

Annual General Meeting of Shareholders 2018 | Presentation by CEO Eric Rondolat

Ladies and Gentlemen, welcome to the Annual General Meeting of Shareholders of Philips Lighting for 2018.

Let me first reflect on our 2017 performance. We reported a year-on-year comparable sales growth increase of 0.5 percent despite difficult conditions in some markets. This shows a continuous improvement trend since 2015. Importantly, we increased our operational profitability to 10 percent and realized a solid free cash flow of 403 million euros.

Our balance sheet is sound, which allows us to continue to invest in the business, return money to shareholders and consider value generating bolt-on acquisitions. We are proposing a dividend of 1 euro and 25 cent, which represents a 45 percent pay-out ratio and a 14 percent increase compared with the previous year.

Last but not least, in a year of again major transformations, we have increased both our customer and our employee net promoter scores. This is the result of a disciplined execution of our strategy.

Substantial progress was made on our six strategic priorities. Despite the anticipated market decline, our conventional business remained very profitable and cash generative as our market share increased further. Total LED-based sales continued to increase and represented 65 percent of total sales in 2017, 10 percentage points more than in 2016. We strengthened our leadership positions in connected lighting, growing our sales in systems and services by 51 percent to more than 900 million euros. We also implemented structural measures that resulted in a 14 percent improvement of our Delivery reliability to our customers. And 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.

Let me now describe our overall positioning. We have increased our leading position in conventional lighting, while we continue to innovate in an integrated offering that includes LED lamps, luminaires and electronics as well as lighting systems and services, helping us to also strengthen our world leadership in LED and connected lighting.

In 2017 we employed approximately 32,000 employees worldwide and achieved 7 billion euros in sales. 4.8 percent of those sales was reinvested in research & development.

We are the world leader in a transforming lighting industry and we are adapting our business. In 2012 we generated only 14 percent of our sales through LEDs. In 2017 we increased this to 65 percent, and we expect this trend to continue in the years to come.

Our strategy is working. Since 2015 we have seen an upward trend in comparable sales, coming from a decline of 3.5 percent to an increase of 0.5 percent. Our profit margin has steadily increased from 6.8 percent in 2014 to 10 percent in 2017.

We had a soft start to 2018, as we also indicated when we announced our full year results. This was mainly due to a weak performance in our Home business group, most notably in the US. However, the other three businesses delivered solid performances. Total LED-based sales increased by 5.6 percent and now represent 68 percent of total sales compared with 61 percent last year. Looking at our margin, it was 50 basis points lower than last year with profitability improvements in Lamps, LED and Professional offset by Home. Excluding the real estate proceeds of 19 million euros that we benefitted from in Q1 2017, free cash flow was higher than last year despite a very strong Q4 2017. We also achieved a 13 percent reduction in our indirect cost base, in particular in our non-manufacturing costs. We constantly review our main cost drivers and decided to mitigate the overall wage increase across the company for 2018. In view of this, we as Board members have waived the proposed salary increase for the board this year, in full.

Now moving to the 2018 outlook:

- We aim to deliver a positive comparable sales growth for the full year, on the basis of a strong second half.
- Next to that, we aim to improve our adjusted EBITA margin from 9.6 percent to 10-10.5 percent.
- Finally, we expect to generate solid free cash flow in 2018, which is, as we already flagged at the start of this year, expected to be somewhat lower than the level in 2017 due to higher restructuring payments.

Let us now turn to the five transitions that are happening in the Lighting industry. The decline of conventional lighting. Its substitution with fast growing and energy efficient LED propositions. Then the development of new business models with Lighting Systems and Services, enabled by connectivity and data generation. And today, we are at the start of the fifth transition where we see Light becoming an intelligent language. Indeed, in addition to illumination, Light can provide information and convey a meaning.

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After the separation from Royal Philips we had to change our company name, this is why you will be asked to vote on the change of our articles of association. When choosing a new name, we have captured the essence of the evolution of our industry. But more than talking about it let me show you a video.

[VIDEO PLAYS]

We are changing our company name to Signify. It has already had a very positive reception from our customers and employees as it is a modern word transmitting well the idea of connectivity and new intelligent language. We will of course continue to use the Philips brand, under the existing long-term licensing agreement with Royal Philips. And our ticker will remain LIGHT.

Let me now turn to a few examples of our leadership in innovation. Not all LED lamps and luminaires are equal when it comes to flicker, strobe and glare. This can irritate eyes and affect concentration. That's why, we established Philips "EyeComfort" criteria for consumer LED lamps. You will start to see the logo on lamps packaging in some markets this year. Another example of our innovation leadership is in horticultural lighting. Our LED lamps and specially-created "light recipes" help growers to increase the quality and yield of their crops. Last year we undertook the world's largest horticultural LED project at Agro-Invest in Russia, lighting its greenhouses, equaling the size of 40 soccer pitches. We also launched Philips SunStay, an innovative all-in-one solar-powered street light, combining solar panel, battery and light in one single housing. It is compact, and easier to install and maintain. In 2012 we launched our street lighting management system. We have now completed well over 1,000 cities across the world. These systems help authorities to remotely monitor and manage street lighting, resulting in additional energy savings and better asset management. We launched our IoT platform Interact for Lighting data-enabled services. It is a highly secure and scalable cloud-based platform. It collects and analyses the data generated by the lighting infrastructure to create additional value for our customers through data-enabled services.

Finally, our very latest innovation is Light Fidelity or LiFi. This is a new technology that provides a fast and stable broadband data connection through light waves – the Internet through your lights. It illustrates perfectly how light is becoming an intelligent language. Last March, we announced a pilot of this groundbreaking technology at the French real estate investment company **Icade** in their smart office in Paris. We aim to announce further pilots this year.

Lastly, I would like to talk to our Sustainability strategy and achievements. Two years ago, through our dedicated program, Brighter Lives, Better World, we set very ambitious targets for sustainable revenues and operations. On the revenue side: we achieved 77 percent of sustainable offering in line

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with the objective of 80% by 2020. On the operations side: already 80% of consumed electricity came from renewable sources while 7 markets became Carbon neutral in line with our 2020 commitment to be part of the very few Carbon Neutral companies. Further commitments include working towards zero waste to landfill, a zero-injury workplace and auditing and training of all of our risk suppliers. I am very pleased that we are already exceeding or on target to meet all our sustainability goals. I am proud that we have received recognition for our efforts. For example, we were named Industry leader in the Electrical Components and Equipment category of the 2017 RobecoSAM Dow Jones Sustainability Index.

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 deliver on all our promises in 2017. We would also like to thank our customers for their continued trust, which motivates us on a daily basis. And finally, we 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, I believe we are uniquely positioned to grow our business and lead the lighting industry into the Internet of Things, unlocking the extraordinary potential of light for brighter lives and a better world.

Thank you.