GOLD RESOURCE CORP
Form 10-K/A
November 07, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number: 001-34857

GOLD RESOURCE CORPORATION

(Exact Name of Registrant as Specified in its charter)

Colorado	**84-1473173**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2886 Carriage Manor Point, Colorado Springs, Colorado 80906

(Address of Principal Executive Offices) (Zip Code)

(303) 320-7708

(Registrant s telephone number including area code)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.001 par value	NYSE MKT

Securities registered under Section 12(g) of the Exchange Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to post such files). Yes x No ¨

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting

company in Rule 12b-2 of the Exchange Act.

Larger accelerated filer x Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of the common stock of Gold Resource Corporation held by non-affiliates as of June 29, 2012, the last business day of the registrant s most recently completed second fiscal quarter, was $851,551,524 based on the closing price of the common stock of $25.99 as reported on the NYSE MKT, LLC.

As of March 15, 2013 there were 52,679,369 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Definitive Proxy Statement to be filed pursuant to Regulation 14A for the registrant s 2013 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

EXPLANATORY NOTE

Gold Resource Corporation (we, us, or the Company) is filing this Amendment No. 1 on Form 10-K/A (this Amendment) to its Annual Report on Form 10-K for the year ended December 31, 2012 filed with the U.S. Securities and Exchange Commission (SEC) on March 18, 2013 (the Original Filing) to: (i) provide a cautionary note regarding our status as an exploration stage company for accounting purposes as determined by SEC Industry Guide 7; (ii) amend Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations to provide an additional presentation of the Non-GAAP measure of cash cost per gold equivalent ounce sold that demonstrates the impact of by-product revenues on our production costs; (iii) revise certain terminology used by us in Management s Discussion and Analysis to conform such terminology with that provided in the cautionary note; and (iv) amend Exhibit 23.1 to reflect the date of the auditor s consent as March 18, 2013, the date of the Original Filing. As required by Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), new certifications of our principal executive officer and principal financial officer are also being filed as exhibits to this Report.

No attempt has been made in this Amendment to modify or update the disclosures in the Original Filing except as required to reflect the effect of the revisions discussed herein. Except as otherwise noted herein, this Amendment continues to describe conditions as of the date of the Original Filing and the disclosures contained herein have not been updated to reflect events, results or developments that occurred after the date of the Original Filing, or to modify or update those disclosures affected by subsequent events. Among other things, forward-looking statements made in the Original Filing have not been revised to reflect events, results or developments that occurred or facts that became known to us after the date of the Original Filing, and such forward-looking statements should be read in conjunction with our filings with the SEC subsequent to the filing of the Original Filing. Accordingly, this Amendment should be read in conjunction with the Original Filing and the Company s other filings with the SEC subsequent to March 18, 2013.

CAUTIONARY NOTE REGARDING EXPLORATION STAGE STATUS

AND USE OF CERTAIN MINING TERMS

We are considered an exploration stage company under the Securities and Exchange Commission (SEC) Industry Guide 7, Description of Property by Issuers Engaged or to be Engaged in Significant Mining Operations (Guide 7), because we do not have reserves as defined under Guide 7. Reserves are defined in Guide 7 as that part of a mineral deposit, which can be economically and legally extracted or produced at the time of the reserve determination. The establishment of reserves under Guide 7 requires, among other things, certain spacing of exploratory drill holes to establish the required continuity of mineralization and the completion of a detailed cost or feasibility study. Although we have exited the development stage as defined under ASC 915, Development Stage Entities, since we have no reserves as defined in Guide 7, we have not exited the exploration stage as defined under Guide 7.

Since we have no reserves as defined in Guide 7, we have in the past and will continue to expense all mine, mill and other facility construction costs, even though these expenditures are expected to have a future economic benefit in excess of one year. We also expense our asset retirement obligations. Companies that have reserves and have exited the exploration stage under Guide 7 typically capitalize these costs, and subsequently depreciate or amortize them on a units-of-production basis as reserves are mined, with the resulting depreciation and depletion allocated to inventory, and then to cost of sales as the inventory is sold. Unlike these other companies, our inventory does not include an allocable share of these costs; therefore, our gross profit may be higher than companies that allocate these costs to inventory. As a result of these and other differences, our financial statements will not be comparable to the financial statements of mining companies that have established reserves and have exited the exploration stage under Guide 7.

We use certain terms in this report such as production, mining or processing activities, and mine construction. Production means the estimated quantities of concentrates (tonnage and grade) delivered to stockpiles at our mine or shipped to our customer, which may result in disclosure of contained/payable metals and related metal sales. Mining or processing activities means the process of extracting mineralized material from the earth and treating that material in our mill, yielding concentrate products containing metals. Mine construction means work carried out to access areas in the mine containing mineralized material, which principally includes crosscutting, drifting, ramp construction, ventilation shafts and ancillary activities. We use these terms in our report since we believe they are necessary and helpful for the reader to understand our business and operations. However, we caution you that we do not have reserves and therefore have not exited the exploration stage as defined in Guide 7, and our use of the terminology described above is not intended to indicate that we have established reserves or have exited the exploration stage for purposes of Guide 7. Furthermore, since we do not have reserves, we cannot provide any indication or assurance as to how long we will likely continue mining activities at our mine site or whether such activities will be profitable.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Except for the historical information, the following discussion contains forward-looking statements that are subject to risks and uncertainties. We caution you not to put undue reliance on any forward-looking statements, which speak only as of the date of this report. Our actual future results or actions may differ materially from these forward-looking statements for many reasons, including the risks described in Risk Factors and elsewhere in this annual report. Our discussion and analysis of our financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and related notes included in this report and with the understanding that our actual future results may be materially different from what we currently expect.

Introduction

The following discussion summarizes our results of operations for three fiscal years ended December 31, 2012 and our financial condition at December 31, 2012 and 2011, with a particular emphasis on the year ended December 31, 2012. The discussion also presents certain Non-GAAP financial measures that are important to management in its evaluation of our operating results and which are used by management to compare our performance with what we perceive to be peer group mining companies and relied on as part of management s decision-making process. Management believes these measures may also be important to investors in evaluating our performance. For a detailed description of each of the Non-GAAP financial measures, please see the discussion under **Non-GAAP Measures** below.

Please see our Cautionary Note Regarding Exploration Stage Status and Use of Certain Mining Terms at the beginning of this report for a detailed description of our status as an exploration stage company and for more

information regarding our use of certain terminology herein.

Overview

Business

We are an exploration stage mining company in accordance with the applicable guidelines of the SEC which pursues gold and silver projects that are expected to have low operating costs and high returns on capital. We are presently focused on mineral production from mineralized material at the *El Aguila* Project in Oaxaca, Mexico. In July 2010, we began processing mineralized material from the *El Aguila* open pit mine into a metal concentrate containing gold as the primary product and silver as a by-product. Operations at the *El Aguila* open pit mine ceased in February 2011 with the start-up of mine operations at the *La Arista* underground mine in March 2011. Our *La Arista* underground mine produces metal concentrates from mineralized material that contains our primary metal products of gold and silver, and by-products of copper, lead and zinc.

The mill located at our *El Aguila* Project produced a total of 90,432 precious metal gold equivalent ounces for the year ended December 31, 2012, which was within our revised 2012 target mill production of 85,000 to 100,000 precious metal gold equivalent ounces. During this period, we sold 72,399 precious metal gold equivalent ounces. Precious metal gold equivalent is determined by taking the silver ounces produced or sold and converting them to precious metal gold equivalent ounces using the gold to silver average price ratio. The gold and silver average prices used are the actual metal prices realized from the sales of our metals concentrate. (Please see the section titled **Non-GAAP Measures** below for additional information concerning cash cost per ounce sold of our metals.) For the year ended December 31, 2012, we recorded revenues of $131.8 million, mine gross profit of $87.8 million and net income of $33.7 million.

Although our annual mill production increased 36.5% over the prior year, we encountered several challenges with production at *La Arista* during 2012, including higher than planned mining dilution in our long-hole stopes, mining of lower grade vein margins and splays, continued construction and infrastructure needs in the mine related to abatement of water inflow at lower levels and ventilation upgrades to reduce carbon dioxide levels. In order to adequately address these issues in 2013, our new on-site management team has taken a more proactive approach to mitigate effects of water and carbon dioxide gas including some off vein construction, installation of additional ventilation fans providing fresh air to the mine and additional water pumping stations.

Exploration Stage Company

We are considered an exploration stage company under the SEC criteria since we have not demonstrated the existence of proven or probable reserves at our *El Aguila* Project in Oaxaca, Mexico or any of our other properties. Accordingly, as required by the SEC guidelines (*see* **Note 1 to the Consolidated Financial Statements**) and U.S. GAAP for companies in the exploratory stage, substantially all of our investment in mining properties to date, including construction of the mill, mine and other facilities expenditures, have been expensed and therefore do not appear as assets on our balance sheet. Certain expenditures, such as expenses for rolling stock or other general purpose equipment, may be capitalized, subject to our evaluation of the possible impairment of the asset.

Our characterization as an exploration stage company regarding the treatment of construction expenditures as an operating expense rather than as a capital expenditure, has caused us to report larger losses in 2010 and lower net income in 2011 and 2012 than if we had capitalized the expenditures. Additionally, we will not have a corresponding depreciation or amortization expense for these costs going forward since they are expensed as incurred rather than capitalized. This has caused us to report higher gross profit than we would if we capitalized the expenses and depreciated or amortized them on the units-of-production method. Although the majority of the capital expenditures for the *El Aguila* Project were completed between 2007 and 2010, we expect underground mine construction to continue in future years and we will be completing additional capital improvements at our *El Aguila* mill during 2013 and future years. In comparison to other mining companies that capitalize development expenditures because they have exited the exploration stage, we may report larger losses or lesser profits as a result of this ongoing construction, which will be expensed instead of capitalized for accounting purposes. We expect to remain as an exploration stage company for the foreseeable future. We will not exit the exploration stage until such time, if ever, that we demonstrate the existence of proven or probable reserves that meet the SEC guidelines. Likewise, unless mineralized material is classified as proven or probable reserves, substantially all expenditures for mine and mill construction have been or will be expensed as incurred.

