Philips Lighting reports 0.5% full year comparable sales growth, 10% operational profitability and EUR 403 million free cash flow

Q4 & Full Year 2017 presentation

February 2, 2018

PHILIPS Lighting

Important information

Forward-Looking Statements and Risks & Uncertainties

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Market and Industry Information

All references to market share, market data, industry statistics and industry forecasts in this document consist of estimates compiled by industry professionals, competitors, organizations or analysts, of publicly available information or of the Group’s own assessment of its sales and markets. Rankings are based on sales unless otherwise stated.

Non-IFRS Financial Statements

Certain parts of this document contain non-IFRS financial measures and ratios, such as comparable sales growth, adjusted gross margin, EBITA, adjusted EBITA, EBITDA, adjusted EBITDA and free cash flow, and other related ratios, which are not recognized measures of financial performance or liquidity under IFRS. The non-IFRS financial measures presented are measures used by management to monitor the underlying performance of the Group’s business and operations and, accordingly, they have not been audited or reviewed. Not all companies calculate non-IFRS financial measures in the same manner or on a consistent basis and these measures and ratios may not be comparable to measures used by other companies under the same or similar names. A reconciliation of these non-IFRS financial measures to the most directly comparable IFRS financial measures is contained in this document. For further information on non-IFRS financial measures, see “Chapter 17 Reconciliation of non-IFRS measures” in the Annual Report 2016.

Presentation

All amounts are in millions of euros unless otherwise stated. Due to rounding, amounts may not add up to totals provided. All reported data are unaudited. Unless otherwise indicated, financial information has been prepared in accordance with the accounting policies as stated in the Annual Report 2016.

Market Abuse Regulation

This presentation contains information within the meaning of Article 7(1) of the EU Market Abuse Regulation.

Agenda

Welcome & introduction by Eric Rondolat

Highlights for Q4 2017 by Stéphane Rougeot

Highlights for the year 2017 by Eric Rondolat

Outlook & conclusion by Eric Rondolat

Q&A

Welcome & introduction

- Returned to positive comparable sales growth in 2017, driven by the growth of LED and connected lighting Systems & Services, which demonstrates the successful execution of our strategy

- Operational profitability improved by 90 basis points to 10%
- Delivered free cash flow of EUR 403m
- Home exceeded the break-even level

- Improved customer Net Promoter Score and remain committed to meeting the needs of our customers through innovation
- Sustainability is at the core of our strategy; honored #1 in the Electrical Components and Equipment category of the Dow Jones Sustainability Index

- Continued progress to achieve strategic goals and medium-term financial objectives
- Executing concrete actions to continue to improve our cost base
- Continue to invest in growth opportunities, provide a return to shareholders and optimize our balance sheet

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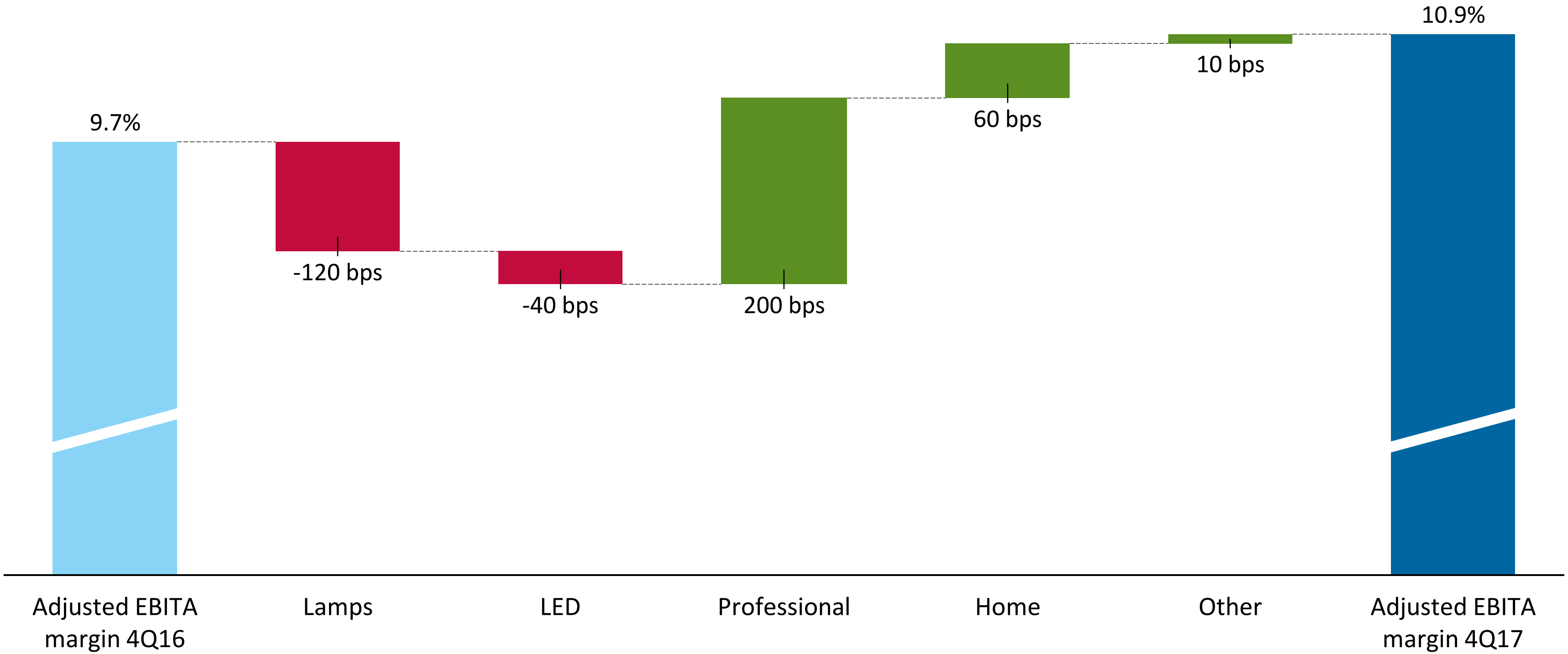
Growth and margin improvement mainly driven by Professional & Home

