

PHILIPS

sense and simplicity

Strategy update: Vision 2015

Leading in health and well-being

September 14, 2010

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, in particular the paragraphs “Looking ahead” and “Outlook”. 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, 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 2009 and the “Risk and uncertainties” section in our semi-annual financial report for the six months ended July 4, 2010.

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.

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. 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 this document. Further information on non-GAAP measures can be found in our Annual Report 2009.

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 do not exist, we estimated the fair values using appropriate valuation models and unobservable inputs. 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 our 2009 financial statements. 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 IFRS, unless otherwise stated. This document comprises regulated information within the meaning of the Dutch Financial Markets Supervision Act ‘Wet op het Financieel Toezicht’.

Gerard Kleisterlee

Agenda

- **Introduction**
- The importance of Vision 2010 in our evolution
- Our next frontier: Vision 2015
- Financial aspirations
- Conclusion

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- Introduction
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Vision 2010 outlined 4 key priorities

- **Build a portfolio** of businesses that stands to grow on the back of key global trends
- **Simplify Philips** to optimally tap into market opportunities
- **Continue to invest** where it matters to fuel future growth
- **Lower our costs** structurally and increase profitability



Vision 2010 outlined 4 key priorities

We built a portfolio of businesses that stands to grow on the back of global trends



Aging population



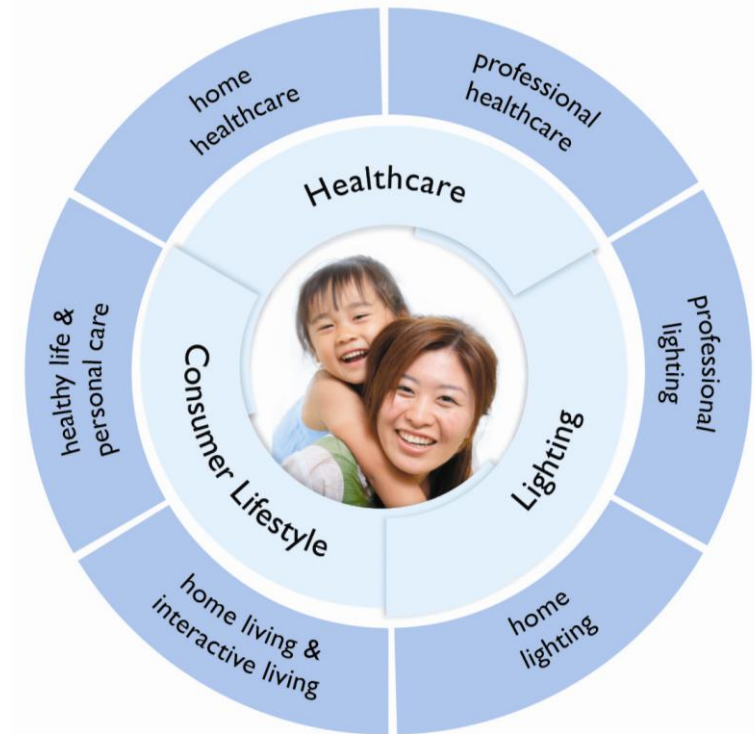
Increased consumer empowerment and sustainable lifestyles



