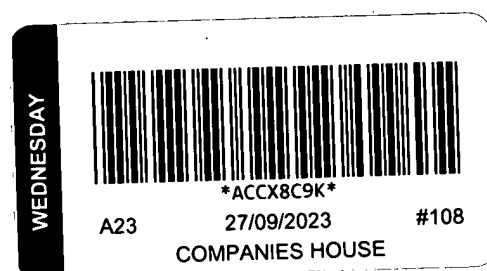


Registration number: 01927665

# Philips U.K. Limited

Annual Report and Financial Statements

for the year ended 31 December 2022



## **Philips U.K. Limited**

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## **Philips U.K. Limited**

### **Company Information**

<b>Directors</b>	L Best M Leftwich J Cottrell
<b>Company secretary</b>	L Best
<b>Registered number</b>	01927665
<b>Registered office</b>	Ascent 1 Aerospace Boulevard Farnborough GU14 6XW United Kingdom
<b>Auditors</b>	Ernst & Young LLP Grosvenor House Grosvenor Square Southampton SO15 2BE United Kingdom

## **Philips U.K. Limited**

### **Strategic Report for the year ended 31 December 2022**

The directors present their Strategic report on the Company for the year ended 31 December 2022.

#### **Strategy**

Philips U.K. Limited ("the Company") is a wholly owned subsidiary of Koninklijke Philips N.V. ("KPNV") and the Company's strategic direction is driven by the Philips group ("the group") purpose.

The group's purpose is to improve people's health and well-being through meaningful innovation. We aim to improve 2.5 billion lives per year by 2030, including 400 million in underserved communities.

2022 was a difficult year for the group as its business and financial performance suffered due to challenges in execution, quality and supply, and a complex operating model. Going forward, the group will address these operational challenges, improve performance, and drive progressive value creation through a strategy of a) focused organic growth, b) scalable patient- and people-centric innovation, and c) focus on reliable execution, prioritizing patient safety and quality, supply chain reliability, and a simplified operating model. All supported by a reinvigorated culture of accountability, empowerment and strengthened health technology talent and capabilities.

The group's ambition with its global reach, market leadership positions, deep clinical and technological insights, and customer-centric, patient- and people-focused innovation capability is to create further value in a changing health and care world. The group strives to deliver superior, long-term value to patients, customers, consumers and shareholders, while acting responsibly towards our planet and society, in partnership with stakeholders. We believe that, executed with rigor, discipline and quality, the strategic imperatives outlined above, in combination with a relentless focus on execution, will put us back on track for a future of progressive value creation with sustainable impact.

The Philips group strategy is detailed further in the KPNV Annual Report 2022 available at [www.results.philips.com](http://www.results.philips.com).

#### **Review of business**

The Company is domiciled in the United Kingdom and acts as a holding company for the Philips group in the United Kingdom. Its only business is in respect of intra-group financing transactions. The company's subsidiary undertaking, Philips Electronics UK Limited (PEUK), conducts business in the main activities of the worldwide Philips group and the business environment in which the subsidiary operates is disclosed in that company's financial statements.

The Company did not undertake any significant trading transactions in 2022. However, as at 31 December 2022 the directors assessed the carrying value of the investment in PEUK given the requirement that investments are tested for impairment annually or where there is an indication that investments might be impaired.

In prior years, assessment of the recoverable amount of the investment had been made which indicated values lower than the carrying value of the investment at those points in time. Accordingly in 2020 the carrying value of the investment was written down to £535.3m and then subsequently in 2021 to £435.3m. The recoverable values were determined using an Enterprise Value/EBITDA multiplier model which was taken to represent fair value less cost of disposal. The values derived from this model were higher than those determined using discounted cash flows which represented value in use.

As at 31 December 2022 the Enterprise Value/EBITDA multiplier model was updated with latest observed market data. The resultant valuation of £343.3m was £92.0m lower than that derived at 31 December 2021 predominantly due to a reduction in observed multipliers which was partially offset by a positive EBITDA mix across the businesses.

## Philips U.K. Limited

### Strategic Report for the year ended 31 December 2022 (continued)

#### Review of business (continued)

The valuation using this methodology remained in excess of that determined using the updated discounted cash flow model and was therefore retained as the valuation basis for the carrying value of the investment. An impairment charge of £92.0m has been presented as an exceptional expense within the result for the year.

