

Annual General Meeting of Shareholders 2017 | Presentation by CEO Eric Rondolat

Ladies and Gentlemen, welcome to the first Annual General Meeting of Philips Lighting. This meeting is another important milestone since we successfully listed nearly a year ago. When I look back, I am extremely proud of the dedication that our employees around the world have shown in 2016, continuing to transform Philips Lighting while delivering a solid performance in our first year as a standalone company.

Now let me give you a few details about our 2016 performance. We saw healthy increases in Net Promoter Scores from both our customers and employees, which I will explain in detail later in my presentation. Despite difficult conditions in some markets, we continued our track record of performance improvement with a significant increase in profitability. Full-year operating profit margin increased by 180 basis points to 9.1 percent. Free cash flow was solid at 418 million Euros. While comparable sales, still negative, showed an improved trend compared to the year before. Our balance sheet is sound and, looking forward, will allow us to support the business as well as to consider value generating bolt-on acquisitions. We are proposing a dividend of 1,10 Euro, at the higher end of our pay-out ratio.

Turning to the first quarter of 2017, we continued to increase our operational profitability and free cash flow compared to the first quarter of last year. Our comparable sales growth improved in comparison to previous quarters. This was driven by double-digit growth in our business groups LED and Home and a return to growth in Europe and the Rest of the World, despite ongoing challenging conditions in some markets. These results reinforce our confidence that Philips Lighting is well positioned to achieve its medium term goals and 2017 outlook.

We continue to expect further improvement in our operating profit margin by 50-100 basis points and a solid free cash flow. While we are cautious given global economic uncertainty, we remain committed to our ambition to return to positive comparable sales growth in the course of this year.

Let me now describe our competitive positioning. Philips Lighting has a unique position with an integrated offering including LED electronics, lamps and luminaires, as well as lighting systems and services. We employ 34,000 people worldwide in 70 countries. Innovation is at the very core of what we do, as we invest around 5% of sales in R&D every year. We are the global leader in conventional, LED and Connected Lighting as well as more than twice the size of our next competitor. Today we contribute to shape the Lighting Industry, moving into the Internet of Things.

The Lighting market is attractive, currently worth more 65 billion euros with an expected growth of 2% annually. It is, however, undergoing radical transformation, driven by three megatrends. **The world needs more light** as populations move from rural to urban areas. **The world needs more energy-efficient light** as conventional technologies continue their rapid decline and are replaced by energy efficient LED Lighting. **The world needs more digital light as lighting** is one of the leading carriers for connected objects in the Internet of Things, with high demand for connectivity. And this creates new opportunities.

In order to capture these opportunities, we have been rigorously executing a clear strategy over the past three years. In 2016, we made substantial progress on our 6 priorities: Despite a planned market decline, our conventional product business continued to deliver an improved free cash flow of 12% of sales. Total LED-based sales grew at an impressive rate of over 20 percent to represent more than half of our sales in 2016. Once again, we introduced breakthrough innovations. Our investments in cloud-based software platforms, Power-over-Ethernet fixtures, indoor positioning technology and consumer-based personalized lighting systems have enabled us to grow our professional systems and services sales by 51% and to maintain our leadership position in connected Lighting. We also implemented structural measures that resulted in a 13% improvement of our service to customers. We continued to optimize our industrial footprint and to simplify our ways of working to increase our speed and agility in support of operational excellence, reducing our costs by 96 million Euros.

Our performance in 2016 illustrated the benefit of our continued focus on innovation. We invested approximately 5% of our sales in R&D, generating the most extensive portfolio of patents with strong innovation capabilities in Europe, North America and Asia. As you can see we are leveraging our R&D capabilities and scale, not only to compete and lead, but also to shape the Lighting industry.

Becoming stand-alone provided an incredible opportunity to define why we exist as a company through our purpose and which values we live for. Engaging employees from across our organization, we defined our values: At Philips Lighting, we put the **Customer First**. We are always **Greater Together** by collaborating across teams to build on our strengths and diversity, towards our shared goal. We want to be a **Game Changer**, by innovating to set ourselves apart and continue to lead in the market. And we have a **Passion for Results** by working smarter and faster to deliver excellence. We also strongly reaffirm that at Philips Lighting all of us **Always act with integrity**. In 2016 we recorded the strongest ever evolution of our Employee Net Promoter Score with levels of participation above 75 percent. We are on the right track to create a unique environment in which people enjoy working, learn and achieve together.

Sustainability lies at the heart of our business. Through our dedicated program, Brighter Lives, Better World, we set very ambitious targets for sustainable revenues and operations. On the revenue side: 80 percent of our offers will be sustainable by 2020 while we will sell over 2 billion LED lamps in the period 2015 to 2020. On the operations side: We are committed to becoming carbon neutral by 2020. Further commitments include our work towards zero waste to landfill, a zero-injury workplace and auditing and training all of our risk suppliers. As you can see, in 2016, we progressed on these commitments, leading the way to a more sustainable future.

As I said in my opening, we have an exceptional history of innovation and global market leadership. This started more than 125 years ago with our founders, Frederik and Gerard Philips. The world was being transformed by the coupling of two technologies: the incandescent lamp and the growing footprint of electrification. It was a revolution that would change everything, and Philips took its place at the very heart of it.

Today, we stand at the brink of another revolution – one also made possible by the coupling of technologies. We are seeing the embedding of connected LED lighting into the Internet of Things. And this too is changing everything. We happen to be a 125 year old company that can make a difference in the world today by becoming the Lighting company for the internet of things.

In closing, I want to offer a word of thanks. On behalf of the Board of Management and the Leadership Team, I extend our sincere thanks to all of our employees for their commitment and dedication, which enabled us to achieve so much in 2016. I would also like to thank our customers for their continued trust, which motivates us on a daily basis. And I would like to thank our shareholders for the confidence that they have shown in our business and their ongoing support for our strategy.

Today, more than ever, we believe we are uniquely positioned to unlock the extraordinary potential of light for Brighter Lives and a Better World.

Thank you.