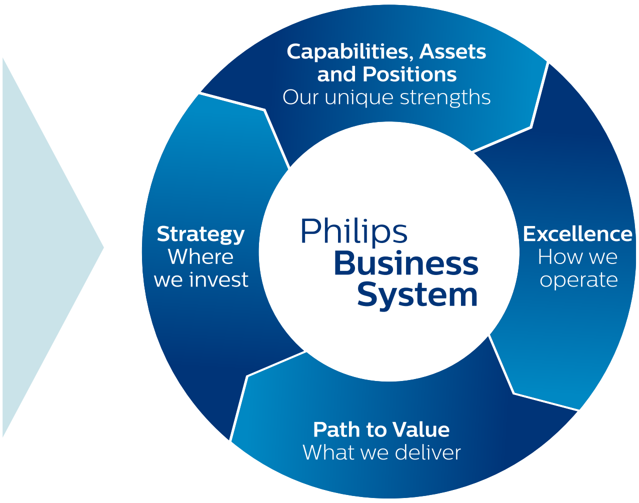
- Energy used in manufacturing 3,062 terajoules
- Water used 891,000 m^3
- Recycled plastics in our products 1,840 tonnes
- 19 'zero waste to landfill' sites
- Pledge to take back all medical equipment by 2025

Social

- Philips Foundation
- Stakeholder engagement
- New volunteering policy

Philips Business System

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



Strategy – Where we invest

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

Capabilities, Assets and Positions – Our unique strengths

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

Excellence – How we operate

We are a learning organization that applies common operating principles and practices to deliver to our customers with excellence.

Path to Value – What we deliver

We define and execute business plans that deliver sustainable results along a credible Path to Value.

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

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

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

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

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

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

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

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

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

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

Manufacturing
- EUR 18.1 billion revenues from products and solutions sold

Natural
- 12% revenues from circular propositions
- Net CO_2 emissions down to 436 kilotonnes
- 257,000 tonnes (estimated) materials used to put products on the market
- Waste down to 24.5 kilotonnes, of which 84% recycled

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

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

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

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

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

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

Natural
- Environmental impact Philips operations down to EUR 175 million
- 1st health technology company to have its CO_2 reductions assessed and approved by the Science Based Targets initiative

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

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 90.

3.3 Our businesses

Our reporting structure in 2018

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

In 2018, the reportable segments were Diagnosis & Treatment businesses, Connected Care & Health Informatics businesses, and Personal Health businesses, each having been responsible for the management of its business worldwide. Additionally, Philips identifies the reportable segment Other. The results in this report are based on the 2018 structure shown below:

Philips

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

Focus of external reporting

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

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

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

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

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

3.3.1 Diagnosis & Treatment businesses

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

About Diagnosis & Treatment businesses in 2018

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

We continue to expand the applications for image-guided treatment and therapy – where clinicians are provided with the technology necessary to determine the presence of disease, guide procedures, deliver least-invasive treatment, and confirm effectiveness. Our solutions enable patient-specific treatment planning and selection, simplify complex procedures through integrated real-time guidance, and provide clinically proven treatment solutions. In 2018, Philips completed the roll-out of its new Ingenia range of digital MR systems. This was part of a broader renewal of the company's Diagnostic Imaging portfolio, 70% of which has been introduced in the past two years. We provide image guidance both in our proprietary products and by partnering with radiation therapy companies like Elekta and IBA to deliver real-time, precise cancer treatment.

In Image-Guided Therapy, iFR – a technology used to assess coronary lesions that is unique to Philips – continued to gain traction and was incorporated into the European Society of Cardiology's updated guidelines for revascularization. We continued to expand our portfolio in Image-Guided Therapy with the acquisition of EPD Solutions, an innovator in image-guided procedures for cardiac arrhythmias. We announced a partnership with Innovative Imaging Technologies to launch an industry-first integrated tele-ultrasound solution based on Philips' Lumify portable ultrasound system. We also announced a partnership agreement with innovative women's health company Hologic to offer care professionals integrated solutions comprising diagnostic imaging modalities, advanced informatics and services for the screening, diagnosis and treatment of women.

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

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

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

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

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

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

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

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

Diagnosis & Treatment
Total sales by business as a %
2018

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

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

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

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

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

With regard to sourcing, please refer to Supplier indicators, starting on page 208.

