

Royal Philips

Fourth Quarter and Annual Results 2014 Information booklet

January 27th, 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 2013 and the "Risk and uncertainties" section in the semi-annual financial report for the six months ended June 29, 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 2013. Further information on non-GAAP measures can be found in our Annual Report 2013.

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 2013. 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 2013, unless otherwise stated.

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Financial performance Q4 2014: Group

Sales & order intake

- Comparable sales amounted to EUR **6.5 billion**, down **2%** year-on-year
- Comparable sales of Consumer Lifestyle grew by **6%** and Lighting posted a **3%** decline
- Healthcare comparable sales declined by **3%**, equipment order intake down **5%**
- Comparable sales in growth geographies down by **low-single-digit**

EBITA & Adjusted EBITA¹

- EBITA amounted to a gain of EUR **262 million** and included EUR 279 million restructuring and acquisition-related charges and EUR 202 million other incidentals
- Adjusted EBITA was EUR **743 million**, or **11.4%** of sales, compared to EUR 827 million last year, or 12.9% of sales. The decrease was mainly due to lower results at Healthcare

Cost savings & Net Income

- Gross overhead cost savings of EUR 35 million. Annualized savings of EUR **284 million**
- Net income of EUR **134 million**, compared to net income of EUR 412 million in Q4 2013
- EPS was EUR **0.15** compared to EUR 0.44 in Q4 2013

Asset management & ROIC

- Inventories as a % of sales increased by 180 basis points to 15.5%, driven by currency, the production ramp-up at Cleveland and the consolidation of GLC in Saudi Arabia
- Free Cash Flow improved to EUR **559 million**, compared to EUR 481 million in Q4 2013
- ROIC, excluding charges related to a legacy legal matter and to the jury verdict in the Masimo litigation², was **8.4%**, compared to 13.9% excluding the CRT fine³ in Q4 2013

Other

- By the end of Q4, we completed 41% of the EUR 1.5 billion share buy-back program

Challenging quarter; Executing Accelerate! and managing headwinds

¹ Adjusted EBITA in Q413 excludes EUR 38 million restructuring and acquisition-related charges. ² Philips will appeal the decision. ³ CRT = Cathode-Ray Tubes, a business divested by Philips in 2001. Philips has appealed the decision. Charges were taken in Q4 2012.

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

Financial performance Q4 2014: Healthcare

Order intake

- Currency-comparable equipment order intake showed a **5%** decline
- Patient Care & Monitoring Solutions had a low-single-digit decline and Imaging Systems showed a mid-single-digit decline

Sales

- Comparable sales declined **3%** year-on-year
- Patient Care & Monitoring Solutions and Customer Services grew by mid-single-digit while Healthcare Informatics, Solutions & Services showed a low-single-digit decline. Imaging Systems decreased by double-digit

EBITA & Adjusted EBITA¹

- EBITA amounted to EUR **390 million** and included EUR 47 million restructuring and acquisition-related charges and EUR 16 million gains from other incidentals
- Adjusted EBITA was EUR **421 million**, or **14.8%** of sales, compared to 19.0% last year. The decrease was mainly due to operational losses related to the voluntary suspension of production at the Cleveland facility and negative currency impacts

Net Operating Capital (NOC)

- Inventories as a % of sales increased by 270 basis points driven by currency impacts and the production ramp-up at the Cleveland facility
- NOC decreased by EUR 630 million to EUR **7.6 billion** on a currency comparable basis

Operational earnings impacted by Cleveland and currency

Financial performance Q4 2014: Consumer Lifestyle

Sales

- Comparable sales grew by **6%** compared to Q4 2013
- Health & Wellness achieved double-digit growth, while Personal Care recorded mid-single-digit growth and Domestic Appliances posted low-single-digit growth
- Comparable sales in growth geographies showed high-single-digit growth

EBITA & Adjusted EBITA¹

- EBITA was EUR **251 million**, or **16.4%** of sales, and included EUR 4 million restructuring & acquisition-related charges and EUR 11 million gains from other incidentals
- Adjusted EBITA was EUR **244 million**, or **16.0%** of sales, compared to 13.4% in Q4 2013. The increase was largely due to higher volumes and improved gross margins

Net Operating Capital (NOC)

- Inventories as a % of sales increased by 120 basis points
- NOC increased by EUR 30 million to EUR **1.4 billion** on a currency comparable basis

Mid-single-digit growth and strong operational leverage

Financial performance Q4 2014: Lighting

Sales

- Comparable sales were down **3%** year-on-year
- Professional Lighting Solutions achieved mid-single-digit growth. Light Sources & Electronics posted a mid-single-digit decline, and Consumer Luminaires recorded a double-digit decline
- LED-based sales grew by **20%** compared to Q4 2013 and now represent **37%** of sales

EBITA & Adjusted EBITA¹

- EBITA amounted to a loss of EUR 40 million, including EUR 163 million restructuring & acquisition-related charges and EUR 55 million net loss from other incidentals
- Adjusted EBITA was EUR **178 million**, or **9.0%** of sales, compared to 8.8% last year.

Net Operating Capital (NOC)

- Inventories as a % of sales increased by 130 basis points year-on-year mainly due to the consolidation of the General Lighting Company (GLC) in Saudi Arabia
- NOC decreased by EUR 1.1 billion to EUR **3.6 billion** on a currency comparable basis, due to the reclassification of Lumileds/Automotive as assets held for sale in Q4 2014

Other

- Following the decision to combine Lumileds and Automotive into a stand-alone company and explore options to attract capital from investors, the Profit and Loss of those businesses is now reported under discontinued operations

Operational earnings improve on lower sales volume

¹ Adjusted EBITA in Q413 excludes EUR 29 million of restructuring charges.

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

Financial performance Q4 2014: by geography

Growth Geographies¹

- Comparable sales declined by **2%**, reflecting lower sales at Healthcare and Lighting. Solid growth in Latin America and Middle East & Turkey was offset by a double-digit decline in China
- Healthcare comparable equipment order intake grew by **low-single-digit**, with strong performances in Russia & Central Asia, Middle East & Turkey and Africa, partly offset by a double-digit decline in China and Latin America

North America

- Comparable sales were **flat** year-on-year. A low-single-digit decline in Healthcare was offset by mid-single-digit sales growth in Consumer Lifestyle and flat sales in Lighting
- Healthcare comparable equipment order intake decreased by **double-digits**, reflecting challenging market conditions and the Cleveland facility impact

Western Europe

- Comparable sales were **flat** year-on-year. A low-single-digit decline in Healthcare was offset by mid-single-digit sales growth in Consumer Lifestyle and flat sales in Lighting
- Healthcare comparable equipment order intake grew by **mid-single-digit**

Growth geographies performance impacted by China

¹ 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 – Q4 2014 and FY 2014

EUR million

	Q4 2013	Q4 2014	FY 2013	FY 2014
Sales	6,401	6,536	21,990	21,391
Adjusted EBITA	827	743	2,308	1,915
EBITA	789 ¹	262 ¹	2,276 ²	821 ²
Financial income and expenses	(77)	(78)	(330)	(301)
Income taxes	(161)	(16)	(466)	(26)
Net income	412	134	1,172	411
Net Operating Capital	10,238	8,838	10,238	8,838
Net cash flow from operating activities	746	841	912	1,303
Net capital expenditures	(265)	(282)	(830)	(806)
Free cash flow	481	559	82	497

¹ Q4 2014 includes EUR (279)M of restructuring and acquisition-related charges and EUR (202) million other incidentals; Q4 2013 includes EUR (38)M of restructuring and acquisition-related charges.² FY 2014 includes EUR (434)M of restructuring and acquisition-related charges and EUR (660)M in other net losses, FY 2013 includes EUR (100)M of restructuring and acquisition-related charges and EUR 68M in other gains.

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

Sales by sector – Q4 2014

EUR million

	Q4 2013	Q4 2014	% nom	% comp
Healthcare	2,828	2,849	1	(3)
Consumer Lifestyle	1,428	1,528	7	6
Lighting	1,921	1,975	3	(3)
Innovation, Group & Services	224	184	(18)	(21)
Philips Group	6,401	6,536	2	(2)

Sales by sector – FY 2014

EUR million

	FY 2013	FY 2014	% nom	% comp
Healthcare	9,575	9,186	(4)	(2)
Consumer Lifestyle	4,605	4,731	3	6
Lighting	7,145	6,869	(4)	(3)
Innovation, Group & Services	665	605	(9)	(12)
Philips Group	21,990	21,391	(3)	(1)

Sales by geography – Q4 2014

EUR million

	Q4 2013	Q4 2014	% nom	% comp
Western Europe	1,766	1,776	1	-
North America	1,855	1,981	7	-
Other mature geographies	509	451	(11)	(12)
Growth geographies ¹	2,271	2,328	3	(2)
Philips Group	6,401	6,536	2	(2)

¹ 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 by geography – FY 2014

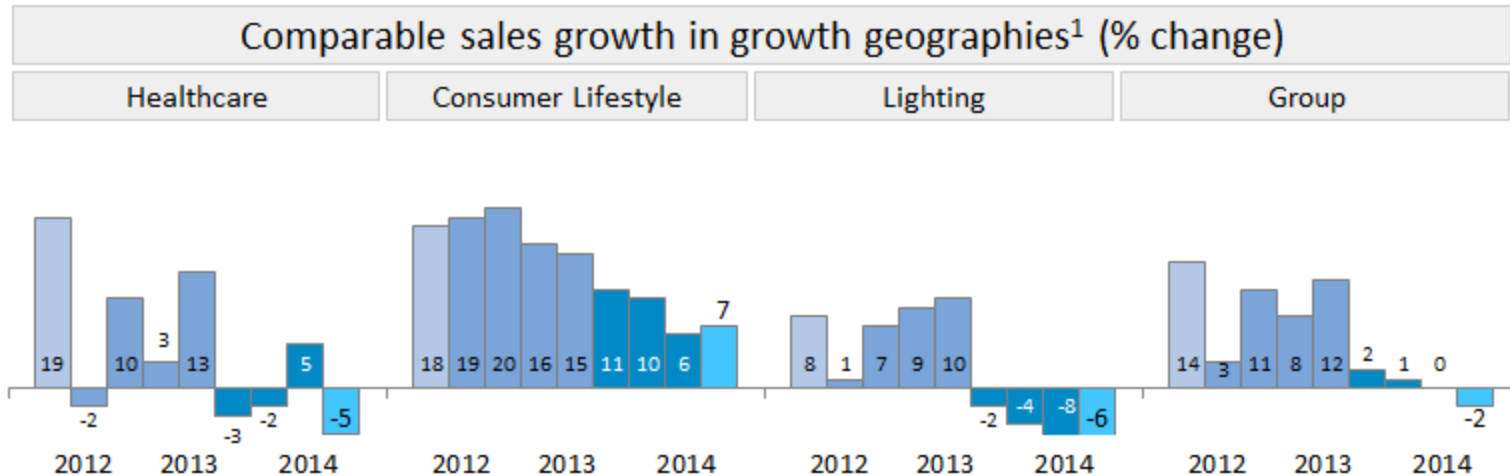
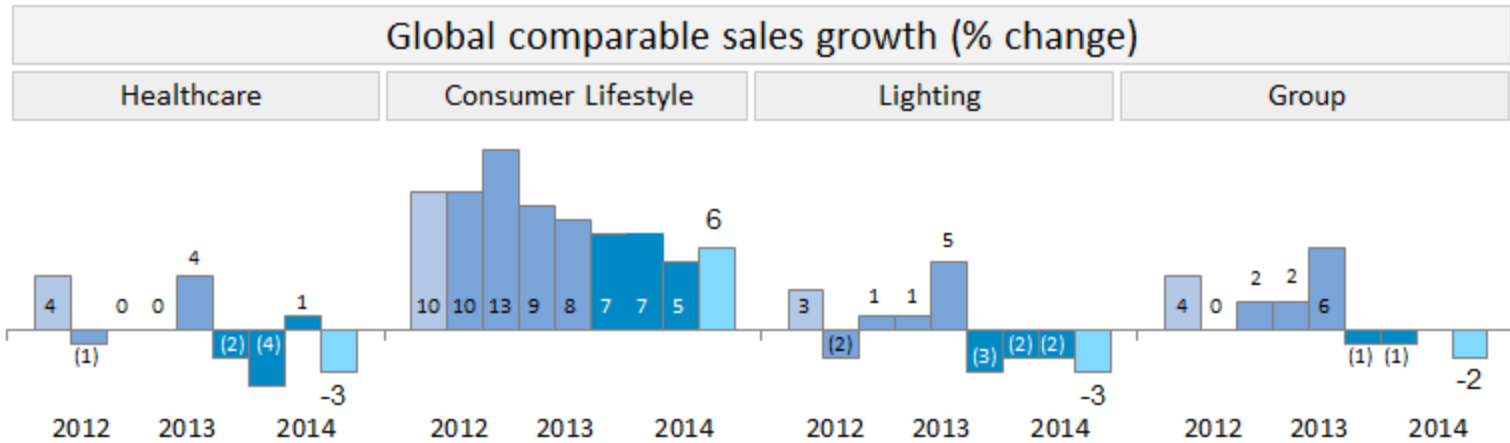
EUR million

	FY 2013	FY 2014	% nom	% comp
Western Europe	5,680	5,666	(0)	(1)
North America	6,883	6,678	(3)	(2)
Other mature geographies	1,759	1,660	(6)	(1)
Growth geographies ¹	7,668	7,388	(4)	-
Philips Group	21,990	21,391	(3)	(1)

¹ 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

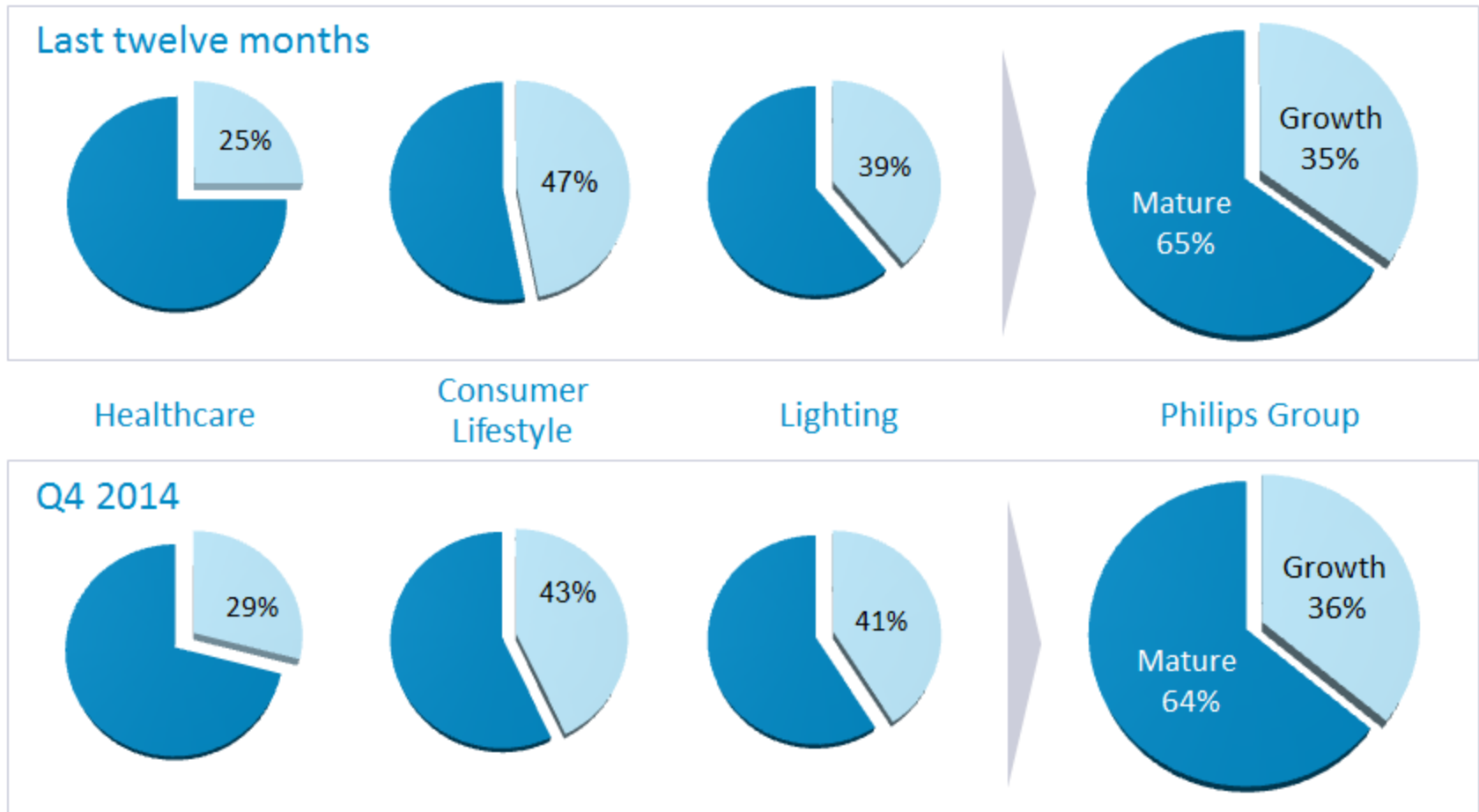
Trend Q4 2012 – Q4 2014



¹ 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 geographies¹

Last twelve months and Q4 2014



EBITA by sector – Q4 2014

EUR million

	Q4 2013		Q4 2014	
		as % of sales		as % of sales
Healthcare ¹	541	19.1%	390	13.7%
Consumer Lifestyle ²	187	13.1%	251	16.4%
Lighting ³	140	7.3%	(40)	(2.0%)
Innovation, Group & Services ⁴	(79)	-	(339)	-
Philips Group	789	12.3%	262	4.0%

¹ Q4 2014 includes EUR (47)M of restructuring and acquisition-related charges and EUR 16M in other gains, Q4 2013 includes EUR 3M in restructuring-related gains.

² Q4 2014 includes EUR (4)M of restructuring and acquisition-related charges and EUR 11M in other gains; Q4 2013 includes EUR (5)M of restructuring and acquisition-related charges. ³ Q4 2014 includes EUR (163)M of restructuring and acquisition-related charges and EUR (55)M other net losses; Q4 2013 includes EUR (29)M of restructuring charges. ⁴ Q4 2014 includes EUR (65)M restructuring charges and EUR (174)M in other incidentals; Q4 2013 includes EUR (7)M of restructuring charges.

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

EBITA by sector – FY 2014

EUR million

	FY 2013		FY 2014	
		as % of sales		as % of sales
Healthcare ¹	1,512	15.8%	616	6.7%
Consumer Lifestyle ²	483	10.5%	573	12.1%
Lighting ³	580	8.1%	293	4.3%
Innovation, Group & Services ⁴	(299)	-	(661)	-
Philips Group	2,276	10.4%	821	3.8%

¹ FY 2014 includes EUR (70)M of restructuring and acquisition-related charges and EUR (399)M in other net losses, FY 2013 includes EUR 82M in other gains.

² FY 2014 includes EUR (9)M of restructuring and acquisition-related charges and EUR 11M in other gains; FY 2013 includes EUR (14)M of restructuring and acquisition-related charges and EUR 1M in other gains. ³ FY 2014 includes EUR (245)M of restructuring and acquisition-related charges and EUR (55)M other net losses; FY 2013 includes EUR (83)M of restructuring & acquisition-related charges and EUR 10M of other gains. ⁴ FY 2014 includes EUR (110)M of restructuring charges and EUR (217)M other net losses; FY 2013 includes EUR (3)M of restructuring charges and EUR (25)M other losses.

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 – Q4 2014

EUR million

	Q4 2013		Q4 2014	
		as % of sales		as % of sales
Healthcare ¹	538	19.0%	421	14.8%
Consumer Lifestyle ²	192	13.4%	244	16.0%
Lighting ³	169	8.8%	178	9.0%
Innovation, Group & Services ⁴	(72)	-	(100)	-
Philips Group	827	12.9%	743	11.4%

¹ Q4 2014 excludes EUR (47)M of restructuring and acquisition-related charges and EUR 16M in other gains, Q4 2013 excludes EUR 3M in restructuring-related gains.

² Q4 2014 excludes EUR (4)M of restructuring and acquisition-related charges and EUR 11M in other gains; Q4 2013 excludes EUR (5)M of restructuring and acquisition-related charges. ³ Q4 2014 excludes EUR (163)M of restructuring and acquisition-related charges and EUR (55)M other net losses; Q4 2013 excludes EUR (29)M of restructuring charges. ⁴ Q4 2014 excludes EUR (65)M restructuring charges and EUR (174)M in other incidentals; Q4 2013 excludes EUR (7)M of restructuring charges.

