

A young child is smiling broadly and holding a glowing light stick high in the air. The background is a night festival with many colorful, out-of-focus lights in shades of blue, green, and yellow. The child is wearing a light-colored t-shirt with a graphic design.

Royal Philips

Second Quarter Results 2014

Information booklet

July 21st, 2014

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 our Annual Report 2013.

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 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 Group's 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 our Annual Report 2013. Independent valuations may have been obtained to support management's determination of fair values.

All amounts in millions of euro's unless otherwise stated; data included are unaudited. Financial reporting is in accordance with the accounting policies as stated in the Annual Report 2013, unless otherwise stated.

Agenda

1. Management update
2. Group results Q2 2014
3. Accelerate! Change and performance
4. Philips Business System and Path-to-Value
5. Group and sector overview

Management update Q2 2014: Group

Sales & order intake

- Comparable sales amounted to EUR **5.3 billion**, remaining **flat** year-on-year
- Comparable sales of Consumer Lifestyle grew by **7%**, while Lighting posted **1%** growth
- Healthcare comparable sales declined by **4%**, equipment order intake down **2%**
- Comparable sales in growth geographies up **4%**

EBITA & Adjusted EBITA

- EBITA amounted to EUR **415 million**, or **7.8%** of sales, and included EUR 34 million of restructuring and acquisition-related charges
- EBITA was EUR 601 million in Q2 2013 and included EUR 26 million of restructuring and acquisition-related charges and EUR 99 million of other gains
- Adjusted EBITA was EUR **449 million**, or **8.5%** of sales, compared to 9.4% last year. The decrease was due to Healthcare results and a negative currency impact of 0.8% of sales

Cost savings & Net Income

- Total gross overhead cost savings on track at EUR **1,144 million** to date
- Net income was EUR **243 million**, compared to EUR 317 million in Q2 2013

Asset management & ROIC

- Inventories as a % of sales increased by 30 basis points to 16.0%
- Free Cash Flow was an inflow of EUR **261 million**
- ROIC improved to 13.4%, compared to 9.2% excluding the CRT fine¹ in Q2 2013

Others

- By the end of Q2, we completed 26% of the EUR 1.5 billion share buy-back program

Challenging 1st half of the year; Executing Accelerate! and managing headwinds

Management update Q2 2014: Healthcare

Order intake

- Currency-comparable equipment order intake decreased by **2%**
- Imaging Systems grew by low-single-digit and Patient Care & Clinical Informatics showed a double-digit decline

Sales

- Comparable sales down **4%** year-on-year
- Home Healthcare Solutions increased by mid-single-digit and Customer Services by low-single-digit. Patient Care & Clinical Informatics declined by mid-single-digit.
- Imaging Systems decreased by double-digits, due to the voluntary production suspension in the Cleveland facility

EBITA & Adjusted EBITA¹

- EBITA was EUR **225 million**, or **10.5%** of sales, down from EUR 420 million, or 17.8% of sales in Q2 2013
- Adjusted EBITA was EUR **224 million**, or **10.5%** of sales, compared to 14.3% last year. The decrease was mainly due to a negative currency impact, lower gross margins and the voluntary production suspension in the Cleveland facility

Net Operating Capital (NOC)

- Inventories as a % of sales increased by 90 basis points
- NOC was EUR **7.5 billion**, broadly in line with Q2 2013 on a currency comparable basis

Operational earnings impacted by Cleveland and lower volume

¹ Adjusted EBITA in Q214 excludes a net release of EUR 1 million of restructuring provisions. Adjusted EBITA in Q213 excludes EUR 82 million net gains

Management update Q2 2014: Consumer Lifestyle

Sales

- Comparable sales grew by **7%** compared to Q2 2013
- Double-digit growth was seen at Health & Wellness, while Domestic Appliances grew by high-single-digit. Sales remained flat in Personal Care

EBITA & Adjusted EBITA¹

- EBITA was EUR **100 million**, or **9.3%** of sales, up from EUR 82 million, or 7.6% of sales in Q2 2013
- Adjusted EBITA increased to EUR **101 million**, or **9.4%** of sales, from 7.8% in Q2 2013. The improvement was attributable to higher gross margins across all businesses
- Stranded costs from discontinued operations decreased from EUR 7 million last year to EUR 3 million in Q2 2014

Net Operating Capital (NOC)

- Inventories as a % of sales improved by 50 basis points
- NOC increased by EUR 99 million to EUR **1.3 billion** on a currency comparable basis, largely driven by higher working capital and a reduction in provisions

Others

- Completed the sale of Woon Innovations to Gibson Brands
- Completed the sale of the remaining 30% stake in joint venture TP Vision to TPV

Continued high-single-digit growth and strong operational leverage

Management update Q2 2014: Lighting

Sales

- Comparable sales were up **1%** year-on-year
- Lumileds and Automotive grew by double-digits while Professional Lighting Solutions posted a low-single-digit growth. Light Sources & Electronics and Consumer Luminaires sales declined by mid-single-digit
- LED-based sales grew **43%** compared to Q2 2013 and represent **36%** of Lighting sales

EBITA & Adjusted EBITA¹

- EBITA amounted to EUR **138 million**, or **7.1%** of sales, compared to EUR 153 million, or 7.5% of sales, in Q2 2013
- Adjusted EBITA increased to EUR **168 million**, or **8.6%** of sales, compared to 8.1% in Q2 2013, driven by higher gross margins

Net Operating Capital (NOC)

- Inventories as a % of sales increased by 40 basis points year-on-year
- NOC was EUR **4.6 billion**, in line with Q2 2013 on a currency comparable basis

Others

- Started the process to combine Lumileds and Automotive lighting businesses into a stand-alone company within Philips

Operational earnings improve by 50 bps on 1% sales growth

Management update Q2 2014: by Geography

Growth Geographies¹

- Comparable sales grew by **4%**, driven by Consumer Lifestyle and Lighting
- Middle East & Turkey, India, Central & Eastern Europe and Africa posted double-digit growth while China remained flat year-on-year
- Healthcare comparable equipment order intake grew by **high-single-digit**, with strong performances in Latam and Russia & Central Asia. China was up by mid-single-digit

North America

- Comparable sales declined by **4%** due to decreases at Healthcare and Lighting
- Healthcare comparable equipment order intake decreased by **17%**, driven by double-digit declines in Patient Care & Clinical Informatics and Imaging Systems
- New sales structure focused on strategic partnerships implemented at Healthcare

Western Europe

- Comparable sales were **flat**, on the back of relatively stable sales in Healthcare and low-single-digit sales growth in Lighting and Consumer Lifestyle
- Healthcare comparable equipment order intake grew by **high-single-digit**

Growth geographies continue to support overall sales performance

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Key Financials Summary – Q2 2014

EUR million

	Q2 2013	Q2 2014
Sales	5,632	5,293
EBITA	601 ¹	415 ¹
Financial income and expenses	(78)	(74)
Income taxes	(121)	(40)
Net income	317	243
Net Operating Capital	10,184	10,500
Net cash flow from operating activities	141	487
Net capital expenditures	(246)	(226)
Free cash flow	(105)	261

¹ 2Q14 includes EUR (34)M of restructuring and acquisition-related charges; 2Q13 includes EUR (26)M of restructuring and acquisition-related charges, a EUR 78M past-service pension cost gain in the US and a EUR 21M gain on the sale of a business in Healthcare

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)

Sales by sector – Q2 2014

EUR million

	Q2 2013	Q2 2014	% nom	% comp
Healthcare	2,362	2,137	(10)	(4)
Consumer Lifestyle	1,083	1,073	(1)	7
Lighting	2,048	1,943	(5)	1
Innovation, Group & Services	139	140	1	3
Philips Group	5,632	5,293	(6)	0

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)

Sales by geography – Q2 2014

EUR million

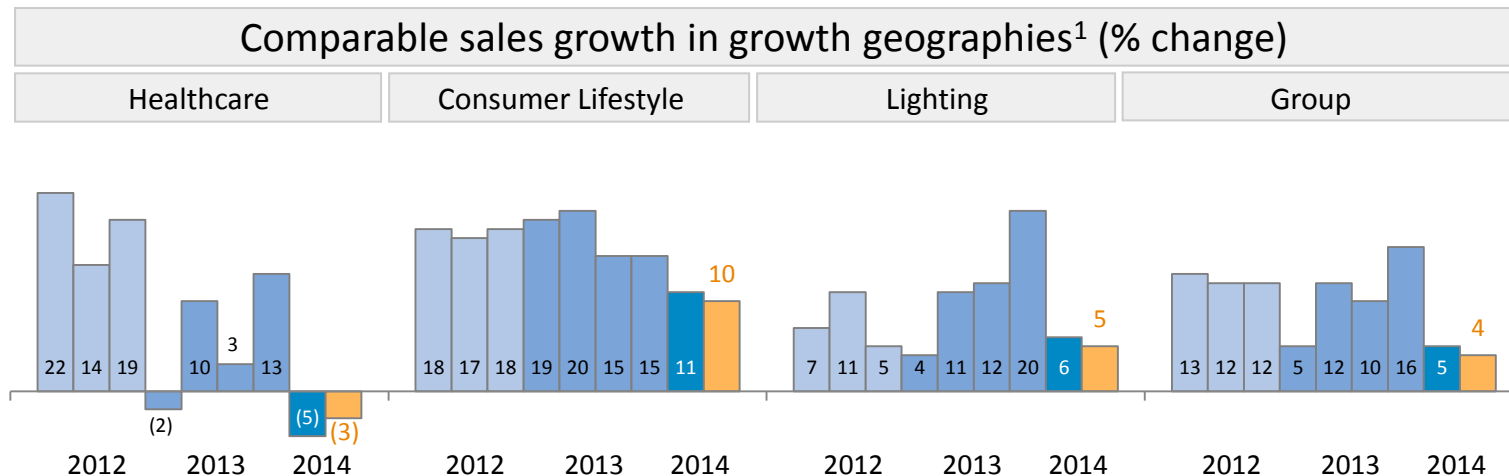
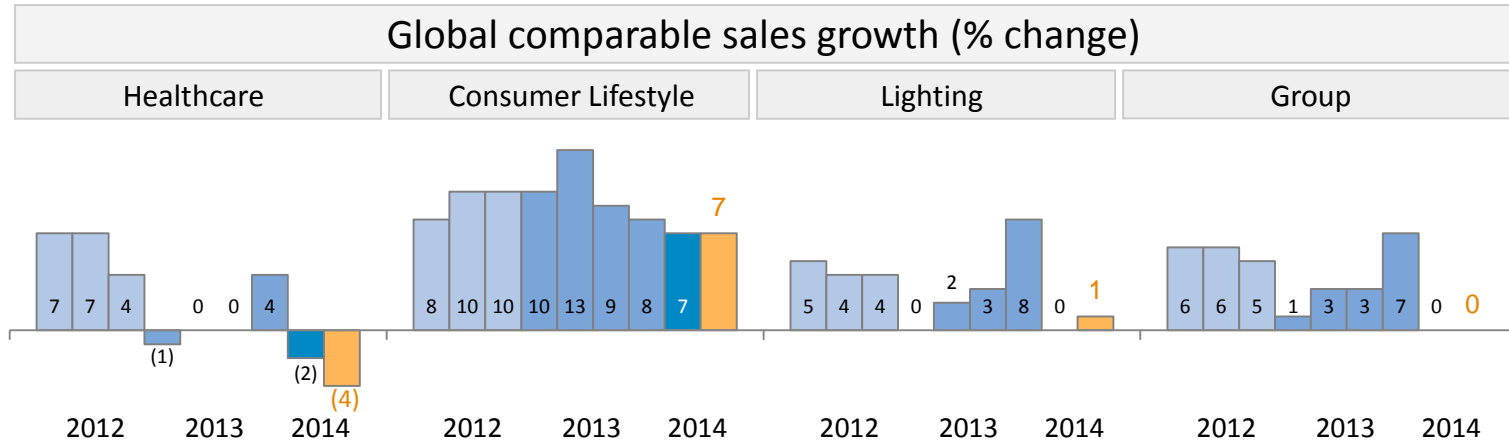
	Q2 2013	Q2 2014	% nom	% comp
Western Europe	1,328	1,327	0	0
North America	1,782	1,598	(10)	(4)
Other mature geographies	441	414	(6)	2
Growth geographies ¹	2,081	1,954	(6)	4
Philips Group	5,632	5,293	(6)	0

¹ Growth geographies are all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel

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)

Sales growth development

Trend Q2 2012 – Q2 2014

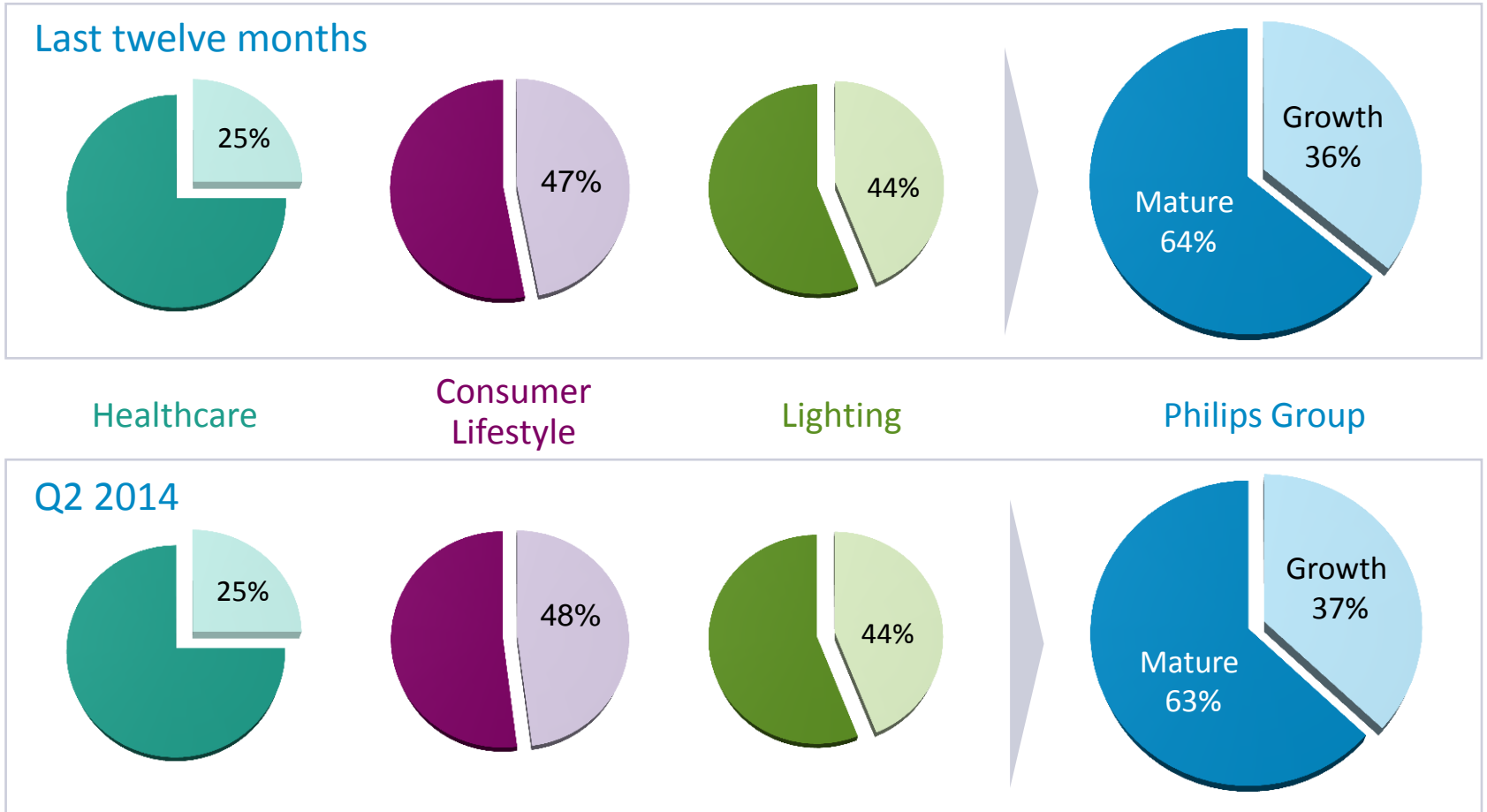


¹ Growth geographies are all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel

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Sales in growth geographies¹

Last twelve months and Q2 2014



¹ Growth geographies are all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel

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)

EBITA by sector – Q2 2014

EUR million

	Q2 2013		Q2 2014	
		as % of sales		as % of sales
Healthcare ¹	420	17.8%	225	10.5%
Consumer Lifestyle ²	82	7.6%	100	9.3%
Lighting ³	153	7.5%	138	7.1%
Innovation, Group & Services ⁴	(54)	-	(48)	-
Philips Group	601	10.7%	415	7.8%

¹ 2Q14 includes a net release of EUR 1M of restructuring provisions; 2Q13 includes a EUR 61M past-service pension cost gain in the US and a EUR 21M gain on the sale of a business ² 2Q14 includes EUR (1)M of restructuring and acquisition-related charges; 2Q13 includes EUR (3)M of restructuring and acquisition-related charges and a EUR 1M past-service pension cost gain in the US ³ 2Q14 includes EUR (30)M of restructuring and acquisition-related charges; 2Q13 includes EUR (23)M of restructuring and acquisition-related charges and a EUR 10M past-service pension cost gain in the US ⁴ 2Q14 includes EUR (4)M restructuring charges; 2Q13 includes a EUR 6M past-service pension cost gain in the US

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)

Adjusted EBITA by sector – Q2 2014

EUR million

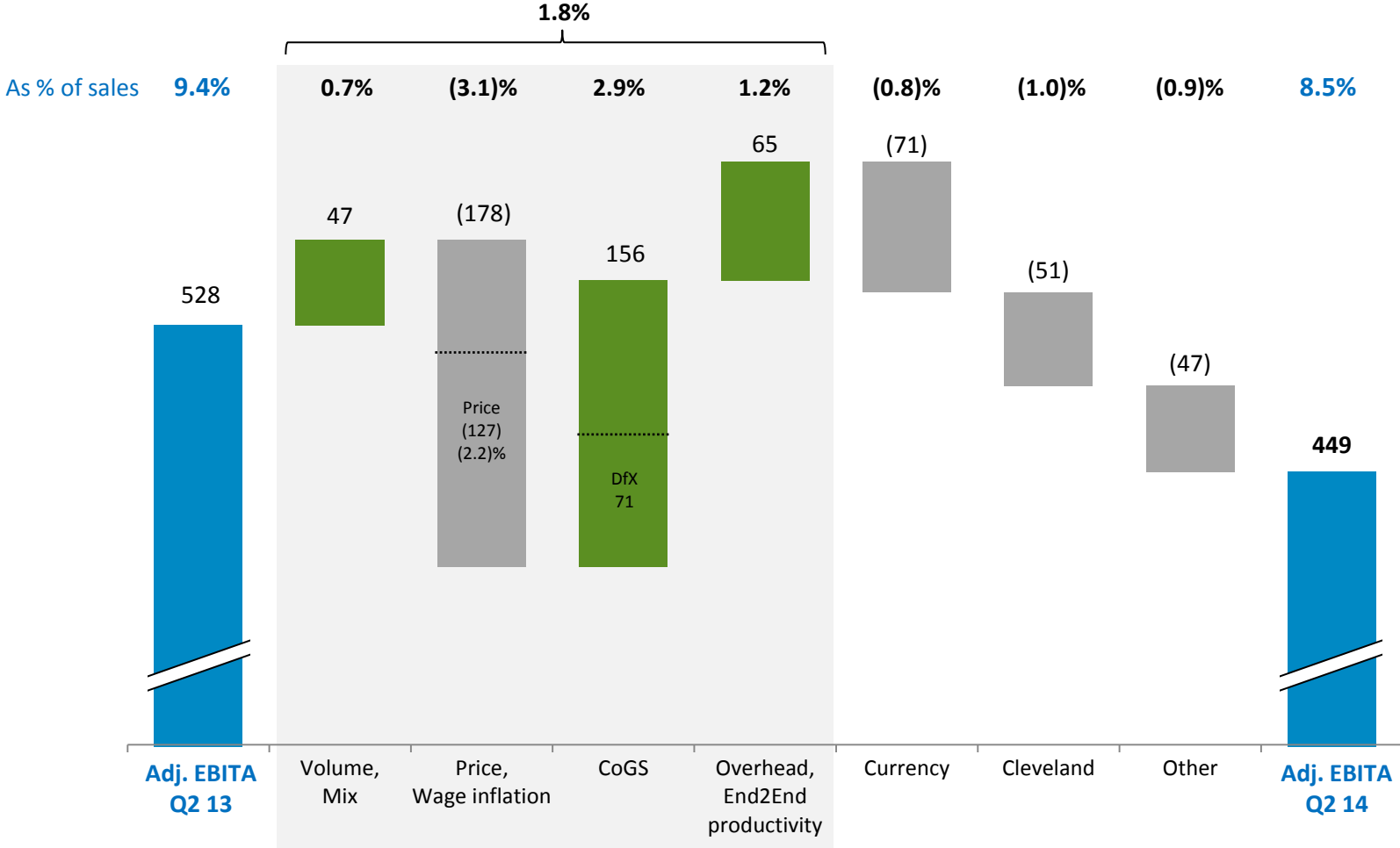
	Q2 2013		Q2 2014	
		as % of sales		as % of sales
Healthcare ¹	338	14.3%	224	10.5%
Consumer Lifestyle ²	84	7.8%	101	9.4%
Lighting ³	166	8.1%	168	8.6%
Innovation, Group & Services ⁴	(60)	-	(44)	-
Philips Group	528	9.4%	449	8.5%

