Financial update

Ron Wirahadiraksa
CFO Royal Philips

innovation + you

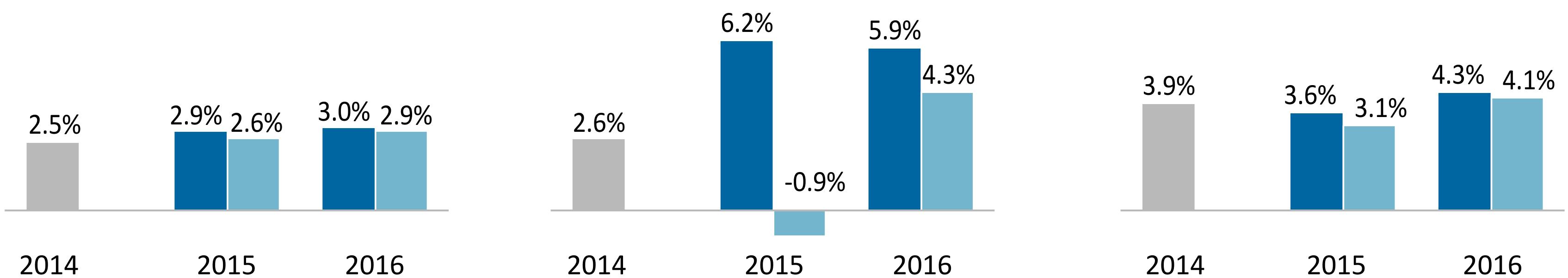
PHILIPS

Macro-environment continues to be challenging

Annual global growth in %

Actual | 2014 Forecast | 2015 Forecast

Real GDP[1] | **Healthcare spending[1]** | **Non-res construction[2]**



- Outlook remains fragile
- Growth geographies deteriorating:
  - Russia and Brazil declining
  - China <7%

- Negative impact of USD
- Flat capex and construction spending in the US in 2015[3]
- Healthcare construction +3.8% in Europe in 2015 and +0.8% in 2016[2]

- Mature markets outlook down, including US and Germany
- Slowdown in China and contraction in Brazil and Russia
- +1.8% in the US and +2.2% in Europe in 2015

[1] Source: Economist Intelligence Unit. [2] Source: IHS Global Insights. [3] Source: McGraw-Hill.