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 – FY 2014

EUR million

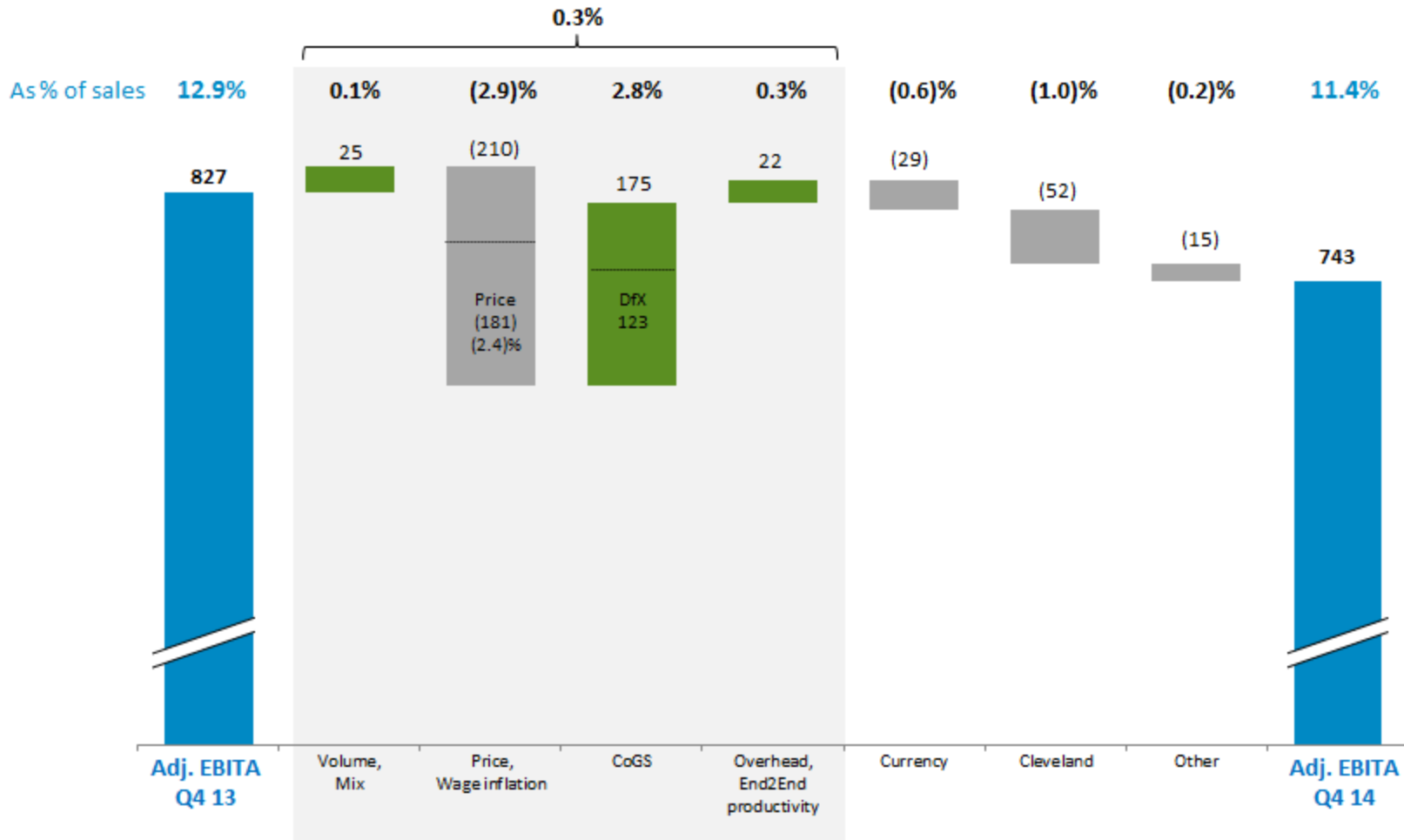
	FY 2013		FY 2014	
		as % of sales		as % of sales
Healthcare ¹	1,430	14.9%	1,085	11.8%
Consumer Lifestyle ²	496	10.8%	571	12.1%
Lighting ³	653	9.1%	593	8.6%
Innovation, Group & Services ⁴	(271)	-	(334)	-
Philips Group	2,308	10.5%	1,915	9.0%

¹ FY 2014 excludes EUR (70)M of restructuring and acquisition-related charges and EUR (399)M in other losses, FY 2013 excludes EUR 82M in other gains.

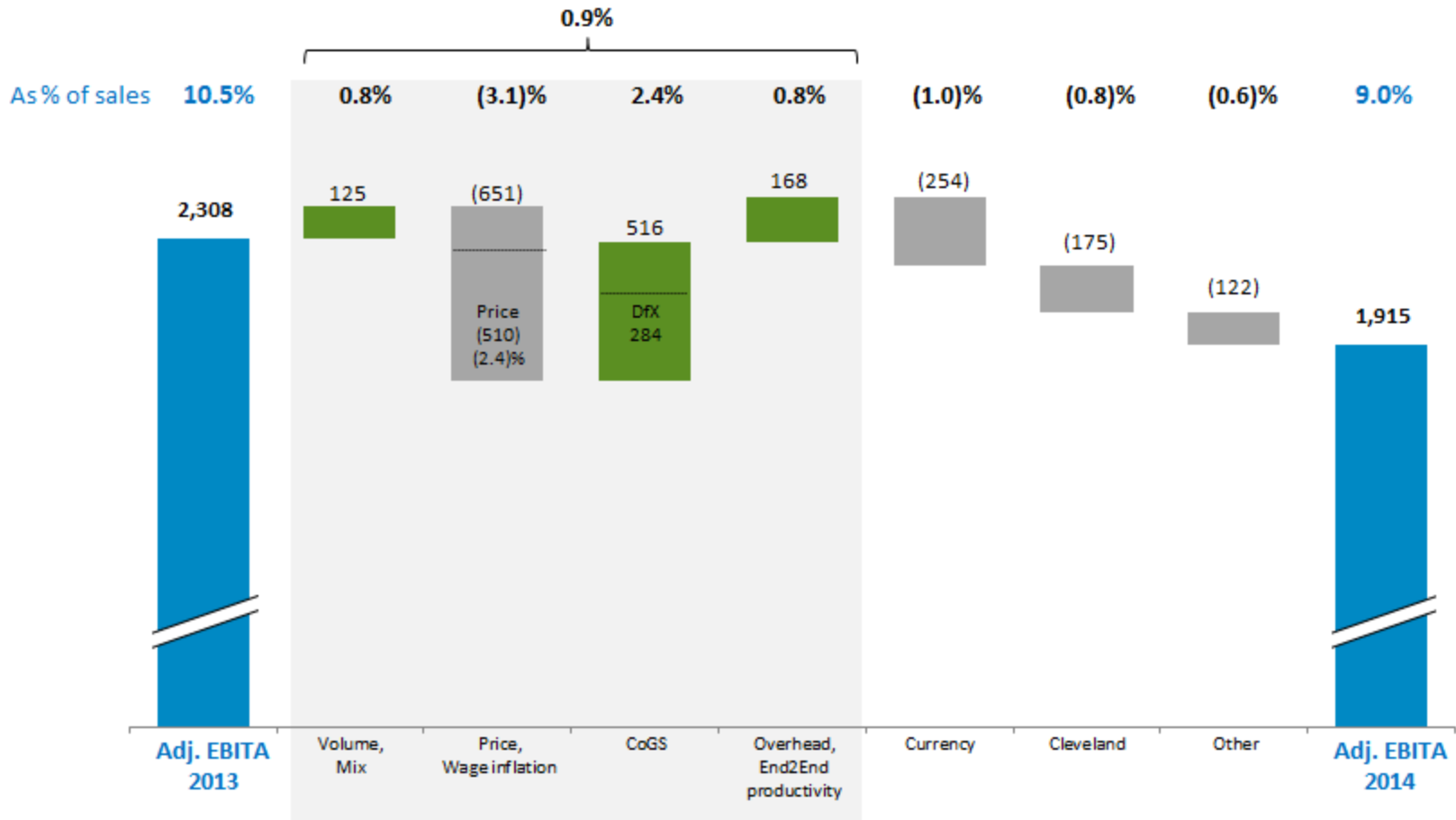
² FY 2014 excludes EUR (9)M of restructuring and acquisition-related charges and EUR 11M in other gains; FY 2013 excludes EUR (14)M of restructuring and acquisition-related charges and EUR 1M in other gains. ³ FY 2014 excludes EUR (245)M of restructuring and acquisition-related charges and EUR (55)M other net losses; FY 2013 excludes EUR (83)M of restructuring & acquisition-related charges and EUR 10 M of other gains. ⁴ FY 2014 excludes EUR (110)M of restructuring charges and EUR (217)M other net losses; FY 2013 excludes EUR (3)M of restructuring charges and EUR (25)M other losses.

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

Accelerate! improves operational performance and partially offsets headwinds in Q4 2014

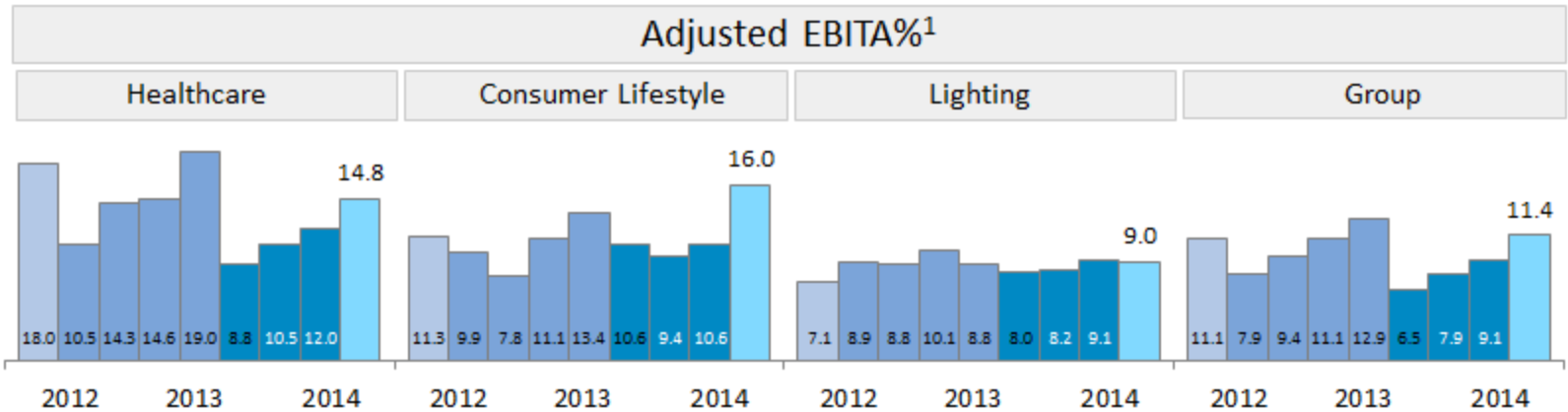
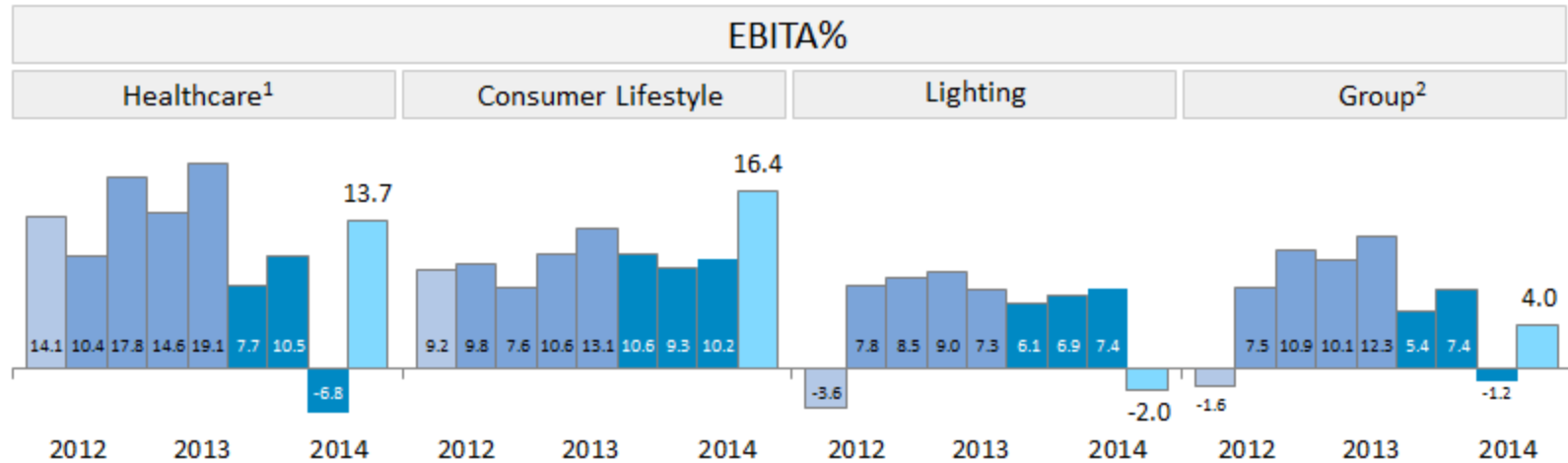


Accelerate! improves operational performance and partially offsets headwinds in 2014



EBITA and Adjusted EBITA Margin development

Trend Q4 2012 – Q4 2014

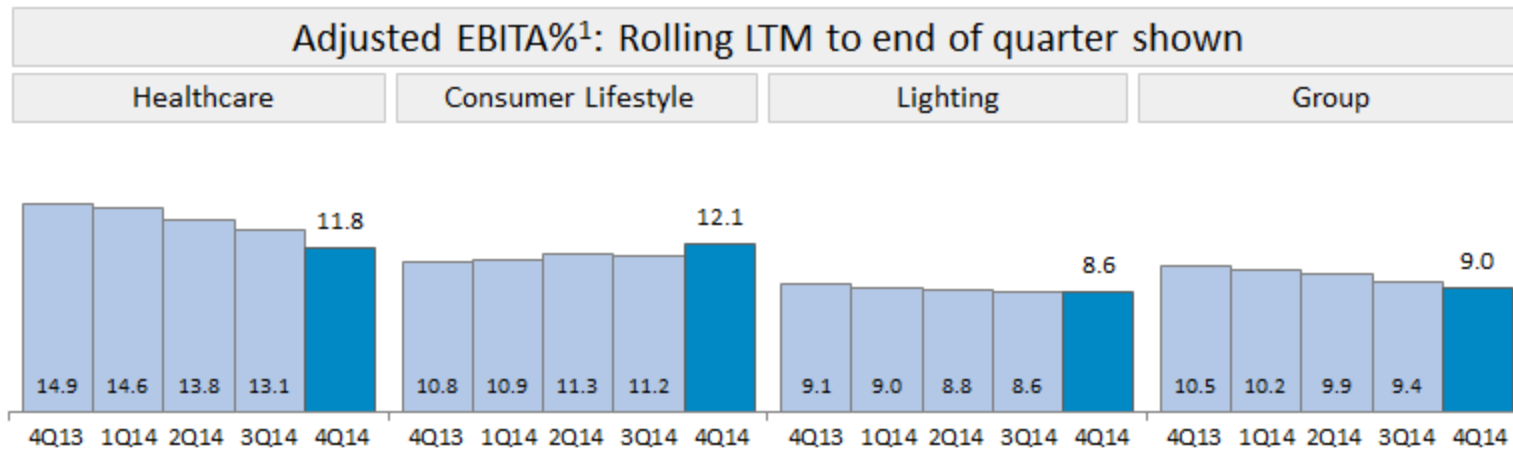
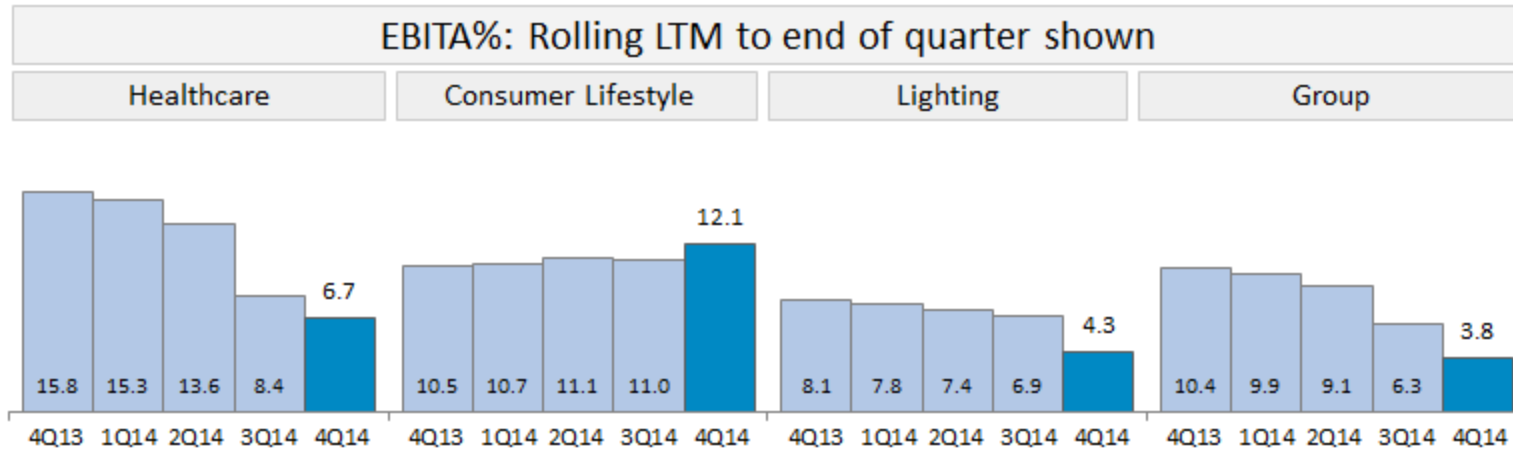


¹ Adjusted EBITA is EBITA excluding restructuring, acquisition-related charges and other items (details on slide 103).

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

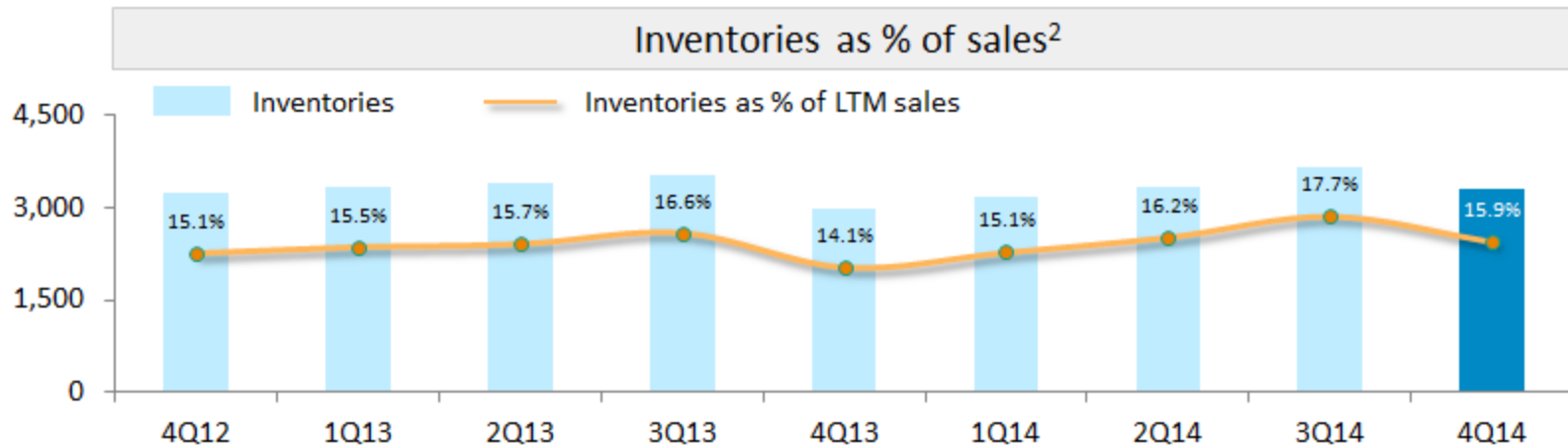
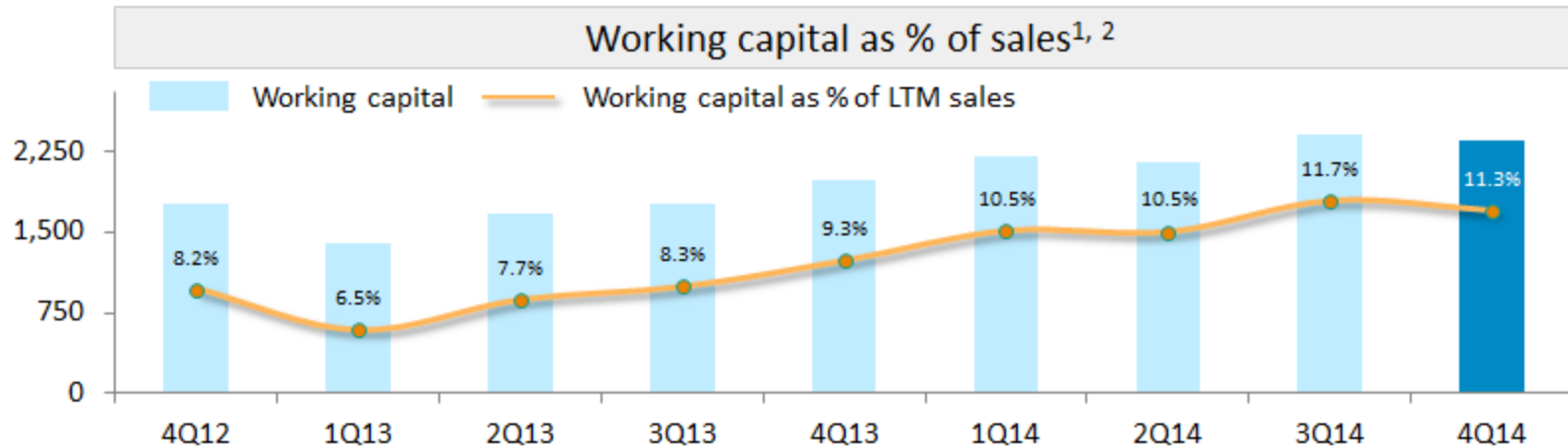


¹ Adjusted EBITA is EBITA excluding restructuring, acquisition-related charges and other items (details on slide 103).

