Philips Lighting reports second quarter sales of EUR 1.7 billion and operational profitability of 10.2%

Q2 2017 results
Analyst & Investor presentation

July 21, 2017

PHILIPS Lighting

Agenda

Business and operational performance by Eric Rondolat

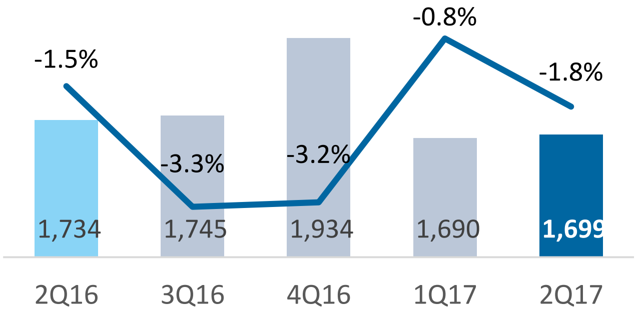
Financial performance by Stéphane Rougeot

Outlook and conclusion by Eric Rondolat

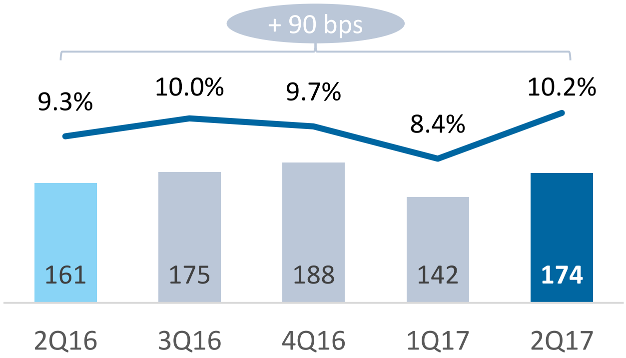
Q&A

Philips Lighting reports second quarter sales of EUR 1.7 billion and operational profitability of 10.2%

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



Adjusted EBITA (in EURm & as % of sales)



Key observations for Q2 2017

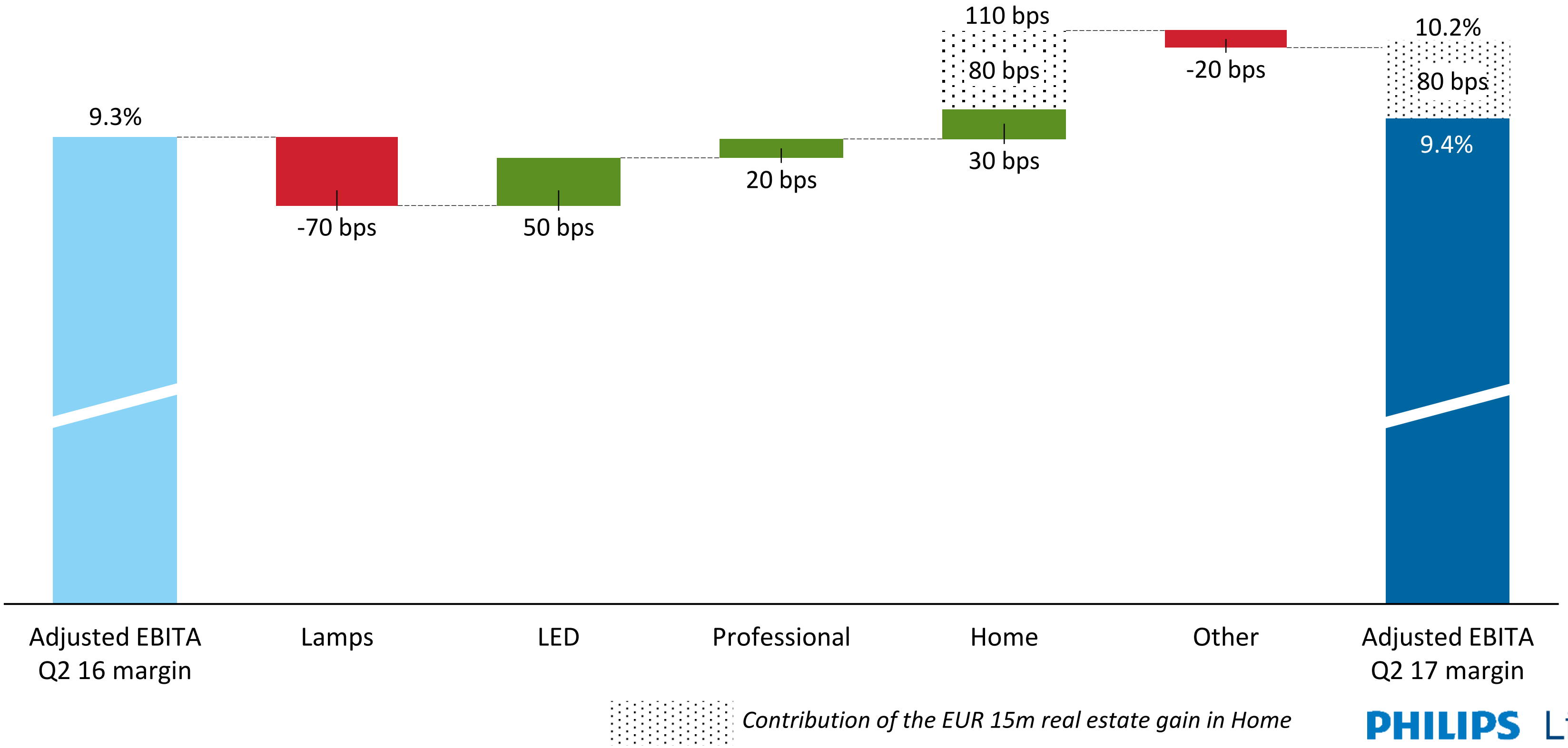
- Comparable sales declined by 1.8%
- Total LED-based sales increased by 14%
- Europe delivered robust growth
- The Americas and the Middle East & Turkey, most notably Saudi Arabia, remain impacted by softer market conditions

