

Royal Philips

First Quarter 2017 Results Information booklet

April 24, 2017

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, domestic and global economic and business conditions, developments within the euro zone, the successful implementation of our strategy and our ability to realize the benefits of this strategy, our ability to develop and market new products, changes in legislation, legal claims, changes in exchange and interest rates, changes in tax rates, pension costs and actuarial assumptions, raw materials and employee costs, our ability to identify and complete successful acquisitions and to integrate those acquisitions into our business, our ability to successfully exit certain businesses or restructure our operations, the rate of technological changes, political, economic and other developments in countries where Philips operates, industry consolidation and competition. 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' 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. A reconciliation of such measures to the most directly comparable IFRS measures is contained in our Annual Report 2016. Further information on non-GAAP measures can be found in our Annual Report 2016.

Use of fair-value measurements

In presenting the Philips' 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 valuation models, which we believe are appropriate for their purpose. 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 our Annual Report 2016. Independent valuations may have been obtained to support management's determination of fair values.

All amounts are in millions of Euro's 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 conform to the current-year presentation.

Content

1. Company Overview	3
2. HealthTech Strategy	5
3. Medium-term Financial Outlook	18
4. Financial Performance	24
Appendix	31

Company overview¹

HealthTech

Diagnosis & Treatment



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

28%
of revenues

9.8%
adj. EBITA

Connected Care & Health Informatics



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

13%
of revenues

10.1%
adj. EBITA

Personal Health



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

30%
of revenues

15.9%
adj. EBITA

Lighting

Philips retains a 55.180% stake in Philips Lighting



Enriching lighting experiences that make people feel safe, comfortable, focused, energized and entertained

29%
of revenues

9.4%
adj. EBITA

Philips

EUR 24.7 billion sales, 70% B2B

Adj. EBITA of 10.7%

EUR 2 billion for R&D, ~79,000 patents rights², ~49,000 trademarks²

More than 1/4th of sales from solutions

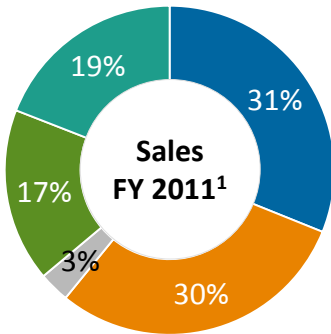
~105,000 employees in over 100 countries

EUR 17.6 billion of sales and adj. EBITA of 11.1%

Content

1. Company Overview	3
2. HealthTech Strategy	5
3. Medium-term Financial Outlook	18
4. Financial Performance	24
Appendix	31

Philips has transformed into a focused HealthTech leader

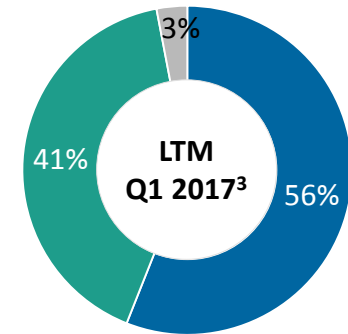


Sales	25.3bn
CSG	2%
Adj. EBITA	4.7%

Portfolio Transformation



■ Personal Health ■ Healthcare ■ Lighting ■ Other² ■ LE/TV



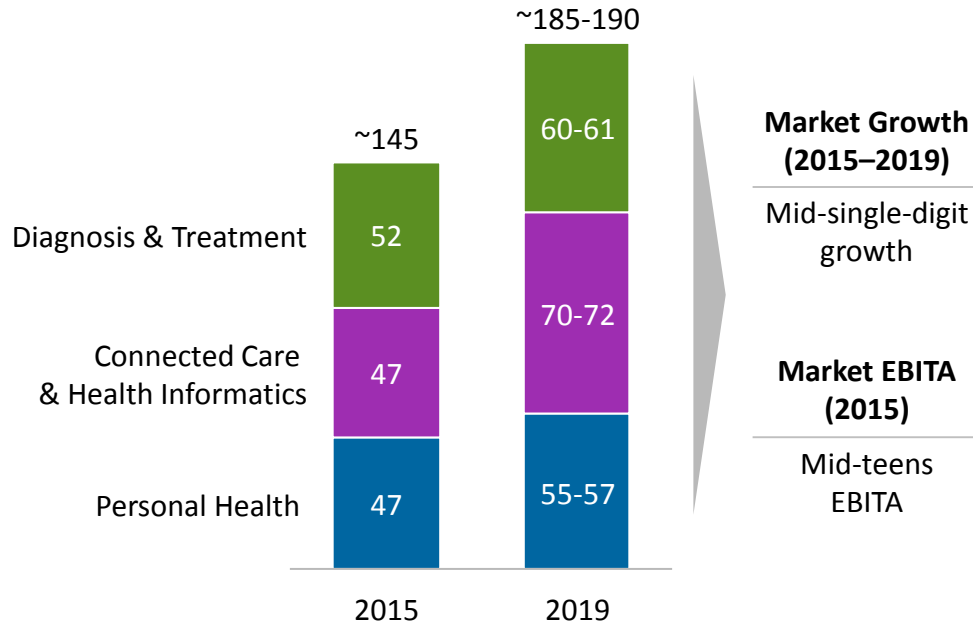
Sales	17.6bn
CSG	4%
Adj. EBITA	11.1%

¹ Lighting includes combined business of Lumileds and Automotive in 2011, Personal Health in 2011 includes Sleep & Respiratory Care portfolio which was part of Healthcare sector; ² Other includes HT Other and Legacy Items; ³ Combined Lumileds and Automotive businesses classified as discontinued operations