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



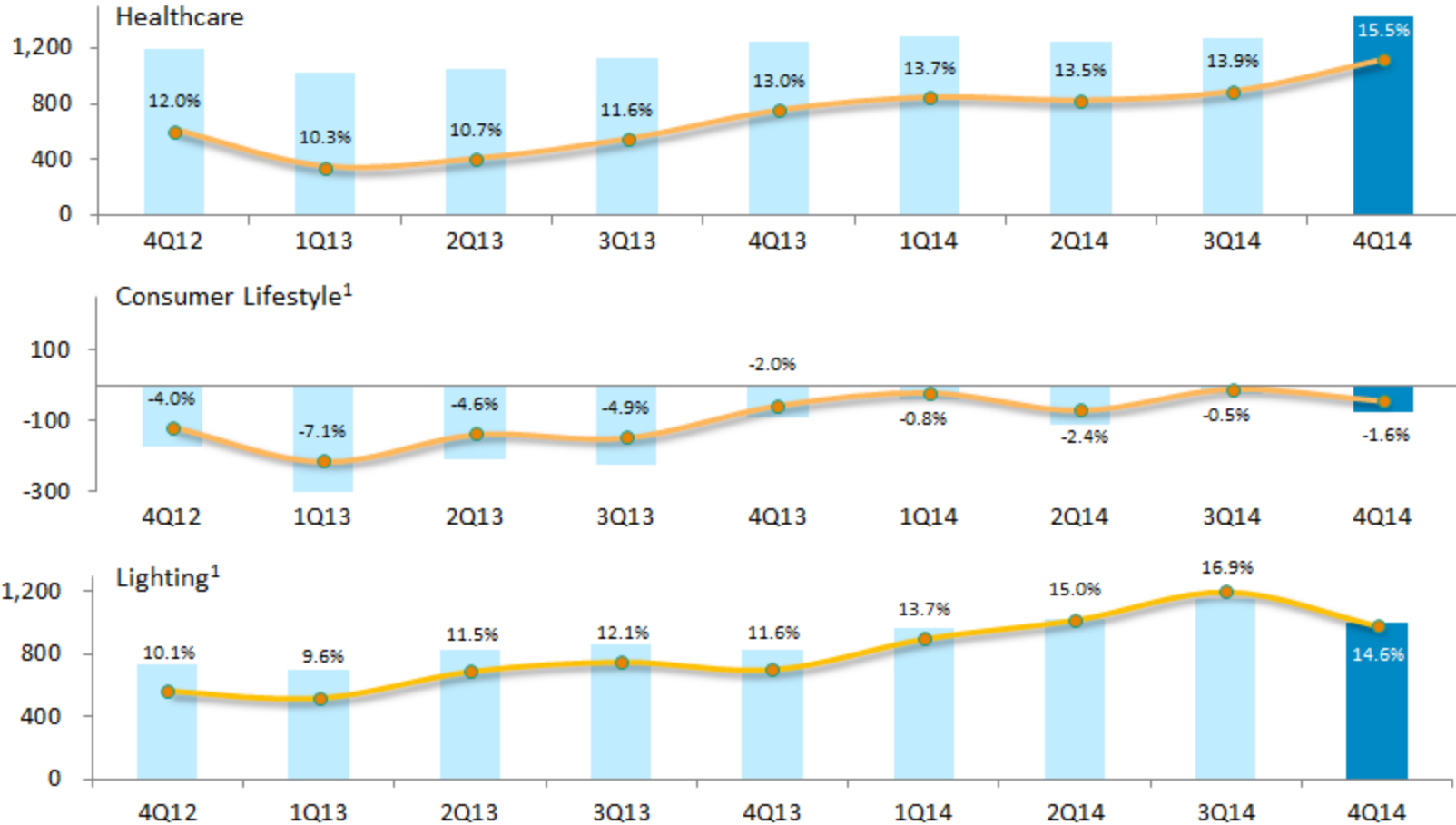
¹ Working capital as % of sales of Healthcare, Consumer Lifestyle and Lighting; excluding IG&S. ²Excludes discontinued operations

Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations. Financials in 2012 revised for discontinued operations, the adoption of IAS19R and for restatements included in the Annual Report 2012

Working capital per business sector

EUR million

Working capital Working capital as % of LTM sales



¹ Excludes working capital of discontinued operations;

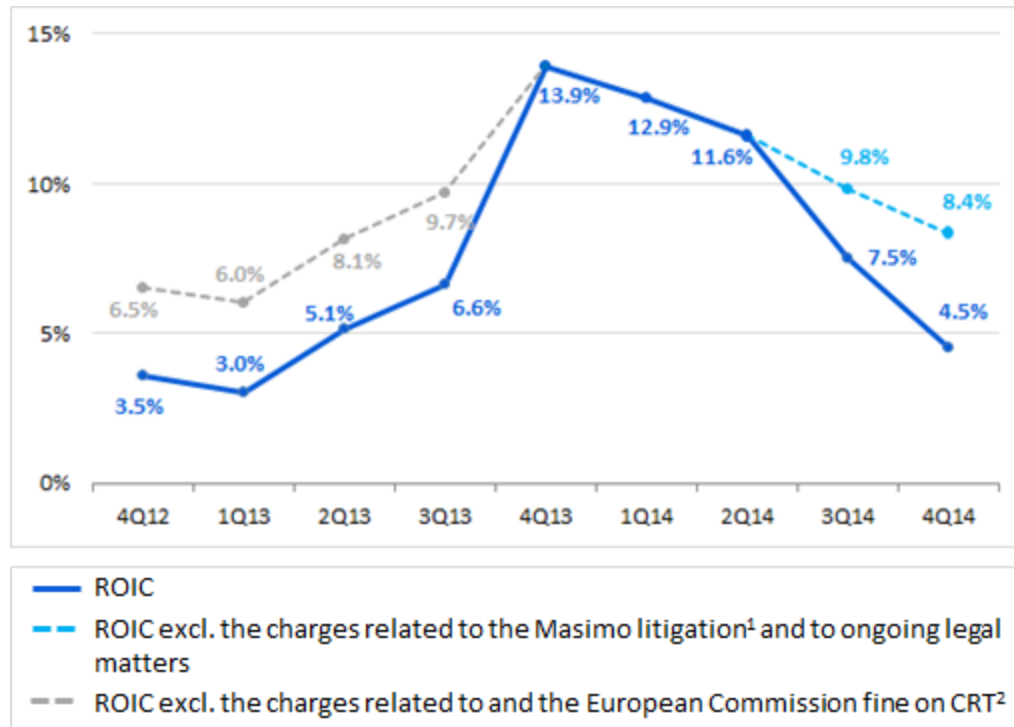
Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations. Financials in 2012 revised for discontinued operations, the adoption of IAS19R and for restatements included in the Annual Report 2012.

Free Cash Flow – Q4 2014

EUR million

	Q4 2013	Q4 2014
Net income from continuing operations	343	67
Depreciation, amortization, and impairments of fixed assets	366	393
Interest income and expense/ Income tax expense	208	68
Net gain on sale of assets	(5)	(9)
Changes in working capital, of which:	(295)	349
- changes in receivables and other current assets	(190)	27
- changes in inventories	466	399
- changes in accounts payable, accrued and other liabilities	(571)	(77)
Increase in non-current receivables, other assets and other liabilities	(36)	(114)
Decrease in provisions	53	230
Interest paid and received/ Income taxes paid	(90)	(71)
Others	202	(72)
Net cash flow from operating activities	746	841
Purchase of intangible assets/ Expenditures on development assets	(113)	(144)
Capital expenditures on property, plant and equipment	(156)	(153)
Proceeds from disposals of property, plant and equipment	4	15
Net capital expenditures	(265)	(282)
Free Cash Flow	481	559

Development of Return on Invested Capital (ROIC)



- ROIC was at 8.4% in Q4 2014, excluding the charges related to the jury verdict in the Masimo litigation¹ and to ongoing legal matters
- This compares to 9.8% in Q3 2014 and to 13.9% in Q4 2013 excluding the European Commission fine on CRT². The year-on-year decline was driven by a decrease in earnings
- The prior-period balance sheet positions of Lumileds and Automotive are still included in the Group results, leading to a temporary negative impact to ROIC

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

¹ Philips will appeal the decision. ² CRT = Cathode-Ray Tubes, a business divested by Philips in 2001. Philips has appealed the decision. Charges were taken in Q4 2012. Note - Prior-period financials have been restated for the treatment of the combined businesses of Automotive and Lumileds as discontinued operations.

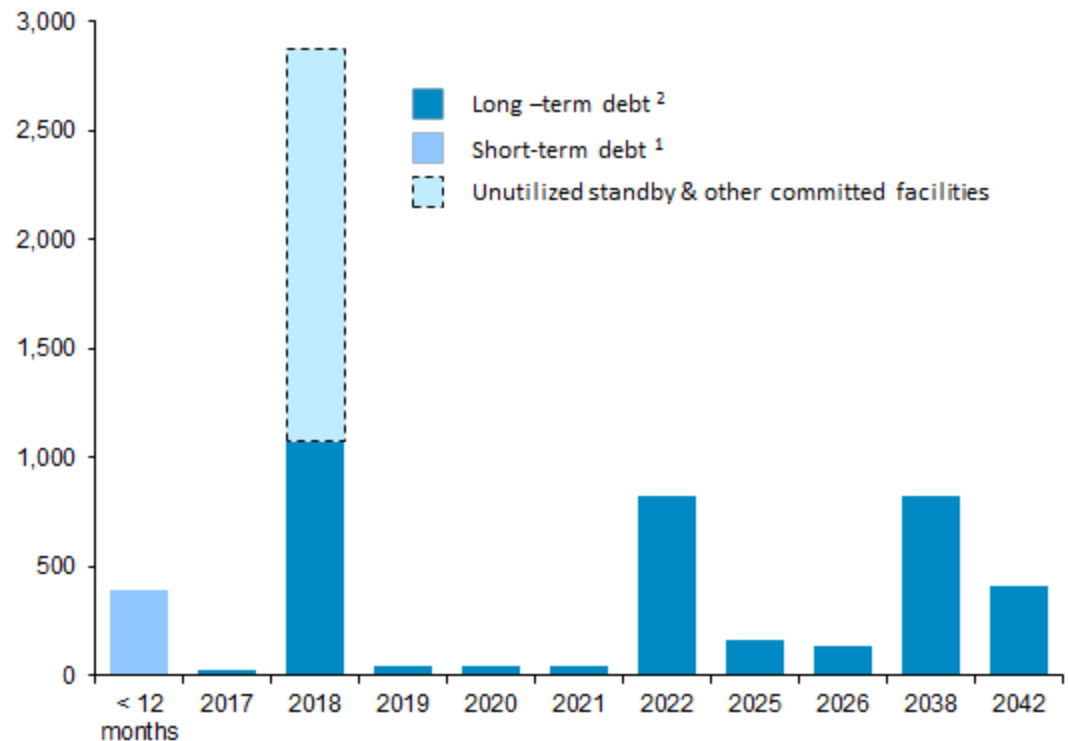
Philips' debt has a long maturity profile

Characteristics of long-term debt

- Total net debt position of EUR 2.2 billion
- Maturities up to 2042
- Average tenor of long-term debt is 12.2 years
- No financial covenants
- EUR 1.8 billion standby facility matures in February 2018

Debt maturity profile as of December 2014

Amounts in EUR millions

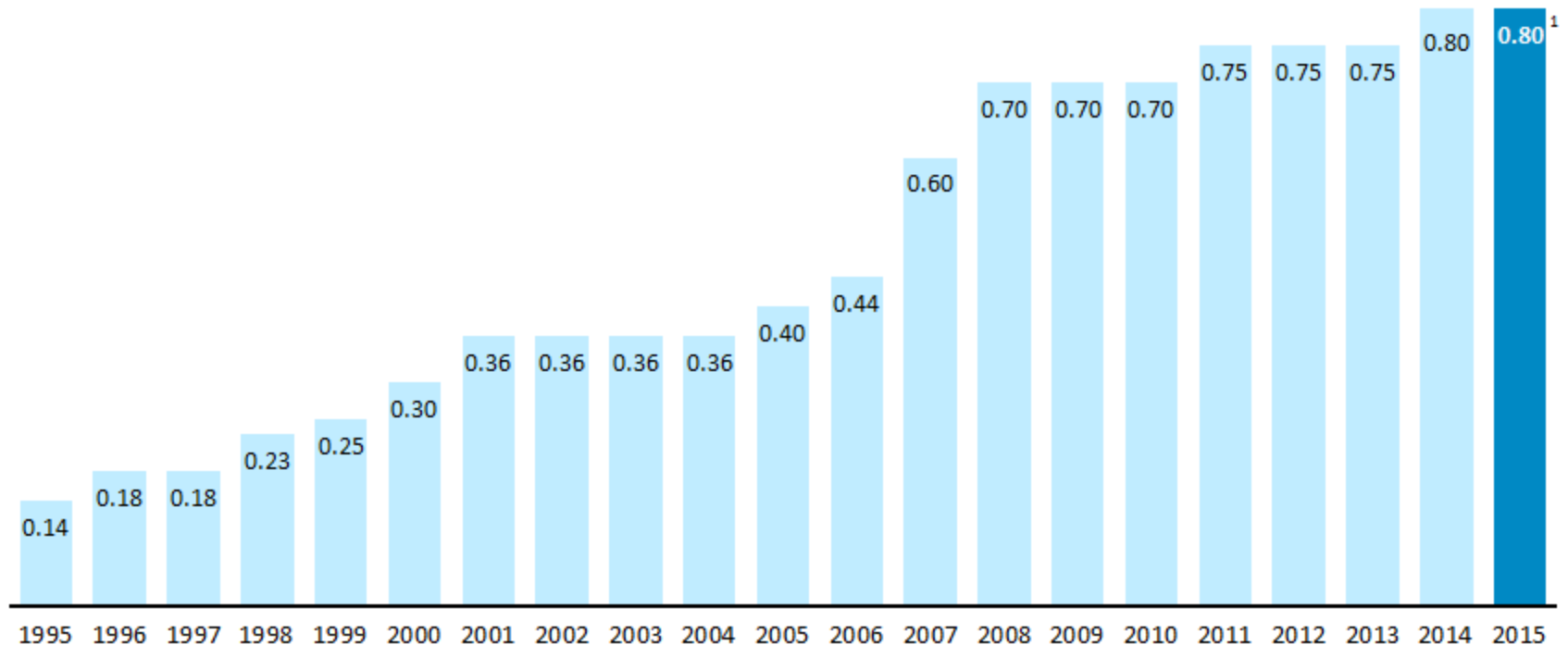


¹ Short term debt consists mainly of local credit facilities that are being rolled forward on a continuous basis

² In March 2012 Philips issued USD 1,000M 10 years at 3.75% and USD 500M 30 years at 5%. On Apr 10th 2012, Philips early redeemed USD 500M originally maturing in March 2013

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	
	September 2014 (not reported)	December 2014 (reported)	September 2014 (not reported)	December 2014 (reported)
Netherlands Prepaid pension asset ¹	661	238	0	0
Other major plans	<u>(1,328)</u>	<u>(1,230)</u>	<u>(1,714)</u>	<u>(1,783)</u>
Major plans	(667)	(992)	(1,714)	(1,783)
Minor plans	<u>(206)</u>	<u>(226)</u>	<u>(206)</u>	<u>(227)</u>
Total	(873)	(1,218)	(1,920)	(2,010)

- In Q4 2014, the total funded status decreased due to lower interest rates in the Netherlands, US and Germany that could not be offset by a higher asset value. The funded status of the UK improved due to final year-end calculations of buy-in transactions. The contribution to the Dutch pension plan, related to the EUR 600 million funding agreement, as well as the EUR 68 million past-service pension cost gain, had a positive effect
- The balance sheet position decreased due to lower interest rates, which increased the deficits in the US and Germany. The balance sheet surplus in the Netherlands, as well as in the UK and Brazil, are not recognized (asset-ceiling test)

¹ 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

Update funded status pension plans (IFRS basis)

EUR million	Funded status		Balance sheet position	
	December 2013 (reported)	December 2014 (reported)	December 2013 (reported)	December 2014 (reported)
Netherlands Prepaid pension asset ¹	555	238	0	0
Other major plans	<u>(984)</u>	<u>(1,230)</u>	<u>(1,412)</u>	<u>(1,783)</u>
Major plans	(429)	(992)	(1,412)	(1,783)
Minor plans	<u>(205)</u>	<u>(226)</u>	<u>(205)</u>	<u>(227)</u>
Total	(634)	(1,218)	(1,617)	(2,010)

- Compared to 2013, the total funded status decreased due to lower interest rates that could not be offset by higher asset values. The funded status was also negatively impacted by a net longevity adjustment of EUR 117 million. The contribution to the Dutch pension plan, related to the EUR 600 million funding agreement, had a positive effect
- The balance sheet position decreased in 2014 due to lower interest rates vs. last year and a EUR 197 million longevity loss
- The balance sheet surplus in the Netherlands, as well as in the UK and Brazil, are not recognized (asset-ceiling test)

¹ 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
- Maintain A3/A- credit rating
- Continuing EUR 1.5 billion share buyback over coming 2 years
- Further updates over the course of 2015 on the process for LED Components & Automotive, implementation of new operating model, and the process of preparing Lighting Solutions for capital market access

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Accelerate! driving further change and performance

Customer Centricity		<ul style="list-style-type: none">• Increase local relevance of product portfolio• Focused Business-to-Government sales channel; Develop digital and CRM capabilities• Enhance sales capabilities for Solutions, Systems and Services• Expansion into adjacent and new growth markets to drive growth
Resource to Win		<ul style="list-style-type: none">• Increase performance adherence to plan per BMC¹ > 90%• Targeted investments to drive value creation and extend market leadership• Strengthen BMC capabilities with global tools, training and ways of working
End2End Execution		<ul style="list-style-type: none">• Productivity gains of 100 bps margin impact to be achieved by 2016<ul style="list-style-type: none">– Transform customer chains to 4 Lean business models– Roll-out new integrated IT landscape– Reduce Cost of Non Quality by 30%, Inventory reduction by 20%• Accelerate innovation time to market by avg. 40%; Increase customer service to >95%• EUR 1 billion via Design for Excellence (DfX) over the period 2014-2016
Growth and Performance Culture		<ul style="list-style-type: none">• Focus on the 6 competencies that will accelerate our transformation• Run and measure quarterly performance dialogues to take ownership for the transformation• Build Philips University to increase learning and competency development• Excellence practices to increase operational performance; Lean skills for all employees• Increase Employee Engagement in markets by 300 bps
Operating Model		<ul style="list-style-type: none">• Simplify and de-layer organization, reduce overhead costs by EUR 1.8 billion• Implement the Philips Business System in the organization• Continue to transform Finance, HR, and IT to increase productivity and effectiveness• Align all employees to common performance management objectives

Supported by dedicated senior Transformation Leadership to ensure execution



Accelerate! is improving the way we do business

Customer value chain: Male Grooming France

Through deep understanding of shopper needs, we successfully launched an optimized range of male grooming products in France, meeting key price points and customer needs. This locally relevant value proposition resulted in 2.3 percentage-points market share gain in grooming in 2014 and a record number of Philips product listings at Carrefour.



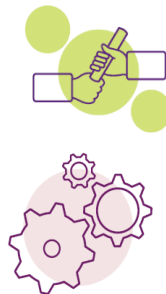
Innovation: Healthcare Informatics, Solutions and Services

The Healthcare Informatics team implemented a new software development methodology that increased the number of releases over the year by 4 times. At the 2014 Radiology Society of North America Meeting, this contributed to a record number of new clinical informatics solutions' introductions in the IntelliSpace family.



End2End transformation: Professional Lighting Europe

To address local customer needs, we enhanced and completed the Professional Lighting Solutions' product portfolio for the indirect channel in Europe. Its strong price-performance ratio and locally relevant value proposition drove more than 60% sales growth. This success was also enabled by a delivery time commitment of 5 days.