- Adjusted EBITA margin increased to 10.2%; or 9.4% excl. EUR 15m real estate gain in Home
- Net income: EUR 73m
- Free cash flow: EUR -27m, reflecting an increase in inventories to support anticipated growth in H2 2017

Each business group increased its Adjusted EBITA margin

Q2 2017	CSG %	Adjusted EBITA (€m)	vs LY (€m)	Adjusted EBITA %	vs LY (bps)
Lamps	-18.2%	95	-22	20.7%	+20
LED	20.9%	45	16	10.6%	+220
Professional	-2.7%	48	2	7.2%	+50
Home	15.5%	12	22	8.2%	+1,610
Philips Lighting	**-1.8%**	**174**	**13**	**10.2%**	**+90**

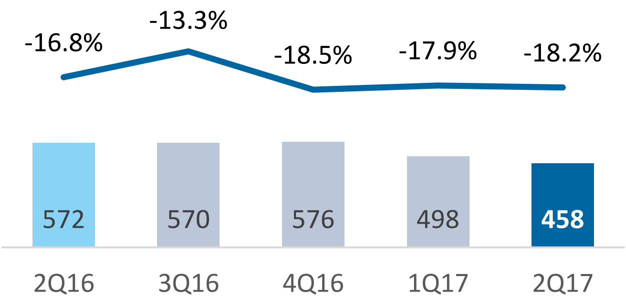
Increasing profitability at LED, Professional and Home more than offsets decreasing profit contribution of Lamps



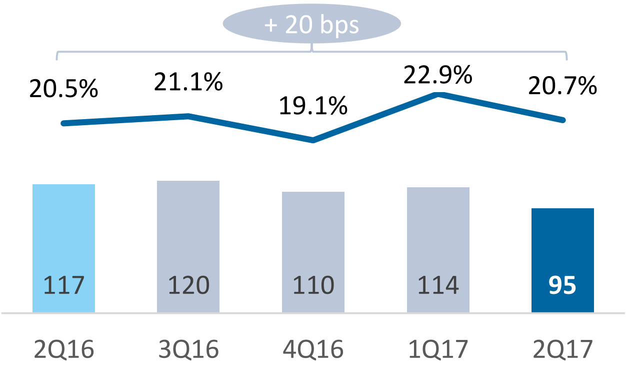
PHILIPS Lighting

Lamps improved profitability, driven by manufacturing footprint optimization

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



Adjusted EBITA (in EURm & as % of sales)



Key observations for Q2 2017

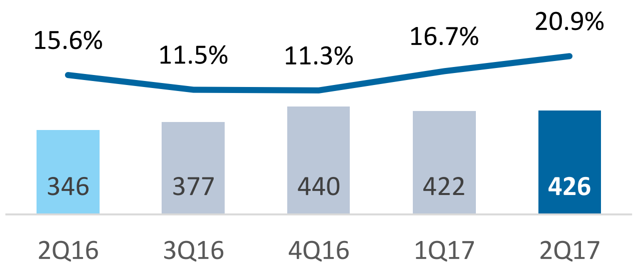
- Comparable sales declined by 18.2%
- In H1 2017, we estimate that the conventional lighting market declined at a faster pace than our Lamps business, which has resulted in continued market share gains

