Philips Lighting reports full year operating profit margin increase of 180 basis points to 9.1% and free cash flow of EUR 418m

Q4 & Full Year 2016 presentation

January 23, 2017

PHILIPS Lighting

Agenda

Welcome & introduction by Eric Rondolat

Highlights for Q4 2016 by Stéphane Rougeot

Highlights for the year 2016 by Eric Rondolat

Outlook & Conclusion by Eric Rondolat

Q&A

Welcome & Introduction

- Businesses performed in accordance with strategic objectives, despite challenging conditions in some markets

- Significant increase in profitability
- Solid free cash flow

- Continued progression to achieve strategic goals and medium term financial objectives

- Committed to meeting the needs of our customers through innovation
- Executing concrete actions to continue improving our growth profile

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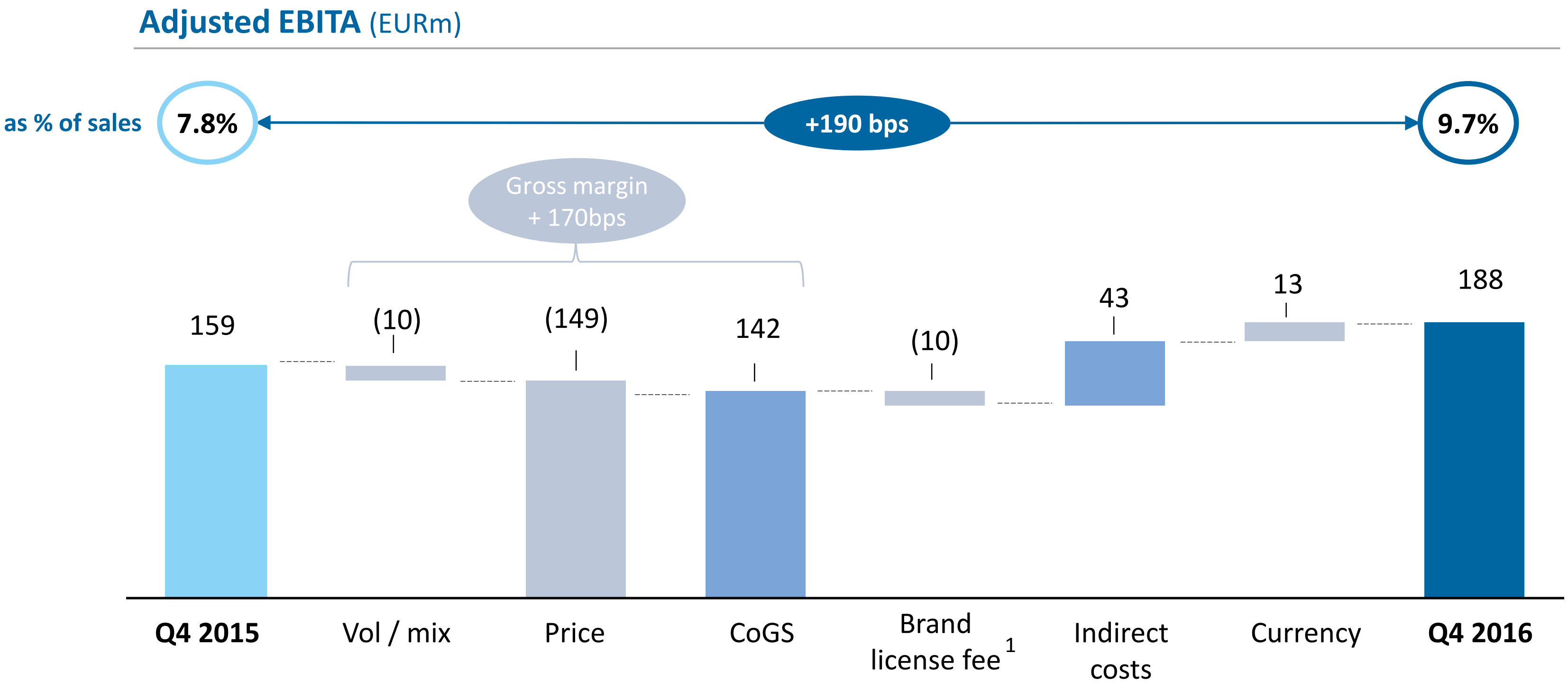
Financial performance by business group

Q4 2016	CSG%	Adjusted EBITA (€m)	vs LY (€m)	Adjusted EBITA %	vs LY (bps)
Lamps	-18.5%	110	+3	19.1%	+430
LED	11.3%	53	+18	12.0%	+320
Professional	0.1%	51	+1	6.9%	+30
Home	8.8%	3	+10	1.7%	+590
Philips Lighting	**-3.2%**	**188**	**+29**	**9.7%**	**+190**

Increased Adjusted EBITA margin driven by gross margin improvement and indirect cost savings

