

# PHILIPS

sense **and** simplicity

## Philips Consumer Lifestyle Journey

Andrea Ragnetti  
Chief Executive Officer

## A diverse experienced international management team

6 nationalities; 20% women; 50% non-Dutch; >20 countries worked in

**Elwin de Valk**  
Growth Cluster Leader  
Previous role: General Manager UK & Ireland  
Nationality: Dutch  
Worked in: Netherlands, UK, US, Singapore

**Andrea Ragnetti**  
CEO  
Previous roles: CEO DAP and CMO  
Previous experience: P&G, Reckitt Benckiser, Telecom Italia  
Nationality: Italian  
Worked in: Italy, Portugal, France, Netherlands

**Lee Bennett**  
CSO  
Previous Experience: Honeywell , VP Supply Chain  
Nationality: British  
Worked in: China, Japan, Netherlands, N. America, UK

**Caroline Janssen-Clarke**  
BU Leader, Shaving & Beauty  
Previous Experience: Sara Lee, Europe & Africa cluster Household & Body Care Division  
Nationality: British  
Worked in: Netherlands, UK, USA, Europe, Africa



**Egbert van Acht**  
CMO  
Previous role: CMO Domestic Appliances  
Previous experience: P&G  
Nationality: Dutch  
Worked in: Canada, Germany, UK

**Paul Verhagen**  
CFO  
Previous role: CFO Consumer Electronics  
Nationality: Dutch  
Worked in: China, Hong Kong, Netherlands, US, Taiwan

**Robert Smits**  
BU Leader, TV  
Previous Role: BU leader, Shaving & Beauty  
Nationality: Dutch  
Worked in: Brazil, Singapore, Netherlands

**Antonio Hidalgo**  
CTO, Innovation & Development  
Previous Experience: Mars, VP Innovation, R&D; P&G  
Nationality: Spanish  
Worked in: Netherlands, Spain, UK, USA

## Philips – Our businesses and our mission

### Becoming the leader in Health & Well-being

#### Who we are

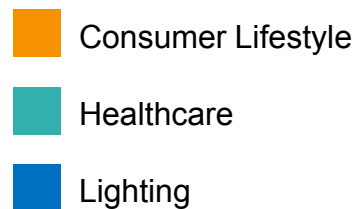
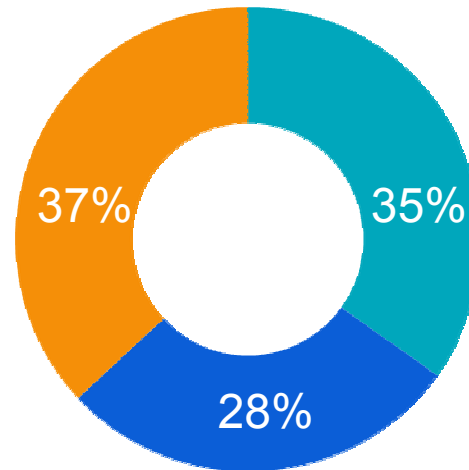
Sales approx **EUR 24 billion<sup>1</sup>**  
Over 30% in emerging economies

**118,000 employees**  
Sales and service outlets in 100 countries

**Globally recognized brand**  
(42<sup>nd</sup> most valuable brand according to Interbrand)  
Our brand value has almost doubled to \$8.1bn since 2004

**€1.7 billion investment in R&D**, approx 7% of sales  
55,000 patent rights – 33,000 registered trademarks – 49,000 design rights

#### Our businesses<sup>2</sup>



#### Our mission

“...a global company of leading businesses creating value with **meaningful innovations** that improve people’s **health and well-being.**”

Philips is an increasingly strong global brand

Sense & Simplicity drives how we work and is our promise to consumers

**42 PHILIPS 8,121 \$m ▲**

**Interbrand**

**Best Global Brands**

2009 Rank	2008 Rank	Brand	Country of Origin	Sector	2009 Brand Value (\$m)	Change in Brand Value
41	45	GUCCI	Italy	Luxury	8,182	-1%
42	43	PHILIPS	Netherlands	Diversified	8,121	-2%
43	58	amazon.com	United States	Internet Services	7,858	22%
44	51	L'ORÉAL	France	Personal Care	7,748	3%

**"At Philips, the brand informs how we do business, from product development to the billing department. 'Simplicity' is not just a tagline. It is a guiding principle, which is continuously tracked externally and internally"**

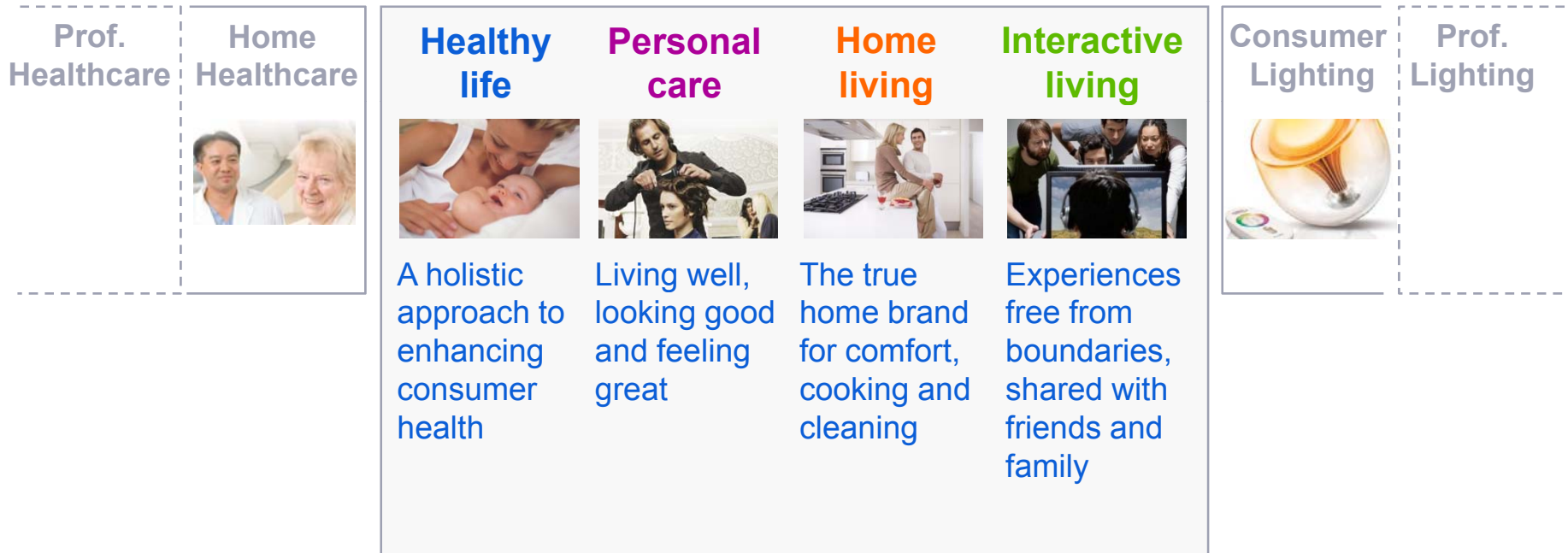
Geert van Kuyck, Chief Marketing Officer, Philips