- Adjusted EBITA margin increased by 20 bps to 20.7%

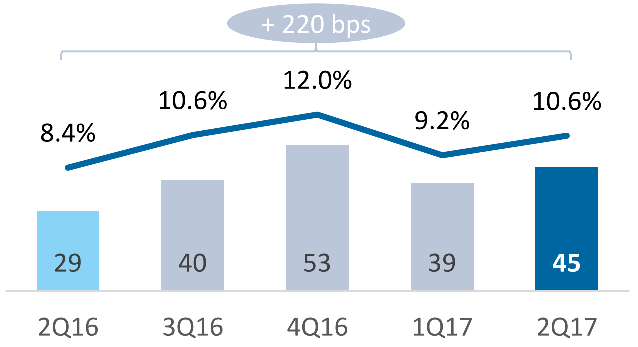
PHILIPS Lighting

LED volumes grew significantly and margin continued to improve

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



Adjusted EBITA (in EURm & as % of sales)



Key observations for Q2 2017

- CSG of 20.9% driven by significant volume growth, partly offset by lower selling prices and stronger growth in affordable products
- Continue to see positive impact of measures implemented last year
- All regions contributed to growth; countries with low LED penetration rates showed higher growth

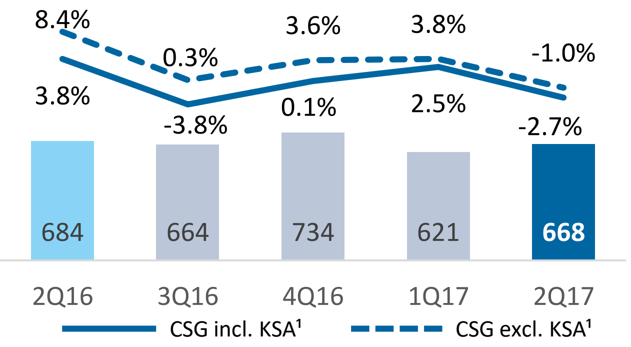
- Adjusted EBITA margin improved by 220 bps, driven by:
  - Operational leverage
  - Procurement savings

  Offsetting price reductions and mix impact

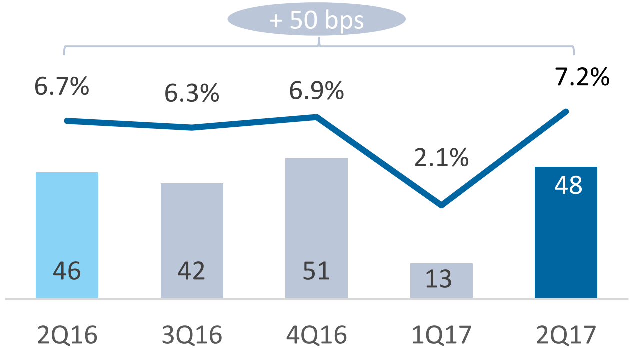
PHILIPS Lighting

Professional improved profitability despite soft market conditions in some key markets

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



Adjusted EBITA (in EURm & as % of sales)



Key observations for Q2 2017

- Europe and Greater China remained strong
- Market conditions in the US continued to be soft, particularly for small- to medium-sized projects
- Order backlog for larger projects in the US continues to be strong and is expected to positively impact CSG and the Adjusted EBITA margin in H2 2017
- Market conditions in Saudi Arabia continued to be challenging, negatively impacting CSG by 180 bps

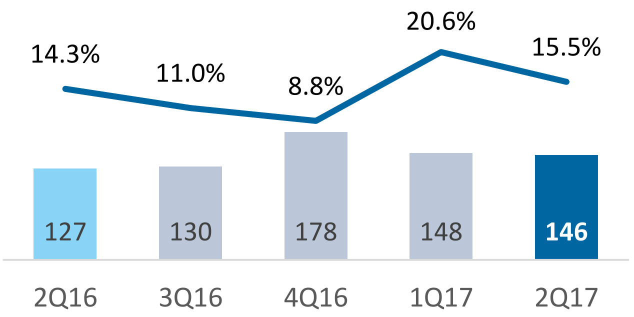
- Adjusted EBITA margin increased by 50 bps to 7.2%, driven by:
  - Procurement savings
  - Mix improvement