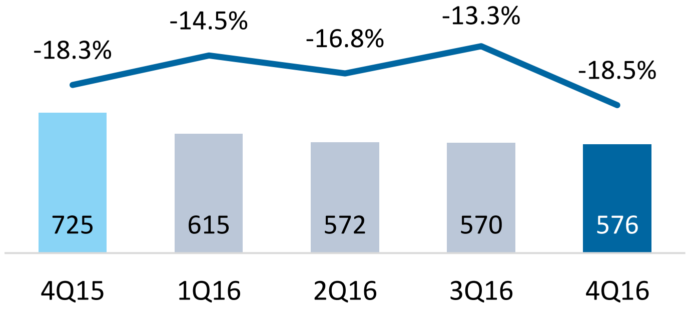


[1] Brand license fee is included in indirect costs in the financial statements

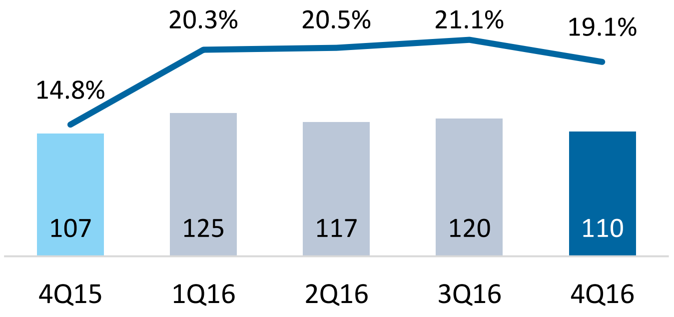
PHILIPS Lighting

Lamps improved margin by 430 bps due to ongoing cost rationalizations, despite decline in sales

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



Adjusted EBITA (in EURm & as % of sales)



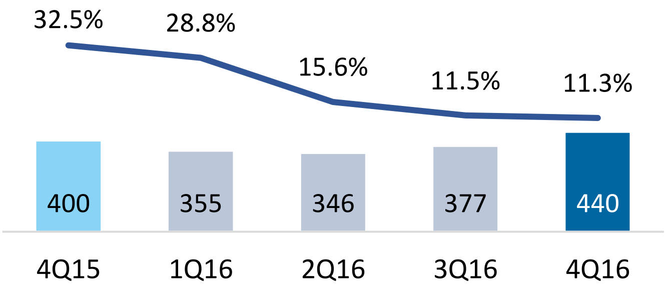
Key observations for Q4 2016

- Given Q4 sales, sales decline in 2H16 at 15.6% similar as sales decline in 1H16
- Adjusted EBITA margin improved by 430 bps:
  - Footprint rationalization
  - Good procurement savings
  - Industrial productivity improvement
- Active management of business portfolio: successful divestment of cinema business in North America
- EUR 17m restructuring charges for ongoing manufacturing footprint rationalization

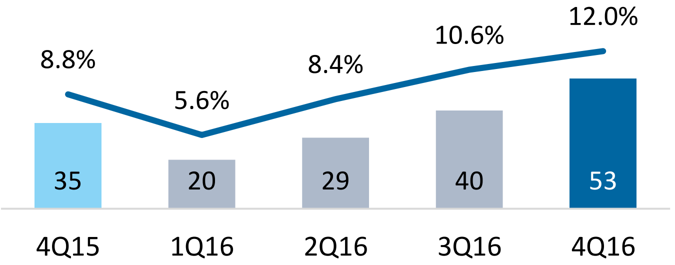
PHILIPS Lighting

LED volume growth remained robust and margin improved by 320 bps

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



Adjusted EBITA (in EURm & as % of sales)



Key observations for Q4 2016

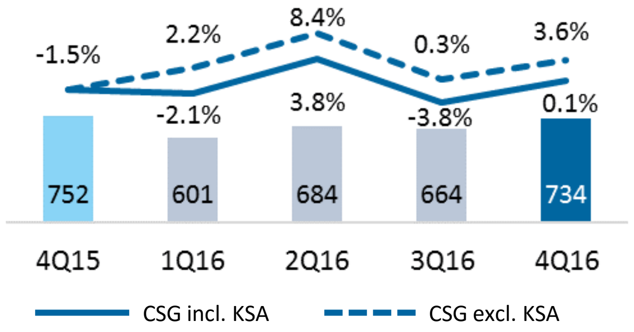
- Continued double digit growth: still robust volume growth, price erosion and mix impact
- Soft comparable sales trend in the Americas continued in Q4; improvement measures taken:
  - Expanding and diversifying our distribution coverage
  - Intensifying our marketing pull activities
  - Market based product innovation
- Adjusted EBITA margin improved by 320 bps:
  - Operational leverage
  - Procurement savings

  Offsetting price reduction

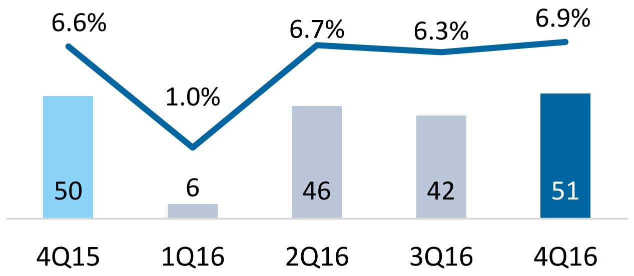
PHILIPS Lighting

Professional showed stable sales and 30 bps margin improvement

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



Adjusted EBITA (in EURm & as % of sales)