Climate change and sustainable development



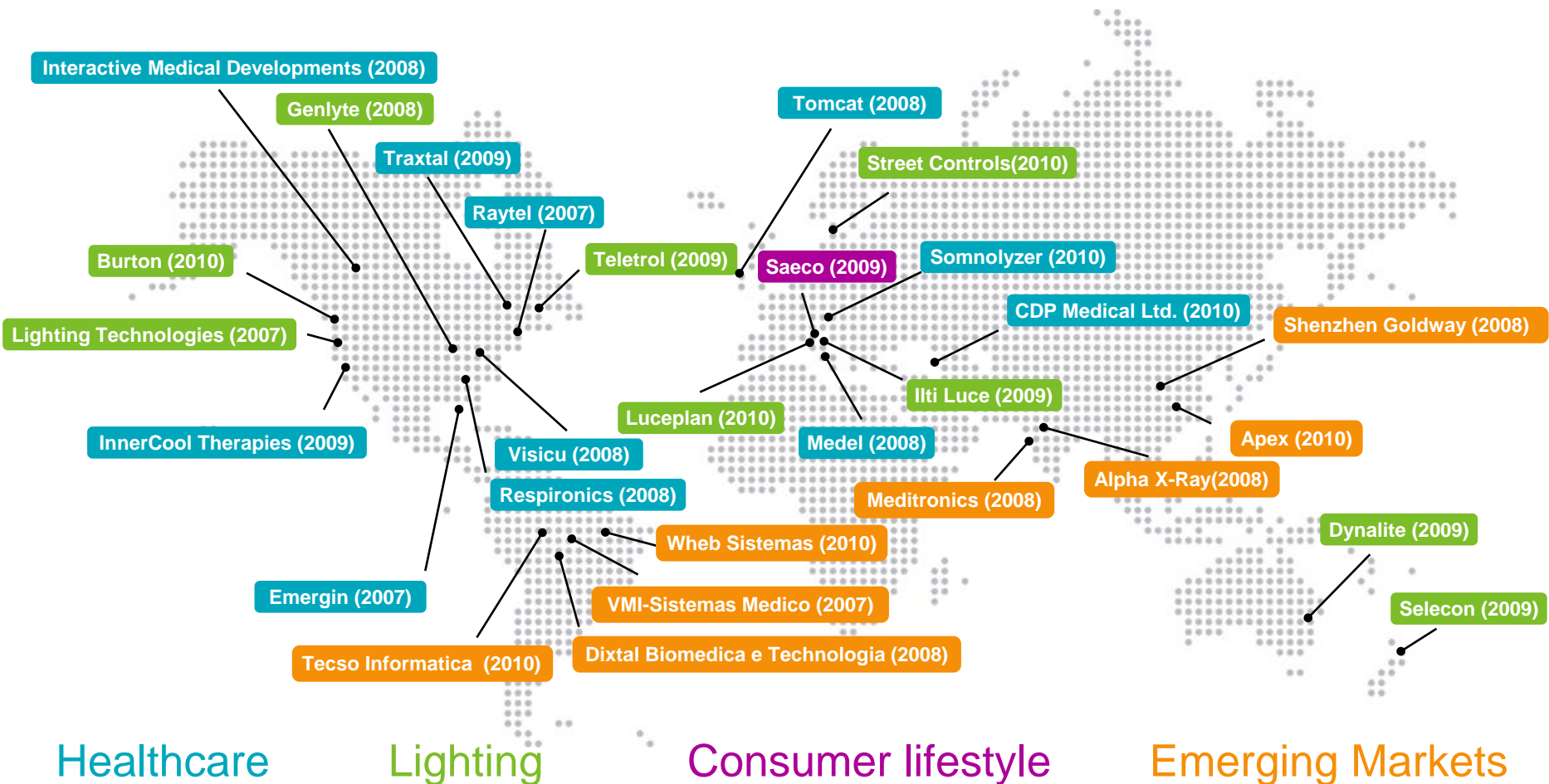
Rise of emerging markets



Vision 2010 outlined 4 key priorities

We built a portfolio of businesses that stands to grow on the back of global trends

Since mid September 2007 we acquired 29 businesses



Vision 2010 outlined 4 key priorities

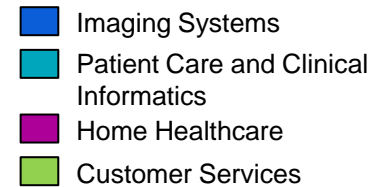
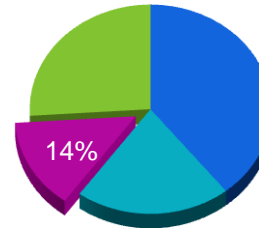
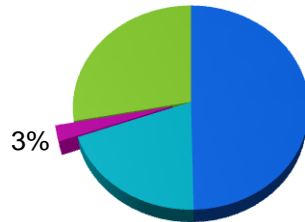
We built a portfolio of businesses that stands to grow on the back of global trends

2007

2010 Q2 LTM*

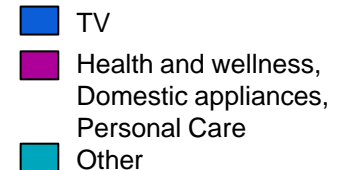
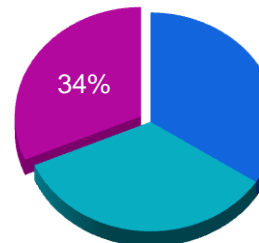
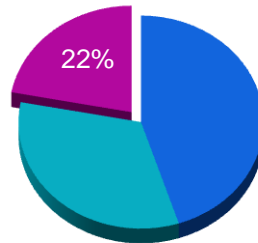
Healthcare

We diversified beyond Imaging Systems and created a significant Home Healthcare business



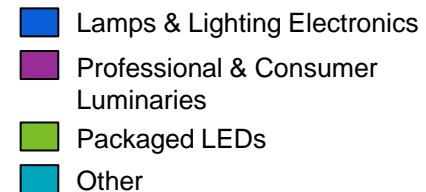
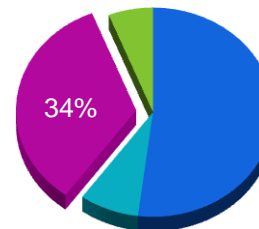
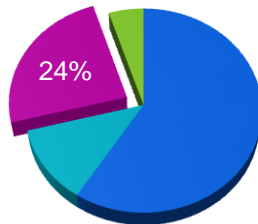
Consumer Lifestyle

We managed to grow higher-margin categories such as Health and Wellness and Domestic Appliances



Lighting

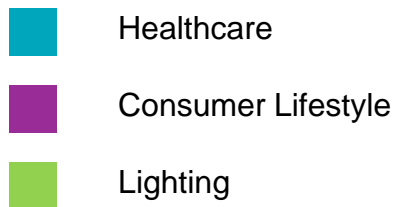
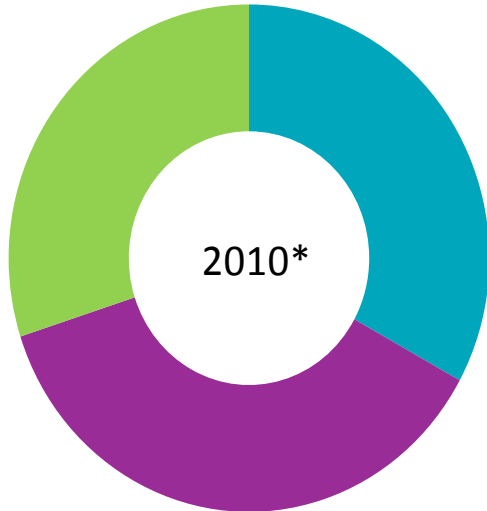
We transformed Lighting from a lamps business to a solutions & applications business while firming up our LED position



