

# PHILIPS

sense and simplicity

Royal Philips Electronics

*Second Quarter 2009*

*Information booklet*

July 13<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 – who we are

2. Results Q2 2009

3. Philips Strategy & Targets

# PHILIPS

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

116,000 employees \*

Sales and service outlets in 100 countries

Globally recognized brand (world top 50)

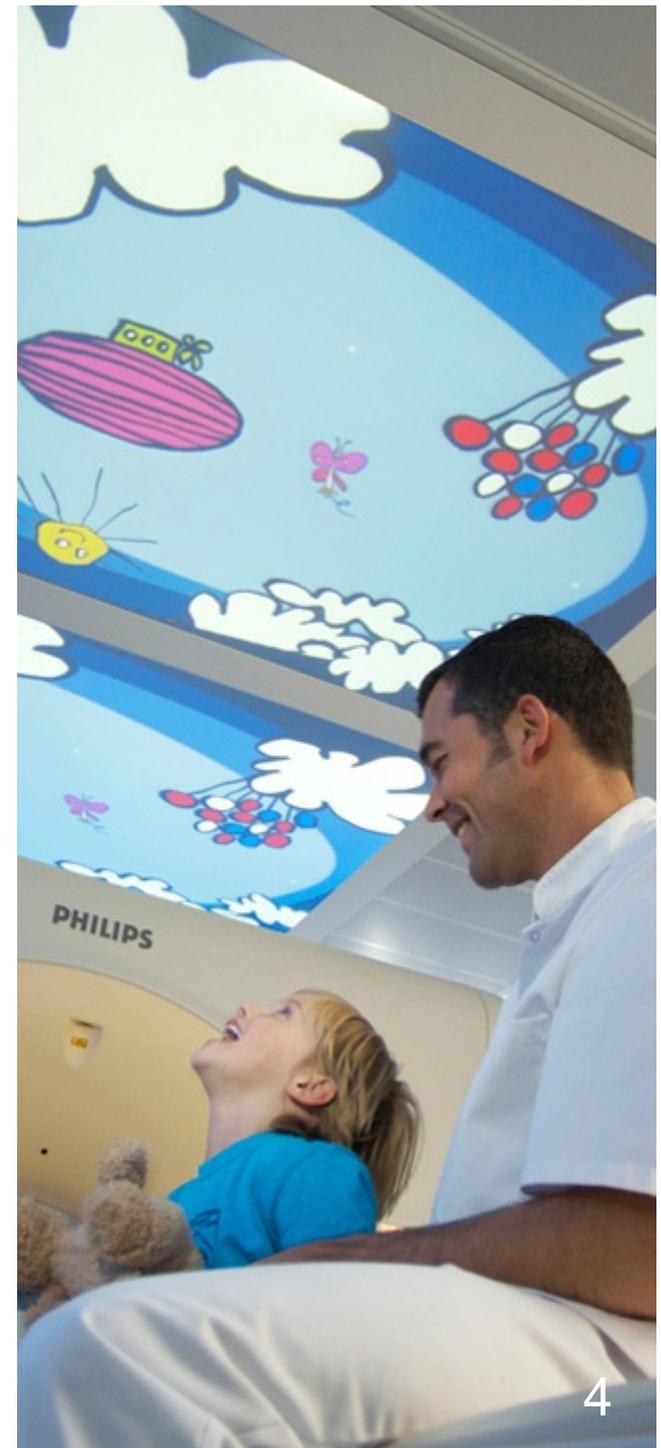
Our brand value has doubled to \$8.3bn since 2004