2018 business highlights

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

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

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

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

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

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

3.3.2 Connected Care & Health Informatics businesses

Dr. Carla Kriwet is Chief Business Leader of the Connected Care & Health Informatics businesses segment. Prior to assuming her current role in February 2017, Carla led Philips' Patient Care & Monitoring Solutions business group and was the Philips Market Leader of Germany, Austria & Switzerland. Before this, she held leadership positions with ABB Daimler-Benz, The Boston Consulting Group, Linde AG and Draegerwerk in Europe and Asia. Carla is a member of the Supervisory Boards of Carl Zeiss AG and Save the Children Germany.

About Connected Care & Health Informatics businesses in 2018

Spanning the entire health continuum, the Connected Care & Health Informatics businesses (as per the 2018 reporting structure) aim to improve patient outcomes, increase efficiency and enhance patient and caregiver satisfaction, driving towards value-based care. Our solutions build on Philips' strength in patient monitoring and clinical informatics to improve clinical and economic outcomes in all care settings, within and outside the hospital.

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

This requires a secure common digital platform that connects and aligns consumers, patients, payers and healthcare providers. Philips' platforms aggregate and leverage information from clinical, personal and historical data to support care providers in delivering first-time-right diagnoses and treatment. Philips continually builds out new capabilities within Philips HealthSuite – a cloud-based connected health ecosystem of devices, apps and digital tools – to accomplish just that. For information on how Philips manages cybersecurity risk, please refer to Operational risks, starting on page 55.

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

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

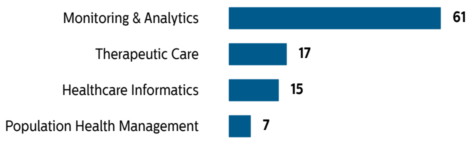
- **Monitoring & Analytics** is a solutions business enabling smart decision-making for caregivers, administrators and patients, to help control costs, increase efficiency, and support better health. Monitoring & Analytics solutions encompass: integrated patient monitoring systems for all price levels, wearable biosensors, advanced intelligence platforms providing key insights and clinical decision support to clinicians when and where they need it, for real-time clinical information at the patient's bedside; patient analytics, including diagnostic ECG data management for improved quality of cardiac care; the eICU/Tele-ICU program. Monitoring & Analytics also includes maintenance, clinical and IT services as well as consumables.

- **Therapeutic Care** is expanding access to and quality of respiratory care, resuscitation, and emergency care solutions (including devices, services, and digital/data solutions). Hospital Respiratory Care (HRC) and Emergency Care & Resuscitation (ECR) solutions are helping caregivers both inside and outside the hospital, including cardiac resuscitation, emergency care solutions, invasive and non-invasive ventilators for acute and sub-acute hospital environments and respiratory monitoring devices; consumables across the patient monitoring and therapeutic care businesses; customer service, including clinical, IT, technical and remote customer propositions. In 2018, Philips acquired Remote Diagnostic Technologies (RDT), a UK-based leading innovator of advanced solutions for the pre-hospital market providing monitoring, cardiac therapy and data management. RDT's portfolio of comprehensive connected emergency care solutions complements and strengthens Philips' current range of proven monitoring and therapeutic products and solutions to help emergency medical services, hospitals and lay responders accelerate the delivery of care at the scene.

- **Healthcare Informatics**: This business includes: advanced healthcare IT, clinical and advanced visualization and quantification informatics solutions for radiology, cardiology and oncology departments; Universal Data Management solutions, Picture Archiving and Communication Systems (PACS) and fully integrated Electronic Medical Record (EMR) systems to support healthcare enterprises in optimizing health system performance; advanced clinical and hospital IT platforms which are leveraged across Philips. Our IntelliSpace Portal application platform is recognized as industry-leading by KLAS. We use artificial intelligence at the point of care to optimize the clinician experience, help improve productivity and total cost of ownership, and streamline patient experiences across the clinical pathway. Proof of clinical and economic outcomes, connectivity and cybersecurity are key priorities of our engagement with our customers. The acquisition of interoperability software solutions provider Forcare provides Philips with critical standards and interoperability expertise to interconnect healthcare information systems, share and exchange clinical data, and offer secure and reliable access to digital health information for medical staff and patients across multiple organizations and care settings.

- **Population Health Management**: Our services and solutions leverage data, analytics and actionable workflow products for solutions to improve clinical and financial results and increase patient engagement, satisfaction and compliance. These solutions include: technology-enabled monitoring and intervention support outside the hospital (telehealth, remote patient monitoring, personal emergency response systems and care coordination) to improve the experience of elderly people and those living with chronic conditions; actionable programs to predict risk (including medication and care compliance, outreach, and fall prediction); cloud-based solutions for health organizations to manage population health. Leveraging our acquisitions of Wellcentive, VitalHealth and BlueWillow Systems, our solutions enable health systems to analyze their patient population along clinical and financial criteria, coordinate care outside the hospital, and engage patients in their health. They help drive quality improvement and business transformation for those transitioning to value-based care.

