Philips Lighting reports improvement in comparable sales growth, continued increase in profitability and free cash flow

Q1 2017 Presentation

April 21, 2017

PHILIPS Lighting

Agenda

Business and operational performance by Eric Rondolat

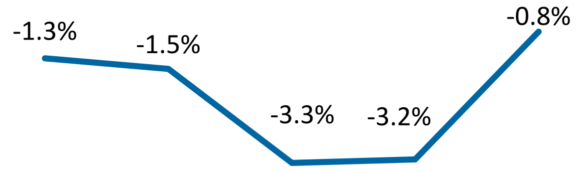
Financial performance by Stéphane Rougeot

Outlook & Conclusion by Eric Rondolat

Q&A

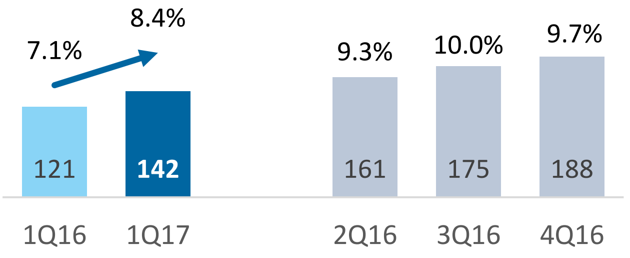
Philips Lighting reports improvement in comparable sales growth, continued increase in operational profitability and free cash flow

Sales (in EURm) & comparable sales growth (in %)



	1Q16	2Q16	3Q16	4Q16	1Q17
Sales	1,702	1,734	1,745	1,934	1,690

Adjusted EBITA (in EURm & as % of sales)



Key observations for Q1 2017

- Comparable sales growth improved vs previous quarters
- Europe and the Rest of the World delivered growth
- The Americas was impacted by an accelerated decline in conventional lighting and softer market conditions
- Business groups LED and Home achieved double-digit growth, driving total LED-based sales growth of 19%

- Continued increase in operational profitability, Adjusted EBITA margin: +130 bps
- Net income: EUR 61m
- Improved free cash flow: EUR 2m

PHILIPS Lighting

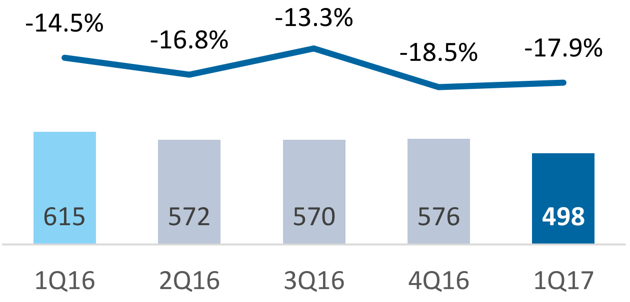
Our business groups are all performing in line with their strategic objectives

Q1 2017	CSG %	Adjusted EBITA (EURm)	vs LY (EURm)	Adjusted EBITA %	vs LY (bps)
Lamps	-17.9%	114	-11	22.9%	+260
LED	16.7%	39	19	9.2%	+360
Professional	2.5%	13	7	2.1%	+110
Home	20.6%	3	15	2.0%	+1,170
Philips Lighting	**-0.8%**	**142**	**21**	**8.4%**	**+130**

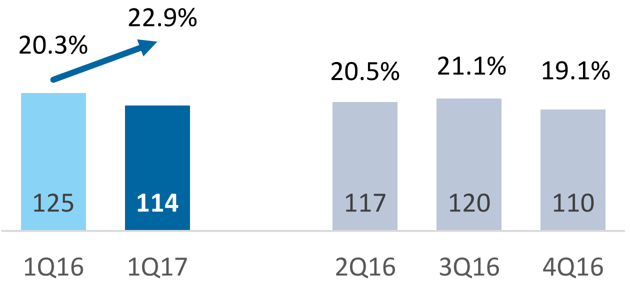
PHILIPS Lighting

Lamps performance reflects the success of our last man standing strategy

Sales (in EURm) & comparable sales growth (in %)