4Q17	CSG %	Adjusted EBITA (EURm)	vs LY (EURm)	Adjusted EBITA %	vs LY (bps)
Lamps	-18.4%	76	-34	17.3%*	-180
LED	5.1%	46	-7	10.4%	-160
Professional	11.2%	95	+44	12.2%	+530
Home	37.3%	20	+17	8.5%	+680
Philips Lighting	**3.0%**	**207**	**+19**	**10.9%**	**+120**

* Includes a one-off (non-cash) negative impact of 120 bps from adjusting the calculation method for unrealized intercompany profits

Increased profitability driven by Professional and Home



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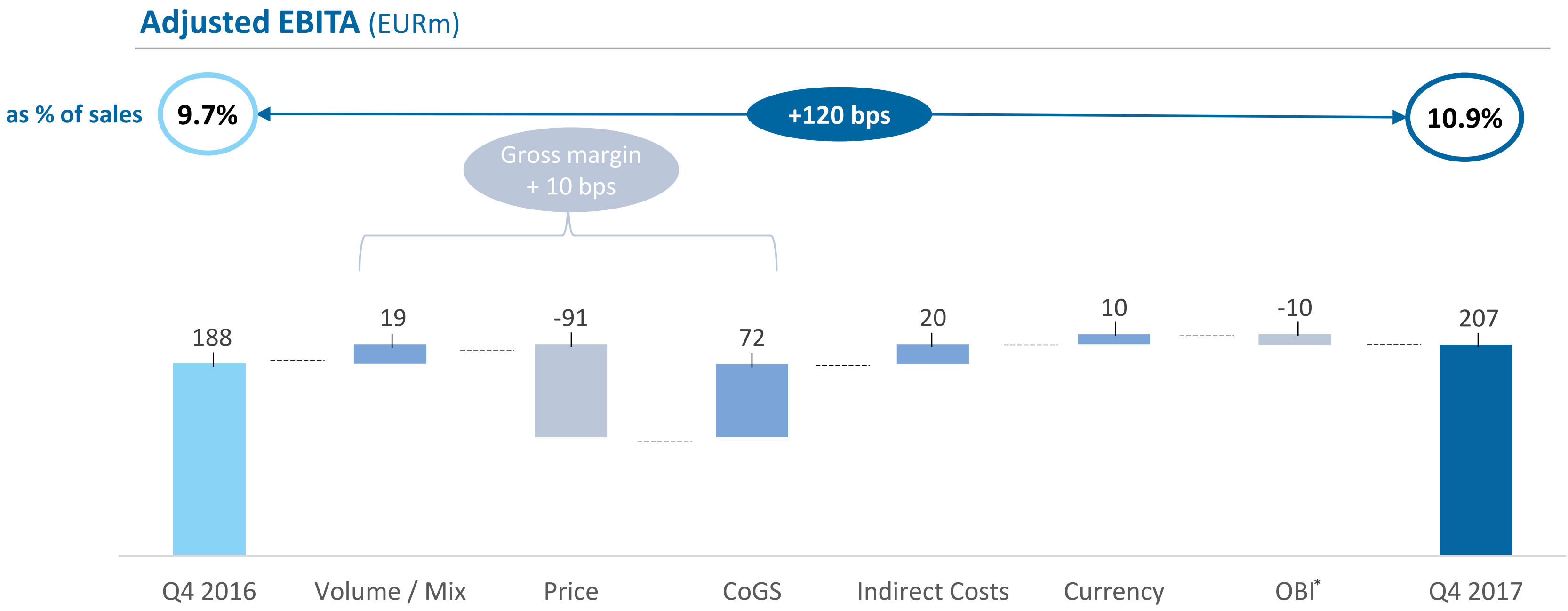
Adjusted EBITA margin improvement primarily driven by procurement & productivity savings and indirect cost reductions



* Other business income includes the sale of real estate last year

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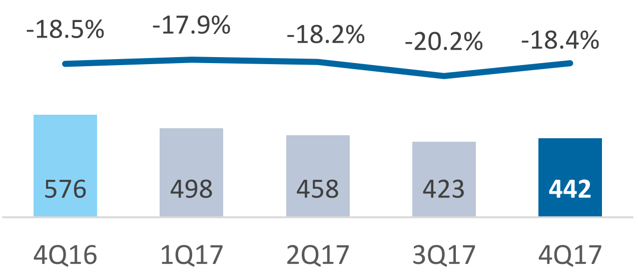
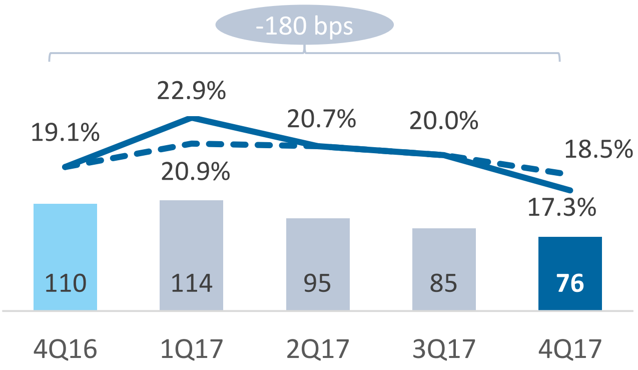
Lamps margin impacted by continued significant top-line decline

Sales (in EURm) & comparable sales growth (in %)



Adjusted EBITA (in EURm & as % of sales)



Key observations for Q4 2017

- Comparable sales declined by 18.4%
- We estimate that the conventional lighting market declined at a faster pace than our Lamps business, which has resulted in continued market share gains

- Adjusted EBITA margin declined by 180 bps to 17.3% due to:
  - Negative one-off impact of 120 bps from adjusting the calculation method for unrealized intercompany profits
  - Sales decline, partly offset by procurement, productivity and adjusted indirect cost savings

Excl. real estate gain in 1Q17, and 4Q17 one-off (non-cash) negative impact from adjusting the calculation method for unrealized intercompany profits