¹ 2Q14 excludes a net release of EUR 1M of restructuring provisions; 2Q13 excludes a EUR 61M past-service pension cost gain in the US and a EUR 21M gain on the sale of a business ² 2Q14 excludes EUR (1)M of restructuring and acquisition-related charges; 2Q13 excludes EUR (3)M of restructuring and acquisition-related charges and a EUR 1M past-service pension cost gain in the US ³ 2Q14 excludes EUR (30)M of restructuring and acquisition-related charges; 2Q13 excludes EUR (23)M of restructuring and acquisition-related charges and a EUR 10M past-service pension cost gain in the US ⁴ 2Q14 excludes EUR (4)M restructuring charges; 2Q13 excludes a EUR 6M past-service pension cost gain in the US

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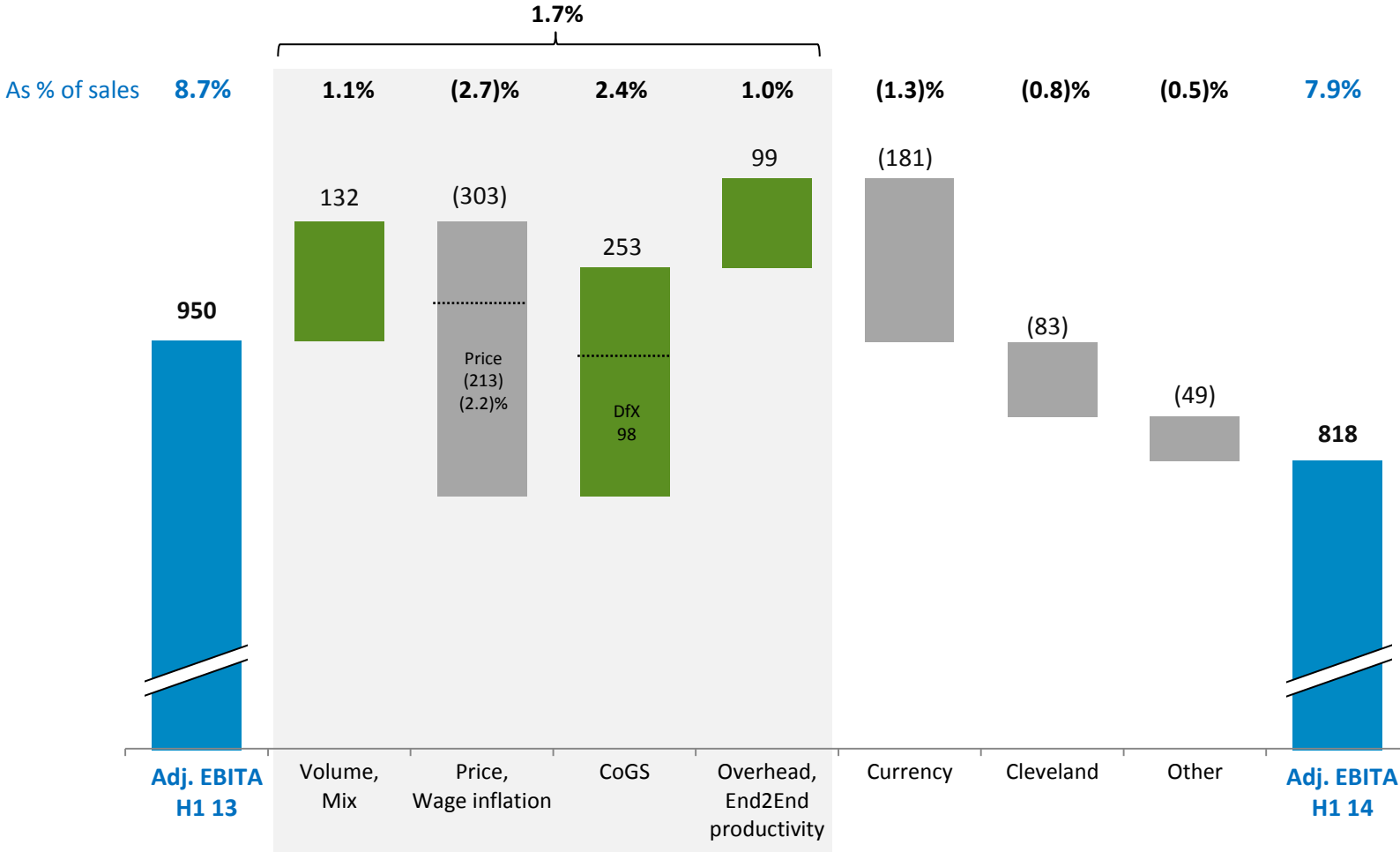
Adjusted EBITA bridge – Q2 2014

EUR million



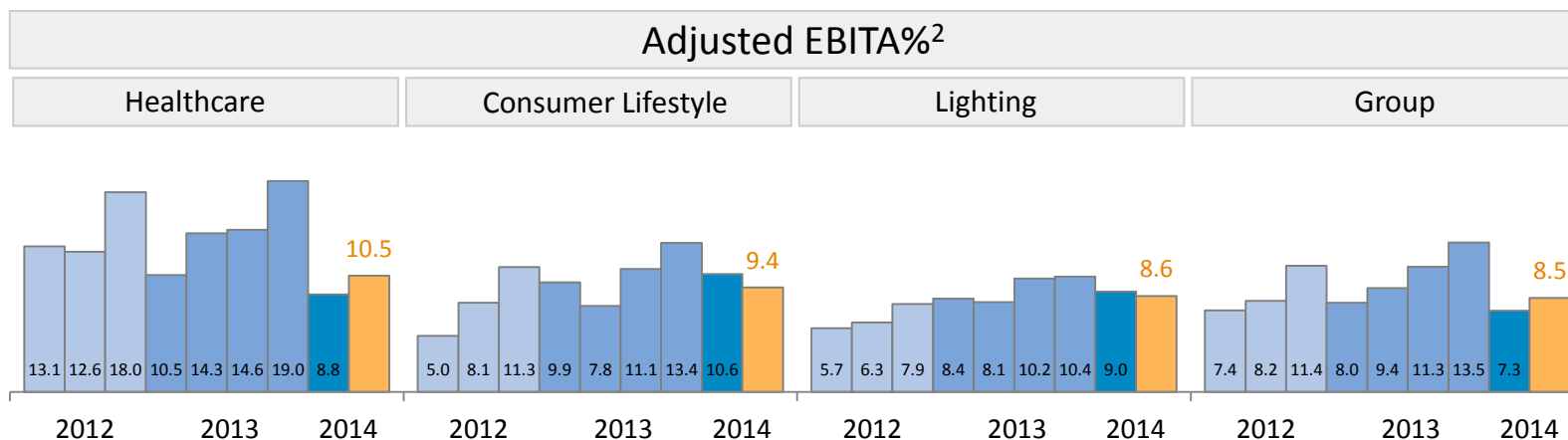
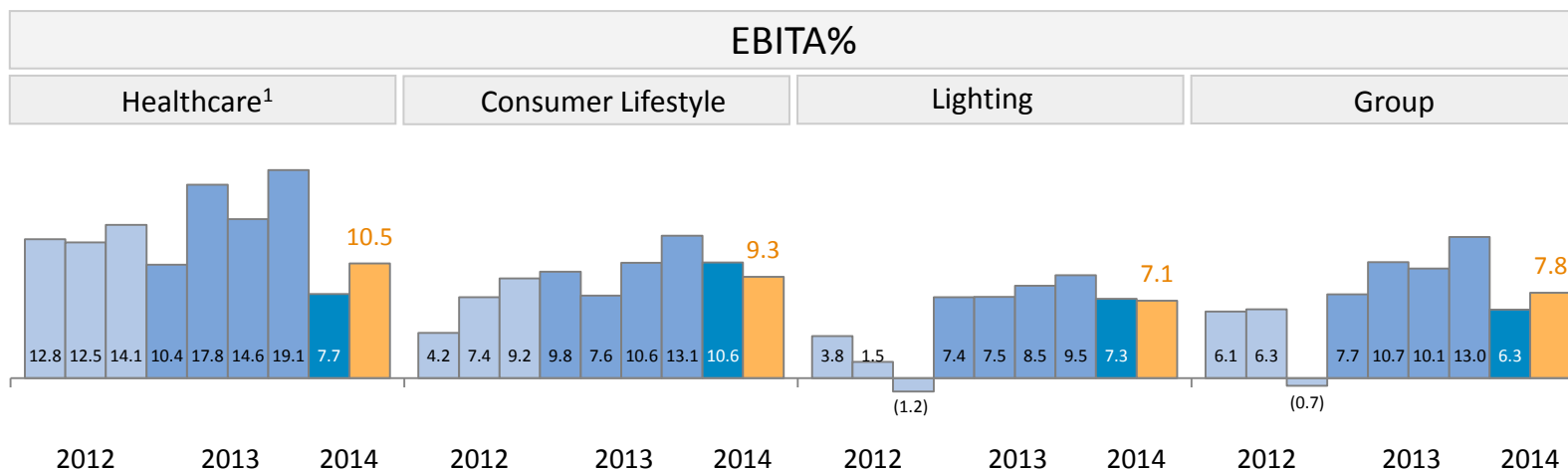
Adjusted EBITA bridge – H1 2014

EUR million



EBITA and Adjusted EBITA Margin development

Trend Q2 2012 – Q2 2014



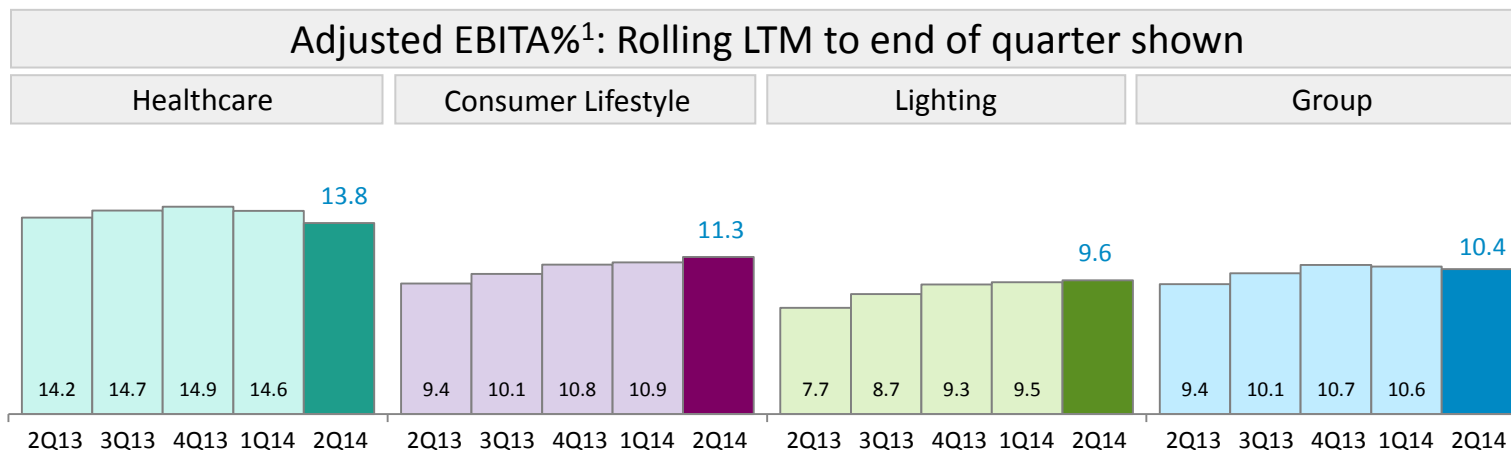
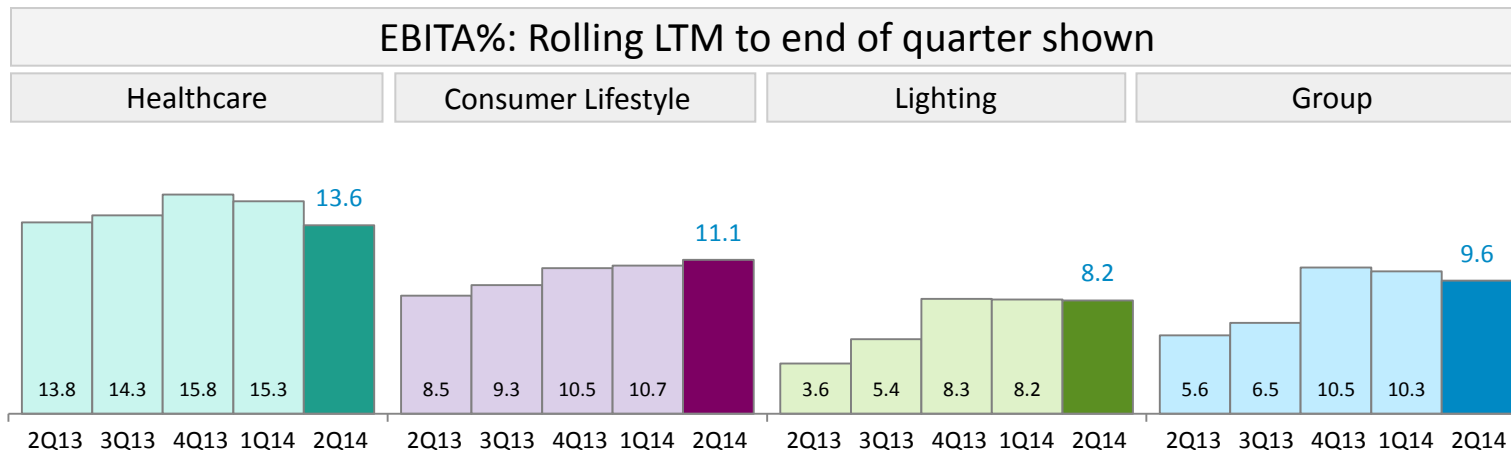
¹ Healthcare EBITA Q2 2013 includes a EUR 82 million gain from past-service pension costs in the US and the sale of a business

² Adjusted EBITA is EBITA excluding restructuring, acquisition-related charges and other items (details on slide 91)

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

EBITA and Adjusted EBITA Margin development

Rolling last 12 months

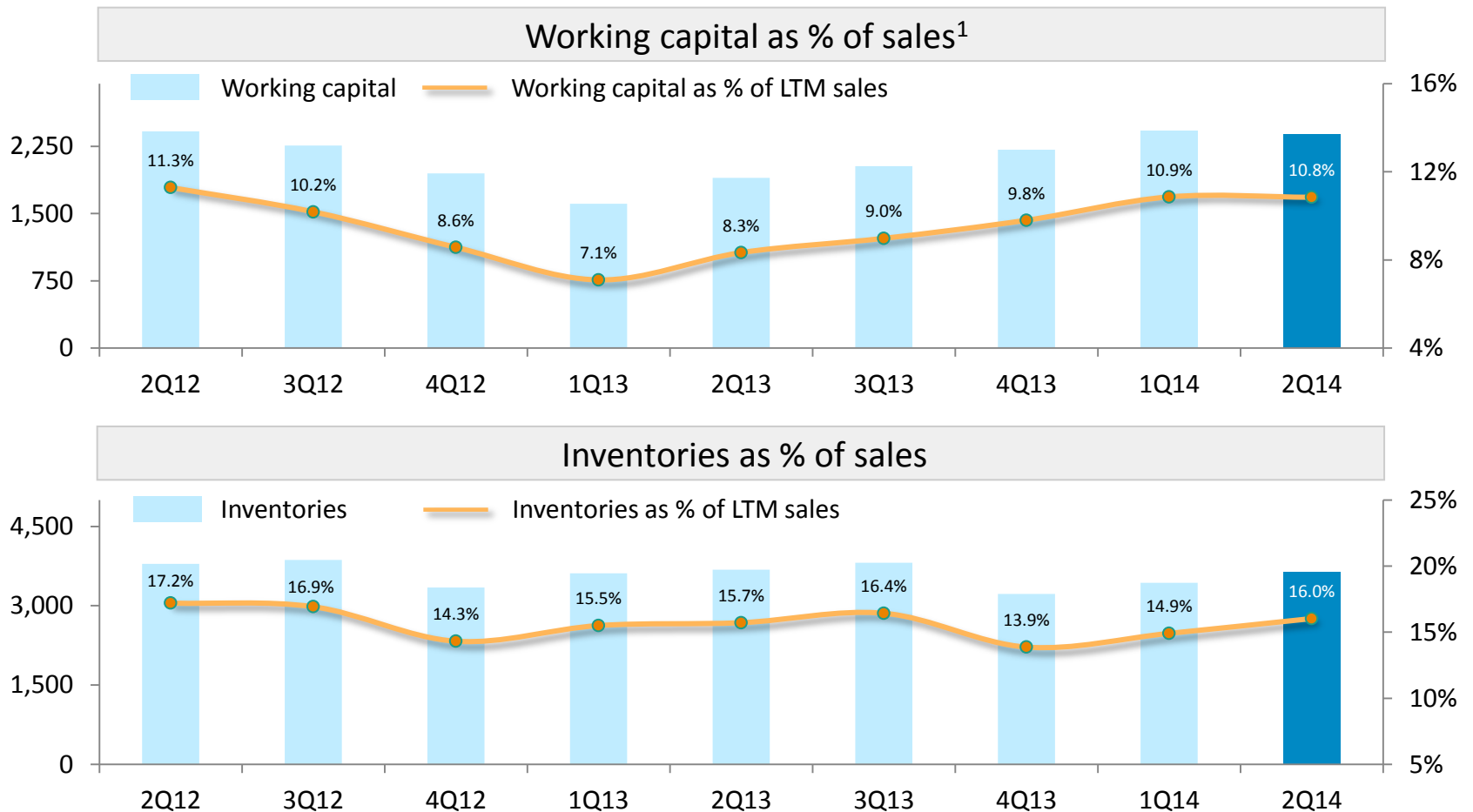


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Working capital & Inventories over the last two years