Connected Care & Health Informatics
Total sales by business as a %
2018



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

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

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

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

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

With regard to sourcing, please refer to Supplier indicators, starting on page 208.

2018 business highlights

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

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

Philips acquired Remote Diagnostic Technologies, a leading provider of advanced monitoring, cardiac therapy and data management solutions for the pre-hospital market. RDT's portfolio will complement Philips' Therapeutic Care business and strengthen its leadership position in the estimated EUR 1.4 billion resuscitation and emergency care market.

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

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

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

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

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

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

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

3.3.3 Personal Health businesses

Roy Jakobs was appointed Chief Business Leader of the Personal Health businesses effective October 1, 2018, succeeding Egbert van Acht. Roy joined Philips in 2010 as Chief Marketing Officer for Philips Lighting and in 2012 he became Market Leader for Philips Middle East & Turkey. Between 2015 and 2018 he led the Domestic Appliances business group.

About Personal Health businesses in 2018

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

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

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

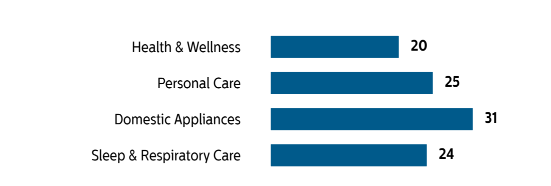
- Growing our core businesses through geographical expansion and increased penetration
- Unlocking business value through direct digital consumer engagement, leading to higher brand preference and recurring revenues
- Extending our core businesses with innovative solutions and new business models to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

Personal Health has many distinct product categories and associated competitors, including Procter & Gamble in Personal Care and Oral Healthcare, Groupe SEB in Domestic Appliances, and, in 2018, ResMed in Sleep & Respiratory Care.

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

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

Personal Health
Total sales by business as a %
2018



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

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

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

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

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

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

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

With regard to sourcing, please refer to Supplier indicators, starting on page 208.

2018 business highlights

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

Philips completely renewed the high-end range of its leading male grooming portfolio with the introduction of the Series 9000 Prestige shaver, which cuts facial hair feeling as close as a wet blade, while being very gentle on the skin. In 2018 we passed the all-time milestone of 1 billion shavers sold – a landmark achievement by our Personal Care business.

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

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

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

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

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

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

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

3.3.4 Other

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

About Other

Innovation & Strategy

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

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

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

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

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

Chief Technology Office (CTO) and Product Engineering organization

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

- **Innovation Management**, responsible for end-to-end innovation strategy and portfolio management, integrated roadmaps linked to solutions, New Business Creation Excellence, R&D competency management, innovation performance management and public funding programs.

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

Philips HealthSuite

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

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

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

Innovation Hubs

To drive innovation effectiveness and efficiency, and to enable locally relevant solution creation, we have established four Innovation Hubs for the Philips Group: Eindhoven (Netherlands), Cambridge (US), Bangalore (India) and Shanghai (China). Each Hub includes a combination of technical, design and clinical capabilities, representing Group Innovation & Strategy, selected R&D groups from our businesses, market innovation teams and other functions. These Hubs, where most of the Group Innovation & Strategy organization is concentrated, complement the business-specific innovation capabilities of our R&D centers that are integrated in our global business sites.

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

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

Chief Medical Office

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

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

Philips Design

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

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

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

Emerging Businesses

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

- **Digital & Computational Pathology** digitizes diagnosis in anatomic pathology and uses Artificial Intelligence to aid detection of disease and progression to reduce inter-observer variability and improve outcomes. Philips is the global market leader in routine primary diagnosis using Digital Pathology and the only company in the market to have an FDA-approved solution for primary diagnosis.

- **Philips Neuro** is focused on a mission to advance neuroscience for better care. The business provides an integrated neurology solution comprising Full Head HD EEG with diagnostic imaging to map brain activity and anatomy for a wide range of neuro disorders, and uses machine learning to improve diagnosis of various neuro disorders.

IP Royalties

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

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

IP&S participates in the setting of standards to create new business opportunities for the Philips operating businesses. A substantial portion of revenue and costs is allocated to the operating businesses. License fees and royalties are earned on the basis of usage, or fixed fees over the term of the contract.

