



Royal Philips Third Quarter 2017 Results

October 23, 2017

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PHILIPS

Important information

Forward-looking statements and other important information

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

These factors include, but are not limited to, 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 and Semi-Annual Report 2017. 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.

Market Abuse Regulation

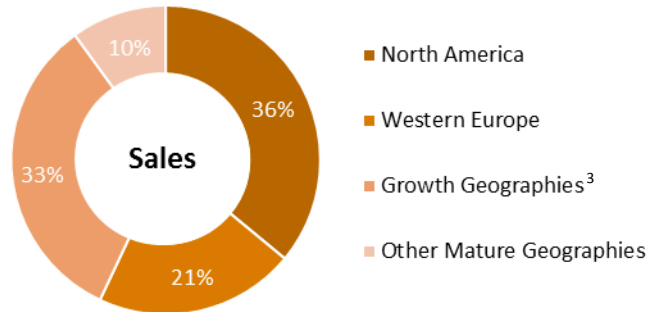
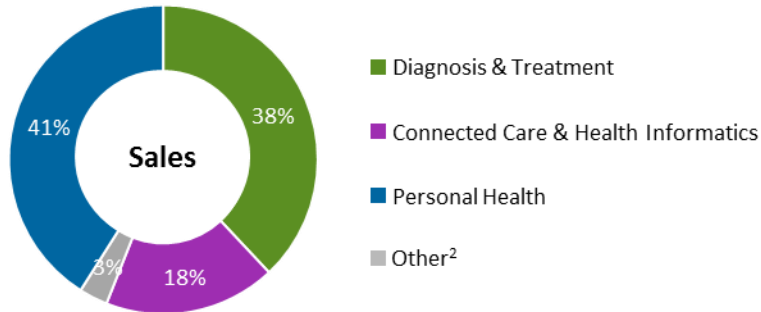
This presentation contains inside information within the meaning of Article 7(1) of the EU Market Abuse Regulation.

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Philips company overview

EUR 17.8 billion sales and Adjusted EBITA of 11.7% ¹



Diagnosis & Treatment

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

Connected Care & Health Informatics

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

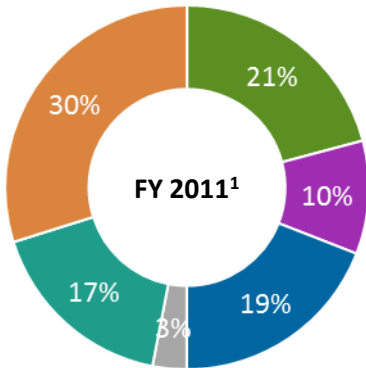
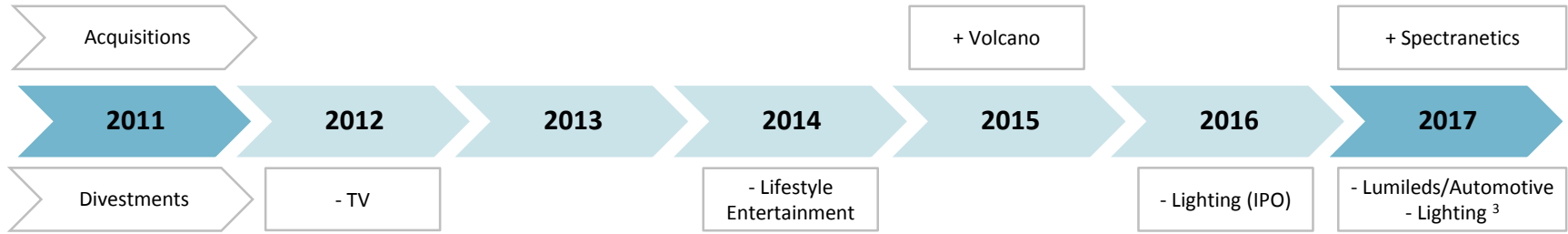
Personal Health

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

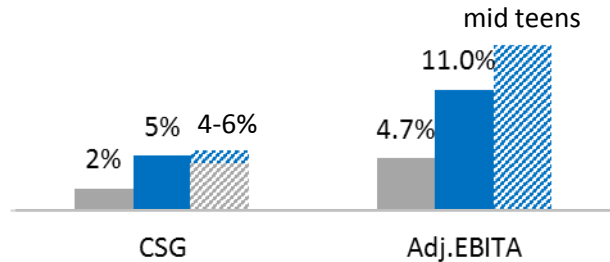
- EUR 1.7 billion for R&D, 58,000+ patents rights⁴, 34,000+ trademarks⁴
- More than 1/4th of sales from solutions
- ~73,000 employees in over 100 countries
- Philips retains a 41% stake in Philips Lighting, reported as discontinued operations

¹ All figures based on the last twelve months (LTM) Q3 2017 unless stated otherwise; ² Other includes HealthTech Other and Legacy Items; ³ Growth geographies consist of all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel; ⁴ Based on the full year 2016

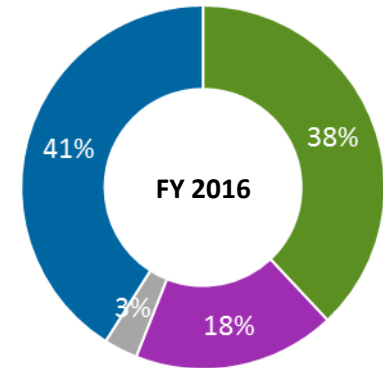
A focused HealthTech leader with higher growth and profitability