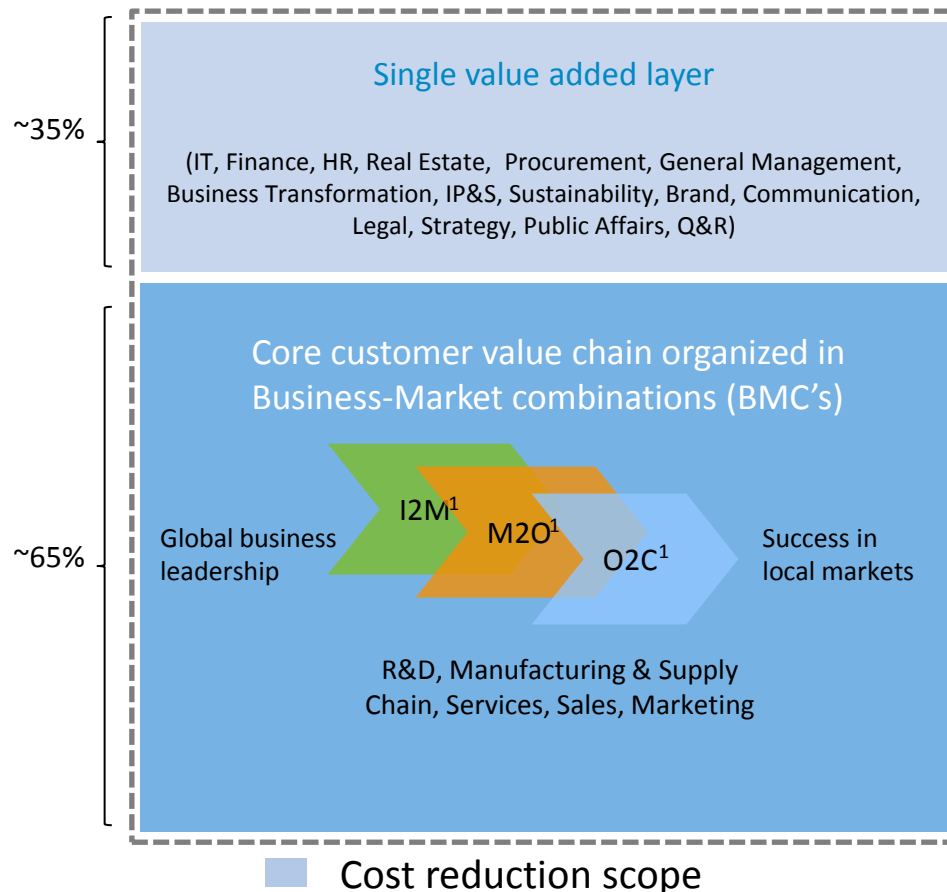
Lean manufacturing: Consumer Lifestyle

To optimize the End2End processes at our manufacturing site in Klagenfurt, Austria, the Consumer Lifestyle team ran Lean continuous improvement Kaizen events that led to a 82% reduction in lead time and an increase in quality levels since the start of the Accelerate! program.





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

Cumulative gross savings

EUR million	2013	2014	2014	2015	2016
	Actual	Plan	Actual	Plan*	Plan*
TOTAL	1,055	1,278	1,335	1,600	1,800

* Equivalent to annualized gross savings of EUR 265 million in 2015 and EUR 200 million in 2016

- Delivered cumulative gross savings of more than **EUR 1.3 billion by year-end 2014**
- New operating model enables additional cost savings across the enabling functions and faster decision-making

Annual restructuring costs and investments

EUR million	2011-2013	2014	2014	2015	2016
	Actual	Plan	Actual	Plan	Plan
Restructuring	(347)	(125)	(109)	(125)	(50)
Investments	(302)	(160)	(131)	(185)	(140)
TOTAL	(649)	(285)	(240)	(310)	(190)

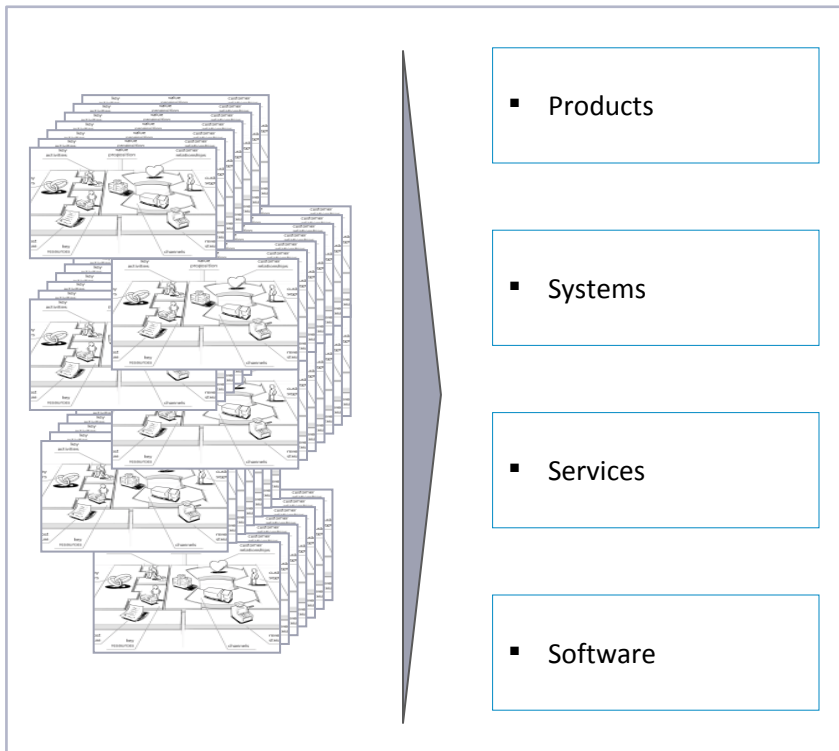


Overhauling our business model architecture

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

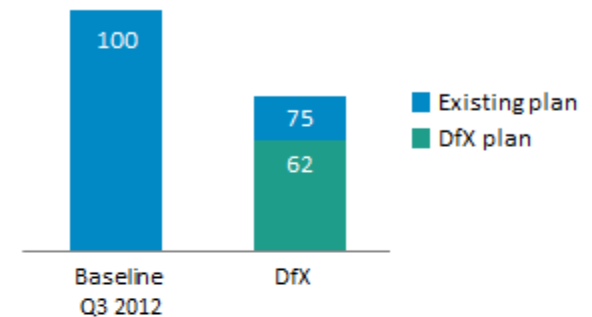


Design for Excellence (DfX) will deliver EUR 1 billion of cost savings in the product creation process

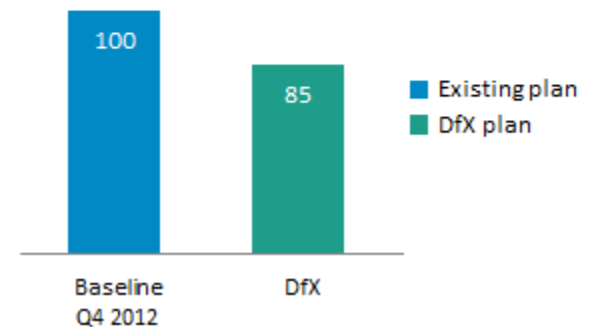
Design for X; X = cost, quality, manufacturing etc.

- 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

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Establishing two focused companies to capture highly attractive market opportunities

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 2014¹

Philips Lighting

Focused on the EUR 60+ billion Lighting solutions opportunity

Establishing stand-alone Lighting structure

LED Components & Automotive
(Announced in June 2014)

EUR 7.0 billion sales 2014²

- Higher growth and profitability
- Improved customer focus in attractive markets
- Faster decision making
- Lean overhead structure
- Considering options for capital market access for Philips Lighting
- Release capital for investments in growth

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

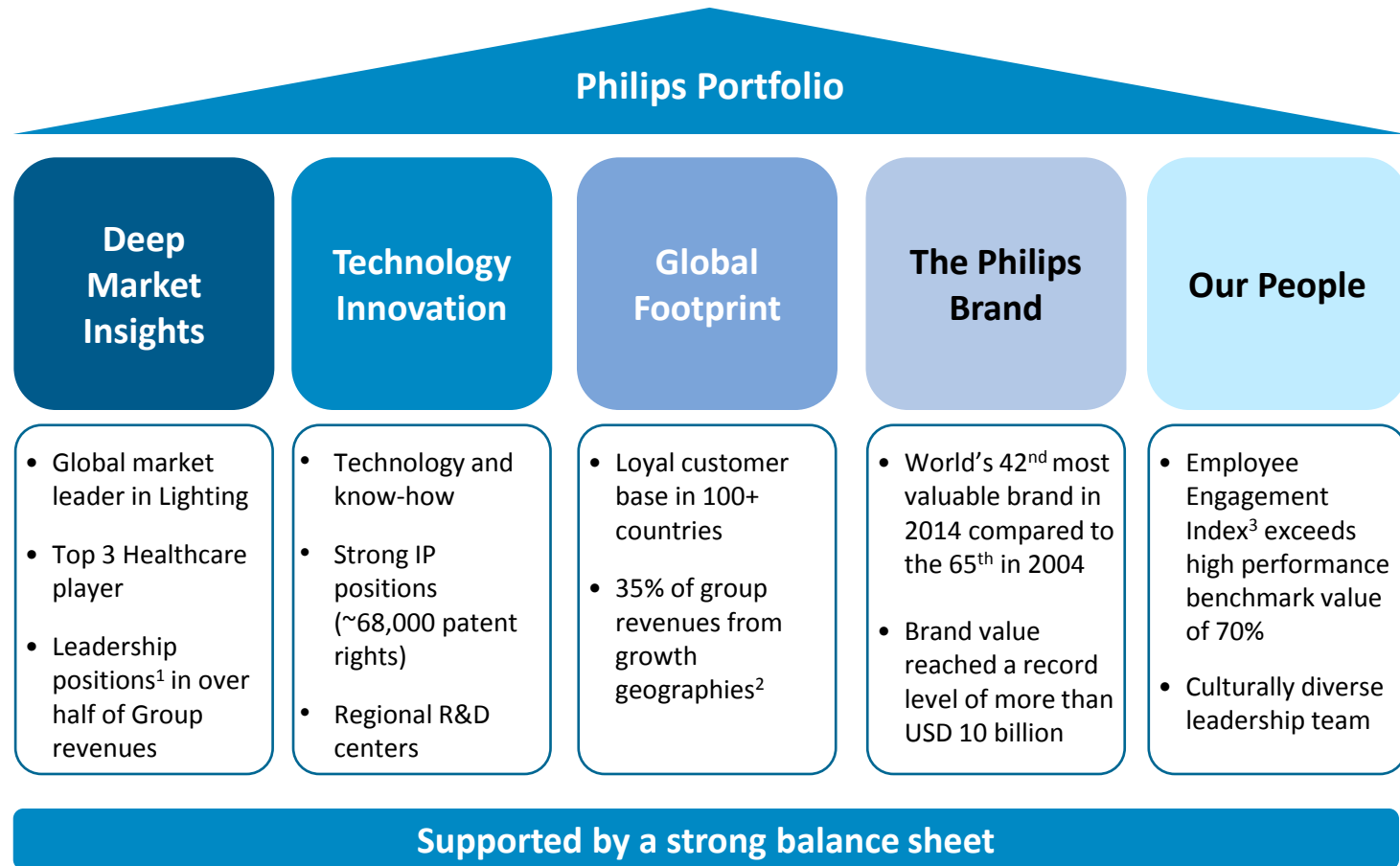
2016

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 DfX¹ even further
 - Embedding End2End and Lean practices
- Building our **growth and performance culture**



We leverage our unique strengths across our businesses and markets



¹ Global #1 position in the market

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

³ 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 geographies¹ 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

The Health Continuum is a growing EUR 100+ billion market for Philips

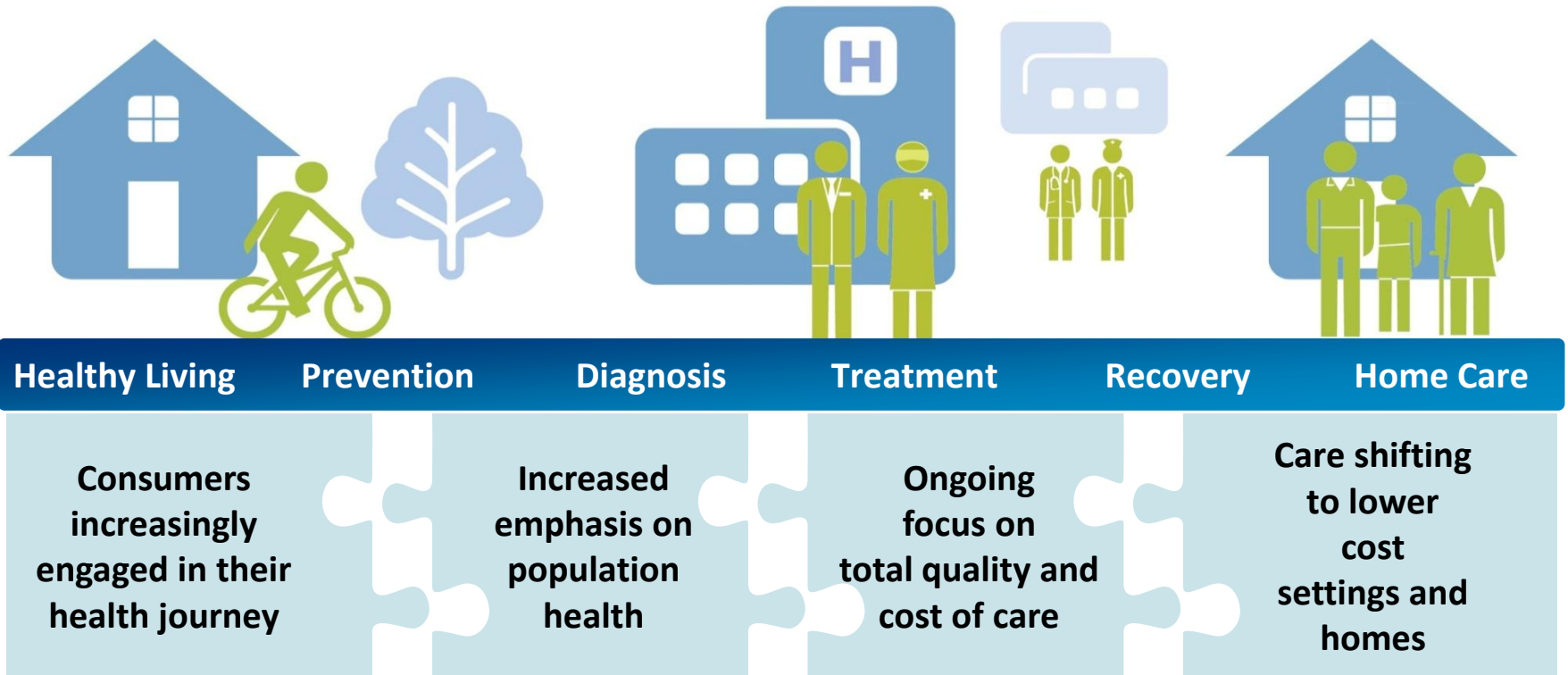
Philips indicative addressable market 2013¹

Healthy Living	Prevention	Diagnosis	Treatment	Recovery	Home Care
EUR 30+ billion	EUR 10+ billion	EUR 20+ billion	EUR 10+ billion	EUR 5+ billion	EUR 5+ billion
EUR 20+ billion (Clinical Informatics & Consulting)					



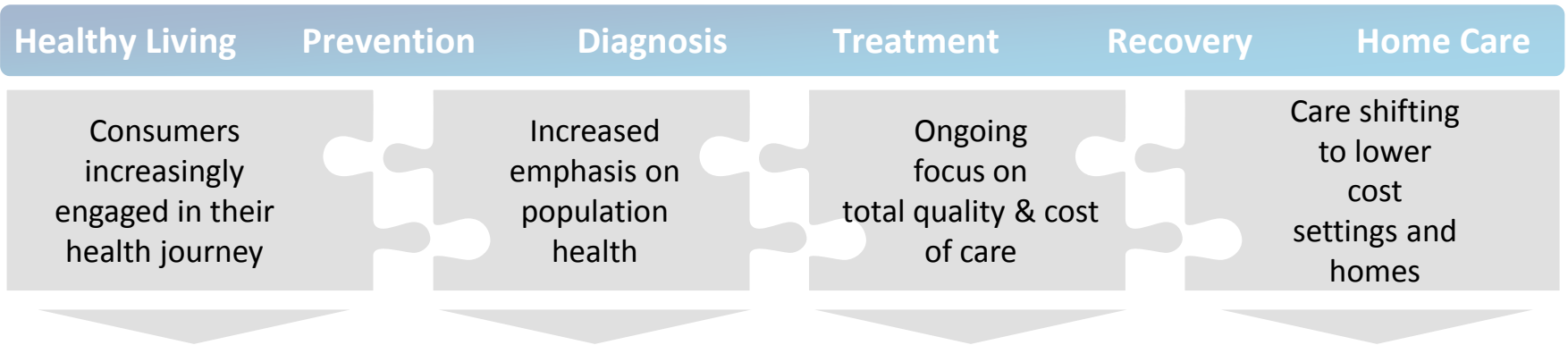
Mid to high-single-digit market growth

HealthTech opportunity shaped by convergence between Healthcare and Consumer markets

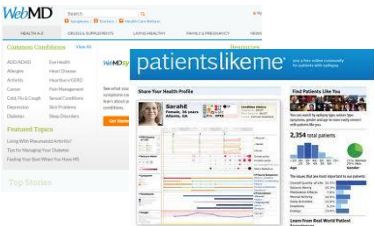


Opportunities from intersection of consumer and clinical spaces
Customers expressing need for integrated solutions
Systems integration, connected devices, big data and analytics
Philips uniquely positioned with portfolio, insights and capabilities

