Philips Lighting reports first quarter sales of EUR 1.5bn and operational profitability of 7%

First quarter 2018 results
Analyst & Investor presentation

April 26, 2018

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 2017 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 2017. 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 18 Reconciliation of non-IFRS measures" in the Annual Report 2017.

Presentation

All amounts are in millions of euros unless otherwise stated. Due to rounding, amounts may not add up to totals provided. All reported data are unaudited. Unless otherwise indicated, financial information has been prepared in accordance with the accounting policies as stated in the Annual Report 2017.

Market Abuse Regulation

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

Changes to financial reporting following organizational changes to further align the organizational structure with the strategy

As of the first quarter of 2018, Philips Lighting reports and discusses its financial performance based on the recently announced portfolio changes. In March 2018, the company provided an update to show the effect of changes to the business portfolio as well as changes to the allocation methods of centrally-managed costs and expenses and threshold for other incidental items as adjusting items when presenting certain non-IFRS measures such as Adjusted EBITA.

Agenda

Business and operational performance by Eric Rondolat

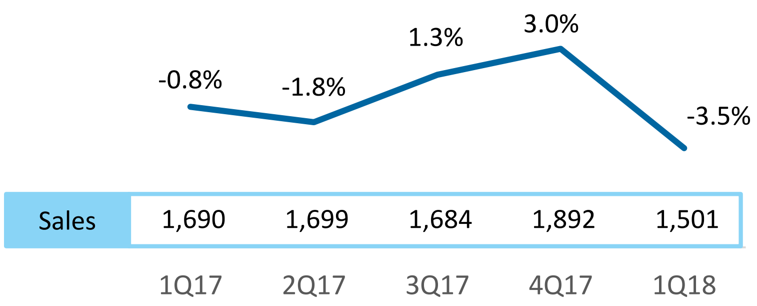
Financial performance by Stéphane Rougeot

Outlook & Conclusion by Eric Rondolat

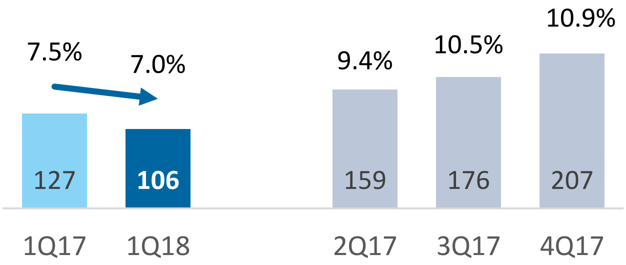
Q&A

First quarter sales of EUR 1.5bn and operational profitability of 7%

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



Adjusted EBITA (in EURm & as % of sales)



Key observations for 1Q18

- Soft start mainly due to weak performance in Home, most notably in the US
- Lamps, LED and Prof delivered solid performances
- Total LED-based sales increased by 5.6%

- Adjusted EBITA margin decreased by 50 bps to 7%
- Improved adjusted indirect cost base by 13%
- Free cash flow of EUR -6m was higher than last year, excluding the proceeds of a real estate sale in 1Q17

Lamps, LED and Professional improved their Adjusted EBITA margin, Home had a weak performance

1Q18	CSG %	Adjusted EBITA (EURm)	vs LY (EURm)	Adjusted EBITA %	vs LY (bps)
Lamps	-17.6%	78	-22	21.2%	+80
LED	3.6%	43	+3	9.6%	+110
Professional	3.2%	31	+18	5.2%	+310
Home	-6.4%	-21	-22	-23.1%	-2,360
Philips Lighting	**-3.5%**	**106**	**-21**	**7.0%**	**-50**

