

## Philips delivers Q2 sales of EUR 4.7 billion, with 6% comparable sales growth and 8% comparable order intake growth; income from continuing operations increases to EUR 260 million and Adjusted EBITA margin improves to 11.8%

Amsterdam, July 22, 2019

### Second-quarter highlights

- Sales in the quarter amounted to EUR 4.7 billion, with 6% comparable sales growth
- Comparable order intake increased 8%
- Income from continuing operations increased to EUR 260 million, compared to EUR 186 million in Q2 2018
- Adjusted EBITA margin was 11.8% of sales, compared to 11.2% of sales in Q2 2018
- Income from operations increased to EUR 350 million, compared to EUR 298 million in Q2 2018
- EPS increased as income from continuing operations per share (diluted) amounted to EUR 0.28; adjusted EPS increased 23% as adjusted income from continuing operations per share (diluted) amounted to EUR 0.43.
- Operating cash flow amounted to EUR 390 million, compared to EUR 130 million in Q2 2018; free cash flow was EUR 174 million, compared to a free cash outflow of EUR 41 million in Q2 2018

### Frans van Houten, CEO

"I am pleased with the 6% comparable sales growth in the second quarter, with all businesses contributing. We also recorded strong 8% comparable order intake growth, driven by the continued demand for our innovative product portfolio across the Diagnosis & Treatment businesses. Adjusted EBITA margin for the Group improved by 60 basis points, mainly driven by the performance improvement of the Diagnosis & Treatment businesses, despite adverse currency and tariff impacts.

We continue to expect our performance momentum to further improve in the second half of the year, supported by sales growth and our productivity programs. We maintain 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 2017-2020 period."

### Reporting segment performance

The Diagnosis & Treatment businesses recorded 6% comparable sales growth, led by double-digit growth in Image-Guided Therapy. Comparable order intake showed a double-digit increase, driven by double-digit growth in China and Western Europe. The Adjusted EBITA margin increased to 12.3%, reflecting sales growth and productivity, partly offset by the impact of tariffs.

Comparable sales in the Connected Care businesses increased 6%, with mid-single-digit growth in Monitoring & Analytics and Sleep & Respiratory Care. Comparable order intake showed a mid-single-digit decline, reflecting the uneven order intake dynamics. The Adjusted EBITA margin decreased to 12.1%, mainly due to tariffs, adverse currency impact and mix.

The Personal Health businesses delivered comparable sales growth of 5%, with high-single-digit growth in Oral Healthcare and mid-single-digit growth in Personal Care and Domestic Appliances. The Adjusted EBITA margin decreased to 13.4%, as the operational leverage from sales growth was offset by investments in advertising.

Philips' ongoing focus on innovation and strategic partnerships resulted in the following highlights in the quarter:

- Philips signed a 10-year agreement with Centre Hospitalier Régional Universitaire de Nancy in France to implement Philips' IntelliSpace Enterprise Imaging Solution. The collaboration will enable the hospital, which provides 1.2 million consultation visits

and inpatient stays each year, to streamline complex medical image data management across its departments.

- Philips announced a 10-year agreement with Rutherford Diagnostics to deliver advanced imaging solutions to its five new diagnostic centers across the UK. As the technology partner, Philips will provide advanced imaging systems and software, as well as managed technology services, including training and consultancy, and will establish a joint innovation program.
- Strengthening its leadership in cardiac ultrasound, Philips extended the advanced automation capabilities on its EPIQ CVx cardiology ultrasound platform, making exams faster and easier to conduct while improving clinician productivity.
- Philips' Image-Guided Therapy Devices business delivered double-digit growth, driven by all major coronary and peripheral vascular product families. The company presented the three-year results from two major Stellarex clinical studies involving approximately 600 patients, demonstrating that its Stellarex drug-coated balloon (DCB) is the only low-dose DCB with a significant treatment effect and high safety profile through three years. Both studies showed no difference in mortality compared with the current standard of care.
- Philips teamed up with US insurance company Humana to improve care for at-risk, high-cost populations. The pilot program will support independent living for high-acuity patients with congestive heart failure by providing 24/7 access to care. Philips' remote monitoring capabilities will allow care managers to deliver timely interventions for these patients.
- Philips' solutions to treat obstructive sleep apnea, a condition that affects more than 100 million patients globally, continue to garner healthy demand, supported by the continued strong reception for DreamStation GO's expanded portable therapy options.
- Broadening its leading portfolio of power toothbrushes, Philips launched Sonicare DailyClean, an entry-level proposition to address lower price segments, and Sonicare ExpertClean, featuring premium brush heads, connectivity and design, in the US.
- Following the successful roll-out of the Philips Shaver Series 9000 Prestige in Q4 2018, Philips has gained significant market share in the premium shaver market, especially in China, Germany and the US. Consumers appreciate the shaver, with global Rating & Review scores of 4.7 stars.

## Cost savings

In the second quarter of 2019, cost savings totalled EUR 146 million, reflecting procurement savings of EUR 48 million and savings from overhead and other productivity programs of EUR 98 million.

## Capital allocation

In the second quarter of 2019, Philips completed its EUR 1.5 billion share buyback program for capital reduction purposes that was announced on June 28, 2017. As of the end of the second quarter of 2019, Philips has completed 21.1% of its new EUR 1.5 billion share buyback program for capital reduction purposes that was announced on January 29, 2019. Further details can be found [here](#).

In the quarter, Philips completed the cancellation of 30 million shares that were acquired as part of the share buyback programs mentioned above.

Additionally, Philips successfully placed a EUR 750 million 0.500% [Green Innovation Bond](#) due 2026.

## Regulatory update

Philips continues to fulfill its obligations under the [Consent Decree](#)<sup>1)</sup>. The US Food and Drug Administration (FDA) reverted to Philips with follow-up requests, on which the company is currently acting.

## Conference call and audio webcast

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

<sup>1)</sup> Under the Consent Decree, Philips continues to export its range of AED devices and manufacture and distribute its H1/ OnSite/Home automated external defibrillator (AED) model in the US. The company also continues to service the AEDs and provide consumables and the relevant accessories.

## Philips performance

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

|   | Q2 2018 | Q2 2019 |
|---|---------|---------|
| Sales   | 4,288   | 4,671   |
| Nominal sales growth  | 0%      | 9%      |
| Comparable sales growth <sup>1)</sup>   | 4%      | 6%      |
| Comparable order intake <sup>1)</sup>   | 9%      | 8%      |
| Income from operations  | 298     | 350     |
| as a % of sales   | 6.9%    | 7.5%    |
| Financial expenses, net   | (49)    | (19)    |
| Investments in associates, net of income taxes  | 1       | 3       |
| Income tax expense  | (63)    | (74)    |
| Income from continuing operations   | 186     | 260     |
| Discontinued operations, net of income taxes  | (184)   | (13)    |
| Net income  | 2       | 246     |
| Income from continuing operations attributable to shareholders <sup>2)</sup> per common share (in EUR) - diluted                        | 0.20    | 0.28    |
| Adjusted income from continuing operations attributable to shareholders <sup>2)</sup> per common share (in EUR) - diluted <sup>1)</sup> | 0.35    | 0.43    |
| Net income attributable to shareholders <sup>2)</sup> per common share (in EUR) - diluted   | 0.00    | 0.27    |
| EBITA <sup>1)</sup>   | 430     | 440     |
| as a % of sales   | 10.0%   | 9.4%    |
| Adjusted EBITA <sup>1)</sup>  | 482     | 549     |
| as a % of sales   | 11.2%   | 11.8%   |
| Adjusted EBITDA <sup>1)</sup>   | 661     | 776     |
| as a % of sales   | 15.4%   | 16.6%   |

<sup>1)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

<sup>2)</sup> Shareholders refers to shareholders of Koninklijke Philips N.V.

Amounts may not add up due to rounding

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

|                          | Q2 2018      | Q2 2019      | % change  |                          |
|--------------------------|--------------|--------------|-----------|--------------------------|
|                          |              |              | nominal   | comparable <sup>1)</sup> |
| Western Europe           | 925          | 964          | 4%        | 4%                       |
| North America            | 1,549        | 1,742        | 13%       | 5%                       |
| Other mature geographies | 408          | 456          | 12%       | 9%                       |
| Total mature geographies | 2,881        | 3,162        | 10%       | 5%                       |
| Growth geographies       | 1,406        | 1,509        | 7%        | 9%                       |
| <b>Philips Group</b>     | <b>4,288</b> | <b>4,671</b> | <b>9%</b> | <b>6%</b>                |

<sup>1)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

- Comparable sales growth was 6%, reflecting mid-single-digit growth in all businesses.
- Comparable order intake showed 8% growth, reflecting double-digit growth in the Diagnosis & Treatment businesses and a mid-single-digit decline in the Connected Care businesses.
- Adjusted EBITA increased by EUR 67 million and the margin improved by 60 basis points compared to the second quarter of 2018, reflecting sales growth and productivity, partly offset by tariffs, an adverse currency impact and investments in advertising.
- Restructuring, acquisition-related and other charges amounted to EUR 110 million, compared to EUR 52 million in Q2 2018, which also included a gain of EUR 43 million related to a divestment.
- Adjusted EBITDA improved to 16.6%, an increase of EUR 115 million or 120 basis points compared to Q2 2018, which includes the impact of the implementation of IFRS 16 lease accounting as of January 1, 2019.
- Net financial expenses decreased by EUR 30 million year-on-year, mainly due to dividend income related to the retained interest in Signify, while Q2 2018 included a EUR 16 million charge related to bonds that were redeemed in 2018.
- Income taxes increased by EUR 11 million, mainly driven by higher income compared to Q2 2018.
- Net income increased by EUR 244 million compared to Q2 2018, mainly due to improvements in operational performance, lower net financial expenses and lower charges from discontinued operations.

- Sales in growth geographies increased by 9% on a comparable basis, mainly driven by double-digit growth in China and high-single-digit growth in Central & Eastern Europe. In mature geographies, sales increased by 5% on a comparable basis, reflecting high-single-digit growth in other mature geographies and mid-single-digit growth in Western Europe and North America.
- Comparable order intake in growth geographies showed double-digit growth, reflecting double-digit growth in China and Latin America. In mature geographies, comparable order intake was flat, reflecting double-digit growth in Western Europe, mid-single-digit growth in other mature geographies, and a mid-single-digit decline in North America.

**Cash balance** in millions of EUR

|   | Q2 2018      | Q2 2019      |
|---|--------------|--------------|
| <b>Beginning cash balance</b>                   | <b>1,982</b> | <b>1,454</b> |
| Free cash flow <sup>1)</sup>                    | (41)         | 174          |
| <i>Net cash flows from operating activities</i> | 130          | 390          |
| <i>Net capital expenditures</i>                 | (172)        | (215)        |
| Other cash flows from investing activities      | (226)        | (64)         |
| Treasury shares transactions                    | (3)          | (761)        |
| Changes in debt                                 | 166          | 687          |
| Dividend paid to shareholders of the Company    | (341)        | (385)        |
| Other cash flow items                           | 29           | (15)         |
| Net cash flows from discontinued operations     | 49           | (14)         |
| <b>Ending cash balance</b>                      | <b>1,615</b> | <b>1,077</b> |

<sup>1)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

**Composition of net debt to group equity<sup>1)</sup>** in millions of EUR unless otherwise stated

|   | March 31, 2019 | June 30, 2019 |
|---|----------------|---------------|
| Long-term debt                                    | 4,046          | 4,788         |
| Short-term debt                                   | 1,632          | 1,030         |
| <b>Total debt</b>                                 | <b>5,678</b>   | <b>5,817</b>  |
| Cash and cash equivalents                         | 1,454          | 1,077         |
| <b>Net debt</b>                                   | <b>4,224</b>   | <b>4,741</b>  |
| Shareholders' equity                              | 12,329         | 11,904        |
| Non-controlling interests                         | 24             | 28            |
| <b>Group equity</b>                               | <b>12,353</b>  | <b>11,932</b> |
| <b>Net debt : group equity ratio<sup>1)</sup></b> | <b>25:75</b>   | <b>28:72</b>  |

<sup>1)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

- Net cash flows from operating activities increased by EUR 260 million in Q2 2019, mainly due to higher earnings and lower working capital outflows.
- Other cash flows from investing activities includes proceeds from the sale of Signify shares.
- Treasury shares transactions mainly relates to the share buyback programs for capital reduction purposes.
- Changes in debt mainly includes the net proceeds from the Green Innovation Bond issued in Q2 2019.

## Performance per segment

### Diagnosis & Treatment businesses

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

|                                       | Q2 2018 <sup>1)</sup> | Q2 2019 |
|---------------------------------------|-----------------------|---------|
| Sales                                 | 1,878                 | 2,063   |
| Sales growth                          |                       |         |
| Nominal sales growth                  | 5%                    | 10%     |
| Comparable sales growth <sup>2)</sup> | 8%                    | 6%      |
| Income from operations                | 152                   | 168     |
| as a % of sales                       | 8.1%                  | 8.1%    |
| EBITA <sup>2)</sup>                   | 172                   | 214     |
| as a % of sales                       | 9.2%                  | 10.4%   |
| Adjusted EBITA <sup>2)</sup>          | 196                   | 254     |
| as a % of sales                       | 10.4%                 | 12.3%   |
| Adjusted EBITDA <sup>2)</sup>         | 255                   | 323     |
| as a % of sales                       | 13.6%                 | 15.7%   |

<sup>1)</sup> The comparative figures have been restated for the realigned composition of the reporting segments. See [Presentation on page 13](#).

