

# Royal Philips

*Second Quarter Results 2015*

*Information booklet*

July 27<sup>th</sup>, 2015

# Important information

## *Forward-looking statements*

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 2014.

## *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 2014. Further information on non-GAAP measures can be found in our Annual Report 2014.

## *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 2014. 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. All reported data is unaudited. Financial reporting is in accordance with the accounting policies as stated in the Annual Report 2014, unless otherwise stated.

# Content

1. Financial performance	3
2. Accelerate! transformation program	27
3. Strategy and Path-to-Value	34
4. Company overview	
- Group	53
- Healthcare	56
- Consumer Lifestyle	63
- Lighting	69

# Financial performance Q2 2015: Group

## Sales & order intake

- Comparable sales amounted to EUR **6.0 billion**, up **3%** year-on-year
- Comparable sales of Consumer Lifestyle grew by **3%**; Lighting posted a **3%** decline
- Healthcare comparable sales up **8%**, comparable equipment order intake down **4%**

## EBITA & Adjusted EBITA<sup>1</sup>

- EBITA amounted to EUR **450 million**, which included EUR 24 million restructuring and acquisition-related charges and EUR 27 million related to the separation of Lighting
- Adjusted EBITA was EUR **501 million**, or **8.4%** of sales, versus EUR 394 million last year, or 7.9% of sales

## Cost savings & Net Income

- Gross overhead cost savings of EUR **60 million**. Annualized savings of EUR **255 million**
- Net income of EUR **274 million**, compared to net income of EUR 243 million in Q2 2014
- EPS was EUR **0.30** compared to EUR 0.26 in Q2 2014

## Asset management & ROIC

- Inventories increased to 17.0% of sales<sup>2</sup>, mainly driven by currency impacts
- Free Cash outflow of EUR **30 million**, compared to EUR 214 million inflow in Q2 2014
- ROIC, excluding charges related to the jury verdict in the Masimo litigation<sup>3</sup> and the CRT anti-trust litigation, was **8.1%**, compared to 11.6% in Q2 2014

## Other

- By the end of Q2, we completed **59%** of the EUR 1.5 billion share buy-back program

Growing in a challenging market; Operational earnings improvement

<sup>1</sup> Adjusted EBITA in Q2 2014 excludes EUR 26 million restructuring and acquisition-related charges. <sup>2</sup> Inventories as a % of sales excludes acquisitions, divestments and discontinued operations. <sup>3</sup> Philips will appeal the decision.

Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations.

# Financial performance Q2 2015: Healthcare

## Order intake<sup>1</sup>

- Currency-comparable order intake showed a **4%** decrease
- Healthcare Informatics, Solutions & Services grew by double-digit and Patient Care & Monitoring Solutions had high-single-digit growth. Imaging Systems order intake was down double-digit

## Sales

- Comparable sales increased **8%** year-on-year
- Imaging Systems achieved strong double-digit growth, Patient Care & Monitoring Solutions posted mid-single-digit growth, and Healthcare Informatics, Solutions & Services and Customer Services recorded low-single-digit growth

## EBITA & Adjusted EBITA<sup>2</sup>

- EBITA amounted to EUR **275 million** and included EUR 21 million restructuring and acquisition-related charges which mainly relate to the Volcano acquisition
- Adjusted EBITA was EUR **296 million**, or **10.7%** of sales, compared to 10.5% last year. The increase was largely driven by higher volumes, which were partly offset by negative currency impacts, an increase in Quality & Regulatory spend, and higher expenditure for growth initiatives at Healthcare Informatics, Solutions & Services

## Net Operating Capital (NOC)

- Inventories as a % of sales<sup>3</sup> increased by 200 basis points driven by currency impacts and the production ramp-up at the Cleveland facility
- NOC increased by EUR 439 million to EUR **9.2 billion** on a currency comparable basis

**Strong comparable sales growth; Resumption of operational earnings improvement**

<sup>1</sup> Order intake includes equipment and software orders. <sup>2</sup> Adjusted EBITA in Q2 2014 excludes a net provision release of EUR 1 million of restructuring charges.

<sup>3</sup> Inventories as a % of sales excludes acquisitions, divestments and discontinued operations.

# Financial performance Q2 2015: Consumer Lifestyle

## Sales

- Comparable sales grew by **3%** compared to Q2 2014
- The lower growth was driven by phasing of new product introductions which led to exceptionally strong growth in Q1 2015
- Health & Wellness achieved double-digit growth, while Personal Care posted high-single-digit growth and Domestic Appliances recorded a mid-single-digit decline
- Comparable sales in growth geographies showed mid-single-digit growth

## EBITA & Adjusted EBITA<sup>1</sup>

- EBITA was EUR **135 million**, or **10.8%** of sales
- Adjusted EBITA was EUR **134 million**, or **10.7%** of sales, compared to 9.4% in Q2 2014. The improvement was mainly due to product mix and cost productivity

## Net Operating Capital (NOC)

- Inventories as a % of sales<sup>2</sup> were broadly in line with Q2 2014
- NOC increased by EUR 222 million to EUR **1.7 billion** on a currency comparable basis

Growth rate reflects phasing of new product introductions;  
Strong operational results improvement

<sup>1</sup> Adjusted EBITA in Q2 2014 excludes EUR 1 million restructuring and acquisition-related charges. Adjusted EBITA in Q2 2015 excludes a EUR 1 million gain related to restructuring provision release. <sup>2</sup> Inventories as a % of sales excludes acquisitions, divestments and discontinued operations.

# Financial performance Q2 2015: Lighting

## Sales

- Comparable sales were down **3%** year-on-year
- Professional Lighting Solutions posted a low-single-digit decline. Light Sources & Electronics recorded a mid-single-digit decline and Consumer Luminaires posted a high-single-digit decline
- LED-based sales grew by **21%** compared to Q2 2014 and now represent **40%** of sales. Conventional-based sales declined **16%** year-on-year

## EBITA & Adjusted EBITA<sup>1</sup>

- EBITA amounted to EUR 164 million, or 8.9% of sales, including EUR 12 million restructuring & acquisition-related charges
- Adjusted EBITA was EUR **176 million**, or **9.6%** of sales, compared to 8.2% last year, driven by improved LED lighting margins, continued cost management and ongoing pro-active optimization of the manufacturing footprint

## Net Operating Capital (NOC)

- Inventories as a percentage of sales<sup>2</sup> increased 1.2% year-on-year, mainly due to currency impacts
- NOC decreased by EUR 1.1 billion to EUR **4.1 billion** on a currency comparable basis, due to the reclassification of the combined businesses of Lumileds and Automotive as assets held for sale in Q4 2014

Operational earnings continue to improve on lower sales volume

<sup>1</sup> Adjusted EBITA in Q2 2014 excludes EUR 22 million of acquisition-related and restructuring charges. <sup>2</sup> Inventories as a % of sales excludes acquisitions, divestments and discontinued operations.

Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations.

# Financial performance Q2 2015: by geography

## Growth Geographies<sup>1</sup>

- Comparable sales increased by **3%**, driven by Consumer Lifestyle and Healthcare. Double-digit growth in Central & Eastern Europe and India was partly offset by a decline in China and Russia & Central Asia
- Healthcare comparable order intake declined **double-digit**, mainly due to China and Latin America

## North America

- Comparable sales increased by **low-single-digit** year-on-year. Mid-single-digit sales growth in Healthcare and low-single-digit growth in Consumer Lifestyle were offset by a low-single-digit decline in Lighting
- Healthcare comparable order intake grew by **double-digit**

## Western Europe

- Comparable sales grew by **low-single-digit** year-on-year. Healthcare grew by mid-single-digit and Consumer Lifestyle was flat while Lighting declined by low-single-digit
- Healthcare comparable order intake declined by **low-single-digit**

Sales increased across all regions; slowdown in growth geographies

<sup>1</sup> Growth geographies are all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel.

Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations.



# Key financials summary – Q2 2015

EUR million

	Q2 2014	Q2 2015
Sales	4,969	5,974
Adjusted EBITA	394	501
EBITA	368 <sup>1</sup>	450 <sup>2</sup>
Financial income and expenses	(74)	(74)
Income taxes	(32)	(48)
Net income	243	274
Net Operating Capital	10,500	11,397
Net cash flow from operating activities	410	186
Net capital expenditures	(196)	(216)
Free cash flow	214	(30)

<sup>1</sup> Q2 2014 includes EUR (26)M of restructuring and acquisition-related charges. <sup>2</sup> Q2 2015 includes EUR (24)M of restructuring and acquisition-related charges and EUR (27)M other incidentals.

Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations.

# Sales by sector – Q2 2015

EUR million

	Q2 2014	Q2 2015	% nom	% comp
Healthcare	2,137	2,754	29	8
Consumer Lifestyle	1,073	1,248	16	3
Lighting	1,617	1,836	14	(3)
Innovation, Group & Services	142	136	(4)	5
<b>Philips Group</b>	<b>4,969</b>	<b>5,974</b>	<b>20</b>	<b>3</b>

# Sales by geography – Q2 2015

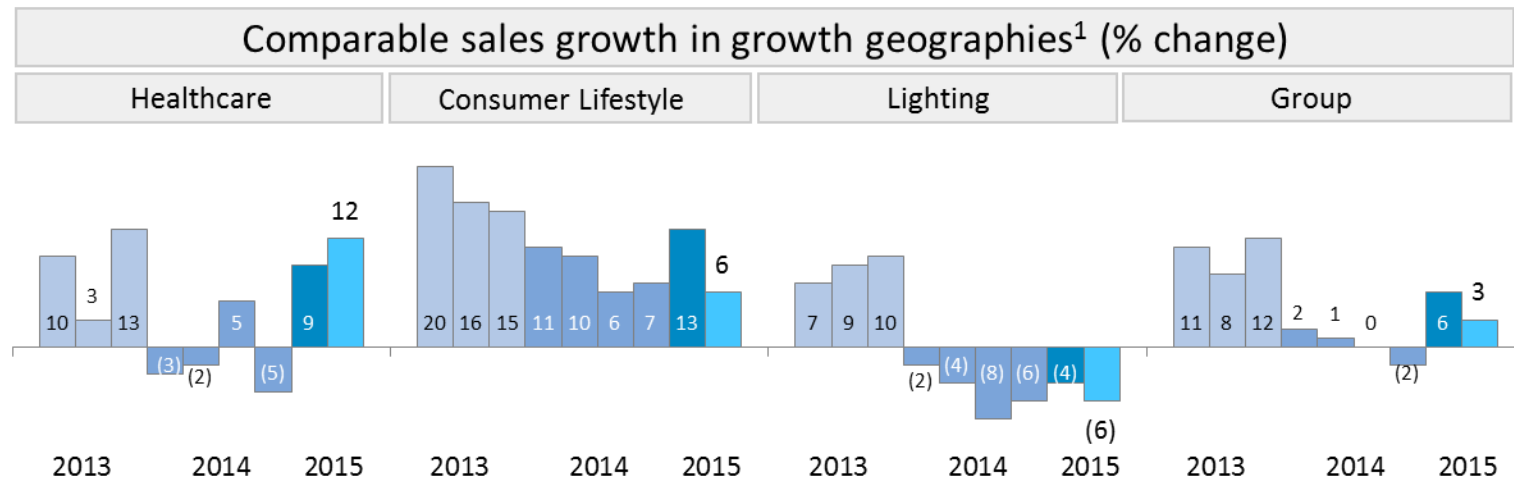
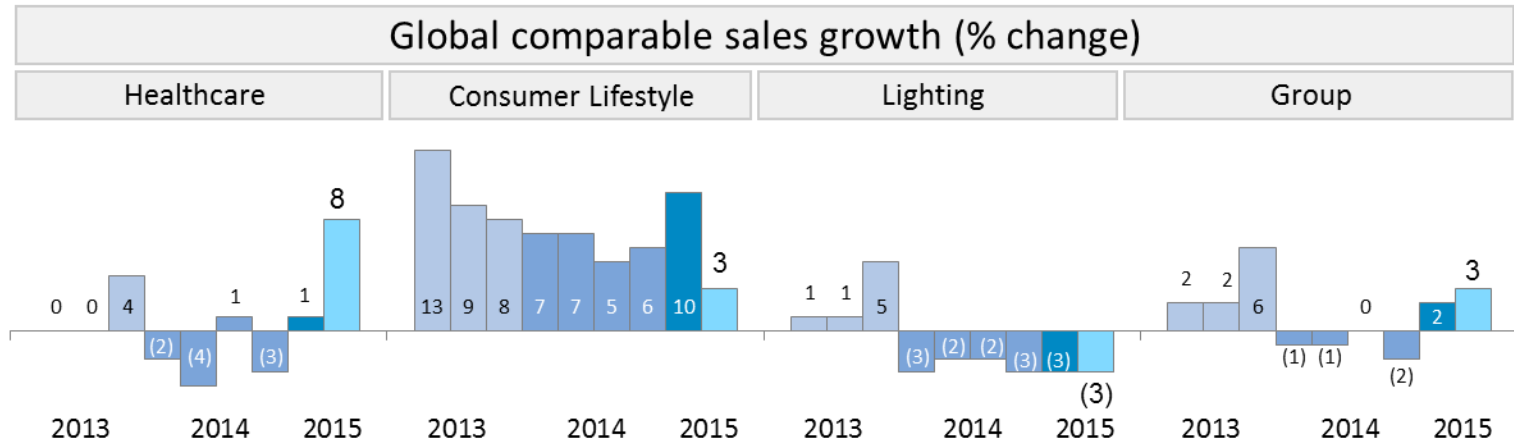
EUR million

	Q2 2014	Q2 2015	% nom	% comp
Western Europe	1,283	1,351	5	1
North America	1,570	2,032	29	3
Other mature geographies	382	474	24	9
Growth geographies <sup>1</sup>	1,734	2,117	22	3
Philips Group	4,969	5,974	20	3

<sup>1</sup> Growth geographies are all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel  
 Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations.

# Sales growth development

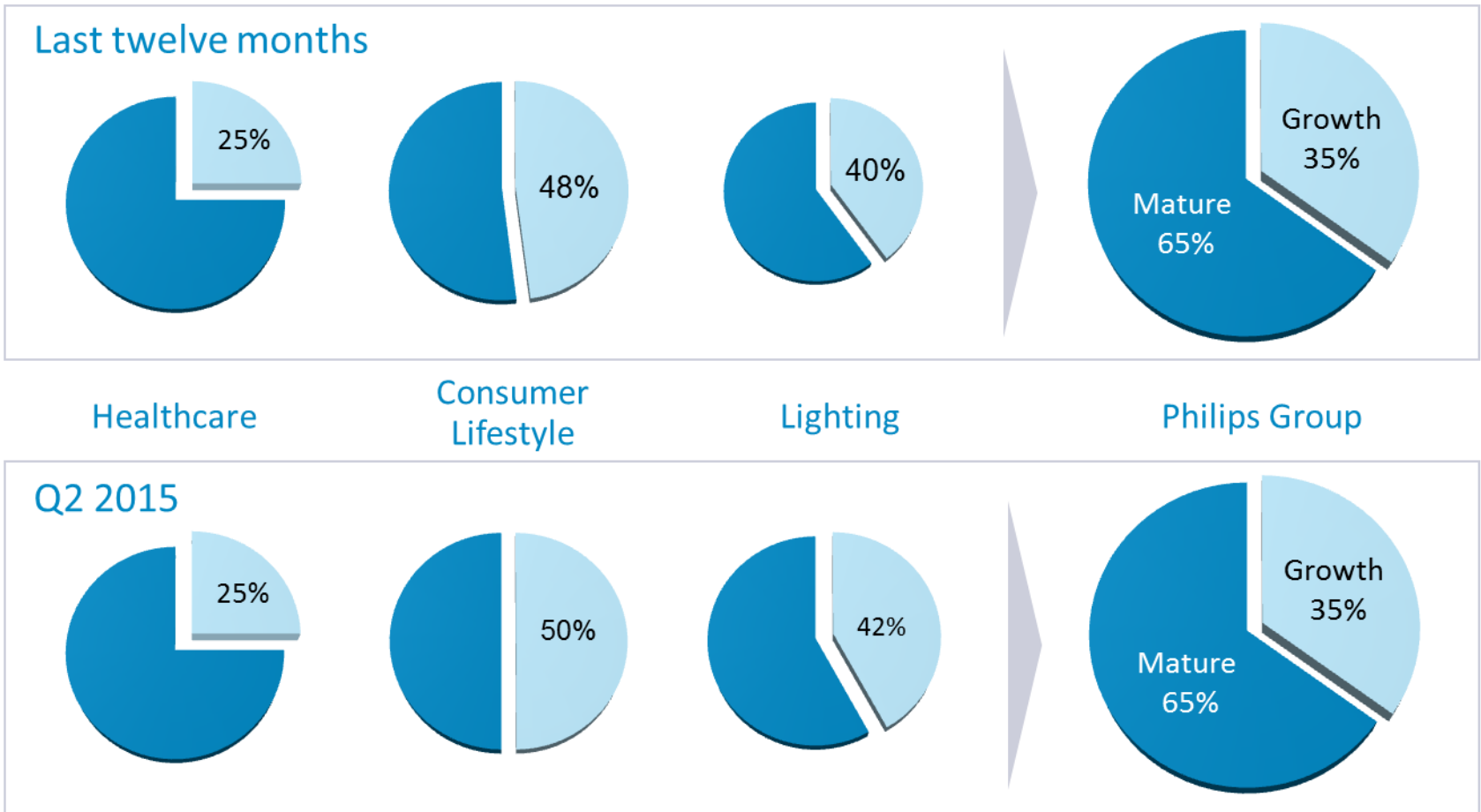
Trend Q2 2013 – Q2 2015



<sup>1</sup> Growth geographies are all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel  
 Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations.

# Sales in growth geographies<sup>1</sup>

Last twelve months and Q2 2015



<sup>1</sup> Growth geographies are all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel  
 Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations.

# EBITA by sector – Q2 2015

EUR million

	Q2 2014		Q2 2015	
		as % of sales		as % of sales
Healthcare <sup>1</sup>	225	10.5%	275	10.0%
Consumer Lifestyle <sup>2</sup>	100	9.3%	135	10.8%
Lighting <sup>3</sup>	111	6.9%	164	8.9%
Innovation, Group & Services <sup>4</sup>	(68)	-	(124)	-
<b>Philips Group</b>	<b>368</b>	<b>7.4%</b>	<b>450</b>	<b>7.5%</b>

<sup>1</sup> Q2 2014 includes EUR 1M of restructuring related gain, Q2 2015 includes EUR (21)M of restructuring and acquisition-related charges. <sup>2</sup> Q2 2014 includes EUR (1)M of acquisition related charges, Q2 2015 includes EUR 1M of restructuring related gain. <sup>3</sup> Q2 2014 includes EUR (22)M of restructuring and acquisition-related charges; Q2 2015 includes EUR (12)M of restructuring and acquisition-related charges. <sup>4</sup> Q2 2014 includes EUR (26)M of acquisition and restructuring related charges, Q2 2015 includes EUR(24)M of restructuring and acquisition related charges and EUR (27)M of other incidentals.

Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations.

