

A nighttime photograph of a city skyline, featuring the Empire State Building prominently on the right side, illuminated against a dark blue sky. Other skyscrapers are visible, some with lights on. The overall scene is a dense urban environment at night.

Philips Lighting reports sales at €1.7 billion, continued profitability increase led by gross margin improvement; solid cash flow

Q3 2016 Presentation

October 20, 2016

PHILIPS Lighting

Agenda

Business and operational performance by Eric Rondolat

Financial performance by Stéphane Rougeot

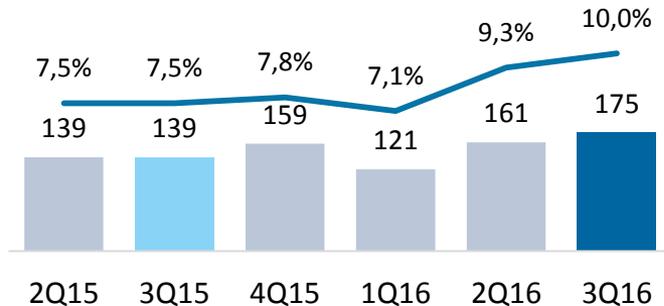
Q&A

Philips Lighting reports sales at €1.7 billion, continued profitability increase led by gross margin improvement; solid cash flow

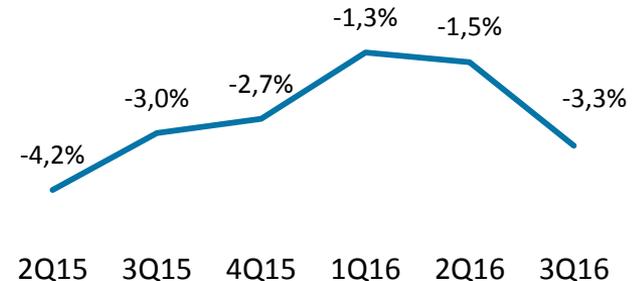
Third quarter 2016 highlights

- Comparable sales decline of 3.3%
- Total LED-based sales growth of 16%, representing 56% of total sales
- Continued year-on-year improvement in operational profitability
- Net income of €51 million, including €30 million brand license fee, separation costs and financial expenses not applicable in 2015
- Free cash flow of €164 million particularly driven by improved profitability and working capital management

Adjusted EBITA (€m and as % of sales)



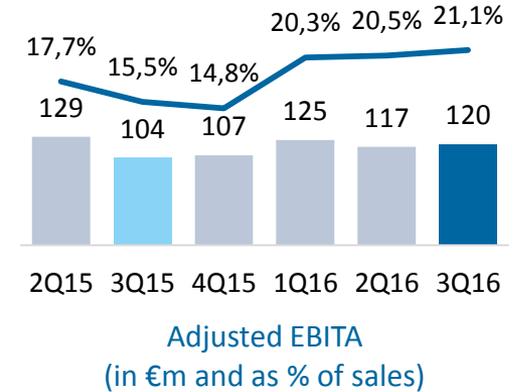
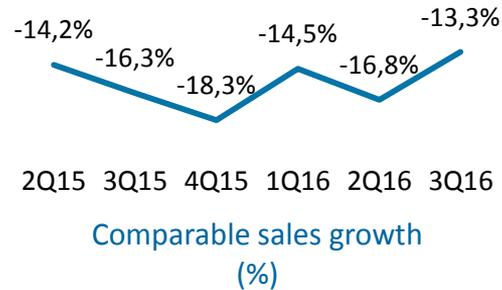
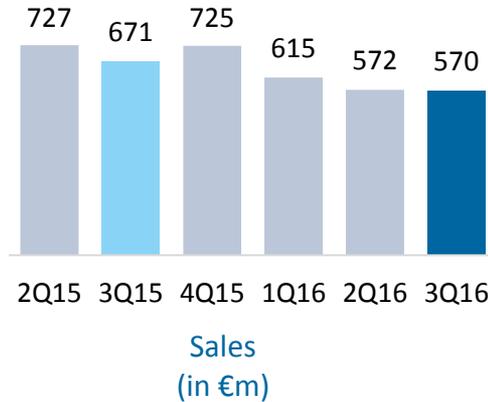
Comparable Sales Growth (%)