Exploration Activities

During 2012, we continued to focus primarily on infill and step out drilling at the *La Arista* underground mine, located at the *El Aguila* Project. Because this drilling is used to define the mineralization and to assist in mining of the mineralized material at the underground mine, these expenses are considered delineation of the body of mineralized material (not exploration), and these costs are classified as construction and development in the consolidated

statements of operations.

Exploration activities that are classified as exploration expenses in the consolidated statements of operations include, but are not limited to, drilling on other areas of the *El Aguila* property to test new geologic targets and exploration work on our other properties. Exploration during 2012 included commencing a surface drill program on portions of the *Las Margaritas* property, we also are completing a limited drilling campaign at *Alta Gracia* and *El Chamizo* focusing on previously identified drill targets.

Physical Dividend Program

In April 2012, we launched a physical dividend program pursuant to which our shareholders have the option to convert the cash dividends we pay into physical gold and silver bullion. As part of our overall strategy to diversify our treasury and to facilitate this program, we purchase gold and silver bullion. In order for a shareholder to convert their cash dividend into physical gold and/or silver, the shareholder must opt-in to the physical dividend program and request the conversion of their cash dividend, or any portion thereof, into physical gold and/or silver. For those shareholders who elect to convert their cash dividend into gold and/or silver bullion, the gold and silver will be delivered in the form of gold/silver one ounce bullion rounds. No action is required by any shareholder who elects not to participate in the physical metals program. For those shareholders who wish to convert any portion of their cash dividend into gold and/or silver bullion, the process is summarized as follows:

Shareholders must register and hold their Gold Resource Corporation common shares in their name directly with our transfer agent, Computershare Investor Services, and not through a brokerage house or other intermediary. This is a requirement so that we can locate and validate the shareholder s position in our common stock.

Shareholders must set up an individual account with Gold Bullion International (GBI), 225 Liberty Street New York, NY 10006. GBI facilitates the cash to gold and silver conversion.

Shareholders then direct their cash dividend check issued by Computershare to be electronically sent to that shareholder s GBI account for the option to have it, or any portion thereof that denominates into a one ounce gold or silver bullion round. The election to convert all or any portion of the shareholder s cash dividend into bullion is governed by an agreement between the shareholder and GBI.

Shareholders with accounts at GBI who wish to change their current gold, silver or cash allocations for their cash dividend must do so by midnight EDT on the date preceding the monthly dividend record date. (We issue a press release with details of each dividend declaration, and the dividend record and payment dates.)

On the dividend record date, the number of bullion ounces to be converted and distributed to the shareholder s individual account on the dividend payment date is calculated as the dollar value of that portion of the cash dividend the shareholder elected to convert to bullion, divided by the London Bullion Market PM gold fix on the record date or the London Bullion Market silver fix on the record date.

Only whole ounces of gold and silver bullion are credited to a shareholder s individual account on the dividend payment date. The cash value attributable to fractional ounces will remain in the shareholder s individual account as cash until such time as future dividends provide the shareholder with sufficient cash to convert to whole ounces of gold or silver based on the London PM gold fix and silver fix on a future dividend record date, and based on the shareholder s self-directed gold, silver or cash allocations in effect at that time. The shareholder may also choose to move their cash out of their GBI account. Shareholders cannot move cash into their GBI account for conversion into gold and silver. Only the shareholder s cash dividend sent from Computershare is eligible for conversion.

During the year ended December 31, 2012, we purchased approximately 1,974 ounces of gold and 59,001 ounces of silver at market prices for a total cost of $5.2 million. During the year ended December 31, 2011, we purchased approximately 868 ounces of gold and 41,728 ounces of silver at market prices for a total cost of $3.0 million.

Settlement with Concentrate Buyer

On November 5, 2012, we entered into a settlement agreement with our concentrate buyer as a result of the dispute over the metallurgical content of the concentrates sampled at buyer s facility after discovering issues related to the transportation, handling, control and sampling of those concentrates, and the resulting assays that were obtained from those samples. We believe the concentrates had been tampered with and compromised sometime after the shipments left the mine site and until the concentrates were sampled at the buyer s warehouse. The settlement agreement required the buyer to pay us $1.5 million, representing the amount by which our provisional invoices for April, May and June 2012 exceeded the tentative settlement value, based on assays taken at the buyer s warehouse. In addition, the settlement agreement required us to accept the final settlement value, based on assays taken at the buyer s warehouse, for shipments made in February and March 2012. The settlement resulted in a reduction to precious metal gold equivalent sold of approximately 1,400 ounces and a net reduction to sales of metal concentrates of $3.3 million, which included assay, pricing and other settlement adjustments with the buyer, for the six months ended June 30, 2012. These adjustments were recorded in the restated first and second quarter 2012 financial statements.

Other Events

In April 2012, the Board of Directors increased the instituted monthly dividend payment from $0.05 per share to $0.06 per share. Prior to instituting a regular monthly dividend in August 2011, the dividends were characterized as special dividends. Our long-term goal is to distribute approximately one-third of our Cash Flow from Mine Site Operations (See Non-GAAP Measures) as dividends to shareholders. In 2011, we distributed approximately 29.8% of Cash Flow from Mine Site Operations in shareholder dividends. In 2012, we distributed approximately 39.5% of Cash Flow from Mine Site Operations to our shareholders as dividends. Our dividends should not be considered a prediction or guarantee of future dividends. Our instituted dividend may be modified or discontinued at the discretion of our Board of Directors, depending on variables such as, but not limited to, operating cash flow, development requirements and strategies, construction projects, spot gold and silver prices, taxation and general market conditions.

Results of Operations Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Sales of metals concentrate, net

During the year ended December 31, 2012, we generated sales of $131.8 million, net of treatment charges, compared to sales of $105.2 million during the same period of 2011, an increase of 25.3%. The significant increase in sales for the year ended December 31, 2012 resulted from an increase in payable metals sold due to an increase in tonnes milled in 2012 at the *La Arista* underground mine. Fewer tonnes were milled and payable metals sold in 2011, principally due to operations at *La Arist*a not commencing until March 2011. Revenue generated from sale of copper, lead and zinc contained in our concentrates is considered a by-product of our gold and silver production. (See Production and Sales Statistics tables titled *La Arista* Underground Mine and *El Aguila* Open Pit Mine below for additional information regarding the three months and years ended December 31, 2012 and 2011).

Although revenue from copper, lead and zinc represented approximately 18.2% of net sales for the year ended December 31, 2012, and approximately 9.8% of net sales for the year ended December 31, 2011, we believe that the identification of gold and silver as our primary products, and presented as a precious metal gold equivalent, is appropriate due to the following:

- Precious metals account for the majority of our net sales and are expected to do so in the foreseeable future;
- We primarily target gold projects, with a secondary emphasis on silver, and believe that our exploration projects in Mexico are principally gold targets;
- We do not target or pursue copper, lead, zinc or any other base metal projects;
- We have historically presented the Company as a precious metal producer on a gold equivalent basis, with the precious metal gold equivalent content at the El Aguila project being the basis for building the mine and putting the project into production; and
- We believe that consistency in disclosure (precious metal gold equivalent production) is important to investors regardless of the relationships of metal prices and production from year to year.

We periodically review our revenues to ensure that our reporting of primary products and by-products is appropriate. Because we consider copper, lead and zinc to be by-products of our precious metal gold equivalent production, the value of these metals is applied as a reduction to total cash costs in our calculation of total cash cost per precious metal gold equivalent ounce sold (see Non-GAAP Measures below).

The year ended 2012 was our second full year of processing mineralized material. Metals prices realized in 2012 were mixed over the prior year, with average per ounce gold prices increasing to $1,676 from $1,644 per ounce, a 2% increase, and average per ounce silver prices decreasing to $31 from $35 per ounce, a 12% decrease.

Below are certain key operating statistics for our *La Arista* underground mine for 2012 and 2011 and the *El Aguila* open pit mine for 2011. Our production for 2012 consisted of mineralized material from our *La Arista* underground mine. Our production for 2011 consisted of mineralized material from both the *La Arista* underground mine and the *El Aguila* open pit mine. Production for the three months ended December 31, 2011 did not include mineralized material from the *El Aguila* open pit mine, which ceased operations in February 2011, but it did include mineralized material from the *La Arista* underground mine, which began operations in March 2011. Our production rate at *La Arist*a is directly a result of mine construction and the establishment of sufficient stopes and working faces. The number of stopes and working faces has increased as we have gone deeper in the mine, which has resulted in more tonnes of mineralized material processed at the mill in 2012 as compared to 2011. We also sustained, at various times, higher than expected mining dilution rates as high as 35% to 40% in the second quarter of 2012 as well as higher than targeted dilution rates at various times in the remaining quarters. This dilution lowers the head grades. We believe this to be an unacceptable dilution percentage and we continue to take steps to lower dilution.