As laid out above under strategy, 2022 was a difficult year for the group as a whole with several factors weighing down profitability. Performance within the group was impacted by efforts to mitigate supply chain and inflationary pressures and the revenue and cost consequences of the Philips Respironics sleep recall, whilst at the same time dealing with global challenges such as the COVID situation in China, volatile demand and supply and the war in Ukraine. The group remains cautious in light of the subdued economic outlook for the year, staffing and inflationary pressures facing customers, geopolitical risks, supply and demand volatility, and uncertainties around ongoing consent decree negotiations, litigation, and Department of Justice investigations. However, as Philips U.K. Limited is a non-trading holding company the impact of these factors is limited to that on the trade of the Company's trading subsidiary undertaking and its impact on the recoverability of the investment in that subsidiary. The group expects that, by prioritizing patient safety and quality, tightening focus on innovation, and strengthening category leadership areas, while at the same time improving execution and taking a disciplined approach to capital, the group will be able to progressively create value with sustainable impact.

#### Key financial performance indicators

The Company's only business is to provide intra-group financing on an ad-hoc basis. The directors' are of the opinion that there are no key performance indicators that are used in managing the company that would add any value to the understanding of the company's financial statements.

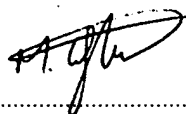
#### Principal risks and uncertainties

Due to the nature of the Company's activities, the principal risks to the company arise from the risks and uncertainties facing its trading subsidiary undertaking, PEUK. These risks are disclosed in the financial statements of PEUK.

#### Future developments

The Company will continue to provide intra-group financing arrangements within the Philips group on an ad-hoc basis, when a need for such transactions arise in future.

Approved by the Board on .....19 September 2023..... and signed on its behalf by:



.....  
M Leftwich  
Director

## **Philips U.K. Limited**

### **Directors' Report for the year ended 31 December 2022**

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2022.

#### **Results and dividends**

The Company's results for the financial year are set out in the profit and loss account on page 12.

The directors do not recommend the payment of a dividend (2021: £Nil).

#### **Future developments**

An indication of the likely future developments of the Company are provided in the strategic report.

#### **Research and development activities**

The Company does not invest in any research and development. The company's wholly owned subsidiary undertaking, PEUK, undertakes research and development.

#### **Directors**

The directors who held office during the year were as follows:

L Best

M Leftwich (appointed 1 April 2022)

B Menghnani (resigned 14 April 2023)

N Mesher (resigned 1 April 2022)

The following director was appointed after the year end:

J Cottrell (appointed 14 April 2023)

#### **Going concern**

Philips U.K. Limited is a non-trading holding company with net assets of £343.3m which represents the value of the company's investment in its main trading subsidiary, PEUK. As a result, the going concern of Philips U.K. Limited is predicated on the going concern and continued trade of this subsidiary undertaking and the performance of the Philips group worldwide.

From a group perspective 2022 was considered a disappointing year and firm actions are being taken to strengthen patient safety and quality, improve execution and step-up performance with urgency in 2023.

The Philips group continues to have strong market leadership positions, an extensive customer base, a strong innovation portfolio, talented employees and is a global purpose-drive brand. 2022 performance did not extract the full value of the business.

During 2022 sales for the group increased nominally but several factors weighed down profitability. Performance was impacted by our efforts to mitigate supply chain and inflationary pressures and the revenue and cost consequences of the Philips Respironics sleep recall, whilst at the same time dealing with global challenges such as the COVID situation in China, volatile demand and supply, and the war in Ukraine. As the group worked through the operational challenges, it progressed on its execution priorities in the fourth quarter and saw initial signs of improvement including supply chain and inflationary pressures. Despite the recent difficulties, Philips' purpose, strategy, and solutions resonate strongly with customers, as evidenced by the around 100 long-term strategic partnerships entered into with hospitals and health systems around the world in 2022, and by the continued strength of the order book.

## **Philips U.K. Limited**

### **Directors' Report for the year ended 31 December 2022 (continued)**

#### **Going concern (continued)**

Looking ahead, the group remains cautious in light of the subdued economic outlook for the year, staffing and inflationary pressures facing customers, geopolitical risks, supply and demand volatility, and uncertainties around ongoing consent decree negotiations, litigation, and Department of Justice investigations. Nevertheless, the group expects that, by prioritizing patient safety and quality, tightening focus on innovation, and strengthening category leadership areas, while at the same time improving execution and taking a disciplined approach to capital, the group will be able to progressively create value with sustainable impact.