[1]KSA: Kingdom of Saudi Arabia

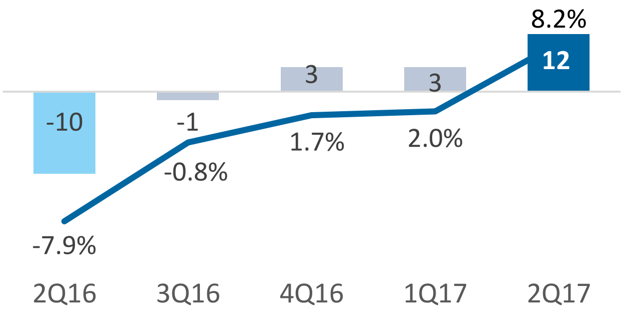
PHILIPS Lighting

Home delivered double-digit growth and is on track to become profitable for FY 2017

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



Adjusted EBITA (in EURm & as % of sales)



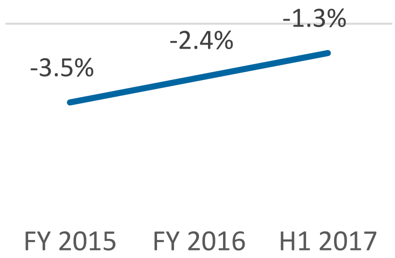
Key observations for Q2 2017

- Comparable sales growth of 15.5%:
  - Driven by both Home Systems and Home Luminaires
  - All regions contributed to growth
- To support the growth of the Philips Hue offering, investments were stepped-up in:
  - Innovation
  - Marketing
  - Supply chain
- Adjusted EBITA margin increased from -7.9% to 8.2%. Excluding the gain on real estate of EUR 15m, Adjusted EBITA margin improved to -2.1%, driven by:
  - Operational leverage
  - Procurement savings

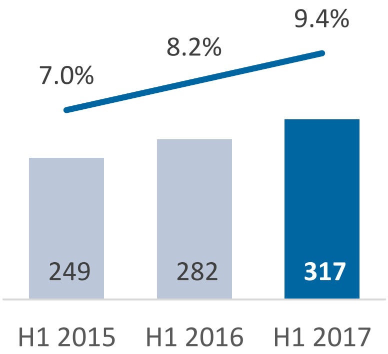
  Partly offset by increased investments in Philips Hue

H1 2017 performance: on track to deliver on outlook for the year

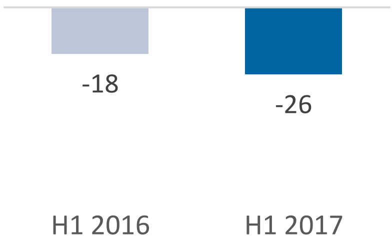
Comparable sales growth *(in %)*



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



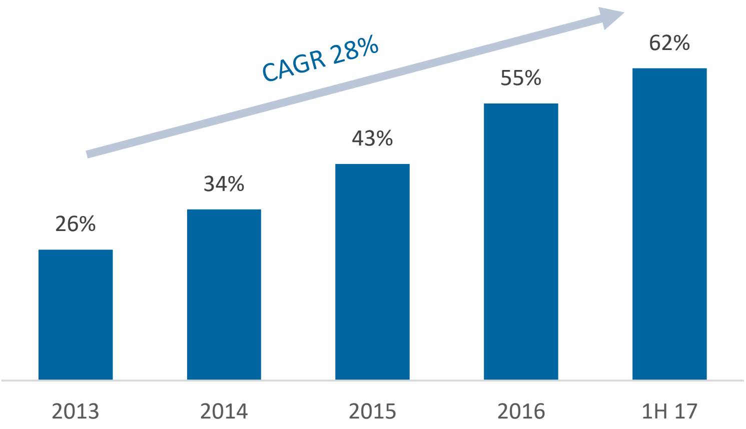
Free cash flow
(in EUR m)



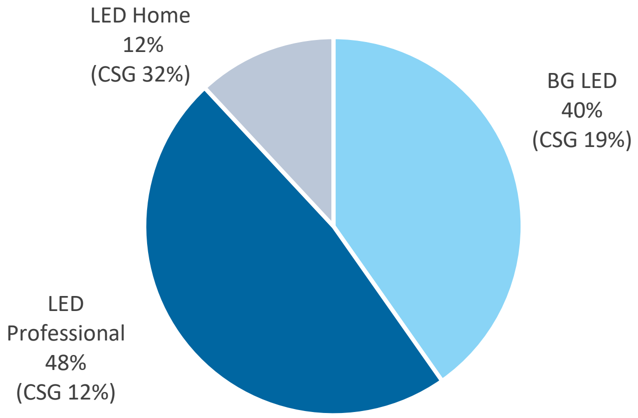
Progress in H1 2017	Improved comparable sales trend	Adjusted EBITA margin improved to 9.4% (8.9% excl. real estate gain in Q2 2017)	FCF was EUR -26m, reflecting an increase in inventories to support growth in H2