Vision 2010 outlined 4 key priorities

We simplified Philips to optimally tap into market opportunities

2010 – 3 business sectors
(actual sales split Q2 LTM*)



Examples of simplification programs

- **Merger of Global Management & Services and Innovation & Emerging Businesses** to further drive efficiency of our innovation efforts, by realigning our incubator activities closer to the sectors and simplifying our reporting structure with the creation of one shared-functions group
- Sectors organized around customers and markets
 - **Healthcare** go-to-market strategy re-organized geographically
 - **Lighting** re-organized into customer segment-based market approach
 - DAP and CE combined to create **Consumer Lifestyle**
- **More empowerment** of Brazil, India and China organizations through shared accountability
- **Reduction of layers** within the organization , coupled with an increase in the span of control of managers

Vision 2010 outlined 4 key priorities

We continued to invest where it matters to fuel future growth

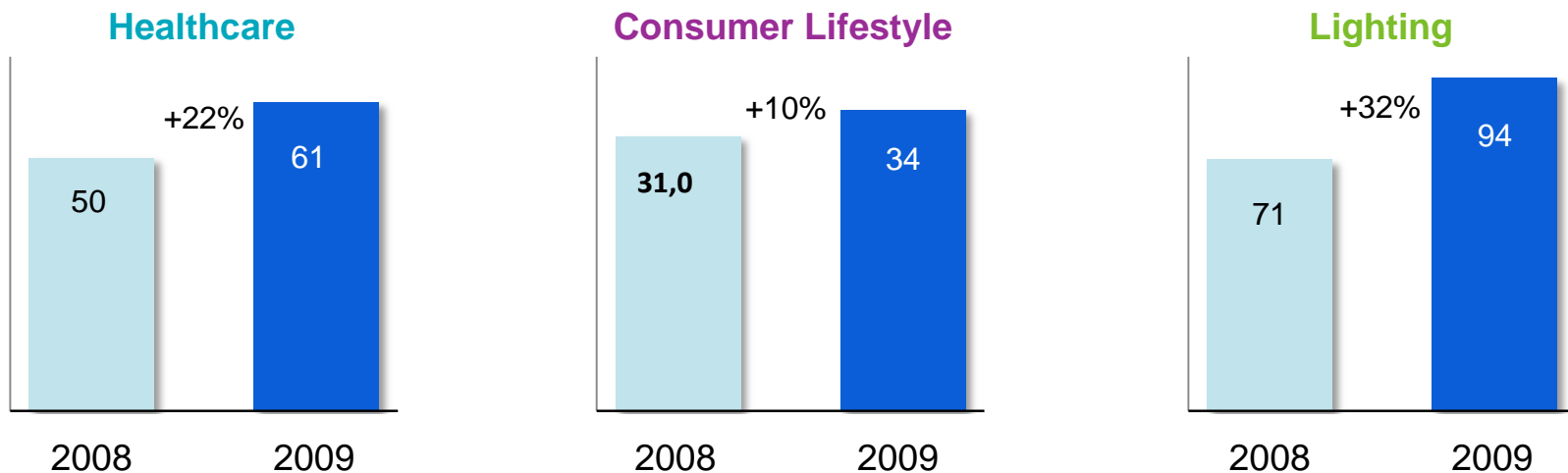
Innovation

- Despite the crisis, we maintained overall spend on R&D at EUR 1.6 billion in 2009, or 7% of sales
- Around 50% of our current revenues stems from new products sales*

Marketing

- In 2009 we became the world's 42nd most valuable brand in the Interbrand global ranking, from 65th place in 2004 (our brand value almost doubled to USD 8.1 billion in 2009 versus 2004)
- Increased Net Promoter Score leadership positions to 60% in 2009 from 51% in 2008