The group expects to deliver low-single-digit comparable sales growth and high-single-digit Adjusted EBITA margin in 2023. Considering the slowing of consumer demand and a gradual improvement of the order book conversion during 2023, the group anticipates a slow start to the year, with improvements throughout the year supported by the ongoing productivity, pricing, and other actions. This guidance excludes the impact of the ongoing discussion on a consent decree beyond current assumptions (Sleep & Respiratory Care/Respironics CSGR 2023-2025 of 10%), as well as ongoing litigation and the investigation by the US Department of Justice related to the Respironics field action.

After the disappointing position for the Group in 2022, encouragingly Philips delivered a solid start to 2023 with sales, profitability, and operating cash flow improvements in the quarter. Based on this solid performance in the quarter, order book and ongoing actions to further improve execution management is confident in its plan for the year acknowledging that uncertainties do remain.

In respect of the UK business specifically 2022 has similarly been challenging, with more than its fair share of headwinds that have needed to be navigated. Sales were down versus the prior year, but performance accelerated in the second half of the year due to improvements in supply which combined with a very strong order book performance in 2022 puts the UK market in a strong position going forward. The UK implemented necessary but frequent price increases to catch up with inflationary pressures with the position expected to settle in 2023.

During 2022 the UK navigated internal reorganisations and embedded the Western European structure into its Health Systems business. Additionally, in line with the group objective for a simplified operating model to drive accountability and agility (with the aim of unlocking significant productivity and margin gains) the UK market was also impacted by the very difficult, yet necessary decisions announced in October 2022 and January 2023 to reduce the global workforce by 4,000 employees and then a further 6,000 respectively, to drive a major step-up in productivity.

There were no significant business transfers or site closures during the year.

The directors have assessed the risks for Philips U.K. Limited and concluded that in its capacity as a holding company the recoverability of investments in subsidiaries remains the principal risk. The subsidiary in question was subject to a £442.2m impairment loss during 2020 which was triggered by changes to that business including the closure of the Avent Glemsford factory during that year and other restructuring. The assessment was revisited at 31 December 2021 when a further impairment of £100.0m was recognised due to a reduction in observed market EBITDA valuation multipliers and lower EBITDA following the sale of the investment's domestic appliance business during the year. As at 31 December 2022 a further £92.0m impairment has been recognised predominantly due to a continued fall in observed market EBITDA valuation multipliers rather than performance deterioration of PEUK itself. The investment has a recoverable value equal to the carrying value of the investment, additionally the ultimate parent company has provided a letter of support to both Philips U.K. Limited and the related subsidiary company. No financial impact is expected to Philips U.K. Limited from the afore mentioned inflationary pressures, geopolitical risks or supply and demand volatility.

## **Philips U.K. Limited**

### **Directors' Report for the year ended 31 December 2022 (continued)**

#### **Going concern (continued)**

Koninklijke Philips N.V., the ultimate parent company has also provided a formal letter of support indicating its willingness to provide financial support to assist the Company in meeting its liabilities as and when they fall due, to the extent that funds are not otherwise available to meet such liabilities. The directors have assessed the going concern of the Company for the year ended 31 December 2022 by considering a "foreseeable future period" in order to consider a period of at least 12 months from the date of signing of the financial statements, being until 30 September 2024, the going concern assessment period. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and meet their liabilities as they fall due in the next 12 months, being until 30 September 2024, the going concern assessment period, based on the aforementioned support provided by the ultimate parent. Based on enquiries performed the directors are confident that the ultimate parent can provide such support. On this basis, the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

#### **Important events since the financial year end**

There were no significant events between the Statement of Financial Position date and the date of signing of the financial statements, affecting the company, which require adjustment to or disclosure in the financial statements.

#### **Qualifying third party indemnity provisions**

A qualifying third party indemnity provision as defined in Section 232(2) of the Companies Act 2006 is in force for the benefit of each of the directors and the Company secretary in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which directors may not be indemnified, a directors' and officers' liability insurance policy was maintained by the Philips group throughout the financial year.

#### **Disclosure of information to auditor**

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- that director has taken all the steps that they ought to have taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

#### **Statement of directors' responsibilities**

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Principles), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102").

