



PHILIPS

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Royal Philips
Fourth quarter and full year 2018 results

January 29, 2019

innovation  you



Important information

Forward-looking statements and other important information

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

These factors include but are not limited to: global economic and business conditions; developments within the euro zone; the successful implementation of Philips' strategy and the ability to realize the benefits of this strategy; the ability to develop and market new products; changes in legislation; legal claims; changes in currency exchange rates and interest rates; future changes in tax rates and regulations, including tax reform in the US; pension costs and actuarial assumptions; changes in raw materials prices; changes in employee costs; the ability to identify and complete successful acquisitions, and to integrate those acquisitions into the business, including Spectranetics; the ability to successfully exit certain businesses or restructure the operations; the rate of technological changes; cyber-attacks, breaches of cybersecurity, political, economic and other developments in countries where Philips operates; industry consolidation and competition; and the state of international capital markets as they may affect the timing and nature of the disposal by Philips of its remaining interests in Signify. 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 2017.

Third-party market share data

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

Use of non-GAAP Information

In presenting and discussing the Philips Group's financial position, operating results and cash flows, management uses certain non-IFRS financial measures. These non-IFRS financial measures should not be viewed in isolation as alternatives to the equivalent IFRS measures and should be used in conjunction with the most directly comparable IFRS measures. Non-IFRS financial measures do not have standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. A reconciliation of these non-IFRS measures to the most directly comparable IFRS measures is contained in this document. Further information on non-IFRS measures can be found in the Annual Report 2017. As the Philips Group is applying IFRS as its Generally Accepted Accounting Principles (GAAP) we have changed the term non-GAAP information into non-IFRS information.

Use of fair-value measurements

In presenting the Philips Group financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that are deemed to be reliable. Readers are cautioned that these values are subject to changes over time and are only valid at the balance sheet date. When quoted prices or observable market data are not readily available, fair values are estimated using appropriate valuation models and unobservable inputs. Such fair value estimates require management to make significant assumptions with respect to future developments, which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the Annual Report 2017 and Semi-Annual Report 2018. Independent valuations may have been obtained to support management's determination of fair values.

All amounts are in millions of euros unless otherwise stated. Due to rounding, amounts may not add up precisely to totals provided. All reported data is unaudited. Financial reporting is in accordance with the accounting policies as stated in the Annual Report 2017 and Semi-Annual Report 2018, unless otherwise stated. The presentation of certain prior-year information has been reclassified to confirm to the current-year presentation.

Market Abuse Regulation

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

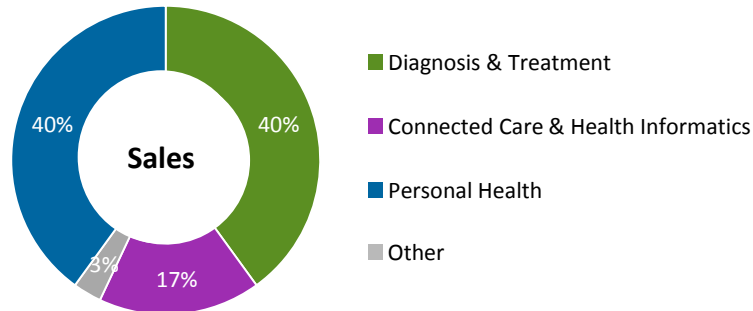
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Company overview

EUR 18.1 billion sales and Adjusted EBITA of 13.1% ¹



Diagnosis & Treatment

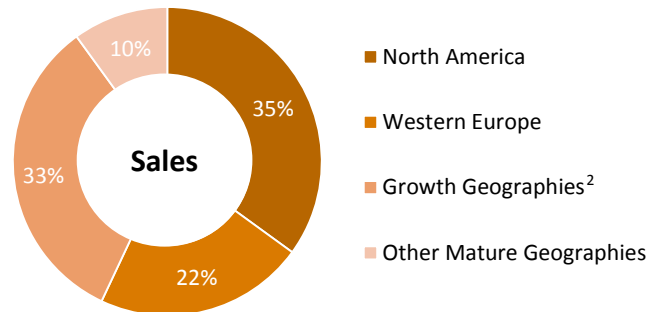
Enabling efficient, first-time-right diagnosis and precision therapies through digital imaging and clinical informatics solutions

Connected Care & Health Informatics

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

Personal Health

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

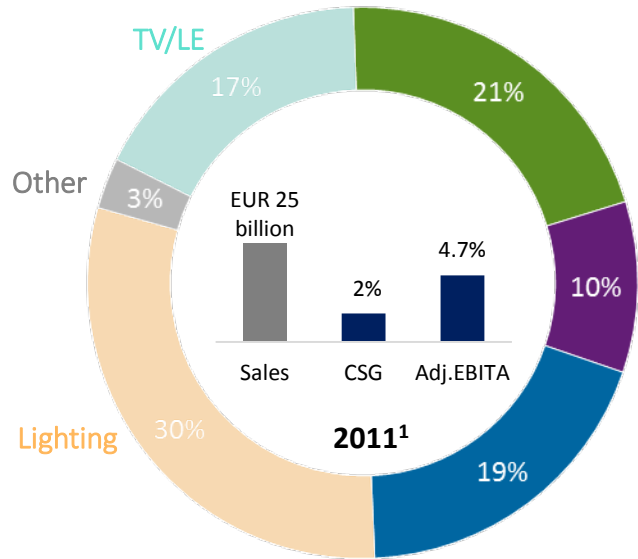
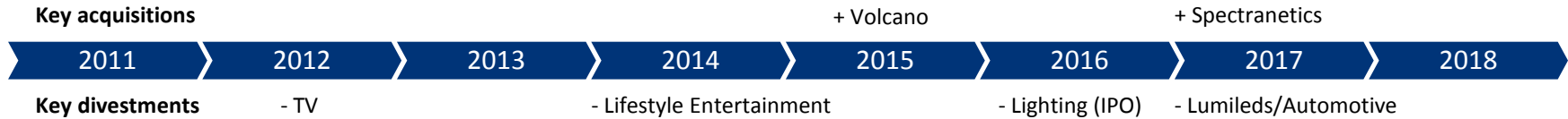


- EUR 1.8 billion for R&D, ~65,000 patents rights, ~39,000 trademarks
- More than 30% of sales from solutions
- ~77,000 employees in over 100 countries
- Philips retains a 16.5% stake in Signify, presented as a financial asset measured at market value

¹ All figures are based on 2018 unless stated otherwise. Effective Q1 2019, Philips' reporting structure will change as per [announcement](#) of January 10, 2019; ² Growth geographies consist of all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel