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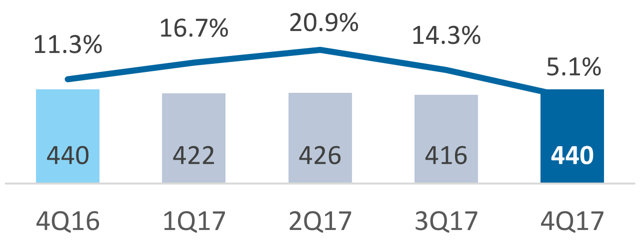
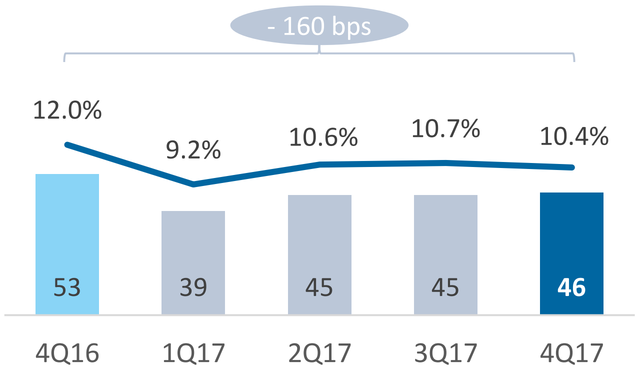
LED showed robust growth in LED lamps, while growth in LED electronics continued to slow down

Sales (in EURm) & comparable sales growth (in %)



Adjusted EBITA (in EURm & as % of sales)



Key observations for Q4 2017

- CSG of 5.1% driven by continued double-digit volume growth, partly offset by lower selling prices and stronger growth in more affordable products
- LED lamps continued to show robust growth; growth in LED electronics continued to slow down due to lower demand by OEM customers, particularly in the Americas
- All regions contributed to growth; some countries in Europe showed more moderate sales growth due to high LED penetration rates
- Adjusted EBITA margin decreased by 160 bps, due to:
  - Lower volume growth in LED electronics
  - Less fixed cost coverage

  While the gross margin remained solid

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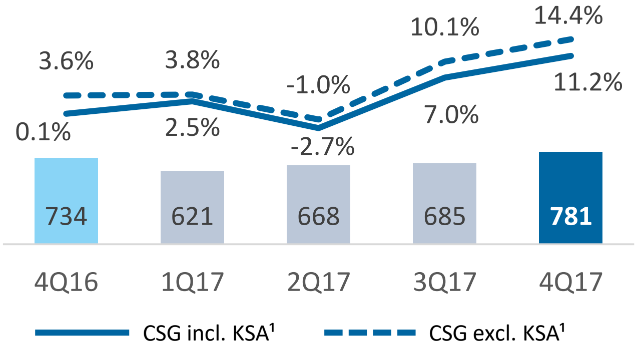
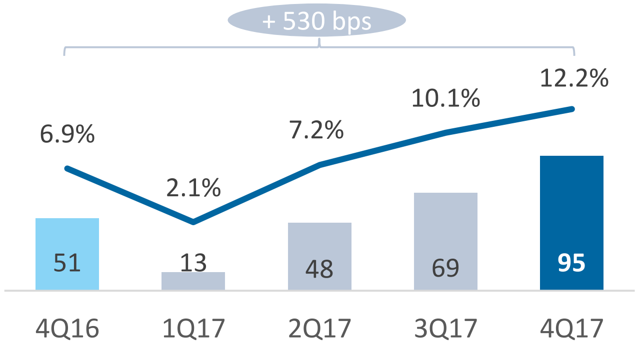
Professional significantly improved CSG and profitability

Sales (in EURm) & comparable sales growth (in %)



Adjusted EBITA (in EURm & as % of sales)



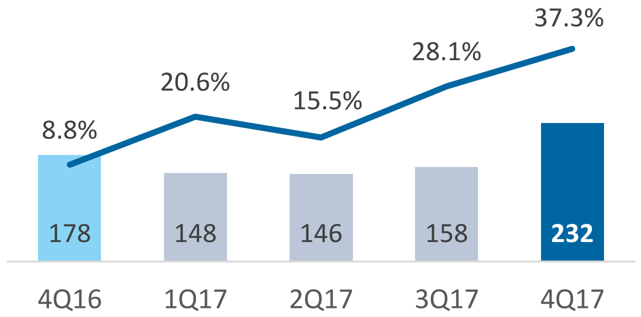
Key observations for Q4 2017

- CSG of 11.2%; all regions contributed to growth
- Performance in Europe and Rest of the World continued to be solid
- Comparable sales trend in the US improved compared to previous quarters, benefiting from:
  - Sales improvement initiatives
  - Revenues related to a large-scale project
- Market conditions in Saudi Arabia remained challenging, impacting CSG by -330bps
- Adjusted EBITA margin increased by 530 bps to 12.2%, driven by:
  - Operational leverage
  - Manufacturing footprint rationalization
  - Indirect cost savings

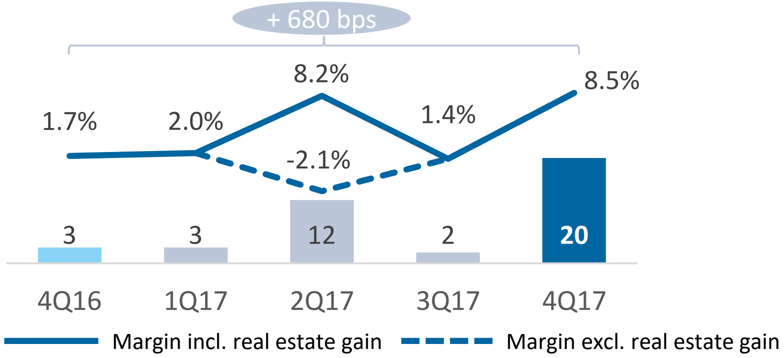
[1]KSA: Kingdom of Saudi Arabia

Home showed solid growth and profitability improvement

Sales (in EURm) & comparable sales growth (in %)



Adjusted EBITA (in EURm & as % of sales)



Key observations for Q4 2017

- Strong CSG at 37.3%:
  - Significant growth in Home Systems
  - Solid growth in Home Luminaires

- Adjusted EBITA margin improved by 680 bps to 8.5%, driven by:
  - Operational leverage
  - Procurement savings