Our markets have sustained growth and attractive profit pools

HealthTech market size¹

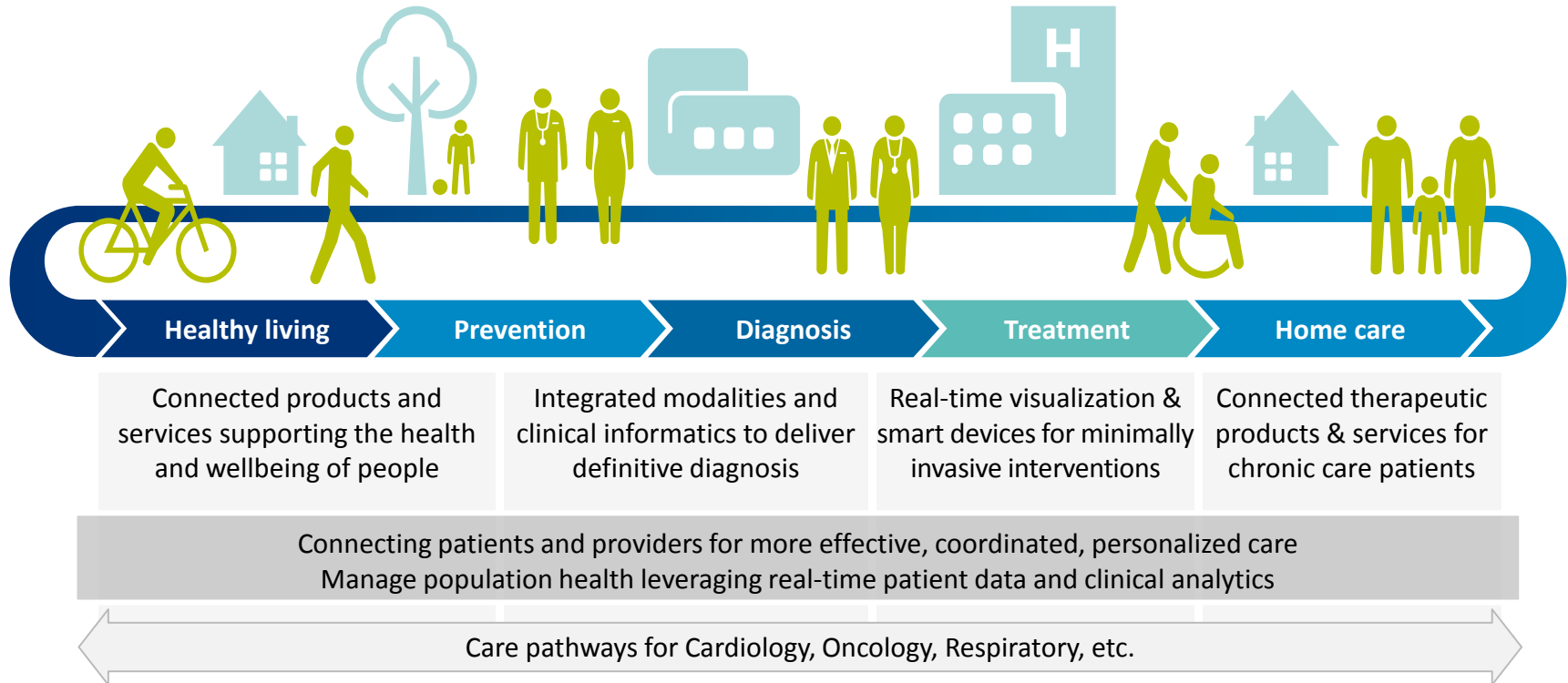
EUR billion



Growth drivers

- Population growth, ageing and **rise in chronic diseases**
- United Nations SDG 3 – **boosting access to care**
- Shift to **outcome based reimbursement / accountable care**
- **Data enabled** healthcare delivery with **higher productivity**
- Care shifting to **ambulatory and home care** settings with consumers **increasingly engaged in their health**
- **Convergence** of professional healthcare and consumer health

We deliver differentiated solutions to drive better outcomes for people and higher productivity for care providers across health continuum



Operating through three segments across the health continuum

Segments and businesses (share of revenues)¹

Diagnosis & Treatment



39%

- Diagnostic Imaging
- Ultrasound
- Image-Guided Therapy

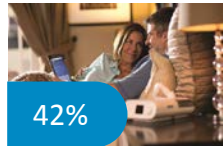
Connected Care & Health Informatics



19%

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

Personal Health



42%

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

Key products

- Computed tomography, magnetic resonance, X-ray
- Ultrasound scanners
- Interventional X-ray, smart catheters 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

