

# PHILIPS

sense and simplicity

Royal Philips Electronics

*Third Quarter 2009*

*Information booklet*

October 12<sup>th</sup>, 2009

# 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. We caution readers that no forward-looking statement is a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statements. Examples of forward-looking statements include statements made about our strategy, estimates of future sales growth, future EBITA, future cost savings and future developments in our organic business as well as the benefit of future acquisitions, and our capital position. By their nature, forward-looking 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 forward-looking statements. These factors include, but are not limited to, domestic and global economic and business conditions, particularly in light of the ongoing recessionary condition prevailing in many markets, 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. Additional risks and factors are identified in our Annual Report for the fiscal year ended December 31, 2008, our Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the "SEC"), which is available on the SEC's website at [www.sec.gov](http://www.sec.gov), and the "Risk and uncertainties" section in our semi-annual financial report for the six months ended June 28, 2009. Readers should consider the disclosures in these reports and any additional disclosures that we have made or may make in documents that we have filed or furnished to the SEC or may file with or furnish to the SEC or other regulatory authorities. Any forward-looking statements made by or on our behalf speak only as of the date they are made. We do not undertake to update forward-looking statements to reflect any changes in expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. Statements regarding market share, including as to 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.

## *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 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.

## *IFRS basis of presentation*

The financial information included in this document is based on International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the European Union (IFRS), unless otherwise indicated. As used in this document, the term EBIT has the same meaning as Income from operations (IFO).

## *Use of non-GAAP Information*

In presenting and discussing the Philips Group's financial position, operating results and cash flows, management uses certain non-GAAP financial measures like: comparable growth; EBITA; NOC; net debt (cash); free cash flow; and cash flow before financing activities. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent GAAP measures. In our Quarterly report we've included a reconciliation of such non-GAAP financial measures to the most directly related GAAP measures.

## *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 observable market data does not exist, fair values are estimated using valuation models, which we believe are appropriate for their purpose. They require management to make significant assumptions with respect to future developments which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the financial statements. In certain cases, independent valuations are obtained to support management's determination of fair values.

# 1. Philips Strategy and Investment Proposition

2. Group results Q3 2009

3. Healthcare, Consumer Lifestyle and Lighting

## A well-respected, blue-chip company for over 100 years

Founded in 1891

Headquartered in Amsterdam, the Netherlands

Sales over EUR 26 billion (USD 33 billion)

Over 30% in emerging economies

118,000 employees\*

Sales and service outlets in over 100 countries

Globally recognized brand (world top 50)

Our brand value almost doubled to \$8.1bn since 2004

€1.8 billion investment in R&D, over 6% of sales

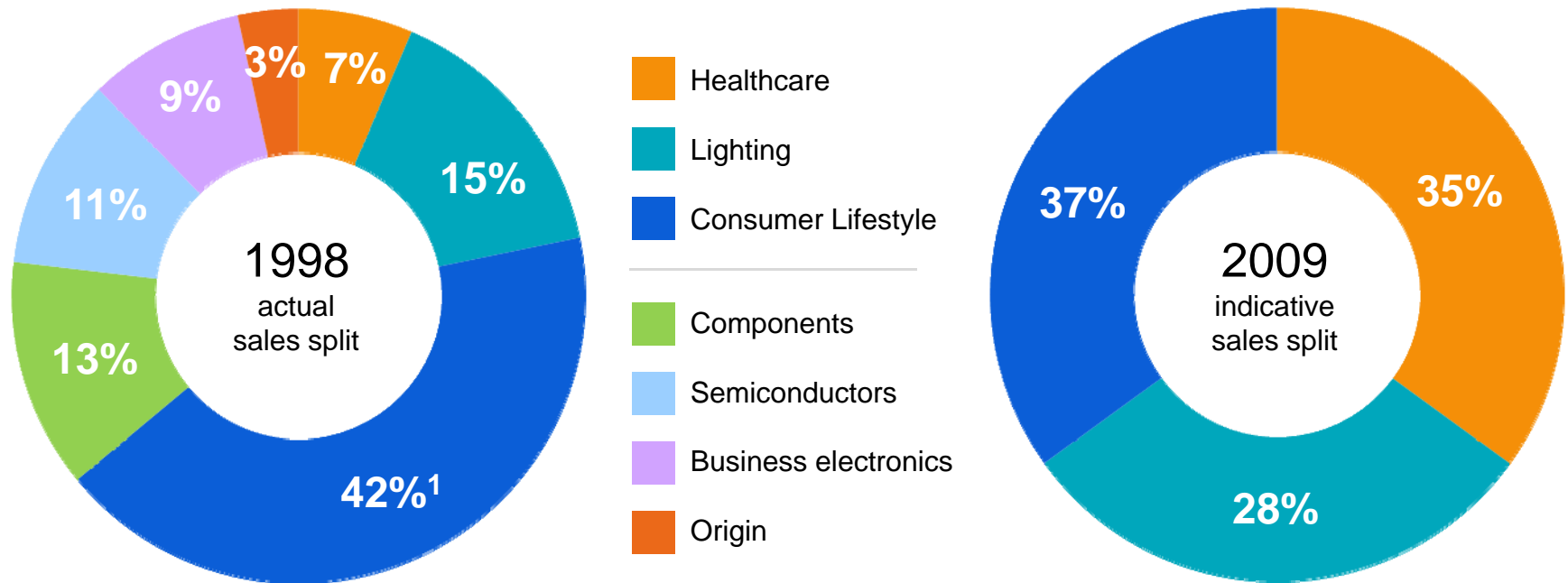
55,000 patent rights – 33,000 registered trademarks –  
49,000 design rights

\* As per September 2009



# Building a leading company in Health and Well-being

Over the past decade we have fundamentally simplified our business portfolio, investing proceeds from disposals in our Healthcare, Consumer Lifestyle and Lighting businesses



1 - Consumer Lifestyle in 1998 includes the former DAP and CE divisions

## Our Health & Well-being portfolio leverages critical global trends

*We have chosen our three markets well*

### Aging population

The number of people aged over 60 will double from 500m today to 1 billion by 2015.

### Emerging markets

99% of future population growth will be in emerging markets. Emerging markets already produce 28% of global GDP.

### Empowered consumers

Demanding solutions to fulfill their personal needs.

### Climate change and sustainable development

19% of global electricity consumption is used for lighting. We can save 40%...or 600 power stations worth of energy!



## One Philips Focus on Health and Well-being

*Synergies across the portfolio*

### One mission

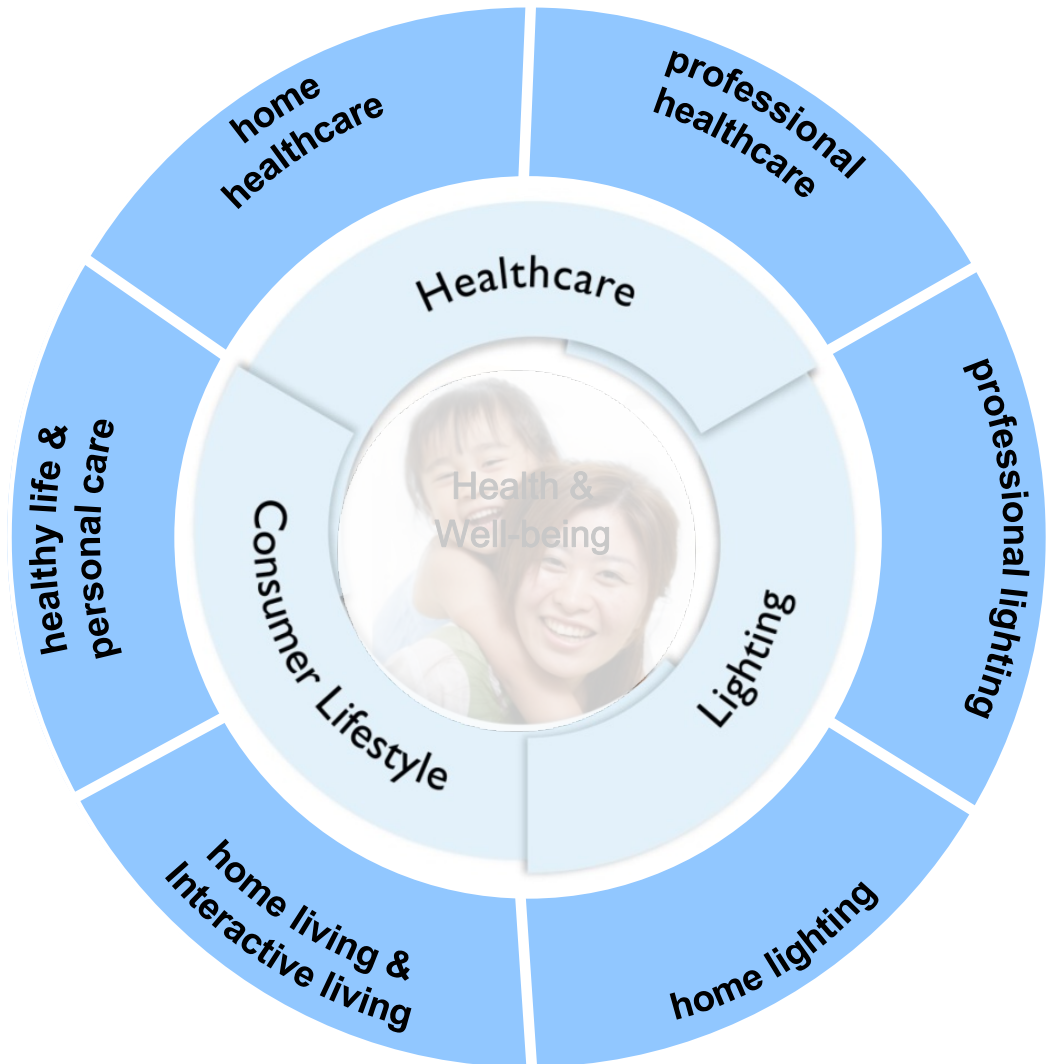
*Improving people's lives*

### One promise

*Sense and Simplicity*

### One company

- Common, end-user driven innovation process
- Strong global brand
- Channel access and global presence
- Engaged workforce
- Technology, know-how and strong IP positions
- Economies of scale e.g. Shared service centers



## Our competitive difference will make us win

### Innovation process

We follow a rigorous process to create meaningful innovations

### Driving customer loyalty

We build customer loyalty to promote growth and profitability

### Creating brand value

Driven by our brand promise “sense and simplicity”

### Philips people

We develop highly engaged “Philips people”

### Emerging markets

We keep on expanding our global footprint





# Close customer relationships

*Creating promoters of our brand*



## Customer loyalty

is fundamental to growth and profitability.

## We win the trust of customers and partners

- by understanding and anticipating their needs
- by sharing our insights
- by providing the right products and solutions

## We monitor our effectiveness

with the Net Promoter Score based on a simple question:

“would you recommend us to a friend or colleague?”

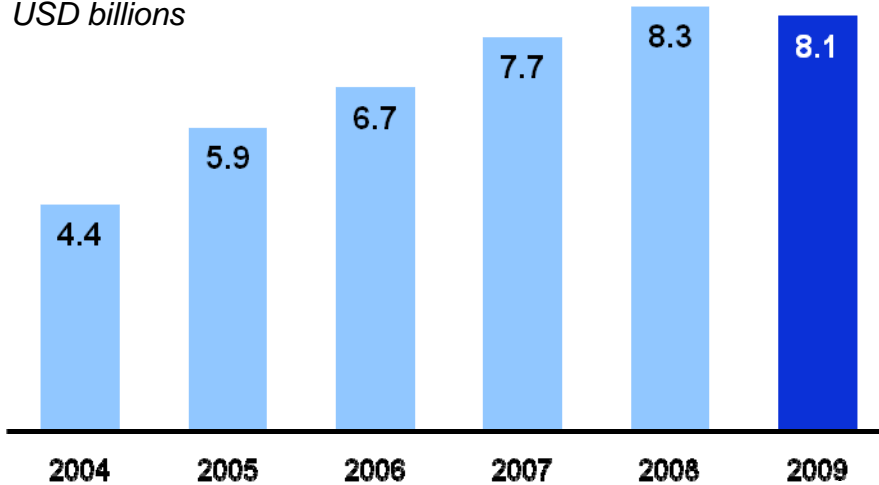
**NPS improvement drives revenue growth!**

## Moved up to world's 42<sup>nd</sup> most valuable brand in 2009

Up from 43<sup>rd</sup> in 2008

### Value of the Philips brand

USD billions



### A strong brand drives sales

A significant amount of sales is attributable to the brand alone:

- Healthcare 29%
- Consumer Lifestyle 24%
- Lighting 21%

### High brand value growth

Philips brand value grew more than twice as fast as that of closest competitors (2008)

### Strong internal brand

83% of employees are “proud to work for Philips”

### Brand campaign 2009

Making our trusted brand promise of ‘sense and simplicity’ meaningful in the health and well-being domain

\*because some people can only dream of getting a good night's sleep.



**PHILIPS**

\*because the only thing more vulnerable than a newborn, is a newborn born early.



**PHILIPS**

\*because when it comes to matters of the heart, men and women differ.



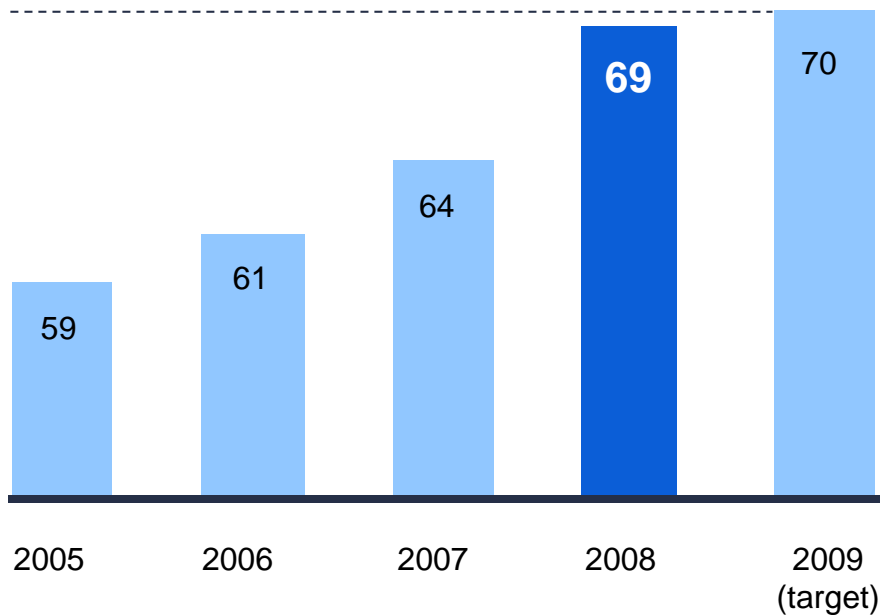
**PHILIPS**

## Philips people

*Strong leadership, a highly engaged workforce*

### Employee Engagement Index

*High performance benchmark*



### A strong leadership team

60 culturally diverse top leaders focus on driving our global businesses to reach their short and long term goals.

### A high performance workforce

The annual 'employee engagement index' polling over 90,000 of the Philips workforce is touching the high performance benchmark of the 3rd party agency managing the survey.

### Living the values

Philips has four simple values which 'live' within the company and drive the actions of our people.

### An eye on the leaders of tomorrow

We structurally manage our talent, offering fast-track, stretch opportunities for top performers to ensure a quality succession pipeline for our leadership team.

