KONINKLIJKE PHILIPS NV
Form 6-K
July 27, 2015

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

July 27, 2015

KONINKLIJKE PHILIPS N.V.

(Exact name of registrant as specified in its charter)

Royal Philips

(Translation of registrant s name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

Breitner Center, Amstelplein 2, 1096 BC Amsterdam, The Netherlands

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F þ Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule101(b)(7): ¨

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ¨ No þ

Name and address of person authorized to receive notices

and communications from the Securities and Exchange Commission:

M.J. van Ginneken

Koninklijke Philips N.V.

Amstelplein 2

1096 BC Amsterdam The Netherlands

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This report comprises a copy of the following press release:

- Philips Q2 2015 Quarterly report and Semi-annual report , dated July 27, 2015.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf, by the undersigned, thereunto duly authorized at Amsterdam, on the 27th day of July 2015.

KONINKLIJKE PHILIPS N.V.

/s/ **M.J. van Ginneken**

(General Secretary)

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Philips reports Q2 comparable sales growth of 3% to EUR 6 billion and operational results of EUR 501 million

Second-quarter highlights

- Comparable sales growth of 3% particularly driven by improvements in North America, Central & Eastern Europe and India
- EBITA, excluding restructuring and acquisition-related charges and other items, amounted to EUR 501 million, or 8.4% of sales, compared to 7.9% of sales in Q2 2014
- EBITA totaled EUR 450 million, or 7.5% of sales, compared to 7.4% of sales in Q2 2014
- Net income amounted to EUR 274 million, compared to EUR 243 million in Q2 2014
- Free cash outflow was EUR 30 million, compared to a free cash inflow of EUR 214 million in Q2 2014
- Separation process is progressing well

Frans van Houten, CEO:

We are encouraged by the continuing improvement in our operational results in the second quarter of 2015, driven by strong comparable sales growth in Healthcare and strong margin improvements in Consumer Lifestyle and Lighting. While we are pleased with our progress overall and our Healthcare performance in the US in particular, we are increasingly concerned about the global macro-economic environment, particularly in China, Russia and Latin America.

In Healthcare, we achieved significant operational margin improvements in the quarter. This was largely offset by a sizable negative foreign exchange impact on the margin, further investment in growth opportunities, and costs related to considerable continued efforts to improve our quality management systems. We also note that the Chinese market is becoming more difficult, which resulted in a drop in orders. We are pleased with the production and shipment ramp-up at our Cleveland manufacturing facility, although more work remains to be done.

In Consumer Lifestyle, we delivered further operational results improvements, driven by excellent performance in Health & Wellness. As previously indicated, phasing of new product introductions drove exceptionally strong growth in the first quarter, leading to the lower growth rate in the second quarter. In aggregate, comparable sales growth in the first half of 2015 was well within the range of mid to high single-digit growth.

In Lighting, we continued to drive strong sales growth and improve profitability levels in our LED business. Simultaneously, we sustained our conventional lighting business attractive cash and profitability profile by pro-actively optimizing our manufacturing footprint and tight cost control, despite significant market decline. As the world leader in lighting, we are confident in our ability to lead the transformation in this industry.

Looking ahead, we continue to expect modest sales growth for 2015, as well as improved operational performance for the year. While we are concerned about the impact the more challenging global macro-economic environment is having on results, we expect continued operational performance improvement in 2016, reinforcing the underlying strength of our businesses. We intend to provide more details about the performance trajectory for HealthTech and Lighting Solutions at our Capital Markets Day on September 15.

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Accelerate! and Separation Update

Our Accelerate! program continues to drive improvements across the organization. In Healthcare, we optimized the end-to-end processes at one of our Volcano manufacturing facilities by running continuous-improvement Kaizen events that led to a more than 80% reduction in lead time and a 50% reduction in work-in-progress inventory for the improved lines. In Consumer Lifestyle, through our customer-centric innovation approach, we successfully launched a high-performance range of rice cookers in China with 30% faster time-to-market. This locally relevant value proposition drove strong customer preference, resulting in a 4-point market share increase since the launch. In Lighting, we reduced supply chain complexity and optimized the processes in the UK, which led to a 60% reduction in lead times for product configuration and delivery. This also drove a 50% increase in the total value of opportunities in the sales funnel and high-single-digit growth in orders volume.

Overhead cost savings amounted to EUR 60 million in the second quarter. The Design for Excellence (DfX) program generated EUR 84 million of incremental savings in procurement in the quarter. Our End2End productivity program achieved EUR 36 million in productivity improvements.

Philips expects to finalize the transition of the Lighting business into its own legal structure within the Philips Group by February 2016 in order to complete the separation in the first half of 2016. Philips had previously estimated that the separation costs would amount to EUR 300-400 million in 2015. Now that the Company is halfway through the separation process, it anticipates lower separation costs of EUR 200-300 million in 2015 and estimates that separation costs, including related restructuring, will amount to EUR 200-300 million in 2016. As previously stated, Philips is reviewing all strategic options for the Lighting business, including an initial public offering and a private sale.

As additional time is required for regulatory approvals, Philips is now working towards closing the sale of a majority interest in the combined LED components and Automotive lighting business to a consortium led by GO Scale Capital in the fourth quarter of 2015.

