

FANNING THOMAS A  
Form 4  
February 14, 2018

**FORM 4** UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

OMB APPROVAL

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**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
FANNING THOMAS A

2. Issuer Name and Ticker or Trading Symbol  
SOUTHERN CO [SO]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)

30 IVAN ALLEN JR. BLVD. NW

3. Date of Earliest Transaction (Month/Day/Year)  
02/12/2018

\_\_\_\_ Director \_\_\_\_\_ 10% Owner  
 Officer (give title below) \_\_\_\_\_ Other (specify below)

President, CEO & Chairman

(Street)

4. If Amendment, Date Original Filed (Month/Day/Year)

6. Individual or Joint/Group Filing (Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

ATLANTA, GA 30308

(City) (State) (Zip)

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(D)	Price
Southern Company Common Stock <sup>(1)</sup>	02/12/2018		A		128,089	A	\$ 0
Southern Company Common Stock <sup>(2)</sup>	02/12/2018		F		57,529	D	\$ 44.68
Southern Company Common Stock <sup>(3)</sup>	02/12/2018		M		18,643	A	\$ 0

Southern  
 Company  
 Common  
 Stock <sup>(2)</sup> 02/12/2018 F 5,651 D \$ 44.68 139,828.4085 D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
*(e.g., puts, calls, warrants, options, convertible securities)*

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	Amount or Number of Shares
				Code V (A) (D)	(A) (D)	Date Exercisable Expiration Date	Title	
Performance Restricted Stock Units <sup>(4)</sup>	\$ 0	02/12/2018		M	17,828	<sup>(4)</sup> <sup>(4)</sup>	Southern Company Common Stock	17,828

## Reporting Owners

**Reporting Owner Name / Address**

**Relationships**

Director 10% Owner Officer Other

FANNING THOMAS A  
 30 IVAN ALLEN JR. BLVD. NW  
 ATLANTA, GA 30308

President, CEO & Chairman

## Signatures

/s/ Laura O. Hewett, Attorney-in-Fact for Thomas A. Fanning

02/14/2018

         \*\*Signature of Reporting Person

        Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
  - \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Shares acquired upon vesting of performance share units under Company's Performance Share Program for the 2015-2017 award. The Compensation and Management Succession Committee certified performance on February 12, 2018. Includes accrued dividend

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equivalent units.

- (2) Shares withheld to satisfy required state and federal tax withholding requirements.
- (3) Shares acquired upon vesting of first 1/3 of performance restricted stock units granted on February 13, 2017. The Compensation and Management Succession Committee certified performance on February 12, 2018. Includes 815 accrued dividend equivalent units.

Represents performance restricted stock units granted on February 13, 2017. The Compensation and Management Succession Committee certified performance on February 12, 2018 and the first 1/3 vested. The remaining award will vest 1/3 in 2019 and 1/3 in 2020. Each

- (4) performance restricted stock unit represents the right to receive, at settlement, one share of common stock. Additional units will be acquired with deemed dividends. Shares will be withheld upon vesting to satisfy tax requirements.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. nt; line-height: 17px !important; margin: 0 5px 1px 5px; margin-top: 0; min-height: 11px; position: relative;">Divestments and transfers to assets classified as held for sale

(1,878)

(3)

Translation differences and other

(836)

310

**Balance as of December 31:**

Cost

9,074

9,908

Impairments

(1,343)

(1,405)

Book value

7,731

8,503

Goodwill increased by EUR 465 million in 2018, mainly from the acquisition of EPD Solutions for an amount of EUR 262 million and other acquisitions for an amount of EUR 203 million. The further increase of EUR 310 million is mainly due to translation differences which impacted the goodwill denominated in USD.

In 2017, the increase of goodwill for the amount of EUR 1,548 million relates to Spectranetics for an amount of EUR 1,255 million and other acquisitions for an amount of EUR 293 million. Divestments of EUR 1,878 million primarily relate to the divestment of Signify. Information on the divestment of Signify can be found in Discontinued operations and assets classified as held for sale. The decrease of EUR 836 million is mainly due to translation differences which impacted the goodwill denominated in USD.

In 2018, the activities of Patient Care & Monitoring Solutions in the segment Connected Care & Health Informatics were split over two new cash-generating units: Monitoring & Analytics and Therapeutic Care. As a result of the change, the goodwill associated with Patient Care & Monitoring Solutions was allocated over these two new units based on the estimated fair value of Monitoring & Analytics and Therapeutic Care relative to the Q4 2017 Patient Care & Monitoring Solutions value in use calculation. The Therapeutic Care goodwill is considered not to be significant in comparison to the total book value of goodwill.