## Emerging markets

*represents a significant and growing part of our global footprint*



### Emerging markets represent 30% of sales

Sales growth in emerging markets will inevitably benefit from future population growth, particularly a growing middle class.

### High corporate brand equity

Consistently among the top-ranking players:  
India: top 10%, China: top 10%,  
Russia: top 40%, Brazil: top 20%

### Championing growth with dedicated strategies

Based on local market insights, supported by increased marketing investments.

### Increasing our footprint

Significant increases in R&D, manufacturing and marketing. 5 strategic acquisitions to strengthen local market leadership positions.

## Sustainability is a strategic driver

- Our superb heritage in innovation and design helps us realize meaningful innovations in **Healthcare, Lighting and Consumer lifestyle**
- One of the strategic drivers behind our targets is a commitment to **sustainability** and making a difference in energy efficiency
- A clear example of how we are driving business growth through Sustainability is the launch of our **EcoVision4 program** in 2007. Targets for the period 2007 – 2012:
  - *Generate 30% of revenues from Green Products – up from 15%*
  - *Double our investment in Green Innovations to a cumulative EUR 1 billion*
  - *Further increase the energy efficiency of our operations by 25%*



## Philips investment proposition

“We believe that due to macro trends, the demand for [healthcare](#), especially outside the hospital, [healthy lifestyle](#) and high quality, [energy efficient lighting](#) will grow by 6% per annum and will yield double digit EBITA margins.

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We have therefore [centered our portfolio on the leading businesses in these markets](#). We have consequently divested our portfolio of semiconductor and electronic components related businesses, including participations, and [reinvested](#) half the proceeds in [acquiring further leading businesses in these target markets](#), with Genlyte and Respironics as the most important 2008 proof-points; the other half of the proceeds was used to [return cash to shareholders](#) while [retaining a strong balance sheet](#).”



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## Headlines in Quarter 3

- Comparable sales is 11% down, mainly attributable to Consumer Lifestyle and Lighting, up from the 19% decline visible in the second quarter
- Strong improvement of EBITA margin before restructuring and acquisition-related charges and a EUR 87 million provision release
- Double-digit growth in emerging markets for Healthcare not fully offsetting declines in the US
- Restructuring and acquisition-related charges of EUR 125 million reflect ongoing reduction of our cost base
- Free cash flow of EUR 353 million exceeded EBITA in the quarter



# Key Financials Summary – Q3 2009

*EUR million*

	Q3 2008	Q3 2009
Sales	6,334	5,621
EBITA	57 <sup>1</sup>	344 <sup>1</sup>
Financial income and expenses	158 <sup>2</sup>	(44) <sup>2</sup>
Income tax	3	(56)
Net income (loss) – stockholders	57	174
Net Operating Capital	17,371	11,559 <sup>3</sup>
Net cash from operating activities	210	470
Net capital expenditures	(153)	(117)
Free cash flow	57	353

1 - 3Q09 includes on balance EUR (38)M of gains and charges while 3Q08 included in total EUR (284)M gains and charges

2 - 3Q09 includes no special items while 3Q08 included a positive amount of EUR 365M consisting of TSMC dividend plus a gain on the sale of our remaining TSMC stake and in total EUR (189)M impairment losses related to LG Display and Toppoly.

3 - The lower NOC is mainly due to pension adjustments in 4Q08 & 2Q09 and lower working capital requirements in Lighting

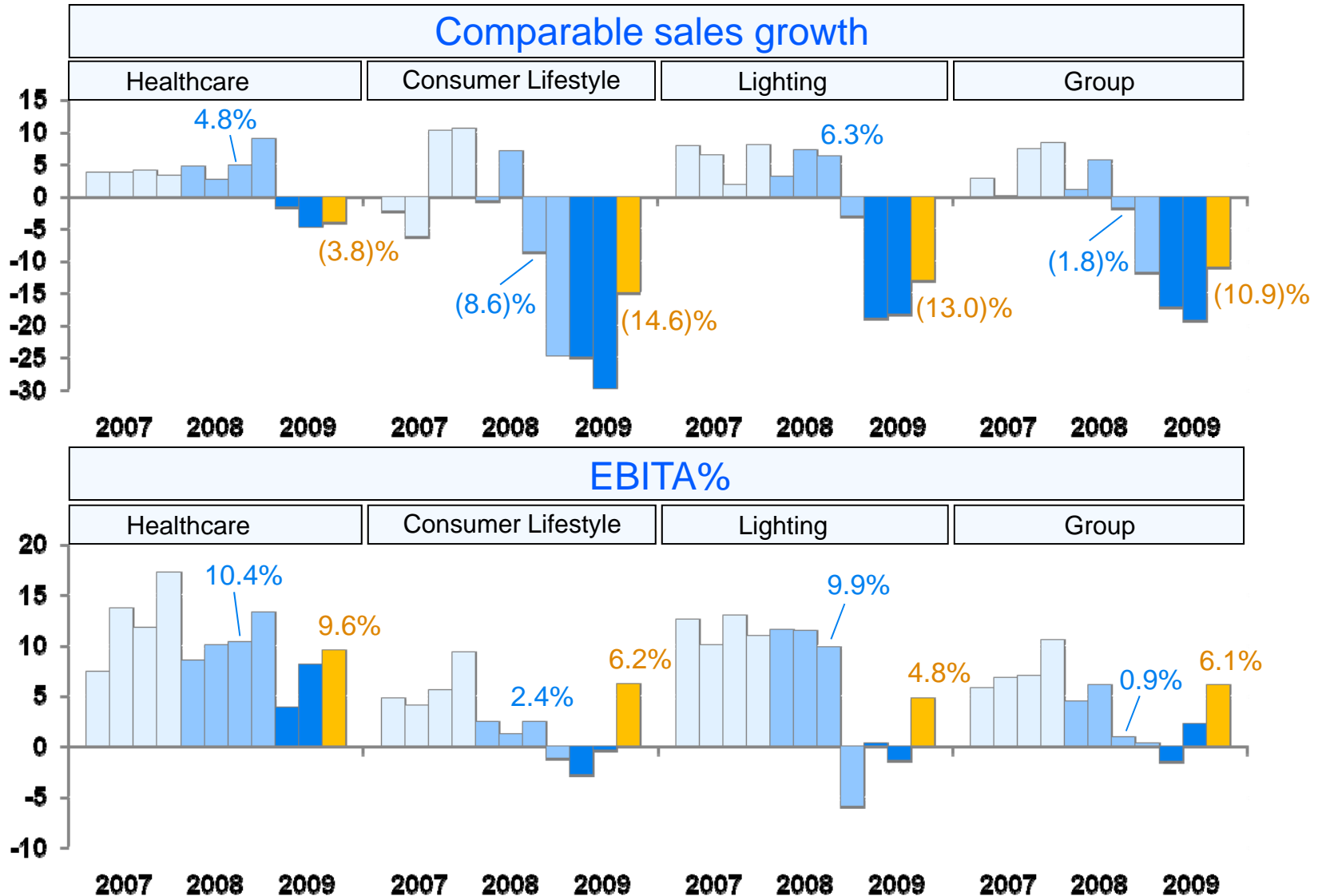
# Sales by sector – Q3 2009

*EUR million*

	Q3 2008	Q3 2009	Sales growth composition (in %)			
			Nom	currency	portfolio	Comp
Healthcare	1,806	1,821	1	4.8	(0.2)	(4)
Consumer Lifestyle	2,578	2,073	(20)	(0.5)	(4.5)	(15)
Lighting	1,846	1,646	(11)	1.6	0.6	(13)
GM&S	104	81	(22)	1.6	(0.1)	(24)
Group sales	6,334	5,621	(11)	1.6	(1.9)	(11)

# Sales Growth and EBITA Margin Development

*Comparable sales growth and EBITA%*



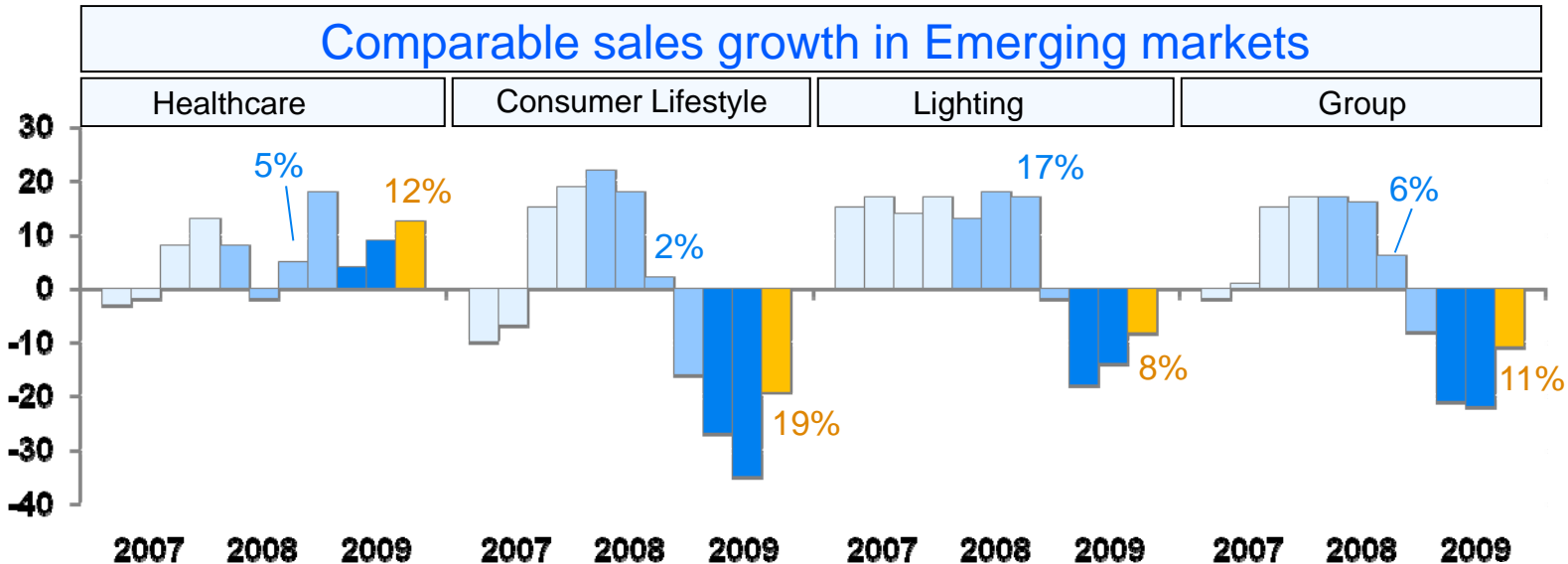
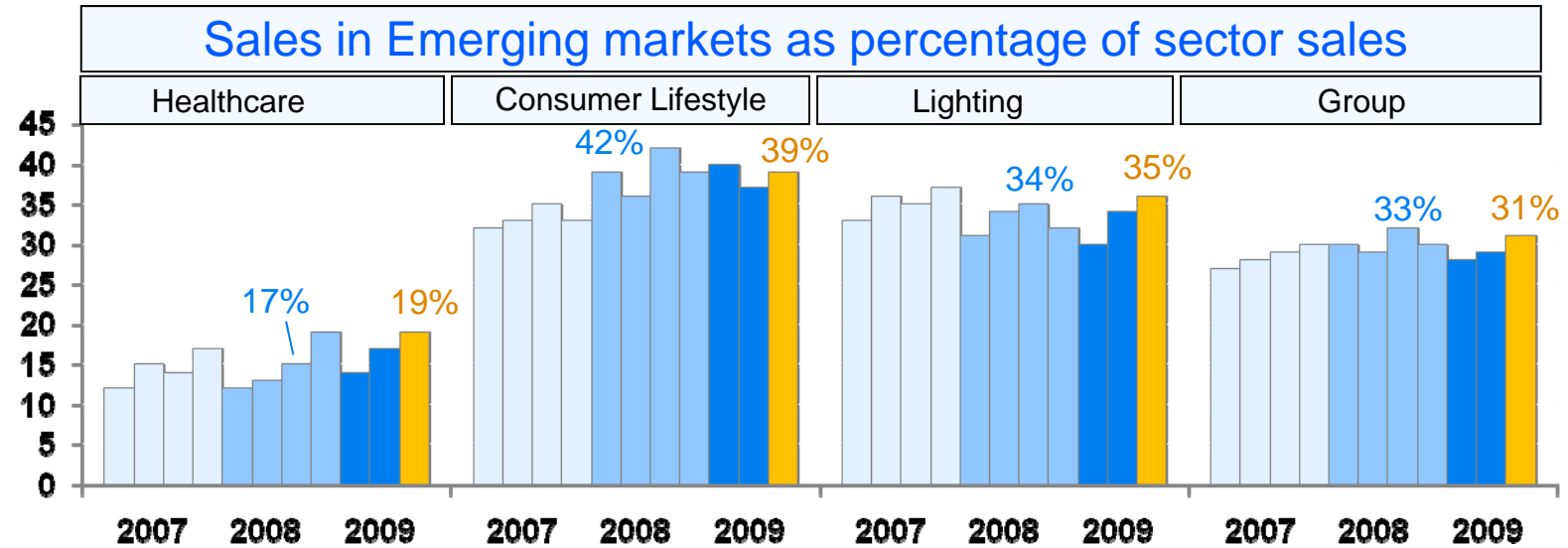
# Sales by market cluster – Q3 2009

*EUR million*

	Q3 2008	Q3 2009	% nom	% comp
Western Europe	2,117	1,974	(7)	(6)
North America	1,844	1,583	(14)	(16)
Other mature markets	311	302	(3)	(9)
Emerging markets	2,062	1,762	(15)	(11)
Group sales	6,334	5,621	(11)	(11)

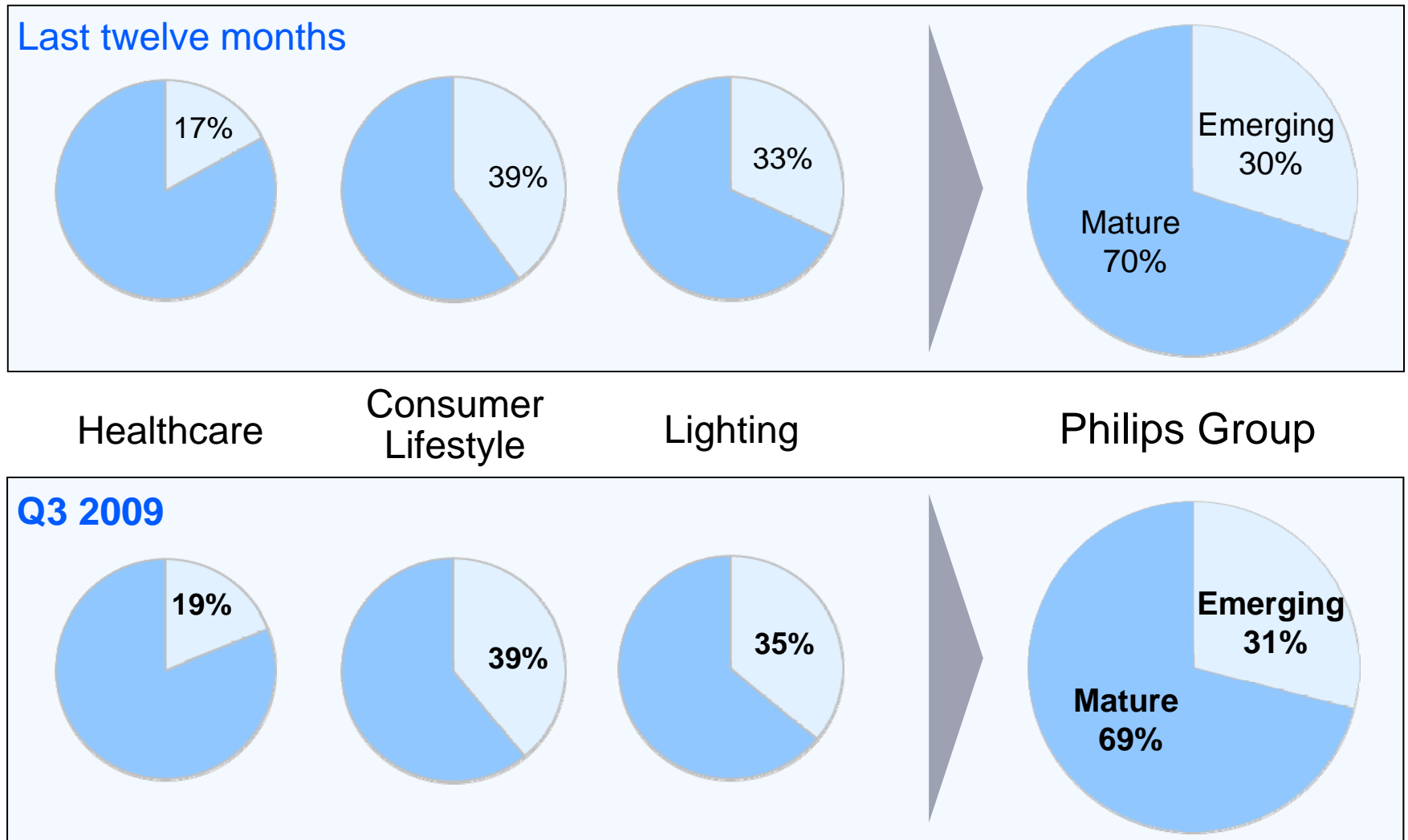
# Emerging Markets Sales: trend through Q3 2009