LED-based sales grew by 17% to EUR 2.1bn in H1 2017

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



LED-based sales H1 2017: EUR 2.1bn, CSG 17%



PHILIPS Lighting

Agenda

Business and operational performance by Eric Rondolat

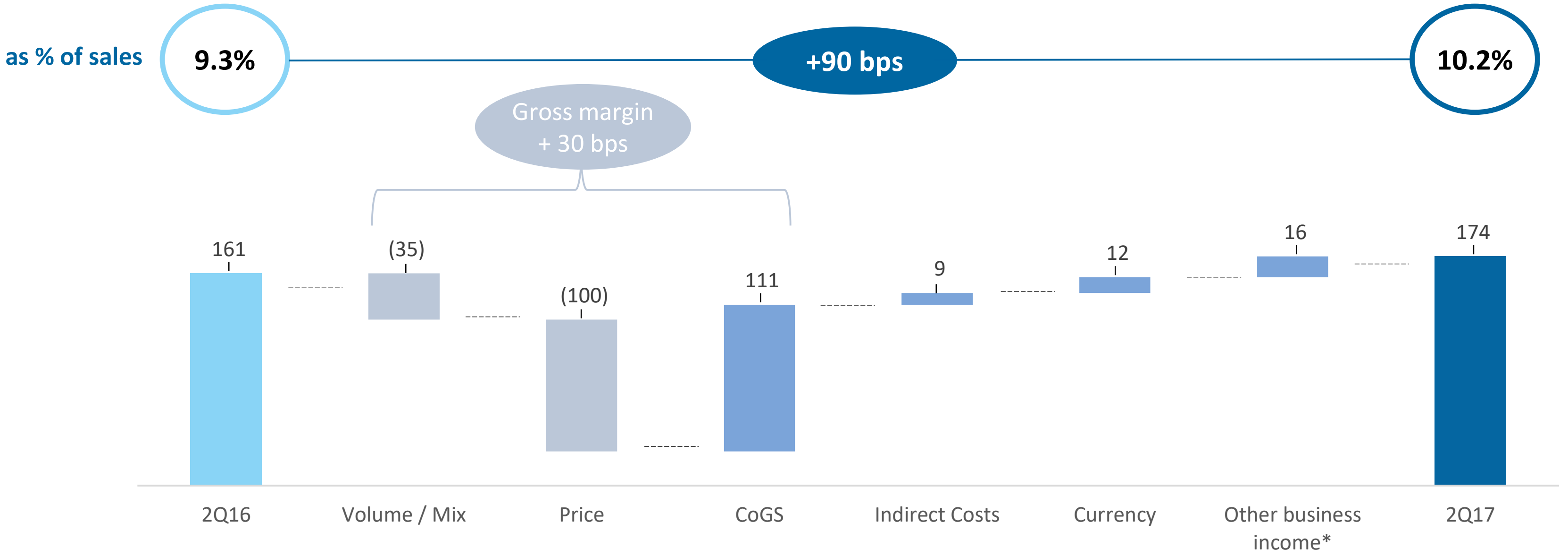
Financial performance by Stéphane Rougeot

Outlook and conclusion by Eric Rondolat

Q&A

Adjusted EBITA margin improvement in Q2 2017 primarily driven by procurement and productivity savings