**Goodwill impairment testing**

For impairment testing, goodwill is allocated to (groups of) cash-generating units (typically one level below segment level), which represent the lowest level at which the goodwill is monitored internally for management purposes.

Goodwill allocated to the cash-generating units Image-Guided Therapy, Monitoring & Analytics and Sleep & Respiratory Care is considered to be significant in comparison to the total book value of goodwill for the Group at December 31, 2018. The amounts associated as of December 31, 2018 are presented below:

Philips Group

Goodwill allocated to the cash-generating units

in millions of EUR

2017 - 2018



	<b>2017</b>	<b>2018</b>
Image-Guided Therapy	2,242	2,357
Patient Care & Monitoring Solutions	1,349	
Monitoring & Analytics		1,354
Sleep & Respiratory Care	1,819	1,925
Other (units carrying a non-significant goodwill balance)	2,321	2,867
Book value	7,731	8,503

The basis of the recoverable amount used in the annual impairment tests for the units disclosed in this note is the value in use. In the annual impairment test performed in the fourth quarter of 2018, the estimated recoverable amounts of the cash-generating units tested approximated or exceeded the carrying value of the units, therefore no impairment loss was recognized.

**Key assumptions - general**

Key assumptions used in the impairment tests for the units were sales growth rates, EBITA<sub>\*</sub> and the rates used for discounting the projected cash flows. These cash flow projections were determined using the Royal Philips managements' internal forecasts that cover an initial period from 2019 to 2021. Projections were extrapolated with stable or declining growth rates for a period of 4 years, after which a terminal value was calculated. For terminal value calculation, growth rates were capped at a historical long-term average growth rate. The mentioned 4 years is linked to managements' new internal forecasts of 2022-2025 that will be concluded in 2019, and was updated from 5 years as applied in 2017 to be aligned with the current Philips forecasting process.

The sales growth rates and EBITA<sub>\*</sub> used to estimate cash flows are based on past performance, external market growth assumptions and industry long-term growth averages. EBITA<sub>\*</sub> in all units mentioned in this note is expected to increase over the projection period as a result of volume growth and cost efficiencies.

**Key assumptions and sensitivity analysis relating to cash-generating units to which a significant amount of goodwill is allocated**

Cash flow projections of Image-Guided Therapy, Monitoring & Analytics and Sleep & Respiratory Care are based on the key assumptions included in the table below, which were used in the annual impairment test performed in the fourth quarter:

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Key assumptions

in %

2018





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	<b>initial forecast period</b>	<i>compound sales growth rate</i> <sup>1</sup> <b>extra-polation period</b> <b>2</b>	<b>used to calculate terminal value</b> <sup>3</sup>	<b>pre-tax discount rates</b>
Image-Guided Therapy	8.1	5.2	2.3	9.3
Monitoring & Analytics	6.5	4.0	2.3	9.9
Sleep & Respiratory Care	8.4	4.8	2.3	10.6

Key assumptions and sensitivity analysis relating to cash-generating units to which a significant amount of goodwill

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<sup>1</sup> Compound sales growth rate is the annualized steady nominal growth rate over the forecast period

<sup>2</sup> Also referred to later in the text as compound long-term sales growth rate

<sup>3</sup> The historical long-term growth rate is only applied to the first year after the 4 year extrapolation period, after which no further growth is assumed for the terminal value calculation

The assumptions used for the 2017 cash flow projections were as follows:

Philips Group

Key assumptions

in %

2017



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	initial forecast period	compound sales growth rate <sup>1</sup> extra-polation period <sup>2</sup>	used to calculate terminal value <sup>3</sup>	pre-tax discount rates
Image-Guided Therapy	5.3	4	2.3	10.9
Patient Care & Monitoring Solutions	3.8	4.8	2.3	12.3
Sleep & Respiratory Care	7.2	5.6	2.3	12.1

<sup>1</sup> Compound sales growth rate is the annualized steady nominal growth rate over the forecast period

<sup>2</sup> Also referred to later in the text as compound long-term sales growth rate

<sup>3</sup> The historical long-term growth rate is only applied to the first year after the 5 year extrapolation period, after which no further growth is assumed for the terminal value calculation

The results of the annual impairment test of Image-Guided Therapy, Monitoring & Analytics and Sleep & Respiratory Care indicate that a reasonably possible change in key assumptions would not cause the value in use to fall to the level of the carrying value.

**Additional information relating to cash-generating units to which a non-significant amount relative to the total goodwill is allocated**

In addition to the significant goodwill recorded at the units mentioned above, Aging & Caregiving (formerly Home Monitoring) and Population Insights & Care (formerly Population Health Management) are sensitive to fluctuations in the assumptions as set out above.