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;



## Philips U.K. Limited

### Directors' Report for the year ended 31 December 2022 (continued)

#### Statement of directors' responsibilities (continued)

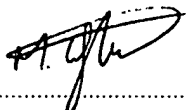
- state whether applicable UK Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### Auditor

In accordance with section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and Ernst & Young LLP will therefore continue in office.

Approved by the Board on .....19 September 2023..... and signed on its behalf by:



.....  
M Leftwich  
Director

## **Independent Auditor's Report to the Members of Philips U.K. Limited**

### **Opinion**

We have audited the financial statements of Philips U.K. Limited for the year ended 31 December 2022 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 15, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period to 30 September 2024, being the going concern assessment period.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

## **Independent Auditor's Report to the Members of Philips U.K. Limited (continued)**

### **Other information (continued)**

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## **Independent Auditor's Report to the Members of Philips U.K. Limited (continued)**

### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (United Kingdom Generally Accepted Accounting Practice, FRS 102), the Companies Act 2006, and the relevant direct and indirect tax compliance regulations in the United Kingdom.
- We understood how Philips U.K. Limited is complying with those frameworks by having regular discussions with management to understand how the company maintains and communicates its policies and procedures, and corroborated this through our review of Board Minutes, inspection of the legal documentation log and review of the Code of Conduct Handbook.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override and the risk that the carrying value of investments at year end value is overstated. We have assessed the recoverability of the carrying value of the investments by assessing the forecasts and models used.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved:
  - Enquiry of management and those charged with governance as to any fraud identified or suspected in the period, any actual or potential litigation or claims or breaches of significant laws or regulations applicable to the Company.
  - Auditing the risk of management override of controls, through testing of a sample of journal entries and other adjustments for appropriateness.
  - Enquiry of management, coupled with testing of journal entries, in order to identify and understand any significant transactions outside of the normal course of business.
  - Challenging the judgements made by management through corroborating the basis for those judgments and considering contradicting evidence.
  - Reading financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

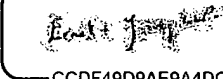
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## Independent Auditor's Report to the Members of Philips U.K. Limited (continued)

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:



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James Harris (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor  
Southampton

20 September 2023  
Date:.....

# Philips U.K. Limited

## Profit and Loss Account for the year ended 31 December 2022

		2022 Continuing operations £ 000	2021 Continuing operations £ 000
	Note		
Administrative expenses	5	(1)	(1)
Impairment of investments	6	<u>(92,000)</u>	<u>(100,000)</u>
<b>Operating loss</b>		<u>(92,001)</u>	<u>(100,001)</u>
<b>Loss on ordinary activities before taxation</b>		<u>(92,001)</u>	<u>(100,001)</u>
Tax credit/(charge) on loss on ordinary activities	9	<u>-</u>	<u>-</u>
<b>Loss for the financial year</b>		<u><u>(92,001)</u></u>	<u><u>(100,001)</u></u>

The result for the current year and for the prior year are equal to the total comprehensive income and accordingly a statement of comprehensive income has not been presented.

The notes on pages 15 to 23 form an integral part of these financial statements.

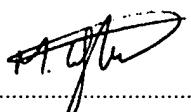
# Philips U.K. Limited

(Registration number: 01927665)  
Balance Sheet as at 31 December 2022

	Note	2022 £ 000	2021 £ 000
<b>Fixed assets</b>			
Investments	10	343,257	435,257
<b>Current assets</b>			
Debtors			
- amounts falling due within one year	11	2	3
Creditors: amounts falling due within one year	12	<u>(5)</u>	<u>(5)</u>
<b>Net current liabilities</b>		<u>(3)</u>	<u>(2)</u>
<b>Net assets</b>		<u>343,254</u>	<u>435,255</u>
<b>Capital and reserves</b>			
Called up share capital	13	500,000	500,000
Retained earnings		<u>(156,746)</u>	<u>(64,745)</u>
<b>Total equity</b>		<u>343,254</u>	<u>435,255</u>

The notes on pages 15 to 23 form an integral part of these financial statements.