Opportunities emerging across the Health Continuum



Success of online health portals



Hospitals launching online nutrition service



Hospitals leveraging workflow automation

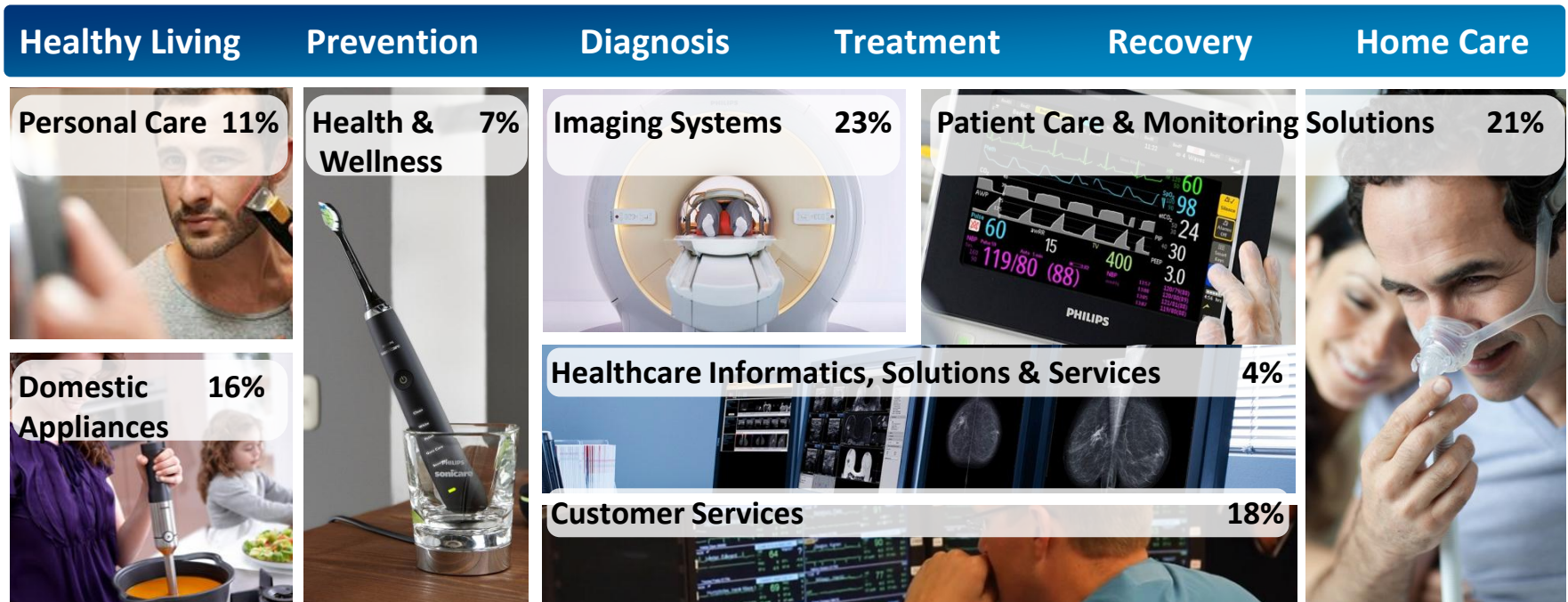


Hospitals offering Home Care devices



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



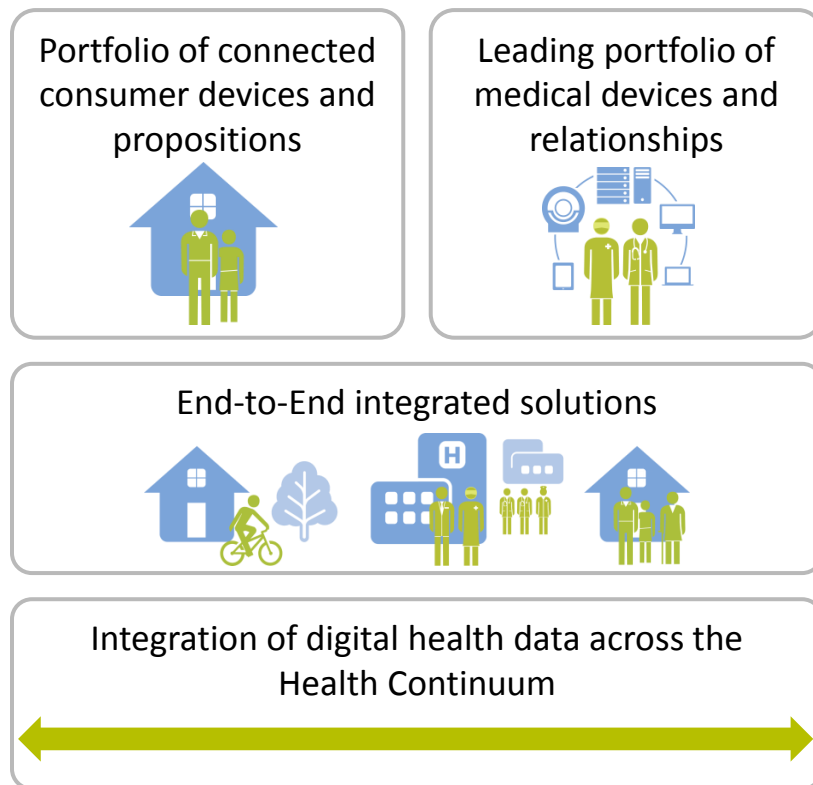
Share of HealthTech sales¹

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

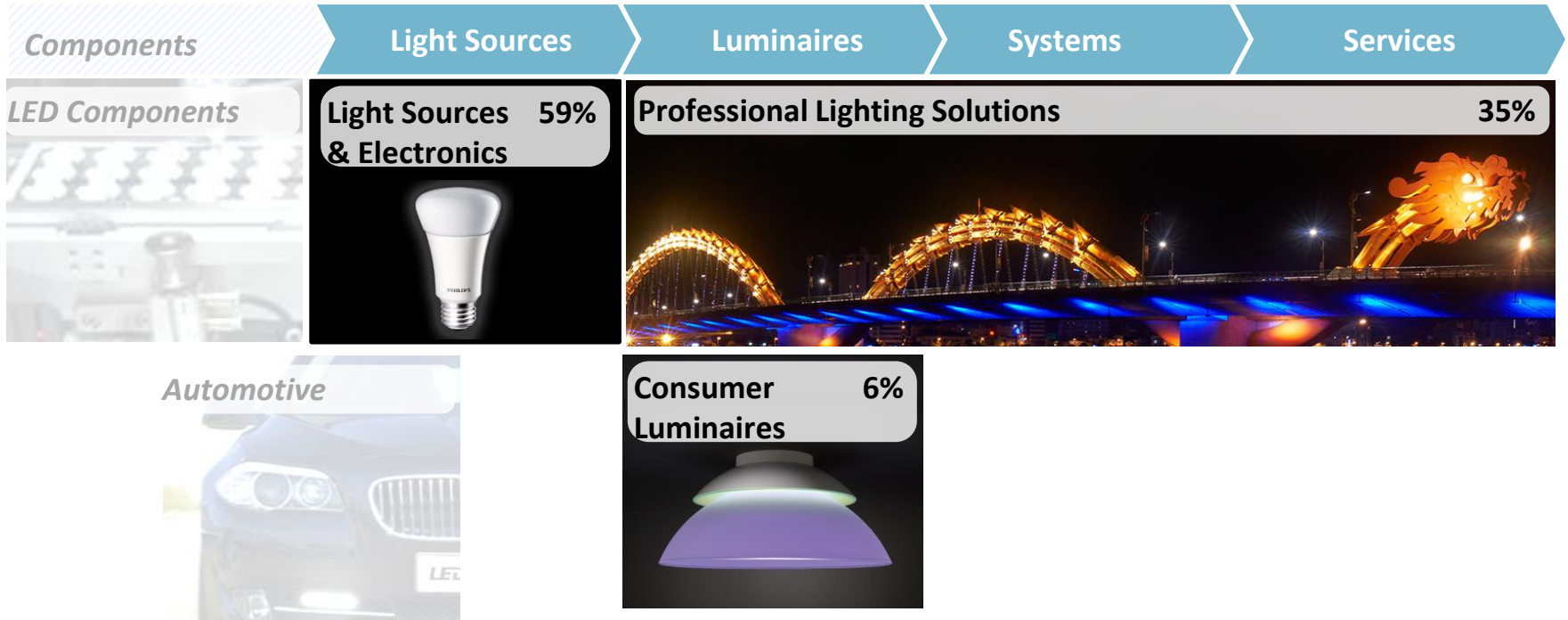
- **Conventional to LED**
- **New competitors** emerging
- **Differentiation** in LED systems and services
- **Connectivity** and intelligence create new growth avenues and open up adjacencies

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 sales¹

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

On track to create a stand-alone leading lighting components company in H1 15

Top positions in the key segments of combined Lumileds and Automotive

Market field of Lumileds and Automotive lighting

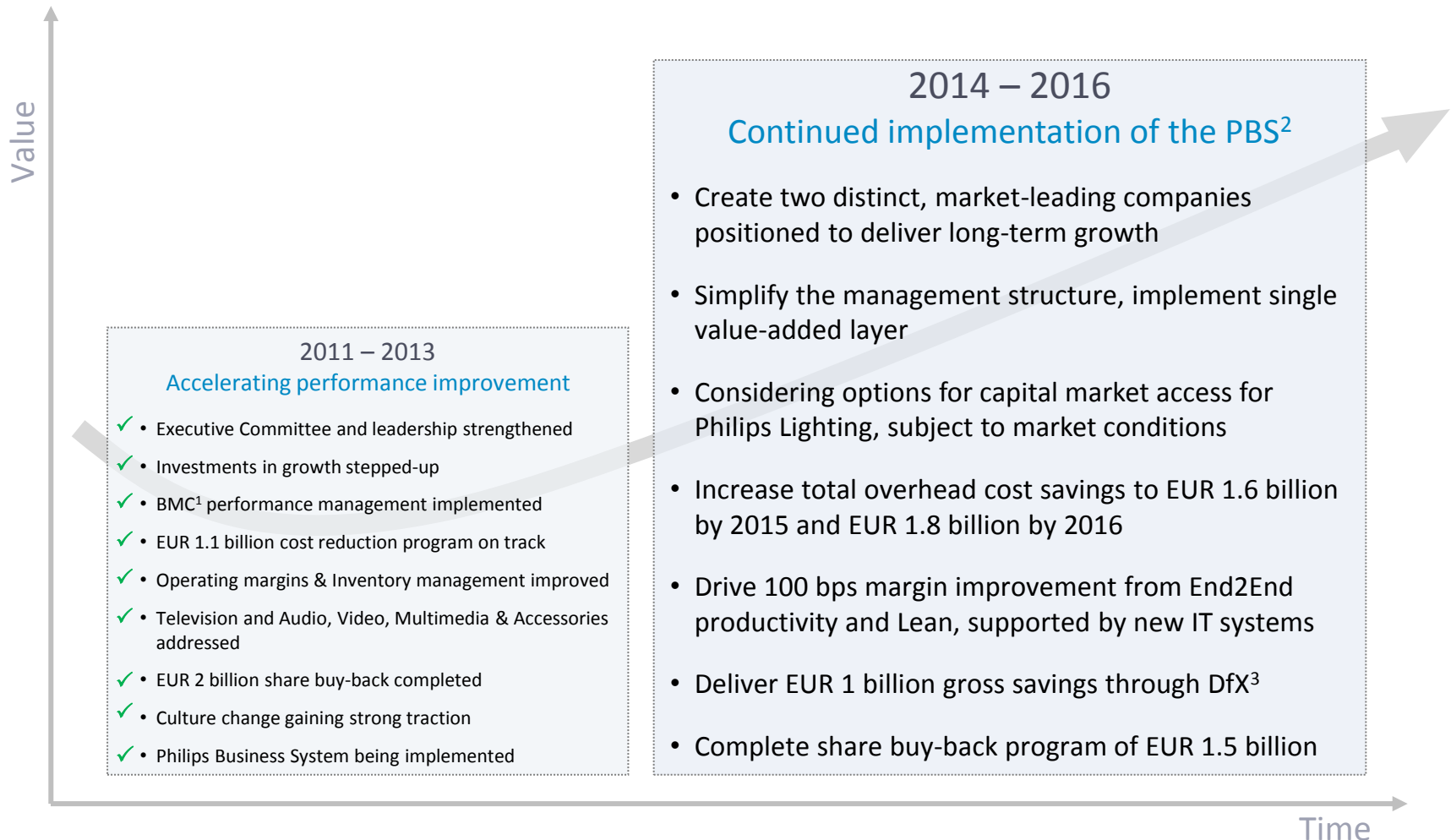
Key segments ²	Market position ¹	Market 2013-2018 CAGR ¹
Specialty	#1	4% to 8%
Automotive ³	#2	2% to 6%
High-Power LEDs General illumination	#3	17% to 21%



Unlocking entrepreneurial drive and agility as a stand-alone company

- EUR 1.4 billion sales last 12 months
- Benefitting from a strong and focused management team
- Supplying Philips and other leading players across the illumination, automotive and consumer electronics segments
- Innovation collaboration with Philips
- Platform for accelerated growth
- Currently evaluating strategic options from interested third parties and investors

The Accelerate! journey will continue



Outlook on 2016 targets

Financial targets 2016		Current Outlook
Group comparable sales growth	4 - 6%	3 - 4%
Group reported EBITA margin	11 - 12%	10 - 11%
- Healthcare	16 - 17% ¹	
- Consumer Lifestyle	11 - 13% ¹	
• HealthTech	14 - 15.5% ¹	
• Lighting Solutions	9 - 11% ¹	
Group ROIC ²	>14%	>13%

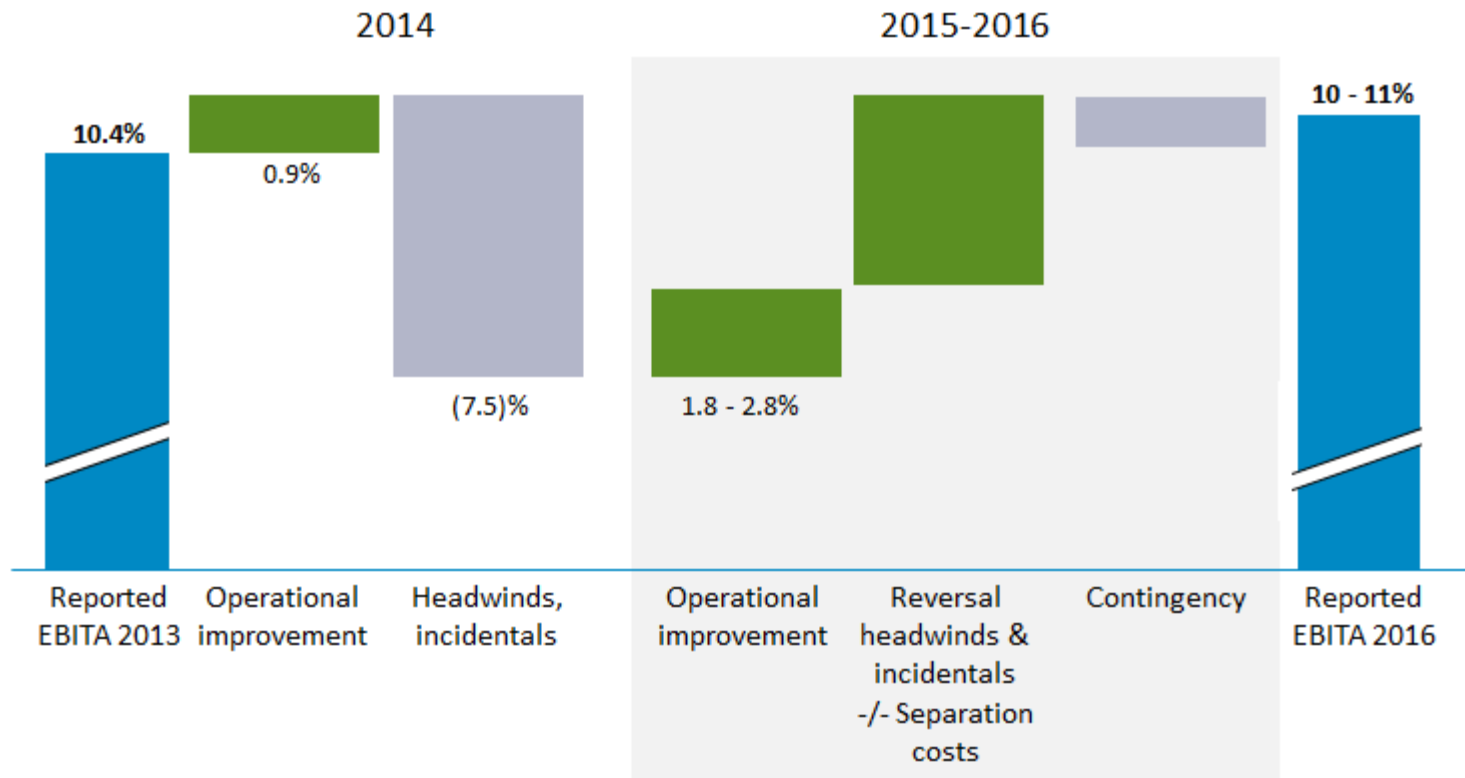
¹ Excluding IG&S cost allocation; these targets will be updated as the separation process progresses

² Excluding M&A impact

Accelerate! profitability improvements drive operational performance

Categories	Measures	Margin Impact ¹
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

Accelerate! and other improvements bridge to 2016 outlook



Our Path-to-Value is clearly mapped-out

Initiate new growth engines

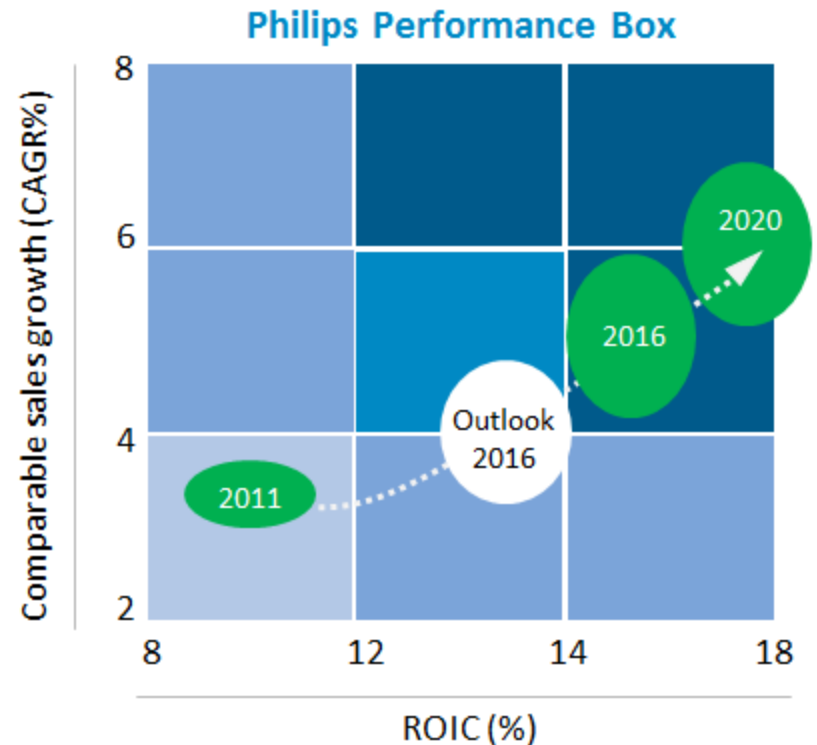
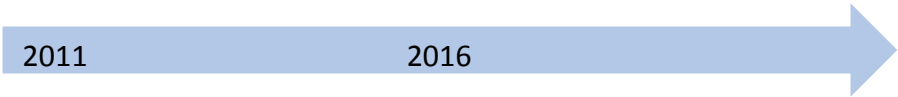
- Invest in adjacencies
- Seed emerging business areas

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



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

Philips

Businesses^{1, 2}

Geographies¹

Healthcare

Consumer Lifestyle

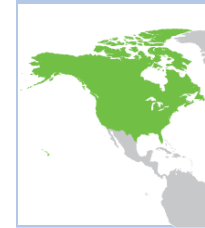
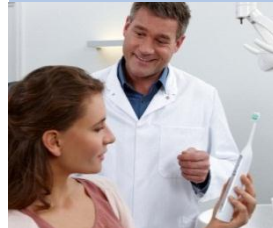
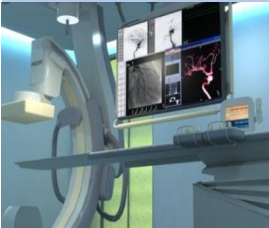
Lighting

Western Europe

North America

Other Mature Geographies

Growth Geographies³



44%

23%

33%

26%

31%

8%

35%

Since **1891**

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

~105,000 employees in over 100 countries

50% of the portfolio has global leadership positions

€1.6 billion R&D spend in 2014 and ~68,000 patent rights

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

¹ Based on sales last 12 months December 2014 ² Excluding Central sector (IG&S)

³ 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 leadership¹ 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
Electric Hair Care

Lighting



Global
LED
Lamps



Global
Connected
lighting



Global
Professional
Luminaires



Global
Automotive
Lighting



Global
High-performance
LED

Sustainability as a driver for growth

Success of EcoVision

Green Products represented around 52%¹ of sales in 2014, up from 39%¹ 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



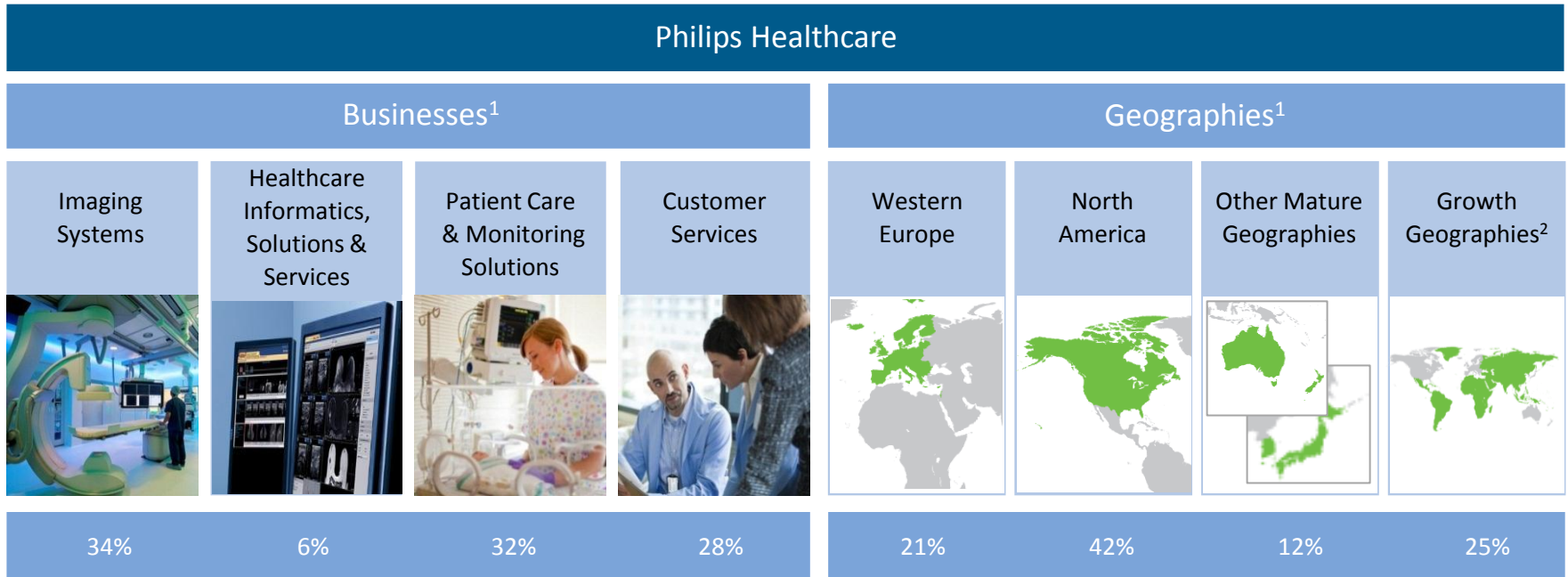
Recent accomplishments

- To leverage the benefits of the Circular Economy, Philips inaugurated a healthcare imaging systems refurbishment facility in Best, the Netherlands
- 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 14th 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
- Philips received the "Champion for Change" award from Practice GreenHealth, the US leading sustainable health care community
- Philips has been recognized Energy Star partner of the year by the US Environmental Protection Agency for outstanding contribution to environmental protection through energy efficiency

Healthcare

What we do. Where we are.