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

Central costs

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

Real estate

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

3.4 Our commitment to Quality, Regulatory Compliance and Integrity

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

For Philips, as a business with a significant global footprint, compliance with evolving regulations and standards including data privacy and cybersecurity has resulted, and may continue to result, in increased costs, new compliance challenges, and the threat of increased regulatory enforcement activity. Our business relies on the secure electronic transmission, storage and hosting of sensitive information, including personal information, protected health information, financial information, intellectual property and other sensitive information related to our customers and workforce. For information on how Philips manages cybersecurity risk, please refer to Operational risks, starting on page 55.

Philips actively maintains FDA/ISO Quality Systems globally that establish standards for its product design, manufacturing, and distribution processes. Our businesses are subject to compliance with regulatory product approval and quality system requirements in every market we serve, and to specific requirements of local and national regulatory authorities including the US FDA, the NMPA in China and comparable agencies in other countries, as well as the European Union's Waste from Electrical and Electronic Equipment (WEEE), Restriction of Hazardous Substances (RoHS) and Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), Energy-using Products (EuP) and Product Safety Regulations. We have a growing portfolio of medically regulated products in our Health & Wellness, Personal Care and Sleep & Respiratory Care businesses. Through our growing oral healthcare, mother and child care and beauty product portfolio the range of applicable regulations has been extended to include requirements relating to cosmetics and, on a very small scale, pharmaceuticals.

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

In the EU, a new Medical Device Regulation (EU MDR) was published in 2017, which will impose significant additional pre-market and post-market requirements. Since the announcement of the EU MDR, Philips has been developing a comprehensive strategic plan to ensure compliance with the MDR requirements that will come into effect by May 2020. The company has engaged in a top-to-bottom review of our full portfolio of products and solutions that fall under the mandate, and has developed a robust and detailed framework for a seamless transition by the time the Medical Device Regulation is operative. We will make a one-time EU MDR investment, estimated at EUR 45 million, in 2019, in addition to ongoing compliance costs for the new regulations of around EUR 25 million per year. We believe the global regulatory environment will continue to evolve, which could impact the cost, the time needed to approve, and ultimately, our ability to maintain existing approvals or obtain future approvals for our products.

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

While pursuing our business objectives, we aim to be a responsible partner in society, acting with integrity towards our employees, customers, business partners and shareholders, as well as the wider community in which we operate. The Philips General Business Principles (GBP) incorporate and represent the fundamental principles by which all Philips businesses and employees around the globe must abide. They set the minimum standard for business conduct, both for individual employees and for the company and our subsidiaries. More information on the Philips GBP can be found in Our approach to risk management, starting on page 50. The results of the monitoring measures in place are given in General Business Principles, starting on page 204.

3.4.1 Consent Decree

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

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

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

4 Financial performance

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

4.1 Performance review

Management summary

- Sales rose to EUR 18.1 billion, a nominal increase of 2%, which reflected 5% nominal growth in the Diagnosis & Treatment businesses, a 3% sales decline in the Connected Care & Health Informatics businesses and a 1% decline in the Personal Health businesses. On a comparable basis*) the 5% growth reflected 7% growth in the Diagnosis & Treatment businesses, higher IP royalty income, 3% growth in the Personal Health businesses, and flat sales in the Connected Care & Health Informatics businesses.

- Net income amounted to EUR 1.1 billion, a decrease of EUR 773 million compared to 2017, mainly due to the deconsolidation of Signify (formerly Philips Lighting). Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis.

- Adjusted EBITA*) totaled EUR 2.4 billion, or 13.1% of sales, an increase of EUR 213 million, or 100 basis points as a % of sales, compared to 2017. The productivity programs delivered annual savings of approximately EUR 466 million, ahead of the targeted savings of EUR 400 million, and included approximately EUR 269 million procurement savings, led by the Design for Excellence (DfX) program, and EUR 197 million savings from other productivity programs.

- Net cash provided by operating activities amounted to EUR 1.8 billion, a decrease of EUR 90 million compared to 2017, as higher earnings were offset by higher working capital outflows. Free cash flow*) amounted to EUR 984 million, which includes a EUR 176 million outflow related to pension liability de-risking and an early bond redemption.

- On June 28, 2017, Philips announced a EUR 1.5 billion share buyback program for capital reduction purposes. Under that program, which was initiated in the third quarter of 2017, Philips repurchased shares in the open market and entered into a number of forward transactions, some of which are to be settled in Q2 2019. As the program was initiated for capital reduction purposes, Philips intends to cancel all of the shares acquired under the program.

- On January 29, 2019, Philips announced a new share buyback program for an amount of up to EUR 1.5 billion. Philips started the program in the first quarter of 2019 and expects to complete it within two years. As the program was initiated for capital reduction purposes, Philips intends to cancel all shares acquired under the program. The program will be executed by an intermediary to allow for purchases in the open market during both open and closed periods.