PHILIPS

Managing through deteriorating environment in growth geographies

Significant slowdown seen in China, Brazil and Russia

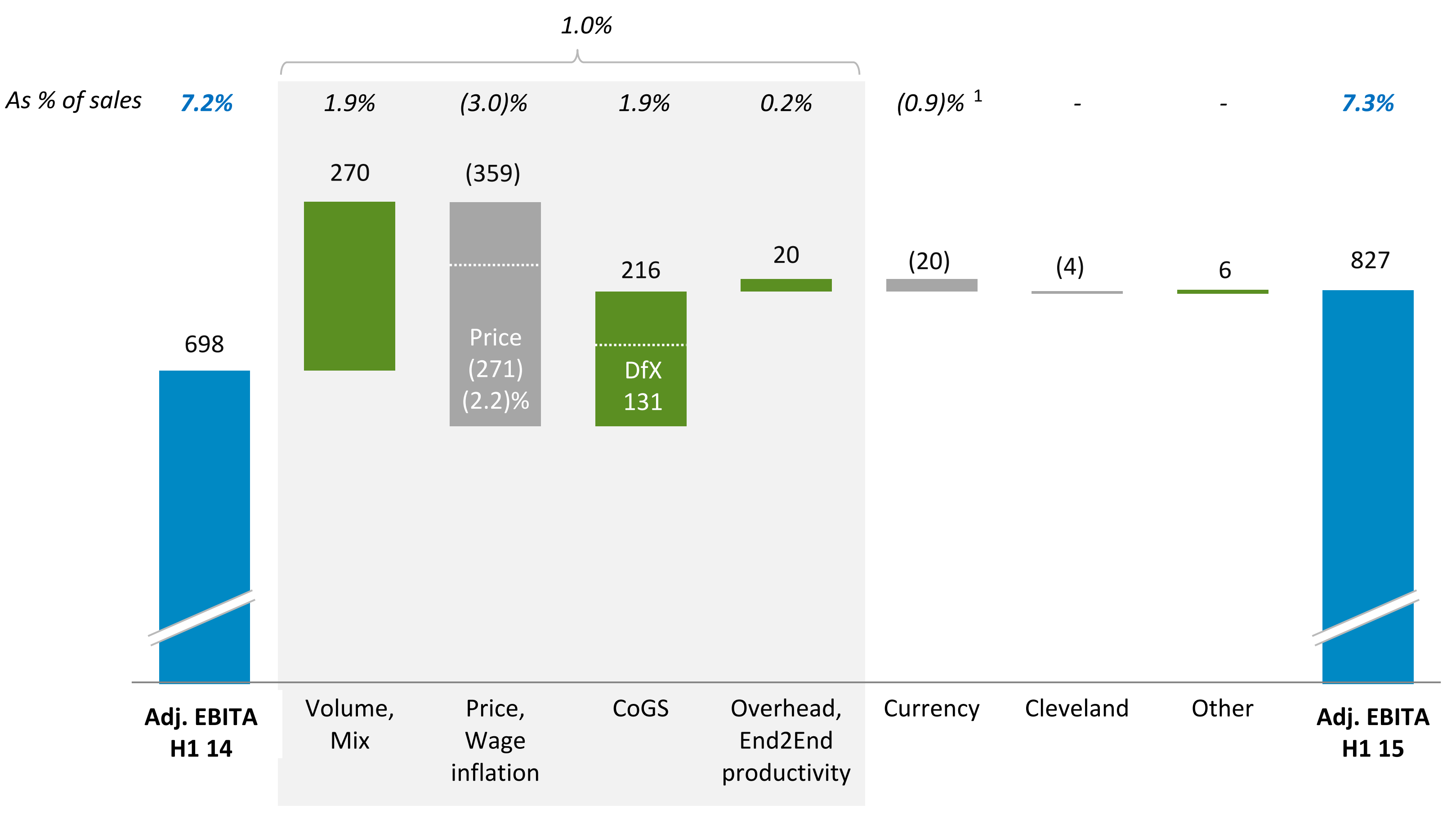
Combined, **these markets represent ~15% of revenues, with China ~10%**

China

Current challenges	• Macroeconomic slowdown, weak construction market • Anti-corruption measures, efforts to promote domestic innovation and centralized tendering in healthcare
Addressing challenges and improving long-term positioning	• Driving further efficiency, competitive cost structure • Continue to invest in innovation and pockets of growth • Focus on new market opportunities (e.g. private healthcare sector, fast-growing Health & Wellness business) • Driving solutions, new business models and strategic partnerships
Market outlook	• Healthcare and lighting markets expected to be subdued in H2 2015; gradual improvement expected in 2016 • Consumer Lifestyle businesses experiencing slower growth

PHILIPS

Accelerate! improved operational performance and offset headwinds in H1 2015



[1] Net effect of currency impact on sales and EBITA.

Trading update and outlook H2 2015

Factors positively impacting H2

- Cost savings programs and Excellence
- Good order backlog
- Cleveland production ramp-up
- Lower restructuring costs vs. LY
- Gradual improvement in Professional Lighting Solutions North America

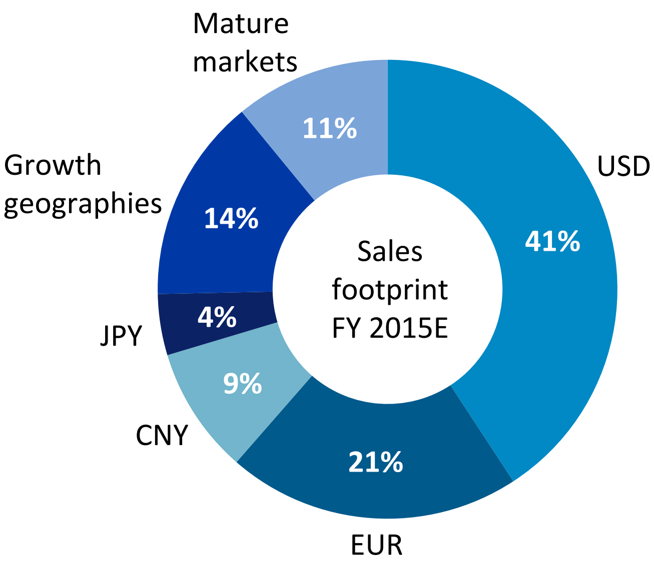
Factors negatively impacting H2

- Slowdown in growth geographies, especially China
- Currency impact on EBITA margin
- Remaining separation costs of EUR 160 - 260 million[1]
- Pension de-risking