Financial performance by business group

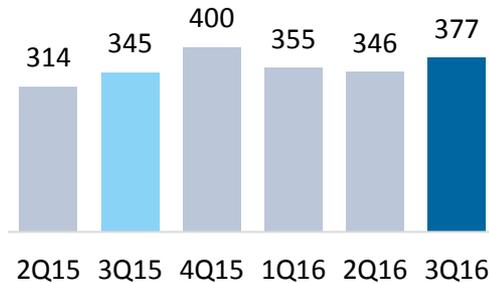
Q3 2016	CSG%	Adjusted EBITA (€m)	vs LY (€m)	Adjusted EBITA %	vs LY (bps)
Lamps	-13.3%	120	+16	21.1%	+560
LED	11.5%	40	+15	10.6%	+340
Professional	-3.8%	42	-7	6.3%	-60
Home	11.0%	-1	+16	-0.8%	+1,340
Philips Lighting	-3.3%	175	+36	10.0%	+250

Lamps performance supports our strategy to continue to extract value

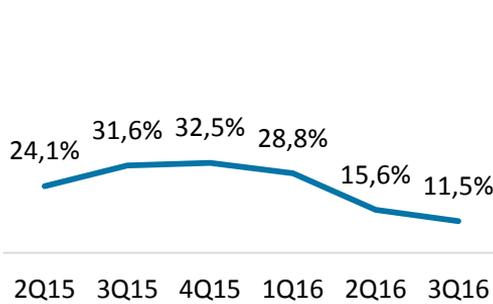


- Comparable sales decline of 13.3% showing an improvement in comparison to previous quarters
- Adjusted EBITA increased to €120 million, mainly driven by manufacturing footprint rationalization, procurement and productivity savings
- Active portfolio management led to successful divestment of the quartz and special glass business in the Netherlands

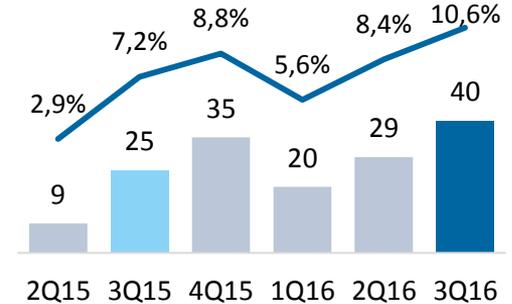
LED volume growth remained strong and margin improved significantly



Sales
(in €m)



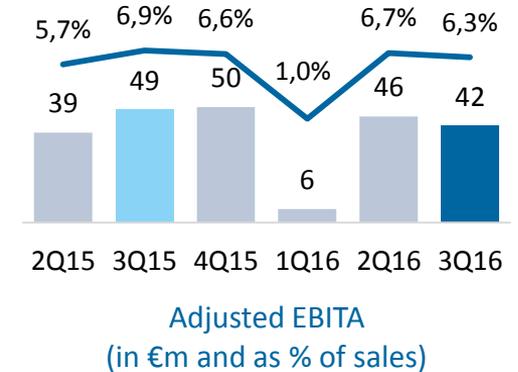
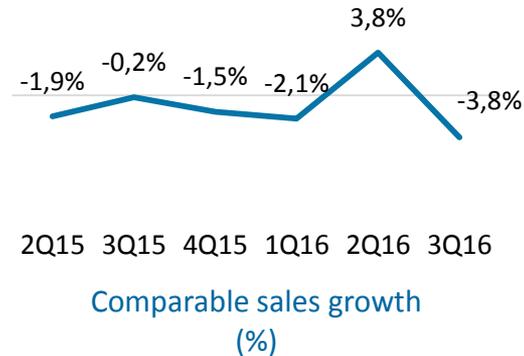
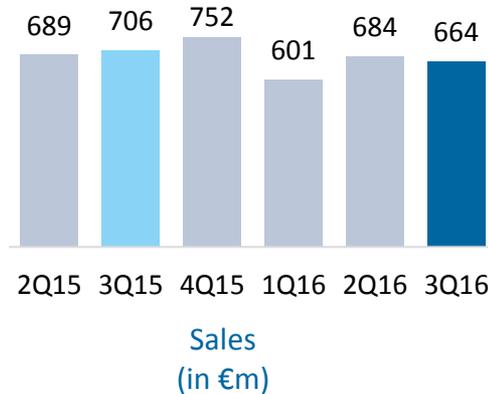
Comparable sales growth
(%)