All three sectors increased Net Promoter Score Leadership positions*



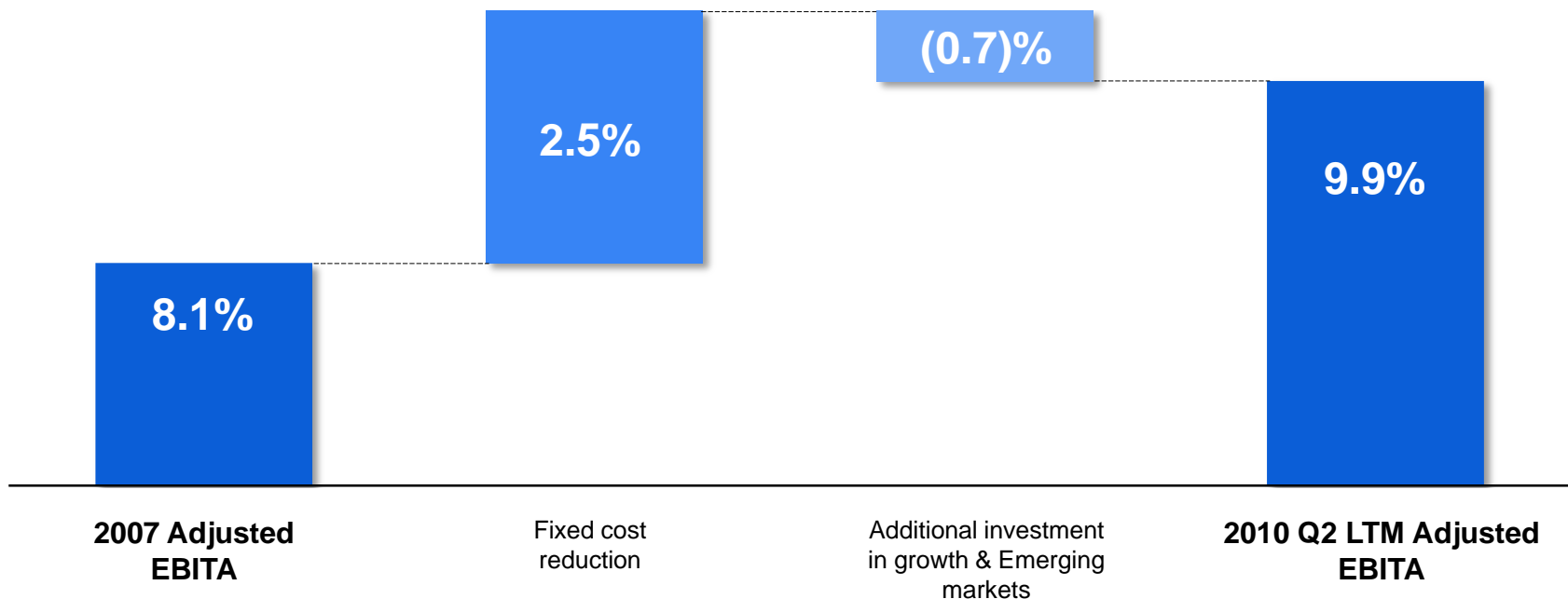
* New product sales is revenues generated from products that were launched in the last two years

Vision 2010 outlined 4 key priorities

We structurally **lowered our costs** and increased profitability

Our cost management efforts since 2008 will lead to a reduction in our 2010 fixed cost base of **more than EUR 700 million** compared to 2008 cost levels

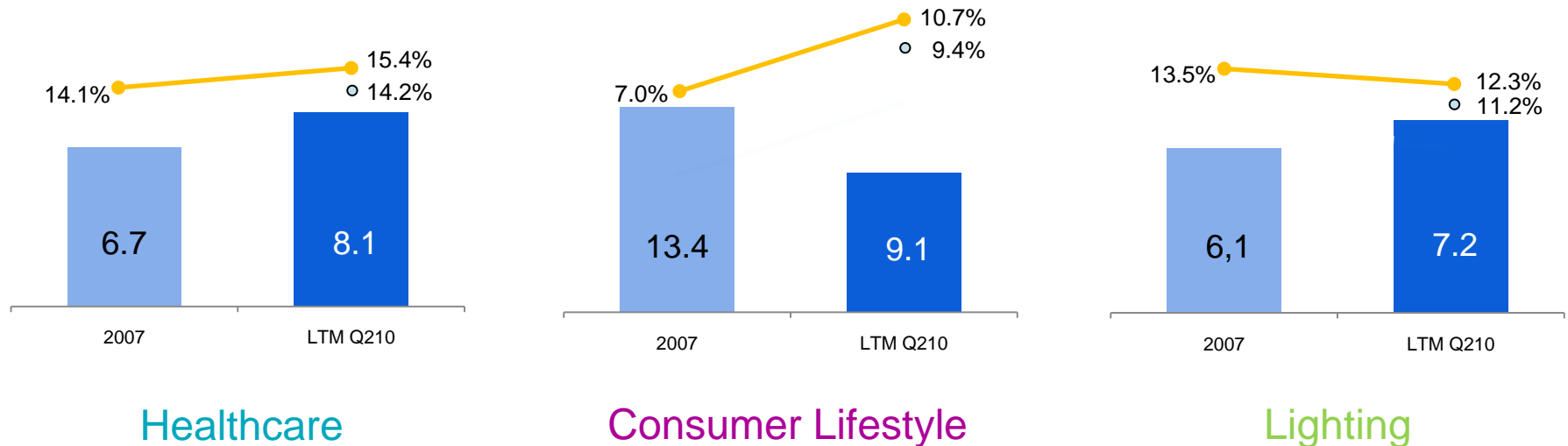
2007-2010 Q2 LTM EBITA percentage bridge



Vision 2010 outlined 4 key priorities

We structurally lowered our costs and **increased profitability**

Despite the impact of the financial crisis on our revenues, our sectors are **on track** to deliver on their EBITA margin targets

