3 Strategy and Businesses

3.1 Innovating with purpose

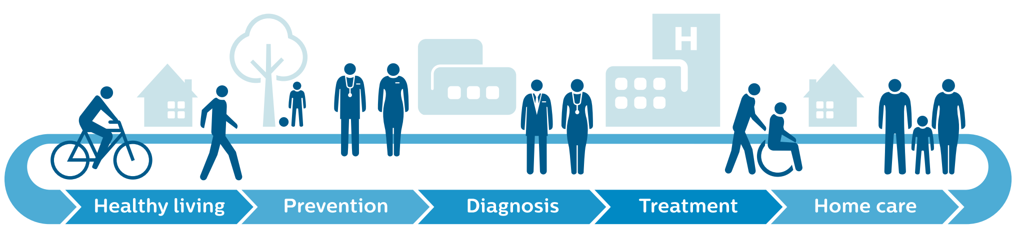
As a company striving for leadership in health technology, we believe that innovation can improve people's health and healthcare outcomes, as well as making care more accessible and affordable. At Philips, it is our goal to improve the lives of 3 billion people a year by 2030, including 400 million in underserved healthcare communities. Guided by our vision of making the world healthier and more sustainable through innovation, it is our strategy to lead with innovative solutions in key markets along the health continuum – helping our customers deliver on the Quadruple Aim (better health outcomes, a better experience for patients and staff, lower cost of care) and helping people take better care of their health at every stage of life.

We seek to act responsibly and sustainably, leveraging our resources to maximize value creation for all stakeholders. Reflecting our commitment to UN Sustainable Development Goals 3 (*Ensure healthy lives and promote well-being for all at all ages*), 12 (*Ensure sustainable consumption and production patterns*) and 13 (*Take urgent action to combat climate change and its impacts*), we continue to embed sustainability deeper in the way we do business, with specific focus on access to care, circular economy and climate action.

How we see healthcare

We visualize healthcare as a continuum, since it puts people at the center and builds on the notion of care pathways. Believing that healthcare should be seamless, efficient and effective, we 'join up the dots' for our customers and consumers, supporting the flow of data needed to care for people in real time, wherever they are. Data and informatics will play an ever-increasing role in helping people to live healthily and cope with disease, and in enabling care providers to meet people's needs, deliver better outcomes and improve productivity.

We see significant value in integrated healthcare, applying the power of predictive data analytics and artificial intelligence at the point of care, while at the same time improving the delivery of care across the health continuum – optimizing workflows, enhancing capacity utilization and leveraging primary and secondary prevention and population health management programs.



Addressing our customers' healthcare challenges

For consumers, we develop connected solutions that support healthier lifestyles, prevent or treat disease, and help people to live well with chronic illness, also in the home and community settings. As well as leveraging retail trade models, we will increasingly deliver products and services direct to consumers, supporting longer-term relationships to maximize the benefit consumers can derive from our solutions.

In hospitals, we are teaming up with healthcare providers in long-term strategic partnerships to innovate and transform the way care is delivered. We listen closely to our customers' needs and together we co-create solutions – packaged combinations of systems, smart devices, software and services, as well as consumables – that help our customers to deliver on the Quadruple Aim of value-based care.

More and more, we are partnering with our customers in new business models, no longer selling products in a transactional manner but engaging in long-term strategic partnerships, where we take co-responsibility for our customers' key performance indicators. The combination of compelling solutions and consultative partnership contracts, including services, drives above-group-average growth rates, as well as a higher proportion of recurring revenues. We are embedding AI and data science in our propositions to unlock the value of data in the operational and clinical aspects of care processes.

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

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

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

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

Our key strategic imperatives and value creation objectives

Our transformation into a focused leader in health technology – shifting from products to solutions and building long-term relationships with our customers – is absolutely critical for Philips' future. Our strategic roadmap is our guide on this multi-year journey.

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

Over the last four years, our strategic roadmap has proven itself through the customers we have gained and the significant value we have created.

Looking ahead at 2020, we continue to see geopolitical and economic risks. We aim for 4-6% comparable sales growth*) and an Adjusted EBITA*) margin improvement of around 100 basis points, with a performance momentum that is expected to improve in the course of the year. During 2020 we will issue guidance for the next medium-term period, when we expect to continue to gradually step up growth and expand margins and cash generation as we execute our strategy.

We will continue to deliver meaningful employment and engagement in the communities where we operate, while doing business in a sustainable manner.

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 176.

3.2 How we create value

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

Capital input

The six forms of capital (resources and relationships) that Philips draws upon for its business activities; all data refer to 2019

Human

- Employees 80,495, 120 nationalities, 38% female
- Philips University 5,324 courses, 966,813 hours, 683,336 training completions
- 32,650 employees in growth geographies
- Focus on Inclusion & Diversity

Intellectual

- Invested in R&D EUR 1.88 billion (Green Innovation EUR 235 million)
- Employees in R&D 12,287 across the globe including growth geographies

Financial

- Equity EUR 12.6 billion
- Net debt*) EUR 4.0 billion

Manufacturing

- Employees in production 35,640
- Manufacturing sites 35, cost of materials used EUR 5.3 billion
- Total assets EUR 27.0 billion
- Capital expenditure EUR 518 million

Natural

- Energy used in manufacturing 1,400 terajoules
- Water used 890,000 m^3
- Recycled plastics in our products 1,904 tonnes
- Pledge to take back all medical equipment by 2025

Social

- Philips Foundation
- Stakeholder engagement
- Volunteering policy

Philips Business System

- In 2019 we updated our operating model, the Philips Business System (PBS). With its six interconnected elements, the PBS defines how we work together effectively to achieve our company objectives.

- Our **strategy** defines our path to sustainable value creation for customers and shareholders.
- Clear **governance**, roles and responsibilities empower people to collaborate and act fast.
- Standard **processes**, systems and practices enable lean and agile ways of working.
- We value and develop **people** and teams, rewarding them for sustainable results.
- We live the Philips **culture**, which sets standards on behaviors, quality and integrity.
- Through disciplined **performance** management and continuous improvement we achieve our goals.

And this is where the wheel gets going. The better we perform, the more we grow, the more we can re-invest in new business opportunities, and the more value we deliver to our customers, shareholders, and other stakeholders.

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

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

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

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

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

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

Value outcomes

The result of the application of the six forms of capital to Philips' business activities and processes as shaped by the Philips Business System; all data refer to 2019

Human
- Employee Engagement Index 74% favorable
- Sales per employee EUR 242,027
- Safety 224 Total Recordable Cases

Intellectual
- New patent filings 1,015
- Royalties EUR 381 million
- 148 design awards

Financial
- Comparable sales growth*) 4.5%
- 67% Green Revenues
- Adjusted EBITA*) as a % of sales 13.2%
- Free cash flow*) EUR 1.1 billion

Manufacturing
- EUR 14.8 billion revenues from goods sold

Natural
- 13% revenues from circular propositions
- Net CO_2 emissions down to 266 kilotonnes
- 265,000 tonnes (estimated) materials used to put products on the market
- Waste up to 26.4 kilotonnes, of which 83% recycled
- 19 'zero waste to landfill' sites

Social
- Brand value USD 11.7 billion (Interbrand)
- Partnerships with UNICEF, Red Cross, Amref and Ashoka

Societal impact

The societal impact of Philips though its supply chain, its operations, and its products and solutions; all data refer to 2019

Human
- Employee benefit expenses EUR 6,307 million, Living Wage analysis completed
- Appointed 74% of our senior positions from internal sources
- 24% of Leadership positions held by women

Intellectual
- Around 53% of revenues from new products and solutions introduced in the last three years
- Over 60% of sales from leadership positions

Financial
- Market capitalization EUR 38.8 billion at year-end
- Long-term credit rating A- (Fitch), Baa1 (Moody's), BBB+ (Standard & Poor's)
- Dividend EUR 775 million

Manufacturing
- 95% electricity from renewable sources
- 286,000 employees impacted at suppliers participating in the 'Beyond Auditing' program

Natural
- Environmental impact of Philips operations down to EUR 154 million
- First health technology company to have its CO_2 reductions assessed and approved by the Science Based Targets initiative

Social
- 1.64 billion Lives Improved, of which 194 million in underserved healthcare communities
- Total tax contribution EUR 3.1 billion (taxes paid)
- Income tax expense EUR 337 million; the effective income tax rate is 22%

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 176.

3.3 Our businesses

Our reporting structure in 2019

Koninklijke Philips N.V. (Royal Philips) is the parent company of the Philips Group. In 2019, the reportable segments were Diagnosis & Treatment businesses, Connected Care businesses, and Personal Health businesses, each having been responsible for the management of its business worldwide. Additionally, Philips identifies the segment Other.

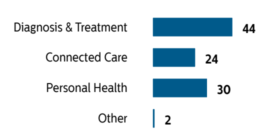
Philips

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

Focus of external reporting

*On January 28, 2020, Philips announced that it will review options for future ownership of the Domestic Appliances business, and start the process of creating a separate legal structure for this business.

Philips Group
Total sales by reportable segment as a %
2019



3.3.1 Diagnosis & Treatment businesses

Our Diagnosis & Treatment businesses are foundational to our health technology strategy, delivering on the promise of precision diagnosis and image-guided therapies. We enable our customers to realize the full potential of the Quadruple Aim – an improved patient experience, better health outcomes, an improved staff experience and lower cost of care.

We are focused on intelligent, integrated solutions (AI-enabled suites of systems, smart devices, software and services) that help healthcare providers to meet their most pressing clinical, operational and financial goals. By integrating multiple sources of information across imaging, pathology and genomics to create a comprehensive single patient view, we support clinicians to realize a precision diagnosis for each patient: disease-specific, personalized, and predictive.

Informatics is central to everything we do. In 2019, Philips expanded its Enterprise Diagnostic Informatics portfolio with the acquisition of Carestream Health's Healthcare Information Systems business. Adding a state-of-the-art cloud-based informatics platform, our offering now includes advanced Vendor Neutral Archive solutions, diagnostic and enterprise viewers, interactive multimedia reporting, AI-enabled clinical, operational and business analytics tools, as well as tele-radiology and diagnostic patient management services.

We continue to expand the applications for image-guided therapies and improve workflow and integration in the interventional suite. In 2019, less than three years on from its launch, the one-millionth procedure was carried out on Philips' Azurion image-guided therapy platform. In 2019 we also launched Azurion in China, following clearance from the country's National Medical Products Administration.

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

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

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

In 2019, the Diagnosis & Treatment segment consisted of the following areas of business:

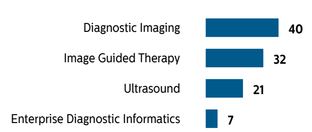
- **Diagnostic Imaging**: Magnetic Resonance Imaging (MRI), Computed Tomography (CT), Advanced Molecular Imaging, Diagnostic X-Ray, as well as integrated clinical solutions, which include radiation oncology treatment planning, disease-specific oncology solutions and X-Ray dose management

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

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

- **Enterprise Diagnostic Informatics**: a suite of integrated products and services that deliver a comprehensive platform designed to connect clinical capabilities and optimize workflows around every step in the patient's journey across a range of diagnostic (radiology, point-of-care, laboratory) and clinical (oncology, cardiology, neurology) service lines.

Diagnosis & Treatment
Total sales by business as a %
2019



In 2019, Digital & Computational Pathology was moved out of the segment Other into Diagnosis & Treatment to enable better access to downstream capabilities. Digital & Computational Pathology digitizes diagnosis in anatomic pathology and uses Artificial Intelligence to aid detection of disease and progression to reduce inter-observer variability and improve outcomes.

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

Sales channels are a mix of a direct sales force, especially in all the larger markets, third-party distributors and an online sales portal. This varies by product, market and price segment. Our sales organizations have an intimate knowledge of technologies and clinical applications, as well as the solutions necessary to solve problems for our customers.

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

At year-end 2019, Diagnosis & Treatment had around 31,000 employees worldwide.

2019 business highlights

In 2019, Philips continued to renew its Diagnostic Imaging portfolio. Its new Incisive CT imaging platform includes an industry-first 'Tube for Life' guarantee. The platform integrates innovations in imaging, workflow, and lifecycle management, as well as DoseWise Portal, a web-based dose monitoring solution that collects, measures, analyzes and reports patient and staff radiation exposure, helping healthcare providers with smart clinical decision-making, increased efficiency and improved experience for patients and staff.

We introduced IntraSight, which seamlessly integrates intravascular imaging and physiology applications for minimally invasive procedures. The scalable platform is based on Philips' common software and hardware architecture. Following the acquisition of EPD Solutions in 2018, we launched the novel KODEX-EPD cardiac imaging and navigation system commercially and announced a collaboration with Medtronic to further advance the image-guided treatment of atrial fibrillation.

Further expanding our offering in mobile image-guided therapy systems for conventional operating rooms (ORs), we launched Philips Zenition, our new mobile C-arm imaging platform. Zenition is easy to move between ORs and allows hospitals to maximize performance, enhance clinical capabilities, and improve staff experience.

Philips continues to set the standard in integrated solutions for image-guided therapy with the expansion of its Azurion platform with FlexArm and the seamless integration of its smart catheters in the platform. The successful launch of Azurion in China and expansion of its smart catheter offering in Europe and Asia contributed to double-digit comparable sales growth*) for the Image-Guided Therapy business in 2019.

Philips 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. In the US, Philips launched longer 150 mm and 200 mm versions of its Stellarex low-dose drug-coated balloons to broaden treatment options for peripheral artery disease patients.

In Ultrasound, we strengthened our leadership in our core cardiac segment by extending the advanced automation capabilities on our EPIQ CVx cardiology ultrasound platform, making exams faster and easier to conduct while improving clinician productivity. We also continued to expand into attractive adjacencies such as General Imaging and Obstetrics & Gynecology with the launch of EPIQ Elite, a premium ultrasound system that combines the latest advances in transducer innovation and enhanced performance to improve clinical confidence and the patient experience.

Philips' Ambition 1.5T MR platform with its breakthrough fully sealed magnet continued to receive an enthusiastic reception from healthcare providers worldwide. We also marked the completion of the one-millionth patient scan accelerated with Compressed SENSE, an advanced solution that reduces MR exam times by up to 50%. Our innovations in MR combine to help increase productivity, improve the patient and staff experience, and enhance diagnostic confidence.

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 176.

3.3.2 Connected Care businesses

Spanning the entire health continuum, the Connected Care businesses are tasked with improving patient outcomes, increasing efficiency and enhancing patient and caregiver satisfaction, thereby driving towards value-based care. Our solutions build on Philips' strength in verticals (monitoring & analytics, sleep & respiratory care, and therapeutic care) and horizontals (population health management and connected care informatics) to improve clinical and economic outcomes in all care settings, within and outside the hospital.

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

This requires a secure common digital platform that connects and aligns consumers, patients, payers and healthcare providers. Philips' platforms aggregate and leverage information from clinical, personal and historical data to support care providers in delivering first-time-right diagnoses and treatment.