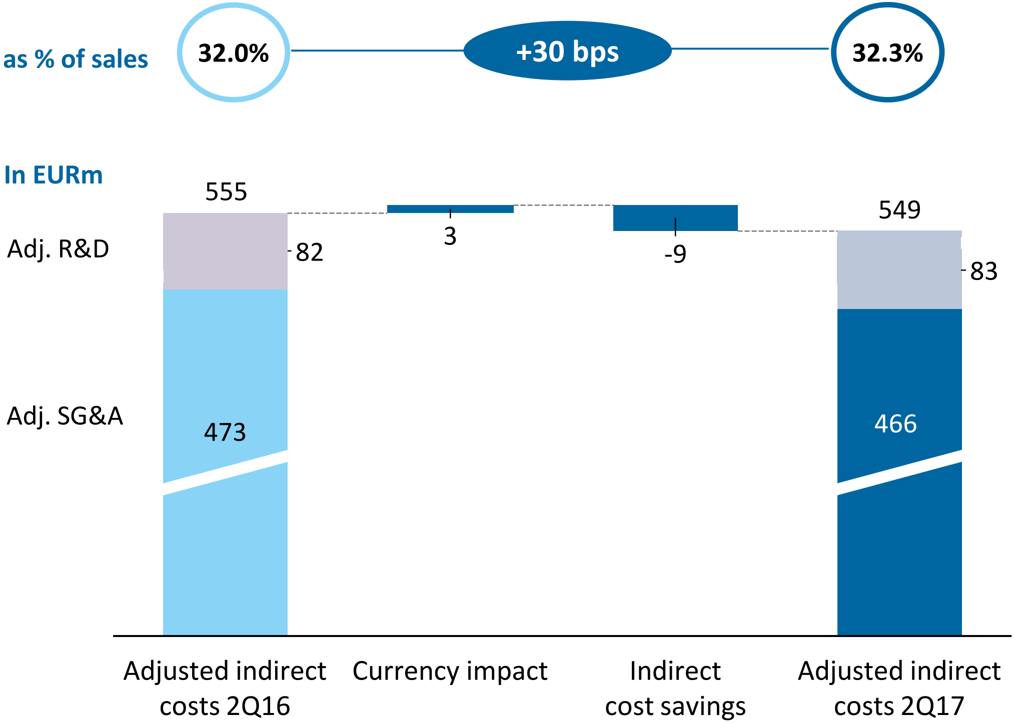
Adjusted EBITA (in EURm)



**) Other business income includes a real estate gain in Home of EUR 15m*

PHILIPS Lighting

Developments in adjusted indirect costs in Q2 2017



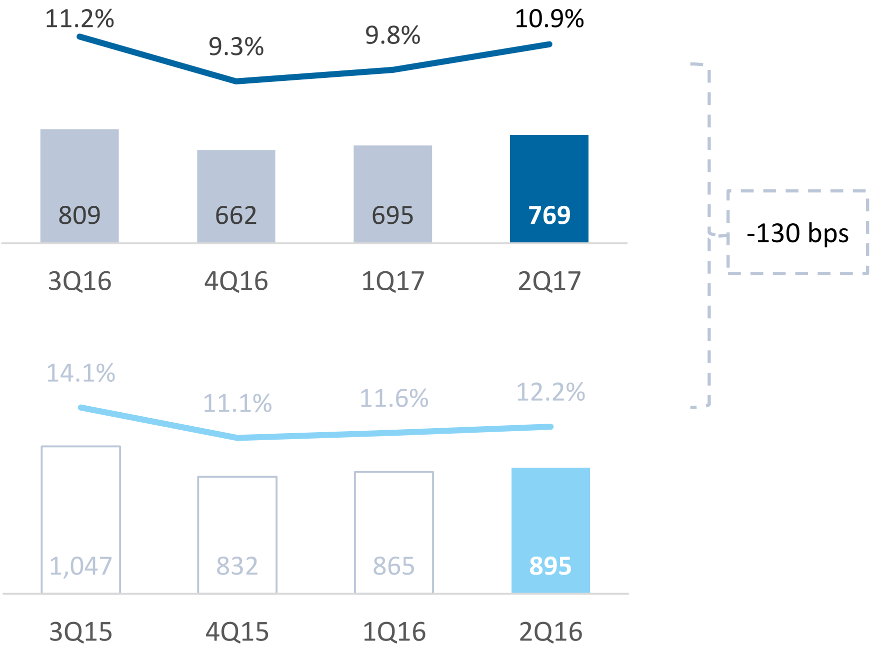
Key observations for Q2 2017

- Negative currency impact of EUR 3m
- Indirect cost reduction of EUR 9m, including additional investments to support growth
- Executing a detailed plan to realize cost savings:
  - Selling expenses
  - IT
  - Real Estate
  - Finance
  - HR

