Expanding global leadership

Frans van Houten
CEO Royal Philips

innovation + you

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Key takeaways

- We are **well on our way** to creating **two winning companies**
- In **Lighting** we will reinforce our global leadership position and drive attractive financial returns
  - Maintaining **strong performance** in **Conventional**
  - **Driving growth** and **expanding margins in LED, Systems and Services**
- We have a **clear plan** to become the leader in the attractive **HealthTech** market and create value for shareholders
  - **Better serving customers** and **improving performance** to enable profitable growth
  - **Boosting growth and scale** in our current businesses
  - **Building integrated solutions** along the continuum, leveraging our leadership positions
- Our operational improvements support **modest CSG and ~11% adjusted EBITA in 2016**

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Continuing our multi-year *Accelerate!* journey to drive value creation

Accelerate!

Initiate new growth engines

- Invest in adjacencies
- Seed emerging business areas

Expand global leadership positions

- Invest to strengthen our core businesses
- Resource allocation to right businesses & geographies

Transform to address underperformance

- Turnaround or exit underperforming businesses
- Productivity & margin improvements
- Rebuild culture, processes, systems & capabilities
- Implement the Philips Business System

2011 — 2016

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Creating two winning companies

Royal Philips

Philips Lighting

HealthTech

EUR 140+ billion

HealthTech opportunity

Lighting

EUR 65+ billion

Lighting opportunity

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We are well on our way to creating two winning standalone companies

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Lighting: attractive and growing EUR 65+ billion market

Key macro trends drive lighting market growth

The world needs more light

The world needs more energy efficient light

The world needs more digital light

Overall market expected to grow 2–4%, with significant underlying shifts

Global lighting market forecast[1]

[1] Source: BCG. Excluding Automotive lighting and LED components market. [2] Only professional market and lifecycle data-enabled services.

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We are the clear global leader in lighting

Share of Lighting sales[1]

Components	Light Sources	Luminaires	Systems	Services

LED Components

Automotive

Lamps

42%

Global leader with #1 market share in every region

LED

15%

Global leader, with #1 market share in Europe and Americas

Luminaires, Systems and Services

for professional and home

43%

Global leader with #1 market share in professional in Europe, Latin America and Asia-Pacific[2]

- Leading positions in conventional and key growth businesses
- Global reach with unmatched channel strength, brand value 3x higher than the next competitor
- Recognized track record of innovation and strong patent portfolio
- Leading the transformation to LED, Systems & Services

[1] Sales last 12 months June 2015; excluding LED components and Automotive. [2] Excluding Japan.
Source: 2014 Interbrand valuation study, TNS HeartBeat customer, consumer survey, customer panels, industry associations and internal analysis.

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We are well positioned to capture opportunities in all parts of the global lighting market

Conventional Lamps

- Sustainable cost advantage from pro-active restructuring and economies of scale
- Market leadership in long-term sustainable segments
- Growing market share

LED

- Clear brand leadership in B2B and B2C, allowing for price premium
- Strong distribution and relationships with OEMs, wholesalers and retailers
- Leading innovator in electronic systems / drivers

Luminaires, Systems & Services

- Large, growing installed base
- Recognized expertise in lighting application
- Breakthrough in Systems & Services installations globally
- Partnerships for innovation and interoperability in homes
- Above-market growth of LED luminaires

Source: 2014 Interbrand valuation study, TNS HeartBeat customer and consumer survey.

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Experienced management team driving operational and financial performance improvements

Eric Rondolat
CEO Philips Lighting

Experienced Philips Lighting management team – led by Eric Rondolat

- Team with strong and deep experience across industries
- Brought in new talent to strengthen team further
- Broad lighting expertise, at the forefront of the transition to LED and connected lighting
- Extensive experience in both mature and growth geographies
- Proven track record of realizing cost savings and positioning the business for growth

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Lighting strategy and operational plan drives growth and cash flow generation

Our Lighting strategy

Optimize cash from Conventional to fund growth

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Fuel growth in LED, Systems and Services

- Innovate in LED products to outgrow market
- Lead the shift to Systems
- Capture adjacent value through new Services business models

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Boost performance and execution

- Be our customers' best business partner locally, leveraging our global scale
- *Accelerate!* our operational excellence improvement journey