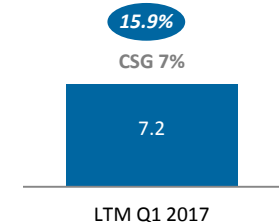
■ Sales (€bn) ● Adj. EBITA margin



LTM Q1 2017

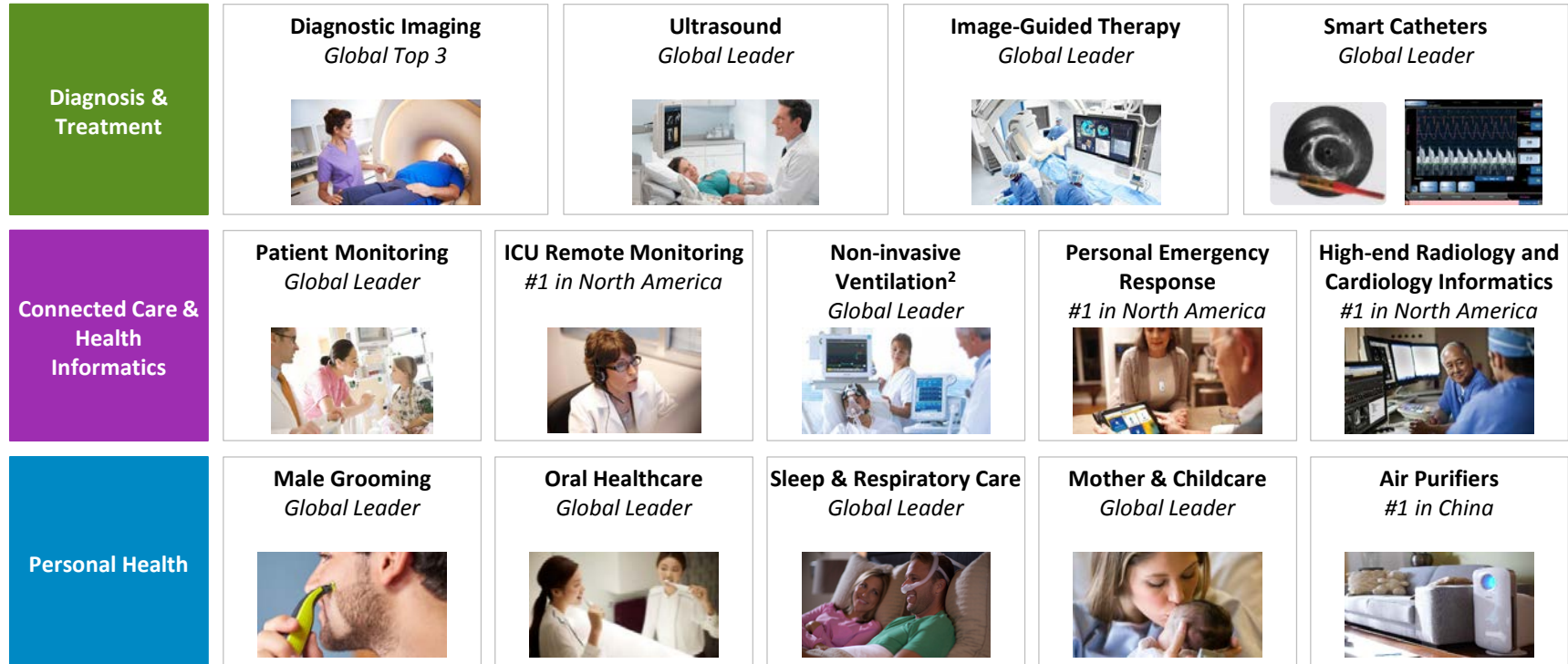


LTM Q1 2017



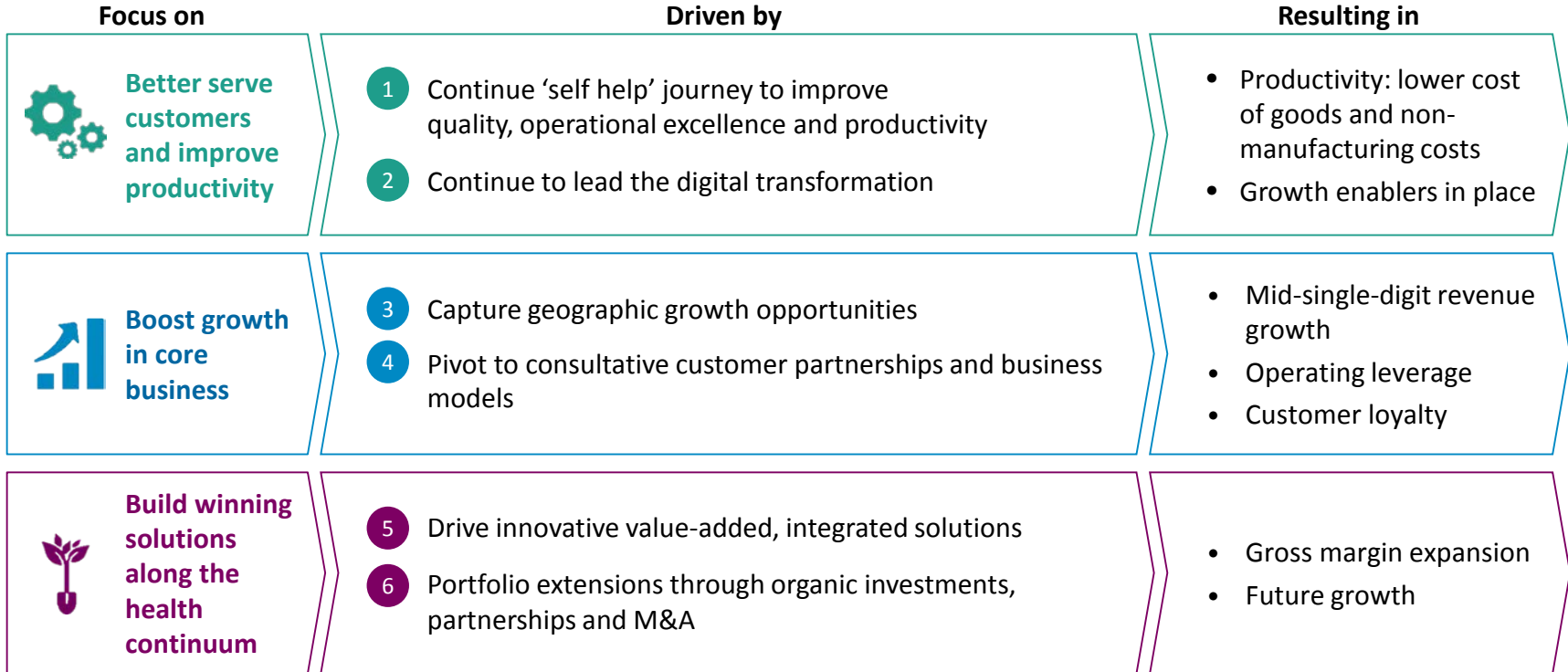
LTM Q1 2017

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



¹ Leadership position refers to #1 or #2 position in Philips addressable market; ² Based on non-invasive ventilators for the home

Key drivers for our value creation



We have a unique position to tap into the HealthTech opportunity

Continue to lead the digital transformation



...unlocking **superior value** for customers (examples)

... through **real time** digital software and services... (examples)

...deployed over **patient-centric** "HealthSuite" IoT cloud and process automation

Emergency response



Connecting elderly care

Patient outcomes



4 million sleep patients connected

Digital workflows



#1 Cardio Informatics

Predictive analytics



1 billion+ patients monitored in last 5 years



Connected digital propositions



Integrated clinical applications



Philips Integrated IT Landscape



End-to-end business processes

Co-created solutions for multi-year strategic partnerships



Driving productivity and efficiency



Rijnstate

- Productivity increase in Ultrasound over 30% in outpatient clinics (versus last year)

Driving patient experience



- New care pathways by integrating patient care, clinical research and education; a 14-year contract with the Stockholm County Council

Driving financial outcomes


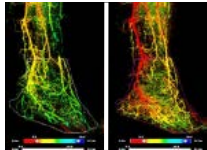
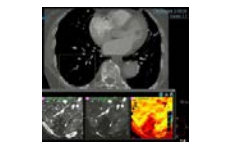





- Regained trauma center designation to safeguard USD 15 million of annual revenue

Drive innovative value-added, integrated solutions

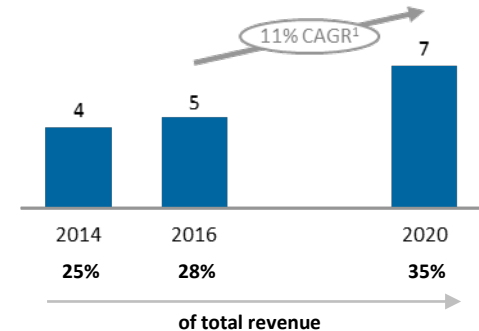
Better value for customers, higher margins, recurring revenue models

Examples

<p>Total cardiac procedure solutions</p>	 <p>Interventional operating rooms</p>	 <p>Smart therapeutic devices</p>	 <p>Validation software</p>
<p>Integrated oncology solutions</p>	 <p>IQon Spectral CT diagnostics</p>	 <p>Intellisite Pathology</p>	 <p>Image guided radiation oncology</p>
<p>Total sleep solutions</p>	 <p>Home sleep diagnostics</p>	 <p>Dream Series therapy devices</p>	 <p>DreamMapper patient engagement</p>

Solutions revenues and growth

EUR billion



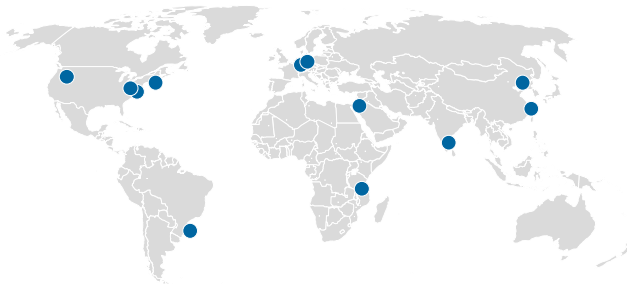
Solutions business characteristics:

- Suites of systems, smart devices, software and services
- Revenue accelerates to double-digit growth
- Higher margins than stand-alone products
- Sticky customer relationships with committed future revenue

Our innovations are a result of deep clinical collaborations with universities & hospitals and advanced R&D programs

Commitment towards innovation

- **Annual spend of ~EUR 1.7 billion** for research & development
 - ~20% breakthrough innovation
 - ~50% new product development
 - ~30% sustaining engineering
- **Strong IP portfolio** consisting of 79,000 patents, 49,000 trademarks and 86,000 design rights¹
- 60%+ R&D professionals in software
- Global R&D footprint



Examples of collaborative clinical co-creation



Sustainability is an integral part of how we do business

Success of EcoVision 2015 program

- 54% of sales from Green Products in 2015
- 41% reduction in carbon footprint in 10 years
- 2 billion lives improved



New 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

Recent accomplishments

Industry Group Leader in 2016



4th consecutive year of **leadership**
in the Carbon Disclosure Project





























“**Champion for Change**” award from
Practice GreenHealth, third
consecutive year



Responsible Supply Chain
Management Award by VBDO for 7th
consecutive year



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> Pieter Nota</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> Brent Shafer</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> 

Content

1. Company Overview	3
2. HealthTech Strategy	5
3. Medium-term Financial Outlook	18
4. Financial Performance	24
Appendix	31

Continue 'self help' journey to improve quality, operational excellence and productivity



Excellence

- Operational excellence by applying the Philips Business System
- Continuous improvement, leveraging Philips Excellence practices
- 'Design for Quality' methodology in product design and Supplier Selection
- One Philips Quality Management System

Productivity programs¹

Productivity driven by operating leverage and a EUR 1.2 billion program over the next three years comprising of:

- Manufacturing footprint optimization
- Procurement savings, led by proven DfX program
- Overhead cost reduction