EUR million

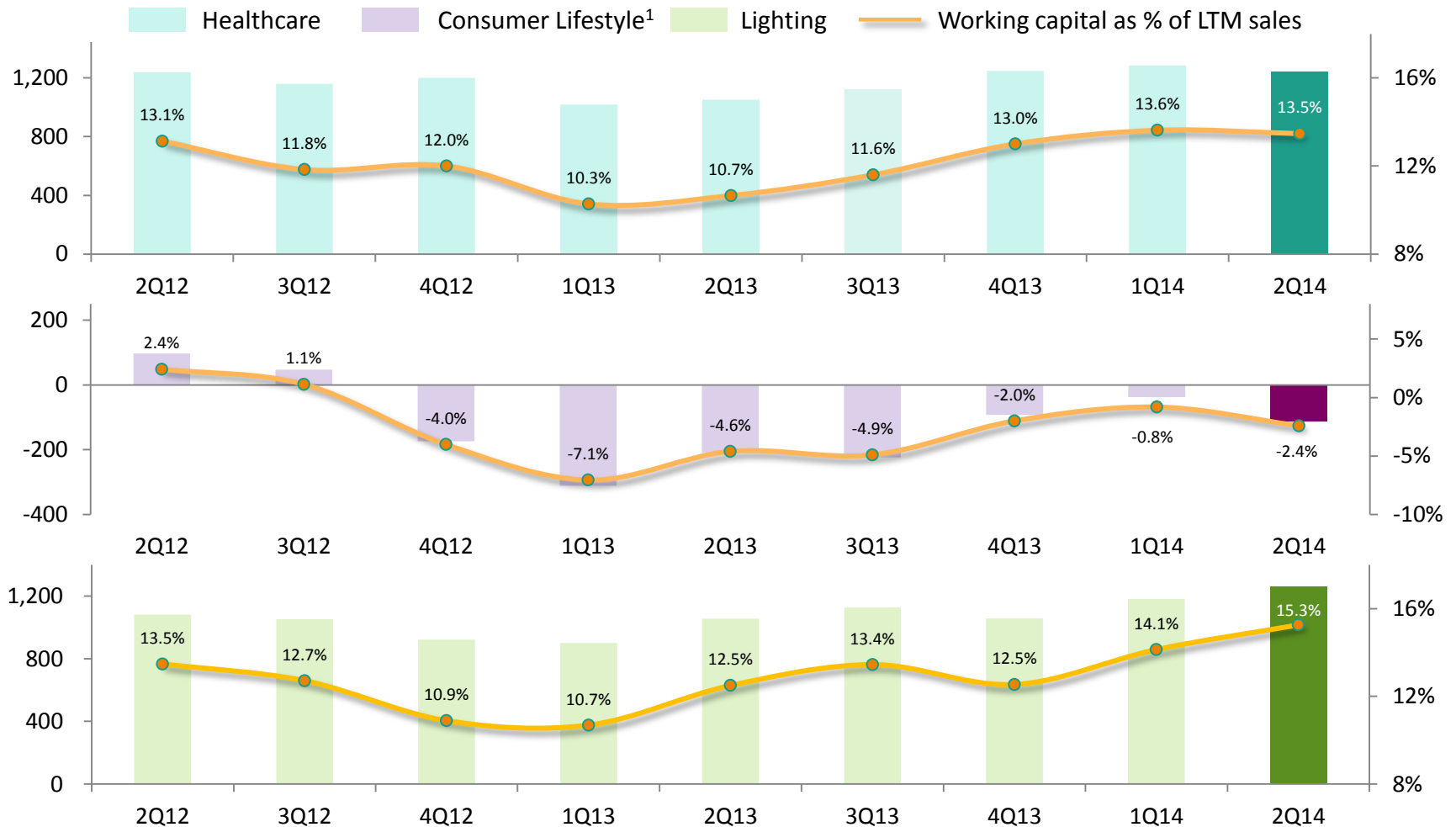


¹ Working capital as % of sales of Healthcare, Consumer Lifestyle and Lighting; excluding central sector IG&S. Working capital includes residual balance of discontinued operations

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

Working capital per business sector

EUR million



¹ Working capital includes residual balance of discontinued operations

Note - Financials in 2012 revised for discontinued operations, the adoption of IAS19R and for restatements included in the Annual Report 2012

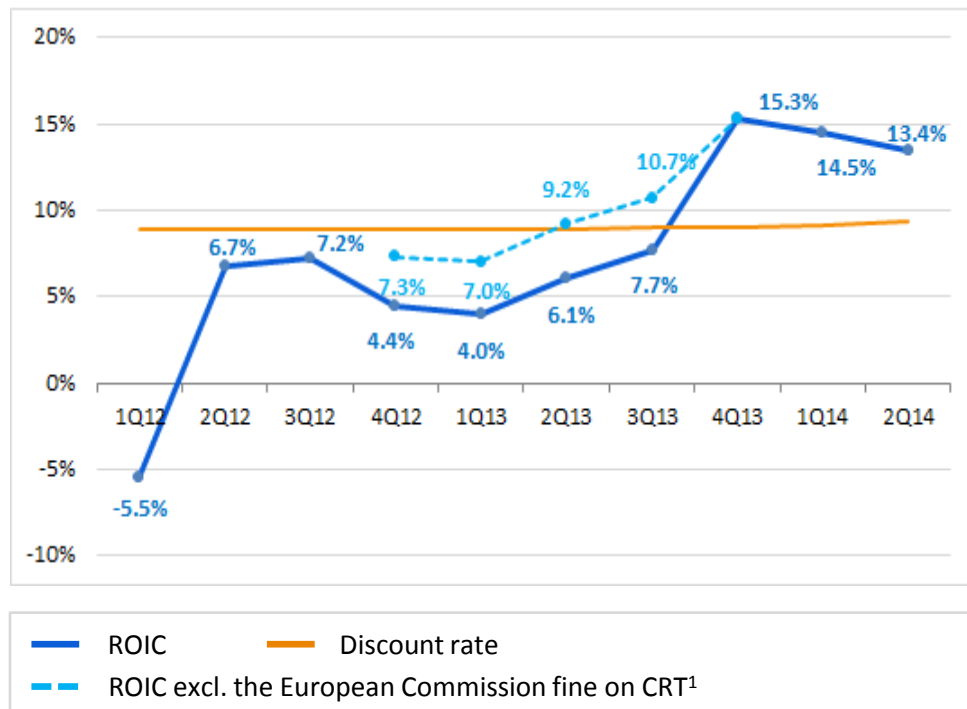
Free Cash Flow – Q2 2014

EUR million

	Q2 2013	Q2 2014
Net income from continuing operations	322	220
Depreciation, amortization, and impairments of fixed assets	311	298
Interest income and expense/ Income tax expense	176	84
Net gain on sale of assets	(36)	(3)
Changes in working capital, of which:	(440)	140
- changes in receivables and other current assets	(115)	143
- changes in inventories	(188)	(168)
- changes in accounts payable, accrued and other liabilities	(137)	165
Increase in non-current receivables, other assets and other liabilities	(85)	(101)
Decrease in provisions	(69)	(46)
Interest paid and received/ Income taxes paid	(122)	(116)
Others	84	11
Net cash flow from operating activities	141	487
Purchase of intangible assets/ Expenditures on development assets	(106)	(103)
Capital expenditures on property, plant and equipment	(145)	(128)
Proceeds from disposals of property, plant and equipment	5	5
Net capital expenditures	(246)	(226)
Free Cash Flow	(105)	261

Note - Prior-period cash flow statement presentation changed for a voluntary accounting policy change and adjusted for the completion of the divestment of the AVM&A business (for details please refer to note 1 "Significant accounting policies" in the Q2 2014 Quarterly report and Semi-annual report)

Development of Return on Invested Capital (ROIC)



- ROIC was at 13.4% in Q2 2014, from 14.5% in Q1 2014 and 9.2% in Q2 2013 excluding the European Commission fine on CRT¹
- Strong year-on-year improvement was driven by an increase in earnings and a lower average Net Operating Capital mainly due to lower fixed assets, partly offset by higher working capital
- Discount rate is 9.3%

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 CRT = Cathode-Ray Tubes, a business divested by Philips in 2001. Philips has appealed the decision. Charges were taken in Q4 2012.

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

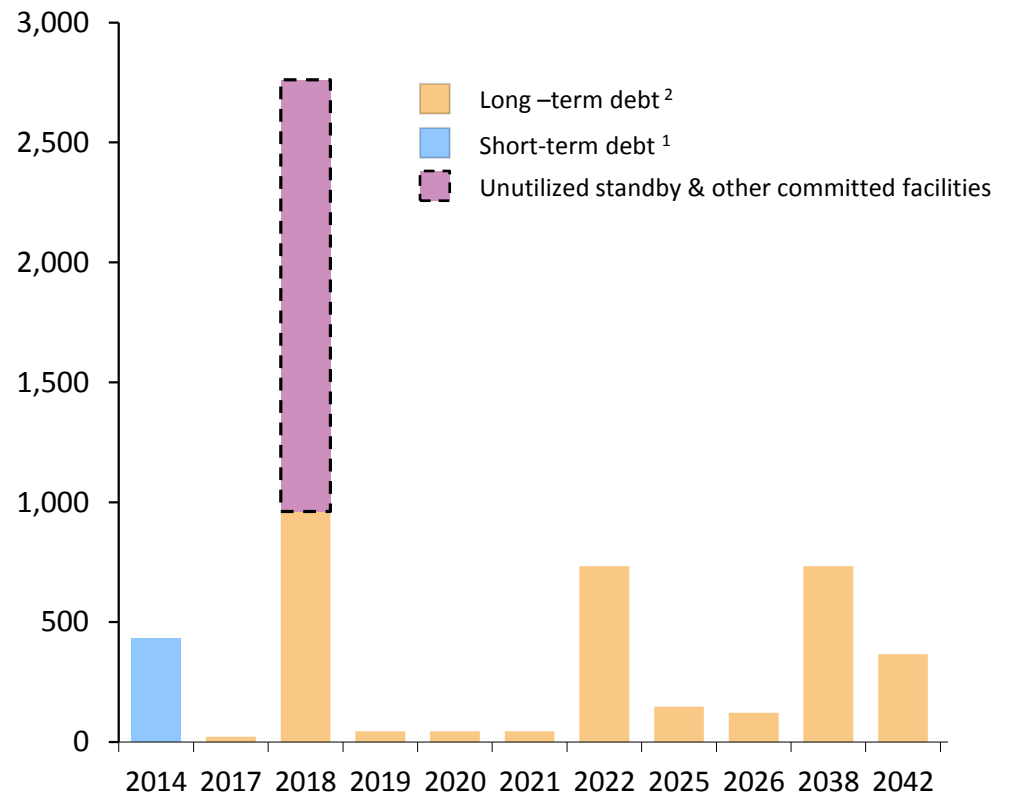
Philips' debt has a long maturity profile

Debt maturity profile as of June 2014

Amounts in EUR millions

Characteristics of long-term debt

- Maturities up to 2042
- Average tenor of long-term debt is 12.7 years
- No financial covenants
- EUR 1.8 billion standby facility matures in February 2018

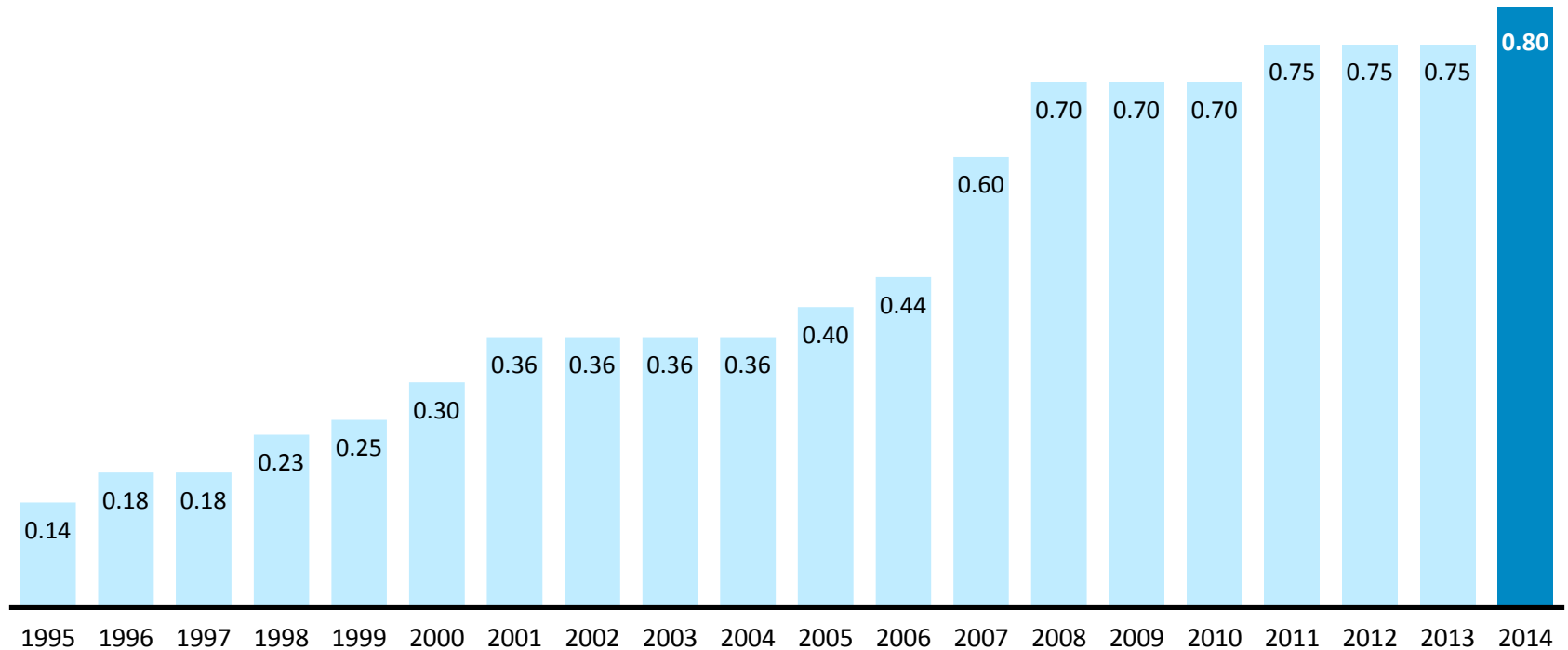


¹ Short term debt consists mainly of local credit facilities that are being rolled forward on a continuous basis

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	
	March 31 '14 (not reported)	June 30 '14 (not reported)	March 31 '14 (not reported)	June 30 '14 (not reported)
Netherlands Prepaid pension asset ¹	1,041	1,082	0	0
Other major plans	<u>(1,012)</u>	<u>(1,197)</u>	<u>(1,417)</u>	<u>(1,619)</u>
Major plans	29	(115)	(1,417)	(1,619)
Minor plans	<u>(206)</u>	<u>(206)</u>	<u>(206)</u>	<u>(206)</u>
Total	(176)	(321)	(1,623)	<u>(1,825)</u>

- In Q2 2014, the total funded status decreased due to the inclusion of the expected new mortality table in the US plan as well as lower interest rates in a number of countries that could not be offset by higher asset values in all cases. The cash contribution to the Dutch pension plan related to the EUR 600 million funding agreement, as part of our ongoing effort to de-risk pension obligations, had a positive effect
- The decrease in the balance sheet position is due to the estimated impact of a new mortality table in the US and a decrease in interest rates in 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

Disciplined Capital Use

- Invest in high ROIC organic growth opportunities and selected value creating bolt-on acquisitions
- Maintain our A3/A- rating
- We are committed to a stable dividend policy with a 40% to 50% pay-out of continuing net income
- We will drive higher capital efficiency and cash flow yields through improved working capital turns and CAPEX discipline
- We will exercise stringent discipline and return criteria (including ROIC hurdles) in our end-to-end acquisition process in line with the nature of the transaction
- Additionally, capital will be used to mitigate risk and return capital to shareholders over time

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Accelerate! change and performance program

Customer Centricity		<ul style="list-style-type: none">• Increase local relevance of product portfolio to gain market share• Focused Business-to-Government sales channel development to drive growth• Increase Employee Engagement in markets by 300 bps• 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 > 80%• Targeted investments to extend market leadership and drive value creation• Strengthen BMC¹ 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 which will fundamentally simplify the way of working– Reduce Cost of Non Quality by 30% , Inventory reduction by 20%• Accelerate innovation time to market by av. 40%; Increase customer service >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 team performance dialogues to take ownership for the transformation• Build a University to increase learning and competency development across Philips• Excellence practices to increase operational performance; Lean skills for all employees
Operating Model		<ul style="list-style-type: none">• Simplify the organization and reduce overhead and support costs by EUR 1.5 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 and measures

Supported by dedicated senior Transformation Leadership to ensure execution



Accelerate! is improving the way we do business

Operational Excellence: Lighting Mexico

In deploying Lean across manufacturing sites, Lighting Mexico worked closely with key suppliers to simplify operating procedures at its Monterrey factory. This led to a 30% reduction in the cost of non-quality and 18% cost productivity, while delivering increased customer satisfaction through a fill rate of 99% for North American customers.



Lean market-to-order: Healthcare India

Healthcare India redesigned and simplified its market-to-order processes for Imaging Systems as part of the global Lean deployment. As a result, customer service levels have improved and the lead time between purchase order and order entry was reduced by 54%.



Lean manufacturing: Philips AVENT

To optimize the End2End processes at our Philips AVENT manufacturing site in the UK, the Consumer Lifestyle team ran more than 1,000 Lean continuous improvement Kaizen events. This led to a 50% increase in quality levels, a 50% improvement in operational productivity and a 21% increase in factory output.



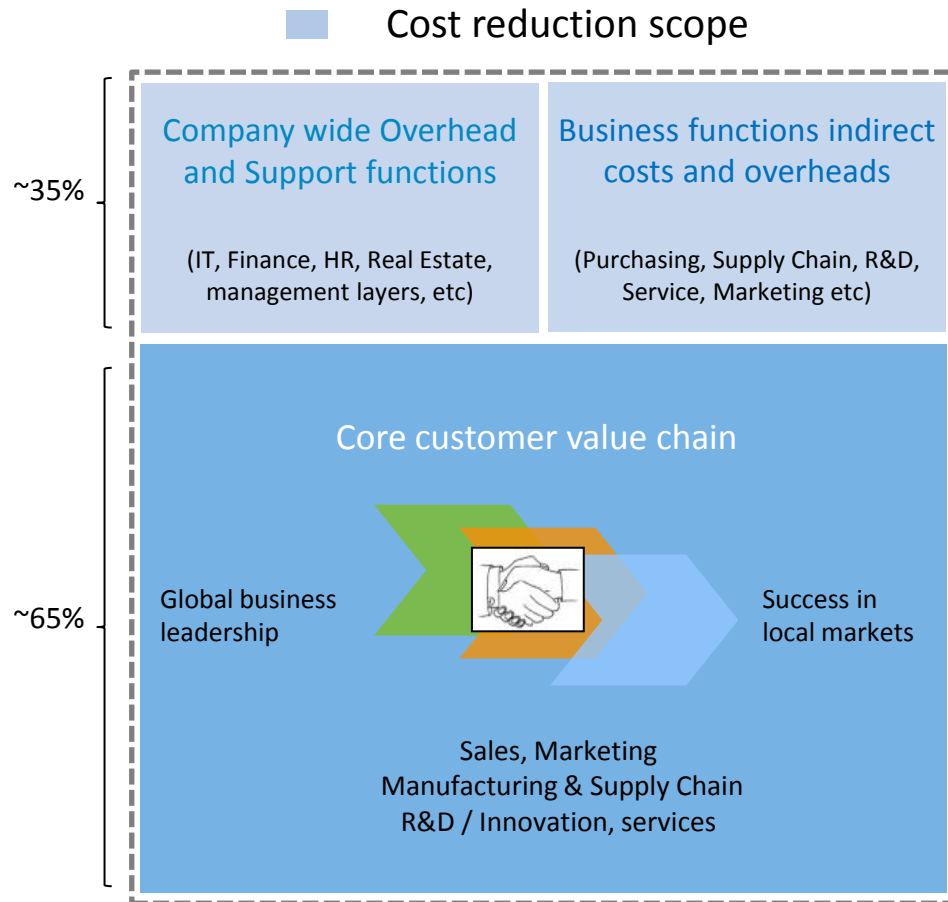
End2End transformation: Lighting Europe

To reduce supply chain complexity and product development efforts, Philips Lighting simplified the dimmable fluorescent lamp drivers portfolio in Europe. The number of SKU's¹ was reduced by 54% and unique components by 37%. This End2End transformation is also driving reduced phase-over time to lamp drivers and LED systems for the European OEM channel.





