



Company update and performance roadmap

Frans van Houten
CEO Royal Philips

Abhijit Bhattacharya
CFO Royal Philips

Management team present today

CEO / CFO	Segment Leaders	Market Leaders	Function Leaders
 <p><i>CEO</i> Frans van Houten</p> 	 <p><i>Personal Health</i> Egbert van Acht</p> 	 <p><i>Global Markets¹</i> Henk de Jong</p> 	 <p><i>Innovation & Strategy</i> Jeroen Tas</p> 
	 <p><i>Diagnosis & Treatment</i> Robert Cascella</p> 	 <p><i>North America</i> Brent Shafer</p> 	 <p><i>Operations</i> Sophie Bechu</p>  
 <p><i>CFO</i> Abhijit Bhattacharya</p> 	 <p><i>Connected Care & Health Informatics</i> Carla Kriwet</p> 	 <p><i>Greater China</i> Andy Ho</p> 	 <p><i>Legal</i> Marnix van Ginneken</p>  
			 <p><i>Human Resources</i> Ronald de Jong</p> 



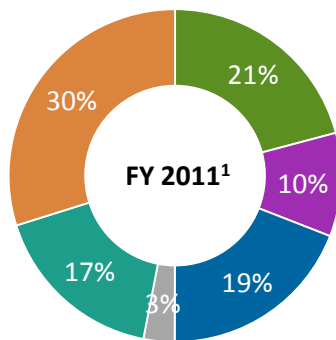
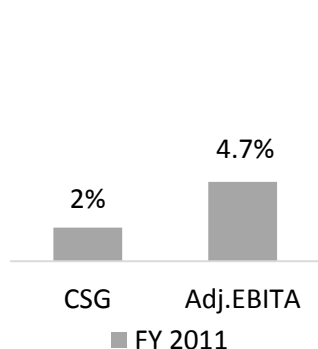
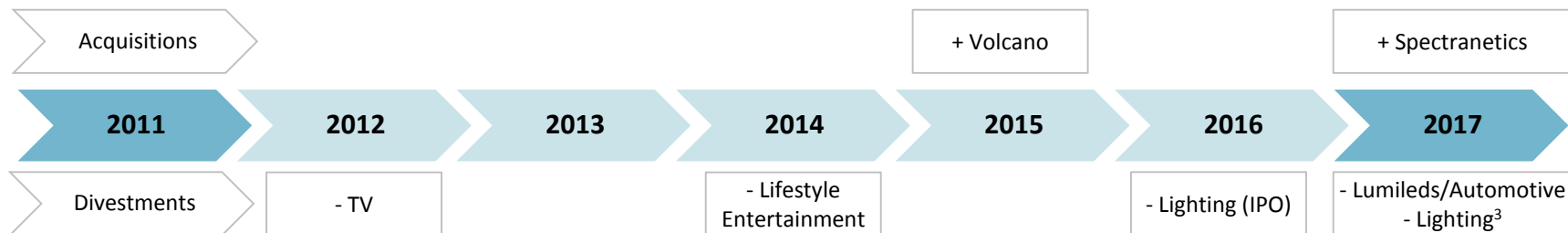
Key takeaways

- Philips has transformed into a focused global **HealthTech leader**
 - We operate in attractive, high-margin **growth markets**
 - Our **deep clinical expertise and consumer insights** differentiate us
 - Our **innovations** enable meaningful organic growth
- We **create value** for customers and shareholders by:
 - **Boosting growth in core business**
 - **Expanding in adjacencies**
 - **Improving margins**
- We target **4-6% organic growth** and on average an annual improvement of **100 bps adjusted EBITA margin** from 2017-2020

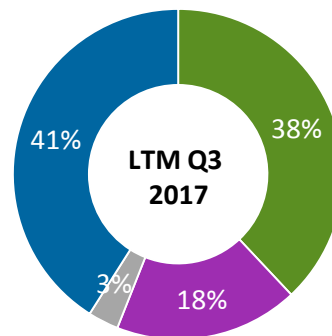


At Philips, we strive to
make the world
healthier and more
sustainable through
innovation

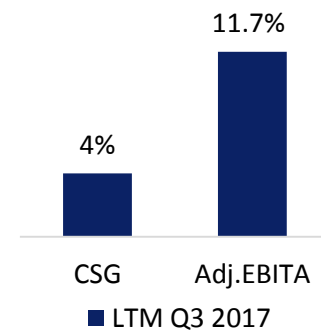
We have transformed into a focused HealthTech leader



Sales EUR 25 billion



Sales EUR 18 billion



■ Diagnosis & Treatment ■ Connected Care & Health Informatics ■ Personal Health ■ Other² ■ Lighting ■ TV/LE

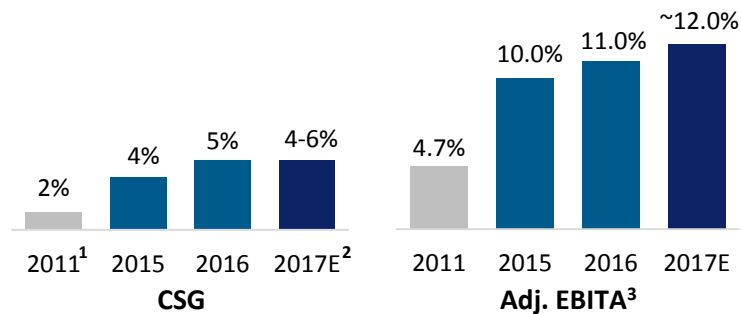
¹ Lighting includes combined business of Lumileds and Automotive in 2011, Personal Health in 2011 includes Sleep & Respiratory Care; ² Other includes HealthTech Other and Legacy Items; ³ Philips retains a 41% stake in Philips Lighting, reported as discontinued operations

Transformation driving improved performance and shareholder value

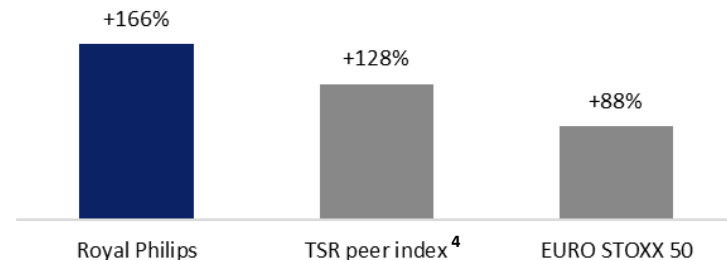
Accelerate! transformation program

- Portfolio management
- Customer centricity
- Resourced to win key battles
- Significant changes in culture and talent
- Established Philips Business System
- Operational excellence
- Productivity program savings >EUR 2 billion
- Addressed many legacy issues
- Repositioned and strengthened brand

Creating value



Increasing shareholder returns since 2012



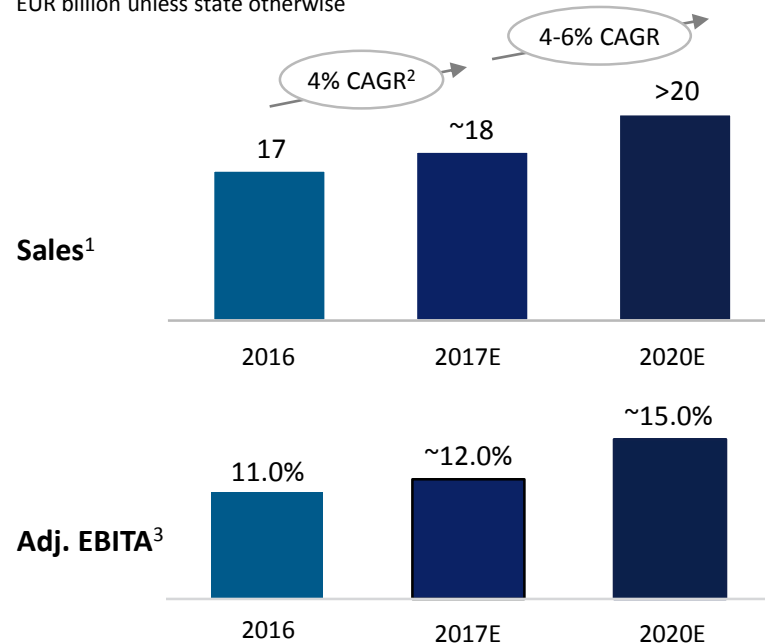
Path to value: 2017-2020

2017-2020 annual targets

Revenue growth	4-6% comparable sales growth rate
Margin expansion	On average 100 bps Adj. EBITA margin improvement
Increased cash generation	Free cash flow generation of ~EUR 1–1.5 billion
Improved return on invested capital	Organic plans ROIC improvement to mid-to-high-teens ROIC by 2020