- As of December 31, 2018, Philips' shareholding in Signify (formerly Philips Lighting) was 16.5% of Signify's issued share capital. For further information, refer to Sell-down Signify shares (former Philips Lighting), starting on page 34.

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

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

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 90.

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

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

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 90.

4.1.1 Results of operations

Sales

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

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

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

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 90.

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

Diagnosis & Treatment businesses

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

Connected Care & Health Informatics businesses

In 2018, sales amounted to EUR 3,084 million, a decrease of 2% on a nominal basis compared to 2017. Excluding a 3% negative currency effect and consolidation impact, comparable sales*) remained flat, reflecting low-single-digit growth in Healthcare Informatics while Monitoring & Analytics and Therapeutic Care remained flat year-on-year. Therapeutic Care includes a negative impact from the consent decree of a 135 basis points.

Personal Health businesses

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

Personal Care and Domestic Appliances, while Health & Wellness remained flat year-on-year.

Other

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

Performance per geographic cluster

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

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

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 90.

Sales in mature geographies in 2018 were EUR 303 million higher than in 2017, or 3% higher on both a nominal and a comparable basis*). Sales in Western Europe were 5% higher year-on-year on a nominal basis and 3% higher on a comparable basis*). Comparable sales*) in Western Europe reflected high-single-digit growth in the Connected Care & Health Informatics businesses, mid-single-digit growth in the Diagnosis & Treatment businesses, and a low-single digit decline in the Personal Health businesses. Sales in North America decreased by EUR 72 million, or 1% on a nominal basis, and increased 1% on a comparable basis*). Comparable sales*) in North America reflected mid-single-digit growth in the Diagnosis & Treatment businesses, flat sales in the Personal Health businesses, and a mid-single-digit decline in the Connected Care & Health Informatics businesses. Sales in other mature geographies increased by 11% on a nominal basis and by 14% on a comparable basis*). Comparable sales* in other mature geographies showed high-single-digit growth in the Personal Health businesses and mid-single-digit growth in the Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses.

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

Diagnosis & Treatment businesses

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

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

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 90.

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

Connected Care & Health Informatics businesses

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

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

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 90.

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

Personal Health businesses

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

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

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 90.

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

Gross margin

In 2018, Philips' gross margin increased to EUR 8,554 million, or 47.2% of sales, from EUR 8,181 million, or 46.0% of sales, in 2017. Gross margin in 2018 included EUR 79 million of restructuring and acquisition-related charges, whereas 2017 included EUR 98 million of restructuring and acquisition-related charges. 2018 also included EUR 28 million of charges related to the consent decree focused on defibrillator manufacturing in the US. Gross margin in 2017 also included EUR 40 million of charges related to quality and regulatory actions, EUR 14 million of charges related to the consent decree and a EUR 36 million net release of legal provisions. The year-on-year increase was mainly driven by improved operational performance in the Diagnosis & Treatment businesses, Personal Health businesses and higher IP royalty income.

Selling expenses

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

General and administrative expenses

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

Research and development expenses

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

Philips Group
Research and development expenses in millions of EUR unless otherwise stated
2016 - 2018

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

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

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

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

Philips Group
Income from operations and Adjusted EBITA [1] in millions of EUR unless otherwise stated
2016 - 2018

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

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 90.

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

In 2018, Income from operations increased by EUR 202 million year-on-year to EUR 1,719 million, or 9.5% of sales. Restructuring and acquisition-related charges amounted to EUR 258 million, compared to EUR 316 million in 2017. Income from operations in 2018 also included: EUR 56 million of charges related to the consent decree; EUR 18 million of the total EUR 30 million provision related to the conclusion of the European Commission investigation into retail pricing, of which the other EUR 12 million was recognized in Discontinued operations. 2017 also included: EUR 47 million of charges related to quality and regulatory actions; EUR 31 million of charges related to the separation of the Lighting business; EUR 26 million of provisions related to the CRT (Cathode Ray Tube) litigation in the US; EUR 22 million of charges related to portfolio rationalization measures; EUR 20 million of charges related to the consent decree; a EUR 59 million net gain from the sale of real estate assets; a EUR 36 million net release of legal provisions.

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

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

Diagnosis & Treatment businesses

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

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

Connected Care & Health Informatics businesses

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

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

Personal Health businesses

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

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

Other

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

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

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

Financial income and expenses

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

Philips Group
Financial income and expenses in millions of EUR
2016 - 2018

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

Net interest expense in 2018 was EUR 25 million lower than in 2017, mainly due to lower interest expenses on pensions and lower interest expenses on net debt*). Other financial expenses amounted to EUR 62 million in 2018, and mainly included financial charges related to the early redemption of USD bonds of EUR 46 million. Other financial income of EUR 46 million in 2017 included dividends from the combined businesses of Lumileds and Automotive. For further information, refer to Financial income and expenses, starting on page 138.