Sales EUR 25.3 billion



■ FY 2011 ■ FY 2016 ▨ 2019/2020



Sales EUR 17.4 billion

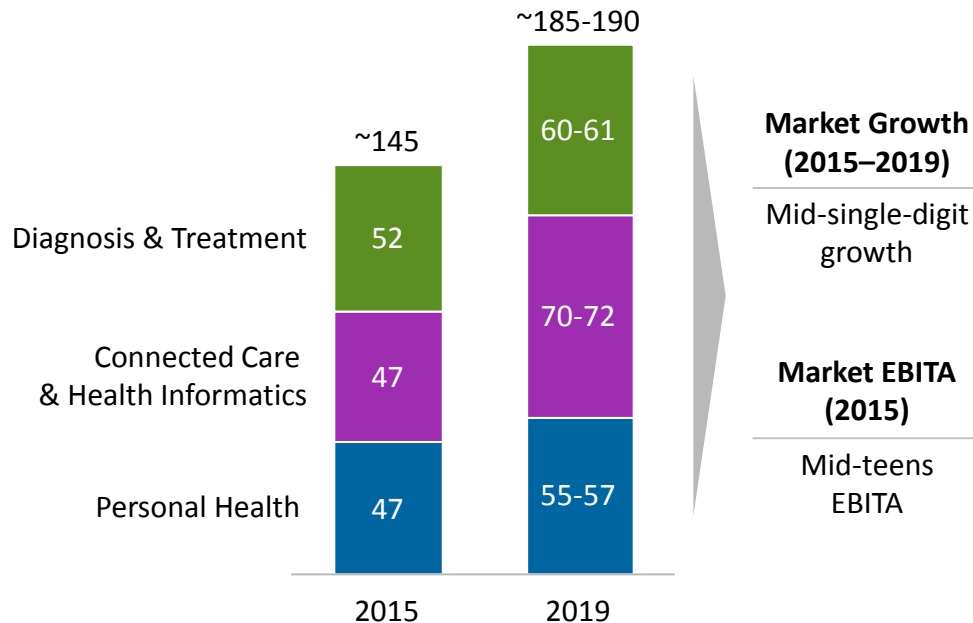
■ Diagnosis & Treatment ■ Connected Care & Health Informatics ■ Personal Health ■ Other² ■ Lighting ■ TV/LE

¹ Lighting includes combined business of Lumileds and Automotive in 2011, Personal Health in 2011 includes Sleep & Respiratory Care portfolio; ² Other includes HealthTech Other and Legacy Items; ³ Philips retains a 41% stake in Philips Lighting, reported as discontinued operations

Our markets have sustained growth and attractive profit pools

HealthTech market size¹

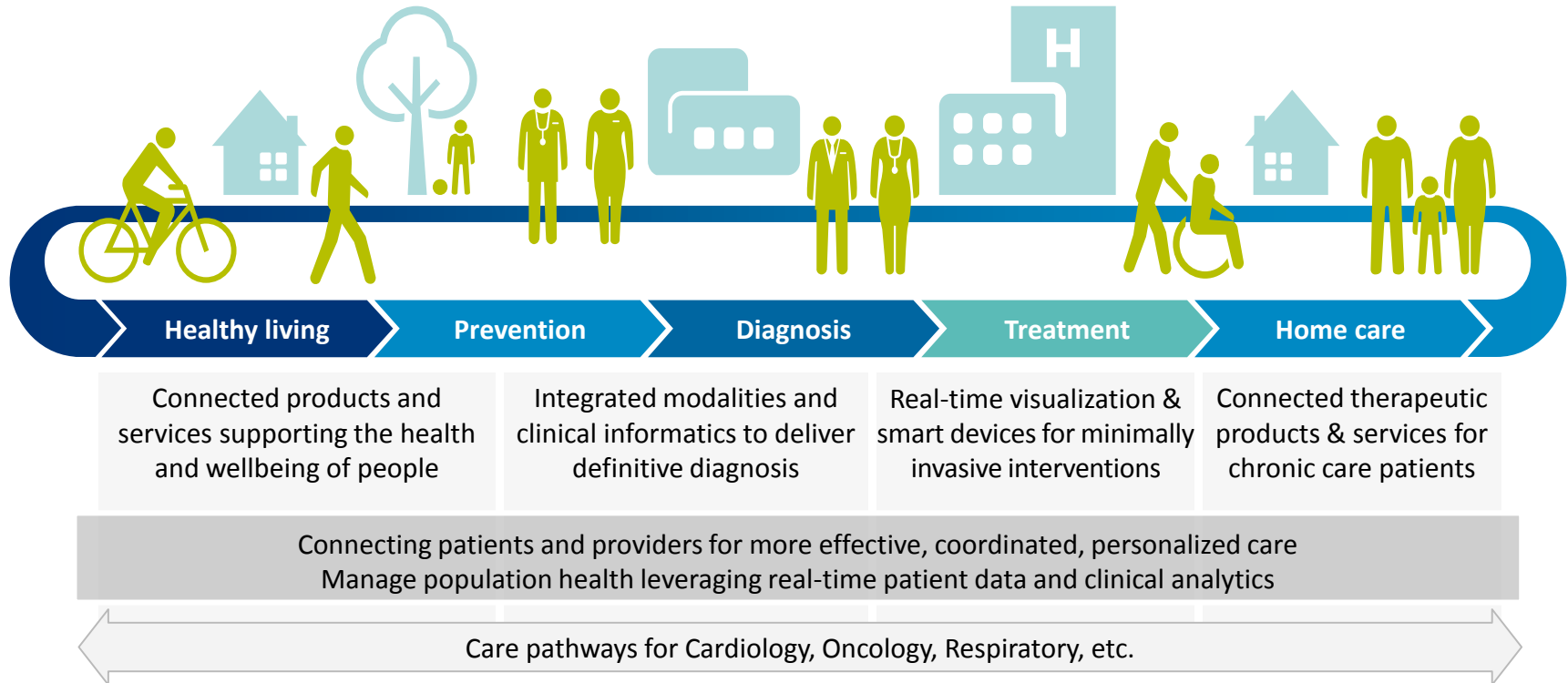
EUR billion



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^{1,2} (share of revenues)