Financial performance and outlook

EUR billion unless state otherwise



Our ~EUR 18 billion differentiated portfolio meets growing global health needs

Sales split by segment¹



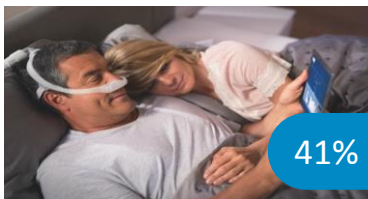
Diagnosis & Treatment

Enabling efficient, **first-time-right diagnosis** as well as **precision devices** and **therapies** through digital imaging and clinical informatics solutions



Connected Care & Health Informatics

Empowering consumers and care professionals with **monitoring, predictive patient analytics** and **clinical informatics solutions**

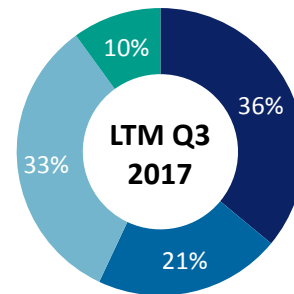


Personal Health

Enabling people to take care of their health by delivering **connected products** and **services**

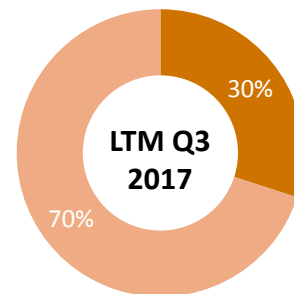
Sales split by geography

- North America
- Western Europe
- Growth Geographies²
- Other Mature Geographies



Sales split by mix

- Recurring
- Non-recurring



Our strong portfolio has >60% of sales from leadership positions in core businesses¹

Key businesses and leadership positions

Diagnosis & Treatment	Diagnostic Imaging <i>Global Top 3</i>	Ultrasound <i>Global Leader</i>	Image-Guided Therapy Systems <i>Global Leader</i>	Image-Guided Therapy Devices <i>Global Leader</i>	
				 	
	Patient Monitoring <i>Global Leader</i>	ICU Telemedicine <i>#1 in North America</i>	Non-invasive Ventilation² <i>Global Leader</i>	Personal Emergency Response <i>#1 in North America</i>	High-end Radiology and Cardiology Informatics <i>#1 in North America</i>
					
Personal Health	Male Grooming <i>Global Leader</i>	Oral Healthcare <i>Global Leader</i>	Sleep Care <i>Global Leader</i>	Respiratory Care <i>Global Leader</i>	Mother & Child Care <i>Global Leader</i>
					
