



Royal Philips Fourth quarter and full year 2017 results

January 30, 2018

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PHILIPS

Important information

Forward-looking statements and other important information

This document and the related oral presentation, including responses to questions following the presentation, contain certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items. Examples of forward-looking statements include statements made about our strategy, estimates of sales growth, future EBITA and future developments in our organic business. By their nature, these statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these statements.

These factors include but are not limited to: global economic and business conditions; developments within the euro zone; the successful implementation of Philips' strategy and the ability to realize the benefits of this strategy; the ability to develop and market new products; changes in legislation; legal claims; changes in currency exchange rates and interest rates; future changes in tax rates and regulations, including tax reform in the US; pension costs and actuarial assumptions; changes in raw materials prices; changes in employee costs; the ability to identify and complete successful acquisitions, and to integrate those acquisitions into the business, including Spectranetics; the ability to successfully exit certain businesses or restructure the operations; the rate of technological changes; cyber-attacks, breaches of cybersecurity, political, economic and other developments in countries where Philips operates; industry consolidation and competition; and the state of international capital markets as they may affect the timing and nature of the disposal by Philips of its remaining interests in Philips Lighting. As a result, Philips' actual future results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. For a discussion of factors that could cause future results to differ from such forward-looking statements, see the Risk management chapter included in the Annual Report 2016.

Third-party market share data

Statements regarding market share, including those regarding Philips' competitive position, contained in this document are based on outside sources such as specialized research institutes, industry and dealer panels in combination with management estimates. Where information is not yet available to Philips, those statements may also be based on estimates and projections prepared by outside sources or management. Rankings are based on sales unless otherwise stated.

Use of non-GAAP Information

In presenting and discussing the Philips Group financial position, operating results and cash flows, management uses certain non-GAAP financial measures. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent IFRS measures and should be used in conjunction with the most directly comparable IFRS measures. Non-GAAP financial measures do not have standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. A reconciliation of these non-GAAP measures to the most directly comparable IFRS measures is contained in this document. Further information on non-GAAP measures can be found in the Annual Report 2016. Comparable order intake and Adjusted EBITDA are measures included to enhance comparability with other companies.

Use of fair-value measurements

In presenting the Philips Group financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that are deemed to be reliable. Readers are cautioned that these values are subject to changes over time and are only valid at the balance sheet date. When quoted prices or observable market data are not readily available, fair values are estimated using appropriate valuation models and unobservable inputs. Such fair value estimates require management to make significant assumptions with respect to future developments, which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the Annual Report 2016 and Semi-Annual Report 2017. Independent valuations may have been obtained to support management's determination of fair values.

All amounts are in millions of euros unless otherwise stated. Due to rounding, amounts may not add up precisely to totals provided. All reported data is unaudited. Financial reporting is in accordance with the accounting policies as stated in the Annual Report 2016, unless otherwise stated. The presentation of certain prior-year information has been reclassified to confirm to the current-year presentation.

Market Abuse Regulation

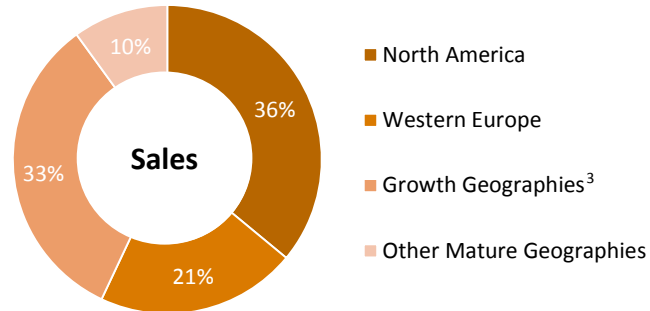
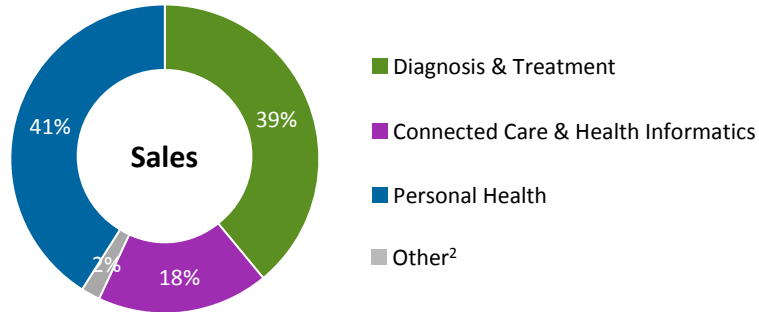
This presentation contains inside information within the meaning of Article 7(1) of the EU Market Abuse Regulation.

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Philips company overview

EUR 17.8 billion sales and Adjusted EBITA of 12.1% ¹



Diagnosis & Treatment

Enabling efficient, first-time-right diagnosis and precision therapies through digital imaging and clinical informatics solutions

Connected Care & Health Informatics

Empowering consumers and care professionals with predictive patient analytics and clinical informatics solutions

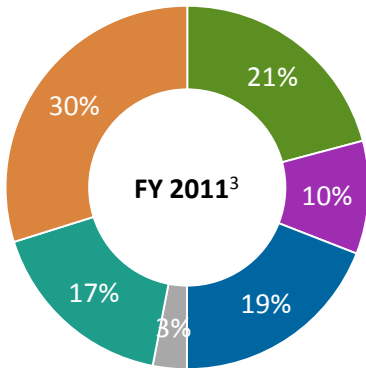
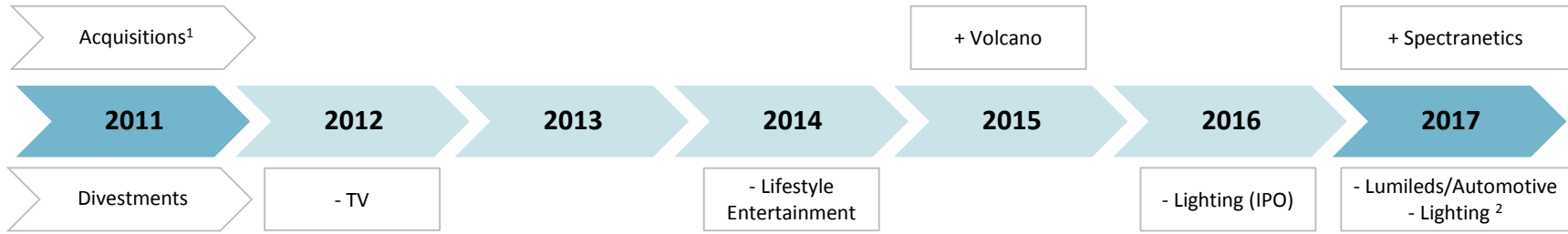
Personal Health

Enabling people to take care of their health by delivering connected products and services

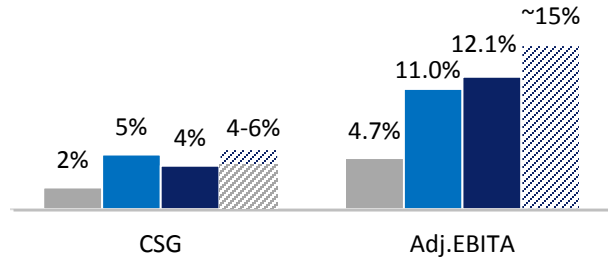
- EUR 1.8 billion for R&D, ~62,000 patents rights, ~38,000 trademarks
- More than 1/4th of sales from solutions
- ~74,000 employees in over 100 countries
- Philips retains a 29.01% stake in Philips Lighting, reported as an asset held for sale

¹ All figures based on the full year 2017 unless stated otherwise; ² Other includes HealthTech Other and Legacy Items; ³ Growth geographies consist of all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel

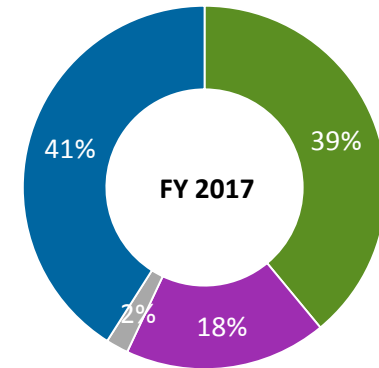
A focused HealthTech leader with higher growth and profitability



Sales EUR 25.3 billion



■ 2011 ■ 2016 ■ 2017 ▨ 2020



Sales EUR 17.8 billion

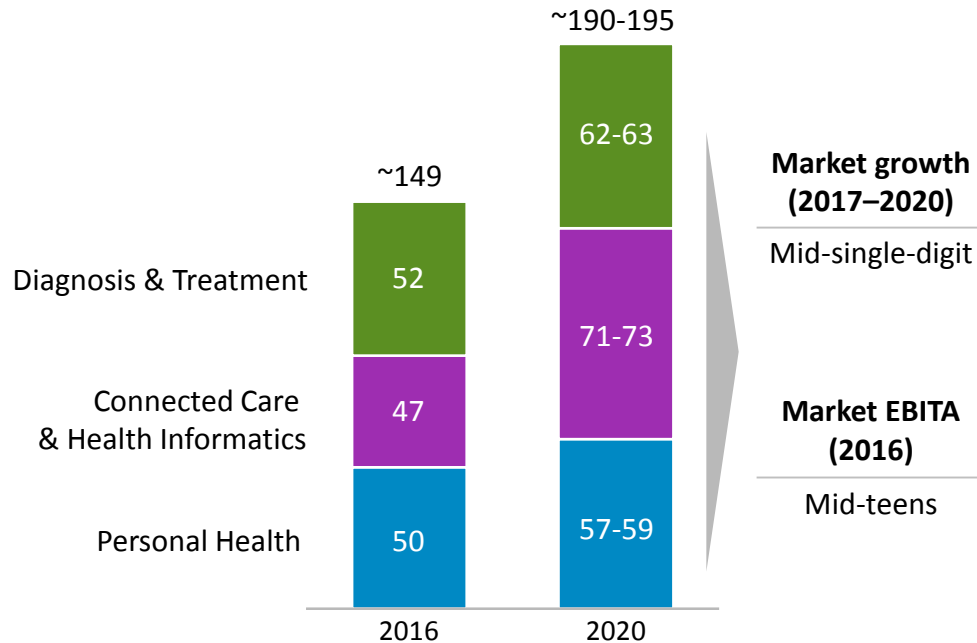
■ Diagnosis & Treatment ■ Connected Care & Health Informatics ■ Personal Health ■ Other⁴ ■ Lighting ■ TV/LE

¹ Does not represent all acquisitions made; ² Philips retains a 29.01% stake in Philips Lighting, reported as an asset held for sale; ³ Lighting includes combined business of Lumileds and Automotive in 2011, Personal Health in 2011 includes Sleep & Respiratory Care portfolio; ⁴ Other includes HealthTech Other and Legacy Items

Our markets have sustained growth and attractive profit pools

Markets increasing across segments¹

EUR billion

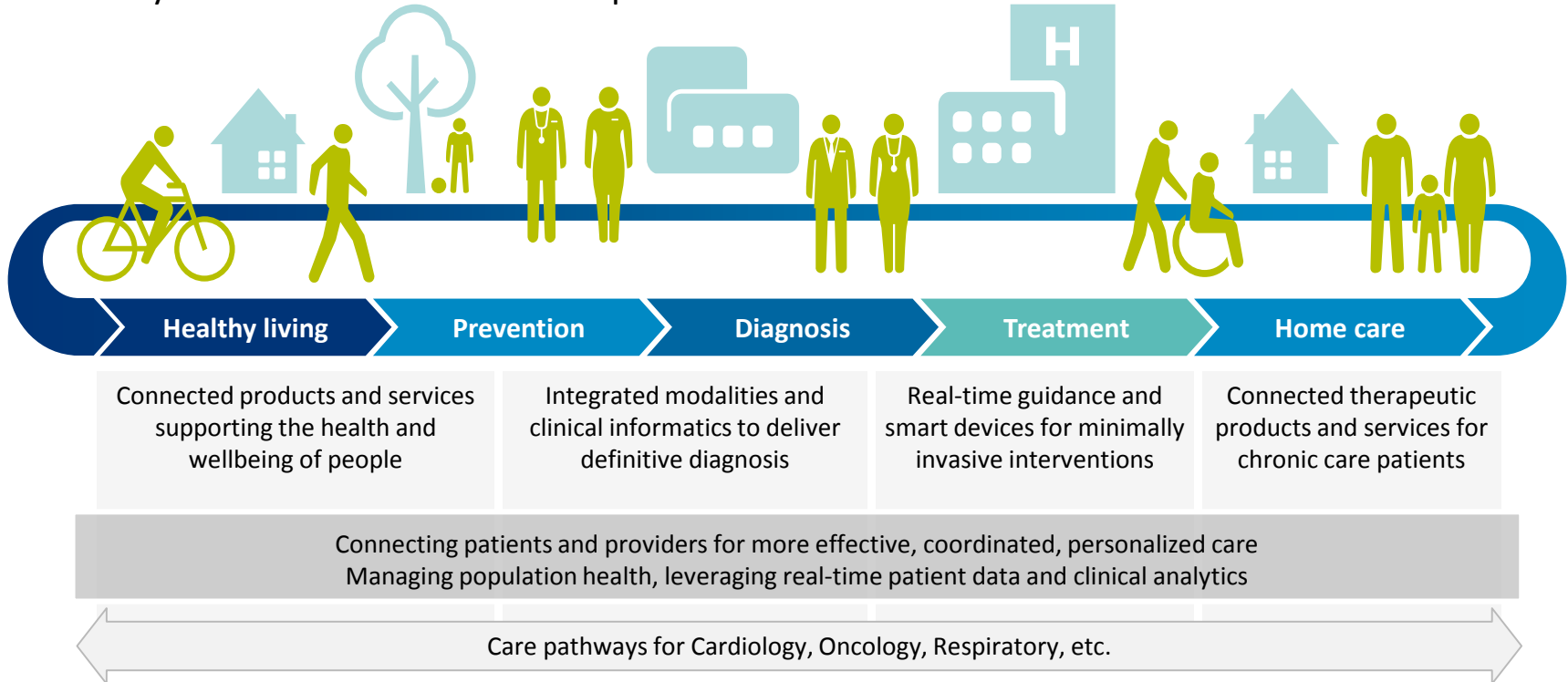


Market trends

- Population growth, ageing and rise in chronic diseases
- Consumerization and digitalization of healthcare
- Shift to outcome focused, value-based healthcare
- Care shifting to ambulatory and home care settings with consumers increasingly engaged in their health
- Data enabled healthcare delivery with higher productivity
- Consolidation of hospitals into large health system delivery networks
- Convergence of professional healthcare and consumer health

Health continuum drives our strategy

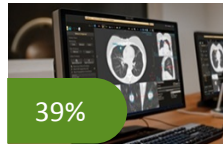
With global reach, deep insights and leading innovations, we are uniquely positioned in the “last yard” to consumers and care providers



Operating through three segments across the health continuum

Segments and businesses¹ (share of revenues)

Diagnosis & Treatment



39%

- Diagnostic Imaging
- Ultrasound
- Image-Guided Therapy

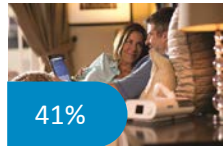
Connected Care & Health Informatics



18%

- Patient Care & Monitoring Solutions
- Healthcare Informatics
- Population Health Management

Personal Health



41%

- Health & Wellness
- Sleep & Respiratory Care
- Personal Care
- Domestic Appliances