Cost reduction program targeting overhead & indirect costs will bring EUR 1.5 billion in savings by 2015



Clear design principles

- Taking out overhead and support cost
 - *All overheads, layers and support functions*: IT, Finance, HR, Real Estate, Management, etc
 - Indirect business functions not directly involved in the *customer value chain*
 - *Single added value layer* (no duplication) and *reduce complexity*
- Increased savings based on 2013 baseline
- Focus on sustainable structural savings instead of “variable” costs



EUR 1.5 billion cost reduction program

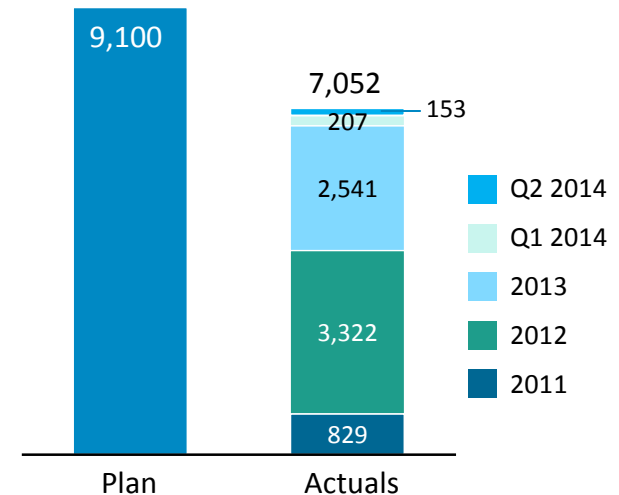
Program started in Q3 2011, expected to be completed by 2015

EUR million	Gross savings						
	2011 Actual (A)	2012 Actual (B)	2013 Actual (C)	YtD2014 Actual (D)	Total Actual (A+B+C+D) ¹	Total 2014 Plan ¹	Total 2015 Plan ¹
TOTAL	25	400	641	78*	1,144	1,316	1,500

* Equivalent to annualized gross savings of EUR 190M

EUR million	Annual restructuring costs and investments						
	2011 Actual	2012 Actual	2013 Actual	1Q14 Actual	2Q14 Actual	2014 Plan	2015 Plan
Restructuring	(37)	(238)	(72)	(6)	(5)	(100)	(100)
Investments	(37)	(128)	(137)	(29)	(32)	(160)	(185)
TOTAL	(74)	(366)	(209)	(35)	(37)	(260)	(285)

Approximately 77% of the targeted headcount reduction completed by Q2 2014



¹ Cumulative gross savings

Note - The above figures have been adapted to exclude results related to the Audio, Video, Multimedia and Accessories business of :

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

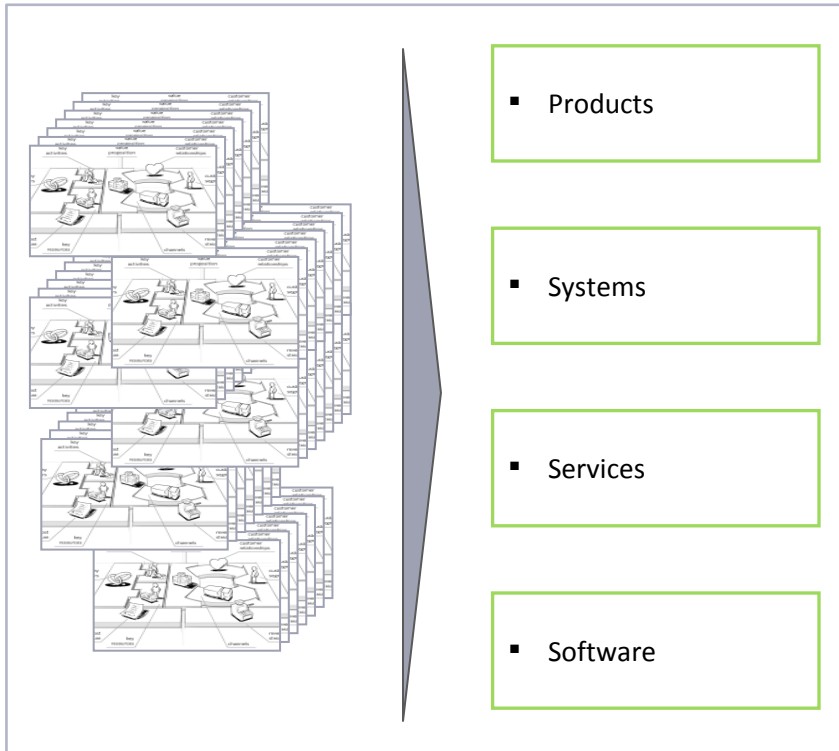


Overhauling our business model architecture

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

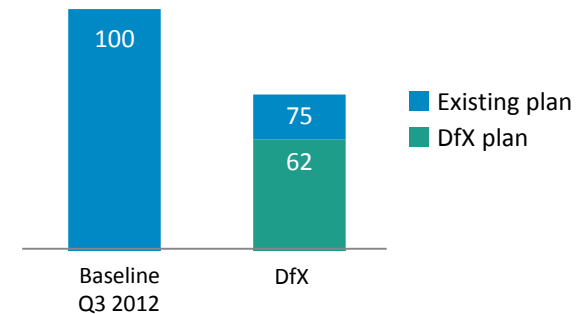


Design for Excellence (DfX) will deliver EUR 1 billion of cost savings in the product creation process

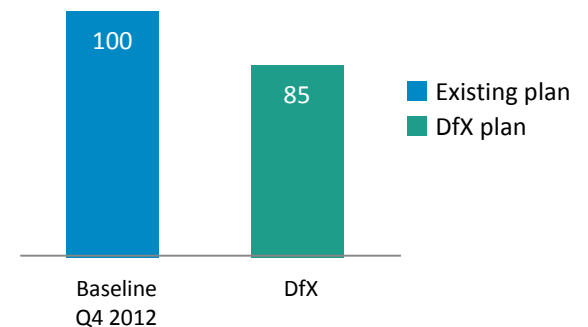
Design for X; X = cost, quality, manufacturing etc.

- 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
- Early successes show that significant cost savings can be achieved in mature products, i.e. products being manufactured 5+ years, as well as new product introductions
- Currently building a 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 & follow-through

Agenda

1. Management update
2. Group results Q2 2014
3. Accelerate! Change and performance
4. Philips Business System and Path-to-Value
5. Group and sector overview

The Philips Business System, our repeatable system to unlock and deliver value

Philips Group Strategy

Manage our portfolio with **granular value creation plans** and resource allocation

Philips Capabilities, Assets and Positions

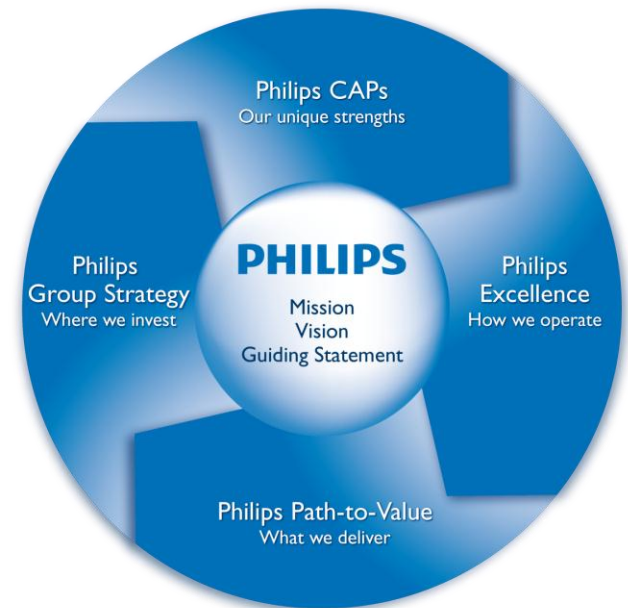
Leverage our unique strengths and assets to drive **global scale** and **local relevance** across our portfolio

Philips Excellence

Be a **learning organization** that delivers with **speed** and **excellence** to our customers, applying a **growth** and **performance** culture

Philips Path-to-Value

Create **value to our customers and shareholders** in a **repeatable** manner



Mega trends create great opportunities for profitable growth

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

Sizeable Opportunities

- Around 65% of deaths globally are due to chronic and non-communicable diseases
- World's population of people 60 years+ doubled since 1980; forecast to reach 2 billion by 2050

- The global middle class is expected to increase from 1.8 billion in 2009 to 4.9 billion by 2030
- Aging population, high obesity rates, and a raised awareness of un-healthy foods

- Urbanization leading to 3 billion more people in cities by 2050
- LED to be 45-50% of the market by 2016, as inefficient technologies are being phased out

¹ Growth geographies are all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel
Sources: World health organization, Agriculture and Agri-food Canada, OECD observer, and Philips Lighting global market study

Our business domains play right into these 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

Healthcare

- Imaging systems for diagnostics and therapy
- Patient care for hospital and home
- Clinical Informatics & consulting services

Consumer Lifestyle

- Personal health & well-being appliances and services

Lighting

- Light sources
- Lighting applications, systems and services

Each of our ~40 businesses has a granular value creation roadmap towards 2016 targets and beyond

Our Business domains



Imaging Systems for diagnostics and therapy

Patient care for hospital and home

Clinical Informatics & consulting services

Personal health & well-being appliances and services

Light sources

Lighting applications, systems and services

IP licensing

Emerging businesses

Our Businesses

- Radiology modalities & applications
- Ultrasound Imaging
- Image guided interventional therapy

- Acute and therapeutic care products
- Sleep & respiratory care

- Hospital and home patient monitoring
- Clinical informatics applications
- Healthcare consulting services

- Male Grooming, Beauty
- Oral Healthcare, Mother & Childcare
- Kitchen Appliances, Garment Care, Coffee

- Conventional lamps and drivers
- LED lamps, drivers and modules
- Lumileds, Automotive, OLED

- Professional Lighting Systems and Controls
- Consumer Luminaires

- IP and Brand licensing

- Various

Our value creation levers

- Lean out & address under-performance issues
- Speed up innovation
- End2End business model redesign
- Exploit Philips' global footprint for geographical adjacencies (spottiness)
- Strong focus on growth geographies¹
- Fill out logical product adjacencies
- Emerging businesses fitting our CAPs²

¹ Growth geographies are all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel

² Capabilities, Assets and Positions

Example value creation approach: Ultrasound

Domain

Imaging Systems for diagnostics and therapy

Business

Ultrasound Imaging

Value creation roadmap

Treat Ultrasound as a growth business and re-invest to expand:

- Leverage India R&D and China operations to expand value segment
- Develop channels in growth geographies to capture opportunities from mega trends
- Strengthen solutions approach by adding clinical decision support through anatomical intelligence
- Develop adjacency into services and new business models allowing remote diagnostics
- Grow partnerships in interventional applications and therapies

Business Assessment

Healthy and profitable business, leadership in the premium segment

Market Insights

- Ultrasound will have wider clinical applications in healthcare
- Profitable value segment will be key to further value creation



The new era in advanced Ultrasound Philips EPIQ with anatomical intelligence

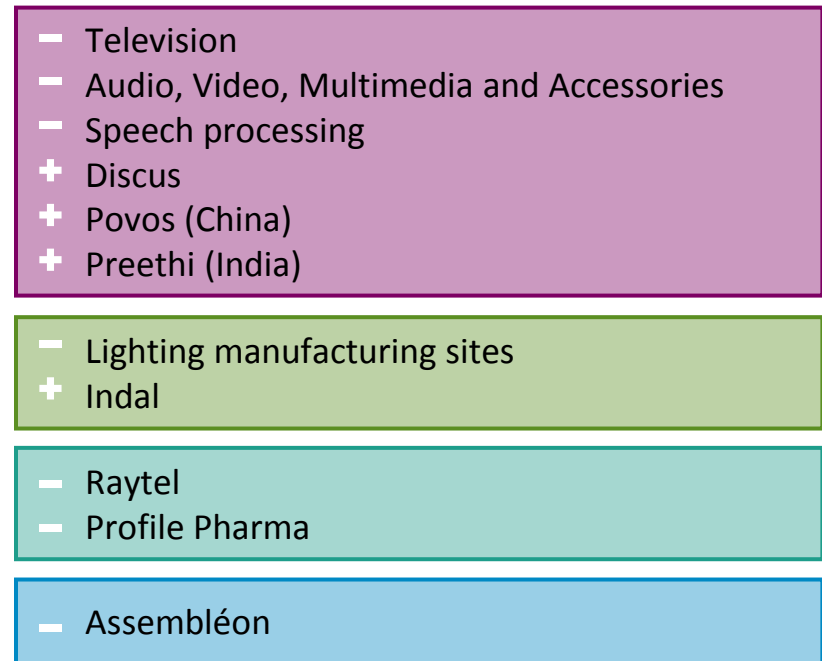
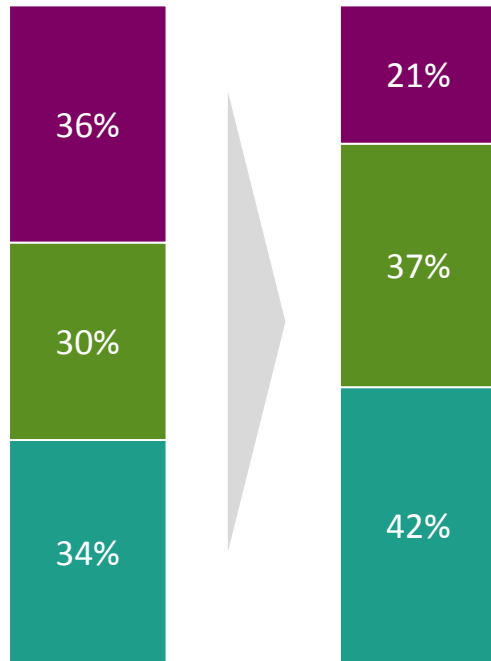
We made significant portfolio changes

Resulting in a better growth platform with higher profit potential

Group Sales Mix

1st Jan 2011

Jun '14
last twelve months



■ Healthcare
 ■ Lighting
 ■ Consumer Lifestyle
 ■ Group
 + Acquisition
 - Divestment

We have strong leadership¹ positions in many markets across the globe

Healthcare



Global
Cardiovascular
X-ray



Global
Patient
Monitoring



Global
Image-Guided
Interventions



Global
Sleep Therapy
Systems



Global
Ultrasound

Consumer Lifestyle



Global
Male Electric
Shaving



Regional
Electric Hair Care



Global
Rechargeable
Toothbrushes



Global
Mother &
Child Care



Regional
Kitchen
Appliances

Lighting



Global
Lamps



Global
LED Lamps



Global
Automotive
Lighting

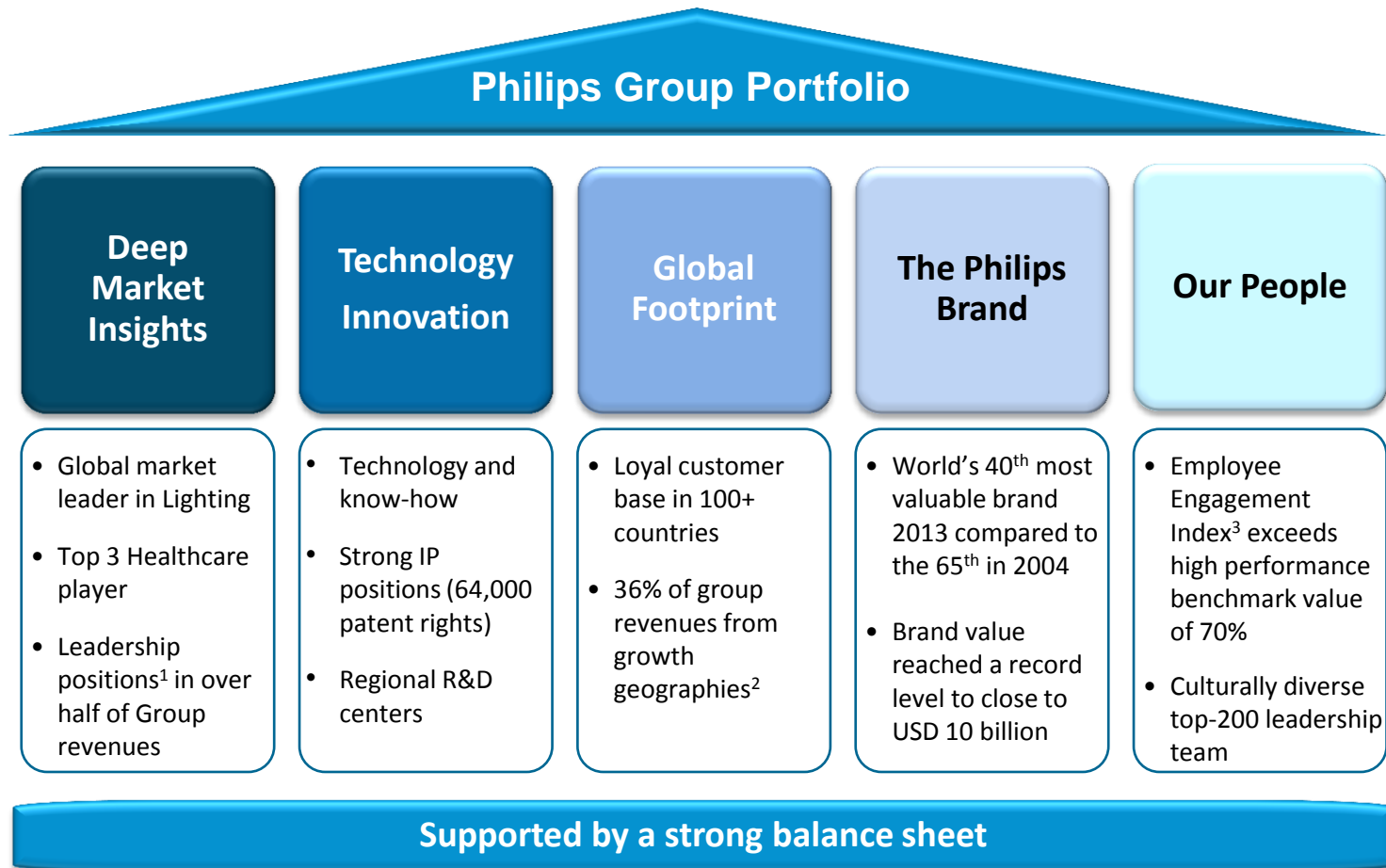


Global
Professional
Luminaires



Global
High-performance
LED

We leverage our unique strengths across our businesses and markets

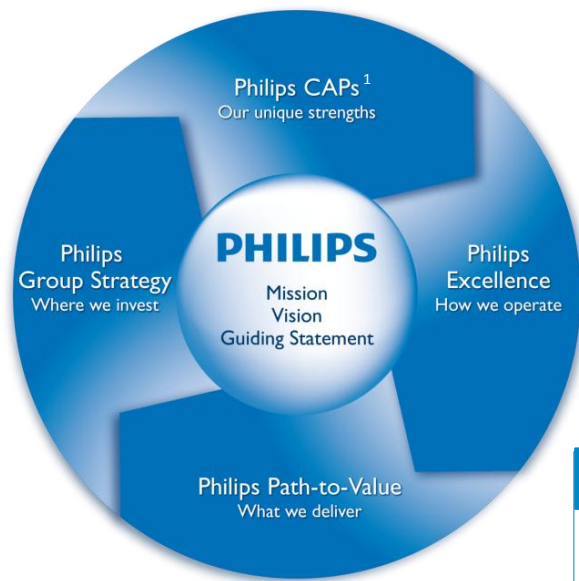


¹ Global #1 position in the market

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 Path-to-Value is clearly mapped out



