A nighttime photograph of San Francisco, California, featuring the Golden Gate Bridge illuminated with warm white lights. The city skyline is visible in the foreground and middle ground, with numerous skyscrapers and buildings lit up. The background shows the dark hills of the city under a night sky.

# Annual General Meeting of Shareholders

May 9, 2017

**PHILIPS** Lighting

# 1. Presentation by CEO Eric Rondolat



AMSTERDAM

EURONEXT



AMSTERDAM

EURONEXT



PHILIPS Lighting LIGHT LISTED Euronext

IPO Philips Lighting  
CEO – Eric Rondolat

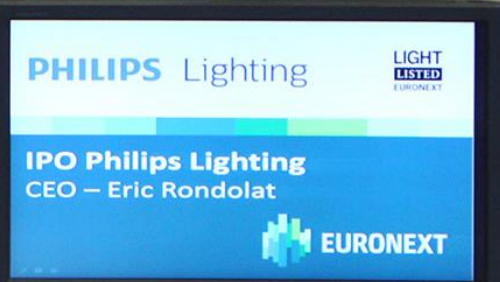
EURONEXT



AMSTERDAM

27

MAY



PHILIPS Lighting LIGHT LISTED Euronext

IPO Philips Lighting  
CEO – Eric Rondolat

EURONEXT





*EDEKA Pashmann, Germany*

# Full Year 2016

Continued progression to achieve strategic goals and medium term financial objectives

- Increase in Net Promoter Scores for both customers and employees
- Significant increase in profitability, margin improved 180 basis points
- Solid free cash flow of EUR 418 million
- Comparable sales declined 2.4%, showing improved trend vs 2015
- Solid balance sheet, supporting our business going forward and enabling us to consider bolt-on acquisitions
- 2016 dividend of EUR 1.10 per share proposed



*LED SceneSwitch*

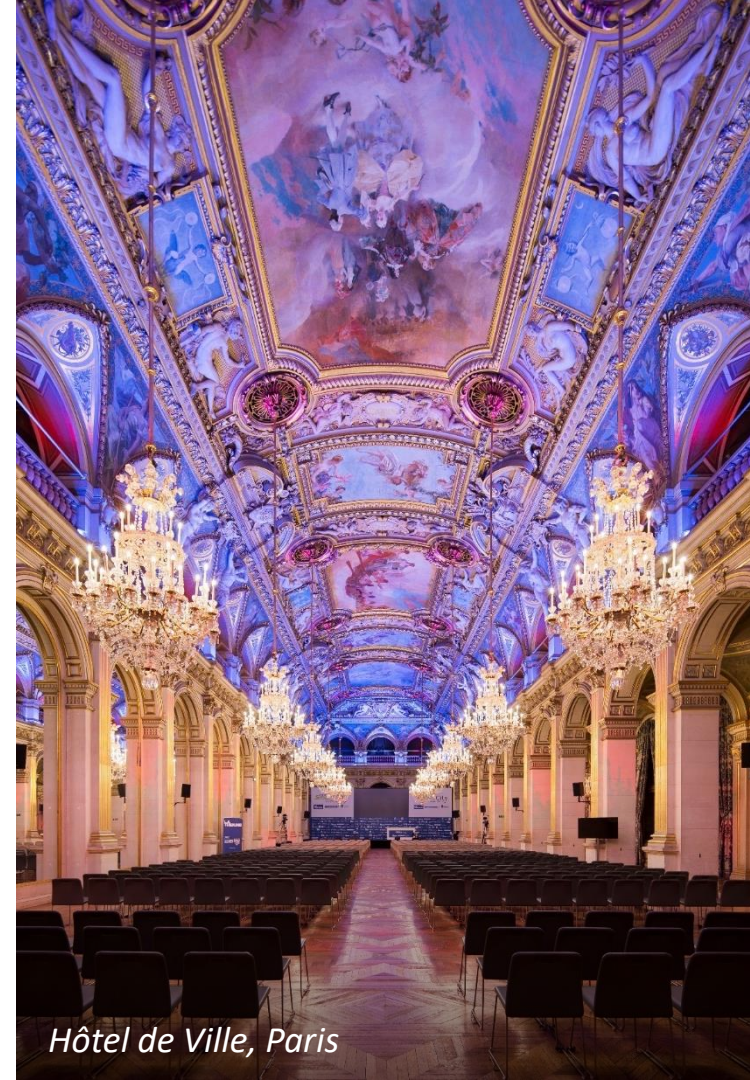
# First Quarter 2017

Good start to the year

- Continued improvement in profitability, margin improved 130 basis points
- Free cash flow improved from EUR -78 million to EUR 2 million
- Comparable sales declined 0.8%, further improvement of the trend vs 2016