Based on the most recent impairment test of the cash-generating unit Aging & Caregiving, it was noted that an increase of 300 points in the pre-tax discount rate, a 730 basis points decline in the compound long-term sales growth rate or a 39% decrease in terminal value would, individually, cause its recoverable amount to fall to the level of its carrying value. The goodwill allocated to Aging & Caregiving at December 31, 2018 amounts to EUR 43 million.

Based on the annual impairment test of the cash-generating unit Population Insights & Care, it was noted that an increase of 10 points in the pre-tax discount rate, a 30 basis points decline in the compound long-term sales growth rate or a 3% decrease in terminal value would, individually, cause its recoverable amount to fall to the level of its carrying value. The goodwill allocated to Population Insights & Care at December 31, 2018 amounts to EUR 207 million.

Impairment tests are performed based on forward looking assumptions, using the most recent available information. By their nature, these assumptions 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 the plans, goals and expectations set forth in these assumptions. For the two cash-generating units Aging & Caregiving and Population Insights & Care there is a higher risk that those deviations might cause the recoverable amount to fall below the level of its carrying value.

For the other cash-generating units to which a non-significant amount relative to the total goodwill is allocated any reasonable change in assumptions would not cause the value in use to fall to the level of the carrying value.

\* Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Information by segment and country](#).

**Intangible assets excluding goodwill**

The changes were as follows:

Philips Group

Intangible assets excluding goodwill

in millions of EUR

2018

Additional information relating to cash-generating units to which a non-significant amount relative to the total goodwill is allocated



	<b>brand names</b>	<b>customer relationships</b>	<b>technology</b>	<b>product development</b>	<b>product development construction in progress</b>	<b>software</b>	<b>other</b>	<b>total</b>
<b>Balance as of January 1, 2018</b>								
Cost	670	2,342	1,985	1,848	487	605	105	8,042
Amortization/ impairments	(392)	(1,338)	(1,161)	(1,262)	(51)	(431)	(84)	(4,720)
Book value	278	1,004	824	586	436	174	21	3,322
Changes in book value:								
Additions:								
Purchases		7	14		92	92	1	205
Internally generated assets					203			203
Assets available for use				256	(256)			
Acquisitions	11	17	330			-	56	415
Amortization	(34)	(114)	(116)	(221)		(59)	(4)	(549)
Impairments	(52)	(16)	(9)	(16)	(1)	(5)	(2)	(101)
Translation differences and other	3	36	27	15	8	2	3	94
Total changes	(72)	(70)	246	34	45	30	53	267
<b>Balance as of December 31, 2018</b>								
Cost	689	2,421	2,400	2,103	532	684	168	8,997
Amortization/ impairments	(484)	(1,488)	(1,330)	(1,483)	(51)	(480)	(93)	(5,408)
Book Value	205	934	1,070	621	481	204	75	3,589

Philips Group

Intangible assets excluding goodwill

in millions of EUR

2017





	brand names	customer relationships	technology	product development	product development construction in progress	software	other	total
<b>Balance as of January 1, 2017</b>								
Cost	1,088	3,429	2,074	1,899	578	580	134	9,782
Amortization/ impairments	(633)	(2,188)	(1,491)	(1,362)	(36)	(421)	(99)	(6,230)
Book value	455	1,241	583	537	542	159	34	3,552
Changes in book value:								
Additions:								
Purchases	-	-	23	-	149	86	3	261
Internally generated assets	-	-	-	-	189	-	-	189
Assets available for use	-	-	-	363	(363)	-	-	-
Acquisitions	7	431	470	-	-	2	16	926
Amortization	(40)	(142)	(100)	(213)	-	(52)	(3)	(550)
Impairments	-	-	(12)	(43)	(27)	(1)	-	(83)
Divestments and transfers to assets classified as held for sale	(120)	(438)	(103)	(23)	(11)	(19)	(6)	(721)
Translation differences	(24)	(89)	(37)	(35)	(43)	(1)	(23)	(252)
Total changes	(178)	(238)	241	49	(106)	15	(13)	(230)
<b>Balance as of December 31, 2017</b>								
Cost	670	2,342	1,985	1,848	487	605	105	8,042
Accumulated amortization	(392)	(1,338)	(1,161)	(1,262)	(51)	(431)	(84)	(4,720)
Book Value	278	1,004	824	586	436	174	21	3,322

The acquisitions through business combinations in 2018 mainly consist of the acquired intangible assets of EPD Solutions Ltd. For more information, please refer to [Acquisitions and divestments](#).

The amortization of intangible assets is specified in [Income from operations](#).