## Our consumer-driven value spaces are an integral part of Philips' Health & Well-being portfolio

### Healthcare

### Consumer Lifestyle

### Lighting



# A growing number of leadership positions measured by Net Promoter Score and Market Share



**Global leader**  
Mother &  
Child Care



**Global leader**  
Power  
Toothbrush



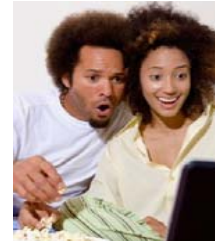
**Global leader**  
Male Electric  
Shaving &  
Grooming



**Global leader**  
Coffee  
Preparation



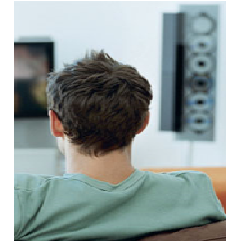
**Regional leader**  
Food  
Preparation



**Regional leader**  
Television



**Regional Leader**  
Peripherals &  
Accessories

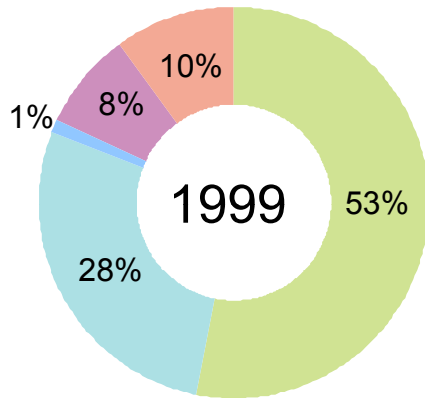


**Regional leader**  
Audio and  
Video  
Entertainment

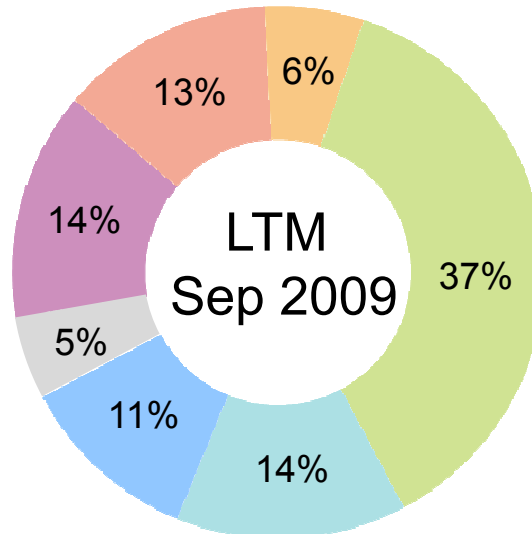
## Our businesses...