Approved and authorised by the Board on .....19 September 2023..... and signed on its behalf by:

  
.....  
M Leftwich  
Director

# **Philips U.K. Limited**

## **Statement of Changes in Equity for the year ended 31 December 2022**

	<b>Called up share capital £ 000</b>	<b>Retained earnings £ 000</b>	<b>Total £ 000</b>
At 1 January 2022	500,000	(64,745)	435,255
Loss for the financial year	-	(92,001)	(92,001)
<b>At 31 December 2022</b>	<b>500,000</b>	<b>(156,746)</b>	<b>343,254</b>

	<b>Called up share capital £ 000</b>	<b>Retained earnings £ 000</b>	<b>Total £ 000</b>
At 1 January 2021	500,000	35,256	535,256
Loss for the financial year	-	(100,001)	(100,001)
<b>At 31 December 2021</b>	<b>500,000</b>	<b>(64,745)</b>	<b>435,255</b>

The notes on pages 15 to 23 form an integral part of these financial statements.



# **Philips U.K. Limited**

## **Notes to the Financial Statements for the year ended 31 December 2022**

### **1 General information**

The principal activity of Philips U.K. Limited ("the Company") is to act as a holding company for the Philips group in the United Kingdom.

The Company is a private company limited by shares and is incorporated and domiciled in the United Kingdom. The address of its registered office is Ascent 1, Aerospace Boulevard, Farnborough, GU14 6XW.

### **2 Statement of compliance**

The individual financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the Companies Act 2006. The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except where otherwise indicated.

### **3 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **3.1 Basis of preparation**

These financial statements have been prepared on a going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

#### **3.2 Going concern**

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the strategic report on pages 2 to 3.

Philips U.K. Limited is a non-trading holding Company with net assets of £343.3m which represents the value of the company's investment in its main trading subsidiary, PEUK. As a result the going concern of Philips U.K. Limited is predicated on the going concern and continued trade of this subsidiary undertaking and the performance of the Philips group worldwide.

From a group perspective 2022 was considered a disappointing year and firm actions are being taken to strengthen patient safety and quality, improve execution and step-up performance with urgency in 2023.

The Philips group continues to have strong market leadership positions, an extensive customer base, a strong innovation portfolio, talented employees and is a global purpose-drive brand. 2022 performance did not extract the full value of the business.

During 2022 sales for the group increased nominally but several factors weighed down profitability. Performance was impacted by our efforts to mitigate supply chain and inflationary pressures and the revenue and cost consequences of the Philips Respironics sleep recall, whilst at the same time dealing with global challenges such as the COVID situation in China, volatile demand and supply, and the war in Ukraine. As the group worked through the operational challenges, it progressed on its execution priorities in the fourth quarter and saw initial signs of improvement including supply chain and inflationary pressures. Despite the recent difficulties, Philips' purpose, strategy, and solutions resonate strongly with customers, as evidenced by the around 100 long-term strategic partnerships entered into with hospitals and health systems around the world in 2022, and by the continued strength of the order book.

## Philips U.K. Limited

### Notes to the Financial Statements for the year ended 31 December 2022 (continued)

#### 3 Summary of significant accounting policies (continued)

##### 3.2 Going concern (continued)

Looking ahead, the group remains cautious in light of the subdued economic outlook for the year, staffing and inflationary pressures facing customers, geopolitical risks, supply and demand volatility, and uncertainties around ongoing consent decree negotiations, litigation, and Department of Justice investigations. Nevertheless, the group expects that, by prioritizing patient safety and quality, tightening focus on innovation, and strengthening category leadership areas, while at the same time improving execution and taking a disciplined approach to capital, the group will be able to progressively create value with sustainable impact.

The group expects to deliver low-single-digit comparable sales growth and high-single-digit Adjusted EBITA margin in 2023. Considering the slowing of consumer demand and a gradual improvement of the order book conversion during 2023, the group anticipates a slow start to the year, with improvements throughout the year supported by the ongoing productivity, pricing, and other actions. This guidance excludes the impact of the ongoing discussion on a consent decree beyond current assumptions (Sleep & Respiratory Care/Respirionics CSGR 2023-2025 of 10%), as well as ongoing litigation and the investigation by the US Department of Justice related to the Respirionics field action.

After the disappointing position for the Group in 2022, encouragingly Philips delivered a solid start to 2023 with sales, profitability, and operating cash flow improvements in the quarter. Based on this solid performance in the quarter, order book and ongoing actions to further improve execution management is confident in its plan for the year acknowledging that uncertainties do remain.