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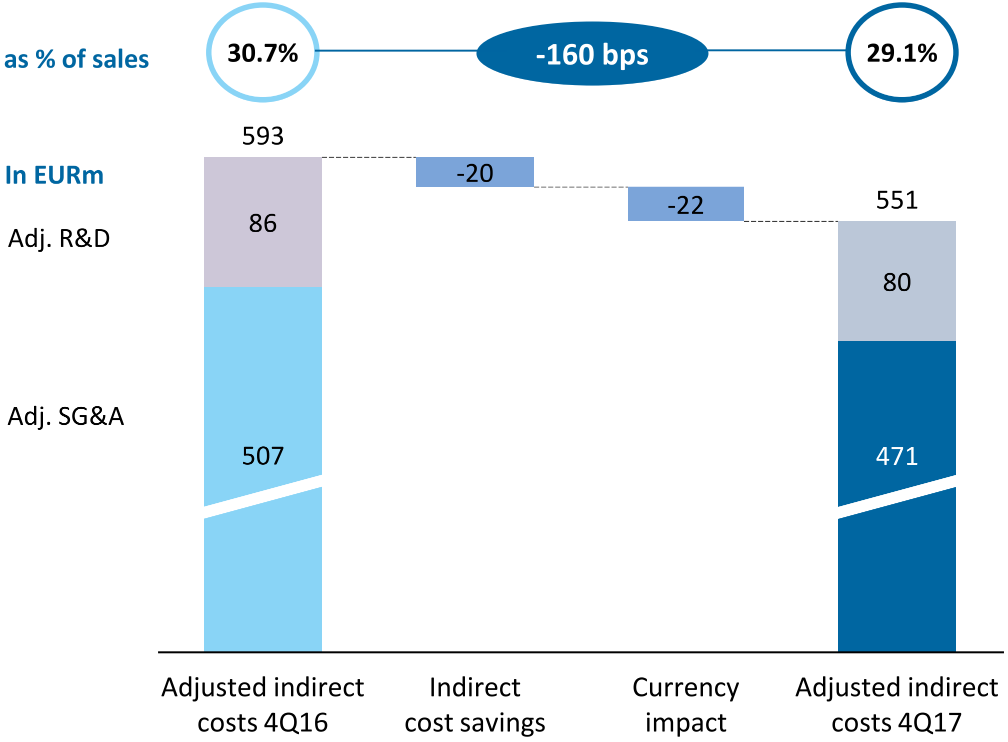
Developments in adjusted indirect costs in Q4 2017



Key observations

- Indirect cost reduction of EUR 20m, including incremental investments to support growth
- Positive currency impact of EUR 22m
- Executing multi-year transformation initiatives to simplify the organization to:
  - Improve customer service and quality
  - Become more efficient
  - Capture scale benefits
  - Save to invest

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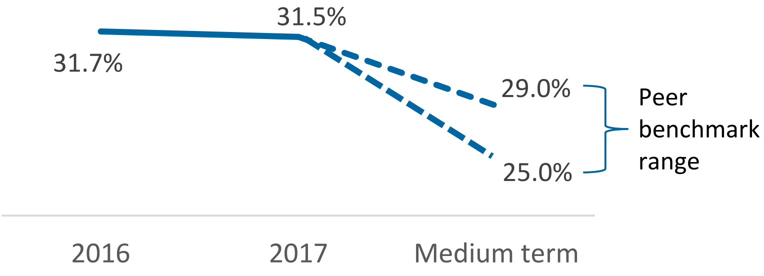
Benefits of the transformation initiatives increasingly visible from H2 2018

Adjusted indirect costs (as % of sales)



Savings in the adjusted indirect cost base

- Achieved EUR 66m savings in FY17, including incremental investments to support growth
- Additional savings should become particularly visible in the second half of 2018 and in 2019

Transformation initiatives

Actions underway to drive benefits across multiple levers:

Organization	Consolidate and rationalize businesses, flatten organizational structure
Processes	Digitize and automate processes, establish shared service centres, improve IT landscape
Footprint	Reduce industrial and office locations
Sourcing	Improve demand management, simplify requirements, strengthen supplier relationships
Products	Simplify our portfolios across businesses and reduce product variants

Continue to invest in innovation, infrastructure and go-to-market to drive growth

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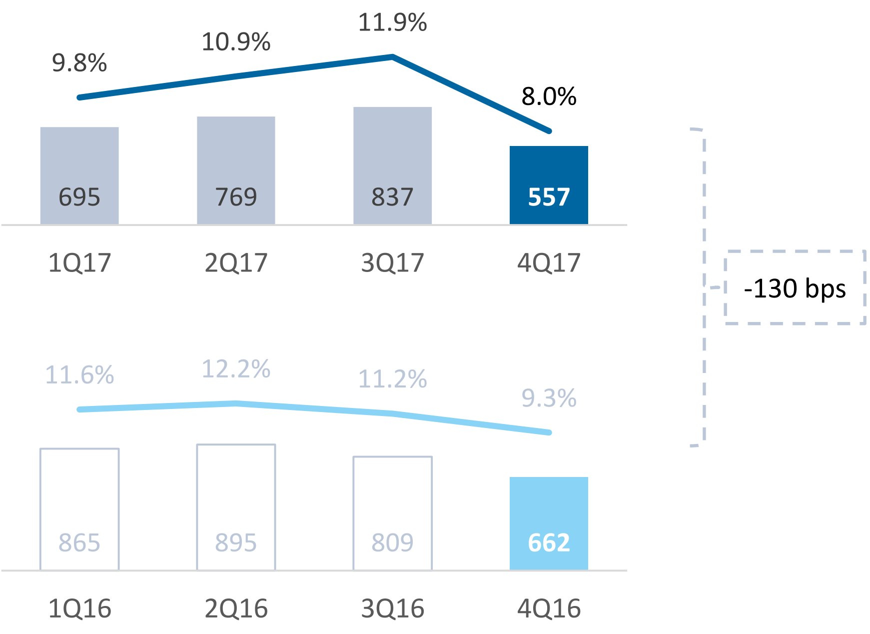
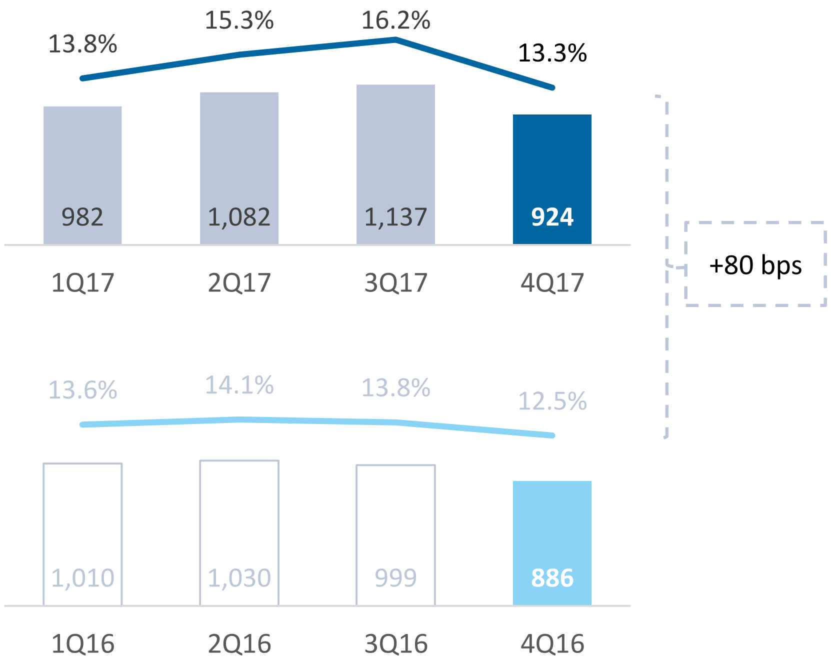
Working capital as % of sales decreased by 130 basis points y-o-y to 8.0% despite higher inventories