An increasingly balanced portfolio

Total sales EUR 9.5 billion

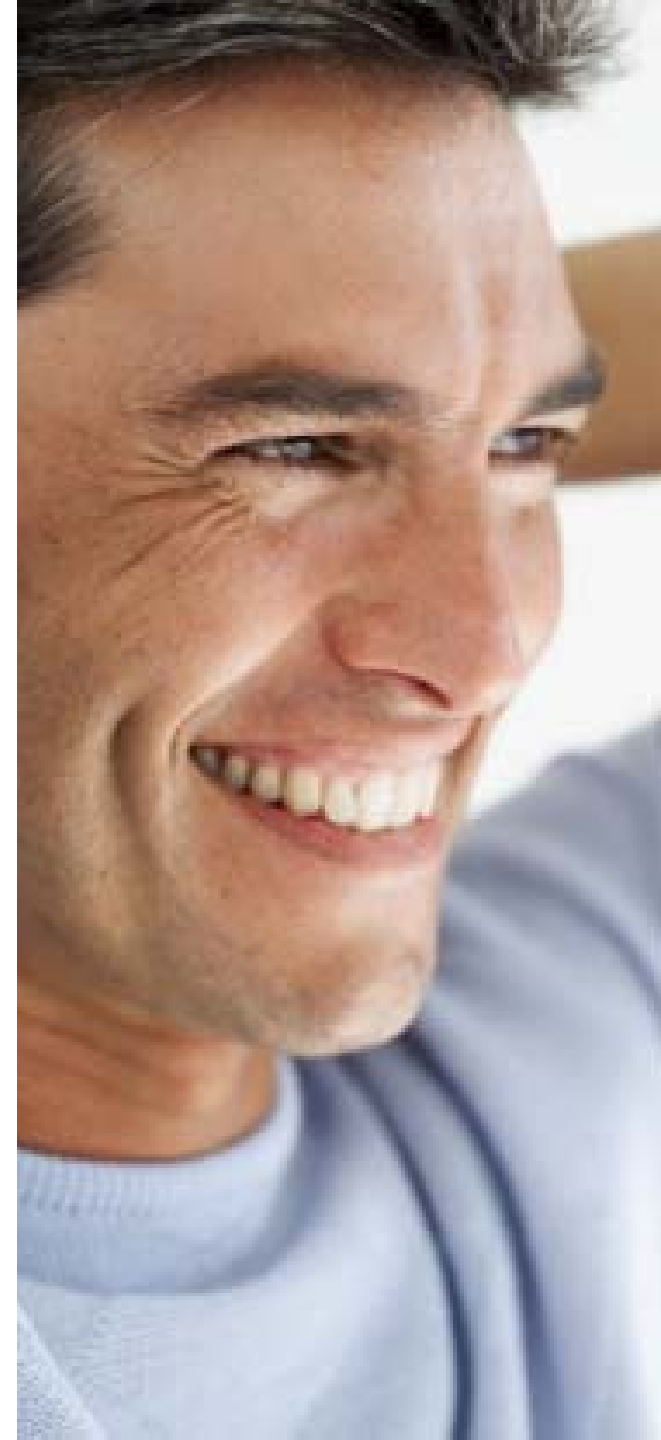


Total sales EUR 8.5 billion



EBITA target of 8-10%

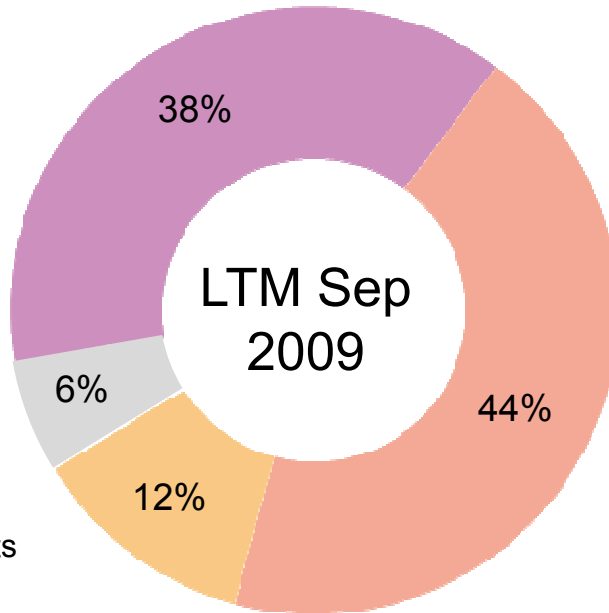
- Domestic appliances
- Shaving & beauty
- Health & wellness
- TV
- Audio & video multimedia
- Peripherals & accessories
- OEM / Licenses



# Strong focus on Emerging Markets

38% of sales from Emerging Markets

Total sales EUR 8.5 billion



- Emerging Markets
- Western Europe
- North America
- Other

Note: Other includes OEM and licenses





## Key takeaways

- We have **successfully reorganized, over-delivering on cost synergies** and acting decisively to **address margin issues in TV**. We are coming out of the recession **stronger**
- We are executing our strategy to build a leading Health & Well-being business. We will focus on generating profitable growth through the upcoming markets recovery. The key drivers will be: investments in Innovation and Emerging Markets

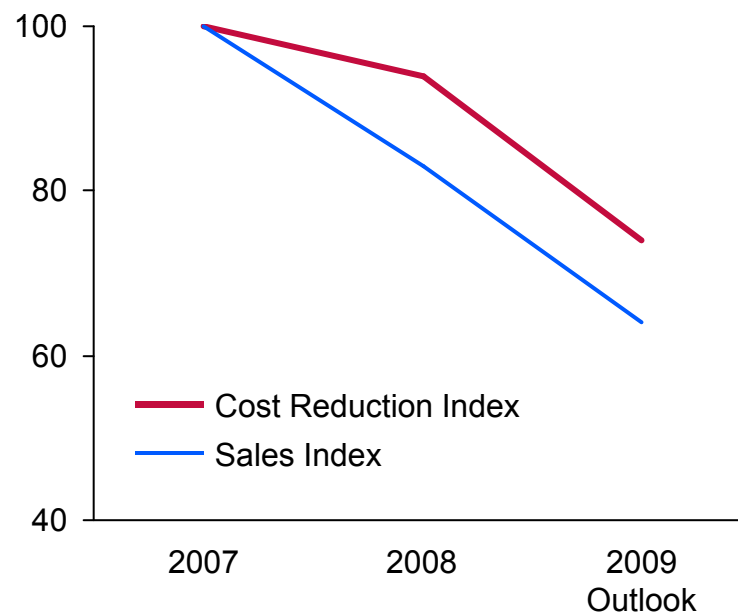


# We have over-delivered on the 200M synergy savings from the CE / DAP merger

## Simplification of organization <sup>1</sup>

- Increased span of control from 6-8 to 10-12
- 8 layers to 4-5 layers
- 8 business units to 6
- 4 regional sales structures to 3 clusters
- 19 to 11 in-house operating sites
- 25 innovation centers to 11
- 40% reduction in executives  
35% reduction in middle-management roles  
28% reduction in total permanent employees

## Sales & Cost Index Curve

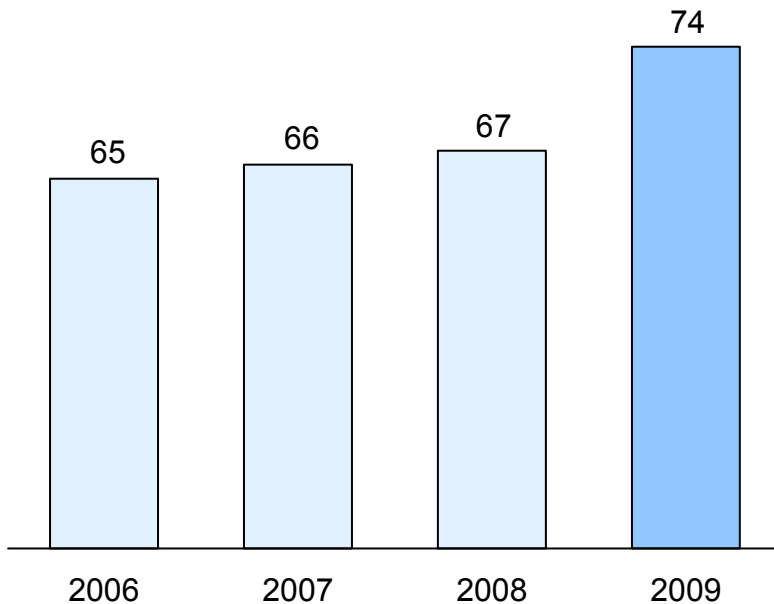


Note: 1) Differences between Jan 2008 – Jan 2010 (outlook)