Initiate new growth engines

- Invest in adjacencies to core
- Seed emerging business areas

Expand global leadership positions

- Invest to strengthen core
- Resource allocation to right businesses & geographies

Transform to address underperformance

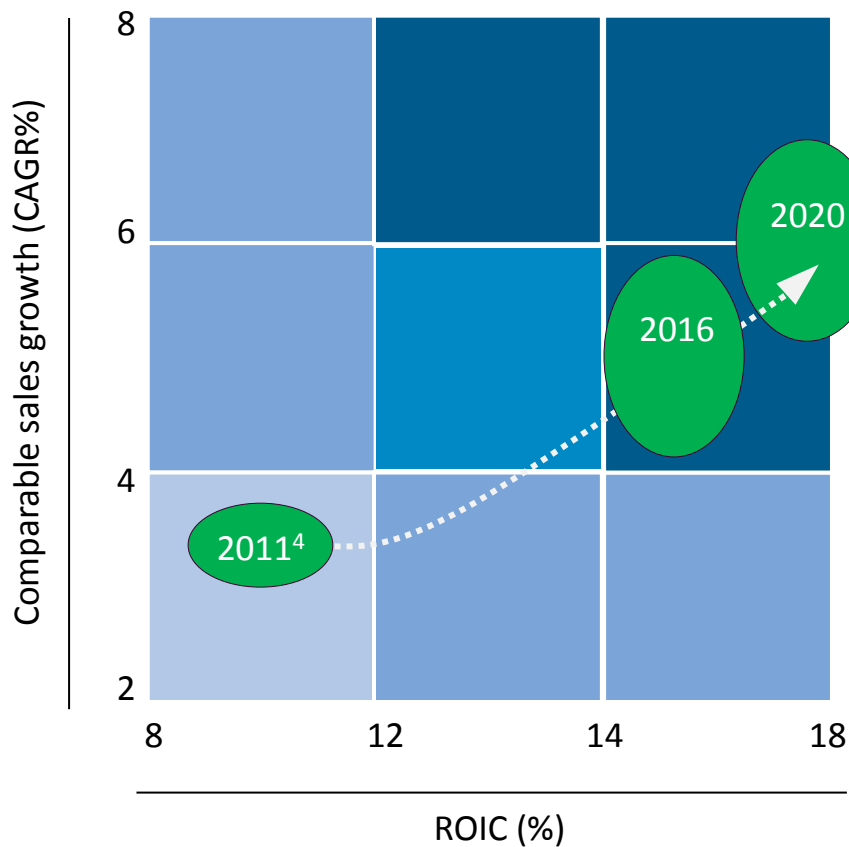
- Turnaround or exit underperforming businesses
- Productivity & margin improvements
- Rebuild culture, processes, systems & capabilities
- Implement the Philips Business System

2011

2016

Next steps on our Path-to-Value

Philips Performance Box



Financial targets 2016

Sales growth CAGR ¹	4 - 6%
Group Reported ² EBITA as % of sales	11 - 12%
- Healthcare businesses	16 - 17%
- Consumer Lifestyle businesses	11 - 13%
- Lighting businesses	9 - 11%
Group ROIC ³	>14%

¹ Assuming real GDP growth of 3-4%

² Including restructuring and acquisition-related charges

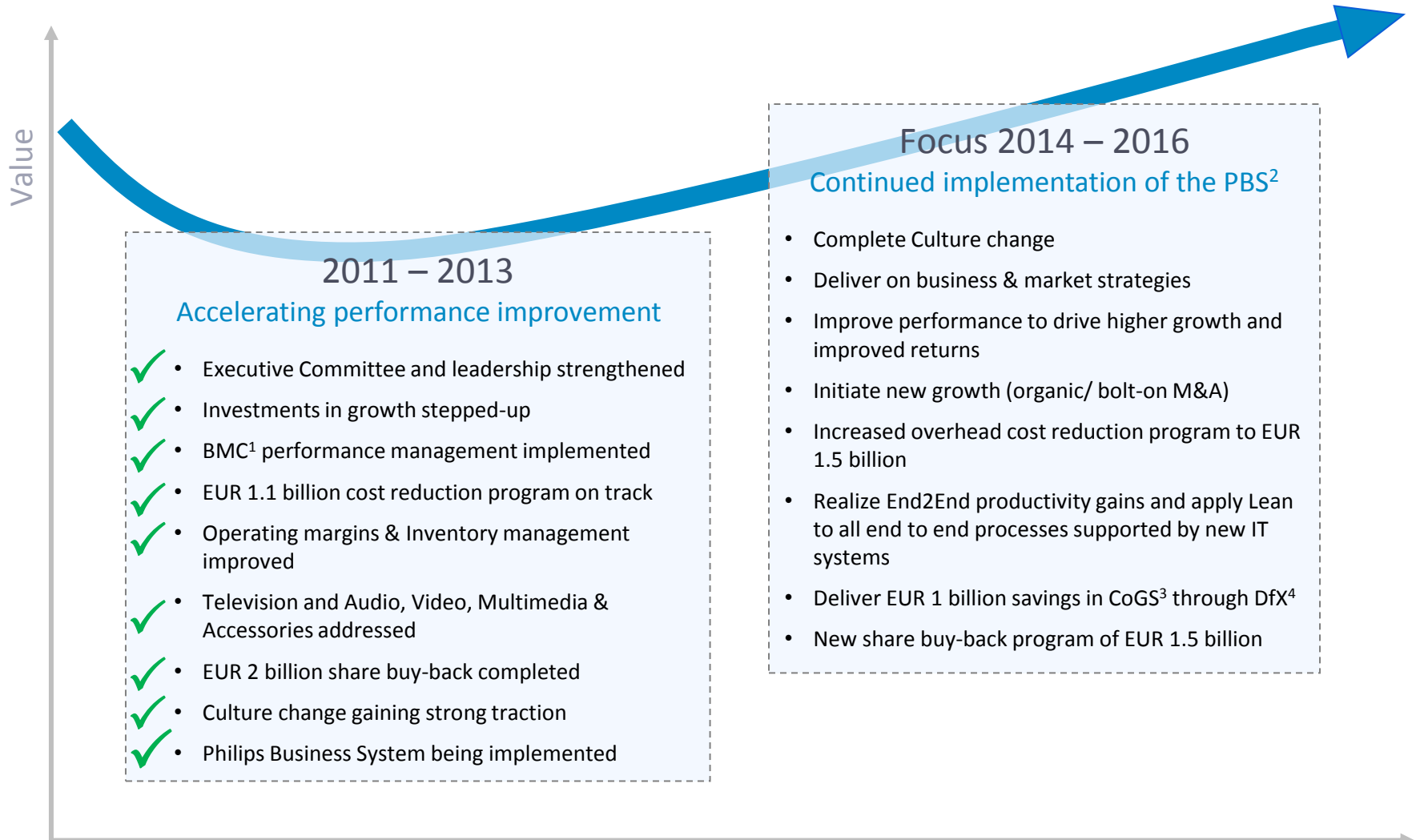
³ Excluding M&A impact

⁴ 2011 is Comparable Sales Growth % instead of CAGR%. 2011 according to portfolio at that time

Accelerate! delivers growth and profitability improvements supporting 2016 targets and beyond

Categories	Measures	Margin Impact 2016 ¹	
Productivity	<ul style="list-style-type: none"> Overhead cost reduction program increased from EUR 1.1 billion to EUR 1.5 billion by 2015 EUR 1 billion through Design for Excellence (DfX) between 2014-2016 contributing to gross margin expansion End2End productivity gains to be achieved by 2016 	<p>>100 bps</p> <p>100-200 bps</p> <p>>100 bps</p>	
	Additional Productivity Improvements		300-400 bps
	Investments in productivity	<ul style="list-style-type: none"> Incremental one-time restructuring costs, investments to upgrade IT systems, and re-engineer end to end processes between 2014-2016 	- 50 bps
Investments in growth	<ul style="list-style-type: none"> Incremental investments in new (organic) growth in adjacencies with returns after 2016 	- 100 bps	
Contingency	<ul style="list-style-type: none"> Contingencies to cater for moderate fluctuations in market growth and price erosion compared to our assumptions 	- 50 bps	
Net Improvement in 2016 Reported EBITA		100-200 bps	

The Accelerate! journey will continue...



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We are a global diversified technology company

We manage a dynamic portfolio of ~40 businesses serving attractive markets of Healthcare, Personal health & well-being and Lighting



€23.3 billion sales in 2013 enabled by the **~113,000 people employed**



Over **50%** of the **portfolio** has **global leadership positions**



€1.7 billion annual investments in **innovation** and **~64,000 patent rights**



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

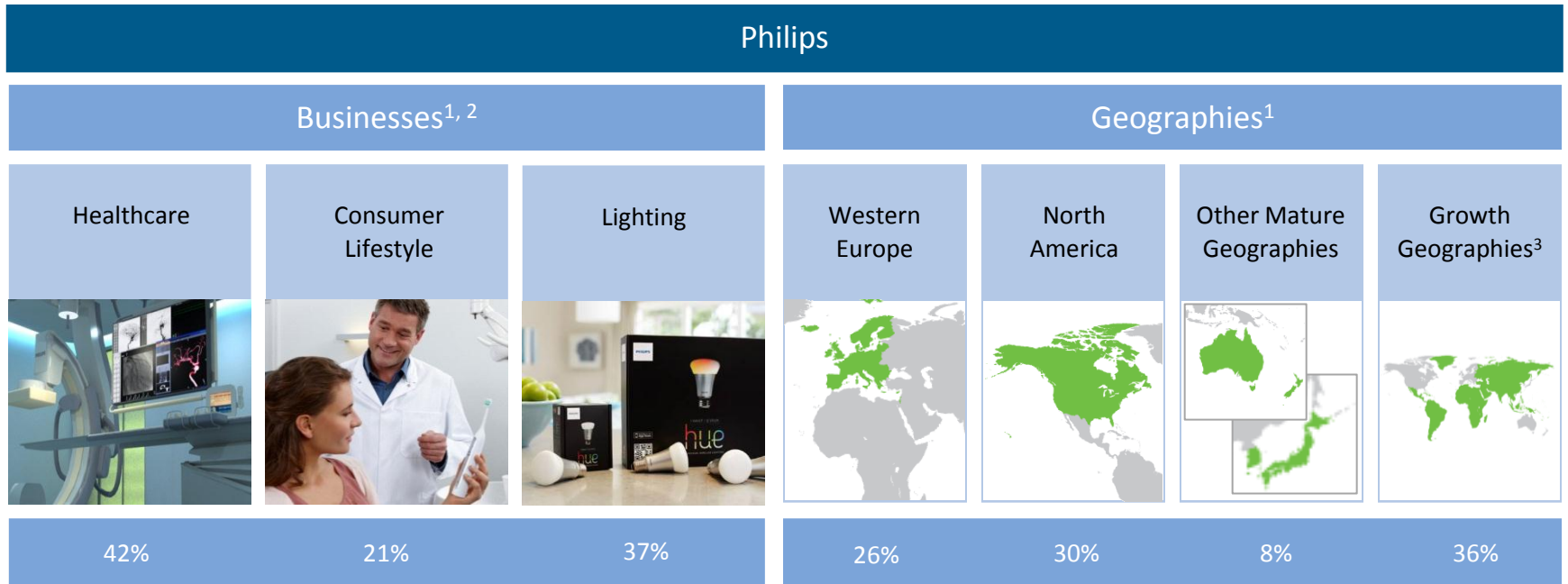


Market **reach in over 100 countries** across the world



More than **1/3** of the revenue from **growth geographies**¹

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



Since 1891

Headquarters in Amsterdam, the Netherlands

€23.3 Billion

Sales in 2013.
Portfolio consists of ~70% B2B businesses

~113,000

People employed worldwide in over 100 countries

\$9.8 Billion

Brand value in 2013

7% of sales invested in

R&D in 2013
64,000 patent rights,
46,000 trademark rights,
93,000 design rights

¹ Based on sales last 12 months June 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

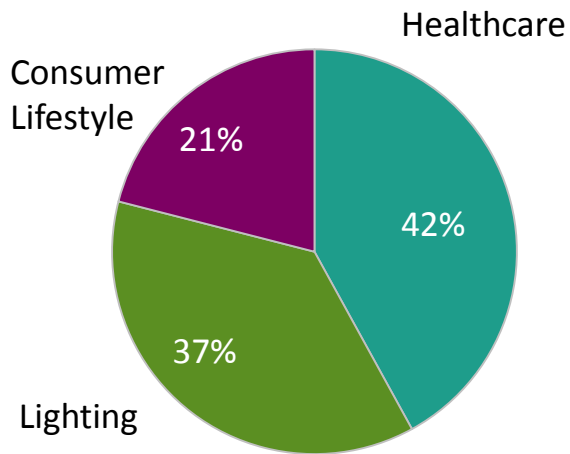
Note - Following the completion of the divestment of the AVM&A business, prior-period financials have been adjusted (for details please refer to note 1 "Significant accounting policies" in the Q2 2014 Quarterly report and Semi-annual report)

Our focused health and well-being portfolio: Healthcare, Consumer Lifestyle and Lighting

Last twelve months

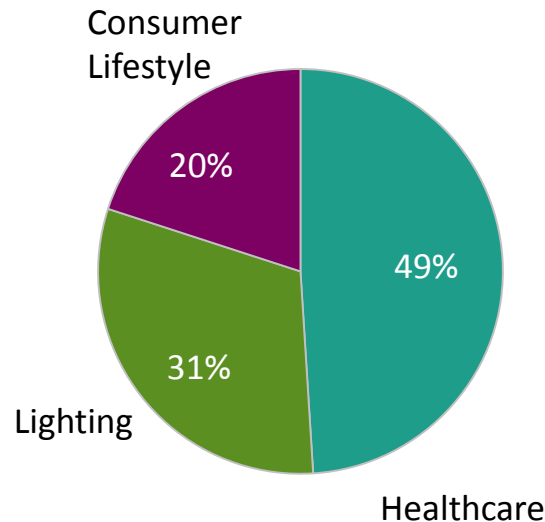
Sales

100% = EUR 22.0B¹



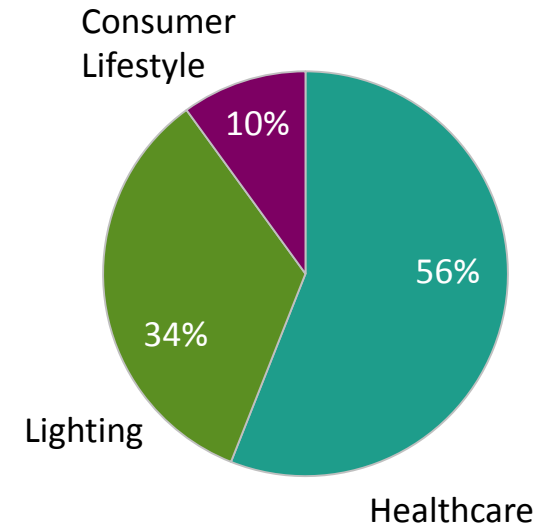
Adjusted EBITA

100% = EUR 2.6B^{1, 2}



Net Operating Capital

100% = EUR 13.3B¹



¹ Excluding Central sector (IG&S)

² EBITA adjustments based on the following gains/ charges: for Healthcare EUR (18)M, Consumer Lifestyle EUR (11)M and Lighting EUR (121)M

Sustainability as a driver for growth

Success of EcoVision

Green Products represented around 51% of sales in 2013, up from 40%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



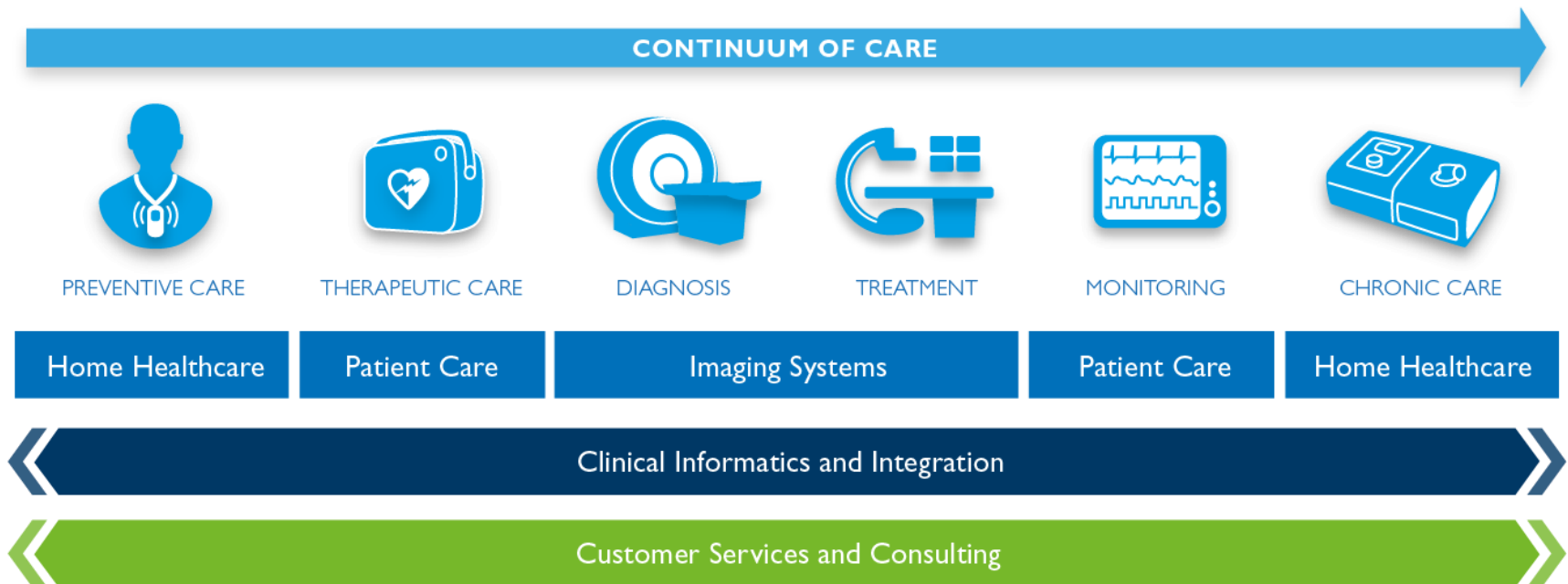
Recent accomplishments

- 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 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
- Philips received the VBDO Responsible Supply Chain Management Award for the 6th consecutive time by the Dutch Ministry of Economic Affairs
- Philips was recognized as a leader in the Carbon Disclosure Project for the third consecutive year on both performance and disclosure
- Philips signed a partnership agreement with the Ellen MacArthur Foundation to leverage the benefits of the Circular Economy

Philips Healthcare Guiding Statement

We are dedicated to creating the future of health care and saving lives.

We develop innovative solutions across the continuum of care in partnership with clinicians and our customers to improve patient outcomes, provide better value and expand access to care.



Healthcare

What we do. Where we are.