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

In 2019, the Connected Care segment consisted of the following areas of business:

- **Monitoring & Analytics:** Integrated patient monitoring systems for all price levels, wearable biosensors, advanced intelligence platforms for real-time clinical information at the patient's bedside; patient analytics, including diagnostic ECG data management; maintenance, clinical and IT services, as well as consumables.

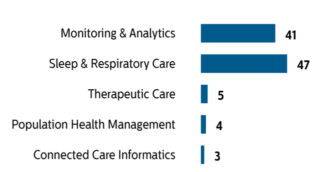
- **Sleep & Respiratory Care**: Sleep offerings span from consumer sleep solutions, including those for disease-state sleep such as obstructive sleep apnea, to end-to-end solutions that encompass consumer engagement, diagnostics, people-centric therapy, cloud-based connected propositions and care management services. Respiratory offerings include COPD care management with digital and connected solutions; Hospital Respiratory Care (HRC) provides invasive and non-invasive ventilators for acute and sub-acute hospital environments; Home Respiratory Care supports the home care environment.

- **Therapeutic Care:** Emergency Care & Resuscitation (ECR) solutions for both inside and outside the hospital, including cardiac resuscitation and emergency care solutions (including devices, services, and digital/data solutions); consumables across the patient monitoring and therapeutic care businesses; customer service, including clinical, IT, technical and remote customer propositions.

- **Population Health Management**: Data, analytics and actionable workflow products are leveraged for solutions to improve clinical and financial results and increase patient engagement, satisfaction and compliance. These solutions include: technology-enabled monitoring and intervention support outside the hospital (telehealth, remote patient monitoring, personal emergency response systems and care coordination) to improve the experience of elderly people and those living with chronic conditions; actionable programs to predict risk (including medication and care compliance, outreach, and fall prediction); cloud-based solutions for health organizations to manage population health.

- **Connected Care Informatics** was created in 2019 to drive cohesive informatics innovations across the health continuum. Connecting people, technology and processes, Connected Care Informatics' capabilities include a fully integrated Electronic Medical Record (EMR) business called Tasy. Connected Care Informatics also offers an advanced eICU/Tele-ICU program, an informatics solutions business under the umbrella of IntelliSpace Enterprise Edition, Command Center solutions and integration services (Enterprise Integrated Solutions/ IntelliBridge Enterprise).

Connected Care
Total sales by business as a %
2019



In most of the Connected Care businesses, revenue is earned through the sale of products and solutions, customer services fees and software license fees. Where bundled offerings result in solutions for our customers, or offerings are based on the number of people being monitored, we see more usage-based earnings models. In Sleep & Respiratory Care, revenue is generated both through product sales and through rental models, whereby revenue is generated over time.

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

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

At year-end 2019, the Connected Care businesses had around 15,000 employees worldwide.

2019 business highlights

Reinforcing its leadership in patient monitoring solutions, Philips introduced the next-generation IntelliVue MX750 and MX850 bedside patient monitor platforms in Europe. These feature an extensive range of measurements and analytics, as well as new cybersecurity capabilities. Moreover, Philips signed multi-year enterprise patient monitoring agreements with the Kantonsspital Frauenfeld (Switzerland) and the University Clinic of Bonn (Germany) to improve workflow and clinical outcomes in these hospitals.

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 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' 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.

Expanding its range of successful patient-centric CPAP (continuous positive airway pressure) mask designs, Philips launched DreamWisp, the first-of-its-kind over-the-nose nasal mask that allows patients with sleep apnea to sleep in any position they want. With its robust nasal cushion and top-of-the-head tube design, DreamWisp delivers a new level of comfort and freedom of movement, providing patients with the therapy option that best suits their needs.

Demonstrating the success of Philips' telehealth solutions for critical care, US-based Health First achieved significant results by using Philips' acute telehealth platform. Powered by Philips' eCareManager, Health First's VitalWatch eICU achieved a 23% reduction in overall mortality, a 49% reduction in ICU length of stay, and a 35% reduction in length of stay across its four hospitals.

Philips expanded its General Care solutions portfolio with the launch of the EarlyVue VS30 in the US. This new vital signs monitor uses automated Early Warning Scoring (EWS) to collect critical vital signs and calculate risk-based alerts that allow clinicians to identify subtle signs of patient deterioration and facilitate communication between caregivers for timely intervention and patient care.

3.3.3 Personal Health businesses

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

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

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

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

In 2019, the Personal Health segment consisted of the following areas of business:

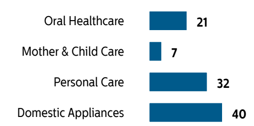
- **Oral Healthcare:** power toothbrushes, including Sonicare app; brush heads/interdental/whitening

- **Mother & Child Care**: infant feeding (breast pumps, baby bottles, sterilizers), digital parental solutions (Pregnancy+ and Baby+ apps)

- **Personal Care**: male grooming (shavers, OneBlade, groomers, trimmers), beauty (skin care, hair care, hair removal)

- **Domestic Appliances**[a)]: kitchen appliances (juicers, blenders, Airfryer, food processors), home care (vacuum cleaners, air purifiers), garment care (irons, steam generators), coffee (appliances and accessories)

Personal Health
Total sales by business as a %
2019



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

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

We also offer solutions that support babies and parents on every step of their journey so that they can more fully enjoy those precious early moments. Philips Pregnancy+ is a pregnancy tracker app that allows moms to follow their baby's development with 3D fetal imagery. The app offers moms customized information at every stage of their pregnancy and enables them to share their pregnancy journey with family and professionals.

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

The revenue model is mainly based on product sale at the point in time the products are delivered to the end-user or wholesalers or distributors. As with the Direct to Consumer transformation, we see good traction to further diversify the revenue model with new business models (including subscriptions and services).

The Personal Health businesses experience seasonality, with higher sales around key national and international events and holidays.

At year-end 2019, Personal Health employed around 16,000 people worldwide.

a) On January 28, 2020, Philips announced that it will review options for future ownership of the Domestic Appliances business, and start the process of creating a separate legal structure for this business.undefinedundefinedundefined

2019 business highlights

The strong performance of the Oral Healthcare business was driven by its innovative portfolio, including the mid-range Philips Sonicare ProtectiveClean toothbrush, which features pressure sensor technology that alerts users when they are applying too much pressure and automatically reduces brushing intensity, for a brushing experience that delivers healthier gums and cleaner teeth.

Further broadening its product range in oral care, Philips has rolled out its connected Philips Sonicare ExpertClean globally. The new smart power toothbrush delivers superior oral care results with its sonic technology and deep clean brushing mode.

Building on the success of Philips' leading oral care solutions, the company rolled out the BrushSmart program in collaboration with Delta Dental of California, the largest provider of dental benefits in the US. The subscription-based program includes a discounted Sonicare toothbrush, coaching and teledentistry, and connects brushing behaviors at home with professional dental care to better understand, motivate and drive improvements in oral health.

Philips launched its new smart S7000 Shaver series globally. Designed to address skin irritation and discomfort from shaving, the company's first connected shaver comes with a personalized solution for sensitive skin and has received highly positive user reviews.

At the 2019 IFA trade show in Berlin, Philips highlighted a range of intelligent, adaptive and personalized consumer health solutions that seamlessly integrate into people's lives and lifestyles, empowering them to make healthier choices and fulfilling their personal needs. These included the Philips Airfryer XXL featuring Smart Sensing technology, which automatically adjusts cooking time and temperature, and the Baby+ app, which provides parents with a dedicated tool to track their baby's growth and receive ongoing advice specific to each stage of their baby's development.

3.3.4 Other

In our external reporting on Other we report on the items Innovation & Strategy, IP Royalties, Central costs, and other small items. At year-end 2019, around 18,000 people worldwide were working in these areas.

About Other

Innovation & Strategy

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

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

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

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

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

Chief Technology Office (CTO) and Philips Research

The Chief Technology Office orchestrates innovation strategy and choices, and drives adoption of digital architecture and platforms, as well as excellence in software, Data Science and AI, across Philips' businesses and markets. Philips Research initiates game-changing innovations that disrupt and cross boundaries in health technology to address opportunities for better clinical and economic outcomes and support the associated transformation of Philips into a digital solutions company. CTO and Research encompass the following organizations:

- **Philips Research,** the co-creator and strategic partner of the Philips businesses, markets and complementary Open Innovation ecosystem participants, driving front-end innovation and clinical research at sites across the globe. The role of Research increasingly goes beyond early-stage proof-of-concept, including advanced development on the target product and digital platforms, and market-driven innovation with lead customers.

- **Innovation Management**, responsible for end-to-end innovation strategy and portfolio management, integrated roadmaps linking products, systems and software to solutions, New Business Creation Excellence, R&D competency management, Innovation Transformation and Performance Management and public funding programs.

- **The Chief Architect Office**, responsible for defining, steering and ensuring compliance and uptake of the Philips HealthSuite architecture for configurable and interoperable digital propositions, as well as modular System Architecture with the right balance between functionality allocated to hardware and software.

- **The Software and System Engineering Centers of Excellence**, driving adoption of industry best practices in writing and maintaining application-level software, modular and configurable system design and model-based system engineering.

- **The Data Science and AI Center of Excellence**, defining and deploying strategies and best practices for dealing responsibly and in a compliant way with Data Science and AI, developing common tools to facilitate the development process and co-creation with clinical partners.

Product Engineering
The Product Engineering organization is accountable for building world-class Idea to Market (I2M) capabilities and for driving excellence in product engineering across Philips worldwide. The Product Engineering organization includes the following:

- **Philips Innovation Services** provides hardware and embedded software development & engineering, technology consulting, and low-volume specialized manufacturing.

- **I2M Excellence** is a global program to improve and harmonize Philips capabilities, processes and tools.

- **Technical Expert Group** supports innovation and industrialization teams with technical competences and application experience in materials, physics and chemistry.

- **Product Platforms** build on existing engineering capabilities and best practices within Philips, covering the full life cycle from design, development and engineering to delivery, maintenance and ultimately end of service.

Philips HealthSuite
Philips HealthSuite constitutes our common digital framework that connects consumers, patients, healthcare providers, payers and partners in a hybrid cloud-based connected health ecosystem of solutions, products, systems, services and devices, positioning HealthSuite as the System of Engagement on top of hospital systems of record.

- The **HealthSuite System of Engagement** provides the capabilities and infrastructure for configurable solutions and ecosystems. It ensures consistency across customer touchpoints through a set of industry standards-based ecosystem federation services and APIs. It leverages our hybrid cloud infrastructure that ensures scalability and cost-effectiveness under the most comprehensive and stringent security and privacy standards.

- Philips HealthSuite is implemented in a layered approach with a **Foundation Layer** that provides secure hybrid cloud hosting, operations, customer support and IoT capabilities, as well as industry standards-based federated data access. The **Engagement Layer** leverages this foundation to optimize workflows with embedded intelligence and a seamless user experience.

Philips HealthSuite is managed and orchestrated across Innovation & Strategy and all Philips businesses. The majority of professional and consumer-oriented digital propositions offered by Philips leverage HealthSuite. A growing number of third-party companies have also adopted HealthSuite.

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

- **Philips Innovation Center Eindhoven** is Philips' largest cross-functional Innovation Hub worldwide, hosting the global headquarters of many of our innovation organizations as well as the management of collaboration partnerships. Many of the company's core research programs are run from here.

- **Philips Innovation Center Cambridge, MA** is focused on applications of Data Science and AI in Radiology, Ultrasound, and Acute care. It is the hub for key partnerships in North America, with top engineering institutions like MIT as well as top clinical sites, and for participation in government-funded programs.

- **Philips Innovation Center Bangalore** hosts activities from most of our operating businesses, as well as Innovation & Strategy and IT. This is our largest software-focused site, with over 3,500 engineers. The Center also functions as the hub for market-driven innovation in surrounding geographies in Asia Pacific, Africa, and Middle East & Turkey.

- **Philips Innovation Center Shanghai** combines digital innovation, research and solutions development for the China market, participating in local digital ecosystems, while several of its locally relevant innovations are also finding their way globally.

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

Chief Medical Office

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

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

Philips Experience Design

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

Philips Experience Design partners with stakeholders across the organization to develop methodologies and enablers for defining value propositions, to implement data-enabled design tools and processes to create meaning from data, and to leverage Co-create methodologies. The latter facilitate exploration with customers and patients with the aim of creating solutions that are tailored specifically to the challenges facing them, as local circumstances and workflows are key ingredients in the successful implementation of solutions.

To ensure that we connect end-users along the health continuum, we create a consistent experience across all touchpoints. A key enabler for this is a consistent and differentiating design language that applies to software, hardware and services across our operating businesses. In recognition of our continued excellence, Philips received 148 design awards in 2019.

IP Royalties

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

Royal Philips' total IP portfolio currently consists of 64,500 patent rights, 39,000 trademarks, 88,500 design rights and 3,200 domain names. Philips filed 1,015 new patents in 2019, with a strong focus on the growth areas in health technology services and solutions.

Philips earns substantial annual income from license fees and royalties. These are mostly earned on the basis of usage or fixed fees, recognized over the term of the contract or at a point in time.

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

Central costs

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

Real estate

Philips is present in more than 70 countries globally and has its group headquarters in Amsterdam, Netherlands. Our real estate sites are spread around the globe, with key manufacturing and R&D sites in Europe, the Americas and Asia.

In 2019, we invested in three Global Business Services locations in the US, Poland and India. To attract R&D talent, we invested across the globe in prime innovation locations, such as Cambridge and Pittsburgh (USA), Tokyo, Eindhoven, Bangalore and others.

The vast majority of our locations consist of leased property, and we manage these closely to keep the overall vacancy rates of our property below 5% and to ensure the right level of space efficiency and flexibility to follow our business dynamic. The net book value of our land and buildings at December 31, 2019, represented EUR 1,510 million; construction in progress represented EUR 100 million. The increase compared with 2019 is mainly due to IFRS 16 implementation; for more information please refer to Significant accounting policies, starting on page 94. Our current facilities are adequate to meet the requirements of our present and foreseeable future operations.

3.4 Our geographies

3.4.1 Our Markets

A Market consists of one or more countries operating as a single organization under a Market Leader. Our 17 Market organizations (in three market groups: North America, Greater China and International Markets) are active in more than 100 countries worldwide, working closely in an equal partnership with the various Businesses through Business-Market Combinations (BMCs).

The Markets' core objective is to understand local market/customer needs, to develop and manage the relationship with existing and new customers, and to deliver orders and revenues and manage the market-oriented profit-and-loss account (P&L). They act as the voice of the customer in the integrated value proposition process, bring relevant products and solutions to market, and ensure local (solution) delivery and service execution, as well as managing the (integral) go-to-market approaches to our key customers and indirect channels – all with the aim of maximizing long-term customer value and gaining market share.

To take quick decisions that are locally relevant and as close to the customer as possible, our Businesses and Markets work closely together in Business-Market Combinations (BMCs) – Image Guided Therapy Systems-North America, for example. The BMC makes agreements where to compete and how to win. Businesses and Markets bear joint accountability for managing the operational end-to-end consumer and customer value chain, quality & regulatory compliance and the collaborative P&L, while leveraging the functional excellence and shared services infrastructure of the company.