Production and Sales Statistics

	La Arista Underground Mine		La Arista Underground Mine	
	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Year Ended December 31, 2012	Year Ended December 31, 2011
Production Summary				
Milled:				
Tonnes Milled	71,541	55,434	282,120	167,806
Tonnes Milled per Day	778	603	773	561
Grade:				
Average Gold Grade (g/t)	4.63	4.20	4.30	3.35
Average Silver Grade (g/t)	314	453	355	424
Average Copper Grade (%)	0.46	0.61	0.45	0.48
Average Lead Grade (%)	1.99	1.73	1.70	1.40
Average Zinc Grade (%)	4.78	3.70	3.98	2.92
Recoveries:				
Average Gold Recovery (%)	89	89	88	89
Average Silver Recovery (%)	94	93	93	93
Average Copper Recovery (%)	85	76	78	77
Average Lead Recovery (%)	73	79	70	78
Average Zinc Recovery (%)	82	79	81	76
Mill production (before payable metal deductions)[(1)]				
Gold (ozs.)	9,528	6,631	34,417	16,027
Silver (ozs.)	675,607	753,414	2,996,743	2,122,000
Copper (tonnes)	277	258	986	620
Lead (tonnes)	1,037	760	3,374	1,840
Zinc (tonnes)	2,809	1,617	9,115	3,730
Payable metal sold[(1)]				
Gold (ozs.)	5,774	5,873	26,675	15,700
Silver (ozs.)	417,932	716,221	2,446,232	2,034,187
Copper (tonnes)	162	194	769	464
Lead (tonnes)	953	622	3,187	1,510
Zinc (tonnes)	2,218	1,390	7,222	2,812
Average metal prices realized				
Gold (oz.)	$ 1,691	$ 1,691	$ 1,676	$ 1,644
Silver (oz.)	$ 36	$ 30	$ 31	$ 35
Copper (tonne)	$ 7,942	$ 7,019	$ 8,033	$ 8,095
Lead (tonne)	$ 2,256	$ 1,873	$ 2,110	$ 2,184
Zinc (tonne)	$ 1,952	$ 1,800	$ 1,967	$ 1,995
Gold equivalent ounces produced (mill production)[(1)]				
Gold Ounces	9,528	6,631	34,417	16,027
Gold Equivalent Ounces from Silver	14,254	13,303	56,015	44,663

Total Gold Equivalent Ounces [2]	23,782	19,934	90,432	60,690
Gold equivalent ounces sold[1]				
Gold Ounces	5,774	5,873	26,675	15,699
Gold Equivalent Ounces from Silver	8,818	12,646	45,724	42,815
Total Gold Equivalent Ounces	14,592	18,519	72,399	58,514

(1) Mill production represents metal contained in concentrates produced at the mill, which is before payable metal deductions are levied by the buyer of our concentrates. In addition, mill production quantities for the year ended December 31, 2012 do not reflect any deduction for 583 gold ounces, respectively, and 45,432 silver ounces, respectively, (approximately 1,400 gold equivalent ounces) resulting from the settlement agreement with the buyer of our concentrates as discussed on page 30 under Settlement with Concentrate Buyer . Gold equivalent ounces sold for the year ended December 31, 2012 have been reduced by approximately 1,400 gold equivalent ounces as a result of the settlement.

(2) Gold equivalent mill production for 2012 of 90,432 ounces differs from gold equivalent ounces sold for 2012 of 72,399 due principally to buyer (smelter) concentrate processing deductions of approximately 9,078 gold equivalent ounces, a settlement agreement with the buyer of the Company s concentrates of approximately 1,400 gold equivalent ounces and an increase in gold equivalent ounces contained in ending inventory of approximately 7,555 ounces.

Production and Sales Statistics

		El Aguila Open Pit Mine Year Ended December 31, 2011 (1)
Production Summary		
Milled:		
Tonnes Milled		46,409
Tonnes Milled per Day		829
Grade:		
Average Gold Grade (g/t)		4.18
Average Silver Grade (g/t)		53
Recoveries:		
Average Gold Recovery (%)		89
Average Silver Recovery (%)		75
Mill production (before payable metal deductions)		
Gold (ozs.)		5,559
Silver (ozs.)		58,309
Payable metal sold		
Gold (ozs.)		3,917
Silver (ozs.)		43,605
Average metal prices realized		
Gold (oz.)	$	1,383
Silver (oz.)	$	34
Gold equivalent ounces produced (mill production)		
Gold Ounces		5,559
Gold Equivalent Ounces from Silver (2)		
Total Gold Equivalent Ounces		5,559
Gold equivalent ounces sold		
Gold Ounces		3,917
Gold Equivalent Ounces from Silver (2)		
Total Gold Equivalent Ounces		3,917

(1) Total cash costs for the combined *La Arista* underground mine and the *El Aguila* open pit mine for the for the year ended December 31, 2011 can be found in the *Non-GAAP Measures*.

(2) Silver ounces were considered a by-product from the *El Aguila* open pit mine.

For the year ended December 31, 2012, we sold 26,675 ounces gold and 2,446,232 ounces silver from the *La Arista* underground mine for at gross sales value of approximately $44.7 million and $75.8 million, respectively. This compares to 19,617 ounces gold and 2,077,792 ounces silver during 2011 from both the *La Arista* underground mine and *El Aguila* open pit mine, for gross sales value of $31.3 million and $72.7 million respectively. From the *El Aguila* open pit mine, we sold 3,917 ounces gold and 43,605 ounces silver during the first two months of 2011 and from the *La Arista* underground mine, we sold 15,700 ounces gold and 2,034,187 ounces silver during the last ten months of 2011. The increase in sales in 2012 principally resulted from a full year of operations at *La Arista* in 2012, versus ten

months of operations at *La Arista* in 2011.

Production

For the year ended December 31, 2012 mill production totaled 90,432 ounces of precious metal gold equivalent compared to 66,249 ounces of precious metal gold equivalent for 2011. *See* the table titled **Production and Sales Statistics-*El Aguila* Project** above for additional information regarding our mineral production statistics.

We continue to focus on mining and mine construction activities at the *La Arista* underground mine. Our production is dependent on the rate of advancement into the mine and the establishment of sufficient stopes and working faces. We anticipate the number of stopes and working faces will increase in 2013 and that precious metal mill production may be

similar with 2012 mill production. Our 2013 mine plan anticipates that we will be mining areas of the deposit that contain higher levels of base metals, as compared to 2012. We are targeting mill production of 80,000 to 100,000 ounces of precious metal gold equivalent in 2013.

Mine gross profit. For the year ended December 2012, mine gross profit totaled $87.8 million compared to $80.5 million for the year ended December 31, 2011. The increase in mine gross profit from the prior year was primarily due to the increase in sales of metal concentrate due to an increase in the quantities of payable metal sold. Mine gross profit as a percent of sales for the year ended December 31, 2012 decreased to 66.6% from 76.6% during the same period in 2011, principally due to higher labor, contractor services, diesel, concentrate transportation and other operating costs in 2012.

Net income (loss) before extraordinary item. For the year ended December 31, 2012, net income before extraordinary item was $33.7 million, or $0.60 per diluted share, as compared to net income before extraordinary item of $60.1 million or $1.06 per diluted share, for the comparable period of 2011. The $26.4 million decrease in net income in 2012 was principally attributable to a $12.0 million income tax benefit in 2011 resulting from a reduction to the income tax valuation allowance, as compared to $13.3 million of income tax expense in 2012.

Costs and expenses. Total costs and expenses during the year ended December 31, 2012 were $38.1 million compared to $34.9 million during the comparable period of 2011, an increase of $3.2 million, or 9.2%. The increase resulted from an increase in general and administrative expenses, and exploration expenses, which were partially offset by a decrease in construction and development expenses, as discussed in more detail below.

General and administrative expenses. General and administrative expenses for the year ended December 31, 2012 was $13.5 million compared to $8.9 million for the same periods of 2011. The $4.6 million increase in 2012 principally resulted from higher stock-based compensation expense, investor relations activities, professional services and insurance costs.

Exploration expenses. Property exploration expenses totaled $8.0 million for the year ended December 31, 2012, compared to $4.9 million during the same period of 2011. The $3.1 million increase in exploration expenses results from higher expenditures in 2012 to evaluate and drill new exploration targets on the *El Aguila* and *Alta Gracia* properties, and to evaluate other prospects near our *La Arista* underground mine. We also set up an exploration office in Turkey in September 2012. Exploration costs associated with definition and delineation drilling of the *La Arista* vein system are reflected in construction and development expenses.

Construction and development expenses. Construction and development expenses during the year ended December 31, 2012 decreased to $16.6 million from $21.0 million during 2011. Construction and development includes mine construction costs attributable to definition and delineation drilling of the *La Arista* vein system, and construction related activities at the *El Aguila* Project. The $4.4 million decrease when compared to 2011 is due to lower expenditures in 2012 relating to construction of the tailings dam, expansion of the flotation cells in the flotation circuit in the mill, construction of the mine camp and infrastructure construction. We will continue to focus on further mine construction at *La Arista* and related activities at the *El Aguila* Project for the foreseeable future.

Other (expense) income. For the year ended December 31, 2012, we recorded other expense of $2.7million, compared to other income of $2.4 million during the same period of 2011. The change in other (expense) income resulted primarily from recognizing a foreign currency loss of $2.9 million during the year ended December 31, 2012 compared to a foreign currency gain of $2.7 million in the comparable period in 2011. The current year losses resulted from currency translation adjustments during a period when the dollar was increasing compared to the Mexican peso, and a $2.0 million reclassification from other comprehensive loss to foreign exchange loss.

Provision for income taxes. For the year ended December 31, 2012, income tax provision was $13.3 million as compared to an income tax benefit of $12.0 million for the year ended December 31, 2011. The $25.3 million increase in income tax provision in 2012 principally resulted from a $28.3 million reduction to a valuation allowance on deferred tax assets in 2011 as compared to a $4.6 million reduction to a valuation allowance on deferred tax assets in 2012. There was no corresponding income tax provision or benefit during the 2010 due to start-up of operations in 2010. As of December 31, 2012, there were no remaining valuation allowances on the Company s deferred tax assets. *See* **Note 7 to the Consolidated Financial Statements** for additional information.