Adjusted EBITA (in EURm & as % of sales)



Key observations for Q1 2017

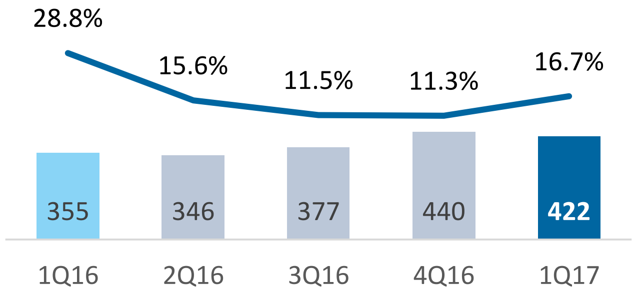
- Comparable sales decline of 17.9%

- Adjusted EBITA margin improved by 260 bps to 22.9%
- Excluding a gain on the sale of real estate, the margin would have been 20.9%

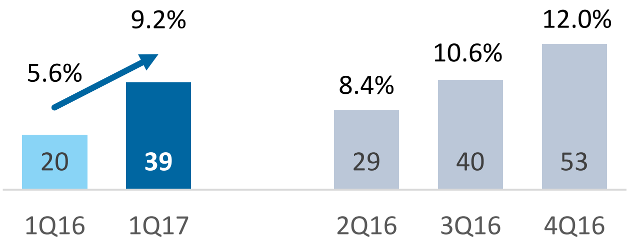
PHILIPS Lighting

LED volumes grew significantly and margin continued to improve

Sales (in EURm) & comparable sales growth (in %)



Adjusted EBITA (in EURm & as % of sales)



Key observations for Q1 2017

- Volumes were higher due to continued price erosion and mix impact
- All regions contributed to growth; countries with low LED penetration rates showed higher growth
- Improvement of comparable sales trend in the Americas, benefiting from measures taken in 2016

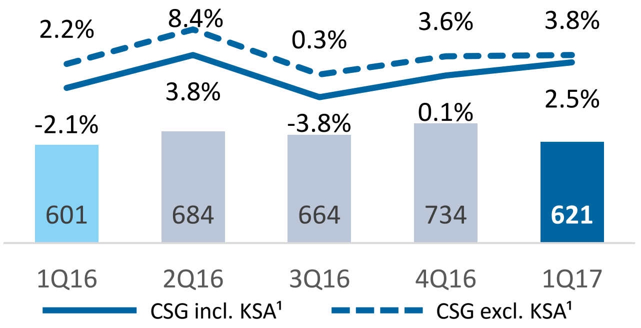
- Adjusted EBITA margin improved by 360 bps:
  - Operational leverage
  - Procurement savings

  Offsetting price reductions and mix impact
- Excluding the impact of incidentals this quarter, margin improved by 290 bps

PHILIPS Lighting

Professional continued improvement of sales and YoY margin

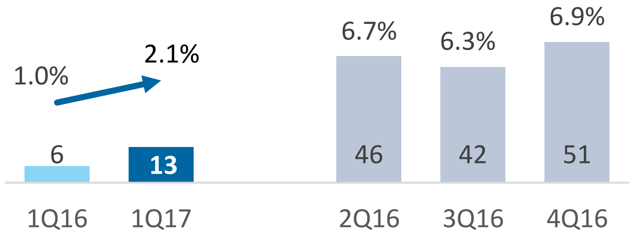
Sales (in EURm) & comparable sales growth (in %)



Key observations for Q1 2017

- Europe and the Rest of the World showed growth
- Saudi Arabia still impacted by difficult market conditions, although performance was less affected than in 2016
- The Americas had a soft quarter, but the order backlog improved during the quarter

Adjusted EBITA (in EURm & as % of sales)