# Outlook 2017

- Further improvement of operating profit margin: approximately 50-100 basis points
- In line with medium term outlook to gradually improve the operating profit margin to 11-13%
- Committed to continue delivering solid free cash flow
- Ambition to return to positive comparable sales growth in the course of the year



*Hôtel de Ville, Paris*

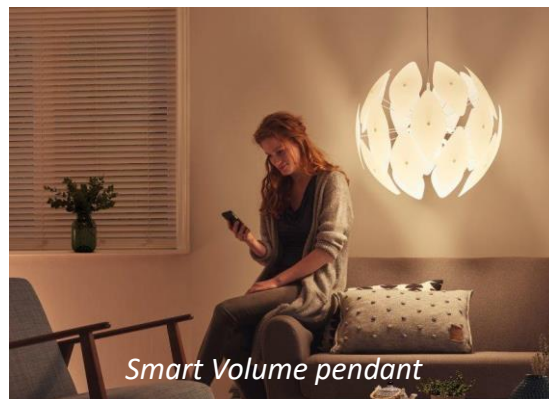
# Philips Lighting is leading the industry worldwide

## Light sources



*Dubai Lamp*

## Luminaires



*Smart Volume pendant*

## Systems and Services



*Allianz Arena, Munich*

**€7.1**  
billion sales  
in 2016

**34,000**  
people employed  
in 70 countries

**4.9%**  
of sales  
invested  
in R&D


**#1 Conventional**  
superior lighting  
benefits

**#1 LED**  
61% of lighting  
sales is LED  
(Q1 2017)

**#1 Connected**  
lighting systems &  
services, rich  
partner ecosystem

# Our industry is transforming fast This creates new opportunities

- Three Mega Trends:
  - The world needs more light
  - The world needs energy-efficient light
  - The world needs digital (connected) light



*'Roadmap Urban Lighting', Eindhoven*



# Sound progress made on our strategic priorities in 2016

## Strategic priorities

Optimize cash from conventional products to fund our growth

Innovate in LED products commercially and technologically to outgrow the market

Lead the shift to Systems, building the largest connected installed base

Capture adjacent value through new Services business models

Be our customers' best business partner locally, leveraging our global scale

Accelerate on our operational excellence improvement journey

## Proof points in 2016

Free cash flow as % of sales for Lamps improved by 12%

LED lighting share increased from 43% to 55% of total sales

- Professional Systems & Services grew by 51%
- Global leading position in connected lighting

Delivery performance to customers improved by 13%

Adjusted EBITA margin improved by 180 basis points to 9.1%;  
Adjusted indirect costs reduced by EUR 96m\*

*\*Excluding the impact of the brand license fee of EUR 36m*



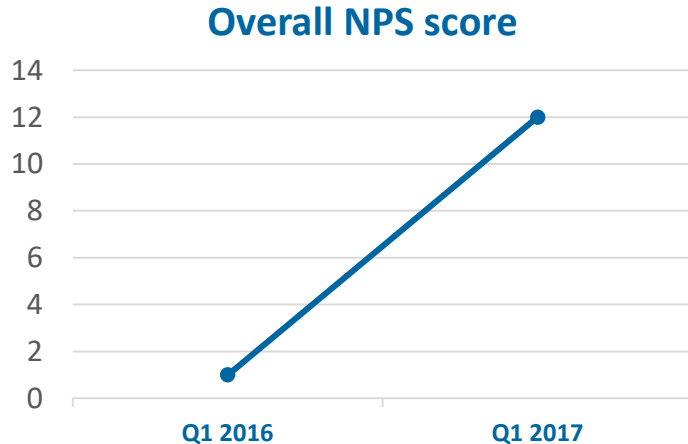
# Innovation is at the heart of our business

- Legacy of more than 125 years of meeting customers needs
- 4.9% of sales invested in R&D
- More than 16,000 patents, 1,000 start-up and technical partners
- State of the art labs in Eindhoven, Boston and Shanghai

# Significant progress in employee engagement

## Redefined purpose and values





- **Strongest evolution ever in 2016 of employee Net Promoter Score**
  - Participation levels above 75%
  - Overall NPS score of eight, exceeding target by 60%



### Our purpose

Unlock the extraordinary potential of light for brighter lives and a better world

### Our values

-  *Customer first*
-  *Greater together*
-  *Game changer*
-  *Passion for results*

**Always act with integrity**

# Our 2020 sustainability commitments

## Sustainable revenues

- 80% sustainable revenues
- 2 billion LED lamps by 2020



## 2016 result

- 78%
- 628 million since 2015
- Net 406 kt CO<sub>2</sub>, down 39%
- 26% of sites
- TRC = 0.50, down 24%
- 100% of risk suppliers audited

## Sustainable operations



100% carbon neutral  
100% renewable electricity



Zero waste to landfill in our operations

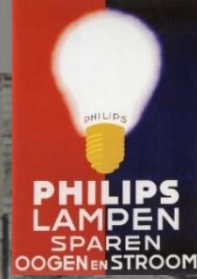


Total recordable case rate (TRC) of <0.35



100% of risk suppliers audited, minimum performance rate of 90%

# Generations of leaders have created a strong company



Unlock the extraordinary potential of lighting...