					Healthy Breathing <i>#1 in China</i>
					

Our markets have sustained growth and attractive profit margins

Market trends



Population growth, aging, rise in chronic diseases



Consumerization of healthcare



Shift to outcome focused, value-based healthcare



Care to lower-cost settings



Consolidation



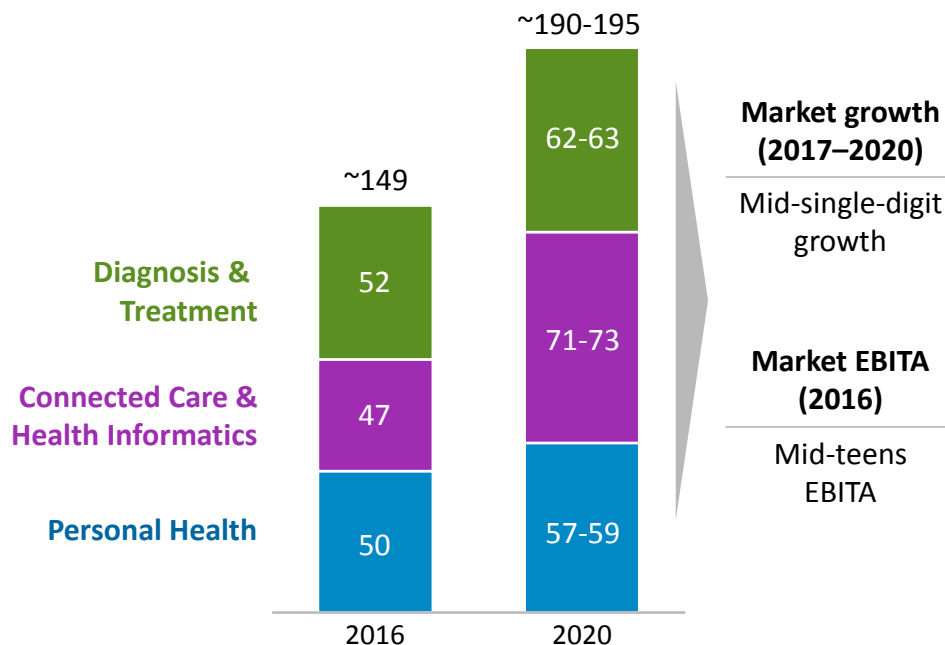
Precision medicine



Digitalization

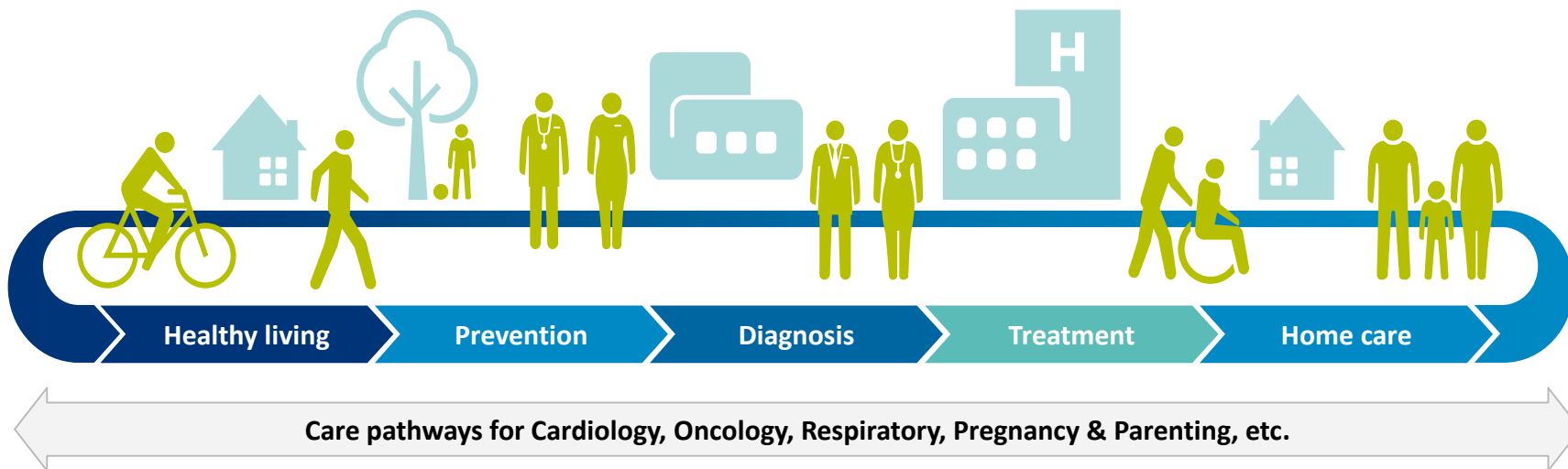
Markets increasing across segments¹

EUR billion



Health continuum drives our strategy

Driving better outcomes for people and higher productivity for care providers



Personalization of care

Driving **convergence** of professional healthcare and consumer health

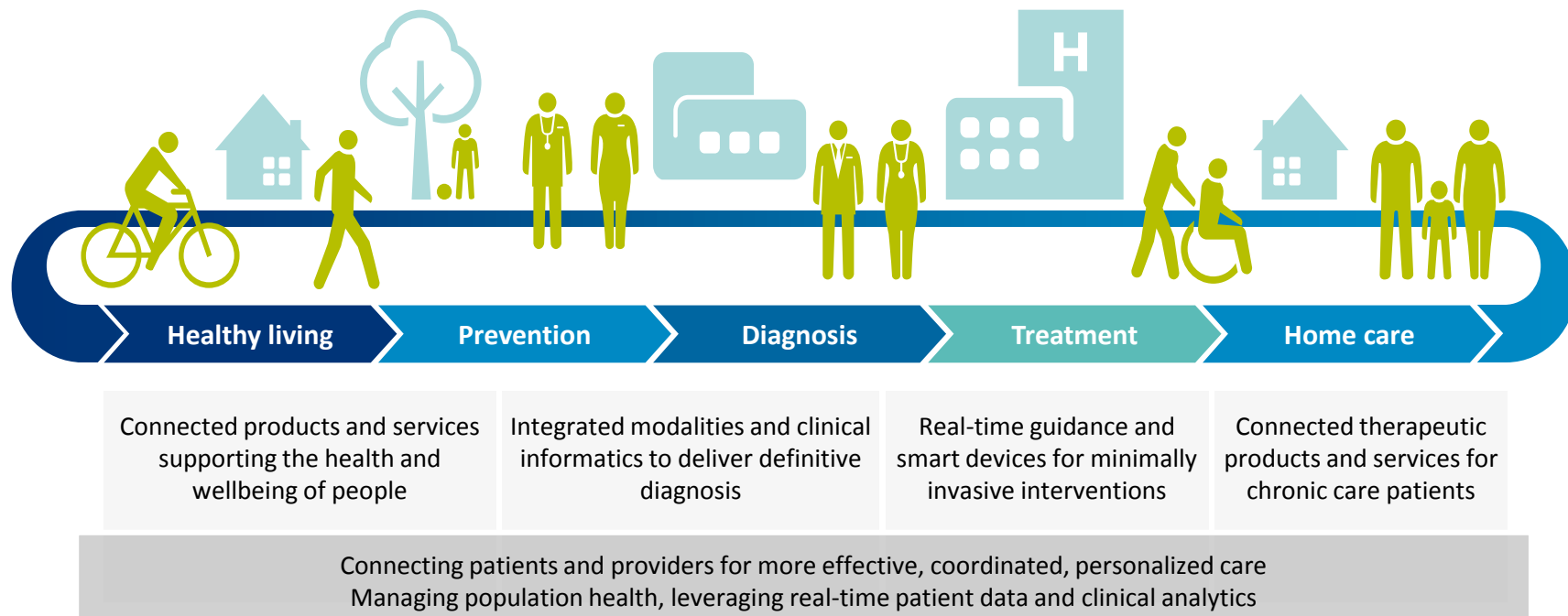
Industrialization of care

Enabling providers to deliver lower-cost care and **better outcomes**

Inclusive care

Increasing **access** to affordable care and making care more inclusive

With global reach, deep insights and leading innovations, we are uniquely positioned in the “last yard” to consumers & care providers



Innovation drives our growth and improves margins

Commitment towards innovation

- **Annual R&D spend: ~EUR 1.7 billion** (EUR ~300 million on breakthrough innovations)
- **Strong IP** portfolio: 58,000+ patent rights, 34,000+ trademarks, 40,000+ design rights
- 60%+ R&D professionals in software and data science
- Leadership in design thinking
- Clinical collaborations across major markets
- Global R&D footprint

Businesses growth

New product sales¹:

- Diagnosis & Treatment: ~40%
- Connected Care & Health Informatics: ~50%
- Personal Health: ~25%

Digital transformation

- Connected products to enable new business models
- Enable online services for consumers and customers

Productivity enhancements

- Disciplined portfolio and lifecycle management process
- Architecture, platform re-use
- Drive 40-60 bps in R&D productivity improvements by 2020²

Philips attracts top talent, customers and clinical partnerships

Internationally acclaimed	Worldwide talent	Robust customer base	Global clinical collaborations
<p>Largest EU patent applicant (2016, 2017)</p>  <p>-----</p> <p>Top innovations</p>  <p>-----</p> <p>Leading brands</p> 	<p>67,000+ employees</p> <p>120+ nationalities</p> <p><i>Applying our behaviors</i></p> <p><i>Eager to win</i> <i>Take ownership</i> <i>Team up to excel</i> <i>Always act with integrity</i></p> 	<p>Providers</p> <p>Top 20 US hospitals¹ choose Philips</p> <p>#1 Recommended by US Dental Professionals²</p> <p>-----</p> <p>Retailers</p> <p>11 of 15 largest international retailers³</p> <p>8 out of 10 largest global e-retailers⁴</p>	      

We are recognized for our commitment to sustainability

Focus on UN Sustainable Development Goals, in particular #3 and #12¹

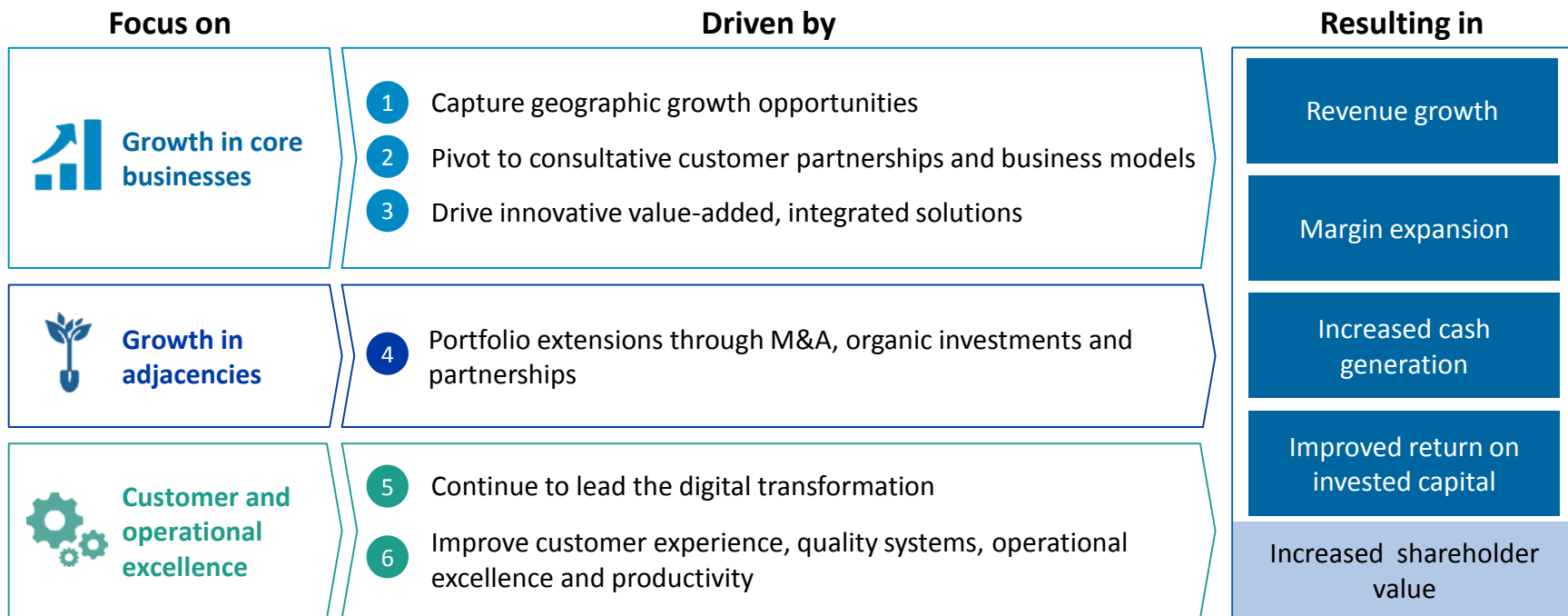


2.1 billion lives improved in 2016. Target to improve 3 billion lives a year by 2025