<sup>2)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

- Comparable sales growth was 6%, reflecting double-digit growth in Image-Guided Therapy and high-single-digit growth in Ultrasound, while Diagnostic Imaging remained flat year-on-year.
- Comparable sales in growth geographies showed high-single-digit growth, driven by double-digit growth in China. Mature geographies recorded mid-single-digit growth, reflecting high-single-digit growth in North America, mid-single-digit growth in other mature geographies, and low-single-digit growth in Western Europe.
- Adjusted EBITA increased by EUR 58 million, resulting in a margin of 12.3%, reflecting sales growth and productivity, partly offset by the impact of tariffs.
- Restructuring, acquisition-related and other charges to improve productivity were EUR 41 million, compared to EUR 24 million in Q2 2018. In Q3 2019, restructuring, acquisition-related and other charges are expected to total approximately EUR 35 million.

### Connected Care businesses

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

|                                       | Q2 2018 <sup>1)</sup> | Q2 2019 |
|---------------------------------------|-----------------------|---------|
| Sales                                 | 1,045                 | 1,161   |
| Sales growth                          |                       |         |
| Nominal sales growth                  | (1)%                  | 11%     |
| Comparable sales growth <sup>2)</sup> | 4%                    | 6%      |
| Income from operations                | 82                    | 75      |
| as a % of sales                       | 7.8%                  | 6.5%    |
| EBITA <sup>2)</sup>                   | 115                   | 110     |
| as a % of sales                       | 11.0%                 | 9.5%    |
| Adjusted EBITA <sup>2)</sup>          | 150                   | 141     |
| as a % of sales                       | 14.4%                 | 12.1%   |
| Adjusted EBITDA <sup>2)</sup>         | 193                   | 186     |
| as a % of sales                       | 18.5%                 | 16.0%   |

<sup>1)</sup> The comparative figures have been restated for the realigned composition of the reporting segments. See [Presentation on page 13](#).

<sup>2)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

- Comparable sales growth was 6%, reflecting mid-single-digit growth in Monitoring & Analytics and Sleep & Respiratory Care.
- Comparable sales in growth geographies showed high-single-digit growth, reflecting double-digit growth in Latin America and high-single-digit growth in China. Mature geographies recorded mid-single-digit growth, reflecting double-digit growth in Western Europe, high-single-digit growth in other mature geographies, and low-single-digit growth in North America.
- Adjusted EBITA decreased by EUR 9 million, resulting in a margin of 12.1%, mainly due to tariffs, adverse currency impact and mix.
- Restructuring, acquisition-related and other charges were EUR 31 million, compared to EUR 34 million in Q2 2018. In Q3 2019, restructuring, acquisition-related and other charges are expected to total approximately EUR 35 million.

## Personal Health businesses

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

|                                       | Q2 2018 <sup>1)</sup> | Q2 2019 |
|---------------------------------------|-----------------------|---------|
| Sales                                 | 1,282                 | 1,351   |
| Sales growth                          |                       |         |
| Nominal sales growth                  | (6)%                  | 5%      |
| Comparable sales growth <sup>2)</sup> | 1%                    | 5%      |
| Income from operations                | 152                   | 165     |
| as a % of sales                       | 11.9%                 | 12.2%   |
| EBITA <sup>2)</sup>                   | 161                   | 173     |
| as a % of sales                       | 12.6%                 | 12.8%   |
| Adjusted EBITA <sup>2)</sup>          | 181                   | 181     |
| as a % of sales                       | 14.1%                 | 13.4%   |
| Adjusted EBITDA <sup>2)</sup>         | 217                   | 216     |
| as a % of sales                       | 16.9%                 | 16.0%   |

<sup>1)</sup> The comparative figures have been restated for the realigned composition of the reporting segments. See [Presentation on page 13](#).

<sup>2)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

## Other

**Key data** in millions of EUR

|                                  | Q2 2018 <sup>1)</sup> | Q2 2019 |
|----------------------------------|-----------------------|---------|
| Sales                            | 83                    | 96      |
| Income from operations           | (88)                  | (58)    |
| EBITA <sup>2)</sup>              | (18)                  | (56)    |
| Adjusted EBITA <sup>2)</sup> of: | (45)                  | (27)    |
| IP Royalties                     | 30                    | 49      |
| Innovation                       | (51)                  | (46)    |
| Central costs                    | (19)                  | (24)    |
| Other                            | (5)                   | (7)     |
| Adjusted EBITDA <sup>2)</sup>    | (4)                   | 50      |

<sup>1)</sup> The comparative figures have been restated for the realigned composition of the reporting segments. See [Presentation on page 13](#).

<sup>2)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

- Comparable sales growth was 5%, reflecting high-single-digit growth in Oral Healthcare and mid-single-digit growth in Personal Care and Domestic Appliances.
- Comparable sales in growth geographies showed high-single-digit growth, driven by double-digit growth in China and Central & Eastern Europe. Mature geographies recorded mid-single-digit growth, reflecting double-digit growth in other mature geographies, mid-single-digit growth in Western Europe, and low-single-digit growth in North America.
- Adjusted EBITA was in line with Q2 2018, resulting in a margin of 13.4%, as the operational leverage from sales growth was offset by investments in advertising.
- Restructuring, acquisition-related and other charges amounted to EUR 7 million, compared to EUR 20 million in Q2 2018. In Q3 2019, restructuring, acquisition-related and other charges are expected to total approximately EUR 10 million.

- Sales increased by EUR 13 million, mainly due to higher IP royalty income.
- Restructuring, acquisition-related and other charges amounted to EUR 29 million, compared to income of EUR 28 million in Q2 2018. Q2 2018 also included a gain of EUR 43 million related to a divestment. In Q3 2019, restructuring, acquisition-related and other charges are expected to total approximately EUR 15 million.

## Reconciliation of non-IFRS information

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

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

For the definitions of the non-IFRS financial measures listed above, refer to chapter 10, Reconciliation of non-IFRS information, of the [Annual Report 2018](#).

### Sales growth composition in %

|                         | Q2 2019        |                       |                  |                   | January to June 2019 |                       |                  |                   |
|-------------------------|----------------|-----------------------|------------------|-------------------|----------------------|-----------------------|------------------|-------------------|
|                         | nominal growth | consolidation changes | currency effects | comparable growth | nominal growth       | consolidation changes | currency effects | comparable growth |
| <b>2019 versus 2018</b> |                |                       |                  |                   |                      |                       |                  |                   |
| Diagnosis & Treatment   | 9.9%           | (0.4)%                | (3.5)%           | 6.0%              | 7.7%                 | (0.3)%                | (3.5)%           | 3.9%              |
| Connected Care          | 11.1%          | (0.5)%                | (4.9)%           | 5.7%              | 8.2%                 | (0.8)%                | (5.0)%           | 2.4%              |
| Personal Health         | 5.4%           | 0.5%                  | (0.6)%           | 5.3%              | 5.0%                 | 0.5%                  | (0.4)%           | 5.1%              |
| <b>Philips Group</b>    | <b>8.9%</b>    | <b>0.1%</b>           | <b>(2.9)%</b>    | <b>6.1%</b>       | <b>7.2%</b>          | <b>(0.1)%</b>         | <b>(2.8)%</b>    | <b>4.3%</b>       |

### Adjusted income from continuing operations attributable to shareholders<sup>1)</sup> in millions of EUR unless otherwise stated

|  | Q2         |            | January to June |            |
|--|------------|------------|-----------------|------------|
|  | 2018       | 2019       | 2018            | 2019       |
| Net income   | 2          | 246        | 126             | 409        |
| Discontinued operations, net of income taxes   | 184        | 13         | 154             | 22         |
| <b>Income from continuing operations</b>   | <b>186</b> | <b>260</b> | <b>280</b>      | <b>430</b> |
| Continuing operations non-controlling interests  | (1)        | (3)        | -               | (2)        |
| <b>Income from continuing operations attributable to shareholders<sup>1)</sup></b>                                     | <b>185</b> | <b>256</b> | <b>280</b>      | <b>429</b> |
| Adjustments for:   |            |            |                 |            |
| Amortization of acquired intangible assets   | 133        | 91         | 195             | 160        |
| Restructuring and acquisition-related charges  | 52         | 82         | 116             | 153        |
| Other items  | -          | 28         | 17              | 7          |
| Net finance expenses   | 16         | 3          | 46              | 7          |
| Tax impact of adjusted items   | (58)       | (64)       | (110)           | (90)       |
| <b>Adjusted income from continuing operations attributable to shareholders<sup>1)</sup></b>                            | <b>327</b> | <b>395</b> | <b>543</b>      | <b>665</b> |
| <b>Earnings per common share:</b>  |            |            |                 |            |
| Income from continuing operations attributable to shareholders <sup>1)</sup> per common share (in EUR) - diluted       | 0.20       | 0.28       | 0.30            | 0.47       |
| Adjusted income from continuing operations attributable to shareholders <sup>1)</sup> per common share (EUR) - diluted | 0.35       | 0.43       | 0.58            | 0.72       |

<sup>1)</sup> Shareholders refers to shareholders of Koninklijke Philips N.V.

**Reconciliation of Net income to Adjusted EBITA** in millions of EUR

|  | <b>Philips Group</b> | <b>Diagnosis &amp; Treatment</b> | <b>Connected Care</b> | <b>Personal Health</b> | <b>Other</b> |
|--|----------------------|----------------------------------|-----------------------|------------------------|--------------|
| <b>Q2 2019</b>                                 |                      |                                  |                       |                        |              |
| Net income                                     | 246                  |                                  |                       |                        |              |
| Discontinued operations, net of income taxes   | 13                   |                                  |                       |                        |              |
| Income tax expense                             | 74                   |                                  |                       |                        |              |
| Investments in associates, net of income taxes | (3)                  |                                  |                       |                        |              |
| Financial expenses                             | 60                   |                                  |                       |                        |              |
| Financial income                               | (41)                 |                                  |                       |                        |              |
| <b>Income from operations</b>                  | <b>350</b>           | <b>168</b>                       | <b>75</b>             | <b>165</b>             | <b>(58)</b>  |
| Amortization of acquired intangible assets     | 91                   | 45                               | 35                    | 8                      | 2            |
| <b>EBITA</b>                                   | <b>440</b>           | <b>214</b>                       | <b>110</b>            | <b>173</b>             | <b>(56)</b>  |
| Restructuring and acquisition-related charges  | 82                   | 37                               | 15                    | 7                      | 22           |
| Other items                                    | 28                   | 4                                | 16                    | -                      | 7            |
| <b>Adjusted EBITA</b>                          | <b>549</b>           | <b>254</b>                       | <b>141</b>            | <b>181</b>             | <b>(27)</b>  |
| <b>January to June 2019</b>                    |                      |                                  |                       |                        |              |
| Net income                                     | 409                  |                                  |                       |                        |              |
| Discontinued operations, net of income taxes   | 22                   |                                  |                       |                        |              |
| Income tax expense                             | 141                  |                                  |                       |                        |              |
| Investments in associates, net of income taxes | (5)                  |                                  |                       |                        |              |
| Financial expenses                             | 116                  |                                  |                       |                        |              |
| Financial income                               | (88)                 |                                  |                       |                        |              |
| <b>Income from operations</b>                  | <b>594</b>           | <b>219</b>                       | <b>95</b>             | <b>333</b>             | <b>(53)</b>  |
| Amortization of acquired intangible assets     | 160                  | 72                               | 70                    | 14                     | 4            |
| <b>EBITA</b>                                   | <b>754</b>           | <b>291</b>                       | <b>165</b>            | <b>347</b>             | <b>(49)</b>  |
| Restructuring and acquisition-related charges  | 153                  | 63                               | 34                    | 23                     | 31           |
| Other items                                    | 7                    | 7                                | 27                    | -                      | (27)         |
| <b>Adjusted EBITA</b>                          | <b>914</b>           | <b>362</b>                       | <b>226</b>            | <b>371</b>             | <b>(45)</b>  |
| <b>Q2 2018</b>                                 |                      |                                  |                       |                        |              |
| Net income                                     | 2                    |                                  |                       |                        |              |
| Discontinued operations, net of income taxes   | 184                  |                                  |                       |                        |              |
| Income tax expense                             | 63                   |                                  |                       |                        |              |
| Investments in associates, net of income taxes | (1)                  |                                  |                       |                        |              |
| Financial expenses                             | 66                   |                                  |                       |                        |              |
| Financial income                               | (17)                 |                                  |                       |                        |              |
| <b>Income from operations</b>                  | <b>298</b>           | <b>152</b>                       | <b>82</b>             | <b>152</b>             | <b>(88)</b>  |
| Amortization of acquired intangible assets     | 133                  | 20                               | 33                    | 9                      | 71           |
| <b>EBITA</b>                                   | <b>430</b>           | <b>172</b>                       | <b>115</b>            | <b>161</b>             | <b>(18)</b>  |
| Restructuring and acquisition-related charges  | 52                   | 24                               | 19                    | 2                      | 6            |
| Other items                                    | -                    | -                                | 15                    | 18                     | (34)         |
| <b>Adjusted EBITA</b>                          | <b>482</b>           | <b>196</b>                       | <b>150</b>            | <b>181</b>             | <b>(45)</b>  |
| <b>January to June 2018</b>                    |                      |                                  |                       |                        |              |
| Net income                                     | 126                  |                                  |                       |                        |              |
| Discontinued operations, net of income taxes   | 154                  |                                  |                       |                        |              |
| Income tax expense                             | 91                   |                                  |                       |                        |              |
| Investments in associates, net of income taxes | (1)                  |                                  |                       |                        |              |
| Financial expenses                             | 159                  |                                  |                       |                        |              |
| Financial income                               | (30)                 |                                  |                       |                        |              |
| <b>Income from operations</b>                  | <b>499</b>           | <b>174</b>                       | <b>143</b>            | <b>323</b>             | <b>(141)</b> |
| Amortization of acquired intangible assets     | 195                  | 36                               | 67                    | 18                     | 73           |
| <b>EBITA</b>                                   | <b>694</b>           | <b>211</b>                       | <b>210</b>            | <b>341</b>             | <b>(67)</b>  |
| Restructuring and acquisition-related charges  | 116                  | 66                               | 26                    | 4                      | 19           |
| Other items                                    | 17                   | -                                | 32                    | 18                     | (33)         |
| <b>Adjusted EBITA</b>                          | <b>827</b>           | <b>277</b>                       | <b>269</b>            | <b>362</b>             | <b>(82)</b>  |