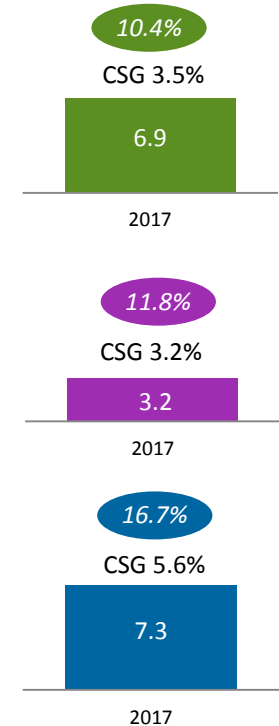
Key products

- Computed tomography, magnetic resonance, digital X-ray
- Ultrasound scanners
- Interventional X-ray, devices for diagnosis and therapy

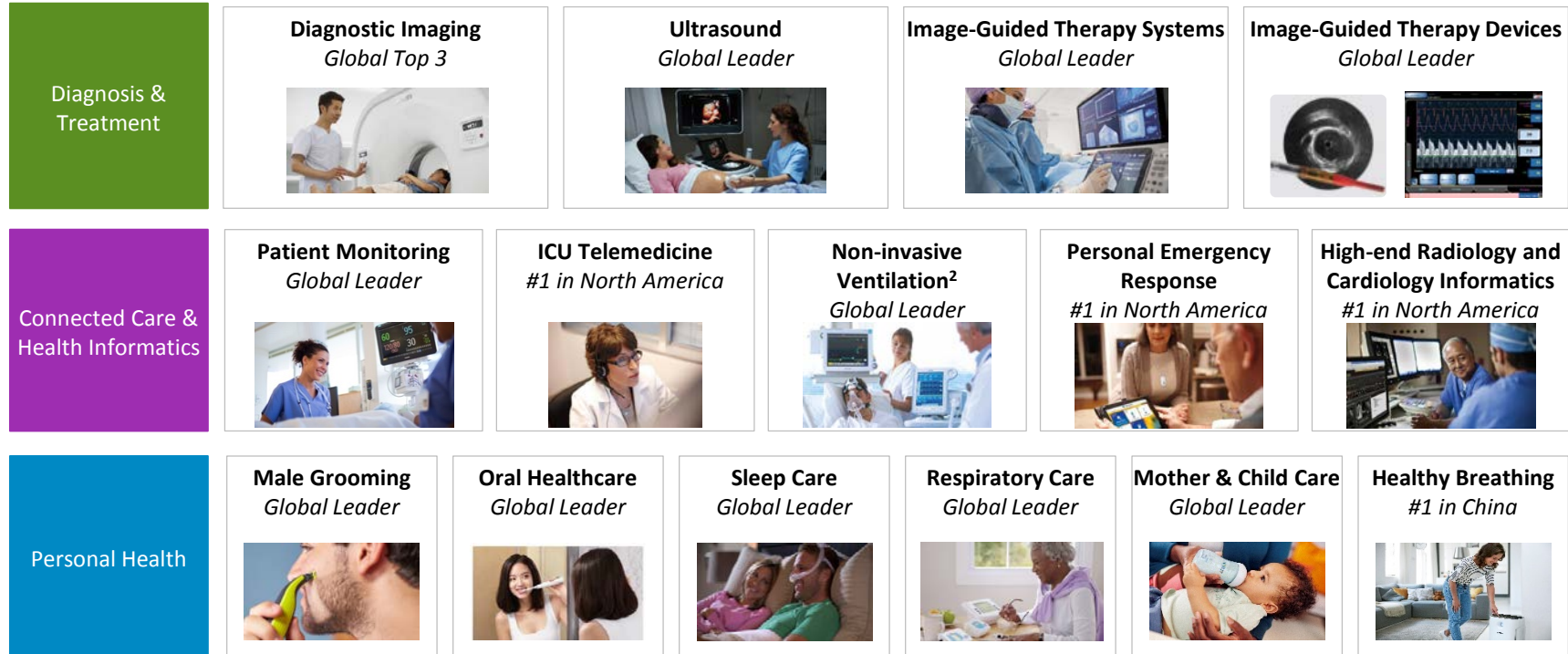
- Patient monitors, hospital ventilators, defibrillators
- Healthcare IT, clinical and imaging informatics
- Home monitoring, remote cardiac monitoring

- Power toothbrushes, mother & child care
- Home ventilators, CPAP, respiratory masks
- Male grooming, skin care
- Air purification, small kitchen appliances

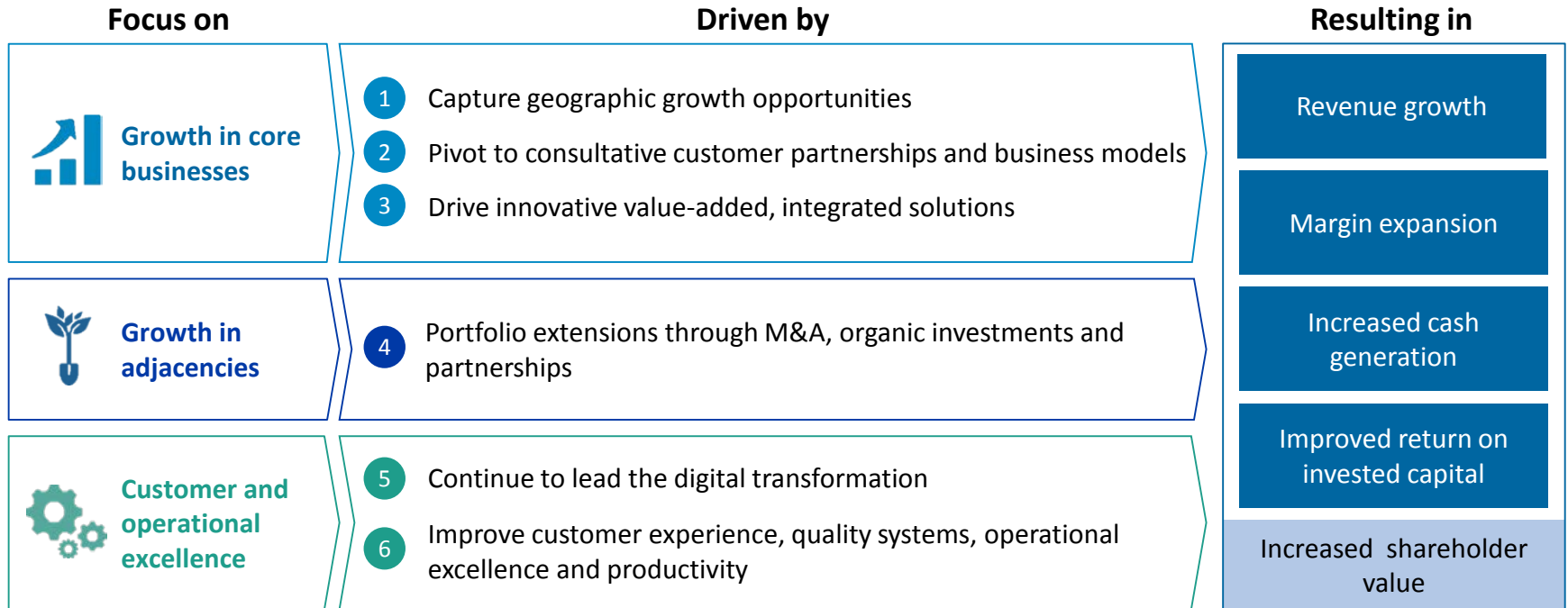
■ Sales (EUR bn) ● Adj. EBITA margin



Our strong portfolio has >60% of sales from leadership positions¹

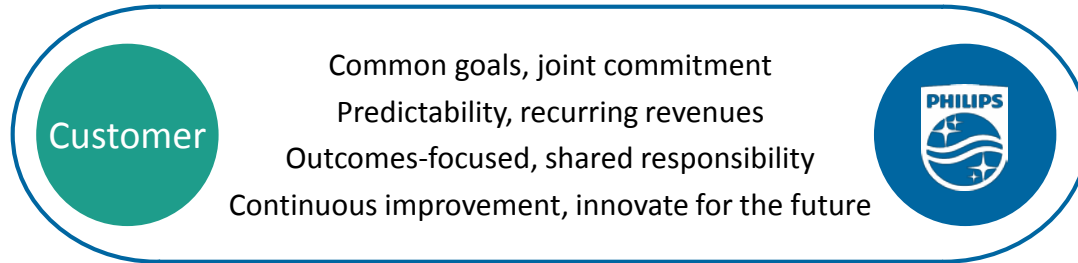


Growth and performance improvement drivers to continue delivering on our targets



Pivot to consultative customer partnerships and business models

Enabling value-based care




 **KAROLINSKA**
UNIVERSITY HOSPITAL

Creating a leading healthcare center


  