Medium-term financial aspiration

- Driving profitable growth via sales and margin expansion
- Improving return on capital, limited capex required
- Increasing free cash flow generation

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HealthTech: a EUR 140+ billion market opportunity

Philips indicative addressable market 2014[1] and approximate CAGR 2014–18

Healthy living	Prevention	Diagnosis	Treatment	Home care
EUR 35+ billion	EUR 15+ billion	EUR 35+ billion	EUR 15+ billion	EUR 15+ billion
CAGR ~4%	CAGR >10%	CAGR ~6%	CAGR ~7%	CAGR >10%

Monitoring, informatics and connected care

EUR 25+ billion
CAGR ~4%

Mid to high-single-digit market growth

[1] Source: Philips Internal Study based on external sources such as COCIR, NEMA, Soreon, IBIS World.

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Profound market trends are driving the HealthTech opportunity

Consumers increasingly engaged in their health

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Shift to value-based healthcare will reduce waste, increase access and improve outcomes

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Care shifting to lower cost settings and homes

We see two major opportunities for Philips:

- "Industrialization of care": enabling providers to deliver lower-cost care and better outcomes
- "Personalization of care": driving convergence of professional healthcare and consumer health

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We target healthcare customer and consumer needs along the Health Continuum

Healthy living	Prevention	Diagnosis	Treatment	Home care
Help people to live a healthy life in a healthy home environment	Enable people to manage their own health	Ensure first time right diagnosis with personalized and adaptive care pathways	Enable more effective therapies, faster recovery and better outcomes	Support recovery and chronic care at home

Monitoring, informatics and connected care

Improve population health outcomes and efficiency through integrated care, real-time analytics and value-added services

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We have a unique position to tap into the HealthTech opportunity

We deliver **leading solutions** that improve **personalized health outcomes** and drive **better productivity** along the Health Continuum, building on our strengths:

Deep consumer and customer insights

Advanced technology and world class design capabilities

Deep clinical know-how and rich data sets

Broad channel access in home and clinical environment

Digital analytics and **clinical decision support** expertise

Trusted solutions partner with **strong Philips brand**

HealthSuite digital platform enabling solutions along the Health Continuum

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We build off strong leadership positions

Healthy living

Global leader[1]
Male electric shaving

#1 in China
Air

Prevention

Global leader
Power toothbrush

Global leader
Mother & Childcare

Diagnosis

Global top 3
Diagnostic imaging

Global leader
Ultrasound

Treatment

Global leader
Image-guided interventions

Home care

Global leader
Sleep & Respiratory Care

#1 in North America
Home Monitoring

Monitoring, informatics and connected care

Global leader
Patient Monitoring

#1 in North America
Cardiology Informatics

[1] Global leader: #1 or #2 position in the global market.
Source: GfK, Nielsen, Euromonitor, Frost and Sullivan, Home Healthcare TBS, PCMS market insight.

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We have a clear execution plan to deliver on our strategy

3

Build winning solutions along the Health Continuum leveraging our leadership in among others diagnostics, consumer health and patient monitoring

2

Boost growth and gain scale in our current businesses through innovation, new business models and targeted growth investments

1

Better serve customers and improve performance through continuation of our *Accelerate!* program, improved execution and leveraging the Philips Business System

Live our behaviors: Eager to win, Take ownership, Team up to excel, Always act with Integrity

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Much value still to be created by continuing our *Accelerate!* journey and leveraging the PBS[1]

1

Better serve customers, improve performance

- Ensure Quality and Compliance to better serve customers
- Drive operational excellence and speed to support growth
- Reduce costs to increase competitiveness and market reach

Ensuring Quality & Compliance

Example: ***Cleveland***

- Improved Quality and Compliance processes in Cleveland
- Now ramping up production and shipments
- Performance will improve further in 2016

Driving operational excellence

Example: ***Lean manufacturing***

- Deploying lean methodology in manufacturing sites, improving quality and productivity
- 16% of our sites in mature phase in 2014, will be over 50% by 2016

Reducing costs

Example: ***Procurement***

Cumulative gross savings in EUR million

Offering an improvement potential of 300-400 bps over the next 4–5 years

[1] PBS = Philips Business System.