Key observations for Q4 2016

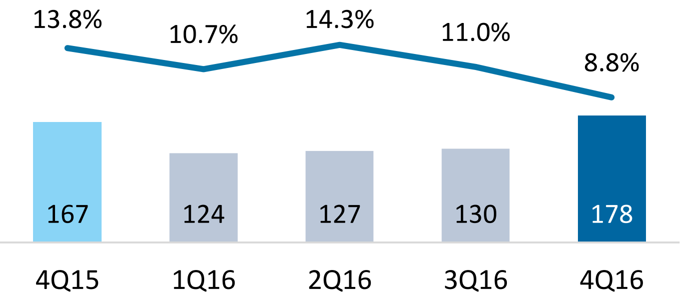
- Stable comparable sales level, excl. Saudi Arabia: +3.6%
- Europe showed growth, the Americas was stable
- Adjusted EBITA margin improvement of 30 bps:
  - Procurement savings
  - Production efficiency improvements
  - Mix improvement

  Partly offset by write-downs on bad debt in Saudi Arabia

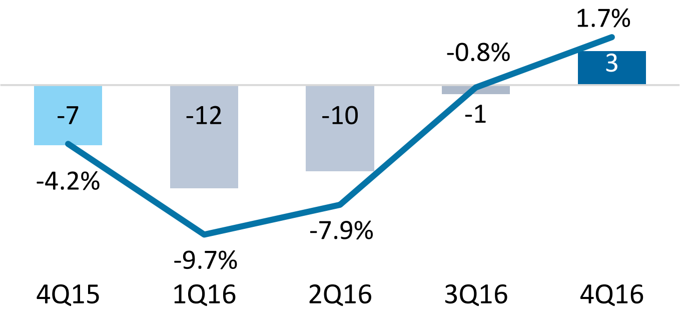
PHILIPS Lighting

Home was profitable in Q4

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



Adjusted EBITA (in EURm & as % of sales)



Key observations for Q4 2016

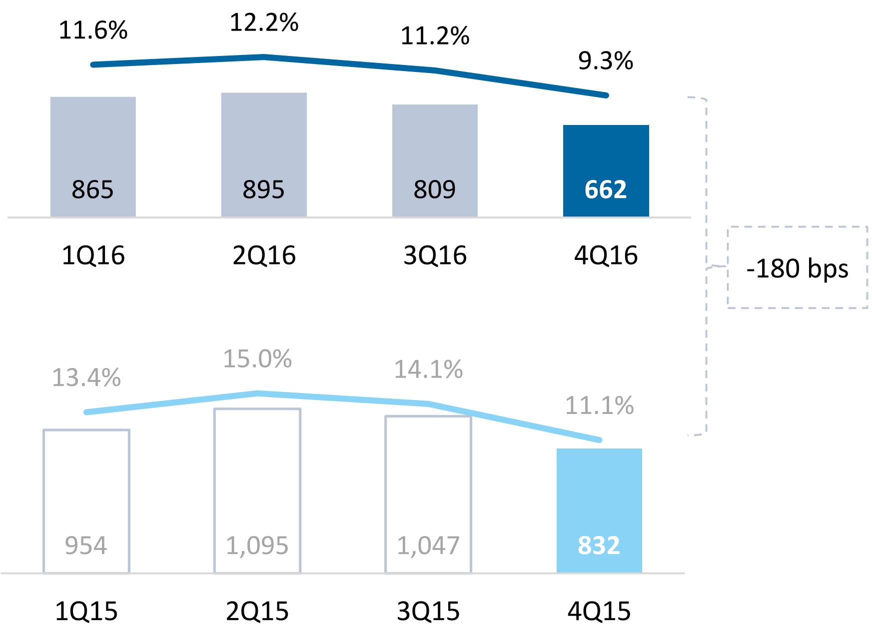
- Comparable sales growth:
  - Driven by Home Systems
  - Contributed by all markets

- Adjusted EBITA margin improvement of 590 bps:
  - Operational efficiency gains
  - Procurement savings
  - Operational leverage