Philips Healthcare



€9.2

Billion sales in 2014

37,000+

People employed worldwide in 100 countries

9%

of sales invested in R&D in 2014

450+

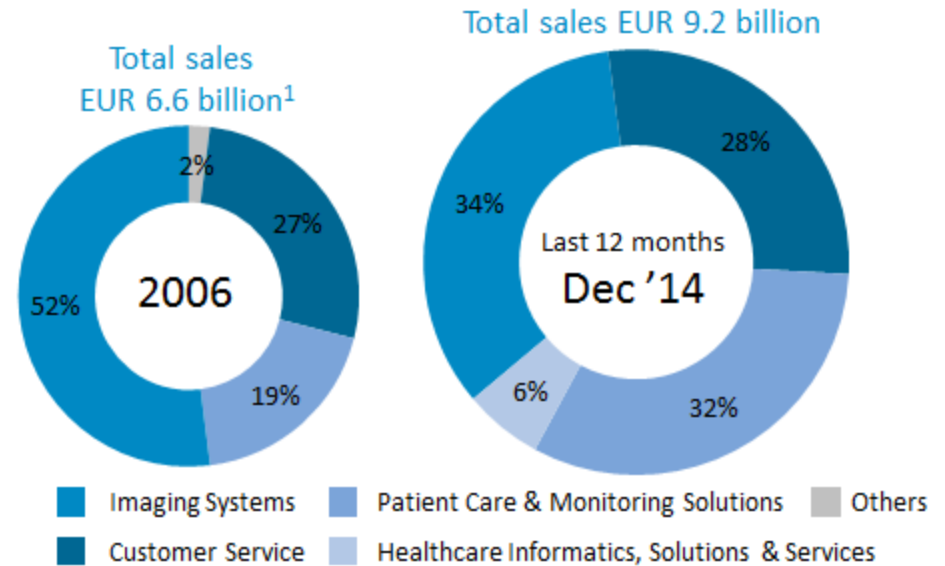
Products & services offered in over 100 countries

¹ Based on sales last 12 months December 2014

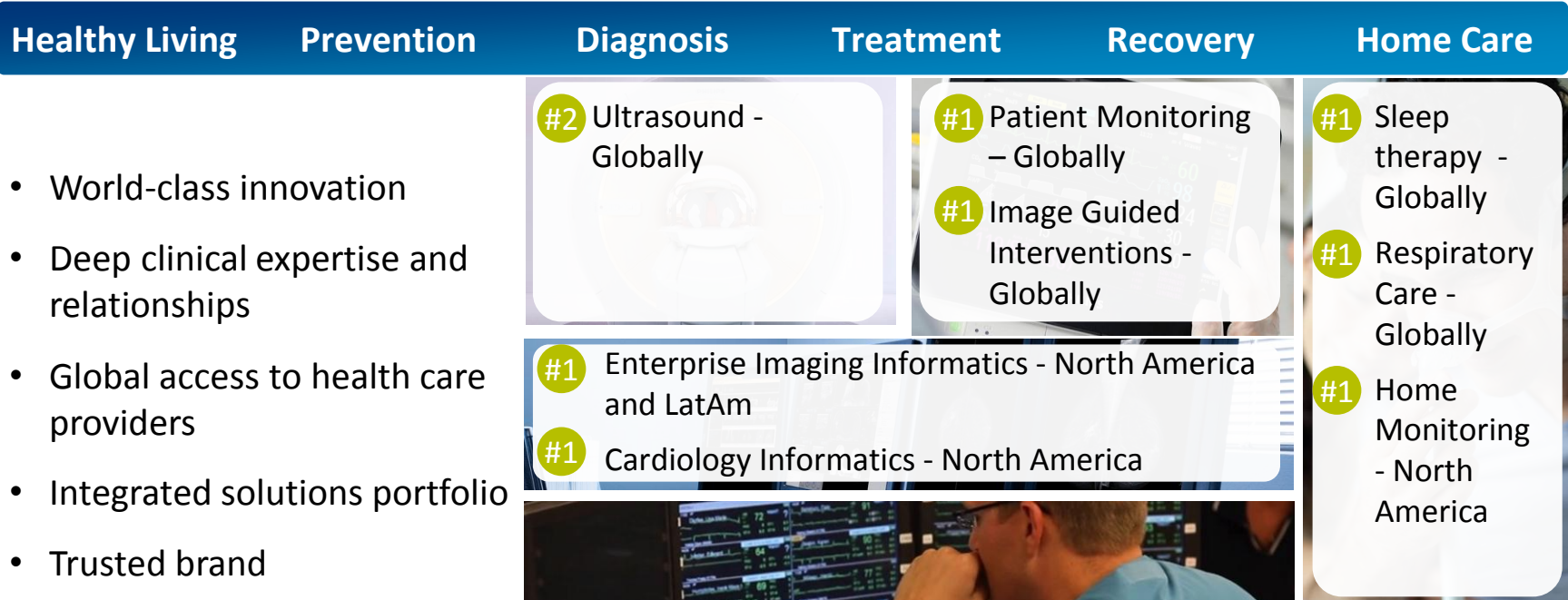
² Growth geographies are all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel

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

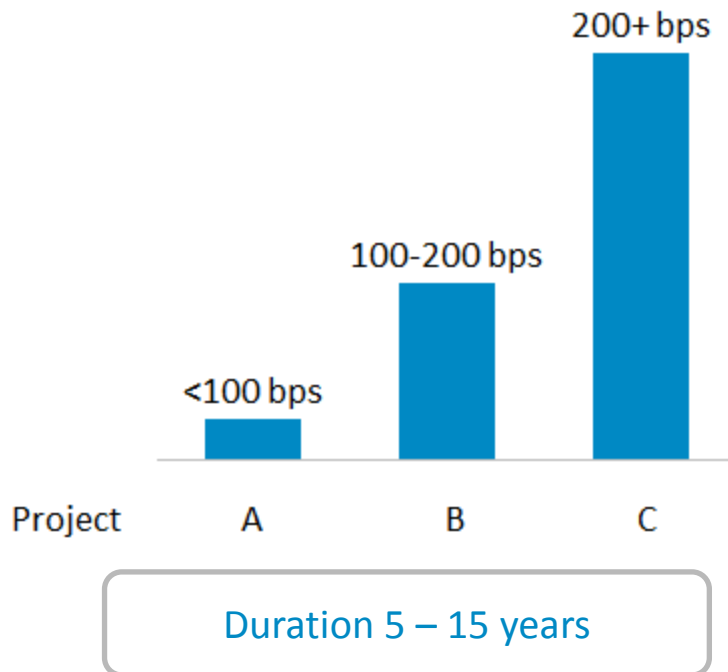


Our Healthcare businesses well positioned on the Health Continuum



Our integrated solutions approach is margin accretive to our overall business

Solutions margin increase vs stand-alone sales model



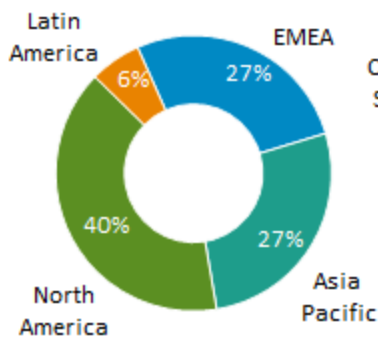
- **Higher market share of equipment**, better ability to consider total lifetime value
- Higher **percentage of services**
- **Additional consulting opportunities** to advise on enterprise cost reduction
- Visibility and access to **adjacent opportunities in products, IT integration, data analytics**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

Healthcare: Q4 2014 Sector analysis

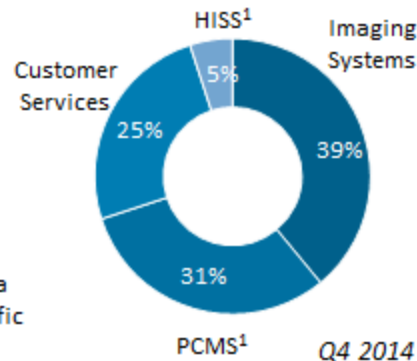
Key figures (in EUR million)

	4Q13	4Q14	FY2014
Sales	2,828	2,849	9,186
<i>% sales growth comp.</i>	4	(3)	(2)
EBITA	541	390	616
<i>EBITA as % of sales</i>	19.1	13.7	6.7
EBIT	477	351	456
<i>EBIT as % of sales</i>	16.9	12.3	5.0
NOC	7,437	7,565	7,565
Employees (FTEs)	37,008	37,065	37,065

Sales per region



Sales per business

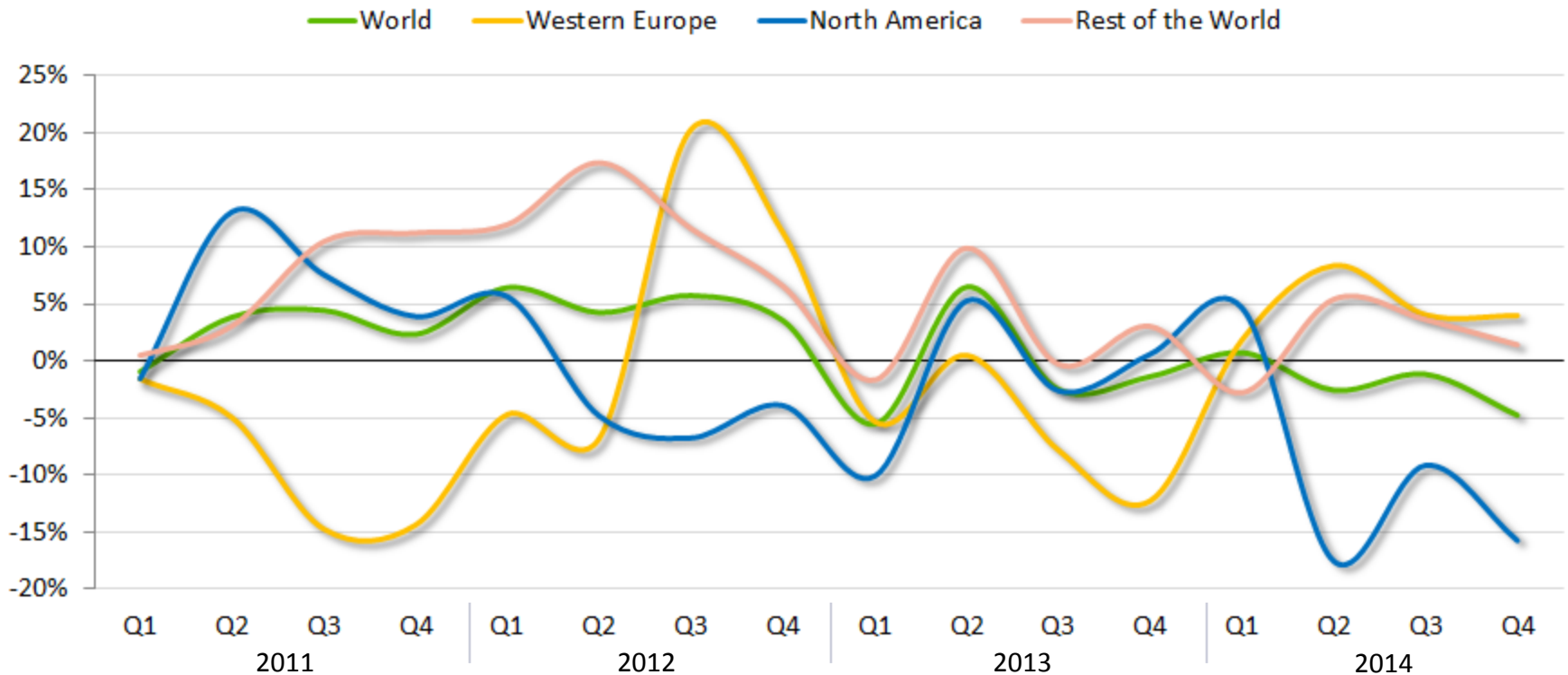


Financial performance

- Currency-comparable equipment order intake showed a mid-single-digit decline year-on-year, with a low-single-digit decline at Patient Care & Monitoring Solutions and a mid-single-digit decline at Imaging Systems.
- Equipment order intake in Western Europe showed mid-single-digit growth, while other mature geographies recorded a mid-single-digit decline and North America posted a double-digit decline. Growth geographies showed a low-single-digit increase, with strong growth in Middle East & Turkey and Russia & Central Asia partly offset by a double-digit decline in China and Latin America.
- Comparable sales declined 3% year-on-year. Mid-single-digit growth at Customer Services and Patient Care & Monitoring Solutions was offset by a low-single-digit decline at Healthcare Informatics, Solutions & Services and a double-digit decline at Imaging Systems.
- Comparable sales in Western Europe and North America showed a low-single-digit decline, while other mature geographies were in line with Q4 2013. Growth geographies recorded a mid-single-digit decline.
- EBITA amounted to EUR 390 million, or 13.7% of sales, compared to EUR 541 million, or 19.1% of sales, in Q4 2013. Restructuring and acquisition-related charges amounted to EUR 47 million, compared with a release of EUR 3 million in Q4 2013. Q4 2014 EBITA also included a EUR 16 million past-service pension cost gain in the Netherlands.
- Excluding restructuring and acquisition-related charges and other items, EBITA amounted to EUR 421 million, or 14.8% of sales, compared to EUR 538 million, or 19.0% of sales, in Q4 2013. The decrease was mainly due to operational losses related to the voluntary suspension of production at the Cleveland facility, an increase in overhead costs, and negative currency impacts.
- Net operating capital, excluding a positive currency translation effect, decreased by EUR 630 million, largely driven by higher provisions and lower fixed assets.
- Inventories as a percentage of sales increased by 2.7 percentage points, mainly driven by currency impacts and the production ramp-up at the Cleveland facility.

Healthcare: equipment order intake

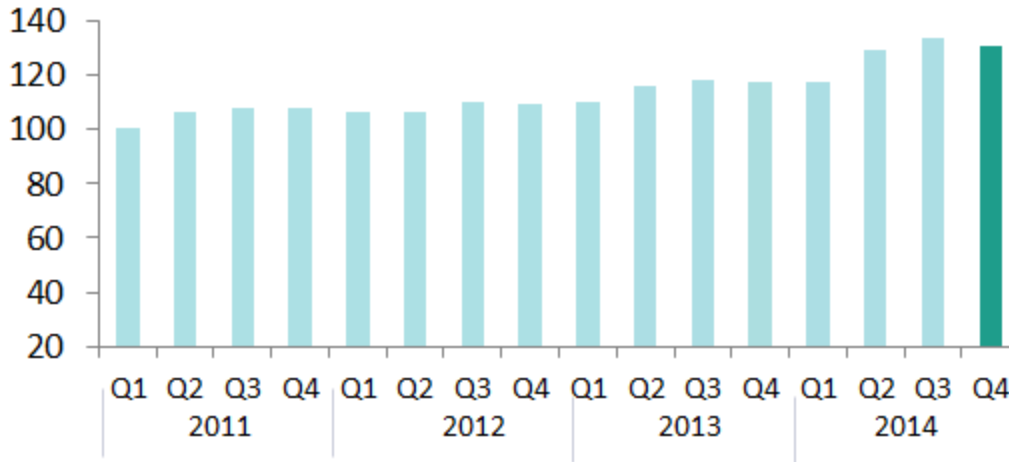
Quarterly currency adjusted equipment order intake growth



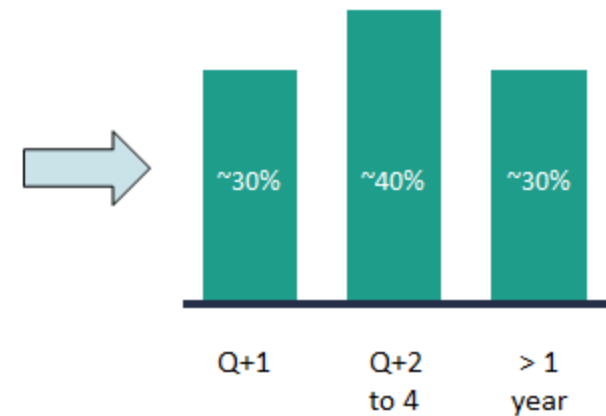
Currency adjusted order intake only relates to the Imaging Systems and Patient Care & Monitoring Solutions businesses

Healthcare: Equipment order book

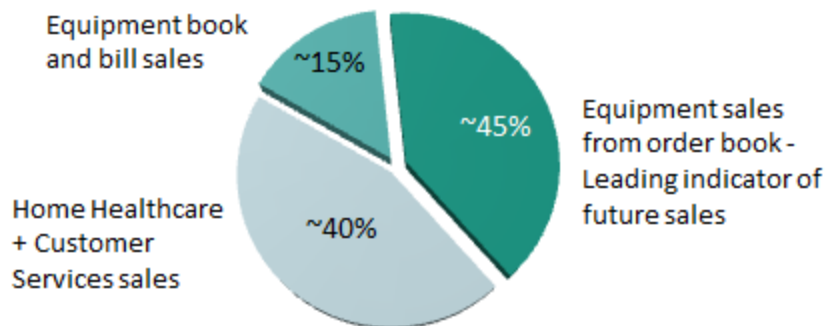
Indexed Equipment Order Book Development



Typical profile of equipment order book conversion to sales



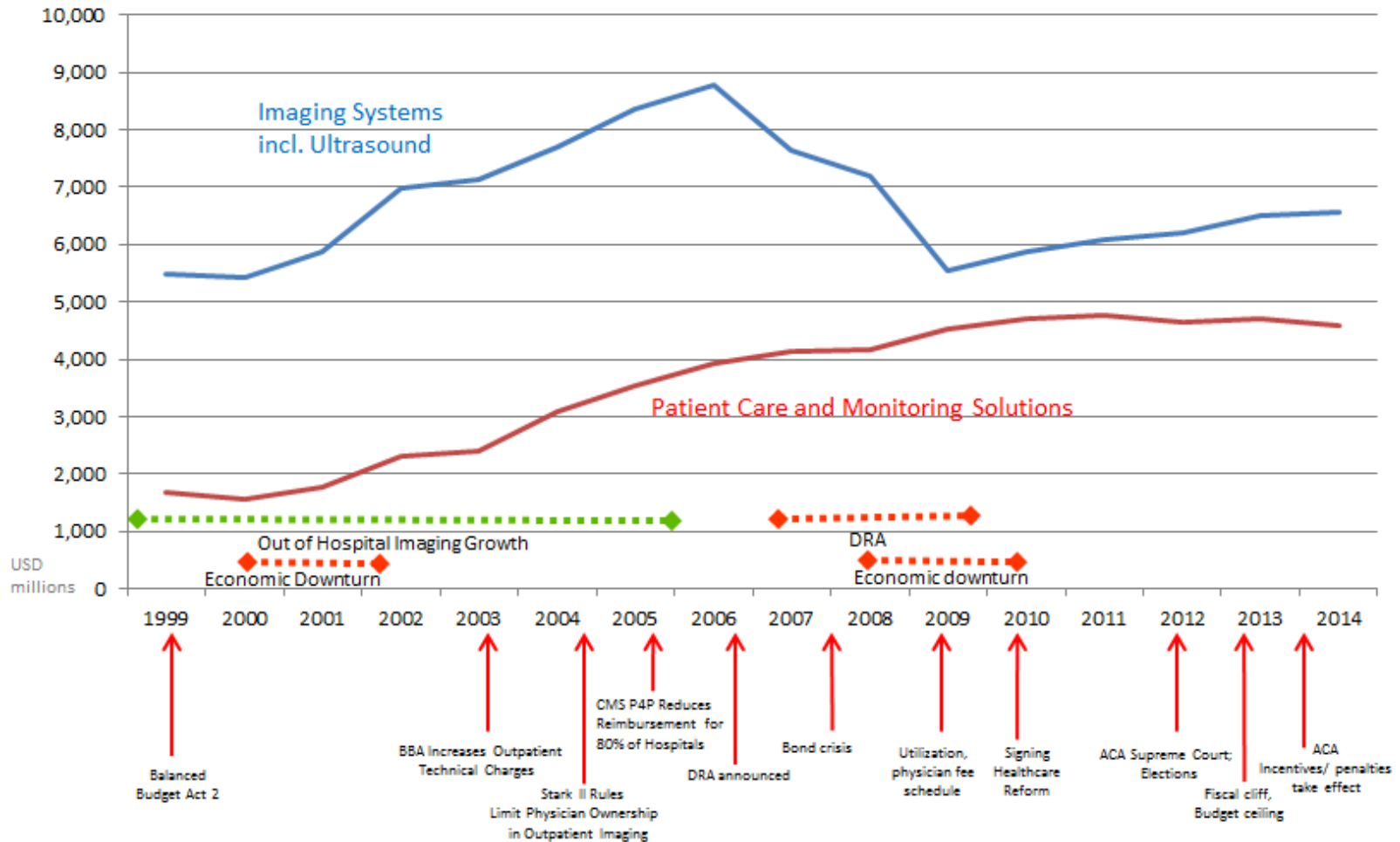
Quarter end equipment order book is a leading indicator for ~45% of sales the following quarters



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

Health care market developments in the US

Short Term

	Imaging Systems	Patient Care & Monitoring Solutions	Healthcare Informatics, Solutions and Services
• Economy	neutral	neutral	neutral
• Medical Device Excise Tax	unfavorable	unfavorable	unfavorable
• CB2 in HH ¹	N.A.	unfavorable	N.A.
• Capital spending hospitals	unfavorable	neutral	positive
• Government bundle buy	positive	neutral	neutral

Medical Device Excise Tax	Applies to ~55% of our US sales; impact largely mitigated through cost and value chain measures
CB2 in HH ¹	Competitive Bidding impacts ~ 7% of our global Home Healthcare business, ~1% of the total global Healthcare revenue
Capital spending	Expected to be slightly down to flat overall; up in IT
Government bundle activity	Government bids through “bulk buy” process have been larger than historical average for Imaging Systems and smaller than historical average for PCMS

Health care market developments in the US

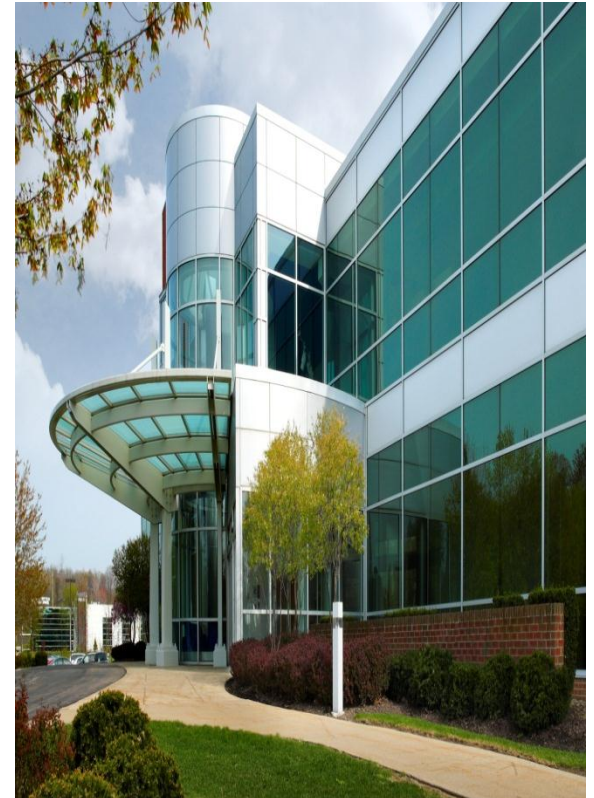
Mid to Long- Term

	Imaging Systems	Patient Care & Monitoring Solutions	Healthcare Informatics, Solutions and Services
• Health care demographics	positive	positive	positive
• Aging of equipment base	positive	positive	positive
• Affordable Care Act (ACA)	unfavorable	neutral	neutral
• Meaningful use	neutral	positive	positive
• Improved care at lower cost	neutral	positive	positive