As of June 30, 2015, Philips had completed 59% of the EUR 1.5 billion share buy-back program.

Q2 2015 Financial and Operational Overview

Healthcare

Healthcare comparable sales grew 8% year-on-year. Excluding restructuring and acquisition-related charges and other items, EBITA margin increased by 20 basis points to 10.7% as strong operational improvements were largely offset by a significant negative currency impact. Currency-comparable order intake showed a mid-single-digit decline year-on-year, with double-digit growth in North America offset by declines in China, Latin America and Western Europe.

We are pleased that Healthcare continues to improve its sales growth and profitability, with North America making a significant and positive contribution as we increase order fulfillment out of our Cleveland facility. We again secured strategically important multi-year contracts, including a USD 500 million partnership with Westchester Medical Center Health Network. Highlighting our leadership in ultrasound imaging and advanced informatics, we introduced the Philips Lumify app-based ultrasound solution in the US. The solution combines a dedicated Philips ultrasound transducer, a compatible smart device and application, and secure cloud-enabled services with an innovative subscription model that will generate recurring revenues.

Consumer Lifestyle

Consumer Lifestyle comparable sales increased by 3% year-on-year, with double-digit growth at Health & Wellness and high-single-digit growth at Personal Care, in part offset by a decline at Domestic Appliances. EBITA margin, excluding restructuring and acquisition-related charges and other items, increased by 130 basis points to 10.7% year-on-year. The increase was largely driven by a positive mix effect and cost productivity, which were partially offset by negative currency effects.

Consumer Lifestyle continues to perform well. We posted double-digit growth in Oral Healthcare, expanding market share in North America, China and Europe. We expanded leadership positions in multiple geographies, including market share gains in Mother & Child Care. Our strategic focus on innovation is illustrated by the positive reception in North America, China, and Europe for our new Philips Sonicare toothbrushes as well as the Sonicare AirFloss Pro.

Lighting

Lighting comparable sales declined 3% year-on-year. Growth in LED lighting sales of 21% was offset by a decline in overall conventional lighting sales of 16%. LED sales now represent 40% of total Lighting sales, compared to 34% in Q2 2014. EBITA margin, excluding restructuring and acquisition-related charges and other items, improved by 140 basis points to 9.6% year-on-year, despite a significant negative currency impact on the margin. This increase was driven by the continued improvement in LED lighting margins, continued cost management, and ongoing pro-active optimization of the manufacturing footprint.

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We are pleased to have further improved our EBITA margin despite a sizable decline in comparable conventional lighting sales. We continue to take action to mitigate the impact of unfavorable end-market conditions in countries like China and underperformance in Professional Lighting Solutions North America. We are excited by the reception of our new, innovative products and systems in the market place. For example, we installed our intelligent connected LED system at a Carrefour supermarket in Lille, France, which will reduce the total lighting-based electricity consumption by 50% and enable our customer to provide location-based services, such as promotions, to shoppers smartphones. We also introduced the Warm Glow Clear LED bulb, which resembles traditional glass incandescent bulbs. We will outfit the New NY Bridge, which will replace the Tappan Zee bridge, with cloud-based connected LED lighting which features dynamic colorful effects that can be programmed remotely.

Innovation, Group & Services

Sales amounted to EUR 136 million in the second quarter of 2015, a decline from EUR 142 million in the second quarter of 2014, mainly because higher revenues from IP Royalties and Group Innovation were offset by the divestment of the OEM remote controls business. EBITA was a net cost of EUR 124 million, reflecting increased innovation investments and costs of EUR 27 million related to the separation of the Lighting business, compared to a net cost of EUR 68 million in the second quarter of 2014.

The fast growing Digital Pathology business is driving the digital transformation in pathology. As a world first, Philips has enabled Netherlands-based LabPON to become the first clinical pathology laboratory in the world to have transitioned completely to digital diagnosis. Philips ultrafast pathology scanner, information management system and services will improve laboratory efficiency, quality and service levels.

Conference call and audio webcast

Frans van Houten, CEO, and Ron Wirahadiraksa, CFO, will host a conference call for investors and analysts at 10:00 am CET to discuss the results. A live audio webcast of the conference call will be available on the Philips Investor Relations website.

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Philips Group

Net income

in millions of EUR unless otherwise stated

	Q2 2014	Q2 2015
Sales	4,969	5,974
EBITA	368	450
as a % of sales	*7.4%*	*7.5%*
EBIT	291	349
as a % of sales	*5.9%*	*5.8%*
Financial income (expenses)	(74)	(74)
Income taxes	(32)	(48)
Results investments in associates	3	(1)
Net income from continuing operations	188	226
Discontinued operations	55	48
Net income	243	274
Net income attributable to shareholders per common share (in EUR) - diluted	0.26	0.30

Net income

Net income was EUR 274 million, compared to EUR 243 million in Q2 2014. The increase was mainly due to improved earnings as a result of higher volumes.

EBITA amounted to EUR 450 million, or 7.5% of sales, compared to EUR 368 million, or 7.4% of sales, in Q2 2014. Restructuring and acquisition-related charges amounted to EUR 24 million, mainly related to the acquisition of Volcano. EBITA also included EUR 27 million of charges related to the separation of the Lighting business. Restructuring and acquisition-related charges in Q2 2014 amounted to EUR 26 million.

