Path-to-Value

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Key takeaways

- Philips continues to deliver on its **Accelerate! Program**
- **Operational performance improvements** in 2014 offset by **near-term headwinds**, most notably Cleveland
- Implementation of **new operating structure** will deliver EUR 300 million additional overhead cost savings by 2016
- **2016 targets**:
  - 4-6% comparable sales growth by 2016
  - EBITA margin 11-12% and ROIC >14%
- Continue to execute on the **EUR 1.5 billion share buyback**

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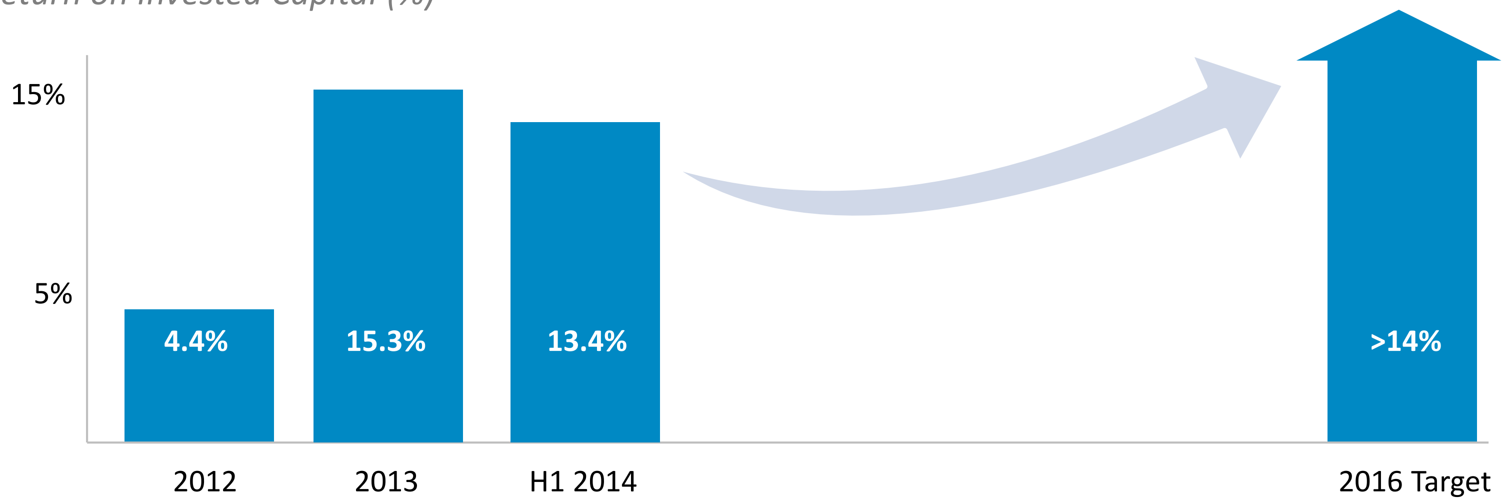
Structural ROIC improvement will continue post 2014

Return on Invested Capital (%)[1]