For Brighter Lives and a Better World.

## 2. Implementation of the remuneration policy in 2016

# Remuneration 2016

	Base Salary 2016	Annual Incentive (% of Base Salary)			Long Term Incentive (% of Base Salary) <sup>(1)</sup>
		Min.	Target	Max.	
Rondolat	€ 850,000	0	80	160	100
Rougeot	€ 550,000	0	60	120	80
Van Schooten	€ 525,000	0	60	120	80

(1) Shares are granted conditionally and governed by the Royal Philips Long-term Incentive Plan



# Annual Incentive Realization 2016

	Remuneration Policy % of Base Salary	Implementation of Policy	
		Pay-out % of Base Salary <sup>(1)</sup>	Realization % of Target
Rondolat	0 – 80 - 160	114.6	151
Rougeot	0 – 60 – 120	78.6	131
Van Schooten	0 – 60 – 120	99.8	179

- (1) Calculation Rondolat: pro rated, different on-target % applied before and after IPO.  
 Calculation Rougeot: pro rated pay-out as of start employment with Philips Lighting.  
 Calculation Van Schooten: pro rated, different on-target % and different weighting for financials and personal component before and after IPO.

### 3. Explanation of the policy on additions to reserves and dividends

# Capital structure

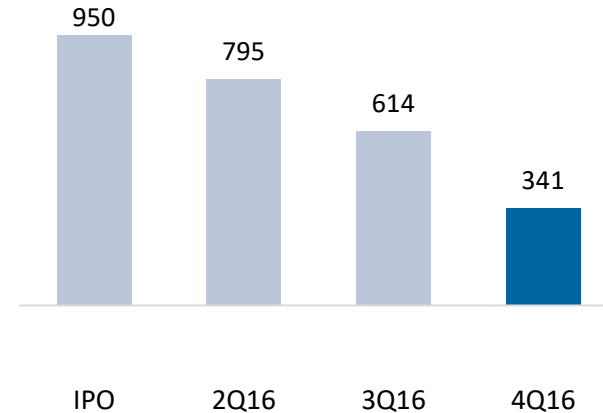
## Characteristics at the end of 2016

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- Total cash of EUR 1,040 million
- Debt of EUR 740 million and USD 500 million as per IPO financing with 5 year maturity and including financial covenants
- Total net debt position of EUR 341 million
- Net leverage of 0.5x EBITDA to Net Debt
- Unutilized revolving credit facility of EUR 500 million

## Net debt development since IPO (in EURm)

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# Capital allocation

## Cash available

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- Free cash flow generation
- Financial ratios to maintain a financing structure compatible with an investment-grade profile

## Cash uses

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- Annual regular cash dividend within 40-50% of continuing net income\*
- Additional capital return to shareholders
- Non-organic opportunities primarily through small- to medium-sized acquisitions
- Disciplined management of balance sheet liabilities

\*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

2016 dividend EUR 1.10; return additional capital up to EUR 300 million over the period 2017-2018

## Dividend 2016 (in EUR m)

	<b>FY 2016</b>
<b>Net income attributable to shareholders</b>	<b>189</b>
Restructuring costs	115
Incidentals*	51
Tax impact	-36
<b>Continuing net income</b>	<b>319</b>

- Dividend proposal of EUR 1.10 per share
- Dividend pay-out at 52%
- Cash out of EUR 157 million

## Additional capital return

- Up to EUR 300m over the period 2017-2018 by participating in share disposals by our main shareholder
  - In February 2017 we participated for EUR 82 million and bought 3.5 million shares – these shares have been cancelled
  - In April 2017 we participated for EUR 101 million and bought 3.5 million shares – these shares will be cancelled

\* Other incidentals consists of acquisition-related charges, separation costs and other incidentals  
Dividend pay-out calculated over shares outstanding at date of dividend announcement

## 4. Financial statements 2016

## 5. Dividend

## 6. Discharge members of the Board of Management and the Supervisory Board



## 7. Composition of the Board of Management

## 8. Composition of the Supervisory Board

# 9. Remuneration of the Board of Management

## 9. Remuneration of the Board of Management

- (a) Annual Incentive Plan

# Proposed changes Annual Incentive Plan

Changes vs 2016 submitted for approval to the shareholders at the 2017 AGM

## **Annual incentive level:**

- CEO: at target annual incentive of 80% of his base salary
- Other Board of Management members: at target annual incentive of 60% of their base salary