*Sales growth in emerging markets*



## Emerging Markets – Q3 2009 & last twelve months

*Sales in emerging markets*



# EBITA by sector – Q3 2009

EUR million

	Q3 2008	Q3 2009
Healthcare	188 <sup>1</sup>	175 <sup>1</sup>
Consumer Lifestyle	63 <sup>2</sup>	129 <sup>2</sup>
<i>of which Television</i>	(73)	(26)
Lighting	183 <sup>3</sup>	79 <sup>3</sup>
GM&S	(377) <sup>4</sup>	(39) <sup>4</sup>
<b>Philips Group</b>	<b>57</b>	<b>344</b>
as % of sales	0.9%	6.1%

1 - 3Q09 includes EUR 40M of restructuring and acquisition-related charges, while 3Q08 includes a EUR 45M gain on the sale of our speech recognition business and EUR 17M acquisition-related charges

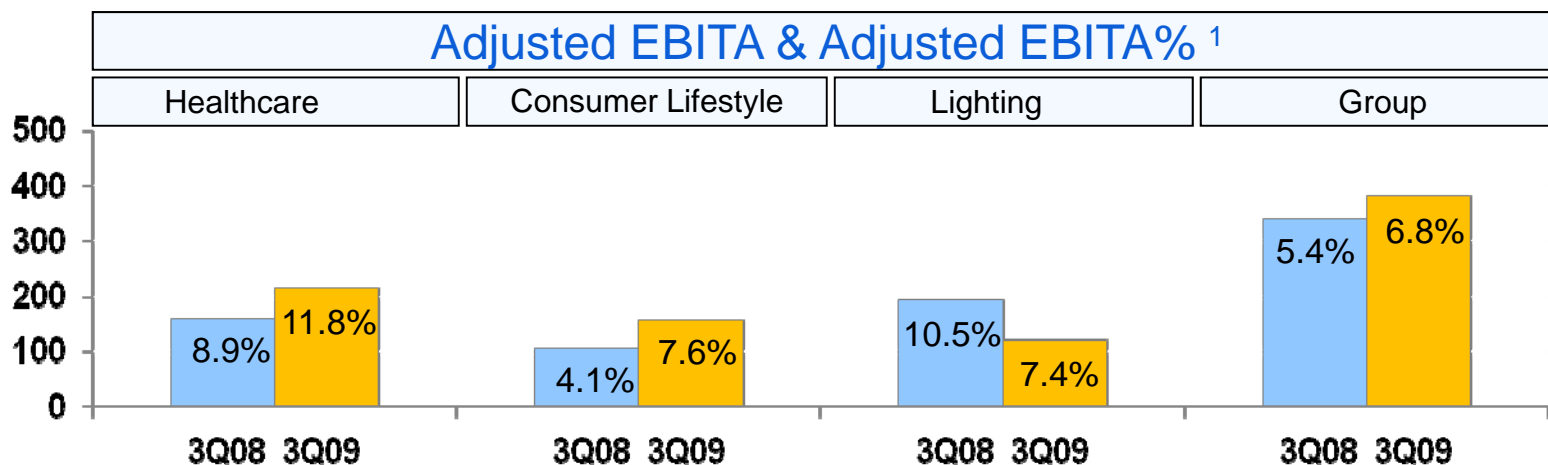
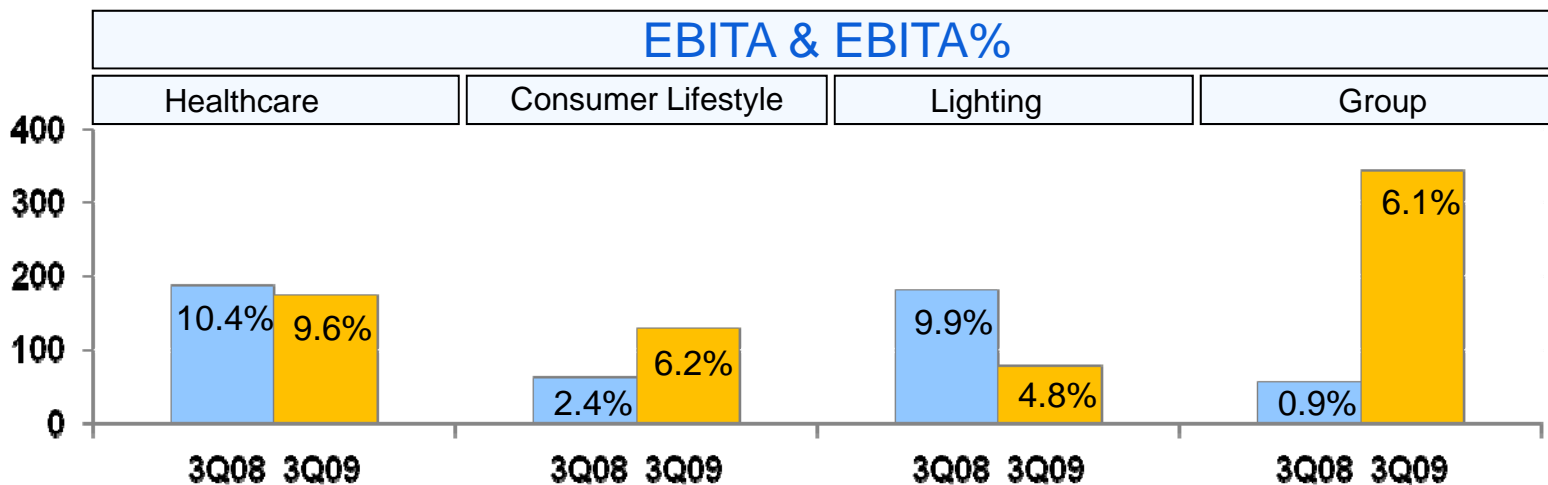
2 - 3Q09 includes EUR 29M restructuring and acquisition-related charges; 3Q08 included on balance EUR 42M charges

3 - 3Q09 includes EUR 42M of restructuring and acquisition-related charges, while 3Q08 included EUR 11M charges

4 - 3Q09 includes EUR 14M restructuring and EUR 87M release of a provision for retiree medical benefits; 3Q08 included a EUR 259M charge related to asbestos

# EBITA Development: Q3 year-over-year

EUR million



<sup>1</sup> - Net adjustment based on disclosed incidentals  
 EUR million:      28      (40)                      (42)      (29)                      (11)      (42)                      (284)      (38)



## Fixed costs are structurally being reduced

In view of macro-economic developments, Philips accelerated their planned initiatives to further increase organizational effectiveness to lower fixed cost by streamlining operations and simplifying the structure.

Our restructuring plans announced so far in 2008 and 2009 will lead to a reduction in our 2010 fixed cost base of more than EUR 600 million compared to the run rate in 2008.

Restructuring <i>EUR million</i>	Cost				Cash out	Benefit	
	FY2008	1H09	3Q09	4Q09E	2009E	3Q09	4Q09E
Healthcare	<b>(65)</b>	(10)	(23)	(13)	<b>(76)</b>	<b>27</b>	<b>42</b>
Consumer Lifestyle	<b>(202)</b>	(43)	(23)	(40)	<b>(139)</b>	<b>62</b>	<b>69</b>
Lighting	<b>(223)</b>	(92)	(37)	(80)	<b>(188)</b>	<b>23</b>	<b>32</b>
GM&S	<b>(31)</b>	(14)	(14)	(30)	<b>(32)</b>	<b>6</b>	<b>16</b>
<b>TOTAL</b>	<b>(521)</b>	<b>(159)</b>	<b>(97)</b>	<b>(163)</b>	<b>(435)</b>	<b>118</b>	<b>159</b>

# Cash Flow from continuing operations – Q3 2009

*EUR million*

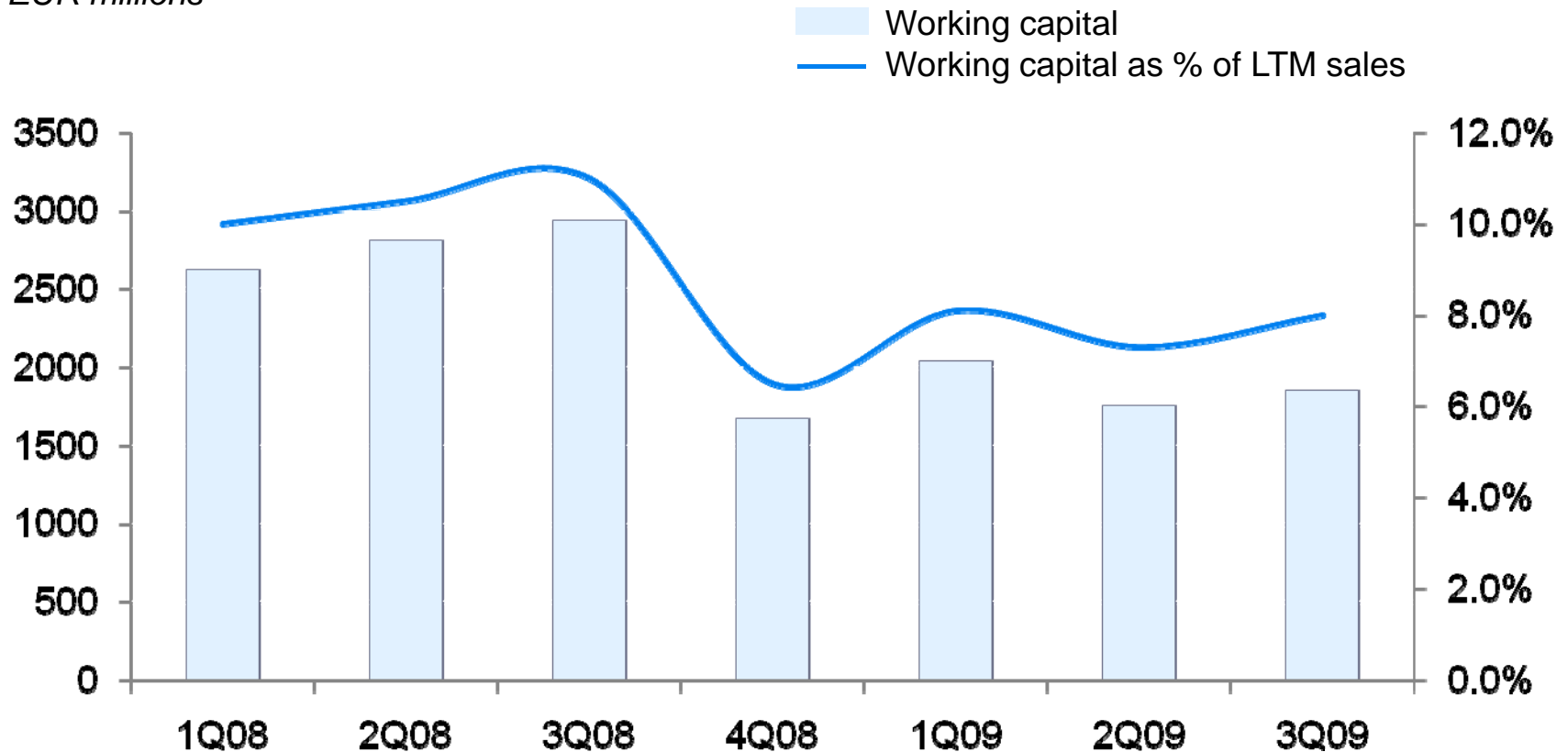
	Q3 2008	Q3 2009
Net income from continuing operations	36	174
Depreciation / amortization / impairments	682	334
Net gain on sale of assets	(459)	(3)
Changes in Working Capital, of which:	(143)	194
- changes in Net inventories	(244)	(76)
- changes in Accounts receivable	(168)	(490)
- changes in Accounts payable	269	760
Other	94	(229)
<b>Cash flow from operations</b>	<b>210</b>	<b>470</b>
Expenditures on development assets	(27)	(43)
Gross capital investments	(188)	(121)
Acquisitions / divestments / other	852	(161)
<b>Cash flow before financing activities</b>	<b>847</b>	<b>145</b>