The expected useful lives of the intangible assets excluding goodwill are as follows:

Philips Group

Expected useful lives of intangible assets excluding goodwill

in years



Brand names	2-20
Customer relationships	2-25
Technology	3-20
Other	1-10
Software	1-10
Product development	3-7

The weighted average expected remaining life of brand names, customer relationships, technology and other intangible assets is 9.3 years as of December 31, 2018 (2017: 9.6 years).

At December 31, 2018 the carrying amount of customer relationships of Sleep & Respiratory Care was EUR 278 million with a remaining amortization period of 5 years (2017: EUR 315 million; 6 years). For the intangibles relating to the acquisition of Spectranetics refer to Acquisitions and divestments.

## **Other financial assets**

### **Other current financial assets**

In 2018 current financial assets increased by EUR 434 million from EUR 2 million in 2017 to EUR 436 million in 2018, reflecting mainly the remaining interest in Signify (formerly Philips Lighting) of 16.5% as of December 31, 2018 (please refer to Interests in entities).

### **Other non-current financial assets**

The changes during 2018 were as follows:

Philips Group

Other non-current financial assets

in millions of EUR

2018



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	Non-current financial assets at FVTP&L	Non-current financial assets at FVTOCI	Non-current financial assets at Amortized cost	Total
<b>Balance as of January 1, 2018 <sup>1</sup></b>	104	369	114	587
Changes:				
Acquisitions/additions	30	1	14	45
Sales/redemptions/reductions	(20)	(18)	(78)	(116)
Value adjustment through OCI	-	(164)		(164)
Value adjustment through P&L	(2)		-	(1)
Translation differences and other	2	12	(4)	10
Reclassifications	2	(2)	-	-
Balance as of December 31, 2018	116	198	46	360



<sup>1</sup> Refer to IFRS 9 disclosure in Significant accounting policies note for the impact of IFRS 9 on 2018 opening balance.

Philips Group

Other non-current financial assets

in millions of EUR

2017



	available-for-sale financial assets	loans and receivables	held-to-maturity investments	financial assets at fair value through profit or loss	total
<b>Balance as of January 1, 2017</b>	172	134	2	27	335
Changes:					
Reclassifications	(1)	2	-	1	2
Acquisitions/additions	368	5	-	-	374
Sales/redemptions	(23)	(8)	-	(3)	(34)
Impairment	(1)	-			(1)
Value adjustments	(46)	-		8	(39)
Translation differences and other	(24)	(20)	(1)	(6)	(50)
Balance as of December 31, 2017	446	114	1	27	587

The company's investments in non-current financial assets mainly consist of investments in common shares of companies in various industries. In 2018, the main movements in non-current financial assets at FVTOCI can be explained by value adjustments related to the retained investment in the combined Lumileds and Automotive businesses (please refer to Fair value of financial assets and liabilities)

The retained investment in the combined businesses of Lumileds and Automotive of EUR 112 million (December 31, 2017: EUR 243 million) is classified as a financial asset recognized at fair value through OCI.

## **Other assets**

### **Other non-current assets**

Other non-current assets in 2018 mainly related to prepaid expenses of EUR 47 million (2017: EUR 74 million).

### **Other current assets**

Other current assets include EUR 276 million (2017: EUR 186 million) accrued income and EUR 193 million (2017: EUR 206 million) for prepaid expense mainly related to Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses.

## **Inventories**

Inventories are summarized as follows:

Philips Group

Inventories

in millions of EUR

2017 - 2018



	2017	2018
Raw materials and supplies	715	876
Work in process	358	366
Finished goods	1,280	1,432
Inventories	2,353	2,674

The write-down of inventories to net realizable value was EUR 159 million in 2018 (2017: EUR 150 million). The write-down is included in cost of sales.

## **Receivables**

### **Non-current receivables**

Non-current receivables are associated mainly with customer financing in Diagnosis & Treatment businesses amounting to EUR 44 million (2017: EUR 47 million), for Signify indemnification amounting to EUR 59 million and insurance receivables in Other in the US amounting to EUR 41 million (2017: EUR 47 million).

### **Current receivables**

Current receivables at December 31, 2018 included accounts receivable net of EUR 3,805 million, accounts receivable other of EUR 203 million and accounts receivable from investments in associates of EUR 27 million.

The accounts receivable, net, per segment are as follows:

Philips Group

Accounts receivables-net

in millions of EUR

2017 - 2018





	<b>2017</b>	<b>2018</b>
Diagnosis & Treatment	1,489	1,601
Connected Care & Health Informatics	706	723
Personal Health	1,341	1,411
Other	72	70
Accounts receivable-net	3,609	3,805

The aging analysis of accounts receivable, net, is set out below:

Philips Group

Aging analysis

in millions of EUR

2017 - 2018



	<b>2017</b>	<b>2018</b>
current	3,046	3,222
overdue 1-30 days	256	228
overdue 31-180 days	242	270
overdue > 180 days	63	85
Accounts receivable-net	3,609	3,805

The above net accounts receivable represent current and overdue but not fully impaired receivables.