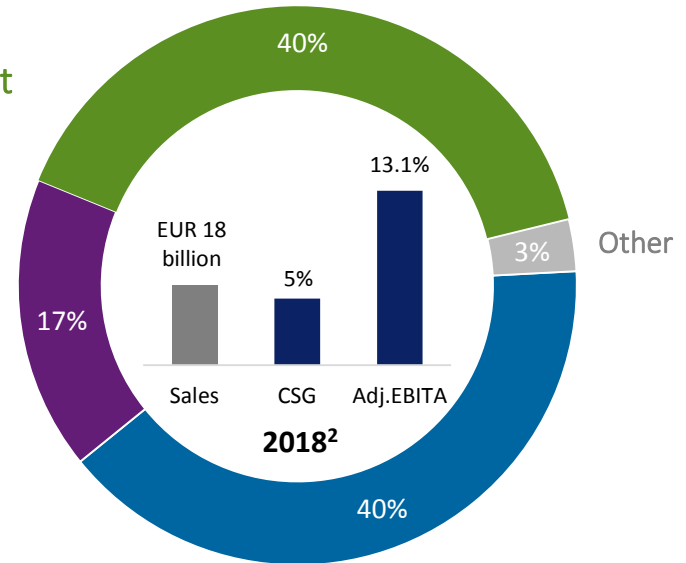
We have transformed into a focused global HealthTech leader



Diagnosis & Treatment

Connected Care & Health Informatics

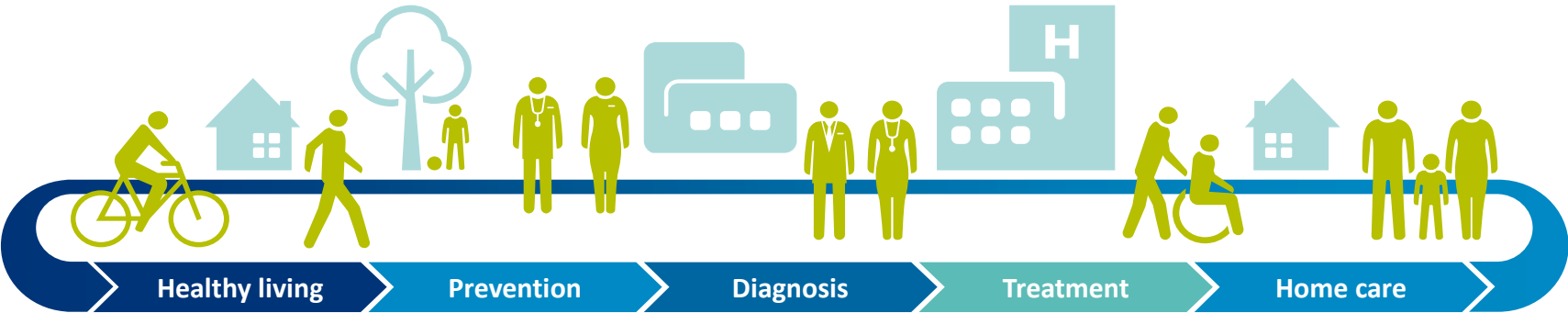
Personal Health





Our strategy resonates with customers, addresses their needs

Uniquely positioned in the “last yard” to consumers and providers



Connected products and services supporting the health and well-being of people	Integrated modalities and clinical informatics to deliver precision diagnosis	Real-time guidance, smart devices for minimally invasive interventions	Connected products and services for chronic care
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Connecting patients and healthcare providers for more effective, coordinated, personalized care
Managing population health, leveraging real-time patient data and clinical analytics

We operate in growing, evolving markets

Strong growth fundamentals

Growing population

Aging population

Rising burden of chronic diseases

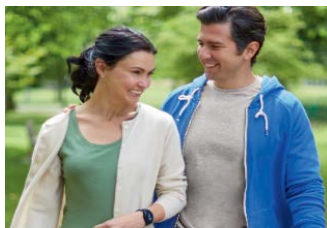
Increasing spend in developing markets

Market evolution



Digital

Connecting consumers, patients and care providers



Consumer centric

Increasing consumer engagement in their own health



Precision

Importance of AI, informatics and personalization



Consolidation

Increasing horizontal and vertical consolidation



Post Acute Care

Shifting to lower-cost settings and the home

Operating across the health continuum

Segments and businesses as per 2018¹

Diagnosis & Treatment



- Ultrasound
- Image-Guided Therapy
- Diagnostic Imaging

40%

Connected Care & Health Informatics



- Monitoring & Analytics
- Therapeutic Care
- Healthcare Informatics
- Population Health Management

17%

Personal Health



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

40%

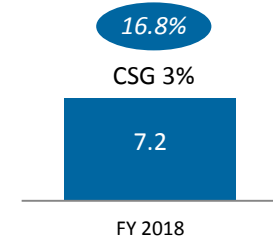
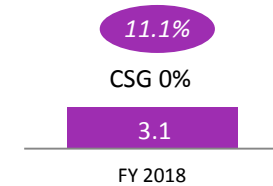
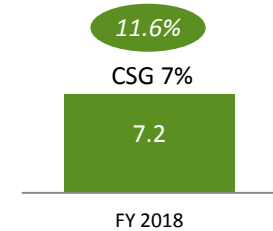
Key products and solutions

Ultrasound
Interventional X-ray, smart devices for diagnosis and therapy
CT, MR, digital X-ray, intelligent software applications

Patient monitoring, eICU, continuous monitoring
Hospital ventilation, defibrillators
Healthcare IT, clinical and imaging informatics
Home monitoring, tele-health, remote cardiac monitoring

Sonicare power toothbrushes, mother & child care
Respironics home ventilators, CPAP, respiratory masks
Male grooming, skin care
Air purification, small kitchen appliances