€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 June 2009



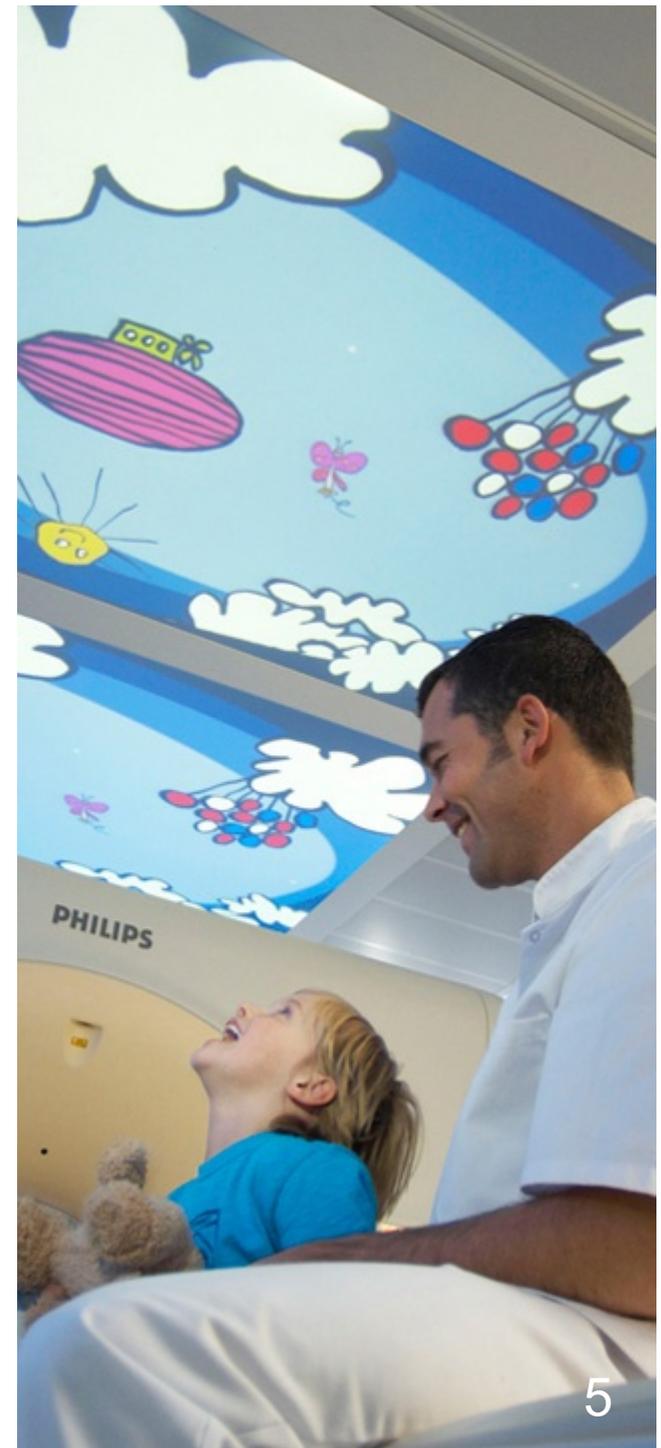
# PHILIPS

## 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 for [reducing debt](#) and [returns to shareholders](#).”

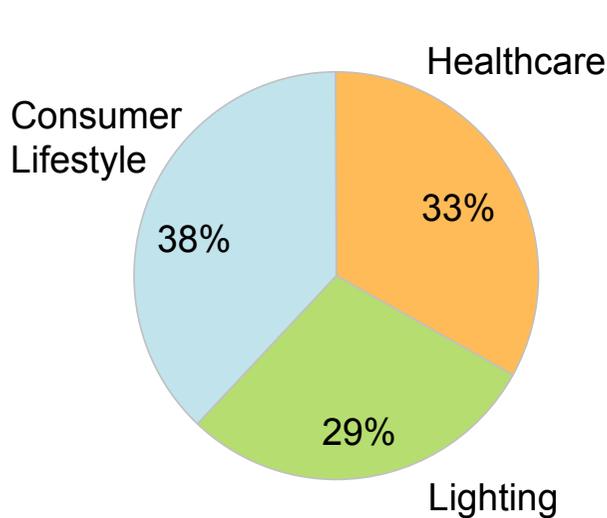


# Simplified business structure in 3 core sectors: Healthcare, Consumer Lifestyle and Lighting

*Last twelve months*

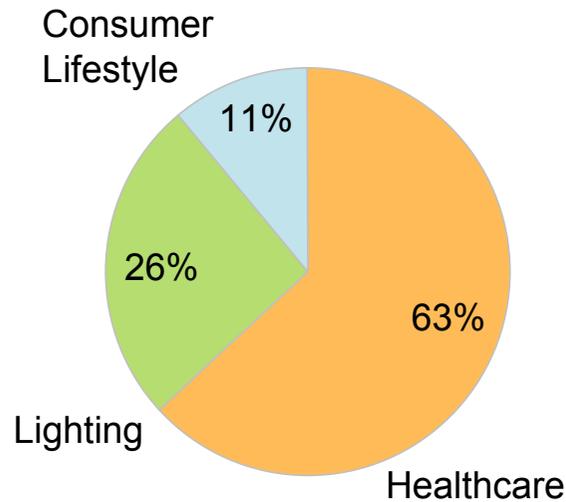
**Sales**

100% = EUR 23.9B <sup>1</sup>



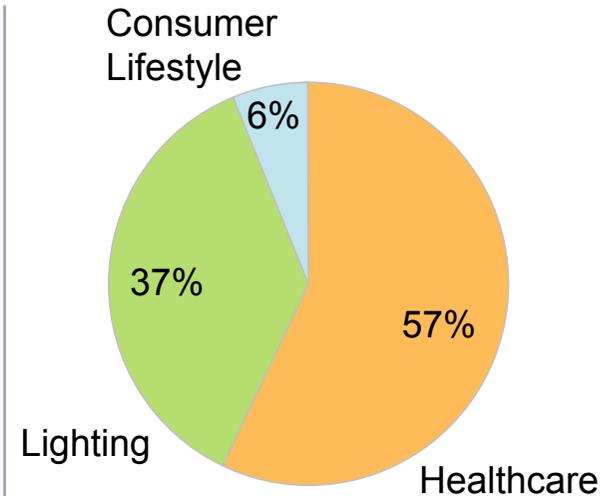