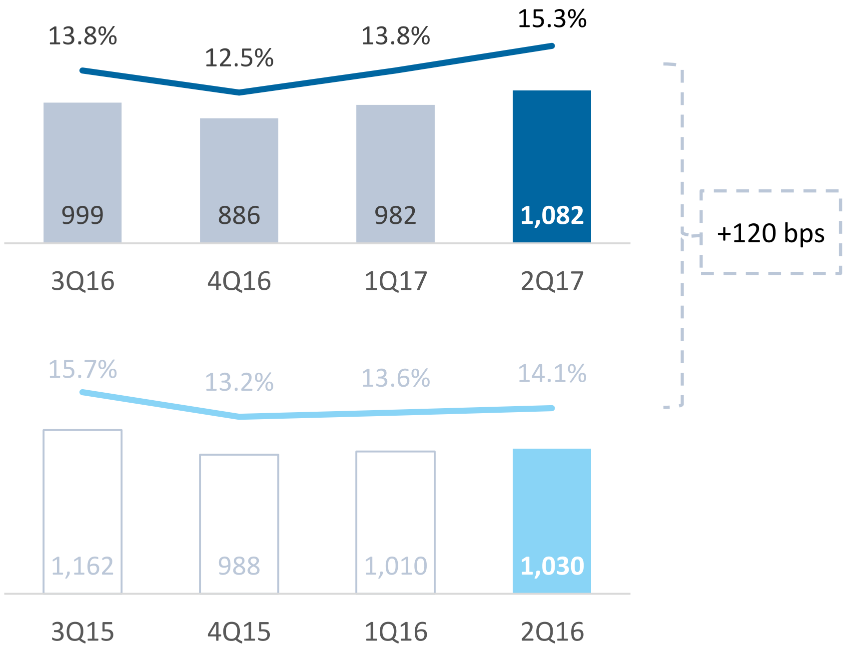
PHILIPS Lighting

Working capital as % of sales improved by 130 basis points y-o-y to 10.9% despite an increase in inventories to support sales growth in H2 2017

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



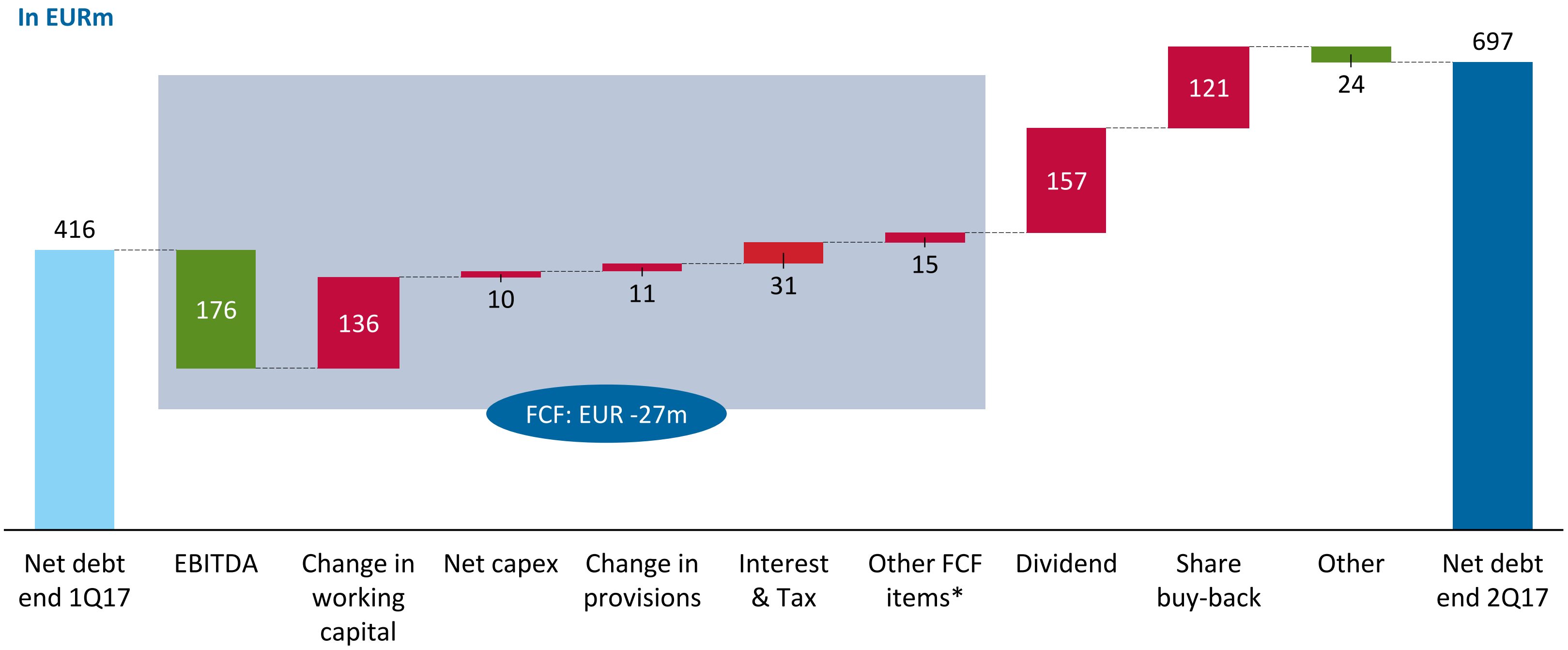
Inventories (in EURm & as % of sales)