EBITA, excluding restructuring and acquisition-related charges and other items, was EUR 501 million, or 8.4% of sales, compared to EUR 394 million, or 7.9% of sales, in Q2 2014. Currency effects had an impact on EBITA margin of -1.4 percentage points of sales.

Tax charges of EUR 48 million were EUR 16 million higher than in Q2 2014, mainly due to higher earnings. The impact of the retrospective application of favorable tax regulations relating to R&D investments in Q2 2014 was offset by the release of tax provisions in Q2 2015.

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Sales by sector

in millions of EUR unless otherwise stated

	Q2 2014	Q2 2015	% change nominal	% change comparable
Healthcare	2,137	2,754	*29%*	*8%*
Consumer Lifestyle	1,073	1,248	*16%*	*3%*
Lighting	1,617	1,836	*14%*	*(3)%*
Innovation, Group & Services	142	136	*(4)%*	*5%*
Philips Group	**4,969**	**5,974**	***20%***	***3%***

Sales per geographic cluster

in millions of EUR unless otherwise stated

	Q2 2014	Q2 2015	% change nominal	% change comparable
Western Europe	1,283	1,351	*5%*	*1%*
North America	1,570	2,032	*29%*	*3%*
Other mature geographies	382	474	*24%*	*9%*
Total mature geographies	3,235	3,857	*19%*	*3%*
Growth geographies	1,734	2,117	*22%*	*3%*
Philips Group	**4,969**	**5,974**	***20%***	***3%***

Sales per sector

Group sales amounted to EUR 5,974 million, an increase of 3% on a comparable basis. Group nominal sales increased by 20%, mainly due to positive currency effects and portfolio changes.

Healthcare comparable sales grew 8% year-on-year. Imaging Systems achieved strong double-digit growth, Patient Care & Monitoring Solutions posted mid-single-digit growth, and Healthcare Informatics, Solutions & Services as well as Customer Services recorded low-single-digit growth.

Consumer Lifestyle comparable sales increased by 3%. Health & Wellness achieved double-digit growth, while Personal Care posted high-single-digit growth and Domestic Appliances recorded a mid-single-digit decline.

Lighting comparable sales showed a 3% decline year-on-year. Professional Lighting Solutions posted a low-single-digit decline. Light Sources & Electronics recorded a mid-single-digit decline and Consumer Luminaires posted a high-single-digit decline.

Sales per geographic cluster

Growth geographies recorded 3% comparable sales growth year-on-year, driven by Consumer Lifestyle and Healthcare. Double-digit growth in Central & Eastern Europe and India was partly offset by a decline in China and Russia & Central Asia.

Comparable sales in mature geographies increased 3% year-on-year. Western Europe and North America posted low-single-digit growth. Other mature geographies achieved high-single-digit growth, mainly driven by solid growth in Japan and Australia.

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EBITA

in millions of EUR unless otherwise stated

	Q2 2014		Q2 2015	
	amount	%	amount	%
Healthcare	225	*10.5%*	275	*10.0%*
Consumer Lifestyle	100	*9.3%*	135	*10.8%*
Lighting	111	*6.9%*	164	*8.9%*
Innovation, Group & Services	(68)		(124)	
Philips Group	**368**	***7.4%***	**450**	***7.5%***

EBITA excluding restructuring and acquisition-related charges and other items

in millions of EUR unless otherwise stated

	Q2 2014		Q2 2015	
	amount	%	amount	%
Healthcare	224	10.5%	296	*10.7%*
Consumer Lifestyle	101	*9.4%*	134	*10.7%*
Lighting	133	*8.2%*	176	*9.6%*
Innovation, Group & Services	(64)		(105)	
Philips Group	**394**	***7.9%***	**501**	***8.4%***

EBIT

in millions of EUR unless otherwise stated

	Q2 2014	Q2 2015
Healthcare	186	219
Consumer Lifestyle	86	121
Lighting	90	136
Innovation, Group & Services	(71)	(127)
Philips Group	**291**	**349**
as a % of sales	***5.9%***	***5.8%***

Earnings per sector

Healthcare EBITA increased by EUR 50 million year-on-year. Excluding restructuring and acquisition-related charges and other items, EBITA amounted to EUR 296 million, or 10.7% of sales, compared to EUR 224 million, or 10.5% of sales, in Q2 2014. The increase was largely driven by higher volumes, which were partly offset by negative currency impacts, an increase in Quality & Regulatory spend, and higher planned expenditure for growth initiatives at Healthcare Informatics, Solutions & Services.

Consumer Lifestyle EBITA increased by EUR 35 million year-on-year. Excluding restructuring and acquisition-related charges, EBITA was EUR 134 million, or 10.7% of sales, compared to EUR 101 million, or 9.4% of sales, in Q2 2014. The improvement was mainly due to product mix and cost productivity.

Lighting EBITA increased by EUR 53 million year-on-year. EBITA, excluding restructuring and acquisition-related charges, was EUR 176 million, or 9.6% of sales, compared to EUR 133 million, or 8.2% of sales, in Q2 2014. The increase was mainly driven by cost productivity at Light Sources & Electronics and Professional Lighting Solutions.

