Royal Philips

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Bernstein - Pan European Strategic Decisions Conference
September 29, 2015
Important information

Forward-looking statements
This document and the related oral presentation, including responses to questions following the presentation, contain certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items. Examples of forward-looking statements include statements made about our strategy, estimates of sales growth, future EBITA and future developments in our organic business. By their nature, these statements 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 those expressed or implied by these statements.

These factors include, but are not limited to, domestic and global economic and business conditions, developments within the euro zone, the successful implementation of our strategy and our ability to realize the benefits of this strategy, our ability to develop and market new products, changes in legislation, legal claims, changes in exchange and interest rates, changes in tax rates, pension costs and actuarial assumptions, raw materials and employee costs, our ability to identify and complete successful acquisitions and to integrate those acquisitions into our business, our ability to successfully exit certain businesses or restructure our operations, the rate of technological changes, political, economic and other developments in countries where Philips operates, industry consolidation and competition. As a result, Philips’ actual future results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. For a discussion of factors that could cause future results to differ from such forward-looking statements, see the Risk management chapter included in the Annual Report 2014.

Third-party market share data
Statements regarding market share, including those regarding Philips’ competitive position, contained in this document are based on outside sources such as specialized research institutes, industry and dealer panels in combination with management estimates. Where information is not yet available to Philips, those statements may also be based on estimates and projections prepared by outside sources or management. Rankings are based on sales unless otherwise stated.

Use of non-GAAP Information
In presenting and discussing the Philips’ financial position, operating results and cash flows, management uses certain non-GAAP financial measures. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent IFRS measures and should be used in conjunction with the most directly comparable IFRS measures. A reconciliation of such measures to the most directly comparable IFRS measures is contained in our Annual Report 2014. Further information on non-GAAP measures can be found in our Annual Report 2014.

Use of fair-value measurements
In presenting the Philips’ financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that are deemed to be reliable. Readers are cautioned that these values are subject to changes over time and are only valid at the balance sheet date. When quoted prices or observable market data are not readily available, fair values are estimated using valuation models, which we believe are appropriate for their purpose. Such fair value estimates require management to make significant assumptions with respect to future developments, which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in our Annual Report 2014. Independent valuations may have been obtained to support management’s determination of fair values.

All amounts are in millions of Euro’s unless otherwise stated. All reported data is unaudited. Financial reporting is in accordance with the accounting policies as stated in the Annual Report 2014, unless otherwise stated.
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

• We have a clear plan to become the leader in the attractive HealthTech market and create value for shareholders

• Our operational improvements support modest CSG and ~11% adjusted EBITA in 2016
Strategic update
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**
We are well on our way to creating two winning standalone companies

2014
- Establishing Royal Philips (HealthTech) operating model
- Establishing stand-alone Philips Lighting structure

2015
- Assess strategic options for Philips Lighting
- Ongoing productivity measures across both organizations

2016
- Approval by Annual General Meeting of Shareholders
- Employees allocated
- Pro-forma financials
- New external reporting
- Complete separation
Creating two winning companies

Royal Philips

HealthTech

EUR 140+ billion
HealthTech opportunity

Philips Lighting

Lighting

EUR 65+ billion
Lighting opportunity
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

<table>
<thead>
<tr>
<th>Year</th>
<th>Systems &amp; Services</th>
<th>LED</th>
<th>Conventional</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
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</tbody>
</table>

+2–4% CAGR
EUR 75-85 billion

1 Source: BCG. Excluding Automotive lighting and LED components market. 2 Only professional market and lifecycle data-enabled services.
We are the clear global leader in lighting

- 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

### Share of Lighting sales

<table>
<thead>
<tr>
<th>Components</th>
<th>Light Sources</th>
<th>Luminaires</th>
<th>Systems</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>LED Components</td>
<td>Lamps 42% Global leader with #1 market share in every region</td>
<td>Luminaires, Systems and Services for professional and home</td>
<td>43% Global leader with #1 market share in professional in Europe, Latin America and Asia-Pacific</td>
<td></td>
</tr>
<tr>
<td>LED Components</td>
<td>LED 15% Global leader, with #1 market share in Europe and Americas</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Automotive</td>
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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.
Lighting strategy and operational plan drives growth and cash flow generation

Our Lighting strategy

- Optimize cash from Conventional to fund growth
- 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
- 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
HealthTech: a EUR 140+ billion market opportunity