The changes in the allowance for doubtful accounts receivable are as follows:

Philips Group

Allowance for accounts receivable

in millions of EUR

2016 - 2018



	2016	2017	2018
<b>Balance as of January 1</b>	<b>301</b>	<b>318</b>	<b>215</b>
Additions charged to expense	76	41	28
Deductions from allowance <sup>1</sup>	(64)	(36)	(28)
Transfer to assets held for sale		(92)	
Other movements	5	(16)	(21)
Balance as of December 31	318	215	194

<sup>1</sup> Write-offs for which an allowance was previously provided.

The allowance for doubtful accounts receivable has been primarily established for receivables that are past due.

Included in the above balances as per December 31, 2018 are allowances for individually impaired receivables of EUR 181 million (2017: EUR 197 million; 2016: EUR 289 million).

### **Contract assets**

Current contract assets were EUR 232 million per December 31, 2018 (2017: EUR 171 million).

The contract assets increased with EUR 61 million. The year-on-year change is mainly driven by timing differences between billing terms and services provided.

## **Equity**

### **Common shares**

As of December 31, 2018, authorized common shares consist of 2 billion shares (December 31, 2017: 2 billion; December 31, 2016: 2 billion) and the issued and fully paid share capital consists of 926,195,539 common shares, each share having a par value of EUR 0.20 (December 31, 2017: 940,909,027; December 31, 2016: 929,644,864).

### **Preference shares**

As a means to protect the Company and its stakeholders against an unsolicited attempt to obtain (de facto) control of the Company, the General Meeting of Shareholders in 1989 adopted amendments to the Company's articles of association that allow the Board of Management and the Supervisory Board to issue (rights to acquire) preference shares to a third party. The 'Stichting Preferente Aandelen Philips' has been granted the right to acquire preference shares in the Company. Such right has not been exercised as of December 31, 2018 and no preference shares have been issued. Authorized preference shares consist of 2 billion shares as of December 31, 2018 (December 31, 2017: 2 billion; December 31, 2016: 2 billion).

### **Options, restricted and performance shares**

The Company has granted stock options on its common shares and rights to receive common shares in the future (see [Share-based compensation](#)).

### **Treasury shares**

In connection with the Company's share repurchase programs (see next paragraph: Share repurchase methods for share-based compensation plans and capital reduction purposes), shares which have been repurchased and are held in Treasury for the purpose of (i) delivery upon exercise of options, restricted and performance share programs, and (ii) capital reduction, are accounted for as a reduction of shareholders' equity. Treasury shares are recorded at cost, representing the market price on the acquisition date. When issued, shares are removed from treasury shares on a first-in, first-out (FIFO) basis.

When treasury shares are reissued under the Company's option plans, the difference between the cost and the cash received is recorded in retained earnings. When treasury shares are reissued under the Company's share plans, the difference between the market price of the shares issued and the cost is recorded in retained earnings, the market price is recorded in capital in excess of par value.

The following table shows the movements in the outstanding number of shares over the last three years:



Philips Group

Outstanding number of shares

in number of shares

2016 - 2018



	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Balance as of January 1</b>	<b>917,103,586</b>	<b>922,436,563</b>	<b>926,191,723</b>
Dividend distributed	17,344,462	11,264,163	9,533,223
Purchase of treasury shares	(25,193,411)	(19,841,595)	(31,993,879)
Re-issuance of treasury shares	13,181,926	12,332,592	10,453,020
Balance as of December 31	922,436,563	926,191,723	914,184,087

The following transactions took place resulting from employee option and share plans:

Philips Group

Employee option and share plan transactions

2016 - 2018



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	<b>2016</b>	<b>2017</b>	<b>2018</b>
Shares acquired	8,601,426	15,222,662	8,226,101
Average market price	EUR 24.73	EUR 31.81	EUR 32.59
Amount paid	EUR 213 million	EUR 484 million	EUR 268 million
Shares delivered	13,181,926	12,332,592	10,453,020
Average price (FIFO)	EUR 25.86	EUR 27.07	EUR 32.66
Cost of delivered shares	EUR 341 million	EUR 334 million	EUR 341 million
Total shares in treasury at year-end	7,208,301	10,098,371	7,871,452
Total cost	EUR 181 million	EUR 331 million	EUR 258 million

In order to reduce share capital, the following transactions took place:

Philips Group

Share capital transactions

2016 - 2018





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	<b>2016</b>	<b>2017</b>	<b>2018</b>
Shares acquired	16,591,985	4,618,933	23,767,778
Average market price	EUR 23.84	EUR 32.47	EUR 32.58
Amount paid	EUR 396 million	EUR 150 million	EUR 774 million
Cancellation of treasury shares (shares)	18,829,985		24,246,711
Cancellation of treasury shares (EUR)	EUR 450 million		EUR 783 million
Total shares in treasury at year-end		4,618,933	4,140,000
Total cost		EUR 150 million	EUR 141 million

Share purchase transactions related to employee option and share plans, as well as transactions related to the reduction of share capital, involved a cash outflow of EUR 1,042 million. A cash inflow of EUR 94 million from treasury shares mainly includes settlements of share-based compensation plans.