Innovation, Group & Services EBITA decreased by EUR 56 million year-on-year. Excluding restructuring and acquisition-related charges and other items, EBITA was a net cost of EUR 105 million, compared to a net cost of EUR 64 million in Q2 2014. The net cost increase was mainly due to higher Group and Regional costs, higher costs in the IT Service Units, and investments in emerging business areas, partly offset by higher licensing revenue in IP Royalties.

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Cash balance

in millions of EUR

	Q2 2014	Q2 2015
Beginning cash balance	**1,727**	**1,667**
Free cash flow	214	(30)
Net cash flow from operating activities	*410*	*186*
Net capital expenditures	*(196)*	*(216)*
Acquisitions and divestments of businesses	(57)	26
Other cash flow from investing activities	(72)	(47)
Treasury shares transactions	(235)	(107)
Changes in debt	10	4
Dividend paid	(248)	(253)
Other cash flow items	(10)	(51)
Net cash flow discontinued operations	106	(74)
Ending balance	**1,435**	**1,135**

Cash flows from operating activities

in millions of EUR

Gross capital expenditures[1)]

in millions of EUR

1) Capital expenditures on property, plant and equipment only

Cash balance

The cash balance decreased during Q2 2015 to EUR 1,135 million, with a free cash outflow of EUR 30 million, which included an outflow of EUR 73 million related to settlement payments in connection with the Cathode Ray Tube (CRT) antitrust litigation. The cash balance was also impacted by the use of EUR 107 million in treasury shares transactions, primarily for the share buy-back program, and by EUR 253 million related to cash dividend. Q2 2015 also included a net cash outflow of EUR 74 million, mainly related to the operations of the combined businesses of Lumileds and Automotive.

In Q2 2014 the cash balance decreased to EUR 1,435 million, with a free cash inflow of EUR 214 million, which included an outflow of EUR 31 million in the form of a pension contribution related to the de-risking of the Dutch pension plan. The cash balance was impacted by a EUR 110 million investment outflow related to the former TP Vision joint venture, EUR 248 million of cash dividend, as well as the use of EUR 235 million in treasury shares transactions, primarily for the share buy-back program. Q2 2014 also included a net cash inflow of EUR 106 million from discontinued operations, mainly related to the sale of WOOX Innovations and the operations of the combined businesses of Lumileds and Automotive.

Cash flows from operating activities

Operating activities resulted in a cash inflow of EUR 186 million, compared to an inflow of EUR 410 million in Q2 2014. An increase in working capital was partly offset by higher earnings.

Gross capital expenditures

Gross capital expenditures on property, plant and equipment were EUR 10 million above the level of Q2 2014, with increases in the operating sectors and higher investments at IG&S.

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Inventories

in millions of EUR unless otherwise stated

1) Sales is calculated over the preceding 12 months

2) Inventories as a % of sales excludes inventories and sales related to acquisitions, divestments and discontinued operations

Net debt and Group equity

in billions of EUR unless otherwise stated

Number of employees

in FTEs

1) Number of employees excludes discontinued operations. Discontinued operations had 8,689 employees in Q2 2015 (Q1 2015: 8,334, Q2 2014: 8,256).

2) Number of employees includes 13,796 third-party workers in Q2 2015 (Q1 2015: 13,930, Q2 2014: 12,483).

Inventories

Inventory value at the end of Q2 2015 was EUR 4.0 billion and amounted to 17.0% of sales.

Compared to Q2 2014, inventories as a percentage of sales increased by 1.1 percentage points. The increase was mainly driven by currency impacts.

Net debt and Group equity

At the end of Q2 2015, Philips had a net debt position of EUR 4.5 billion, compared to EUR 2.3 billion at the end of Q2 2014. During the quarter, the net debt position increased by EUR 427 million, reflecting a EUR 105 million decrease in debt and a EUR 532 million decrease in liquidity.

Group equity remained flat in the quarter at EUR 11.5 billion.

Employees

The number of employees increased by 1,339 year-on-year. Reductions in headcount as a result of the industrial footprint rationalization at Lighting were more than offset by the GLC acquisition in the Kingdom of Saudi Arabia, the Volcano acquisition, and an increase in third-party workers.

The number of employees decreased by 1,719 compared to Q1 2015, largely due to industrial footprint rationalization at Lighting.

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Healthcare

Key data

in millions of EUR unless otherwise stated

	Q2 2014	Q2 2015
Sales	2,137	2,754
Sales growth		
% nominal	(10)%	29%
% comparable	(4)%	8%
EBITA	225	275
as a % of sales	*10.5%*	*10.0%*
EBIT	186	219
as a % of sales	*8.7%*	*8.0%*
Net operating capital (NOC)	7,457	9,213
Number of employees (FTEs)[1)]	37,157	39,523

1) Number of employees includes 2,898 third-party workers in Q2 2015 (Q2 2014: 2,599).

Sales

in millions of EUR

EBITA

in millions of EUR unless otherwise stated

Business highlights

Philips and Westchester Medical Center Health Network entered into a multi-year, USD 500 million managed services partnership to transform and improve healthcare for 3 million patients. The agreement includes consulting services, medical technologies and clinical informatics solutions, and aims to improve all care areas, including radiology, cardiology, neurology, oncology and pediatrics.