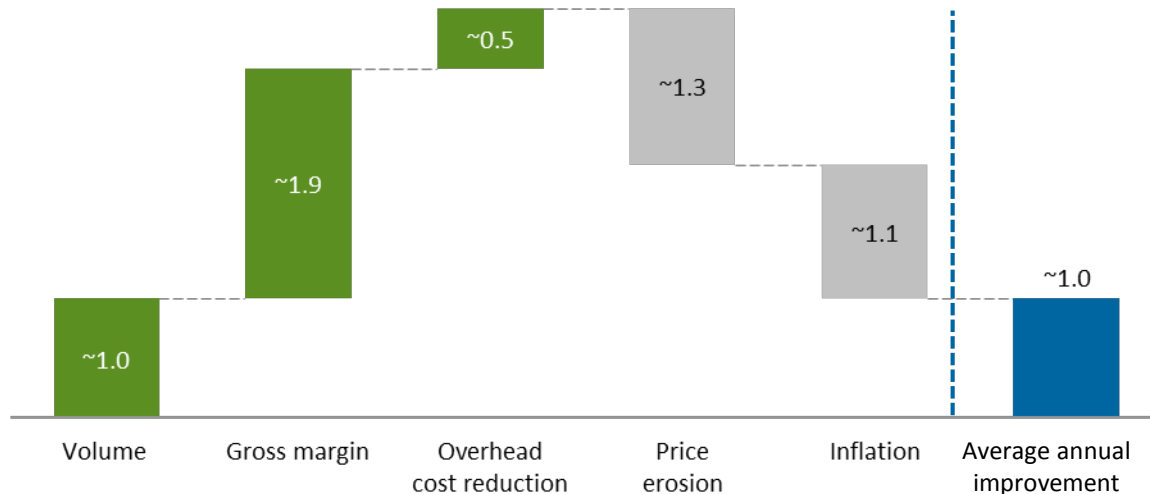
Philips Business System



Productivity initiatives of EUR 1.2 billion to drive 100 basis points annual improvement over the medium-term¹

Adj. EBITA step-up drivers

Indicative Adj. EBITA margin, %



Main drivers

- Operating leverage in selling expenses and R&D
- Gross margin improvement:
 - Manufacturing footprint optimization
 - Procurement savings, led by proven DfX program
 - Mix improvement
- Overhead reduction enabled by simplification of end-to-end businesses processes

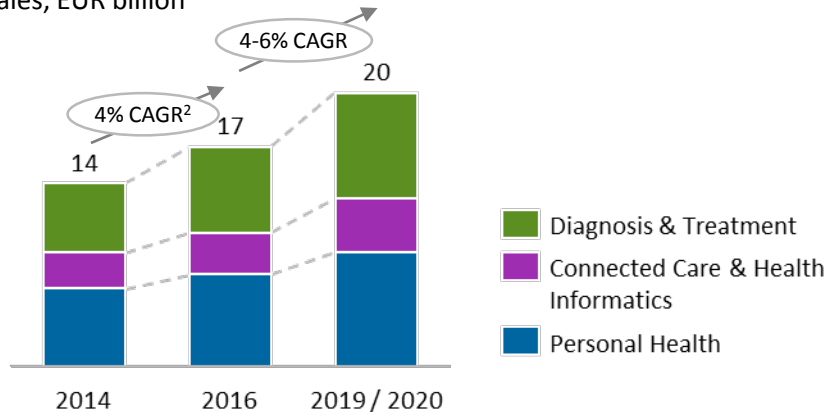
This plan is largely a “self help” and a continuation of our Accelerate! approach

Building Philips to EUR 20 billion¹ sales with significantly improved returns

Medium-term financial outlook

- Mid-single-digit growth rate (4-6%)
- On average 100bps Adj. EBITA margin improvement annually
- Free cash flow generation of ~EUR 1–1.5 billion annually
- Organic plan ROIC improves to mid-to-high teens

Sales, EUR billion



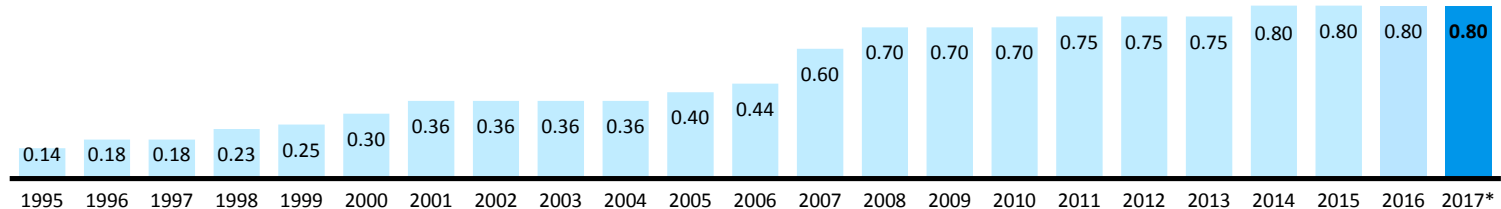
- Performance improvement driven by:
 - Operational excellence and growth in Diagnosis & Treatment
 - Capture growth in Connected Care & Health Informatics
 - Continue momentum in Personal Health
- Continued productivity initiatives to improve margins
- Balance Sheet improvements will contribute to improving cash flow and earnings

Disciplined capital allocation policy

- Continue to invest in high ROIC organic growth opportunities to strengthen each business
- Disciplined but more active approach to M&A, while continuing to adhere to strict return hurdles
- Committed to a strong investment grade credit rating
- Completed EUR 3.5 billion of share buy backs starting from 2011
- Redeemed high cost debt and going forward we continue de-risking liabilities
- Dividend policy aimed at dividend-stability

Dividends

EUR per share

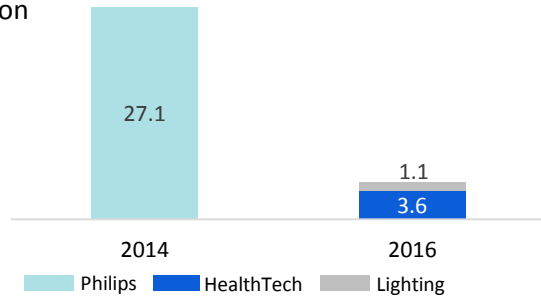


Ongoing actions to drive balance sheet efficiency

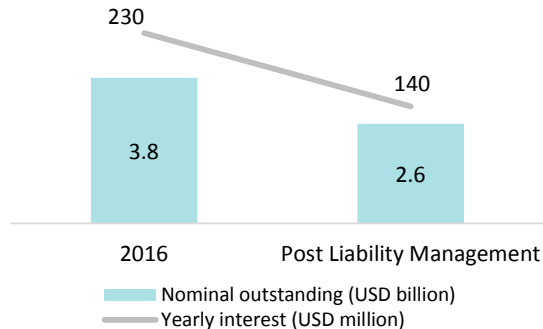
Reduction of pension liability and high interest bonds

Pension DBO

EUR billion



Gross debt and interest cost development¹



- Pro-active de-risking actions to reduce Group defined benefit obligations (DBO):
 - De-risking of the Dutch pension plan
 - Settlement of the entire U.K. plan
 - Transfer of USD 1.1B U.S. liabilities to insurers
 - Termination of Brazil pension plan in 2017
- Actions to redeem high interest bonds by USD 1.5B:
 - USD 0.3B redeemed in Q3 2016
 - USD 1.25B March'18 bond redeemed per January 20, 2017
- All actions to enable a reduction of yearly interest expenses by around EUR 100 million completed