- Adjusted EBITA margin improved by 110 bps to 2.1%
- Some write-downs on bad debt in Saudi Arabia although to a lesser extent than last year
- Excluding the impact of incidentals, most notably the gain on the sale of receivables in 2016[2], margin improved by 280 bps:
  - Procurement savings
  - Production efficiency improvements
  - Mix improvement

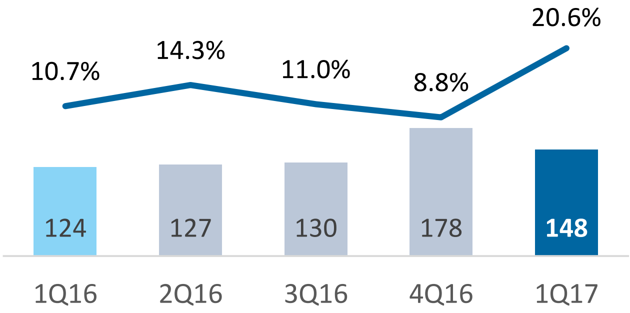
[1]KSA: Kingdom of Saudi Arabia

[2]1Q16 Includes a gain of EUR 12m resulting from the sale of trade accounts receivables to the other shareholder of GLC

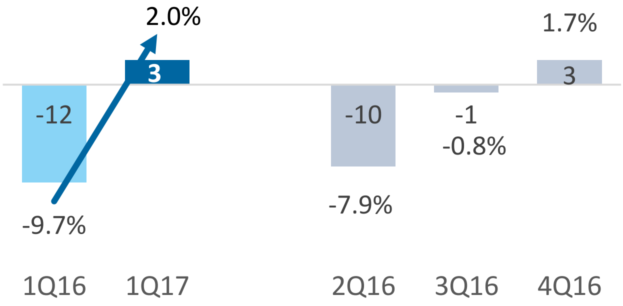
PHILIPS Lighting

Home showed a return to profitability in Q1

Sales (in EURm) & comparable sales growth (in %)



Adjusted EBITA (in EURm & as % of sales)



Key observations for Q1 2017

- Comparable sales growth of 20.6%:
  - Primarily driven by the Home Systems business
  - All market groups contributed to growth

- Adjusted EBITA margin improved from -9.7% to 2.0%:
  - Sales growth
  - Cost reduction actions taken in 2016
  - Operational leverage
  - Procurement savings