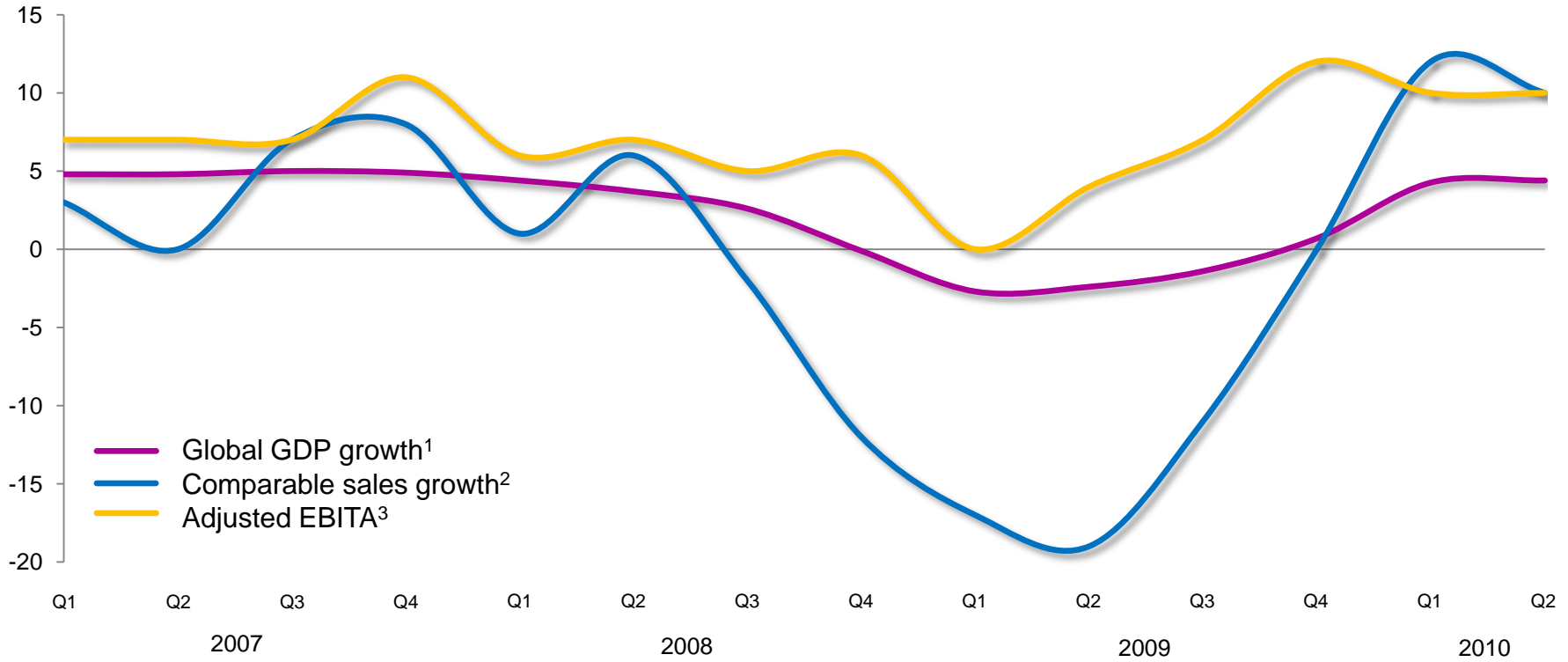


- Nominal Sales in billion euros
- Adjusted EBITA before Corporate Intellectual Property and overhead charges
- Adjusted EBITA as reported

We missed our sales growth target but we came out of the crisis stronger

Development of GDP, sales and EBITA in 2007-Q2 2010

% growth by quarter



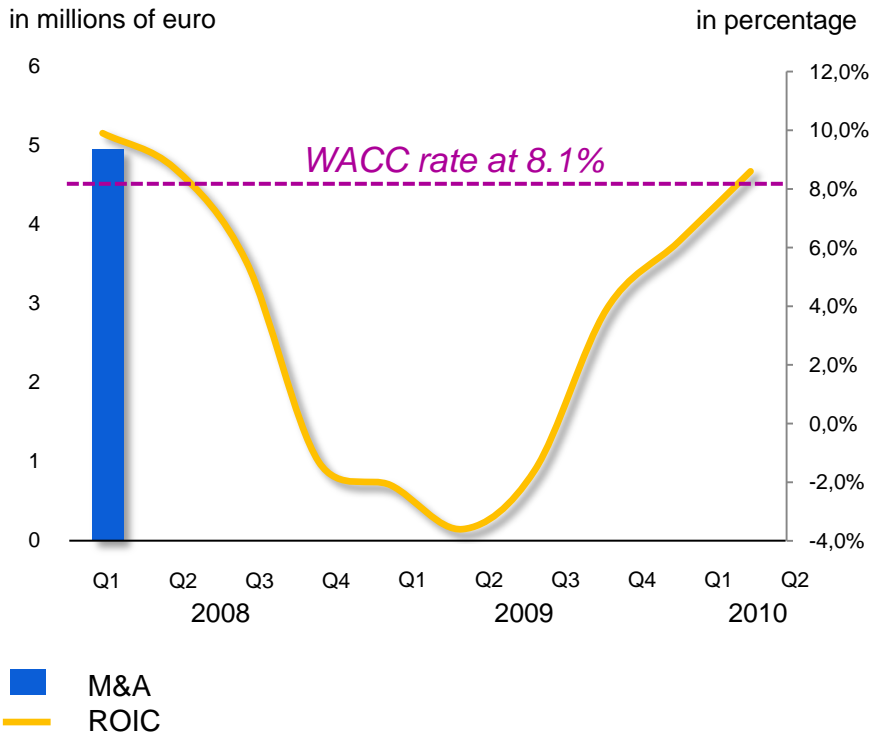
1 – Real GDP growth, year-on-year; Source: IMF

2 – Comparable sales growth, year-on-year

3 – EBITA excluding restructuring, acquisition-related and other charges

Our ROIC is on the right trajectory after significant M&A

Development of Return on Invested Capital



- We doubled our asset base, as we invested in growing our home healthcare business with the acquisition of Respironics and strengthened our global leadership in professional luminaires with the acquisition of Genlyte in 2008
- The crisis had a severe impact on our revenues and Earnings Before Interest and After Tax (EBIAT), which caused our ROIC to deteriorate sharply
- As we made our way out of the crisis a structurally stronger company with significantly higher profitability levels, our ROIC is again back in positive territory