**Reconciliation of Net income to Adjusted EBITDA** in millions of EUR

|  | <b>Philips Group</b> | <b>Diagnosis &amp; Treatment</b> | <b>Connected Care</b> | <b>Personal Health</b> | <b>Other</b> |
|--|----------------------|----------------------------------|-----------------------|------------------------|--------------|
| <b>Q2 2019</b>   |                      |                                  |                       |                        |              |
| Net income   | 246                  |                                  |                       |                        |              |
| Discontinued operations, net of income taxes   | 13                   |                                  |                       |                        |              |
| Income tax expense   | 74                   |                                  |                       |                        |              |
| Investments in associates, net of income taxes   | (3)                  |                                  |                       |                        |              |
| Financial expenses   | 60                   |                                  |                       |                        |              |
| Financial income   | (41)                 |                                  |                       |                        |              |
| <b>Income from operations</b>  | <b>350</b>           | <b>168</b>                       | <b>75</b>             | <b>165</b>             | <b>(58)</b>  |
| Depreciation, amortization and impairments of fixed assets   | 319                  | 115                              | 81                    | 44                     | 79           |
| Restructuring and acquisition-related charges  | 82                   | 37                               | 15                    | 7                      | 22           |
| Other items  | 28                   | 4                                | 16                    | -                      | 7            |
| Adding back impairment of fixed assets included in Restructuring and acquisition-related charges and Other items | (2)                  | (1)                              | (1)                   | -                      |              |
| <b>Adjusted EBITDA</b>   | <b>776</b>           | <b>323</b>                       | <b>186</b>            | <b>216</b>             | <b>50</b>    |
| <b>January to June 2019</b>  |                      |                                  |                       |                        |              |
| Net income   | 409                  |                                  |                       |                        |              |
| Discontinued operations, net of income taxes   | 22                   |                                  |                       |                        |              |
| Income tax expense   | 141                  |                                  |                       |                        |              |
| Investments in associates, net of income taxes   | (5)                  |                                  |                       |                        |              |
| Financial expenses   | 116                  |                                  |                       |                        |              |
| Financial income   | (88)                 |                                  |                       |                        |              |
| <b>Income from operations</b>  | <b>594</b>           | <b>219</b>                       | <b>95</b>             | <b>333</b>             | <b>(53)</b>  |
| Depreciation, amortization and impairments of fixed assets   | 601                  | 206                              | 160                   | 84                     | 152          |
| Restructuring and acquisition-related charges  | 153                  | 63                               | 34                    | 23                     | 31           |
| Other items  | 7                    | 7                                | 27                    | -                      | (27)         |
| Adding back impairment of fixed assets included in Restructuring and acquisition-related charges and Other items | (3)                  | (2)                              | (1)                   | -                      |              |
| <b>Adjusted EBITDA</b>   | <b>1,352</b>         | <b>493</b>                       | <b>315</b>            | <b>441</b>             | <b>103</b>   |
| <b>Q2 2018</b>   |                      |                                  |                       |                        |              |
| Net income   | 2                    |                                  |                       |                        |              |
| Discontinued operations, net of income taxes   | 184                  |                                  |                       |                        |              |
| Income tax expense   | 63                   |                                  |                       |                        |              |
| Investments in associates, net of income taxes   | (1)                  |                                  |                       |                        |              |
| Financial expenses   | 66                   |                                  |                       |                        |              |
| Financial income   | (17)                 |                                  |                       |                        |              |
| <b>Income from operations</b>  | <b>298</b>           | <b>152</b>                       | <b>82</b>             | <b>152</b>             | <b>(88)</b>  |
| Depreciation, amortization and impairments of fixed assets   | 316                  | 83                               | 76                    | 45                     | 112          |
| Restructuring and acquisition-related charges  | 52                   | 24                               | 19                    | 2                      | 6            |
| Other items  | -                    | -                                | 15                    | 18                     | (34)         |
| Adding back impairment of fixed assets included in Restructuring and acquisition-related charges and Other items | (4)                  | (4)                              | -                     | -                      |              |
| <b>Adjusted EBITDA</b>   | <b>661</b>           | <b>255</b>                       | <b>193</b>            | <b>217</b>             | <b>(4)</b>   |
| <b>January to June 2018</b>  |                      |                                  |                       |                        |              |
| Net income   | 126                  |                                  |                       |                        |              |
| Discontinued operations, net of income taxes   | 154                  |                                  |                       |                        |              |
| Income tax expense   | 91                   |                                  |                       |                        |              |
| Investments in associates, net of income taxes   | (1)                  |                                  |                       |                        |              |
| Financial expenses   | 159                  |                                  |                       |                        |              |
| Financial income   | (30)                 |                                  |                       |                        |              |
| <b>Income from operations</b>  | <b>499</b>           | <b>174</b>                       | <b>143</b>            | <b>323</b>             | <b>(141)</b> |
| Depreciation, amortization and impairments of fixed assets   | 547                  | 157                              | 152                   | 86                     | 150          |
| Restructuring and acquisition-related charges  | 116                  | 66                               | 26                    | 4                      | 19           |
| Other items  | 17                   | -                                | 32                    | 18                     | (33)         |
| Adding back impairment of fixed assets included in Restructuring and acquisition-related charges and Other items | (6)                  | (6)                              | -                     | -                      |              |
| <b>Adjusted EBITDA</b>   | <b>1,173</b>         | <b>392</b>                       | <b>354</b>            | <b>431</b>             | <b>(5)</b>   |

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

|   | Q2          |            | January to June |             |
|---|-------------|------------|-----------------|-------------|
|   | 2018        | 2019       | 2018            | 2019        |
| Net cash provided by operating activities                       | 130         | 390        | 223             | 404         |
| Net capital expenditures  | (172)       | (215)      | (311)           | (435)       |
| <i>Purchase of intangible assets</i>                            | (35)        | (36)       | (56)            | (76)        |
| <i>Expenditures on development assets</i>                       | (73)        | (91)       | (140)           | (171)       |
| <i>Capital expenditures on property, plant and equipment</i>    | (70)        | (116)      | (152)           | (219)       |
| <i>Proceeds from disposals of property, plant and equipment</i> | 7           | 28         | 37              | 30          |
| <b>Free cash flow</b>   | <b>(41)</b> | <b>174</b> | <b>(88)</b>     | <b>(32)</b> |

Philips statistics in millions of EUR unless otherwise stated

|   | 2018    |         |         |         | 2019    |         |    |    |
|---|---------|---------|---------|---------|---------|---------|----|----|
|   | Q1      | Q2      | Q3      | Q4      | Q1      | Q2      | Q3 | Q4 |
| Sales   | 3,942   | 4,288   | 4,306   | 5,586   | 4,151   | 4,671   |    |    |
| Comparable sales growth <sup>1)</sup>   | 5%      | 4%      | 4%      | 5%      | 2%      | 6%      |    |    |
| Comparable order intake <sup>1)</sup>   | 10%     | 9%      | 11%     | 10%     | 2%      | 8%      |    |    |
| Gross margin  | 1,785   | 2,006   | 2,074   | 2,689   | 1,888   | 2,125   |    |    |
| as a % of sales   | 45.3%   | 46.8%   | 48.2%   | 48.1%   | 45.5%   | 45.5%   |    |    |
| Selling expenses  | (1,041) | (1,162) | (1,045) | (1,251) | (1,084) | (1,173) |    |    |
| as a % of sales   | (26.4)% | (27.1)% | (24.3)% | (22.4)% | (26.1)% | (25.1)% |    |    |
| G&A expenses  | (130)   | (157)   | (165)   | (178)   | (152)   | (165)   |    |    |
| as a % of sales   | (3.3)%  | (3.7)%  | (3.8)%  | (3.2)%  | (3.7)%  | (3.5)%  |    |    |
| R&D expenses  | (433)   | (425)   | (415)   | (487)   | (439)   | (443)   |    |    |
| as a % of sales   | (11.0)% | (9.9)%  | (9.6)%  | (8.7)%  | (10.6)% | (9.5)%  |    |    |
| Income from operations  | 201     | 298     | 451     | 769     | 245     | 350     |    |    |
| as a % of sales   | 5.1%    | 6.9%    | 10.5%   | 13.8%   | 5.9%    | 7.5%    |    |    |
| Net income  | 124     | 2       | 292     | 678     | 162     | 246     |    |    |
| Income from continuing operations attributable to shareholders <sup>2)</sup> per common share in EUR - diluted                        | 0.10    | 0.20    | 0.32    | 0.77    | 0.19    | 0.28    |    |    |
| Adjusted income from continuing operations attributable to shareholders <sup>2)</sup> per common share in EUR - diluted <sup>1)</sup> | 0.23    | 0.35    | 0.42    | 0.76    | 0.29    | 0.43    |    |    |
| EBITA <sup>1)</sup>   | 263     | 430     | 512     | 861     | 314     | 440     |    |    |
| as a % of sales   | 6.7%    | 10.0%   | 11.9%   | 15.4%   | 7.6%    | 9.4%    |    |    |
| Adjusted EBITA <sup>1)</sup>  | 344     | 482     | 568     | 971     | 364     | 549     |    |    |
| as a % of sales   | 8.7%    | 11.2%   | 13.2%   | 17.4%   | 8.8%    | 11.8%   |    |    |
| Adjusted EBITDA <sup>1)</sup>   | 512     | 661     | 750     | 1,170   | 576     | 776     |    |    |
| as a % of sales   | 13.0%   | 15.4%   | 17.4%   | 20.9%   | 13.9%   | 16.6%   |    |    |

<sup>1)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

<sup>2)</sup> Shareholders refers to shareholders of Koninklijke Philips N.V.

|   | 2018          |              |                   |                  | 2019          |              |                   |                  |
|---|---------------|--------------|-------------------|------------------|---------------|--------------|-------------------|------------------|
|   | January-March | January-June | January-September | January-December | January-March | January-June | January-September | January-December |
| Sales   | 3,942         | 8,229        | 12,535            | 18,121           | 4,151         | 8,822        |                   |                  |
| Comparable sales growth <sup>1)</sup>   | 5%            | 5%           | 4%                | 5%               | 2%            | 4%           |                   |                  |
| Comparable order intake <sup>1)</sup>   | 10%           | 10%          | 10%               | 10%              | 2%            | 5%           |                   |                  |
| Gross margin  | 1,785         | 3,791        | 5,865             | 8,554            | 1,888         | 4,013        |                   |                  |
| as a % of sales   | 45.3%         | 46.1%        | 46.8%             | 47.2%            | 45.5%         | 45.5%        |                   |                  |
| Selling expenses  | (1,041)       | (2,203)      | (3,248)           | (4,500)          | (1,084)       | (2,257)      |                   |                  |
| as a % of sales   | (26.4)%       | (26.8)%      | (25.9)%           | (24.8)%          | (26.1)%       | (25.6)%      |                   |                  |
| G&A expenses  | (130)         | (288)        | (453)             | (631)            | (152)         | (317)        |                   |                  |
| as a % of sales   | (3.3)%        | (3.5)%       | (3.6)%            | (3.5)%           | (3.7)%        | (3.6)%       |                   |                  |
| R&D expenses  | (433)         | (858)        | (1,273)           | (1,759)          | (439)         | (882)        |                   |                  |
| as a % of sales   | (11.0)%       | (10.4)%      | (10.2)%           | (9.7)%           | (10.6)%       | (10.0)%      |                   |                  |
| Income from operations  | 201           | 499          | 950               | 1,719            | 245           | 594          |                   |                  |
| as a % of sales   | 5.1%          | 6.1%         | 7.6%              | 9.5%             | 5.9%          | 6.7%         |                   |                  |
| Net income  | 124           | 126          | 419               | 1,097            | 162           | 409          |                   |                  |
| Income from continuing operations attributable to shareholders <sup>2)</sup> per common share in EUR - diluted                        | 0.10          | 0.30         | 0.63              | 1.39             | 0.19          | 0.47         |                   |                  |
| Adjusted income from continuing operations attributable to shareholders <sup>2)</sup> per common share in EUR - diluted <sup>1)</sup> | 0.23          | 0.58         | 1.00              | 1.76             | 0.29          | 0.72         |                   |                  |
| EBITA <sup>1)</sup>   | 263           | 694          | 1,205             | 2,066            | 314           | 754          |                   |                  |
| as a % of sales   | 6.7%          | 8.4%         | 9.6%              | 11.4%            | 7.6%          | 8.5%         |                   |                  |
| Adjusted EBITA <sup>1)</sup>  | 344           | 827          | 1,395             | 2,366            | 364           | 914          |                   |                  |
| as a % of sales   | 8.7%          | 10.0%        | 11.1%             | 13.1%            | 8.8%          | 10.4%        |                   |                  |
| Adjusted EBITDA <sup>1)</sup>   | 512           | 1,173        | 1,923             | 3,093            | 576           | 1,352        |                   |                  |
| as a % of sales   | 13.0%         | 14.3%        | 15.3%             | 17.1%            | 13.9%         | 15.3%        |                   |                  |
| Number of common shares outstanding (after deduction of treasury shares) at the end of period (in thousands)                          | 914,826       | 931,496      | 931,540           | 914,184          | 910,810       | 902,417      |                   |                  |
| Shareholders' equity per common share in EUR  | 12.66         | 12.54        | 12.65             | 13.22            | 13.54         | 13.19        |                   |                  |
| Net debt : group equity ratio <sup>1)</sup>   | 19:81         | 22:78        | 24:76             | 21:79            | 25:75         | 28:72        |                   |                  |
| Total employees of continuing operations  | 73,845        | 75,283       | 76,531            | 77,400           | 77,340        | 77,748       |                   |                  |

<sup>1)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

<sup>2)</sup> Shareholders refers to shareholders of Koninklijke Philips N.V.