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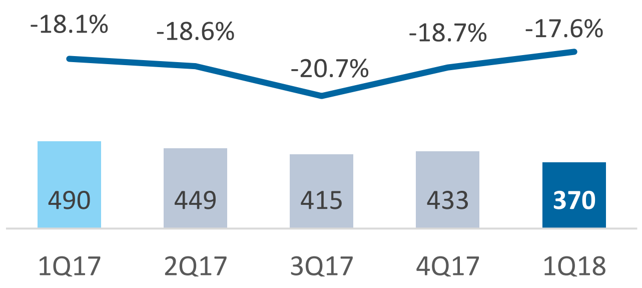
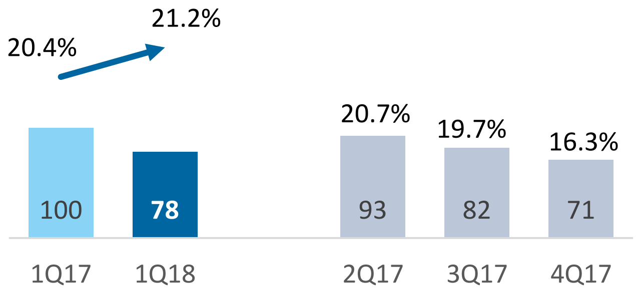
Lamps improved its Adjusted EBITA margin by 80 bps driven by procurement savings, productivity and lower indirect costs

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



Adjusted EBITA (in EURm & as % of sales)



Key observations for 1Q18

- Comparable sales declined by 17.6%
- Continued market share gains

- Adjusted EBITA margin improved by 80 bps, driven by:
  - Ongoing procurement savings
  - Productivity
  - Lower indirect costs

- In 1Q18, the closure of the Halogen factory in Aachen was announced

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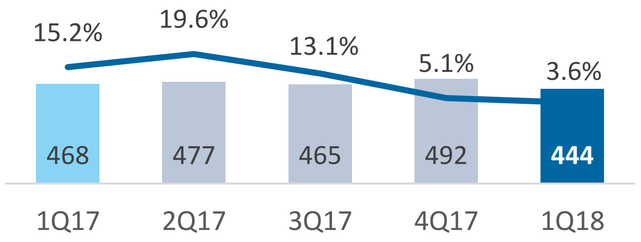
LED improved its Adjusted EBITA margin by 110 bps helped by lower price erosion, mix improvement and lower indirect costs

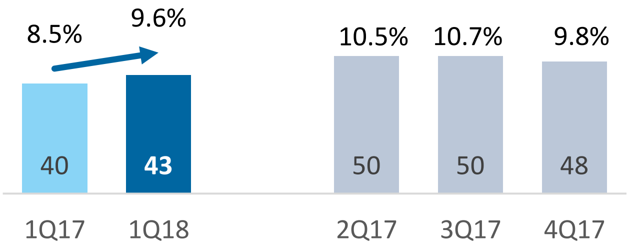
Sales (in EURm) & comparable sales growth (in %)



Key observations for 1Q18

- CSG of 3.6% on the back of a high comparison base
- Growth in LED lamps remained robust, with volumes gradually converging to market growth while price erosion is reducing
- LED electronics sales were flat due to lower demand by OEMs, particularly from Tier 1 customers

Adjusted EBITA (in EURm & as % of sales)



- Adjusted EBITA margin improved by 110 bps, driven by:
  - Lower price erosion
  - Mix improvement
  - Lower indirect costs

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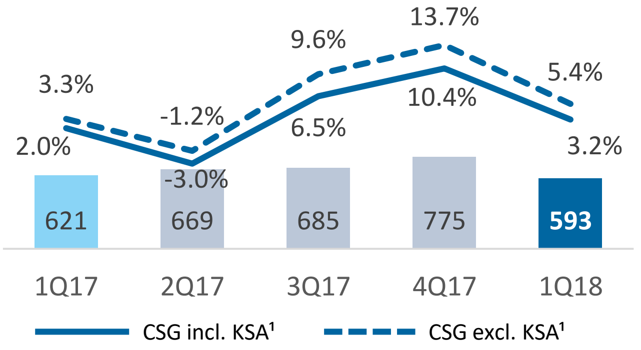
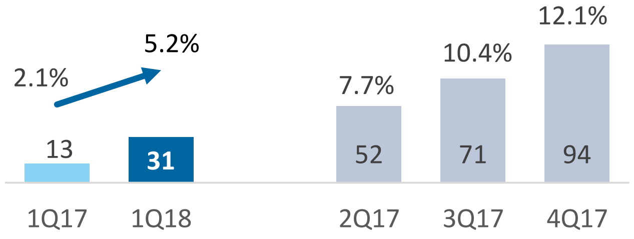
Professional Adjusted EBITA margin improved by 310 bps, mainly driven by operational leverage, footprint rationalization and lower indirect costs