3.4.2 Macro-economic landscape in 2019

In 2019, world economic development slowed significantly from the level seen in 2018. According to the Economist Intelligence Unit (EIU) the aggregate real GDP growth rate of Philips' geographies was expected to slow to an estimated 2.3% in 2019, from 3.0% in 2018, driven mainly by the trade tensions between the US and China. North America, Greater China and International Markets were all forecast to show slower GDP growth in 2019, with India, Turkey and Germany the main drivers of the slowdown in International Markets.

3.4.3 2019 highlights from our Market Groups

North America

In 2019, Philips North America accelerated its drive to deliver growth, customer preference, and innovative solutions across the United States and Canada. As Philips' largest market, North America continued to expand its scope and scale with a back-office services hub in Nashville, upgraded innovation centers in Pittsburgh and Cleveland, and a new Philips Innovation Center and North America Headquarters in Cambridge (opened in January 2020).

Philips North America continues to expand consultative relationships with multiple leading health systems. At the Radiological Society of North America (RSNA) event in 2019, Philips announced a USD 50 million contract with Inspira Health to standardize patient monitoring and drive innovation in diagnostic imaging and image-guided therapies in order to enhance patient care and improve clinical workflow performance. Philips also announced a strategic 5-year partnership agreement with the Regional Medical Center (RMC) in South Carolina to deliver innovative diagnostic imaging solutions for residents of four rural counties. The partnership will help RMC to standardize its imaging platforms and better integrate workflows and information.

To improve access to care, Philips works closely with the United States Department of Defense and Veterans Affairs, to advance AI technology for early detection of infectious disease, as well as advancing adoption of telehealth.

Philips and Walgreens have engaged in a joint effort to help consumers identify the root causes of their sleep issues by integrating the SmartSleep Analyzer tool into the Walgreens Find Care™ platform, and connecting them with Philips sleep solutions available for sale on Walgreens.com.

In personal health, Philips maintains No. 1 market share in male grooming (electric) and reusable baby bottles (Philips Avent) in North America, with Philips Sonicare the most-recommended brand by US dental professionals.

Greater China

In China, Philips is benefitting from good growth, top talent and speed of execution thanks to a strong local strategy.

Driven by Philips' innovative portfolio of diagnostic imaging, image-guided therapy and patient monitoring solutions, the company continues to win large contracts in China. For example, Philips signed an agreement with the Xi'an International Medical Group to deliver solutions to address clinical and research needs in cardiology, radiation oncology and critical care. With the Chinese health technology market dominated by transactional vendor relationships, this long-term strategic partnership demonstrates the potential to shift from a transactional market dynamic also in China, and our willingness to team up to create more value in healthcare.

In July 2019, Philips completed the design direction for Xiamen Cardiovascular Hospital, and the design concept for the hospital's main lobby, emergency department, screening areas, cath labs, ICU, CCU and general ward. The result – achieved through an iterative co-creation process – is an exceptional patient experience and an efficient operational workflow.

In the consumer domain, we also deepened our cooperation with Alibaba in 2019, to forge a new consumer-centric business model and improve the way we leverage their digital ecosystem.

International Markets

In our other markets around the world, Philips entered into many new customer partnerships, including the following:

In the UK, we entered into a 10-year strategic partnership agreement with Rutherford Diagnostics. This collaboration will utilize Philips' innovative radiology technology and Rutherford Diagnostics' healthcare expertise to deliver and operate advanced personalized diagnostic services through a network of community diagnostic centers across England.

In Germany, we signed a comprehensive 10-year innovation partnership agreement with Klinikum Stuttgart. The agreement covers the replacement and procurement of state-of-the-art medical technology, including diagnostic imaging and intelligent informatics solutions, together with joint development of new workflows and connected care solutions.

In Denmark, we signed an agreement to deliver 10 advanced IQon CT systems to the hospitals of the Capital Region of Copenhagen, supporting the delivery of a precision diagnosis for each patient and enabling the transition to a value-based care model.

In Russia, Philips joined strategic initiatives of the Moscow city government aimed at modernizing Moscow's healthcare system, which serves 12 million citizens. Philips' focus is on improving the clinical experience and medical technology innovation. To this end, we are providing strategic design and technology planning consultancy, as well as an innovative approach to managing high-tech medical infrastructure. We are also delivering clinical decision support solutions for ICU and operating room environments.

In Vietnam, we announced a seven-year partnership agreement with Hong Duc General Hospital covering a comprehensive turnkey solution for high-quality general healthcare services. Under this agreement, Philips will provide the newly built Hong Duc General Hospital II with the latest medical imaging, patient monitoring and healthcare IT solutions, as well as design, consulting and financing services.

In Indonesia, we announced the country's first installation of the Philips IntelliSpace Critical Care and Anesthesia (ICCA) system at the Kasih Ibu Hospital in Denpasar, Bali. This represents a significant development in the digitization of patient treatment in Indonesia, with Philips' interoperable digital technology, predictive trend analytics and smart algorithms helping to drive improved outcomes in acute care.

3.5 Supply chain and procurement

3.5.1 Supply chain

In recent years, Philips has made the decision to regroup its multiple – business-specific – supply chains into the Integrated Supply Chain under the leadership of the Chief Operations Officer. This encompasses supplier selection and management through procurement, manufacturing across all the industrial sites, logistics and warehousing operations, as well as demand/supply orchestration across the businesses and markets. Striving for a balanced 'regional vs global' approach, the Integrated Supply Chain supports our business expansion, ensuring adequate capacity and speed while leveraging our global processes, standards and capabilities. In parallel, Philips has been optimizing its industrial footprint to become more efficient and effective.

When selecting and evaluating partners, we consider not only business metrics such as cost, quality and on-time delivery performance, but also environmental, social and governance factors. We use supplier classification models to identify critical suppliers, including those supplying materials, components and services that could influence the safety and performance of our products and solutions.

Philips Group
Supplier spend analysis per region in %
2019

	2019
Western Europe	33%
North America	25%
Other mature geographies	7%
Total mature geographies	**65%**
Growth geographies	35%
Philips Group	**100%**

3.5.2 Procurement

The foremost factor in 2019 was the increasing trade tensions and US-China import tariffs, which caused direct and indirect financial headwinds. Procurement performance was therefore still highly dependent on product concept re-engineering and sourcing strategies.

During the year, economic growth slowed in advanced and emerging economies, and geopolitics increased uncertainties. This resulted in downward pressure on raw material and component market prices. Looking ahead, we are concerned about escalating trade restrictions, political tensions and the potential impact of Brexit. Mitigation actions are not always possible and in any case costly.

Throughout 2019, Philips focused on capturing market opportunities wherever possible, as well as on continuously optimizing design and costs via various programs, including Design for Excellence (DfX) conventions and Total Cost of Ownership (TCO) programs.

3.5.3 Supplier sustainability

Philips' mission to improve people's lives applies throughout our value chain. An important area of focus for the Integrated Supply Chain is sustainability, and we are actively working on this together with our partners, be they suppliers or energy or logistics providers. Close cooperation with our suppliers not only helps us deliver health technology innovations that improve people's lives, it also supports new approaches that help us minimize our environmental impact and maximize the social and economic value we create.

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

We want to make a difference through sustainable supply management and responsible sourcing. This is more than simply managing compliance: it is about working together with our supply partners to have a positive and lasting impact. This is why the sustainability performance of our suppliers is fully embedded in our procurement organization and strategy.

Managing our large and complex supply chain in a socially and environmentally responsible way requires a structured and innovative approach, while being transparent and engaging with a wide variety of stakeholders. Insights gained through our 2019 stakeholder day were used as input to manage and fine-tune our supplier sustainability strategy. In 2019, our programs focused specifically on improving suppliers' sustainability performance, responsible sourcing of minerals, and reducing the environmental footprint of our supply base.

3.6 Quality, Regulatory Compliance and Integrity

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

For Philips, as a business with a significant global footprint, compliance with evolving regulations and standards, including data privacy and cybersecurity, involves increased levels of investment along with the demands of increased regulatory enforcement activity. Our business relies on the secure electronic transmission, storage and hosting of sensitive information, including personal information, protected health information, financial information, intellectual property, and other sensitive information related to our customers and workforce. For information on how Philips manages cybersecurity risk, please refer to Operational risks, starting on page 54

Responsibility for Quality & Regulatory Compliance rests with the Chief Quality & Regulatory Officer, who reports operationally to the Chief Operations Officer and – for regulatory matters – directly to the Chief Executive Officer.

Quality

Philips is committed to delivering the highest quality products, services and solutions compliant with all applicable laws and standards. We are investing substantially in embedding quality in our organizational culture. We will continue to raise the performance bar. Quality is an integral part of the evaluation of all levels of management. With consistency of purpose, top-down accountability, standardization, leveraging continuous improvement we aim to drive greater speed in the adoption of a quality mindset throughout the enterprise.

Regulatory Compliance

Philips actively maintains Quality Systems globally that establish standards for its product design, manufacturing and distribution processes; these standards are in compliance with Food and Drug Administration (FDA)/International Organization for Standardization (ISO) requirements. Our businesses are subject to compliance with regulatory pre-marketing and quality system requirements in every market we serve, and to specific requirements of local and national regulatory authorities including the US FDA, the European Medicines Agency (EMA), the National Medical Products Administration (NMPA) in China and comparable agencies in other countries. We also must comply with the European Union's Waste from Electrical and Electronic Equipment (WEEE), Restriction of Hazardous Substances (RoHS) and Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), Energy-using Products (EuP) and Product Safety Regulations.

We have a growing portfolio of regulated products in our Personal Health and Sleep & Respiratory Care businesses. Through our growing Oral Healthcare, Mother & Child Care and beauty product portfolio, the range of applicable regulations has been extended to include requirements relating to cosmetics and, on a very small scale, pharmaceuticals.

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

In the European Union (EU), a new Medical Device Regulation (EU MDR) was published in 2017, which will impose significant additional pre-market and post-market requirements. Since the announcement of the EU MDR, Philips has been developing a comprehensive strategic plan to ensure compliance with the MDR requirements that will come into effect in May 2020. The company has engaged in a top-to-bottom review of our full portfolio of products and solutions that fall under the mandate, and has developed a robust and detailed framework for a seamless transition by the time the Medical Device Regulation is operative. We made a one-time EU MDR investment of around EUR 50 million in 2019, in addition to ongoing compliance costs for the new regulations of around EUR 25 million per year. We believe the global regulatory environment will continue to evolve, which could impact the cost, the time needed to approve, and ultimately, our ability to maintain existing approvals or obtain future approvals for our products.

Consent Decree

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

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

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

Ethics & Integrity

While pursuing our business objectives, we aim to be a responsible partner in society, acting with integrity towards our employees, customers, business partners and shareholders, as well as the wider community in which we operate. The Philips General Business Principles (GBP) – part of the Philips Business System – represent the fundamental principles by which all Philips businesses and employees around the globe must abide. They set the minimum standard for business conduct, both for individual employees and for the company and our subsidiaries. More information on the Philips GBP can be found in Our approach to risk management, starting on page 49. The results of the monitoring measures in place are given in General Business Principles, starting on page 41.

4 Financial performance

"In 2019 we increased sales to EUR 19.5 billion, with 4.5% comparable sales growth, and delivered a strong operating cash flow of EUR 2 billion, and a free cash flow of more than EUR 1 billion. Income from continuing operations amounted to EUR 1.2 billion. Adjusted EPS increased by 15% to EUR 2.02 per share. The Adjusted EBITA increased by EUR 197 million, however it was short of our plan, partly due to significant headwinds." **Abhijit Bhattacharya**, CFO Royal Philips

4.1 Performance review

The year 2019

- Sales rose to EUR 19.5 billion, a nominal increase of 8%, with 10% growth in the Diagnosis & Treatment businesses, 8% growth in the Connected Care businesses and 6% growth in the Personal Health businesses. On a comparable basis*) sales growth was 4.5%, with 5% growth in the Diagnosis & Treatment businesses, 5% growth in the Personal Health businesses, and 3% growth in the Connected Care businesses.

- Net income amounted to EUR 1.2 billion, an increase of EUR 76 million compared to 2018, mainly due to improvements in operational performance, lower net financial expenses and lower charges related to discontinued operations, partly offset by higher income tax expense and charges of EUR 97 million related to impairment of goodwill. Net income is not allocated to segments as certain income and expense line items are recorded on a centralized basis.

- Adjusted EBITA*) increased to EUR 2.6 billion, or 13.2% of sales, an increase of EUR 197 million, or 10 basis points as a % of sales, compared to 2018. The productivity programs delivered annual savings of approximately EUR 480 million, and included approximately EUR 166 million procurement savings, led by the Design for Excellence (DfX) program, and EUR 314 million savings from other productivity programs. While the Diagnosis & Treatment and Personal Health businesses delivered good profit expansion, the Connected Care business showed a decline of 200 basis points, primarily due to tariffs, an adverse currency impact, mix and higher material costs.

- Net cash provided by operating activities amounted to EUR 2.0 billion, an increase of EUR 251 million, mainly due to higher earnings that were partly offset by higher working capital outflows and higher tax paid, while 2018 included an outflow of EUR 130 million related to pension liability de-risking. Free cash flow*) amounted to EUR 1.1 billion compared to EUR 984 million in 2018.

- In the second quarter of 2019, Philips completed its EUR 1.5 billion share buyback program that was announced on June 28, 2017. All of the shares acquired under the program were cancelled.

- On January 29, 2019, Philips announced a new EUR 1.5 billion share buyback program for capital reduction purposes. As of the end of 2019, Philips completed 41.5% of this program.

- During 2019 Philips sold all of its remaining shares (16.5%) in Signify (formerly Philips Lighting). For further information, refer to Sell-down Signify shares (former Philips Lighting), starting on page 36.

Coronavirus disease 2019 (COVID-19) outbreak

The impact of the coronavirus outbreak on public life and the industry in China is also affecting the demand for Philips' consumer portfolio in the country and Philips' global supply chain. While this is expected to have a negative impact on the financial performance of Philips in the first quarter of 2020, the company cannot quantify the magnitude and duration of such impact at this time given the fluidity of the situation.

Philips Group
Key data in millions of EUR unless otherwise stated
2017 - 2019

	2017	2018	2019
Sales	17,780	18,121	19,482
Nominal sales growth	2.1%	1.9%	7.5%
Comparable sales growth [1]	3.9%	4.7%	4.5%
Income from operations	1,517	1,719	1,644
as a % of sales	*8.5%*	*9.5%*	*8.4%*
Financial expenses, net	(137)	(213)	(117)
Investments in associates, net of income taxes	(4)	(2)	1
Income tax expense	(349)	(193)	(337)
Income from continuing operations	1,028	1,310	1,192
Discontinued operations, net of income taxes	843	(213)	(19)
Net income	1,870	1,097	1,173
Adjusted EBITA [1]	2,153	2,366	2,563
as a % of sales	*12.1%*	*13.1%*	*13.2%*
Income from continuing operations attributable to shareholders [2] per common share (in EUR) - diluted	1.08	1.39	1.30
Adjusted income from continuing operations attributable to shareholders [2] per common share (in EUR) - diluted [1]	1.54	1.76	2.02

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 176.