# Continued strict cash flow management

*Structural reduction in working capital turns*

## Working capital <sup>1</sup>

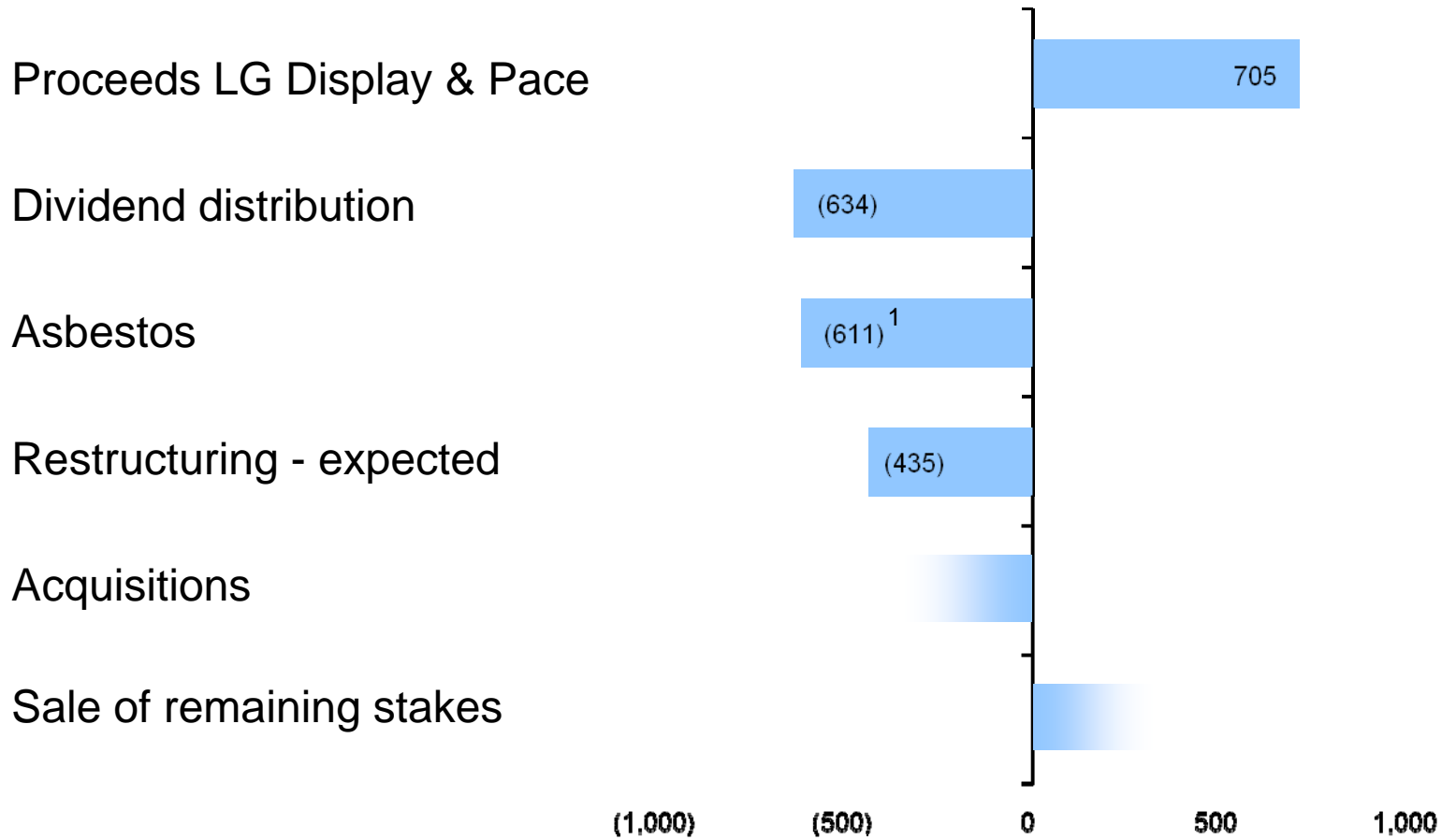
EUR millions



<sup>1</sup> – Working Capital of Healthcare, Consumer Lifestyle and Lighting; excluding central sector GM&S  
LTM is last twelve months

# Major items impacting cash flow in 2009

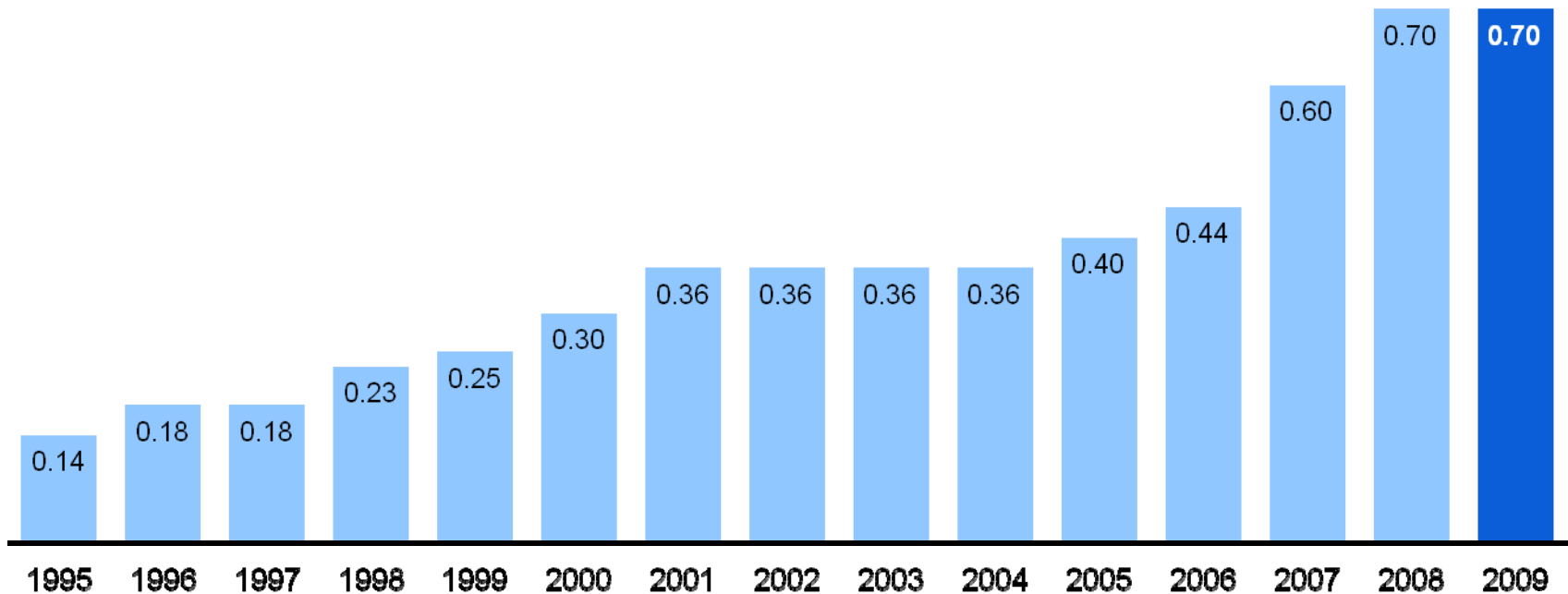
*EUR million*



Note 1: Depending on the timing and outcome of the affirmation and appeal process in the U.S. District Court, funding of the asbestos personal injury trust of USD 900M (EUR 611M at ECB fixing of October 6: 1.4722) may occur in the fourth quarter of 2009.

# A history of sustainable dividend growth

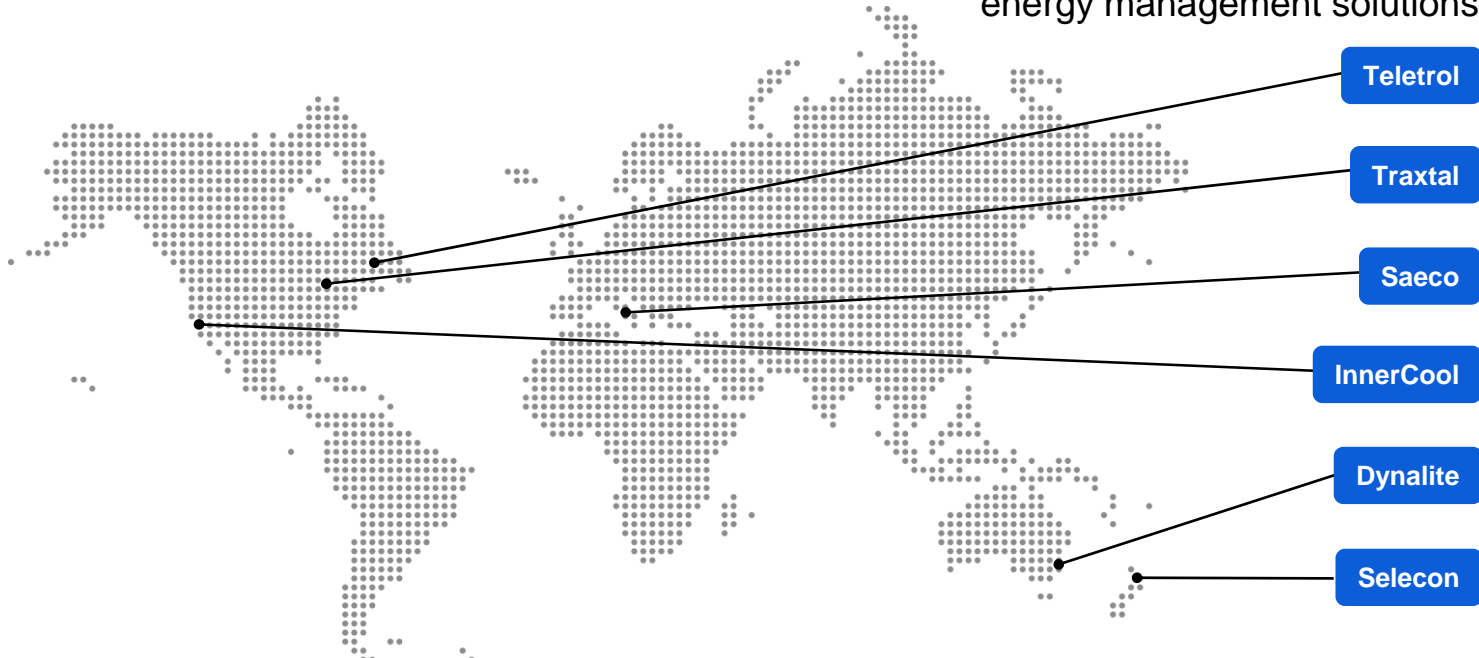
*EUR million*



“Our aim is to sustainably grow our dividend over time. Philips’ present dividend policy is based on an annual pay-out ratio of 40 to 50% of continuing net income.”

# Latest announced acquisitions

Mar-2009	<b>Dynalite</b>	Lighting – Lighting Electronics	Provide further offering in lighting control systems for integral energy management
Apr-2009	<b>Selecon</b>	Lighting – Professional Luminaires	Strengthen the breadth of solutions in the theatrical and architectural market
May-2009	<b>Traxtal</b>	Healthcare – Clinical Care Systems	Become one of the leading solution providers for image guided medical procedures
Jul-2009	<b>Saeco</b>	Lifestyle – Domestic Appliances	Expand in high-growth, high-margin espresso market with strong products range
Jul-2009	<b>InnerCool</b>	Healthcare – Clinical Care Systems	Broaden offering in emergency care by adding body temperature management
Jul-2009	<b>Teletrol</b>	Lighting – Lighting Electronics	Adds to portfolio of intelligent light and energy management solutions



# Management agenda 2009

*Staying the course*

Drive performance	Accelerate change	Implement strategy
<p>Relentlessly manage cash through the year</p> <p>Proactively align cost structure with market conditions and increase productivity</p> <p>Manage risks and opportunities in a balanced way to strengthen our market positions</p>	<p>Organize around customers and markets thereby improving Net Promoter Score</p> <p>Increase Employee Engagement to high performance level and implement “Leading to Win”</p> <p>Accelerate sector transformation programs</p>	<p>Further build the Brand in the Health and Well-being space</p> <p>Continue to re-allocate resources to growth opportunities and emerging markets, including selective M&amp;A</p> <p>Increase revenue derived from leadership positions</p>

**Our 4 key financial performance metrics:** Revenue, EBITA, Free Cash Flow, Productivity

**Our 2 non - financial performance metrics:** Net Promoter Score, Employee Engagement

1. Philips Strategy and Investment Proposition

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and Lighting

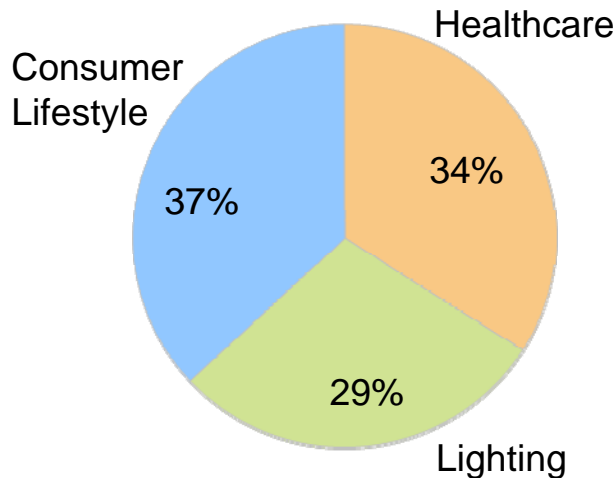


# Our focused Health & Well-being portfolio: Healthcare, Consumer Lifestyle and Lighting

*Last twelve months*

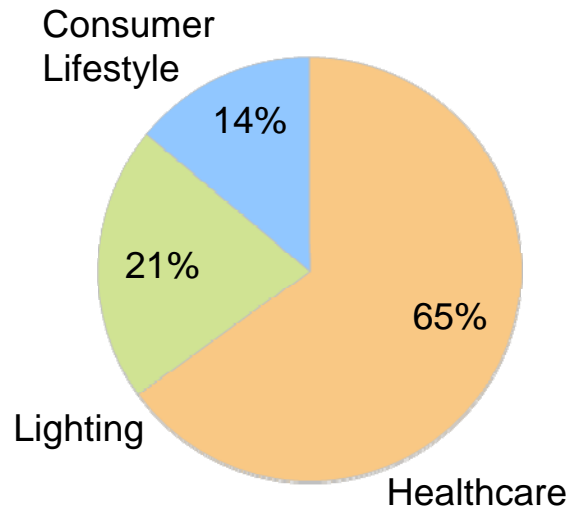
## Sales

100% = EUR 23.2B <sup>1</sup>



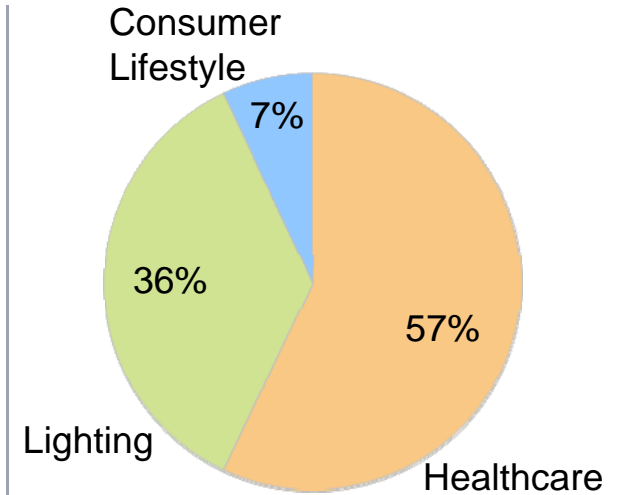
## Adjusted EBITA

100% = EUR 1.4B <sup>1, 2</sup>



## Net Operating Capital

100% = EUR 14.8B <sup>1</sup>



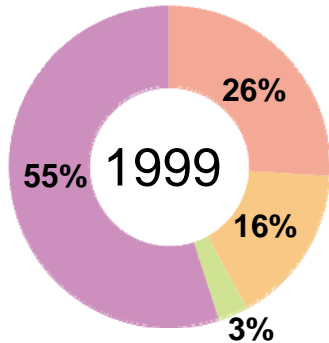
1 – Excluding Central sector (GM&S)

2 – EBITA adjusted to exclude restructuring and acquisition-related charges; for Healthcare EUR 163 million, for Consumer Lifestyle EUR 158 million and for Lighting EUR 346 million of charges are excluded.