#### **Share repurchase methods for share-based compensation plans and capital reduction purposes**

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

#### **Forward share repurchase contracts**

In order to hedge commitments under share-based compensation plans, Philips entered into three forward contracts in the last quarter of 2018, involving 10 million shares. This resulted in a reduction of Retained earnings of EUR 319 million against Short-term and Long-term liabilities. Additionally, in the first quarter of 2018 the remaining forward contracts under the forward share buy-back contract of 2017 were exercised at a forward price of EUR 27.03, resulting in a EUR 20 million increase in Retained earnings against Treasury shares. As of December 31, 2018, 10 million forward contracts connected to share based compensation plans were outstanding.

In order to reduce its share capital, Royal Philips also entered into six forward contracts in 2017. The forward contracts involved 31,020,000 shares with a settlement date varying between October 2018 and June 2019 and a weighted average forward price of EUR 32.22. In 2018, 12,420,000 forward contracts were exercised resulting in a EUR 423 million increase in Retained earnings against Treasury shares. As of December 31, 2018, 18,600,000 forward contracts connected to share capital reductions were outstanding. For further information on the forward contracts please refer to Debt.

#### **Share call options**

During 2016 Philips bought EUR and USD-denominated call options to hedge options granted under share-based compensation plans before 2013.

In 2018, the Company unwound 1,263,486 EUR-denominated and 1,204,126 USD-denominated call options against the transfer of the same number of Royal Philips shares (2,467,612 shares) and an additional EUR 51 million cash payment to the buyer of the call options.

The number of outstanding EUR denominated options were 2,023,639 and USD-denominated options were 1,770,218, as of December 2018.

#### **Dividend distribution**

##### **2018**

In June 2018, Philips settled a dividend of EUR 0.80 per common share, representing a total value of EUR 738 million including costs. Shareholders could elect for a cash dividend or a share dividend. Approximately 46% of the shareholders elected for a share dividend, resulting in the issuance of 9,533,233 new common shares. The settlement of the cash dividend involved an amount of EUR 400 million (including costs).

A proposal will be submitted to the 2019 Annual General Meeting of Shareholders to pay a dividend of EUR 0.85 per common share, in cash or shares at the option of the shareholders, against the net income of the Company for 2018.

2017

In June 2017, Philips settled a dividend of EUR 0.80 per common share, representing a total value of EUR 742 million including costs. Shareholders could elect for a cash dividend or a share dividend. Approximately 48% of the shareholders elected for a share dividend, resulting in the issuance of 11,264,163 new common shares. The settlement of the cash dividend involved an amount of EUR 384 million (including costs)

2016

In June 2016, Philips settled a dividend of EUR 0.80 per common share, representing a total value of EUR 732 million including costs. Shareholders could elect for a cash dividend or a share dividend. Approximately 55% of the shareholders elected for a share dividend, resulting in the issuance of 17,344,462 new common shares. The settlement of the cash dividend involved an amount of EUR 330 million (including costs).

#### **Limitations in the distribution of shareholders' equity**

As at December 31, 2018, pursuant to Dutch law, certain limitations exist relating to the distribution of shareholders' equity of EUR 1,558 million. Such limitations relate to common shares of EUR 185 million, as well as to legal reserves required by Dutch law included under retained earnings of EUR 634 million and unrealized currency translation differences of EUR 739 million. The unrealized losses related to fair value through OCI financial assets of EUR 181 million and unrealized losses related to cash flow hedges of EUR 10 million qualify as revaluation reserves and reduce the distributable amount due to the fact that these reserves are negative.

The legal reserve required by Dutch law of EUR 634 million included under retained earnings relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

As at December 31, 2017, these limitations in distributable amounts were EUR 1,283 million and related to common shares of EUR 188 million, as well as to legal reserves required by Dutch law included under retained earnings of EUR 703 million and unrealized currency translation differences of EUR 392 million. The unrealized losses related to fair value through OCI financial assets of EUR 30 million qualify as a revaluation reserve and reduce the distributable amount due to the fact that this reserve is negative.