# Adjusted EBITA by sector – Q2 2015

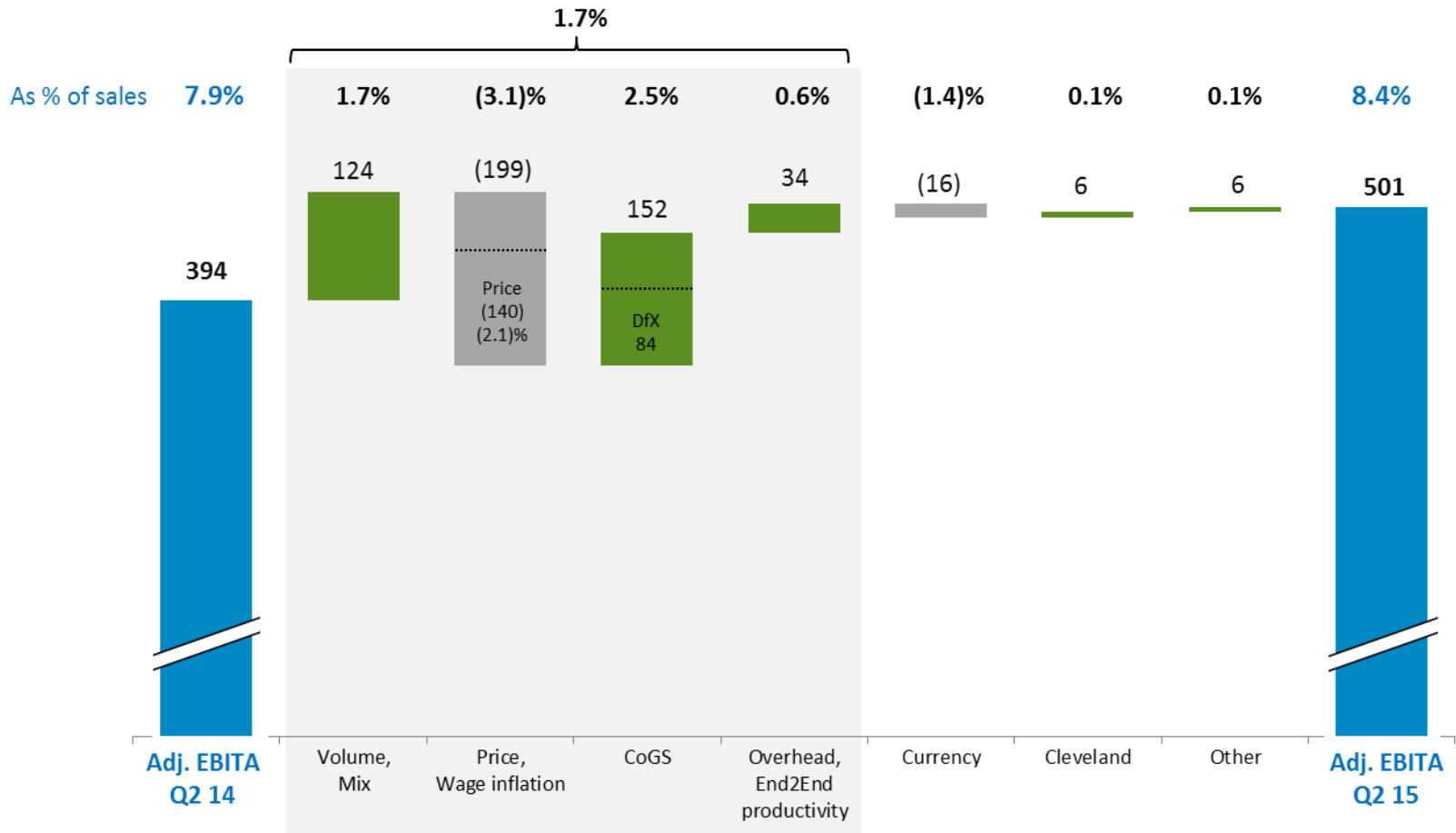
EUR million

	Q2 2014		Q2 2015	
		as % of sales		as % of sales
Healthcare <sup>1</sup>	224	10.5%	296	10.7%
Consumer Lifestyle <sup>2</sup>	101	9.4%	134	10.7%
Lighting <sup>3</sup>	133	8.2%	176	9.6%
Innovation, Group & Services <sup>4</sup>	(64)	-	(105)	-
Philips Group	394	7.9%	501	8.4%

<sup>1</sup> Q2 2014 excludes EUR 1M of restructuring related gain, Q2 2015 excludes EUR (21)M of restructuring and acquisition-related charges. <sup>2</sup> Q2 2014 excludes EUR (1)M of acquisition related charges, Q2 2015 excludes EUR 1M of restructuring related gain. <sup>3</sup> Q2 2014 excludes EUR (22)M of restructuring and acquisition-related charges; Q2 2015 excludes EUR (12)M of restructuring and acquisition-related charges. <sup>4</sup> Q2 2014 excludes EUR (26)M of acquisition and restructuring related charges, Q2 2015 excludes EUR(24)M of restructuring and acquisition related charges and EUR (27)M of other incidentals.

Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations.

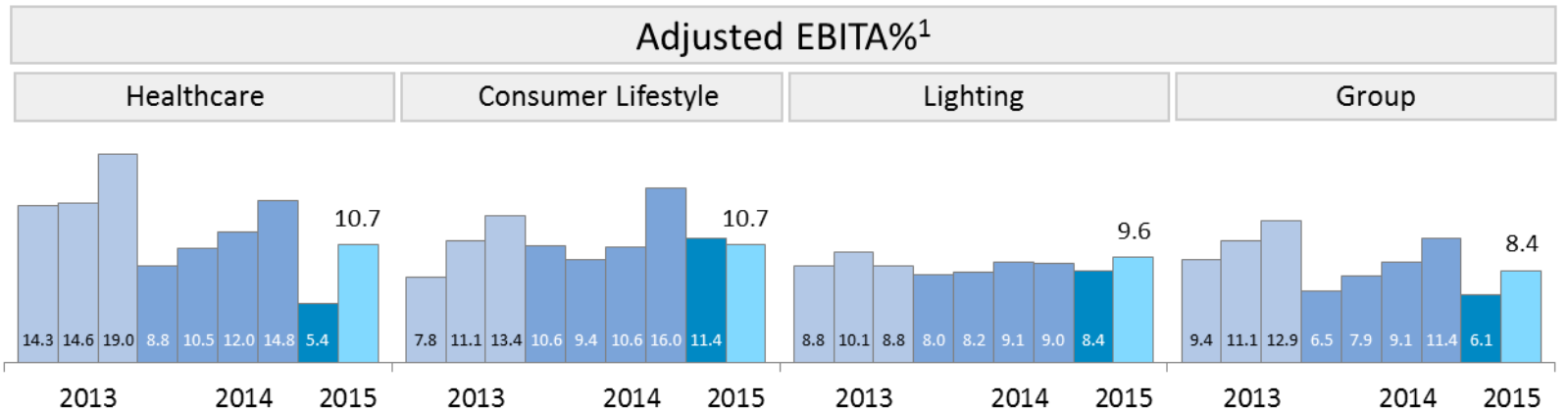
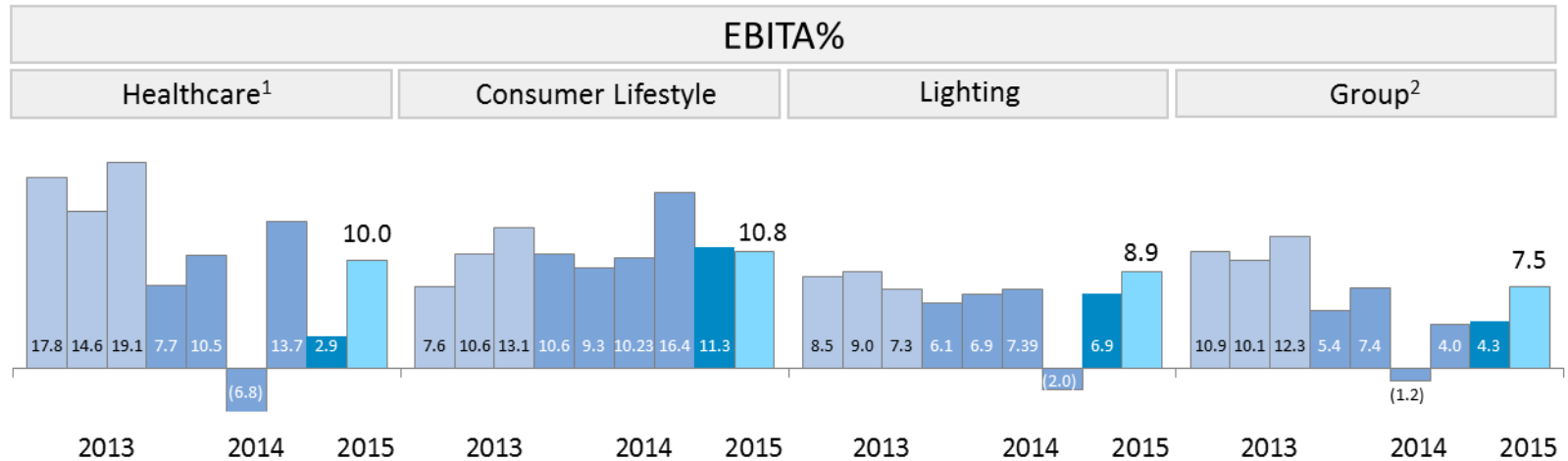
# Accelerate! continues to improve operational performance





# EBITA and Adjusted EBITA margin development

Trend Q2 2013 – Q2 2015

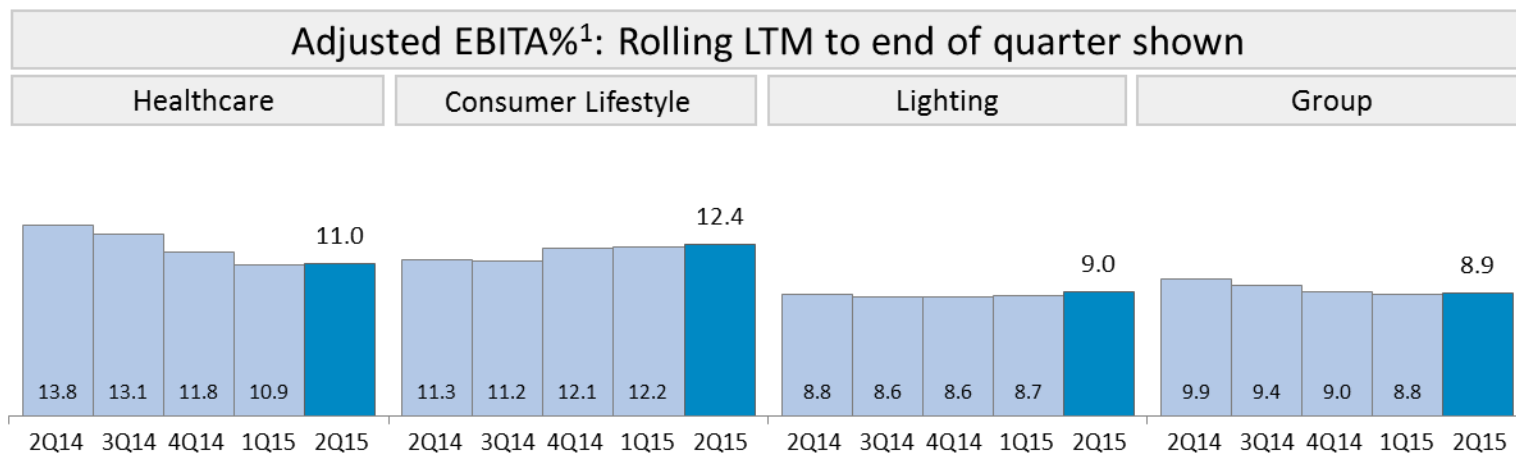
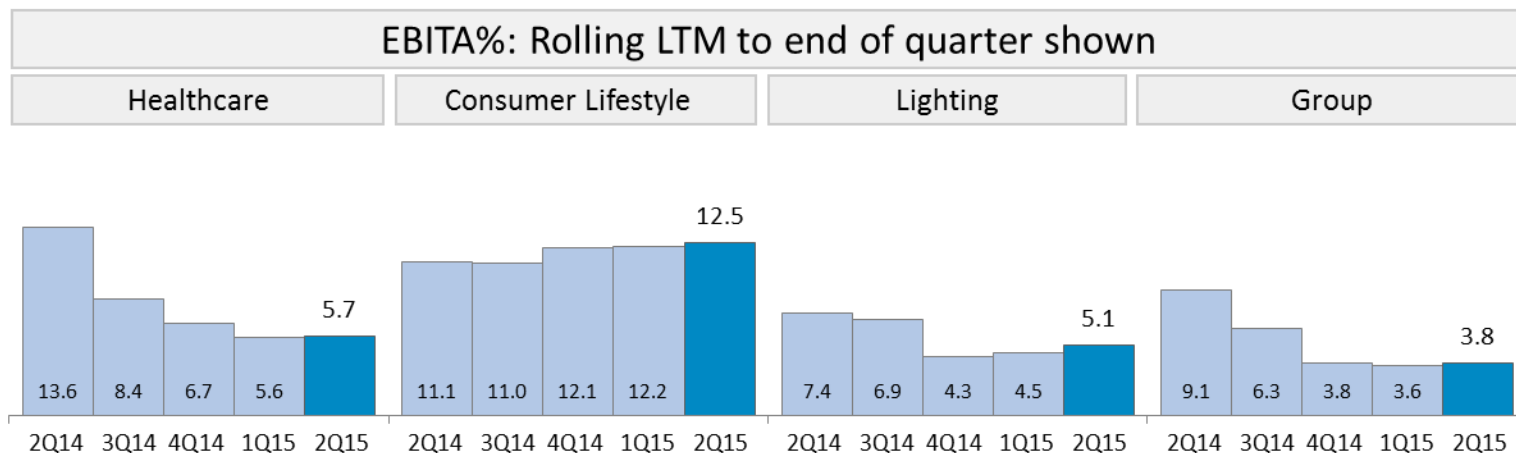


<sup>1</sup> Adjusted EBITA is EBITA excluding restructuring, acquisition-related charges and other items (details on slide 89).

Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations.

# EBITA and Adjusted EBITA margin development

Rolling last 12 months

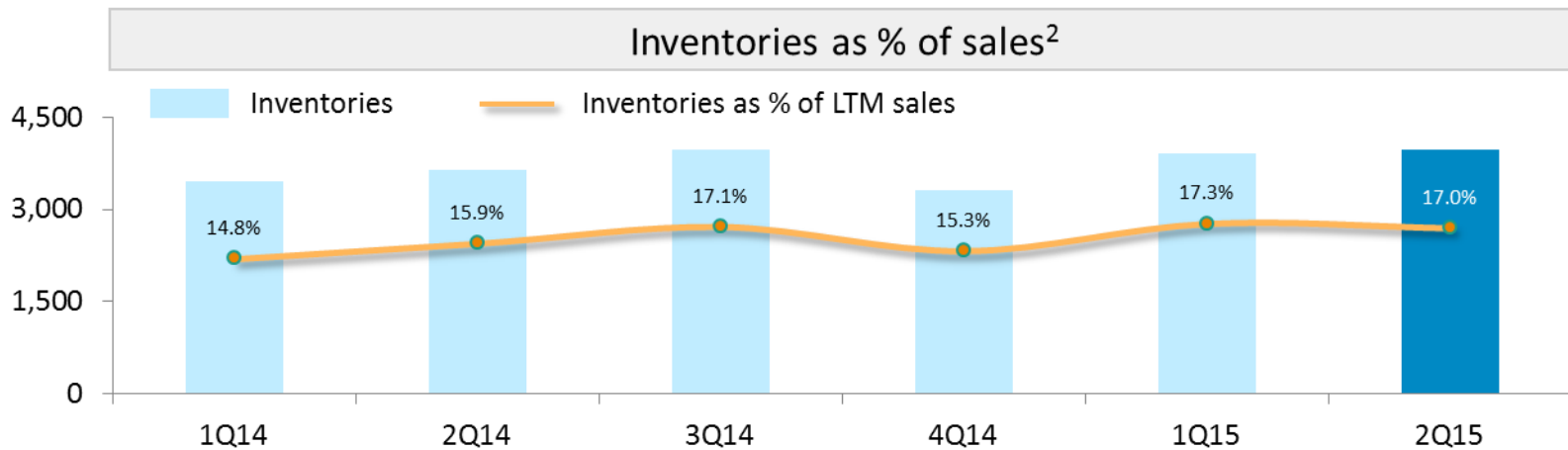
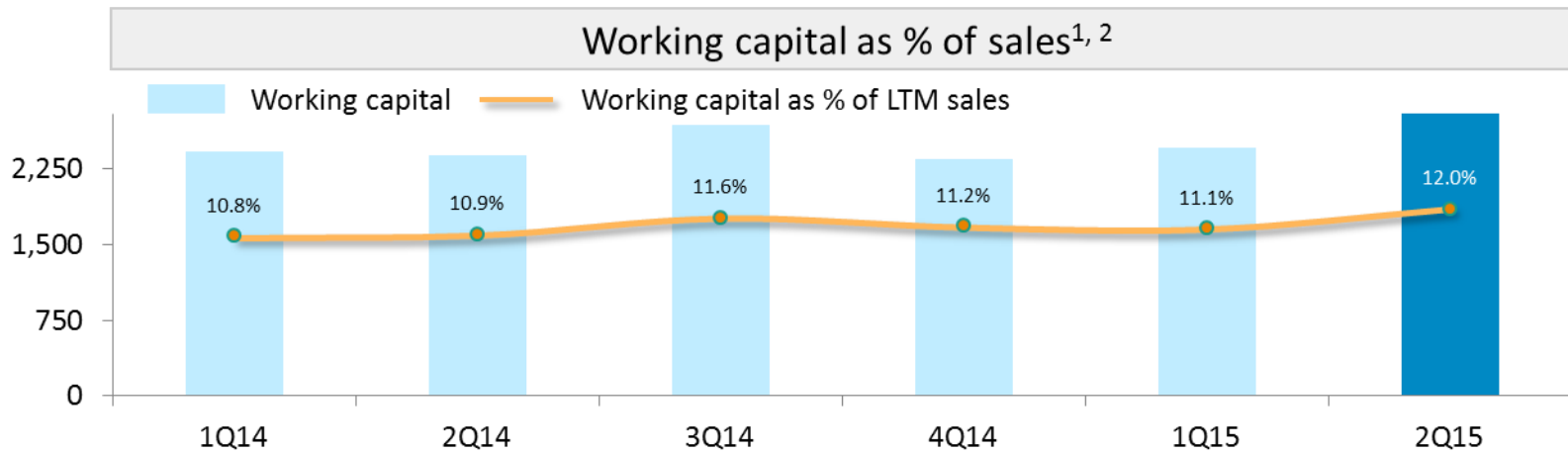


<sup>1</sup> Adjusted EBITA is EBITA excluding restructuring, acquisition-related charges and other items (details on slide 89).

Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations.

# Working capital & inventories

EUR million



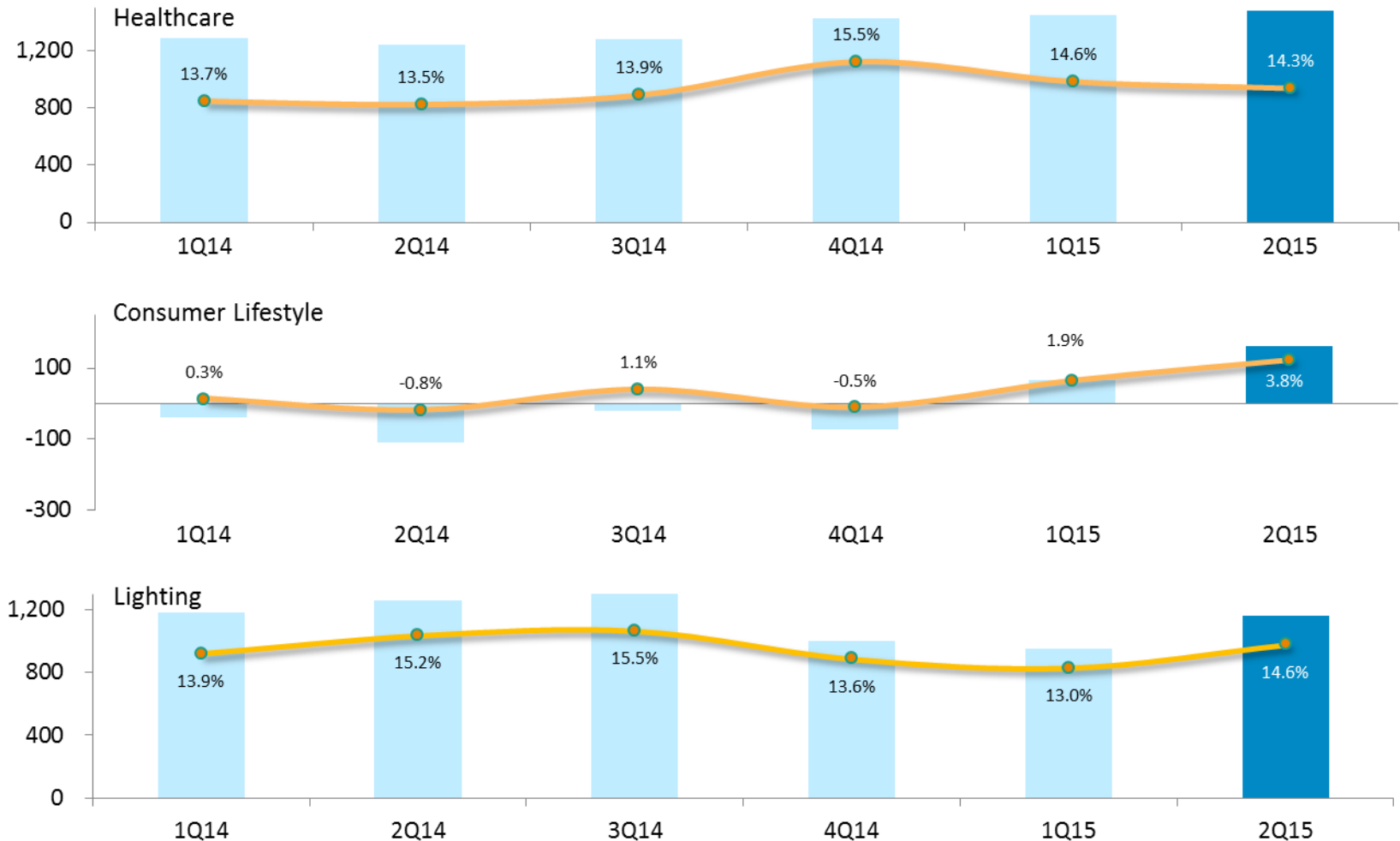
<sup>1</sup> Working capital as % of sales of Healthcare, Consumer Lifestyle and Lighting; excluding IG&S. <sup>2</sup> Working capital as a % of sales and Inventories as a % of sales excludes acquisitions, divestments and discontinued operations.

Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations.

# Working capital per business sector

EUR million

Working capital Working capital as % of LTM sales<sup>1</sup>



<sup>1</sup> Working capital as a % of sales excludes acquisitions, divestments and discontinued operations.