## The power of Healthcare

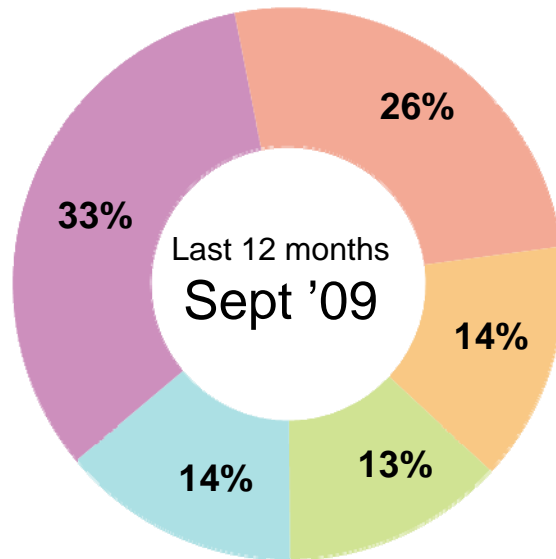
*Further strengthening our global leadership*

Total sales EUR 2.5 billion



- Imaging
- Customer service
- Clinical care
- Healthcare informatics and patient monitoring
- Home healthcare solutions

Total sales EUR 8.0 billion

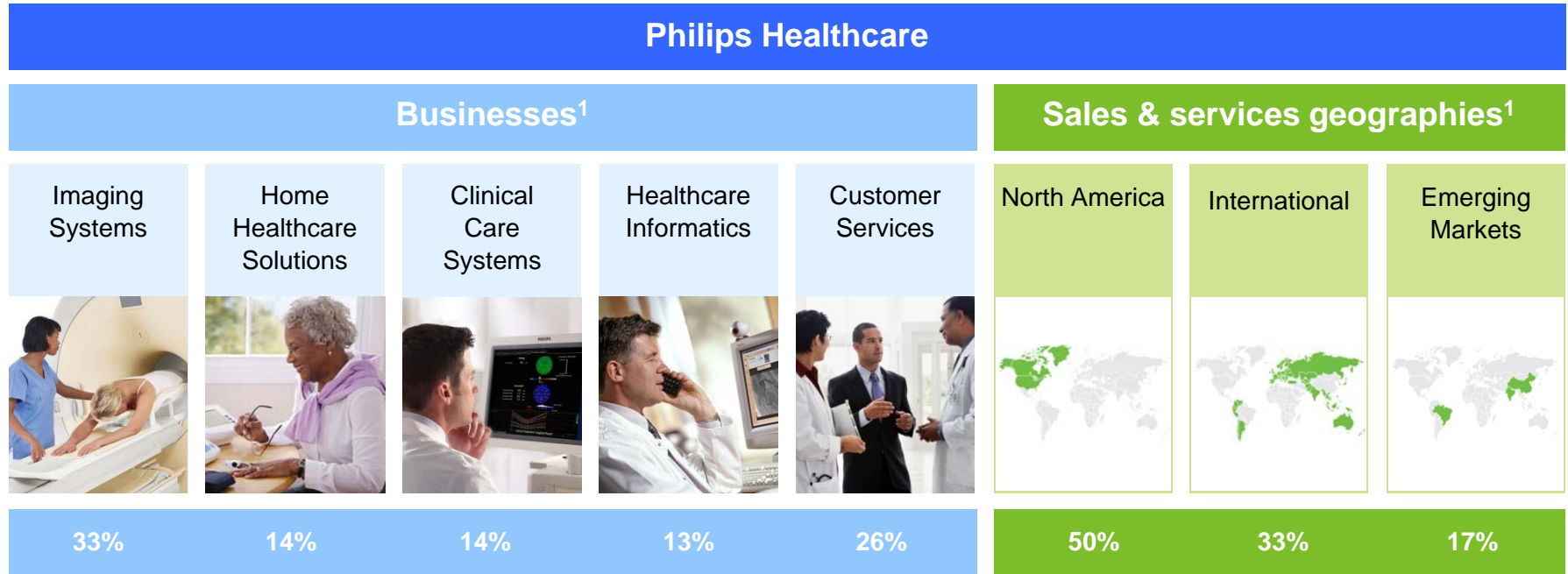


Target margin 15-17%



# Depth and reach of Philips Healthcare

*What we do. Where we are.*



**€7.6**  
Billion sales  
in 2008

**34,000+**  
People employed  
worldwide in 100 countries

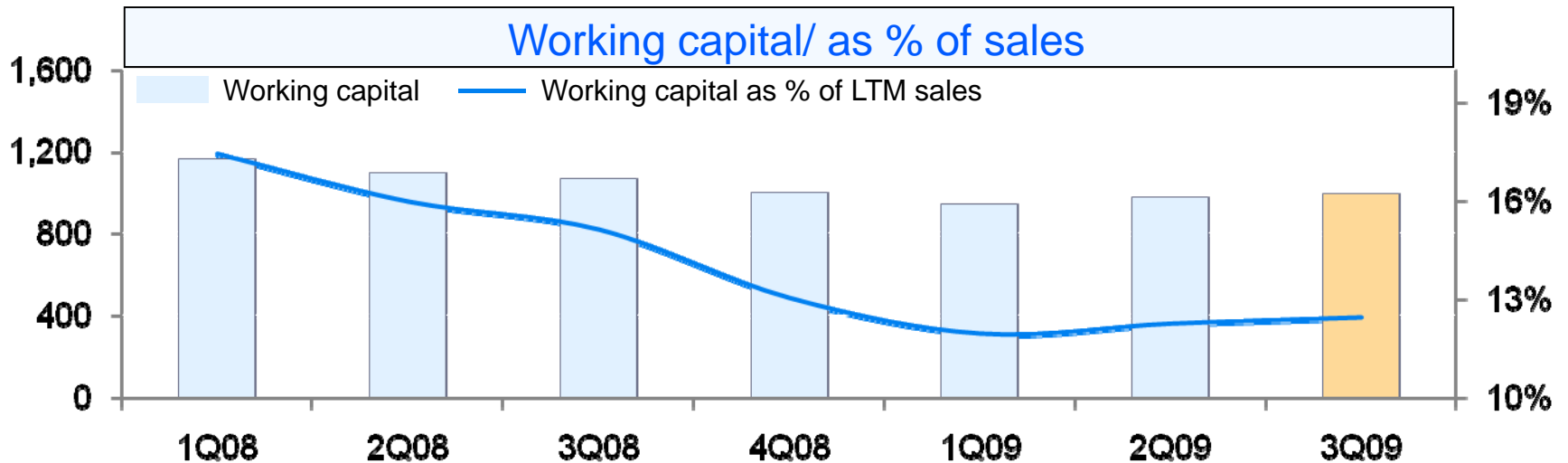
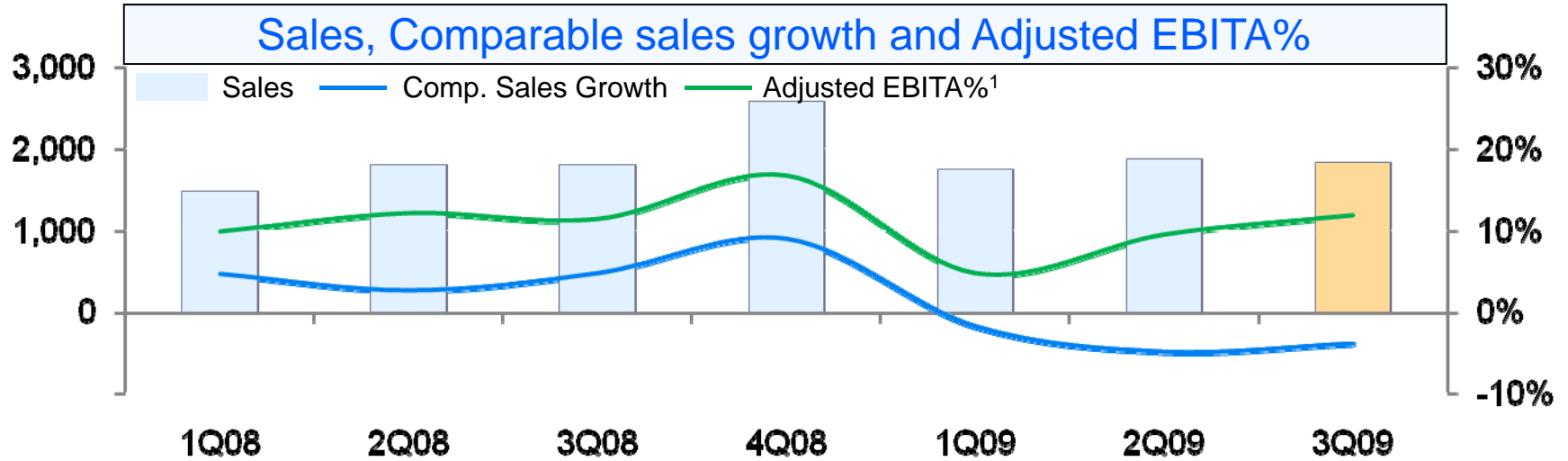
**11%**  
of system sales invested  
in R&D in 2008<sup>2</sup>

**450+**  
Products & services  
offered in over 100 countries

<sup>1</sup>Last 12 months Sept 2009 <sup>2</sup>Excludes Customer Services

# Healthcare: key financials over the last two years

EUR million



1 – Adjusted EBITA is EBITA corrected for restructuring and acquisition-related charges

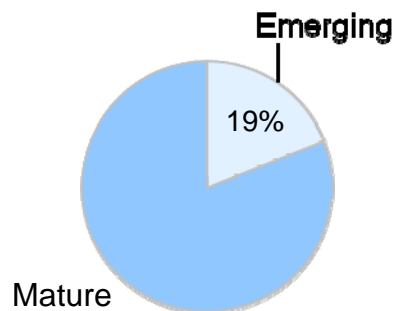
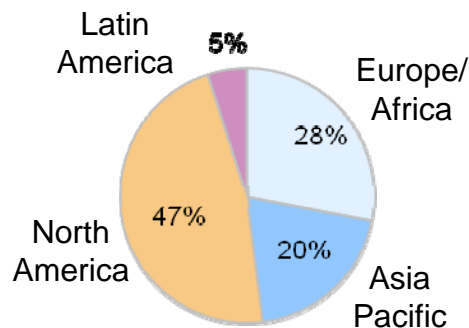
# Healthcare: Q3 2009 Sector analysis

EUR million

## Key figures

	3Q08	2Q09	3Q09
Sales	1,806	1,872	1,821
<i>% sales growth comp.</i>	5	(5)	(4)
EBITA	188	153	175
<i>EBITA as % of sales</i>	10.4	8.2	9.6
EBIT	129	88	110
<i>EBIT as % of sales</i>	7.1	4.7	6.0
NOC	8,668	8,738	8,413
Employees (FTEs)	35,841	35,094	34,750

## Sales per region 3Q09 Emerging markets



## Financial performance

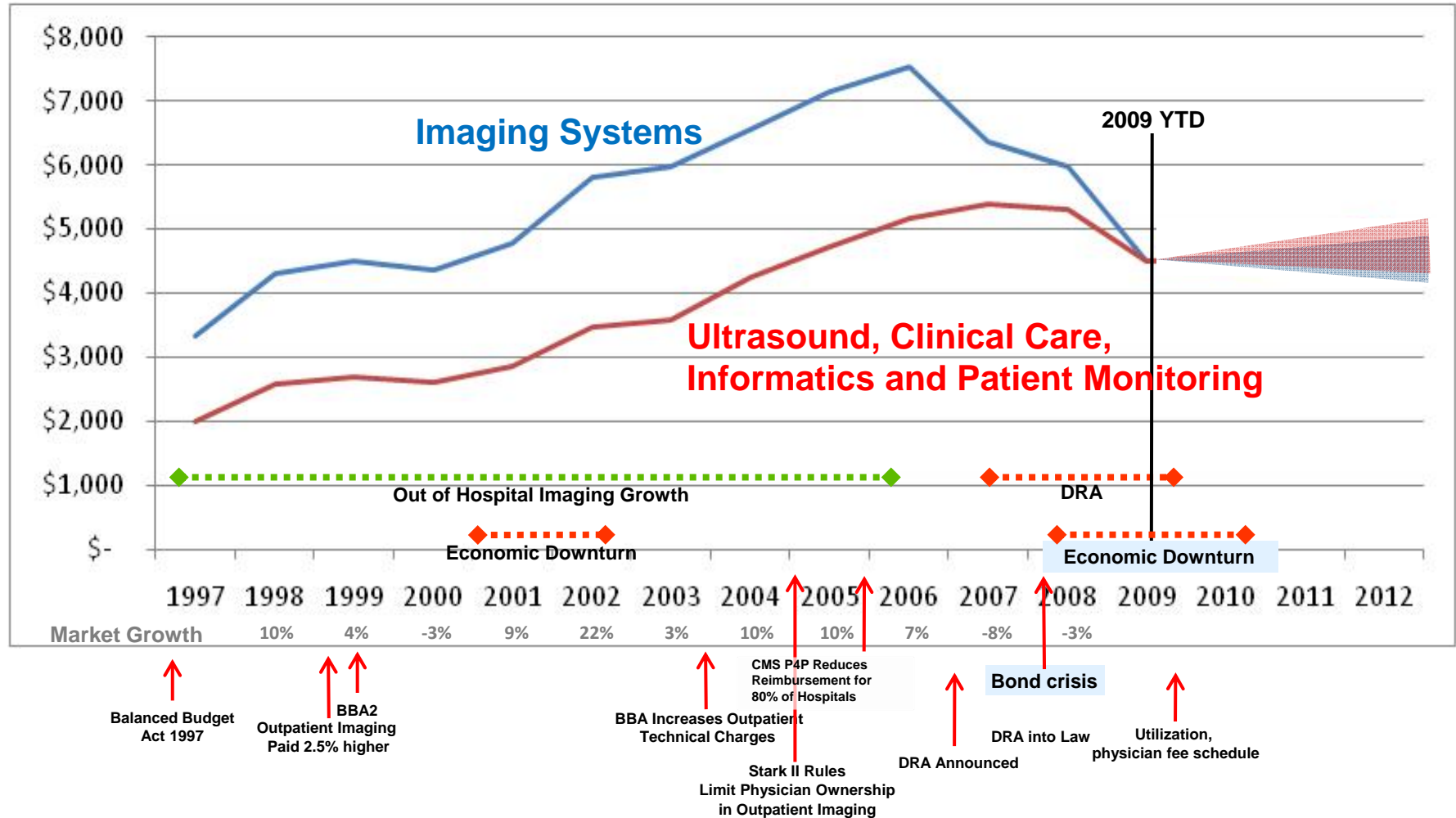
- Currency-comparable equipment order intake declined 7% year-on-year. The North American market continued to show weakness, mainly affecting Imaging Systems, as the uncertainty around US healthcare reform continued to adversely impact order intake. This decline was partly offset by growth outside North America at Imaging Systems and growth across most businesses in emerging markets.
- Comparable sales at Healthcare declined 4% year-on-year. Double-digit growth in emerging markets was offset by declines in the US notably at Imaging Systems, Patient Monitoring and Clinical Care Systems.
- EBITA amounted to EUR 215 million, or 11.8% of sales, excluding EUR 40 million of restructuring and acquisition-related charges. The comp. figure in Q3 2008, also excl. a EUR 45 million gain on the sale of Speech Recognition Systems, was EUR 160 million, or 8.9% of sales. EBITA improved at most businesses, notably Customer Services, mainly driven by operational improvement and strict cost management.

## Looking ahead

- In Q4, restructuring and acquisition-related charges are expected to total around EUR 35 million.
- In October, Philips Respironics will launch a new Sleep Therapy System to treat Obstructive Sleep Apnea. Using intelligent technology, this new system simplifies patient management by immediately indicating the potential need for specialized therapy for OSA patients, and is designed for greater patient comfort by making it easier for patients to adapt to therapy.