Extraordinary item. On April 20, 2011, the *El Aguila* Project suffered severe damage from an anomalous rain and hail storm which flooded the *La Arista* underground mine and damaged existing roads, buildings and equipment. We experienced a loss of $2.5 million, for which we recorded an extraordinary loss of $1.8 million, net of income tax benefit of $0.8 million, for the year ended December 31, 2011.

Results of Operations Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

During the year ended December 31, 2011 we sold 19,617 ounces of gold at an average realized price of $1,596 per ounce for $31.3 million of gross revenue, and 2,077,792 ounces of silver at an average realized price of $35 per ounce for approximately $72.7 million of gross revenue, compared to 10,493 ounces of gold at an average realized price of $1,201 per ounce for $12.6 million of gross revenues, and 111,316 ounces of silver at an average realized price of $20 per ounce for approximately $2.2 million of gross revenue for 2010. Mine gross profit for the year ended December 31, 2011 was $80.5 million compared to $8.0 million in the comparable period of 2010, an increase of $72.5 million or 906%. The increase was due to a full twelve months of mine operations in 2011 compared to only six months of operations in 2010.

For the year ended December 31, 2011 we reported a net income of $58.4 million, or $1.10 per share, compared to a net loss of $23.1 million, or $0.46 per share, for the year ended December 31, 2010. Our net income increased in 2011 due to ramp-up of operations in 2010 as compared to a full year of operations in 2011.

Total costs and expenses for the year ended December 31, 2011 were $34.9 million compared to $30.8 million in the comparable period of 2010, an increase of $4.1 million or 13.3%. The increase in costs and expenses was primarily due to our operations transitioning to underground mine activities and an increase in stock-based compensation.

Exploration expense for the year ended December 31, 2011 of $4.9 million was consistent with our level of exploration activity in 2010 of $4.7 million.

Construction and development for the year ended December 31, 2011 of $21.0 million increased by $2.6 million or 14.1% when compared to 2010 of $18.4. The higher cost in 2011 was primarily due to the completion of the second phase of the tailings dam, and expansion of the flotation cells in the mill s flotation circuit during 2011.

General and administrative expenses increased $1.4 million or 18.7% to $8.9 million for the year ended December 31, 2011 as compared to $7.5 million for the comparable period in 2010. The increase was attributable to increases in professional fees, salaries and benefits and stock-based compensation.

For the years ended December 31, 2011 and 2010, we recorded a currency translation adjustment loss of $3.2 million and a currency translation adjustment gain of $0.2 million, respectively, resulting from the translation of our subsidiary s Mexican peso denominated functional currency financial statements into the US dollar reporting currency.

Non-GAAP Measures

Reconciliation of Non-GAAP Measures to Total Mine Cost of Sales

Throughout this report, we have provided information prepared or calculated according to U.S. GAAP, as well as referenced some non-U.S. GAAP (non-GAAP) performance measures. Because the non-GAAP performance measures do not have any standardized meaning prescribed by U.S. GAAP, they may not be comparable to similar measures presented by other companies. Accordingly, these measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with U.S. GAAP.

We have reconciled total cash cost, before by-product credits and total cash cost, after by-product credits to total mine cost of sales which is a reported U.S. GAAP measure. Total cash cost, before by-product credits, includes all direct and indirect operating cash costs related directly to our production of metals which includes mining, milling and other plant facility costs, smelter treatment and refining charges, royalties, and general and administrative costs.

We use total cash cost, after by-product credits, per precious metal gold equivalent ounce sold (including royalties) as one indicator for comparative monitoring of our mining operations from period to period and believe that investors also find this information helpful when evaluating our performance. By-product credits include revenues earned from all metals other than the primary precious metals sold. Management also uses this measurement for the comparative monitoring of performance of our mining operations period-to-period from a cash flow perspective. Total cash cost, after by-product credits, per precious gold equivalent ounce sold is a measure developed by the Gold Institute Standard in an effort to provide a uniform standard for comparison purposes. However, there can be no assurance that our reporting of this non-GAAP measure is similar to that reported by other mining companies.

For reporting periods prior to 2012, we reported total cash operating cost, after by-product credits, per precious metal gold equivalent ounce produced (on-site mill production). These amounts have been restated in this Management s Discussion and Analysis to reflect our current reporting method, showing total cash cost, after by-product credits, per precious metal gold equivalent ounce sold (including royalties), which we believe is the more common method used by companies that apply the Gold Institute Standard. The principal difference between cash operating costs and total cash costs is that cash operating costs exclude royalty costs, whereas total cash costs include royalty costs. Our concentrates are subject to a 5% net smelter returns royalty. The principal difference between gold equivalent ounces produced at the mill and precious metal gold equivalent ounces sold, is that precious metal gold equivalent ounces produced at the mill do not reflect payable metal deductions levied by smelters, whereas precious metal gold equivalent ounces sold are after payable metal deductions levied by smelters.

The following tables present a reconciliation between the non-GAAP measures of total cash cost, before by-product credits and total cash cost, after by-product credits to the GAAP measure of total mine cost of sales and depreciation, accretion, reclamation and stock-based compensation for our operations at the *El Aguila* project for the three months and years ended December 31, 2012 and 2011.

Total Cash Costs after By-Product Credits (Non-GAAP)

	Three Months Ended December 31,		**Year Ended December 31,**	
	2012	**2011**	**2012**	**2011**
	(In thousands, except ounces sold and total cash cost per gold equivalent ounce)			
Total cash costs (before by-product credits) (1)	$ 15,651	$ 10,198	$ 57,144	$ 31,151
By-product credits (2)	(7,609)	(5,027)	(26,837)	(14,357)
Total cash costs (after by-product credits)	$ 8,042	$ 5,171	$ 30,307	$ 16,794
Divided by precious metal gold equivalent ounces sold (3)	14,592	18,519	*18.9%*	*18.6%*
Adjusted EBITDA1)	476	478		
as a % of sales	*21.8%*	*21.6%*		

1) Non-IFRS financial measure. Refer to Reconciliation of non-IFRS information, of this document.

Other

Key data in millions of EUR

	Q4 2017	**Q4 2018**
Sales	119	233
Income from operations	(53)	44
EBITA1)	(48)	47
Adjusted EBITA1)	(24)	57
IP Royalties	*67*	*146*
Innovation	*(56)*	*(59)*
Central costs	*(26)*	*(39)*
Other	*(10)*	*9*
Adjusted EBITDA1)	13	106

1) Non-IFRS financial measure. Refer to Reconciliation of non-IFRS information, of this document.

Comparable sales growth was 3%, driven by high-single- digit growth in Sleep & Respiratory Care and mid-single-digit growth in Domestic Appliances.

Comparable sales in growth geographies showed high- single-digit growth, driven by double-digit growth in India. Growth in mature geographies showed low-single-digit growth, reflecting mid-single-digit growth in other mature geographies and low-single-digit growth in North America and Western Europe.

EBITA increased by EUR 1 million to EUR 405 million.

Adjusted EBITA increased by EUR 1 million, resulting in a margin of 18.6%. The lower margin was mainly due to lower growth.

Restructuring and acquisition-related charges amounted to EUR 7 million, compared to EUR 8 million in Q4 2017. In Q1 2019, restructuring and acquisition-related and other charges are expected to total approximately EUR 15 million.

Sales increased by EUR 114 million, mainly due to higher IP royalty income. Following deconsolidation at the end of November 2017, license income from Signify is reported as third-party sales.

Restructuring and acquisition-related charges amounted to EUR 10 million, compared to EUR 21 million in Q4 2017. In Q1 2019, restructuring and acquisition-related and other charges are expected to total approximately EUR 25 million.

Proposed distribution

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

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

Shareholders will be given the opportunity to make their choice between cash and shares between May 15, 2019 and June 7, 2019. If no choice is made during this election period the dividend will be paid in cash. On June 7, 2019 after close of trading, the number of share dividend rights entitled to one new common share will be determined based on the volume- weighted average price of all traded common shares Koninklijke Philips N.V. at Euronext Amsterdam on June 5, 6 and 7, 2019.

The company will calculate the number of share dividend rights entitled to one new common share (the ratio), such that the gross dividend in shares will be approximately equal to the gross dividend in cash. The ratio and the number of shares to be issued will be announced on June 12, 2019. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 13, 2019.

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

Full-year highlights

Philips performance

Key data in millions of EUR unless otherwise stated

	January to December	
	2017	**2018**
Sales	17,780	18,121
Nominal sales growth	2%	2%
Comparable sales growth[1)]	4%	5%
Comparable order intake[1)]	6%	10%
income from operations	1,517	1,719
as a % of sales	*8.5%*	*9.5%*
Financial expenses, net	(137)	(213)
Investments in associates, net of income taxes	(4)	(2)
Income tax expense	(349)	(193)
Income from continuing operations	1,028	1,310
Discontinued operations, net of income taxes	843	(213)
Net income	1,870	1,097
Income from continuing operations to shareholders[2)] per common share (in EUR) - diluted[3)]	1.08	1.39
Adjusted income from continuing operations to shareholders[2)] per common share (in EUR) - diluted[1)]	1.54	1.76
Net income attributable to shareholders[2)] per common share (in EUR) - diluted	1.75	1.16
EBITA[1)]	1,787	2,066
as a % of sales	*10.1%*	*11.4%*
Adjusted EBITA[1)]	2,153	2,366
as a % of sales	*12.1%*	*13.1%*
Adjusted EBITDA[1)]	2,832	3,093
as a % of sales	*15.9%*	*17.1%*

1) Non-IFRS financial measure. Refer to Reconciliation of non-IFRS information, of this document.

2) Shareholders refers to shareholders of Koninklijke Philips N.V.