#### **Non-controlling interests**

Non-controlling interests relate to minority stakes held by third parties in consolidated group companies, for further details reference is made to Interest in entities.

#### **Capital management**

Philips manages capital based upon the IFRS measures, net cash provided by operating activities and net cash used for investing activities as well as the non-IFRS measure net debt. The definition of this non-IFRS measure and a reconciliation to the IFRS measure is included below.

Net debt is defined as the sum of long and short-term debt minus cash and cash equivalents. Group equity is defined as the sum of shareholders' equity and non-controlling interests. This measure is used by Philips Treasury management and investment analysts to evaluate financial strength and funding requirements. The Philips net debt position is managed with the intention of retaining a strong investment grade credit rating. Furthermore, Philips' aim when managing the net debt position is dividend stability and a pay-out ratio of 40% to 50% of Adjusted income from continuing operations attributable to shareholders (reconciliation to the most directly comparable IFRS measure, Net income, is provided at the end of this note).

2017

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Philips Group

Composition of net debt and group equity

in millions of EUR unless otherwise stated

2016 - 2018



	2016	2017	2018
Long-term debt	4,021	4,044	3,427
Short-term debt	1,585	672	1,394
Total debt	5,606	4,715	4,821
Cash and cash equivalents	2,334	1,939	1,688
Net debt	3,272	2,776	3,132
Shareholders' equity	12,546	11,999	12,088
Non-controlling interests	907	24	29
Group equity	13,453	12,023	12,117
Net debt and group equity ratio	20:80	19:81	21:79

Adjusted income from continuing operations attributable to shareholders is not a recognized measure of financial performance under IFRS. The reconciliation of Adjusted income from continuing operations attributable to shareholders to the most directly comparable IFRS measure, Net income for 2018 is included in the table below.

Philips Group

Adjusted income from continuing operations attributable to shareholders

€ in millions of EUR

2018





	2018
Net income	1,097
Less: Discontinued operations, net of income taxes	213
<b>Income from continuing operations</b>	<b>1,310</b>
Continuing operations non-controlling interests	(7)
<b>Income from continuing operations attributable to shareholders</b>	<b>1,303</b>
Adjustments for:	
Amortization of acquired intangible assets	347
Restructuring costs and acquisition-related charges	258
Other items	41
Net finance expenses	57
Tax impact of adjusted items	(365)
<b>Adjusted Income from continuing operations attributable to shareholders <sup>1</sup></b>	<b>1,643</b>

<sup>1</sup> Shareholders in this table refers to shareholders of Koninklijke Philips N.V.

## Debt

Philips has a USD 2.5 billion Commercial Paper Programme and a EUR 1 billion committed standby revolving credit facility that can be used for general group purposes, such as a backstop of its Commercial Paper Programme. As of December 31, 2018, Philips did not have any loans outstanding under either facility. In April 2018, Philips successfully exercised, with existing terms and conditions, the first of two 1-year extension options of its EUR 1 billion committed standby revolving credit facility, extending the maturity date to April 21, 2023. The facility does not have a material adverse change clause, has no financial covenants and no credit-rating-related acceleration possibilities.

The provisions applicable to all USD-denominated corporate bonds issued by the company in March 2008 and March 2012 (due 2038 and 2042) contain a 'Change of Control Triggering Event'. If the company would experience such an event with respect to a series of corporate bonds the company might be required to offer to purchase the bonds that are still outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any.

Furthermore, the conditions applicable to the EUR denominated corporate bonds issued in 2017 and 2018 (due 2019, 2023, 2024 and 2028) contain a similar provision ('Change of Control Put Event'). Upon the occurrence of such an event, the company might be required to redeem or purchase any of such bonds at their principal amount together with interest accrued.

In March 2018, Philips refinanced a loan of EUR 178 million with a new long-term loan of EUR 200 million. In April 2018, Philips completed the early redemption of all the 3.750% USD bonds due 2022 with an aggregate principal amount of USD 1 billion, resulting in financial charges of EUR 24 million. For the purpose of the redemption, a EUR 900 million loan was entered into, which was repaid in May 2018 through the issuance of fixed-rate EUR bonds with an aggregate principal amount of EUR 1 billion (EUR 500 million 0.750% due 2024 and EUR 500 million 1.375% due 2028). 6.875% USD bonds due 2038 with an aggregate principal amount of USD 56 million and USD 16 million were redeemed in May and June 2018 respectively, resulting in financial charges of EUR 21 million. In Q4 2018, a nominal amount of EUR 423 million of forward contracts related to the EUR 1.5 billion share buyback program announced on June 28, 2017 matured. In addition, in Q4 2018, Philips entered into three tranches of forward purchases totaling 10 million shares for a nominal amount of EUR 319 million maturing through 2021 to cover its long-term incentive and employee stock purchase plans.