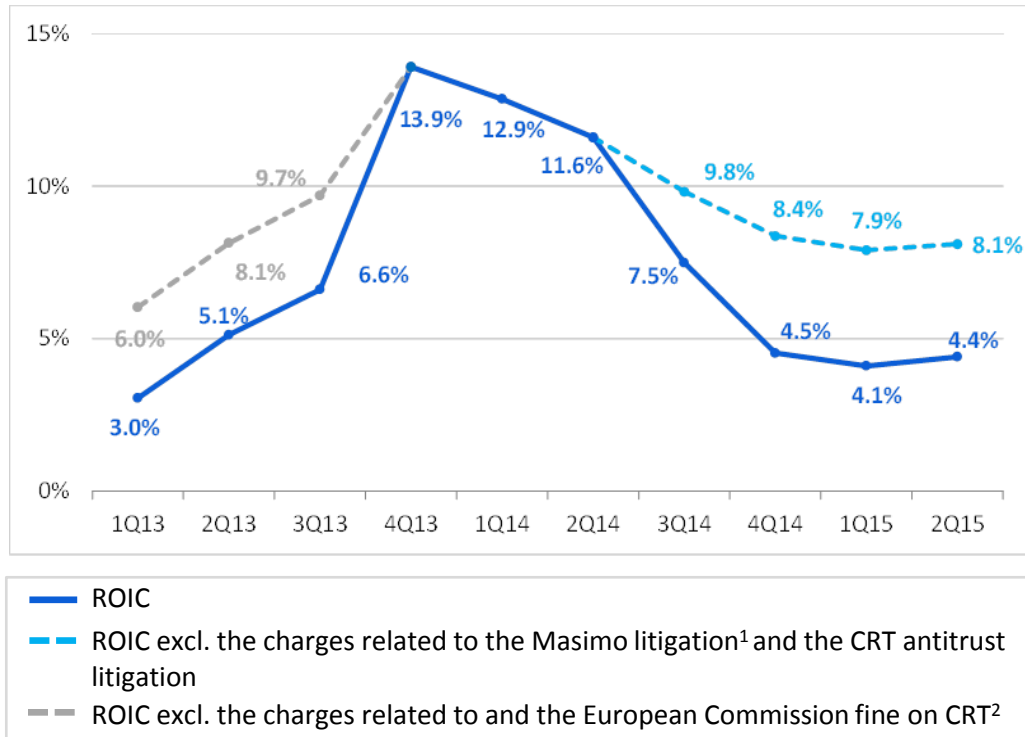
Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations.

# Free Cash Flow – Q2 2015

EUR million

	Q2 2014	Q2 2015
Net income from continuing operations	188	226
Depreciation, amortization, and impairments of fixed assets	256	331
Interest income and expense/ Income tax expense	78	105
Net gain on sale of assets	(3)	(12)
Changes in working capital, of which:	182	(313)
- changes in receivables and other current assets	191	298
- changes in inventories	(138)	(148)
- changes in accounts payable, accrued and other liabilities	129	(463)
Decrease (increase) in non-current receivables, other assets and other liabilities	(138)	(40)
Decrease in provisions	(50)	(116)
Interest paid and received/ Income taxes paid	(113)	(142)
Others	10	147
<b>Net cash flow from operating activities</b>	<b>410</b>	<b>186</b>
Purchase of intangible assets/ Expenditures on development assets	(94)	(110)
Capital expenditures on property, plant and equipment	(107)	(117)
Proceeds from disposals of property, plant and equipment	5	11
<b>Net capital expenditures</b>	<b>(196)</b>	<b>(216)</b>
<b>Free Cash Flow</b>	<b>214</b>	<b>(30)</b>

# Development of Return on Invested Capital (ROIC)



- ROIC was at 8.1% in Q2 2015, excluding the charges related to the jury verdict in the Masimo litigation<sup>1</sup> and the CRT antitrust litigation
- This compares to 7.9% in Q1 2015 and to 11.6% in Q2 2014. The year-on-year decline was driven by a decrease in earnings
- The net operating capital prior to Q4 2014 still includes Lumileds and Automotive whereas the EBIAT of those businesses have been excluded from all periods shown

## Notes:

Philips calculates ROIC % as: EBIAT/ NOC

Quarterly ROIC % is based on LTM EBIAT and average NOC over the last 5 quarters

EBIAT are earnings before interest after tax; reported tax used to calculate EBIAT

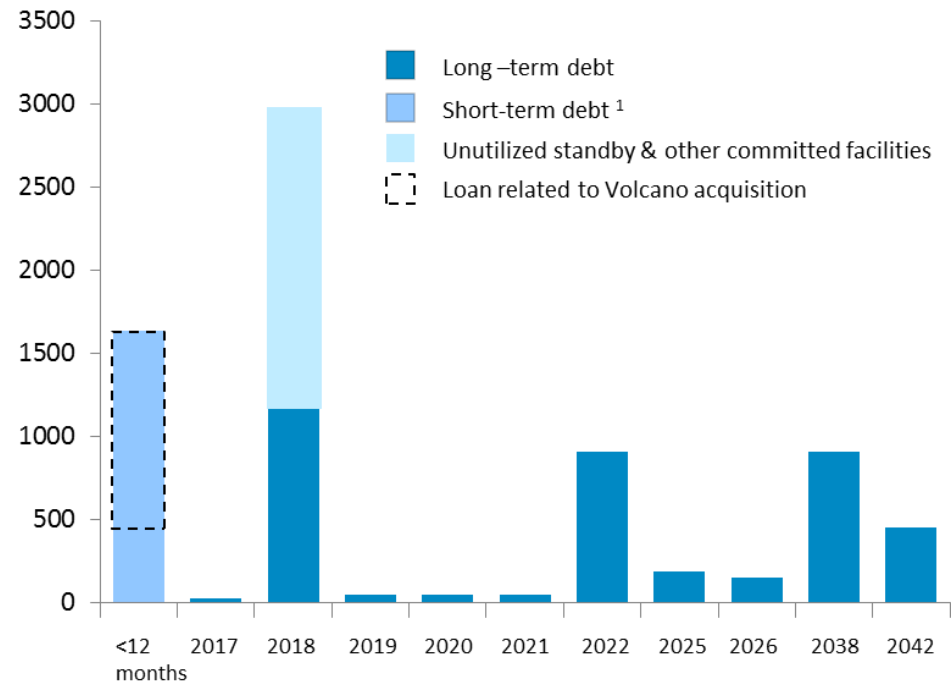
# Philips' debt has a long maturity profile

## Characteristics of long-term debt

- Total net debt position of EUR 4.5 billion
- Maturities up to 2042
- Average tenor of long-term debt is 11.7 years
- No financial covenants
- EUR 1.8 billion standby facility matures in February 2018

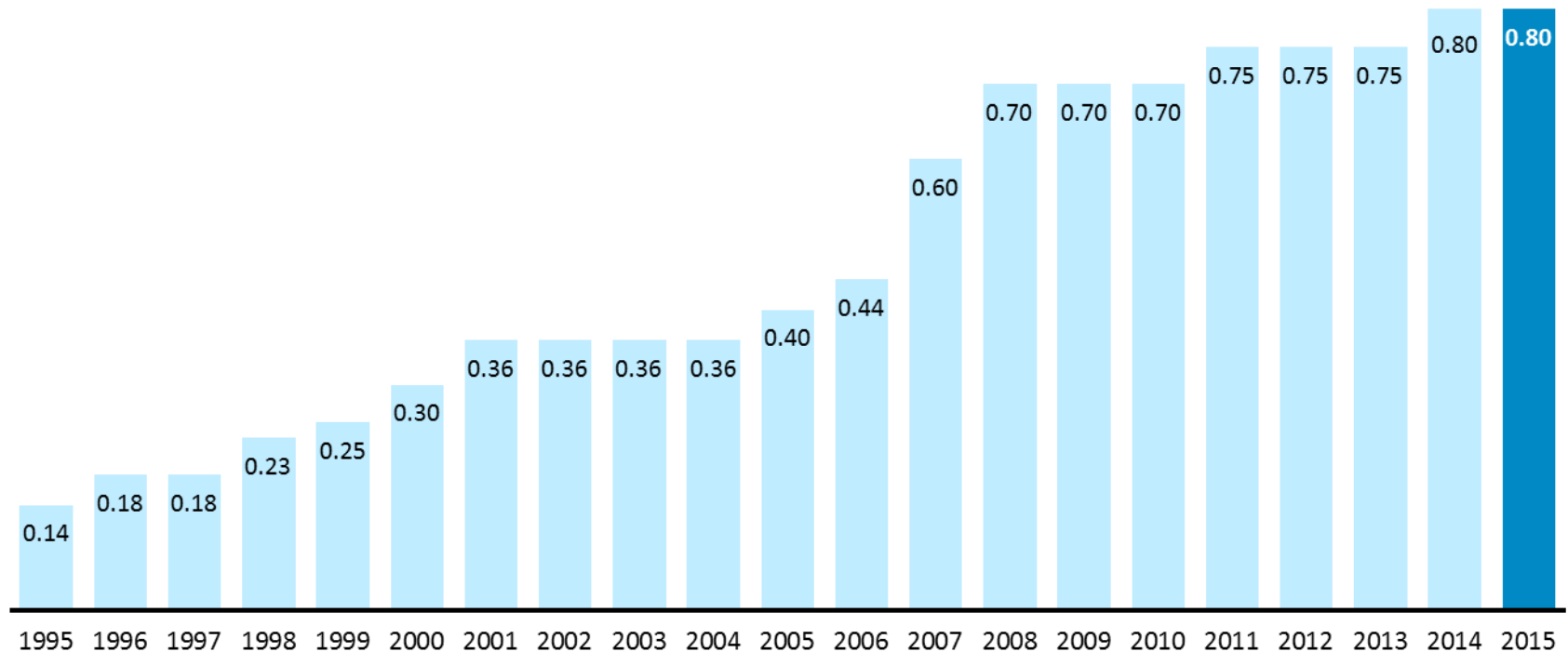
## Debt maturity profile as of June 2015

Amounts in EUR millions



# A history of sustainable dividend growth

EUR per share



“We are committed to a stable dividend policy with a 40% to 50% pay-out of continuing net income.”



# Update funded status pension plans (IFRS basis)

EUR million	Funded status		Balance sheet position	
	March 2015 (not reported)	June 2015 (not reported)	March 2015 (not reported)	June 2015 (not reported)
Netherlands Prepaid pension asset <sup>1</sup>	(24)	N.A.	0	N.A.
Other major plans	<u>(1,494)</u>	<u>(1,125)</u>	<u>(1,980)</u>	<u>(1,710)</u>
Major plans	(1,518)	(1,125)	(1,980)	(1,710)
Minor plans	<u>(226)</u>	<u>(227)</u>	<u>(227)</u>	<u>(227)</u>
<b>Total</b>	<b>(1,744)</b>	<b>(1,352)</b>	<b>(2,207)</b>	<b>(1,937)</b>

- Per end of Q2 2015, the Dutch plan is qualified as a DC plan for accounting purposes. The total funded status of the other plans increased due to higher interest rates in the UK and Germany as well as currency movements, i.e. a higher GBP and a lower USD vs. the EUR.
- The balance sheet was impacted in Q2 by the decrease of deficits in Germany and the lower USD vs. the EUR. The balance sheet surpluses in the UK and Brazil, are not recognized (asset-ceiling test).

<sup>1</sup> With the objective to mitigate the company's financial exposure to its pension plans, a new funding agreement for the Dutch pension plan has become effective per January 1, 2014.

# Capital allocation policy

- Prudent investments in high ROIC organic growth opportunities to strengthen each operating business
- Disciplined but more active approach to M&A, with a focus on HealthTech, while continuing to adhere to strict return hurdles
- Committed to dividend-stability and a 40% to 50% pay-out of continuing net income
- Ambition to over time manage financial ratios to be in line with an A3/A- rating
- Continuing EUR 1.5 billion share buyback program

# Content

1. Financial performance	3
2. Accelerate! transformation program	27
3. Strategy and Path-to-Value	34
4. Company overview	
- Group	53
- Healthcare	56
- Consumer Lifestyle	63
- Lighting	69



# Accelerate! driving further change and performance

<b>Customer Centricity</b>		<ul style="list-style-type: none"><li>• Increase local relevance of product portfolio</li><li>• Focused Business-to-Government sales channel; Develop digital and CRM capabilities</li><li>• Enhance sales capabilities for Solutions, Systems and Services</li><li>• Expansion into adjacent and new growth markets to drive growth</li></ul>
<b>Resource to Win</b>		<ul style="list-style-type: none"><li>• Increase performance adherence to plan per BMC<sup>1</sup> &gt; 90%</li><li>• Targeted investments to drive value creation and extend market leadership</li><li>• Strengthen BMC capabilities with global tools, training and ways of working</li></ul>
<b>End2End Execution</b>		<ul style="list-style-type: none"><li>• Non-overhead productivity gains of 100 bps margin impact to be achieved by 2016<ul style="list-style-type: none"><li>– Transform customer chains to 4 Lean business models</li><li>– Roll-out new integrated IT landscape</li><li>– Reduce Cost of Non Quality by 30%, Inventory reduction by 20%</li></ul></li><li>• Accelerate innovation time to market by avg. 40%; Increase customer service to &gt;95%</li><li>• EUR 1 billion via Design for Excellence (DfX) over the period 2014-2016</li></ul>
<b>Growth and Performance Culture</b>		<ul style="list-style-type: none"><li>• Focus on the 6 competencies that will accelerate our transformation</li><li>• Run and measure monthly performance dialogues to take ownership for the transformation</li><li>• Build Philips University to increase learning and competency development</li><li>• Excellence practices to increase operational performance; Lean skills for all employees</li><li>• Increase Employee Engagement in markets by 300 bps</li></ul>
<b>Operating Model</b>		<ul style="list-style-type: none"><li>• Simplify and de-layer organization, reduce overhead costs by EUR 1.8 billion</li><li>• Implement the Philips Business System in the organization</li><li>• Continue to transform Finance, HR, and IT to increase productivity and effectiveness</li><li>• Align all employees to common performance management objectives</li></ul>

Supported by dedicated senior Transformation Leadership to ensure execution



# Accelerate! is improving the way we do business

## Innovation in Consumer Lifestyle

Through our customer centric innovation approach, we successfully launched a high-performance range of rice cookers in China with 30% faster time-to-market. This locally relevant value proposition drove strong customer preference, resulting in a 4-point market share increase since the launch.



## End2End transformation: Lighting

To reduce supply chain complexity and optimize processes at Lighting in the UK, we ran continuous improvement Kaizen events that led to a 60% reduction in lead times for product configuration and delivery. This also drove a 50% increase in the total value of opportunities in the funnel and a high-single-digit growth in orders volume.



## Lean manufacturing at Volcano

To optimize the end-to-end processes at our Volcano manufacturing facility in Costa Rica, we ran continuous improvement Kaizen events that led to a more than 80% reduction in lead time and a 50% reduction in work-in-progress inventory for the improved lines.



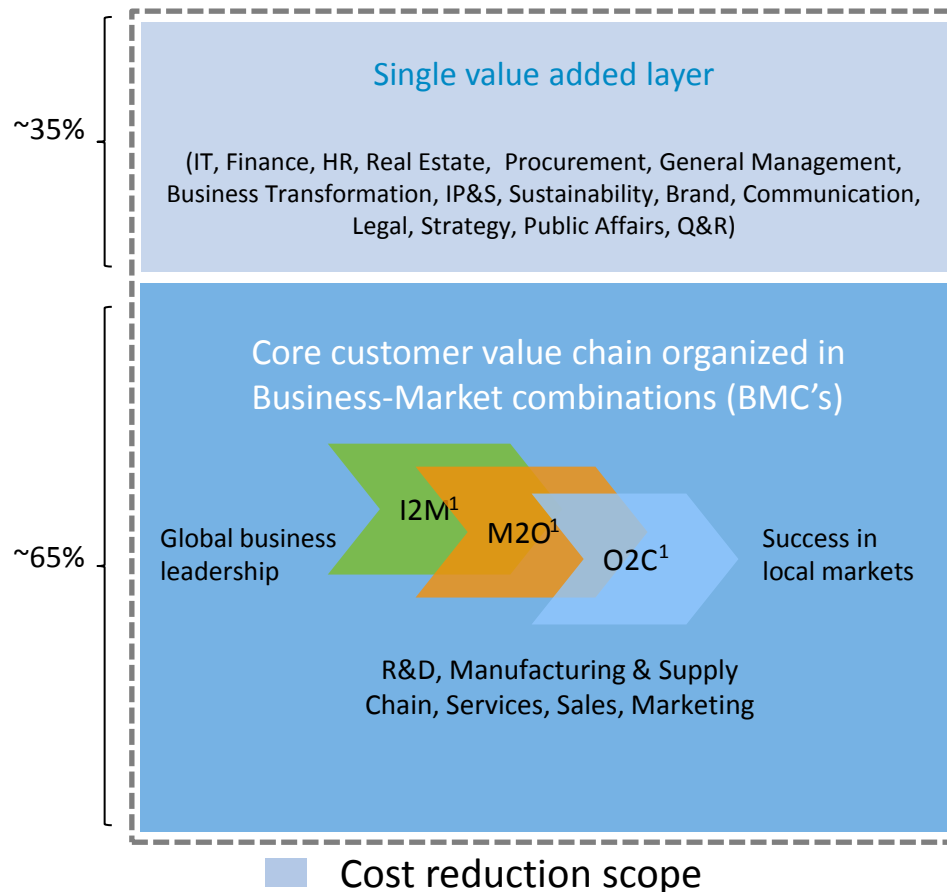
## Customer value chain: Kitchen Appliances

The Kitchen Appliances team applied a standard architectural platform to its innovation process for new hand blender ranges that reduced the manufacturing cost by 25% and the assembly time by 20%. The new product ranges meet consumer needs in the key price segments and led to market share gains in markets such as China, Germany and Russia.





# Cost reduction program targeting overhead costs will bring EUR 1.8 billion in savings by 2016



## Clear design principles

- Structural reduction of costs in the **Single value added layer**
  - Reduction of layers and optimization of span of control
  - Leverage shared services and centers of excellence
  - Simplified organization design and harmonized job descriptions
- Continued drive to optimize cost structure through operational excellence (Continuous Improvement, LEAN)



# New operating model enables additional overhead savings by 2016

- New operating model enables additional cost savings across the enabling functions and faster decision-making
- On-track to deliver **EUR 265 million incremental savings in 2015**

EUR million	Cumulative gross savings			Incremental savings in the period		
	2011-2014	2015	2016	YTD 2015	2015	2016
	Actual	Plan	Plan	Actual*	Plan	Plan
<b>TOTAL</b>	<b>1,335</b>	<b>1,600</b>	<b>1,800</b>	<b>97</b>	<b>265</b>	<b>200</b>

\* Represents incremental savings generated in the period. Equivalent to annualized gross savings of EUR 255 million in 2015

EUR million	Annual restructuring costs and investments			
	2011-2014	YTD 2015	2015	2016
	Actual	Actual	Plan	Plan
Restructuring	(456)	(0)	(75)	(50)
Investments*	(433)	(84)	(185)	(140)
<b>TOTAL</b>	<b>(889)</b>	<b>(84)</b>	<b>(260)</b>	<b>(190)</b>

\* Includes investments to enable overhead cost savings as well as investments on the overall execution of the Accelerate! transformation (see page 28 for a comprehensive review of the program)

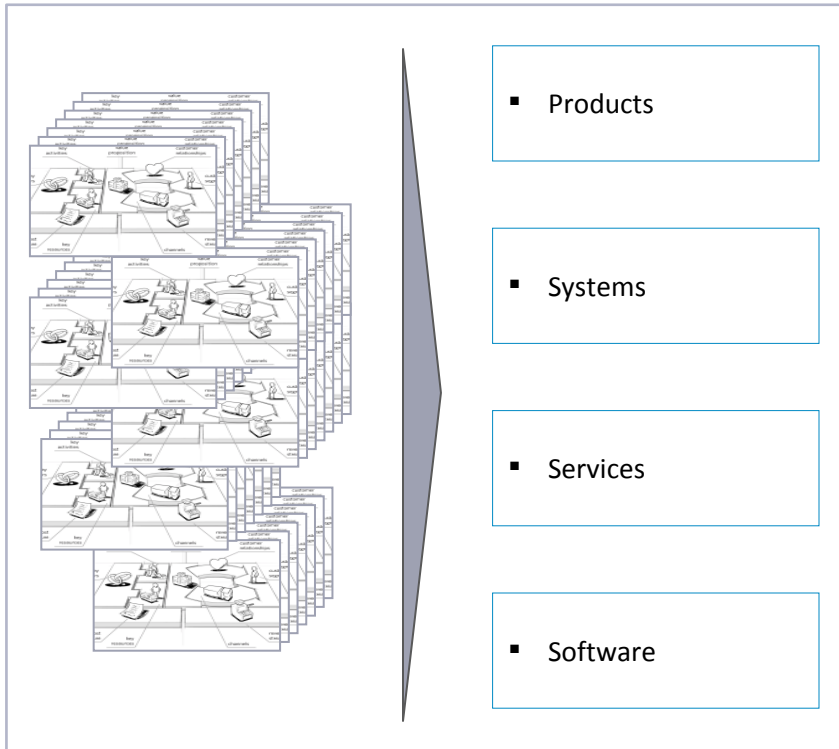


# Overhauling our business model architecture

From 70+  
business models



To 4 End2End  
business models



- All Philips businesses to adopt one of four standardized business models
- Investments being made to standardize processes, data, and new IT backbone
- A single planning, performance and reward cycle across Philips
- Investing to create a culture for such a major change



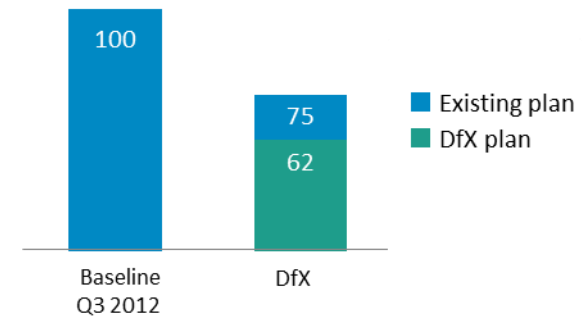


# Design for Excellence (DfX) will deliver EUR 1 billion of cost savings in the product creation process

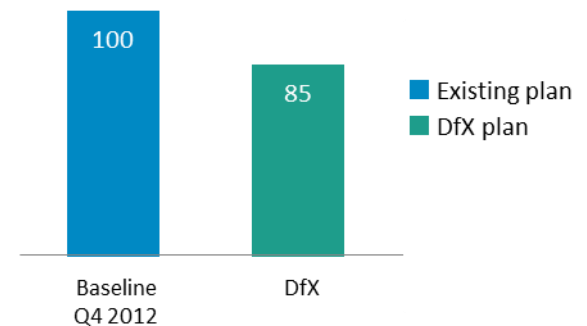
## Design for X; X = cost, quality, manufacturing etc.