Despite the reorganization and economic conditions we are more engaged than ever

**Employee Engagement<sup>1</sup>**

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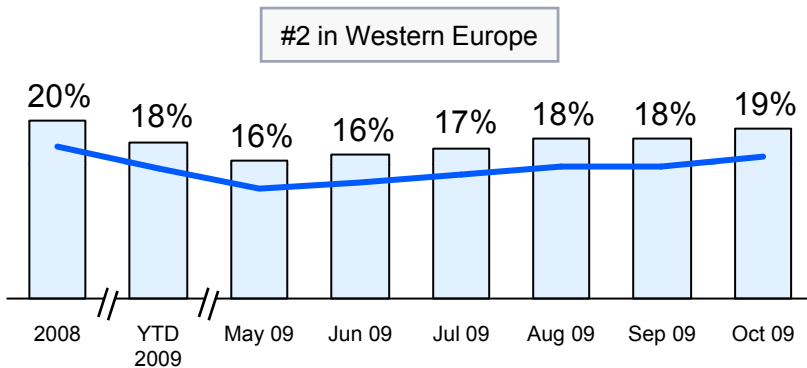
*Note: 2006/2007 scores are based on combined CE/DAP results*

Source: 1) Employee engagement survey conducted by external consultants, Kenexa, and compared against global benchmarks; September 2009