■ Sales (EUR B) ● Adj. EBITA margin



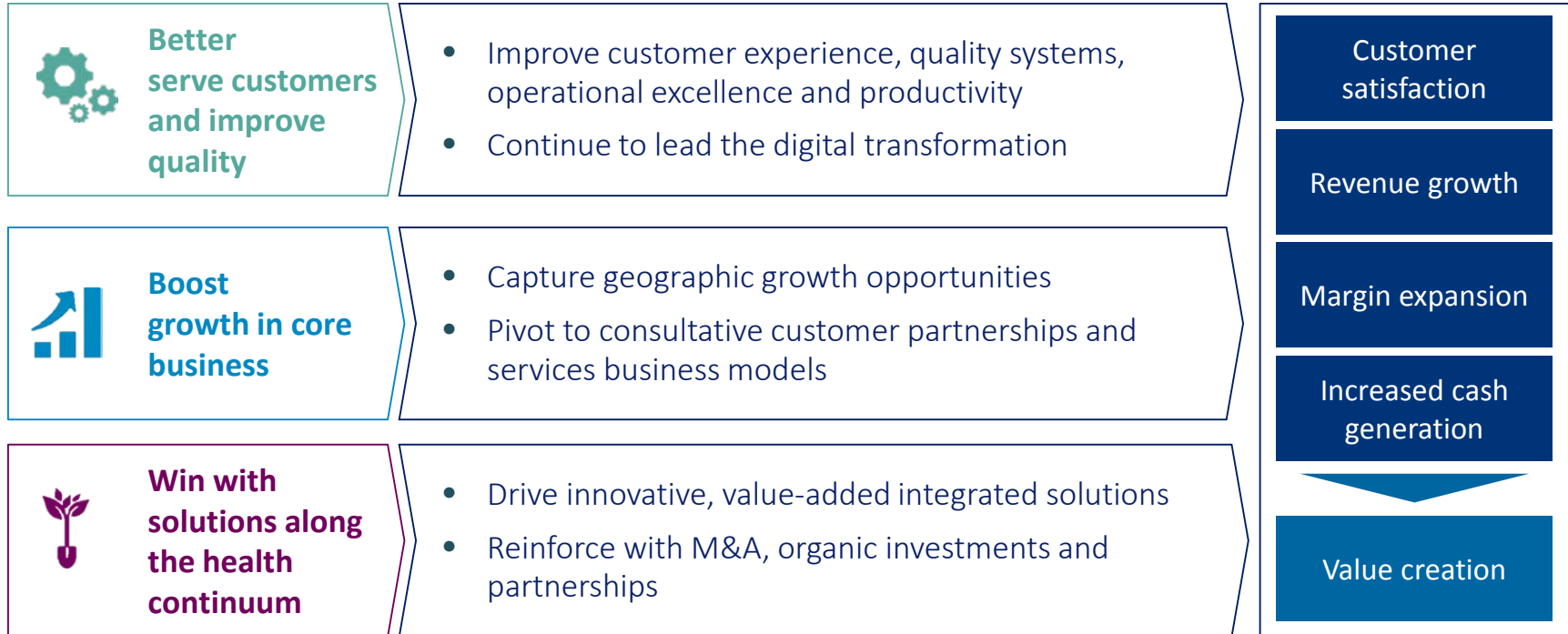


Over 60% of sales from leadership positions¹

Diagnosis & Treatment		Connected Care & Health Informatics		Personal Health	
 <p>Ultrasound <i>Global Leader</i></p>		 <p>Patient Monitoring <i>Global Leader</i></p>	 <p>ICU Telemedicine <i>#1 in North America</i></p>	 <p>Male Grooming <i>Global Leader</i></p>	 <p>Oral Healthcare <i>Global Leader</i></p>
 <p>Image-Guided Therapy Systems <i>Global Leader</i></p>		 <p>Non-invasive Ventilation² <i>Global Leader</i></p>	 <p>Sleep Care <i>Global Leader</i></p>	 <p>Respiratory Care <i>Global Leader</i></p>	
 <p>Image-Guided Therapy Devices <i>Global Leader</i></p>	 <p>Diagnostic Imaging <i>Global Top 3</i></p>	 <p>Personal Emergency Response <i>#1 in North America</i></p>	 <p>High-end Radiology and Cardiology Informatics <i>#1 in North America</i></p>	 <p>Mother & Child Care <i>Global Leader</i></p>	

¹ Leadership position refers to #1 or #2 position in Philips addressable market. Effective Q1 2019, Philips' reporting structure will change as per [announcement](#) of January 10, 2019; ² Based on non-invasive ventilators for the hospital setting.

Drivers for continued growth and improved profitability

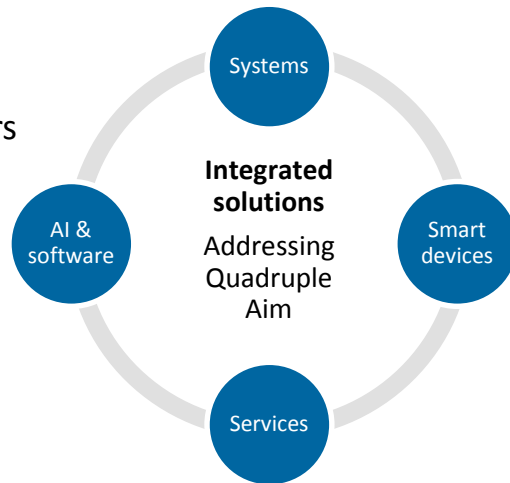


Drive innovative, value-added integrated solutions

We are uniquely positioned to deliver integrated solutions

We bring together:

- A holistic view on the needs of consumers, patients and providers
- Deep consumers insights
- Leading clinical and operational expertise
- Broad portfolio of technologies



Example solution areas:

- Precision diagnostics
- Minimally invasive therapies
- Sleep and respiratory care
- Connected care

Solutions deliver 31% of revenues¹, growing double-digit

Pivot to consultative customer partnerships and services business models

Long-term strategic partnerships unlock value for our customers and us

Built on:

- Common goals
- Joint commitment
- Outcome-focused business models
- Continuous improvement
- Collaborative innovation

Leading to:

- ✓ Deeper C-suite relationships
- ✓ Delivering success to customers
- ✓ Increasing share of wallet
- ✓ Multi-year, recurring revenues
- ✓ Excellent references

Recent deals



Banner Health



Health

Illawarra Shoalhaven
Local Health District



Beste Medizin für alle.