Philips Healthcare

Businesses¹

Imaging Systems



36%

Home Healthcare Solutions



15%

Patient Care & Clinical Informatics



22%

Customer Services



27%

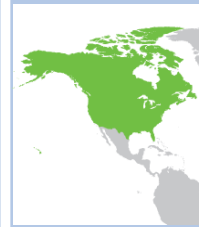
Geographies¹

Western Europe



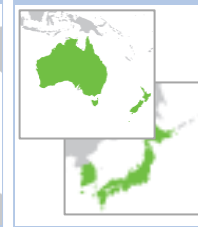
21%

North America



42%

Other Mature Geographies



12%

Growth Geographies²



25%

€9.6

Billion sales
in 2013

37,000+

People employed
worldwide in 100 countries

8%

of sales invested in
R&D in 2013

450+

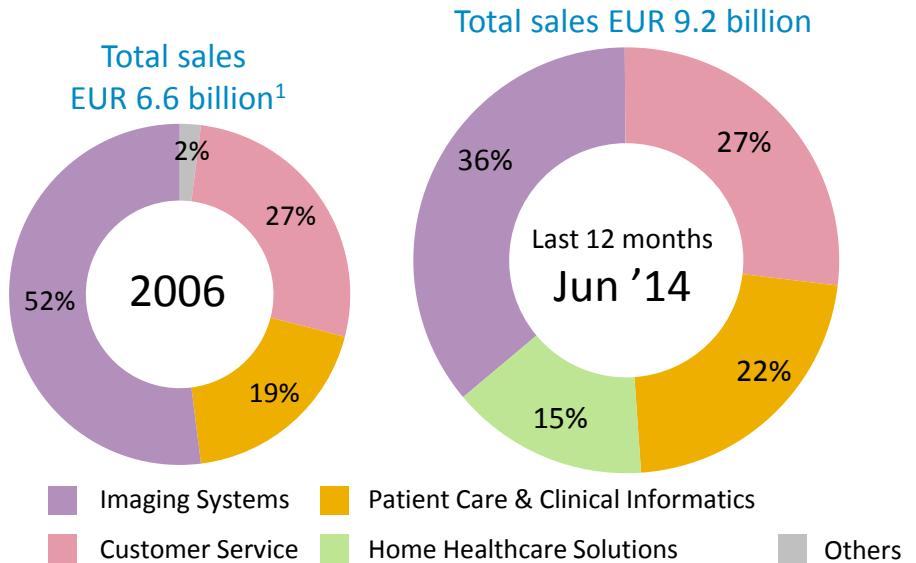
Products & services offered
in over 100 countries

¹ Based on sales last 12 months June 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 continuum of care

- 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 diagnostics to treatment to patient care, from hospital to home, supported by informatics and consultancy



Health care industry dynamics will drive demand

Sharp rise in incidence of chronic disease and non-communicable lifestyle diseases

Globally, 36 million of the 57 million deaths are due to chronic and non-communicable disease

Approximately 80% of non-communicable disease deaths—29 million—occur in growth geographies¹

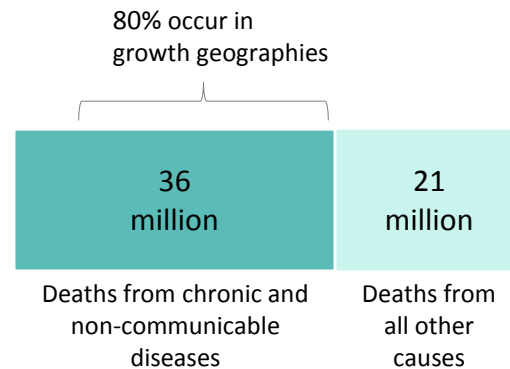
An aging population

World's population of people 60 years+ has doubled since 1980 and is forecast to reach 2 billion by 2050

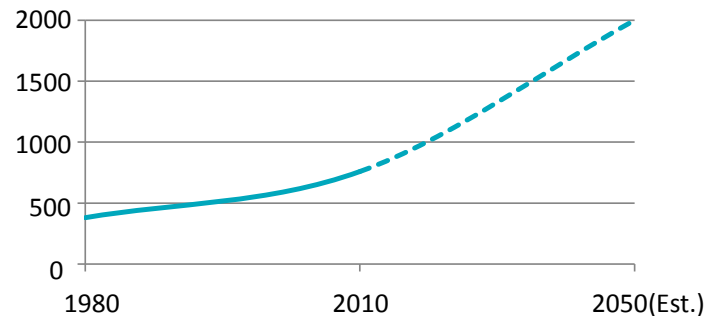
Access to care and clinician shortage

Recognized as one of the main obstacles to delivery of effective health services

Causes of death globally (2008)



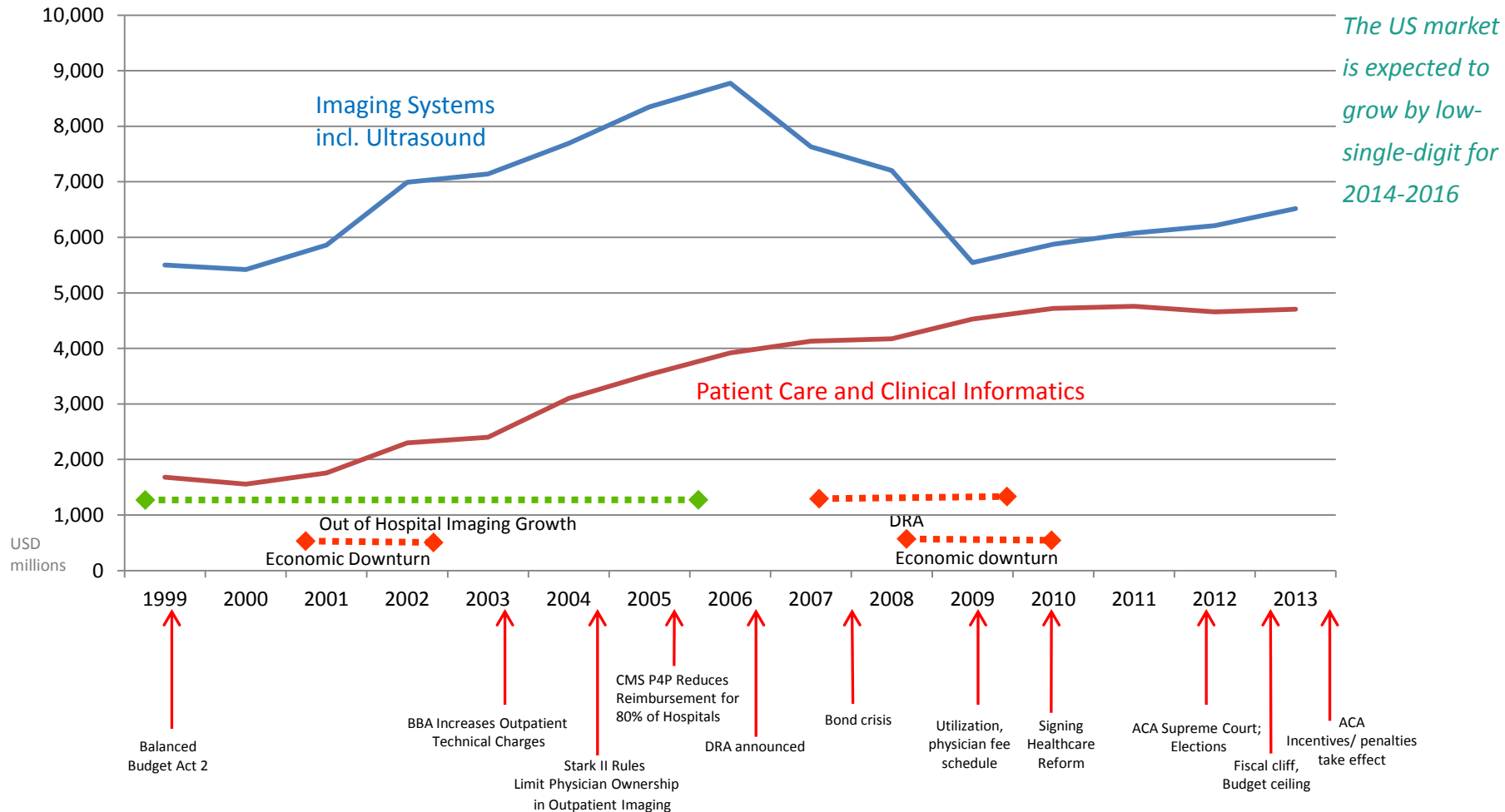
World population age 60+ (Millions)



¹ Growth geographies are all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel
Source: World Health Organization data and statistics http://www.who.int/gho/ncd/mortality_morbidity/en/index.html, <http://www.who.int/features/factfiles/ageing/en/index.html>, and <http://www.who.int/workforcealliance/media/qa/01/en/>

Health care historical market development

North America Market Size / Growth and Impacts



Health care market developments in the US

Short Term

	Imaging Systems	Patient Care & Clinical Informatics	Home Healthcare Solutions
• Economy	neutral	neutral	neutral
• Medical Device Excise Tax	unfavorable	unfavorable	N.A.
• CB2 in HHS ¹	N.A.	N.A.	unfavorable
• Capital spending hospitals	neutral	neutral	N.A.
• Sequestration	neutral	neutral	neutral

Medical Device Excise Tax	Applies to ~55% of our US sales; impact largely mitigated through cost and value chain measures
CB2 in HHS ¹	Competitive Bidding impacts ~ 7% of our global HHS business, ~1% of the total global Healthcare revenue
Capital spending	Expected to be flat overall; up in IT
Sequestration	Included a 2% reduction in Medicare payments that remains in place with the budget agreement. Minor overall impact on growth

Health care market developments in the US

Mid to Long- Term

	Imaging Systems	Patient Care & Clinical Informatics	Home Healthcare Solutions
• Health care demographics	positive	positive	positive
• Aging of equipment base	positive	positive	positive
• Affordable Care Act (ACA)	unfavorable	neutral	neutral
• Meaningful use	neutral	positive	N.A.
• Improved care at lower cost	neutral	positive	positive

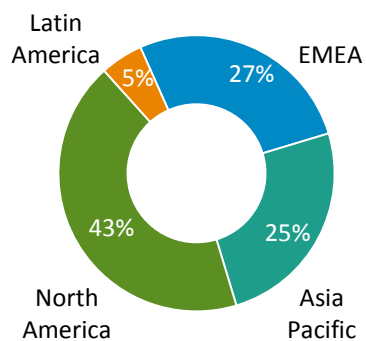
ACA Implementation (Affordable Care Act)	<ul style="list-style-type: none"> • 25-30 million additional patients into the health care system • Payments linked to quality improvements and lower integral patient cost vs. 'Fee for Service' model • Drive for more cost efficient care settings: "Hospital-to-Home" • Reimbursement and other cuts will have an overall negative impact on Imaging Systems, relatively neutral impact on other businesses
Meaningful use	Favorable to PCCI business
Improved quality of care at lower cost	Reimbursement changes will increase need for solutions and consulting services; positive impact for PCCI and HHS businesses; increased need for value offerings in Imaging Systems

Healthcare: Q2 2014 Sector analysis

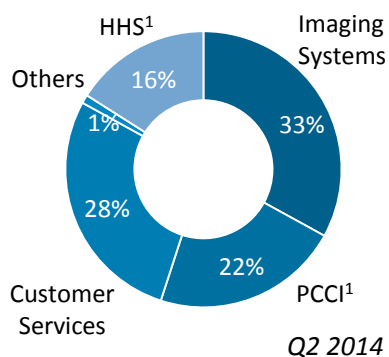
Key figures (in EUR million)

	2Q13	1Q14	2Q14
Sales	2,362	1,966	2,137
<i>% sales growth comp.</i>	0	(2)	(4)
EBITA	420	152	225
<i>EBITA as % of sales</i>	17.8	7.7	10.5
EBIT	379	109	186
<i>EBIT as % of sales</i>	16.0	5.5	8.7
NOC	7,684	7,443	7,457
Employees (FTEs)	37,270	36,506	37,157

Sales per region



Sales per business



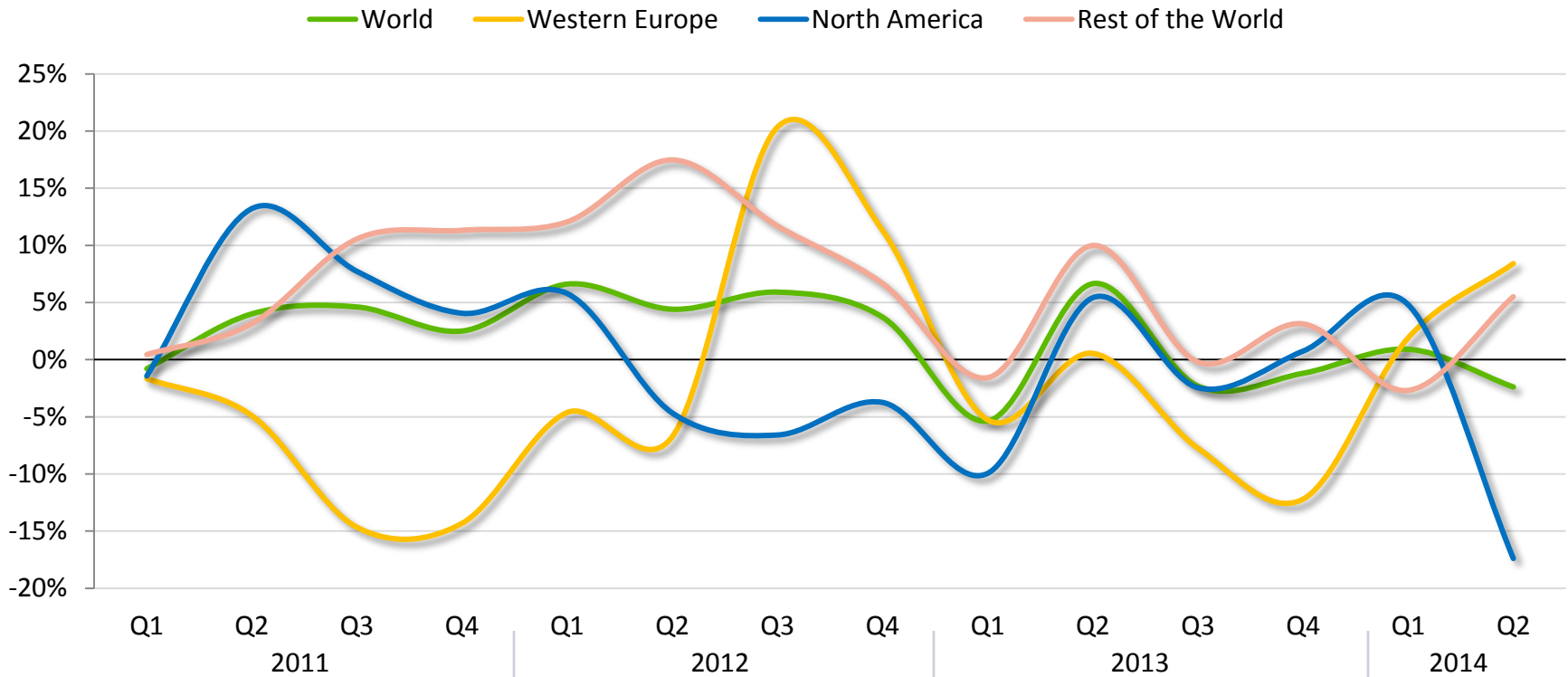
Financial performance

- Currency-comparable equipment orders showed a low-single-digit decline year-on-year. Imaging Systems posted low-single-digit growth, while PCCI¹ recorded a double-digit decline. Equipment order intake in growth geographies showed a high-single-digit increase, with strong growth in Latin America and Russia & Central Asia, while China posted mid-single-digit growth. Western Europe recorded high-single-digit growth and other mature geographies showed low-single-digit growth, while North America posted a double-digit decline.
- Healthcare comparable sales showed a 4% decrease year-on-year. HHS¹ posted mid-single-digit growth, Customer Services achieved low-single-digit growth, while PCCI¹ showed a mid-single-digit decline. Imaging Systems recorded a double-digit decline. Comparable sales in Western Europe were flat and other mature geographies showed low-single-digit growth, while NA recorded a high-single-digit decline. Growth geographies recorded a low-single-digit decline.
- EBITA amounted to EUR 225 million, or 10.5% of sales, compared to EUR 420 million, or 17.8% of sales, in Q2 2013. Q2 2013 included a EUR 61 million past-service pension cost gain in the US and a EUR 21 million gain on the sale of a business. Excluding restructuring and acquisition-related charges and other gains, EBITA amounted to EUR 224 million, or 10.5% of sales, compared to EUR 338 million, or 14.3% of sales, in Q2 2013. The year-on-year decline was mainly due to negative currency impact and the voluntary production suspension at the Cleveland facility.
- Net operating capital, excluding a negative currency translation effect of EUR 330 million, increased by EUR 103 million. The increase was largely driven by higher working capital, which was partly offset by lower fixed assets. Inventories as a percentage of sales increased by 0.9 percentage points year-on-year. The increase was mainly due to the voluntary production suspension at the Cleveland facility.
- Compared to Q2 2013, the number of employees decreased by 113. This decrease was due to overhead reduction, industrial footprint rationalization and divestments, offset by investments in growth geographies. Compared to Q1 2014, the number of employees increased by 651, mainly due to investments in growth geographies.

¹ HHS = Home Healthcare Solutions; PCCI = Patient Care & Clinical Informatics

Healthcare: Equipment order intake

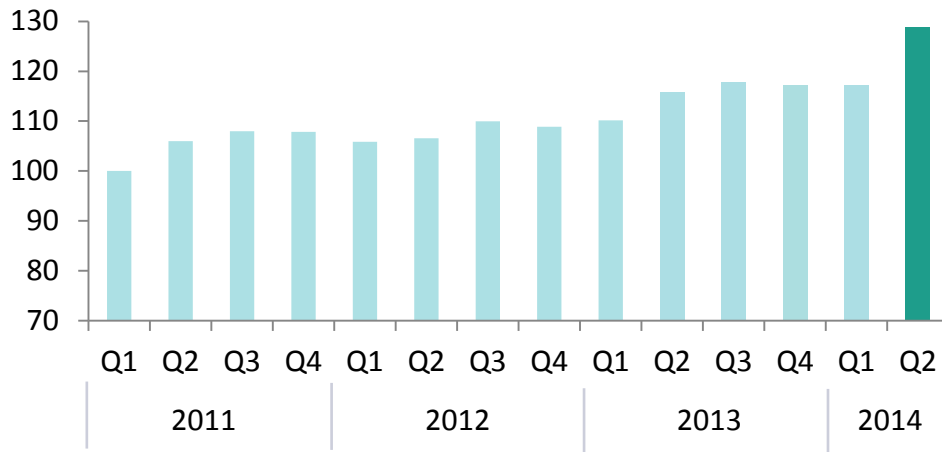
Quarterly currency adjusted equipment order intake growth



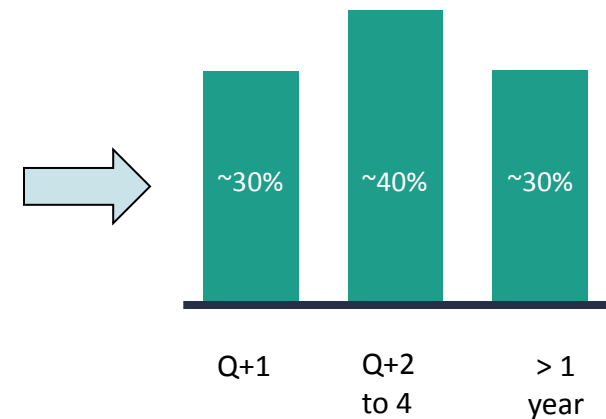
Currency adjusted order intake only relates to the Imaging Systems and Patient Care & Clinical Informatics businesses

Healthcare: Equipment order book

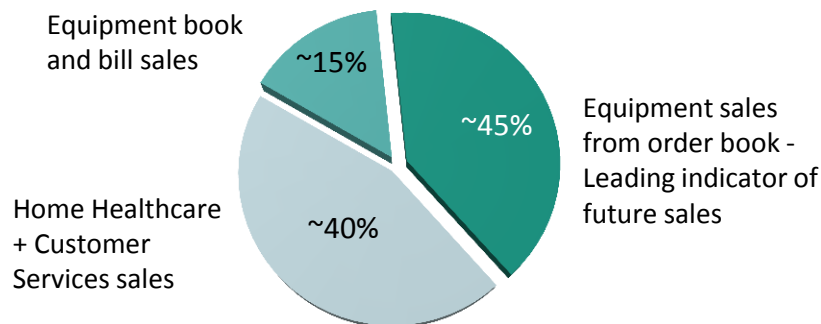
Indexed Equipment Order Book Development



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

Philips Consumer Lifestyle Guiding Statement

We deliver innovative Personal Health and Well-being appliances and services.