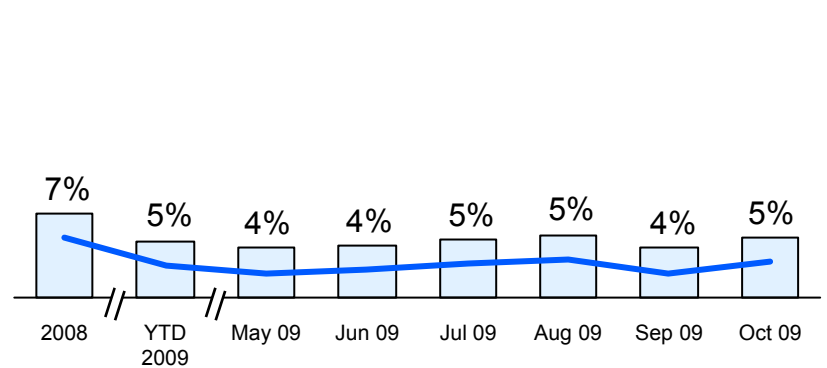


# TV: Market shares remain resilient, and in the most critical markets show early signs of recovery

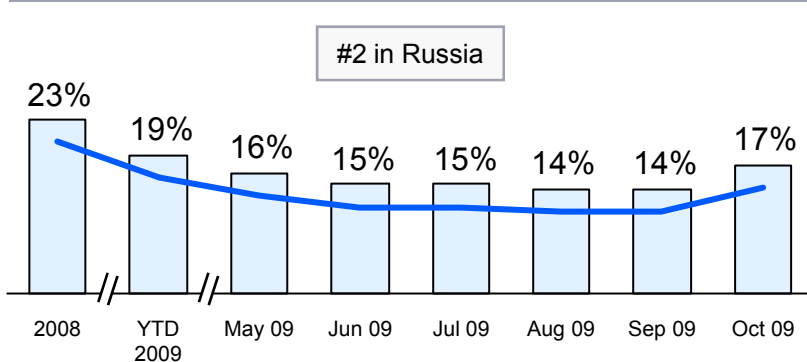
## LCD market share - Western Europe



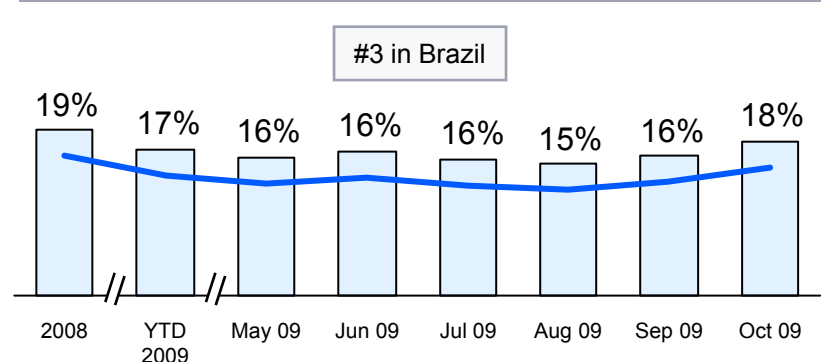
## LCD market share - China



## LCD market share - Russia

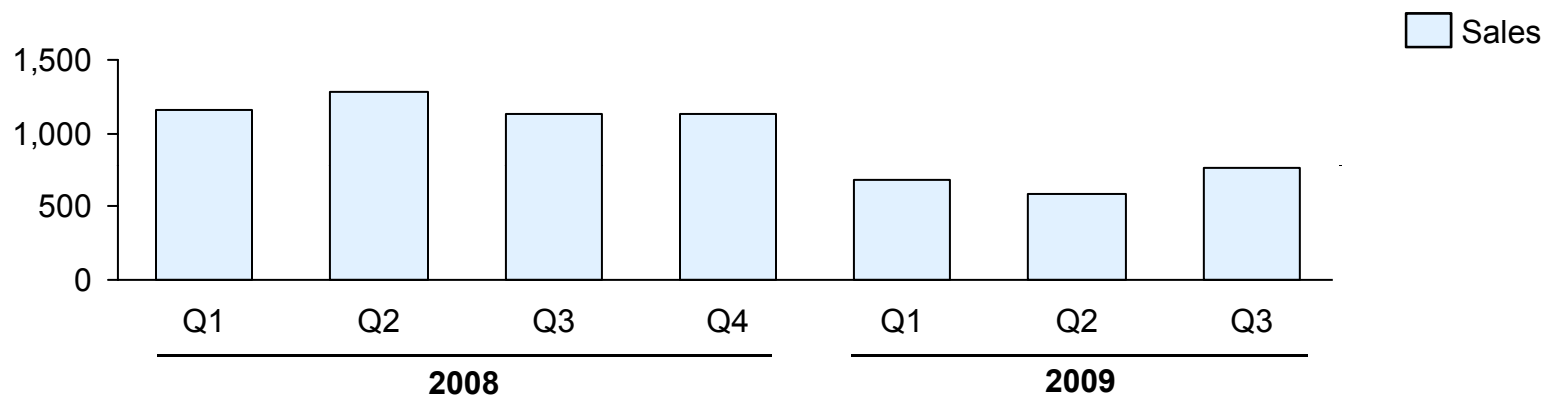


## LCD market share - Brazil

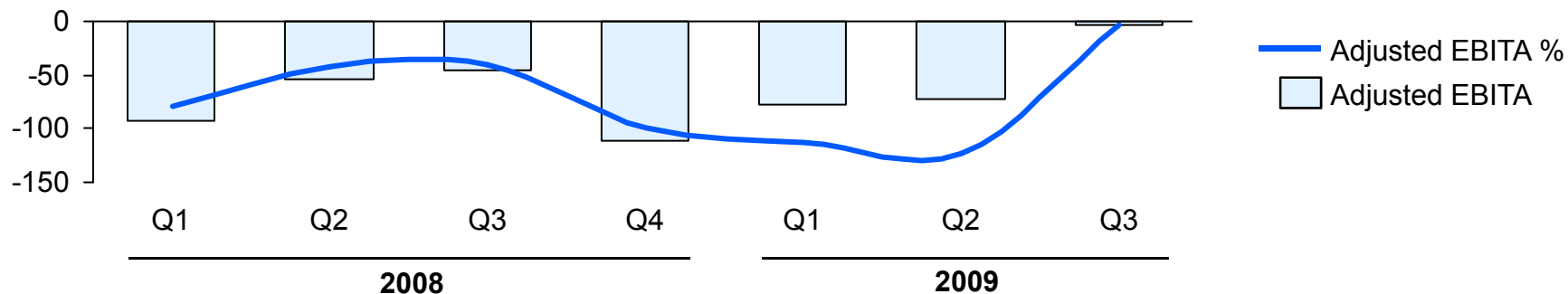


# TV: Exited unattractive markets and focused on leadership, gross margin and profitability

**Sales Revenue (EUR million)**



**Adjusted EBITA (EUR million) and Adjusted EBITA %**



Note: Adjusted EBITA is EBITA corrected for restructuring and acquisition-related charges

# TV: We continued to take decisive action to drive the business to structural profitability

## Portfolio

- Entered license partnership with Funai in the USA (August 2008). In 2009 market shares are recovering and brand equity unaffected
- Licensed Philips Monitors to TPV Technology Ltd as of June 2009
- Will discontinue sales of CRT TV by Q1 2010

## Financials

- Low fixed assets together with effective working capital management yields negative Net Operating Capital

## Operations / Supply

- Restructured manufacturing and assembly in Bruges and Dreux
- Finalized restructuring of suppliers from 7 to 3 strategic partners
- Further optimizing supply model in Brazil, China and Russia

# TV: Strategy

Competitive Supply Chain: Co-location and Forward Integration



# TV: We partner with LGD, Sharp and TPV to pioneer new supply models

Increasingly competitive industrial base

- Co-location and forward integration are essential to establish a new level of efficiency in TV manufacturing and assembly

Serve local markets more effectively

- Potential to leverage TPV / LGD partnership in Poland for European market
- Sharp / Philips partnership in Manaus (Brazil) for South-American market





# TV: European leaders in Consumer-driven innovation

Winning prestigious industry awards and breaking sales milestones

Consumer Tests	<ul style="list-style-type: none"> <li>• Winners in independent consumer testing (Stiwa)</li> </ul>
Innovation awards	<ul style="list-style-type: none"> <li>• EISA Awards (2 out of 5 best product awards in 2009)</li> <li>• IFA Press award (Best LCD TV)</li> <li>• What HiFi (Best LCD TV)</li> </ul>
Amblight sales success	<ul style="list-style-type: none"> <li>• Increasing Amblight sales within portfolio; more than one third of TV sales value in Europe</li> </ul>
Net TV connections	<ul style="list-style-type: none"> <li>• 200,000 active Net TV surfers in 2009</li> </ul>