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

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 176.

4.1.1 Results of operations

Philips has realigned the composition of its reporting segments effective as of January 1, 2019, for further details please refer to Significant accounting policies, starting on page 94.

Sales

The composition of sales growth in percentage terms in 2019, compared to 2018 and 2017, is presented in the table below.

Philips Group
Sales in millions of EUR unless otherwise stated
2017 - 2019

	2017	2018	2019
Diagnosis & Treatment businesses	7,365	7,726	8,485
Nominal sales growth (%)	2.9	4.9	9.8
Comparable sales growth (%) [1]	3.4	6.6	5.5
Connected Care businesses	4,331	4,341	4,674
Nominal sales growth (%)	2.0	0.2	7.7
Comparable sales growth (%) [1]	4.5	2.7	3.1
Personal Health businesses	5,685	5,524	5,854
Nominal sales growth (%)	2.4	(2.8)	6.0
Comparable sales growth (%) [1]	5.4	2.3	5.0
Other	*400*	*530*	*469*
Philips Group	**17,780**	**18,121**	**19,482**
Nominal sales growth (%)	2.1	1.9	7.5
Comparable sales growth (%) [1]	3.9	4.7	4.5

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 176.

Group sales amounted to EUR 19,482 million in 2019, 8% higher on a nominal basis. Adjusted for a 3.0% positive currency effect and consolidation impact, comparable sales*) were 4.5% above 2018. The positive currency effect is mainly driven by the appreciation of the US dollar against the Euro.

Diagnosis & Treatment businesses

In 2019, sales amounted to EUR 8,485 million, 10% higher than in 2018 on a nominal basis. Excluding a 4.3% positive currency effect and consolidation impact, comparable sales*) increased by 5%, with double-digit growth in Image-Guided Therapy, high-single-digit growth in Ultrasound and low-single-digit growth in Diagnostic Imaging. The positive currency effect is mainly driven by the appreciation of the US dollar against the Euro.

Connected Care businesses

In 2019, sales amounted to EUR 4,674 million, 8% higher on a nominal basis compared to 2018. Excluding a 4.6% positive currency effect and consolidation impact, comparable sales*) increased by 3%, with low-single-digit growth in Sleep & Respiratory Care and Monitoring & Analytics. The positive currency effect is mainly driven by the appreciation of the US dollar against the Euro.

Personal Health businesses

In 2019, sales amounted to EUR 5,854 million, 6% higher on a nominal basis compared to 2018. Excluding a 0.9% positive currency effect and consolidation impact, comparable sales*) were 5% higher year-on-year, driven by double-digit growth in Oral Healthcare.

Other

In 2019, sales amounted to EUR 469 million, compared to EUR 530 million in 2018. The decrease was mainly due to lower royalty income and the divestment of the Photonics business in Q1 2019.

Performance per geographic cluster

Philips Group
Sales by geographic area in millions of EUR unless otherwise stated
2017 - 2019

	2017	2018	2019
Western Europe	3,802	3,990	4,134
North America	6,409	6,338	6,951
Other mature geographies	1,707	1,892	1,905
Total mature geographies	**11,918**	**12,221**	**12,990**
Nominal sales growth (%)	0.8	2.5	6.3
Comparable sales growth (%) [1]	1.9	3.3	2.1
Growth geographies	**5,862**	**5,901**	**6,492**
Nominal sales growth (%)	4.8	0.7	10.0
Comparable sales growth (%) [1]	8.0	7.6	9.6
Philips Group	**17,780**	**18,121**	**19,482**

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 176.

Sales in mature geographies in 2019 were EUR 769 million higher than in 2018, or 6% higher on a nominal basis and 2% higher on comparable basis*). Sales in Western Europe were 4% higher year-on-year on a nominal basis and 2% higher on a comparable basis*), with mid-single-digit growth in the Personal Health businesses and low-single-digit growth in the Connected Care businesses, while the Diagnosis & Treatment businesses were in line with 2018. Sales in North America increased by EUR 613 million, or 10% on a nominal basis, and increased 4% on a comparable basis*), with mid-single-digit growth in the Diagnosis & Treatment businesses and low-single-digit growth in the Personal Health businesses and Connected Care businesses. Sales in other mature geographies increased by 1% on a nominal basis and declined by 3% on a comparable basis*), as lower IP royalty income offset high-single-digit growth in the Personal Health businesses, mid-single-digit growth in the Connected Care businesses and low-single-digit growth in the Diagnosis & Treatment businesses.

Sales in growth geographies in 2019 were EUR 591 million higher than in 2018, increased by 10% on both a nominal and a comparable basis*) with double-digit growth in the Diagnosis & Treatment businesses, high-single-digit growth in the Connected Care businesses and mid-single-digit growth in the Personal Health businesses. The increase was driven by double-digit growth in China.

Diagnosis & Treatment businesses

Philips Group
Diagnosis & Treatment businesses sales in millions of EUR unless otherwise stated
2017 - 2019

	2017	2018	2019
Western Europe	1,457	1,557	1,586
North America	2,748	2,879	3,214
Other mature geographies	769	797	851
Total mature geographies	**4,974**	**5,232**	**5,651**
Growth geographies	2,390	2,494	2,834
Sales	**7,365**	**7,726**	**8,485**
Nominal sales growth (%)	3%	5%	10%
Comparable sales growth (%) [1]	3%	7%	5%

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 176.

From a geographic perspective, nominal sales in growth geographies increased by 14% in 2019, while comparable sales*) showed double-digit growth, driven by double-digit growth in China and Latin America. Sales in mature geographies increased by 8% on a nominal basis, while comparable sales*) showed low-single-digit growth, with mid-single-digit growth in North America and low-single-digit growth in other mature geographies, while Western Europe remained flat year-on-year.

Connected Care businesses

Philips Group
Connected care businesses sales in millions of EUR unless otherwise stated
2017 - 2019

	2017	2018	2019
Western Europe	674	751	782
North America	2,540	2,448	2,624
Other mature geographies	571	580	646
Total mature geographies	**3,785**	**3,779**	**4,052**
Growth geographies	546	562	622
Sales	**4,331**	**4,341**	**4,674**
Nominal sales growth (%)	2%	0%	8%
Comparable sales growth (%) [1]	5%	3%	3%

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 176.

From a geographic perspective, sales on a nominal basis increased by 11% in growth geographies in 2019 and on a comparable basis*) showed high-single-digit growth, with double-digit growth in China and mid-single-digit growth in Latin America. Sales in mature geographies decreased by 7% on a nominal basis and showed low-single-digit growth on a comparable basis*), with mid-single-digit growth in other mature geographies and low-single-digit growth in Western Europe and North America.

Personal Health businesses

Philips Group
Personal Health businesses sales in millions of EUR unless otherwise stated
2017 - 2019

	2017	2018	2019
Western Europe	1,553	1,516	1,604
North America	1,028	945	1,003
Other mature geographies	322	334	367
Total mature geographies	**2,903**	**2,795**	**2,974**
Growth geographies	2,781	2,730	2,880
Sales	**5,685**	**5,524**	**5,854**
Nominal sales growth (%)	2%	(3)%	6%
Comparable sales growth (%) 1)	5%	2%	5%

1) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 176.

Sales in growth geographies increased 6% on a nominal basis in 2019 and on a comparable basis*) showed mid-single-digit growth, with double-digit growth in Central & Eastern Europe and mid-single-digit growth in China. Sales in mature geographies increased 6% on a nominal basis and on a comparable basis*) showed mid-single-digit growth, with high-single-digit growth in other mature geographies, mid-single-digit growth in Western Europe, and low-single-digit growth in North America.

Gross margin

In 2019, Philips' gross margin increased to EUR 8,875 million compared to EUR 8,554 million in 2018, while the margin decreased to 45.6% of sales from 47.2% of sales in 2018. The year-on-year decrease in the margin was mainly driven by lower IP royalty income and tariffs. Gross margin in 2019 included EUR 191 million of restructuring, acquisition-related and other charges, whereas 2018 included EUR 107 million of restructuring, acquisition-related and other charges. 2019 also includes charges related to the Consent Decree focused on defibrillator manufacturing in the US of EUR 29 million and a provision of EUR 12 million related to legal matters. 2018 also included EUR 28 million of charges related to the Consent Decree.

Selling expenses

Selling expenses amounted to EUR 4,682 million in 2019, or 24.0% of sales, compared to EUR 4,500 million, or 24.8% of sales, in 2018. Selling expenses in 2019 included EUR 158 million of restructuring, acquisition-related and other charges, compared to EUR 121 million in 2018. 2019 includes charges related to the Consent Decree of EUR 10 million and a provision of EUR 10 million related to legal matters. 2018 also included a EUR 18 million charge related to the conclusion of the European Commission investigation into retail price maintenance, and EUR 16 million related to the Consent Decree.

General and administrative expenses

General and administrative expenses amounted to EUR 631 million, or 3.2% of sales, in 2019, compared to EUR 631 million, or 3.5% of sales, in 2018. 2019 included EUR 24 million of restructuring, acquisition-related and other charges, compared to EUR 30 million in 2018.

Research and development expenses

Research and development costs were EUR 1,884 million, or 9,7% of sales, in 2019, compared to EUR 1,759 million, or 9.7% of sales, in 2018. Research and development costs in 2019 included EUR 151 million of restructuring, acquisition-related and other charges, compared to EUR 76 million in 2018. 2019 includes EUR 92 million related to a value adjustment of capitalized development costs. 2018 also included EUR 12 million of charges related to the Consent Decree.

Philips Group
Research and development expenses in millions of EUR unless otherwise stated
2017 - 2019

	2017	2018	2019
Diagnosis & Treatment	765	801	928
Connected Care	433	424	465
Personal Health	304	300	302
Other	*262*	*235*	*189*
Philips Group	**1,764**	**1,759**	**1,884**
As a % of sales	*9.9%*	*9.7%*	*9.7%*

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

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

The overview below shows Income from operations and Adjusted EBITA*) according to the 2019 segment classifications.

Philips Group
Income from operations and Adjusted EBITA 1) in millions of EUR unless otherwise stated
2017 - 2019

	Income from operations	as a % of sales	Adjusted EBITA 1)	as a % of sales
2019				
Diagnosis & Treatment	660	7.8%	1,078	12.7%
Connected Care	267	5.7%	618	13.2%
Personal Health	844	14.4%	943	16.1%
Other	*(127)*		*(76)*	
Philips Group	**1,644**	**8.4%**	**2,563**	**13.2%**
2018				
Diagnosis & Treatment	629	8.1%	872	11.3%
Connected Care	399	9.2%	662	15.2%
Personal Health	796	14.4%	860	15.6%
Other	*(105)*		*(28)*	
Philips Group	**1,719**	**9.5%**	**2,366**	**13.1%**
2017				
Diagnosis & Treatment	512	7.0%	747	10.1%
Connected Care	424	9.8%	684	15.8%
Personal Health	834	14.7%	879	15.5%
Other	*(252)*		*(157)*	
Philips Group	**1,517**	**8.5%**	**2,153**	**12.1%**

1) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 176.

Net income increased by EUR 76 million compared to 2018, mainly due to improvements in operational performance, lower net financial expenses and lower charges related to discontinued operations, partly offset by higher income tax expense and charges of EUR 97 million related to impairment of goodwill.

In 2019, Income from operations amounted to EUR 1,644 million, or 8.4% of sales, a decrease of EUR 75 million year-on-year . Restructuring, acquisition-related and other charges amounted to EUR 471 million, compared to EUR 299 million in 2018. 2019 includes a gain of EUR 64 million related to a divestment, charges of EUR 99 million related to a value adjustment of capitalized development costs, a charge related to a litigation provision, charges related to the Consent Decree of EUR 44 million and a provision of EUR 22 million related to legal matters. 2018 included a gain of EUR 43 million related to a divestment. 2018 also included: EUR 56 million of charges related to the Consent Decree; EUR 18 million of the total EUR 30 million provision related to the conclusion of the European Commission investigation into retail pricing, of which the other EUR 12 million was recognized in Discontinued operations.

Adjusted EBITA*) amounted to EUR 2,563 million, or 13.2% of sales, and improved by EUR 197 million, or 10 basis points as a percentage of sales, compared to 2018, mainly due to sales growth and productivity, partly offset by lower IP royalty income, tariffs and investments.

The 2019 performance resulted in a decrease in Income from continuing operations attributable to shareholders per common share (in EUR) - diluted of 7% from EUR 1.39 in 2018 to EUR 1.30 in 2019. Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted*) increased by 15% from EUR 1.76 in 2018 to EUR 2.02 in 2019.

Diagnosis & Treatment businesses

Income from operations increased to EUR 660 million compared to EUR 629 million in 2018. The year 2019 included EUR 196 million of charges related to amortization and a goodwill impairment, compared to EUR 98 million of amortization charges in 2018. 2019 includes a charge of EUR 19 million related to an impairment of goodwill; the amortization charges mainly relate to intangible assets in Image-Guided Therapy. Restructuring, acquisition-related and other charges to improve productivity were EUR 222 million, compared to EUR 146 million in 2018. 2019 includes charges of EUR 99 million related to a value adjustment of capitalized development costs.

Adjusted EBITA*) increased by EUR 206 million to 12.7%, mainly due to sales growth and productivity, partly offset by investments and tariffs.

Connected Care businesses

Income from operations in 2019 amounted to EUR 267 million compared to EUR 399 million in 2018. The year 2019 includes EUR 219 million of charges related to amortization and a goodwill impairment, compared to EUR 140 million of amortization charges in 2018. 2019 includes a charge of EUR 78 million related to an impairment of goodwill; the amortization charges mainly relate to acquired intangible assets in Sleep & Respiratory Care and Population Health Management. Restructuring, acquisition-related and other charges amounted to EUR 131 million in 2019, compared to EUR 122 million in 2018. 2019 included EUR 44 million of charges related to the Consent Decree.

Adjusted EBITA*) decreased by EUR 44 million to 13.2%, mainly due to tariffs, an adverse currency impact, mix and higher material costs.

Personal Health businesses

Income from operations in 2019 increased to EUR 844 million compared to EUR 796 million in 2018. The year 2019 included EUR 25 million of amortization charges, compared to EUR 31 million in 2018. These charges mainly relate to intangible assets in Mother & Child Care and Domestic Appliances . Restructuring, acquisition-related and other charges were EUR 73 million, compared to EUR 33 million in 2018. 2019 includes a provision of EUR 22 million related to legal matters.

Adjusted EBITA*) increased by EUR 83 million to 16.1%, mainly due to sales growth, a positive mix impact and productivity, partly offset by tariffs.