Continuing their focus on long-term collaboration to optimize hospital care and operational performance, Philips and the Sint Maartenskliniek in the Netherlands extended their existing 10-year managed services partnership by 5 years. The agreement includes ultrasound and healthcare IT services in addition to current access to radiology solutions.

Working together to address the shift toward value-based care, Philips and Banner Health in the US announced the successful results of their at-home Intensive Ambulatory Care pilot program for patients with multiple chronic conditions. Through the joint telehealth program, Banner Health achieved 27% cost savings, driven primarily by a 45% reduction in hospital re-admissions.

Philips introduced its Lumify app-based ultrasound solution in the US. Combining a dedicated Philips ultrasound transducer, a compatible smart device and app, and secure cloud-enabled services, Lumify has been designed to enable faster diagnosis, improve patient satisfaction and reduce costs, while generating recurring revenues.

Exploring locally relevant solutions, the Rhiza Foundation and its technology partner Philips launched a mobile clinic pilot project focused on delivering basic primary healthcare, mother and child healthcare and dental care in particular to thousands of people living in townships in South Africa who have little or no access to healthcare facilities.

Financial performance

Currency-comparable order intake showed a mid-single-digit decline year-on-year. Healthcare Informatics, Solutions & Services achieved double-digit growth and Patient Care & Monitoring Solutions posted high-single-digit growth, while Imaging Systems recorded a double-digit decline.

Currency-comparable order intake in mature geographies showed high-single-digit growth. North America achieved double-digit growth and other mature geographies posted high-single-digit growth, while Western Europe posted a low-single-digit decline, following a strong first quarter. Growth geographies recorded a double-digit decline, mainly due to double-digit declines in China and Latin America, reflecting deteriorating market conditions.

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EBITA excluding restructuring and acquisition-related charges and other items

in millions of EUR unless otherwise stated

Comparable sales grew 8% year-on-year. Imaging Systems achieved strong double-digit growth, Patient Care & Monitoring Solutions posted mid-single-digit growth, and Healthcare Informatics, Solutions & Services and Customer Services recorded low-single-digit growth.

Comparable sales in mature geographies showed mid-single-digit growth. Other mature geographies achieved strong double-digit growth and Western Europe and North America posted mid-single-digit growth. Growth geographies recorded double-digit growth.

EBITA amounted to EUR 275 million, or 10.0% of sales, compared to EUR 225 million, or 10.5% of sales, in Q2 2014. Restructuring and acquisition-related charges amounted to EUR 21 million, mainly related to the Volcano acquisition. Restructuring and acquisition-related charges in Q2 2014 amounted to a net release of EUR 1 million.

Excluding restructuring and acquisition-related charges and other items, EBITA amounted to EUR 296 million, or 10.7% of sales, compared to EUR 224 million, or 10.5% of sales, in Q2 2014. The increase was largely driven by higher volumes, which were partly offset by negative currency impacts, an increase in Quality & Regulatory spend, and higher planned expenditure for growth initiatives at Healthcare Informatics, Solutions & Services.

Net operating capital, excluding a currency translation effect of EUR 1,317 million, increased by EUR 439 million year-on-year. This increase was largely driven by the Volcano acquisition, partly offset by higher provisions.

Inventories as a percentage of sales* increased by 2.0 percentage points year-on-year, mainly driven by currency impacts and production ramp-up at the Cleveland facility.

Compared to Q2 2014, the number of employees increased by 2,366, largely driven by the Volcano acquisition. Compared to Q1 2015, the number of employees increased by 622, mainly due to increases in production at Imaging Systems and Patient Care & Monitoring Solutions.

Miscellaneous

Restructuring and acquisition-related charges in Q3 2015 are expected to total approximately EUR 35 million.

* Inventories as a % of sales excludes inventories and sales related to acquisitions, divestments and discontinued operations

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Consumer Lifestyle

Key data

in millions of EUR unless otherwise stated

	Q2 2014	Q2 2015
Sales	1,073	1,248
Sales growth		
% nominal	(1)%	16%
% comparable	7%	3%
EBITA	100	135
as a % of sales	*9.3%*	*10.8%*
EBIT	86	121
as a % of sales	*8.0%*	*9.7%*
Net operating capital (NOC)	1,271	1,674
Number of employees (FTEs)[1)]	16,886	16,547

1) Number of employees includes 4,041 third-party workers in Q2 2015 (Q2 2014: 3,953).

Sales

in millions of EUR

EBITA

in millions of EUR unless otherwise stated

Business highlights

Philips Oral Healthcare delivered double-digit growth, expanding the category and increasing Philips market share in North America, China and Europe. Sales growth was driven by the Philips Sonicare DiamondClean, Series 2 and Series 3 toothbrushes and the newest innovation in interdental cleaning, the Philips Sonicare AirFloss Pro.

A diversified portfolio of innovations delivered results for Male Grooming in the quarter, with Asian markets particularly strong. In Japan, the ongoing success of the premium Philips Shaver series 9000 drove market share, as did continued demand for Philips VisaPure for Men. In South Korea, Philips Shaver series 7000, a proposition for sensitive skin, is selling well, while in India the launch of affordable beard trimmers in tier 2 and 3 cities drove strong growth.

Philips Avent further built its leadership position in mother and child care, delivering double-digit growth, with exceptional performance in North America and China. Sales were driven by the continued expansion of infant and toddler feeding solutions that support healthy development, including the Philips Avent Natural, Classic+ and new cups range.