Drivers for continued growth and improved profitability



Growth and performance improvement drivers to continue delivering on our targets



Capture geographic growth opportunities

Example: Greater China growing to ~EUR 3 billion in revenue by 2020¹

Strong platform to driving high growth

- **Brand and innovation** leadership²
- **Strong local** organization and footprint
- Superior global operations and support
- ‘China Digital Innovation Hub’ creating **local solutions**
- Deep established clinical and consumer relationships
- Established e-Commerce presence

Annual mid-to-high-
single-digit growth

China examples driving future growth

Build strong
franchise
in oral healthcare

- Market leader: >50% share
- High growth: >50% CSG (2017E)
- Unmet need: <5% national household penetration³



Agile health systems
go-to-market

- Capturing growth in hospital sectors
 - Fast growing private sector: ~50% CSG (2017E)
 - Emerging demand in public sector: >~40% CSG (2017E) L1 and L2 public hospitals⁴



¹Based on current foreign exchange rates; ²Awards include: *Campaign Asia* top 5 branding ranking (increase from 16 in 2015), Best Multinational Companies for Innovation Practice in China by “China Business News” (2016-2017), *Most Innovative High-tech Enterprise - Multinational Corporation TOP10* by Chinese edition of “Scientific American”(2014-2016). ^{2nd} with the “Genius” digital IQ, among 113 brands in 15 personal care categories surveyed by business intelligence firm L2 (2016); ³Power toothbrush penetration; ⁴Level 1 and level 2 public hospitals

Pivot to consultative customer partnerships and business models: *enable value-based care*

Customer

Common goals, joint commitment
 Predictability, recurring revenues
 Outcomes-focused, shared responsibility
 Continuous improvement, innovate for the future



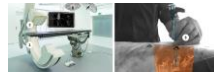
Creating a leading healthcare center



Cross-portfolio
equipment



Technology
management services



Clinical
innovation

14-year enterprise agreement, 2 leading facilities
 Enabled **on-time opening** of complex new facility
Augmented reality in surgical navigation innovation



Connected, consumer-centric health and value creation



Innovation incubator



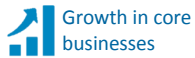
Solutions delivery



Technology advisor

15-year enterprise agreement, 28 hospitals
Growth in Cardiovascular, Fluoroscopy, Population Health
Executive Governance Board with Innovation Council

3



Innovative value-added, integrated solutions

Developed to better meet customer needs and capture greater value

Packaged suite of systems, smart devices, software and services

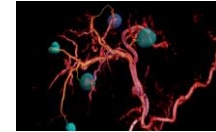
Image-Guided Therapy solutions



Image-Guided Therapy systems



Smart catheters



Disease-specific software



Cath lab management, services, consulting

Patient monitoring solutions



Monitoring



Cableless measurements, biosensors



IntelliVue Guardian software



Integration, services, consulting

Total sleep management solutions



Dream Series therapy devices



Care Orchestrator Platform



Patient services



DreamMapper patient engagement

PHILIPS

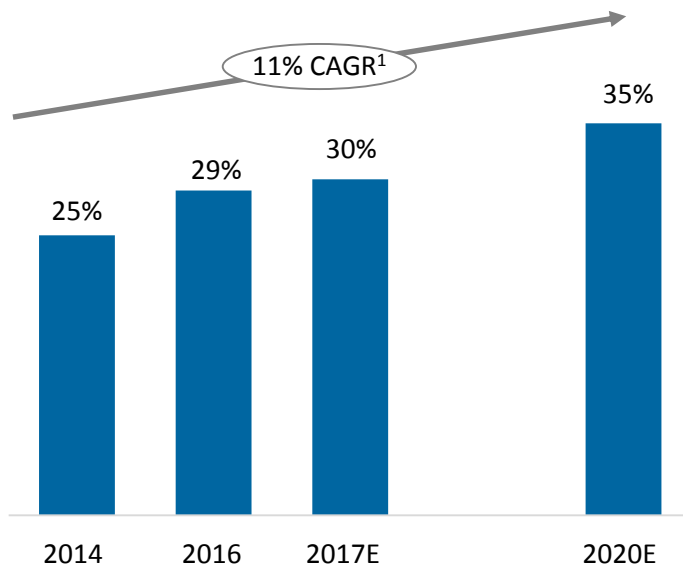


Solutions and partnership approach is working well

High growth with accretive margins, recurring revenue models

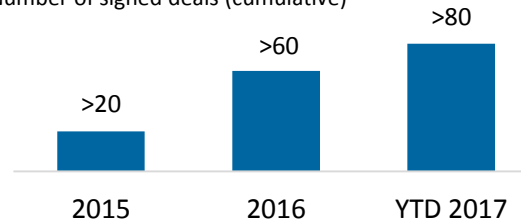
Solutions revenues: double-digit growth

% of total revenue



Expand large enterprise long-term partnership deals

Number of signed deals (cumulative)

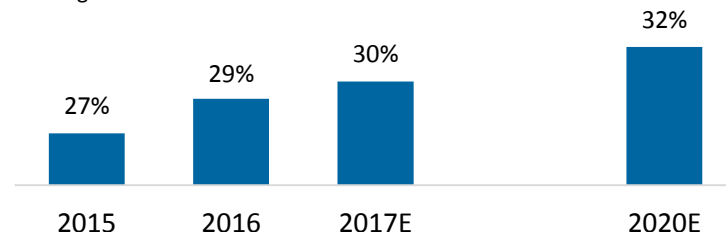


Best practice award



Increase revenue predictability

% recurring revenues





Portfolio extensions through disciplined M&A

Strategic objectives

- Expand leadership positions
- Acquire synergistic businesses, technologies, channels or expand geographic reach

Strong governance and financial discipline

- All M&A approved by Executive Investments and Alliances Committee through standard process
- Scorecard assessing opportunities based 12 KPIs (NPV/PP, IRR, ROIC>WACC, discounted payback period, ...)