**Adjusted EBITA**

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



**Net Operating Capital**

100% = EUR 15.3B <sup>1</sup>



1 – Excluding Central sectors (I&EB; GM&S)

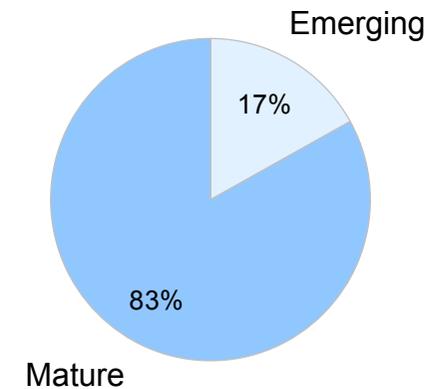
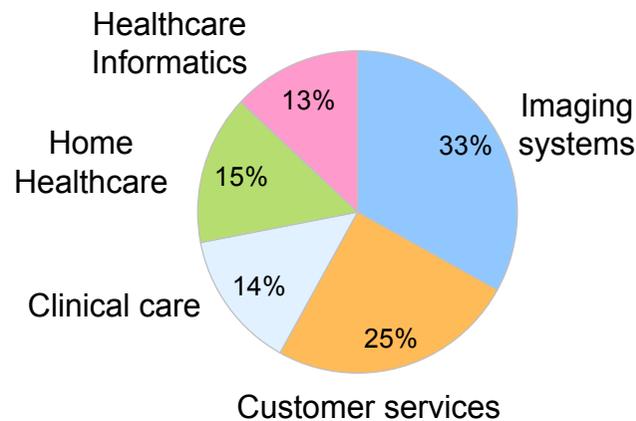
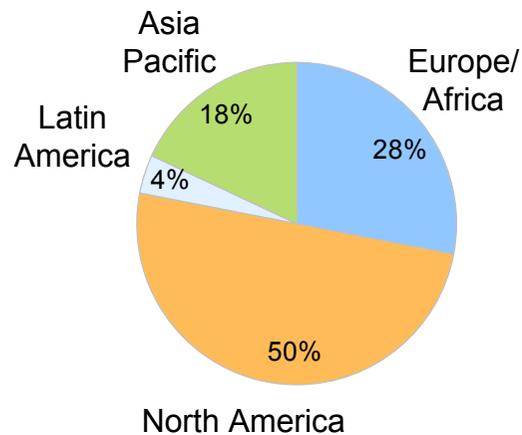
2 – EBITA adjusted to exclude restructuring and acquisition-related charges; for Healthcare EUR 140 million, for Consumer Lifestyle EUR 171 million and for Lighting EUR 316 million of charges are excluded.