Income taxes

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

Investment in associates

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

Discontinued operations

Philips Group
Discontinued operations, net of income taxes in millions of EUR
2016 - 2018

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

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

For further information, refer to Discontinued operations and assets classified as held for sale, starting on page 131

Non-controlling interests

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

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 90.

4.1.2 Pensions

In 2018, the total costs of post-employment benefits amounted to EUR 46 million for defined-benefit plans and EUR 327 million for defined-contribution plans. These costs are reported in Income from operations, except for the net interest cost component, which is reported in Financial expense. The net interest cost for defined-benefit plans was EUR 23 million in 2018.

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

In 2017, the total costs of post-employment benefits amounted to EUR 69 million for defined-benefit plans and EUR 315 million for defined-contribution plans. The net interest cost for defined-benefit plans was EUR 37 million in 2017.

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

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

For further information, refer to Post-employment benefits, starting on page 156 .

4.1.3 Restructuring and acquisition-related charges and goodwill impairment charges

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

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

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

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

For further information on restructuring, refer to Provisions, starting on page 153.

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

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

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

In 2017, acquisition-related charges amounted to EUR 106 million. The Diagnosis & Treatment businesses recorded EUR 88 million of acquisition-related charges, mainly related to the acquisition of Spectranetics. Acquisition-related charges relating to Volcano were also included as part of the Diagnosis & Treatment businesses' acquisition-related charges.

For further information on the goodwill sensitivity analysis, please refer to Goodwill, starting on page 144.

4.1.4 Acquisitions and divestments

Acquisitions

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

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

Divestments

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

For details, please refer to Acquisitions and divestments, starting on page 133.

4.1.5 Changes in cash and cash equivalents, including cash flows

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

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

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

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 90.

Net cash provided by (used for) operating activities

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

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

Net cash provided by (used for) investing activities

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

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

Spectranetics for EUR 1,908 million. Net cash proceeds from divestment of businesses amounted to EUR 64 million and were received mainly from divested businesses held for sale. Other investing activities mainly included EUR 295 million net cash used for foreign exchange derivative contracts related to activities for funding and liquidity management, partly offset by EUR 90 million received related to TPV Technology Limited loans.

Net cash provided by (used for) financing activities

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

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

Net cash provided by (used for) discontinued operations

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

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

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

In 2017, net cash provided by (used for) operating activities amounted to EUR 350 million and reflected the period prior to the divestment of the combined Lumileds and Automotive businesses (six months of cash flows) and prior to the deconsolidation of Philips Lighting (11 months of cash flows). In 2017, net cash provided by (used for) investing activities amounted to EUR 856 million and included the net cash outflow related to the deconsolidation of Philips Lighting of EUR 175 million, (consisting of EUR 545 million proceeds from the sale of shares on November 28, 2017, offset by the deconsolidation of EUR 720 million of cash and cash equivalents), and proceeds of EUR 1.1 billion received from the sale of the combined Lumileds and Automotive businesses.

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 90.

4.1.6 Financing

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

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

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

1) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 90.

4.1.7 Debt position

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

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

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

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

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

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

For further information, please refer to Debt, starting on page 151.

4.1.8 Liquidity position

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

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

Philips Group
Liquidity position in millions of EUR
2016 - 2018

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

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

The Commercial Paper Program amounts to USD 2.5 billion, under which Philips can issue commercial paper up to 364 days in tenor, both in the US and in Europe, in any major freely convertible currency. As of December 31, 2018, Royal Philips did not have any loans outstanding under these facilities.

Additionally, at December 31, 2018 Philips held EUR 476 million of listed (level 1) equity investments at fair value, mainly the remaining interest in Signify. Refer to Other financial assets, starting on page 147 and Fair value of financial assets and liabilities, starting on page 170.