- End2End approach to product creation, with one integrated procurement team, supply chain, R&D, marketing, finance and the supplier upfront to drive breakthrough cost savings through:
  - Value engineering
  - Re-design the purchasing value chain
  - Leveraging global spend
- Significant cost savings can be achieved in mature products, i.e. products being manufactured 5+ years, as well as new product introductions
- Funnel of opportunities targeting additional cumulative savings of EUR 1 billion over the period 2014 to 2016

## DfX effectiveness pilot for a new product



## DfX effectiveness pilot for a mature product



DfX challenges the value chain of products, drives decisions and follow-through

# Content

1. Financial performance	3
2. Accelerate! transformation program	27
3. Strategy and Path-to-Value	34
4. Company overview	
- Group	53
- Healthcare	56
- Consumer Lifestyle	63
- Lighting	69

# Establishing two focused companies to capture highly attractive market opportunities

## Strategic benefits of the separation

- Establishing two focused leading companies
- Immediate opportunities to capture growth in attractive end-markets in transition
- Unique portfolio, insights and capabilities

## Operational benefits of the separation

- Higher **growth and profitability**
- Improved **customer focus** in attractive markets
- **Faster decision making**
- **Lean overhead** structure, less management layers
- **Focused** management
- Focused balance sheets and **capital allocation policies**
- Enable **investments in growth**

## Royal Philips

**Focused on the EUR 100+ billion HealthTech opportunity**

Serving the Health Continuum

Leveraging strengths of Healthcare and Consumer Lifestyle

**EUR 14.4 billion sales 2014<sup>1</sup>**

## Philips Lighting

**Focused on the EUR 60+ billion Lighting solutions opportunity**

Establishing stand-alone Lighting structure

**LED Components & Automotive**  
(To be completed in Q4 2015)

**EUR 7.0 billion sales 2014<sup>1</sup>**

# We continue on our multi-year Accelerate! journey



Accelerate!

## Initiate new growth engines

- Invest in adjacencies
- Seed emerging business areas

## Expand global leadership positions

- Invest to strengthen our core businesses
- Resource allocation to right businesses & geographies

## Transform to address underperformance

- Turnaround or exit underperforming businesses
- Productivity & margin improvements
- Rebuild culture, processes, systems & capabilities
- Implement the Philips Business System

2011

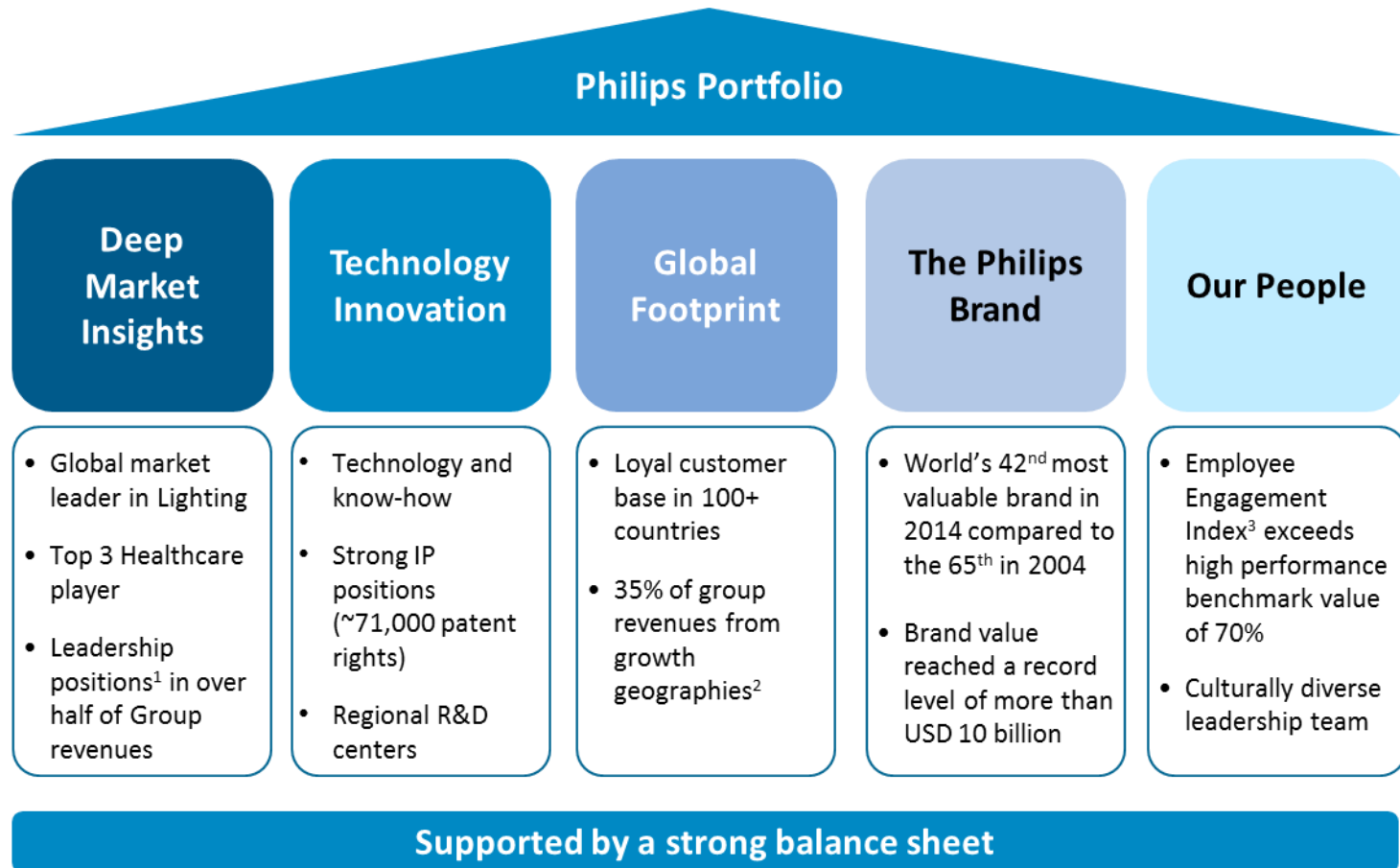
2016

# The Philips Business System, our repeatable system to unlock and deliver value

- Active **portfolio management**
- Improving **customer centricity**
- Relentless focus on **operational excellence**
  - Capturing significant overhead savings
  - Driving Procurement and DfX<sup>1</sup> even further
  - Embedding End2End and Lean practices
- Building our **growth and performance culture**



# We leverage our unique strengths across our businesses and markets



<sup>1</sup> Global #1 position in the market

<sup>2</sup> Growth geographies are all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel

<sup>3</sup> Based on bi-annual Philips' Employee Engagement Survey

# Our business domains play right into the mega trends

## Mega Trends



- Growing and aging population with more chronic diseases
- Growing demand for integral value-based healthcare solutions



- Growth geographies<sup>1</sup> with growing middle class
- Rising health & well-being consciousness



- The world needs more light and energy efficient lighting
- Digitalization driving demand for integrated lighting solutions

## Our Business Domains

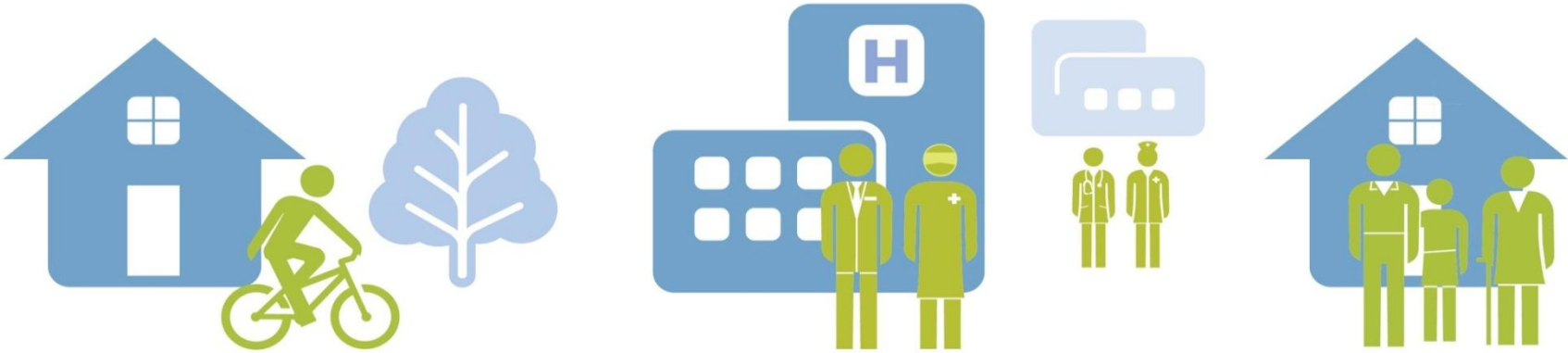
### HealthTech

- Imaging systems for diagnostics and therapy
- Patient care for hospital and home
- Clinical Informatics & consulting services
- Personal health & well-being appliances and services

### Lighting Solutions

- Light sources & electronics
- Consumer luminaires
- Professional lighting solutions

# HealthTech opportunity to focus on EUR 100+ billion market opportunity across Health Continuum



Philips HealthTech indicative addressable market 2014<sup>1</sup> and approximate CAGR 2014-18

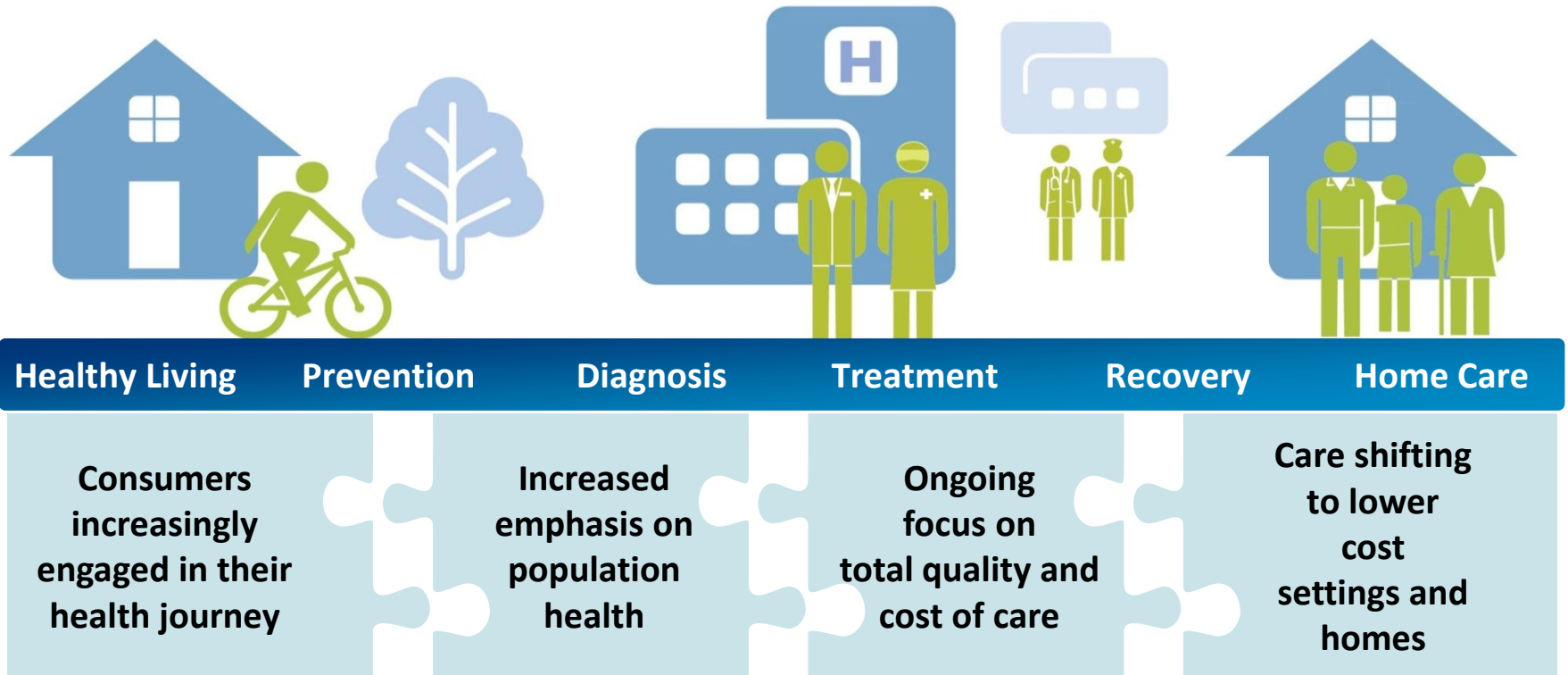
Healthy Living	Prevention	Diagnosis	Treatment	Recovery	Home Care
EUR 30+ billion CAGR ~7%	EUR 10+ billion CAGR ~10%	EUR 20+ billion CAGR ~6%	EUR 10+ billion CAGR ~6%	EUR 5+ billion CAGR ~6%	EUR 5+ billion CAGR ~4%
<b>EUR 20+ billion (Clinical Informatics &amp; Consulting)</b> CAGR ~9%					

*Mid to high-single-digit market growth*

<sup>1</sup>Source: Philips Internal Study

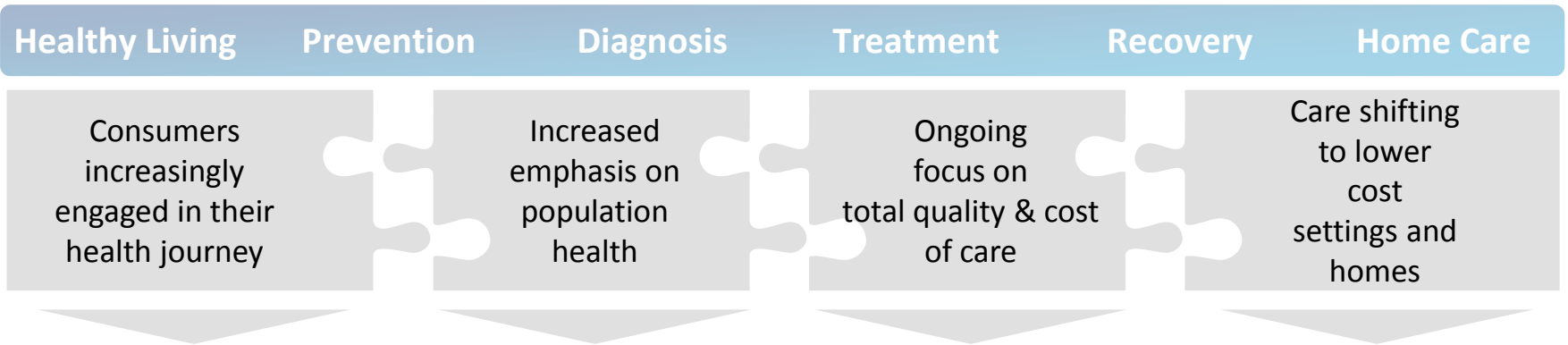


# HealthTech opportunity shaped by convergence between Healthcare and Consumer markets

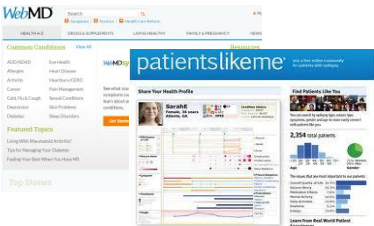


Opportunities from intersection of consumer and clinical spaces  
Customers expressing need for integrated solutions  
Systems integration, connected devices, big data and analytics  
Philips uniquely positioned with portfolio, insights and capabilities

# Opportunities emerging across the Health Continuum



## Success of online health portals



## Hospitals launching online nutrition service



## Hospitals leveraging workflow automation

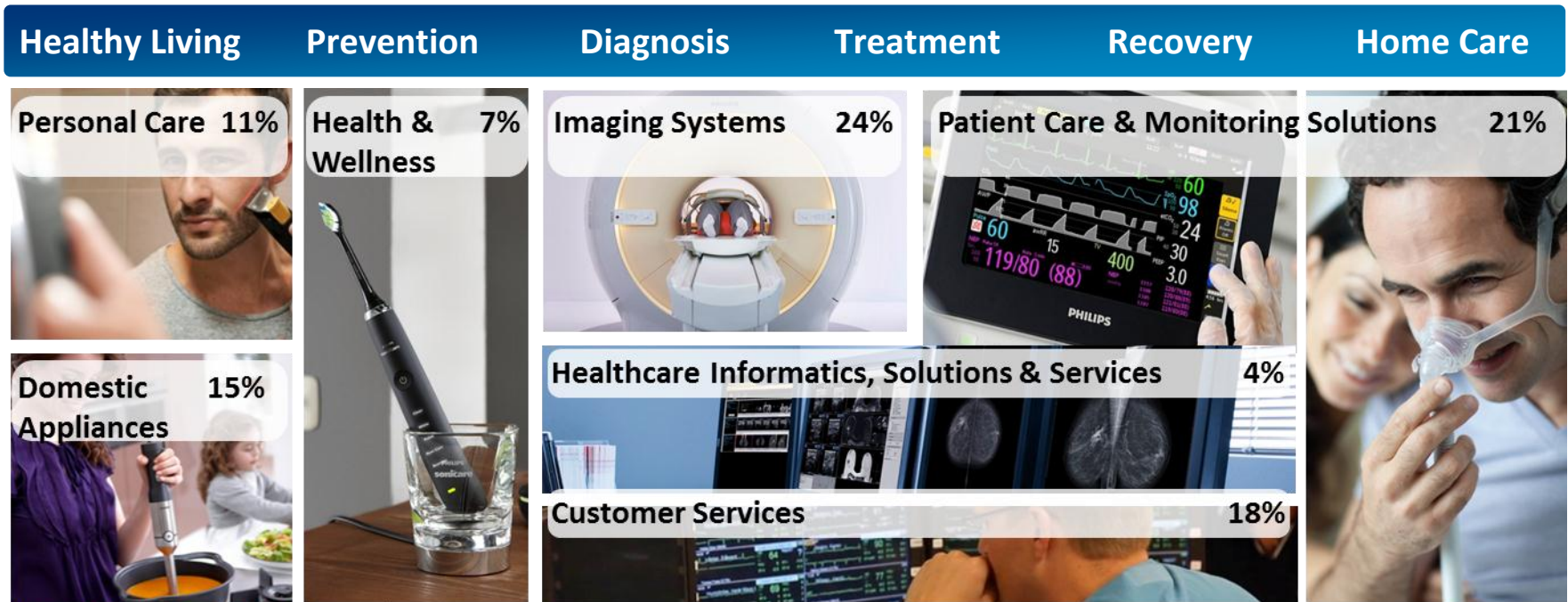


## Hospitals offering Home Care devices



**Players across Health Continuum recognizing evolving needs**  
**Propositions and landscape remain fragmented**  
**Philips has positions of strength across these spaces**