Diagnosis & Treatment



38%

- Diagnostic Imaging
- Ultrasound
- Image-Guided Therapy

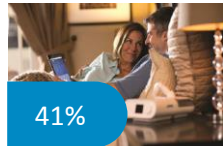
Connected Care & Health Informatics



18%

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

Personal Health



41%

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

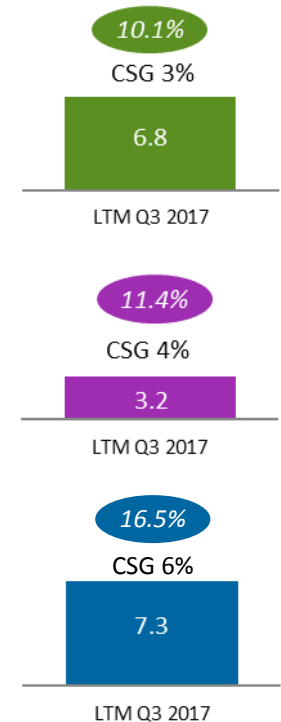
Key products

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

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

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

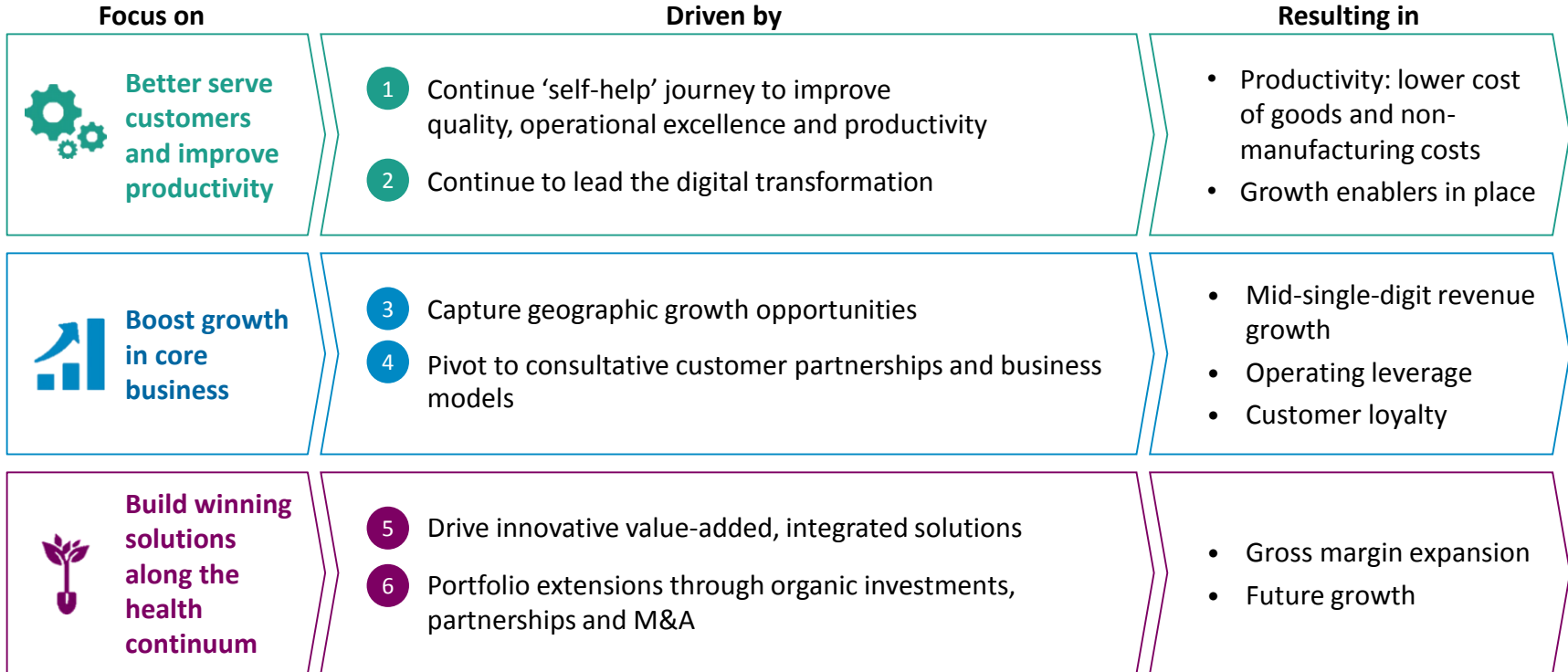
■ Sales¹ (EUR bn) ● Adj. EBITA margin¹



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



Key drivers for our value creation



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:

- Consolidating geographical manufacturing footprint
- Procurement savings, led by proven DfX program
- Overhead cost reduction

Philips Business System



Accelerate!