Cross-portfolio equipment Technology management services Clinical innovation

14-year enterprise agreement, 2 leading facilities
Enabled **on-time opening** of complex new facility
Augmented reality in surgical navigation innovation

  **Banner Health**

Connected, consumer-centric health and value creation

Innovation incubator Solutions delivery Technology advisor

15-year enterprise agreement, 28 hospitals
Growth in Cardiovascular, Fluoroscopy, Population Health
Executive Governance Board with Innovation Council

Innovative value-added, integrated solutions

Developed to better meet customer needs and capture greater value

Packaged suite of systems, smart devices, software and services

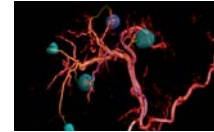
Image-Guided Therapy solutions



Image-Guided Therapy systems



Smart catheters



Disease-specific software

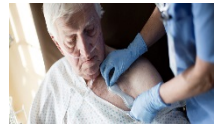


Cath lab management, services, consulting

Patient monitoring solutions



Monitoring



Cableless measurements, biosensors



IntelliVue Guardian software



Integration, services, consulting

Total sleep management solutions



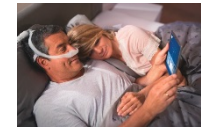
Dream Series therapy devices



Care Orchestrator Platform



Patient services



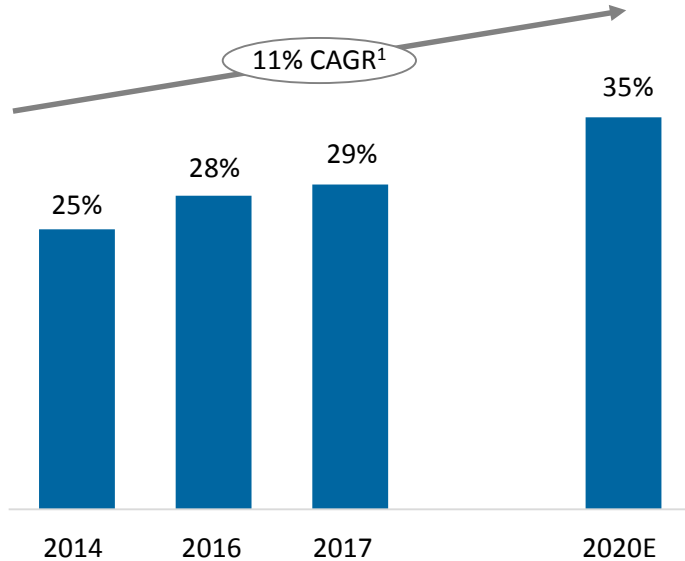
DreamMapper patient engagement

Solutions and partnership approach is working well

High growth with accretive margins, recurring revenue models

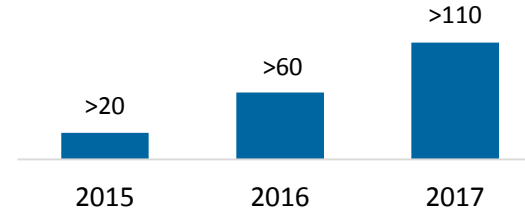
Solutions revenues: double-digit growth

% of total revenue



Expand large enterprise long-term partnership deals

Number of signed deals (cumulative)

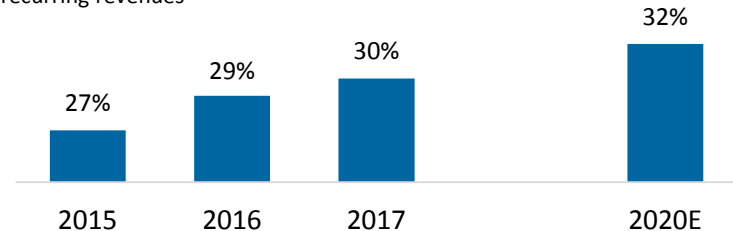


Best practice award



Increase revenue predictability

% recurring revenues



Portfolio extensions through disciplined M&A

Strategic objectives

- Expand leadership positions
- Acquire synergistic businesses, technologies, channels or expand geographic reach

Strong governance and financial discipline

- All M&A approved by Executive Investments and Alliances Committee through standard process
- Scorecard assessing opportunities based on 12 KPIs (NPV/PP, IRR, ROIC>WACC, discounted payback period, etc.)

Rapid post-merger integration to unlock value

- End-to-end process, fully integrated with the acquisition team
- Standard 'playbooks' drive quick 'plug & play' into Philips
- Leverage talent to achieve growth and margin expansion synergies

Highlights on progress to date



- ✓ Sales growth: Flat sales growth (2014) to double-digit sales growth (2016, 2017)
- ✓ Leveraged Philips global footprint to expand to new geographies (e.g., India, Canada)
- ✓ Improved gross margins by 10 percentage points since 2015



- ✓ FDA approval for Stellarex (drug-coated balloon)
- ✓ Cross-selling opportunities for >500 accounts in the US
- ✓ Stellarex sales cross-training to expand US market launch
- ✓ Significant procurement savings from Philips contracts

Improve customer experience, operational excellence and productivity

Customer experience

- Customer-centric innovations:
 - Design-driven, customer co-creation
 - Our metrics aligned to customer metrics
- Supply chain performance optimization
- Focus on continuous customer lifetime excellence



#1 USA ServiceTrak rankings
across imaging modalities (2016)



Healthcare *design award*

The Academy
The Health Management Academy

Executive collaboration to tackle key challenges

Productivity initiatives

Self-help initiatives to drive **EUR 1.2 billion in savings** (2017-2019):

- Procurement savings
- Manufacturing productivity
- Overhead cost reduction

Operational excellence

- Continue to apply Philips Business System and 'Design for Excellence' methodology
- Expansion of lean techniques
- Standardized Quality Management Systems



Innovation drives our growth and improves margins

Commitment towards innovation

- **Annual R&D spend: ~EUR 1.8 billion** (EUR ~300 million on breakthrough innovations)
- **Strong IP portfolio:** ~62,000 patent rights, ~38,000 trademarks, ~48,000 design rights
- 60%+ R&D professionals in software and data science
- Leadership in design thinking
- Clinical collaborations across major markets
- Global R&D footprint

Businesses growth

New product sales¹:

- Diagnosis & Treatment: ~40%
- Connected Care & Health Informatics: ~50%
- Personal Health: ~25%

Digital transformation

- Connected products to enable new business models
- Enable online services for consumers and customers

Productivity enhancements

- Disciplined portfolio and lifecycle management process
- Architecture, platform re-use
- Drive 40-60 bps in R&D productivity improvements by 2020

We are recognized for our commitment to sustainability

Focus on UN Sustainable Development Goals, in particular #3 and #12¹


2020 program “Healthy people, sustainable planet”

- Carbon neutral operations
- 70% turnover from green products; 15% will be circular
- Zero waste to landfill
- Supplier sustainability program with all our suppliers
- 2.5 billion lives improved by 2020