We leverage deep consumer insights and smart technology.

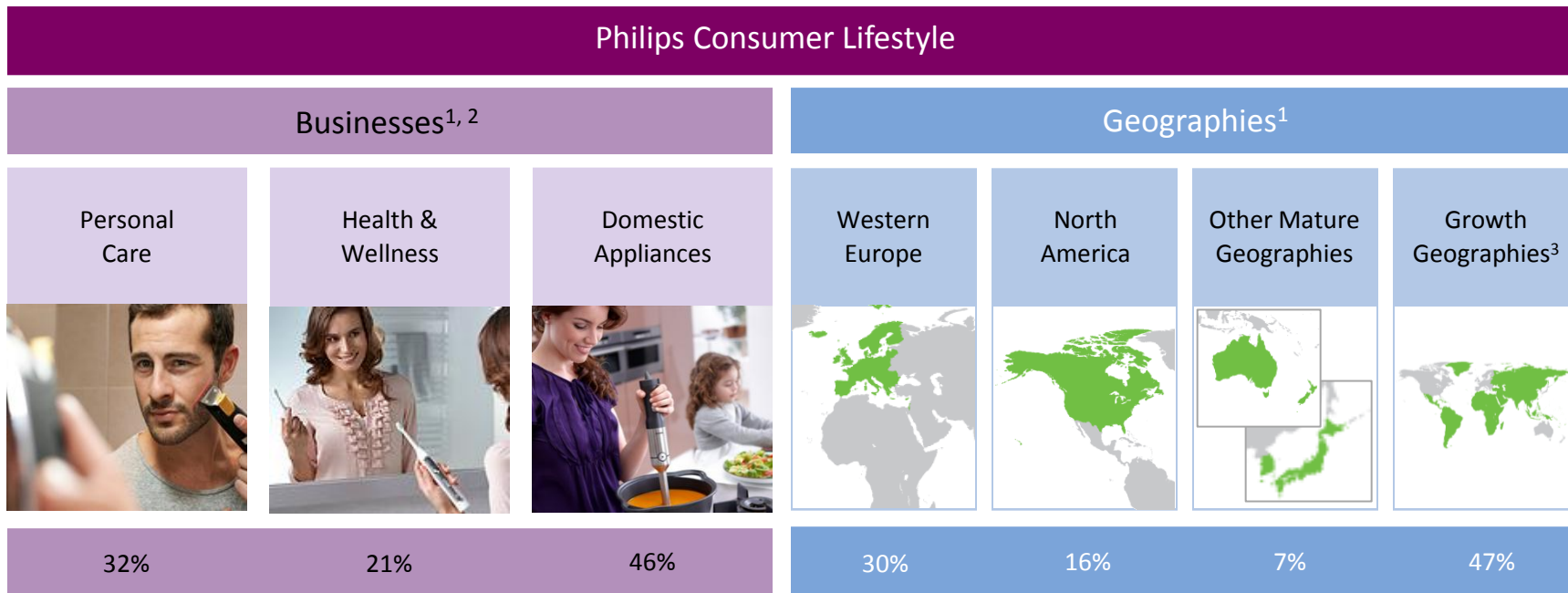
We are committed to deliver the best customer experience and be the preferred brand where we compete.

In combination with our global scale, local market relevance and superior execution, this enables us to create long term value.



Consumer Lifestyle

What we do. Where we are.



€4.6
Billion sales
in 2013

16,000+
People employed
worldwide

6%
of sales invested in
R&D in 2013

49%
of green product
sales in 2013

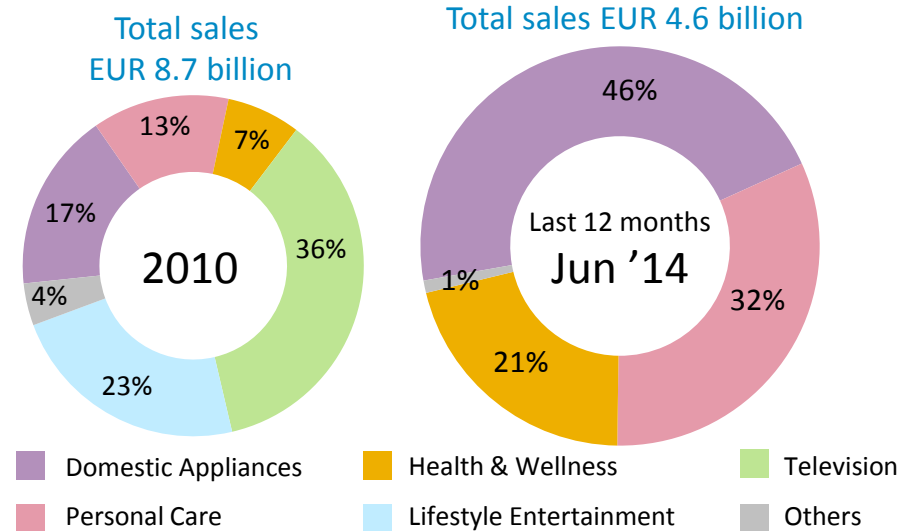
¹ Based on sales last 12 months June 2014

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



Our growth thrusts are enabled by our Capabilities, Assets and Positions

Strengthening the core

Locally relevant innovations and global platforms



Addressing geographical white spots



New business adjacencies

In Personal Health and Well-being



Philips Group Portfolio

Deep Market Insights





Technology Innovation

Global Footprint

The Philips Brand

Our People

We are further building our leadership positions in these categories

Personal Care		<i>Male Grooming</i>	<ul style="list-style-type: none">• 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
Health & Wellness		<i>Beauty</i>	<ul style="list-style-type: none">• 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 20 markets
Health & Wellness		<i>Oral Healthcare</i>	<ul style="list-style-type: none">• Enhancing geographic growth with strong market share increase outside the US (e.g. DACH², Japan, UK, China, Russia)• Further strengthening leadership position in the US• Successful launch of DiamondClean Black
Health & Wellness		<i>Mother & Child Care</i>	<ul style="list-style-type: none">• Natural range launched globally, with significant profitability improvement• 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)

¹ Based on top 10 BMC's (Business Market Combination) sell-in volumes corrected for average shaver lifetime

² Germany, Austria, Switzerland

Source: GfK, Nielsen, YTD and MAT December 2013

We are further building our leadership positions in these categories

Domestic Appliances



Kitchen Appliances

- Double-digit growth in 2013 driven by strong innovation
- 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

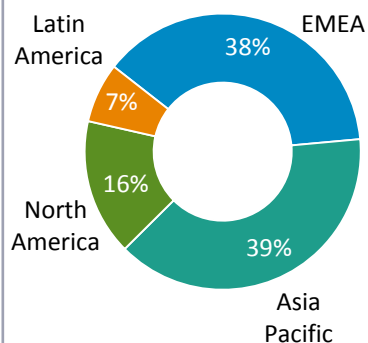
- Successful introduction of the new Senseo UP in partnership with D.E. Master Blenders 1753
- Successful debut in the portioned espresso market through the alliance with Tchibo in Germany, Central & Eastern Europe and Russia

Consumer Lifestyle: Q2 2014 Sector analysis

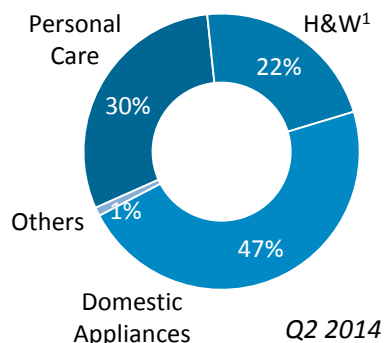
Key figures (in EUR million)

	2Q13	1Q14	2Q14
Sales	1,083	1,016	1,073
<i>% sales growth comp.</i>	<i>13</i>	<i>7</i>	<i>7</i>
EBITA	82	108	100
<i>EBITA as % of sales</i>	<i>7.6</i>	<i>10.6</i>	<i>9.3</i>
EBIT	69	96	86
<i>EBIT as % of sales</i>	<i>6.4</i>	<i>9.4</i>	<i>8.0</i>
NOC	1,182	1,321	1,271
Employees (FTEs)	16,544	17,103	16,886

Sales per region



Sales per business



Financial performance

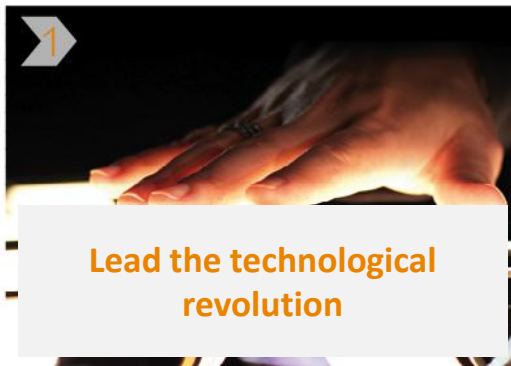
- Consumer Lifestyle comparable sales increased by 7%. Double-digit comparable sales growth was seen at Health & Wellness, and Domestic Appliances recorded high-single-digit growth. Sales were flat at Personal Care. Comparable sales showed double-digit growth in growth geographies. Western Europe and North America showed low-single-digit growth.
- EBITA amounted to EUR 100 million, or 9.3% of sales, compared to EUR 82 million, or 7.6% of sales, in Q2 2013. Excluding restructuring and acquisition-related charges and a EUR 1 million past-service pension cost gain in the US in Q2 2013, EBITA was EUR 101 million, or 9.4% of sales, compared to EUR 84 million, or 7.8% of sales, in Q2 2013. The improvement was largely attributable to higher gross margins across all businesses.
- EBITA included EUR 3 million of net costs formerly reported in the Audio, Video, Multimedia and Accessories business (Q2 2013: EUR 7 million).
- Net operating capital, excluding a negative currency translation effect of EUR 10 million, increased by EUR 99 million year-on-year. The increase was largely driven by higher working capital, mainly accounts receivable, and a reduction in provisions. Inventories as a percentage of sales decreased by 0.5 percentage points year-on-year.
- Compared to Q2 2013, the number of employees increased by 342 year-on-year, mainly driven by an increase at Domestic Appliances in Europe. Compared to Q1 2014, the number of employees decreased by 217, with the majority in North America.

Philips Lighting Guiding Statement

We are improving people's lives with light by delivering unique value and energy efficient solutions to consumers and professional customers, every day, everywhere.

We are using deep customer insights and technological innovations, coupled with our trusted brand and global leadership positions, to lead the digital lighting revolution.

Our **4** pillar strategy: a clear Path-to-Value



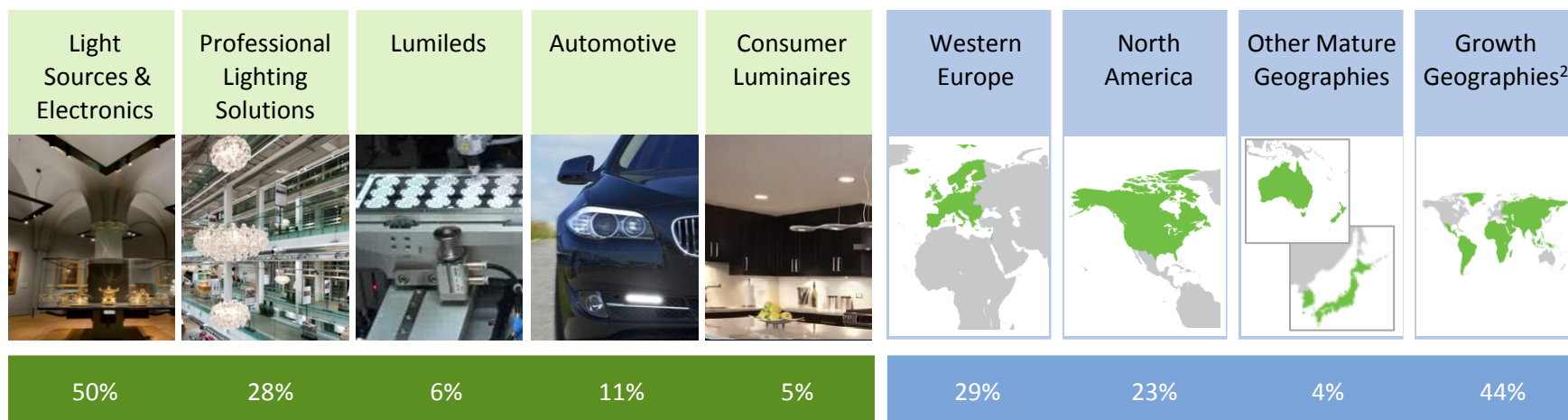
Lighting

What we do. Where we are.

Philips Lighting

Businesses¹

Geographies¹



€8.4

Billion sales
in 2013

45,000+

People employed
worldwide in 60 countries

5%

of sales invested in
R&D in 2013

80,000

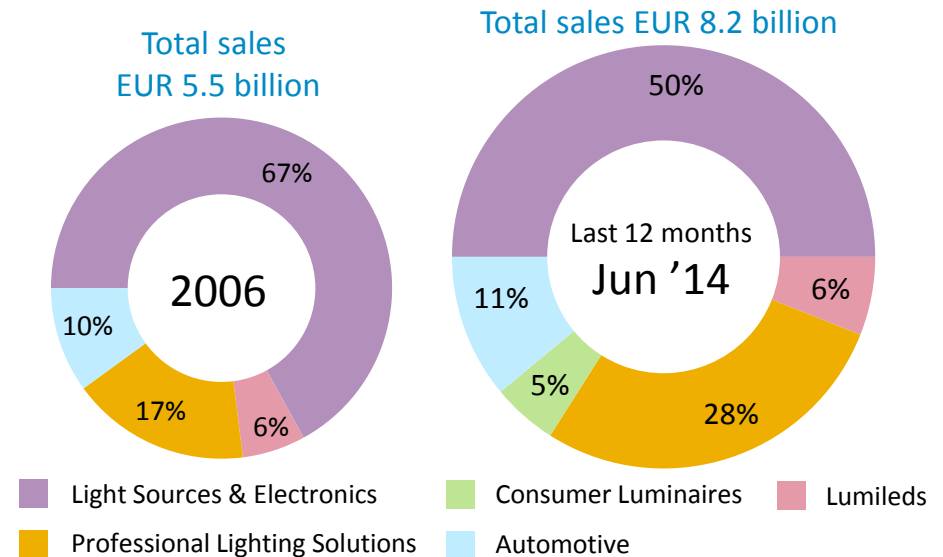
Products & services
offered in 2013

¹ Based on sales last 12 months June 2014

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

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

Philips Lighting

Customer Segments¹



- ~ 75%¹ of Lighting sales is B2B
- ~ 36%² of Lighting sales is LED lighting

¹ Indicative split based on last 12 months June 2014

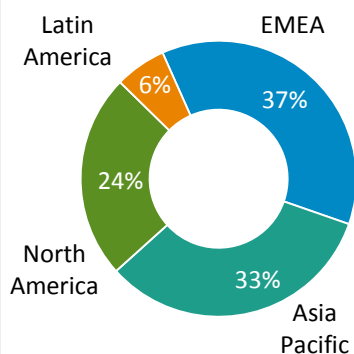
² Based on Q2 2014

Lighting: Q2 2014 Sector analysis

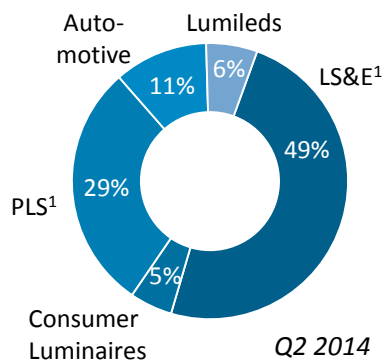
Key figures (in EUR million)

	2Q13	1Q14	2Q14
Sales	2,048	1,892	1,943
<i>% sales growth comp.</i>	<i>2</i>	<i>0</i>	<i>1</i>
EBITA	153	138	138
<i>EBITA as % of sales</i>	<i>7.5</i>	<i>7.3</i>	<i>7.1</i>
EBIT	115	108	111
<i>EBIT as % of sales</i>	<i>5.6</i>	<i>5.7</i>	<i>5.7</i>
NOC	4,732	4,484	4,558
Employees (FTEs)	49,148	45,659	45,447

Sales per region



Sales per business



Financial performance

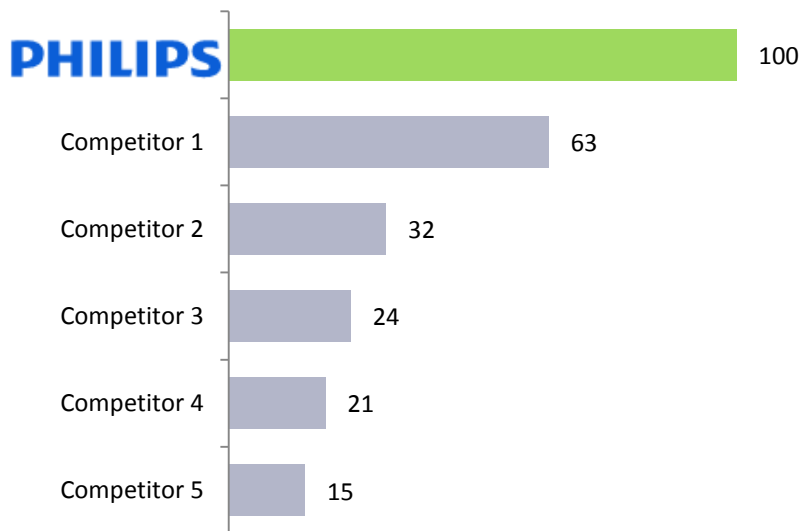
- Lighting comparable sales showed a 1% increase year-on-year. Lumileds and Automotive achieved double-digit growth, Professional Lighting Solutions recorded low-single-digit growth, while Light Sources & Electronics and Consumer Luminaires posted a mid-single-digit decline.
- Excluding OEM Lumileds and Automotive, comparable sales showed a low-single-digit decline, with a mid-single-digit decline in growth geographies and a low-single-digit decline in mature geographies.
- LED-based sales grew 43% compared to Q2 2013, and now represent 36% of total Lighting sales, compared to 25% in Q2 2013.
- EBITA amounted to EUR 138 million, or 7.1% of sales, compared to EUR 153 million, or 7.5% of sales, in Q2 2013. EBITA, excluding restructuring and acquisition-related charges and a EUR 10 million past-service pension cost gain in the US in 2013, was EUR 168 million, or 8.6% of sales, compared to EUR 166 million, or 8.1% of sales, in Q2 2013. The year-on-year EBITA increase was driven by higher gross margins.
- Net operating capital, excluding a negative currency translation effect of EUR 187 million, was flat year-on-year. Inventories as a percentage of sales increased by 0.4 percentage points year-on-year.
- Compared to Q2 2013, the number of employees decreased by 3,701, mainly due to rationalization of the industrial footprint. The number of employees decreased by 212 compared to Q1 2014.