Adjusted EBITA
(in €m and as % of sales)

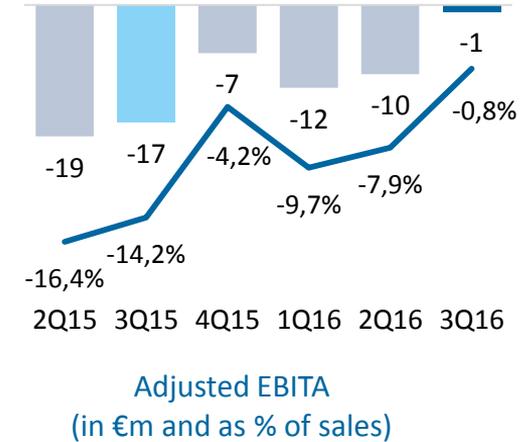
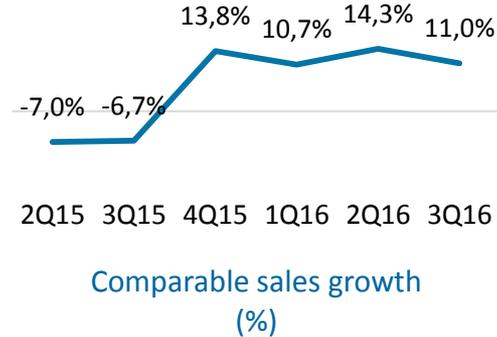
- While volume growth remained strong, sales grew less rapidly versus previous quarters due to price erosion and mix impact. Softer growth in second quarter in the Americas was prolonged in third quarter; slower sales growth in some Europe countries
- Adjusted EBITA margin at 10.6% driven by material procurement savings, operational leverage and indirect cost reduction, partly offset by price erosion
- Philips Lighting reached a technological breakthrough as it developed a high lumen LED alternative for popular high wattage CFLi bulbs, which put out up to 3,000 lumen and fit existing fixture and luminaires

Professional affected by market conditions in the Middle East & Turkey and softer outdoor market in some European countries



- Worsened market conditions in the Middle East & Turkey. Excluding the Middle East & Turkey comparable sales growth was positive
- Demand was also affected by a softer outdoor market in some European countries, while the Americas posted growth
- Adjusted EBITA decreased as procurement savings and production efficiency improvements were offset by lower sales and write downs on bad debt in the Middle East & Turkey
- New acoustic sensors integrated into street lights working with Philips CityTouch offer the potential to reduce emergency response time by detecting the sound of a vehicle collision and have information relayed instantly for use by emergency services

Home showed growth and adjusted EBITA neared break-even point



- Double-digit comparable sales growth supported by both the Home Luminaires and Home Systems businesses, all markets contributed to growth
- Adjusted EBITA neared the break-even point – attributable to operational efficiency gains, procurement savings and operational leverage
- The Philips Hue Motion Sensor was introduced, enabling motion control of the connected lighting system, while expansion of Philips Hue partnerships continued