## Healthcare: Sales growth\* 6 – 8%; margin 15 – 17%

- Strong market position and market share
- Focused approach to care cycles: Oncology, Cardiology, Women's Health
- Ongoing growth, particularly in Monitoring/HI, Service and Clinical Care
- Leader in the growing Home Healthcare market: Respironics, Lifeline, Raytel
- Strong growth in emerging markets driven by brand and acquisitions
- Margin improvement through increased low-cost sourcing, improved supply chain & industrial footprint and lower IT costs



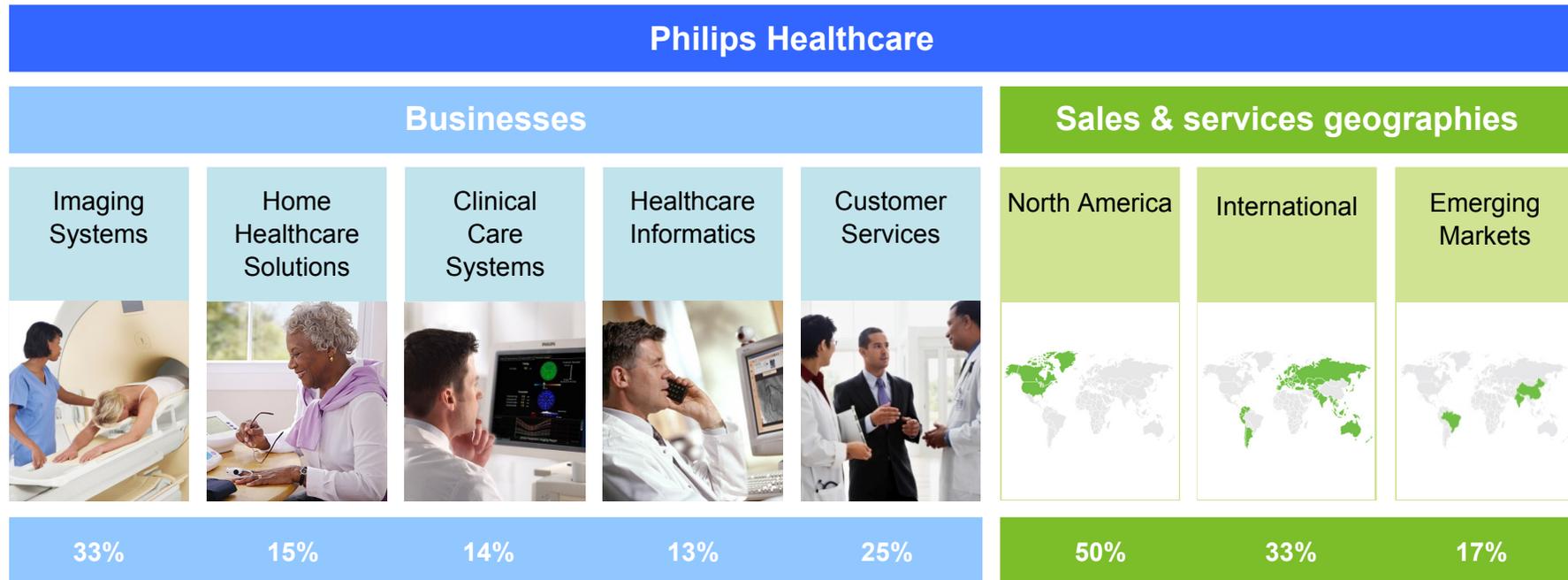
*Sales last twelve months  
June 2009*



\* Annual average comparable sales growth

# Depth and reach of Philips Healthcare

*What we do. Where we are.*



**€7.6**  
Billion sales  
in 2008

**30,000+**  
People employed  
worldwide in 100 countries