Notes:

EBIAT are earnings before interest after tax



Philips calculates ROIC % as: $\text{EBIAT} / \text{NOC}$

Quarterly ROIC % is based on LTM EBIAT and average NOC over the last 5 quarters





Effective Tax Rate used to calculate EBIAT

We expect to meet Vision 2010 EBITA margin targets despite significantly lower revenues due to the crisis

The 2010 financial targets

- **Comparable sales growth of 6% average per year** 
- **Group EBITA margin of 10-11%** 


Sector EBITA targets:

- **Healthcare 15-17%** 
- **Lighting 12-14%** 
- **Consumer Lifestyle 8-10%** 
- **Generate ROIC of 12-13% on invested capital** 

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Our ambition for 2015



Philips wants to be a global leader in health and well-being, becoming the preferred brand in the majority of our chosen markets. We believe Philips is uniquely positioned for growth through its ability to simply make a difference to people's lives with meaningful, sustainable innovations.

Vision 2015 outlines four key priorities

- Expand leadership positions while benefiting from markets growing faster than GDP
- Be the preferred brand in the majority of our chosen markets
- Lead in sustainability
- Be seen by all stakeholders as making a positive difference in people's lives



The four global trends that drove Vision 2010 are becoming increasingly relevant



Aging population



The rise of emerging markets



Increased consumer empowerment and sustainable lifestyles



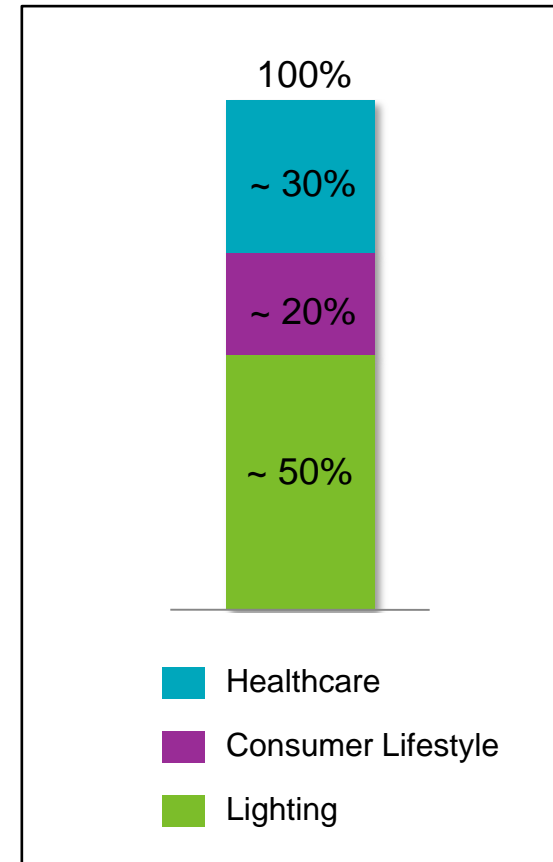
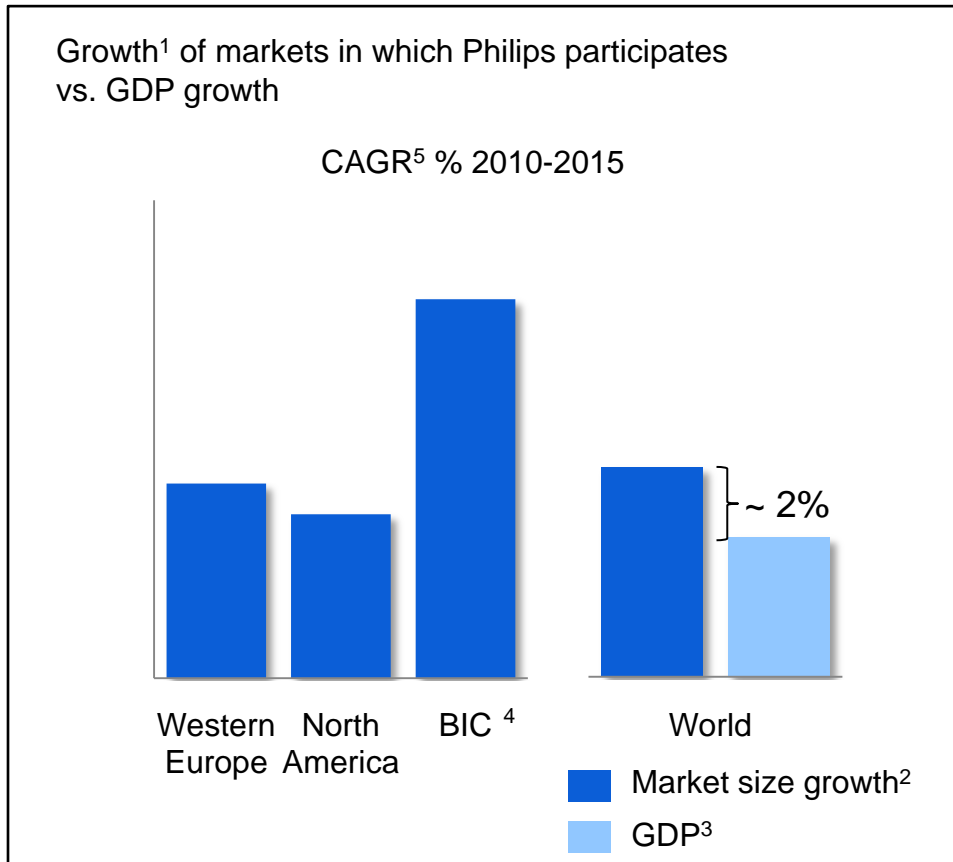
Climate change and sustainable development

We expect our markets to grow faster than GDP³

Most growth expected to come in lighting and healthcare markets

We expect our markets to grow faster than GDP...