Agenda

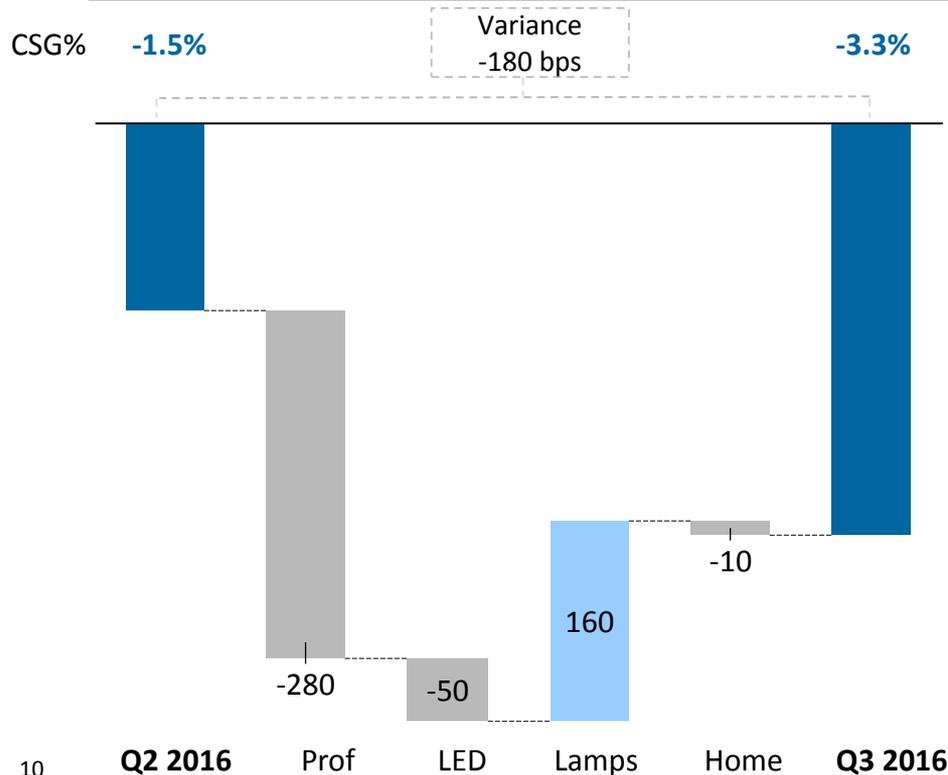
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Q&A

Quarter-on-quarter comparable sales decline mainly due to softness in Professional

Comparable sales growth (%)