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

Comparable sales growth was 5%, reflecting high-single- digit growth in the Diagnosis & Treatment businesses, low- single-digit growth in the Personal Health businesses and higher IP royalty income, while the Connected Care & Health Informatics businesses remained flat year-on-year. Sales in growth geographies showed high-single-digit growth, reflecting double-digit growth in Latin America and mid- single-digit growth in China.

Mature geographies recorded low-single-digit growth, reflecting double-digit growth in other mature geographies and low-single-digit growth in Western Europe and North America.

Currency-comparable order intake showed 10% growth, reflecting double-digit growth in the Diagnosis & Treatment businesses and high-single-digit growth in the Connected Care & Health Informatics businesses. On a geographic basis, growth geographies achieved double-digit growth, mainly driven by double-digit growth in China and Latin America. Mature geographies recorded high-single-digit growth, reflecting high-single-digit growth in North America, Western Europe and other mature geographies.

EBITA increased by EUR 279 million and the margin increased to 11.4%, a 130 basis point improvement compared to 2017.

Adjusted EBITA increased by EUR 213 million and the margin improved to 13.1%, representing a 100 basis point improvement compared to 2017, mainly due to growth, operational improvements and higher IP royalty income.

Restructuring and acquisition-related charges amounted to EUR 258 million, compared to EUR 316 million in 2017. EBITA in 2018 also includes EUR 58 million of charges related to the consent decree. EBITA in 2017 also included EUR 47 million of charges related to quality and regulatory actions, EUR 22 million of charges related to portfolio rationalization measures, EUR 20 million of charges related to the consent decree and a EUR 36 million release of a provision.

Net financial expenses increased by EUR 76 million year-on- year, mainly due to financing charges of EUR 46 million related to bonds redeemed in 2018 and lower dividend income, partly offset by lower net interest expenses. 2017 also included dividend income related to the retained interest in Lumileds.

Income tax expense decreased by EUR 156 million compared to 2017, mainly due to one-time non-cash tax benefits from tax settlements and business integrations in 2018.

Discontinued operations mainly reflects dividends received of EUR 32 million and a EUR 186 million loss related to a value adjustment of the remaining interest in Signify. In 2017, Discontinued operations included a gain following the deconsolidation of Signify, a loss from the sale of Lumileds, a charge related to a value adjustment of the remaining interest in Signify, and a one-time non-cash tax charge due to the US Tax Reform.

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

Cash balance in millions of EUR

	January to December	
	2017	**2018**
Beginning cash balance	**2,334**	**1,939**
Free cash flow[1)]	1,185	984
Net cash flows from operating activities	1,870	1,780
Net capital expenditures	(685)	(796)
Other cash flows from investing activities	(2,514)	(690)
Treasury shares transactions	(414)	(948)
Changes in debt	(205)	160
Dividend paid to shareholders[2)]	(384)	(401)
Other cash flow items	(185)	(3)
Sale of shares of Signify, net	1,060	
Net cash flows discontinued operations	1,063	647
Ending cash balance	**1,939**	**1,688**

1) Non-IFRS financial measure. Refer to Reconciliation of non-IFRS information, of this document.

2) Shareholders refers to shareholders of Koninklijke Philips N.V.

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

	December 31, 2017	**December 31, 2018**
Long-term debt	4,044	3,427
Short-term debt	672	1,394
Total debt	**4,715**	**4,821**
Cash and cash equivalents	1,939	1,688
Net debt	**2,776**	**3,132**
Shareholders equity	11,999	12,088
Non-controlling interests	24	29
Group equity	**12,023**	**12,117**
Net Debt : group equity ratio[1)]	**19:81**	**21:79**

1) Non-IFRS financial measure. Refer to Reconciliation of non-IFRS information, of this document.

Net cash flows from operating activities decreased by EUR 90 million, as higher earnings were offset by higher working capital outflows, compared to 2017. Net capital expenditures in 2017 included higher proceeds from the sale of real estate assets.

Other cash flows from investing activities in 2018 mainly includes cash outflows related to acquisitions, partly offset by proceeds from divestments. 2017 included a EUR 1.9 billion outflow related to the acquisition of Spectranetics.

Treasury shares transactions includes share repurchases for capital reduction purposes and for Long Term Incentive and employee stock purchase plans.

Changes in debt mainly includes EUR 990 million proceeds from bonds issued, partly offset by EUR 866 million cash outflows related to early bond redemptions. 2017 mainly reflects a EUR 1,184 million cash outflow related to the bond redemption and notes issued for a total amount of EUR 1.0 billion.

Net cash flows from discontinued operations mainly includes the net cash proceeds of EUR 642 million related to a further sale of shares and a dividend received related to the retained interest in Signify.

Performance per segment

Diagnosis & Treatment businesses

Key data in millions of EUR unless otherwise stated

	January to December	
	2017	**2018**
Sales	6,891	7,245
Sales growth		
Nominal sales growth	3%	5%
Comparable sales growth[1)]	3%	7%
Income from operations	488	600
as a % of sales	*7.1%*	*8.3%*
EBITA[1)]	543	696
as a % of sales	*7.9%*	*9.6%*
Adjusted EBITA[1)]	716	838
as a % of sales	*10.4%*	*11.6%*
Adjusted EBITDA[1)]	884	1,036
as a % of sales	*12.8%*	*14.3%*

1) Non-IFRS financial measure. Refer to Reconciliation of non-IFRS information, of this document.

Connected Care & Health Informatics businesses

Key data in millions of EUR unless otherwise stated

	January to December	
	2017	**2018**
Sales	3,163	3,084
Sales growth		
Nominal sales growth	0%	(2)%
Comparable sales growth[1)]	3%	0%
Income from operations	206	179
as a % of sales	*6.5%*	*5.8%*
EBITA[1)]	250	225
as a % of sales	*7.9%*	*7.3%*
Adjusted EBITA[1)]	372	341
as a % of sales	*11.8%*	*11.1%*
Adjusted EBITDA[1)]	502	462
as a % of sales	*15.9%*	*15.0%*

1) Non-IFRS financial measure. Refer to Reconciliation of non-IFRS information, of this document.

Comparable sales growth was 7%, reflecting double-digit growth in Image Guided-Therapy and Ultrasound and low- single-digit growth in Diagnostic Imaging.

Comparable sales in growth geographies showed double- digit growth, driven by double-digit growth in China and Latin America. Mature geographies recorded mid-single- digit growth, reflecting mid-single-digit growth in North America, Western Europe and other mature geographies.

EBITA increased by EUR 153 million.

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

Restructuring and acquisition-related charges to improve productivity were EUR 142 million, compared to EUR 151 million in 2017. EBITA in 2017 included charges of EUR 22 million related to portfolio rationalization measures.

Comparable sales were flat, reflecting low-single-digit growth in Healthcare Informatics while Monitoring & Analytics and Therapeutic Care remained flat year-on-year. Therapeutic Care includes the impact of the consent decree.

Comparable sales in growth geographies showed high- single-digit growth, reflecting double-digit growth in Latin America and low-single-digit growth in China. Mature geographies recorded a low-single-digit decline, reflecting high-single-digit growth in Western Europe and mid-single-digit growth in other mature geographies, offset by a mid- single-digit decline in North America.

EBITA decreased by EUR 25 million, mainly due to a EUR 36 million release of a provision in 2017.

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

Restructuring and acquisition-related charges amounted to EUR 59 million in 2018, compared to EUR 91 million in 2017. EBITA in 2018 also includes EUR 56 million of charges related to the consent decree. EBITA in 2017 also included EUR 47 million of charges related to quality and regulatory actions, EUR 20 million of charges related to the consent decree and a release of a provision.

Personal Health businesses

Key data in millions of EUR unless otherwise stated

	January to December	
	2017	**2018**
Sales	7,310	7,228
Sales growth		
Nominal sales growth	3%	(1)%
Comparable sales growth[1)]	6%	3%
Income from operations	1,075	1,045
as a % of sales	*14.7%*	*14.5%*
EBITA[1)]	1,211	1,171
as a % of sales	*16.6%*	*16.2%*
Adjusted EBITA[1)]	1,221	1,215
as a % of sales	*16.7%*	*16.8%*
Adjusted EBITDA[1)]	1,456	1,456
as a % of sales	*19.9%*	*20.1%*

1) Non-IFRS financial measure. Refer to Reconciliation of non-IFRS information, of this document.

Other

Key data in millions of EUR

	January to December	
	2017	**2018**
Sales	416	564
Income from operations	(252)	(105)
EBITA1)	(217)	(27)
Adjusted EBITA[1)]	(157)	(28)
IP Royalties	*225*	*272*
Innovation	*(212)*	*(202)*
Central costs	*(105)*	*(128)*
Other	*(65)*	*30*
Adjusted EBITDA[1)]	(11)	139

1) Non-IFRS financial measure. Refer to Reconciliation of non-IFRS information, of this document.

Comparable sales growth was 3%, reflecting high-single- digit growth in Sleep & Respiratory Care and low-single-digit growth in Personal Care and Domestic Appliances, while Health & Wellness remained flat year-on-year.

Comparable sales in growth geographies showed high- single-digit growth, reflecting double-digit growth in Central & Eastern Europe, high-single-digit growth in Latin America, and low-single-digit growth in Middle East & Turkey. Mature geographies recorded low-single-digit growth, reflecting high-single-digit growth in other mature geographies, flat sales in North America, and a low-single-digit decline in Western Europe.

EBITA decreased by EUR 40 million.

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

Restructuring and acquisition-related charges were EUR 26 million, compared to EUR 11 million in 2017.

Sales increased by EUR 148 million, mainly due to higher IP royalty income, revenue activities from innovation and the impact of license income from Signify reported as third- party sales following deconsolidation at the end of November 2017.