**11%**  
of system sales  
invested in R&D\*

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

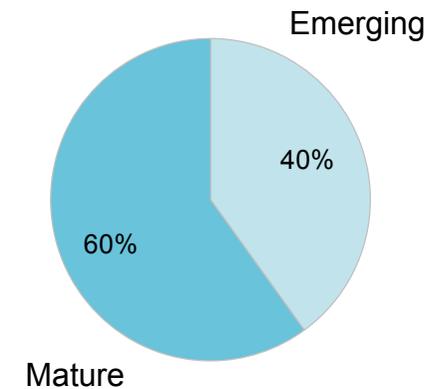
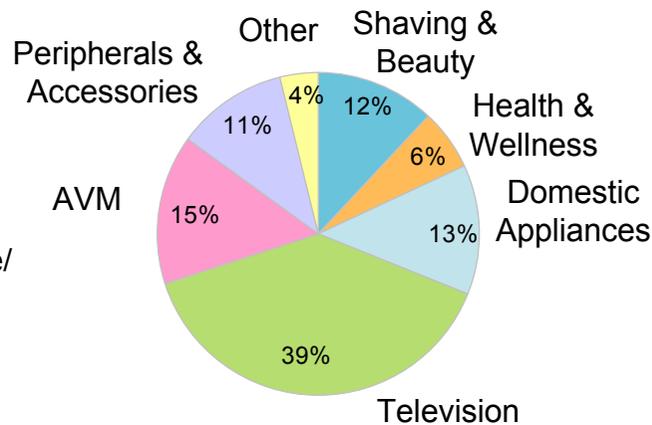
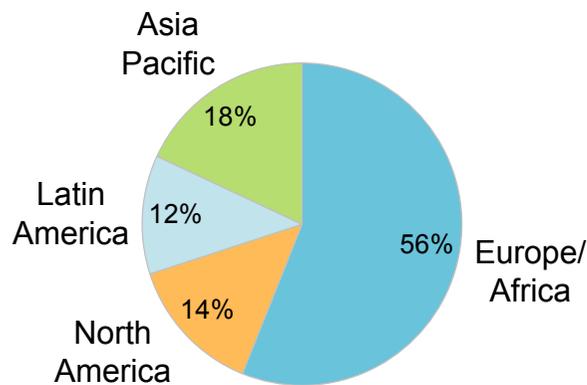
\* excludes Customer Services

## Consumer Lifestyle: Sales growth\* around 6%; margin 8–10%

- Strong marketing & sales capabilities; leveraging Philips brand
- Focused on innovative lifestyle solutions for personal well-being
- Consumer-driven insights and dedicated business models driving innovation and differentiation
- Expand category management to all businesses and regions
- Deal with unsatisfactory EBITA margins in Television
- Drive growth by strengthening presence in Emerging Markets
- Well on track to deliver upper end of EUR 150 – 200 million savings