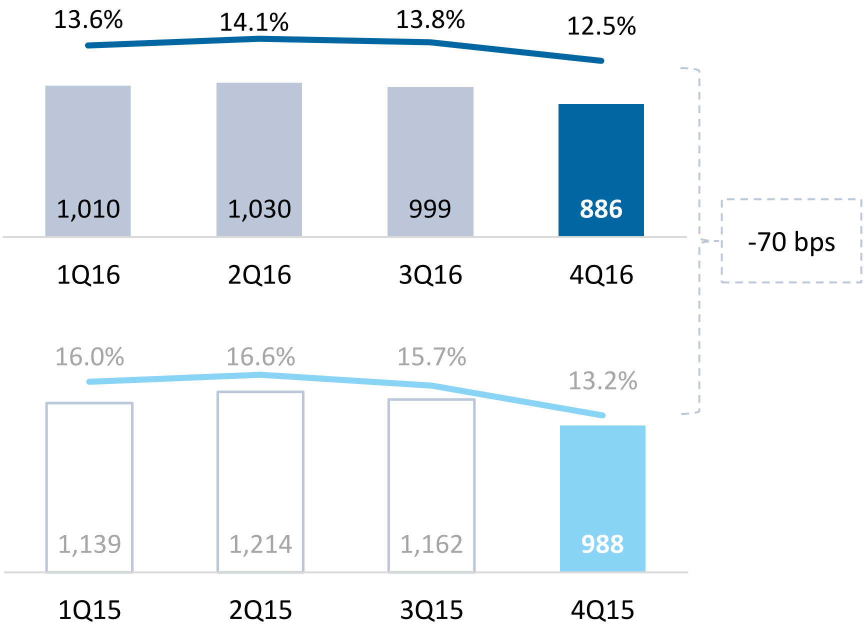
Working capital as % of sales improved by 180 bps

Structural improvement supported by focus on inventories

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



Inventories (in EURm & as % of sales)



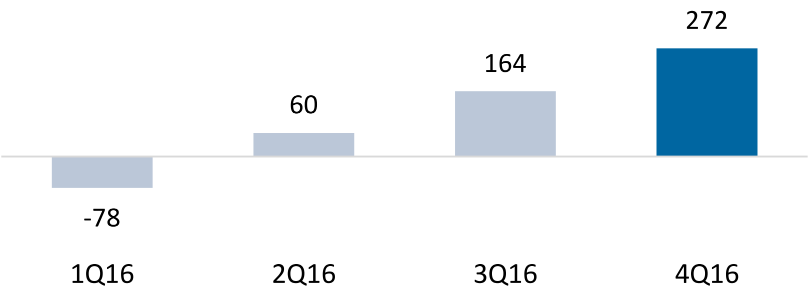
[1] Working capital includes inventories, receivables, accounts and notes payable, other current assets & liabilities, derivative financial assets & liabilities, income tax receivable & payable, and accrued liabilities

PHILIPS Lighting

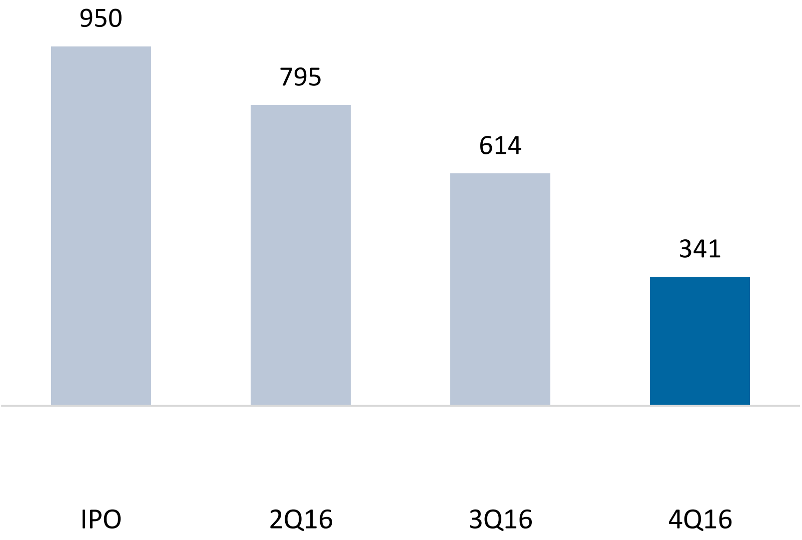
Solid free cash flow in Q4 driven by improved profitability and robust working capital performance

Free cash flow (in EURm)

Free cash flow FY 2016: EUR 418m



Net debt development since IPO (in EURm)



PHILIPS Lighting

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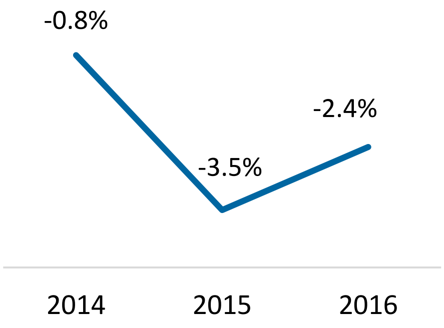
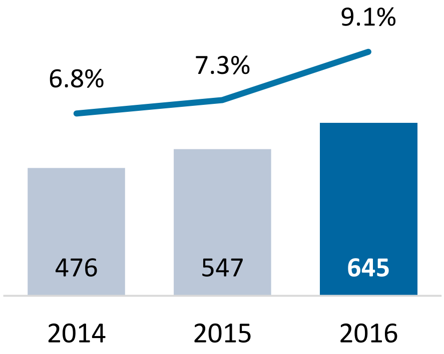
Q&A