Restructuring and acquisition-related charges amounted to EUR 31 million, compared to EUR 64 million in 2017.

Forward-looking statements and other important information

Forward-looking statements

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

These factors include but are not limited to: global economic and business conditions; political instability, including developments within the European Union, with adverse impact on financial markets; the successful implementation of Philips strategy and the ability to realize the benefits of this strategy; the ability to develop and market new products; changes in legislation; legal claims; changes in currency exchange rates and interest rates; future changes in tax rates and regulations, including trade tariffs; pension costs and actuarial assumptions; changes in raw materials prices; changes in employee costs; the ability to identify and complete successful acquisitions, and to integrate those acquisitions into the business, the ability to successfully exit certain businesses or restructure the operations; the rate of technological changes; cyber-attacks, breaches of cybersecurity; political, economic and other developments in countries where Philips operates; industry consolidation and competition; and the state of international capital markets as they may affect the timing and nature of the disposal by Philips of its remaining interests in Signify. As a result, Philips actual future results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. For a discussion of factors that could cause future results to differ from such forward-looking statements, see the Risk management chapter included in the Annual Report 2017.

Third-party market share data

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

Rankings are based on sales unless otherwise stated.

Use of non-IFRS information

In presenting and discussing the Philips Group s financial position, operating results and cash flows, management uses certain non-IFRS financial measures. These non-IFRS financial measures should not be viewed in isolation as

alternatives to the equivalent IFRS measures and should be used in conjunction with the most directly comparable IFRS measures. Non-IFRS financial measures do not have standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. A reconciliation of these non-IFRS measures to the most directly comparable IFRS measures is contained in this document. Further information on non-IFRS measures can be found in the Annual Report 2017.

Use of fair value information

In presenting the Philips Group s financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that are deemed to be reliable.

Readers are cautioned that these values are subject to changes over time and are only valid at the balance sheet date. When quoted prices or observable market data are not readily available, fair values are estimated using appropriate valuation models and unobservable inputs. Such fair value estimates require management to make significant assumptions with respect to future developments, which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the Annual Report 2017 and Semi-Annual report 2018. In certain cases independent valuations are obtained to support management s determination of fair values.

Presentation

All amounts are in millions of euros unless otherwise stated. Due to rounding, amounts may not add up precisely to totals provided. All reported data is unaudited. Financial reporting is in accordance with the accounting policies as stated in the Annual Report 2017 and Semi-Annual report 2018, unless otherwise stated.

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

References to Lumileds in this press release relate to the combined Lumileds and Automotive businesses, which were deconsolidated as from the end of June 2017.

Market Abuse Regulation

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

Condensed consolidated statements of income

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

	Q4		January to December	
	2017	**2018**	**2017**	**2018**
Sales	**5,303**	**5,586**	**17,780**	**18,121**
Cost of sales	(2,741)	(2,897)	(9,600)	(9,568)
Gross margin	**2,563**	**2,689**	**8,181**	**8,554**
Selling expenses	(1,236)	(1,251)	(4,398)	(4,500)
General and administrative expenses	(146)	(178)	(577)	(631)
Research and development expenses	(461)	(487)	(1,764)	(1,759)
Other business income	27	4	152	88
Other business expenses	(23)	(8)	(76)	(33)
Income from operations	**723**	**769**	**1,517**	**1,719**
Financial income	31	9	126	51
Financial expenses	(40)	(67)	(263)	(264)
Investment in associates, net of income taxes	(2)		(4)	(2)
Income before taxes	**713**	**711**	**1,377**	**1,503**
Income tax expense	(237)	12	(349)	(193)
Income from continuing operations	**476**	**723**	**1,028**	**1,310**
Discontinued operations, net of income taxes	423	(44)	843	(213)
Net income	**899**	**678**	**1,870**	**1,097**
Attribution of net income				
Income from continuing operations attributable to shareholders[1)]	467	718	1,017	1,303
Net income attributable to shareholders[1)]	860	673	1,657	1,090
Net income attributable to non-controlling interests	39	5	214	7
Earnings per common share				
Weighted average number of common shares outstanding (after deduction of treasury shares) during the period (in thousands):				
- basic	932,754	922,390	928,798	922,987
- diluted	947,857	931,398	945,132	935,851
Income from continuing operations attributable to shareholders[1)2)]				
- basic	0.50	0.78	1.10	1.41
- diluted	0.49	0.77	1.08	1.39
Net income attributable to shareholders[1)]				
- basic	0.92	0.73	1.78	1.18
- diluted	0.91	0.72	1.75	1.16

1) Shareholders refers to shareholders of Koninklijke Philips N.V.
2) The presentation of 2017 information has been updated compared to the information previously published to adjust for elements of Net income that were attributable to discontinued operations.

Amounts may not add up due to rounding

Condensed statement of comprehensive income

Condensed statement of comprehensive income in millions of EUR

	January to December	
	2017	**2018**
Net income for the period	**1,870**	**1,097**
Pensions and other post employment plans:		
Remeasurement	102	(8)
Income tax effect on remeasurements	(78)	(19)
Financial assets fair value through OCI:		
Net current-period change, before tax		(147)
Reclassification directly into retained earnings		(5)
Total of items that will not be reclassified to Income statement	**25**	**(179)**
Currency translation differences:		
Net current-period change, before tax	(1,177)	383
Income tax effect on net current-period change	39	(29)
Reclassification adjustment for (gain) loss realized, in discontinued operations	191	(6)
Available-for-sale financial assets:		
Net current-period change, before tax	(66)	
Income tax effect on net current-period change	(1)	
Reclassification adjustment for (gain) loss realized	1	
Cash flow hedges:		
Net current-period change, before tax	33	(13)
Income tax effect on net current-period change	(3)	11
Reclassification adjustment for (gain) loss realized	(17)	(31)
Total of items that are or may be reclassified to Income Statement	**(1,000)**	**315**
Other comprehensive income (loss) for the period	**(975)**	**136**
Total comprehensive income (loss) for the period	**895**	**1,233**
Total comprehensive income attributable to:		
Shareholders of Koninklijke Philips N.V.	805	1,225
Non-controlling interests	90	8

Amounts may not add up due to rounding

Condensed consolidated balance sheets

Condensed consolidated balance sheets in millions of EUR

	December 31, 2017	December 31, 2018
Non-current assets:		
Property, plant and equipment	1,591	1,712
Goodwill	7,731	8,503
Intangible assets excluding goodwill	3,322	3,589
Non-current receivables	130	162
Investments in associates	142	244
Other non-current financial assets	587	360
Non-current derivative financial assets	22	1
Deferred tax assets	1,598	1,828
Other non-current assets	75	47
Total non-current assets	**15,198**	**16,447**
Current assets:		
Inventories-net	2,353	2,674
Other current financial assets	2	436
Other current assets	392	469
Current derivative financial assets	57	36
Income tax receivable	109	147
Receivables	3,909	4,035
Assets classified as held for sale	1,356	87
Cash and cash equivalents	1,939	1,688
Total current assets	**10,117**	**9,572**
Total assets	**25,315**	**26,019**
Equity:		
Shareholders equity	11,999	12,088
Common shares	*188*	*185*
Reserves	*385*	*548*
Other	*11,426*	*11,355*
Non-controlling interests	24	29
Group equity	**12,023**	**12,117**
Non-current liabilities:		
Long-term debt	4,044	3,427
Non-current derivative financial liabilities	216	114
Long-term provisions	1,659	1,788
Deferred tax liabilities	33	152
Non-current contract liabilities		226
Other non-current liabilities	474	253
Total non-current liabilities	**6,426**	**5,959**

Current liabilities:		
Short-term debt	672	1,394
Derivative financial liabilities	167	176
Income tax payable	83	118
Accounts and notes payable	2,090	2,303
Accrued liabilities	2,319	1,537
Current contract liabilities		878
Short-term provisions	400	363
Liabilities directly associated with assets held for sale	8	12
Other current liabilities	1,126	1,162
Total current liabilities	**6,866**	**7,943**
Total liabilities and group equity	**25,315**	**26,019**

Amounts may not add up due to rounding

Condensed consolidated statement of cash flows

Condensed consolidated statement of cash flows in millions of EUR

	January to December	
	2017	**2018**
Cash flows from operating activities:		
Net income (loss)	1,870	1,097
Results of discontinued operations - net of income tax	(843)	213
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation, amortization and impairments of fixed assets	1,025	1,089
Impairment of goodwill and other non-current financial assets	15	
Net gain on sale of assets	(107)	(71)
Interest income	(40)	(31)
Interest expense on debt, borrowings and other liabilities	186	165
Income taxes	349	193
Investments in associates, net of income taxes		2
Decrease (increase) in working capital:	101	(179)
Decrease (increase) in receivables and other current assets	*64*	*(97)*
Decrease (increase) in inventories	*(144)*	*(394)*
Increase (decrease) in accounts payable, accrued and other current liabilities	*181*	*311*
Decrease (increase) in non-current receivables, other assets and other liabilities	(358)	(49)
Increase (decrease) in provisions	(252)	(271)
Other items	377	37
Interest paid	(215)	(170)
Interest received	40	35
Dividends received from investments in associates	6	20
Income taxes paid	(286)	(301)
Net cash provided by (used for) operating activities	**1,870**	**1,780**
Cash flows from investing activities:		
Net capital expenditures	(685)	(796)
Purchase of intangible assets	*(106)*	*(123)*
Expenditures on development assets	*(333)*	*(298)*
Capital expenditures on property, plant and equipment	*(420)*	*(422)*
Proceeds from sales of property, plant and equipment	*175*	*46*
Net proceeds from (cash used for) derivatives and current financial assets	(198)	(175)
Purchase of other non-current financial assets	(42)	(34)
Proceeds from other non-current financial assets	6	77
Purchase of businesses, net of cash acquired	(2,344)	(628)
Net proceeds from sale of interests in businesses, net of cash disposed of	64	70
Net cash provided by (used for) investing activities	**(3,199)**	**(1,486)**
Cash flows from financing activities:		
Proceeds from issuance of (payments on) short-term debt	12	34
Principal payments on short-term portion of long-term debt	(1,332)	(1,161)
Proceeds from issuance of long-term debt	1,115	1,287
Re-issuance of treasury shares	227	94

Purchase of treasury shares	(642)	(1,042)
Proceeds from sale of Signify shares	1,065	
Transaction costs paid for sale of Signify shares	(5)	
Dividend paid to shareholders[1)]	(384)	(401)
Dividend paid to shareholders of non-controlling interests	(2)	(3)
Net cash provided by (used for) financing activities	**55**	**(1,192)**
Net cash provided by (used for) continuing operations	**(1,274)**	**(898)**
Net cash provided by (used for) discontinued operations	**1,063**	**647**
Net cash provided by (used for) continuing and discontinued operations	**(211)**	**(251)**
Effect of change in exchange rates on cash and cash equivalents	(184)	
Cash and cash equivalents at the beginning of the period	2,334	1,939
Cash and cash equivalents at the end of the period	**1,939**	**1,688**

1) Shareholders refers to shareholders of Koninklijke Philips N.V.