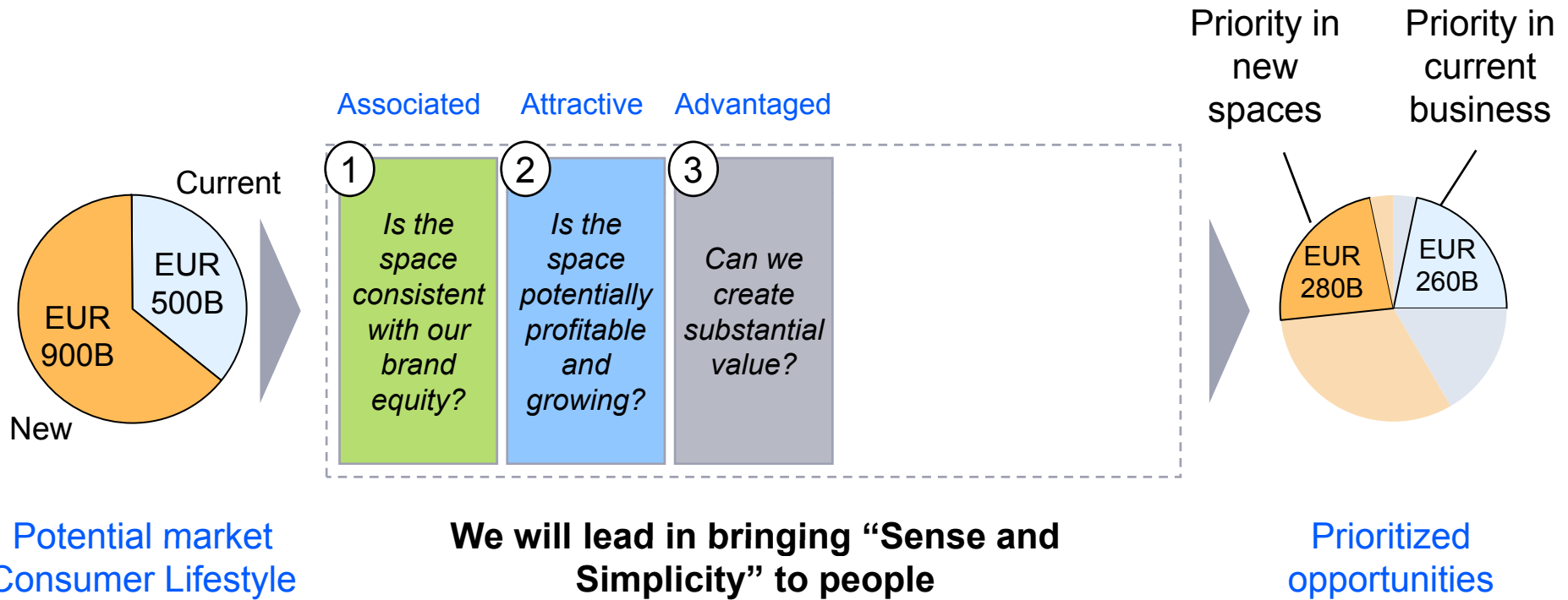


## Key takeaways

- We have successfully reorganized, over-delivering on cost synergies and acting decisively to address margin issues in TV. We are coming out of the recession stronger
- We are executing our strategy to build a **leading Health & Well-being business**. We will focus on generating **profitable growth** through the upcoming **markets recovery**. The key drivers will be: investments in **Innovation** and **Emerging Markets**



# In 2008 we assessed our addressable market within Health & Well-being



# In 2009 we applied further filters to refine and focus our strategy



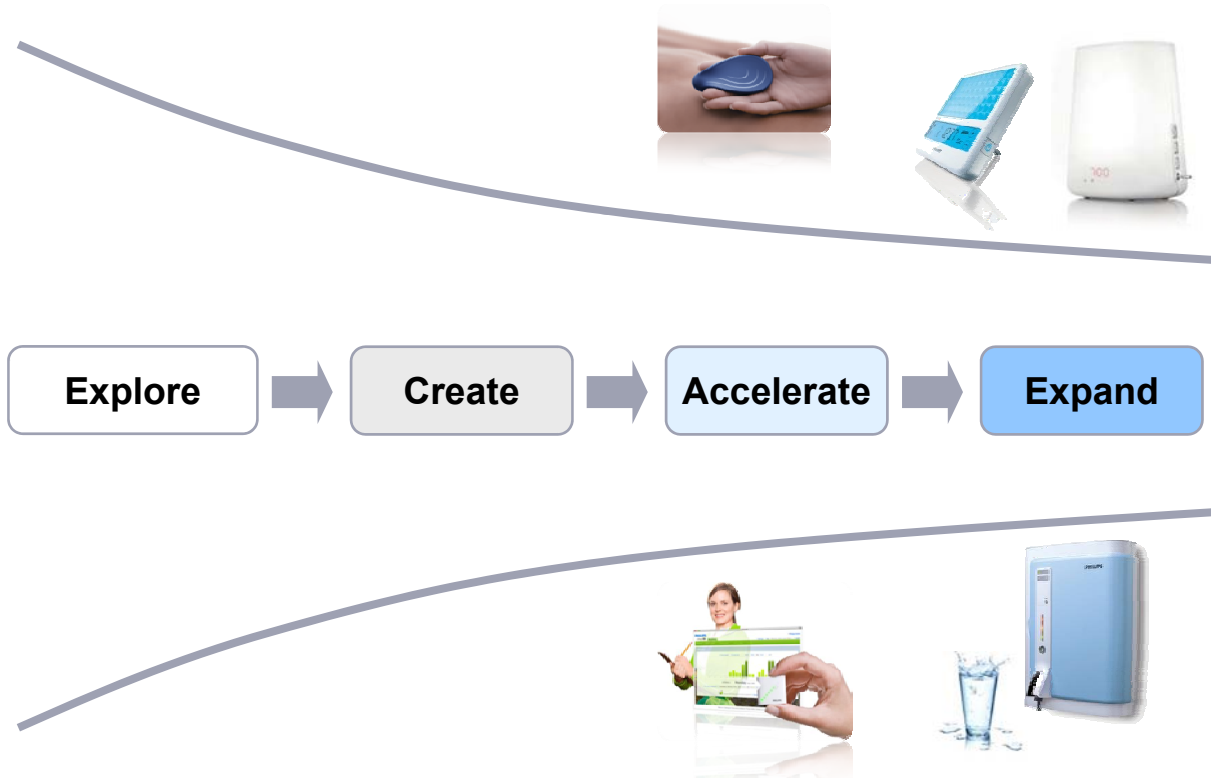
# We decided where to invest for growth and what not to pursue

Value space	Existing business	Potential growth areas	De-prioritize
Healthy Life	Mother & Child Care	Relationship Care	Learning
	Oral Health Care	Lifestyle monitoring/coaching	Fitness Equipment
		Preventive health	Eye Care
			Hearing
Personal Care	Shaving & Grooming	Sleep	Hands & Feet
	Female depilation	Stress	
	Hair care	Skin care	
	Vitalight		
Home Living	Kitchen Appliances	Water	House ware
	Beverages	Air	Gardening
	Garment Care	Espresso	Outdoor cooking
	Floor Care		Large kitchen appliances
Interactive Living	Peripherals & Accessories		
	TV		
	Audio, Visual, Multimedia		