# Building the leader in HealthTech



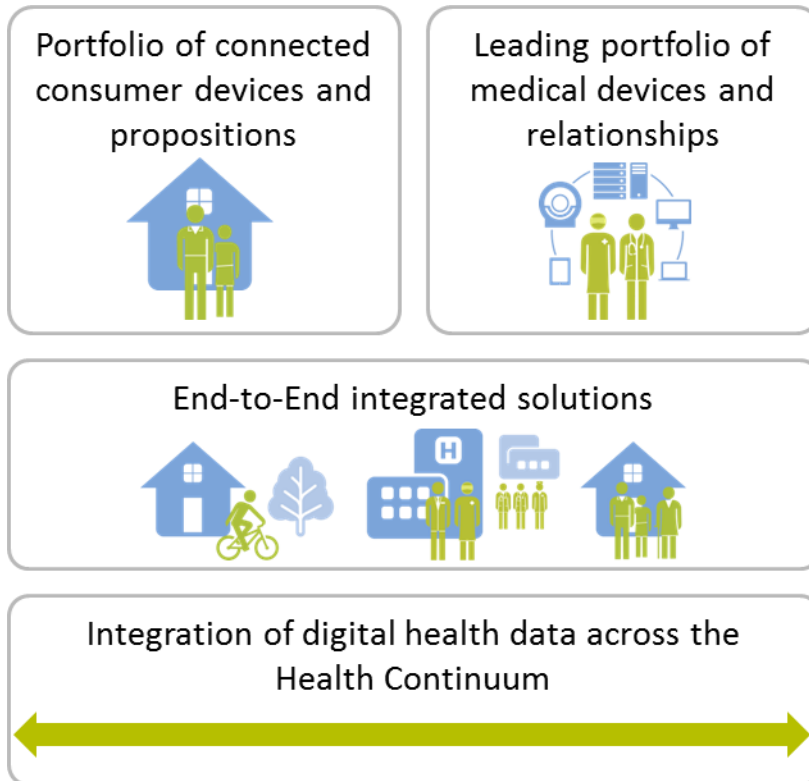
Share of HealthTech sales<sup>1</sup>

**Strong positions across the Health Continuum**  
**Deep customer, clinical and consumer insights**  
**World-class innovation, design and marketing capabilities**  
**Systems integration, connected devices, big data & analytics, integrated solutions**  
**Trusted Philips brand**

# Philips strongly positioned with an integrated HealthTech approach

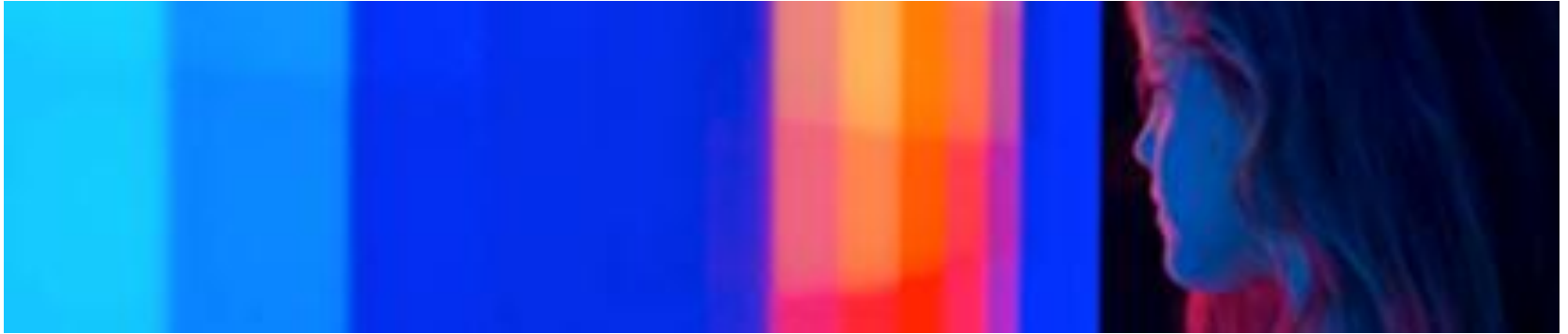
## Key building blocks to capture the opportunity

## Strong starting position



- **Broad installed base** of personal health and medical, monitoring and measurement devices
- Broad **channel access** in home and clinical environments
- **Strong relationships** with critical eco-system participants
- Deep data stores – **insights into clinical and consumer needs**
- Imaging, digital analytics and clinical **decision support experience**
- **Trusted Philips brand**

# Industry dynamics create opportunities in Lighting Solutions



## Industry dynamics

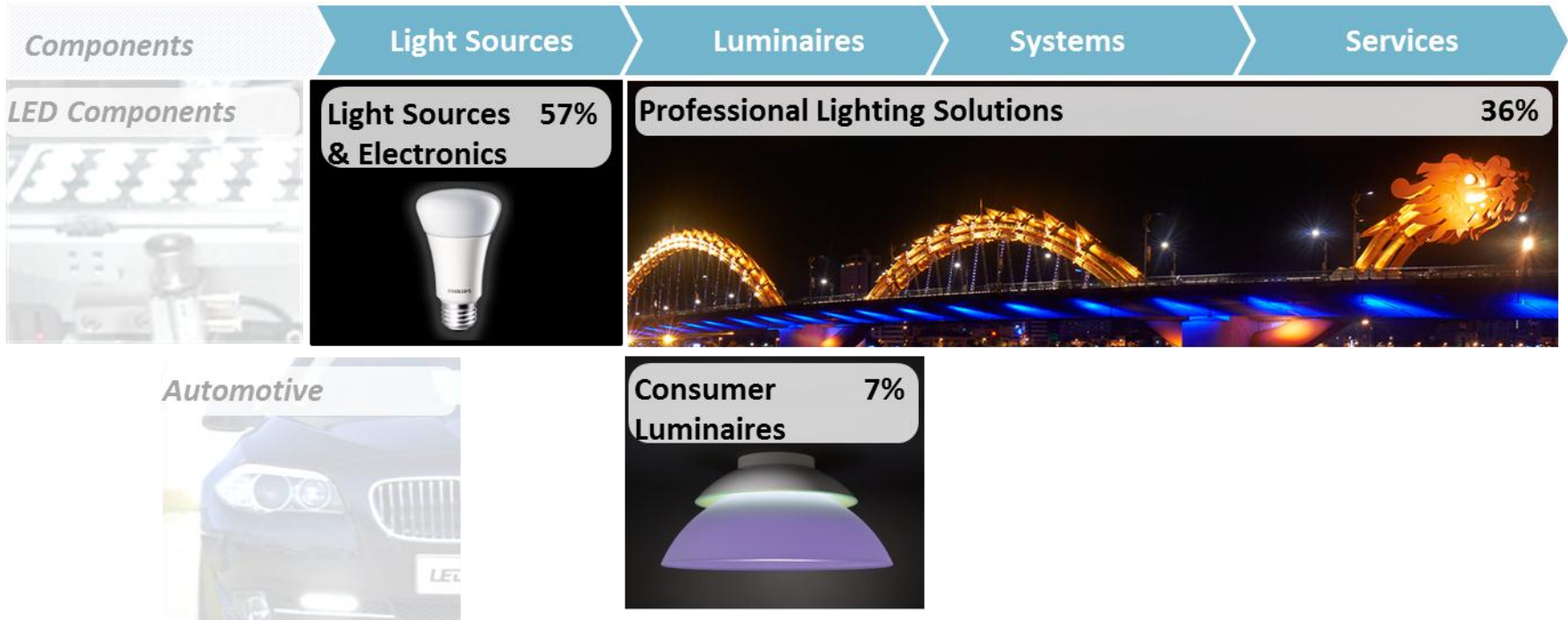
- **Conventional to LED**
- **New competitors** emerging
- **Differentiation** in LED systems and services
- **Connectivity** and intelligence create new growth avenues and open up adjacencies

## Resulting opportunities

- Maximize value from the **golden tail**
- **Differentiate in LED** through innovation in and intelligence
- Capture professional **systems and services** opportunity
- Establish **winning connected lighting ecosystems**—home and professional

**Philips Lighting strongly positioned as global leader in Lighting solutions market**

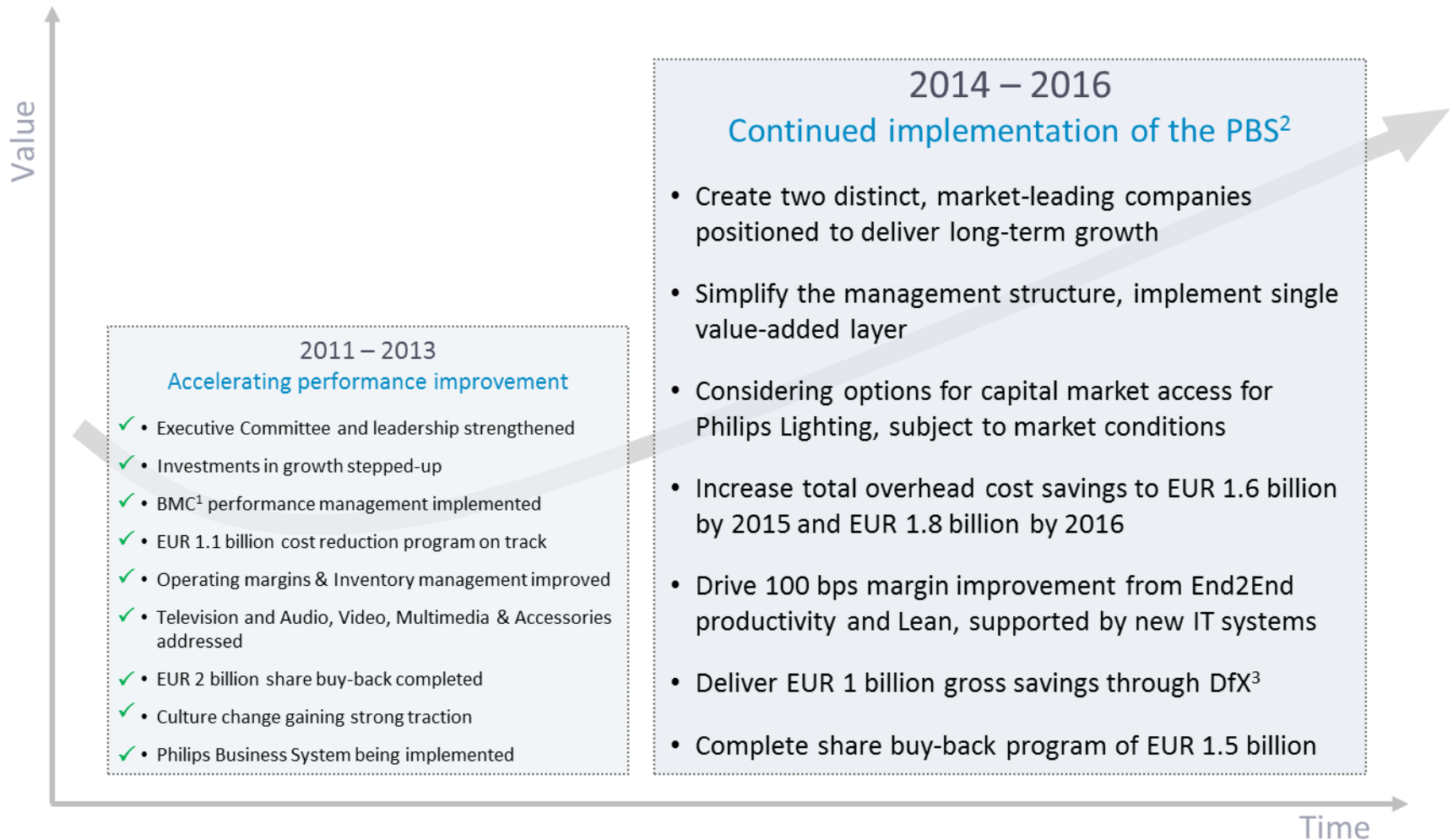
# Philips Lighting well positioned to capture growth opportunities



Share of Lighting sales<sup>1</sup>

**Leading global customer and market positions**  
**World-class innovation and design capabilities**  
**Deep application and systems integration expertise**  
**Unmatched distribution strength and brand**

# The Accelerate! journey will continue



# 2016 Financial targets\*

Financial targets 2016		Update Jan 27, 2015*
Group comparable sales growth	4 - 6%	3 - 4%
Group reported EBITA margin	11 - 12%	10 - 11%
- Healthcare	16 - 17% <sup>1</sup>	
- Consumer Lifestyle	11 - 13% <sup>1</sup>	
• HealthTech	14 - 15.5% <sup>1</sup>	
• Lighting Solutions	9 - 11% <sup>1</sup>	
Group ROIC <sup>2</sup>	>14%	>13%

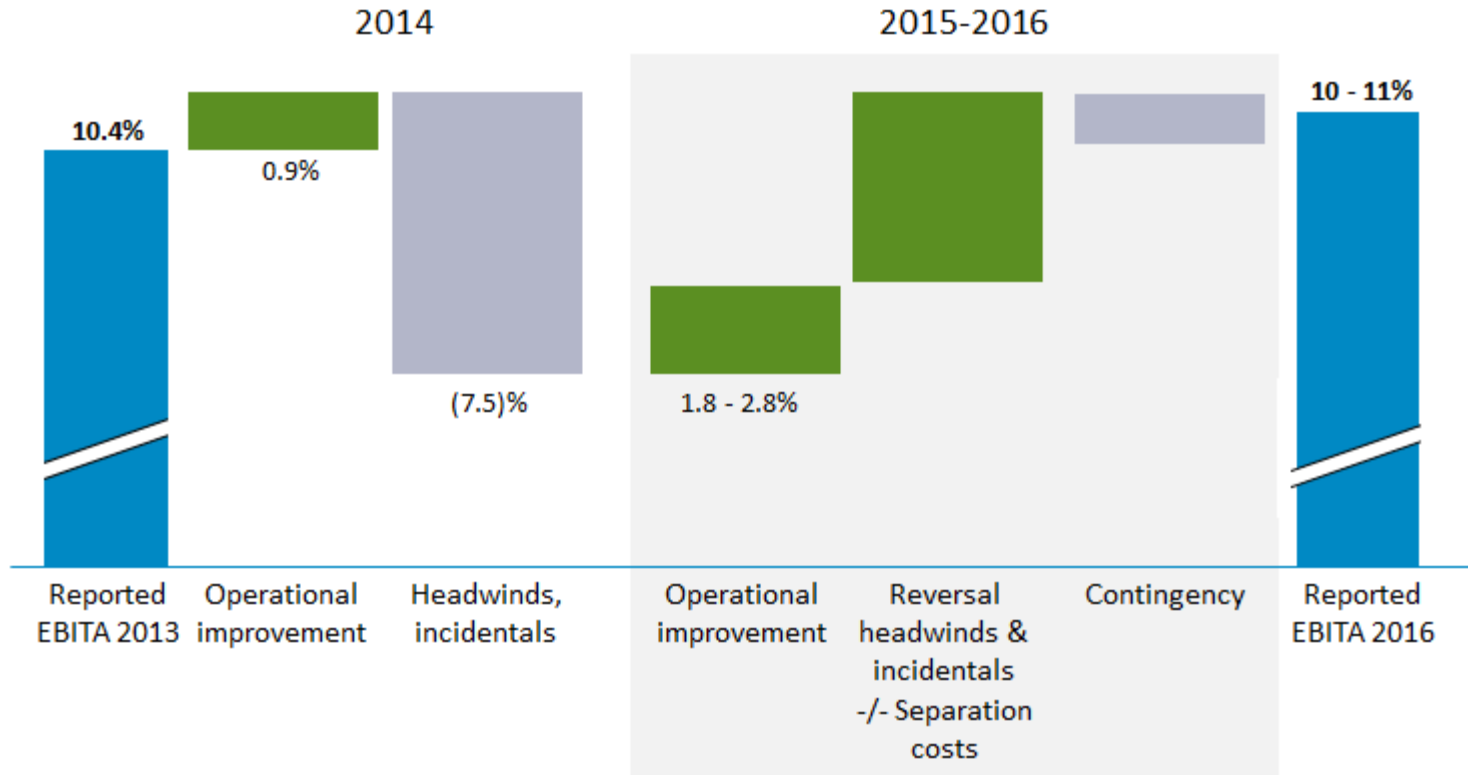
*\*More details about the performance trajectory will be provided at the Capital Markets Day on Sept. 15*



# Accelerate! profitability improvements drive operational performance

Categories	Measures	Margin Impact <sup>1</sup>
Productivity	• Overhead and indirect gross costs savings of EUR 1.8 billion by 2016	> 170 bps
	• EUR 1 billion through Design for Excellence (DfX) between 2014-2016 contributing to gross margin expansion	100-200 bps
	• End2End productivity gains from the overhaul of our business model architecture and improved customer service	> 100 bps
Investments in growth	• Incremental investments in new growth in adjacencies with returns after 2016	- 100 bps
Productivity improvements versus 2013		270-370 bps

# Performance trajectory update Jan 27, 2015\*



*\*More details about the performance trajectory will be provided at the Capital Markets Day on Sept. 15*

# Our Path-to-Value is clearly mapped-out

**Initiate new growth engines**

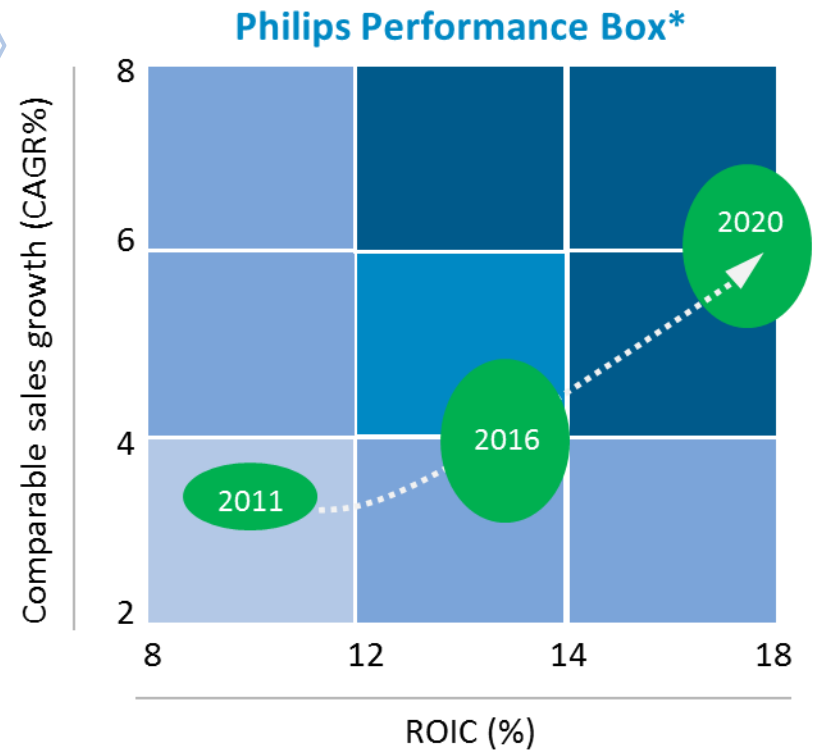
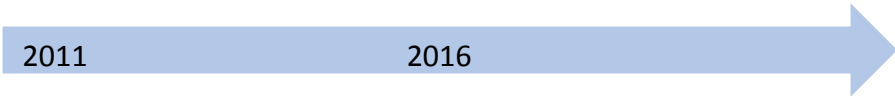
- Invest in adjacencies
- Seed emerging business areas

**Expand global leadership positions**

- Invest to strengthen our core businesses
- Resource allocation to right businesses & geographies

**Transform to address underperformance**

- Turnaround or exit underperforming businesses
- Productivity & margin improvements
- Rebuild culture, processes, systems & capabilities
- Implement the Philips Business System

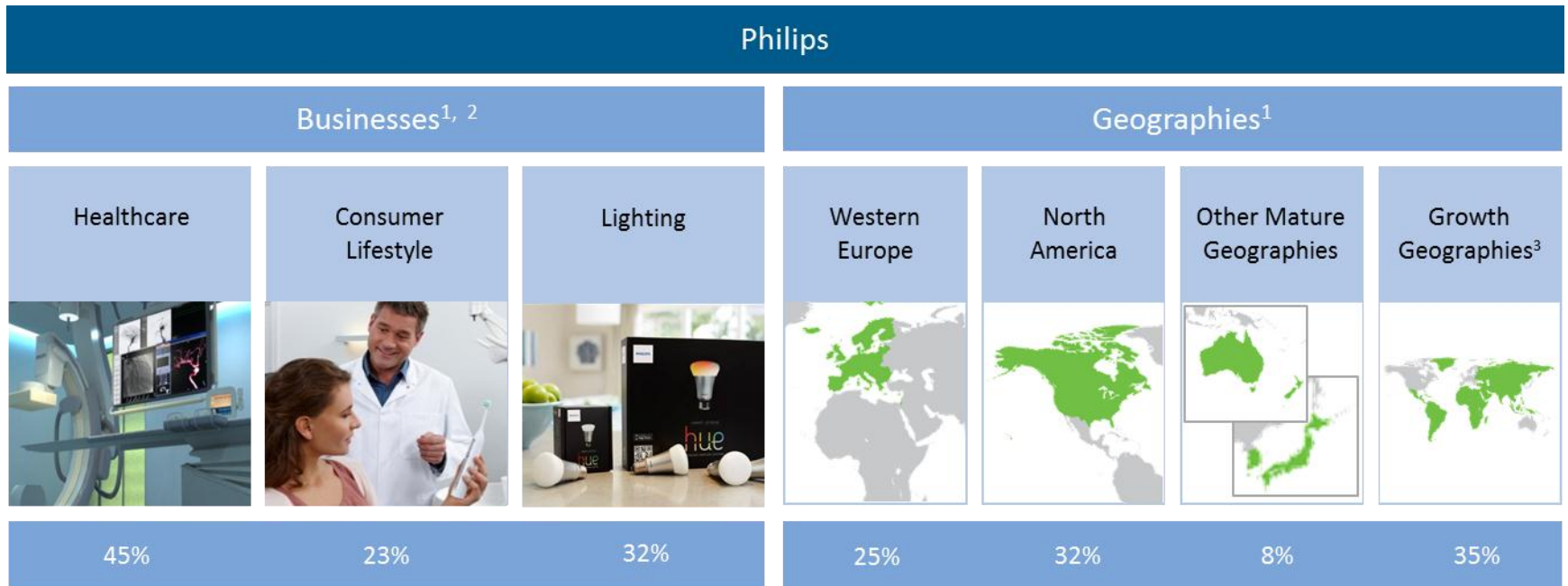


*\*In light of the separation, this performance trajectory will be updated at the Capital Markets Day on Sept. 15*

# Content

1. Financial performance	3
2. Accelerate! transformation program	27
3. Strategy and Path-to-Value	34
4. Company overview	
- Group	53
- Healthcare	56
- Consumer Lifestyle	63
- Lighting	69

# Philips: A strong industrial company leading in health and well-being



Since **1891**

**€21.4 billion** sales in 2014, **70%** B2B

**~106,000** employees in over 100 countries

**50%** of the portfolio has global leadership positions

**€1.6 billion** R&D spend in 2014 and ~71,000 patent rights

More than **1/4** of revenues from recurring revenue streams

<sup>1</sup> Based on sales last 12 months June 2015    <sup>2</sup> Excluding Central sector (IG&S)

<sup>3</sup> Growth geographies are all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel

Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations

# Strong leadership<sup>1</sup> positions in many markets across the globe

## Healthcare



*Global*  
Cardiovascular  
X-ray



*Global*  
Patient  
Monitoring



*Global*  
Image-Guided  
interventions



*Global*  
Sleep and  
Respiratory Care



*Global*  
Ultrasound

## Consumer Lifestyle



*Global*  
Rechargeable  
Toothbrushes



*Global*  
Male Electric  
Shaving



*Global*  
Mother &  
Child Care



*Regional*  
Kitchen  
Appliances



*Regional*  
Air Purification

## Lighting



*Global*  
Conventional  
Lamps



*Global*  
LED  
Electronics



*Global*  
LED  
Lamps



*Global*  
Connected  
lighting



*Global*  
Professional  
Luminaires

# Sustainability as a driver for growth

## Success of EcoVision

Green Products represented around 52%<sup>1</sup> of sales in 2014, up from 39%<sup>1</sup> of sales in 2011, driven by investments in Green Innovation.