Substantial progress and solid performance achieved in 2016

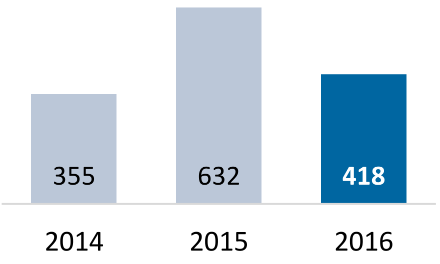
Comparable Sales Growth
(in %)



Adjusted EBITA
(in EURm and % of sales)



Free Cash Flow
(In EURm)



Progress in 2016	Improved comparable sales trend despite difficult market conditions	9.1% (+180bps) including the brand license fee	Solid free cash flow FCF as % of sales: 5.9%

PHILIPS Lighting

Sound progress made on our strategic priorities during 2016

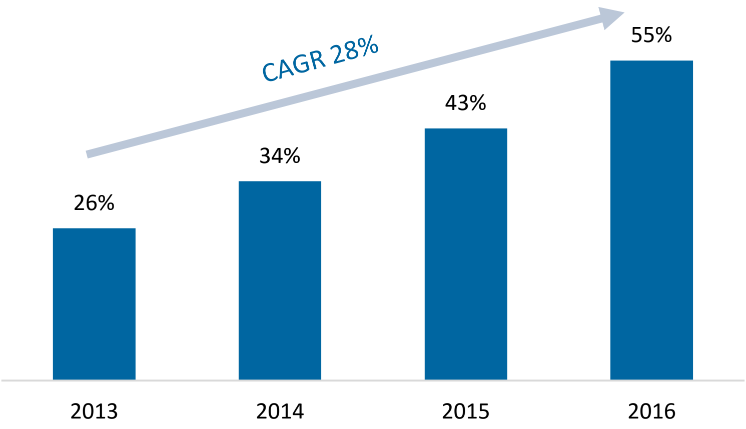
Strategic priorities	Proof points in 2016
Optimize cash from conventional products to fund our growth	• Free cash flow as % of sales for Lamps improved by 12%
Innovate in LED products commercially and technologically to outgrow the market	• LED lighting share increased from 43% to 55% of total sales
Lead the shift to Systems, building the largest connected installed base Capture adjacent value through new Services business models	• Professional Systems & Services grew by 51% • Fast growth in Home Systems sales. Growth rate increased by 40%
Be our customers' best business partner locally, leveraging our global scale	• Customer promotor score improved by 3%
Accelerate! on our operational excellence improvement journey	• Adjusted EBITA margin improved by 180 basis points to 9.1%; Indirect costs reduced by EUR 96m*