### Long-term debt

The below tables present information about the long-term debt outstanding, its maturity and average interest rates in 2017 and 2018.

Philips Group

Long-term debt

in millions of EUR unless otherwise stated

2018



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	amount outstanding in 2018	Current portion	Non-current portion	Between 1 and 5 years	amount due after 5 years	average remaining term (in years)	average rate of interest
USD bonds	1,303		1,303		1,303	18.1	6.3%
EUR bonds	1,988	500	1,488	497	991	5.0	0.7%
Forward contracts	807	618	188	188		0.8	
Finance leases	330	94	236	190	46	3.6	2.9%
Bank borrowings	211		211	6	205	6.2	0.3%
Other long-term debt	18	18	-	-	-	1.1	1.6%
Long-term debt	4,657	1,230	3,427	882	2,545	7.9	2.3%

Philips Group

Long-term debt

in millions of EUR unless otherwise stated

2017



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	amount outstanding in 2017	Current portion	Non-current portion	Between 1 and 5 years	amount due after 5 years	average remaining term (in years)	average rate of interest
USD bonds	2,137		2,137	833	1,305	13.3	5.4%
EUR bonds	997		997	501	496	3.7	0.3%
Forward contracts	970	394	576	576		1.2	
Finance leases	281	87	195	170	24	4.8	3.4%
Bank borrowings	190	52	138	138		2.1	1.3%
Other long-term debt	20	19	1	1	-	1.1	0.9%
Long-term debt	4,595	552	4,044	2,218	1,825	7.6	2.8%

**Bonds**

The below table discloses the amount outstanding and effective rate of bonds in 2017 and 2018.

Philips Group

Unsecured Bonds

in millions of EUR unless otherwise stated

2017 - 2018





	<b>effective rate</b>	<b>2017</b>	<b>2018</b>
Unsecured EUR Bonds			
Due 9/06/2023; 1/2%	0.634%	500	500
Due 9/06/2019; 3M Euribor +20bps		500	500
Due 5/02/2024; 3/4%	0.861%		500
Due 5/02/2028; 1 3/8%	1.523%		500
Unsecured USD Bonds			
Due 5/15/25; 7 3/4%	7.429%	53	55
Due 6/01/26; 7 1/5%	6.885%	114	119
Due 5/15/25; 7 1/8%	6.794%	70	74
Due 11/03/38; 6 7/8%	7.210%	668	636
Due 3/15/22; 3 3/4% <sup>1</sup>	3.906%	837	
Due 3/15/42; 5%	5.273%	418	438
Adjustments <sup>2</sup>		(26)	(31)
Unsecured Bonds		3,134	3,291

<sup>1</sup> In April 2018, Philips completed the early redemption of all the 3.750% USD bonds due 2022 with an aggregate principal amount of USD 1 billion.

<sup>2</sup> Adjustments related to both EUR and USD bonds and concern bond discounts and premium, transaction costs and fair value adjustments for interest rate derivatives.

**Finance lease liabilities**

The below table discloses the reconciliation between the total of future minimum lease payments and their present value.

For further information regarding the adoption of IFRS 16, please refer to Significant accounting policies.

Philips Group

Finance lease liabilities

in millions of EUR

2017 - 2018



	2017			2018		
	future minimum lease payments	interest	present value of minimum lease payments	future minimum lease payments	interest	present value of minimum lease payments
Less than one year	93	6	87	100	6	94
Between one and five years	184	14	170	206	16	190
More than five years	29	4	24	52	6	46
Finance lease	306	24	281	357	28	330

**Short-term debt**

Philips Group

Short-term debt

in millions of EUR

2017 - 2018



	2017	2018
Short-term bank borrowings	71	76
Forward contracts	49	88
Other short-term loans		
Current portion of long-term debt	552	1,230
Short-term debt	672	1,394



During 2018, the weighted average interest rate on the bank borrowings was 15.0% (2017: 3.3%). The increase was mainly driven by a higher relative amount of borrowings in high interest rate countries. In addition, there was an increase in interest rates in these countries during 2018.

## **Provisions**

Philips Group

Provisions

in millions of EUR

2017 - 2018



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	2017			2018		
	long-term	short-term	total	long-term	short-term	total
Post-employment benefit (see note 20)	973		973	835		835
Product warranty	44	157	201	37	153	190
Environmental provisions	140	19	160	124	20	144
Restructuring-related provisions	25	87	112	45	68	114
Litigation provisions	26	24	50	17	9	26
Other provisions	451	113	564	730	112	842
Provisions	1,659	400	2,059	1,788	363	