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

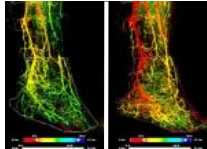
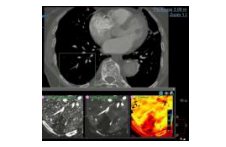





- Regained trauma center designation to safeguard USD 15 million of annual revenue

Drive innovative value-added, integrated solutions

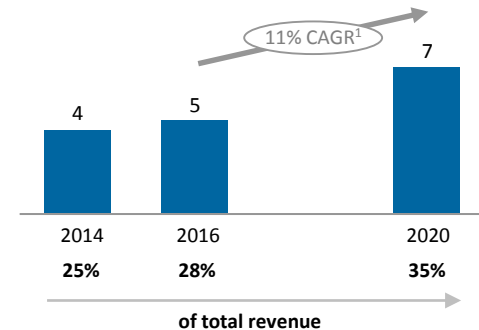
Better value for customers, higher margins, recurring revenue models

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



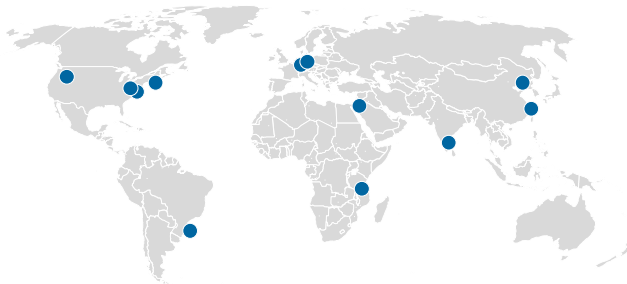
Solutions business characteristics:

- 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 58,000+ patents¹, 34,000+ trademarks¹ and 40,000+ 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

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

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

Recent accomplishments

Industry Group Leader
in 2017, 2016, 2015



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





























“**Champion for Change**” award from
Practice GreenHealth, 3rd consecutive
year



As of January 2017, Philips in North
America is **100% powered by wind**
energy



Experienced management team driving growth, operational excellence and value creation

CEO / CFO	Segment Leaders	Market Leaders	Function Leaders
 <p><i>CEO</i> Frans van Houten</p> 	 <p><i>Personal Health</i> Egbert van Acht</p> 	 <p><i>Global Markets¹</i> Henk de Jong</p> 	 <p><i>Innovation & Strategy</i> Jeroen Tas</p> 
 <p><i>CFO</i> Abhijit Bhattacharya</p> 	 <p><i>Diagnosis & Treatment</i> Robert Cascella</p> 	 <p><i>North America</i> 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> 

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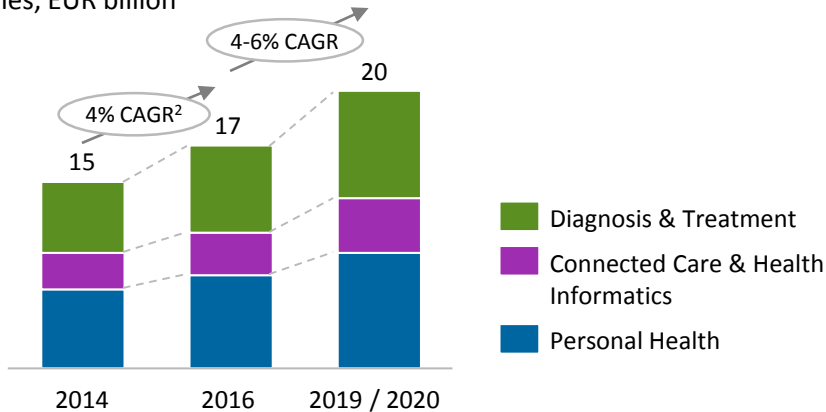
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Building Philips to EUR 20 billion¹ sales with significantly improved returns

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

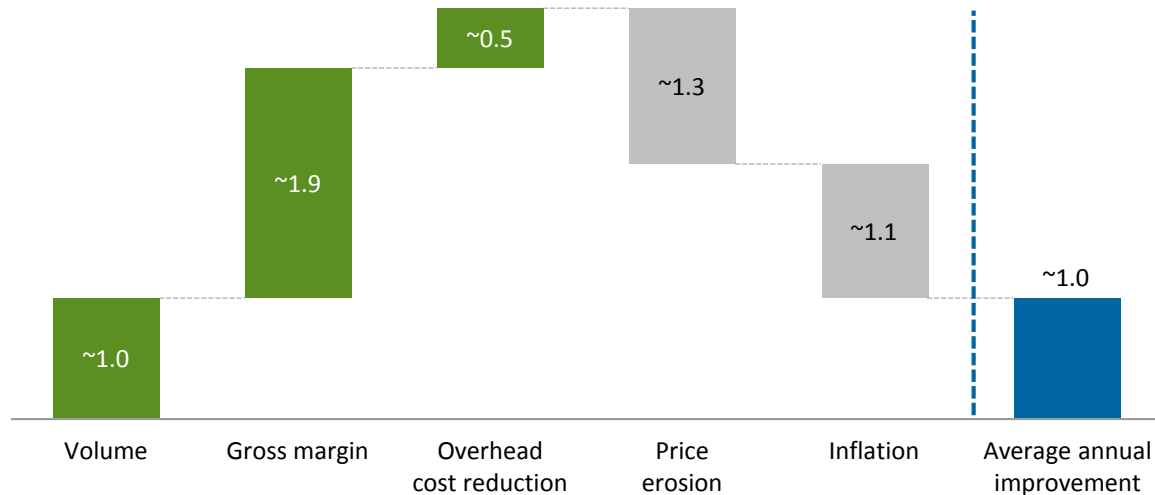


- Performance improvement driven by:
 - Operational excellence and growth in Diagnosis & Treatment
 - Capture growth in Connected Care & Health Informatics
 - Continue momentum in Personal Health
- Continued productivity initiatives to improve margins
- Balance Sheet improvements will contribute to improving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