Rapid post-merger integration to unlock value

- End-to-end process, fully integrated with the acquisition team
- Standard 'playbooks' drive quick 'plug & play' into Philips
- Leverage talent to achieve growth and margin expansion synergies

Highlights on progress to date



- ✓ **Sales growth:** Flat sales growth (2014) to double-digit sales growth (2016, 2017)
- ✓ Leveraged Philips global footprint to **expand to new geographies** (e.g., India, Canada)
- ✓ Synergies: **USD 40 million cost reduction** by 2016



- ✓ FDA approval for Stellarex (drug-coated balloon)
- ✓ Cross-selling opportunities for >500 accounts in the US
- ✓ Stellarex sales **cross-training** to **expand** US market launch
- ✓ Significant **procurement savings** from Philips contracts



Portfolio extensions through organic investments and partnerships

Organic growth investments

- **Medical-grade wearables**

Wearable biosensor for **real-time monitoring**



- **Digital Pathology**

Global market leader with **only FDA-approved** solution



- **HealthSuite Digital Platform**

Leading secure, cloud-based **digital ecosystem** to power healthcare solutions



Partnership extensions

B | BRAUN

Ultrasound-guided regional anesthesia and vascular access

Elekta **Iba**

PathAI **illumina**

Masimo

Targeted solutions to expand capabilities

amazon *Preferred web services provider*

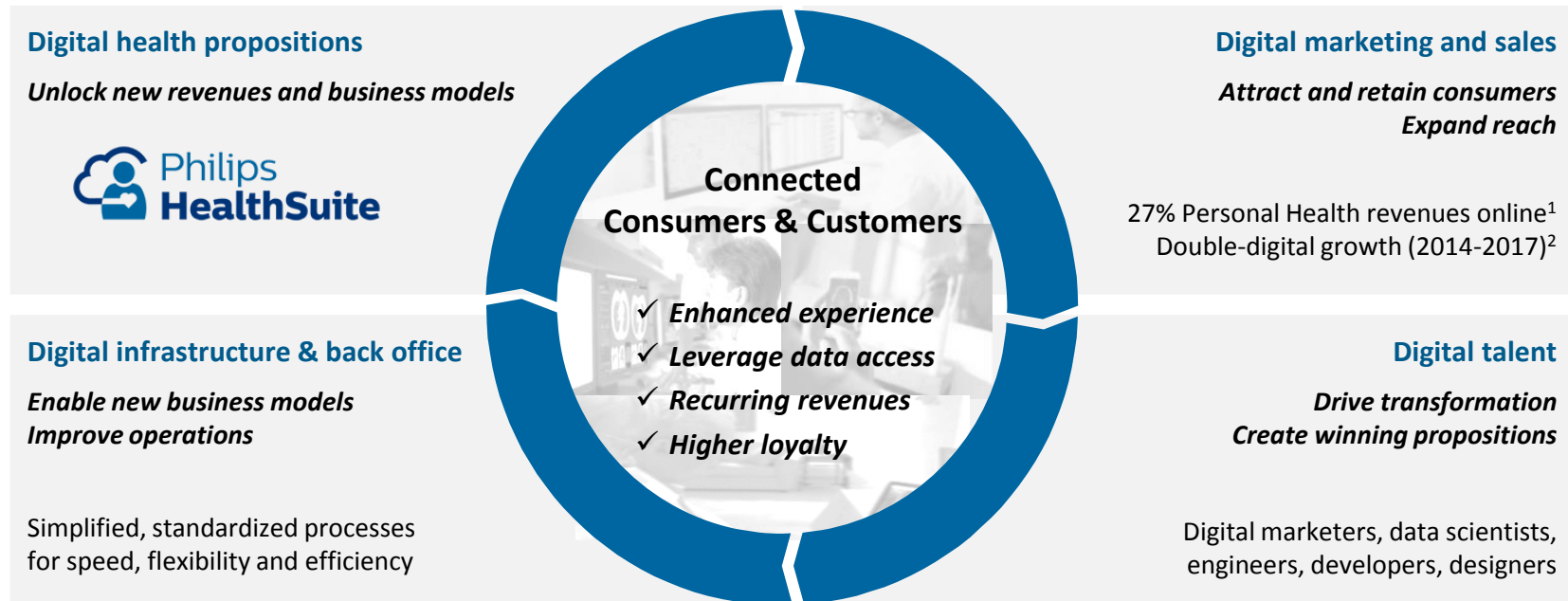
QUALCOMM LIFE
a Qualcomm company

Digital ecosystem infrastructure and connectivity

Deliver more than EUR 500 million in revenue by 2020

Continue to lead the digital transformation

Transition from transactional to relational customer engagement



Unlocking the full value of digital

New recurring revenue streams and enhanced customer loyalty

Connected data

- ✓ Devices (IoT)
- ✓ Apps
- ✓ Vital signs
- ✓ Imaging studies
- ✓ Pathology
- ✓ Genomics
- ✓ Lab tests
- ✓ EMR / EHRs
- ✓ Literature

Digital services



High value consumer and professional propositions

Avent uGrow

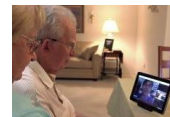
*Medical-grade
parenting*



>15M parents

Wellcentive Population Health

*Understand, navigate,
and activate patients*



>45M patients

Dream Family

*Patient-centric solutions that
connect patients and care team*



~5M connected
sleep devices

PHILIPS

Improve customer experience, operational excellence and productivity

Customer experience

- Customer-centric innovations:
 - Design-driven, customer co-creation
 - Our metrics aligned to customer metrics
- Supply chain performance optimization
- Focus on continuous customer lifetime excellence



#1 USA ServiceTrak rankings
across imaging modalities (2016)



Healthcare **design award**



Executive collaboration to
tackle key challenges

Productivity initiatives

Self-help initiatives to drive **EUR 1.2 billion in savings** (2017-2019):

- Procurement savings
- Manufacturing productivity
- Overhead cost reduction

Operational excellence

- Continue to apply Philips Business System and 'Design for Excellence' methodology
- Expansion of lean techniques
- Standardized Quality Management Systems





Commitment to Quality and Regulatory compliance

Significant investments are showing results

Dealing with past findings

- Agreement with the US government on a consent decree
 - Fully prepared to fulfill the terms of the decree
 - Focusing primarily on defibrillator manufacturing in the US
- Inspection of Cleveland facility; response to the observations, submitted for FDA review

Transforming quality system performance

- Significant Quality Management System Regulation compliance progress
- Cultural transformation
- Automated end-to-end CAPA¹ process
- All facilities in good standing with EU Notified Bodies²
- Proactive future EU medical device regulatory framework efforts

Building upon our momentum to reach EUR 20 billion¹ sales with significant return improvements

Focus on



Growth in core businesses



Growth in adjacencies



Customer and operational excellence

2017-2020 annual targets

4-6% comparable sales growth rate

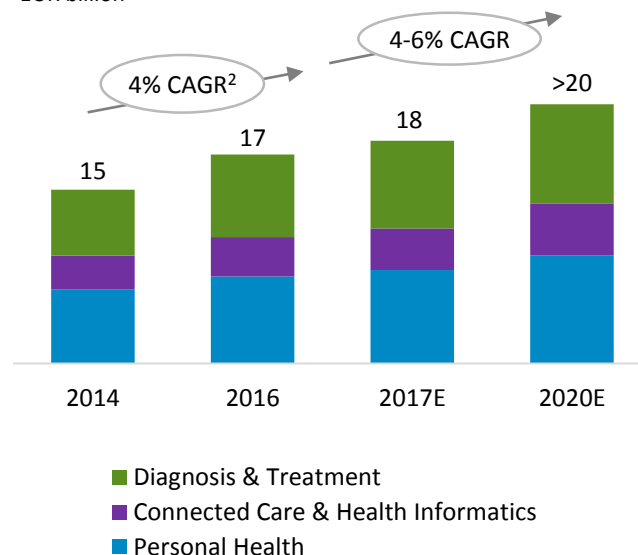
On average 100bps Adj. EBITA margin improvement annually

Free cash flow generation of ~EUR 1–1.5 billion annually

Organic plans ROIC improvement to mid-to-high-teens ROIC by 2020

Sales

EUR billion



Driving performance improvement





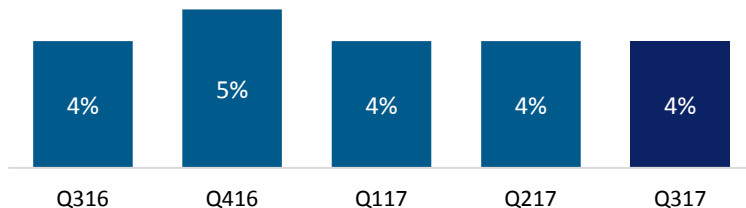
Key takeaways

- We are **delivering** on our objectives of **4-6% organic growth** and on average **100bps Adj. EBITA margin** improvement annually
- Our productivity programs are on track to deliver **EUR 1.2 billion savings** by 2019
- Strong Balance Sheet management has significantly **improved working capital, cash flow, profitability** and **de-risked liabilities**
- **Balanced capital allocation** with investments in M&A and returns to shareholders, while increasing ROIC to **mid-to-high-teens**