ACA Implementation (Affordable Care Act)	<ul style="list-style-type: none"> • More than 20 million health care enrollees since the inception of ACA • Payments linked to quality improvements and lower integral patient cost vs. 'Fee for Service' model • Drive for more cost efficient care settings: Solutions, Hospital-to-Home • Reimbursement and other cuts will have an overall negative impact on Imaging Systems, relatively neutral impact on other businesses
Meaningful use	Favorable to PCMS business
Improved quality of care at lower cost	Reimbursement changes will increase need for solutions and consulting services; positive impact for PCMS and HISS businesses; increased need for value offerings in Imaging Systems

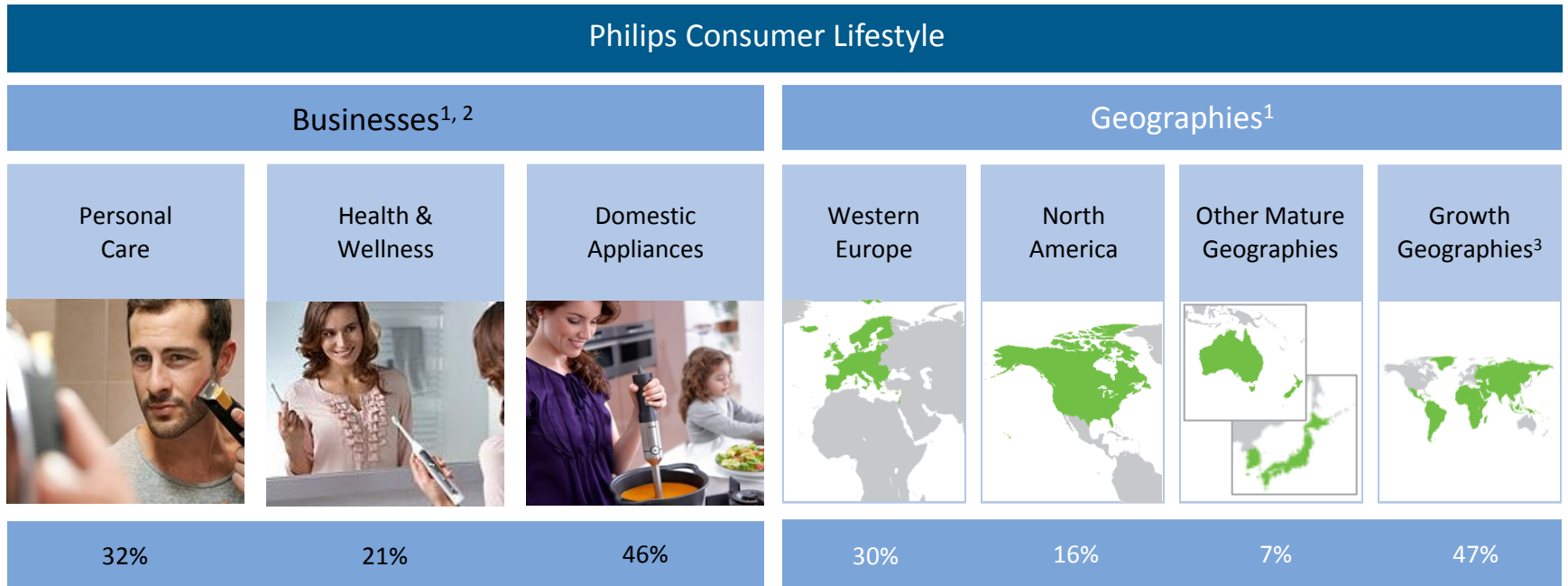
Resuming shipments from our Cleveland facility

- Implemented new **End2End cross-functional** way of working
- **Upgraded** functional **capabilities** and leadership
- Updated **Quality Management System** passed a third party audit
- **Resumed production** of iCT and Ingenuity CT scanners, ramp-up will continue through 2015
- **Resumed shipments** of our Brilliance iCT systems
- Expect global CT system production and shipment volume to **gradually return to 2013 levels by the end of 2015**
- The comprehensive **cultural transformation** program continues



Consumer Lifestyle

What we do. Where we are.



€4.7

Billion sales
in 2014

16,000+

People employed
worldwide

6%

of sales invested in
R&D in 2014

55%

of green product
sales in 2014

¹ Based on sales last 12 months December 2014

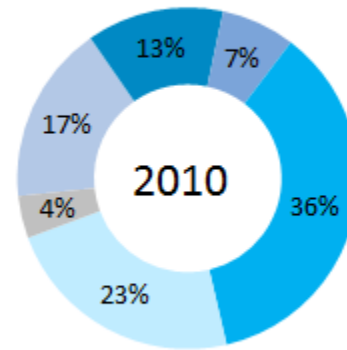
² Other category (1%) is omitted from this overview

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

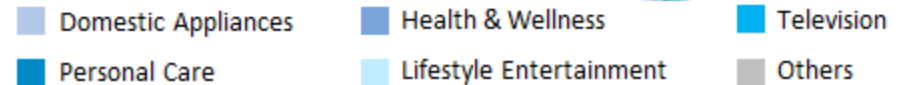
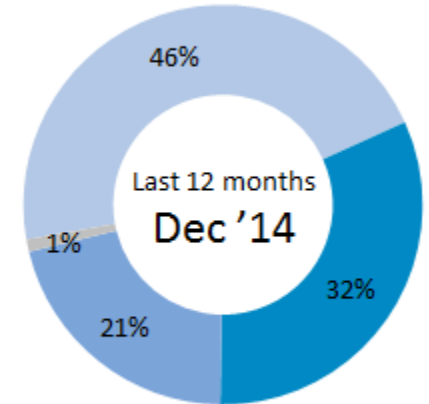
Consumer Lifestyle: Focusing on Personal Health and Well-being appliances and services

- 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

Total sales
EUR 8.7 billion



Total sales EUR 4.7 billion



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 BMC¹ 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



Male Grooming

- Increasing share as #1 player in electric Male Grooming
- Further strengthening leadership in China; expanding into lower tier cities
- 40% of SensoTouch and AquaTouch users recruited from blade, in total recruited 7% new shaving users in 2013¹



Beauty

- Market leader in China and volume market leader in Europe for Hair Dryers
- Continuing to strengthen #1 position in Intense Pulsed Light (IPL) hair removal in Western Europe, Latin America and Middle East & Turkey
- VisaPure cleansing brush successfully launched in 21 markets

Health & Wellness



Oral Healthcare

- Further strengthening leadership position in the US and Japan
- Enhancing geographic growth with strong market share increase outside the US (e.g. DACH², Japan, UK, China, Russia)
- Successful re-launch of Philips Sonicare for Kids supported with the launch of the Brush Busters app



Mother & Child Care

- Strengthening geographic footprint with strong growth in key markets such as China
- #1 market position in many markets & sub-categories (e.g. #1 in bottles and soothers in the US, #1 in breast pumps in China)

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
- Leadership in key markets strengthened through local relevance
- Global #1 brand in categories such as low fat fryer, juice extractor, food processor and overall home cooking & food preparation



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

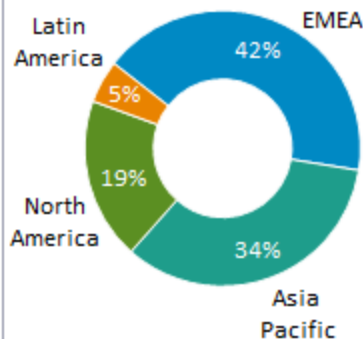
- Successful introduction of Saeco Incanto Executive, our new flagship machine in the full automatic espresso market
- Senseo is again the #1 European brand in Coffee Machines in 2014
- Successful expansion of the alliance with Tchibo with the launch of a new product family

Consumer Lifestyle: Q4 2014 Sector analysis

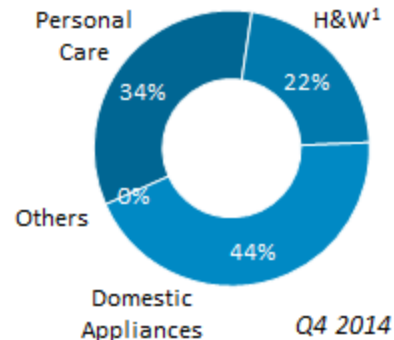
Key figures (in EUR million)

	4Q13	4Q14	FY2014
Sales	1,428	1,528	4,731
<i>% sales growth comp.</i>	8	6	6
EBITA	187	251	573
<i>EBITA as % of sales</i>	13.1	16.4	12.1
EBIT	174	237	520
<i>EBIT as % of sales</i>	12.2	15.5	11.0
NOC	1,261	1,353	1,353
Employees (FTEs)	17,255	16,639	16,639

Sales per region



Sales per business



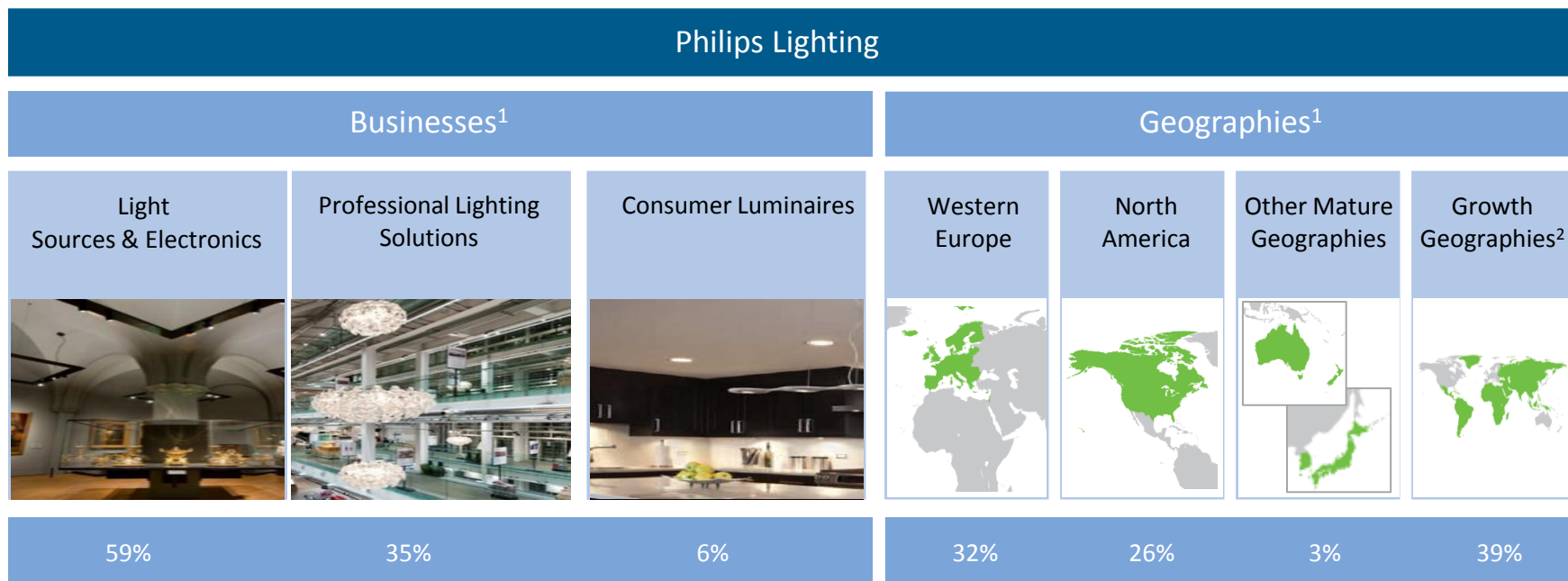
Financial performance

- Comparable sales increased by 6%. Health & Wellness achieved double-digit growth, while Personal Care recorded mid-single-digit growth and Domestic Appliances posted low-single-digit growth.
- Comparable sales in growth geographies showed high-single-digit growth. Mature geographies recorded mid-single-digit growth, with significant contributions from North America, Western Europe and other mature geographies.
- EBITA amounted to EUR 251 million, or 16.4% of sales, compared to EUR 187 million, or 13.1% of sales, in Q4 2013. EBITA included EUR 4 million of restructuring and acquisition-related charges and a EUR 11 million past-service pension cost gain in the Netherlands, compared to EUR 5 million of restructuring and acquisition-related charges in Q4 2013.
- Excluding restructuring and acquisition-related charges and the past-service pension cost gain in the Netherlands, EBITA was EUR 244 million, or 16.0% of sales, compared to EUR 192 million, or 13.4% of sales, in Q4 2013. The increase was largely due to higher volumes and improved gross margins.
- Net operating capital, excluding a positive currency translation effect of EUR 62 million, increased by EUR 30 million year-on-year. The increase was largely driven by higher working capital and a reduction in provisions.
- Inventories as a percentage of sales were 1.2 percentage points higher year-on-year.

Lighting

What we do. Where we are.

Philips Lighting



€6.9

Billion sales in 2014

37,000+

People employed worldwide in 60 countries

5%

of sales invested in R&D in 2014

72%

of green product sales in 2014

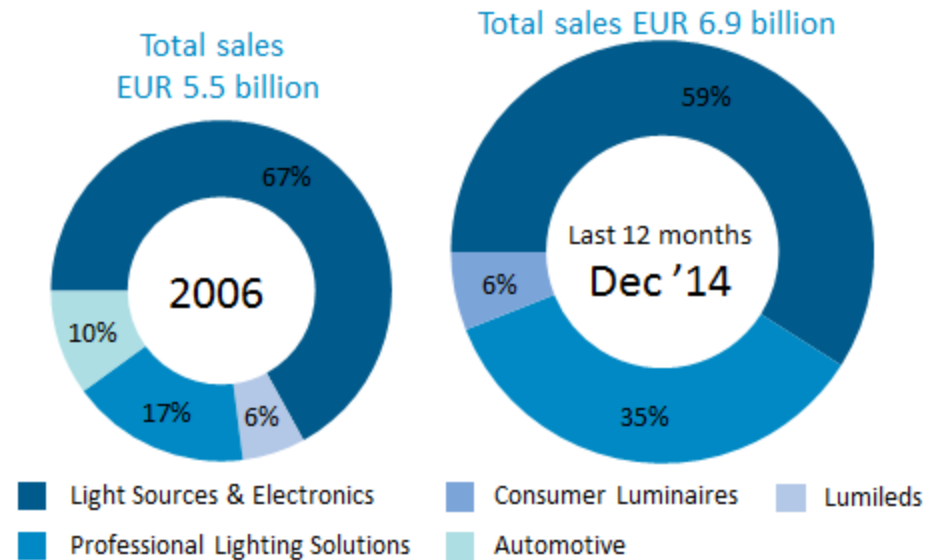
¹ Based on sales last 12 months December 2014

² 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.

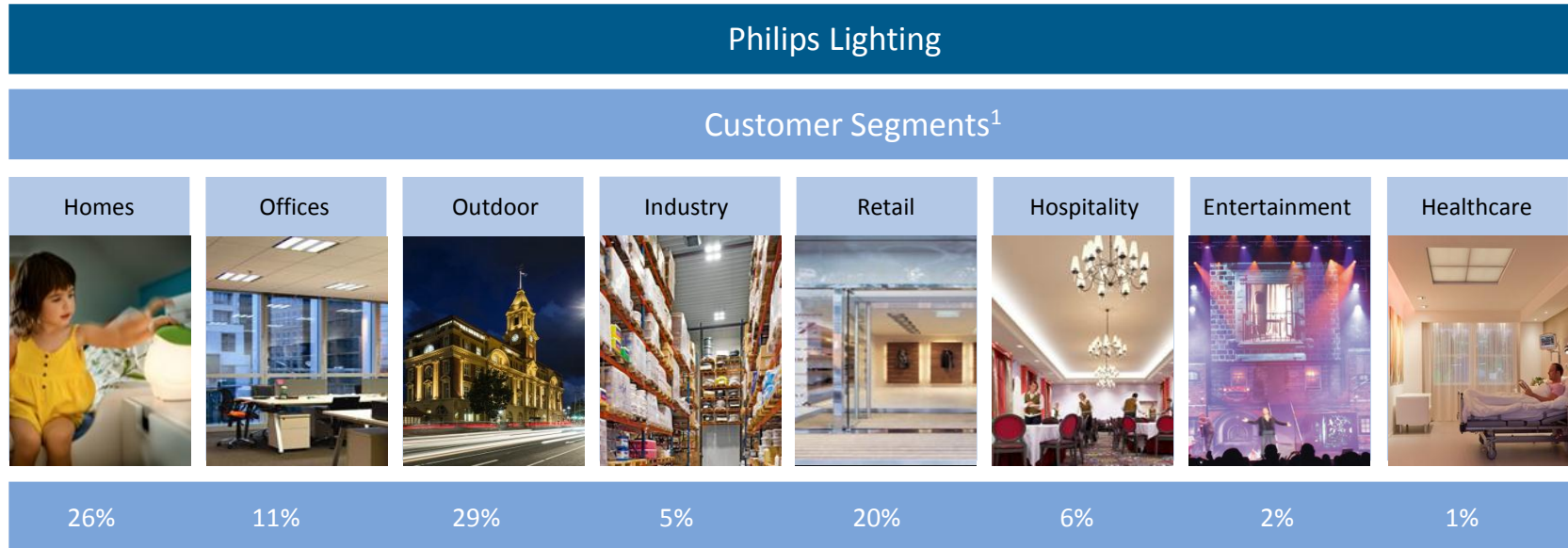
Lighting: Lead the way on the path to LED, systems & services

- 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%¹ of Lighting sales is B2B
- ~ 37%² of Lighting sales is LED lighting

¹ Indicative split based on last 12 months December 2014

² Based on Q4 2014

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 – H2 14¹

	Europe	North America	Latin America	Asia/Pacific ²	Total
Light Sources & Electronics	# 1	# 2 or 3	# 1	# 1	# 1
Consumer Luminaires ³	# 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 lighting⁴
- Market share in LED is higher than in conventional

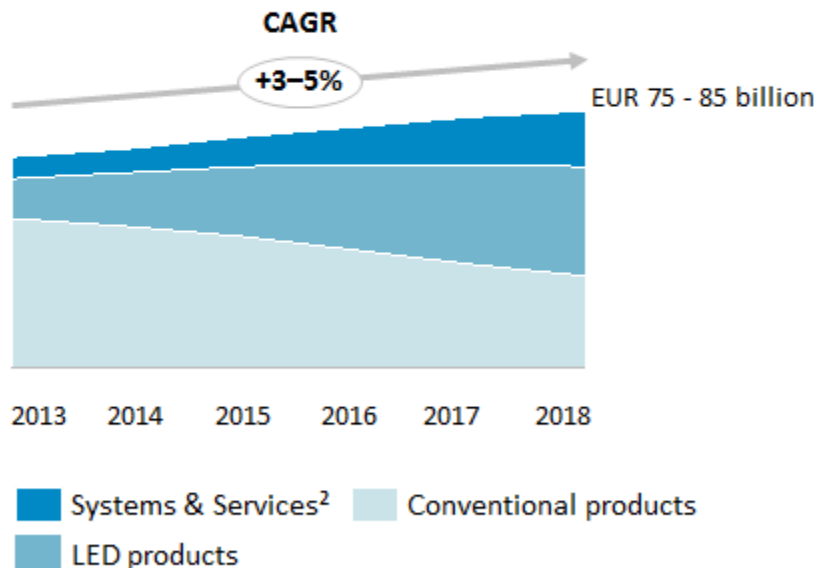
¹ Source: customer panels, industry associations and internal analysis; ² Excluding Japan;

³ #1 position globally as nearest competitors play only on specific regions; Excluding private labels; ⁴ Source: Markets and Markets, Global smart lighting market (2013–18)

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

We serve a large and attractive market expected to grow 3 - 5% CAGR between 2013 and 2018

Global lighting market forecast¹



- LED penetration to reach 60–65% by 2018³

The lighting industry is undergoing three major transitions in parallel

	2013 - 2018 CAGR ¹
1 Conventional products	-9% to -11%
2 LED products	20% to 25%
3 Systems & Services ²	Systems: 20% to 25% Services ⁴ : 40% to 45%

¹ Source: Philips Lighting global market study. Excluding Automotive lighting and LED components market