Content

1. Company Overview	3
2. HealthTech Strategy	5
3. Medium-term Financial Outlook	18
4. Financial Performance	24
Appendix	31

Performance Highlights

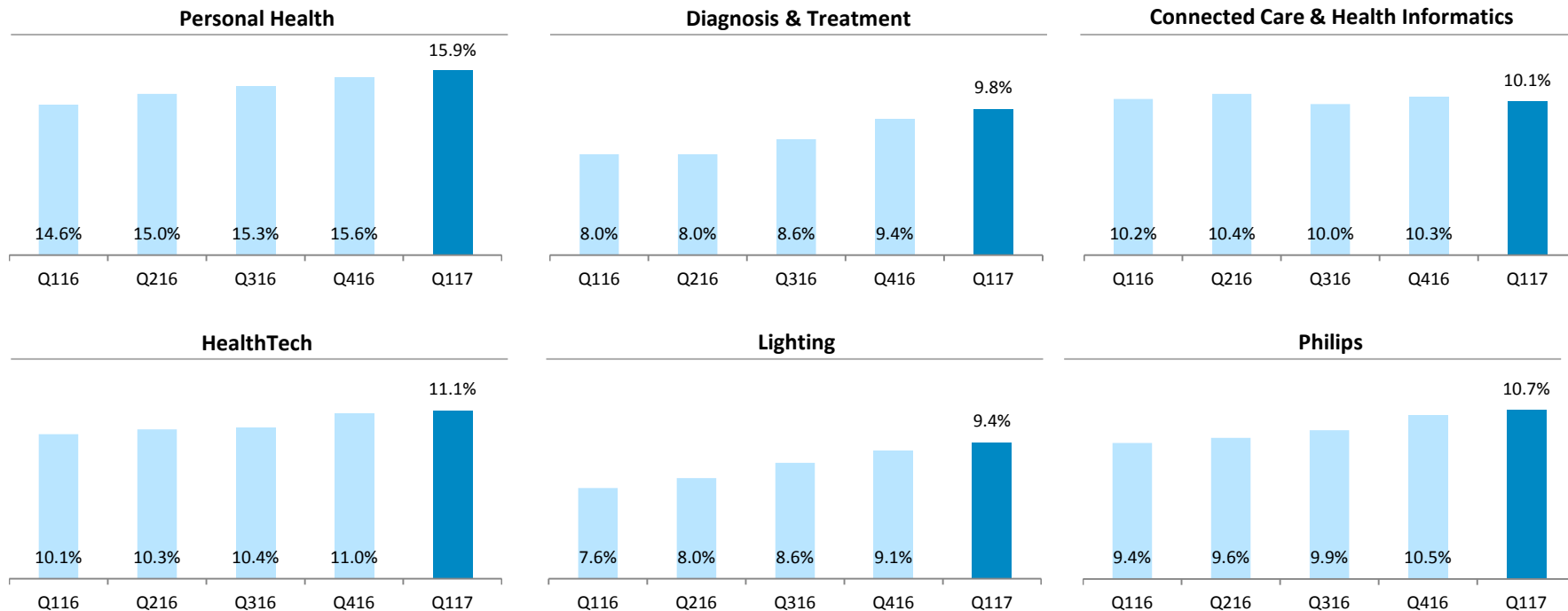
Q1 2017

- Comparable sales up 2% compared to Q1 2016
- Comparable order intake up 2% compared to Q1 2016
- Adj. EBITA margin of 7.7%, up 90 bps compared to Q1 2016
- Inventories amounted to 14.7% of sales¹, down 10 bps compared to Q1 2016
- Free cash inflow of EUR 295 million, compared to an outflow of EUR 177 million in Q1 2016
- ROIC improved to 14.6%

EUR million	Sales	CSG	Adj. EBITA margin	vs. LY (bps)	EBITA margin	vs. LY (bps)
Personal Health	1,719	+5%	15.6%	+150	15.5%	+150
Diagnosis & Treatment	1,491	+2%	4.2%	+190	3.5%	+190
Connected Care & Health Informatics	732	+1%	3.6%	-30	0.0%	-330
HealthTech Other	92					
HealthTech	4,035	+3%	7.4%	+80	7.5%	+260
Lighting	1,689	0%	8.5%	+130	7.9%	+190
Philips	5,724	+2%	7.7%	+90	7.6%	+230

Adjusted EBITA¹ margin development

Rolling last twelve months



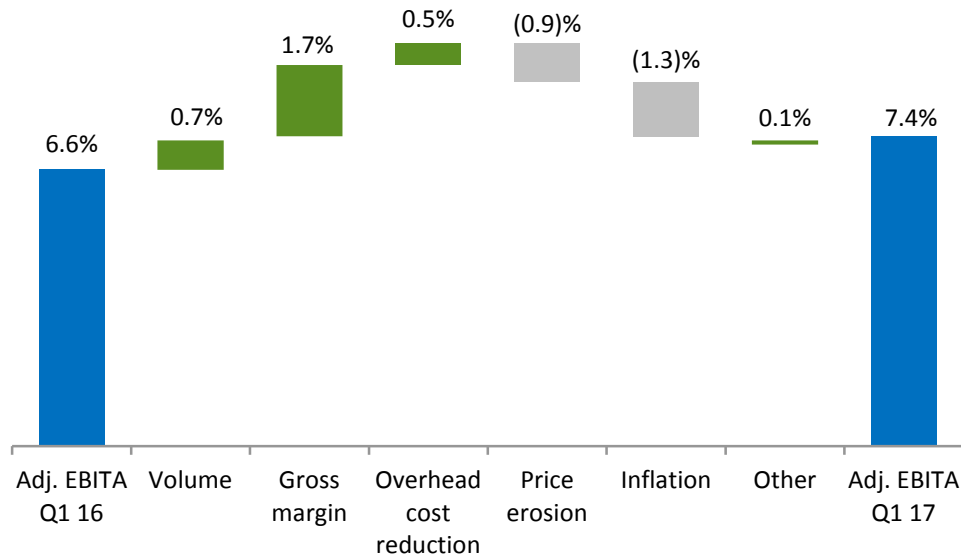
Sales by geography

	Q1 2017					
	HealthTech			Philips		
	Sales EUR million	Nominal sales growth	Comparable sales growth	Sales EUR million	Nominal sales growth	Comparable sales growth
Western Europe	843	+4%	+5%	1,372	+3%	+5%
North America	1,491	+4%	0%	1,958	+1%	-2%
Other Mature Geographies	428	+4%	-2%	474	+3%	-3%
Growth Geographies ¹	1,272	+9%	+7%	1,920	+7%	+6%
Total	4,035	+5%	+3%	5,724	+4%	+2%