## Historical Perspective

### North America Market Size/Growth and Impacts

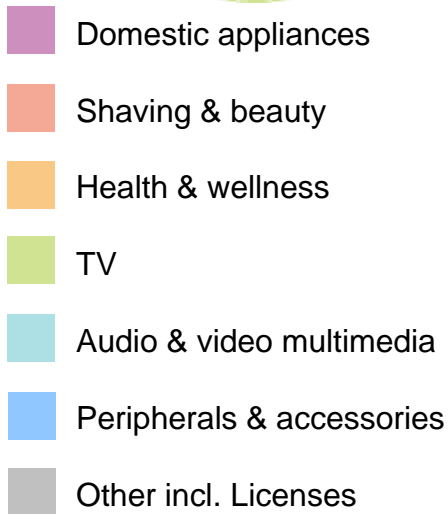
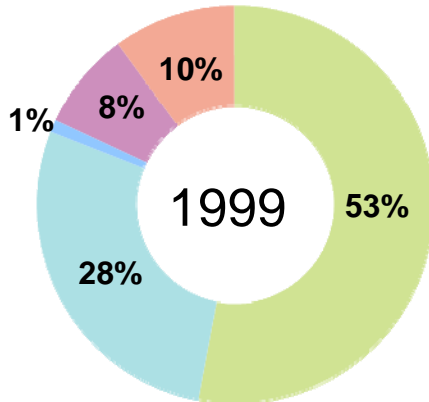


**Legislative actions and recent economic turmoil combine to impact healthcare market over time.**

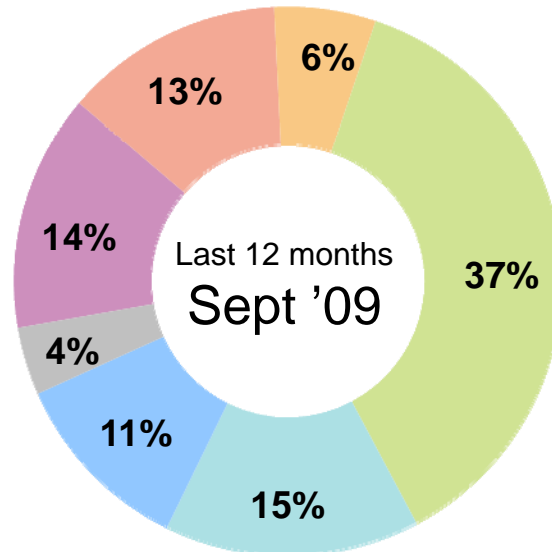
## The power of Consumer Lifestyle

*Focusing on differentiating profitable businesses*

Total sales EUR 9.5 billion



Total sales EUR 8.5 billion



Target margin 8-10%



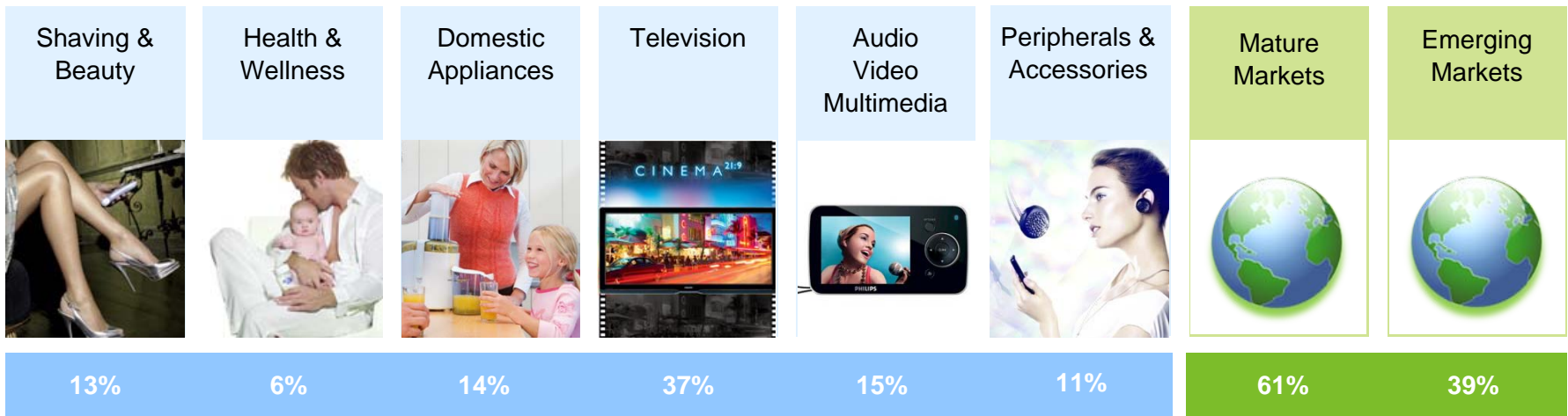
## Consumer Lifestyle

*What we do. Where we are.*

### Philips Consumer Lifestyle

#### Businesses<sup>1 2</sup>

#### Geographies<sup>1</sup>



**€10.9**

Billion sales  
in 2008

**19,000+**

People employed  
worldwide

**5%**

of sales invested  
in R&D in 2008

**€0.3**

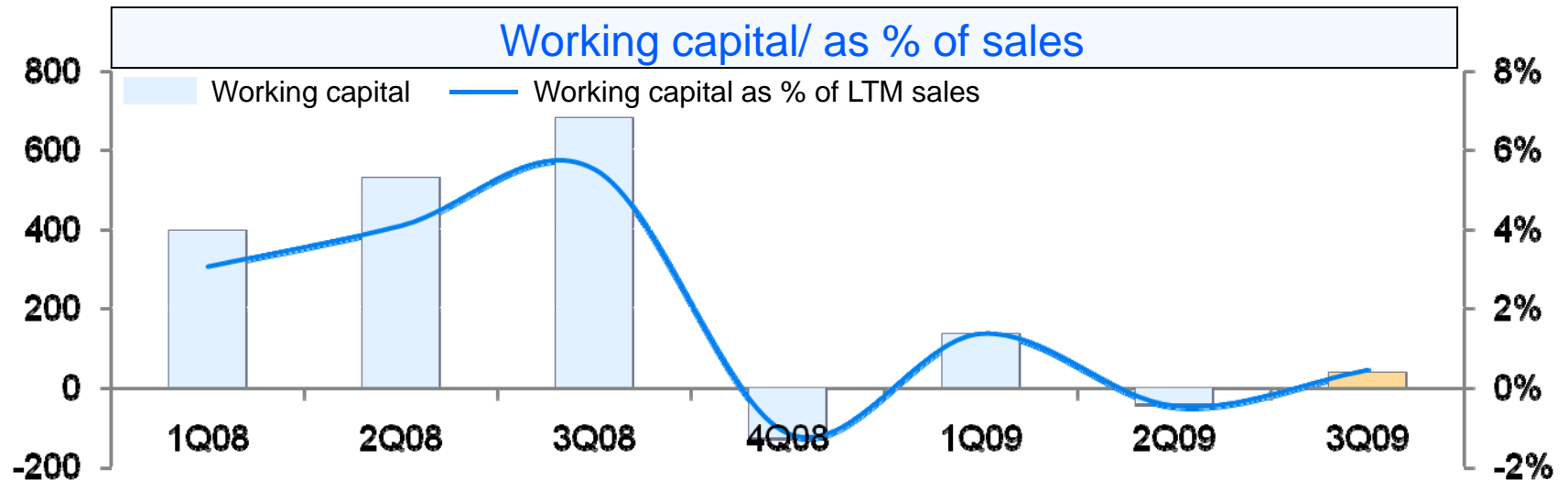
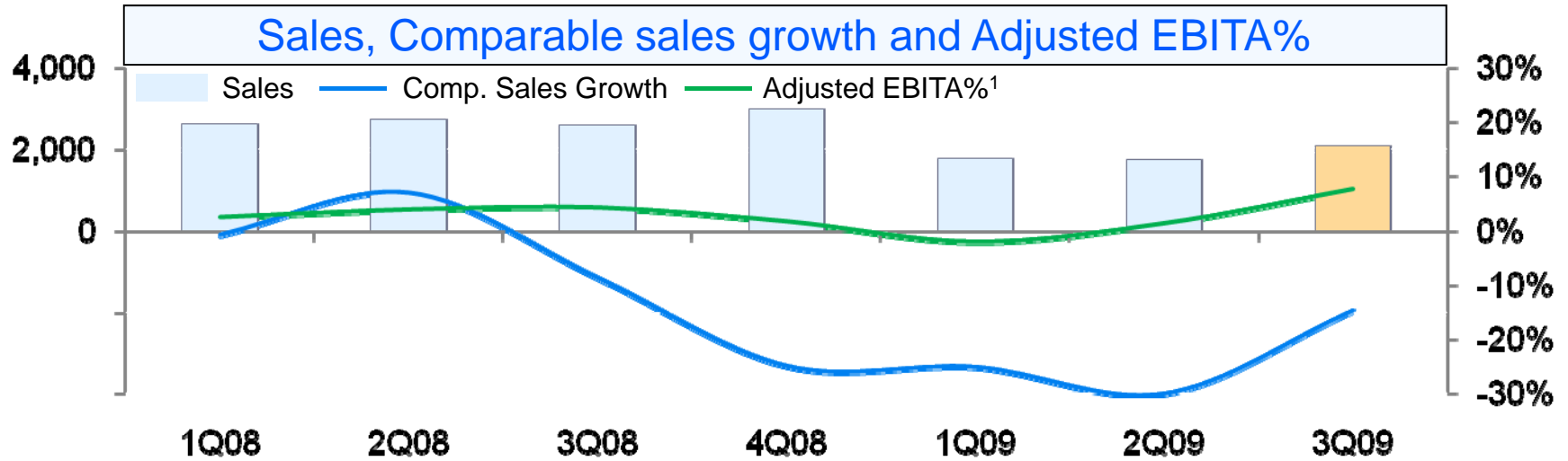
Billion negative NOC  
for TV end 2008

<sup>1</sup>Last 12 months Sept 2009 <sup>2</sup>Other category (4%) is mainly license income



# Consumer Lifestyle: key financials over the last two years

EUR million



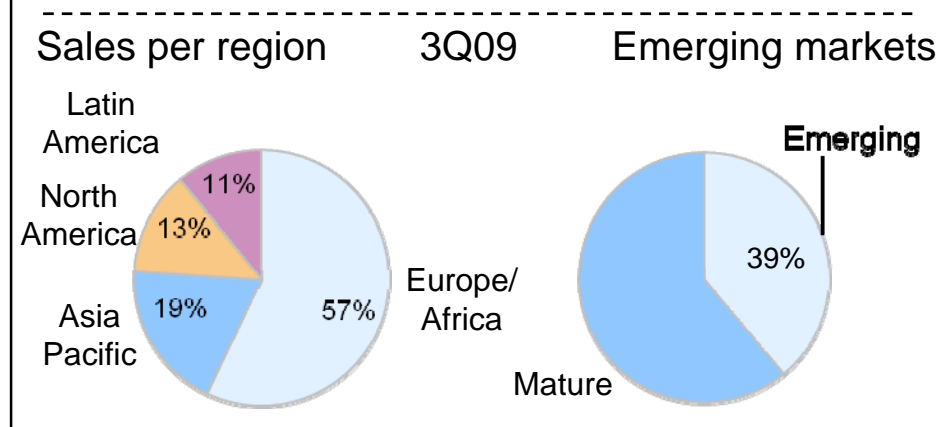
1 – Adjusted EBITA is EBITA corrected for restructuring and acquisition-related charges

# Consumer Lifestyle: Q3 2009 Sector analysis

EUR million

## Key figures

	3Q08	2Q09	3Q09
Sales	2,578	1,735	2,073
<i>% sales growth comp.</i>	(9)	(30)	(15)
EBITA	63	(7)	129
<i>EBITA as % of sales</i>	2.4	(0.4)	6.2
EBIT	59	(12)	126
<i>EBIT as % of sales</i>	2.3	(0.7)	6.1
NOC	1,761	903	1,041
Employees (FTEs)	20,662	17,018	19,569



## Financial performance

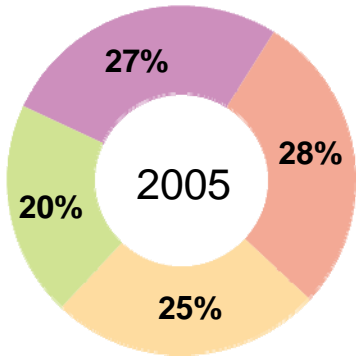
- The 20% nominal sales decline includes the impact of proactive portfolio changes, notably at Television and Audio & Video Multimedia. On a comparable basis, sales were 15% below Q3 2008, mainly impacted by double-digit declines at Audio & Video Multimedia, Television, and Peripherals & Accessories. At Domestic Appliances and Shaving & Beauty, sales declines were in the low single-digits, while Health & Wellness showed moderate growth.
- Adjusted for restructuring and acquisition-related charges, EBITA improved from EUR 109 million (4.2% of sales) in Q3 2008 to EUR 158 million (7.6% of sales), with higher earnings in nearly all businesses. Television neared break-even in the quarter due to ongoing improvement actions.
- Headcount relative to Q3 2008 showed a slight decrease as the addition of some 2,000 employees following the acquisition of Saeco was more than offset by the effect of portfolio changes and actions taken to right size the organization.

## Looking ahead

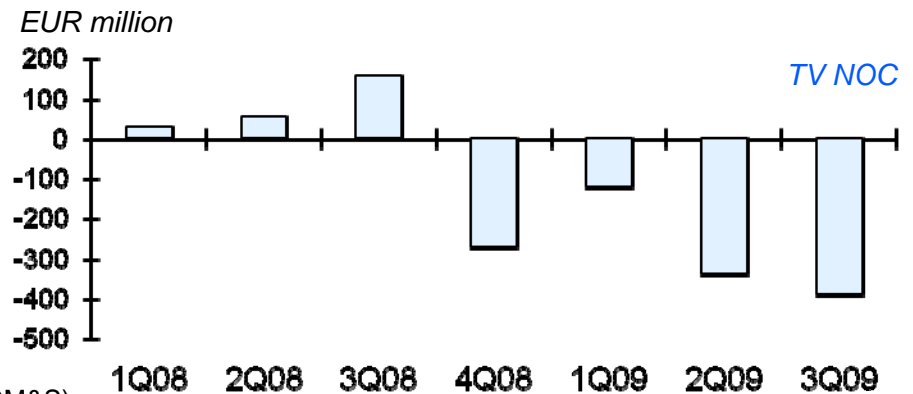
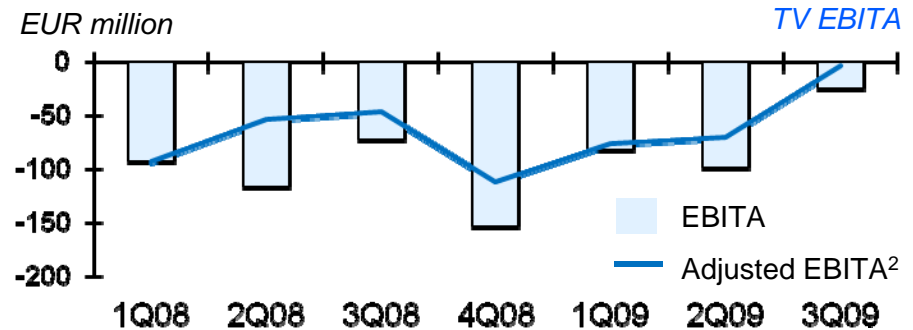
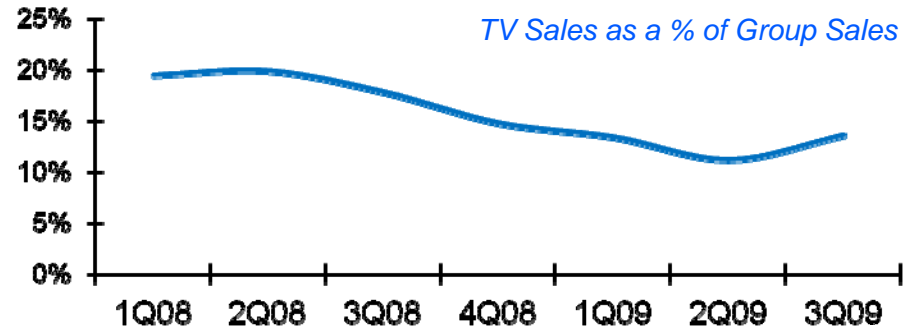
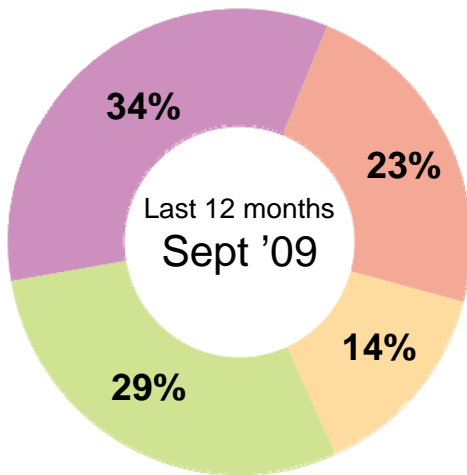
- In Q4, Consumer Lifestyle expects to incur a further EUR 40M of restructuring and EUR 10M of acquisition-related charges.
- Providing Chinese consumers with a new way to easily prepare a variety of healthy meals, Philips will launch an innovative rice cooker in Q4.
- Saeco will roll out their latest fully automatic coffee machines, which were very well received at IFA in Berlin. The new flagship Xelsis and the compact Syntia will be available throughout Europe