...translating into expected market growth per sector...



1. Excluding TV

2. Based on internal analysis

3. EIU estimates

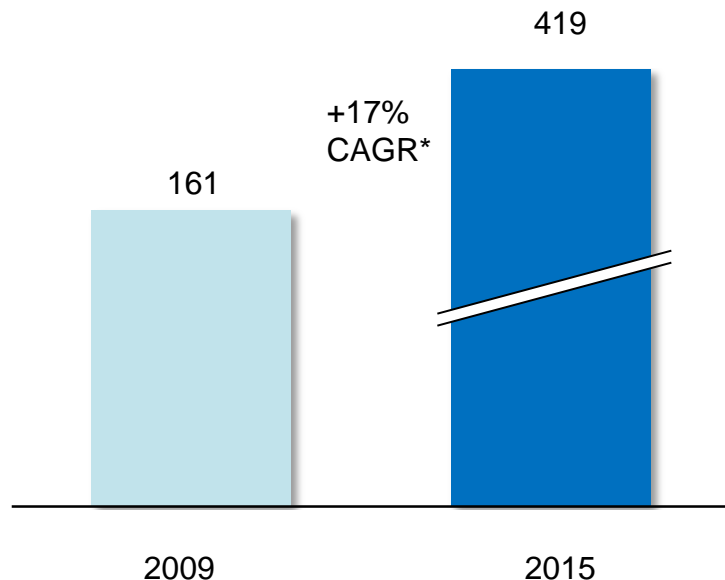
4. Brazil, India, China

5. CAGR: Compound Annual Growth Rate

Emerging markets are a key growth opportunity driven by rapid expansion of the middle class

Middle class households growth in key emerging markets

Millions of households¹



- Philips sales show a strong correlation with middle class
 - The number of middle class households in key emerging markets will more than double until 2015
 - The total middle class income pool in emerging markets will almost double until 2015
- Our sectors will benefit strongly from the rise of the middle class in emerging markets:
 - Increasingly affordable healthcare which will drive demand
 - Building of new and better housing and other infrastructure increasing demand for lighting
 - Increasing demand for a higher quality, and healthier lifestyle

Source: Internal analysis

* CAGR: Compound Annual Growth Rate

Uniquely positioned for continued growth in Healthcare

Prioritization across our portfolio

Current NPS leadership positions



Regional
Cardio
vascular



Global
Patient
Monitoring



Regional
Cardiac
resuscitation



Regional
Radiation
Oncology Systems



Global
Ultrasound



Regional
Home
Healthcare



	Manage for cash	Optimize position	Drive growth	Invest for longer term growth
Healthcare		<ul style="list-style-type: none"> Diagnostic imaging 	<ul style="list-style-type: none"> Home healthcare Patient Care and Clinical Informatics Customer Services 	<ul style="list-style-type: none"> Image guided intervention / therapy Clinical decision support Home healthcare

*(Co)Leadership is defined as outperforming (>5%) or on par with best competitor, globally or regionally

Uniquely positioned for growth in Consumer Lifestyle

Prioritization across our portfolio

Current NPS leadership positions



Regional
Male electric shaving
and grooming



Global
Mother and Child
Care



Regional
Power
Toothbrushes



Global
Female
depilation



Global
Steam irons



Regional
Blenders



Global
Juicers



	Manage for cash	Optimize position	Drive growth	Invest for longer term growth
Lifestyle	<ul style="list-style-type: none"> • TV • AVM 	<ul style="list-style-type: none"> • Personal Care • Domestic Appliances • Accessories 	<ul style="list-style-type: none"> • Health & Wellness • Kitchen Appliances / Beverage Appliances 	<ul style="list-style-type: none"> • Lifestyle management • Skincare • Water & Air

*(Co)Leadership is defined as outperforming (>5%) or on par with best competitor, globally or regionally

Uniquely positioned for continued growth in Lighting

Prioritization across our portfolio

Current NPS leadership positions

					
<i>Regional</i> Consumer Luminaires	<i>Global</i> Professional Luminaires	<i>Global</i> Lamps	<i>Regional</i> Automotive Lighting	<i>Global</i> High Power LEDs	<i>Global</i> Lighting Electronics



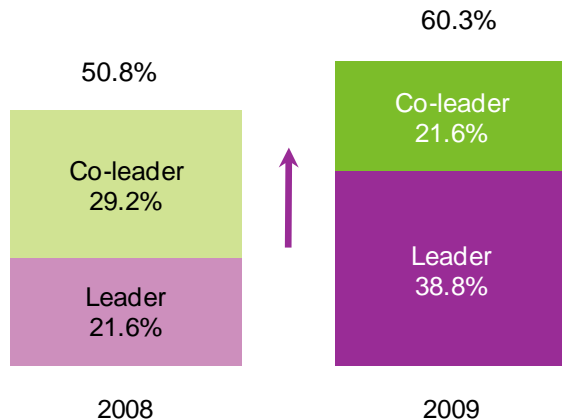
	Manage for cash	Optimize position	Drive growth	Invest for longer term growth
Lighting		<ul style="list-style-type: none"> Automotive Conventional lamps 	<ul style="list-style-type: none"> LED lamps Professional Luminaires Consumer Luminaires 	<ul style="list-style-type: none"> Smart Lighting Solutions Service extensions

*(Co)Leadership is defined as outperforming (>5%) or on par with best competitor, globally or regionally

We aim to further strengthen our market positions and brand

Where we are today

Increased Net Promoter Score (NPS) shows that we continue to build loyalty...