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

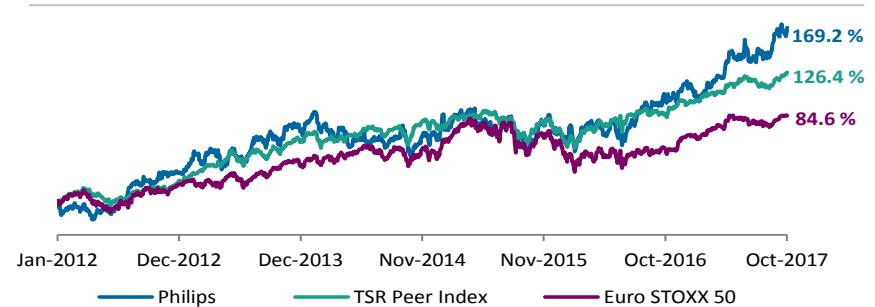
- Operating leverage in selling expenses and R&D
- Gross margin improvement:
 - Consolidating geographical manufacturing footprint
 - Procurement savings, led by proven DfX program
 - Mix improvement
- Overhead reduction enabled by simplification of end-to-end businesses processes

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

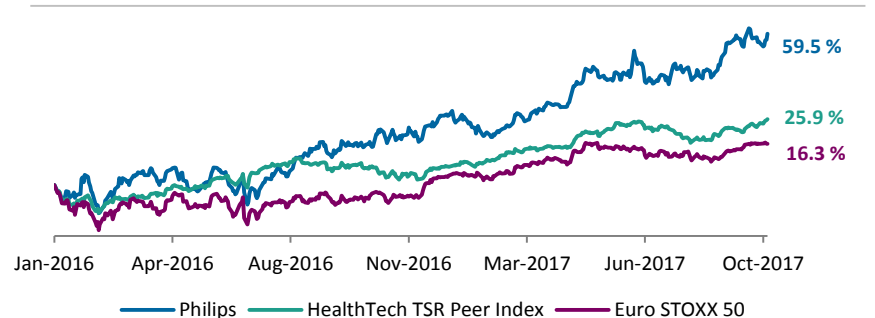
Disciplined capital allocation balancing attractive shareholder returns and investments for growth

- ✓ Continue to invest in high ROIC organic growth opportunities
- ✓ Disciplined but more active approach to M&A, while continuing to adhere to strict return hurdles
 - Strategic acquisitions of Volcano and Spectranetics for c. EUR 2.9 billion
- ✓ Dividend policy aimed at dividend stability
 - Track record of stable or rising dividends over more than 20 years
- ✓ New EUR 1.5 billion share buyback program for the coming two years. Completed EUR 3.5 billion of share buybacks between 2011-2016
- ✓ Committed to a strong investment grade rating
- ✓ Continued focus on driving balance sheet efficiency

Total shareholder returns since 2012 ¹



Total shareholder returns since 2016 ²



Source: Bloomberg as of 20 October, 2017

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Performance Highlights

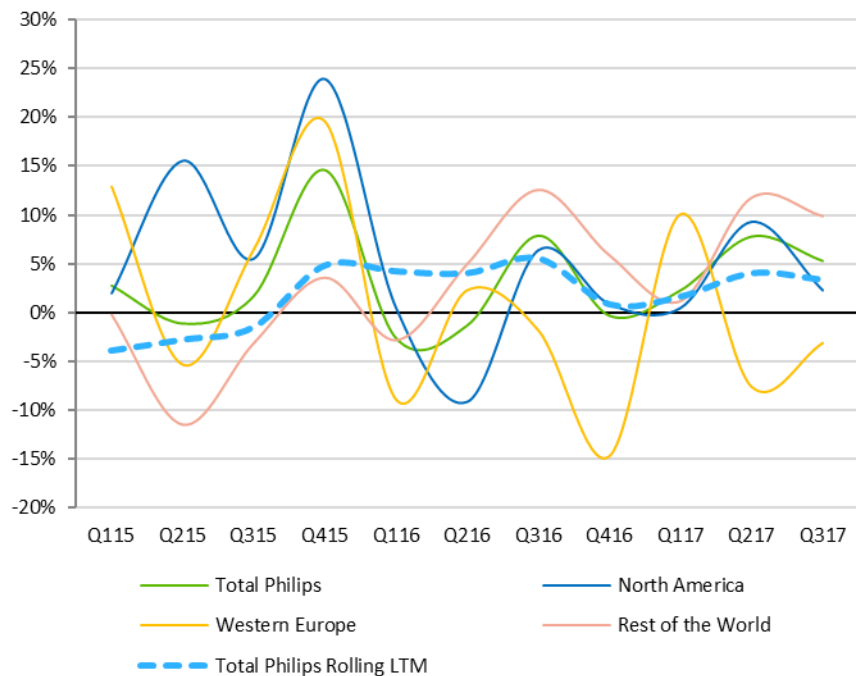
Q3 2017

- Comparable sales up 4% compared to Q3 2016
- Comparable order intake up 5% compared to Q3 2016
- Adj. EBITA margin of 12.8%, up 140 bps compared to Q3 2016
- Inventories amounted to 14.9% of sales¹, down 120 bps compared to Q3 2016
- Free cash of EUR 72 million, compared to EUR 65 million in Q3 2016