Partnerships with leading beauty retailers, global propositions and locally relevant innovations continue to drive strong growth in Beauty. The Philips Lumea hair-removal device performed well in European markets. In India, an affordable hair straightener was successfully launched, recruiting more young women to home hairstyling, while Chinese women responded enthusiastically to new haircare innovations, including Philips EasyShine Ionic styling brushes.

Financial performance

Comparable sales increased by 3% year-on-year. Health & Wellness achieved double-digit growth, while Personal Care posted high-single-digit growth and Domestic Appliances recorded a mid-single-digit decline. As previously indicated, phasing of new product introductions drove exceptionally strong growth in the first quarter, leading to the lower growth rate in the second quarter.

Comparable sales in growth geographies showed mid-single-digit growth. Mature geographies recorded low-single-digit growth. North America and other mature geographies recorded low-single-digit growth, while Western Europe was in line with Q2 2014.

EBITA amounted to EUR 135 million, or 10.8% of sales, compared to EUR 100 million, or 9.3% of sales, in Q2 2014. EBITA included restructuring and acquisition-related charges amounting to a net release of EUR 1 million, compared with a cost of EUR 1 million in Q2 2014.

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EBITA excluding restructuring and acquisition-related charges and other items

in millions of EUR unless otherwise stated

Excluding restructuring and acquisition-related charges, EBITA was EUR 134 million, or 10.7% of sales, compared to EUR 101 million, or 9.4% of sales, in Q2 2014. The improvement was mainly due to product mix and cost productivity.

Net operating capital, excluding a currency translation effect of EUR 181 million, increased by EUR 222 million year-on-year. The increase was largely driven by higher working capital.

Inventories as a percentage of sales* were broadly in line with Q2 2014.

The number of employees decreased by 339 compared to Q2 2014, mainly due to reductions in Asia Pacific. Compared to Q1 2015, the number of employees decreased by 501, largely due to a reduction in third-party workers at Domestic Appliances and Personal Care.

Miscellaneous

Restructuring and acquisition-related charges in Q3 2015 are expected to be less than EUR 5 million.

* Inventories as a % of sales excludes inventories and sales related to acquisitions, divestments and discontinued operations

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Lighting

(Excluding the combined businesses of Lumileds and Automotive)

Key data

in millions of EUR unless otherwise stated

	Q2 2014	Q2 2015
Sales	1,617	1,836
Sales growth		
% nominal	(8)%	14%
% comparable	(2)%	(3)%
EBITA	111	164
as a % of sales	*6.9%*	*8.9%*
EBIT	90	136
as a % of sales	*5.6%*	*7.4%*
Net operating capital (NOC)	4,558	4,070
Number of employees (FTEs)[1)]	37,191	35,962

1) Number of employees includes 5,149 third-party workers in Q2 2015 (Q2 2014: 4,556)

Sales

in millions of EUR

EBITA

in millions of EUR unless otherwise stated

Business highlights

In Lille, France, Carrefour will install 2.5 kilometers of Philips LED lighting that uses light to transmit a location signal to a shopper s smartphone, triggering an app to provide location-based services. This enables Carrefour to provide new services to its shoppers, such as helping them to navigate and find promotions across the 7,800 square-meter shop floor. It is the world s largest connected lighting indoor positioning system for retail and reduces the total lighting-based electricity consumption of the hypermarket by 50%.

Philips will provide a connected LED lighting system for the New NY Bridge in New York, which will replace the Tappan Zee bridge. It will combine roadway and architectural lighting, an industry first, on what will be the most technologically advanced bridge in North America. The system will feature remotely programmed lights that produce dynamic colorful effects and use Philips ActiveSite and Philips CityTouch cloud-based remote monitoring and management systems.

In India, Philips won an order for 15 million 7W LED lamps from Energy Efficiency Services Limited, as part of the Indian government s initiative to promote energy-efficient lighting for households and help reduce electricity consumption at peak periods.

Based on consumer insights, Philips successfully introduced the Warm Glow Clear LED bulb, which mimics traditional bulbs, in North America. Similar in light quality and shape, it now also turns to a classic warm light when dimmed. The lamp will become available in other regions later this year, for professional as well as consumer use.

Financial performance

Comparable sales showed a 3% decline year-on-year. Professional Lighting Solutions posted a low-single-digit decline. Light Sources & Electronics recorded a mid-single-digit decline and Consumer Luminaires posted a high-single-digit decline.

Comparable sales in mature geographies showed a low-single-digit decline compared to Q2 2014. Growth geographies recorded a mid-single-digit decline, mainly due to China.

LED-based sales grew 21% year-on-year and now represent 40% of total Lighting sales, compared to 34% in Q2 2014. Conventional-based sales declined 16% year-on-year and now represent 60% of total Lighting sales, compared to 66% in Q2 2014.

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EBITA excluding restructuring and acquisition-related charges and other items

in millions of EUR unless otherwise stated

EBITA amounted to EUR 164 million, or 8.9% of sales, compared to EUR 111 million, or 6.9% of sales, in Q2 2014. Restructuring and acquisition-related charges amounted to EUR 12 million, compared to EUR 22 million in Q2 2014.