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Innovation boosts growth and deeper customer relationships

2

Boost growth and gain scale

- Boost organic growth of key businesses through product innovation and deeper market penetration
- Build strong consultative relationships and win large scale deals
- Innovate business models and increase recurring revenues

Expanding leadership positions in pivotal businesses

Example: ***Oral Healthcare***

- Double digit sales growth in H1 2015
- Increasing market share in North America, China and Europe
- Growth driven by Diamond-Clean and AirFloss Pro

Example: ***Ultrasound***

- Double digit sales growth in H1 2015
- Increasing market share globally
- Expanding leadership with innovations, such as Lumify: an app-based ultrasound solution

Winning large scale deals

Example: ***Westchester Medical Center Health Network***

- USD 500 million, multi-year managed services partnership
- Transforming and improving healthcare for 3 million patients

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Integrated solutions open up new revenue growth and value creation

3

Build solutions along the Health Continuum

- Introduce patient- and disease-centric solutions leveraging adjacent leadership positions
- Execute focused M&A
- Establish HealthSuite as the leading cloud platform

Lead in integrated solutions in selected areas – with prudent investments in adjacencies and M&A

Example: ***Image-Guided Therapy***

- Leader in image-guided therapy systems
- Acquired Volcano: leader in intravascular imaging and measurement technologies

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VOLCANO
PRECISION GUIDED THERAPY

- Cost savings ahead of plan
- Commercial expansion of Volcano businesses into China and India
- To date, conversion of 10 non-Philips customers as result of channel synergies, more in pipeline

Other examples:

- Extending **Patient Monitoring** across all settings, incl. hospital and home 24/7
- **Cardiology** – supporting patients and health systems to effectively manage care along the patient journey
- **Oncology** – enabling first time right diagnosis, leveraging our position in imaging, pathology and informatics

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Evolving HealthTech performance to higher growth and returns

- Maintain **Healthy Living** growth profile through global scale, local relevance and geographic expansion, while continuing to boost margins, especially in domestic appliances
- Maintain **Prevention & Home Care** performance profile through innovation, especially by adding connectivity and Personal Health programs, and geographical expansion
- Improve **Diagnosis & Treatment** margins by focusing on operational excellence, accelerating growth with disease-specific solutions and innovation, and leveraging Volcano
- Boost growth in solutions and services in **Monitoring, Informatics and Connected Care** through investments in services, consumables, tele-health, informatics and consultancy. Operational excellence and R&D ROI lead to margin increase

Note: Current growth level refers to 2013-15 CAGR. Current margin level refers to 2015 expectation (prior to IG&S split).

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Continue to strengthen management team to create value in HealthTech

CEO

CEO – Royal Philips
Frans van Houten

Business segments

Healthy Living, Prevention & Home Care
Pieter Nota

Diagnosis & Treatment
Robert Cascella

Monitoring, Informatics & Connected Care
Frans van Houten

Markets

Markets
Ronald de Jong

Greater China
Patrick Kung / Andy Ho (per Nov 2015)

North America
Brent Shafer

Functions

Finance
Ron Wirahadiraksa

Human Resources
Denise Haylor

Legal
Marnix van Ginneken

Operations
Pasquale Abruzzese

- Strong and deep experience along all dimensions
- New healthcare talent brought in to further strengthen capabilities
- Proven track record of realizing business transformation and setting businesses up for growth

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Our plan for leadership in HealthTech

Our plan to grow Philips' HealthTech leadership

Build winning solutions along the Health Continuum leveraging our leadership in among others diagnostics, consumer health and patient monitoring

Boost growth and gain scale in our current businesses through innovation, new business models and targeted growth investments

Better serve customers and improve performance through continuation of our *Accelerate!* program, improved execution and leveraging the Philips Business System

Medium-term financial aspiration

- Improved performance with mid to high single-digit growth and mid to high-teens EBITA margins
- Step up investments in high ROIC organic growth opportunities
- Disciplined, but more active approach to M&A to accelerate growth in HealthTech

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Philips Group performance update

Our operational improvements support 2016 outlook; however macro risks and headwinds are increasing

- Expecting modest sales growth and further operational EBITA improvement in 2016
- Investing in growth and necessary transformation activities
- Managing internal and external challenges
  - Incidentals, e.g. de-risking of pensions
  - Lumileds transaction timing
  - Professional Lighting Solutions North America
  - Increasing macro risks

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