ROIC H1 2014 by sector

- Healthcare 11%
- Consumer Lifestyle 29%
- Lighting 9%

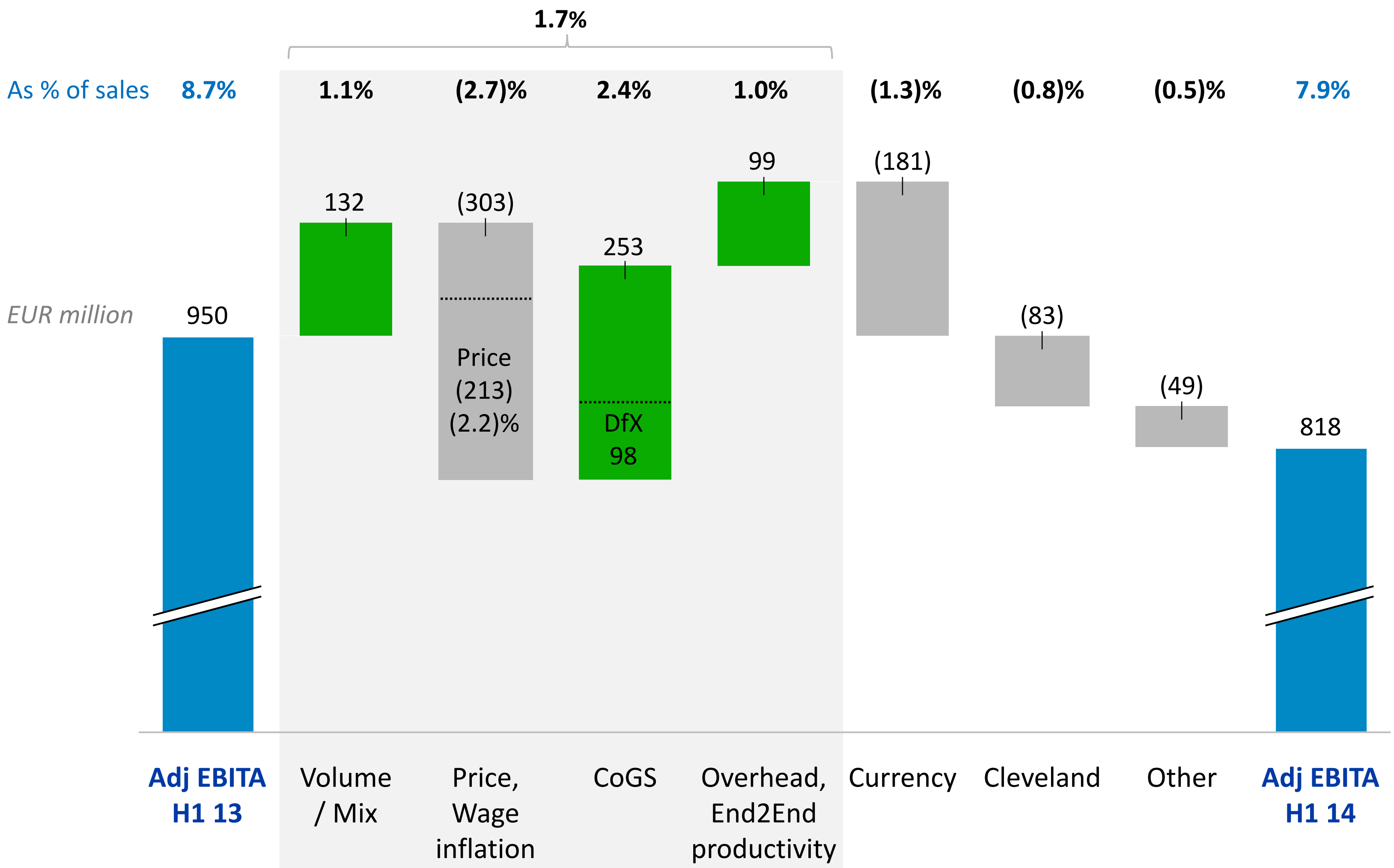
Strong progress towards structural improvement

- From negative reported ROIC in 2011 to a sustainable level of >14% in 2016
- Accelerate! as a key enabler
- 2014 impacted by near-term headwinds that will abate

[1] Philips calculates ROIC as: EBIAT/ NOC ; NOC is average NOC over the last 5 quarters, EBIAT are earnings before interest after tax; reported tax used to calculate EBIAT

Note - Following the completion of the divestment of the AVM&A business, prior-period financials have been adjusted (for details please refer to note 1 "Significant accounting policies" in the Q2 2014 Quarterly report and Semi-annual report). Financials in 2012 revised for discontinued operations, the adoption of IAS19R and for restatements included in the Annual Report 2012