¹ LS&E = Light Sources & Electronics; PLS = Professional Lighting Solutions

We are the global leader in lighting

We are the largest lighting company in the world ...

Indexed sales of Philips Lighting and Top 5 competitors¹

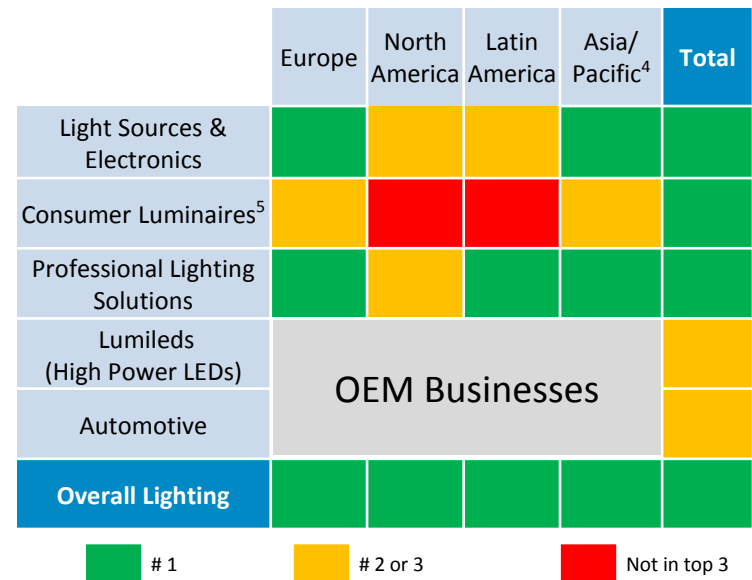


We are #1 in sold LED lighting globally

We are #1 in connected lighting globally²

... with market leadership positions across all categories and regions

Market share per Business Group by Region 2013³



Our market share in LED is higher than in conventional

¹ Source: sales for public-listed competitors based on latest 4 fiscal quarters, internal estimates

² Source: Markets and Markets, Global smart lighting market (2013-18)

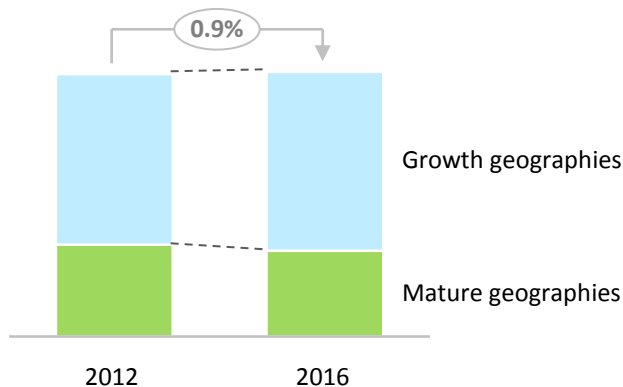
³ Source: customer panels, industry associations and internal analysis ⁴ Excluding Japan

⁵ #1 position globally as nearest competitors play only on specific regions; Excluding private labels

Continue to be in the best position to capture value in the conventional market

Conventional market will remain sizeable for many years...

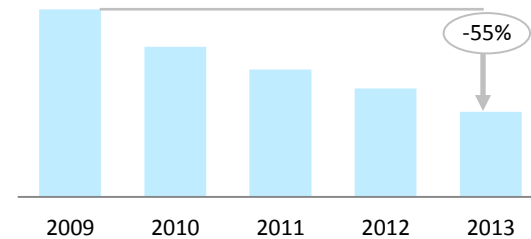
Global Conventional Light sources installed base¹
In units x Bn



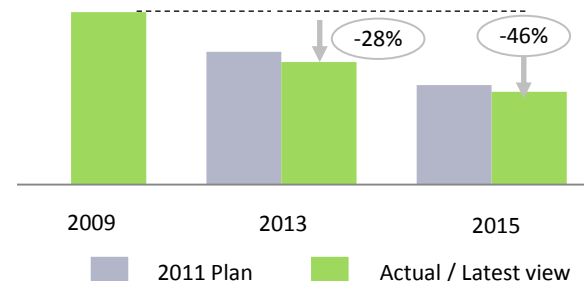
- Conventional market has a significant installed base and growing demand from growth geographies³
- Conventional market will represent around 50% of total lighting market revenue by 2016

Rationalizing our product portfolio by reducing number of SKUs in our conventional business

of conventional SKUs² in portfolio
Indexed



Pro-actively rationalizing our industrial footprint faster than sales reduction



¹ Source: Philips Lighting global market study 2013

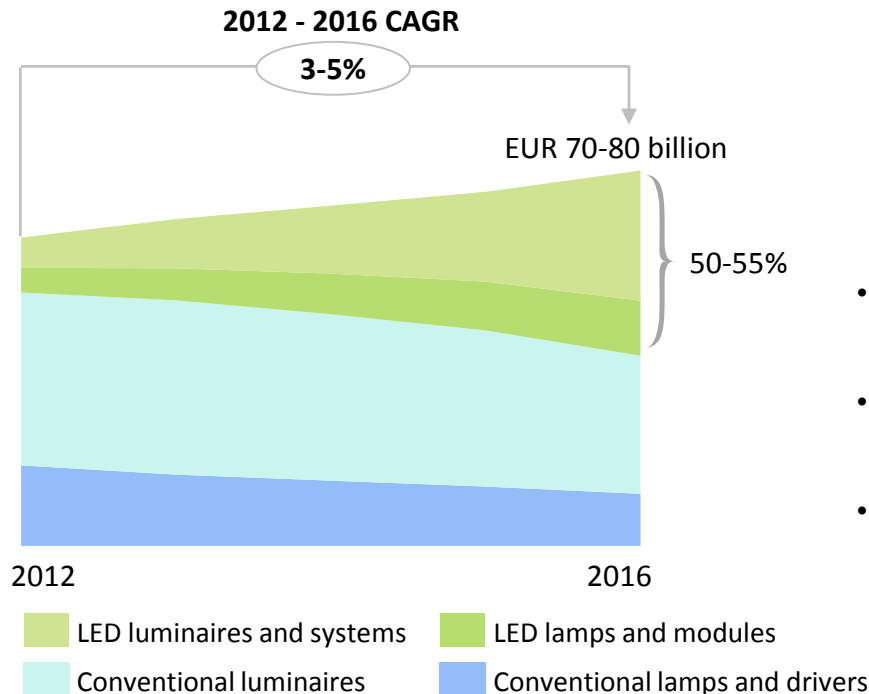
² SKUs = Stock Keeping Units

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

The lighting market is fundamentally attractive with expected growth of 3-5% CAGR until 2016

The lighting market is growing steadily - attractive profit pool will drive value creation

Global lighting product-related market forecast¹:



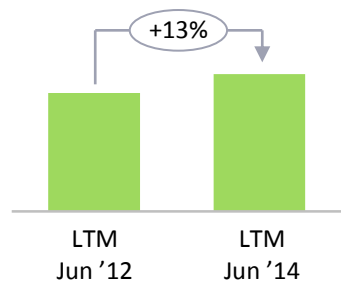
We are pushing the boundaries of lighting by driving innovative systems and services

- Overall global product-related lighting market offers sustainable long-term growth, driven by 3 majors trends:
 - The world needs more light
 - The world needs more energy-efficient light
 - The world needs more digital light
- Conventional lighting is contracting by high-single-digit CAGR (2012-2016)
- LED lighting is progressing fast at a +32% CAGR (2012-2016)
- Added value of systems and services delivering significantly higher margin profile and additional opportunity to current product-related market

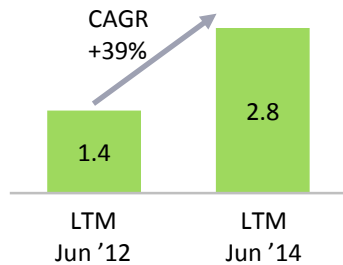
We are the leading LED lighting company

Increased R&D investment in LED leading to improved results

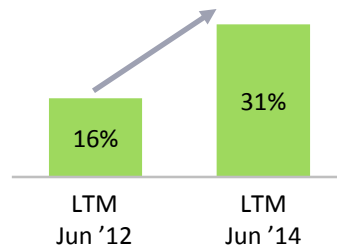
R&D spend LED Indexed



LED sales increase (in EUR billion)



LED as a % of Lighting sales



Increased focus on LED products & portfolio developments

- We lead the technological revolution by investing significantly in LED R&D
- Total LED sales ~ EUR 2.8 billion last 12 months June 2014
- LED revenue growth and cost productivity gains will improve profitability

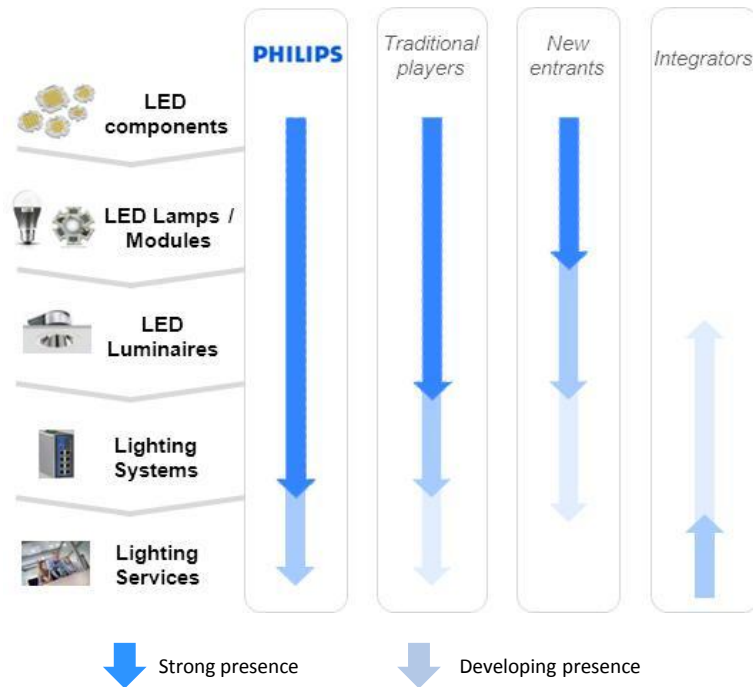
Leveraging Intellectual Property

- Scope: LED Controls and Basic Optics
- Philips Lighting Patent Portfolio:
 - 86% LED and digital related
 - 14% Conventional related
- 1400 Rights licensed
- Licensing Program has already 430 licensees

... and we are shaping the future of digital lighting

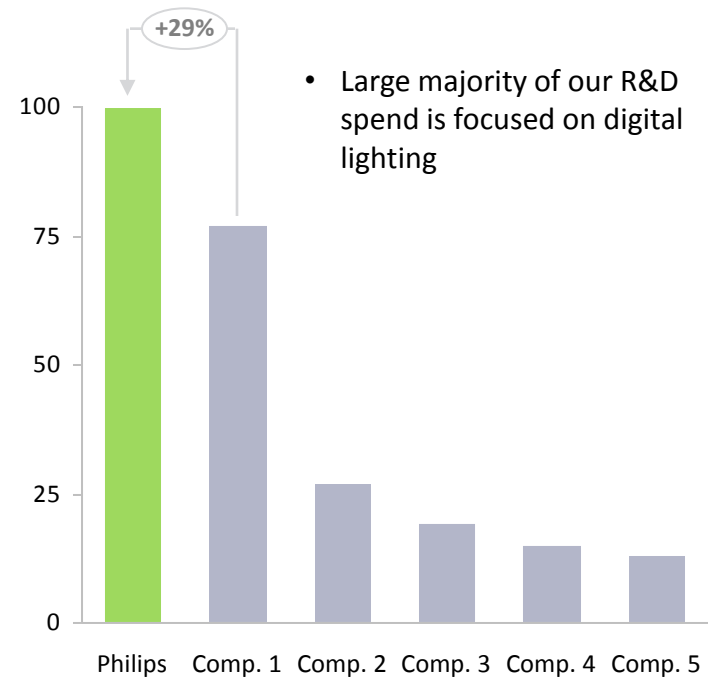
We have a unique competitive position in LED lighting

Market presence in the digital value chain¹:



We spend 29% 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

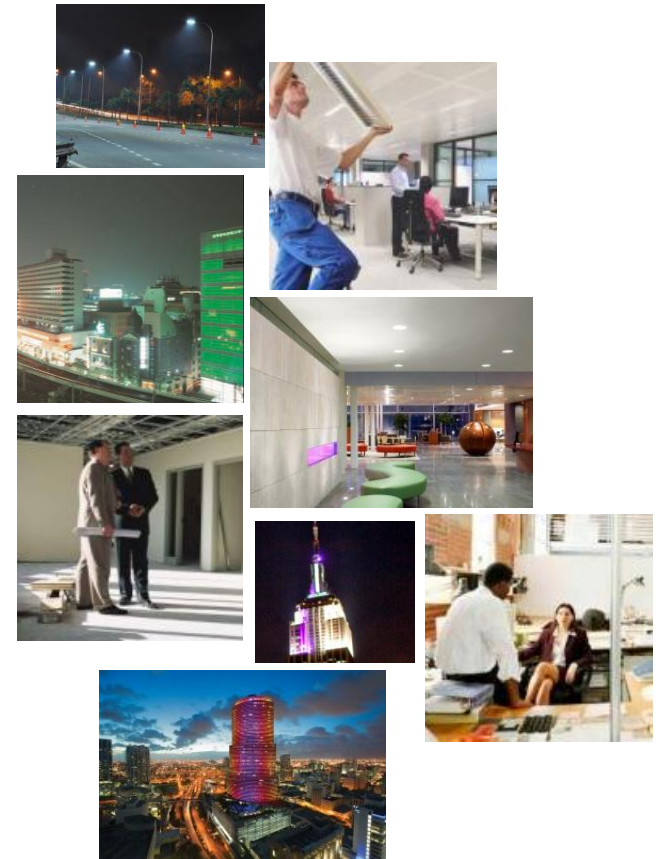
² Source: Latest competitors' annual reports, Digitimes Research March 2013, internal estimates, excluding General Electric and Japanese lighting companies for lack of data

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%	10%	20%
Commercial	27%	25%	52%
Other ¹	19%	9%	28%
Total	56%	44%	100%

New Build	WE&NA	ROW	Total
Residential	4%	6%	10%
Commercial	13%	14%	27%
Total	17%	20%	37%



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 business, and other incidentals related to the legal liabilities of the Group

Innovation, Group & Services: Q2 2014 Sector analysis

Key figures (in EUR million)

	2Q13	1Q14	2Q14
Sales	139	139	140
<i>% sales growth comp.</i>	(14)	(7)	3
EBITA:			
Group Innovation	(34)	(47)	(47)
IP Royalties	56	69	62
Group & Regional Costs	(33)	(35)	(37)
Accelerate! investments	(40)	(29)	(32)
Pensions	(1)	(2)	(3)
Services Units & Other	(2)	(39)	9
<hr/>			
EBITA	(54)	(83)	(48)
EBIT	(56)	(86)	(51)
NOC	(3,414)	(2,867)	(2,786)
Employees (FTEs)	12,162	12,805	13,344

Financial performance

- Sales were in line with Q2 2013. Higher IP royalties were offset by lower Group Innovation income.
- EBITA amounted to a net cost of EUR 48 million, including EUR 4 million of net restructuring charges. The EBITA net cost of EUR 54 million in Q2 2013 included a EUR 6 million past-service pension cost gain in the US. Net restructuring charges in Q2 2013 were close to zero. Excluding restructuring charges and past-service pension cost gains, EBITA was a net cost of EUR 44 million, compared to a net cost of EUR 60 million in Q2 2013. The improvement was mainly due to lower costs in the IT Service Units and higher IP royalties, partly offset by higher investments by Group Innovation in emerging business areas.
- EBITA of Service Units and Other included EUR 8 million of net costs formerly reported in the Audio, Video, Multimedia and Accessories business (Q2 2013: EUR 15 million).
- Net operating capital, excluding a positive currency translation effect of EUR 83 million, increased by EUR 545 million year-on-year, mainly due to a decrease in pension liabilities and an increase in the value of currency hedges.
- Compared to Q2 2013, the number of employees increased by 1,182, primarily driven by a shift of employees from the sectors to the Enterprise Information Management Service Unit, an increase in temporary workers in the IT Service Units as well as an increase in Group Innovation. The number of employees increased by 539 compared to Q1 2014.

Appendix

Financial calendar 2014

September 23

Capital Markets Day on all 3 business sectors

October 20

Third quarter results 2014

Depreciation and amortization

EUR million

	Q2 2013	Q2 2014	FY 2012	FY 2013
Depreciation of property, plant and equipment	150	146	677	631
Amortization of software	10	7	45	39
Amortization of other intangible assets	94	83	458	432
Amortization of development costs	57	62	218	246
Philips Group	311	298	1,398	1,348

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

Gross capital expenditures & Depreciation by sector

EUR million

	Gross CapEx ¹		Depreciation ¹	
	Q2 2013	Q2 2014	Q2 2013	Q2 2014
Healthcare	29	34	39	36
Consumer Lifestyle	26	25	27	25
Lighting	60	41	63	62
IG&S	30	28	21	23
Group	145	128	150	146

¹ Capital expenditures and depreciations on property, plant and equipment only

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)

Gross capital expenditures & Depreciation by sector

EUR million

	Gross CapEx ¹		Depreciation ¹	
	2012	2013	2012	2013
Healthcare	135	131	201	160
Consumer Lifestyle	128	135	104	108
Lighting	290	223	298	270
IG&S	105	99	74	93
Group	658	588	677	631

¹ Capital expenditures and depreciations on property, plant and equipment only

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

Development cost capitalization & amortization by sector

EUR million

	Capitalization		Amortization	
	Q2 2013	Q2 2014	Q2 2013	Q2 2014
Healthcare	68	60	36	37
Consumer Lifestyle	12	20	9	7
Lighting	20	20	12	18
IG&S	4	3	-	-
Group	104	103	57	62

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)

Development cost capitalization & amortization by sector

EUR million

	Capitalization		Amortization	
	2012	2013	2012	2013
Healthcare	246	252	128	154
Consumer Lifestyle	37	43	39	37
Lighting	66	62	51	55
IG&S	14	24	-	-
Group	363	381	218	246

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

Restructuring, acquisition-related charges and other items

<i>EUR million</i>	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14
Acq.-related charges	(3)	(2)	(1)	-	(6)	-	-
Restructuring	1	2	-	3	6	(21)	1
Other Items	-	82	-	-	82	-	-
Healthcare	(2)	82	(1)	3	82	(21)	1
Acq.-related charges	(1)	-	(1)	(1)	(3)	-	(1)
Restructuring	-	(3)	(4)	(4)	(11)	-	-
Other Items	-	1	-	-	1	-	-
Consumer Lifestyle	(1)	(2)	(5)	(5)	(13)	-	(1)
Acq.-related charges	(1)	(1)	(2)	-	(4)	(3)	(2)
Restructuring	(18)	(22)	(34)	(22)	(96)	(30)	(28)
Other Items	-	10	-	-	10	-	-
Lighting	(19)	(13)	(36)	(22)	(90)	(33)	(30)
Restructuring	3	-	1	(7)	(3)	-	(4)
Other Items	-	6	(31) ²	-	(25)	-	-
IG&S	3	6	(30)	(7)	(28)	-	(4)
Total Acq.-related charges	(5)	(3)	(4)	(1)	(13)	(3)	(3)
Total Restructuring	(14)	(23)	(37)	(30)	(104)	(51)	(31)
Total Other Items	-	99 ¹	(31)	-	68	-	-
Grand Total	(19)	73	(72)	(31)	(49)	(54)	(34)

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
Note - Figures can be used to make the bridge between reported and adjusted EBITA numbers