PARIS2015
UN CLIMATE CHANGE CONFERENCE
COP21-CMP11

Philips commits to become **carbon-neutral** in its operations by 2020



CDP
DRIVING SUSTAINABLE ECONOMIES

Recognized leader
– Carbon Disclosure Project
2013, 2014, 2015,
2016, 2017



GlobalCapital
SRI Awards

Award-winning
transaction –
Revolving Credit
Facility with
sustainability link



Dow Jones
Sustainability Indexes

Philips recognized
Industry Leader in
the DJSI
2015, 2016, 2017



Enabling responsible supply chains
Sedex



2016
CSR Rating
GOLD
ecovadis

Philips holds **top scores** in **supplier rating platforms** (used by our customers)



WORLD
ECONOMIC
FORUM




























P A C E



UNEP gef

Thought leader
on Circular
Economy

Experienced management team driving growth, operational excellence and value creation

CEO / CFO	Segment Leaders	Market Leaders	Function Leaders
 <p><i>CEO</i> Frans van Houten</p> 	 <p><i>Personal Health</i> Egbert van Acht</p> 	 <p><i>Global Markets¹</i> Henk de Jong</p> 	 <p><i>Innovation & Strategy</i> Jeroen Tas</p> 
 <p><i>CFO</i> Abhijit Bhattacharya</p> 	 <p><i>Diagnosis & Treatment</i> Robert Cascella</p> 	 <p><i>North America</i> Vitor Rocha</p>  	 <p><i>Operations</i> Sophie Bechu</p>  
	 <p><i>Connected Care & Health Informatics</i> Carla Kriwet</p> 	 <p><i>Greater China</i> Andy Ho</p> 	 <p><i>Legal</i> Marnix van Ginneken</p>  
			 <p><i>Human Resources</i> Ronald de Jong</p> 

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Philips to reach EUR 20 billion¹ sales with significant return improvements

Focus on



2017-2020 annual targets

4-6% comparable sales growth rate

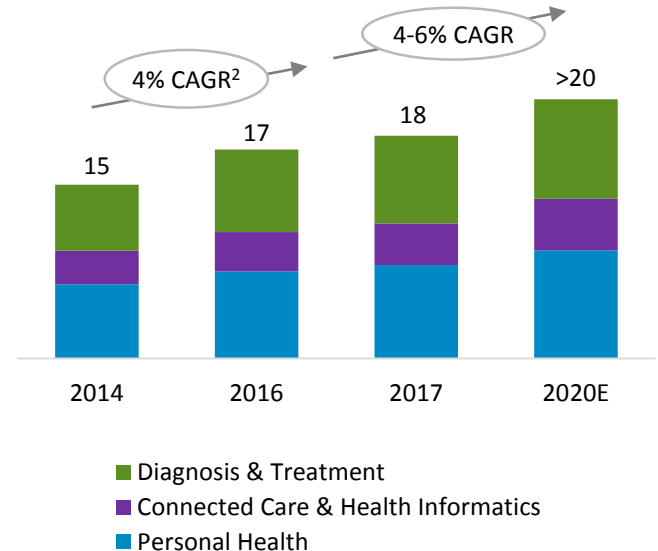
On average 100bps Adj. EBITA margin improvement annually

Free cash flow generation of ~EUR 1–1.5 billion annually

Organic plans ROIC improvement to mid-to-high-teens ROIC by 2020

Sales

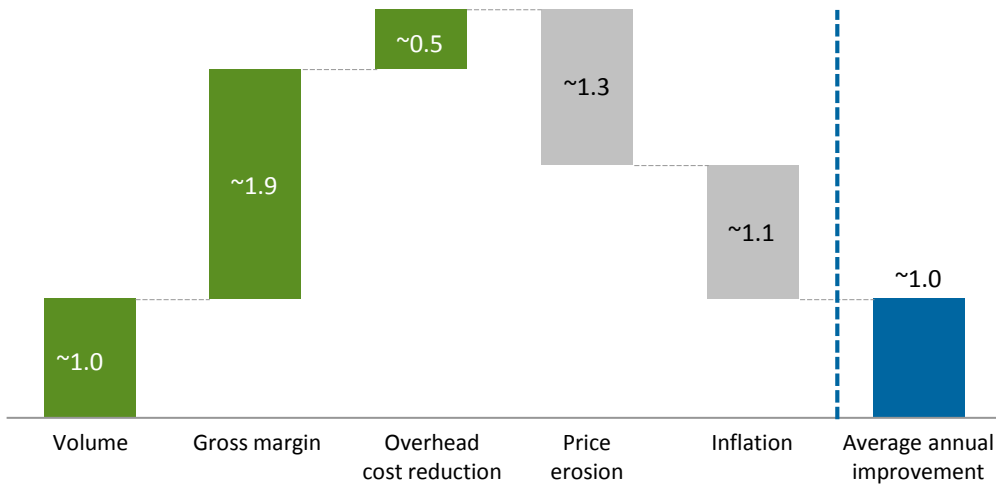
EUR billion



Productivity initiatives of EUR 1.2 billion to drive ~100 basis points annual improvement until 2020

Adj. EBITA step-up drivers

Indicative Adj. EBITA margin, %



Volume

- Geographic expansion
- New product introduction
- Strong order intake
- Operating leverage

Gross margin

- Procurement (EUR 700M savings by 2019) driven by DfX program
- Manufacturing productivity (EUR 200M savings by 2019) targeting to move from 50 to ~30 production locations
- Mix improvement

Overhead cost reduction (EUR 300M savings by 2019)

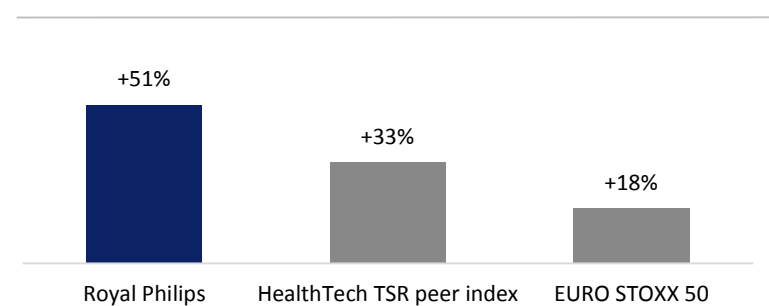
- Standardization of back offices with Global Business Services
- IT landscape simplification
- Delaying the organisation and broadening a span of control

Disciplined capital allocation policy

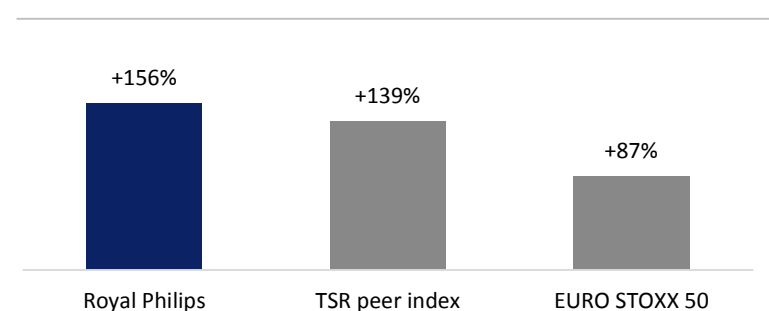
Attractive shareholder returns balanced with investments for growth

- Continue to invest in high ROIC organic growth opportunities
- Disciplined but more active approach to M&A, while continuing to adhere to strict return hurdles
- Committed to a strong investment grade rating
- Dividend policy aimed at dividend stability
- EUR 1.5 billion share buyback program for two years started in Q3 2017
- Continued focus on driving balance sheet efficiency