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



Adjusted EBITA (in EURm & as % of sales)



Key observations for 1Q18

- CSG of 3.2%; performance in Europe and the Rest of the World continued to be solid;
- Market conditions in the US continued to be soft, particularly for small- to medium-sized projects
- Market conditions in Saudi Arabia remained challenging, negatively impacting CSG by 220 bps

- Adjusted EBITA margin increased by 310 bps to 5.2%, driven by:
  - Operational leverage
  - Manufacturing footprint rationalization
  - Lower indirect costs

[1]KSA: Kingdom of Saudi Arabia

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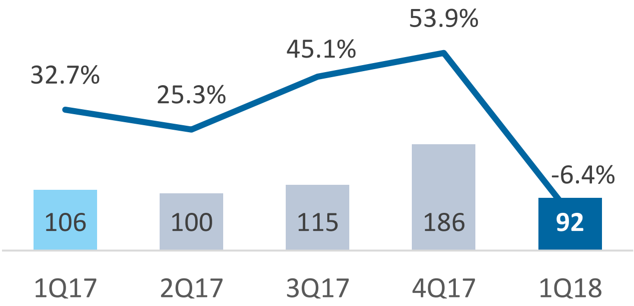
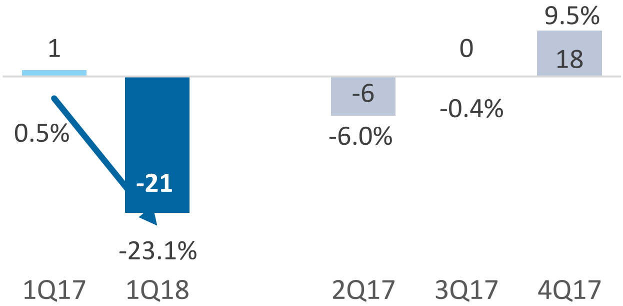
Home reported a loss due to lower sales and investments in growth since 1Q17

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



Adjusted EBITA (in EURm & as % of sales)



Key observations for 1Q18

- CSG of -6.4%
  - Lower than expected sales at our trade partners in the 4th quarter, most notably in the US
  - Resulted in lower sales in Q1 to allow for inventory reductions at our trade partners

- The Adjusted EBITA margin was -23.1%, due to
  - Lower fixed cost absorption
  - Investments in growth since 1Q17

- Undertaking a set of actions to improve performance:
  - Continuing to broaden our product offering
  - Diversifying our distribution coverage
  - Increasing our marketing activities