Working capital[1] (in EURm & as % of sales)

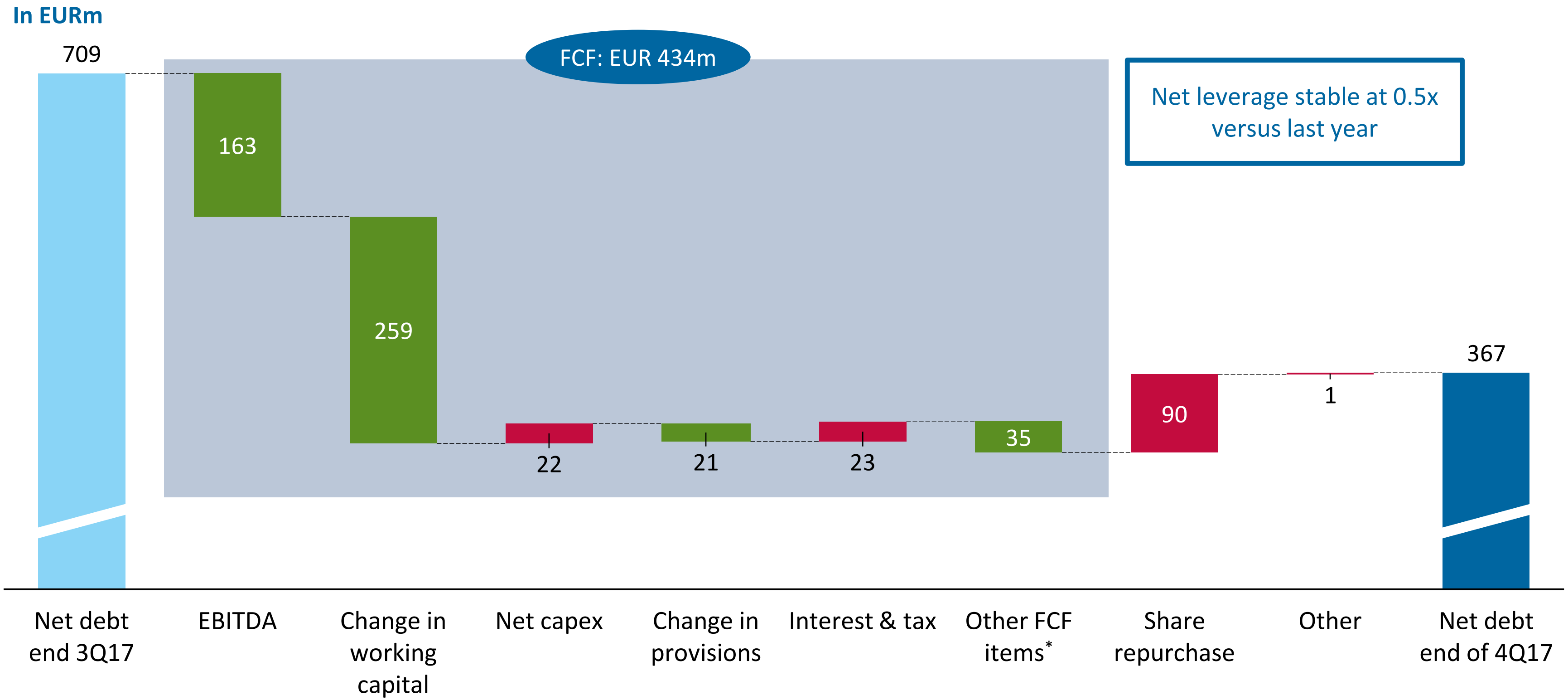


Inventories (in EURm & as % of sales)



[1] Working capital includes inventories, receivables, accounts and notes payable, other current assets & liabilities, derivative financial assets & liabilities, income tax receivable & payable, and accrued liabilities

Solid Free Cash Flow decreases net debt by EUR 342m



*) *This is mainly related to cash flow hedges, pension interest expense and share based compensation*