Total shareholder returns since 2016 ^{1,2}



Total shareholder returns since 2012 ^{1,3}

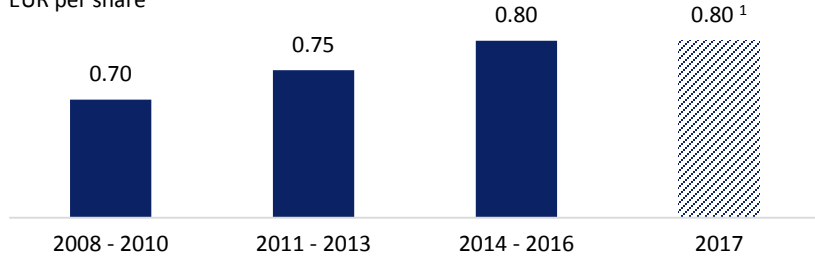


Disciplined capital allocation policy

Proven track record

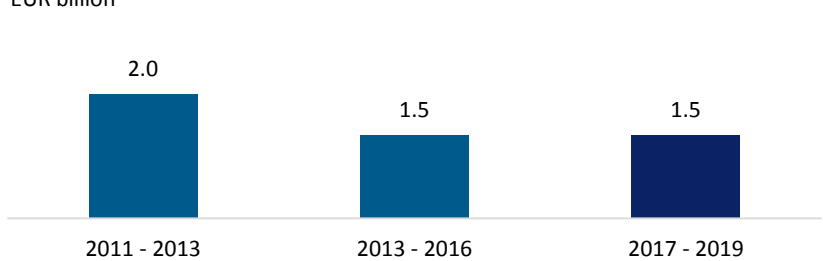
Dividends

EUR per share



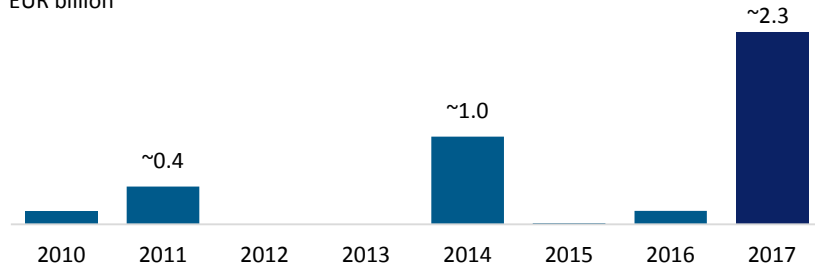
Share buyback

EUR billion

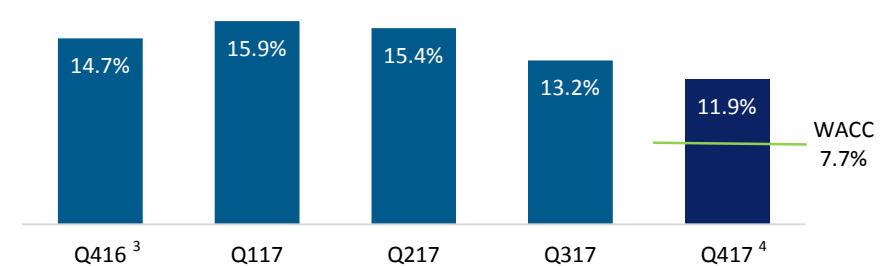


Merger & Acquisitions²

EUR billion



Return on Invested Capital



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Q4 2017 performance highlights

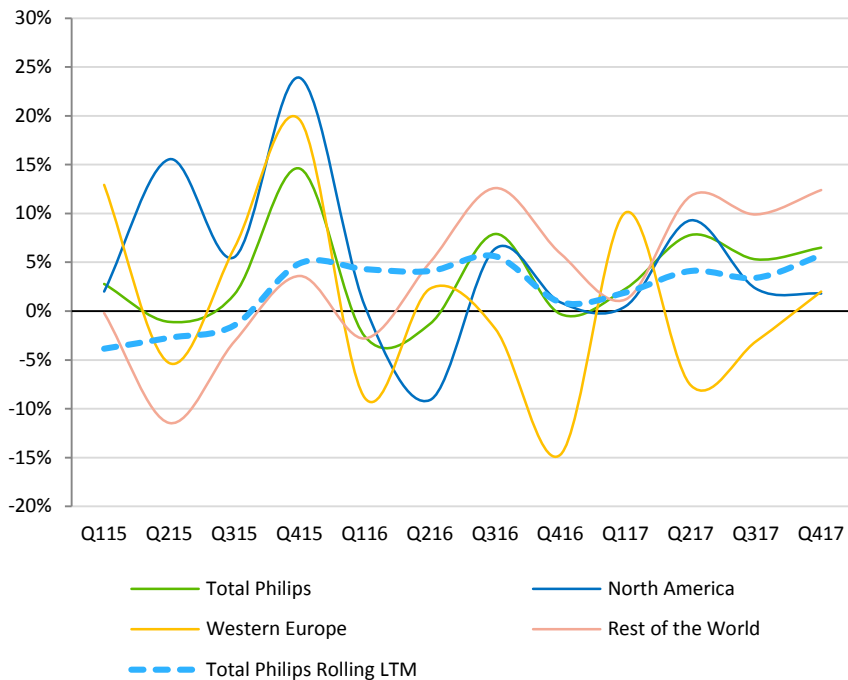
- Comparable sales up 5% compared to Q4 2016
- Comparable order intake up 7% compared to Q4 2016
- Adj. EBITA margin of 16.7%, up 140 bps compared to Q4 2016
- Inventories amounted to 13.1% of sales¹, down 130 bps compared to Q4 2016
- Free cash of EUR 948 million, compared to EUR 551 million in Q4 2016

EUR million	Q4 2016	Q4 2017	FY 2017
Capital expenditures on property, plant and equipment	101	134	420
Capitalization of development costs	98	102	405
Depreciation	144	126	437
Amortization of acquired intangible assets	61	66	260
Amortization of software	13	13	50
Amortization of development costs	58	71	277

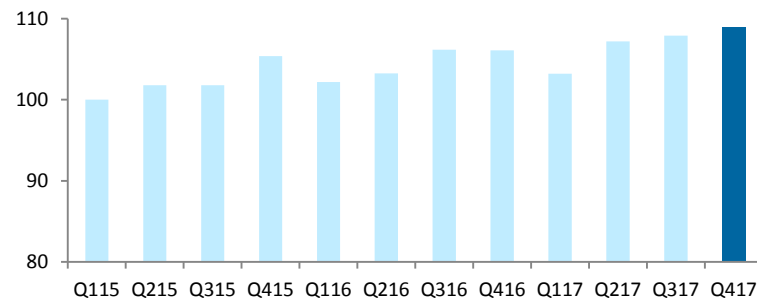
	Sales EUR million	Comparable sales growth	Adj. EBITA margin	vs. LY (bps)	Adj. EBITDA margin	vs. LY (bps)
Personal Health	2,181	+6%	18.9%	+70	21.8%	+50
Diagnosis & Treatment	2,092	+6%	14.9%	+90	17.3%	+110
Connected Care & Health Informatics	912	+2%	20.4%	+190	24.3%	+220
HealthTech Other	119					
Philips	5,303	+5%	16.7%	+140	20.2%	+150

Order intake and book¹

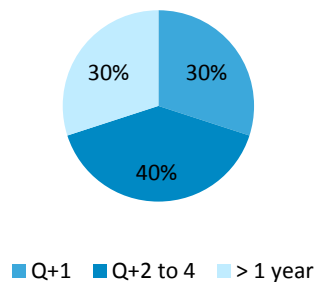
Comparable order intake growth



Indexed order book development



Typical profile of order book conversion to sales

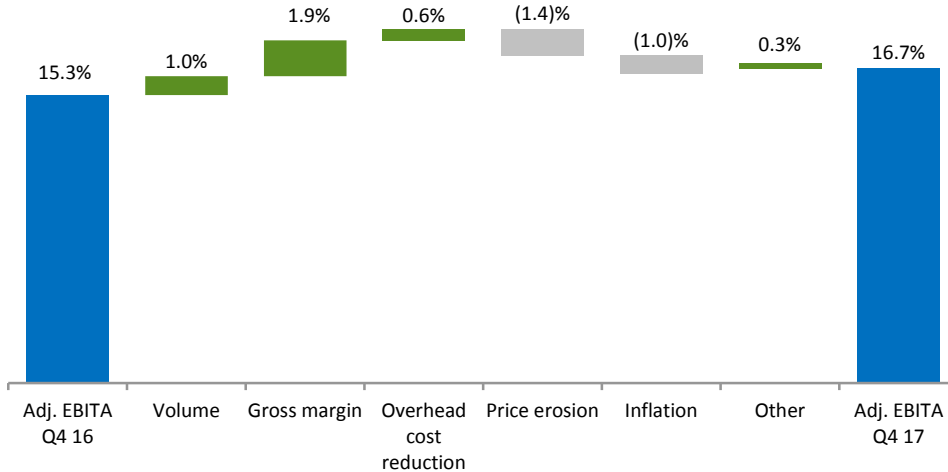


- Approximately 70% of the current order book results in sales within the next 12 months
- Quarter end order book is a leading indicator for ~30% of sales the following quarters