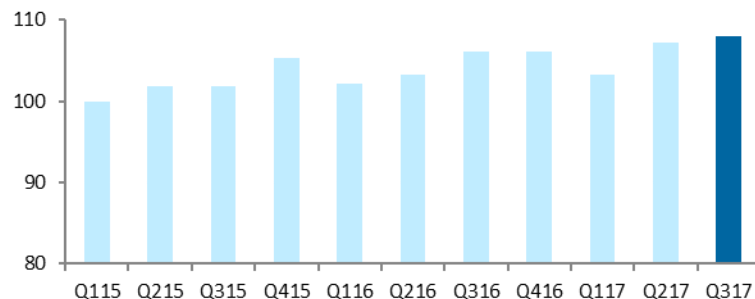
	Sales EUR million	Comparable sales growth	Adj. EBITA margin	vs. LY (bps)	Adj. EBITDA margin	vs. LY (bps)
Personal Health	1,650	+5%	16.5%	+130	19.8%	+110
Diagnosis & Treatment	1,638	+2%	11.7%	+40	13.7%	-20
Connected Care & Health Informatics	751	+8%	12.8%	+440	16.5%	+380
HealthTech Other	108					
Philips	4,148	+4%	12.8%	+140	16.5%	+100

Order intake and book¹

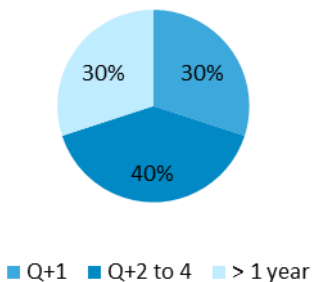
Comparable order intake growth



Indexed order book development



Typical profile of order book conversion to sales

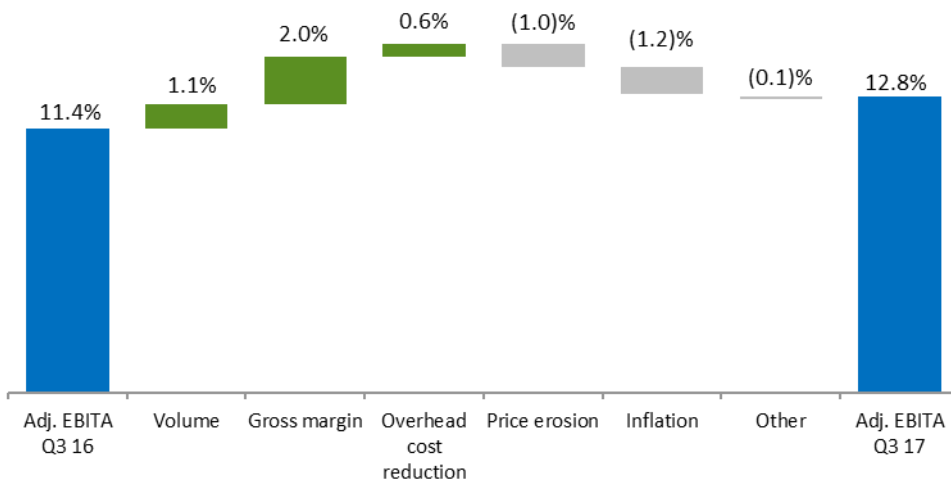


- Approximately 70% of the current order book results in sales within the next 12 months
- Quarter end order book is a leading indicator for ~30% of sales the following quarters

Underlying improvements in profitability

Adjusted EBITA bridge for Q3 2017

as a % of sales



Productivity initiatives contributing to medium-term targets

EUR million

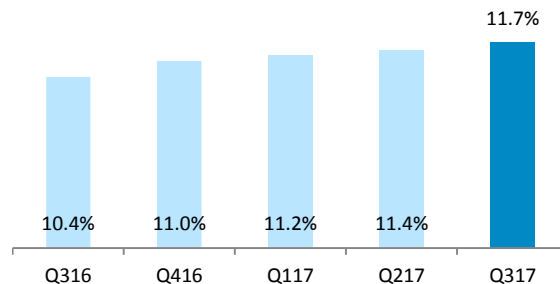
3 years plan¹ Q3 2017 YTD 2017

Procurement	700	77	179
Other productivity (net) ²	500	69	171
Total (net)	1,200	146	350