In respect of the UK business specifically 2022 has similarly been challenging, with more than its fair share of headwinds that have needed to be navigated. Sales were down versus the prior year, but performance accelerated in the second half of the year due to improvements in supply which combined with a very strong order book performance in 2022 puts the UK market in a strong position going forward. The UK implemented necessary but frequent price increases to catch up with inflationary pressures with the position expected to settle in 2023.

During 2022 the UK navigated internal reorganisations and embedded the Western European structure into its Health Systems business. Additionally, in line with the group objective for a simplified operating model to drive accountability and agility (with the aim of unlocking significant productivity and margin gains) the UK market was also impacted by the very difficult, yet necessary decisions announced in October 2022 and January 2023 to reduce the global workforce by 4,000 employees and then a further 6,000 respectively, to drive a major step-up in productivity.

There were no significant business transfers or site closures during the year.

The directors have assessed the risks for Philips U.K. Limited and concluded that in its capacity as a holding company the recoverability of investments in subsidiaries remains the principal risk. The subsidiary in question was subject to a £442.2m impairment loss during 2020 which was triggered by changes to that business including the closure of the Avent Glemsford factory during that year and other restructuring. The assessment was revisited at 31 December 2021 when a further impairment of £100.0m was recognised due to a reduction in observed market EBITDA valuation multipliers and lower EBITDA following the sale of the investment's domestic appliance business during the year. As at 31 December 2022 a further £92.0m impairment has been recognised predominantly due to a continued falls in observed market EBITDA valuation multipliers rather than performance deterioration of PEUK itself. The investment has a recoverable value equal to the carrying value of the investment, additionally the ultimate parent company has provided a letter of support to both Philips U.K. Limited and the related subsidiary company. No financial impact is expected to Philips U.K. Limited from the afore mentioned inflationary pressures, geopolitical risks or supply and demand volatility.

## **Philips U.K. Limited**

### **Notes to the Financial Statements for the year ended 31 December 2022 (continued)**

#### **3 Summary of significant accounting policies (continued)**

##### **3.2 Going concern (continued)**

Koninklijke Philips N.V., the ultimate parent company has also provided a formal letter of support indicating its willingness to provide financial support to assist the Company in meeting its liabilities as and when they fall due, to the extent that funds are not otherwise available to meet such liabilities. The directors have assessed the going concern of the Company for the year ended 31 December 2022 by considering a “foreseeable future period” in order to consider a period of at least 12 months from the date of signing of the financial statements, being until 30 September 2024, the going concern assessment period. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and meet their liabilities as they fall due in the next 12 months, being until 30 September 2024, the going concern assessment period, based on the aforementioned support provided by the ultimate parent. Based on enquiries performed the directors are confident that the ultimate parent can provide such support. On this basis, the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

##### **3.3 Exemptions for qualifying entities under FRS 102**

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102:

- preparing a statement of cash flows;
- preparing certain financial instrument disclosures; and

The Company has taken advantage of these exemptions on the basis that it meets the definition of a qualifying entity and its ultimate parent undertaking, KPNV includes the related disclosures in its own consolidated financial statements. Details of where those financial statements may be obtained can be found in note 14.

Other than the exemptions taken above, the Company has applied the recognition, measurement and disclosure requirements of FRS 102.

##### **3.4 Consolidated financial statements**

The Company is a wholly owned subsidiary of Koninklijke Philips N.V., a company incorporated in the United Kingdom, and of its ultimate parent undertaking, Koninklijke Philips N.V., a company incorporated in the Netherlands. It is included in the consolidated financial statements of Koninklijke Philips N.V. which are publicly available. Therefore, the Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

These financial statements are the Company's separate financial statements.

##### **3.5 Foreign currency**

The Company's functional and presentation currency is the pound sterling.

##### **3.6 Exceptional items**

The Company classifies certain one-off charges or credits that have a material impact on the Company's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the Company.

##### **3.7 Taxation**

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

## **Philips U.K. Limited**

### **Notes to the Financial Statements for the year ended 31 December 2022 (continued)**

#### **3 Summary of significant accounting policies (continued)**

##### **3.7 Taxation (continued)**

Current or deferred tax assets and liabilities are not discounted.

###### **(i) Current tax**

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

###### **(ii) Deferred tax**

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in the tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

##### **3.8 Investments**

Fixed asset investments in subsidiary undertakings are held at cost less accumulated impairment losses.

Interests in subsidiaries are initially measured at cost and subsequently measured at costs less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

##### **3.9 Share capital**

Ordinary shares are classified as equity.