EBITA, excluding restructuring and acquisition-related charges, was EUR 176 million, or 9.6% of sales, compared to EUR 133 million, or 8.2% of sales, in Q2 2014. The increase was mainly driven by improved cost productivity at Light Sources & Electronics and Professional Lighting Solutions.

Net operating capital, excluding a currency translation effect of EUR 576 million, decreased by EUR 1,064 million year-on-year. The decrease was mainly due to the reclassification of the combined businesses of Lumileds and Automotive as assets held for sale in Q4 2014.

Inventories as a percentage of sales* increased 1.2 percentage points year-on-year, mainly due to currency impacts.

Compared to Q2 2014, the number of employees decreased by 1,229, reflecting a decrease from industrial footprint rationalization, partially offset by the GLC acquisition in the Kingdom of Saudi Arabia. Compared to Q1 2015, the number of employees decreased by 2,064, mainly driven by a seasonal decrease at production sites.

Miscellaneous

Restructuring and acquisition-related charges in Q3 2015 are expected to total approximately EUR 30 million, mainly driven by industrial footprint rationalization.

* Inventories as a % of sales excludes inventories and sales related to acquisitions, divestments and discontinued operations

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Additional information on the combined businesses of Lumileds and Automotive

The combined businesses of Lumileds and Automotive are reported as discontinued operations in the Consolidated statements of income and cash flows. As a result, Lumileds and Automotive sales and EBITA are no longer included in the Lighting and Group results of continuing operations. The applicable assets and liabilities of the combined businesses are reported under Assets and Liabilities classified as held for sale in the Condensed consolidated balance sheets as per November 2014.

As announced on March 31, 2015, Philips has signed an agreement with a consortium led by GO Scale Capital, through which they will acquire an 80.1% interest in Philips combined LED components and Automotive lighting business, with Philips retaining the remaining 19.9%* interest. As additional time is required for regulatory approvals, Philips is now working towards closing the sale in the fourth quarter of 2015.

In Q2 2015, the net income of discontinued operations attributable to the combined businesses of Lumileds and Automotive increased to EUR 49 million from EUR 32 million in Q2 2014. EBITA in Q2 2015 included disentanglement costs of EUR 14 million, compared to nil in Q2 2014.

Overhead and other indirect costs of Philips that were previously allocated to Lumileds and Automotive and were not affected by the transfer to Discontinued operations have been allocated to Lighting and IG&S (Former net costs allocated to Lighting and IG&S).

* including a 34% interest in Lumileds US operations

Results of combined Lumileds and Automotive businesses

in millions of EUR unless otherwise stated

	Q2 2014	Q2 2015
EBITA as previously reported in Lighting	28	16
Adjustment of amortization and depreciation following assets held for sale reclassification		49
Disentanglement costs		(14)
Former net costs allocated to Lighting		(1)
Former net costs allocated to IG&S	19	20
Amortization of other intangibles added back	(6)	
EBIT of discontinued operations	**41**	**70**
Income taxes	(9)	(21)

Net income of discontinued operations	**32**	**49**
Number of employees (FTEs)	8,256	8,689

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Innovation, Group & Services

Key data

in millions of EUR unless otherwise stated

	Q2 2014	Q2 2015
Sales	142	136
Sales growth		
% nominal	3%	(4)%
% comparable	3%	5%
EBITA of:		
Group Innovation	(47)	(62)
IP Royalties	62	70
Group and Regional Costs	(37)	(85)
Accelerate! investments	(32)	(29)
Pensions	(3)	(4)
Service Units and Other	(11)	(14)
EBITA	(68)	(124)
EBIT	(71)	(127)
Net operating capital (NOC)	(2,786)	(3,560)
Number of employees (FTEs)[1)]	13,344	13,885

1) Number of employees includes 1,709 third-party workers in Q2 2015 (Q2 2014: 1,375)

Sales

in millions of EUR

EBITA

in millions of EUR

Business highlights

Philips entered into a five-year research alliance with the Massachusetts Institute of Technology (MIT) to develop breakthrough innovations in HealthTech and Connected Lighting. Philips will move its North American research center to Cambridge, Mass. to engage with the area s rich innovation ecosystem.

Applying the deep consumer insights of Philips unique, multi-disciplinary design team to professional healthcare, Philips has expanded its healthcare experience consultancy services with co-creation workshops with the C-suite of existing and prospective customers. The first series of workshops successfully demonstrated the value that Philips can create for its customers, for example in terms of productivity improvements and patient satisfaction, reinforcing customer intimacy.

As a pioneer and leader in the emerging digital pathology market, Philips has enabled Netherlands- based LabPON to become the first clinical pathology laboratory in the world to have transitioned completely to digital diagnosis. Philips ultrafast pathology scanner, information management system and services will improve laboratory efficiency, quality and service levels.

For the second consecutive year, Philips received the Champion for Change award from Practice Greenhealth, North America s leading membership and networking organization for institutions in the healthcare community, in recognition of its green health practices and sustainability initiatives with its customers and across the organization.

Financial performance

Sales decreased from EUR 142 million in Q2 2014 to EUR 136 million. Higher revenue from IP Royalties and Group Innovation was offset by lower sales in the OEM remote controls business following its divestment.