Delivering 4-6% Comparable Sales Growth

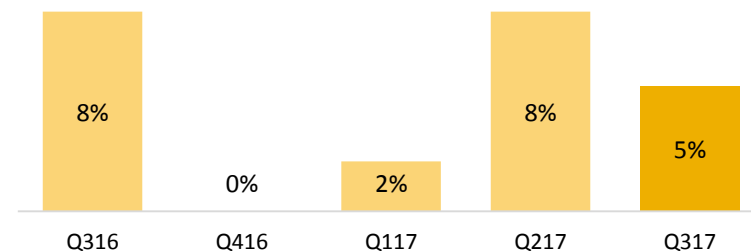
Comparable Sales Growth % ¹

Last twelve months



Order Intake Growth % ¹

Quarterly



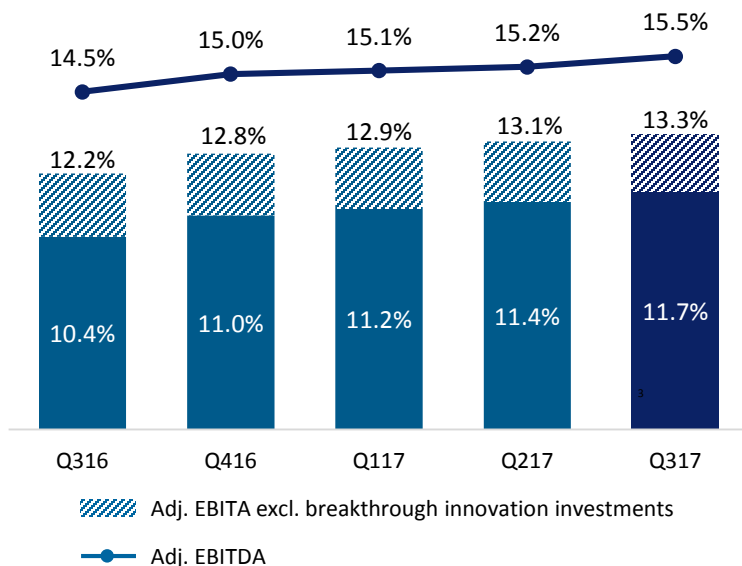
- Growth driven by:
 - Innovation: new products and solutions
 - Geographic expansion
 - Expansion in adjacencies

- Quarter-end order book is a leading indicator for ~30% of sales the following quarter
- Approximately 70% of the current order book results in sales within the next 12 months

Delivering ~100 bps Adj. EBITA margin improvement

Adj. EBITA and EBITDA % ^{1,2}

Last twelve months



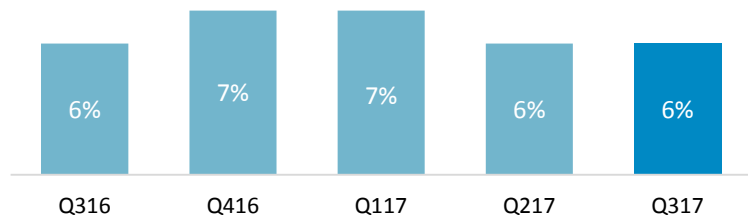
- 130 bps year-on-year profitability improvement driven by:
 - ✓ Organic growth investments
 - ✓ EUR 1.2 billion productivity program
- We invest around EUR 300 million in breakthrough innovation and Emerging Businesses to drive future growth and profitability
- Adjusted EBITDA improvement of 100 bps to 15.5% or EUR 2.8 billion on the last twelve months basis

Personal Health consistently improving performance

Delivering above-market growth

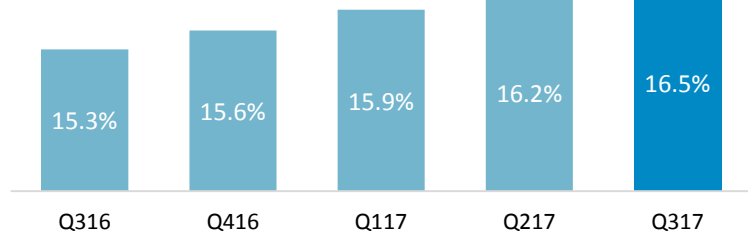
Comparable Sales Growth %

Last twelve months



Adj. EBITA % ¹

Last twelve months



- Improved performance driven by:
 - Innovative new product introductions
 - Geographic expansion
 - High-impact consumer marketing programs
 - Operating leverage
 - Effective portfolio management

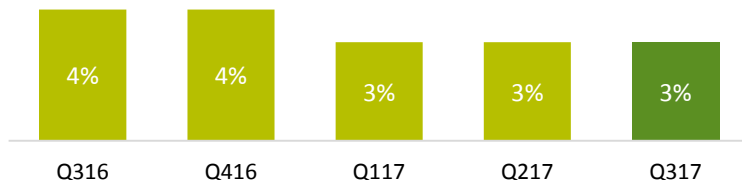
Sustain mid- to high-single-digit growth and improve margins to 17-19% by 2020

Driving operational excellence in Diagnosis & Treatment

Leading performance in Ultrasound and IGT, DI focus on profitability improvement

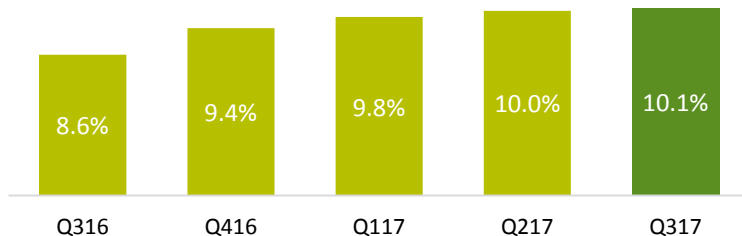
Comparable Sales Growth %

Last twelve months



Adj. EBITA % ¹

Last twelve months



- 6.5% YTD order intake supports performance improvement
- New product introductions and productivity measures will improve performance in Diagnostic Imaging
- Image-Guided Therapy margin expansion driven by Azurion platform and further Volcano and Spectranetics synergies
- Ultrasound expanding leadership in Cardiovascular with strong growth in OB/GYN

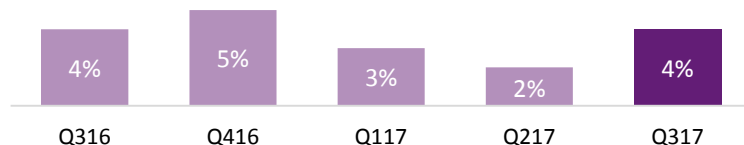
Above-market growth (3-5%) and
improve margins to 14-16% by 2020