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

Amounts may not add up due to rounding

Condensed consolidated statement of change in equity

Condensed consolidated statements of change in equity in millions of EUR

	Common shares	Currency translation differences	Fair value through OCI Reserves	Cash flow hedges	Capital in excess of par value	Retained earnings other	Treasury shares at cost	Total shareholders equity	Non-controlling interests	Total equity
Balance as of January 31, 2016	**186**	**1,234**	**36**	**10**	**3,083**	**8,178**	**(181)**	**12,546**	**907**	**13,453**
Total comprehensive income (loss)		(823)	(66)	12		1,681		805	90	895
Dividend distributed	2				356	(742)		(384)	(94)	(478)
Sales of shares of Signify		(19)				346		327	712	1,039
Deconsolidation of Signify					(66)	54		(12)	(1,590)	(1,602)
Purchase of treasury shares							(318)	(318)		(318)
Re-issuance of treasury shares					(205)	3	334	133		133
Forward contracts						(1,018)	(61)	(1,079)		(1,079)
Share call options						95	(255)	(160)		(160)
Share-based compensation plans					151			151		151
Income tax share-based compensation plans					(8)			(8)		(8)
Balance as of December 31, 2017	**188**	**392**	**(30)**	**23**	**3,311**	**8,596**	**(481)**	**11,999**	**24**	**12,023**
IFRS 9 and 15 adjustment			(4)			(25)		(29)		(29)
Balance as of January 1, 2018	**188**	**392**	**(34)**	**23**	**3,311**	**8,571**	**(481)**	**11,970**	**24**	**11,993**
Total comprehensive income (loss)		347	(147)	(33)		1,058		1,225	8	1,233
Dividend distributed	2				336	(738)		(400)	(3)	(403)
Purchase of treasury shares							(514)	(514)		(514)
Re-issuance of treasury shares					(276)	(4)	341	61		61
Forward contracts						124	(443)	(319)		(319)
Share call options						34	(85)	(51)		(51)
Cancellation of treasury shares	(5)					(779)	783			

Share-based compensation plans					107			107		107
Income tax share-based compensation plans					11			11		11
Balance as of December 31, 2018	**185**	**739**	**(181)**	**(10)**	**3,487**	**8,266**	**(399)**	**12,088**	**29**	**12,117**

Amounts may not add up due to rounding

Reconciliation of non-IFRS information

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

Comparable sales growth

EBITA

Adjusted EBITA

Adjusted income from continuing operations attributable to shareholders

Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted

Adjusted EBITDA

Free cash flow

Net debt : group equity ratio

Comparable order intake

The term Adjusted income from continuing operations attributable to shareholders represents income from continuing operations less continuing operations non-controlling interests, excluding amortization and impairment of acquired intangible assets, impairment of goodwill, gains or losses from restructuring costs and acquisition-related charges, other items, adjustments to net finance expenses, adjustments to investments in associates and the tax impact of the adjusted items. Shareholders refers to shareholders of Koninklijke Philips N.V.

Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted is calculated by dividing the Adjusted income from continuing operations attributable to shareholders by the diluted weighted average number of shares (after deduction of treasury shares) outstanding during the period, as defined in Note 1, Significant accounting policies, earnings per share section of the Annual Report 2017. For further details on these two new non-IFRS information metrics being presented by Philips, refer to the to be published 2018 Annual Report, Reconciliation of non-IFRS information section.

For the definitions of the remaining non-IFRS financial measures listed above, refer to chapter 5, Reconciliation of non-IFRS information, of the Annual Report 2017.

Sales growth composition in %

	Q4 2018				January to December 2018			
	nominal growth	consolidation changes	currency effects	comparable growth	nominal growth	consolidation changes	currency effects	comparable growth
2018 versus 2017								
Diagnosis & Treatment	5.2%	(0.4)%	0.3%	5.1%	5.1%	(2.4)%	4.1%	6.8%
Connected Care & Health Informatics	2.6%	(1.7)%	(0.7)%	0.2%	(2.5)%	(1.3)%	4.1%	0.3%
Personal Health	1.6%	0.4%	1.4%	3.4%	(1.1)%	0.0%	4.4%	3.3%
Philips Group	**5.3%**	**(0.4)%**	**0.6%**	**5.5%**	**1.9%**	**(1.4)%**	**4.2%**	**4.7%**

Adjusted income from continuing operations attributable to shareholders[1)] in millions of EUR unless otherwise stated

	Q4		January to December	
	2017	**2018**	**2017**	**2018**
Net income	899	678	1,870	1,097
Discontinued operations, net of income taxes	(423)	44	(843)	213
Income from continuing operations	**476**	**723**	**1,028**	**1,310**
Continuing operations non-controlling interests	(8)	(5)	(11)	(7)
Income from continuing operations attributable to shareholders[1)]	**467**	**718**	**1,017**	**1,303**
Adjustments for:				
Amortization of acquired intangible assets	66	92	260	347
Impairment of goodwill	9		9	
Restructuring and acquisition-related charges	107	99	316	258
Other items	(12)	11	50	41
Net finance expenses		11		57
Tax impact of adjusted items	1	(224)	(194)	(365)
Adjusted Income from continuing operations attributable to shareholders[1)]	**638**	**708**	**1,459**	**1,643**
Earnings per common share:				
Income from continuing operations attributable to shareholders[1)] per common share (in EUR) - diluted[2)]	0.49	0.77	1.08	1.39
Adjusted income from continuing operations attributable to shareholders[1)] per common share (EUR) - diluted	0.66	0.76	1.54	1.76

1) Shareholders refers to shareholders of Koninklijke Philips N.V.

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

Reconciliation of Net income to Adjusted EBITA in millions of EUR

	Philips Group	Diagnosis & Treatment	Connected Care & Health Informatic	Personal Health	Other
Q4 2018					
Net Income	678				
Discontinued operations, net of income taxes	44				
Income tax expense	(12)				
Investments in associates, net of income taxes					
Financial expenses	67				
Financial income	(9)				
Income from operations	**769**	**253**	**99**	**374**	**44**
Amortization of acquired intangible assets	92	41	16	32	3
EBITA	**861**	**294**	**114**	**405**	**47**
Restructuring and acquisition-related charges	99	56	26	7	10
Other items	11		11		1
Adjusted EBITA	**971**	**351**	**151**	**413**	**57**
January to December 2018					
Net Income	1,097				
Discontinued operations, net of income taxes	213				
Income tax expense	193				
Investments in associates, net of income taxes	2				
Financial expenses	264				
Financial income	(51)				
Income from operations	**1,719**	**600**	**179**	**1,045**	**(105)**
Amortization of intangible assets	347	97	46	126	79
EBITA	**2,066**	**696**	**225**	**1,171**	**(27)**
Restructuring and acquisition-related charges	258	142	59	26	31
Other items	41		56	18	(33)
Adjusted EBITA	**2,366**	**838**	**341**	**1,215**	**(28)**
Q4 2017					
Net Income	899				
Discontinued operations, net of income taxes	(423)				
Income tax expense	237				

Investments in associates, net of income taxes	2				
Financial expenses	40				
Financial income	(31)				
Income from operations	**723**	**247**	**159**	**370**	**(53)**
Amortization of intangible assets	66	19	10	34	4
EBITA	**790**	**266**	**169**	**404**	**(48)**
Restructuring and acquisition-related charges	107	45	33	8	21
Other items	(12)		(16)		4
Adjusted EBITA	**884**	**311**	**186**	**412**	**(24)**
January to December 2017					
Net Income	1,870				
Discontinued operations, net of income taxes	(843)				
Income tax expense	349				
Investments in associates, net of income taxes	4				
Financial expenses	263				
Financial income	(126)				
Income from operations	**1,517**	**488**	**206**	**1,075**	**(252)**
Amortization of intangible assets	260	55	44	135	26
Impairment of goodwill	9				9
EBITA	**1,787**	**543**	**250**	**1,211**	**(217)**
Restructuring and acquisition-related charges	316	151	91	11	64
Other items	50	22	31		(3)
Adjusted EBITA	**2,153**	**716**	**372**	**1,221**	**(157)**