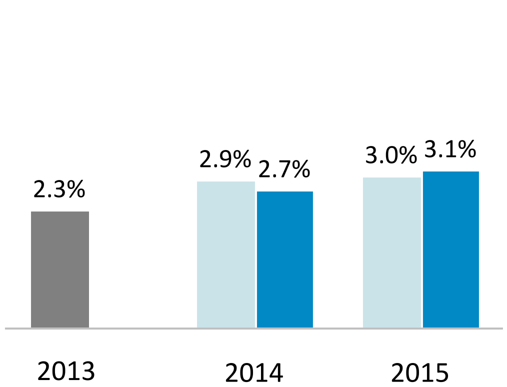
Accelerate! improves operational performance and partially offsets headwinds in H1 2014



Macro-environment continues to be challenging

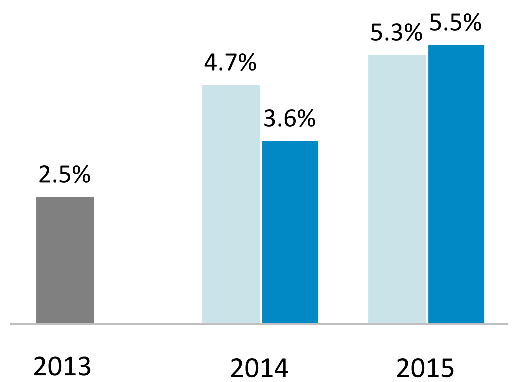
Annual global growth in % Actual Jul-2013 Forecast Jul-2014 Forecast

GDP[1]



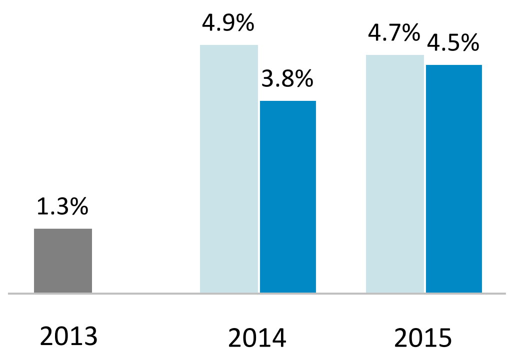
- Outlook remains fragile and shows a mixed picture by region
- GDP growth driven by emerging markets
- Softness in China and certain other emerging markets

Healthcare spending[1]



- Outlook for 2014 scaled back, most notably for the US
- Expected to grow 5.3% in the US and decline by 2% in Europe
- Flat healthcare capex expected in the US for 2014

Non-residential construction[2]



- Outlook for 2014 scaled back, especially for the US
- Expected to grow by 4.9% in the US and 2.6% in Europe in 2015

[1] Source: Economist Intelligence Unit
[2] Source: IHS

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Trading update and revised outlook H2 2014

- Factors positively impacting H2 2014
  - Continued **support from cost savings programs** and Philips Excellence
  - Less negative impact from currency headwinds vs H1 2014
  - Gradual **improvement in performance** in **Professional Lighting Solutions North America** and **Consumer Luminaires** Europe
- Factors negatively impacting H2 2014
  - Additional EBITA impact from **Cleveland** is expected to be **around EUR 100 million in H2 2014**
  - Multiple **markets slow**; e.g. China not yet showing signs of improvement
  - **Legal provision**
- **EUR 300 million additional overhead savings** by 2016 expected to require additional EUR 150 million restructuring costs of which EUR ~50 million in H2 2014
- Healthcare reported EBITA in H2 2014 now expected to be lower than H2 2013
- **Group adjusted EBITA**[1] in H2 2014 expected to be **slightly below the level of H2 2013**

[1] Adjusted EBITA is EBITA excluding restructuring, acquisition-related charges and other items

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Cleveland - Financial update