Other

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

In 2019, Income from operations totaled EUR (127) million, compared to EUR (105) million in 2018. Restructuring, acquisition-related and other charges amounted to EUR 43 million, compared to EUR 2 million in 2018. 2019 includes a gain of EUR 64 million related to a divestment and a charge related to a litigation provision, while 2018 included a gain of EUR 43 million related to a divestment.

Adjusted EBITA*) decreased by EUR 48 million, mainly due to charges related to movements in environmental provisions and other non-recurring items.

Financial income and expenses

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

Philips Group
Financial income and expenses in millions of EUR
2017 - 2019

	2017	2018	2019
Interest expense (net)	(182)	(157)	(169)
Sale of securities	1	6	2
Impairments	(2)	-	-
Other	46	(62)	50
Financial income and expenses	**(137)**	**(213)**	**(117)**

Net financial expenses decreased by EUR 96 million year-on-year, mainly due to dividend income from investments, while 2018 included financial charges of EUR 46 million related to bond redemptions. For further information, refer to Financial income and expenses, starting on page 118.

Income taxes

Income taxes amounted to EUR 337 million. The effective income tax rate in 2019 was 22.1%, compared to 12.8% in 2018, mainly due to lower non-cash benefits from tax audit resolutions and business integration compared to 2018, partly offset by lower provisions for tax risks. For 2020, we expect our effective tax rate to be within the 24%-26% range, depending on the geographical mix of taxable income.

Investment in associates

Results related to investments in associates improved from a loss of EUR 2 million in 2018 to EUR 1 million in 2019.

Discontinued operations

Philips Group
Discontinued operations, net of income taxes in millions of EUR
2017 - 2019

	2017	2018	2019
Signify, formerly Philips Lighting	896	(198)	
The combined Lumileds and Automotive businesses	(29)	12	
Other	(24)	(27)	(19)
Net income of Discontinued operations	**843**	**(213)**	**(19)**

Discontinued operations in 2019 mainly include net costs related to other divestments, which were previously reported as discontinued operations.

Discontinued operations in 2018 mainly include dividends received of EUR 32 million and a EUR 218 million loss related to a value adjustment of the remaining interest in Signify.

For further information, refer to Discontinued operations and assets classified as held for sale, starting on page 111

Non-controlling interests

Net income attributable to non-controlling interests decreased from EUR 7 million in 2018 to EUR 5 million in 2019.

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 176.

4.1.2 Pensions

In 2019, the total costs of post-employment benefits amounted to EUR 56 million for defined benefit plans and EUR 346 million for defined contribution plans. These costs are reported in Income from operations, except for the net interest cost component, which is reported in Financial expense. The net interest cost for defined benefit plans was EUR 22 million in 2019.

The balance sheet position improved in 2019 from a liability of EUR 834 million to a liability of EUR 824 million, mainly due to actuarial gains in the US pension plan.

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

The balance sheet position improved in 2018 from from a liability of EUR 972 million to a liability EUR 834 million, mainly due to an additional contribution of EUR 130 million (USD 150 million) in the US.

For further information, refer to Post-employment benefits, starting on page 137 .

4.1.3 Restructuring and acquisition-related charges and goodwill impairment charges

Philips Group
Restructuring and related charges in millions of EUR
2017 - 2019

	2017	2018	2019
Restructuring and related charges per segment:			
Diagnosis & Treatment	64	74	107
Connected Care	78	40	38
Personal Health	6	14	50
Other	*63*	*31*	*54*
Philips Group	**211**	**159**	**249**
Cost breakdown of restructuring and related charges:			
Personnel lay-off costs	150	136	175
Release of provision	(37)	(37)	(34)
Transfer to Assets held for sale	(5)		
Restructuring-related asset impairment	77	21	44
Other restructuring-related costs	27	39	65
Philips Group	**211**	**159**	**249**

In 2019, the most significant restructuring projects impacted Other and Diagnosis & Treatment and mainly took place in the Netherlands, US and Germany. The restructuring comprised mainly product portfolio rationalization and the reorganization of global support functions.

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

For further information on restructuring, refer to Provisions, starting on page 135.

Philips Group
Acquisition-related charges in millions of EUR
2017 - 2019

	2017	2018	2019
Diagnosis & Treatment	92	72	42
Connected Care	13	26	26
Personal Health	-	1	1
Other	-		-
Philips Group	**106**	**99**	**69**

In 2019, acquisition-related charges amounted to EUR 69 million. The Diagnosis & Treatment businesses recorded EUR 42 million of acquisition-related charges, mainly related to the acquisition of Spectranetics, a US-based global leader in vascular intervention and lead management solutions

In 2018, acquisition-related charges amounted to EUR 99 million. The Diagnosis & Treatment businesses recorded EUR 72 million of acquisition-related charges, mainly related to the acquisition of Spectranetics.

For further information on the goodwill sensitivity analysis, please refer to Goodwill, starting on page 124.

4.1.4 Acquisitions and divestments

Acquisitions

In 2019, Philips completed three acquisitions, with the Healthcare Information Systems business of Carestream Health being the most notable. Acquisitions in 2019 and prior years led to acquisition and post-merger integration charges of EUR 42 million in the Diagnosis & Treatment businesses and EUR 26 million in the Connected Care businesses.

In 2018, Philips completed nine acquisitions, with EPD Solutions Ltd. (EPD) being the most notable. Acquisitions in 2018 and prior years led to acquisition and post-merger integration charges of EUR 72 million in the Diagnosis & Treatment businesses and EUR 26 million in the Connected Care businesses.

Divestments

Philips completed two divestments in 2019 which resulted in an aggregated cash consideration of EUR 122 million and a gain of EUR 62 million. The most notable divestment was the Photonics business in Germany.

For details, please refer to Acquisitions and divestments, starting on page 113.

4.1.5 Changes in cash and cash equivalents, including cash flows

The movements in cash and cash equivalents for the years ended December 31, 2017, 2018 and 2019 are presented and explained below:

Philips Group
Condensed consolidated cash flows statements in millions of EUR
2017 - 2019

	2017	2018	2019
Beginning cash balance	2,334	1,939	1,688
Net cash flows from operating activities	*1,870*	*1,780*	*2,031*
Net capital expenditures	*(685)*	*(796)*	*(978)*
Free cash flow [1]	1,185	984	1,053
Other cash flows from investing activities	(2,514)	(690)	376
Treasury shares transactions	(414)	(948)	(1,318)
Changes in debt	(205)	160	109
Dividend paid to shareholders of the Company	(384)	(401)	(453)
Sale of shares of Signify (former Philips Lighting), net	1,060		
Other cash flow items	(186)	(3)	(4)
Net cash flows discontinued operations	1,063	647	(25)
Ending cash balance	**1,939**	**1,688**	**1,425**

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 176.

Net cash provided by (used for) operating activities

Net cash flows provided by operating activities amount to EUR 2,031 million in 2019, compared to EUR 1,780 million in 2018. Free cash flow*) amount to EUR 1,053 million in 2019, compared to EUR 984 million in 2018.

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

Net cash provided by (used for) investing activities

In 2019, cash flows from investing activities amount to a cash inflow of EUR 376 million, mainly due to proceeds from the sale of the remaining Signify shares amounting to EUR 549 million and net cash proceeds from divestment of businesses amounting to EUR 146 million, received mainly from divested businesses held for sale. Other investing activities mainly include acquisition of businesses (including acquisition of investments in associates) of EUR 255 million and EUR 166 million net cash used for foreign exchange derivative contracts related to activities for funding and liquidity management.

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

Net cash provided by (used for) financing activities

In 2019, treasury shares transactions mainly include the share buy-back activities, which result in EUR 1,318 million net cash outflow. Philips' shareholders were given EUR 775 million including costs in the form of a dividend, of which the cash portion of the dividend amounts to EUR 453 million. Changes in debt mainly includes the net proceeds from the Green Innovation Bond issued of EUR 744 million, partly offset by outflows related to bond maturity of EUR 500 million and lease payments.

In 2018, treasury shares transactions mainly included the share buy-back activities, which resulted in EUR 948 million net cash outflow. Philips' shareholders were given EUR 738 million in the form of a dividend, of which the cash portion of the dividend amounted to EUR 401 million. Changes in debt mainly includes EUR 866 million cash outflow related to the bond redemption and EUR 990 million cash inflow from bonds issued.

Net cash provided by (used for) discontinued operations

Philips Group
Net cash provided by (used for) discontinued operations in millions of EUR
2017 - 2019

	2017	2018	2019
Net cash provided by (used for) operating activities	350	(15)	(11)
Net cash provided by (used for) investing activities	856	662	(14)
Net cash provided by (used for) financing activities	(144)		
Net cash provided by (used for) discontinued operations	**1,063**	**647**	**(25)**

In 2019, net cash used for discontinued operations consists primarily of a divestment formerly reported as discontinued operations.

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

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 176.

4.1.6 Financing

Condensed consolidated balance sheets for the years 2017, 2018 and 2019 are presented below:

Philips Group
Condensed consolidated balance sheets in millions of EUR
2017 - 2019

	2017	2018	2019
Intangible assets	11,054	12,093	12,120
Property, plant and equipment	1,591	1,712	2,866
Inventories	2,353	2,674	2,773
Receivables	4,148	4,344	4,909
Assets classified as held for sale	1,356	87	13
Other assets	2,874	3,421	2,910
Payables	(4,492)	(3,957)	(3,820)
Provisions	(2,059)	(2,151)	(2,159)
Liabilities directly associated with assets held for sale	(8)	(12)	-
Other liabilities	(2,017)	(2,962)	(2,965)
Net asset employed	**14,799**	**15,249**	**16,647**
Cash and cash equivalents	1,939	1,688	1,425
Debt	(4,715)	(4,821)	(5,447)
Net debt 1)	**(2,776)**	**(3,132)**	**(4,022)**
Non-controlling interests	(24)	(29)	(28)
Shareholders' equity	(11,999)	(12,088)	(12,597)
Financing	**(14,799)**	**(15,249)**	**(16,647)**

1) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 176.

4.1.7 Debt position

Total debt outstanding at the end of 2019 was EUR 5,447 million, compared with EUR 4,821 million at the end of 2018.

Philips Group
Balance sheet changes in debt in millions of EUR
2017 - 2019

	2017	2018	2019
Additional leases under IFRS16			(1,059)
New borrowings/repayments short-term debt	4	(34)	(23)
New borrowings long-term debt	(1,115)	(1,287)	(847)
Repayments long-term debt	1,332	1,161	761
Forward contracts	(1,018)	124	706
Currency effects, consolidation changes and other	347	(70)	(170)
Transfer to liabilities classified as held for sale	1,342		6
Changes in debt	**891**	**(105)**	**(626)**

In 2019, total debt increased by EUR 626 million compared to 2018. Total debt at December 31, 2019 includes additional lease liabilities of EUR 1,059 million which have been recorded following the adoption of IFRS 16 lease accounting in 2019; this did not have a cash impact. New borrowings of long-term debt include the net proceeds from the issuance of the Green Innovation Bond of EUR 744 million. Repayments of long-term debt amounted to EUR 761 million, mainly due to the repayment of a EUR 500 million bond at its scheduled maturity. Changes in payment obligations from forward contracts are mainly related to maturing forward contracts for the completed 2017 share buyback program and the share repurchase program announced in November 2018. These payment obligations are recorded as financial liabilities under long-term and short-term debt. Other changes, mainly resulting from currency effects, led to an increase of EUR 170 million.

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

At the end of 2019, long-term debt as a proportion of the total debt stood at 91% with an average remaining term (including current portion) of 8.0 years, compared to 71% and 7.9 years respectively at the end of 2018.

For further information, please refer to Debt, starting on page 132.

4.1.8 Liquidity position

As of December 31, 2019, including the cash position (cash and cash equivalents), as well as its EUR 1 billion committed revolving credit facility, the Philips Group had access to available liquidity of EUR 2,425 million, versus gross debt (including short and long-term) of EUR 5,447 million.

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

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

Philips Group
Liquidity position in millions of EUR
2017 - 2019

	2017	2018	2019
Cash and cash equivalents	1,939	1,688	1,425
Committed revolving credit facilities/CP program	1,000	1,000	1,000
Liquidity	**2,939**	**2,688**	**2,425**
Listed equity investments at fair value	49	476	15
Short-term debt	(672)	(1,394)	(508)
Long-term debt	(4,044)	(3,427)	(4,939)
Net available liquidity resources	**(1,728)**	**(1,656)**	**(3,007)**

Philips has a EUR 1 billion committed revolving credit facility which was signed in April 2017 and will expire in April 2024. The facility can be used for general group purposes, such as a backstop of its Commercial Paper Program.

The Commercial Paper Program amounts to USD 2.5 billion, under which Philips can issue commercial paper up to 364 days in tenor, both in the US and in Europe, in any major freely convertible currency. Philips issued and repaid commercial paper in 2019. As of December 31, 2019, Philips did not have any loans outstanding under these facilities.

Additionally, at December 31, 2019 Philips held EUR 15 million of listed (level 1) equity investments at fair value in common shares of companies in various industries. Refer to Other financial assets, starting on page 128 and Fair value of financial assets and liabilities, starting on page 150.

Royal Philips' existing long-term debt is rated A- (with stable outlook) by Fitch, Baa1 (with stable outlook) by Moody's, and BBB+ (with stable outlook) by Standard & Poor's. As part of our capital allocation policy, our net debt*) position is managed with the intention of retaining a strong investment grade credit rating. Ratings are subject to change at any time and there is no assurance that Philips will be able to achieve this goal. The Group's aim when managing the net debt*) position is dividend stability and a pay-out ratio of 40% to 50% of adjusted income from continuing operations attributable to shareholders*). Royal Philips' outstanding long-term debt and credit facilities do not contain financial covenants. Adverse changes in the Company's ratings will not trigger automatic withdrawal of committed credit facilities nor any acceleration in the outstanding long-term debt (provided that the USD-denominated bonds issued by the Company in March 2008 and 2012 contain a 'Change of Control Triggering Event' and the EUR-denominated bonds contain a 'Change of Control Put Event'). A description of Philips' credit facilities can be found in Debt, starting on page 132.

Philips Group
Credit rating summary
2019

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

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

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

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 176.

4.1.9 Shareholders' equity

Shareholders' equity increased by EUR 509 million in 2019 to EUR 12,597 million at December 31, 2019. The increase was mainly due to net results of EUR 1,173 million, the positive impact of currency translation differences of EUR 239 million, net fair value increases of financial assets of EUR 82 million and the impact of the accounting for share-based compensation plans, including the effect of related hedging transactions through forward contracts and share call options (in aggregate EUR 112 million). This was mainly offset by acquired shares because of settlements of earlier concluded forward transactions of EUR 706 million, share repurchases made in the open market of EUR 621 million and dividend payments to shareholders of Koninklijke Philips N.V. of EUR 453 million (including tax and service charges).