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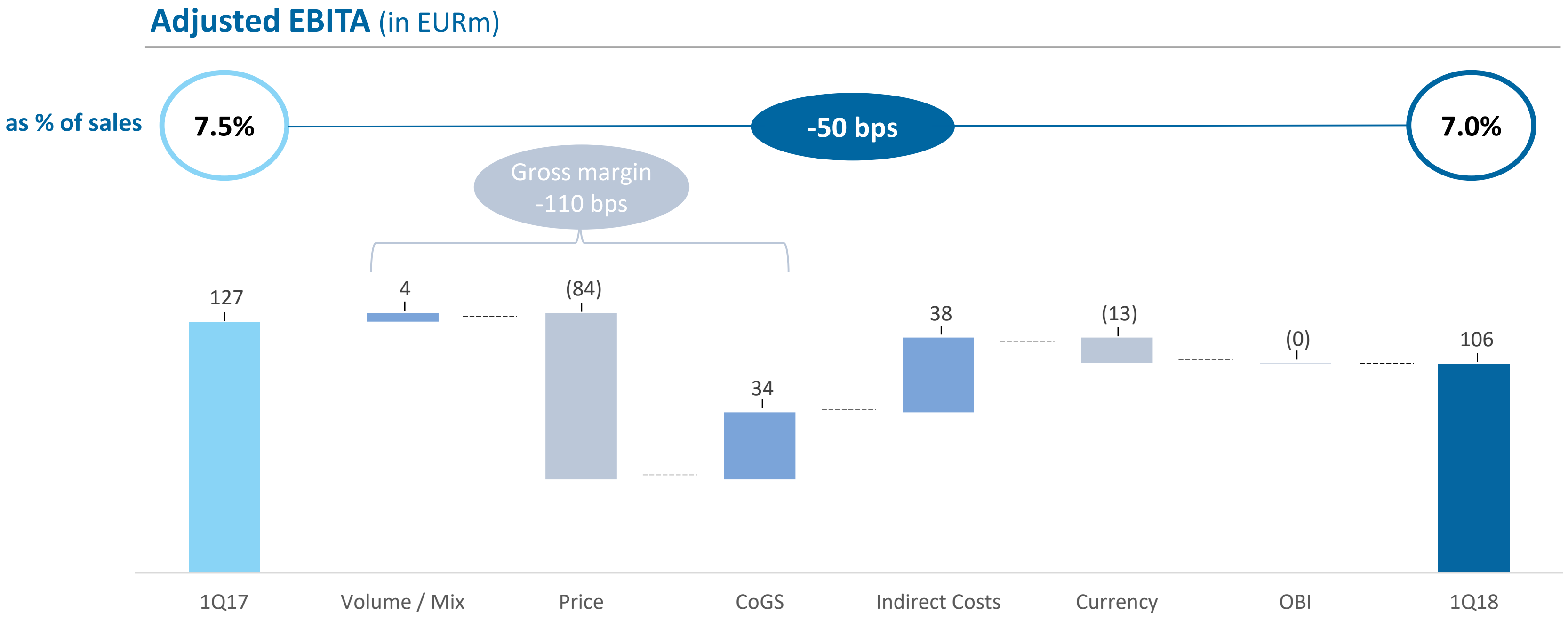
Adjusted EBITA margin reduction due to lower gross margin, partly offset by lower indirect costs



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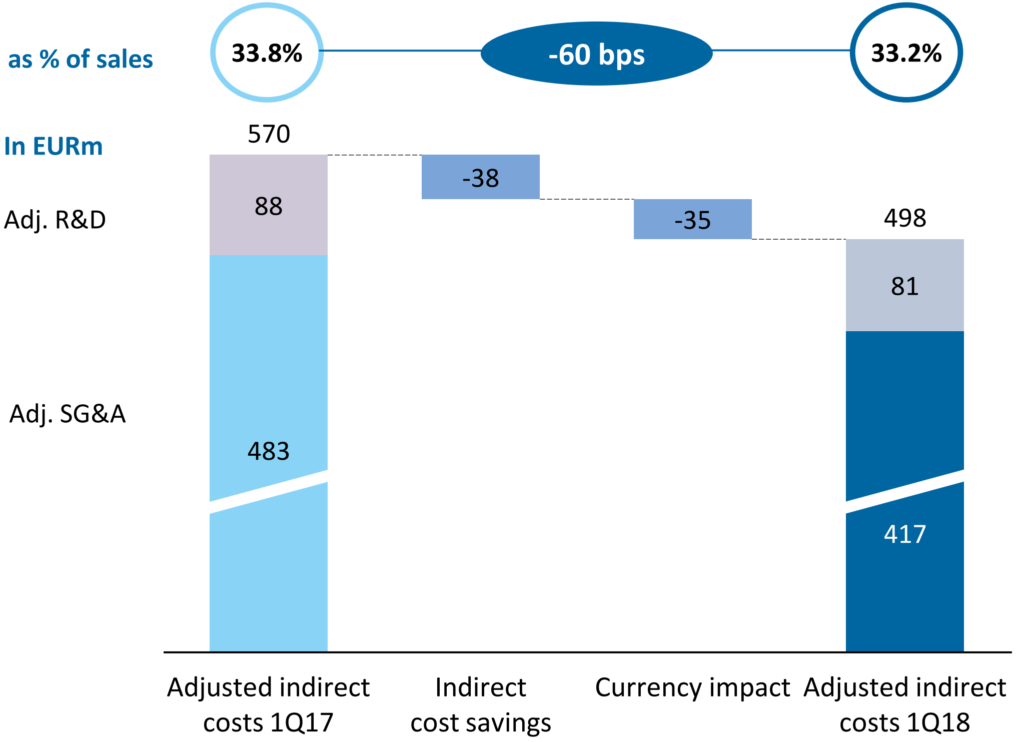
Adjusted indirect cost base decreased by 13%