Royal Philips' existing long-term debt is rated A- (with stable outlook) by Fitch, Baa1 (with stable outlook) by Moody's, and BBB+ (with stable outlook) by Standard & Poor's. As part of our capital allocation policy, our net debt*) position is managed with the intention of retaining a strong investment grade credit rating. Ratings are subject to change at any time and there is no assurance that Philips will be able to achieve this goal. The Group's aim when managing the net debt*) position is dividend stability and a pay-out ratio of 40% to 50% of adjusted income from continuing operations attributable to shareholders*). Royal Philips' outstanding long-term debt and credit facilities do not contain financial covenants. Adverse changes in the

Company's ratings will not trigger automatic withdrawal of committed credit facilities nor any acceleration in the outstanding long-term debt (provided that the USD-denominated bonds issued by the Company in March 2008 and 2012 contain a 'Change of Control Triggering Event' and the EUR-denominated bonds contain a 'Change of Control Put Event'). A description of Philips' credit facilities can be found in Debt, starting on page 151.

Philips Group
Credit rating summary
2018

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

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

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

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 90.

4.1.9 Shareholders' equity

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

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

Share capital structure

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

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

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

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

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

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

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

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

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

4.1.10 Cash obligations

Contractual cash obligations

The table below presents a summary of the Group's fixed contractual cash obligations and commitments at December 31, 2018. These amounts are an estimate of future payments, which could change as a result of various factors such as a change in interest rates, contractual provisions, as well as changes in our business strategy and needs. Therefore, the actual payments made in future periods may differ from those presented in the table below:

Philips Group
Contractual cash obligations [1) 2)] in millions of EUR
2018

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

[1)] Amounts in this table are undiscounted

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

[3)] Long-term debt includes short-term portion of long-term debt and excludes finance lease obligations

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

IFRS 16, Leases, is effective for the financial year commencing January 1, 2019. Upon adoption, the company expects to recognize a lease liability at the present value of its remaining operating lease commitments (excluding low-value leases). Refer to Significant accounting policies, starting on page 112.

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

Certain Philips suppliers factor their trade receivables from Philips with third parties through supplier finance arrangements. At December 31, 2018 approximately EUR 275 million of the Philips accounts payable were known to have been sold onward under such arrangements whereby Philips confirms invoices. Philips continues to recognize these liabilities as trade payables and will settle the liabilities in line with the original payment terms of the related invoices.

Other cash commitments

The Company and its subsidiaries sponsor post-employment benefit plans in many countries in accordance with legal requirements, customs and the local situation in the countries involved. For a discussion of the plans and expected cash outflows, please refer to Post-employment benefits, starting on page 156.

The company had EUR 114 million restructuring-related provisions by the end of 2018, of which EUR 68 million is expected to result in cash outflows in 2019. Refer to Provisions, starting on page 153 for details of restructuring provisions.

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

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

Guarantees

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

4.1.11 Sell-down Signify shares (former Philips Lighting)

In September 2014, Philips announced its plan to sharpen its strategic focus by establishing two stand-alone companies focused on the HealthTech and Lighting opportunities respectively. A stand-alone structure was established for lighting activities within the Philips Group, effective February 1, 2016. On May 27, 2016, Philips Lighting (renamed Signify in 2018) was listed and started trading on Euronext in Amsterdam under the symbol 'LIGHT'. Following the listing of Signify, Philips retained a 71.23% stake.

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

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

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

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

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

4.1.12 Procurement

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

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

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

4.1.13 Analysis of 2017 compared to 2016

The analysis of the 2017 financial results compared to 2016, and the discussion of the critical accounting policies, have not been included in this Annual Report. These sections are included in Philips' Form 20-F for the financial year 2018, which will be filed electronically with the US Securities and Exchange Commission.

4.2 Investor information

4.2.1 Dividend

Dividend policy

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

For 2018, the key exclusions to arrive at the adjusted income from continuing operations attributable to shareholders*) are described in Net income, Income from operations (EBIT) and Adjusted EBITA*) of financial performance , starting on page 22.

Proposed distribution

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

If the above dividend proposal is adopted, the shares will be traded ex-dividend as of May 13, 2019 at the New York Stock Exchange and Euronext Amsterdam. In compliance with the listing requirements of the New York Stock Exchange and the stock market of Euronext Amsterdam, the dividend record date will be May 14, 2019.

Shareholders will be given the opportunity to make their choice between cash and shares between May 15, 2019 and June 7, 2019. If no choice is made during this election period the dividend will be paid in cash. On June 7, 2019 after close of trading, the number of share dividend rights entitled to one new common share will be determined based on the volume-weighted average price of all traded common shares of Koninklijke Philips N.V. at Euronext Amsterdam on June 5, 6 and 7, 2019. The Company will calculate the number of share dividend rights entitled to one new common share (the ratio), such that the gross dividend in shares will be approximately equal to the gross dividend in cash. The ratio and the number of shares to be issued will be announced on June 12, 2019. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 13, 2019. The distribution of dividend in cash to holders of New York Registry shares will be made in USD at the USD/EUR rate as per WM/ Reuters FX Benchmark 2 PM CET fixing of June 11, 2019.