## EcoVision targets for 2015

- 55% of sales from Green Products
- EUR 2 billion Green Innovation investments
- To improve the lives of 2 billion people
- To improve the energy efficiency of our overall portfolio by 50%
- To double the amount of recycled materials in our products as well as to double the collection and recycling of Philips products



## Recent accomplishments

- Philips received the 2015 “Champion for Change” award from Practice GreenHealth, the North American leading sustainable health care community
- Philips has been recognized 2015 Energy Star partner of the year by the US Environmental Protection Agency for its outstanding contribution to environmental protection through energy efficiency
- Philips received the VBDO Responsible Supply Chain Management Award for the seventh time, ranking first among the forty largest publicly listed Dutch companies
- Philips was recognized, for the third consecutive year, as a leader in the Carbon Disclosure Project on both disclosure and performance
- Philips cited top riser in Interbrand’s annual ranking of the top 50 Best Global Green Brands, moving up nine places to the 14<sup>th</sup> position
- Philips achieved top results in the 2014 Dow Jones Sustainability Index (90/100) with “Best in Class” results in Climate Strategy and Product Stewardship

# Healthcare

What we do. Where we are.

## Philips Healthcare

### Businesses<sup>1</sup>

### Geographies<sup>1</sup>



€9.2

Billion sales in 2014

39,000+

People employed worldwide in 100 countries

9%

of sales invested in R&D in 2014

450+

Products & services offered in over 100 countries

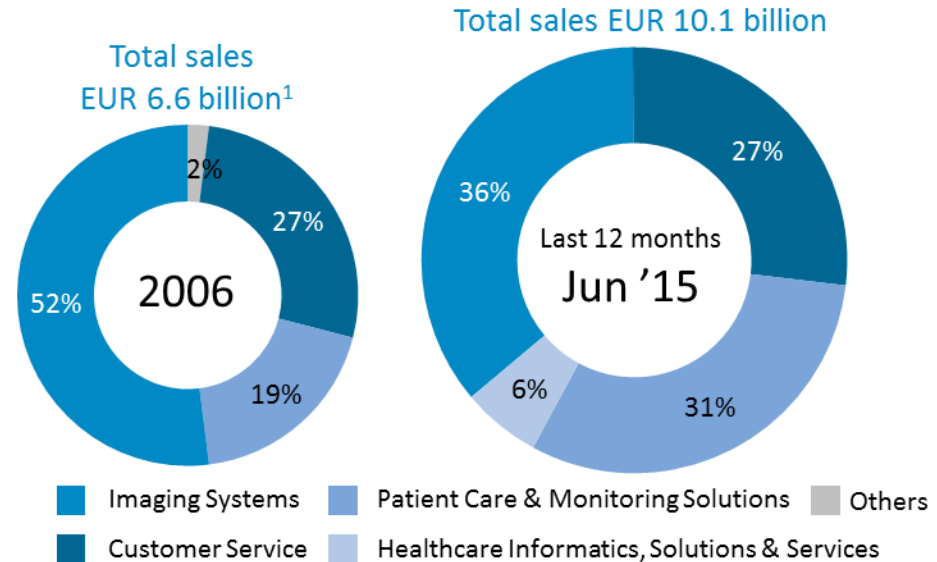
<sup>1</sup> Based on sales last 12 months June 2015

<sup>2</sup> Growth geographies are all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel



# Healthcare: Delivering integral, innovative solutions across the health continuum

- Collaborate with customers and across our businesses to provide better care at lower cost to more patients
- Redefine the delivery of care as a technology solutions partner
- Deliver all elements from diagnosis to treatment to patient recovery and care, from hospital to home, supported by informatics and consultancy



# Our Healthcare businesses well positioned on the Health Continuum

Healthy Living

Prevention

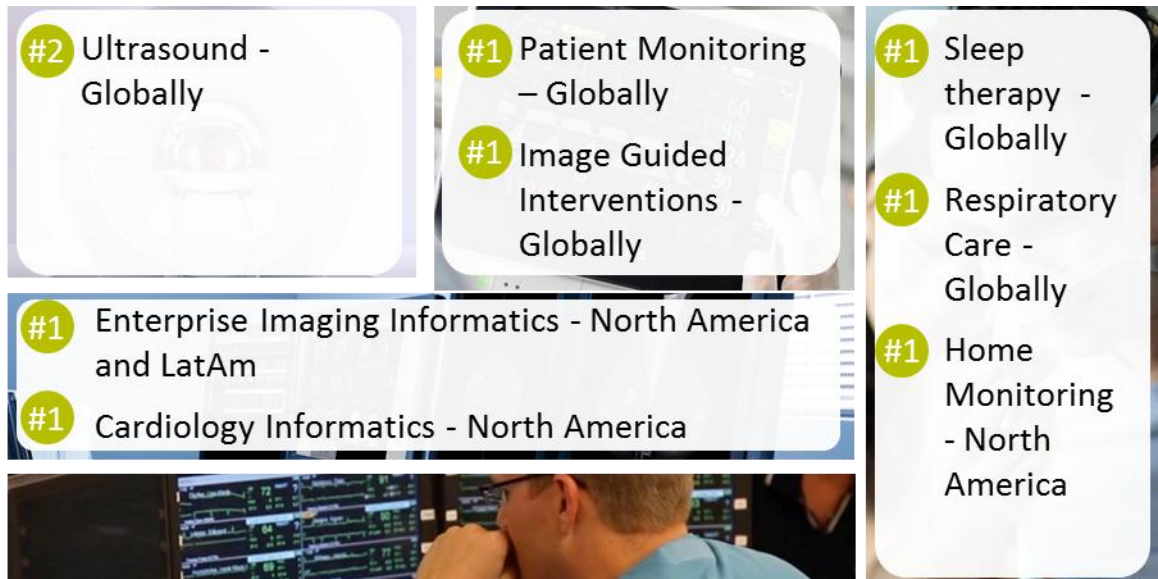
Diagnosis

Treatment

Recovery

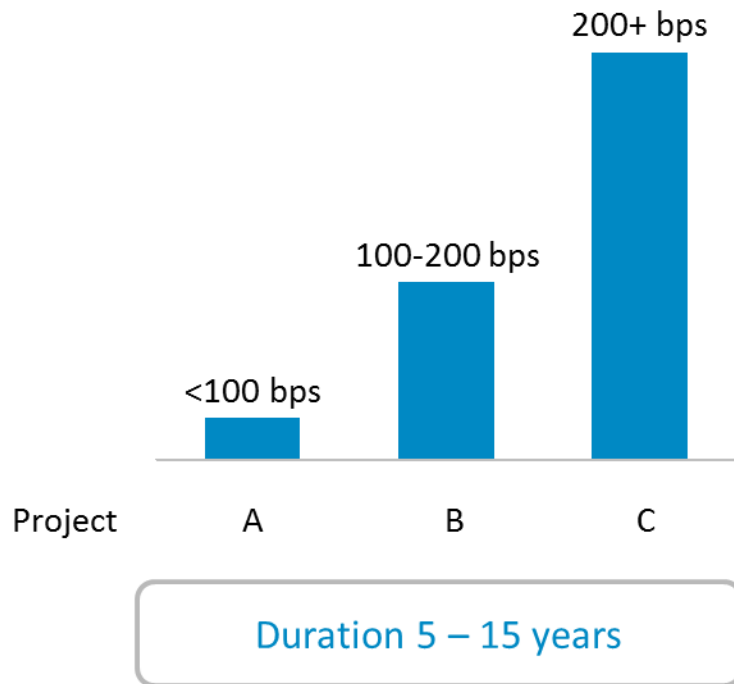
Home Care

- World-class innovation
- Deep clinical expertise and relationships
- Global access to health care providers
- Integrated solutions portfolio
- Trusted brand



# Our integrated solutions approach is margin accretive to our overall business

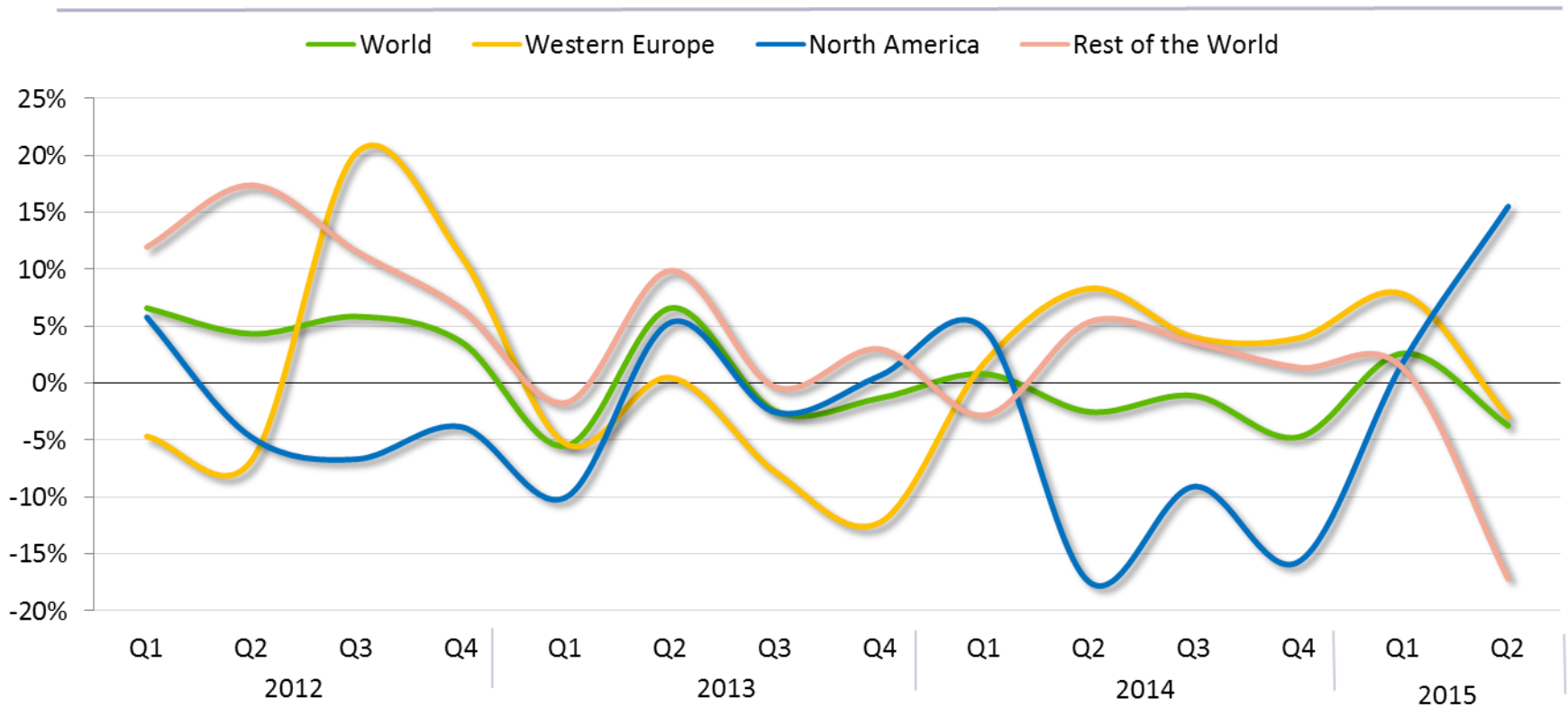
## Solutions margin increase vs stand-alone sales model



- **Higher market share of equipment**, better ability to consider total lifetime value
- Higher **percentage of services**
- **Additional consulting opportunities** to advise on enterprise cost reduction
- Visibility and access to **adjacent opportunities in products, IT integration, data analytics**
- Significant potential to **drive SG&A productivity**

# Healthcare: order intake<sup>1</sup>

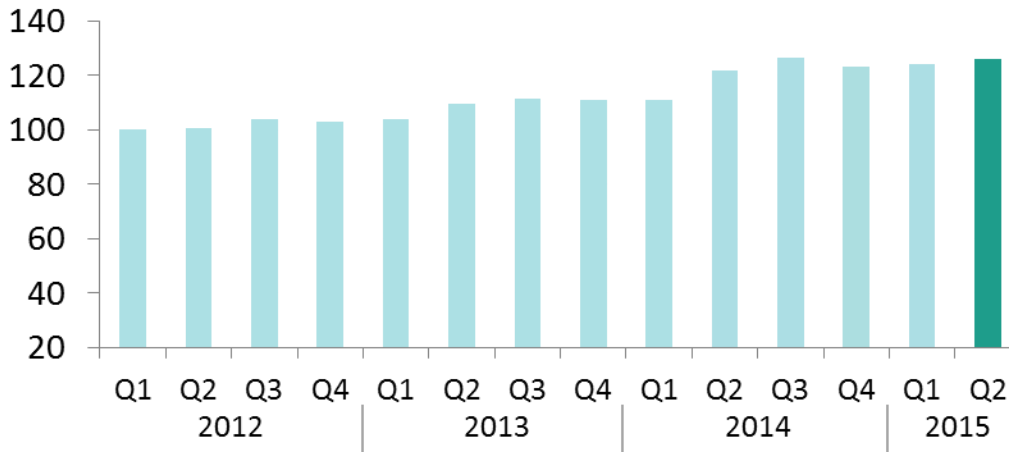
Quarterly currency adjusted order intake<sup>1</sup> growth



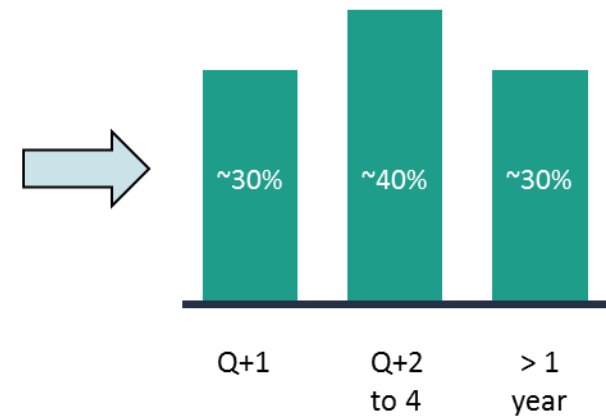
Currency adjusted order intake<sup>1</sup> only relates to the Imaging Systems, Patient Care & Monitoring Solutions and the Healthcare Informatics, Solutions & Services businesses

# Healthcare: order book

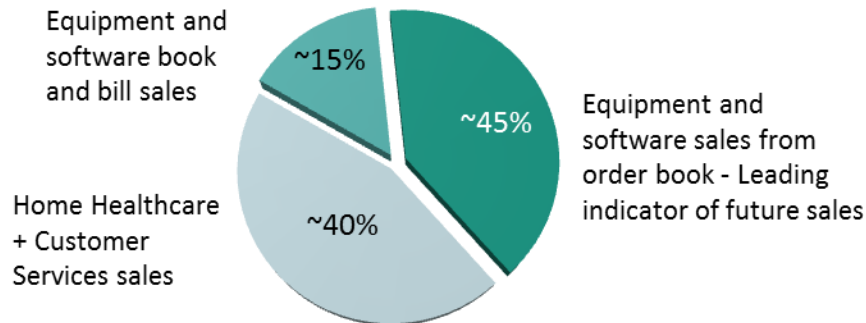
Indexed Order Book Development



Typical profile of order book conversion to sales



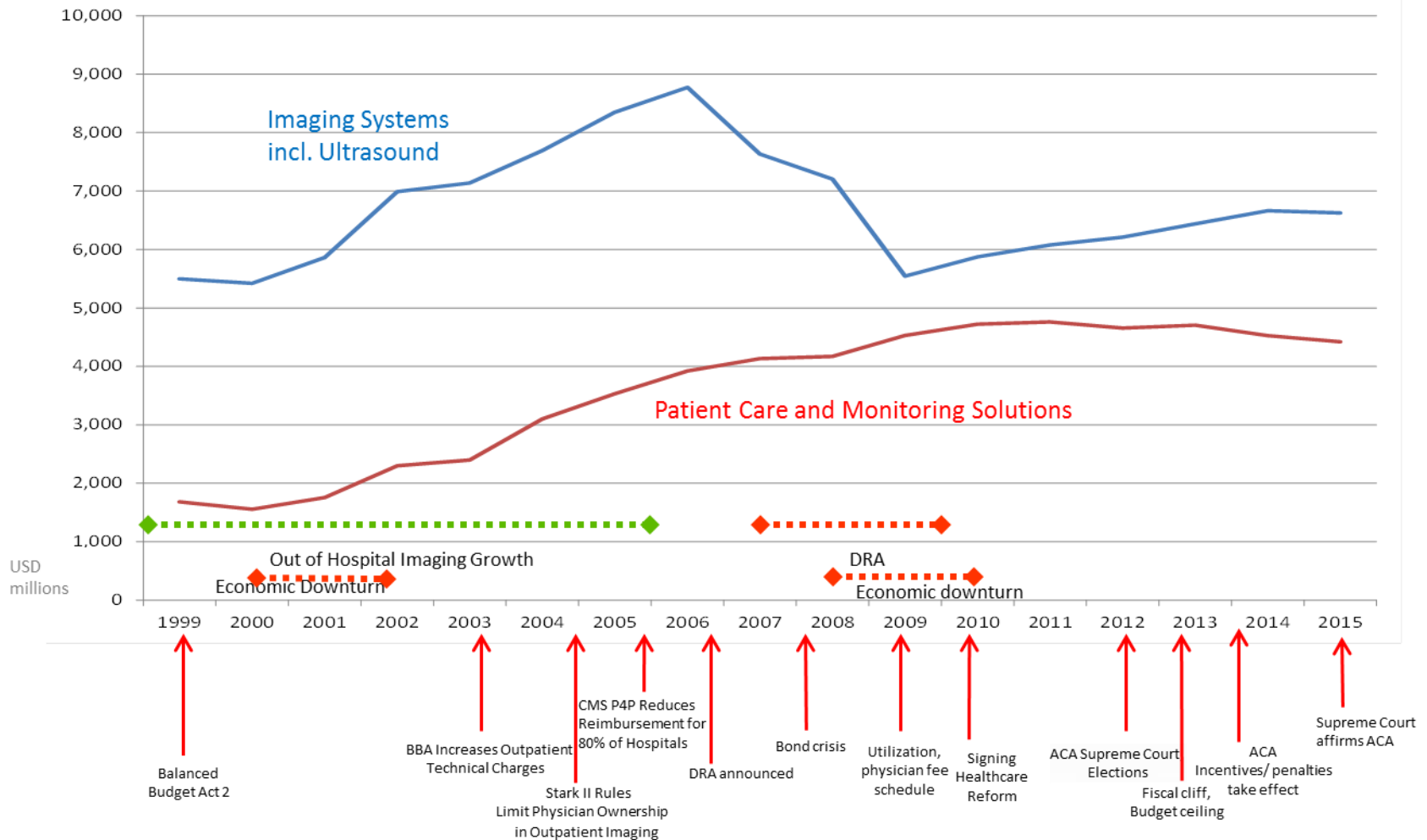
Quarter end order book is a leading indicator for ~45% of sales the following quarters