# Despite the crisis we continued to invest in growth areas

Different initiatives are at different stages of investment

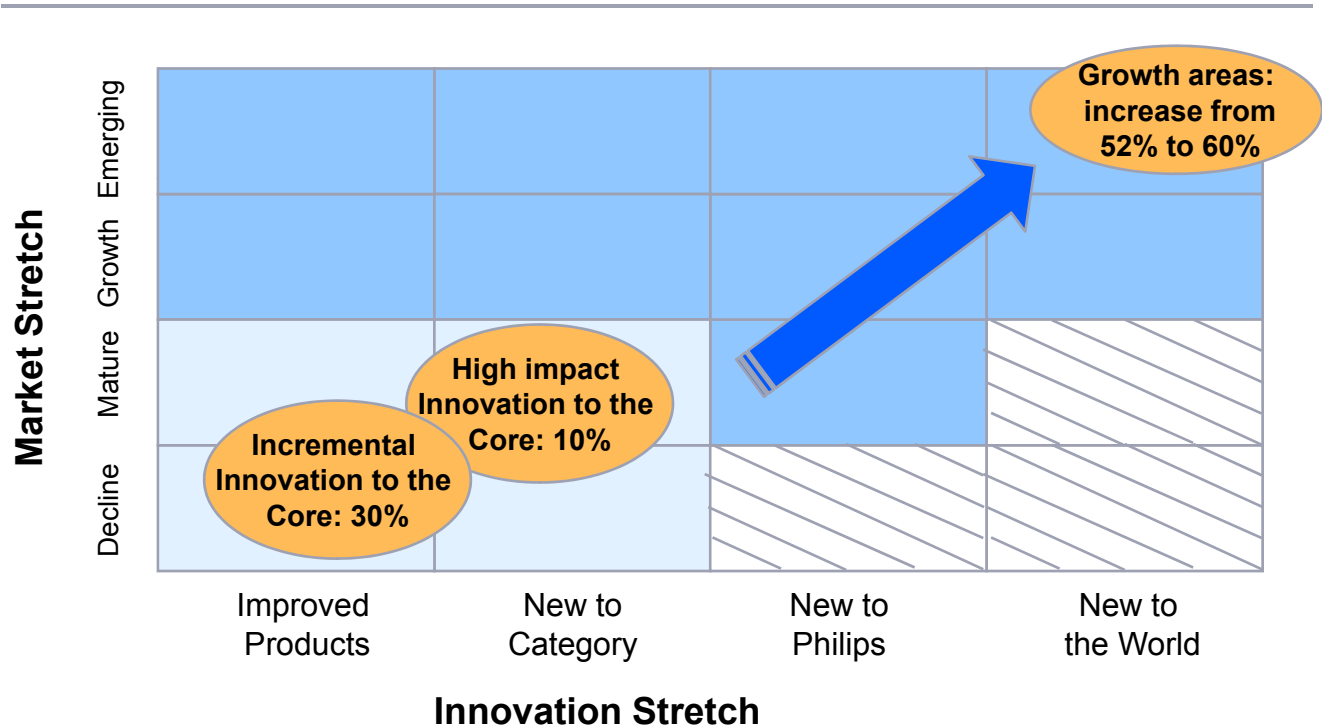
- Water
- Air
- Sleep
- Relationship Care
- Skin Care
- Lifestyle monitoring / coaching
- Stress
- Preventive health



Note: For reasons of confidentiality innovations in phases “explore” and “create” cannot be shown

# We focus on growth areas through redirection of R&D investment and consumer centric innovation

## Innovation for growth



- Shifting further investment to Growth
- Investing in high impact innovation for the core businesses

# Our current strength in Emerging Markets positions us well for future growth

Growth	<ul style="list-style-type: none"> <li>85% of our sales goes to middle and higher income classes, which are expected to grow by 8% YoY</li> </ul>
Profitability	<ul style="list-style-type: none"> <li>The profitability of our business (excluding TV) in Emerging markets is almost equal to Mature markets</li> </ul>
Brand equity	<ul style="list-style-type: none"> <li>Our brand equity in BRIC is stronger than almost all other competitors</li> </ul>
Leadership	<ul style="list-style-type: none"> <li>We have leadership or co-leadership positions in 36% of our Product Market Combinations</li> </ul>
Investment	<ul style="list-style-type: none"> <li>We are re-allocating Talents, Advertising and Promotion funds and R&amp;D funds to Emerging Markets</li> </ul>