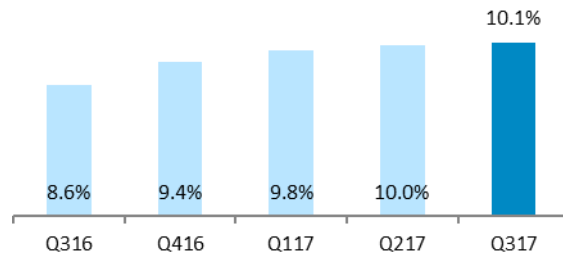
Adjusted EBITA¹ margin development

Rolling last twelve months

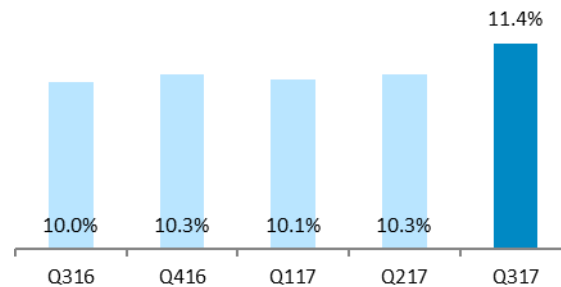
Philips



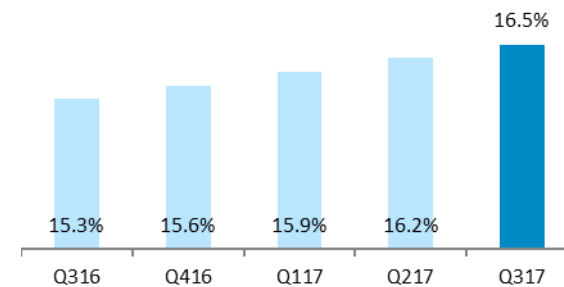
Diagnosis & Treatment



Connected Care & Health Informatics

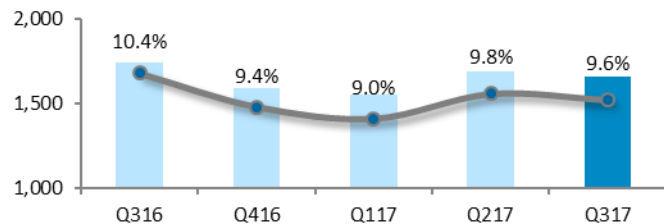


Personal Health

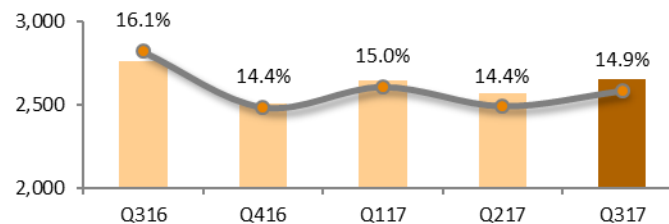


Working capital and inventories

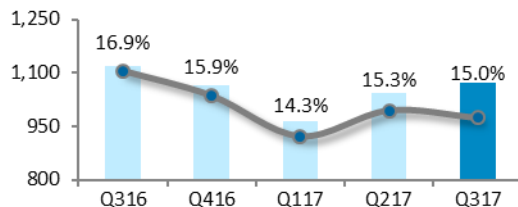
Working capital¹, EUR million — as % of LTM sales²



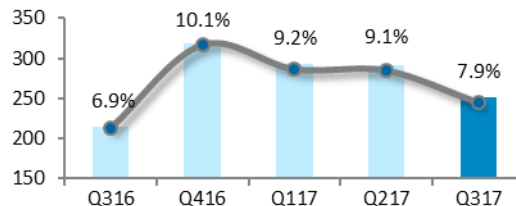
Inventories, EUR million — as % of LTM sales²



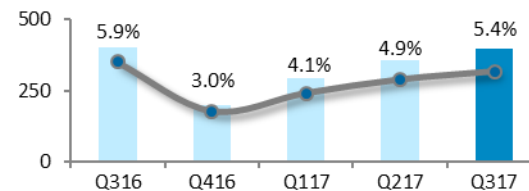
Diagnosis & Treatment



Connected Care & Health Informatics

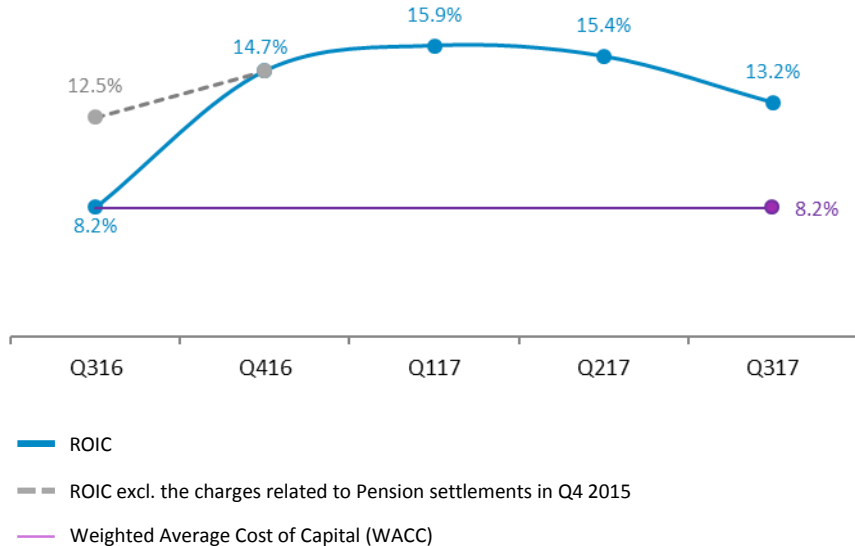


Personal Health



Development of Return on Invested Capital (ROIC)

- ROIC¹ decreased to 13.2% in Q3 2017 compared to 15.4% in Q2 2017 mainly driven by acquisitions and increased one-off charges.



Appendix

Key financials

EUR million	Q3 2016	Q3 2017
Sales	4,157	4,148
Income from operations (EBIT)	381	299
Financial expenses, net	(189)	(35)
Income taxes	16	(5)
Net income (loss)	383	423
Net cash flow from operating activities	259	295
Net capital expenditures	(194)	(223)
Free cash flow	65	72

EBITA	441	364
Adjusted EBITA	474 ¹	532 ²
Adjusted EBITDA	646 ¹	686 ²

EUR million	Q3 2016	Q3 2017	FY 2015	FY 2016
Gross CapEx ³	93	107	432	360
Depreciation ³	104	108	422	458
Capitalization of development costs	79	106	351	345
Amortization of development costs	56	92	242	225
Amortization of software and other intangible assets	72	78	308	293

¹ Q3 2016 excludes EUR (10)M of restructuring and acquisition-related charges and EUR (23)M other items. ² Q3 2017 excludes EUR (120)M of restructuring and acquisition-related charges and EUR 30 (47)M other items. ³ Capital expenditures and depreciations on property, plant and equipment only.