Guardian Early Warning connected care solution

Addressing the Quadruple Aim



Health outcomes

86% reduction of Cardiopulmonary Arrests¹

66% reduction in mortality of patients transferred to the ICU¹



Patient experience

Patients feel safer in general care unit²



Faster hospital discharge²



Cost of care

24% reduction in ICU admission rate¹

can reduce length of stay²



Staff satisfaction

35% reduction of severe Adverse Events¹

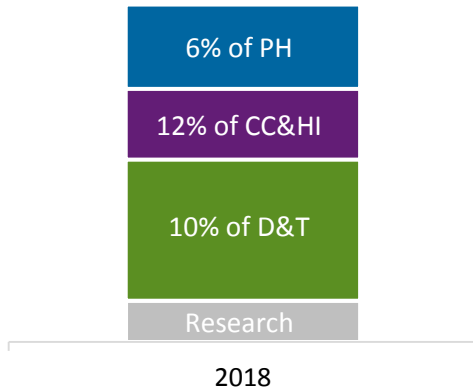
52% improvement in notifications to trigger interventions¹



Innovation is core to our value creation

Commitment to innovation

EUR 1.8 billion in R&D
9.7% of sales



60%

R&D professionals in software and data science

Deep clinical partnerships

With academic institutions and with key opinion leaders

New businesses

e.g. Digital Pathology, neurology, wearables, HealthSuite cloud applications

Driving growth and margins

>50%

New product sales¹

>10%

FY order intake growth

Expanding gross margins

With higher-margin innovations

40-50 bps

R&D productivity gain by 2020



Our sustainability programs address pressing societal issues

Focus on United Nations Sustainable Development Goals, in particular #3, #12 and #13¹



Climate change

Carbon-neutral in our operations, 100% renewable electricity (2020)



Circular economy

15% circular revenues, zero waste to landfill (2020)
100% closed loops for all medical systems (2025)



Access to care

3 billion lives improved per year by 2025², including 300 million in underserved healthcare communities





























The Compact

Committed to the WEF Compact for Responsive and Responsible Leadership



An experienced Leadership Team

CEO / CFO	Business Leaders	Market Leaders	Function Leaders
 <p><i>CEO</i> Frans van Houten</p> 	 <p><i>Diagnosis & Treatment</i> Robert Cascella</p>   <p>Bert van Meurs</p> 	 <p><i>Global Markets¹</i> Henk de Jong</p>   <p><i>North America</i> Vitor Rocha</p>  	 <p><i>Innovation & Strategy</i> Jeroen Tas</p>   <p><i>Operations</i> Sophie Bechu</p>  
 <p><i>CFO</i> Abhijit Bhattacharya</p> 	 <p><i>Connected Care</i> Carla Kriwet</p>   <p><i>Personal Health</i> Roy Jakobs</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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Continued focus on value creation

2017-2020 targets

Revenue growth

comparable sales growth

4-6% annually

Margin expansion

Adj. EBITA improvement

**average annual 100
bps improvement**

to ~15% in 2020

Cash generation

Free Cash Flow in 2020

above EUR 1.5 billion

ROIC

Organic ROIC in 2020

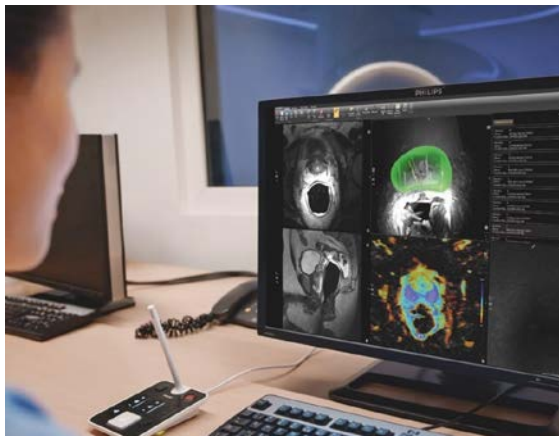
mid-to-high-teens

After 2020 we will drive further improvement



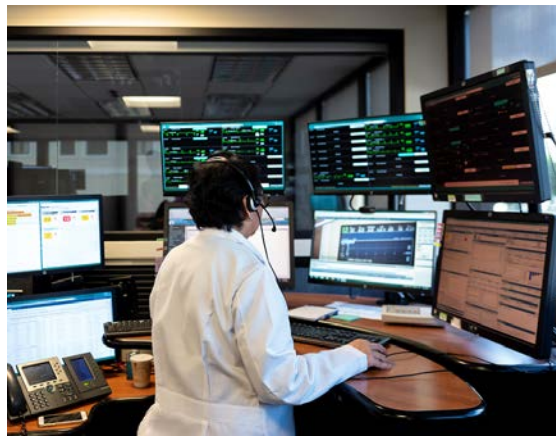
New reporting segment performance trajectory

2019-2020



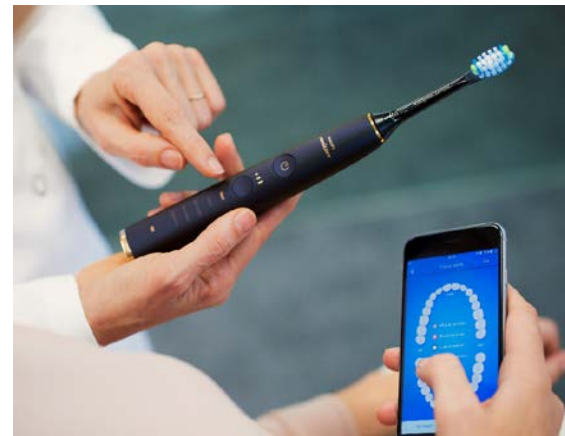
Diagnosis & Treatment

5-7% sales growth
14-16% margin



Connected Care

4-6% sales growth
16-18% margin

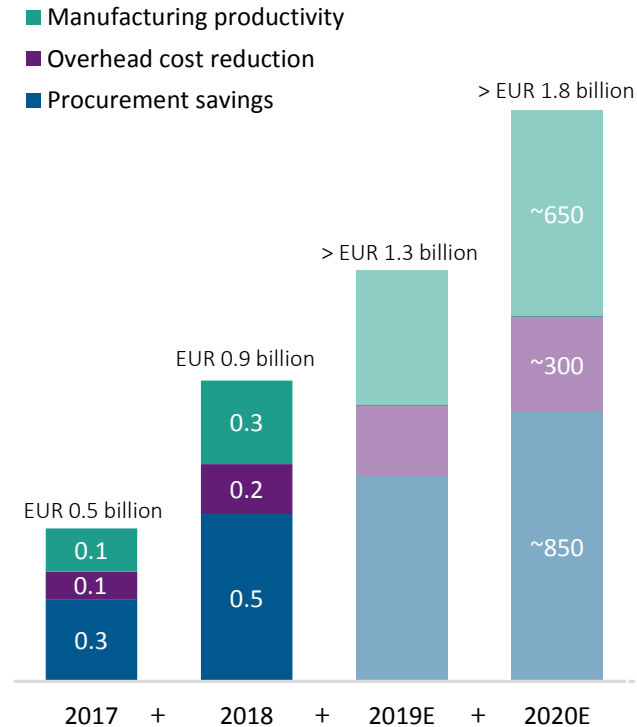


Personal Health

4-6% sales growth
16-18% margin

Productivity program of > EUR 1.8 billion by 2020

2017 – 2020 cumulated net productivity savings



Manufacturing footprint

- Consolidating regional manufacturing footprint from 50 to ~30 production locations¹; 13 locations completed by 2018