## Forward-looking statements and other important information

### Forward-looking statements

This document and the related oral presentation, including responses to questions following the presentation, contain certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items. Examples of forward-looking statements include: statements made about the strategy; estimates of sales growth; future Adjusted EBITA; future restructuring, acquisition-related and other costs; future developments in Philips' organic business; and the completion of acquisitions and divestments. By their nature, these statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these statements.

These factors include but are not limited to: global economic and business conditions; political instability, including developments within the European Union such as Brexit, with adverse impact on financial markets; the successful implementation of Philips' strategy and the ability to realize the benefits of this strategy; the ability to develop and market new products; changes in legislation; legal claims; increased healthcare regulation; changes in currency exchange rates and interest rates; changes in foreign currency import or export controls; future changes in tax rates and regulations, including trade tariffs; pension costs and actuarial assumptions; changes in raw materials prices; changes in employee costs; the ability to identify and successfully complete acquisitions, and to integrate those acquisitions into the business, the ability to successfully exit certain businesses or restructure the operations; the rate of technological changes; cyber-attacks, breaches of cybersecurity; political, economic and other developments in countries where Philips operates; industry consolidation and competition; and the state of international capital markets as they may affect the timing and nature of the disposal by Philips of its remaining interests in Signify. As a result, Philips' actual future results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. For a discussion of factors that could cause future results to differ from such forward-looking statements, see the Risk management chapter included in the Annual Report 2018.

### Third-party market share data

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

### Use of non-IFRS information

In presenting and discussing the Philips Group's financial position, operating results and cash flows, management uses certain non-IFRS financial measures. These non-IFRS financial measures should not be viewed in isolation as alternatives to the equivalent IFRS measure and should be used in conjunction with the most directly comparable IFRS measures. Non-IFRS financial measures do not have standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. A reconciliation of these non-IFRS measures to the most directly comparable IFRS measures is contained in this document. Further information on non-IFRS measures can be found in the Annual Report 2018.

### Use of fair value information

In presenting the Philips Group's financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that are deemed to be reliable. Readers are cautioned that these values are subject to changes over time and are only valid at the balance sheet date. When quoted prices or observable market data are not readily available, fair values are estimated using appropriate valuation models and unobservable inputs. Such fair value estimates require management to make significant assumptions with respect to future developments, which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the Annual Report 2018. In certain cases independent valuations are obtained to support management's determination of fair values.

### Presentation

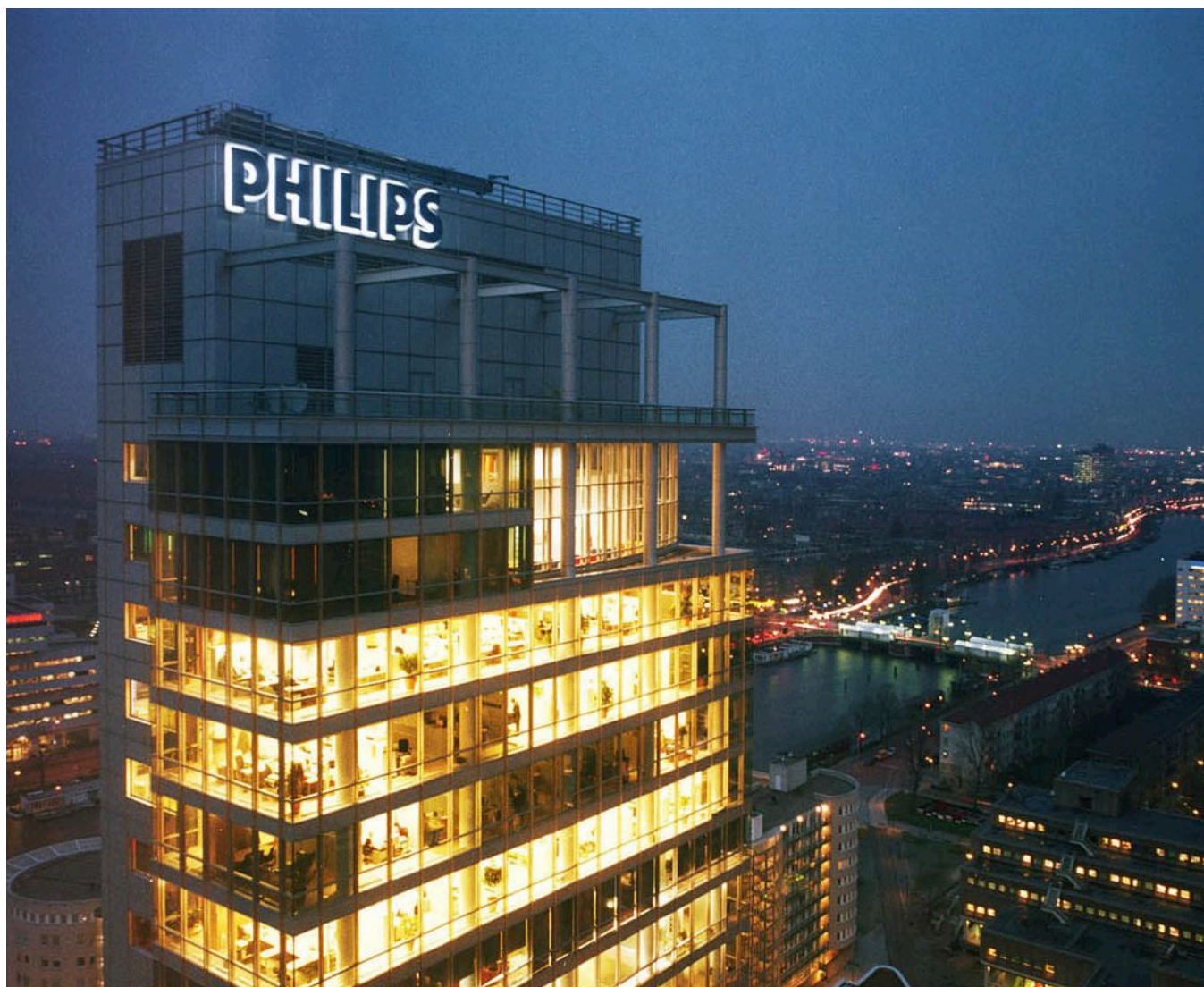
All amounts are in millions of euros unless otherwise stated. Due to rounding, amounts may not add up precisely to totals provided. All reported data is unaudited. Financial reporting is in accordance with the accounting policies as stated in the Annual Report 2018, except for IFRS 16 lease accounting, which is implemented per January 1, 2019.

As announced on January 10, 2019, Philips has realigned the composition of its reporting segments effective as of January 1, 2019. The most notable changes are the shifts of the Sleep & Respiratory Care business from the Personal Health segment to the renamed Connected Care segment and most of the Healthcare Informatics business from the renamed Connected Care segment to the Diagnosis & Treatment segment. Accordingly, the comparative figures have been restated. The restatement has been published on the Philips Investor Relations website and can be accessed [here](#).

### Market Abuse Regulation

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

# Philips semi-annual report 2019



## Introduction

This report contains the semi-annual report of Koninklijke Philips N.V. ('the Company' or 'Philips'), a company with limited liability, headquartered in Amsterdam, the Netherlands. The principal activities of the Company and its group companies ('the Group') are described in the Annual Report 2018. The semi-annual report for the six months ended June 30, 2019 consists of the semi-annual condensed consolidated financial statements, the semi-annual management report and responsibility statement by the Company's Board of Management. The information in this semi-annual report is unaudited.

## Responsibility statement

The Board of Management of the Company hereby declares that to the best of their knowledge, the semi-annual condensed consolidated financial statements for the six-month period ended June 30, 2019, which have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and that the semi-annual management report for the six-month period ended June 30, 2019 gives a fair view of the information required pursuant to article 5:25d paragraph 8 and 9 of the Dutch Financial Markets Supervision Act (Wet op het Financieel toezicht).

Amsterdam, July 22, 2019

Board of Management

Frans van Houten  
Abhijit Bhattacharya  
Marnix van Ginneken



## Management report Philips performance

Key data in millions of EUR unless otherwise stated

|   | January to June |       |
|---|-----------------|-------|
|   | 2018            | 2019  |
| Sales   | 8,229           | 8,822 |
| Nominal sales growth  | (1)%            | 7%    |
| Comparable sales growth <sup>1)</sup>   | 5%              | 4%    |
| Comparable order intake <sup>1)</sup>   | 10%             | 5%    |
| Income from operations  | 499             | 594   |
| as a % of sales   | 6.1%            | 6.7%  |
| Financial expenses, net   | (129)           | (28)  |
| Investments in associates, net of income taxes  | 1               | 5     |
| Income tax expenses   | (91)            | (141) |
| Net income from continuing operations   | 280             | 430   |
| Discontinued operations, net of income taxes  | (154)           | (22)  |
| Net income  | 126             | 409   |
| Income from continuing operations attributable to shareholders <sup>2)</sup> per common share (in EUR) - diluted                        | 0.30            | 0.47  |
| Adjusted income from continuing operations attributable to shareholders <sup>2)</sup> per common share (in EUR) - diluted <sup>1)</sup> | 0.58            | 0.72  |
| Net income attributable to shareholders <sup>2)</sup> per common share (in EUR) - diluted   | 0.14            | 0.44  |
| EBITA <sup>1)</sup>   | 694             | 754   |
| as a % of sales   | 8.4%            | 8.5%  |
| Adjusted EBITA <sup>1)</sup>  | 827             | 914   |
| as a % of sales   | 10.0%           | 10.4% |
| Adjusted EBITDA <sup>1)</sup>   | 1,173           | 1,352 |
| as a % of sales   | 14.3%           | 15.3% |

<sup>1)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

<sup>2)</sup> Shareholders refers to shareholders of Koninklijke Philips N.V.

Amounts may not add up due to rounding

Cash balance in millions of EUR

|  | January to June |              |
|--|-----------------|--------------|
|  | 2018            | 2019         |
| <b>Beginning cash balance</b>                | <b>1,939</b>    | <b>1,688</b> |
| Free cash flow <sup>1)</sup>                 | (88)            | (32)         |
| Net cash flow from operating activities      | 223             | 404          |
| Net capital expenditures                     | (311)           | (435)        |
| Other cash flow from investing activities    | (313)           | (32)         |
| Treasury shares transactions                 | (360)           | (882)        |
| Changes in debt                              | 206             | 728          |
| Dividend paid to shareholders of the Company | (341)           | (385)        |
| Other cash flow items                        | 4               | 6            |
| Net cash flow discontinued operations        | 569             | (14)         |
| <b>Ending cash balance</b>                   | <b>1,615</b>    | <b>1,077</b> |

<sup>1)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

- Comparable sales growth was 4%, reflecting mid-single-digit growth in the Diagnosis & Treatment businesses and Personal Health businesses and low-single-digit growth in the Connected Care businesses.
- Growth geographies achieved high-single-digit comparable sales growth, driven by double-digit growth in China and Central & Eastern Europe. Mature geographies recorded low-single-digit growth, reflecting low-single-digit growth in other mature geographies, North America and Western Europe.
- Comparable order intake showed 5% growth, reflecting double-digit growth in the Diagnosis & Treatment businesses and a mid-single-digit decline in the Connected Care businesses.
- Adjusted EBITA improved by EUR 87 million and the margin improved by 40 basis points compared to the first half of 2018. The improvement was mainly attributable to sales growth and productivity, partly offset by tariffs, an adverse currency impact and investments in advertising.
- Restructuring, acquisition-related and other charges amounted to EUR 160 million, compared to EUR 133 million in the first half of 2018. The first half of 2019 also includes a gain related to the sale of the Photonics business in Germany and a charge related to a litigation provision. The first half of 2018 also included a gain of EUR 43 million related to a divestment.
- Adjusted EBITDA improved to 15.3%, an increase of EUR 179 million or 100 basis points compared to the first half of 2018, which includes the impact of the implementation of IFRS 16 lease accounting as of January 1, 2019
- Net financial expenses decreased by EUR 101 million year-on-year, mainly due to dividend income related to the retained interests in Signify and Lumileds, while the first half of 2018 included financial charges of EUR 46 million related to bonds redeemed in 2018.
- Income taxes increased by EUR 50 million year-on-year, mainly driven by higher income in 2019.
- Net income increased by EUR 283 million compared to the first half of 2018, mainly due to improvements in operational performance, lower net financial expenses and lower charges from discontinued operations, partly offset by higher income tax expense.
- Net cash flows from operating activities increased by EUR 181 million, mainly due to higher earnings, partly offset by higher working capital outflows and higher tax paid in the first half of 2019.
- Other cash flows from investing activities includes cash outflows related to acquisitions, partly offset by proceeds from divestments. The first half of 2019 also includes the proceeds from the sale of the Photonics business and the sale of Signify shares.
- Treasury shares transactions mainly relates to the share buyback programs for capital reduction purposes.
- Changes in debt mainly includes the net proceeds from the Green Innovation Bond issued in Q2 2019.

**Composition of net debt to group equity<sup>1)</sup>** in millions of EUR unless otherwise stated

|   | <b>December 31, 2018</b> | <b>June 30, 2019</b> |
|---|--------------------------|----------------------|
| Long-term debt                                    | 3,427                    | 4,788                |
| Short-term debt                                   | 1,394                    | 1,030                |
| <b>Total debt</b>                                 | <b>4,821</b>             | <b>5,817</b>         |
| Cash and cash equivalents                         | 1,688                    | 1,077                |
| <b>Net debt</b>                                   | <b>3,132</b>             | <b>4,741</b>         |
| Shareholders' equity                              | 12,088                   | 11,904               |
| Non-controlling interests                         | 29                       | 28                   |
| <b>Group equity</b>                               | <b>12,117</b>            | <b>11,932</b>        |
| <b>Net Debt : group equity ratio<sup>1)</sup></b> | <b>21:79</b>             | <b>28:72</b>         |

<sup>1)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

- The increase in debt is mainly attributable to the implementation of IFRS 16 lease accounting as of January 1, 2019, which had an impact of EUR 0.8 billion. This did not have a cash impact.