*This is excluding the impact of the brand license fee of EUR 36m

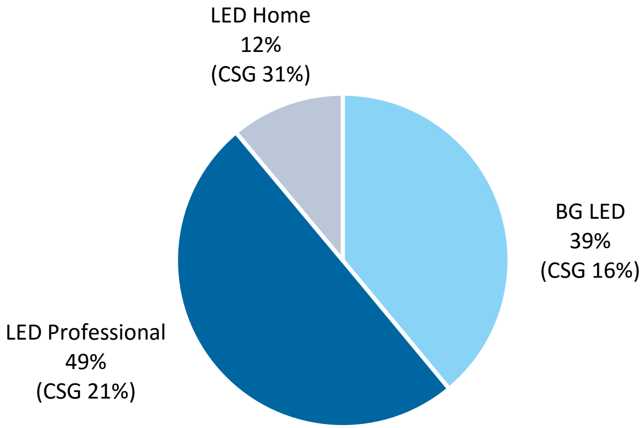
PHILIPS Lighting

Total LED sales grew from EUR 2.2bn in 2013 to EUR 3.9bn in 2016

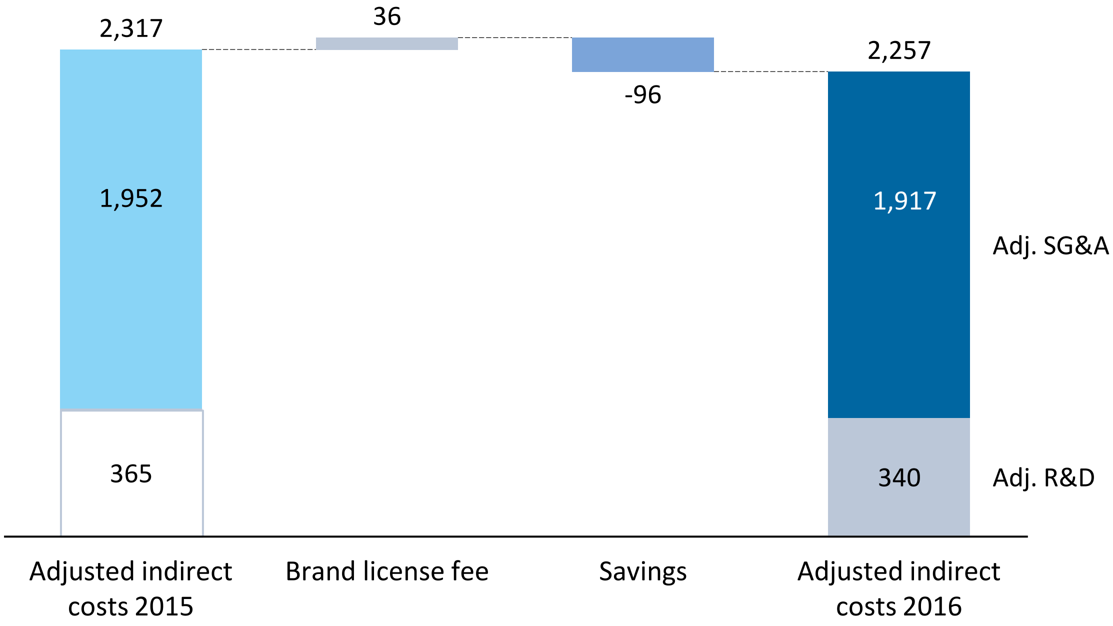
Development of total LED sales
(in % of total sales)



Total LED sales 2016: EUR 3.9bn, CSG +20%



Indirect cost base reduced by EUR 96m in 2016

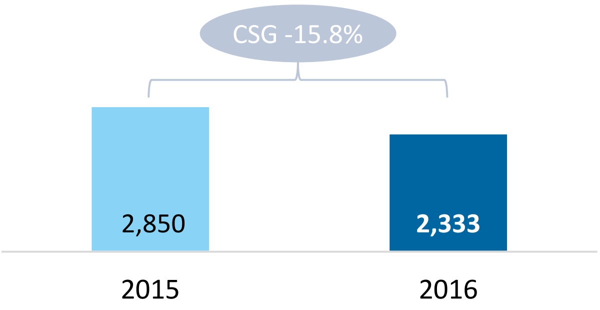


Key observations

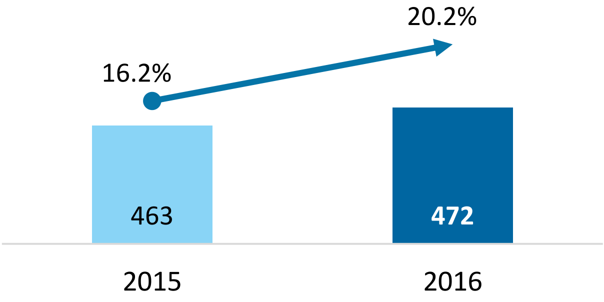
- Brand license fee of EUR 36m following the separation from Royal Philips
- Indirect cost savings primarily came from a reduction in SG&A
- Further cost reduction opportunities:
  - Selling expense optimization
  - IT rationalization
  - Other internal overhead savings (e.g. Finance, HR, Real Estate)

Lamps improved margin by 400 bps, reflecting the execution and benefit of our last man standing strategy

Sales (EURm) & Comparable Sales Growth (in %)



Adjusted EBITA (EURm & as % of sales)



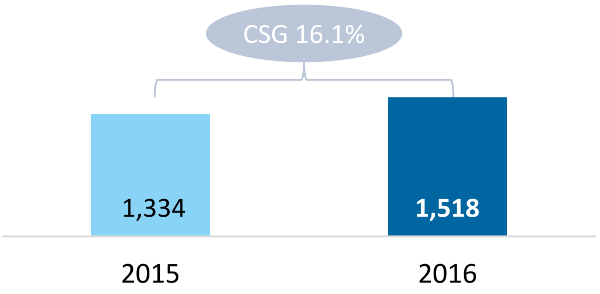
Progress in 2016

- Sales decline due to the transition from conventional to LED lighting
- Adjusted EBITA margin improvement by 400 bps driven by:
  - Lower than anticipated sales decline
  - Efficient manufacturing footprint rationalization
  - Productivity and procurement savings
- Ongoing manufacturing footprint rationalization: EUR 37m restructuring costs
- Active management of business portfolio: 3 divestments
- 12% improvement of free cash flow as % of sales
- This performance supports our medium term guidance to maintain our Adjusted EBITA margin at least at the level of 2015 i.e. 16%

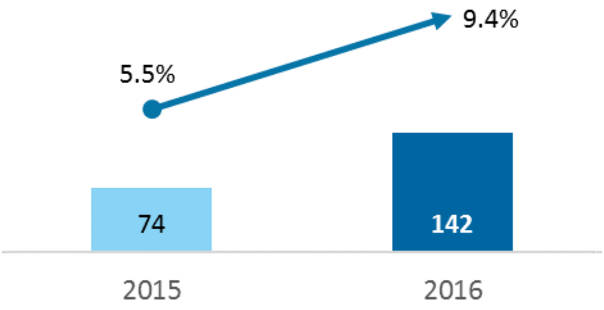
PHILIPS Lighting

LED margin increased by 390 bps, on track to achieve margin of 10-12% in the medium term