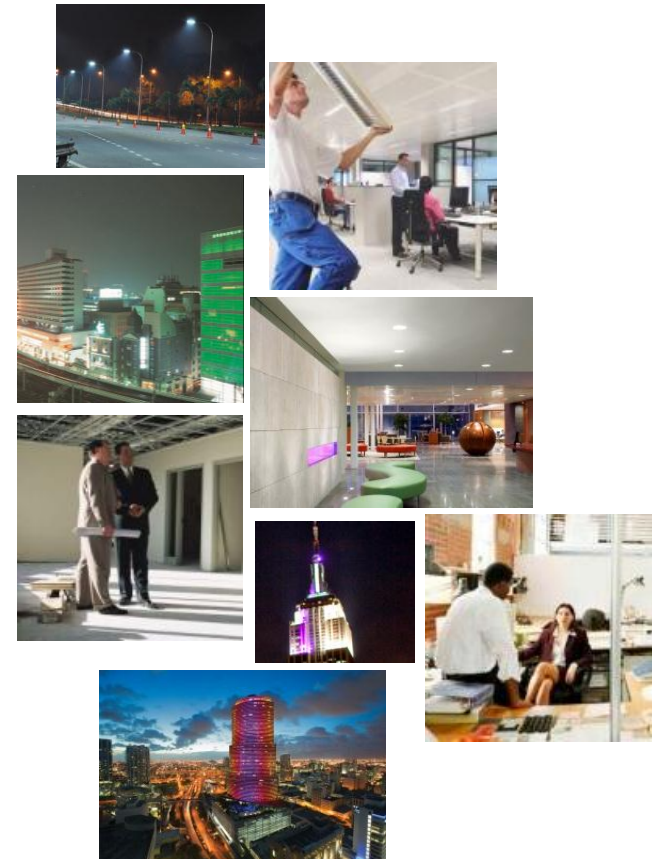
² Only professional market and lifecycle data-enabled services only; ³ Including part of Systems & Services; ⁴ Data-enabled services only

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

Close to 20% of Philips Lighting sales driven by New Build in Western Europe & North America (WE&NA)

Philips Lighting	New Build	Replacement	Total
Residential	10%	11%	21%
Commercial	29%	23%	52%
Other	19%	8%	27%
Total	58%	42%	100%

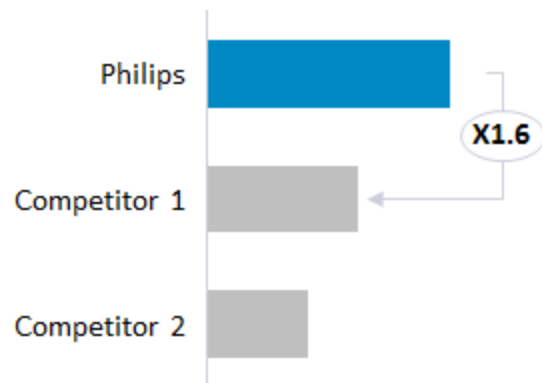
New Build	WE&NA	ROW	Total
Residential	4%	6%	10%
Commercial	14%	15%	29%
Total	18%	21%	39%



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

#1 in conventional lamps and drivers

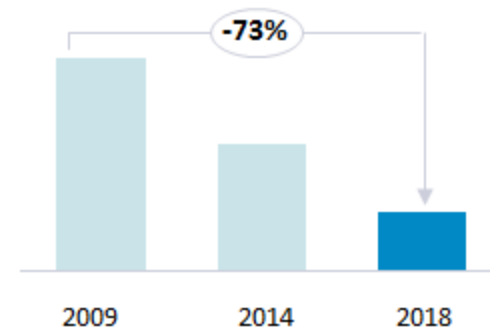
Market share¹



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

We adapt capacity in response to market demand

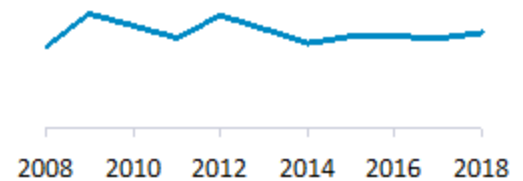
of manufacturing sites, LS&E²



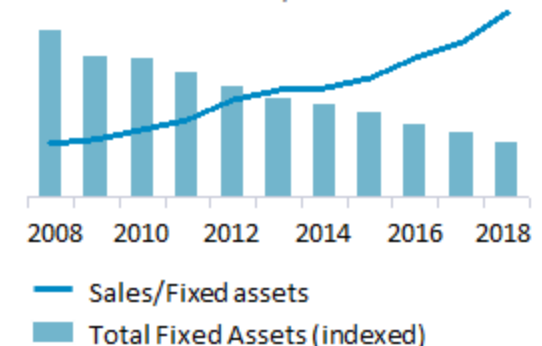
- Ability to adjust capacity with a 3-month lead time
- Closure of sites accelerated in line with market demand

Measures deliver positive results

Free Cash Flow to sales ratio, conventional lamps and drivers



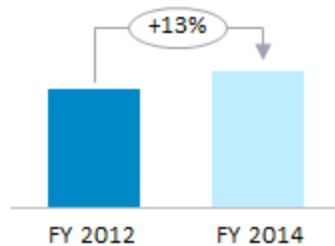
Fixed asset turnover ratio, conventional lamps and drivers



We are the leading LED lighting company

Increased R&D investment in LED leading to improved results

R&D spend LED Indexed



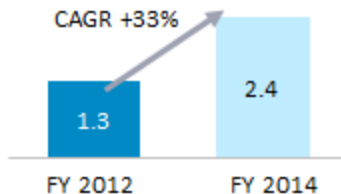
Increased focus on LED products & portfolio developments

- We lead the technological revolution by investing significantly in LED R&D
- Total LED sales ~ EUR 2.4 billion last 12 months December 2014
- LED revenue growth and cost productivity gains will improve profitability

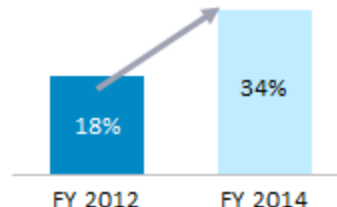
Leveraging Intellectual Property

- Scope: LED Controls and Basic Optics
- Philips Lighting Patent Portfolio:
 - 87% LED and digital related
 - 13% Conventional related
- 1400 Rights licensed
- Licensing Program has more than 475 licensees

LED sales increase (in EUR billion)



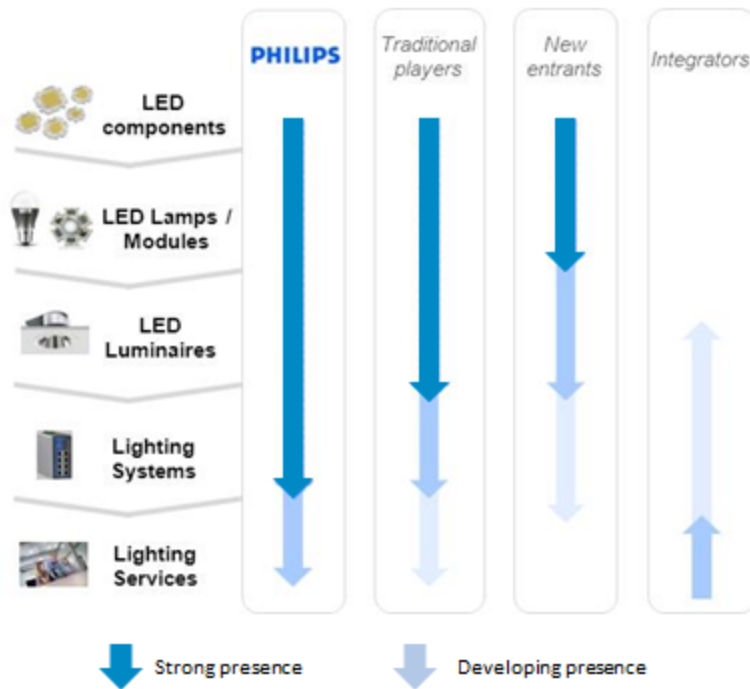
LED as a % of Lighting sales



We are shaping the future of digital lighting

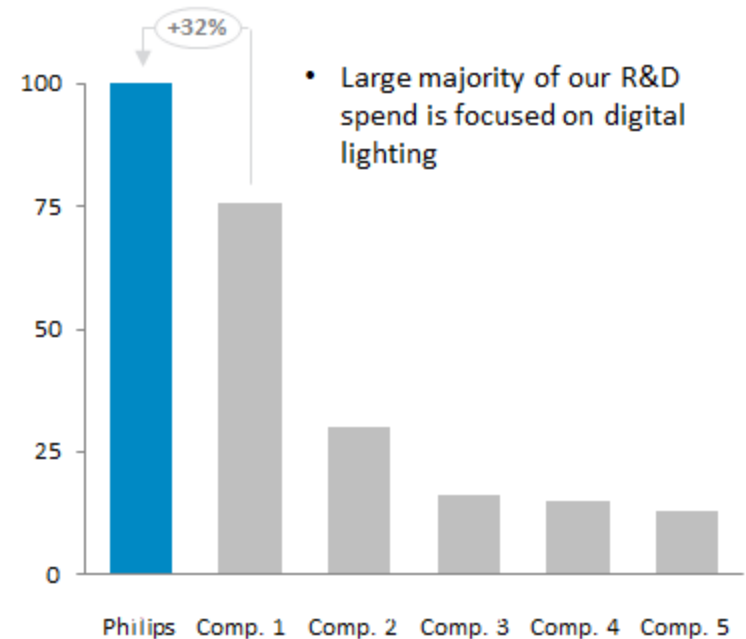
We have a unique competitive position in LED lighting

Market presence in the digital value chain¹:



We spend 32% more on R&D than our closest competitor

Total Lighting R&D Spending Index (Philips = 100)²



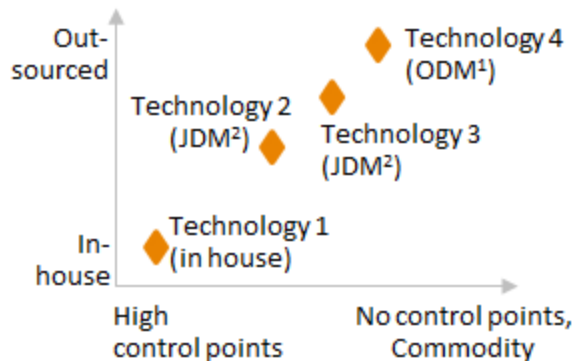
¹ Source: Latest competitors' annual reports, LEDs magazine, LEDinside.com

² 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



SlimStyle

- First 60W replacement bulb at <USD 2³ in USA
- Unique concept where heat sink is removed



The classic LED bulb

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

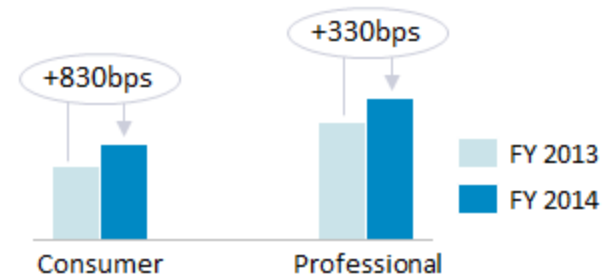


Instant Fit T8

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

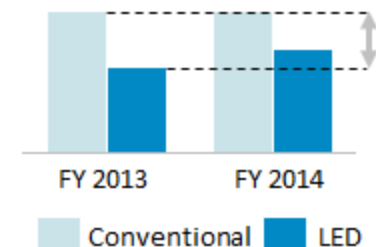
Measures are paying off both in Consumer and Professional

Adjusted gross margin LED Lamps



Gross margin difference of LED vs. Conventional lamps is narrowing

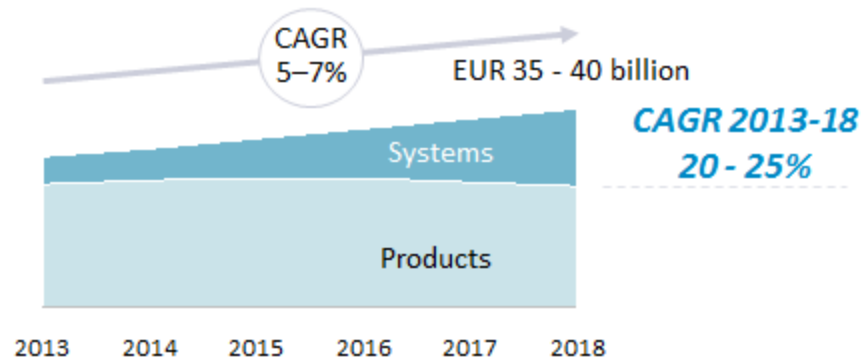
Adjusted gross margin



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

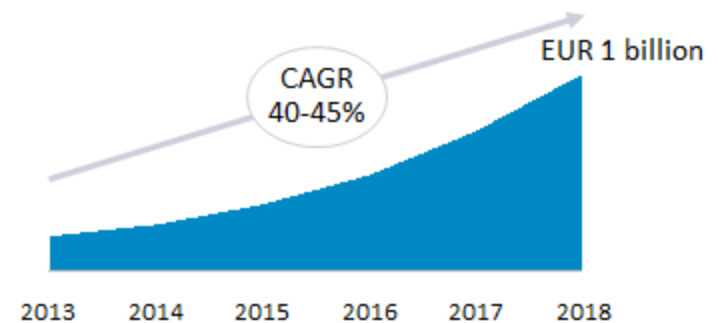


Expected to represent 40% of the professional lighting solutions market by 2018

- 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

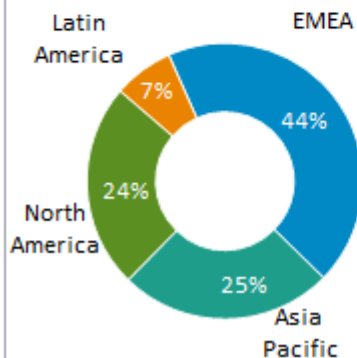
Uniquely positioned to capture the high growth and accretive market opportunities of systems and services

Lighting: Q4 2014 Sector analysis

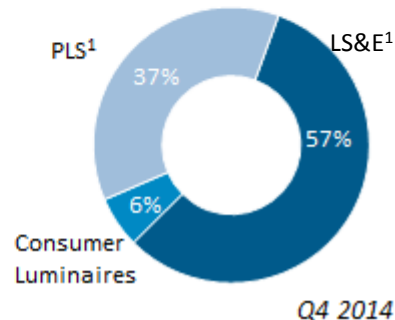
Key figures (in EUR million)

	4Q13	4Q14	FY2014
Sales	1,921	1,975	6,869
<i>% sales growth comp.</i>	5	(3)	(3)
EBITA	140	(40)	293
<i>EBITA as % of sales</i>	7.3	(2.0)	4.3
EBIT	55	(83)	185
<i>EBIT as % of sales</i>	2.9	(4.2)	2.7
NOC	4,462	3,638	3,638
Employees (FTEs)	38,671	37,808	37,808

Sales per region



Sales per business



Financial performance

- Comparable sales showed a 3% decline year-on-year. Professional Lighting Solutions achieved mid-single-digit growth. Light Sources & Electronics posted a mid-single-digit decline, and Consumer Luminaires recorded a double-digit decline.
- Comparable sales in mature geographies were in line with Q4 2013. Growth geographies recorded a high-single-digit decline, mainly due to China.
- LED-based sales grew 20% year-on-year and now represent 37% of total Lighting sales, compared to 31% in Q4 2013.
- EBITA amounted to a loss of EUR 40 million, compared to a profit of EUR 140 million, or 7.3% of sales, in Q4 2013.
- EBITA, excluding restructuring and acquisition-related-charges, EUR 68 million of impairment and other charges related to industrial assets, and a EUR 13 million past-service pension cost gain in the Netherlands, was EUR 178 million, or 9.0% of sales, compared to EUR 169 million, or 8.8% of sales, in Q4 2013.
- Net operating capital, excluding a positive currency translation effect of EUR 312 million, decreased by EUR 1,136 million year-on-year. The decrease was due to the reclassification of Lumileds and Automotive as assets held for sale in Q4 2014.
- Inventories as a percentage of sales increased by 1.3 percentage points year-on-year, mainly due to the acquisition of a 51% interest in the General Lighting Company (GLC) in Saudi Arabia.

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

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

Innovation, Group & Services: Q4 2014 Sector analysis

Key figures (in EUR million)

	4Q13	4Q14	FY2014
Sales	224	184	605
<i>% sales growth comp.</i>	18	(21)	(12)
EBITA:			
Group Innovation	(42)	(60)	(197)
IP Royalties	122	95	299
Group & Regional Costs	(72)	(86)	(205)
Accelerate! investments	(34)	(40)	(131)
Pensions	(4)	(5)	(12)
Services Units & Other	(49)	(243)	(415)
<hr/>			
EBITA	(79)	(339)	(661)
EBIT	(79)	(343)	(675)
NOC	(2,922)	(3,718)	(3,718)
Employees (FTEs)	12,703	13,853	13,853

Financial performance

- Sales decreased from EUR 224 million in Q4 2013 to EUR 184 million in Q4 2014, mainly due to higher IP royalties in Q4 2013 related to one-time patent settlements in our Blu-ray and TV licensing programs.
- EBITA amounted to a net cost of EUR 339 million, compared to a net cost of EUR 79 million in Q4 2013. EBITA included EUR 201 million of charges related to ongoing legal matters and a EUR 27 million past-service pension cost gain in the Netherlands. Restructuring charges amounted to EUR 65 million, compared to EUR 7 million in Q4 2013.
- Excluding restructuring and acquisition-related charges and other items, EBITA was a net cost of EUR 100 million, compared to a net cost of EUR 72 million in Q4 2013. The decrease was mainly due to one-time settlements in our Blu-ray and TV licensing programs in Q4 2013.
- Net operating capital, excluding a negative currency translation effect of EUR 188 million, decreased by EUR 608 million year-on-year, mainly due to a decrease in working capital.
- Compared to Q4 2013, the number of employees increased by 1,150, primarily driven by an increase in temporary workers in the IT Service Units as well as a shift of employees from the sectors. The number of employees increased by 170 compared to Q3 2014.

Appendix

Financial calendar 2015

February 24	Annual Report 2014
April 28	First quarter results 2015
May 7	Annual General Meeting of Shareholders
July 27	Second quarter and semi-annual results 2015
October 26	Third quarter results 2015

Depreciation and amortization

EUR million

	Q4 2013	Q4 2014	FY 2013	FY 2014
Depreciation of property, plant and equipment	153	215	521	592
Amortization of software	11	10	39	32
Amortization of other intangible assets	134	100	393	332
Amortization of development costs	67	68	224	231
Philips Group	365	393	1,177	1,187

Gross capital expenditures & Depreciation by sector

EUR million

	Gross CapEx ¹		Depreciation ¹	
	Q4 2013	Q4 2014	Q4 2013	Q4 2014
Healthcare	47	41	40	39
Consumer Lifestyle	49	46	34	35
Lighting	35	32	50	104
IG&S	25	34	28	37
Group	156	153	152	215

¹ 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 ¹		Depreciation ¹	
	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
Group	482	437	521	592

¹ 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	
	Q4 2013	Q4 2014	Q4 2013	Q4 2014
Healthcare	64	66	46	48
Consumer Lifestyle	11	15	13	10
Lighting	7	6	8	10
IG&S	12	52	-	-
Group	94	139	67	68

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	-	-
Group	350	397	224	231

Restructuring, acquisition-related charges and other items

<i>EUR million</i>	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14	3Q14	4Q14	2014
Acq.-related charges	(3)	(2)	(1)		(6)				(1)	(1)
Restructuring	1	2	-	3	6	(21)	1	(3)	(46)	(69)
Other Incidentals		82			82			(415) ³	16	(399)
Healthcare	(2)	82	(1)	3	82	(21)	1	(418)	(31)	(469)
Acq.-related charges	(1)	-	(1)	(1)	(3)	-	(1)	1	(1)	(1)
Restructuring	-	(3)	(4)	(4)	(11)	-	-	(5)	(3)	(8)
Other Incidentals	-	1	-	-	1	-	-		11	11
Consumer Lifestyle	(1)	(2)	(5)	(5)	(13)	-	(1)	(4)	7	2
Acq.-related charges	(1)	(1)	(2)		(4)	(2)	(2)	(8)	(7)	(19)
Restructuring	(18)	(15)	(17)	(29)	(79)	(28)	(20)	(22)	(156)	(226)
Other Incidentals		10			10				(55)	(55)
Lighting	(19)	(6)	(19)	(29)	(73)	(30)	(22)	(30)	(218)	(300)
Restructuring	3	-	1	(7)	(3)		(4)	(41)	(65)	(110)
Other Incidentals	-	6	(31) ²	-	(25)			(43) ⁴	(174)	(217)
IG&S	3	6	(30)	(7)	(28)	-	(4)	(84)	(239)	(327)
Total Acq.-related charges	(5)	(3)	(4)	(1)	(13)	(2)	(3)	(7)	(9)	(21)
Total Restructuring	(14)	(16)	(20)	(37)	(87)	(49)	(23)	(71)	(270)	(413)
Total Other Incidentals	-	99 ¹	(31)	-	68	-	-	(458)	(202) ⁵	(660)
Grand Total	(19)	80	(55)	(38)	(32)	(51)	(26)	(536)	(481)	(1,094)

¹ Includes a EUR 78M past-service pension cost gain in the US (EUR 61M in Healthcare, EUR 1M in Consumer Lifestyle, EUR 10M in Lighting and EUR 6M in IG&S) and a EUR 21M gain on the sale of a business in Healthcare. ² A loss of EUR (31)M caused by an increase in the discount rate related to a settlement of the lump sum offering to former employees enrolled in our US pension plan. ³ 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. ⁴ Q3 2014 includes EUR (43)M provisions related to various legal matters. ⁵ Q4 2014 includes EUR (201) million of charges related to ongoing legal matters, a EUR 67 million past-service pension cost gain in the Netherlands and EUR (68) million of impairment and other charges related to industrial assets at Lighting.