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

Further details will be given in the agenda for the 2019 Annual General Meeting of Shareholders. All dates mentioned remain provisional until then.

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

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

Dividends and distributions per common share

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

Philips Group
Gross dividends on the common shares
2014 - 2018

	2014	2015	2016	2017	2018
in EUR	0.80	0.80	0.80	0.80	0.80
in USD	1.09	0.89	0.90	0.90	0.94

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 90.

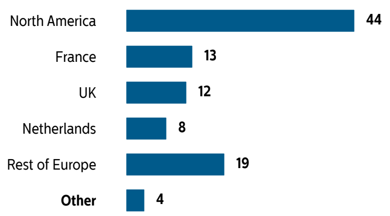
4.2.2 Share information

Philips Group
Share information at year-end 2018

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

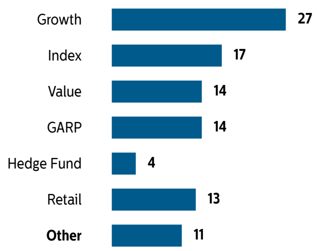
The following information is based on a shareholder base analysis carried out for investor relations purposes by an independent provider in December 2018.

Philips Group
Shareholders by region at year-end 2018 [1] in %



[1] Approximate split based on shareholders identified.

Philips Group
Shareholders by style at year-end 2018 [1] in %



[1] Approximate split based on shareholders identified.

4.2.3 Financial calendar

Financial calendar

Annual General Meeting of Shareholders	
Record date Annual General Meeting of Shareholders	April 11, 2019
Annual General Meeting of Shareholders	May 9, 2019
Quarterly reports	
First quarter results 2019	April 29, 2019
Second quarter results 2019	July 22, 2019
Third quarter results 2019	October 28, 2019
Fourth quarter results 2019	January 28, 2020

2019 Annual General Meeting of Shareholders

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

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

4.2.4 Investor contact

Shareholder services

Holders of shares listed on Euronext Amsterdam
Non-US shareholders and other non-US interested parties can make inquiries about the Annual Report 2018 to:

Royal Philips
Annual Report Office
Philips Center, HBT 12
P.O. Box 77900
1070 MX Amsterdam, The Netherlands
E-mail: annual.report@philips.com

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

ABN AMRO Bank N.V.
Department Equity Capital Markets/Corporate Broking HQ7050
Gustav Mahlerlaan 10, 1082 PP Amsterdam
The Netherlands
Telephone: +31-20-34 42000
E-mail: corporate.broking@nl.abnamro.com

Holders of New York Registry shares
Holders of New York Registry shares and other interested parties in the US can make inquiries about the Annual Report 2018 to:
Deutsche Bank Trust Company Americas
C/O AST
6201 15th Avenue Brooklyn, NY 11219
Telephone (toll-free US): +1-866-706-8374
Telephone (outside of US): +1-718-921-8137
Website: www.astfinancial.com
E-mail: dbemails@astfinancial.com

Communications concerning share transfers, lost certificates, dividends and change of address should be directed to Deutsche Bank The Annual Report on Form 20-F is filed electronically with the US Securities and Exchange Commission.

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

Deutsche Bank Global Direct Investor Services

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

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

or write to:

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

Analysts' coverage
Philips is covered by approximately 20 analysts who frequently issue reports on the company. For a list of our current analysts, please refer to: www.philips.com/a-w/about/investor/stock-info/analyst-coverage.html

How to reach us
The registered office of Royal Philips is
High Tech Campus 5
5656 AE Eindhoven, The Netherlands
Switch board, telephone: +31-40-27 91111

Investor Relations contact
Royal Philips
Philips Center
P.O. Box 77900
1070 MX Amsterdam, The Netherlands
Telephone: +31-20-59 77222
Website: www.philips.com/investor
E-mail: investor.relations@philips.com

Pim Preesman
Head of Investor Relations
Telephone: +31-20-59 77222

Ksenija Gonciarenko
Investor Relations Manager
Telephone: +31-20-59 77055

Sustainability contact
Philips Group Sustainability
High Tech Campus 5
5656 AE Eindhoven, The Netherlands
Telephone: +31-40-27 83651
Website: www.philips.com/sustainability
E-mail: philips.sustainability@philips.com

Group Press Office contact
Royal Philips
Philips Center, HBT 19
Amstelplein 2
1096 BC Amsterdam, The Netherlands
E-mail: group.communications@philips.com
For media contacts please refer to:
www.philips.com/a-w/about/news/contacts.html