##### **3.10 Distributions to equity holders**

Dividends and other distributions to Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the Company's shareholder. These amounts are recognised in the statement of changes in equity.

##### **3.11 Related party transactions**

The Company discloses transactions with related parties which are not wholly owned within the Philips group. It does not disclose transactions with members of the Philips group that are wholly owned.

#### **4 Critical accounting judgements and estimation uncertainty**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## Philips U.K. Limited

### Notes to the Financial Statements for the year ended 31 December 2022 (continued)

#### 4 Critical accounting judgements and estimation uncertainty (continued)

At 31 December 2022, the Company made the following critical judgements and used the following critical estimates and assumption in applying its accounting policies:

##### Impairment of investments

As at 31 December 2022 the company's investment in its subsidiary undertaking was tested to determine whether the carrying value was greater than the recoverable value. The recoverable value calculation was determined using an Enterprise Value/EBITDA multiplier model based on observable market data which was taken to represent fair value less cost of disposal and was deemed to be higher than the recoverable value determined using a value in use calculation. The value in use calculation relies on estimates of future cash flows and the determination of suitable discount rates. The impairment test indicated that the recoverable value was lower than the £435.3m carrying value and accordingly the carrying value was written down by £92.0m resulting in a revised carrying value of £343.3m. Further detail is provided in note 10.

#### 5 Administrative expenses

	2022	2021
	£ 000	£ 000
Intercompany charges	<u>1</u>	<u>1</u>

#### 6 Impairment of investments

	2022	2021
	£ 000	£ 000
Impairment of investments	<u>92,000</u>	<u>100,000</u>

At 31 December 2022 the directors assessed the carrying value of its investment in PEUK concluding that the investment should be written down by £92.0m resulting in a net book value of £343.3m. The 2022 write down of PEUK follows impairments in 2020 and 2021 of £442.2m and £100.0m respectively. The write down in 2020 was predominantly reflective of changes to the business including the closure of the Avent Glemsford factory during that year and other group restructuring (see note 10).

#### 7 Auditors remuneration

Auditors remuneration in respect of the audit of the company's financial statements amounting to £3,200 (2021: £3,200) will be borne by PEUK, a subsidiary undertaking. There were no fees paid to the auditor in relation to non-audit services (2021: £nil).

#### 8 Employees and Directors

The Company had no employees during the year ended 31 December 2022 (2021: none ).

## Philips U.K. Limited

### Notes to the Financial Statements for the year ended 31 December 2022 (continued)

#### 9 Tax on loss on ordinary activities

	2022 £ 000	2021 £ 000
<b>Current tax</b>		
UK corporation tax	-	-
	-	-

#### Factors affecting tax charge for the year

The tax assessed for the year is higher (2021: higher) than the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%). The differences are explained below:

	2022 £ 000	2021 £ 000
Loss on ordinary activities before taxation	(92,001)	(100,001)
Tax on loss calculated at standard rate (2022: 19.00%) (2021: 19.00%)	(17,480)	(19,000)
<b>Effects of:</b>		
Expenses not deductible for tax purposes	17,480	19,000
<b>Total tax charge/(credit) for the year</b>	-	-

#### Factors that may affect future tax charges

During the Spring Budget of 2023 the Chancellor confirmed that the main corporation tax rate will increase from 19% to 25% with effect 1 April 2023 as previously communicated and enacted. The 25% main rate is payable by companies with taxable profits above £250,000. A small profits rate (SPR) will also be brought in for companies with profits of £50,000 or below meaning they will pay 19%. Companies with taxable profits between £50,000 and £250,000 will pay the main rate reduced by a marginal relief providing a gradual increase in the average corporation tax rate. Additionally, the capital allowance super-deduction regime will end on 31 March 2023 and will be replaced from 1 April 2023 with 'full expensing' - 100% capital allowances for qualifying plant and machinery. This will last for three years, to 31 March 2026.

The increase from 19% to 25% was announced as a major reform in the Spring 2021 budget and whilst during 2022 there was a period when it was announced that the increase would be cancelled that decision was reversed in October 2022. As such the increase to 25% was already enacted as at 31 December 2021 and remained enacted as at 31 December 2022.

At 31 December 2022, the company has a potential deferred tax asset of £17,000 (2021: £17,000) from capital losses carried forward. In view of the fact that the availability of future income to utilise these losses is uncertain, this asset has not been recognised in these financial statements.