- Total **EBITA impact in H2 2014** expected to be **around EUR 100 million**
- Reasons for the additional losses:
  - Inventory write-offs for end-of-life material taken in Q3 2014, will account for about half of the EBITA impact in H2 2014
  - Despite successful external validation of the new Quality Management System procedures, the remediation and documentation of the supply base is taking longer and costing more than initially estimated
  - This is causing a delay in the ramp-up of production volumes and shift in shipments and consequently lower sales in 2014

Breakdown of 2014 restructuring costs

EUR million	H1	H2	2014
Lighting manufacturing footprint	37	132	169
Overhead cost savings	12	88	100
Other restructuring costs	39	80	119
Total	**88**	**300**	**388**

- Lighting manufacturing footprint costs include pull forward of EUR ~70 million from 2015 into 2014 as communicated in Q2 2014
- Restructuring costs to achieve overhead cost savings include EUR ~50 million of additional restructuring costs from extension of program to 2016
- Other restructuring costs relate to various restructuring initiatives across Philips that are not related to overhead nor to the Lighting manufacturing footprint

New operating structure enables additional EUR 300 million overhead savings

Cumulative Gross savings

EUR million	2011 Actual	2012 Actual	2013 Actual	2014 Plan	2015 Plan	2016 Plan
TOTAL	**25**	**425**	**1,066**	**1,316**	**1,600**	**1,800**

Annual restructuring costs and investments

EUR million	2011 Actual	2012 Actual	2013 Actual	2014 Plan	2015 Plan	2016 Plan
Restructuring	(37)	(238)	(72)	(100)	(150)	(50)
Investments	(37)	(128)	(137)	(160)	(185)	(140)
TOTAL	**(74)**	**(366)**	**(209)**	**(260)**	**(335)**	**(190)**

- On track to deliver cumulative gross savings of **EUR 1.3 billion by year-end 2014**
- New operating structure enables additional cost savings across the enabling functions
  - Resulting in **EUR 100 million additional savings in 2015 and EUR 200 million by 2016**
- Includes expected **EUR ~50 million additional annual restructuring** cost in 2014 – 2016

Note - The above figures have been adapted to exclude results related to the Audio, Video, Multimedia and Accessories business
Total savings of EUR 46M, annual restructuring costs in 2012 of EUR 11M and EUR 3M in 2013, investments of EUR 1M in 2013 and a headcount reduction of 99 employees

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Accelerate! growth and profitability improvements support 2016 targets

Categories	Measures	Margin Impact 2016[1]	Delta vs CMD 2013
Productivity	• Overhead and indirect gross costs savings of EUR 1.8 billion by 2016 • EUR 1 billion through Design for Excellence (DfX) between 2014-2016 contributing to gross margin expansion • End2End productivity gains from the overhaul of our business model architecture and improved customer service	> 170 bps 100-200 bps > 100 bps	***+70bps***
	Additional Productivity Improvements	370-470 bps	
Investments in productivity	• Incremental one-time restructuring costs, investments to upgrade IT systems, and re-engineer end to end processes between 2014-2016	- 70 bps	***- 20bps***
Investments in growth	• Incremental investments in new (organic) growth in adjacencies with returns after 2016	- 100 bps	
Contingency	• Contingencies to cater for moderate fluctuations in market growth, price erosion and currency compared to our assumptions	- 100 bps	***- 50bps***
	Net Improvement in 2016 Reported EBITA	100-200 bps	

[1] Approximate margin impact in 2016 compared to 2013 baseline

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Accelerate! remains at the core of our performance improvements

Value

2011 – 2013

Accelerating performance improvement

- ✓ Executive Committee and leadership strengthened
- ✓ Investments in growth stepped-up
- ✓ BMC[1] performance management implemented
- ✓ EUR 1.1 billion cost reduction program on track
- ✓ Operating margins & Inventory management improved
- ✓ Television and Audio, Video, Multimedia & Accessories addressed
- ✓ EUR 2 billion share buy-back completed
- ✓ Culture change gaining strong traction
- ✓ Philips Business System being implemented

2014 – 2016

Continued implementation of the PBS[2]