Restructuring, acquisition-related charges and other items

EUR million	Q1 16	Q2 16	Q3 16	Q4 16	2016	Q1 17	Q2 17	Q3 17
Personal Health	(2)	(1)	-	(13)	(16)	(2)	(1)	-
Restructuring & Acq.-related charges	(2)	(1)	-	(13)	(16)	(2)	(1)	-
Other items	-	-	-	-	-	-	-	-
Diagnosis & Treatment	(9)	(7)	(6)	(15)	(37)	(11)	(31)	(85)
Restructuring & Acq.-related charges	(9)	(7)	(6)	(15)	(37)	(11)	(31)	(63) ⁷
Other items	-	-	-	-	-	-	-	(22) ⁸
Connected Care & Health Informatics	(4)	(1)	(4)	7	(2)	(26)	(37)	(43)
Restructuring & Acq.-related charges	(4)	3	(5)	(8)	(14)	(9)	(25)	(25)
Other items	-	(4)	1	15	12	(17) ⁴	(12) ⁴	(18) ⁴
HealthTech Other	2	(3)	1	(54)	(54)	56	(7)	(32)
Restructuring & Acq.-related charges	2	(3)	1	(28)	(28)	(3)	(7)	(32)
Other items	-	-	-	(26) ³	(26)	59 ⁵	-	-
Legacy Items	(52)	(45)	(24)	17	(104)	(11)	(34)	(7)
Restructuring & Acq.-related charges	-	-	-	1	1	-	-	-
Other items	(52)	(45) ¹	(24) ¹	16 ^{1,2}	(105)	(11) ¹	(34) ^{1,6}	(7) ¹
Philips	(65)	(57)	(33)	(58)	(213)	6	(111)	(167)
Restructuring & Acq.-related charges	(13)	(8)	(10)	(63)	(94)	(25)	(65)	(120)
Other items	(52)	(49)	(23)	5	(119)	31	(46)	(47)

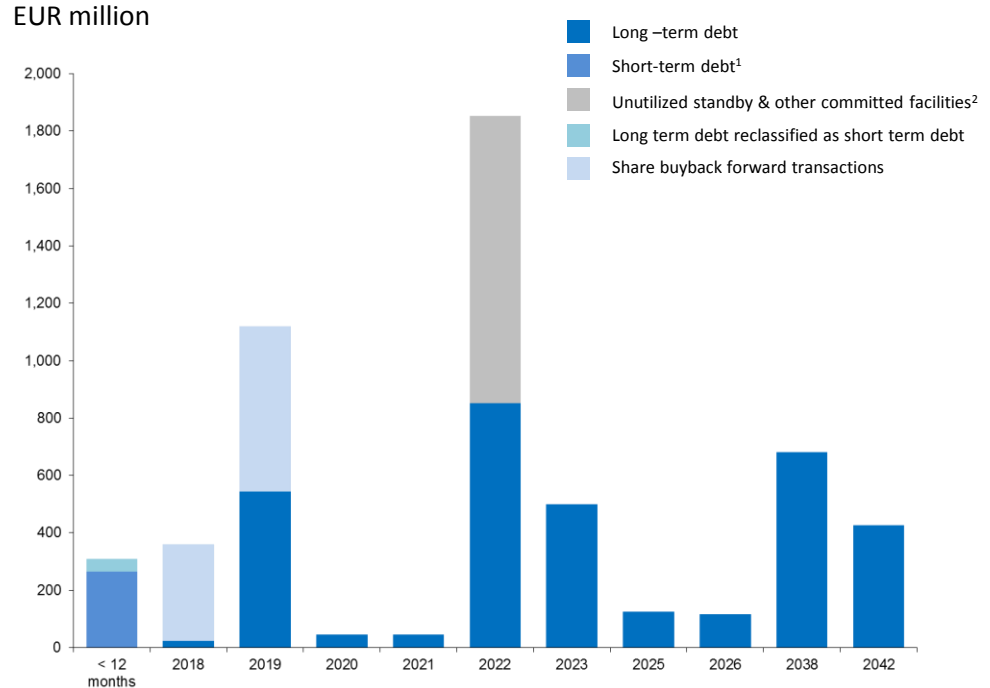
1. Relates to the separation of the Lighting business. 2. Includes EUR 46 million gain from the settlement of a pension-related claim. 3. EUR 26 million impairment of real estate assets. 4. Charges related to quality and regulatory actions. 5. EUR 59 million gain on the sale of real estate assets. 6.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

Philips' debt has a long maturity profile

Characteristics of long-term debt

- Total net debt position of EUR 3.7 billion
- Maturities up to 2042
- Average tenor of long-term debt is 10.1 years³
- No financial covenants
- On June 28, 2017, Royal Philips announced a EUR 1.5 billion share buyback program. Philips started the program in the third quarter of 2017, and intends to complete it in two years. Long term debt includes forward transactions entered into as part of this program, to be settled at future dates over the course of the program
- On August 31, 2017, Royal Philips announced the successful pricing of its issue of EUR 500 million floating rate notes due 2019 and EUR 500 million fixed rate notes due 2023

Debt maturity profile as per September 2017



Funded status for post-employment defined-benefit plans

IFRS basis

EUR million	Funded status	
	June 2017	September 2017
Pension plans	(1,053)	(796)
Retiree medical plans	(112)	(108)
Philips	(1,164)	(904)

EUR million	Balance sheet position	
	June 2017	September 2017
Pension plans	(1,136)	(882)
Retiree medical plans	(112)	(108)
Philips	(1,248)	(990)

The funded status and balance sheet position improved further in Q3 2017, mainly as a result of the additional contribution in the US pension fund of USD 250 million (EUR 219 million) in July, 2017.

Financial calendar 2017/2018

November 2	Capital Markets Day, New York
November 7	Societe Generale ESG/SRI Conference, Paris
November 7	Credit Suisse Annual Healthcare Conference 2017, Scottsdale AZ, USA
January 9	JPM Healthcare Conference 2018, San Francisco, USA
January 30	Fourth quarter and full year results 2017