## Performance per segment

### Diagnosis & Treatment businesses

Key data in millions of EUR unless otherwise stated

|                                       | January to June    |       |
|---------------------------------------|--------------------|-------|
|                                       | 2018 <sup>1)</sup> | 2019  |
| Sales                                 | 3,513              | 3,786 |
| Sales growth                          |                    |       |
| Nominal sales growth                  | 4%                 | 8%    |
| Comparable sales growth <sup>2)</sup> | 8%                 | 4%    |
| Income from operations                | 174                | 219   |
| as a % of sales                       | 5.0%               | 5.8%  |
| EBITA <sup>2)</sup>                   | 211                | 291   |
| as a % of sales                       | 6.0%               | 7.7%  |
| Adjusted EBITA <sup>2)</sup>          | 277                | 362   |
| as a % of sales                       | 7.9%               | 9.6%  |
| Adjusted EBITDA <sup>2)</sup>         | 392                | 493   |
| as a % of sales                       | 11.2%              | 13.0% |

<sup>1)</sup> The comparative figures have been restated for the realigned composition of the reporting segments. See [Presentation on page 13](#).

<sup>2)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

- Comparable sales growth was 4%, reflecting double-digit growth in Image-Guided Therapy, mid-single-digit growth in Ultrasound, and a low-single-digit decline in Diagnostic Imaging.
- Comparable sales in growth geographies showed double-digit growth, driven by double-digit growth in China. Mature geographies recorded low-single-digit growth, reflecting mid-single-digit growth in North America, low-single-digit growth in other mature geographies, and a low-single-digit decline in Western Europe.
- Adjusted EBITA increased by EUR 85 million, resulting in a margin of 9.6%, reflecting sales growth and productivity, partly offset by the impact of tariffs.
- Restructuring, acquisition-related and other charges to improve productivity were EUR 70 million, compared to EUR 67 million in the first half of 2018.

### Connected Care businesses

Key data in millions of EUR unless otherwise stated

|                                       | January to June    |       |
|---------------------------------------|--------------------|-------|
|                                       | 2018 <sup>1)</sup> | 2019  |
| Sales                                 | 2,010              | 2,175 |
| Sales growth                          |                    |       |
| Nominal sales growth                  | (6)%               | 8%    |
| Comparable sales growth <sup>2)</sup> | 3%                 | 2%    |
| Income from operations                | 143                | 95    |
| as a % of sales                       | 7.1%               | 4.4%  |
| EBITA <sup>2)</sup>                   | 210                | 165   |
| as a % of sales                       | 10.4%              | 7.6%  |
| Adjusted EBITA <sup>2)</sup>          | 269                | 226   |
| as a % of sales                       | 13.4%              | 10.4% |
| Adjusted EBITDA <sup>2)</sup>         | 354                | 315   |
| as a % of sales                       | 17.6%              | 14.5% |

<sup>1)</sup> The comparative figures have been restated for the realigned composition of the reporting segments. See [Presentation on page 13](#).

<sup>2)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

- Comparable sales growth was 2%, reflecting mid-single-digit growth in Sleep & Respiratory Care and low-single-digit growth in Monitoring & Analytics.
- Comparable sales in growth geographies showed double-digit growth, driven by double-digit growth in China and Central & Eastern Europe. Mature geographies recorded low-single-digit growth, reflecting high-single-digit growth in other mature geographies, mid-single-digit growth in Western Europe, and a low-single-digit decline in North America.
- Adjusted EBITA decreased by EUR 43 million, resulting in a margin of 10.4%, mainly due to tariffs, adverse currency impact and mix.
- Restructuring, acquisition-related and other charges were EUR 61 million, compared to EUR 58 million in the first half of 2018.

## Personal Health businesses

Key data in millions of EUR unless otherwise stated

|                                       | January to June    |       |
|---------------------------------------|--------------------|-------|
|                                       | 2018 <sup>1)</sup> | 2019  |
| Sales                                 | 2,520              | 2,646 |
| Sales growth                          |                    |       |
| Nominal sales growth                  | (6)%               | 5%    |
| Comparable sales growth <sup>2)</sup> | 2%                 | 5%    |
| Income from operations                | 323                | 333   |
| as a % of sales                       | 12.8%              | 12.6% |
| EBITA <sup>2)</sup>                   | 341                | 347   |
| as a % of sales                       | 13.5%              | 13.1% |
| Adjusted EBITA <sup>2)</sup>          | 362                | 371   |
| as a % of sales                       | 14.4%              | 14.0% |
| Adjusted EBITDA <sup>2)</sup>         | 431                | 441   |
| as a % of sales                       | 17.1%              | 16.7% |

<sup>1)</sup> The comparative figures have been restated for the realigned composition of the reporting segments. See [Presentation on page 13](#).

<sup>2)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

## Other

Key data in millions of EUR unless otherwise stated

|                                  | January to June    |      |
|----------------------------------|--------------------|------|
|                                  | 2018 <sup>1)</sup> | 2019 |
| Sales                            | 186                | 216  |
| Income from operations           | (141)              | (53) |
| EBITA <sup>2)</sup>              | (67)               | (49) |
| Adjusted EBITA <sup>2)</sup> of: | (82)               | (45) |
| IP Royalties                     | 74                 | 111  |
| Innovation                       | (97)               | (90) |
| Central costs                    | (54)               | (55) |
| Other                            | (4)                | (10) |
| Adjusted EBITDA <sup>2)</sup>    | (5)                | 103  |

<sup>1)</sup> The comparative figures have been restated for the realigned composition of the reporting segments. See [Presentation on page 13](#).

<sup>2)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

- Comparable sales growth was 5%, reflecting double-digit growth in Oral Healthcare, mid-single-digit growth in Domestic Appliances, and low-single-digit growth in Personal Care.
- Comparable sales in growth geographies showed mid-single-digit growth, reflecting double-digit growth in Central & Eastern Europe and mid-single-digit growth in China. Mature geographies showed mid-single-digit growth, reflecting double-digit growth in other mature geographies, mid-single-digit growth in Western Europe, and low-single-digit growth in North America.
- Adjusted EBITA increased by EUR 9 million, resulting in a margin of 14%, as the operational leverage from sales growth was offset by investments in advertising.
- Restructuring, acquisition-related and other charges were EUR 24 million, compared to EUR 22 million in the first half of 2018.

- Sales increased by EUR 30 million, mainly due to higher IP royalty income.
- Restructuring, acquisition-related and other charges were EUR 4 million, compared to income of EUR 14 million in the first half of 2018. The first half of 2019 also includes a gain related to the sale of the Photonics business in Germany and a charge related to a litigation provision, while the first half of 2018 included a gain of EUR 43 million related to a divestment.

## Condensed consolidated statements of income

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

|   | Q2           |              | January to June |              |
|---|--------------|--------------|-----------------|--------------|
|   | 2018         | 2019         | 2018            | 2019         |
| <b>Sales</b>  | <b>4,288</b> | <b>4,671</b> | <b>8,229</b>    | <b>8,822</b> |
| Cost of sales   | (2,282)      | (2,546)      | (4,438)         | (4,810)      |
| <b>Gross margin</b>   | <b>2,006</b> | <b>2,125</b> | <b>3,791</b>    | <b>4,013</b> |
| Selling expenses  | (1,162)      | (1,173)      | (2,203)         | (2,257)      |
| General and administrative expenses   | (157)        | (165)        | (288)           | (317)        |
| Research and development expenses   | (425)        | (443)        | (858)           | (882)        |
| Other business income   | 49           | 19           | 76              | 96           |
| Other business expenses   | (13)         | (14)         | (19)            | (59)         |
| <b>Income from operations</b>   | <b>298</b>   | <b>350</b>   | <b>499</b>      | <b>594</b>   |
| Financial income  | 17           | 41           | 30              | 88           |
| Financial expenses  | (66)         | (60)         | (159)           | (116)        |
| Investment in associates, net of income taxes   | 1            | 3            | 1               | 5            |
| <b>Income before taxes</b>  | <b>249</b>   | <b>334</b>   | <b>371</b>      | <b>571</b>   |
| Income tax expense  | (63)         | (74)         | (91)            | (141)        |
| <b>Income from continuing operations</b>  | <b>186</b>   | <b>260</b>   | <b>280</b>      | <b>430</b>   |
| Discontinued operations, net of income taxes  | (184)        | (13)         | (154)           | (22)         |
| <b>Net income</b>   | <b>2</b>     | <b>246</b>   | <b>126</b>      | <b>409</b>   |
| <b>Attribution of net income</b>  |              |              |                 |              |
| Income from continuing operations attributable to shareholders <sup>1)</sup>  | 185          | 256          | 280             | 429          |
| Net income attributable to shareholders <sup>1)</sup>   | -            | 243          | 126             | 407          |
| Net income attributable to non-controlling interests  | 1            | 3            | -               | 2            |
| <b>Earnings per common share</b>  |              |              |                 |              |
| Weighted average number of common shares outstanding (after deduction of treasury shares) during the period (in thousands): |              |              |                 |              |
| - basic   | 917,042      | 904,913      | 919,147         | 908,945      |
| - diluted   | 929,228      | 913,675      | 931,465         | 919,208      |
| Income from continuing operations attributable to shareholders <sup>1)</sup>  |              |              |                 |              |
| - basic   | 0.20         | 0.28         | 0.30            | 0.47         |
| - diluted   | 0.20         | 0.28         | 0.30            | 0.47         |
| Net income attributable to shareholders <sup>1)</sup>   |              |              |                 |              |
| - basic   | 0.00         | 0.27         | 0.14            | 0.45         |
| - diluted   | 0.00         | 0.27         | 0.14            | 0.44         |

<sup>1)</sup> Shareholders refers to shareholders of Koninklijke Philips N.V.

Amounts may not add up due to rounding

## Condensed consolidated statements of comprehensive income

Condensed consolidated statements of comprehensive income (OCI) in millions of EUR

|  | Q2         |              | January to June |            |
|--|------------|--------------|-----------------|------------|
|  | 2018       | 2019         | 2018            | 2019       |
| <b>Net income (loss) for the period</b>  | <b>2</b>   | <b>246</b>   | <b>126</b>      | <b>409</b> |
| Pensions and other post-employment plans:  |            |              |                 |            |
| Remeasurement  |            | -            |                 | 1          |
| Income tax effect on remeasurements  |            | 1            |                 | -          |
| Financial assets fair value through OCI:   |            |              |                 |            |
| Net current-period change, before tax  | 5          | 54           | (1)             | 57         |
| Reclassification directly into retained earnings                                 | -          |              | (5)             |            |
| <b>Total of items that will not be reclassified to income statement</b>          | <b>5</b>   | <b>55</b>    | <b>(7)</b>      | <b>57</b>  |
| Currency translation differences:  |            |              |                 |            |
| Net current-period change, before tax  | 510        | (133)        | 325             | 84         |
| Income tax effect on net current-period change                                   | (28)       | 5            | (19)            | (1)        |
| Reclassification adjustment for (gain) loss realized, in continued operations    |            | 4            |                 | 4          |
| Reclassification adjustment for (gain) loss realized, in discontinued operations |            | 16           | (6)             | 16         |
| Cash flow hedges:  |            |              |                 |            |
| Net current-period change, before tax  | (9)        | 3            | (8)             | (22)       |
| Income tax effect on net current-period change                                   | 6          | (3)          | 10              | 3          |
| Reclassification adjustment for (gain) loss realized                             | (9)        | 9            | (25)            | 15         |
| <b>Total of items that are or may be reclassified to income statement</b>        | <b>469</b> | <b>(100)</b> | <b>276</b>      | <b>98</b>  |
| <b>Other comprehensive income (loss) for the period</b>                          | <b>474</b> | <b>(45)</b>  | <b>269</b>      | <b>155</b> |
| <b>Total comprehensive income (loss) for the period</b>                          | <b>476</b> | <b>202</b>   | <b>395</b>      | <b>564</b> |
| Total comprehensive income attributable to:                                      |            |              |                 |            |
| Shareholders of Koninklijke Philips N.V.   | 477        | 197          | 397             | 561        |
| Non-controlling interests  | (1)        | 5            | (2)             | 3          |