Underlying improvements in profitability

Adjusted EBITA bridge for Q4 2017

as a % of sales



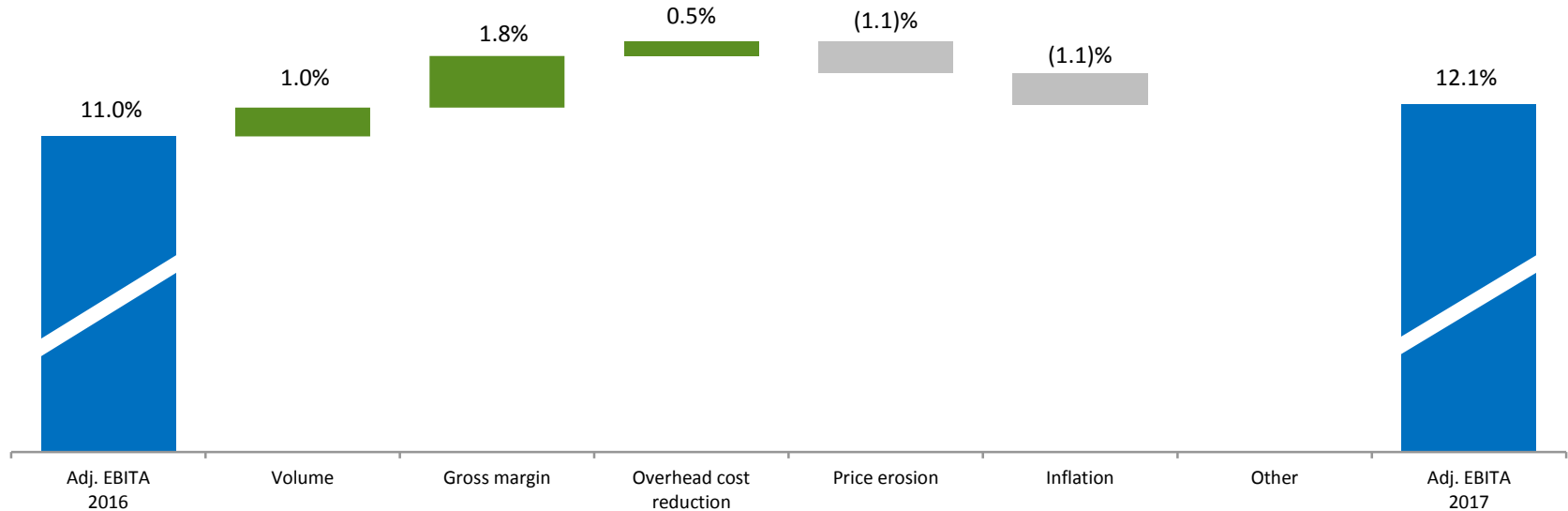
Productivity initiatives contributing to medium-term targets

EUR million	2017-2019 plan	Q4 2017	YTD 2017
Procurement	700	81	260
Other productivity (net) ¹	500	52	223
Total (net)	1,200	133	483

Underlying improvements in profitability

Adjusted EBITA bridge for FY 2017

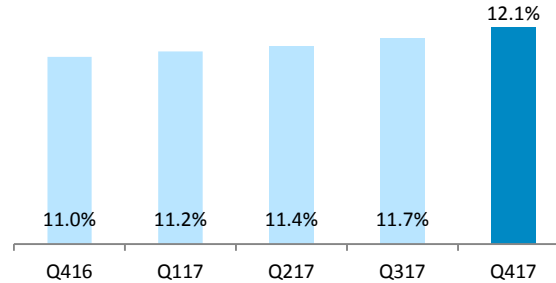
as a % of sales



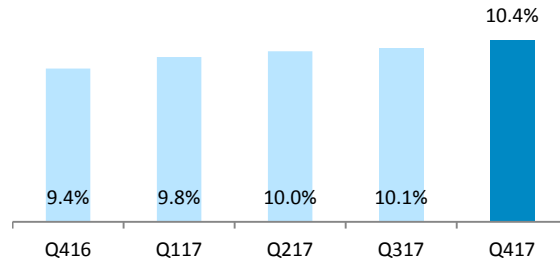
Adjusted EBITA¹ margin development

Rolling last twelve months

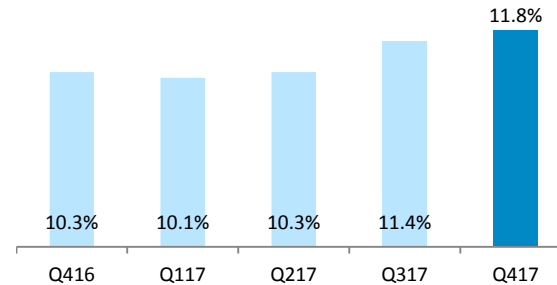
Philips



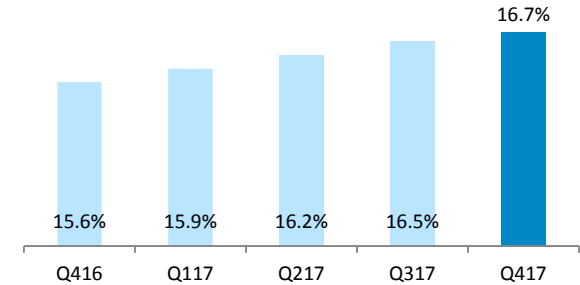
Diagnosis & Treatment



Connected Care & Health Informatics

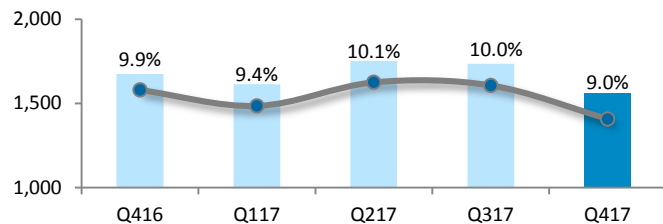


Personal Health

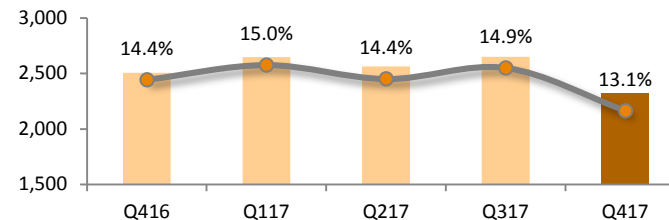


Working capital and inventories

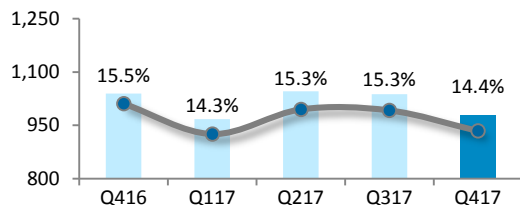
Working capital^{1,2}, EUR million — as % of LTM sales³



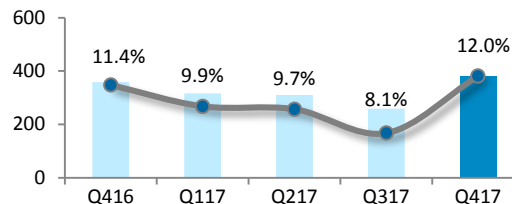
Inventories, EUR million — as % of LTM sales³