Overhead costs

- Significant increase in scope and traction in Global Business Services
- Marketing transformation to fund more advertising firepower
- IT landscape simplification on track
- R&D to deliver 40-50 bps productivity by 2020

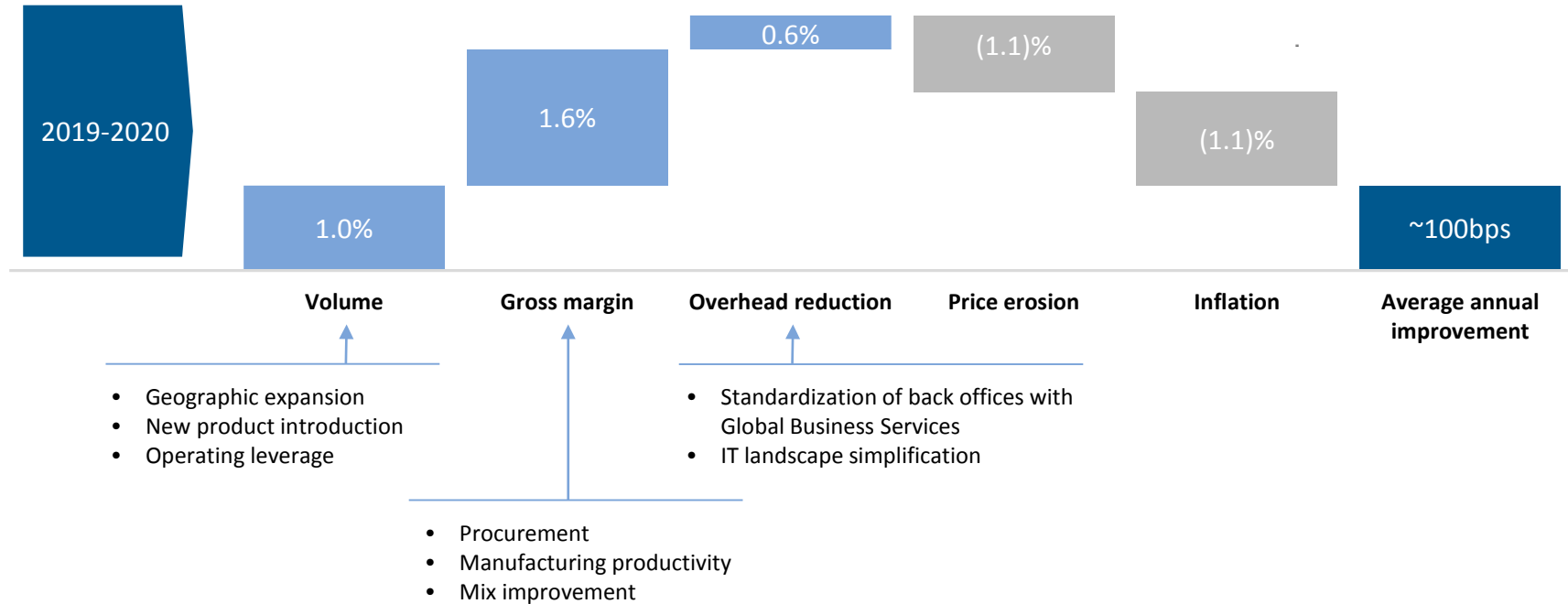
Procurement

- Expanding proven DfX approach to the full value chain
- Tougher market conditions mainly from trade tariffs

Restructuring

- Due to additional productivity, restructuring charges expected to be 90-100 bps till 2020, thereafter ~40 bps

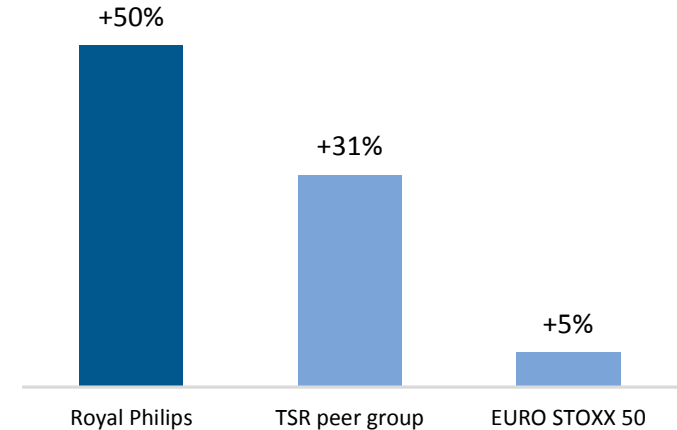
Indicative Adjusted EBITA margin step-up bridge 2019-2020