Philips moved up to world's 42nd brand in 2009, up from 65th in 2004, in the Interbrand global ranking

Our 2015 ambition

We want to become the preferred brand in the majority of our chosen markets by 2015

Well positioned to capture the emerging markets opportunity

Current presence is a strong base for growth



Current sales in Emerging Markets	2010 Q2 LTM*	Q2 2010
Healthcare	19%	18%
Consumer Lifestyle	39%	42%
Lighting	37%	41%
Global	32%	34%

2015 target is at least 40%

Sources: Goldman Sachs (Company filings, broker research, investor presentations).
Relates to B2C business only

* LTM: Last 12 months

Leadership in sustainability is an important driver of growth



In early 2010 we launched our new EcoVision5 program after delivering on most of EcoVision4 targets ahead of time including more than 30% of our sales from green products

EcoVision5 program targets for 2010–2015

- To bring care to 500 million 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

Supersector Leader in DJ Sustainability Index

In September 2010 we were recognized as the supersector leader in the Personal and Household Goods category in the 2010 / 2011 review of the Dow Jones Sustainability Index

Pierre-Jean Sivainon

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Our financial aspirations 2011-2015

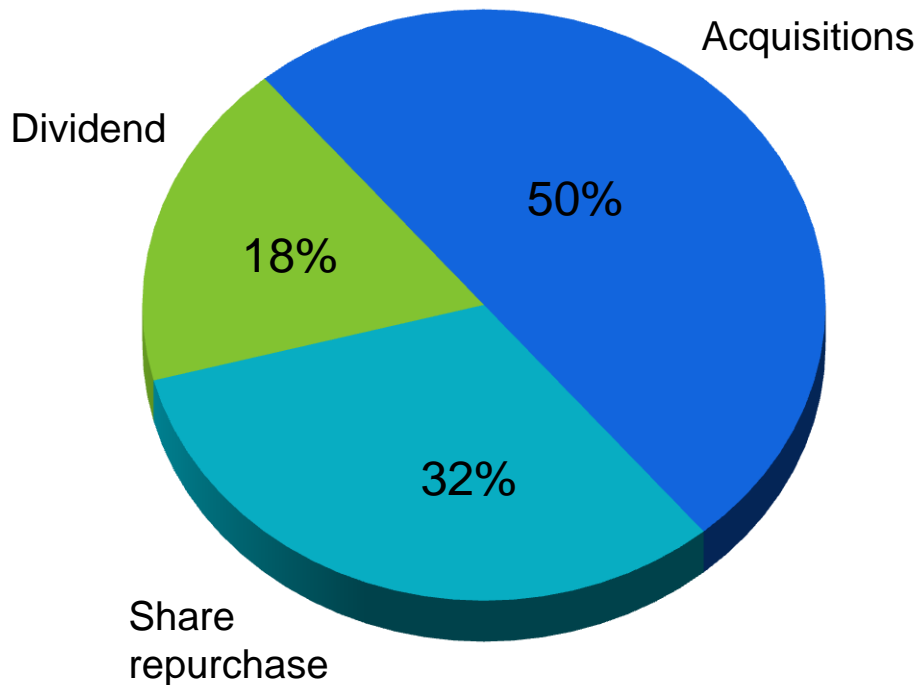
Goals and Aspirations

- **Comparable sales** growth on annual average basis equal to real GDP + a minimum of 2%
- **Reported EBITA** between 10% and 13% of sales
- **Growth of EPS** at double the rate of comparable annual sales growth
- **Return on Invested Capital** at least 4% above Weighted Average Cost of Capital

Supported by the right allocation of capital

Continuing our capital allocation priorities from recent years

2007 – 2010 year-to-date
100% = EUR 13.2 billion



Capital allocation priorities

1. Maintain our A-rating
2. Sustainable dividend growth (40-50% of continuing net income)
3. Acquisitions / investments in growth markets
4. Share repurchase

Gerard Kleisterlee

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Conclusion

- We built a strong and balanced portfolio of products and services, with leadership positions across the world, within our health and well-being domain
- We want to be a global leader in health and well-being, becoming the preferred brand in the majority of our chosen markets
- Vision 2015 is about growth. Analysis shows we have picked the right markets and will be able to grow at least 2% ahead of real global GDP
- We expect to achieve a reported EBITA margin between 10% and 13%, and to grow EPS at double the rate of comparable annual sales growth
- We believe we can continue to deliver value to all our stakeholders by simply making a difference to people's lives with meaningful innovations



We have reinvented ourselves but one thing never changed: our mission

Philips has reinvented itself many times, but through it all, our core, the soul of our company, remained intact. That is because it was part of our company since its inception in 1891. It is the passion to...

“Improve the quality of people’s lives through timely introduction of meaningful innovations”