- Create two distinct, market-leading companies positioned to deliver long-term growth
- Simplify the management structure, implement single value-added layer
- Considering options for capital market access for Philips Lighting, subject to market conditions
- Increase total overhead cost savings from EUR 1.5 billion by 2015 to EUR 1.6 billion by 2015 and EUR 1.8 billion by 2016
- Drive 100 bps margin improvement from End2End productivity and Lean, supported by new IT systems
- Deliver EUR 1 billion gross savings through DfX[3]
- Complete share buy-back program of EUR 1.5 billion

Time

[1] Business Market Combination; [2] Philips Business System; [3] Design for X; X = cost, quality, manufacturing, etc.

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2016 targets

- Target to achieve **comparable sales growth of 4-6% by 2016**
- **2016 Group EBITA margin 11-12%**
  - Blended 2016 EBITA margin target for HealthTech is 14-15.5%
  - 2016 EBITA margin target for Lighting Solutions unchanged at 9-11%
- **Portfolio actions will impact future financials** and reporting
  - Full allocation of current IG&S would represent ~150 bps impact for HealthTech and Lighting Solutions
  - Impact from LED Components & Automotive to be specified in conjunction with transaction

Financial targets 2016

Group comparable sales growth	**4 - 6%**
Group reported EBITA margin	**11 - 12%**
- *Healthcare*	*16 - 17%*[1]
- *Consumer Lifestyle*	*11 - 13%*[1]
• HealthTech	14 - 15.5%[1]
• Lighting Solutions	9 - 11% [1]
Group ROIC[2]	**>14%**

[1] Excluding IG&S cost allocation
[2] Excluding M&A impact

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Allocating capital to fund growth and deliver returns

- **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 structure, and the process of preparing Lighting Solutions for capital market access

Our Path-to-Value is clearly mapped out

Initiate new growth engines

- Invest in adjacencies
- Seed emerging business areas

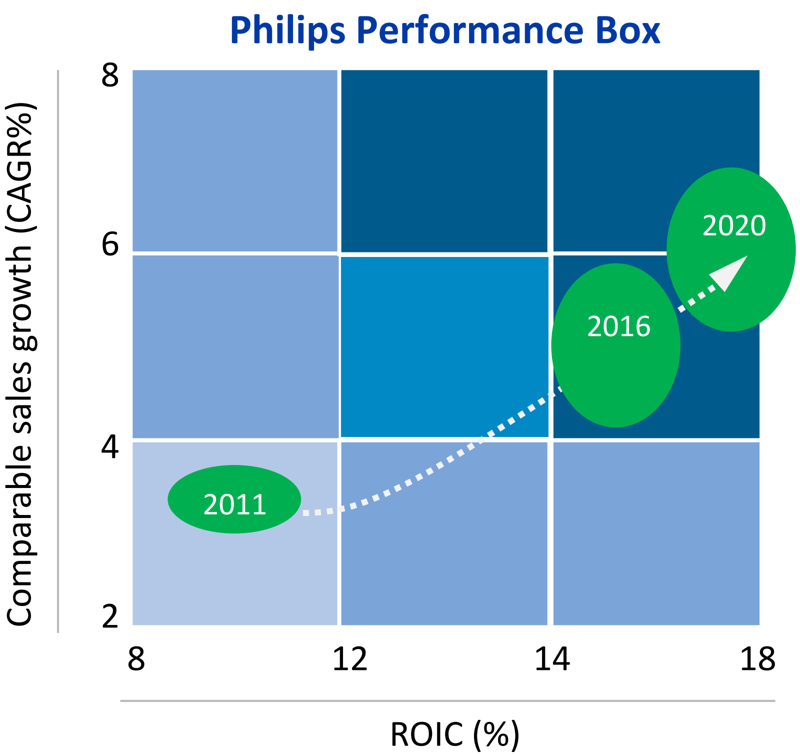
Expand global leadership positions

- 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

2011 **2016**



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