## **Annual choice by Supervisory Board of two or three financial performance measures from below list**

- Comparable Sales Growth (CSG)
- Adjusted Earnings before Interest Taxes and Amortizations (EBITA)
- Average Working Capital (WoCa)
- Free Cash Flow (FCF)
- Return on Capital Employed (RoCE)
- Net Income

# Annual Incentive Plan 2017 Components

The Annual Incentive Plan 2017 consists of two major components



## 9. Remuneration of the Board of Management

- (b) Long-term Incentive Plan

# Philips Lighting Long-term Incentive Plan

## Level/Design/Performance Measures

### Long-term incentive grant levels (at target):

- CEO: 100% of his base salary
- Other Board of Management members: 80% of their base salary

### Vehicles: Performance Shares only

### Performance Measures

#### Cash Flow Measure (40%)

- FCF - Free Cash Flow

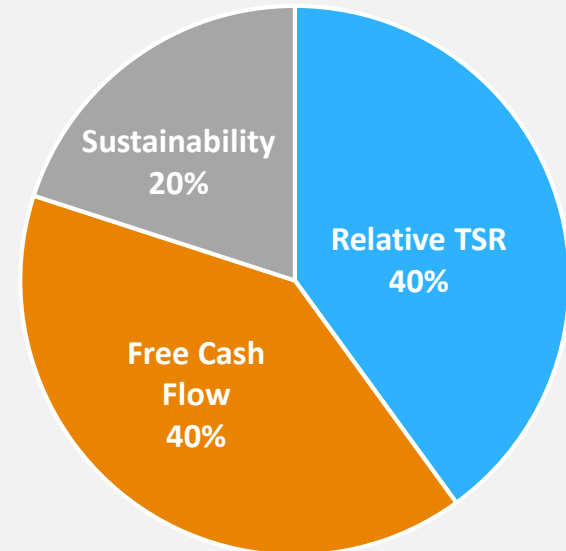
#### Relative Total Shareholder Return (40%)

- TSR equals the share price growth, assuming re-invested dividends
- TSR is typically averaged over a 3-month period

#### Sustainability - SMART and in relation to business goals of Philips Lighting (20%)

- Sustainability underpins the Philips Lighting strategy
- Targets in support of the 2020 vision
- Progress reporting with guided discretionary approach

### Distribution Performance measures





# Philips Lighting Long-term Incentive Plan

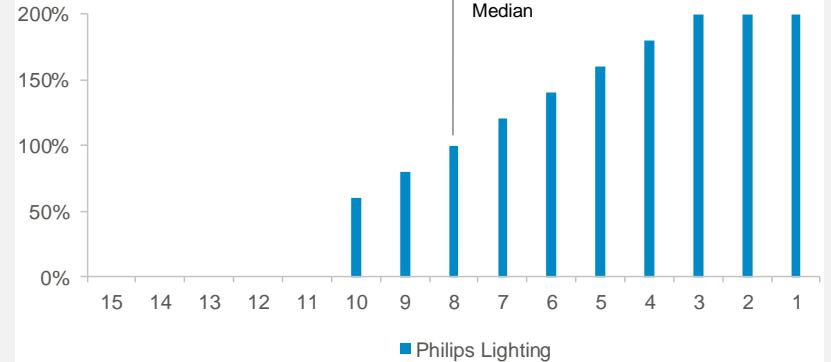
Relative Total Shareholder Return

## TSR peer group



Substitute peer group

## Vesting % TSR performance









# Philips Lighting Long-term Incentive Plan

## Sustainability

### SMART and linked to strategy and business goals of Philips Lighting

- Including Sustainability in the LTI plan design underpins the Philips Lighting strategy
- Annual targets (2017-2020) are defined in our Brighter Lives, Better World program
- Progress against targets is reported externally in our annual report (with reasonable assurance)

		2016 results	2020 target
Sustainable revenues		78% of revenues	80% of revenues
LED lamps		628 million	>2 billion LED lamps delivered
Carbon neutral		Net 406 kt CO <sub>2</sub>	Net 0 kt CO <sub>2</sub>
Zero waste to landfill		26% of sites	100% of sites
Safe & Healthy Workplace		TRC = 0.50	TRC = <0.35
Sustainable supply chain		100% risk suppliers audited, Performance rate 92	100% risk suppliers audited, Performance rate >90

# 9. Remuneration of the Board of Management

10. Authorizations of the Board of Management to (a) issue shares or grant rights to acquire shares, and (b) restrict or exclude pre-emptive rights

# 11. Authorization of the Board of Management to acquire shares in the company

## 12. Cancellation of shares

13. Any other business

**PHILIPS** Lighting