PHILIPS Lighting

Agenda

Business and operational performance by Eric Rondolat

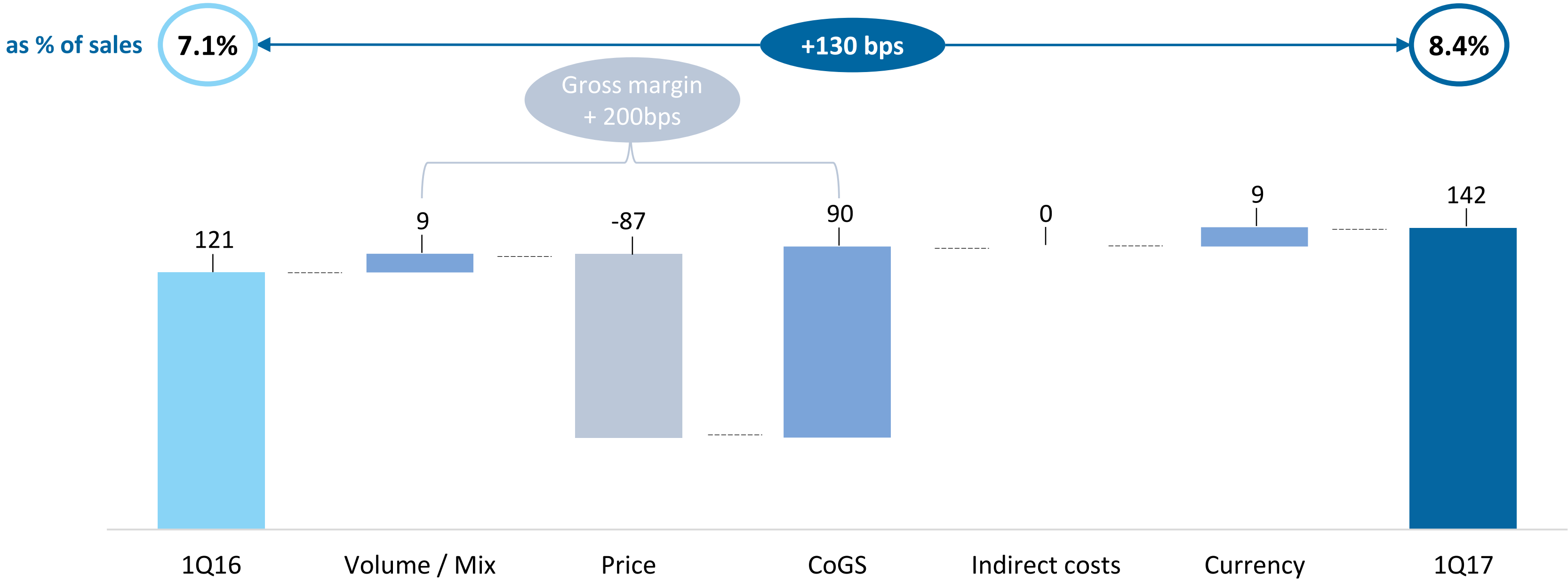
Financial performance by Stéphane Rougeot

Outlook & Conclusion by Eric Rondolat

Q&A

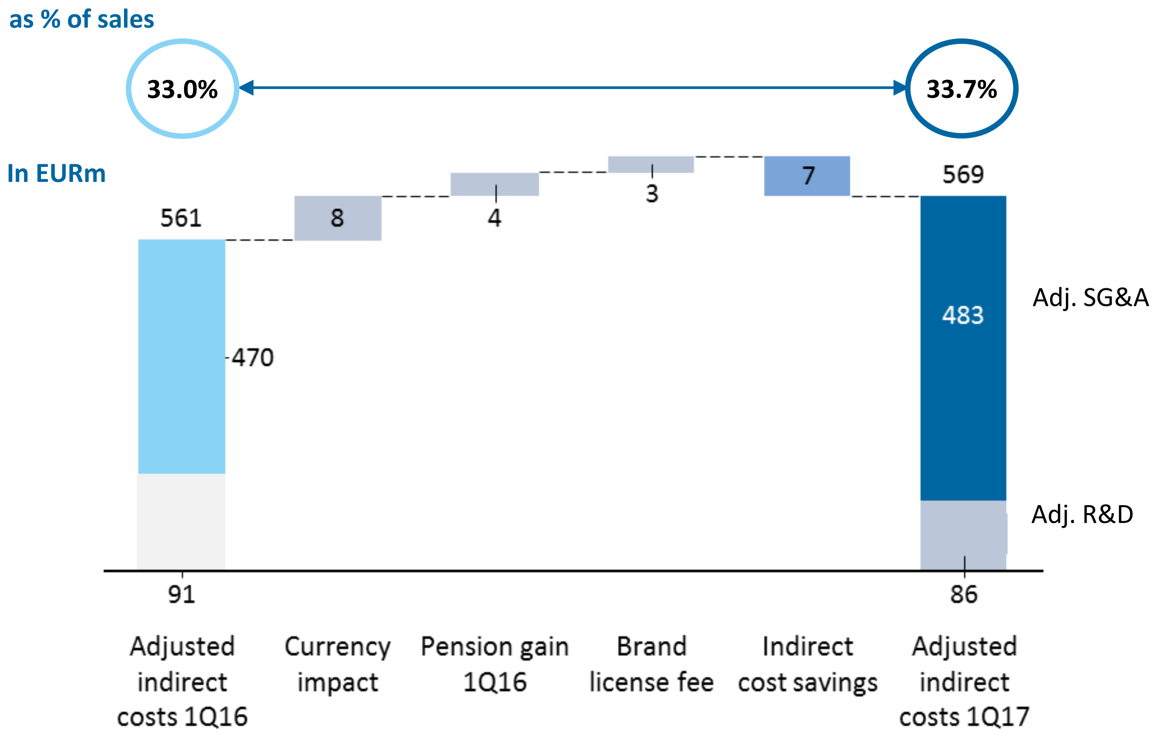
Increased Adjusted EBITA margin primarily driven by gross margin improvement