Amounts may not add up due to rounding

## Condensed consolidated balance sheets

Condensed consolidated balance sheets in millions of EUR

|   | December 31, 2018 | June 30, 2019 |
|---|-------------------|---------------|
| <b>Non-current assets:</b>                                |                   |               |
| Property, plant and equipment                             | 1,712             | 2,473         |
| Goodwill  | 8,503             | 8,615         |
| Intangible assets excluding goodwill                      | 3,589             | 3,535         |
| Non-current receivables                                   | 162               | 187           |
| Investments in associates                                 | 244               | 251           |
| Other non-current financial assets                        | 360               | 330           |
| Non-current derivative financial assets                   | 1                 | 1             |
| Deferred tax assets                                       | 1,828             | 1,830         |
| Other non-current assets                                  | 47                | 51            |
| <b>Total non-current assets</b>                           | <b>16,447</b>     | <b>17,275</b> |
| <b>Current assets:</b>                                    |                   |               |
| Inventories   | 2,674             | 2,982         |
| Other current financial assets                            | 436               | 476           |
| Other current assets                                      | 469               | 545           |
| Current derivative financial assets                       | 36                | 28            |
| Income tax receivable                                     | 147               | 178           |
| Current receivables                                       | 4,035             | 3,789         |
| Assets classified as held for sale                        | 87                | 2             |
| Cash and cash equivalents                                 | 1,688             | 1,077         |
| <b>Total current assets</b>                               | <b>9,572</b>      | <b>9,077</b>  |
| <b>Total assets</b>                                       | <b>26,019</b>     | <b>26,352</b> |
| <b>Group equity:</b>                                      |                   |               |
| Shareholders' equity                                      | 12,088            | 11,904        |
| <i>Common shares</i>                                      | 185               | 181           |
| <i>Reserves</i>   | 548               | 687           |
| <i>Other</i>  | 11,355            | 11,036        |
| Non-controlling interests                                 | 29                | 28            |
| <b>Total group equity</b>                                 | <b>12,117</b>     | <b>11,932</b> |
| <b>Non-current liabilities:</b>                           |                   |               |
| Long-term debt  | 3,427             | 4,788         |
| Non-current derivative financial liabilities              | 114               | 116           |
| Long-term provisions                                      | 1,788             | 1,695         |
| Deferred tax liabilities                                  | 152               | 137           |
| Non-current contract liabilities                          | 226               | 291           |
| Other non-current liabilities                             | 253               | 263           |
| <b>Total non-current liabilities</b>                      | <b>5,959</b>      | <b>7,290</b>  |
| <b>Current liabilities:</b>                               |                   |               |
| Short-term debt   | 1,394             | 1,030         |
| Current derivative financial liabilities                  | 176               | 52            |
| Income tax payable  | 118               | 84            |
| Accounts payable  | 2,303             | 2,092         |
| Accrued liabilities                                       | 1,537             | 1,307         |
| Current contract liabilities                              | 1,303             | 1,293         |
| Short-term provisions                                     | 363               | 476           |
| Dividend payable  |                   | 68            |
| Liabilities directly associated with assets held for sale | 12                | -             |
| Other current liabilities                                 | 737               | 727           |
| <b>Total current liabilities</b>                          | <b>7,943</b>      | <b>7,129</b>  |
| <b>Total liabilities and group equity</b>                 | <b>26,019</b>     | <b>26,352</b> |

Amounts may not add up due to rounding

## Condensed consolidated statement of cash flows

Condensed consolidated statement of cash flows in millions of EUR

|   | January to June |              |
|---|-----------------|--------------|
|   | 2018            | 2019         |
| <b>Cash flows from operating activities:</b>  |                 |              |
| Net income (loss)   | 126             | 409          |
| Results of discontinued operations, net of income taxes   | 154             | 22           |
| Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities: |                 |              |
| Depreciation, amortization and impairment of fixed assets   | 547             | 601          |
| Net gain on sale of assets  | (61)            | (73)         |
| Interest income   | (17)            | (16)         |
| Interest expense on debt, borrowings and other liabilities  | 85              | 87           |
| Income taxes  | 91              | 141          |
| Decrease (increase) in working capital:   | (343)           | (617)        |
| Decrease (increase) in receivables and other current assets   | 441             | 351          |
| Decrease (increase) in inventories  | (367)           | (363)        |
| Increase (decrease) in accounts payable, accrued and other current liabilities                      | (417)           | (605)        |
| Decrease (increase) in non-current receivables, other assets and other liabilities                  | (111)           | 40           |
| Increase (decrease) in provisions   | (34)            | 44           |
| Other items   | 5               | 39           |
| Interest paid   | (94)            | (91)         |
| Interest received   | 16              | 15           |
| Dividends received from investments in associates   | 12              | 6            |
| Income taxes paid   | (152)           | (205)        |
| <b>Net cash provided by (used for) operating activities</b>   | <b>223</b>      | <b>404</b>   |
| <b>Cash flows from investing activities:</b>  |                 |              |
| Net capital expenditures  | (311)           | (435)        |
| Purchase of intangible assets   | (56)            | (76)         |
| Expenditures on development assets  | (140)           | (171)        |
| Capital expenditures on property, plant and equipment   | (152)           | (219)        |
| Proceeds from sales of property, plant and equipment  | 37              | 30           |
| Net proceeds from (cash used for) derivatives and current financial assets                          | (143)           | (71)         |
| Purchase of other non-current financial assets  | (13)            | (33)         |
| Proceeds from other non-current financial assets  | 34              | 18           |
| Purchase of businesses, net of cash acquired  | (261)           | (74)         |
| Net proceeds from sale of interests in businesses, net of cash disposed of                          | 70              | 128          |
| <b>Net cash provided by (used for) investing activities</b>   | <b>(623)</b>    | <b>(467)</b> |
| <b>Cash flows from financing activities:</b>  |                 |              |
| Proceeds from issuance (payments) of short-term debt  | 69              | 53           |
| Principal payments on short-term portion of long-term debt  | (1,101)         | (122)        |
| Proceeds from issuance of long-term debt  | 1,238           | 797          |
| Re-issuance of treasury shares  | 72              | 29           |
| Purchase of treasury shares   | (432)           | (911)        |
| Dividend paid to shareholders <sup>1)</sup>   | (341)           | (385)        |
| Dividend paid to non-controlling interests  | (2)             | (1)          |
| <b>Net cash provided by (used for) financing activities</b>   | <b>(497)</b>    | <b>(541)</b> |
| <b>Net cash provided by (used for) continuing operations</b>  | <b>(898)</b>    | <b>(604)</b> |
| <b>Net cash provided by (used for) discontinued operations</b>                                      | <b>569</b>      | <b>(14)</b>  |
| <b>Net cash provided by (used for) continuing and discontinued operations</b>                       | <b>(329)</b>    | <b>(618)</b> |
| Effect of changes in exchange rates on cash and cash equivalents                                    | 5               | 7            |
| Cash and cash equivalents at the beginning of the period  | 1,939           | 1,688        |
| <b>Cash and cash equivalents at the end of the period</b>   | <b>1,615</b>    | <b>1,077</b> |

<sup>1)</sup> Shareholders refers to shareholders of Koninklijke Philips N.V.

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

Amounts may not add up due to rounding

## Condensed consolidated statements of changes in equity

Condensed consolidated statements of changes in equity in millions of EUR

|  | Common shares | Currency translation differences | Fair value through OCI | Cash flow hedges | Capital in excess of par value | Retained earnings | Treasury shares at cost | Total shareholders' equity | Non-controlling interests | Group equity |
|--|---------------|----------------------------------|------------------------|------------------|--------------------------------|-------------------|-------------------------|----------------------------|---------------------------|--------------|
|  |               | Reserves                         |                        |                  | other                          |                   |                         |                            |                           |              |
| <b>Balance as of December 31, 2017</b>   | 188           | 392                              | (30)                   | 23               | 3,311                          | 8,596             | (481)                   | 11,999                     | 24                        | 12,023       |
| IFRS 9 and 15 adjustment   |               |                                  | (4)                    |                  |                                | (25)              |                         | (29)                       |                           | (29)         |
| <b>Balance as of January 1, 2018</b>   | 188           | 392                              | (34)                   | 23               | 3,311                          | 8,571             | (481)                   | 11,970                     | 24                        | 11,993       |
| Total comprehensive income (loss)  |               | 302                              | (1)                    | (24)             |                                | 120               |                         | 397                        | (2)                       | 395          |
| Dividend distributed   | 2             |                                  |                        |                  | 336                            | (738)             |                         | (400)                      |                           | (400)        |
| Purchase of treasury shares  |               |                                  |                        |                  |                                |                   | (352)                   | (352)                      |                           | (352)        |
| Re-issuance of treasury shares   |               |                                  |                        |                  | (270)                          | (2)               | 319                     | 47                         |                           | 47           |
| Forward contracts  |               |                                  |                        |                  |                                | 20                | (20)                    | (0)                        |                           | (0)          |
| Share call options   |               |                                  |                        |                  |                                | 23                | (60)                    | (37)                       |                           | (37)         |
| Share-based compensation plans   |               |                                  |                        |                  | 58                             |                   |                         | 58                         |                           | 58           |
| Income tax share-based compensation plans  |               |                                  |                        |                  | (5)                            |                   |                         | (5)                        |                           | (5)          |
| <b>Balance as of June 30, 2018</b>   | 190           | 694                              | (35)                   | (1)              | 3,430                          | 7,995             | (594)                   | 11,679                     | 22                        | 11,701       |
| <b>Balance as of December 31, 2018</b>   | 185           | 739                              | (181)                  | (10)             | 3,487                          | 8,266             | (399)                   | 12,088                     | 29                        | 12,117       |
| IFRS 16 adjustment   |               |                                  |                        |                  |                                | (33)              |                         | (33)                       |                           | (33)         |
| <b>Balance as of January 1, 2019</b>   | 185           | 739                              | (181)                  | (10)             | 3,487                          | 8,233             | (399)                   | 12,055                     | 29                        | 12,084       |
| Total comprehensive income (loss)  |               | 101                              | 57                     | (5)              |                                | 407               |                         | 561                        | 3                         | 564          |
| Dividend distributed   | 2             |                                  |                        |                  | 319                            | (775)             |                         | (454)                      | (1)                       | (455)        |
| Minority buy-out   |               |                                  |                        |                  |                                | (3)               |                         | (3)                        | (3)                       | (6)          |
| Transfer of gain (loss) on disposal of equity investments at fair value through OCI to retained earnings |               |                                  | (14)                   |                  |                                | 14                |                         | -                          |                           | -            |
| Purchase of treasury shares  |               |                                  |                        |                  |                                |                   | (317)                   | (317)                      |                           | (317)        |
| Re-issuance of treasury shares   |               |                                  |                        |                  | (240)                          | 18                | 240                     | 18                         |                           | 18           |
| Forward contracts  |               |                                  |                        |                  |                                | 576               | (576)                   | -                          |                           | -            |
| Share call options   |               |                                  |                        |                  |                                | 13                | (26)                    | (13)                       |                           | (13)         |
| Cancellation of treasury shares  | (6)           |                                  |                        |                  |                                | (974)             | 980                     | -                          |                           | -            |
| Share-based compensation plans   |               |                                  |                        |                  | 54                             |                   |                         | 54                         |                           | 54           |
| Income tax share-based compensation plans  |               |                                  |                        |                  | 2                              |                   |                         | 2                          |                           | 2            |
| <b>Balance as of June 30, 2019</b>   | 181           | 841                              | (138)                  | (15)             | 3,623                          | 7,510             | (97)                    | 11,904                     | 28                        | 11,932       |

Amounts may not add up due to rounding

## Notes to the unaudited semi-annual condensed consolidated financial statements

### Significant accounting policies

The significant accounting policies applied in these semi-annual condensed consolidated financial statements are consistent with those applied in the Annual Report 2018, except for the adoption of new standards effective January 1, 2019 and segment reporting. The company has not early-adopted any standard, interpretation or amendment that has been issued but is not yet effective.

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

### New and amended standards adopted by the company

The company applies, for the first time, IFRS 16 Leases. The impact of the adoption of this new standard and the new accounting policy is disclosed below. Other amendments and interpretations apply for the first time in 2019, but do not have a material impact on the interim condensed consolidated financial statements of the company.

### Impact on the financial statements

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance-sheet model.

Lessor accounting under IFRS 16 is substantially unchanged compared to IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the company is the lessor.

The company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019.

### Nature of the effect of adoption of IFRS 16

The company has lease contracts for various items of real estate, vehicles and other equipment. Before the adoption of IFRS 16, the company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the company otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased item was not capitalized and the lease payments were recognized as rent expense in the statement of income on a straight-line basis over the lease

term. Any prepaid rent and accrued rent were recognized under Other current assets and Accrued liabilities respectively. Upon adoption of IFRS 16, the company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients which have been applied by the company.

### Leases previously classified as finance leases

The company did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS 17). The requirements of IFRS 16 have been applied to these leases from January 1, 2019.

### Leases previously accounted for as operating leases

The company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. For certain property leases, the right-of-use assets were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

### Practical expedients applied

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:

- Reliance on previous assessments on whether leases are onerous
- Accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases
- Exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application
- Use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease
- Exclusion of low-value leases (i.e. individually less than EUR 5,000)
- Not separating lease from non-lease components for car leases.

The company has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, the company relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.



## Adjustments recognized on adoption of IFRS 16

On adoption of IFRS 16, the company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 2.4%.

In addition, the existing finance lease assets and liabilities determined as per IAS 17 with a carrying value of approximately EUR 330 million each as at December 31, 2018 have been reclassified and added to the right-of-use asset and lease liability determined as per IFRS 16 on January 1, 2019.