EBITA amounted to a net cost of EUR 124 million, compared to a net cost of EUR 68 million in Q2 2014. EBITA included EUR 27 million of charges related to the separation of the Lighting business. Restructuring charges amounted to a net release of EUR 8 million, compared to a cost of EUR 4 million in Q2 2014.

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EBITA excluding restructuring and acquisition-related charges and other items

in millions of EUR

Excluding restructuring and acquisition-related charges and other items, EBITA was a net cost of EUR 105 million, compared to a net cost of EUR 64 million in Q2 2014. The net cost increase was mainly due to higher Group and Regional costs, higher costs in the IT Service Units, and investments in emerging business areas, partly offset by higher licensing revenue in IP Royalties.

Net operating capital, excluding a currency translation effect of EUR 314 million, decreased by EUR 460 million year-on-year, mainly due to a decrease in working capital.

Compared to Q2 2014, the number of employees increased by 541, primarily driven by growth at the Philips Innovation Campus in Bangalore. The number of employees increased by 224 compared to Q1 2015.

Miscellaneous

Restructuring and separation charges in Q3 2015 are expected to total approximately EUR 85 million.

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Philips statistics

in millions of EUR unless otherwise stated

	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	4,692	4,969	5,194	6,536	5,339	5,974		
comparable sales growth %	(1)%	(1)%	0%	(2)%	2%	3%		
Gross margin	1,900	2,075	1,702	2,529	2,116	2,495		
as a % of sales	*40.5%*	*41.8%*	*32.8%*	*38.7%*	*39.6%*	*41.8%*		
Selling expenses	(1,166)	(1,214)	(1,245)	(1,499)	(1,341)	(1,440)		
as a % of sales	*(24.9)%*	*(24.4)%*	*(24.0)%*	*(22.9)%*	*(25.1)%*	*(24.1)%*		
G&A expenses	(167)	(176)	(191)	(213)	(214)	(224)		
as a % of sales	*(3.6)%*	*(3.5)%*	*(3.7)%*	*(3.3)%*	*(4.0)%*	*(3.7)%*		
R&D expenses	(396)	(400)	(372)	(467)	(436)	(483)		
as a % of sales	*(8.4)%*	*(8.0)%*	*(7.2)%*	*(7.1)%*	*(8.2)%*	*(8.1)%*		
EBIT	172	291	(139)	162	139	349		
as a % of sales	*3.7%*	*5.9%*	*(2.7)%*	*2.5%*	*2.6%*	*5.8%*		
EBITA	253	368	(62)	262	230	450		
as a % of sales	*5.4%*	*7.4%*	*(1.2)%*	*4.0%*	*4.3%*	*7.5%*		
Net income (loss)	137	243	(103)	134	100	274		
Net income (loss) attributable to shareholders	138	242	(104)	139	99	272		
Net income (loss) - shareholders per common share in EUR - diluted	0.15	0.26	(0.11)	0.15	0.11	0.30		

	2014				2015			
	January-March	January-June	January-September	January-December	January-March	January-June	January-September	January-December
Sales	4,692	9,661	14,855	21,391	5,339	11,313		
comparable sales growth %	(1)%	(1)%	(1)%	(1)%	3%	3%		
Gross margin	1,900	3,975	5,677	8,206	2,116	4,611		
as a % of sales	*40.5%*	*41.1%*	*38.2%*	*38.4%*	*39.6%*	*40.8%*		
	(1,166)	(2,380)	(3,625)	(5,124)	(1,341)	(2,781)		

Selling expenses						
as a % of sales	*(24.9)%*	*(24.6)%*	*(24.4)%*	*(24.0)%*	*(25.1)%*	*(24.6)%*
G&A expenses	(167)	(343)	(534)	(747)	(214)	(438)
as a % of sales	*(3.6)%*	*(3.6)%*	*(3.6)%*	*(3.5)%*	*(4.0)%*	*(3.9)%*
R&D expenses	(396)	(796)	(1,168)	(1,635)	(436)	(919)
as a % sales	*(8.4)%*	*(8.2)%*	*(7.9)%*	*(7.6)%*	*(8.2)%*	*(8.1)%*
EBIT	172	463	324	486	139	488
as a % of sales	*3.7%*	*4.8%*	*2.2%*	*2.3%*	*2.6%*	*4.3%*
EBITA	253	621	559	821	230	680
as a % of sales	*5.4%*	*6.4%*	*3.8%*	*3.8%*	*4.3%*	*6.0%*
Net income	137	380	277	411	100	374
Net income attributable to shareholders	138	380	276	415	99	371
Net income - shareholders per common share in EUR - diluted	0.15	0.41	0.30	0.45	0.11	0.40
Net income from continuing operations as a % of shareholders equity	*4.0%*	*5.7%*	*2.0%*	*2.0%*	*2.4%*	*5.3%*
Number of common shares outstanding (after deduction of treasury shares) at the end of period (in thousands)	913,485	923,933	919,973	914,389	910,616	925,277
Shareholders equity per	12.06	11.63	11.86	11.88	12.50	12.32

common share in EUR						
Inventories as a % of sales [1,2]	*14.8%*	*15.9%*	*17.1%*	*15.3%*	*17.3%*	*17.0%*
Net debt : group equity ratio	15:85	18:82	19:81	17:83	26:74	28:72
Net operating capital	10,381	10,500	10,841	8,838		