Adjusted EBITA (in EURm)



PHILIPS Lighting

Adjusted indirect costs increased due to additional month of brand license fee, currency impact and a pension gain from last year



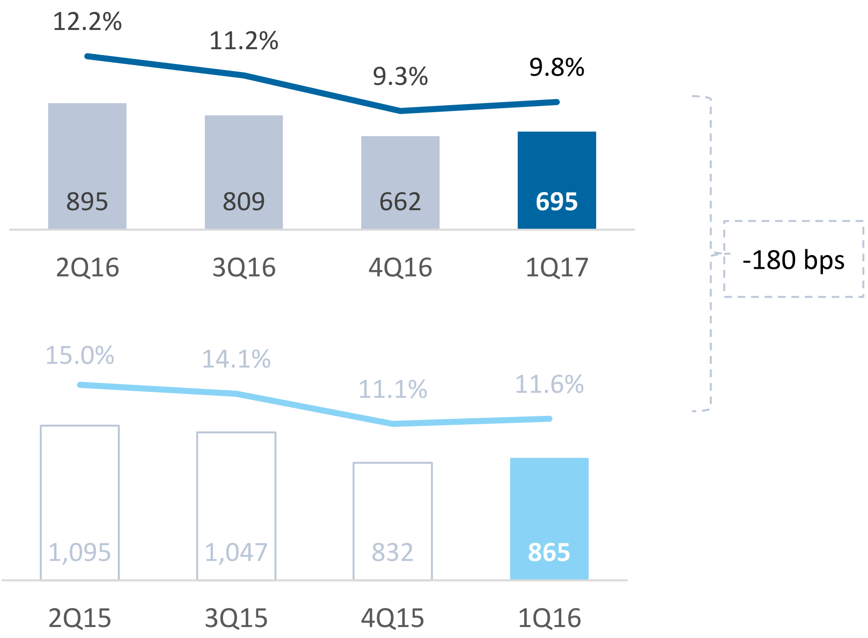
Key observations for Q1 2017

- Negative currency impact of EUR 8m
- Pension gain of EUR 4m in Q1 2016
- Additional month of brand license fee of EUR 3m this quarter
- EUR 7m of indirect cost savings were realized
- Further cost reduction opportunities:
  - Selling expense optimization
  - IT rationalization
  - Other internal overhead savings (e.g. Finance, HR, Real Estate)