# **Philips U.K. Limited**

## **Notes to the Financial Statements for the year ended 31 December 2022 (continued)**

### **10 Fixed asset investments**

	Subsidiary undertakings £ 000
<b>Cost</b>	
At 1 January 2022	<u>977,500</u>
At 31 December 2022	<u><u>977,500</u></u>
<b>Impairment</b>	
At 1 January 2022	(542,243)
Charge for the year	<u>(92,000)</u>
At 31 December 2022	<u><u>(634,243)</u></u>
<b>Net book value</b>	
At 31 December 2022	<u><u>343,257</u></u>
At 31 December 2021	<u><u>435,257</u></u>

## Philips U.K. Limited

### Notes to the Financial Statements for the year ended 31 December 2022 (continued)

#### 10 Fixed asset investments (continued)

At 31 December 2022, the Company directly or indirectly held the equity of the following subsidiary undertakings. In all cases, the proportion of ordinary shares held in subsidiary undertakings was 100%.

<b>Company name</b>	<b>Country of incorporation</b>	<b>Principal activity</b>
Philips Electronics UK Limited	England	Supply of electrical, electronics, and medical equipment
Avent Limited	England	Dormant
Invivo UK Limited	England	Dormant
Philips DCP (Belfast) Limited	Northern Ireland	Dormant
Philips Components Limited	England	Dormant
Philips Consumer Communications UK Limited	England	Dormant
Philips Trustee Company Limited	England	Dormant
PYE (Electronic Products) Limited	England	Dormant
Pyecam Company Limited	England	Dormant
Respironics (UK) Limited	England	Dormant
Respironics Limited	England	Holding company
Respironics Respiratory Drug Delivery (UK) Limited	England	Dormant
Respironics UK Holding Company Limited	England	Holding company

As at 31 December 2022 the directors assessed the carrying value of the investment in PEUK given the requirement that investments are tested for impairment annually or where there is an indication that investments might be impaired.

In prior years, assessment of the recoverable amount of the investment had been made which indicated values lower than the carrying value of the investment at those points in time. Accordingly in 2020 the carrying value of the investment was written down to £535.3m and then subsequently in 2021 to £435.3m. The recoverable values were determined using an Enterprise Value/EBITDA multiplier model which was taken to represent fair value less cost of disposal. The values derived from this model were higher than those determined using discounted cash flows which represented value in use.

As at 31 December 2022 the Enterprise Value/EBITDA multiplier model was updated with latest observed market data. The resultant valuation of £343.3m was £92.0m lower than that derived at 31 December 2021 predominantly due to a reduction in observed multipliers which was partially offset by a positive EBITDA mix across the businesses.

The valuation using this methodology remained in excess of that determined using the updated discounted cash flow model and was therefore retained as the valuation basis for the carrying value of the investment. An impairment charge of £92.0m has been presented as an exceptional expense within the result for the year.



## Philips U.K. Limited

### Notes to the Financial Statements for the year ended 31 December 2022 (continued)

#### 11 Debtors

##### Debtors: amounts falling due within one year

	2022 £ 000	2021 £ 000
Amounts owed by group undertakings	<u>2</u>	<u>3</u>

#### 12 Creditors: amounts falling due within one year

	2022 £ 000	2021 £ 000
Amounts owed to group undertakings	<u>5</u>	<u>5</u>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

#### 13 Called up share capital

	No.	2022 £	No.	2021 £
Issued ordinary share of £1 each	<u>500,000,000</u>	<u>500,000,000</u>	<u>500,000,000</u>	<u>500,000,000</u>

#### 14 Immediate parent undertaking and ultimate parent undertaking

The immediate and ultimate parent undertaking and controlling party is Koninklijke Philips N.V., a company incorporated in the Netherlands. Koninklijke Philips N.V. is the parent undertaking of the smallest and largest group to consolidate these financial statements and copies of its consolidated financial statements can be obtained at [www.results.philips.com](http://www.results.philips.com) or from the Company Secretary, Philips Electronics UK Limited, Ascent 1, Aerospace Boulevard, Farnborough, GU14 6XW.

#### 15 Important events since the financial year end

There were no significant events between the Statement of Financial Position date and the date of signing of the financial statements, affecting the company, which require adjustment to or disclosure in the financial statements.