Growth accelerating in Connected Care & Health Informatics

Investing to support transition to value-based care

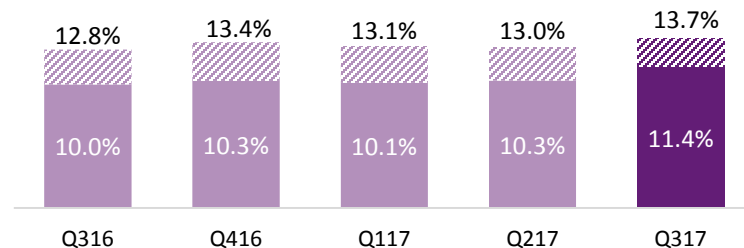
Comparable Sales Growth %

Last twelve months



Adj. EBITA % ¹

Last twelve months



▨ Adj. EBITA excl. breakthrough innovation investments

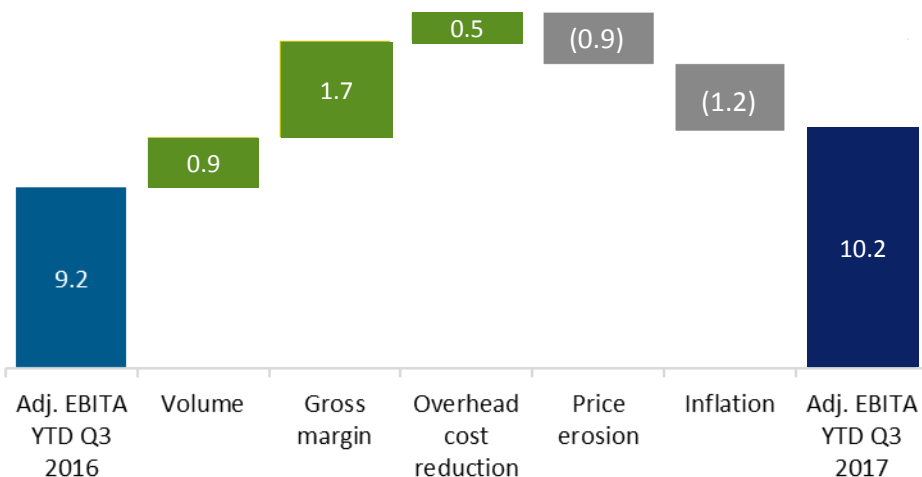
- Returning to strong growth is due as new product launches make impact, and strong order book converts to revenue
- Further performance improvement through:
 - New product and solution introductions
 - Productivity initiatives
 - Operating leverage
- Around EUR 75 million invested in breakthrough innovation for biosensors, HealthSuite Digital Platform, Population Health Management and Healthcare Informatics

Mid- to high-single-digit growth and improve margins to 14-16% by 2020

Productivity initiatives of EUR 1.2 billion to drive ~100 basis points annual improvement until 2020

Adj. EBITA % ¹

YTD Q3 2017



Adj. EBITA step-up drivers

Volume

- Geographic expansion
- New product introduction
- Strong order intake
- Operating leverage

Gross margin

- Procurement
- Manufacturing productivity
- Mix improvement

Overhead cost reduction

- Standardization of back offices with Global Business Services
- IT landscape simplification

✓ On track

- EUR 1.2 billion productivity initiatives
- ~100bps Adj. EBITA margin improvement annually




CMD 2016	1.0%	1.9%	0.5%	(1.3)%	(1.1)%	~100 bps
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Productivity initiatives on track to deliver EUR 1.2 billion¹ savings

Adj. Gross Margin improved by 160 bps over the last twelve months

2017–2019 targets

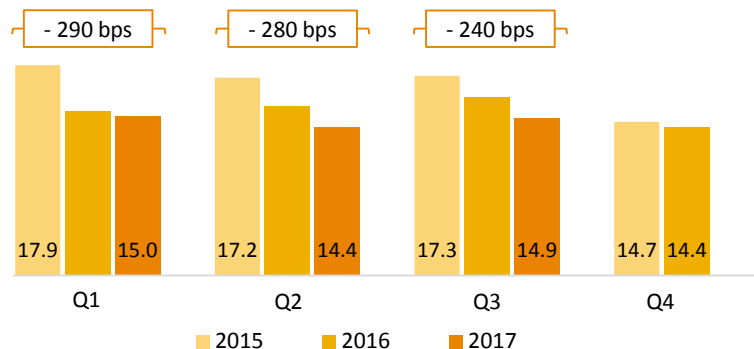
YTD Q3 2017

Procurement savings  EUR 700 million	<ul style="list-style-type: none">✓ Driven by DfX program: End-to-end approach to product creation, with one integrated procurement team, supply chain, R&D, marketing, finance	EUR 179 million
Manufacturing productivity  EUR 200 million	<ul style="list-style-type: none">✓ Consolidating regional manufacturing footprint✓ Targeted to move from 50 to ~30 production locations<ul style="list-style-type: none">— 9 locations completed by 2017✓ Reductions in overhead costs	EUR 112 million
Overhead cost reduction  EUR 300 million	<ul style="list-style-type: none">✓ Focused on supporting functions like IT and Finance✓ Roll-out of a new IT infrastructure✓ Delaying the organisation and broadening a span of control	EUR 59 million

Strong actions to improve working capital

Significant improvement in inventories, overdue receivables and working capital

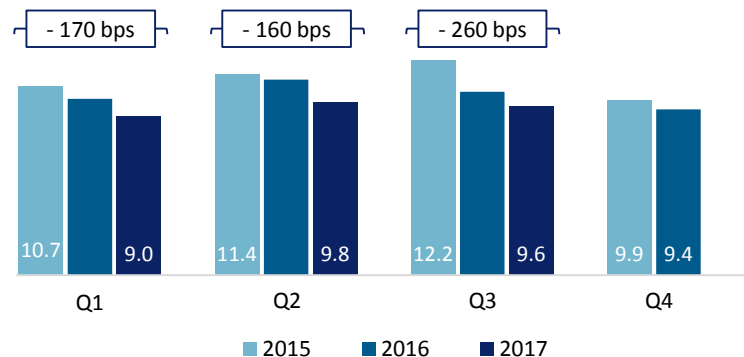
Inventory % ¹



Significant reduction in inventory:

- ✓ Leaning out end-to-end supply chain, improving cycle time and quality
- ✓ Strong focus on aged inventory

Working Capital % ^{1,2}



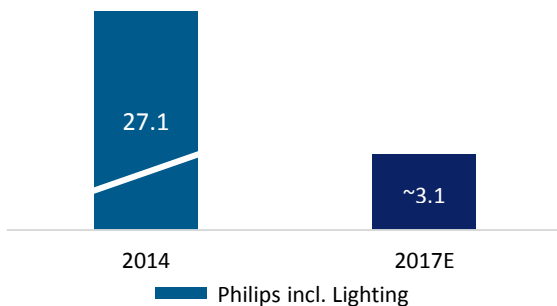
Continued focus on working capital:

- ✓ Strong reduction of overdue receivables
- ✓ Partnering with suppliers on payment terms
- ✓ Strong performance management

Ongoing actions to drive balance sheet efficiency and improve cash conversion

Pension Defined Benefit Obligation

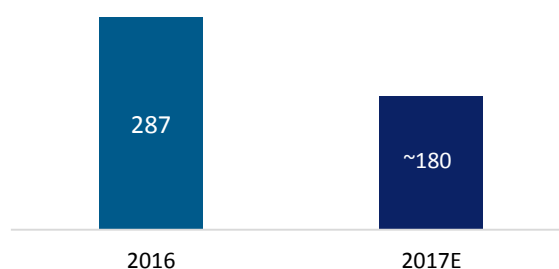
EUR billion



- ✓ USD 250 million contribution to the US pension plan in Q3 2017
- ✓ Termination of Brazil Defined Benefit pension plan in Q4 2017

Interest costs on debt & borrowings

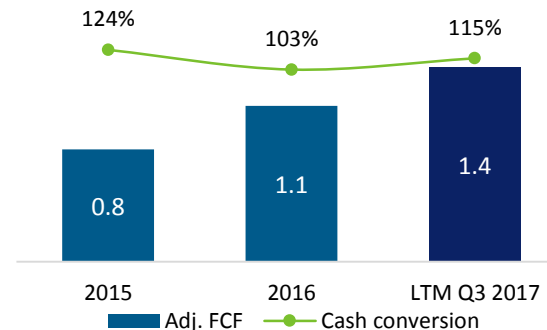
EUR million



- ✓ Redeemed USD 1.5 billion high-interest debt
- ✓ Issued EUR 1 billion bonds at attractive rates in Q3 2017
- ✓ Average interest on long-term debt reduced from 5.4% to 3.6%
- ✓ Reduced yearly interest expenses by over EUR 100 million