The change in accounting policy affected the following items on the balance sheet on January 1, 2019:

### Balance sheet impact of IFRS 16 adoption in millions of EUR

| Balance sheet captions        | January 1, 2019 | IFRS 16 | January 1, 2019 |
|-------------------------------|-----------------|---------|-----------------|
| Property, plant and equipment | 1,712           | 760     | 2,472           |
| Other current assets          | 469             | (12)    | 457             |
| Deferred tax assets           | 1,828           | 5       | 1,833           |
| Shareholders' equity          | 12,088          | (33)    | 12,055          |
| Long-term debt                | 3,427           | 656     | 4,083           |
| Long-term provisions          | 1,788           | (6)     | 1,782           |
| Short-term debt               | 1,394           | 147     | 1,541           |
| Accrued liabilities           | 1,537           | (11)    | 1,526           |

The lease liabilities as of January 1, 2019 are reconciled to the operating lease commitments as of December 31, 2018 as follows :

### Reconciliation of operating lease commitments to lease liabilities in millions of EUR

|  |              |
|--|--------------|
| <b>Operating lease commitments disclosed as of December 31, 2018</b>                           | <b>756</b>   |
| Discounted using the lessee's incremental borrowing rate of at the date of initial application | 699          |
| Add: finance lease liabilities recognized as at December 31, 2018                              | 330          |
| (Less): short-term leases recognized on a straight-line basis as expense                       | (17)         |
| Add: lease extensions considered reasonably certain  | 121          |
| <b>Lease liability recognized as of January 1, 2019</b>  | <b>1,133</b> |
| Of which are:  |              |
| Current lease liabilities  | 241          |
| Non-current lease liabilities  | 892          |

The impact on opening retained earnings as of January 1, 2019 due to IFRS 16 adoption is as follows:

### Retained earnings impact of IFRS 16 adoption in millions of EUR

|   |              |
|---|--------------|
| <b>Retained earnings as of December 31, 2018</b>                  | <b>8,266</b> |
| <i>IFRS 16 adjustments due to modified retrospective approach</i> |              |
| Asset retrospective calculation                                   | (38)         |
| Deferred tax asset impact   | 5            |
| <b>Opening balance Retained earnings as of January 1, 2019</b>    | <b>8,233</b> |

The costs incurred to date following the IFRS 16 adoption consisted of depreciation amounting to EUR 75 million, interest charges amounting to EUR 10 million and EUR 27 million for short-term and low value leases, compared to EUR 109 million of operating lease expenses booked in the first half of 2018. In the first half of 2019 operating cash flows increased and financing cash flows decreased by EUR 73 million compared to previous year as the repayment of the principal portion of the lease liabilities is now classified as cash flows from financing activities, while previously the operating lease payments were classified as cash flows from operating activities.

## Accounting policy on lease accounting

The company leases various items of real estate, vehicles and other equipment. Rental contracts are typically made for fixed periods but may have extension or termination options.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate at the lease commencement date is used, which is based on an assessment of interest rates the company would have to pay to borrow funds, including the consideration of factors such as the nature of the asset and location, collateral, market terms and conditions, as applicable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

Each lease payment is allocated between the liability and finance charges. The interest element of the finance cost is charged to the consolidated statements of income over the

lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs
- restoration costs.

The right-of-use assets are subsequently accounted for using principles for property, plant and equipment. Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the statement of income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture considered to be of low value (i.e. less than EUR 5,000).

The company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal.

## Estimates

The preparation of the semi-annual condensed consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting principles and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates under different assumptions or conditions.

In preparing these semi-annual condensed financial statements, the significant estimates and judgements made by management in applying the company's accounting policies and the key sources of estimation uncertainty were

the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2018. The impact on estimates related to the adoption of IFRS 16 was immaterial.

## Risk management

The Annual Report 2018 describes certain risk categories and risks (including risk appetite) which could have a material adverse effect on Philips' financial position and results. Those categories and risks remain valid and should be read in conjunction with this semi-annual report.

Looking ahead to the second half of 2019, financial markets are expected to continue to be highly volatile due to political and macroeconomic issues (such as, but not limited to, trade tariffs and sanctions) in most major regions such as Europe (including Brexit), United States, China, Russia, Middle East & Turkey and Latin America. Such conditions in financial markets may adversely affect the timing of and proceeds from the ongoing divestment of Signify.

Also, Philips operates in a highly regulated product safety and quality environment. Philips products and facilities are subject to regulation and ongoing inspections by various government agencies, including, in particular, the FDA (US) and comparable non-US agencies. Philips is undertaking considerable efforts to improve quality and management systems in all of its operations. The remediation work in this area will continue to affect the company's results.

Additional risks not known to Philips, or currently believed not to be material, could later turn out to have a material impact on Philips' business, objectives, revenues, income, assets, liquidity or capital resources.

## Seasonality

Under normal economic conditions, the Group's sales are impacted by seasonal fluctuations, typically resulting in higher revenues and earnings in the second half-year. At Diagnosis & Treatment businesses and Connected Care businesses, sales are generally higher in the second half-year, largely due to the timing of new product availability and customers attempting to spend their annual budgeted allowances before the end of the year. At Personal Health businesses, sales are generally higher in the second half-year due to the holiday sales and events. The segment Other is generally not materially affected by seasonality, however the timing of intellectual property transactions causes variation over the year.

## Segment information

Sales and Adjusted EBITA<sup>1)</sup> in millions of EUR unless otherwise stated

|                            | January to June |                              |                              |                 |              |                              |                              |                 |
|----------------------------|-----------------|------------------------------|------------------------------|-----------------|--------------|------------------------------|------------------------------|-----------------|
|                            | 2018            |                              |                              |                 | 2019         |                              |                              |                 |
|                            | sales           | sales including intercompany | Adjusted EBITA <sup>1)</sup> | as a % of sales | sales        | sales including intercompany | Adjusted EBITA <sup>1)</sup> | as a % of sales |
| Diagnosis & Treatment      | 3,513           | 3,569                        | 277                          | 7.9%            | 3,786        | 3,835                        | 362                          | 9.6%            |
| Connected Care             | 2,010           | 2,019                        | 269                          | 13.4%           | 2,175        | 2,196                        | 226                          | 10.4%           |
| Personal Health            | 2,520           | 2,526                        | 362                          | 14.4%           | 2,646        | 2,651                        | 371                          | 14.0%           |
| Other                      | 186             | 225                          | (82)                         |                 | 216          | 255                          | (45)                         |                 |
| Inter-segment eliminations |                 | (110)                        |                              |                 |              | (114)                        |                              |                 |
| <b>Philips Group</b>       | <b>8,229</b>    | <b>8,229</b>                 | <b>827</b>                   | <b>10.0%</b>    | <b>8,822</b> | <b>8,822</b>                 | <b>914</b>                   | <b>10.4%</b>    |

<sup>1)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

Reconciliation of Net income to Adjusted EBITA<sup>1)</sup> in millions of EUR

|  | Philips Group | Diagnosis & Treatment | Connected Care | Personal Health | Other        |
|--|---------------|-----------------------|----------------|-----------------|--------------|
| <b>January to June 2019</b>                    |               |                       |                |                 |              |
| Net income                                     | 409           |                       |                |                 |              |
| Discontinued operations, net of income taxes   | 22            |                       |                |                 |              |
| Income tax expense                             | 141           |                       |                |                 |              |
| Investments in associates, net of income taxes | (5)           |                       |                |                 |              |
| Financial expenses                             | 116           |                       |                |                 |              |
| Financial income                               | (88)          |                       |                |                 |              |
| <b>Income from operations</b>                  | <b>594</b>    | <b>219</b>            | <b>95</b>      | <b>333</b>      | <b>(53)</b>  |
| Amortization of acquired intangible assets     | 160           | 72                    | 70             | 14              | 4            |
| <b>EBITA<sup>1)</sup></b>                      | <b>754</b>    | <b>291</b>            | <b>165</b>     | <b>347</b>      | <b>(49)</b>  |
| Restructuring and acquisition-related charges  | 153           | 63                    | 34             | 23              | 31           |
| Other items                                    | 7             | 7                     | 27             | -               | (27)         |
| <b>Adjusted EBITA<sup>1)</sup></b>             | <b>914</b>    | <b>362</b>            | <b>226</b>     | <b>371</b>      | <b>(45)</b>  |
| <b>January to June 2018</b>                    |               |                       |                |                 |              |
| Net income                                     | 126           |                       |                |                 |              |
| Discontinued operations, net of income taxes   | 154           |                       |                |                 |              |
| Income tax expense                             | 91            |                       |                |                 |              |
| Investments in associates, net of income taxes | (1)           |                       |                |                 |              |
| Financial expenses                             | 159           |                       |                |                 |              |
| Financial income                               | (30)          |                       |                |                 |              |
| <b>Income from operations</b>                  | <b>499</b>    | <b>174</b>            | <b>143</b>     | <b>323</b>      | <b>(141)</b> |
| Amortization of intangible assets              | 195           | 36                    | 67             | 18              | 73           |
| <b>EBITA<sup>1)</sup></b>                      | <b>694</b>    | <b>211</b>            | <b>210</b>     | <b>341</b>      | <b>(67)</b>  |
| Restructuring and acquisition-related charges  | 116           | 66                    | 26             | 4               | 19           |
| Other items                                    | 17            | -                     | 32             | 18              | (33)         |
| <b>Adjusted EBITA<sup>1)</sup></b>             | <b>827</b>    | <b>277</b>            | <b>269</b>     | <b>362</b>      | <b>(82)</b>  |

<sup>1)</sup> Non-IFRS financial measure. Refer to [Reconciliation of non-IFRS information](#), of this document.

Sales and tangible and intangible assets in millions of EUR

|                      | sales <sup>1)</sup> |              | tangible and intangible assets <sup>2)</sup> |               |
|----------------------|---------------------|--------------|--|---------------|
|                      | January to June     |              | June 30,                                     | June 30,      |
|                      | 2018                | 2019         | 2018   | 2019          |
| Netherlands          | 244                 | 263          | 1,192  | 2,016         |
| United States        | 2,780               | 3,070        | 8,595  | 9,665         |
| China                | 1,109               | 1,260        | 908  | 332           |
| Japan                | 512                 | 590          | 484  | 549           |
| Germany              | 451                 | 458          | 273  | 328           |
| France               | 228                 | 217          | 32   | 46            |
| United Kingdom       | 200                 | 211          | 640  | 623           |
| Other countries      | 2,706               | 2,754        | 890  | 1,066         |
| <b>Philips Group</b> | <b>8,229</b>        | <b>8,822</b> | <b>13,014</b>                                | <b>14,624</b> |

<sup>1)</sup> Sales are reported based upon country of destination

<sup>2)</sup> Includes Property, plant and equipment, Goodwill and Intangibles assets excluding goodwill

As required by IFRS 8, Operating Segments are Diagnosis & Treatment businesses, Connected Care businesses and Personal Health businesses, each being responsible for the management of its business worldwide. On January 10, 2019 Philips announced that it has realigned the composition of its reporting segments effective as of January 1, 2019. The most notable changes are the shifts of the Sleep & Respiratory Care business from the Personal Health segment to the renamed Connected Care segment and most of the Healthcare Informatics business from the renamed Connected Care segment to the Diagnosis & Treatment segment. Accordingly, the prior-period comparative figures have been restated.

## Acquisitions and divestments

### Acquisitions

Philips completed one acquisition during the six months ended June 30, 2019. The acquisition involved a net cash outflow of EUR 38 million, a contingent consideration of EUR 11 million (recorded in Long-term provisions), and resulted in an increase of Goodwill and Other intangible assets of EUR 36 million and EUR 20 million respectively. These amounts are subject to final purchase price allocation.

On March 7, 2019, Philips announced that it has signed an agreement to acquire the Health Care Information Systems business of Carestream Health Inc. The completion of the transaction is on track. Philips expects to complete the acquisition in the second half of 2019, subject to customary closing conditions, including the relevant regulatory approvals.

### Divestments

Philips completed two divestments in the first six months of 2019. The divestments involved an aggregated net cash inflow of EUR 123 million.

## Property, plant and equipment

The increase in Property, plant and equipment mainly relates to the implementation of IFRS 16. The right-of-use assets taken on the balance sheet amounted to EUR 760 million. For more details please refer to [Significant accounting policies](#).

## Other financial assets

### Other non-current financial assets

In the first half of 2019, Other non-current financial assets decreased by EUR 30 million from EUR 360 million as of December 31, 2018 to EUR 330 million as of June 30, 2019, mainly reflecting fair value adjustments through profit and loss (FVTP&L) and other comprehensive income (FVTOCI). This included a value adjustment through OCI related to the retained investment in the combined Lumileds and Automotive businesses, which has a remaining value as of June 30, 2019 of EUR nil million (December 31, 2018: EUR 112 million).

### Other current financial assets

In the first half of 2019, Other current financial assets increased by EUR 40 million from EUR 436 million as of December 31, 2018 to EUR 476 million as of June 30, 2019, mainly reflecting a fair value increase through OCI of the Signify shareholding, partially offset by further sales of shares. Philips sold 2.93 million shares for a total consideration of EUR 72 million, of which EUR 7 million was receivable as of June 30, 2019. Philips' shareholding reduced from 16.5% as of December 31, 2018 to 14.3% as of June 30, 2019.

## Equity

In June 2019, Philips settled a dividend of EUR 0.85 per common share, representing a total value of EUR 774 million including costs. Shareholders could elect for a cash dividend or a share dividend. Approximately 42% of the shareholders elected for a share dividend, resulting in the issuance of 9,079,538 new common shares. The cash dividend involved an amount of EUR 453 million (including costs).

As of June 30, 2019, the issued and fully-paid share capital consists of 905,275,077 common shares, each share having a par value of EUR 0.20.

During the first six months of 2019, a total of 7,341,367 treasury shares were delivered as a result of restricted share deliveries, performance share deliveries and stock option exercises.

A total of 715,344 shares were acquired in connection with Philips' Long Term Incentive (LTI) Program through the unwinding of options which were previously acquired to cover LTI commitments. During the first half of 2019 the company

unwound 430,608 EUR-denominated and 284,736 USD-denominated call options against the transfer of the same number of Royal Philips shares (715,344 shares) and an additional EUR 13 million cash payment to the buyer of the call options. As of June 30, 2019, the number of outstanding EUR-denominated options was 1,593,031 and the number of outstanding USD-denominated options was 1,485,482.

In the first half of 2019, a total of 27,473,076 shares were acquired to reduce the share capital through (1) a daily share buyback program (started in January 2019) and (2) a forward share buyback program. A total of 18,600,000 shares were acquired through forward contracts that were settled, which resulted in a EUR 576 million increase in retained earnings against treasury shares. As of June 2019 there are no forward contracts outstanding in regard to share capital reduction. In addition, there was a cancellation of 30 million shares with cost price of EUR 980 million.

On June 30, 2019, the total number of treasury shares amounted to 2,858,505, which were purchased at an average price of EUR 33.89 per share.