Sales (EURm) & Comparable Sales Growth (in %)



Adjusted EBITA (EURm & as % of sales)

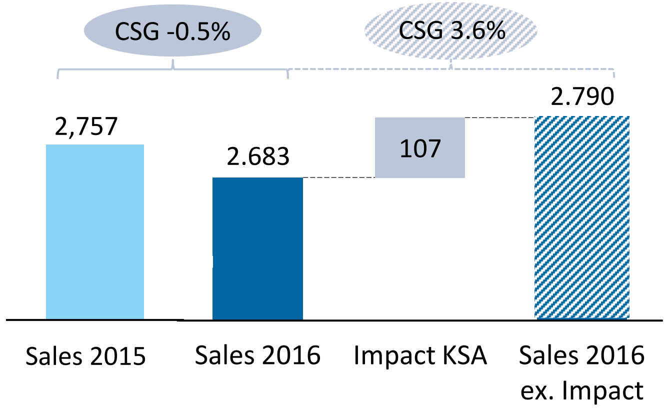


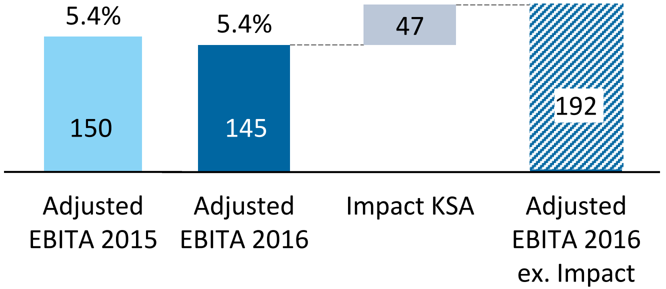
Progress in 2016

- CSG of 16.1%: robust volume growth, continued price erosion, mix impact
  - Americas: softened comparable sales trend
  - Europe: slower sales growth in some countries, higher LED penetration
  - Rest of the World: robust growth
- Innovations:
  - SceneSwitch
  - Dubai Lamp
  - Philips GreenPower LED flowering lamp
  - High lumen LED alternative for popular high wattage CFLi bulbs
- Significant Adjusted EBITA margin improvement by 390 bps driven by operational leverage, material procurement savings and innovation
- Material working capital improvement

PHILIPS Lighting

Professional performance impacted by Saudi Arabia, initiatives in place to improve margin to 11-14% in the medium term



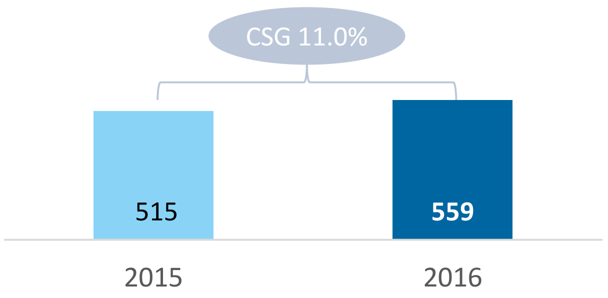


Progress in 2016

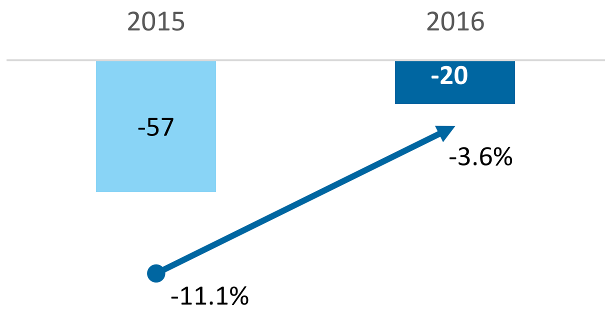
- CSG driven by growth in the Americas, offset by softness in some European countries; negative contribution from Saudi Arabia of 410 basis points
- Systems & Services business continued to grow, CSG of 51%
- Adjusted EBITA benefits from operational optimization and mix improvement, offset by impact of 47M in Saudi Arabia
- Initiatives for improvement:
  - Reduction of indirect costs
  - Footprint rationalization
- Innovative projects:
  - Philips CityTouch street lighting system in Jakarta
  - Philips Power-over-Ethernet technology for Torre Europa in Madrid/Spain
  - Connected LED pitch lighting for stadium in Germany
- Robust working capital improvement

Home has become a profitable business in the second half of 2016, on track to become profitable on a full-year basis in 2017

Sales (EURm) & Comparable Sales Growth (in %)



Adjusted EBITA (in EURm & as % of sales)



Progress in 2016

- Sales growth driven by growth in both Home Systems and Home Luminaires due to continued focus on innovation
- Fast growth in Home Systems sales. Growth rate increased by 40%
- Profitable in the second half of 2016
- Adjusted EBITA margin improved significantly:
  - Benefits from sales growth
  - Restructuring efforts
- Innovative projects:
  - Philips Hue was a debut partner with Google Home
  - Philips Hue and “the Voice of Germany” worked together
  - Introduction of Philips Hue Motion Sensor
- Solid working capital performance