Adj. Free Cash Flow Conversion ¹

EUR billion



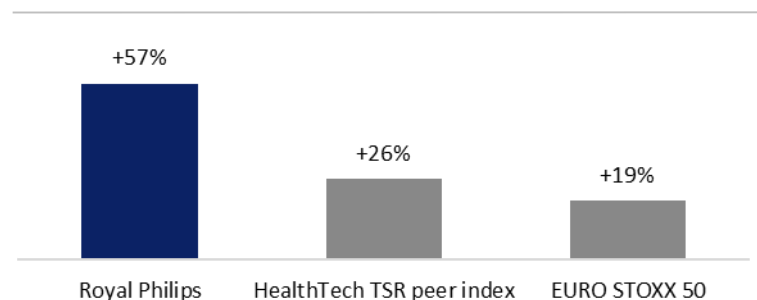
- Strong cash flow conversion
- Forward looking:
 - Targeting >90% cash conversion rate
 - Free cash flow generation of EUR 1–1.5 billion annually

Disciplined capital allocation policy

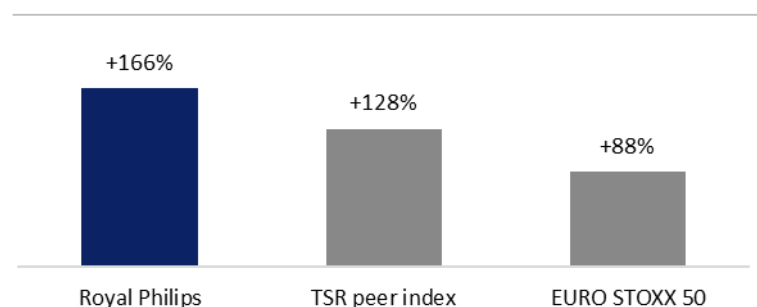
Attractive shareholder returns balanced with investments for growth

- Continue to invest in high ROIC organic growth opportunities
- Disciplined but more active approach to M&A, while continuing to adhere to strict return hurdles
- Committed to a strong investment grade rating
- Dividend policy aimed at dividend stability
- EUR 1.5 billion share buyback program for two years starting Q3 2017
- Continued focus on driving balance sheet efficiency

Total shareholder returns since 2016 ^{1,2}



Total shareholder returns since 2012 ^{1,3}

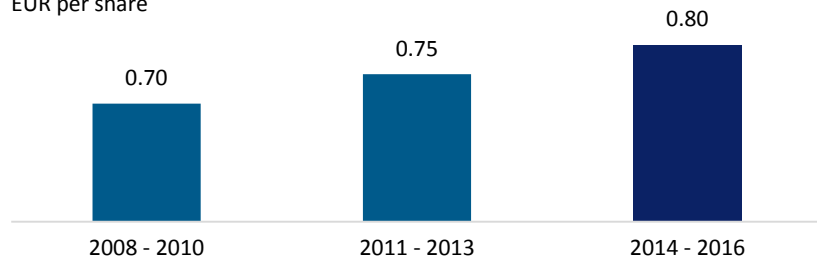


Disciplined capital allocation policy

Proven track record

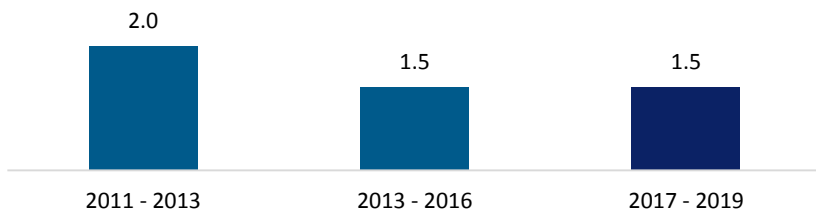
Dividends

EUR per share



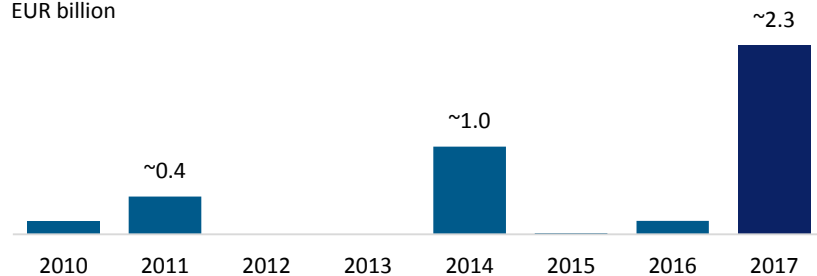
Share buyback

EUR billion

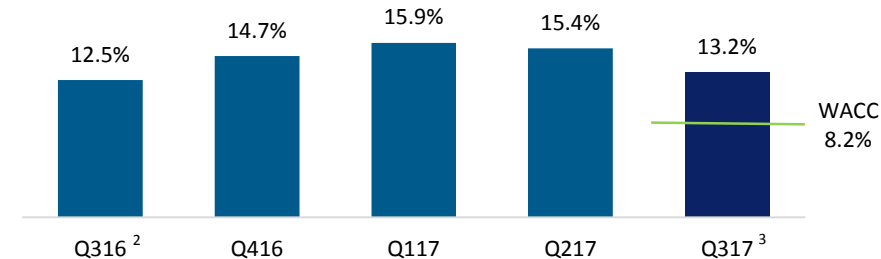


Merger & Acquisitions ¹

EUR billion



Return on Invested Capital



Building upon our momentum to reach EUR 20 billion¹ sales with significant return improvements

Focus on



Growth in core businesses



Growth in adjacencies



Customer and operational excellence

2017-2020 annual targets

4-6% comparable sales growth rate

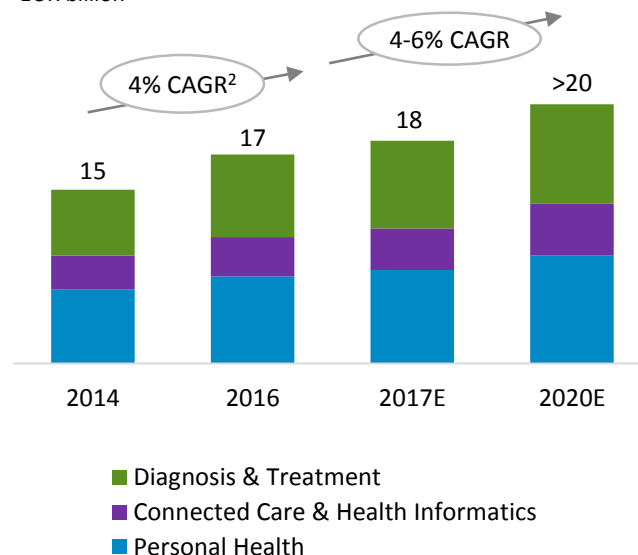
On average 100bps Adj. EBITA margin improvement annually

Free cash flow generation of ~EUR 1–1.5 billion annually

Organic plan ROIC improvement to mid-to-high-teens by 2020

Sales

EUR billion





Key takeaways

- Philips has transformed into a focused global **HealthTech leader**
 - We operate in attractive, high-margin **growth markets**
 - Our **deep clinical expertise and consumer insights** differentiate us
 - Our **innovations** enable meaningful organic growth
- We **create value** for customers and shareholders by:
 - **Boosting growth in core business**
 - **Expanding in adjacencies**
 - **Improving margins**
- We target **4-6% organic growth** and on average an annual improvement of **100 bps adjusted EBITA margin** from 2017-2020