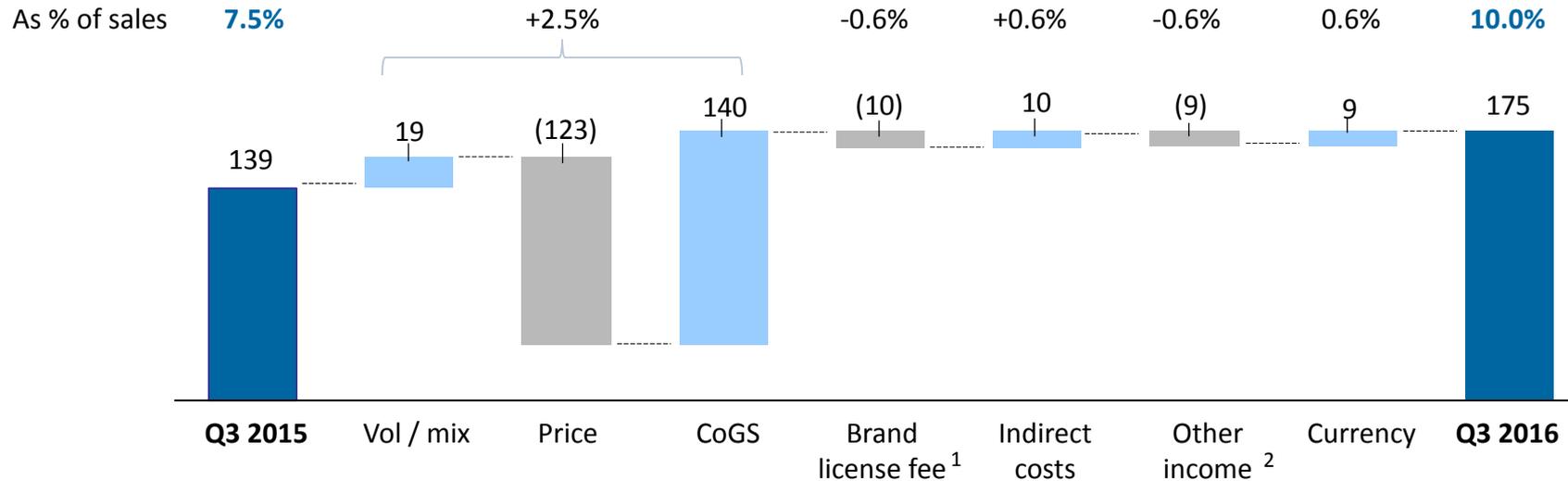


Key observations

- Professional: worsened market conditions in the Middle East & Turkey; softer outdoor market in some European countries
- LED: market slowdown in some European countries, North America Q2 slowdown prolonged into Q3, continued solid growth in the rest of the world
- Lamps: slower pace of decline across most geographies
- Home: continued double digit growth

Increase of adjusted EBITA mainly from gross margin improvements

Adjusted EBITA (€m)

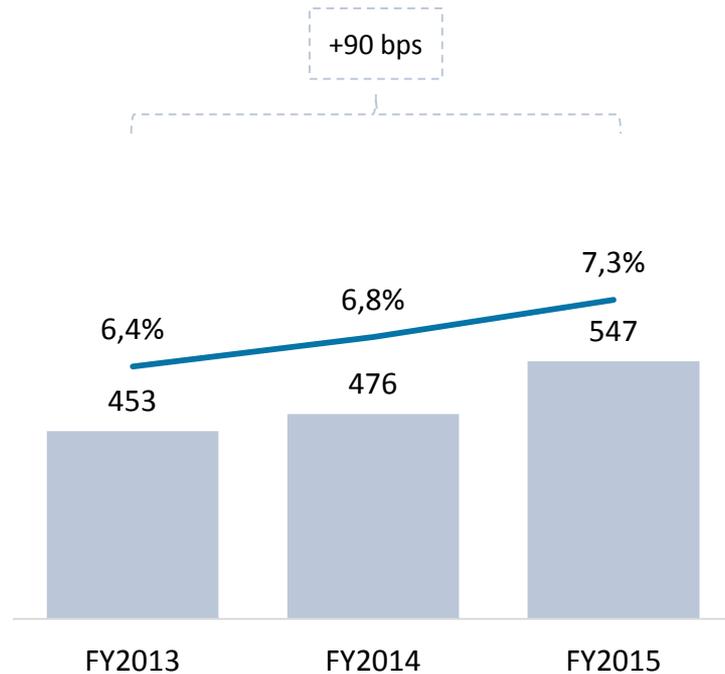


¹ Brand license fee is included in indirect costs in the financial statements

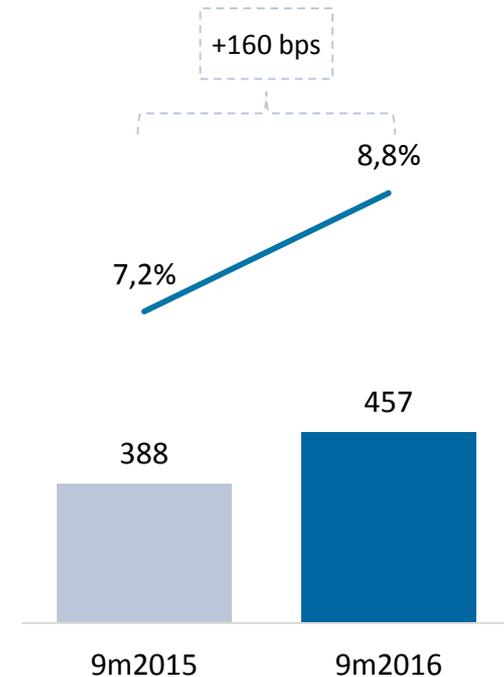
² Other business income last year was positively impacted by gains in sale of real estate