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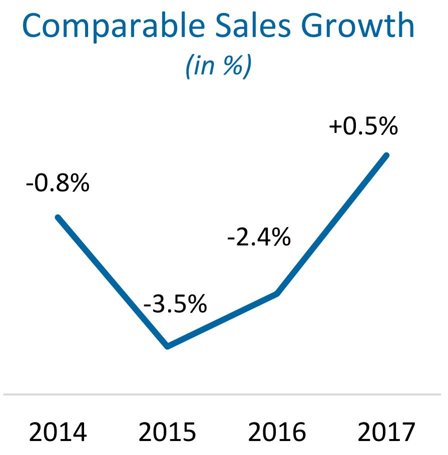
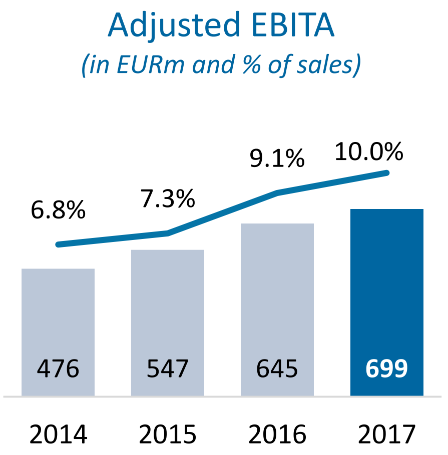
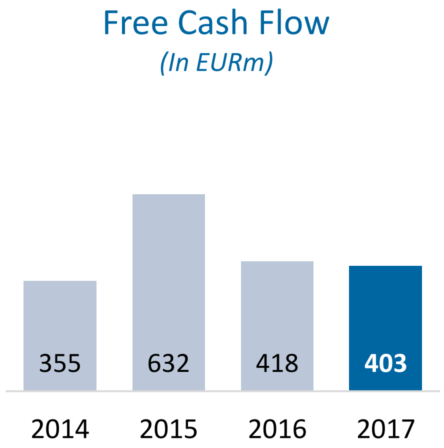
Substantial progress and solid performance achieved in 2017







Progress in 2017	In line with our objectives, we returned to comparable sales growth in 2017	10.0% (+90bps) margin, driven by significant margin improvements in LED, Professional and Home	Solid free cash flow 5.8% as a % of sales

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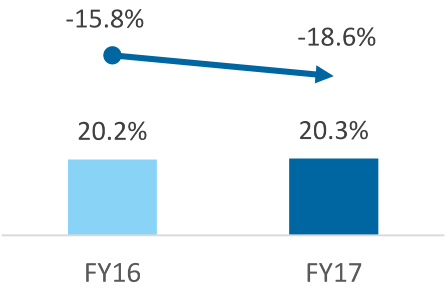
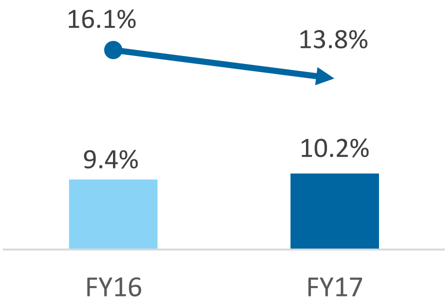
Solid performance improvements across all business groups in 2017

Lamps CSG (%) and Adj. EBITA margin (%)



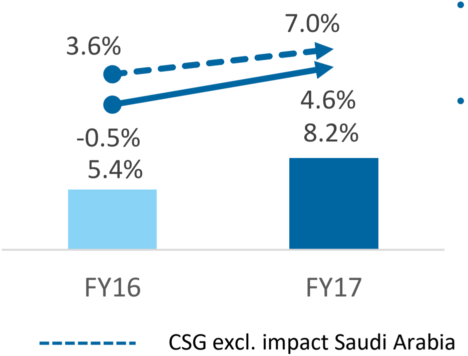
- Margin benefited from pro-active rationalization of manufacturing footprint, productivity and procurement savings

LED CSG (%) and Adj. EBITA margin (%)



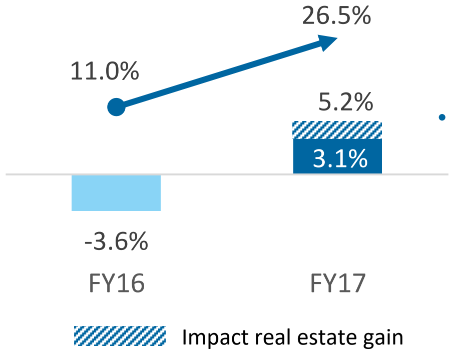
- Higher volumes due to lower selling prices & stronger growth in affordable products
- Margin improvement driven by continued operational leverage, procurement savings and innovation

Professional CSG (%) and Adj. EBITA margin (%)



- CSG driven by robust growth in Europe and the Rest of the World
- Margin improvement driven by operational leverage, procurement savings, cost reductions and a positive mix impact

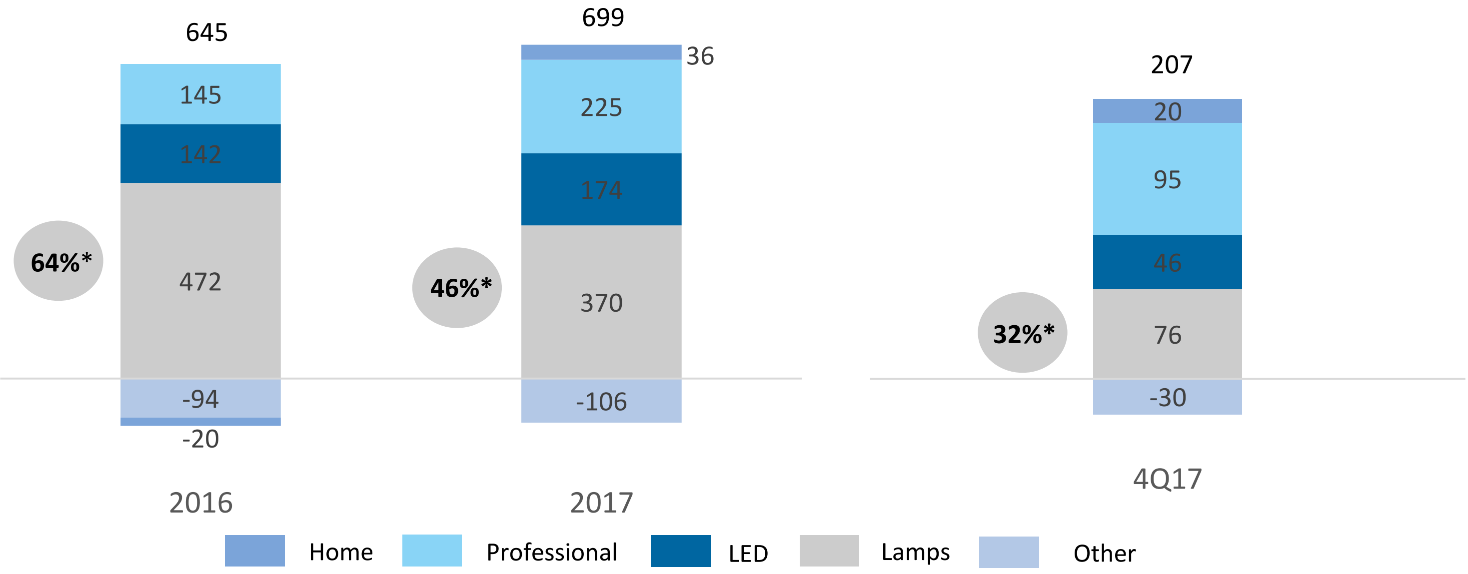
Home CSG (%) and Adj. EBITA margin (%)