Key observations

- Indirect cost reduction of EUR 38m
- Positive currency impact of EUR 35m
- Executing multi-year transformation initiatives to simplify the organization to:
  - Improve customer service and quality
  - Become more efficient
  - Capture scale benefits
  - Save to invest

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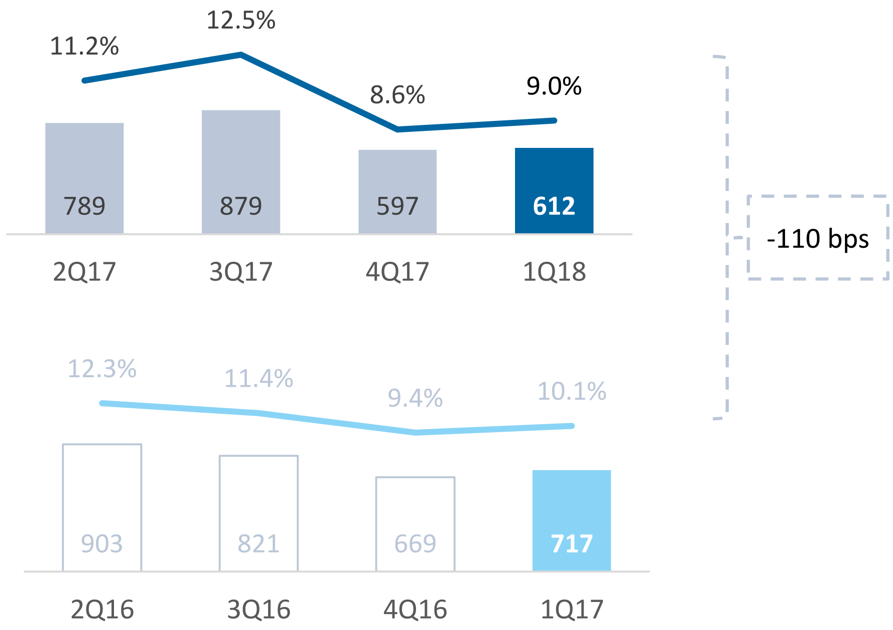
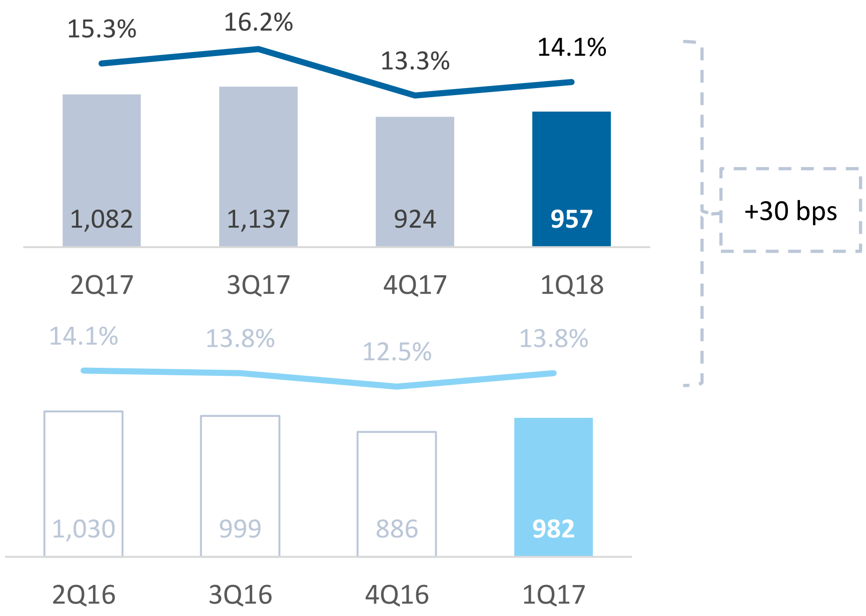
Working capital as % of sales decreased by 110 basis points y-o-y to 9% driven by lower receivables