Underlying improvements in profitability

HealthTech Adjusted EBITA bridge for Q1 2017

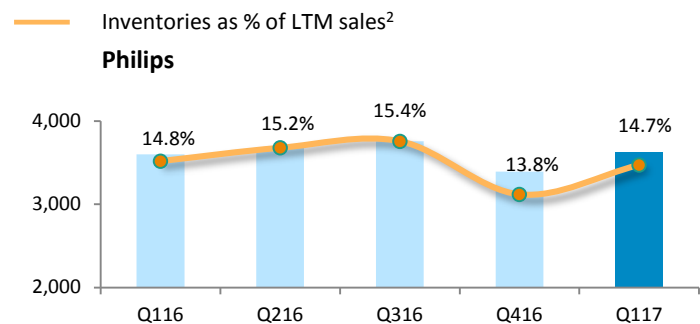
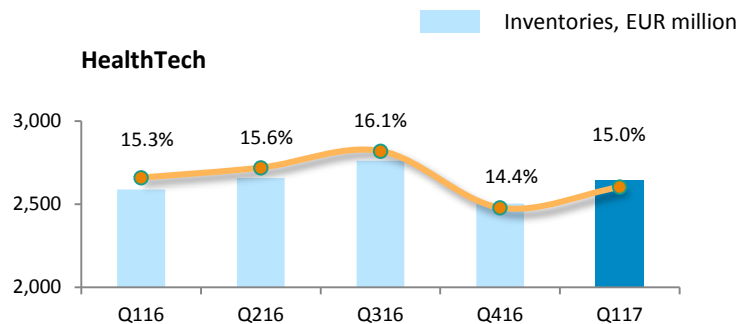
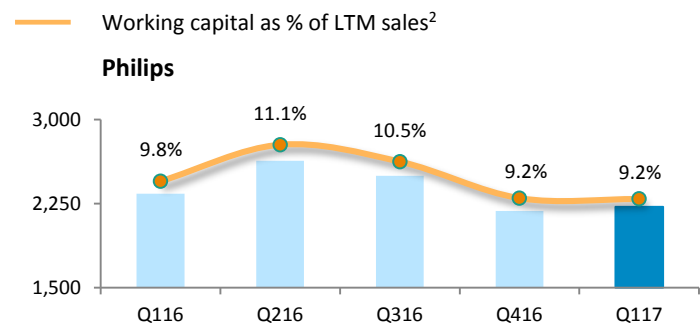
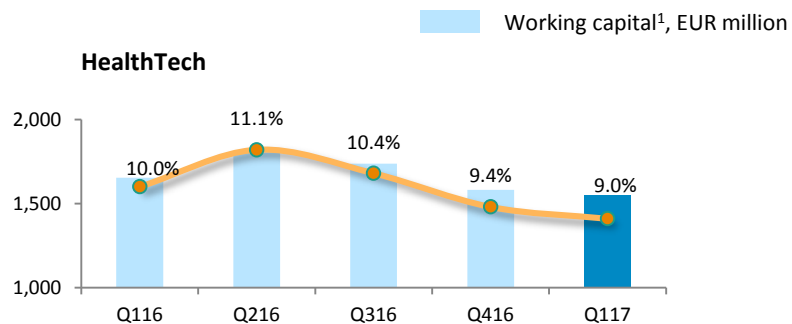
as a % of sales



Productivity initiatives contributing to medium-term targets

EUR million	3 years plan ¹	Q1 2017 Actual
Procurement	700	41
Other productivity (net) ²	500	54
Total (net)	1,200	95

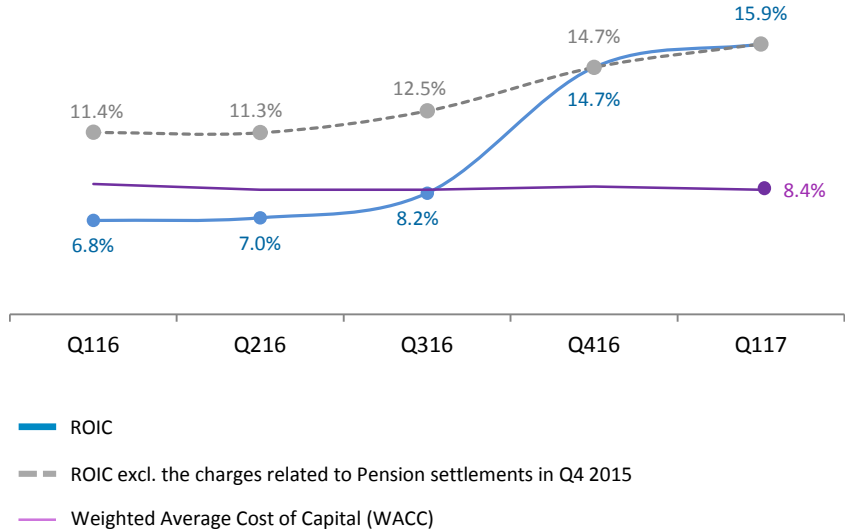
Working capital and inventories



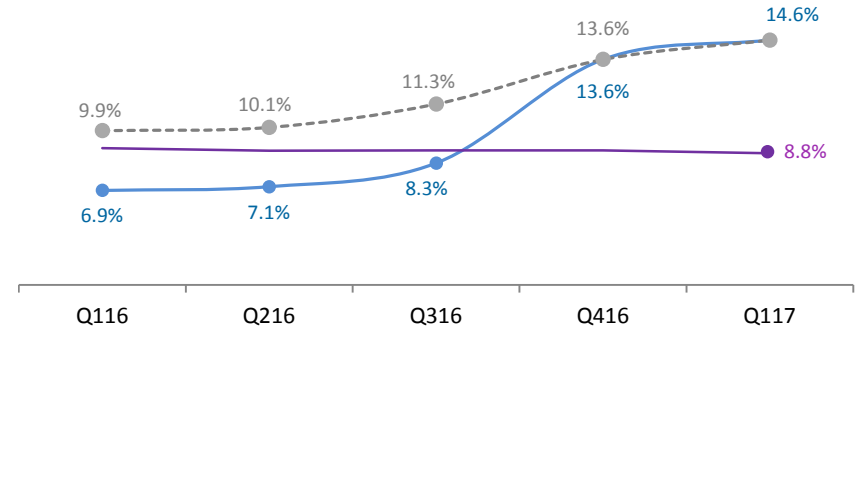
Development of Return on Invested Capital (ROIC)

- ROIC improved to 14.6% in Q1 2017 compared to 9.9% in Q1 2016, excluding the charges related to Pension settlements in Q4 2015.
- The improvement is mainly driven by earnings growth.

HealthTech



Philips



Appendix

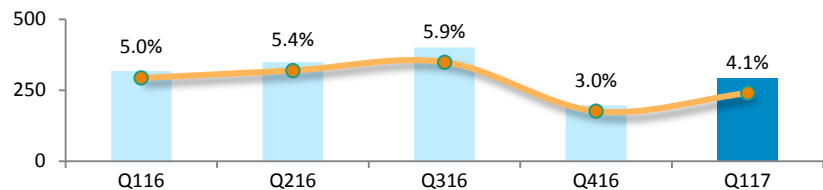
Key financials summary

EUR million	Q1 2016	Q1 2017
Sales	5,517	5,724
Adjusted EBITA	374 ¹	442 ²
EBITA	290	437
Financial expenses, net	(114)	(61)
Income taxes	(75)	(91)
Net income (loss)	37	259
Net cash flow from operating activities	10	343
Net capital expenditures	(187)	(48)
Free cash flow	(177)	295