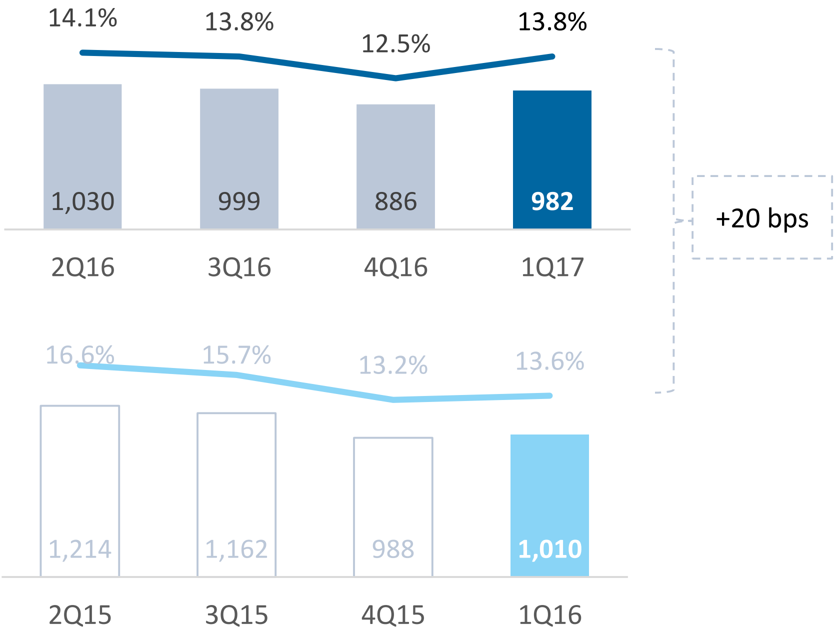
PHILIPS Lighting

Working capital as % of sales improved by 180 bps reflecting sustained improvements achieved in 2016

Working capital[1] (in EURm & as % of sales)



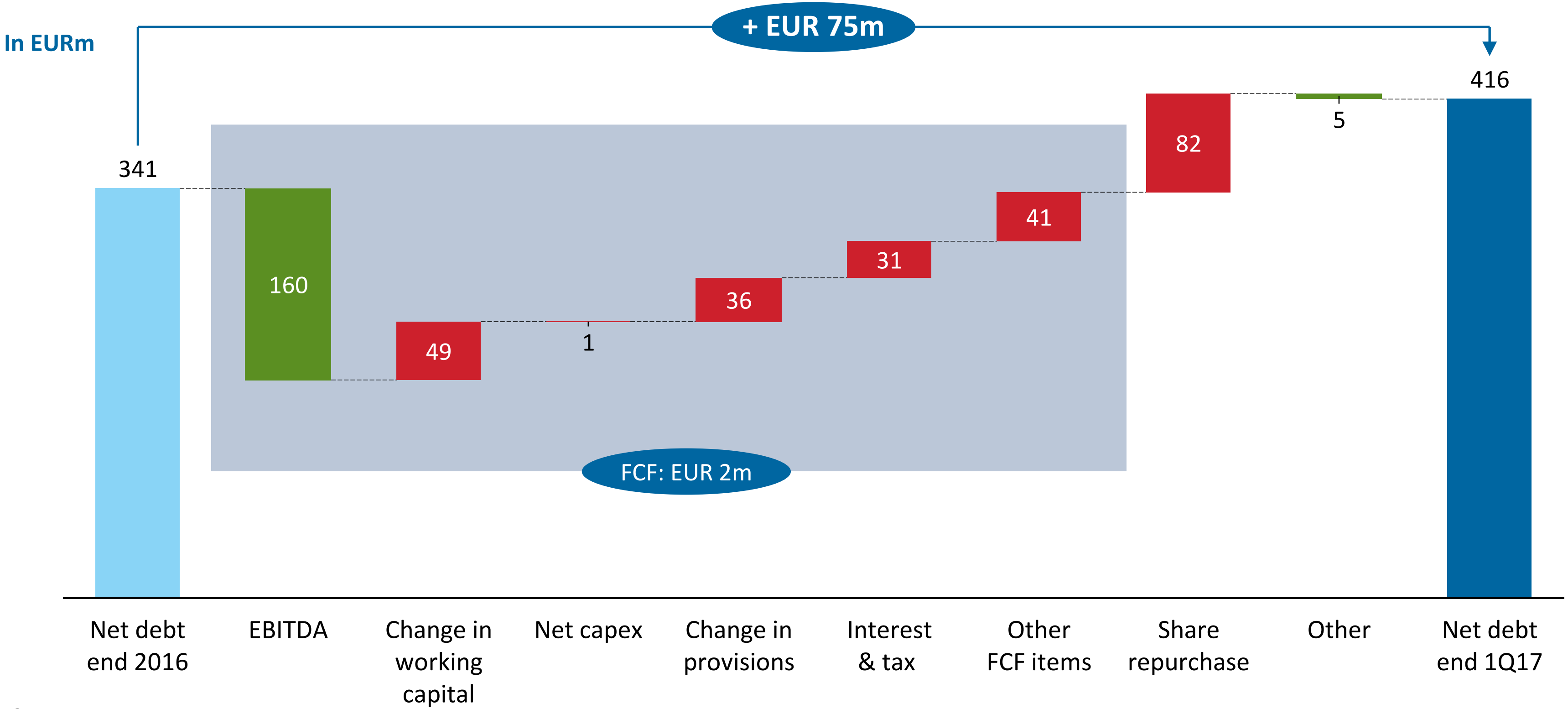
Inventories (in EURm & as % of sales)