## Television within Consumer Lifestyle

Total sales EUR 23.7 billion<sup>1</sup>



Total sales EUR 23.1 billion<sup>1</sup>



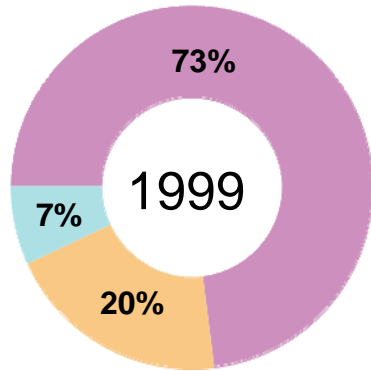
1 – Sales in sectors which are still in portfolio, excluding central sector (GM&S)

2 – Adjusted EBITA is EBITA corrected for restructuring charges

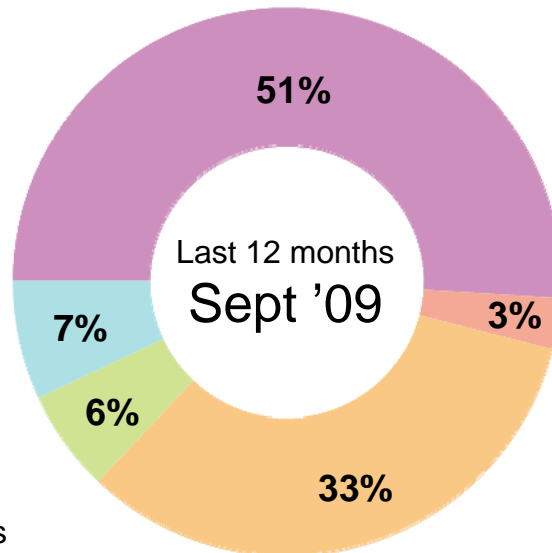
## The power of Lighting






*Focusing on differentiating profitable businesses*

Total sales EUR 4.5 billion

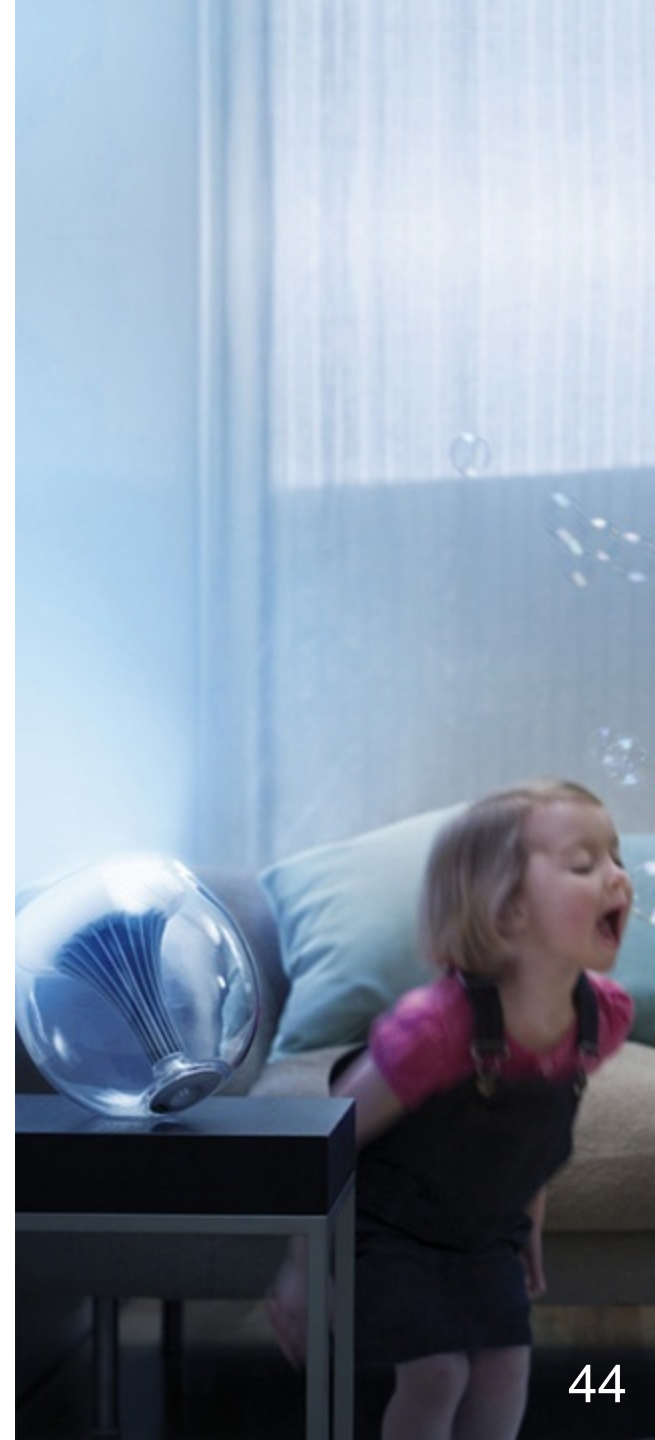


Total sales EUR 6.6 billion



-  Lamps & lighting electronics
-  Professional luminaires
-  Consumer luminaires
-  Automotive/special applications
-  LED components/modules

Target margin 12-14%



## We increase our focus towards the people we serve

*Further strengthening our global leadership in Lighting*



**€7.4**

Billion sales  
in 2008

**51,000+**

People employed  
worldwide in 60 countries

**5%**

of sales invested  
in R&D in 2008

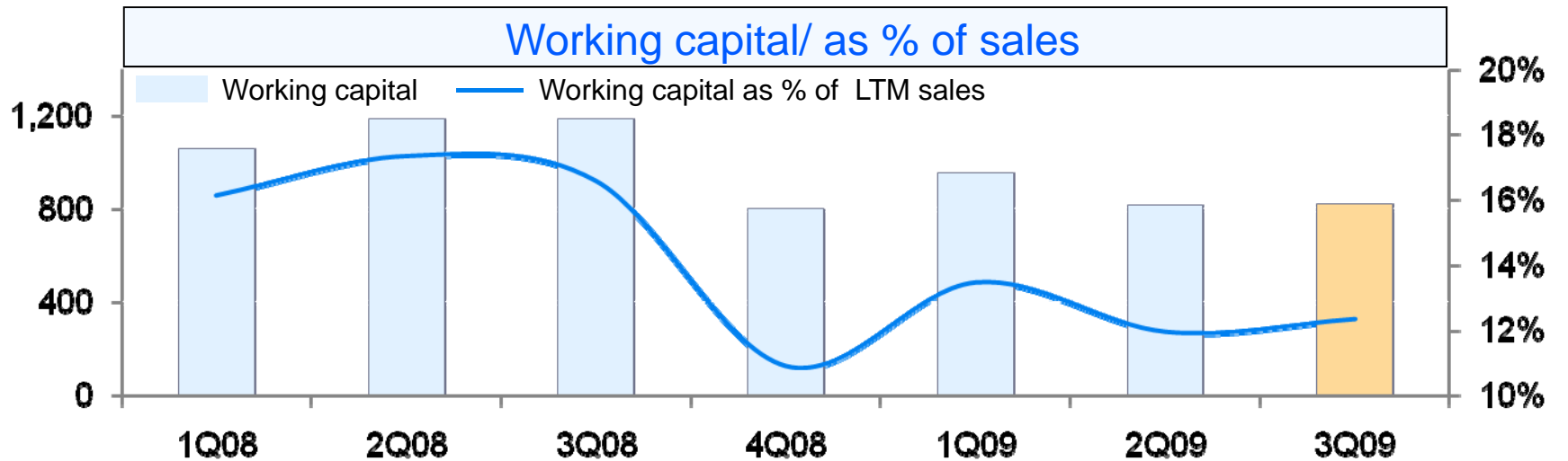
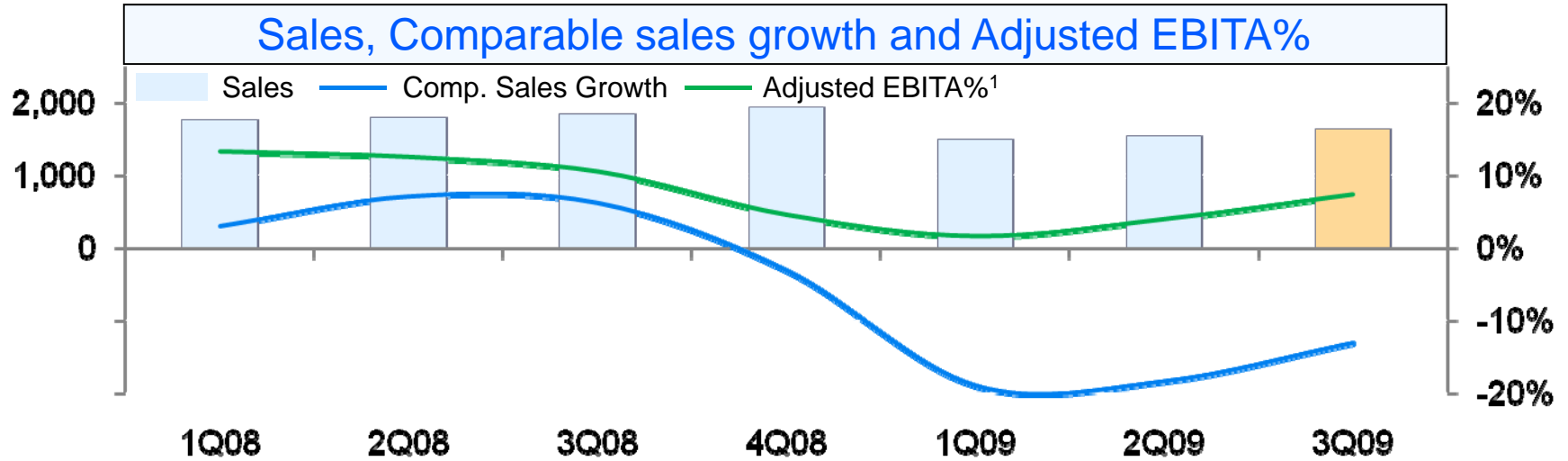
**80,000+**

Products & services  
offered in 2008

\* Indicative split

# Lighting: key financials over the last two years

EUR million



1 – Adjusted EBITA is EBITA corrected for restructuring and acquisition-related charges

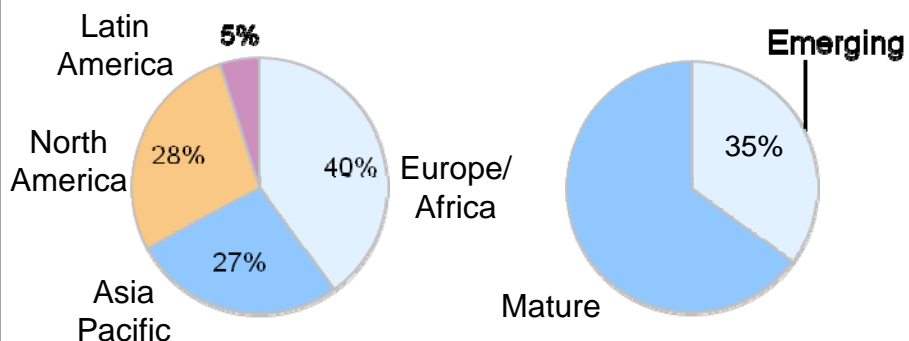
# Lighting: Q3 2009 Sector analysis

EUR million

## Key figures

	3Q08	2Q09	3Q09
Sales	1,846	1,550	1,646
<i>% sales growth comp.</i>	6	(18)	(13)
EBITA	183	(21)	79
<i>EBITA as % of sales</i>	9.9	(1.5)	4.8
EBIT	56	(61)	40
<i>EBIT as % of sales</i>	3.0	(3.9)	2.4
NOC	6,458	5,676	5,382
Employees (FTEs)	60,067	51,627	51,636

## Sales per region 3Q09 Emerging markets



## Financial performance

- Comparable sales declined by 13% year-on-year, due to ongoing weakness in many end-markets resulting from the global economic slowdown. Sequentially, however, comparable sales improved in almost all businesses, supported by strong growth in Asian markets.
- EBITA amounted to EUR 79 million, or 4.8% of sales. Excluding restructuring and acquisition-related charges, EBITA totaled EUR 121 million, or 7.4% of sales. The comparable figure in Q3 2008 was EUR 194 million, or 10.5% of sales.
- Net operating capital decreased by EUR 1.1 billion year-on-year, to EUR 5.4 billion. Working capital requirements declined substantially compared to Q3 2008.

## Looking ahead

- Restructuring and acquisition-related charges of around EUR 85 million are expected in Q4, targeted at further reduction of fixed costs related to conventional lighting technologies.
- In Q4, Philips plans to launch a wide range of new LED-based lighting solutions across many segments, including Outdoor, Retail and Office, while continuing to launch LED retrofit lamps in key markets around the world.