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, and accrued liabilities

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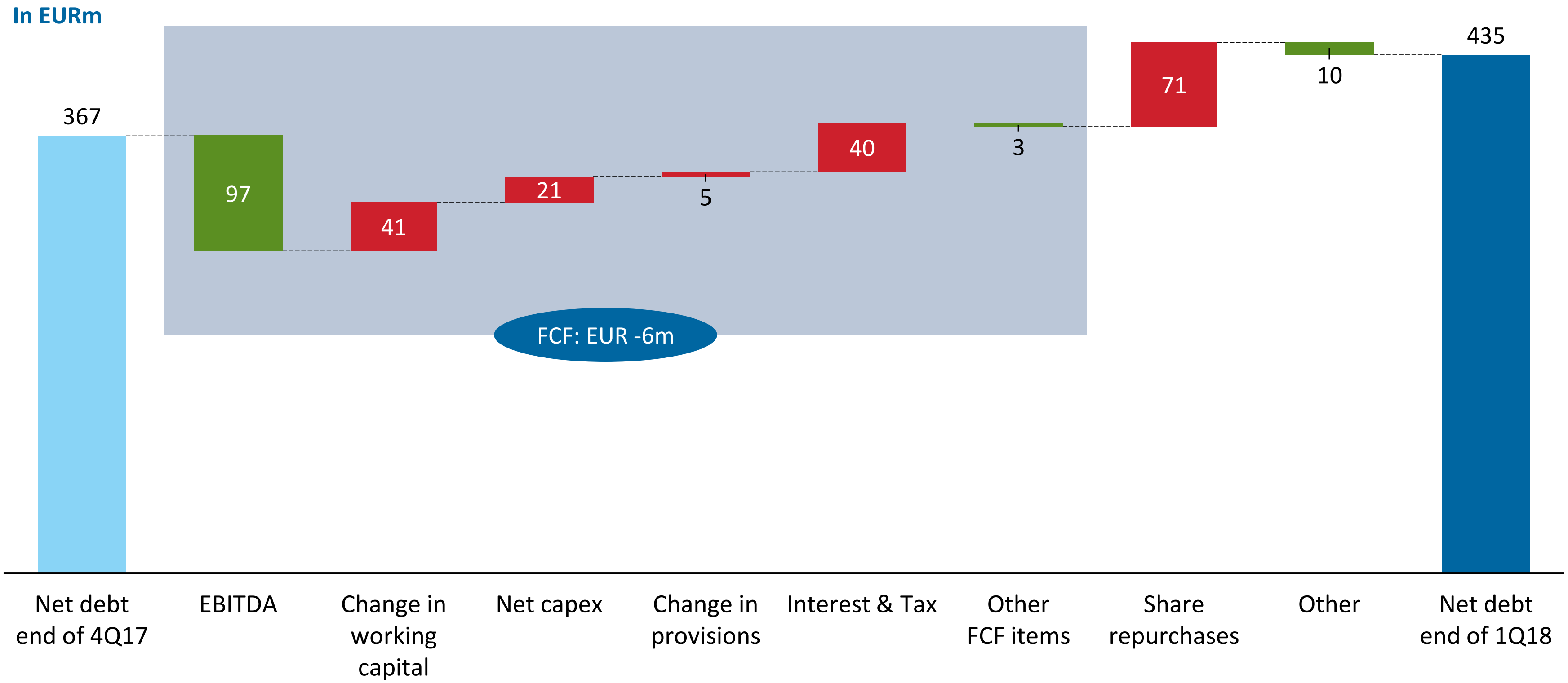
Net debt increased by EUR 68m