We continue to expect modest comparable sales growth for 2015 and are focused on improving the adjusted EBITA margin compared to 2014

[1] Difference between guidance for FY 2015 of EUR 200-300 million and actual expenditure of EUR 40 million in H1 2015.

Recent currency developments lead to unfavorable impact for 2015



Summary of net position

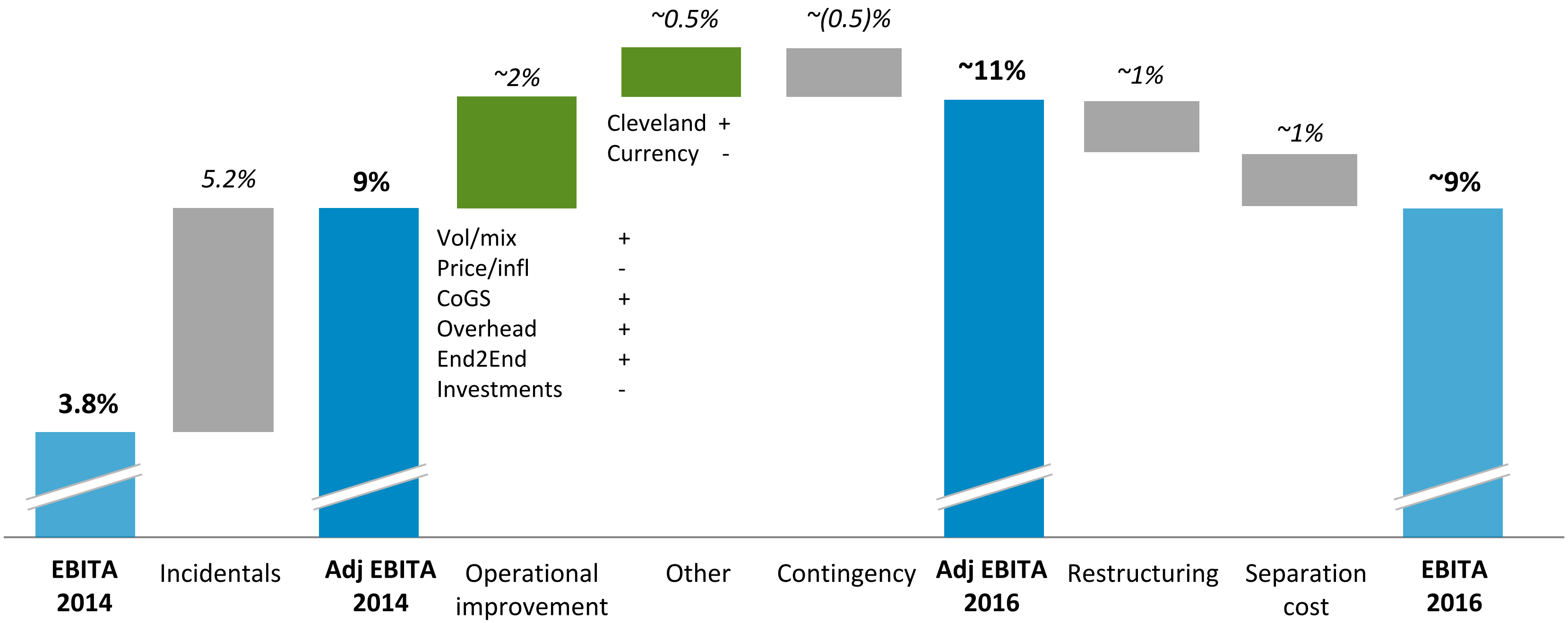
- Short position in USD
  - Short in Q1-Q3 and long in Q4 due to sales seasonality
  - USD footprint has changed; most notably by the intended sale of Lumileds/Automotive and Volcano acquisition
- Long in growth geographies' currencies (not entirely hedged): IDR, BRL, INR, RUB, etc.