Reconciliation of Net income to Adjusted EBITDA in millions of EUR

	Philips Group	Diagnosis & Treatment	Connected Care & Health Informatics	Personal Health	Other
Q4 2018					
Net Income	678				
Discontinued operations, net of income taxes	44				
Income tax expense	(12)				
Investments in associates, net of income taxes					
Financial expenses	67				
Financial income	(9)				
Income from operations	**769**	**253**	**99**	**374**	**44**
Depreciation, amortization and impairments of fixed assets	299	95	57	97	50
Restructuring and acquisition-related charges	99	56	26	7	10
Other items	11		11		1
Adding back impairment of fixed assets included in Restructuring and acquisition-related charges and Other items	(9)	(2)	(9)		1
Adjusted EBITDA	**1,170**	**403**	**183**	**478**	**106**
January to December 2018					
Net Income	1,097				
Discontinued operations, net of income taxes	213				
Income tax expense	193				
Investments in associates, net of income taxes	2				
Financial expenses	264				
Financial income	(51)				
Income from operations	**1,719**	**600**	**179**	**1,045**	**(105)**
Depreciation, amortization and impairments of fixed assets	1,089	302	176	367	244
Restructuring and acquisition-related charges	258	142	59	26	31
Other items	41		56	18	(33)
Adding back impairment of fixed assets included in Restructuring and acquisition-related charges and Other items	(15)	(7)	(9)		1
Adjusted EBITDA	**3,093**	**1,036**	**462**	**1,456**	**139**

Q4 2017					
Net Income	899				
Discontinued operations, net of income taxes	(423)				
Income tax expense	237				
Investments in associates, net of income taxes	2				
Financial expenses	40				
Financial income	(31)				
Income from operations	**723**	**247**	**159**	**370**	**(53)**
Depreciation, amortization and impairments of fixed assets	276	71	62	99	45
Impairment of goodwill					
Restructuring and acquisition-related charges	107	45	33	8	21
Other items	(12)		(16)		4
Adding back impairment of fixed assets included in					
Restructuring and acquisition-related charges and Other items	(22)	(2)	(16)	(1)	(3)
Adjusted EBITDA	**1,072**	**361**	**222**	**476**	**13**
January to December 2017					
Net Income	1,870				
Discontinued operations, net of income taxes	(843)				
Income tax expense	349				
Investments in associates, net of income taxes	4				
Financial expenses	263				
Financial income	(126)				
Income from operations	**1,517**	**488**	**206**	**1,075**	**(252)**
Depreciation, amortization and impairments of fixed assets	1,025	267	208	371	179
Impairment of goodwill	9				9
Restructuring and acquisition-related charges	316	151	91	11	64
Other items	50	22	31		(3)
Adding back impairment of fixed assets included in Restructuring and acquisition-related charges and Other items	(86)	(44)	(34)	(1)	(7)
Adjusted EBITDA	**2,832**	**884**	**502**	**1,456**	**(11)**

Composition of free cash flow in millions of EUR

	January to December	
	2017	**2018**
Cash flows from operating activities	1,870	1,780
Net capital expenditures	(685)	(796)
Purchase of intangible assets	*(106)*	*(123)*
Expenditures on development assets	*(333)*	*(298)*
Capital expenditures on property, plant and equipment	*(420)*	*(422)*
Proceeds from disposals of property, plant and equipment	*175*	*46*
Free cash flow	**1,185**	**984**

Philips statistics

Philips statistics in millions of EUR unless otherwise stated

	2017				2018			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Sales	4,035	4,294	4,148	5,303	3,942	4,288	4,306	5,586
Comparable sales growth[1)]	3%	4%	4%	5%	5%	4%	4%	5%
Comparable order intake[1)]	2%	8%	5%	7%	10%	9%	11%	10%
Gross margin	1,777	1,925	1,916	2,563	1,785	2,006	2,074	2,689
as a % of sales	*44.0%*	*44.8%*	*46.2%*	*48.3%*	*45.3%*	*46.8%*	*48.2%*	*48.1%*
Selling expenses	(1,024)	(1,091)	(1,046)	(1,236)	(1,041)	(1,162)	(1,045)	(1,251)
as a % of sales	*(25.4)%*	*(25.4)%*	*(25.2)%*	*(23.3)%*	*(26.4)%*	*(27.1)%*	*(24.3)%*	*(22.4)%*
G&A expenses	(151)	(146)	(134)	(146)	(130)	(157)	(165)	(178)
as a % of sales	*(3.7)%*	*(3.4)%*	*(3.2)%*	*(2.8)%*	*(3.3)%*	*(3.7)%*	*(3.8)%*	*(3.2)%*
R&D expenses	(431)	(421)	(451)	(461)	(433)	(425)	(415)	(487)
as a % of sales	*(10.7)%*	*(9.8)%*	*(10.9)%*	*(8.7)%*	*(11.0)%*	*(9.9)%*	*(9.6)%*	*(8.7)%*
Income from operations	243	252	299	723	201	298	451	769
as a % of sales	*6.0%*	*5.9%*	*7.2%*	*13.6%*	*5.1%*	*6.9%*	*10.5%*	*13.8%*
Net income	259	289	423	899	124	2	292	678
Income from continuing operations attributable to shareholders[2)] per common share in EUR - diluted[3)]	0.13	0.17	0.28	0.49	0.10	0.20	0.32	0.77
Adjusted income from continuing operations attributable to shareholders[2)] per common share in EUR - diluted[1)]	0.19	0.31	0.39	0.66	0.23	0.35	0.42	0.76
EBITA[1)]	304	329	364	790	263	430	512	861
as a % of sales	*7.5%*	*7.7%*	*8.8%*	*14.9%*	*6.7%*	*10.0%*	*11.9%*	*15.4%*
Adjusted EBITA[1)]	298	439	532	884	344	482	568	971
as a % of sales	*7.4%*	*10.2%*	*12.8%*	*16.7%*	*8.7%*	*11.2%*	*13.2%*	*17.4%*
Adjusted EBITDA[1)]	463	611	686	1,072	512	661	750	1,170
as a % of sales	*11.5%*	*14.2%*	*16.5%*	*20.2%*	*13.0%*	*15.4%*	*17.4%*	*20.9%*

1) Non-IFRS financial measure. Refer to Reconciliation of non-IFRS information, of this document.

2) Shareholders refers to shareholders of Koninklijke Philips N.V.

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

Philips statistics in millions of EUR unless otherwise stated

	2017				2018			
	January-March	**January-June**	**January-September**	**January-December**	**January-March**	**January-June**	**January-September**	**January-December**
Sales	4,035	8,329	12,477	17,780	3,942	8,229	12,535	18,121
Comparable sales growth[1)]	3%	3%	4%	4%	5%	5%	4%	5%
Comparable order intake[1)]	2%	5%	5%	6%	10%	10%	10%	10%
Gross margin	1,777	3,703	5,618	8,181	1,785	3,791	5,865	8,554
as a % of sales	*44.0%*	*44.5%*	*45.0%*	*46.0%*	*45.3%*	*46.1%*	*46.8%*	*47.2%*
Selling expenses	(1,024)	(2,115)	(3,162)	(4,398)	(1,041)	(2,203)	(3,248)	(4,500)
as a % of sales	*(25.4)%*	*(25.4)%*	*(25.3)%*	*(24.7)%*	*(26.4)%*	*(26.8)%*	*(25.9)%*	*(24.8)%*
G&A expenses	(151)	(297)	(431)	(577)	(130)	(288)	(453)	(631)
as a % of sales	*(3.7)%*	*(3.6)%*	*(3.5)%*	*(3.2)%*	*(3.3)%*	*(3.5)%*	*(3.6)%*	*(3.5)%*
R&D expenses	(431)	(852)	(1,303)	(1,764)	(433)	(858)	(1,273)	(1,759)
as a % of sales	*(10.7)%*	*(10.2)%*	*(10.4)%*	*(9.9)%*	*(11.0)%*	*(10.4)%*	*(10.2)%*	*(9.7)%*
Income from operations	243	495	794	1,517	201	499	950	1,719
as a % of sales	*6.0%*	*5.9%*	*6.4%*	*8.5%*	*5.1%*	*6.1%*	*7.6%*	*9.5%*
Net income	259	548	971	1,870	124	126	419	1,097
Income from continuing operations attributable to shareholders[2)] per common share in EUR - diluted[3)]	0.13	0.30	0.58	1.08	0.10	0.30	0.63	1.39
Adjusted income from continuing operations attributable to	0.19	0.49	0.88	1.54	0.23	0.58	1.00	1.76

shareholders[2)] per common share in EUR - diluted[1)]								
EBITA[1)]	304	634	997	1,787	263	694	1,205	2,066
as a % of sales	*7.5%*	*7.6%*	*8.0%*	*10.1%*	*6.7%*	*8.4%*	*9.6%*	*11.4%*
Adjusted EBITA[1)]	298	737	1,269	2,153	344	827	1,395	2,366
as a % of sales	*7.4%*	*8.8%*	*10.2%*	*12.1%*	*8.7%*	*10.0%*	*11.1%*	*13.1%*
Adjusted EBITDA[1)]	463	1,074	1,759	2,832	512	1,173	1,923	3,093
as a % of sales	*11.5%*	*12.9%*	*14.1%*	*15.9%*	*13.0%*	*14.3%*	*15.3%*	*17.1%*
Number of common shares outstanding (after deduction of treasury shares) at the end of period (in thousands)	920,276	937,045	936,861	926,192	914,826	931,496	931,540	914,184
Shareholders equity per common share in EUR	13.74	13.01	12.12	12.96	12.66	12.54	12.65	13.22
Net debt : group equity ratio[1)]	16:84	5:95	23:77	19:81	19:81	22:78	24:76	21:79
Total employees of continuing operations	70,430	71,477	73,324	73,951	73,845	75,283	76,531	77,400

1) Non-IFRS financial measure. Refer to Reconciliation of non-IFRS information, of this document.

2) Shareholders refers to shareholders of Koninklijke Philips N.V.

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

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