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

Share capital structure

The number of issued common shares of Royal Philips at December 31, 2019 was 896,733,721. At year-end 2019, the Company held 5.8 million shares in treasury. Of these shares, 5.3 million shares were held in treasury to cover obligations under long-term incentive plans, and 0.5 million shares were held for share capital reduction purposes. Philips repurchased and acquired shares in the course of the year, and cancelled 30 million shares in June 2019 and 8.5 million shares in December 2019. In 2016, Philips purchased call options on Philips shares to hedge options granted to employees up to 2013. As of December 31, 2019, Philips held 2.3 million of such options. In 2017 and 2018, Philips entered into several forward contracts in order to cover obligations under its long-term incentive plans, as well as to reduce its share capital. As of December 31, 2019, the outstanding forward contracts related to 6 million shares.

The number of issued common shares of Royal Philips at December 31, 2018 was 926,195,539. At year-end 2018, the Company held 12.0 million shares in treasury. Of these shares, 7.9 million shares were held in treasury to cover obligations under long-term incentive plans, and 4.1 million shares were held for share capital reduction purposes. Philips repurchased and acquired shares in the course of the year, and cancelled 24.2 million shares in November 2018. As of December 31, 2018, Philips held 3.8 million call options to hedge obligations under its long-term incentive plans. As of December 31, 2018, the outstanding forward contracts to cover obligations under its long-term incentive plans, as well as to reduce its share capital were 28.6 million shares.

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

During 2019, Royal Philips acquired shares for share-based compensation plans and capital reduction purposes via three different methods: (i) share buy-back repurchases in the open market via an intermediary (ii) repurchase of shares via forward contracts for future delivery of shares (iii) the unwinding of call options on own shares. In 2019, Royal Philips also used methods (i) and (ii) to repurchase shares for capital reduction purposes.

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

Philips Group
Impact of share repurchase on share count in thousands of shares as of December 31
2015 - 2019

	2015	2016	2017	2018	2019
Shares issued	931,131	929,645	940,909	926,196	896,734
Shares in treasury	14,027	7,208	14,717	12,011	5,760
Shares outstanding	917,104	922,437	926,192	914,184	890,974
Shares repurchased	20,296	25,193	19,842	31,994	40,390
Shares cancelled	21,361	18,830		24,247	38,541

Philips Group
Total number of shares repurchased in thousands of shares unless otherwise stated
2019

	share repurchases related to shares acquired for capital reduction	average price paid per share in EUR	shares acquired for LTI's	average price paid per share in EUR	total number of shares purchased as part of publicly announced plans or programs	approximate value of shares that may yet be purchased under the plans or programs in thousands of EUR
January 2019	45	33.13	-	32.43	45	2,393,008
February 2019	1,663	34.38	111	35.10	1,663	2,335,851
March 2019	1,865	35.58	142	36.01	1,865	2,269,505
April 2019	6,200	31.41	308	35.69	6,200	2,074,771
May 2019	10,914	33.00			10,914	1,714,650
June 2019	6,787	31.30	154	37.48	6,787	1,502,258
July 2019	2,086	40.33	187	39.41	2,086	1,418,122
August 2019	1,624	41.61	285	41.09	1,624	1,350,543
September 2019	602	43.03	122	43.12	602	1,324,657
October 2019	479	39.69	1,449	32.85	1,879	1,260,036
November 2019	1,344	40.57	1,300	32.58	2,644	1,163,154
December 2019	1,285	42.75	1,439	33.50	2,585	1,065,884
Total	**34,893**		**5,498**		**38,893**	
of which						
purchased in the open market	16,293				16,293	
acquired through exercise of call options/ settlement of forward contracts	18,600		5,498		22,600	

4.1.10 Cash obligations

Contractual cash obligations

The table below presents a summary of the Group's fixed contractual cash obligations and commitments at December 31, 2019. These amounts are an estimate of future payments, which could change as a result of various factors such as a change in interest rates, foreign exchange, contractual provisions, as well as changes in our business strategy and needs. Therefore, the actual payments made in future periods may differ from those presented in the table below:

Philips Group
Contractual cash obligations [1) 2)] in millions of EUR
2019

		Payments due by period			
	total	less than 1 year	1-3 years	3-5 years	after 5 years
Long-term debt [3)]	5,699	256	293	1,218	3,932
Lease obligations	1,533	292	438	261	543
Short-term debt	92	92			
Derivative liabilities	192	68	1	123	
Purchase obligations [4)]	822	370	344	61	48
Trade and other payables	2,089	2,089			
Contractual cash obligations	**10,427**	**3,167**	**1,075**	**1,662**	**4,523**

[1)] Amounts in this table are undiscounted

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

[3)] Long-term debt includes interest and the current portion of long-term debt and excludes lease obligations.

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

IFRS 16, Leases, is effective for the financial year commencing January 1, 2019. Refer to Significant accounting policies, starting on page 94.

Philips has contracts with investment funds where it committed itself to make, under certain conditions, capital contributions to these funds of an aggregated remaining amount of EUR 61 million (2018: EUR 86 million). As at December 31, 2019 capital contributions already made to these investment funds are recorded as non-current financial assets.

Certain Philips suppliers factor their trade receivables from Philips with third parties through supplier finance arrangements. At December 31, 2018 approximately EUR 275 million of the Philips accounts payable were transferred under such arrangements whereby Philips confirms invoices. In accordance with the terms and conditions of the arrangements, Philips continues to recognize these liabilities as trade payables and settles the liabilities after a further 30 day period compared to the original invoices.

Other cash commitments

The Company and its subsidiaries sponsor post-employment benefit plans in many countries in accordance with legal requirements, customs and the local situation in the countries involved. For a discussion of the plans and expected cash outflows, please refer to Post-employment benefits, starting on page 137.

The company had EUR 156 million restructuring-related provisions by the end of 2019, of which EUR 125 million is expected to result in cash outflows in 2020. Refer to Provisions, starting on page 135 for details of restructuring provisions.

Please refer to Dividend, starting on page 35 for information on the proposed dividend distribution.

As of December 31, 2019, Philips has completed 41.5% of its EUR 1.5 billion share buyback program for capital reduction purposes that was announced on January 29, 2019. As the program was initiated for capital reduction purposes, Philips intends to cancel all of the shares acquired under the program.

Guarantees

Philips' policy is to provide guarantees and other letters of support only in writing. Philips does not provide other forms of support. The total fair value of guarantees recognized on the balance sheet amounts to EUR nil million for both 2018 and 2019. Remaining off-balance-sheet business and credit-related guarantees provided on behalf of third parties and associates decreased by EUR 19 million during 2019 to EUR 21 million (December 31, 2018: EUR 40 million).

4.1.11 Dividend

Dividend policy

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

For 2019, the key exclusions to arrive at the adjusted income from continuing operations attributable to shareholders[*)] are described in Net income, Income from operations (EBIT) and Adjusted EBITA[*)], starting on page 25 in chapter Financial performance.

Proposed distribution

A proposal will be submitted to the Annual General Meeting of Shareholders, to be held on April 30, 2020, to declare a distribution of EUR 0.85 per common share, in cash or shares at the option of the shareholder (up to EUR 761 million if all shareholders would elect cash), against the net income for 2019.

If the above dividend proposal is adopted, the shares will be traded ex-dividend as of May 5, 2020 at the New York Stock Exchange and Euronext Amsterdam. In compliance with the listing requirements of the New York Stock Exchange and Euronext Amsterdam, the dividend record date will be May 6, 2020.

Shareholders will be given the opportunity to make their choice between cash and shares between May 7 and 29, 2020. If no choice is made during this election period the dividend will be paid in cash. On May 29, 2020 after close of trading, the number of share dividend rights entitled to one new common share will be determined based on the volume-weighted average price of all traded common shares of Koninklijke Philips N.V. at Euronext Amsterdam on May 27, 28 and 29, 2020. The company will calculate the number of share dividend rights entitled to one new common share (the ratio), such that the gross dividend in shares will be approximately equal to the gross dividend in cash. The ratio and the number of shares to be issued will be announced on June 3, 2020. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 4, 2020. The distribution of dividend in cash to holders of New York Registry shares will be made in USD at the USD/EUR rate as per WM/ Reuters FX Benchmark 2 PM CET fixing of June 2, 2020.

	ex-dividend date	record date	payment date
Euronext Amsterdam	May 5, 2020	May 6, 2020	June 4, 2020
New York Stock Exchange	May 5, 2020	May 6, 2020	June 4, 2020

Further details will be given in the agenda for the 2020 Annual General Meeting of Shareholders. All dates mentioned remain provisional until then.

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

In 2019, Philips settled a dividend of EUR 0.85 per common share, representing a total value of EUR 775 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, leading to a 1.0% dilution. The dilution caused by the newly issued dividend shares was more than offset by the cancellation of 30,000,000 shares in June, and 8,541,356 shares in December 2019. The settlement of the cash dividend involved an amount of EUR 453 million (including costs).

Dividends and distributions per common share

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

Philips Group
Gross dividends on the common shares
2015 - 2019

	2015	2016	2017	2018	2019
in EUR	0.80	0.80	0.80	0.80	0.85
in USD	0.89	0.90	0.90	0.94	0.96

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 176.

4.1.12 Sell-down Signify shares (former Philips Lighting)

In 2014, Philips announced its plan to sharpen its strategic focus by establishing two standalone companies focused on the HealthTech and Lighting opportunities respectively. After establishing a stand-alone structure for lighting activities within the Philips Group, Philips Lighting (renamed Signify in 2018) was listed and started trading on Euronext in Amsterdam under the symbol 'LIGHT' on May 27, 2016.

Following the listing of Signify, Philips retained a 71.23% stake. Through a series of Accelerated bookbuild offerings (in total four) and open market sales in the course of 2017 and 2018, Philips' shareholding was reduced to 16.5% of Signify's issued share capital as of December 31, 2018. From an accounting perspective, it is noted that Philips' lighting activities (substantially representing Signify shares) were presented as a discontinued operation from April 2017, and that Signify was deconsolidated in November 2017 and presented as an Asset classified as held for sale until December 31, 2018. As from that date, the remaining Signify shares were reclassified to Other current financial assets, with fair value changes recognized through Other comprehensive income.

During 2019, Philips sold Signify shares in the open market, further reducing its shareholding to 10.7% of Signify's issued share capital. Subsequently, in September 2019, Philips successfully completed a fifth Accelerated bookbuild offering, reducing its shareholding in Signify to nil.

4.1.13 Analysis of 2018 compared to 2017

The analysis of the 2018 financial results compared to 2017, and the discussion of the critical accounting policies, have not been included in this Annual Report. These sections are included in Philips' Form 20-F for the financial year 2019, which will be filed electronically with the US Securities and Exchange Commission.

6 Risk management

6.1 Our approach to risk management

Vision and objectives

Philips believes risk management is a value-creating activity that complements our innovation and entrepreneurship. Philips' risk management approach is part of the Philips Business System (PBS) and is articulated through our governance (accountabilities and roles), our policies on Risk Appetite, our risk management process standard and Philips Business Control Framework, and our General Business Principles (GBP). These are further described in this chapter. The company's risk management is designed to provide reasonable assurance that strategic and operational objectives are met, legal requirements are complied with, and the integrity of the company's financial reporting and related disclosures is safeguarded. However, there can be no absolute assurance that our risk management will avoid or mitigate all risks that Philips faces. The main risks are described in Risk factors, starting on page 52.

All forward-looking statements made on or after the date of this Annual Report and attributable to Philips are expressly qualified, in their entirety, by the factors described in the cautionary statement included in Forward-looking statements and other information, starting on page 185 and in the overview of risk factors described in Risk factors, starting on page 52.

Risk management governance

The Executive Committee oversees, identifies and manages the risks Philips faces in executing its strategy. It also defines the Risk Appetite and provides the risk management framework, as well as monitoring the latter's effectiveness. The Risk Management Support Team, consisting of several functional experts covering the various categories of enterprise risk, supports the Executive Committee through regular analysis of the enterprise risk profile and improvement of the risk management framework. Management is responsible for identifying critical risks and implementing appropriate risk responses within their area of responsibility. Various functions (such as Internal Control, Quality & Regulatory, Group Security) support management of specific risk areas.

The Internal Audit function assesses the quality of risk management and controls through the execution of a risk-based audit plan, as approved by the Audit Committee of the Supervisory Board. Leadership from the Board of Management, Executive Committee, Businesses, Markets and key Functions meet with Internal Audit each quarter in Audit & Risk Committees to discuss strengths and weaknesses of risk management and controls – as evaluated by internal and external auditors and other (self) assessments – and take corrective action where necessary.

The Disclosure Committee oversees the company's disclosure activities and assists the Board of Management in fulfilling its responsibilities in this respect. The Committee's purpose is to ensure that the company implements and maintains internal procedures for the timely collection, evaluation and disclosure, as appropriate, of information potentially subject to public disclosure under the legal, regulatory and stock exchange requirements to which the company is subject.

The Security Steering Committee (SSC) and the Group Security function manage security (including cybersecurity) risks at Philips. The SSC evaluates and sets the Group's security strategy, issues security policies and evaluates progress and effectiveness. Dedicated security reports are shared with the Board of Management, Executive Committee, Supervisory Board and external auditors. On a quarterly basis, briefings on cybersecurity risks are provided to the IT Audit & Risk Committee.

The Audit Committee and the Quality & Regulatory Committee of the Supervisory Board assist the Supervisory Board in fulfilling its oversight responsibilities. The quality of risk management and controls, and the findings of internal and external audits, are reported to, and discussed with, the Audit Committee of the Supervisory Board. The Quality & Regulatory Committee's role particularly relates to the quality, including regulatory compliance, of the company's products (including software), services and systems and their development, testing, manufacturing, marketing and servicing.

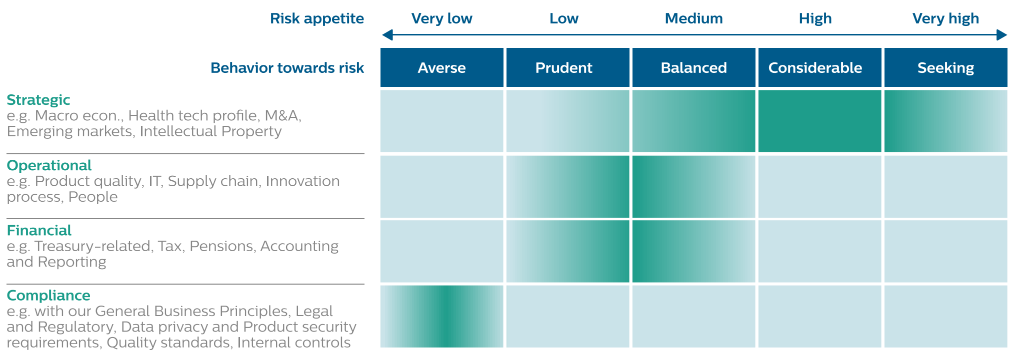
In Corporate governance, starting on page 77 the company addresses the main elements of its corporate governance structure, reports on how it applies the principles and best practices of the Dutch Corporate Governance Code, and provides certain other information.