[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

Net debt increase of EUR 281m due to dividend payment and share buy-back



*) This includes the gain on the sale of real estate

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*; dividend paid of EUR 157m
- Disciplined management of balance sheet liabilities, including an active pension de-risking strategy
  - Intend to contribute approx. USD 150m to our US pension fund over the period 2017-2019, to further reduce the liabilities and to lower interest expenses going forward
  - First contribution of USD 50m is planned for Q3 2017
- Returning up to EUR 300m to our shareholders in the period 2017-2018 by participating in share disposals by our main shareholder (EUR 183m to date)
- 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

Agenda

Business and operational performance by Eric Rondolat

Financial performance by Stéphane Rougeot

Outlook and conclusion by Eric Rondolat

Q&A

On track to deliver our 2017 outlook

- Further improvement of **Adjusted EBITA margin**: approximately 50-100 basis points in 2017, excluding a real estate gain of EUR 15m in Q2 2017

- Deliver solid **free cash flow**

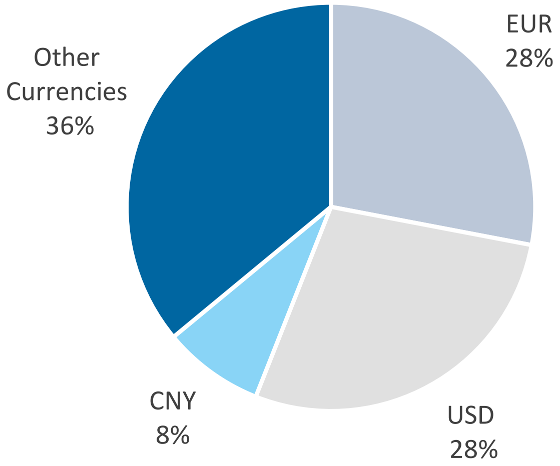
- Confident that we will return to positive **comparable sales growth** in the course of this year

Q&A

PHILIPS Lighting

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

Q2 2017 Sales FX Footprint (% of total)



Key observations

- Currency movements had a positive impact on both sales and Adjusted EBITA in the second quarter
  - Sales impact from currencies of EUR 21m, mainly from the US dollar
  - Adjusted EBITA impact of EUR 12m, mainly from the CNY and US dollar
- 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

Net income of EUR 73m driven by higher operating profit and lower financial expenses

From Adjusted EBITA to net income (in EURm)

		2Q16	2Q17
	Adjusted EBITA	**161**	**174**
	- Restructuring	-23	-30
	- Acquisition related charges	0	0
1	- Other incidental items	-15	-5
	EBITA	**123**	**139**
	Amortization	-27	-28
	EBIT	**96**	**111**
2	Net financial income / expenses	-26	-11
3	Income tax expense	-14	-26
	Results relating to investments in	1	-1
	Net income	**57**	**73**

Key observations

1. Separation costs of EUR 5m in Q2 2017
2. Financial expenses in Q2 2016 reflect higher interest rates paid on loans with Royal Philips
3. Income tax expense increased by EUR 12m largely due to higher taxable earnings

Free Cash Flow of EUR -27m

Free cash flow (in EURm)

	2Q16	2Q17
Income from operations	96	111
Depreciation and amortization	68	65
Change in working capital	-36	-136
Net capex	-22	-10
Change in provisions	-27	-11
Interest paid	-6	-4
Income taxes paid	-20	-27
Other	7	-15
Free cash flow	**60**	**-27**
As % of sales	3.5%	-1.6%

Key observations

- Free cash flow decline of EUR 87m:
  - Higher cash outflow on working capital
  - Higher tax income paid
- Cash outflow restructuring EUR 22m and separation EUR 10m

Real estate gains in the first half of 2017

In EUR m	Q1 2017	Q2 2017	H1 2017
Lamps	10	0	**10**
LED	3	0	**3**
Professional	3	0	**3**
Home	0	15	**15**
Philips Lighting	**16**	**15**	**31**

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 and Risk Management" in Chapter 12 of the Annual Report 2016 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 the Company's Annual Report 2016.

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 "Chapter 17 Reconciliation of non-IFRS measures" in the Annual Report 2016.

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 Annual Report 2016.

Market Abuse Regulation

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