Other includes part of the proceeds from derivatives, FX effect on cash, cash equivalents and debt

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Aim to deliver positive CSG, improve our Adjusted EBITA margin and expect to generate solid FCF in 2018

- Aim to deliver positive comparable sales growth for the full year, on the basis of a strong second half

- Aim to improve our Adjusted EBITA margin from 9.6% to 10.0-10.5%; we will continue to focus on cost reduction initiatives, and expect to benefit from higher savings as of the second half of 2018

- Expect to generate solid free cash flow in 2018, which is, however, expected to be somewhat lower than the level in 2017 due to higher restructuring payments

Q&A

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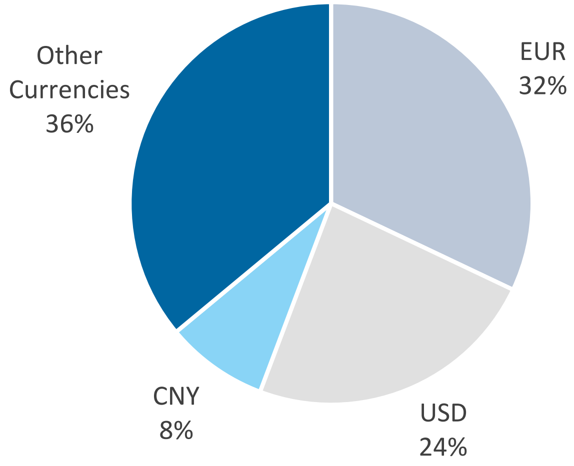
Currency movements had a negative impact on sales and Adjusted EBITA

1Q18 Sales FX Footprint (% of total)



Key observations

- Currency movements had a negative impact on sales and on Adjusted EBITA
  - Sales impact from currencies of EUR -121m, mainly from the US dollar
  - Adjusted EBITA impact of EUR -13m
  - Philips Lighting policy is to hedge 100% of committed FX transactions and anticipated transactions up to 80% in layers over the next 15 months

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Net income of EUR 20m due to lower operational profitability, higher restructuring costs and a real estate gain in 1Q17

From Adjusted EBITA to net income (in EURm)

		1Q17	1Q18
	Adjusted EBITA	**127**	**106**
	- Restructuring	-10	-39
	- Acquisition related charges	0	0
1	- Other incidental items	6	-4
	EBITA	**122**	**62**
	Amortization	-28	-23
	EBIT	**94**	**39**
	Net financial income / expenses	-11	-9
2	Income tax expense	-23	-10
	Results relating to investments in associates	1	0
	Net income	**61**	**20**

Key observations

1. Real estate gain of EUR 15m in 1Q17

2. Income tax expense decreased by EUR 13m mainly due to lower taxable earnings in 1Q18

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Free Cash Flow of EUR -6m

Free cash flow (in EURm)

	1Q17	1Q18
Income from operations	94	39
Depreciation and amortization	66	58
Change in working capital	-49	-41
Net capex	-1	-21
Change in provisions	-35	-5
Interest paid	-3	-5
Income taxes paid	-28	-35
Other	-43	3
Free cash flow	**2**	**-6**
As % of sales	0.1%	-0.4%

Key observations

- Free cash flow of EUR -6m compared with EUR 2m in 1Q17. Excluding the proceeds of a real estate sale of EUR 19m in 1Q17, FCF improved compared with last year
- Cash outflow related to restructuring EUR 31m and EUR 4m for separation & company name change