Balanced capital allocation policy

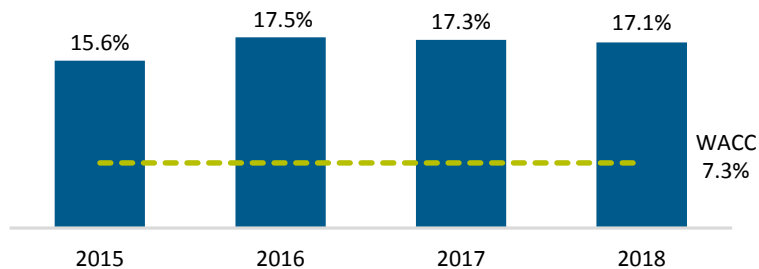


Total shareholder return since 2016^{1,2}

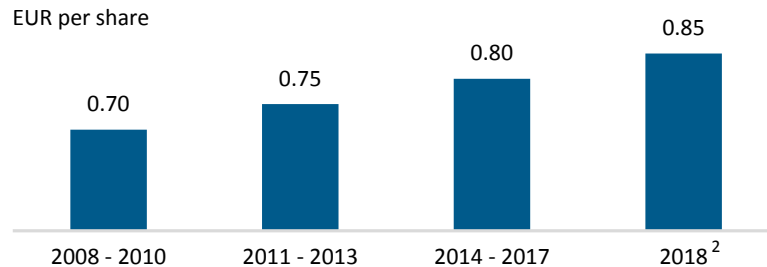


Balanced capital allocation policy

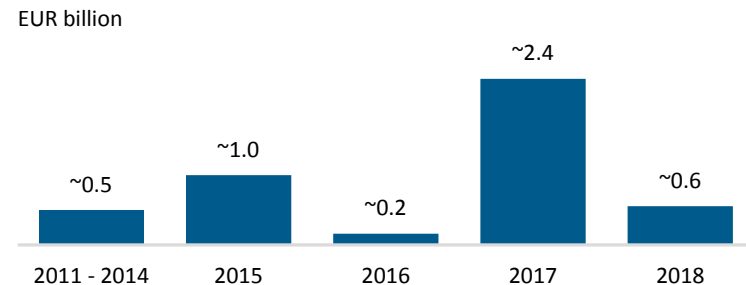
Organic Return on Invested Capital¹



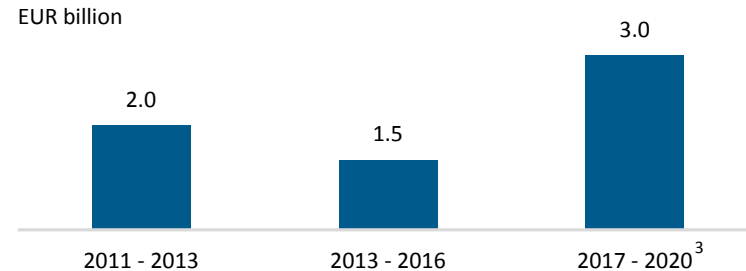
Dividends



Mergers & Acquisitions



Share repurchase



¹ Organic ROIC excludes acquisitions over a five years period, pension settlements in Q4 2015 and significant one-time tax charges and benefits; ROIC % = LTM EBIAT/ average NOC over the last 5 quarters; ² Elective dividend, proposal subject to approval in the General Shareholders Meeting on May 9, 2019; ³ Consisting of two programs: EUR 1.5 billion for the period 2017-2019 and EUR 1.5 billion for the period 2019-2020.



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Q4 2018 performance highlights

- Comparable sales up 5% compared to Q4 2017
- Comparable order intake up 10% compared to Q4 2017
- Adj. EBITA margin of 17.4%, up 70 bps compared to Q4 2017
- Free cash inflow of EUR 1,019 million, compared to an inflow of EUR 948 million in Q4 2017
- Adjusted EPS of EUR 0.76 per share, compared to EUR 0.66 in Q4 2017

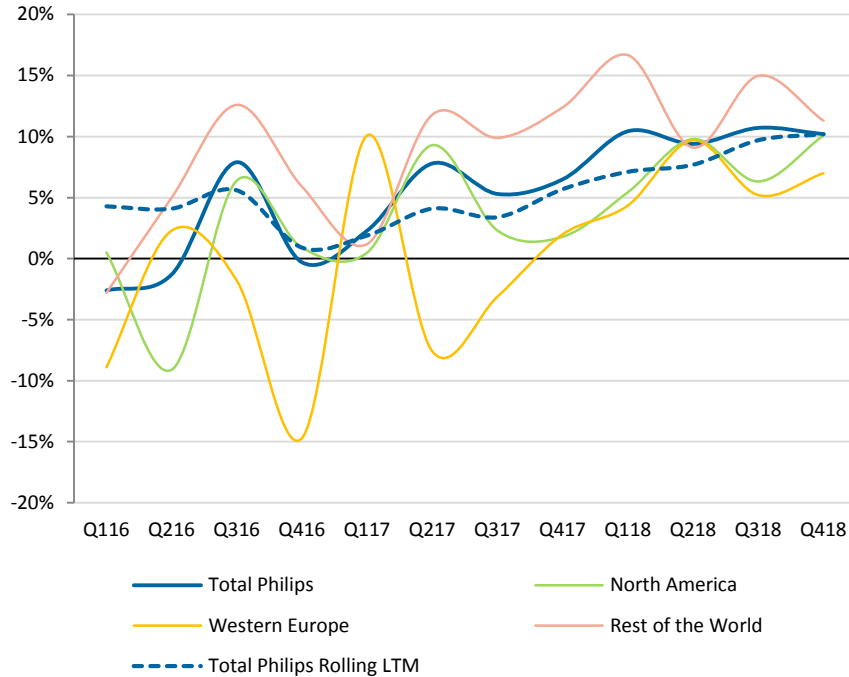
EUR million	Q4 2017	Q4 2018	FY 2018
Capital expenditures on property, plant and equipment	134	164	422
Capitalization of development costs	102	105	385
Depreciation	126	119	438
Amortization of acquired intangible assets	66	92	347
Amortization of software	13	19	64
Amortization of development costs	71	69	240

	Sales EUR million	Comparable sales growth	Adj. EBITA margin	vs. LY (bps)	Adj. EBITDA margin	vs. LY (bps)
Diagnosis & Treatment	2,201	+5%	15.9%	+100	18.3%	+100
Connected Care & Health Informatics	936	0%	16.1%	-430	19.6%	-470
Personal Health	2,216	+3%	18.6%	-30	21.6%	-20
Other	233					
Philips	5,586	+5%	17.4%	+70	20.9%	+70

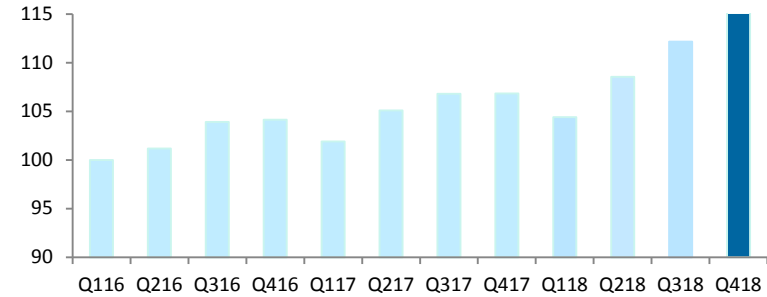


Order intake and order book¹

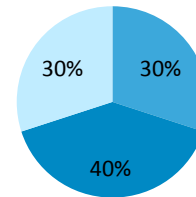
Comparable order intake growth



Indexed order book development



Typical profile of order book conversion to sales



■ Q+1 ■ Q+2 to 4 ■ > 1 year

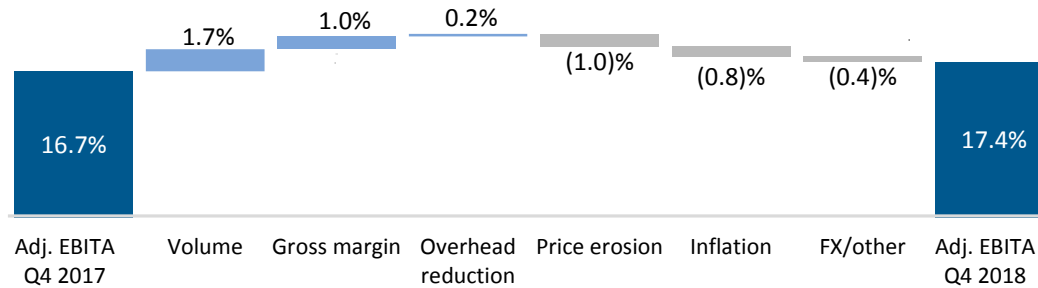
- Approximately 70% of the current order book results in sales within the next 12 months
- Quarter end order book is a leading indicator for ~30% of sales the following quarters