## Lighting structurally more competitive

*Carefully managed actions position us well for the upturn*

### Key Philips Lighting actions

#### Manage today's reality:

- Reduce cost base
- Strengthen pricing discipline to manage margins
- Manage cash through reduced working capital
- Accelerate streamlining of our manufacturing footprint
- Reduce capital investment

#### Get ready for the future

- Continued M&A
- Continued R&D investment
- Invest in emerging markets
- Broaden portfolio in strategic areas such as controls
- Leverage Intellectual Property

### Lowering our break even point

#### Variable costs

##### Variable cost control

- Supply contract renegotiation
- Reduce discretionary spending

##### Fixed cost variabilization

- Reduce headcount
- Streamline industrial production

##### Optimized fixed costs

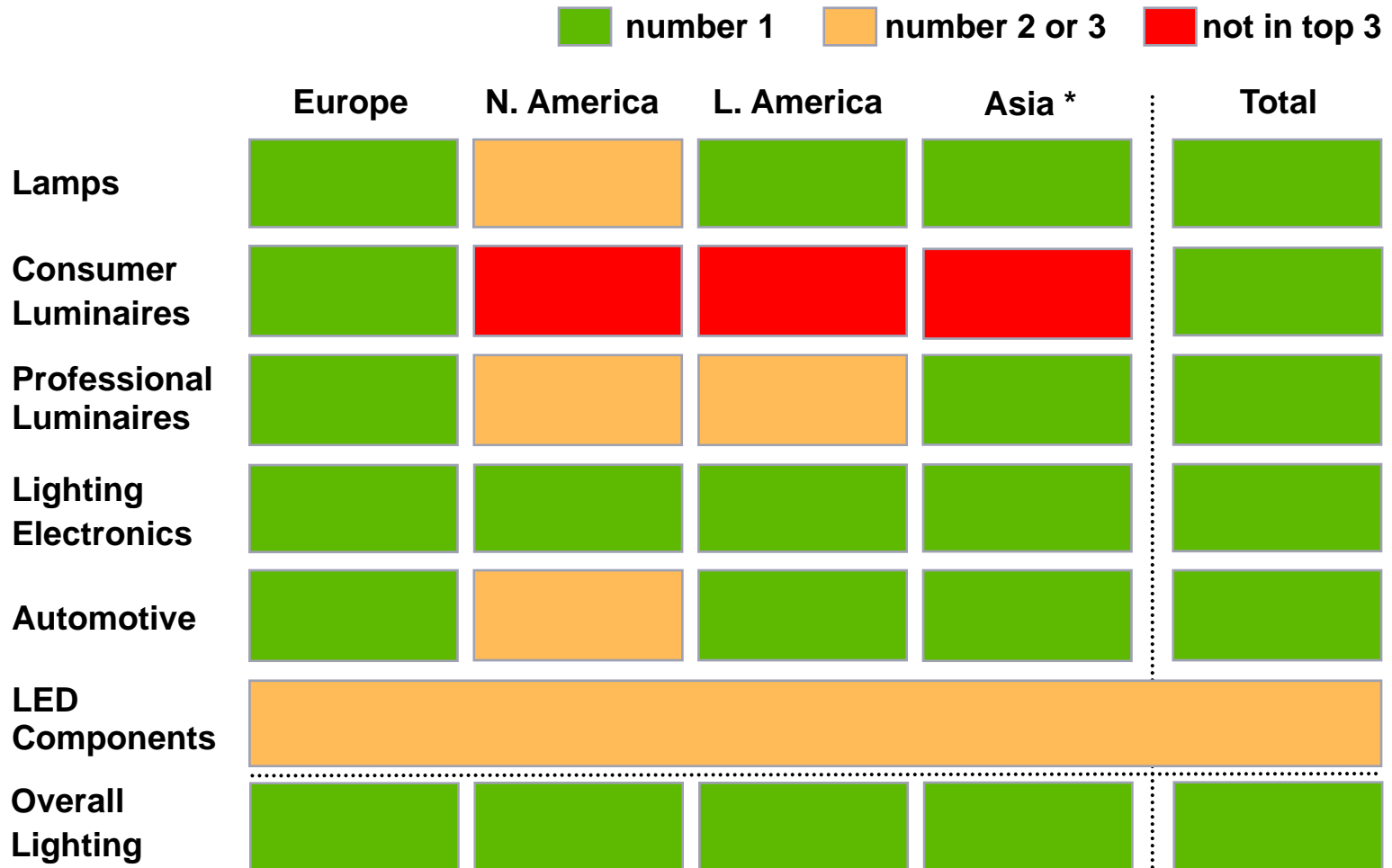
- Reduced SG&A
- Optimized CAPEX

#### Fixed costs





# Lighting: strengthening our leading positions

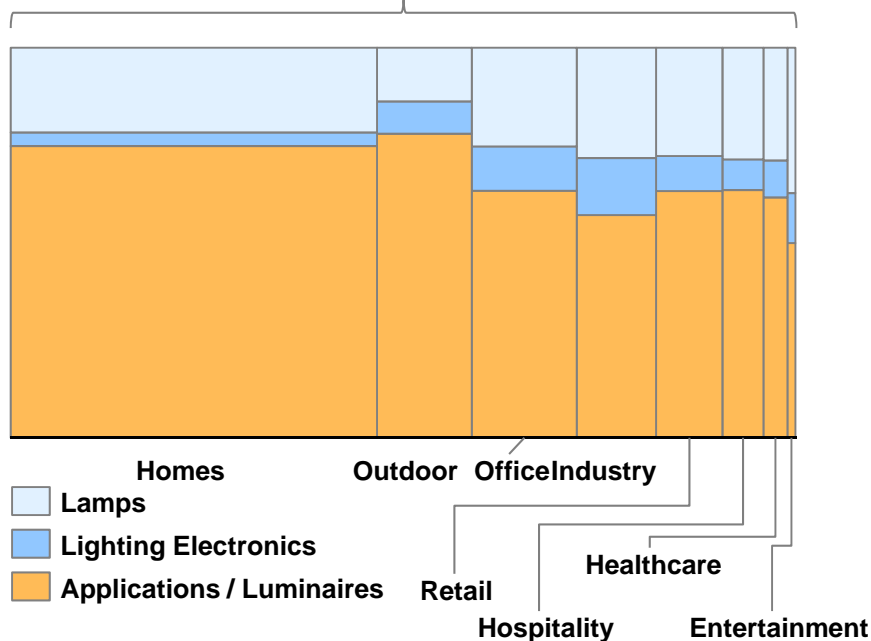


\* Excluding Japan

## Lighting: the general illumination market will grow over the next decade

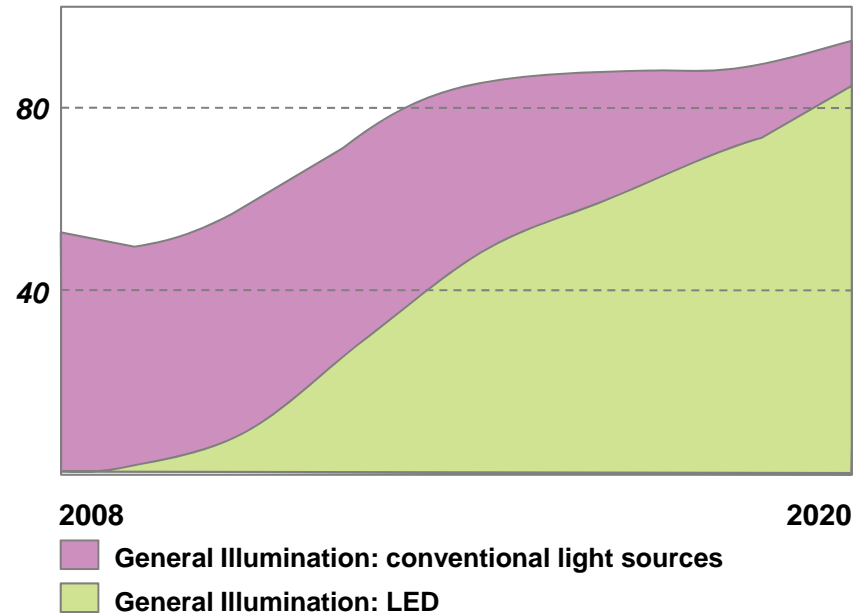
### 2009 general illumination market overview

Total market size: 45-50 B€



**Applications: ~70% and growing**

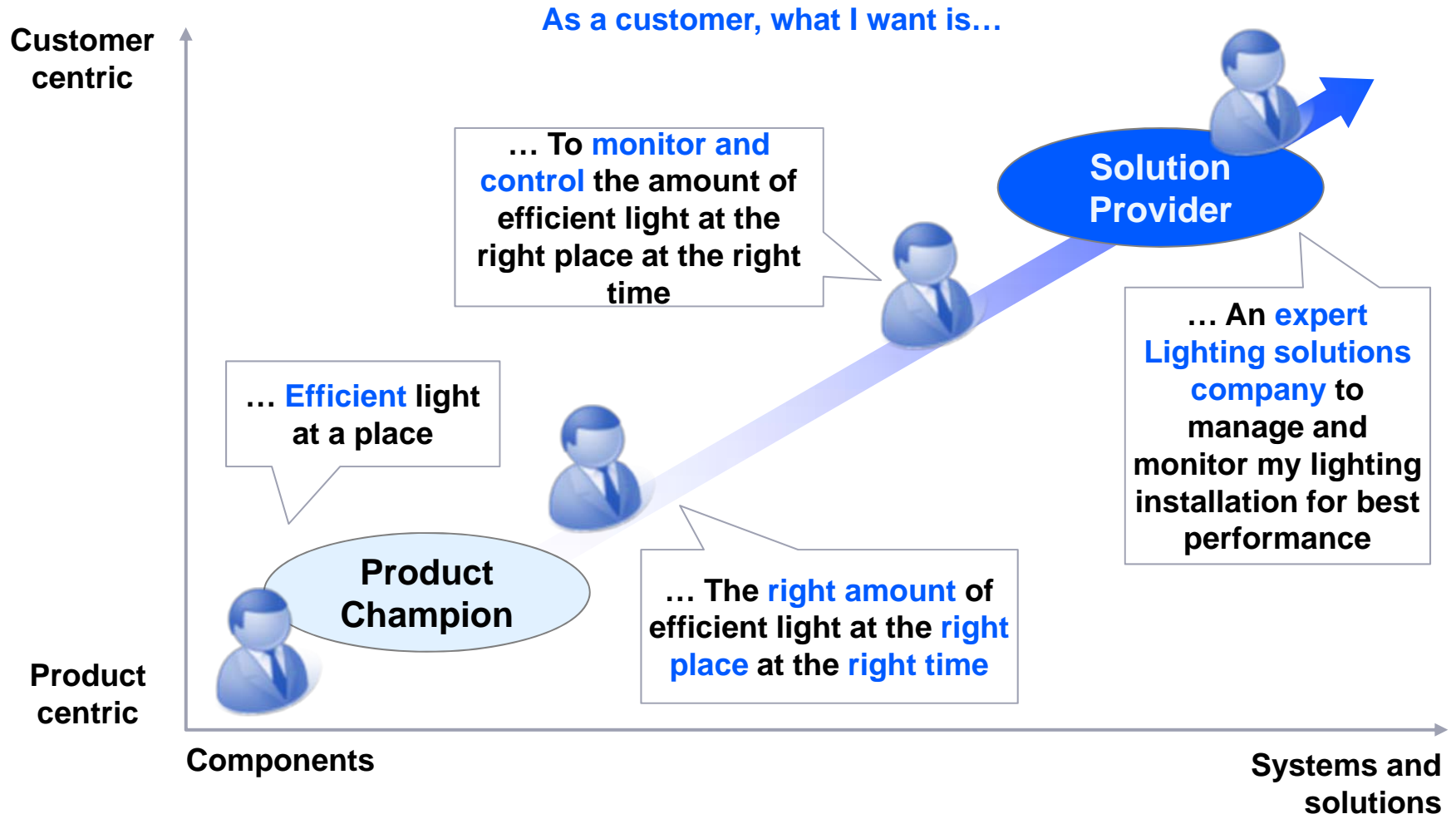
### Value (global, B€)



**CAGR 2010 - 2020: 6 %**

## Lighting: solutions is the right business for the future

*In line with evolving customer needs*



## Group Management & Services

*Adding value to the businesses*

### Corporate Technologies

Philips Corporate Technologies encompasses Corporate Research, Intellectual Property & Standards (IP&S) and Applied Technologies

### Corporate & Regional Costs

Corporate center; Countries & regions and Brand campaign expenditures

### 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, New venture integration and Philips Design



# Sector analysis Q3 – Group Management & Services

EUR million

## Key figures

	3Q08	2Q09	3Q09
Sales	104	73	81
<i>% sales growth comp.</i>	<i>(24)</i>	<i>(46)</i>	<i>(24)</i>
Corporate Technologies	(26)	(44)	(45)
Corporate & Regional Costs	(55)	(30)	(44)
Pensions	1	24	76
Service Units and Other	(297)	43	(26)
-----			
EBITA	(377)	(7)	(39)
EBIT	(377)	(7)	(39)
NOC	484	(3,513)	(3,277)
Employees (FTEs)	11,441	12,284	12,270

## Financial performance

- EBITA amounted to a loss of EUR 39 million, compared to a loss of EUR 377 million in Q3 2008. The year-on-year improvement was driven by a EUR 87 million release of a provision for retiree medical benefits, whereas Q3 2008 included a EUR 259 million asbestos-related charge. Restructuring charges amounted to EUR 14 million.
- Net operating capital decreased by EUR 3.8 billion year-on-year, due to pension adjustments in Q4 2008 and Q2 2009.

## Looking ahead

- Restructuring charges at Group Management & Services are expected to amount to EUR 30 million in Q4, largely related to the realignment of group R&D activities.

**PHILIPS**

**sense and simplicity**

# Appendix

# Development cost capitalization & amortization by sector

*EUR million*

	Capitalization		Amortization	
	Q3 2008	Q3 2009	Q3 2008	Q3 2009
Healthcare	17	21	2	15
Consumer Lifestyle	12	14	55	23
Lighting	-1	6	12	5
GM&S	-1	2	17	-
<b>Group</b>	<b>27</b>	<b>43</b>	<b>86</b>	<b>43</b>



# Fixed assets expenditures & Depreciation by sector \*

*EUR million*

	Gross CapEx		Depreciation	
	Q3 2008	Q3 2009	Q3 2008	Q3 2009
Healthcare	63	38	36	46
Consumer Lifestyle	34	37	41	34
Lighting	88	39	61	86
GM&S	3	7	20	21
<b>Group</b>	<b>188</b>	<b>121</b>	<b>158</b>	<b>187</b>

\* Excluding software related capital expenditures and depreciation

# Fixed assets expenditures & Depreciation by sector \*

EUR million

	Gross CapEx		Depreciation	
	2007	2008	2007	2008
Healthcare	166	206	90	139
Consumer Lifestyle	164	171	156	170
Lighting	247	304	217	329
GM&S	81	89	98	91
<b>Group</b>	<b>658</b>	<b>770</b>	<b>562</b>	<b>729</b>

\* Excluding software related capital expenditures and depreciation

# Restructuring and acquisition-related charges

EUR million

	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09	3Q09 YTD
Acq.-related charges	(19)	(35)	(17)	(19)	<b>(90)</b>	(15)	(14)	(17)	<b>(46)</b>
Restructuring				(65)	<b>(65)</b>		(10)	(23)	<b>(33)</b>
<b>Healthcare</b>	(19)	(35)	(17)	(84)	<b>(155)</b>	(15)	(24)	(40)	<b>(79)</b>
Acq.-related charges					-			(6)	<b>(6)</b>
Restructuring		(70)	(46)	(86)	<b>(202)</b>	(13)	(30)	(23)	<b>(66)</b>
<i>of which TV</i>		(63)	(26)	(41)	<b>(130)</b>	(6)	(28)	(22)	<b>(56)</b>
<b>Consumer Lifestyle</b>	-	(70)	(46)	(86)	<b>(202)</b>	(13)	(30)	(29)	<b>(72)</b>
Acq.-related charges	(18)	(11)	(4)	(7)	<b>(40)</b>	(3)	(6)	(5)	<b>(14)</b>
Restructuring	(12)	(8)	(7)	(196)	<b>(223)</b>	(16)	(76)	(37)	<b>(129)</b>
<b>Lighting</b>	(30)	(19)	(11)	(203)	<b>(263)</b>	(19)	(82)	(42)	<b>(143)</b>