- CSG driven by sustained growth in both Home Systems and Home Luminaires
- Margin improvement driven by operational leverage and procurement savings

Adjusted EBITA continued to increase, while profit drivers are shifting

Adjusted EBITA (EURm)



Lamps represented 32%* of Adjusted EBITA (excl. Other) in 4Q17 compared to 64%* in full year 2016

* Percentages represent Lamps' contribution to adj. EBITA excl Other

Sound progress made on our strategic priorities during 2017

Strategic priorities	Proof points in 2017
Optimize cash from conventional products to fund our growth	• Free cash flow as % of sales for Lamps improved by 400 bps
Innovate in LED products commercially and technologically to outgrow the market	• LED lighting share increased from 55% to 65% of total sales

Lead the shift to Systems, building the largest connected installed base
Capture adjacent value through new Services business models
	• Connected Systems & Services, for consumers and professionals, represented more than EUR 900m of sales in 2017, CSG +51%
	  • Professional Systems & Services sales of around EUR 650m
	  • Home Systems sales of close to EUR 300m

Be our customers’ best business partner locally, leveraging our global scale	• Customer Net Promoter Score improved by 14%
Continue our operational excellence improvement journey	• Adjusted EBITA margin improved by 90 basis points to 10.0% • Indirect costs reduced by EUR 66m, incl. investments for growth

Sustainability: Brighter Lives, Better World 2017 results

	2017 result	Year-on-year result		2020 target
Sustainable revenues	77.3%	-0.6%	Due to stricter 2017 definition	80%
LED lamps & luminaires delivered	1,196 million (cumulative from 2015)	+53%		>2 billion
Carbon footprint	Net 325 kt CO_2	-20%		Net 0 kt CO_2
Waste to landfill	1,807 tonnes	-26%		0 tonnes
Safe & healthy workplace	TRC = 0.41	-18%		TRC = 0.35
Sustainable supply chain	95% performance rate	+3%		90% performance rate

Capital allocation policy

Cash available	2017
• Continued free cash flow generation	EUR 403m free cash flow
• Managing our financial ratios to maintain a financing structure compatible with an investment-grade profile	Net leverage stable at 0.5x

Cash uses	
• Dividend pay-out within 40-50% of continuing net income*	Dividend paid of EUR 157m Pay-out of 52%
• Share repurchases	EUR 307m
• Balance sheet optimization	EUR 42m contribution to US pension fund
• Seizing non-organic opportunities primarily through small- to medium-sized acquisitions	E.g. Stack Lighting, PointGrab

*Continuing net income: recurring net income from continuing operations, or net income excluding discontinued operations and excluding material non-recurring items such as restructuring, acquisition-related and separation charges

Attractive shareholder return

2017 dividend EUR 1.25 to be paid in 2018; return additional capital up to EUR 150m in 2018

Dividend 2017 (in EURm)

	FY 2017
Net income attributable to shareholders	**294**
Restructuring costs	125
Incidentals*	3
Tax impact	-35
Continuing net income	**386**
Total dividend	**174**

EUR 1.25 per share

Key observations

- Proposed dividend increase of 14% at EUR 1.25 per share; pay-out ratio of 45%
- Intention to repurchase shares for an amount of up to EUR 150m in 2018 by participating in share disposals by our main shareholder
- Disciplined management of balance sheet
- Seizing non-organic opportunities primarily through small- to medium-sized acquisitions

* Other incidentals consists of acquisition-related charges, separation costs and other incidentals

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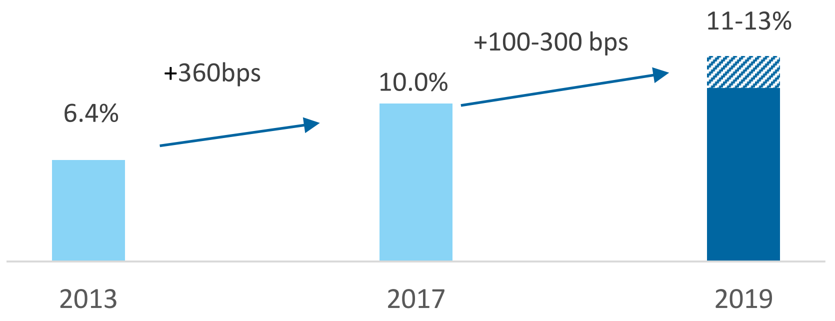
Outlook 2018

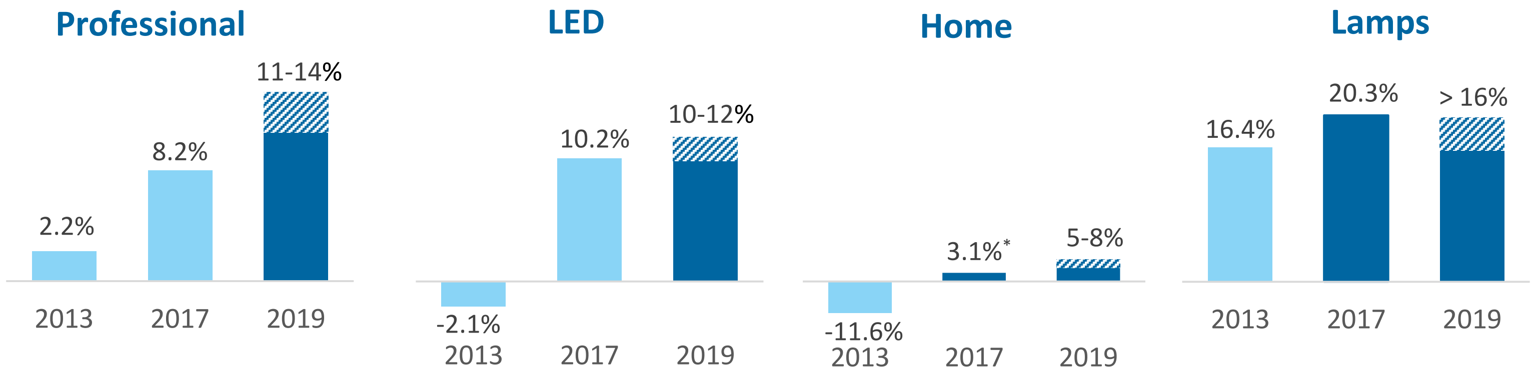
- Aim to deliver **positive comparable sales growth** for the full year, with a soft start in the first quarter