Driving ~100 basis points annual improvement up to 2020

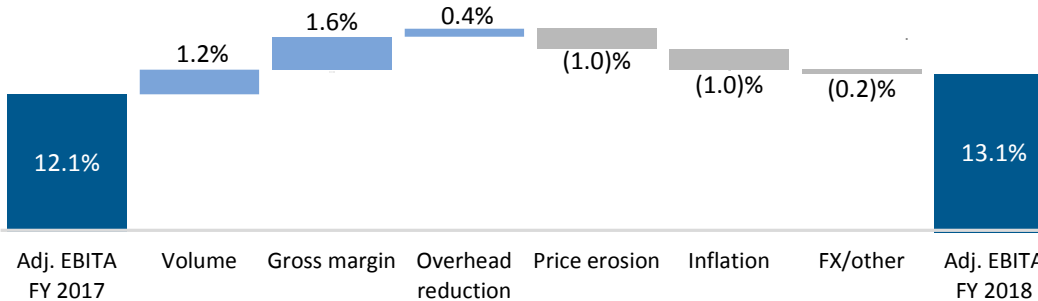
Adjusted EBITA bridge for Q4 2018¹

as a % of sales



Adjusted EBITA bridge for FY 2018¹

as a % of sales



Productivity initiatives contributing to the targets

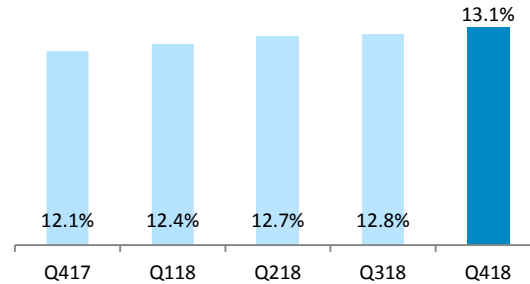
EUR million	2017-2020 plan	Q4 2018	2017-2018 actuals
Procurement	850	79	528
Other productivity (net) ¹	950	56	421
Total (net)	1,800	135	949



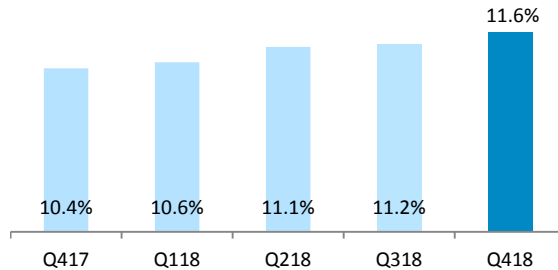
Adjusted EBITA¹ margin development

Rolling last twelve months

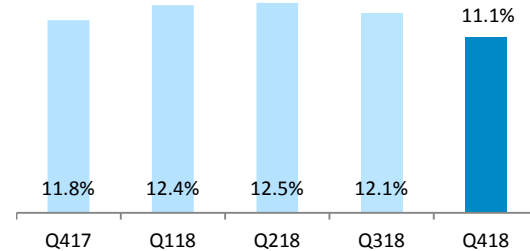
Philips



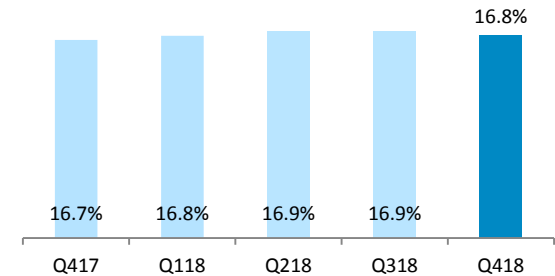
Diagnosis & Treatment



Connected Care & Health Informatics



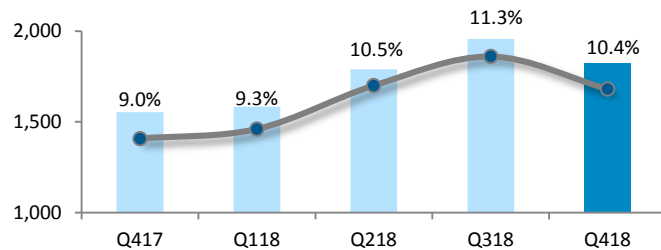
Personal Health



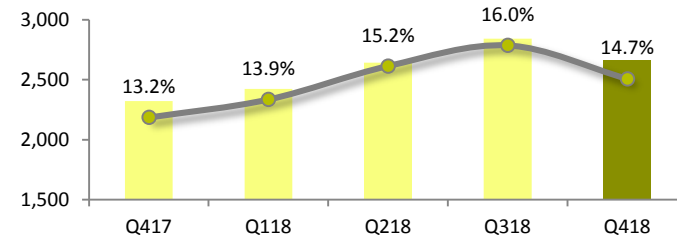


Working capital and inventories

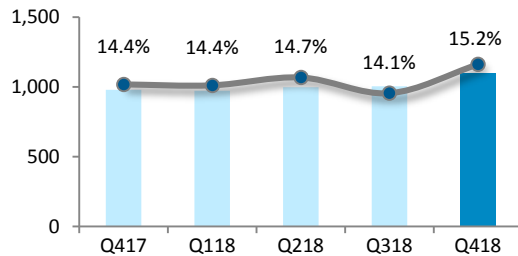
Working capital¹, EUR million — as % of LTM sales²



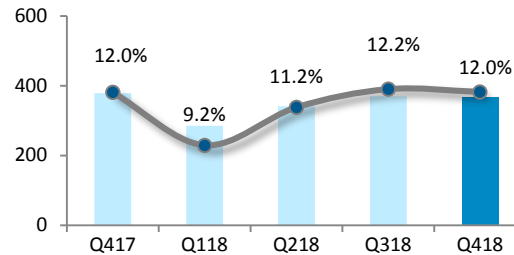
Inventories, EUR million — as % of LTM sales²