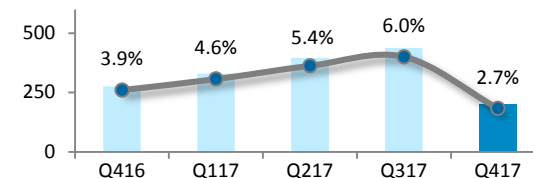
Diagnosis & Treatment



Connected Care & Health Informatics



Personal Health



¹ Restated to reflect working capital excluding intercompany accounts; ² Working capital excluding HealthTech Other and Legacy Items; ³ Working capital as a % of LTM sales and Inventories as a % of LTM sales excluding acquisitions, divestments and discontinued operations

Appendix

Restructuring, acquisition-related charges and other items

EUR million	Q1 16	Q2 16	Q3 16	Q4 16	2016	Q1 17	Q2 17	Q3 17	Q4 17	2017
Personal Health	(2)	(1)	-	(13)	(16)	(2)	(1)	-	(8)	(11)
Restructuring & Acq.-related charges	(2)	(1)	-	(13)	(16)	(2)	(1)	-	(8)	(11)
Other items	-	-	-	-	-	-	-	-	-	-
Diagnosis & Treatment	(9)	(7)	(6)	(15)	(37)	(11)	(31)	(85)	(45)	(173)
Restructuring & Acq.-related charges	(9)	(7)	(6)	(15)	(37)	(11)	(31)	(63) ⁷	(45)	(151)
Other items	-	-	-	-	-	-	-	(22) ⁸	-	(22)
Connected Care & Health Informatics	(4)	(1)	(4)	7	(2)	(26)	(37)	(43)	(17)	(122)
Restructuring & Acq.-related charges	(4)	3	(5)	(8)	(14)	(9)	(25)	(25)	(33)	(91)
Other items	-	(4)	1	15	12	(17) ⁴	(12) ⁴	(18) ⁴	16 ^{9,10}	(31)
HealthTech Other	2	(3)	1	(54)	(54)	56	(7)	(32)	(21)	(5)
Restructuring & Acq.-related charges	2	(3)	1	(28)	(28)	(3)	(7)	(32)	(21)	(64)
Other items	-	-	-	(26) ³	(26)	59 ⁵	-	-	-	59
Legacy Items	(52)	(45)	(24)	17	(105)	(11)	(34)	(7)	(4)	(55)
Restructuring & Acq.-related charges	-	-	-	1	1	-	-	-	-	-
Other items	(52) ¹	(45) ¹	(24) ¹	16 ^{1,2}	(106)	(11) ¹	(34) ^{1,6}	(7) ¹	(4) ¹	(55)
Philips	(65)	(57)	(33)	(58)	(214)	6	(111)	(167)	(95)	(366)
Restructuring costs	(4)	(1)	(2)	(51)	(58)	(16)	(48)	(73)	(75)	(211)
Acquisition related charges	(9)	(7)	(8)	(12)	(36)	(9)	(17)	(47)	(32)	(105)
Other items	(52)	(49)	(23)	5	(120)	31	(46)	(47)	12	(50)

Due to rounding, amounts may not add up precisely to totals provided.

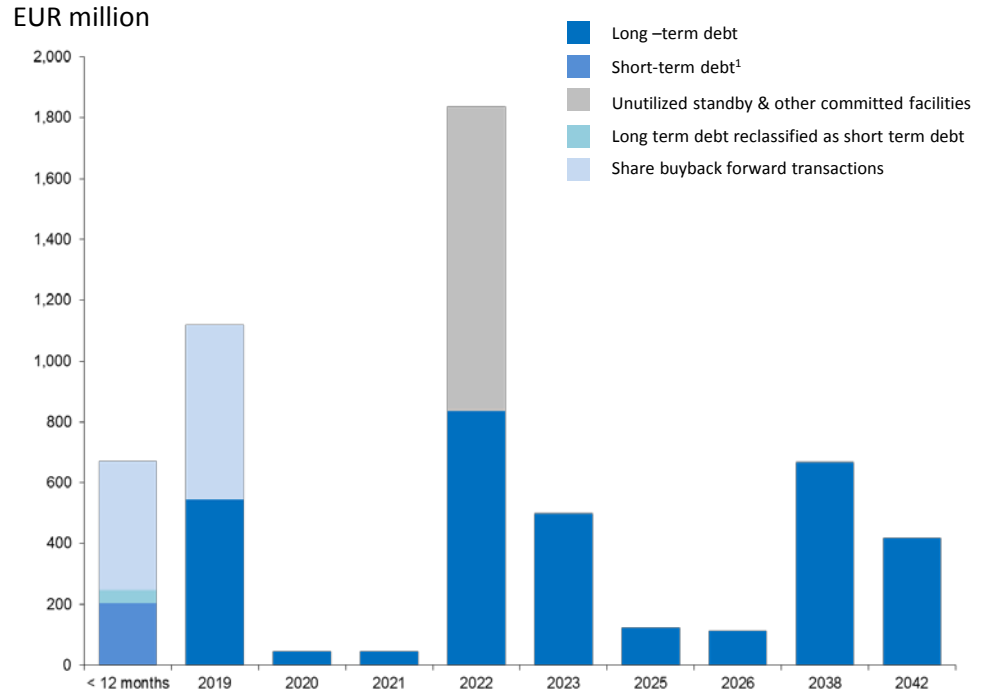
1. Relates to the separation of the Lighting business. 2. Includes EUR 46 million gain from the settlement of a pension-related claim. 3. EUR 26 million impairment of real estate assets. 4. Charges related to quality and regulatory actions. 5. EUR 59 million gain on the sale of real estate assets. 6. EUR 26 million of provisions related to the CRT litigation in the US, EUR 7 million of charges related to the separation of the Lighting business and EUR 5 million of stranded costs related to the combined Lumileds and Automotive businesses. 7. The amount includes the charges related to acquisition of Spectranetics. 8. Charges related to portfolio rationalization measures. 9. Mainly related to the consent decree focused on the defibrillator manufacturing in the U.S. 10. Includes EUR 36 million release of provision.

Philips' debt has a long maturity profile

Characteristics of long-term debt

- Total net debt position of EUR 2.8 billion
- Maturities up to 2042
- Average tenor of long-term debt is 9.9 years²
- No financial covenants
- On June 28, 2017, Royal Philips announced a EUR 1.5 billion share buyback program. Philips started the program in the third quarter of 2017, and intends to complete it in two years. Long term debt includes forward transactions entered into as part of this program, to be settled at future dates over the course of the program

Debt maturity profile as per December 2017



Funded status for post-employment defined-benefit plans

IFRS basis

EUR million	Funded status	
	September 2017	December 2017
Pension plans	(796)	(874)
Retiree medical plans	(108)	(98)
Philips	(904)	(972)

EUR million	Balance sheet position	
	September 2017	December 2017
Pension plans	(882)	(874)
Retiree medical plans	(108)	(98)
Philips	(990)	(972)

- The funded status deteriorated in Q4 2017, mainly caused by the settlement of the Brazil pension plan which had an (unrecognized) surplus of EUR 88 million as at Q3 2017.
- The balance sheet position further improved in Q4 2017, mainly driven by the stronger euro partly offset by actuarial losses in Q4 2017.

Financial calendar 2018

February 20	Annual Report 2017
February 27	Morgan Stanley European MedTech & Services Conference, London
February 28	Credit Suisse One on One Healthcare Conference, London
March 13	Barclays Global Healthcare Conference, Miami
April 23	First quarter results 2018
May 3	Annual General Meeting of Shareholders
July 23	Second quarter and semi-annual results 2018
October 22	Third quarter results 2018
November 8	Capital Markets Day, Amsterdam