EBITA impact in H2 2015 now expected to be slightly negative
Change vs. previous expectation is mostly driven by RUB, IDR, TWD and THB

Despite an expected positive EBITA margin impact in Q4, the FY 2015 impact is now expected to be negative

PHILIPS

Operational improvements offset macro risks and headwinds



We expect modest comparable sales growth and are focused on driving further operational EBITA improvement in 2016, while also investing in growth

Note: Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations.

Productivity programs continue to improve operational performance

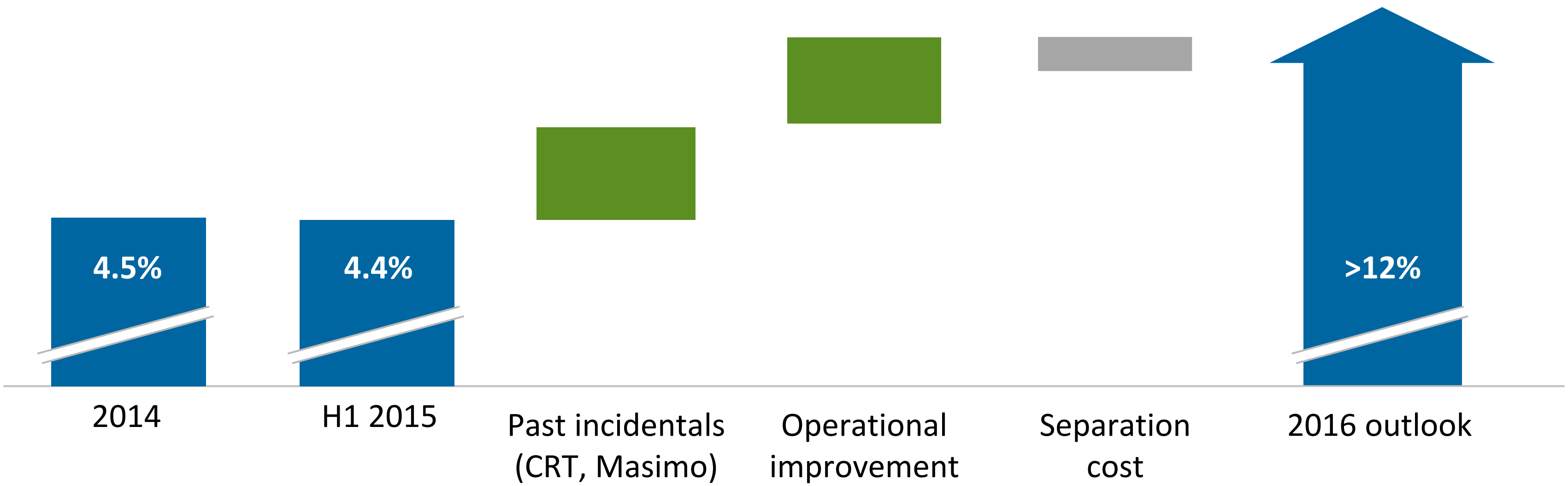
(EUR million)	**2014**	**2015**	**2016**
Incremental gross overhead cost savings in the period	284	265	200
Procurement	284	~300	~400
End2End productivity gains	79	~80	~90
Restructuring and investments[1]	(240)	(260)	(190)

All savings numbers are gross numbers

[1] Investments to enable overhead cost savings as well as on the overall execution of the *Accelerate!* transformation.

Operational improvement will drive ROIC growth

Return on Invested Capital (%)[1]



Strong progress towards structural ROIC improvement

- 2014 and H1 2015 impacted by incidentals
- ROIC expected to be >12% by 2016
- *Accelerate!* as a key enabler

[1] ROIC is EBIAT/NOC; NOC is average over the last 5 quarters. EBIAT is the sum of the last 4 quarters' earnings before interest after tax; reported tax used to calculate EBIAT.