## Debt

As of June 30, 2019, Philips had total debt of EUR 5,817 million, an increase of EUR 997 million compared to December 31, 2018. The majority of the debt consisted of EUR 4,044 million of public EUR and USD bonds with a weighted average interest rate of 2.48%. Long-term debt was EUR 4,788 million, an increase of EUR 1,361 million, and short-term debt was EUR 1,030 million, a decrease of EUR 364 million compared to December 31, 2018.

In January 2019, EUR 803 million of lease liabilities were recognized due to the implementation of IFRS 16. For further details, please refer to [Significant accounting policies](#).

In February 2019, Philips successfully exercised, with existing terms and conditions, the second of two 1-year extension options of its EUR 1.0 billion committed standby revolving credit facility for general corporate purposes, extending the final maturity date to April 21, 2024.

In May 2019, Philips issued a fixed-rate Green Innovation Bond with an aggregate principal amount of EUR 750 million (0.500%, due 2026). In the first half of 2019, a nominal amount of EUR 576 million of forward contracts related to the EUR 1.5 billion share buyback program announced on June 28, 2017 matured.

## Contingent liabilities

### Guarantees

Philips' policy is to provide guarantees and other letters of support only in writing. Philips does not stand by other forms of support. Remaining off-balance-sheet business and credit-related guarantees provided on behalf of third parties and associates decreased by EUR 16 million during the first half of 2019 to EUR 24 million.

## Legal proceedings

Royal Philips and certain of its group companies and former group companies are involved as a party in legal proceedings, including regulatory and other governmental proceedings, including discussions on potential remedial actions, relating to such matters as competition issues, intellectual property, commercial transactions, product liability, participations and environmental pollution. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal proceedings, regulatory and governmental proceedings, Philips is of the opinion that the cases described below may have, or have had in the recent past, a significant impact on its consolidated financial position, results of operations and cash flows. For information regarding legal proceedings in which Philips is involved, please refer to the Annual Report 2018. Significant developments regarding legal proceedings that have occurred since the publication of the Annual Report 2018 are described below:

### Cathode-Ray Tubes (CRT)

In the CRT-related civil antitrust litigation pending outside the United States, Philips has reached two more settlements in principle. The settlements reached had no material impact on our results in the first half year of 2019. For some of the remaining CRT-related civil antitrust actions, Philips recorded a provision based on interactions with the plaintiffs in these cases.

### Compliance matters

The Public Prosecution Service in Rio de Janeiro and representatives from the Brazilian antitrust authority CADE are conducting an investigation into tender irregularities in the medical device industry in Brazil. Philips is one of a number of companies involved in the investigation. The company has been conducting an internal investigation into the matter and is discussing the results with the Brazilian authorities. In connection with this matter, the company has also received inquiries from the US Securities and Exchange Commission ('SEC') and US Department of Justice ('DoJ'). The company also volunteered to provide the SEC and DoJ with information about its compliance efforts in China.

## Fair value of financial assets and liabilities

The estimated fair value of financial instruments has been determined by the company using available market information and appropriate valuation methods. The estimates presented are not necessarily indicative of the amounts that will ultimately be realized by the company upon maturity or disposal. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

## Fair value of financial assets and liabilities in millions of EUR

|  | carrying amount | estimated fair value <sup>1)</sup> | Level 1    | Level 2      | Level 3      |
|--|-----------------|------------------------------------|------------|--------------|--------------|
| <b>Balance at June 30, 2019</b>                          |                 |                                    |            |              |              |
| <b>Financial assets</b>                                  |                 |                                    |            |              |              |
| <b>Carried at fair value:</b>                            |                 |                                    |            |              |              |
| Debt instruments   | 87              | 87                                 |            |              | 87           |
| Equity instruments                                       | 29              | 29                                 | 29         |              |              |
| Other financial assets                                   | 25              | 25                                 |            | 20           | 5            |
| <b>Financial assets carried at FVTPL</b>                 | <b>141</b>      | <b>141</b>                         | <b>29</b>  | <b>20</b>    | <b>92</b>    |
| Debt instruments   | 26              | 26                                 |            | 26           | 0            |
| Equity instruments                                       | 120             | 120                                | 73         | 1            | 46           |
| Current financial assets <sup>2)</sup>                   | 476             | 476                                | 476        |              | 0            |
| Receivables - current                                    | 33              | 33                                 |            |              | 33           |
| <b>Financial assets carried at FVTOCI</b>                | <b>654</b>      | <b>654</b>                         | <b>549</b> | <b>27</b>    | <b>79</b>    |
| Derivative financial instruments                         | 29              | 29                                 |            | 29           |              |
| <b>Financial assets carried at fair value</b>            | <b>825</b>      | <b>825</b>                         | <b>577</b> | <b>76</b>    | <b>171</b>   |
| <b>Carried at (amortized) cost:</b>                      |                 |                                    |            |              |              |
| Cash and cash equivalents                                | 1,077           |                                    |            |              |              |
| Loans and receivables                                    |                 |                                    |            |              |              |
| Current financial assets                                 | -               |                                    |            |              |              |
| Other non-current financial assets                       | 42              |                                    |            |              |              |
| Receivables - current                                    | 3,756           |                                    |            |              |              |
| Receivables - non-current                                | 187             |                                    |            |              |              |
| <b>Financial assets carried at (amortized) cost</b>      | <b>5,062</b>    |                                    |            |              |              |
| <b>Total financial assets</b>                            | <b>5,887</b>    |                                    |            |              |              |
| <b>Financial liabilities</b>                             |                 |                                    |            |              |              |
| <b>Carried at fair value:</b>                            |                 |                                    |            |              |              |
| Contingent consideration                                 | (395)           | (395)                              |            |              | (395)        |
| <b>Financial liabilities carried at FVTPL</b>            | <b>(395)</b>    | <b>(395)</b>                       |            |              | <b>(395)</b> |
| Derivative financial instruments                         | (168)           | (168)                              |            | (168)        |              |
| <b>Financial liabilities carried at fair value</b>       | <b>(563)</b>    | <b>(563)</b>                       |            | <b>(168)</b> | <b>(395)</b> |
| <b>Carried at (amortized) cost:</b>                      |                 |                                    |            |              |              |
| Accounts payable   | (2,092)         |                                    |            |              |              |
| Interest accrual   | (31)            |                                    |            |              |              |
| Debt (corporate bonds and finance leases)                | (5,150)         | (5,637)                            | (4,531)    | (1,106)      |              |
| Debt (excluding corporate bonds and finance leases )     | (668)           |                                    |            |              |              |
| <b>Financial liabilities carried at (amortized) cost</b> | <b>(7,941)</b>  |                                    |            |              |              |
| <b>Total financial liabilities</b>                       | <b>(8,504)</b>  |                                    |            |              |              |

<sup>1)</sup> For Cash and cash equivalents, Loans and receivables, Accounts payable, interest accrual and Debt (excluding corporate bonds and finance leases), the carrying amounts approximate fair value mainly because of the short maturity of these instruments, and therefore fair value information is not included in the table above.

<sup>2)</sup> The majority of the balance reflects the remaining stake in Signify, which relates to equity instruments.

## Fair value of financial assets and liabilities in millions of EUR

|  | carrying amount | estimated fair value <sup>1)</sup> | Level 1    | Level 2      | Level 3      |
|--|-----------------|------------------------------------|------------|--------------|--------------|
| <b>Balance as of December 31, 2018</b>                   |                 |                                    |            |              |              |
| <b>Financial assets</b>                                  |                 |                                    |            |              |              |
| <b>Carried at fair value:</b>                            |                 |                                    |            |              |              |
| Debt instruments   | 69              | 69                                 |            |              | 69           |
| Equity instruments                                       | 20              | 20                                 | 20         |              |              |
| Other financial assets                                   | 27              | 27                                 |            | 22           | 5            |
| <b>Financial assets carried at FVTPL</b>                 | <b>116</b>      | <b>116</b>                         | <b>20</b>  | <b>22</b>    | <b>74</b>    |
| Debt instruments   | 26              | 26                                 |            | 26           | -            |
| Equity instruments                                       | 172             | 172                                | 22         | 1            | 149          |
| Current financial assets <sup>2)</sup>                   | 435             | 435                                | 434        |              | -            |
| Receivables - current                                    | 32              | 32                                 |            |              | 32           |
| <b>Financial assets carried at FVTOCI</b>                | <b>664</b>      | <b>664</b>                         | <b>457</b> | <b>27</b>    | <b>181</b>   |
| Derivative financial instruments                         | 36              | 36                                 |            | 36           |              |
| <b>Financial assets carried at fair value</b>            | <b>817</b>      | <b>817</b>                         | <b>476</b> | <b>85</b>    | <b>255</b>   |
| <b>Carried at (amortized) cost:</b>                      |                 |                                    |            |              |              |
| Cash and cash equivalents                                | 1,688           |                                    |            |              |              |
| Loans and receivables                                    |                 |                                    |            |              |              |
| Current financial assets                                 | 2               |                                    |            |              |              |
| Other non-current financial assets                       | 46              |                                    |            |              |              |
| Receivables - current                                    | 4,004           |                                    |            |              |              |
| Receivables - non-current                                | 162             |                                    |            |              |              |
| <b>Financial assets carried at (amortized) cost</b>      | <b>5,902</b>    |                                    |            |              |              |
| <b>Total financial assets</b>                            | <b>6,718</b>    |                                    |            |              |              |
| <b>Financial liabilities</b>                             |                 |                                    |            |              |              |
| <b>Carried at fair value:</b>                            |                 |                                    |            |              |              |
| Contingent consideration                                 | (409)           | (409)                              |            |              | (409)        |
| <b>Financial liabilities carried at FVTPL</b>            | <b>(409)</b>    | <b>(409)</b>                       |            |              | <b>(409)</b> |
| Derivative financial instruments                         | (290)           | (290)                              |            | (290)        |              |
| <b>Financial liabilities carried at fair value</b>       | <b>(699)</b>    | <b>(699)</b>                       |            | <b>(290)</b> | <b>(409)</b> |
| <b>Carried at (amortized) cost:</b>                      |                 |                                    |            |              |              |
| Accounts payable   | (2,303)         |                                    |            |              |              |
| Interest accrual   | (36)            |                                    |            |              |              |
| Debt (corporate bonds and finance leases)                | (3,621)         | (3,906)                            | (3,576)    | (330)        |              |
| Debt (excluding corporate bonds and finance leases)      | (1,200)         |                                    |            |              |              |
| <b>Financial liabilities carried at (amortized) cost</b> | <b>(7,159)</b>  |                                    |            |              |              |
| <b>Total financial liabilities</b>                       | <b>(7,858)</b>  |                                    |            |              |              |

<sup>1)</sup> For Cash and cash equivalents, Loans and receivables, Accounts payable, interest accrual and Debt (excluding corporate bonds and finance leases), the carrying amounts approximate fair value mainly because of the short maturity of these instruments, and therefore fair value information is not included in the table above.

<sup>2)</sup> The majority of the balance reflects the remaining stake in Signify, which relates to equity instruments.

The retained investment in privately held Luminescence, formerly the combined businesses of Lumileds and Automotive, is recognized at fair value through OCI and classified as Level 3 in the fair value hierarchy. The value has decreased to nil (December 31, 2018: EUR 112 million), following difficult trading conditions that lowered earnings assumptions in the valuation model.

As part of the EPD acquisition, Philips may be required to pay additional consideration to former shareholders if specified future events occur or conditions are met, such as the achievement of certain regulatory milestones or the achievement of certain commercial milestones. The fair value of this contingent consideration liability was determined using a probability-weighted approach to estimate the achievement of future regulatory and commercial milestones and discount rates ranging from 3 to 4 percent. The discount rates used reflect the inherent risk related to achieving the respective milestones. The fair value measurement is based on

management's estimates and assumptions and hence classified as Level 3 in the fair value hierarchy. A sensitivity analysis of the EPD contingent consideration liability at June 30, 2019 shows that if the probabilities of success for every milestone increased by 10 percentage points, with all other variables (including foreign exchange rates) held constant, the fair value of the liability would increase by approximately 3%. Similarly, a decrease in the probabilities of success for every milestone by 10 percentage points would reduce the fair value by approximately 4%. If the discount rates were to increase instantaneously by 100 basis points from the assumption at June 30, 2019, with all other variables (including foreign exchange rates) held constant, the fair value of the liability would decrease by approximately 2%, while a decrease in the discount rates of 100 basis points would increase the fair value by approximately 2%.



The table below shows the reconciliation from the opening balance to the closing balance for Level 3 fair value measurements.

**Reconciliation of the Level 3 fair value hierarchy** in millions of EUR

|  | <b>Financial assets</b> | <b>Financial liabilities</b> |
|--|-------------------------|------------------------------|
| <b>Balance as of December 31, 2018</b>                 | <b>255</b>              | <b>409</b>                   |
| Assumed in a business combination                      |                         | 6                            |
| Purchase   | 32                      |                              |
| Sales/redemptions                                      | (20)                    |                              |
| Utilizations   |                         | (27)                         |
| Recognized in profit and loss:                         |                         |                              |
| Other business income and expenses                     |                         | (1)                          |
| Financial income and expenses                          | 10                      | 7                            |
| Recognized in other comprehensive income <sup>1)</sup> | (107)                   | 1                            |
| Receivables held to collect and sell                   | 1                       |                              |
| <b>Balance as of June 30, 2019</b>                     | <b>171</b>              | <b>395</b>                   |

<sup>1)</sup> Includes translation differences

## Subsequent events

### Acquisition of Medumo

On July 18, 2019 it was announced that Philips has expanded its patient management solutions in the US with the acquisition of Boston-based start-up company Medumo. Medumo has developed a diagnostic patient management platform for healthcare providers to deliver patient engagement and education services. Financial details of this acquisitions were not disclosed.

### Commercial paper

In July, Philips issued commercial paper of EUR 200 million at (0.25)% interest through its existing program.



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