Philips indicative addressable market 2014\(^1\) and approximate CAGR 2014–18

<table>
<thead>
<tr>
<th>Segment</th>
<th>Market Size 2014</th>
<th>CAGR 2014–18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthy living</td>
<td>EUR 35+ billion</td>
<td>CAGR ~4%</td>
</tr>
<tr>
<td>Prevention</td>
<td>EUR 15+ billion</td>
<td>CAGR &gt;10%</td>
</tr>
<tr>
<td>Diagnosis</td>
<td>EUR 35+ billion</td>
<td>CAGR ~6%</td>
</tr>
<tr>
<td>Treatment</td>
<td>EUR 15+ billion</td>
<td>CAGR ~7%</td>
</tr>
<tr>
<td>Home care</td>
<td>EUR 15+ billion</td>
<td>CAGR &gt;10%</td>
</tr>
<tr>
<td>Monitoring, informatics</td>
<td>EUR 25+ billion</td>
<td>CAGR ~4%</td>
</tr>
<tr>
<td>and connected care</td>
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\(^1\) Source: Philips Internal Study based on external sources such as COCIR, NEMA, Soreon, IBIS World.

Mid to high-single-digit market growth
Customers are confronted with many challenges

- Lower cost of care to offset lower reimbursement
- High quality of care
- Payer mix shift and consolidation
- System and IT integration to provide total care
- Talent attraction and retention
- Physician engagement
- Change management

- Patients engagement
- Mix of payers
- Regulatory requirements
- Payment reform
- Technology challenges
- Talent shortage
- Competition & Consolidation
- Physicians engagement
Profound market trends are driving the HealthTech opportunity

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
We target healthcare customer and consumer needs along the Health Continuum

- **Healthy living**: Help people to live a healthy life in a healthy home environment
- **Prevention**: Enable people to manage their own health
- **Diagnosis**: Ensure first time right diagnosis with personalized and adaptive care pathways
- **Treatment**: Enable more effective therapies, faster recovery and better outcomes
- **Home care**: 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
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
We build off strong leadership positions

Global leader: #1 or #2 position in the global market.
We are enabling connected care by helping customers transform to a networked, patient-centric delivery model.
Three key drivers of the transformation

<table>
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<tr>
<th>Transforming from</th>
<th>To</th>
<th>By</th>
</tr>
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<tbody>
<tr>
<td>Episodic</td>
<td>Continuous</td>
<td>Orchestrating comprehensive, 24/7 care with focus on the chronically ill</td>
</tr>
<tr>
<td>Fragmented</td>
<td>Connected</td>
<td>Connecting patients and care givers, utilizing integrated workflows and data</td>
</tr>
<tr>
<td>Volume</td>
<td>Value</td>
<td>Optimizing resources for better health outcomes across populations</td>
</tr>
</tbody>
</table>

Through information technology-based services and solutions
Westchester Medical Center Health Network

Customer needs

• Transformation into a regional health network and integrated health provider
• Financial security and sustainable growth through performance and business model innovation
• Access to new technology and global best practices, with a focus on delivering care as close to home as possible

Philips – Solution & results

• USD 500M, 15-year Enterprise Managed Services agreement
• Technology and services across portfolio: imaging, monitoring, tele-health, PACS, operations management, clinical and business consulting, education and IT integration
• Embedded Philips team
• Expansion opportunities
• Transform to new, consumer-centric care models
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
Financial update
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

<table>
<thead>
<tr>
<th>Current challenges</th>
<th>Addressing challenges and improving long-term positioning</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Macroeconomic slowdown, weak construction market</td>
<td>• Driving further efficiency, competitive cost structure</td>
</tr>
<tr>
<td>• Anti-corruption measures, efforts to promote domestic innovation and</td>
<td>• Continue to invest in innovation and pockets of growth</td>
</tr>
<tr>
<td>centralized tendering in healthcare</td>
<td>• Focus on new market opportunities (e.g. private healthcare sector, fast-growing Health &amp; Wellness business)</td>
</tr>
<tr>
<td></td>
<td>• Driving solutions, new business models and strategic partnerships</td>
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</tbody>
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### Market outlook

- Healthcare and lighting markets expected to be subdued in H2 2015; gradual improvement expected in 2016
- Consumer Lifestyle businesses experiencing slower growth
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
• 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 200-300M and actual expenditure of EUR 40M in H1 2015.
Operational improvements expected to increase margins by 200bps between 2014 and 2016

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.