- Further **improvement of Adjusted EBITA margin to 10.0-10.5%**
- Continue to focus on cost reduction initiatives; expect to benefit from higher savings as of the second half of 2018
- Expect restructuring P&L charge in 2018 of 1.5-2.0% of sales

- Aim to generate **solid free cash flow** in 2018, which is, however, expected to be somewhat lower than the level in 2017 due to higher restructuring payments

Philips Lighting Path to value – Targeting Adj. EBITA margin of 11-13% by 2019





Expected margin improvement	+280 to 580 bps	Up to +180bps	Up to +490 bps

*excl. real estate gain

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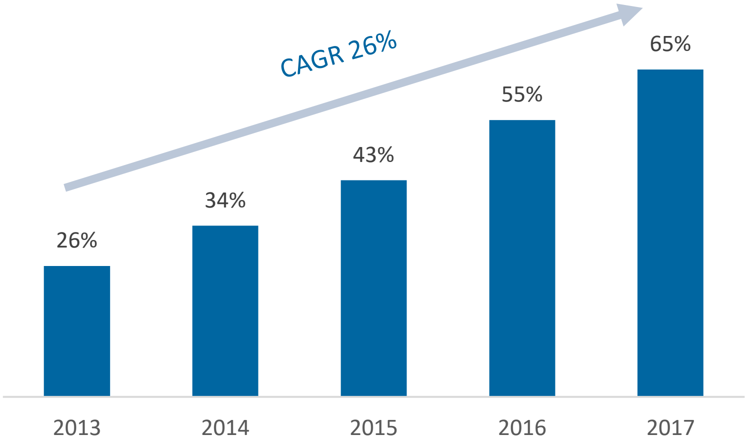
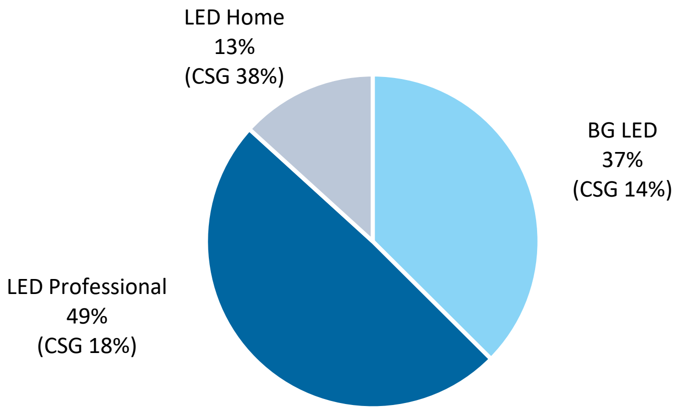
Total LED-based sales grew from EUR 2.2bn in 2013 to EUR 4.5bn in 2017

Development of total LED-based sales
(in % of total sales)



Total LED-based sales 2017: EUR 4.5bn, CSG 19%



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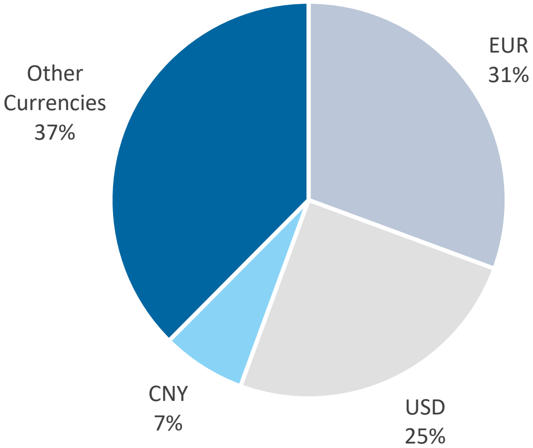
Currency movements had a negative impact on sales and positive impact on Adjusted EBITA

Q4 2017 Sales FX Footprint (% of total)



Key observations

- Currency movements had a negative impact on sales and a positive impact on Adjusted EBITA in Q4 2017
  - Sales impact from currencies of EUR -87m, mainly from the US dollar
  - Adjusted EBITA impact of EUR +10m, mainly driven by positive effect of USD and CNY depreciation
- Philips Lighting policy is to hedge 100% of committed FX transactions and anticipated transactions up to 80% in layers over the next 15 months

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Net income of EUR 38m due to higher restructuring costs and an impairment of other intangible assets

From Adjusted EBITA to net income (in EURm)

		4Q16	4Q17
	Adjusted EBITA	**188**	**207**
1	- Restructuring	-25	-75
	- Acquisition related charges	-2	-
	- Other incidental items	-25	-12
	EBITA	**136**	**119**
2	Amortization	-27	-45
	EBIT	**109**	**75**
	Net financial income / expenses	-12	-12
	Income tax expense	-35	-25
	Results relating to investments in associates	1	0
	Net income	**63**	**38**

Key observations

1. Higher restructuring costs related to Lamps
2. Increase due to an impairment of other intangible assets

Free Cash Flow of EUR 434m

Free cash flow (in EURm)

	4Q16	4Q17
Income from operations	109	75
Depreciation and amortization	73	88
Change in working capital	170	259
Net capex	-26	-22
Change in provisions	-20	21
Interest paid	-8	-5
Income taxes paid	-23	-18
Other	-3	35
Free cash flow	**272**	**434**
As % of sales	14.1%	22.9%

Key observations

- Free cash flow increased to EUR 434m:
  - Robust working capital performance, in particular the reduction of inventories and receivables
  - Change in provision was driven by additions to the restructuring provision
  - No separation related payments were made in Q4

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