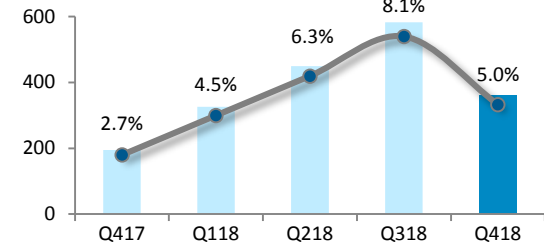
Diagnosis & Treatment



Connected Care & Health Informatics



Personal Health



Appendix

Restructuring, acquisition-related charges and other items

EUR million	Q1 17	Q2 17	Q3 17	Q4 17	2017	Q1 18	Q2 18	Q3 18	Q4 18	2018
Diagnosis & Treatment	(11)	(31)	(85)	(45)	(173)	(42)	(23)	(20)	(56)	(142)
Restructuring & Acq.-related charges	(11)	(31)	(63) ⁵	(45)	(151)	(42)	(23)	(20)	(56)	(142)
Other items	-	-	(22) ⁶	-	(22)	-	-	-	-	-
Connected Care & Health Informatics	(25)	(37)	(43)	(17)	(122)	(23)	(34)	(21)	(37)	(115)
Restructuring & Acq.-related charges	(8)	(25)	(25)	(33)	(91)	(6) ⁷	(19) ⁷	(8) ⁷	(26) ⁷	(59)
Other items	(17) ¹	(12) ¹	(18) ¹	16 ^{7,8}	(31)	(17) ⁷	(15) ⁷	(13) ⁷	(11) ⁷	(56)
Personal Health	(2)	(1)	-	(8)	(11)	(3)	(22)	(13)	(7)	(44)
Restructuring & Acq.-related charges	(2)	(1)	-	(8)	(11)	(3)	(4) ⁹	(13)	(7)	(26)
Other items	-	-	-	-	-	-	(18) ⁹	-	-	(18)
Other	45	(41)	(39)	(25)	(60)	(14)	28	(2)	(11)	2
Restructuring & Acq.-related charges	(3)	(7)	(32)	(21)	(64)	(13)	(6)	(2)	(10)	(31)
Other items	48 ^{2,3}	(34) ^{3,4}	(7) ³	(4) ³	4	(1) ³	34 ¹⁰	-	(1)	33
Philips	6	(111)	(167)	(95)	(366)	(82)	(52)	(56)	(111)	(300)
Restructuring costs	(16)	(48)	(73)	(75)	(211)	(41)	(31)	(22)	(66)	(159)
Acquisition related charges	(9)	(17)	(47)	(32)	(105)	(23)	(21)	(22)	(34)	(99)
Other items	31	(46)	(47)	12	(50)	(18)	-	(13)	(11)	(41)

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

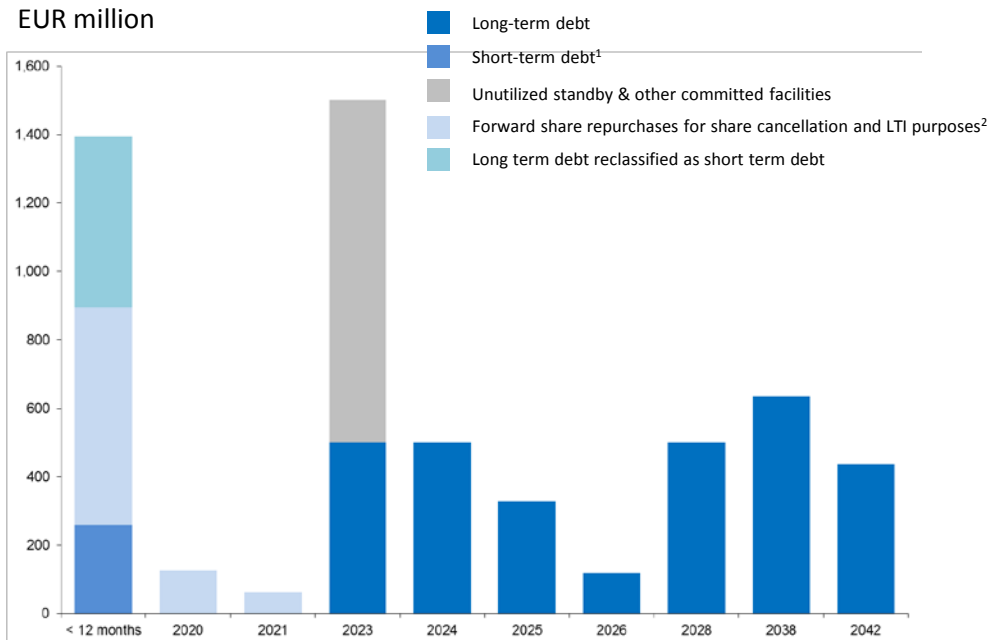
1. Charges related to quality and regulatory actions. 2. EUR 59 million gain on the sale of real estate assets. 3. Relates to the separation of the Lighting business. 4. EUR 26 million of provisions related to the CRT litigation in the US, EUR 7 million of charges related to the separation of the Lighting business and EUR 5 million of stranded costs related to the combined Lumileds and Automotive businesses. 5. The amount includes the charges related to acquisition of Spectranetics. 6. Charges related to portfolio rationalization measures. 7. Mainly related to the consent decree focused on the defibrillator manufacturing in the U.S. 8. Includes EUR 36 million release of provision related to the Masimo litigation. 9. Provision related to the anticipated conclusion of the European Commission investigation into online price setting. 10. Included a gain of EUR 43 million related to a divestment.

Philips' debt has a long maturity profile

Characteristics of long-term debt

- Total net debt position of EUR 3.1 billion
- Maturities up to 2042
- Average tenor of long-term debt is 10.0 years³
- No financial covenants

Debt maturity profile as per December 2018



¹Short-term debt includes local credit facilities that are being rolled forward on a continuous basis; ² Debt includes forward transactions entered into as part of share repurchase programs for share cancellation and LTI purposes; ³ Based on long-term debt only (including short-term portion of long-term debt), excludes short-term debt and forward share repurchases for share cancellation and LTI purposes



Funded status for post-employment defined-benefit plans

IFRS basis

EUR million

Funded status and balance sheet position

December 2017

December 2018

Pension plans	(874)	(747)
Retiree medical plans	(98)	(87)
Philips	(972)	(834)

The funded status and balance sheet position improved in 2018, mainly driven by the US plan deficit funding in Q3 2018.



Calendar for the upcoming quarter

February 6	HSBC ESG Conference, Frankfurt
February 26	Annual Report 2018
March 5	Morgan Stanley MedTech Conference, London
March 6	Credit Suisse One on One Healthcare Conference, London
March 12	Barclays Global Healthcare Conference, Miami
March 25	Citi MedTech Day, Paris
April 29	First quarter results 2019
May 9	Annual General Meeting of Shareholders, Amsterdam

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