Since 2013 a trajectory of continued improvement in operational profitability

Adjusted EBITA Full year (€m and as % of sales)



Adjusted EBITA YTD (€m and as % of sales)

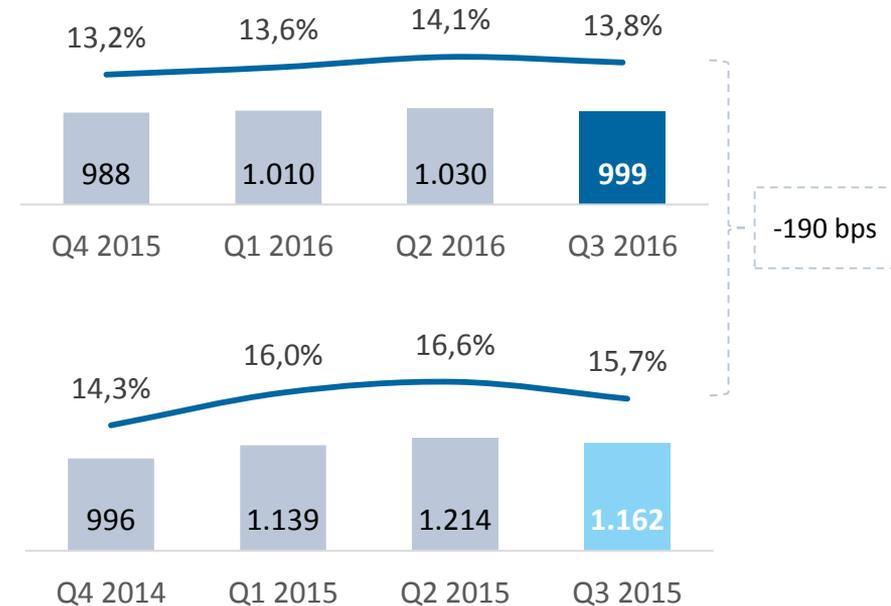


Working capital well managed driven by reduced inventory levels

Working capital¹ (in €m & as % of sales)



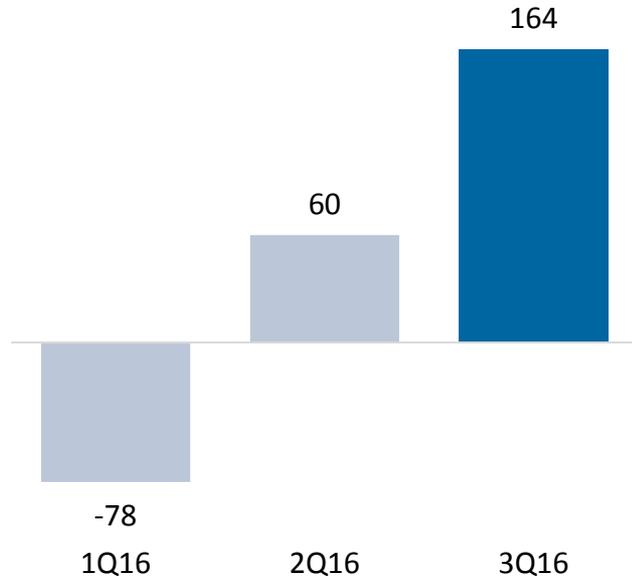
Inventories (in €m & as % of sales)



¹ Working capital includes Inventories, Receivables, Account and notes payable, Other current assets & liabilities, Derivative financial assets & liabilities, Income tax receivable & payable, and accrued liabilities.