[1] Working capital includes inventories, receivables, accounts and notes payable, other current assets & liabilities, derivative financial assets & liabilities, income tax receivable & payable, and accrued liabilities

PHILIPS Lighting

Net debt increase of EUR 75m driven by share repurchase



PHILIPS Lighting

Agenda

Business and operational performance by Eric Rondolat

Financial performance by Stéphane Rougeot

Outlook & Conclusion by Eric Rondolat

Q&A

On track to deliver our 2017 outlook

- Further improvement of **Adjusted EBITA margin**: approximately 50-100 basis points in 2017
- In line with medium term outlook to gradually improve the Adjusted EBITA margin to 11-13%

- Deliver solid **free cash flow**

- Committed to our ambition to return to positive **comparable sales growth** in the course of this year

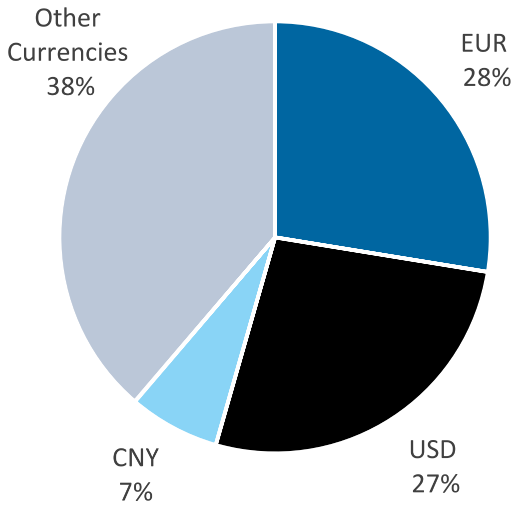
PHILIPS Lighting

Q&A

PHILIPS Lighting

Philips Lighting has sales in a wide range of currencies

Q1 2017 Sales FX Footprint (% of total)



Key observations

- Currency movements had a positive impact on both sales and Adjusted EBITA in the first quarter
  - Sales impact from currencies of EUR 20m, mainly from the US dollar
  - Adjusted EBITA impact of EUR 9m, mainly from the US dollar
- Philips Lighting policy is to hedge 100% of committed FX transactions and anticipated transactions up to 80% in layers over the next 15 months

PHILIPS Lighting

Net income of EUR 61m driven by improved profitability and a decrease of both financial and income tax expenses

From Adjusted EBITA to net income (in EURm)

		1Q16	1Q17
1	**Adjusted EBITA**	**121**	**142**
	- Restructuring	-18	-10
	- Acquisition related charges	-1	0
2	- Other incidental items	-2	-10
	EBITA	**100**	**122**
	Amortization	-29	-28
	EBIT	**71**	**94**
3	Net financial income / expenses	-17	-11
4	Income tax expense	-40	-23
	Results relating to investments in	0	1
	Net income	**14**	**61**

Charges not applicable in 2016:

1. Brand license fee of EUR 9m in Q1 2017
   Q1 2016: EUR 6m
2. Separation costs of EUR 9m in Q1 2017
   Q1 2016: EUR 2m

Financial expenses in Q1 2016 were impacted by higher FX losses

3.
4. Decrease of income tax expenses due to non-recurring tax charges related to the separation

PHILIPS Lighting

Free Cash Flow improved by EUR 80m

Free cash flow (in EURm)

	1Q16	1Q17
Income from operations	71	94
Depreciation and amortization	76	66
Change in working capital	-102	-49
Net capex	-18	-1
Change in provisions	-31	-36
Interest paid	-1	-3
Income taxes paid	-17	-28
Other	-56	-41
Free cash flow	**-78**	**2**

Key observations

- Free cash flow improvement of EUR 80m:
  - Improved profitability
  - Lower cash outflow on working capital
  - Reduced net capex

  Partly offset by higher paid income taxes
- Cash outflow restructuring EUR 29m and separation EUR 6m
- Last year's free cash flow included EUR 45m cash outflow related to pension liability de-risking in the US

PHILIPS Lighting

Important information

Forward-Looking Statements and Risks & Uncertainties

This document and the related oral presentation contain, and responses to questions following the presentation may contain, forward-looking statements that reflect the intentions, beliefs or current expectations and projections of Philips Lighting N.V. (the “Company”, and together with its subsidiaries, the “Group”), including statements regarding strategy, estimates of sales growth and future operational results.

By their nature, these statements involve risks and uncertainties facing the Company and its Group Companies and a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement as a result of risks and uncertainties. Such risks, uncertainties and other important factors include but are not limited to: adverse economic and political developments, the impacts of rapid technological change, competition in the general lighting market, development of lighting systems and services, successful implementation of business transformation programs, impact of acquisitions and other transactions, impact of the Group’s operation as a separate publicly listed company, pension liabilities and costs, establishment of corporate and brand identity, adverse tax consequences from the separation from Royal Philips and exposure to international tax laws. Please see “Risk Factors and Risk Management” in Chapter 12 of the Annual Report 2016 for discussion of material risks, uncertainties and other important factors which may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group. Such risks, uncertainties and other important factors should be read in conjunction with the information included in the Company’s Annual Report 2016.

Additional risks currently not known to the Group or that the Group has not considered material as of the date of this document could also prove to be important and may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group or could cause the forward-looking events discussed in this document not to occur. The Group undertakes no duty to and will not necessarily update any of the forward-looking statements in light of new information or future events, except to the extent required by applicable law.

Market and Industry Information

All references to market share, market data, industry statistics and industry forecasts in this document consist of estimates compiled by industry professionals, competitors, organizations or analysts, of publicly available information or of the Group’s own assessment of its sales and markets. Rankings are based on sales unless otherwise stated.

Non-IFRS Financial Statements

Certain parts of this document contain non-IFRS financial measures and ratios, such as comparable sales growth, adjusted gross margin, EBITA, adjusted EBITA, EBITDA, adjusted EBITDA and free cash flow, and other related ratios, which are not recognized measures of financial performance or liquidity under IFRS. The non-IFRS financial measures presented are measures used by management to monitor the underlying performance of the Group’s business and operations and, accordingly, they have not been audited or reviewed. Not all companies calculate non-IFRS financial measures in the same manner or on a consistent basis and these measures and ratios may not be comparable to measures used by other companies under the same or similar names. A reconciliation of these non-IFRS financial measures to the most directly comparable IFRS financial measures is contained in this document. For further information on non-IFRS financial measures, see “Chapter 17 Reconciliation of non-IFRS measures” in the Annual Report 2016.

Presentation

All amounts are in millions of euros unless otherwise stated. All reported data is unaudited. Unless otherwise indicated, financial information has been prepared in accordance with the accounting policies as stated in the Annual Report 2016.

Market Abuse Regulation

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