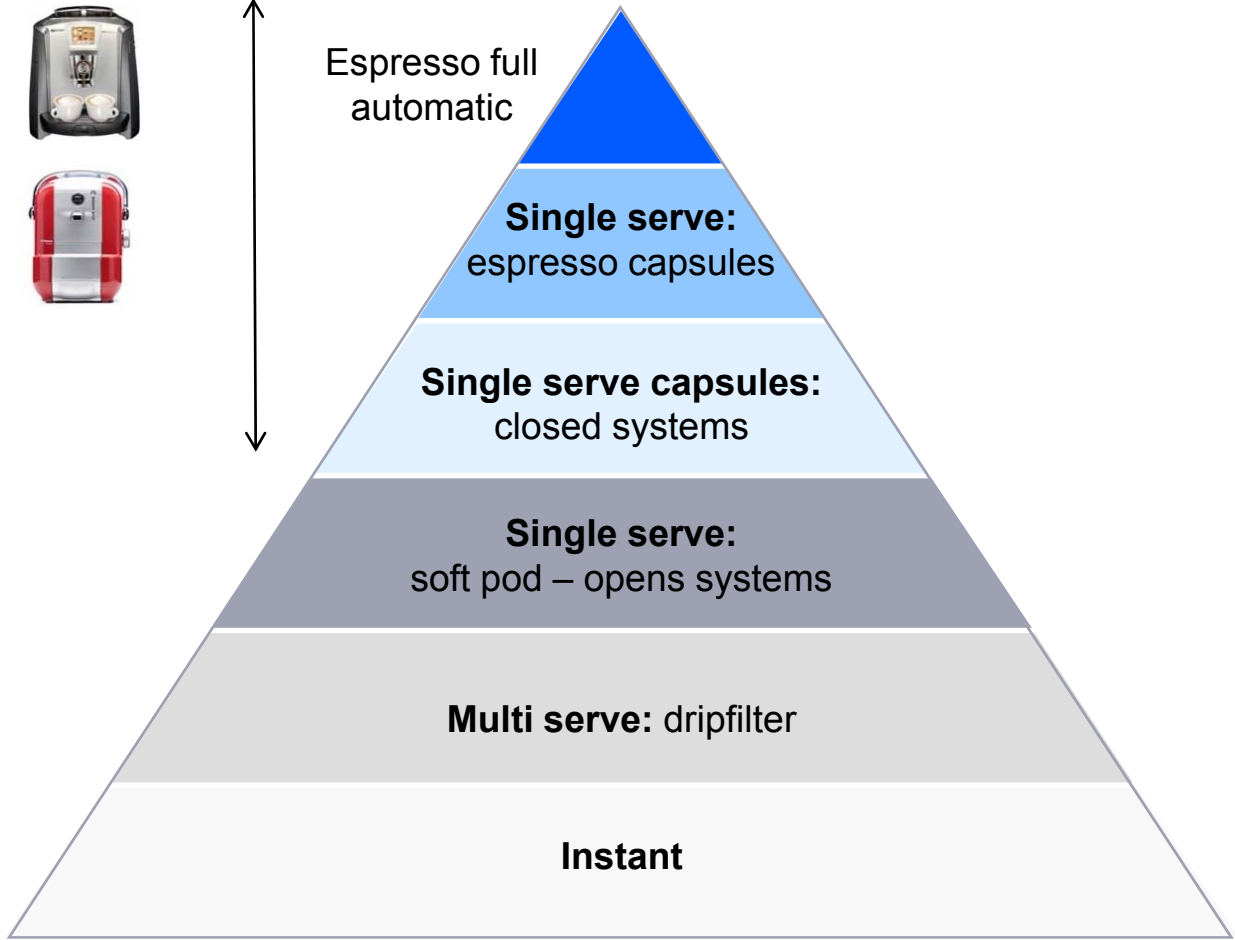




# We use strategic acquisitions as growth levers

## Saeco has transformed regional leadership into global leadership

**Saeco range**



**Philips range**



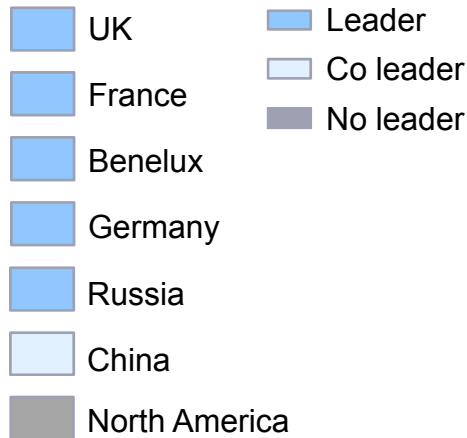
*Market entry and learning through organic innovation*



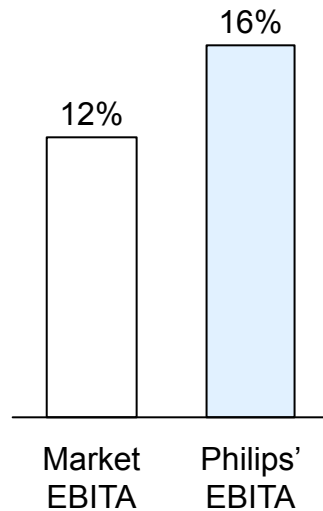
# We focus on Net Promoter Score to drive consumer preference, willingness to pay and market share growth

## Leadership: Example of Net Promoter Score in Mother & Child Care

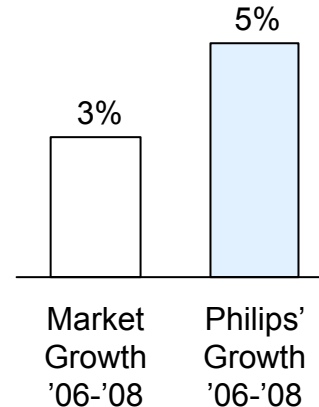
### NPS leadership in Mother & Child Care



### Drives higher willingness-to-pay and profitability



### Drives market share growth



Source: Philips NPS survey; GFK

Note: NPS leader: Net promoter score exceeds nearest competitor by >5%; NPS co-leader: Net promoter score greater than nearest competitor by <5% or lower than nearest competitor by <5%

EBITA and Market Share growth for UK, France, Benelux, Germany, Russia, China, and North America

# We leverage professional endorsement as a key driver of consumer experience and sales

Professional endorsement: Different approaches tailored to category

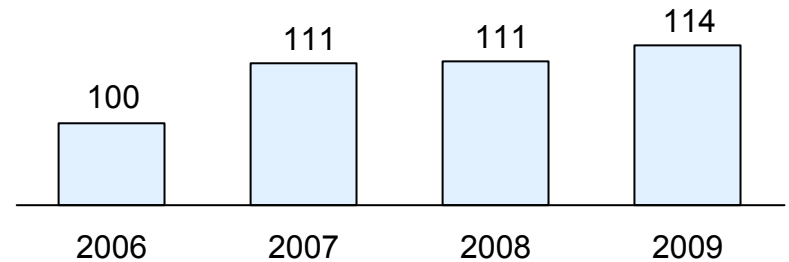
## Domestic Appliances: Celebrity endorsement & advertising



## Oral Care: Dentists recommendation a key consumer claim, USA



## Drives sales growth (indexed 2006)



We use different business models to grow by transforming how we bring value to our consumers

Business models: Evolving from a traditional product-based model

**Traditional Products**



- Product focused
- One way relationship with consumers

**Complementary Goods**



- Consumable focus
- Continual consumer relationship

**Business Beyond Products**



- Service focus
- Intimate consumer relationship

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# Q&A

Andrea Ragnetti