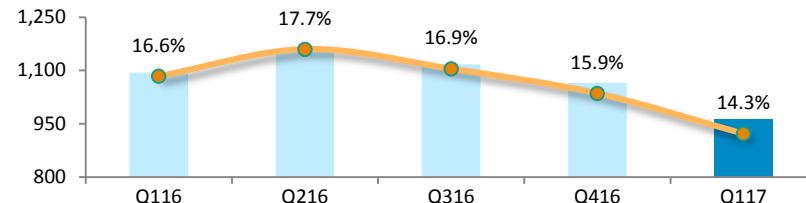
Working capital per segment

Working capital, EUR million Working capital as % of LTM sales¹

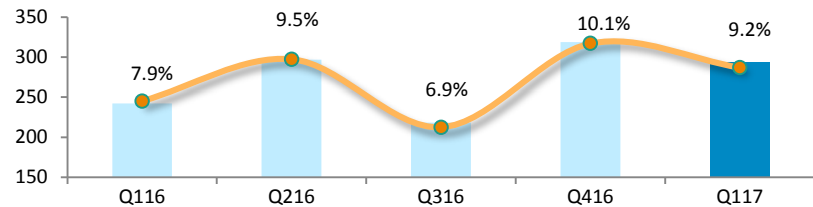
Personal Health



Diagnosis & Treatment



Connected Care & Health Informatics



Balance Sheet utilization

EUR million

Gross CapEx¹

	Q1 2016	Q1 2017	FY 2015	FY 2016
HealthTech	73	80	432	360
Lighting	14	15	90	83
Philips	87	95	522	443

Depreciation¹

	Q1 2016	Q1 2017	FY 2015	FY2016
HealthTech	108	100	422	458
Lighting	41	31	160	148
Philips	149	131	582	606

Capitalization of development costs

	Q1 2016	Q1 2017	FY 2015	FY 2016
HealthTech	85	90	351	345
Lighting	5	5	24	34
Philips	90	95	375	379

Amortization of development costs

	Q1 2016	Q1 2017	FY 2015	FY2016
HealthTech	54	54	242	225
Lighting	6	5	29	28
Philips	60	59	271	253

Restructuring, acquisition-related charges and other items

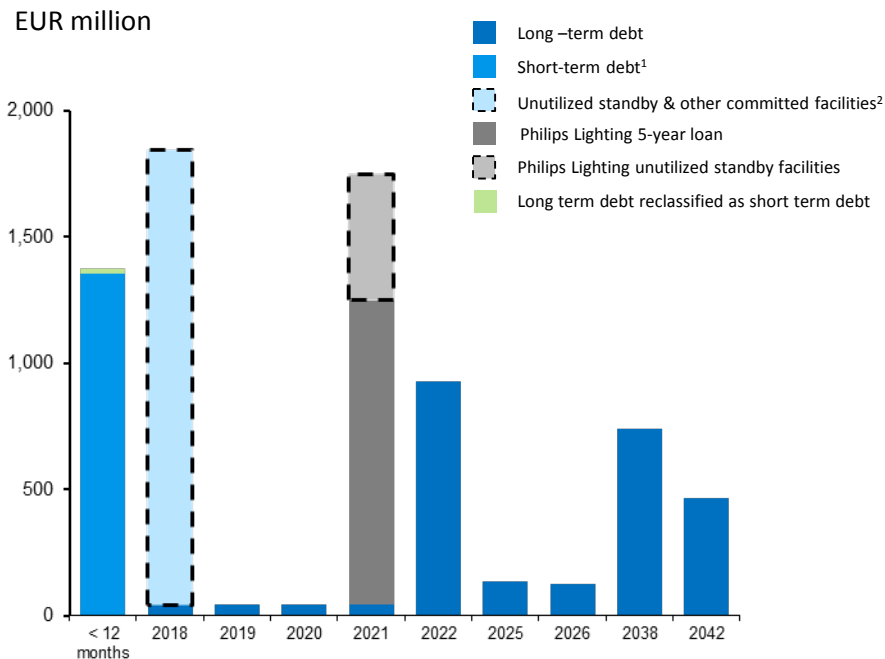
EUR million	Q116	Q216	Q316	Q416	2016	Q117
Personal Health	(2)	(1)	-	(13)	(16)	(2)
Restructuring & Acq.-related charges	(2)	(1)	-	(13)	(16)	(2)
Other items	-	-	-	-	-	-
Diagnosis & Treatment	(9)	(7)	(6)	(15)	(37)	(11)
Restructuring & Acq.-related charges	(9)	(7)	(6)	(15)	(37)	(11)
Other items	-	-	-	-	-	-
Connected Care & Health Informatics	(4)	(1)	(4)	7	(2)	(25)
Restructuring & Acq.-related charges	(4)	3	(5)	(8)	(14)	(8)
Other items	-	(4)	1	15	12	(17) ⁴
HealthTech Other	2	(3)	1	(54)	(54)	56
Restructuring & Acq.-related charges	2	(3)	1	(28)	(28)	(3)
Other items	-	-	-	(26) ³	(26)	59 ⁵
Lighting	(19)	(23)	(36)	(27)	(105)	(11)
Restructuring & Acq.-related charges	(19)	(23)	(49)	(28)	(119)	(10)
Other items	-	-	13	1	14	(1)
Legacy Items	(52)	(45)	(37)	15	(119)	(11)
Restructuring & Acq.-related charges	-	-	-	1	1	-
Other items	(52) ¹	(45) ¹	(37) ¹	14 ^{1,2}	(120)	(11) ¹
Philips	(84)	(80)	(82)	(87)	(333)	(4)
Restructuring & Acq.-related charges	(32)	(31)	(59)	(91)	(213)	(34)
Other items	(52)	(49)	(23)	4	(120)	30

Philips' debt has a long maturity profile

Characteristics of long-term debt

- Total net debt position of EUR 2.6 billion
- Maturities up to 2042
- Average tenor of long-term debt (excl. Philips Lighting) is 13.3 years³
- No financial covenants
- Philips Lighting debt includes 5 year loans of EUR 740 million and USD 500 million
- On December 20, 2016, Philips announced the early redemption of all 2018 bonds (USD 1,250 million) which was completed on January 20, 2017.
- Philips entered into a USD 1 billion credit facility with maturity date on December 29, 2017. Philips expects to prepay this facility in the course of 2017.
- Per end of March, 2017, Philips had a EUR 1.8 billion standby facility, maturing in February 2018. On April 19, 2017, Philips announced that the EUR 1.8 billion Revolving Credit Facility has been substituted with a new EUR 1 billion facility maturing in April 2022.