Our businesses have strong cash conversion capabilities; driving further improvement

Driving structural improvements in working capital

- Philips Excellence, factory LEAN deployment (52% of sites covered by 2016)
- Philips Capital for specific services and solutions in growth geographies
- Partnering with suppliers to optimize trade payables

Capex needs will decrease over time

- Conventional lighting footprint optimization
- Significant part of HealthTech businesses are trending towards an assembly & testing model
- Divestment of capex-intensive businesses (Lumileds/Automotive)

The separation is on track

- Complex separation of highly-integrated operations
- Creating optimal infrastructure for two fit-for-purpose operating companies
- Critical major milestones have been reached
  - Most new legal entities incorporated
  - Completed organizational separation
  - Separated assets and liabilities of IG&S
- Next steps
  - Separate and optimize IT systems
  - Philips Lighting own legal structure by February 2016
  - New external reporting structure from Q1 2016 onwards
  - Execute capital market access: reviewing all strategic options for Philips Lighting

New reporting structure from Q1 2016 onwards

Philips Group						
HealthTech					**Lighting**	**Corporate items**[1]
Healthy Living	Prevention & Home Care	Diagnosis & Treatment	Monitoring, Informatics & Connected Care	Other		
Personal Care Domestic Appliances	Health & Wellness Personal Health Solutions Sleep & Respiratory Care	Diagnostic Imaging Ultrasound Image-Guided Therapy	Patient Care & Monitoring Sol. Healthcare Informatics, Sol. & Services	Royalties Central research Emerging businesses	Conventional lamps LED lamps, drivers & modules Professional Lighting Solutions Home Other	Legacy litigation Separation cost Stranded cost

Focus of external reporting

Historical pro-forma comparable numbers under new reporting structure will be provided prior to the Q1 2016 results publication

[1] Corporate items not related to Lighting.

PHILIPS

IG&S split

% of IG&S revenues/cost split – 2015E

	HealthTech	Lighting	Corporate items
Revenue - IP Royalties	100%	-	-
Cost - innovation, overhead and service units	85%	15%	-
Other/legacy	-	-	~100%

% of IG&S EBITA split – 2015E

	HealthTech	Lighting	Corporate items
Adjusted EBITA	45%	35%	20%
Reported EBITA	25%	25%	50%

- IG&S split results in a ~1.3% negative reported EBITA margin impact for HealthTech and ~2.4% for Lighting[1]
- Current IG&S revenues and costs expected to decline over time, due to declining license revenues and lower cost expenditure
- Corporate items not allocated to the two operating companies represent ~1% of Group sales

[1] Based on FY 2015E numbers.

PHILIPS

Creating two fit-for-purpose companies with a strong foundation for value creation

Right operating model and competitive cost structure	• Philips Business System to drive value creation • Single value-added layer enables cost savings and faster decision-making • Philips Excellence, Continuous Improvement (LEAN)
Drive value creation from market opportunities and execution of strategic priorities	• Appropriate infra-structure to enable new business models: Solutions organization, IT backbone, Philips Capital, risk management framework • Complete Volcano integration and realize synergies • Increase cash efficiency to fund growth and innovation
Appropriate share of assets and liabilities	• Balance sheet for both operating companies to be provided from Q1 2016 onwards • Until completion of the separation: - Other liabilities will be split based on originating entity - Existing debt reported under Royal Philips - Majority of DTA[1] reported under Royal Philips

[1] Deferred Tax Assets.

PHILIPS

Capital allocation

- Continue to invest in high ROIC organic growth opportunities to strengthen each business
- Disciplined but more active approach to M&A, with a focus on HealthTech, while continuing to adhere to strict return hurdles
- Committed to a strong investment grade credit rating
- Committed to dividend-stability and a 40% to 50% pay-out of continuing net income
- Complete the current EUR 1.5 billion share buyback program by October 2016

Key takeaways

- Challenging macro-environment, deterioration in certain growth geographies and unfavorable FX developments are impacting performance
- ***Accelerate!* program** continues to drive operational performance improvements
- Operational improvements support **modest CSG and ~11% adjusted EBITA in 2016**
- **Separation process** to create two fit-for-purpose companies is **on track**
- Move to **new reporting structure** from Q1 2016 onwards

PHILIPS