Risk appetite

The Executive Committee and management seek to manage risks consistently within the risk appetite. Risk appetite is set by the Executive Committee and described in the risk management policy. It is effectuated as an integral part of our PBS, various elements of which – such as Strategy, Behaviors, GBP, Authority schedules, Policies, Process standards and Performance management systems – include or reflect risk taking guidance.

Philips' risk appetite differs depending on the type of risk, ranging from an entrepreneurial to a mitigating approach. We believe we must operate within the dynamics of the health technology industry and take the risks needed to ensure we continually revitalize our offerings and the way we work. At the same time, Philips attaches prime importance to integrity, product quality and safety, including compliance with regulations and quality standards. Risk appetite for the four main risk categories is visualized below.

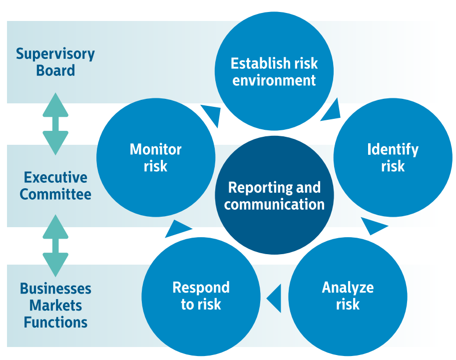
Philips does not classify these risk categories in order of importance.



Risk Management

In order to provide a comprehensive view of Philips' risks, structured risk assessments take place according to the Philips risk management process standard, applying a top-down and bottom-up approach. The process is supported by workshops with management at Group, Business, Market and Group Function levels. During 2019, several risk management workshops were held.

Risk management process



Key elements of the Philips risk management policy are:

- Management of Businesses, Markets and key Functions perform a risk assessment at least once a year, taking their strategic plan into consideration. Risks are assessed and prioritized based on impact, likelihood and effectiveness of controls, and appropriate risk responses are implemented;
- Management monitors developments in the risk profile and risk response effectiveness, which are discussed each quarter in Audit & Risk Committees and Performance Reviews;
- As an integral part of the strategy review, each year the Executive Committee assesses the enterprise risk profile and reviews the potential risk impact versus group risk appetite. This risk assessment takes into account various inputs such as risk assessments of Businesses, Markets and Functions, findings from Philips Internal Audit, Legal and Insurance, the materiality analysis (refer to Sustainability statements), views from management and external research;
- Developments in the enterprise risk profile and management's initiatives to improve risk responses are also discussed and monitored during the quarterly meeting of the Audit Committee of the Supervisory Board;
- At least once a year the Executive Committee reviews the Philips risk management policy, including risk appetite, and the risk management approach, and improves the risk management framework as and when required;
- The Philips risk management policy, risk profile and the risk management framework are discussed at least once a year with the Audit Committee of the Supervisory Board and with the full Supervisory Board.

Examples of measures taken during 2019 to further strengthen risk management:

- Update of Philips Business System, including the risk management policy and standard, with more explicit requirements for management of risk, compliance requirements and controls;

- Establishment of a Risk & Compliance Center of Excellence to drive knowledge sharing, standardization and transparency;
- Improvement of ERM performance reporting and more explicit connection of enterprise risks in the strategic performance review;
- Increased use of data analytics in controls monitoring and process mining to identify deviations from standard;
- Establishment of a Group Security function to more closely align and coordinate security management efforts;
- Continued development of the Information Security Program in view of the increasing exposure to cybercrime and information security requirements resulting from digitalization and our strategic focus as a health technology company;
- The potential impact of challenging global political and economic developments on our results were closely monitored, evaluated and addressed by implementing mitigating actions to the extent possible;
- Continued significant investments in the Quality Management System across the company. Changes have been made to the company-wide quality leadership, and new standards and initiatives have been launched.

Philips Business Control Framework

The Philips Business Control Framework (PBCF) sets the standard for Internal Control over Financial Reporting at Philips. The objective of the PBCF is to maintain integrated management control of the company's operations in order to ensure the integrity of the financial reporting, as well as compliance with laws and regulations. Philips has designed its PBCF based on the Internal Control-Integrated Framework (2013) established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

As part of the PBCF, Philips has implemented a standard set of internal controls over financial reporting. Together with Philips' established accounting procedures, this standard set of internal controls is designed to provide reasonable assurance that assets are safeguarded, that the books and records properly reflect transactions necessary to permit preparation of financial statements, that policies and procedures are carried out by qualified personnel, and that published financial statements are properly prepared and do not contain any material misstatements. In each unit, management is responsible for customizing the controls set for their business, risk profile and operations.

Each year, management's accountability for internal controls for financial reporting is evidenced through the formal certification statement sign-off. Any deficiencies noted in the design and operating effectiveness of Internal Controls over Financial Reporting which were not completely remediated, are evaluated at year-end by the Board of Management. The Board of Management's report, including its conclusions regarding the effectiveness of Internal Controls over Financial Reporting, can be found in Management's report on internal control., starting on page 86

Philips General Business Principles (GBP)

As part of the Philips Business System, our GBP set the standard for our business conduct and have been enhanced in 2019 to more clearly reflect our health technology strategy. The GBP form an integral part of labor contracts in virtually every country in which Philips operates, and translations are available in 31 languages. Each year, employees reconfirm their commitment to the code of conduct after completing their GBP e-learning, while there is an additional annual sign-off for Executives, Finance and Procurement staff. Detailed underlying policies, manuals, training, and tools are in place to give employees practical guidance on how to apply and uphold the GBP in their daily work.

One of the policies underlying the GBP is the Financial Code of Ethics which applies to designated senior executives, including the Chief Executive Officer and the Chief Financial Officer and to the Senior Management in the Philips Finance Leadership team who head up the finance departments of the company.

The GBP Review Committee is ultimately responsible for the effective deployment of the GBP and for generally promoting a culture of compliance and ethics within the company. The Committee is chaired by the Chief Legal Officer, and its members include the Chief HR Officer, the Chief of International Markets and the Chief Financial Officer. Furthermore, all of our 17 markets have quarterly market compliance committees, which act as local satellites of the GBP Review Committee, dealing with GBP-related matters within the local context. They are also responsible for the design and execution of localized compliance plans that are tailored to their market-specific risks and organizational set-up. The Secretariat of the GBP Review Committee, together with a worldwide network of GBP Compliance Officers, supports the organization with the implementation of GBP initiatives.

As part of our continuous effort to raise GBP awareness and foster dialogue throughout the organization, each year a global GBP communications and training plan is deployed, including our annual GBP Dialogue Initiative, aimed at reinforcing a culture of dialogue while practicing with ethical dilemmas that are relevant for our workforce.

A key control to measure implementation of our GBP is the GBP Self-Assessment, which is part of our Internal Control framework. Following the 2018 review, this enhanced control was re-deployed throughout the organization in the first half of 2019. In addition, we again bolstered the resources of our legal compliance monitoring team in Chennai, India, serving both our business customers as well as compliance networks with actionable compliance data, thus further improving our compliance control framework.

The GBP are supported by established mechanisms that ensure standardized reporting and enable both employees and third parties to escalate concerns 24/7. Concerns raised are registered consistently in a single database hosted outside of Philips servers to ensure confidentiality and security of identity and information. Encouraging people to speak up through the available channels if they have a concern will continue to be a cornerstone of our GBP communications and awareness campaigns.

Through the Audit Committee of the Supervisory Board, the company also has procedures in place for the receipt, retention and treatment of complaints specifically relating to accounting, internal accounting controls or auditing matters. The Reporting Policy Accounting and Audit Matters allows the confidential, anonymous submission of complaints regarding questionable accounting or auditing matters.

The GBP and underlying policies, including the Financial Code of Ethics, are published on the company website, at www.philips.com/gbp.

6.2 Risk factors

Philips believes the risks set out below are the material risks that could impact its ability to achieve its objectives. These risk factors may not, however, include all the risks that ultimately affect Philips. Some risks not yet known to Philips, or currently believed not to be material, may ultimately have a major impact on Philips' business, revenues, income, assets, liquidity, capital resources and/or ability to achieve its business objectives. Philips defines risks in four main categories: Strategic, Operational, Compliance and Financial risks. Philips presents the risk factors within each risk category in order of Philips' current view of their expected significance. Describing risk factors in their order of expected significance within each risk category does not mean that a lower listed risk factor may not have a material and adverse impact on Philips' business, revenues, income, assets, liquidity, capital resources and/or ability to achieve its business objectives. Furthermore, a risk factor listed below other risk factors may ultimately prove to have more significant adverse consequences than those other risk factors.

6.3 Strategic risks

Philips may be unable to adapt swiftly to changes in industry or market circumstances.

Fundamental shifts in the health technology industry, such as the transition to digital and increased emphasis on sustainability, may drastically change the business environment in which Philips operates. The inability of Philips to recognize these changes in good time, adjust its business models, or introduce new products and services in response to these changes or other circumstances such as pricing actions by competitors, could result in a material adverse effect on Philips' business, financial condition and operating results.

Philips global operations are exposed to economic and political changes that could adversely impact its financial condition and results.

Philips' business environment is influenced by political and economic conditions in individual and global markets. Mature economies are currently the main source of revenues, while emerging economies are an increasing source of revenues. Philips sources its products and services mainly from the US, EU (primarily the Netherlands) and China, and the majority of Philips' assets are located in these geographies. In particular, Philips expects that disruption due to coronavirus (COVID-19) in China and elsewhere will have a negative impact on its results of operations and on supply chains involving the relevant jurisdictions.

Changes in monetary policy and trade and tax laws in the US, China and EU can have a significant adverse impact on other mature economies, emerging economies and international financial markets. Such changes, including tariffs and sanctions, may trigger reactions and countermeasures, leading to adverse impacts on global trade levels and flows, economic growth and political stability, all of which may have an adverse effect on business growth and stability on international financial markets. Furthermore it is uncertain whether Philips will be able to pass on any additional costs resulting from these events to its customers.

Risks

Strategic
- Changes in industry/market
- Macroeconomic changes
- Health technology profile
- Growth geographies
- Joint ventures
- Acquisitions integration
- Intellectual property rights

Operational
- Product quality and liability
- Security
- IT
- Supply chain
- Innovation process
- People
- Brexit

Compliance
- Product regulations and Data privacy
- Market practices
- General Business Principles

Financial
- Treasury
- Tax
- Pensions
- Accounting and reporting

Corporate Governance
Philips Business Control Framework
Philips General Business Principles

The changes (and the potential impacts of such changes) which are described above, or other factors which may impact economic conditions relevant to Philips, including US, Chinese and EU macro-economic outlook, foreign policy, monetary policy, healthcare budget, trade and tax laws, measures adopted with respect to sustainability and climate change, and the impact of local or global health events, are difficult to predict. Philips may encounter difficulty in planning and managing operations due to a lack of adequate infrastructure, foreign currency fluctuations, import or export controls, increased healthcare regulation, nationalization of assets or restrictions on the repatriation of returns from foreign investments. Economic and political uncertainty may have a material adverse impact on Philips' business, financial condition and operating results and can also make it more difficult for Philips to budget and make financial forecasts accurately. Instability and volatility in international financial markets could have a negative impact on Philips' access to funding. Uncertainty remains as to the levels of (public) capital expenditure in general, unemployment levels, and consumer and business confidence, all of which could adversely affect demand for products and services offered by Philips. Given that growth in emerging economies is broadly correlated to US, Chinese and European economic growth and that such emerging economies are increasingly important to Philips' business operations, the above-mentioned risks are also expected to grow and could have an increasingly material adverse effect on Philips' financial condition and results.

Philips' overall risk profile is changing as a result of its focus on health technology.
As Philips' business profile shifts to focus on health technology, with a changing products and services portfolio and acquisitions, dispositions and partnerships to support the execution of its health technology strategy, Philips is more exposed to developments in the health technology industry. It may therefore have a reduced ability to offset potential negative impacts of those developments through a more diversified portfolio. As Philips transitions from selling health technology products to selling health technology solutions, the nature of our customer relations is also evolving, which raises the long-term risk of (amongst others) customer default and dependency. Dispositions consistent with Philips' focus on health technology, including in relation to Philips' domestic appliances business, may result in additional costs and divert management attention from other business priorities and risks, and the timing, terms, execution and proceeds of any such dispositions are uncertain.

Philips' overall performance in the coming years is depending on the realization of its growth ambitions and results in growth geographies.
Growth geographies are becoming increasingly important to Philips' business plan, and Asia is an important production, sourcing and design center for Philips. Philips faces intense competition from local companies as well as other global players for market share in growth geographies. Philips needs to maintain and grow its position in growth geographies, invest in data-driven services, invest in local talent, understand developments in end-user preferences, and localize its portfolio in order to stay competitive in these growth geographies. If Philips fails to achieve these objectives, it could have a material adverse effect on the company's business, financial condition and operating results.

Philips may not control joint ventures or associated companies in which it holds interests or invests, which could limit the ability of Philips to identify and manage risks.
Philips may from time to time hold interests and investments in joint ventures and associated companies in which it has a non-controlling interest and may continue to do so. In these cases, Philips has limited influence over, and limited or no control of, the governance, performance and cost of operations of the joint ventures and associated companies. Some of these joint ventures and associated companies may represent significant investments and potentially also use the Philips brand. The joint ventures and associated companies that Philips does not control may make business, financial or investment decisions contrary to Philips' interests or may make decisions different from those that Philips itself may have made. Additionally, Philips' partners or members of a particular joint venture or associated company may not be able to meet their financial or other obligations, which could expose Philips to additional financial or other obligations, as well as having a material adverse effect on the value of its investments in those entities or potentially subjecting Philips to additional claims.

Acquisitions could expose Philips to integration risks which may negatively impact Philips' return on investment.
Selected acquisitions have been and are expected to be a part of Philips' growth strategy. Acquisitions may expose Philips to integration risks in areas such as sales and service force integration, logistics, regulatory compliance, information technology and finance. Integration difficulties and complexity may adversely impact the realization of increased contributions from acquisitions. Philips may incur significant acquisition, administrative and other costs in connection with these transactions, including costs related to the integration of acquired businesses. Acquisitions may also divert management attention from other business priorities and risks. Cost savings expected to be implemented following an acquisition may be difficult to achieve. Acquisitions may also lead to a substantial increase in long-lived assets, including goodwill, which may later be subject to write-down if an acquired business does not perform as expected, which may have a material adverse effect on Philips' earnings.

Philips may be unable to secure and maintain intellectual property rights for its products and services, or may use intellectual property rights unauthorized, which could have a material adverse effect on its results.

Philips is dependent on its ability to obtain and maintain licenses and other intellectual property (IP) rights covering its products and services and its design and manufacturing processes. The IP portfolio is the result of an extensive patenting process that could be influenced by a number of factors, including innovation. The value of the IP portfolio is dependent on the successful promotion and market acceptance of standards developed or co-developed by Philips. This is particularly applicable to the segment Other, where licenses from Philips to third parties generate IP royalties and are important to Philips' results of operations. The timing of licenses from Philips to third parties and associated revenues from IP royalties are uncertain and may vary significantly from period to period. A loss or impairment in connection with such licenses to third parties could have a material adverse impact on Philips' financial condition and operating results. Philips is also exposed to the risk that a third party may claim to own the intellectual property rights to technology applied in Philips' products and services. In the event that any such claims of infringement of these intellectual property rights are successful, Philips may be required to pay damages to such third parties, or may incur other costs or losses.