Solid improvement of free cash flow in third quarter

Free cash flow (in €m)

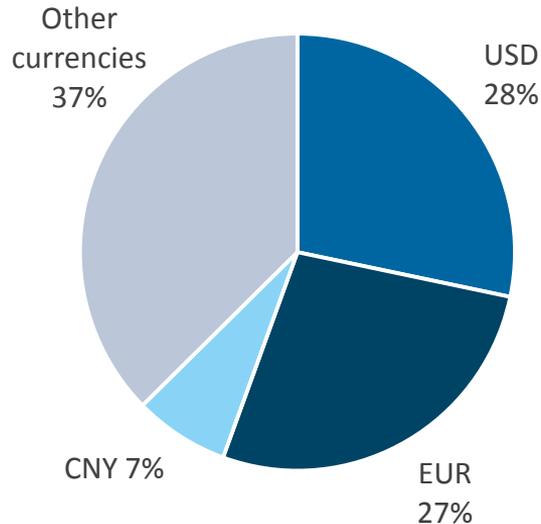


Key observations

- Third quarter improved compared to Q3 2015 by:
 - improved profitability
 - strong working capital inflow
 - partly offset by increased interest payments (new financing structure) and higher taxes
- Net debt at end of Q3: €614 million

Philips Lighting has sales in a wide range of currencies

Q3 2016 Sales FX Footprint (% of total)



Key observations

- Currency movements had a negative impact on sales and a positive impact on adjusted EBITA in the third quarter
 - Sales impact from currencies of -2.1%, mainly from Argentine Peso, British Pound and Chinese Renminbi
 - Adjusted EBITA impact of €9 million or 0.6%
- Philips Lighting policy is to hedge 100% of committed FX transactions and anticipated transactions up to 80% in layers over the next 15 months

Q&A



PHILIPS Lighting

Important information

Forward-Looking Statements and Risks & Uncertainties

This document and the related oral presentation contain, and responses to questions following the presentation may contain, forward-looking statements that reflect the intentions, beliefs or current expectations and projections of Philips Lighting N.V. (the “Company”, and together with its subsidiaries, the “Group”), including statements regarding strategy, estimates of sales growth and future operational results.

By their nature, these statements involve risks and uncertainties facing the Company and its Group Companies and a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement as a result of risks and uncertainties. Such risks, uncertainties and other important factors include but are not limited to: adverse economic and political developments, the impacts of rapid technological change, competition in the general lighting market, development of lighting systems and services, successful implementation of business transformation programs, impact of acquisitions and other transactions, impact of the Group’s operation as a separate publicly listed company, pension liabilities and costs, establishment of corporate and brand identity, adverse tax consequences from the separation from Royal Philips and exposure to international tax laws. Please see “Risk Factors” in the Group’s prospectus, dated 16 May 2016 (the “Prospectus”) for discussion of material risks, uncertainties and other important factors which may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group. Such risks, uncertainties and other important factors should be read in conjunction with the information included in this semi-annual report.

Looking ahead to the second half of 2016, the Group is primarily concerned about the challenging economic conditions, currency headwinds and political uncertainties in the global and domestic markets in which it operates.

Additional risks currently not known to the Group or that the Group has not considered material as of the date of this document could also prove to be important and may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group or could cause the forward-looking events discussed in this document not to occur. The Group undertakes no duty to and will not necessarily update any of the forward-looking statements in light of new information or future events, except to the extent required by applicable law.

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 “Operating and Financial Review—Non-IFRS Financial Measures” in the Prospectus.

Presentation

All amounts are in millions of euros unless otherwise stated. All reported data is unaudited. Unless otherwise indicated, financial information has been prepared in accordance with the accounting policies as stated in the Combined Financial Statements for the year ended 31 December 2015 included in the Prospectus.

Market Abuse Regulation