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

# Health care historical market development

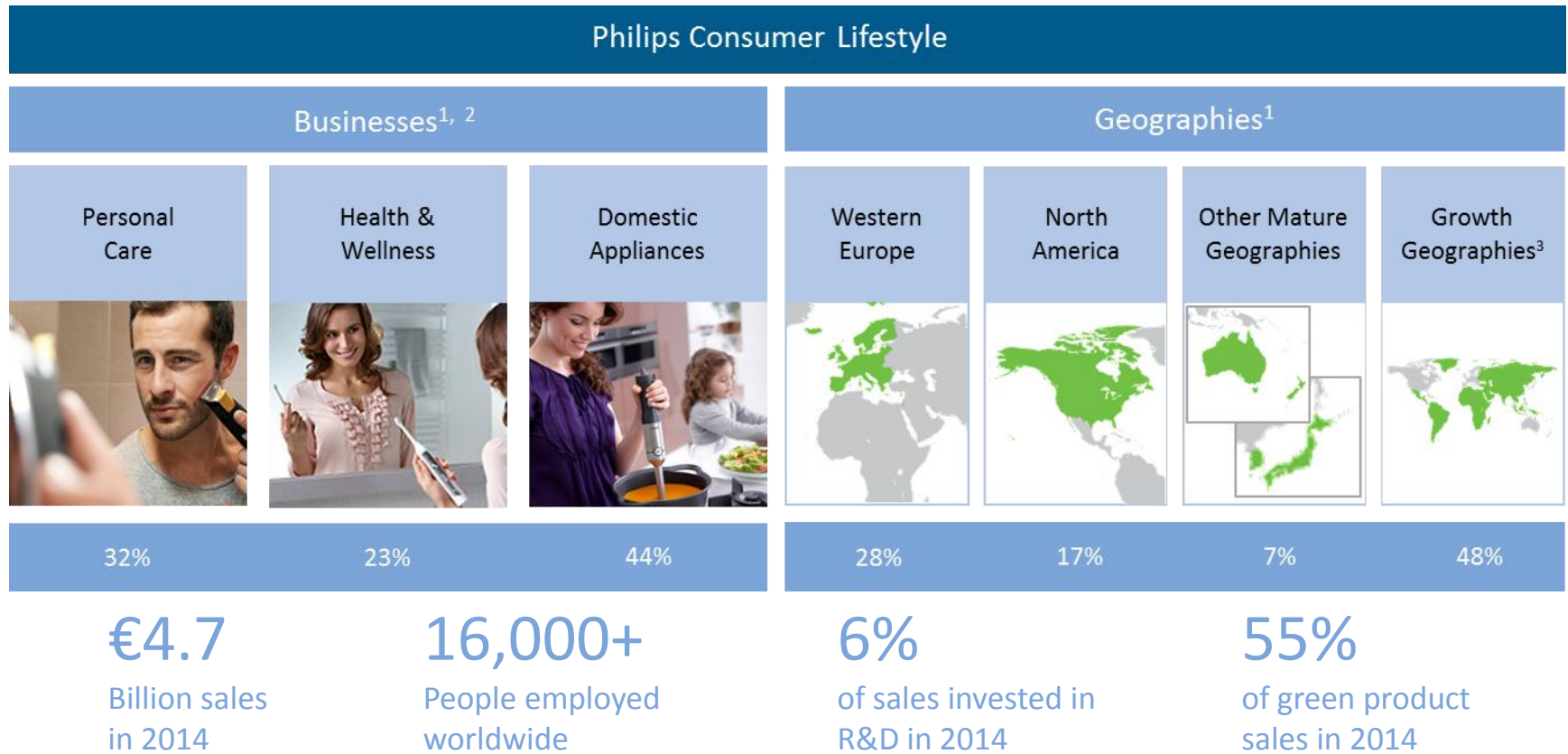
## North America Market Size / Growth and Impacts



The US market is expected to grow by low-single-digit for 2015-2016

# Consumer Lifestyle

What we do. Where we are.



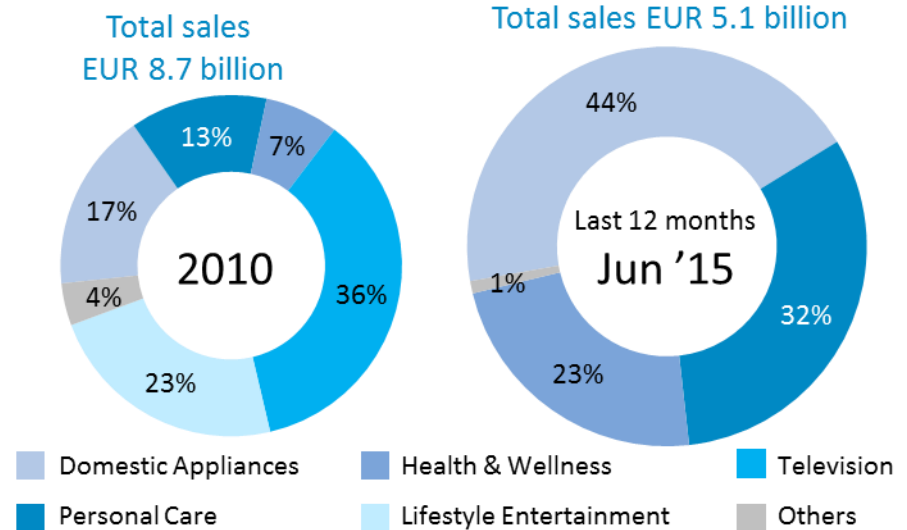
<sup>1</sup> Based on sales last 12 months June 2015

<sup>2</sup> Other category (1%) is omitted from this overview

<sup>3</sup> Growth geographies are all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel

# Consumer Lifestyle: Focusing on Personal Health and Well-being appliances and services

- Streamlined portfolio focused on Personal Health and Well-being
- Expand core businesses through locally relevant innovations, global platforms and geographical expansion of proven propositions
- Explore new business adjacencies in the domain of Personal Health and Well-being





# Our Consumer Lifestyle businesses have strong positions on the Health Continuum

Healthy Living

Prevention

Diagnosis

Treatment

Recovery

Home Care

#1 Electric Male Grooming - Globally

#1 Low fat fryers - Globally

#1 Air - China

#1 Oral Health Care - United States

#1 Baby bottles - United States

- Actively addressing Healthy Living and Prevention
- Leveraging global scale and local relevance
- Market access in 100+ countries
- Leading consumer brand
- 250 million appliances sold into homes every year
- Strong capabilities can be leveraged into Home Care

# We see significant opportunity for further growth, driven by two growth thrusts

## Strengthening the core

*Locally relevant innovations and global platforms*



Our BMC<sup>1</sup> approach addresses consumer needs through locally relevant innovation and global scale

*Addressing geographical white spots*



We continue our geographical expansion, addressing white spots with proven propositions

## New business adjacencies

*Addressing opportunities across the health continuum*



We see significant opportunities to innovate for consumers across the health continuum

# We are further building our leadership positions in these categories

Personal Care		<i>Male Grooming</i>	<ul style="list-style-type: none"><li>• Maintaining #1 position in electric Male Grooming</li><li>• Further strengthening leadership in China; expanding into lower tier cities</li><li>• Strengthening relationship with large and loyal base of users through trading-up and recurring revenue activities</li></ul>
		<i>Beauty</i>	<ul style="list-style-type: none"><li>• Strengthening #1 position in Intense Pulsed Light hair removal in 25 markets in Europe, Latin America, Asia and the Middle East</li><li>• VisaPure cleansing brush successfully launched in 21 markets. Philips skincare now available in more than 1,500 Health &amp; Beauty stores</li><li>• Market leader in China and volume market leader in Europe for Hair Dryers</li></ul>
Health & Wellness		<i>Oral Healthcare</i>	<ul style="list-style-type: none"><li>• Further strengthening leadership position in the US, Japan and China</li><li>• Enhancing geographic growth with strong market share increase outside the US (e.g. DACH<sup>2</sup>, Japan, UK, China, Russia)</li><li>• Sonicare DiamondClean continues to be successful with different color editions delivering strong results</li></ul>
		<i>Mother &amp; Child Care</i>	<ul style="list-style-type: none"><li>• Strengthening geographic footprint with strong growth in key markets such as China, North America &amp; Latin America</li><li>• #1 market position in many markets &amp; sub-categories (e.g. bottles and soothers in the US, breast pumps in China, overall #1 in Russia)</li></ul>

# We are further building our leadership positions in these categories

## Domestic Appliances



### *Kitchen Appliances*

- Acquisitions and local product creation drive a significant increase of new product offers
- Global #1 brand in categories such as low fat fryer, juice extractor, food processor and overall home cooking & food preparation
- Leadership in key markets strengthened through local relevance: reached #1 position in blenders in Asia-Pacific and hand blenders in Asia-Pacific and Eastern Europe



### *Garment Care*

- Optimal Temp innovation (non-thermostat iron) confirms global leadership in steam generators
- Locally relevant innovations like steamers drive leadership in China and expand portfolio globally



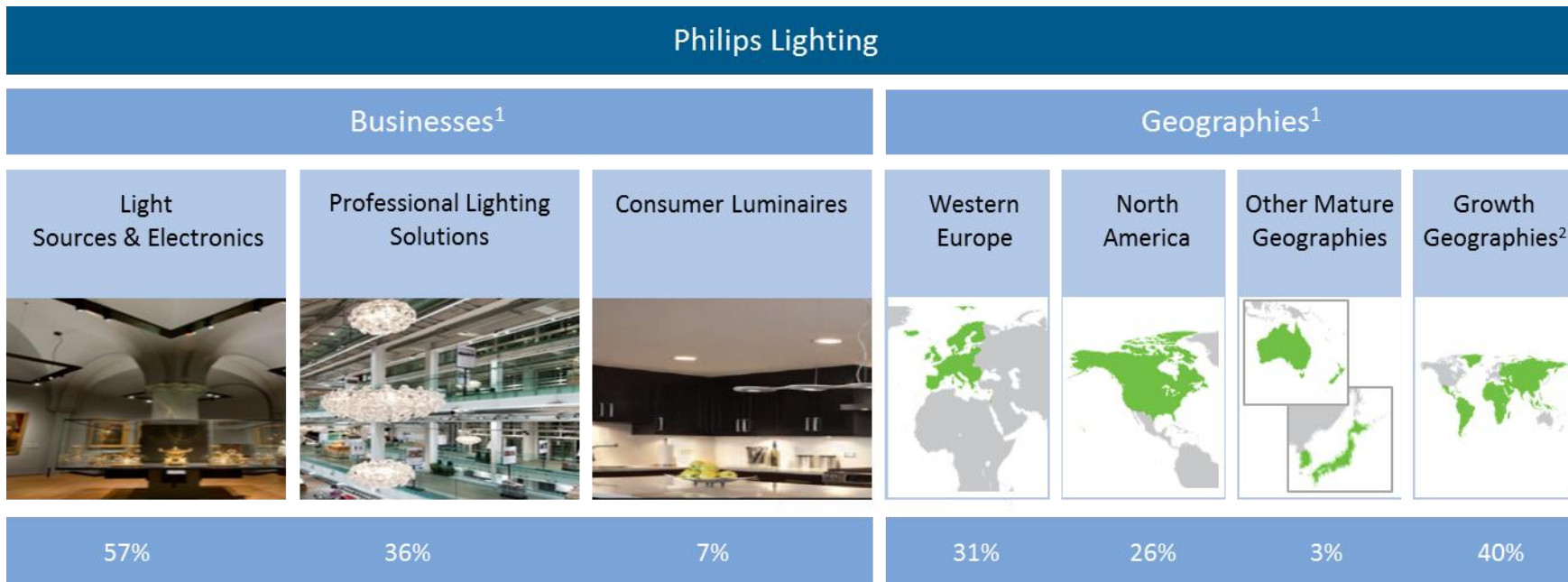
### *Coffee*

- After the introduction of Saeco Incanto Executive, further successful expansion to mid/high end range with Saeco Incanto in Q2
- Growing Senseo as the #1 European brand in Coffee Machines in 2014
- Continued Expansion of the alliance with Tchibo

# Lighting

What we do. Where we are.

## Philips Lighting



€6.9

Billion sales  
in 2014

35,000+

People employed  
worldwide in 60 countries

5%

of sales invested in  
R&D in 2014

72%

of green product  
sales in 2014

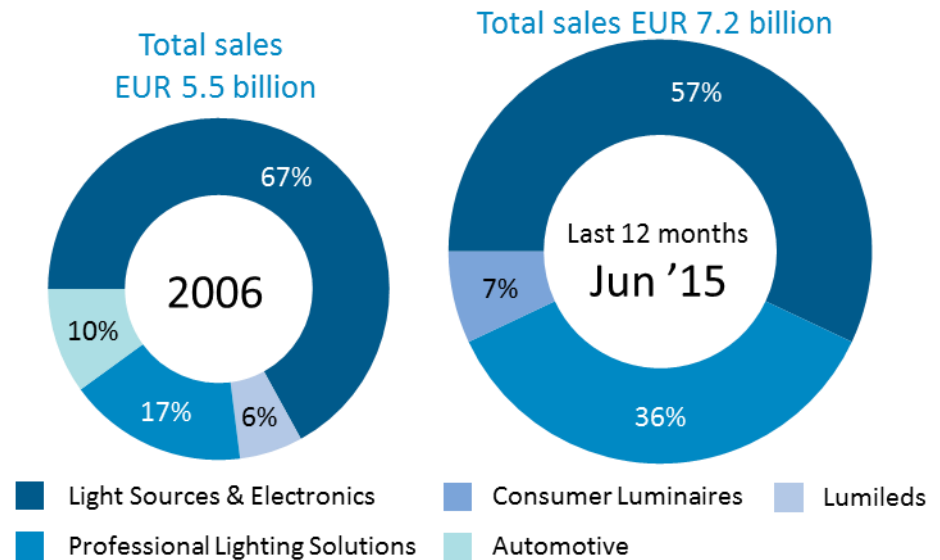
<sup>1</sup> Based on sales last 12 months June 2015

<sup>2</sup> Growth geographies are all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel

Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations

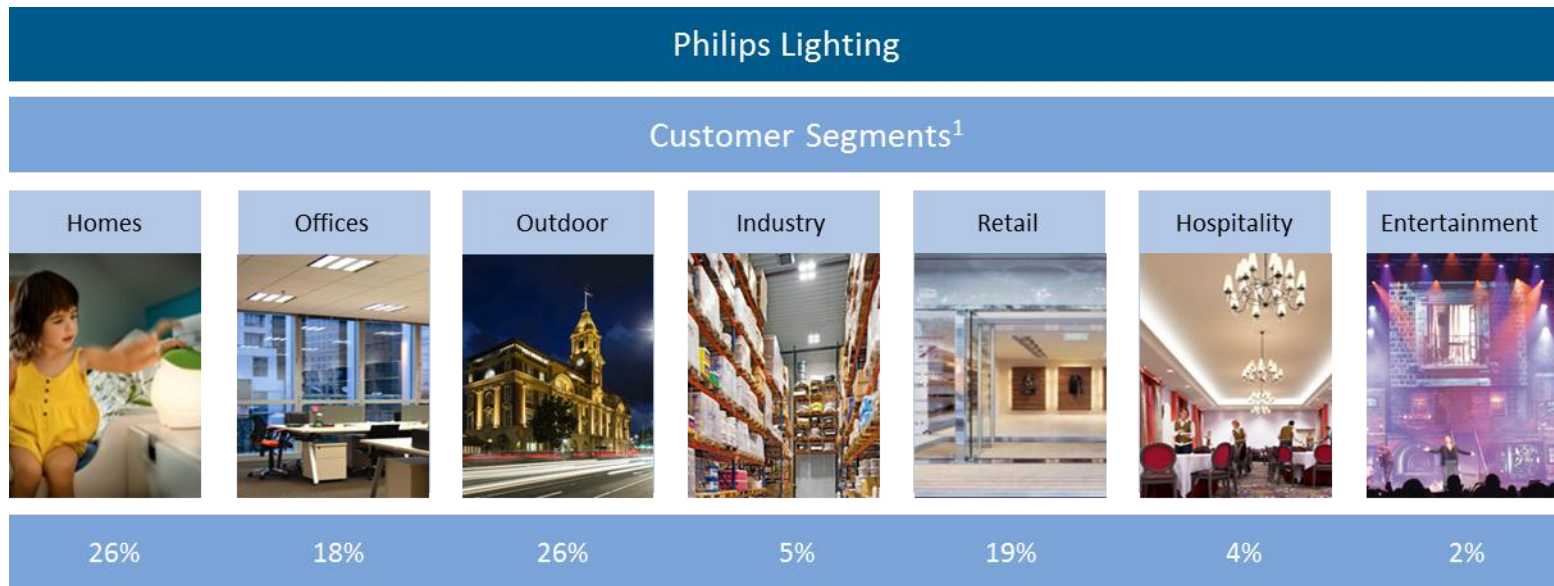
# Lighting: Lead the way on the path to LED, systems & services

- Serve a large and attractive market driven by the need for more light and energy-efficiency
- Shape the future of digital lighting through game-changing innovation, and unique systems and services
- Accelerate the adoption of LED and help customers to realize the benefits of intelligent and connected lighting systems



# We increase our focus towards the people we serve

Further strengthening our global leadership in Lighting




- ~ 75%<sup>1</sup> of Lighting sales is B2B
- ~ 40%<sup>2</sup> of Lighting sales is LED lighting

<sup>1</sup> Indicative split based on last 12 months June 2015


<sup>2</sup> Based on Q2 2015

# Our strategy of connected lighting captures the attractive value of lighting solutions


- 1 Global leader in the lighting industry




We are a global leader in this attractive market & consistently improve operational performance
- 2 Conventional lighting proactively managed




Our industrial setup is flexible to cater for the conventional market decline dynamics
- 3 LED lamps optimized for value creation




We continuously take cost out and differentiate in LED lamps
- 4 LED offers are designed for connectivity



We shape the connected lighting market
- 5 Systems & services as additional profit pool



Unique position to win in the fast-growing systems & services market
- 6 Path-to-Value on track



On track to deliver on our targets with a clear Path-to-Value for 2016 and beyond



# We are the global leader in lighting

## We focus on three business groups

1

Light Sources & Electronics

2

Consumer Luminaires

3

Professional Lighting Solutions, including:

- **Systems:** interconnected lighting products (light sources, luminaires, controls), software and system integration
- **Services:** advise, operate and/or maintain an installed lighting system through its lifecycle

## Have leadership positions across all regions

Market share per Business Group by region – 2014<sup>1</sup>

	Europe	North America	Latin America	Asia/Pacific <sup>2</sup>	Total
Light Sources & Electronics	# 1	# 2 or 3	# 1	# 1	# 1
Consumer Luminaires <sup>3</sup>	# 2 or 3	Not in top 3	Not in top 3	# 2 or 3	# 1
Professional Lighting Solutions	# 1	# 2 or 3	# 1	# 1	# 1
Overall Lighting	# 1	# 1	# 1	# 1	# 1

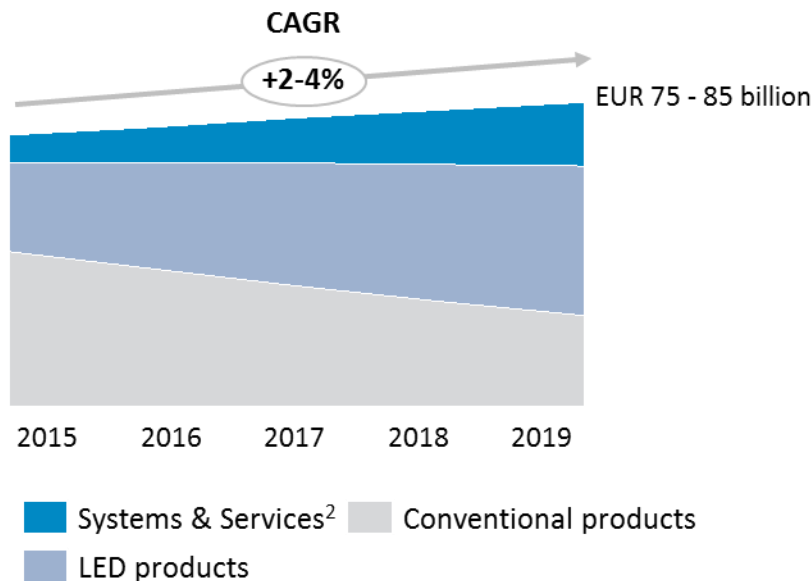
■ # 1     
 ■ # 2 or 3     
 ■ Not in top 3

- Largest lighting company in the world
- #1 in sold LED lighting
- #1 in connected lighting<sup>4</sup>
- Market share in LED is higher than in conventional

# The overall lighting market is attractive with high-margin businesses driving value

We serve a large and attractive market expected to grow 2 - 4% CAGR between 2015 and 2019

Global lighting market forecast<sup>1</sup>



The lighting industry is undergoing three major transitions in parallel

2015 - 2019 CAGR<sup>1</sup>

1	Conventional products	Low-to-mid-teens decline
2	LED products	Mid-teens growth
3	Systems & Services <sup>2</sup>	Systems: 20% to 25% Services <sup>4</sup> : 40% to 45%