6.4 Operational risks

Failure to comply with quality standards, product safety laws and good manufacturing practices may result in product liability claims against Philips and an adverse impact on Philips' reputation and brand.

Philips operates in a highly regulated product safety and quality environment and is required to comply with the highest standards of quality in the manufacture of its medical devices and in the provision of related services. Philips' brand image and reputation would be adversely impacted by non-compliance with various product safety laws, good manufacturing practices and data protection regulations. Philips is also exposed to the risk that its products, including components or materials procured from suppliers, may prove not to be compliant with safety laws, e.g. chemical safety regulations. Such non-compliance could result in a ban on the sale or use of these products. In addition, quality issues and/or liability claims related to products and services could affect Philips' reputation and its relationships with key customers (both customers for end-products and customers that use Philips' products and services in their business processes) and demand for Philips products. As a result, depending on the product and manufacturing site concerned and the severity of the quality issue, Philips may suffer financial losses through lost revenue and the cost of any required remedial actions or damages claims, and such quality issues could have further impact on Philips' reputation, market share and brand.

A breach in the security of, or a significant disruption to, our information technology systems or could adversely affect our operating results, financial condition, reputation and brand.

Philips relies on information technology to operate and manage its businesses and store confidential data (relating to employees, customers, intellectual property, suppliers and other partners). In addition, the integration of new acquisitions and the successful outsourcing of business processes are highly dependent on secure and well-controlled IT systems. Philips' products, solutions and services increasingly contain sophisticated and complex information technology and generate confidential data related to customers and patients. Potential geopolitical conflicts and criminal activity continue to drive increases in the number and severity of cyber-attacks in general. Like many other multinational companies, Philips is therefore inherently and increasingly exposed to the risk of cyber-attacks. Information systems may be damaged, disrupted (including the provision of services to customers) or shut down due to (cyber) attacks by hackers, computer viruses or other malware. In addition, breaches in the security of our systems (or the systems of our customers, suppliers or other business partners) could result in the misappropriation, destruction or unauthorized disclosure of confidential information (including intellectual property) or personal data belonging to us or to our employees, partners, customers or suppliers. The aforementioned risks are particularly significant with respect to patient medical records. Successful cyber-attacks may result in substantial costs and other negative consequences, which may include, but are not limited to, lost revenues, reputational damage, remediation costs, and other liabilities to regulators, customers and partners and may involve incurrence of civil and/or criminal penalties. Furthermore, enhanced protection measures can involve significant costs. While cyber-attacks have not historically resulted in significant damage, or caused Philips to incur significant monetary cost in taking corrective action, there can be no assurance that future cyber-attack incidents will not result in significant damage to Philips systems, or result in financial losses, penalties or the other consequences described above.

Philips is exposed to risks in connection with IT system changes or failures.

Philips continuously seeks to create a more open, standardized and cost-effective IT landscape, for instance through further outsourcing, offshoring, commoditization and ongoing reduction in the number of IT systems. These changes create third-party risk with regard to the delivery of IT services, the availability of IT systems, and the scope and nature of the functionality offered by IT systems. Although Philips has sought to strengthen security measures and quality controls relating to these systems, these measures may prove to be insufficient or unsuccessful.

If Philips is unable to ensure effective supply chain management we may be faced for example interruptions or rising raw material prices, which could negatively impact our competitiveness in markets.

Philips is continuing the process of creating a leaner supply base with fewer suppliers, while maintaining dual/multiple sourcing strategies where feasible. This strategy requires close cooperation with suppliers to enhance, among other things, time to market and quality. In addition, Philips is continuing its initiatives to replace internal capabilities with less costly outsourced products and services. These processes may result in increased dependency on external suppliers and providers. Although Philips works closely with its suppliers to avoid supply-related problems, there can be no assurance that it will not encounter supply problems in the future or that it will be able to replace a supplier that is not able to meet demand sufficiently quickly to avoid disruptions.

Shortages or delays could materially harm Philips' business. Most of Philips' activities are conducted outside of the Netherlands, and international operations bring challenges. For example, Philips depends partly on the production and procurement of products and parts from Asian countries, this dependence constitutes a risk that production and shipping of products and parts could be interrupted by regional conflicts, health events such as coronavirus (COVID-19), a natural disaster or extreme weather events resulting from climate change. A general shortage of materials, components or subcomponents as a result of conflicts, health events, natural disasters or weather events or other unanticipated events also pose the risk of fluctuations in prices and demand, which could have a material adverse effect on Philips' financial condition and operating results.

Philips purchases raw materials, including so-called rare earth metals, copper, steel, aluminum, noble gases and oil-related products, which exposes it to fluctuations in energy and raw material prices. In recent times, commodities have been subject to volatile markets, and such volatility is expected to continue. If Philips is not able to compensate for increased costs of raw materials, reduce reliance on such raw materials or pass on increased costs to customers, then price increases could have a material adverse impact on Philips' results. In contrast, in times of falling commodity prices, Philips may not fully benefit from such price decreases, since Philips attempts to reduce the risk of rising commodity prices by several means, including long-term contracting or physical and financial hedging.

Failure to drive operational excellence, productivity and speed in Philips' process to create and bring product and solution innovations to market could hamper Philips' profitable growth ambitions.

To realize Philips' ambitions for profitable growth, it is important that the company makes further improvements in its product and solution creation process, ensuring timely delivery of new products and solutions at lower cost, and in customer service levels, to gain sustainable competitive advantage. The emergence of new low-cost competitors, particularly in Asia, further underlines the importance of improvements in the product creation process. The success of new product and solution creation, however, depends on a number of factors, including timely and successful completion of development efforts, market acceptance, Philips' ability to manage the risks associated with new products and production ramp-up issues, the ability of Philips to attract and retain employees with the appropriate skills, the availability of products in the right quantities and at appropriate costs to meet anticipated demand, and the risk that new products and services may have quality or other defects in the early stages of introduction. Costs of developing new products and solutions may be reflected on Philips' balance sheet and may be subject to write-down or impairment as a result of the performance of such products or services, and the significance and timing of such write-downs or impairments are uncertain. Accordingly, Philips cannot determine in advance the ultimate effect that new product and solutions creations will have on its financial condition and operating results. If Philips fails to create and commercialize products, or fails to ensure that end-user insights are translated into solution and product creations that improve product mix and consequently contribution, it may lose market share and competitiveness, which could have a material adverse effect on its financial condition and operating results.

Because Philips is dependent on its people for leadership and specialized skills, a loss of its ability to attract and retain such personnel would have an adverse effect on its business.

The attraction and retention of talented employees in sales and marketing, research and development, finance, and general management, as well as highly specialized technical personnel, especially in transferring technologies to low-cost countries, is critical to Philips' success. The loss of employees with specialized skills could also result in business interruptions. There can be no assurance that Philips will be successful in attracting and retaining highly qualified employees and the key personnel needed in the future.

Brexit could have an adverse effect on the company's operations

Philips sells products and services and currently has manufacturing operations in the United Kingdom. Depending on the outcome of Brexit (including future trade arrangements between the UK and the EU or other countries) and the transitional period following Brexit, which are currently uncertain, the potential financial impact ranges from adverse movements of the pound sterling versus the euro and the US dollar to supply chain disruptions due to the re-introduction of customs controls and the imposition of new tariffs on imports or exports to and from the United Kingdom. Philips has been preparing and planning for the impact of Brexit and future trade arrangements, however unsuccessful negotiations or unexpected outcomes with respect to the transitional period or future trade arrangements may have a material adverse effect on Philips' financial condition and operating results.

6.5 Compliance risks

Philips is exposed to non-compliance with the various regulatory regimes their products and services are subject to, including data privacy requirements.
Philips' products and services are subject to regulation (e.g. EU Medical Devices Regulation) by various government and regulatory agencies (e.g. FDA (US), NMPA (China), MHRA (UK), ASNM (France), BfArM (Germany), IGZ (Netherlands)) that may have different regulatory requirements and related processes. Obtaining regulatory approvals is costly and time-consuming, but is required for introducing products in the market. Philips' increased focus on the healthcare sector increases its exposure to such highly regulated markets, where obtaining clearances or approvals for new products is of great importance. A delay or inability to obtain the necessary regulatory approvals for new products could have a material adverse effect on Philips' business. In addition, conditions imposed by regulatory authorities could result in product recalls or a temporary ban on products and/or stoppages at production facilities, or increased implementation costs in the roll-out of products and services or claims for damages. The risk also exists that product safety incidents or user concerns, as in the past, could trigger business reviews by the FDA or other regulatory agencies: if failed, these reviews could lead to business interruption, which in turn could adversely affect Philips' financial condition and operating results, as well as our reputation and brand. In light of Philips' digital strategy, including its holding of personal health data and medical data, compliance with data privacy and similar laws is increasingly important to Philips' business and operations. Non-compliance with any applicable laws and regulations, including with respect to product regulation and data privacy, may result in penalties, cost of proceedings and litigation, and repair costs, any of which may have a material adverse effect on Philips' financial condition and results of operations.

Philips is exposed to governmental investigations and legal proceedings with regard to possible anti-competitive market practices and other matters.
Philips, including a certain number of its current and former group companies, is involved in legal proceedings relating to such matters as competition issues, commercial transactions, product liability, participations and environmental pollution. In particular, European and various national authorities are focused on possible anti-competitive market practices. Philips' financial position and results could be materially affected by an adverse final outcome of governmental investigations and litigation, as well as any potential related claims. In the past, Philips has been subject to such investigations, litigation and related claims. Since the ultimate outcome of asserted claims and proceedings, or the impact of any claims that may be asserted in the future, cannot be predicted with certainty, Philips' financial position and results of operations could be affected materially by adverse outcomes.

Philips is exposed to non-compliance with business conduct rules and regulations.
Philips' attempts to realize its growth ambitions could expose it to the risk of non-compliance with business conduct rules and regulations, such as anti-bribery provisions. This risk is heightened in growth geographies as the legal and regulatory environment is less developed in growth geographies compared to mature geographies. Examples include commission payments to third parties, remuneration payments to agents, distributors, consultants and the like, and the acceptance of gifts, which may be considered in some markets to be normal local business practice. These risks could adversely affect Philips' financial condition and our reputation and brand.

6.6 Financial risks

Philips is exposed to a variety of treasury risks and other financial risks including liquidity risk, currency risk, interest rate risk, commodity price risk, credit risk, country risk and other insurable risk.
Negative developments impacting the liquidity of global capital markets could affect the ability of Philips to raise or re-finance debt in the capital markets, or could lead to significant increases in the cost of such borrowing in the future. If the markets expect a downgrade by the rating agencies, or if such a downgrade has actually taken place, this could increase the cost of borrowing, reduce our potential investor base and adversely affect our business.

Philips operates in over 100 countries and its reported earnings and equity are therefore inevitably exposed to fluctuations in exchange rates of foreign currencies against the euro. Philips' sales are sensitive in particular to movements in the US dollar, Japanese yen, Chinese yuan and a wide range of other currencies from developed and emerging economies. Philips' sourcing and manufacturing spend is concentrated in the European Union, the United States and China. Income from operations is particularly sensitive to movements in currencies of countries where the Group has no or very small-scale manufacturing/local sourcing activities but significant sales of its products or services, such as Japan, Canada, Australia and the United Kingdom and in a range of emerging markets such as Russia, South Korea, Indonesia, India and Brazil.

In view of the long lifecycle of healthcare technology solution sales and partnerships, the financial risk of counterparties with outstanding payment obligations creates exposure risks for Philips, particularly in relation to accounts receivable with customers and liquid assets and fair values of derivatives and insurance receivables contracts with financial counterparties. A default by counterparties in such transactions can have a material adverse effect on Philips' financial condition and operating results.

Philips is exposed to interest rate risk, particularly in relation to its long-term debt position; this risk can take the form of either fair value or cash flow risk. Failure to effectively hedge this risk can impact Philips' financial condition and operating results.

Philips is exposed to tax risks which could have a significant adverse financial impact.
Philips is exposed to tax risks which could result in double taxation, penalties and interest payments. The source of the risks could originate from local tax rules and regulations as well as international and EU regulatory frameworks. These include transfer pricing risks on internal cross-border deliveries of goods and services, tax risks related to acquisitions and divestments, tax risks related to permanent establishments, tax risks relating to tax loss, interest and tax credits carried forward and potential changes in tax law that could result in higher tax expenses and payments. The risks may have a significant impact on local financial tax results, which, in turn, could adversely affect Philips' financial condition and operating results.

The value of the deferred tax assets, such as tax losses carried forward, is subject to the availability of sufficient taxable income within the tax loss-carry-forward period, but also to the availability of sufficient taxable income within the foreseeable future in the case of tax losses carried forward with an indefinite carry-forward period. The ultimate realization of the company's deferred tax assets, including tax losses and tax credits carried forward, depends on the generation of future taxable income in the countries where the temporary differences, unused tax losses and unused tax credits were incurred, and on periods during which the deferred tax assets become deductible. Additionally, in certain instances, realization of such deferred tax assets depends on the successful execution of tax planning strategies. Accordingly, there can be no absolute assurance that all deferred tax assets, such as (net) tax losses and credits carried forward, will be realized.

Philips has defined-benefit pension plans and other post-retirement plans in a number of countries. The funded status and maintenance cost are influenced by movements in financial markets and demographic developments, which may result in volatility in Philips' financials.
A significant proportion of (former) employees in Europe and North and Latin America are covered by defined-benefit pension plans and other post-retirement plans. The accounting for such plans requires management to make estimates on assumptions such as discount rates, inflation, longevity, expected cost of medical care and expected rates of compensation. Changes in these assumptions (e.g. due to movements in financial markets) can have a significant impact on the Defined Benefit Obligation and net interest cost.

Flaws in internal controls would adversely affect our financial reporting and management process.
Accurate disclosures provide investors and other market professionals with significant information for a better understanding of Philips' businesses. Failures in internal controls or other issues with respect to Philips' public disclosures, including disclosures with respect to cybersecurity risks and incidents, could create market uncertainty regarding the reliability of the data (including financial data) presented and could have a negative impact on the price of Philips securities. In addition, the reliability of revenue and expenditure data is key for steering the businesses and for managing top-line and bottom-line growth. The long lifecycle of healthcare technology solution sales, from order acceptance to accepted installation and servicing, together with the complexity of the accounting rules for when revenue can be recognized in the accounts, presents a challenge in terms of ensuring consistent and correct application of the accounting rules throughout Philips' global business. Any flaws in internal controls, or regulatory or investor actions in connection with flaws in internal controls, could adversely affect Philips' financial condition, results of operation, reputation and brand.