PHILIPS Lighting

Sustainability: Brighter Lives, Better World 2016 results

	2016 result	Year-on-year result	2020 target
Sustainable revenues	77.8%	+6.2%	80%
Sell 2 billion LED lamps	628 million (cumulative from 2015)	+44%	>2 billion
Carbon footprint	Net 406 kt CO_2	-39%	Net 0 kt CO_2
Zero Waste to landfill	26% of sites	New KPI	100% of sites
Safe & Healthy Workplace	TRC = 0.50	-24%	TRC = 0.35
Sustainable Supply Chain	100% risk suppliers audited		100% risk suppliers audited

PHILIPS Lighting

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Outlook 2017

- Further improvement of **Adjusted EBITA margin**: approximately 50-100 basis points
- In line with medium term outlook to gradually improve the Adjusted EBITA margin to 11-13%

- Committed to continue delivering solid **free cash flow**

- Remain committed to our ambition to return to positive **comparable sales growth** in the course of the year

Capital allocation policy

Cash available

- Continued free cash flow generation
- Managing our financial ratios to maintain a financing structure compatible with an investment-grade profile

Cash uses

- Annual regular cash dividend within 40-50% of continuing net income*
- Disciplined management of balance sheet liabilities
- Returning additional capital to shareholders
- Seizing non-organic opportunities primarily through small- to medium-sized acquisitions

*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

PHILIPS Lighting

Attractive shareholder return

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

Dividend 2016 (in EUR m)

	FY 2016
Net income attributable to shareholders	**189**
Restructuring costs	115
Incidentals*	51
Tax impact	-36
Continuing net income	**319**
Total dividend	**165**

EUR 1.10 per share

Key observations

- Proposed dividend of 52% pay-out
- Additional capital return up to EUR 300m
  - Over the period 2017-2018
  - By participating in share disposals by our main shareholder

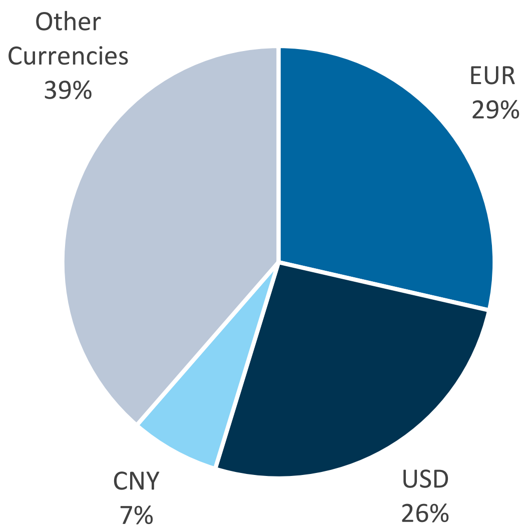
* Other incidentals consists of acquisition-related charges, separation costs and other incidentals

PHILIPS Lighting

Q&A

Philips Lighting has sales in a wide range of currencies

Q4 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 fourth quarter
  - Sales impact from currencies of -1.4%, mainly from Argentine Peso, British Pound and Chinese Renminbi
  - Adjusted EBITA impact of EUR 13m, mainly from Chinese Renminbi
- Philips Lighting policy is to hedge 100% of committed FX transactions and anticipated transactions up to 80% in layers over the next 15 months

PHILIPS Lighting

Full year net income of EUR 185m includes EUR 143m charges not applicable in 2015

From Adjusted EBITA to net income (in EURm)

		4Q16	FY 2016
1	**Adjusted EBITA**	**188**	**645**
	- Restructuring	-25	-115
	- Acquisition related charges	-2	-3
2	- Other incidental items	-25	-48
	EBITA	**136**	**479**
	Amortization	-27	-110
	EBIT	**109**	**369**
3	Net financial income / expenses	-12	-67
4	Income tax expense	-35	-119
	Results relating to investments in associates	1	2
	Net income	**63**	**185**

Charges not applicable in 2015:

1. Brand license fee of EUR 36m for the year
Q4 2016: EUR 10m

2. Separation costs of EUR 62m for the year
Q4 2016: EUR 25m

3. Net financial expenses increased due to new financing structure following the separation

4. Income tax increased due to improved profitability and separation related items

PHILIPS Lighting

Solid free cash flow driven by improved profitability and strict working capital management

Free cash flow (in EURm)

	Q4 2016	FY 2016
Income from operations	109	369
Depreciation and amortization	75	291
Change in working capital	170	119
Net capex	-26	-87
Change in provisions	-20	-71
Interest paid	-8	-29
Income taxes paid	-23	-96
Other	-5	-78
Free cash flow	**272**	**418**
As % of sales		*5.9%*

Key observations

- Free cash flow includes higher cash outflows following the separation, in particular interest payments and taxes
- Free cash flow for the full year also includes separation costs of EUR 62m (Q4 2016: EUR 25m)

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