Debt maturity profile as per March 2017



Funded status for post-employment defined-benefit plans

IFRS basis

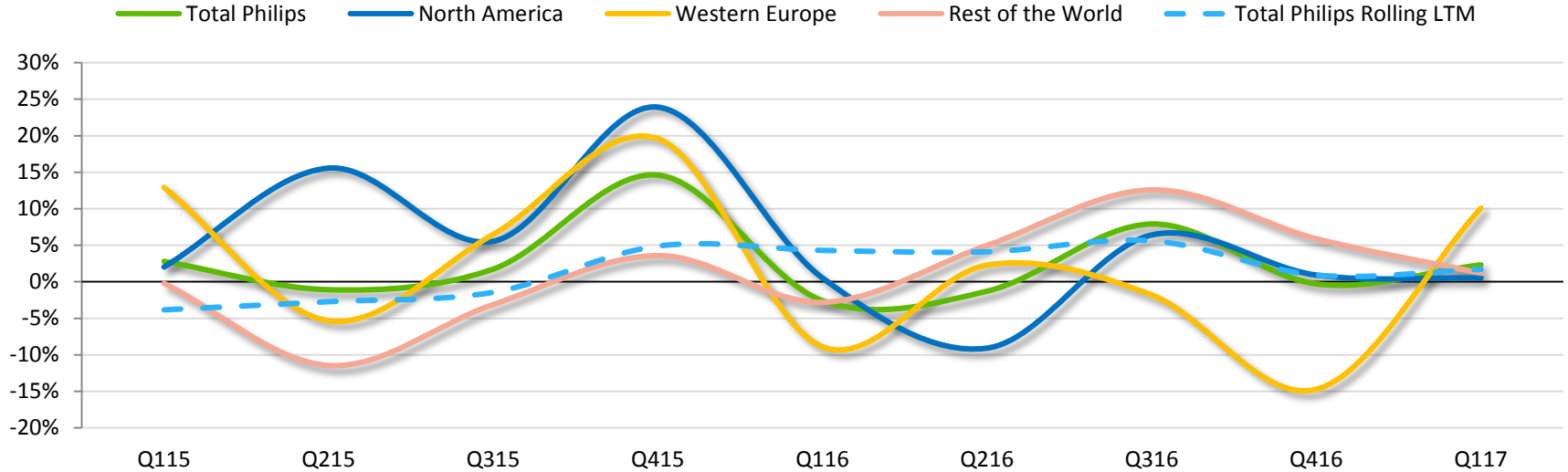
EUR million	Funded status		Balance sheet position	
	December 2016	March 2017	December 2016	March 2017
HealthTech	(1,308)	(1,237)	(1,395)	(1,327)
Lighting	(584)	(579)	(602)	(598)
Pension plans	(1,658)	(1,585)	(1,763)	(1,695)
Retiree medical plans	(234)	(231)	(234)	(231)
Philips	(1,892)	(1,816)	(1,997)	(1,926)

The funded status and balance sheet position improved in Q1 2017, mainly caused by positive market developments (asset returns) and stronger euro compared to the dollar.

HealthTech: order intake¹

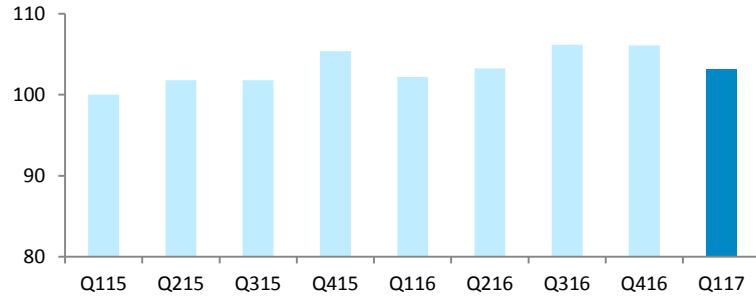
Quarterly currency adjusted order intake growth

Diagnosis & Treatment, Connected Care & Health Informatics and Innovation



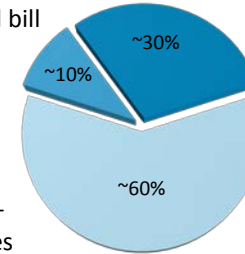
HealthTech: order book

Indexed order book¹ development



Quarter end order book is a leading indicator for ~30% of sales the following quarters

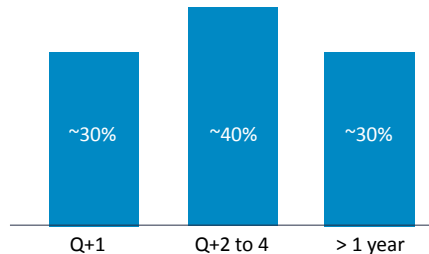
Equipment and software book and bill sales



Equipment and software sales from order book - Leading indicator of future sales

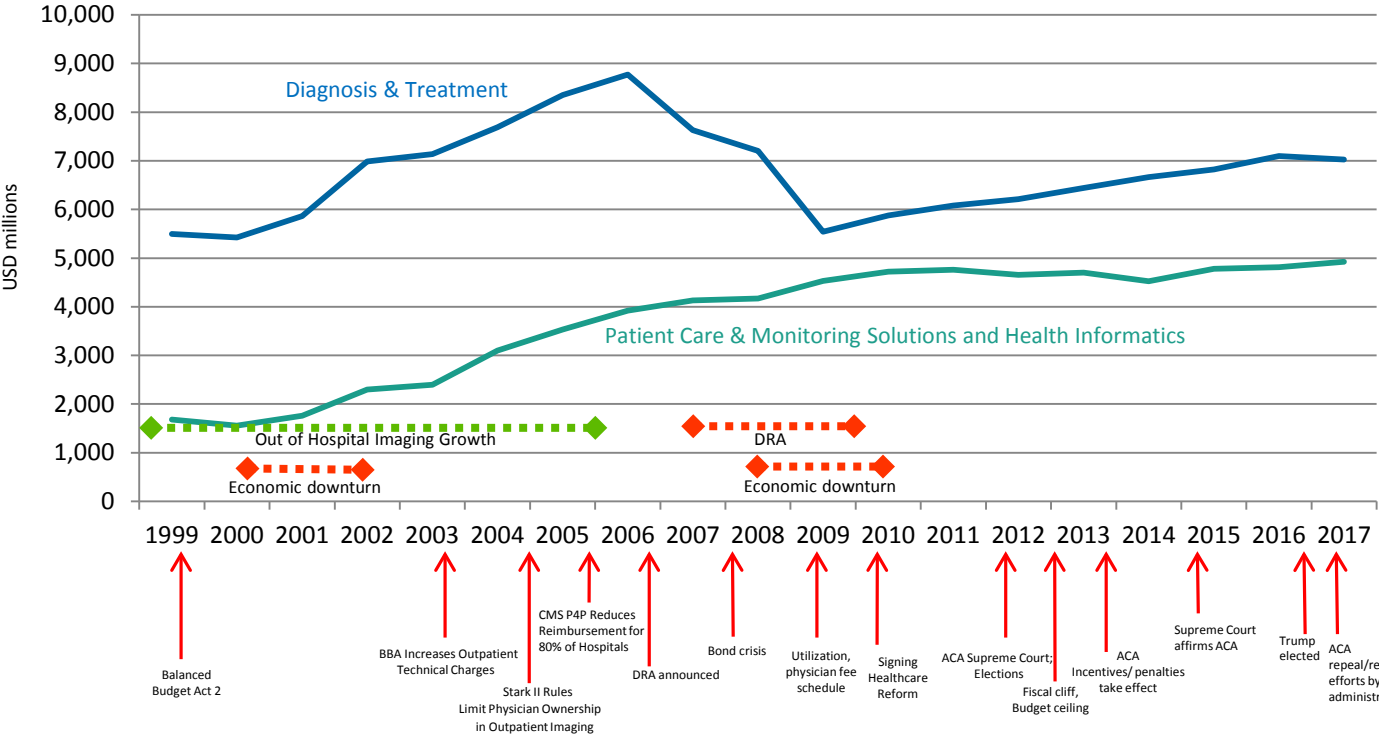
Personal Health + Customer Services sales

Typical profile of order book conversion to sales



- Approximately 70% of the current order book results in sales within the next 12 months

North America healthcare market development¹



The US healthcare market is expected to grow by low-single-digit in 2017

40 : Only refers to equipment market for Diagnosis & Treatment, Patient Care & Monitoring Solutions and Health Informatics



Financial calendar 2017

May 11	Annual General Meeting of Shareholders
July 24	Second quarter and semi-annual results 2017
October 23	Third quarter results 2017