- LED penetration estimated to reach up to 70% by 2019<sup>3</sup>

<sup>1</sup> Source: Philips Lighting global market study. Excluding Automotive lighting and LED components market

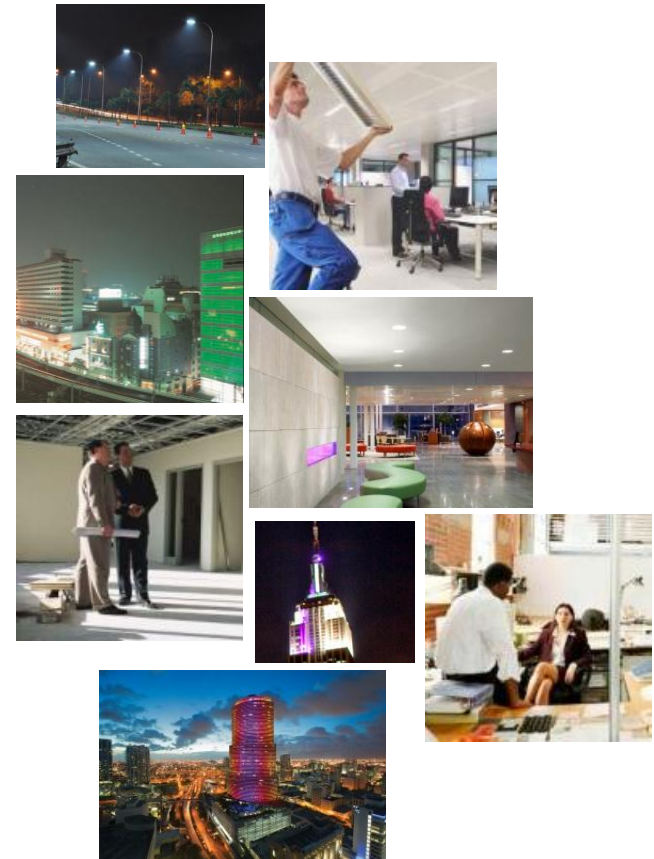
<sup>2</sup> Only professional market and lifecycle data-enabled services <sup>3</sup> Including part of Systems & Services <sup>4</sup> Data-enabled services only

# Non-residential construction market in mature geographies is a key growth driver

Around 30% of Philips Lighting sales driven by construction in Western Europe & North America (WE&NA)

Philips Lighting	Construction	Other	Total
Residential	6%	20%	26%
Commercial	45%	24%	69%
Other	0%	5%	5%
Total	51%	49%	100%

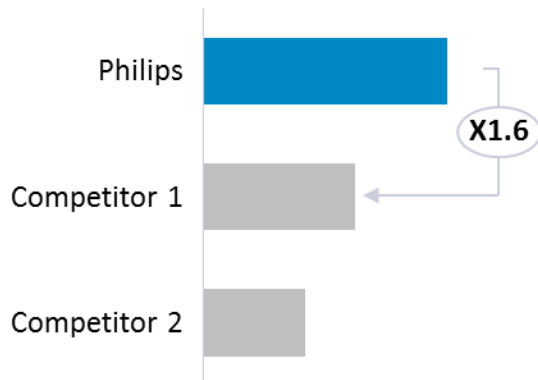
Construction	WE&NA	ROW	Total
Residential	2%	4%	6%
Commercial	28%	17%	45%
Total	30%	21%	51%



# Performance remains strong in conventional and our industrial setup is flexible to cater to the market decline

## #1 in conventional lamps and drivers

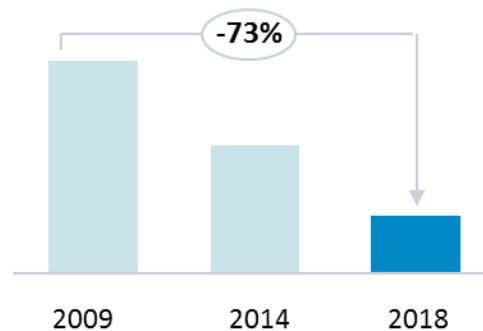
Market share<sup>1</sup>



- Capture value by leveraging our:
  - Global market presence
  - Leading technology, trusted brand
  - Extensive customer channels

## We adapt capacity in response to market demand

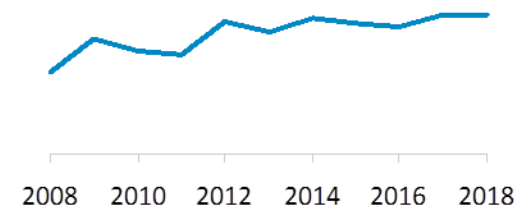
# of manufacturing sites, LS&E<sup>2</sup>



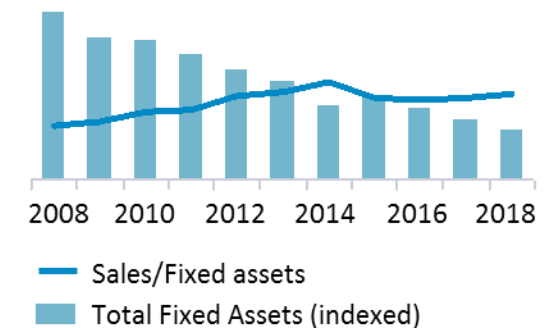
- Ability to adjust capacity with a 3-month lead time
- Closure of sites accelerated in line with market demand

## Measures deliver positive results

Free Cash Flow to sales ratio, conventional lamps and drivers



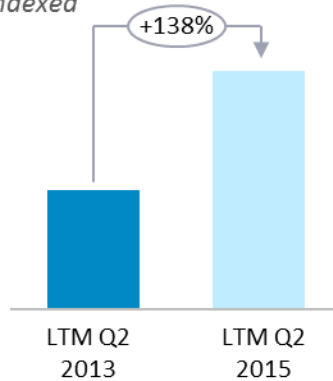
Fixed asset turnover ratio, conventional lamps and drivers



# We are the leading LED lighting company

## Increased R&D investment in LED leading to improved results

R&D spend LED Indexed



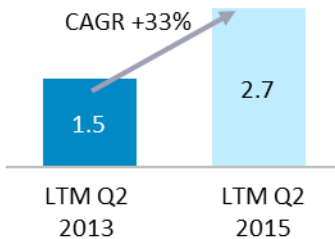
## Increased focus on LED products & portfolio developments

- We lead the technological revolution by investing significantly in LED R&D
- Total LED sales ~ EUR 2.7 billion last 12 months June 2015
- LED revenue growth and cost productivity gains will improve profitability

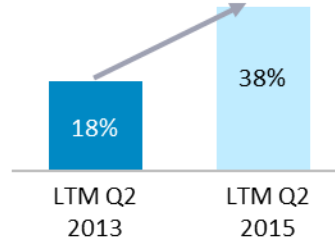
## Leveraging Intellectual Property

- Scope: LED Controls and Basic Optics
- Philips Lighting Patent Portfolio:
  - 88% LED and digital related
  - 12% Conventional related
- 1400 Rights licensed
- Licensing Program has more than 550 licensees

LED sales increase (in EUR billion)



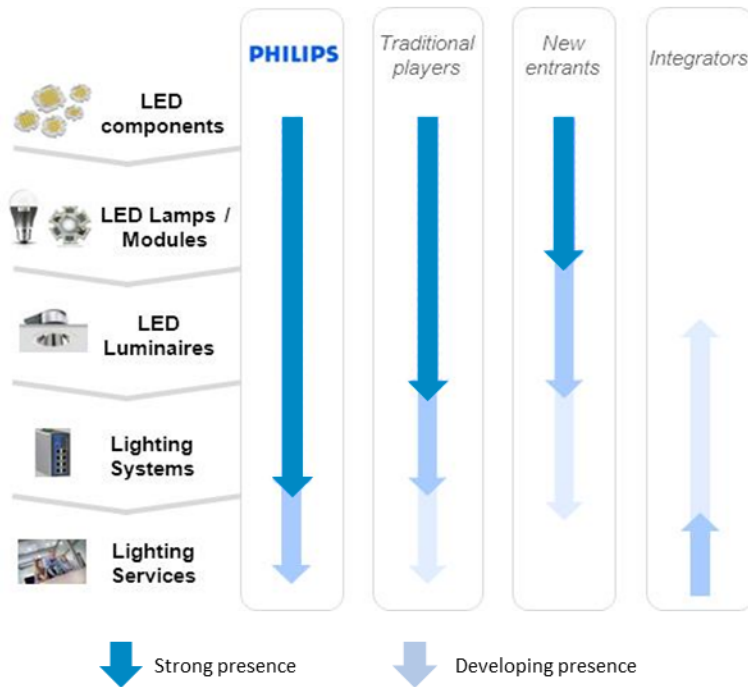
LED as a % of Lighting sales



# We are shaping the future of digital lighting

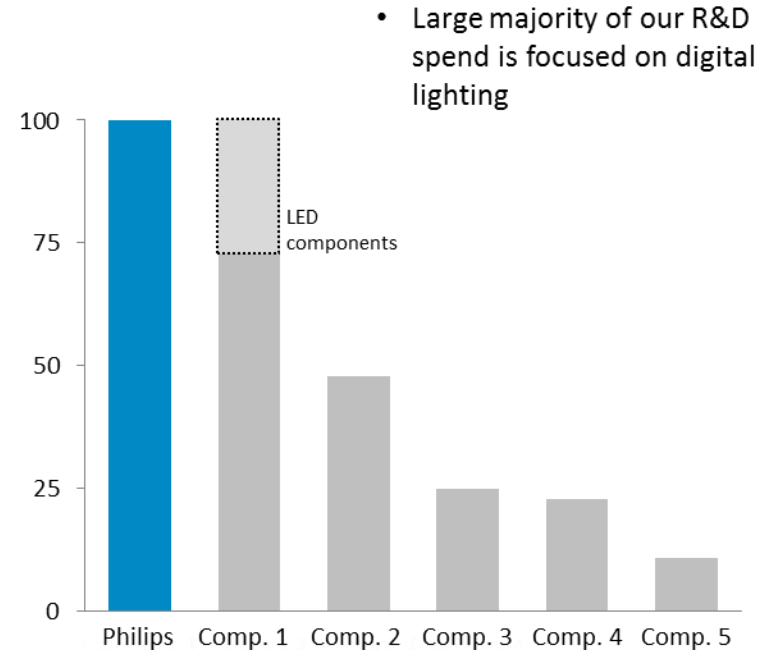
## We have a unique competitive position in LED lighting

Market presence in the digital value chain<sup>1</sup>:



## We continue to invest on differentiation through innovation

Total Lighting R&D Spending Index (Philips = 100)<sup>2</sup>



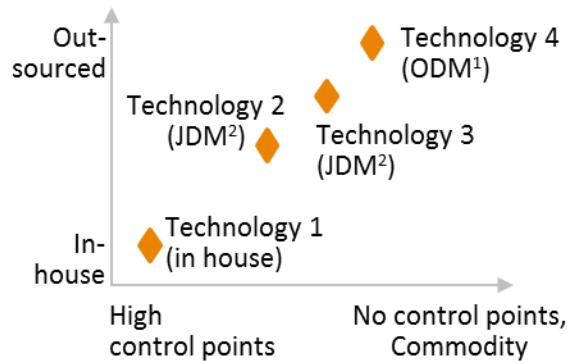
<sup>1</sup> Source: Latest competitors' annual reports, LEDs magazine, LEDinside.com

<sup>2</sup> Source: Latest competitors' quarterly reports, internal estimates, excluding General Electric and Japanese lighting companies for lack of data

# LED lamps margins improve as we focus on cost down and differentiating innovations

## Manufacturing model is optimized to reduce costs

Manufacturing model metrics (indicative)



- Selectively outsource technologies as they commoditize
- Innovative products and control points remain in house

## Differentiation through innovation at all price points



Warm glow

- Replicates the effect of a dimmed halogen or incandescent lamp



The classic LED bulb

- Produced and launched in Europe at <EUR 5
- Frosted incandescent look and feel through the use of glass bulb

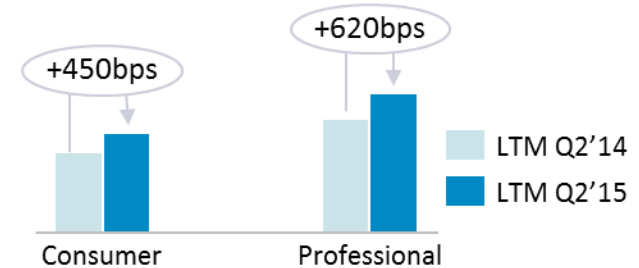


Instant Fit T8

- Works instantly with electronic ballast
- 15 min installation time reduction per lamp

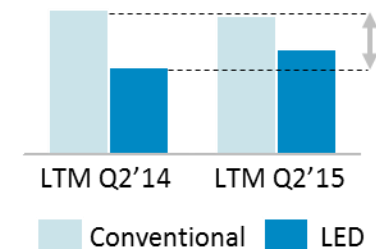
## Measures are paying off both in Consumer and Professional

Adjusted gross margin LED Lamps



## Gross margin difference of LED vs. Conventional lamps is narrowing

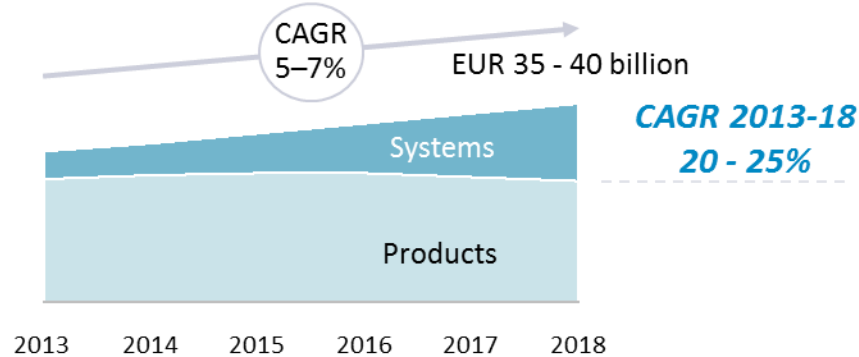
Adjusted gross margin



# Double-digit growth in systems & services improves overall lighting market attractiveness

## Systems will expand the addressable market by EUR 3 - 4 billion

*Professional lighting solutions market forecast*

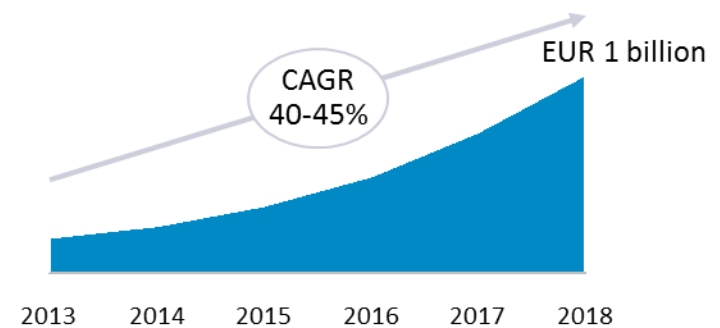


## Expected to represent 40% of the professional lighting solutions market by 2018

- Leverage lighting assets in new ways
- Value beyond illumination and improved customer business performance

## Data-enabled services will further expand the market by EUR 1 billion

*Data-enabled services market forecast*



## Data transmitted through digital light points enables asset-light service offers

- Data can be analyzed to provide actionable insights
- Optimized management and monitoring of performance

**Uniquely positioned to capture the high growth and accretive market opportunities of systems and services**



# Innovation, Group & Services

## Group Innovation

Philips Group Innovation encompasses Group Funded Research and Innovation, Design and Emerging Businesses

## IP Royalties

Royalty/licensing activities related to the IP on products no longer sold by the sectors

## Group and Regional Costs

Group headquarters and country & regional overheads, as well as costs related to the separation of the Lighting business

## Accelerate! investments

Investments to support the transformation of Philips

## Pensions

Pension and other postretirement benefit costs mostly related to former Philips' employees

## Service Units and Other

Global service units; Shared service centers; Corporate Investments, stranded costs of the Audio, Video, Multimedia and Accessories as well as the Lumileds and Automotive businesses, and other incidentals related to the legal liabilities of the Group

# Appendix

# Financial calendar 2015

September 15      Capital Markets Day

October 26        Third quarter results 2015

# Depreciation and amortization

EUR million

	Q2 2014	Q2 2015	FY 2013	FY 2014
Depreciation of property, plant and equipment	120	139	521	592
Amortization of software	7	12	39	32
Amortization of other intangible assets	76	101	393	332
Amortization of development costs	53	80	224	231
<b>Philips Group</b>	<b>256</b>	<b>332</b>	<b>1,177</b>	<b>1,187</b>

# Gross capital expenditures & Depreciation by sector

EUR million

	Gross CapEx <sup>1</sup>		Depreciation <sup>1</sup>	
	Q2 2014	Q2 2015	Q2 2014	Q2 2015
Healthcare	34	39	36	47
Consumer Lifestyle	25	23	25	26
Lighting	20	20	36	35
IG&S	28	35	23	31
<b>Group</b>	<b>107</b>	<b>117</b>	<b>120</b>	<b>139</b>

<sup>1</sup> Capital expenditures and depreciations on property, plant and equipment only

Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations

# Gross capital expenditures & Depreciation by sector

EUR million

	Gross CapEx <sup>1</sup>		Depreciation <sup>1</sup>	
	2013	2014	2013	2014
Healthcare	131	127	160	148
Consumer Lifestyle	135	109	108	113
Lighting	117	84	160	212
IG&S	99	117	93	119
<b>Group</b>	<b>482</b>	<b>437</b>	<b>521</b>	<b>592</b>

<sup>1</sup> Capital expenditures and depreciations on property, plant and equipment only

Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations

# Development cost capitalization & amortization by sector

EUR million

	Capitalization		Amortization	
	Q2 2014	Q2 2015	Q2 2014	Q2 2015
Healthcare	60	62	37	64
Consumer Lifestyle	20	14	7	9
Lighting	11	6	9	7
IG&S	3	16	-	-
<b>Group</b>	<b>94</b>	<b>98</b>	<b>53</b>	<b>80</b>

# Development cost capitalization & amortization by sector

EUR million

	Capitalization		Amortization	
	2013	2014	2013	2014
Healthcare	252	221	154	166
Consumer Lifestyle	43	57	37	32
Lighting	31	23	33	33
IG&S	24	96	-	-
<b>Group</b>	<b>350</b>	<b>397</b>	<b>224</b>	<b>231</b>



# Restructuring, acquisition-related charges and other items

<i>EUR million</i>	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15
Acq.-related charges	-	-	-	(1)	(1)	(24)	(23) <sup>4</sup>
Restructuring	(21)	1	(3)	(46)	(69)	(6)	2
Other Incidentals	-	-	(415) <sup>1</sup>	16	(399)	(28)	-
<b>Healthcare</b>	<b>(21)</b>	<b>1</b>	<b>(418)</b>	<b>(31)</b>	<b>(469)</b>	<b>(58)</b>	<b>(21)</b>
Acq.-related charges	-	(1)	1	(1)	(1)	-	-
Restructuring	-	-	(5)	(3)	(8)	(1)	1
Other Incidentals	-	-	-	11	11	-	-
<b>Consumer Lifestyle</b>	<b>-</b>	<b>(1)</b>	<b>(4)</b>	<b>7</b>	<b>2</b>	<b>(1)</b>	<b>1</b>
Acq.-related charges	(2)	(2)	(8)	(7)	(19)	(1)	(2)
Restructuring	(28)	(20)	(22)	(156)	(226)	(24)	(10)
Other Incidentals	-	-	-	(55)	(55)	-	-
<b>Lighting</b>	<b>(30)</b>	<b>(22)</b>	<b>(30)</b>	<b>(218)</b>	<b>(300)</b>	<b>(25)</b>	<b>(12)</b>
Restructuring	-	(4)	(41)	(65)	(110)	(2)	8
Other Incidentals	-	-	(43) <sup>2</sup>	(174)	(217)	(11)	(27) <sup>5</sup>
<b>IG&amp;S</b>	<b>-</b>	<b>(4)</b>	<b>(84)</b>	<b>(239)</b>	<b>(327)</b>	<b>(13)</b>	<b>(19)</b>
Total Acq.-related charges	(2)	(3)	(7)	(9)	(21)	(25)	(25)
Total Restructuring	(49)	(23)	(71)	(270)	(413)	(33)	1
Total Other Incidentals	-	-	(458)	(202) <sup>3</sup>	(660)	(39)	(27)
<b>Grand Total</b>	<b>(51)</b>	<b>(26)</b>	<b>(536)</b>	<b>(481)</b>	<b>(1,094)</b>	<b>(97)</b>	<b>(51)</b>

<sup>1</sup> Q3 2014 includes EUR (366)M charges related to the jury verdict in the Masimo litigation and EUR (49)M of mainly inventory write-downs related to the Cleveland facility <sup>2</sup> Q3 2014 includes EUR (43)M provisions related to CRT <sup>3</sup> Q4 2014 includes EUR (201)M of charges related to CRT, a EUR 67M past-service pension cost gain in the Netherlands and EUR (68)M of impairment and other charges related to industrial assets at Lighting <sup>4</sup> Q2 2015 includes EUR (23)M mainly related to the Volcano acquisition <sup>5</sup> Q2 2015 includes EUR (27)M related to the separation of the Lighting business