Sales last twelve months  
June 2009



\* Annual average comparable sales growth

# Changes in the portfolio

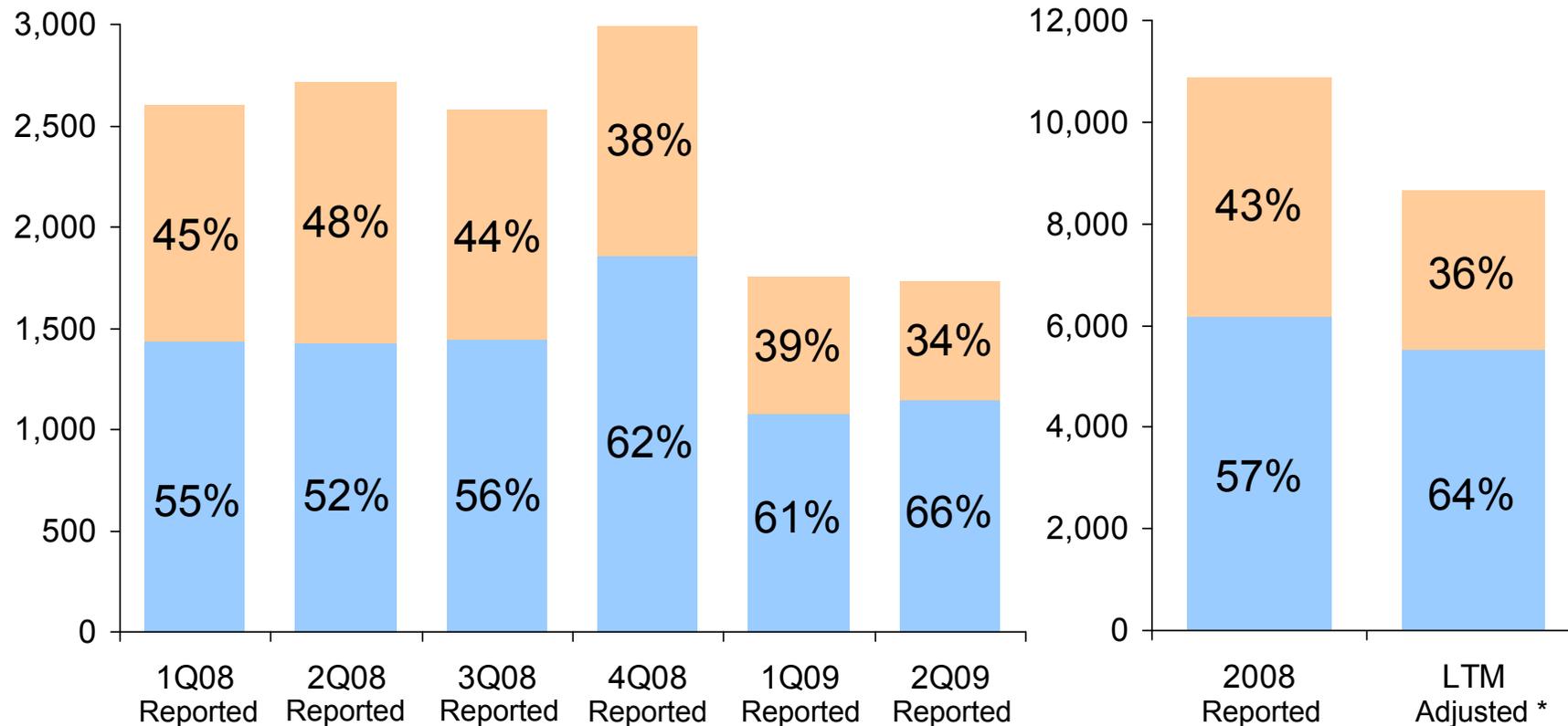
## Sales Consumer Lifestyle

Amounts in EUR millions

■ Consumer Lifestyle, excl TV ■ Television

### Optimized portfolio by:

- NA-TV business gone per August-'08
  - PC-monitors transferred per June-'09
  - Stopping non-profitable channels
- Annualized sales reduction of >EUR 1 billion



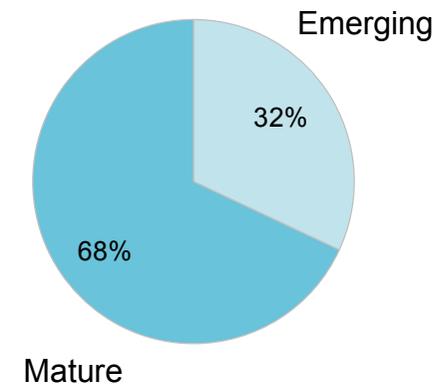
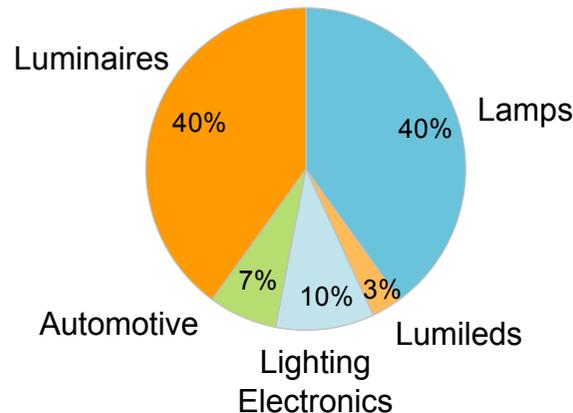
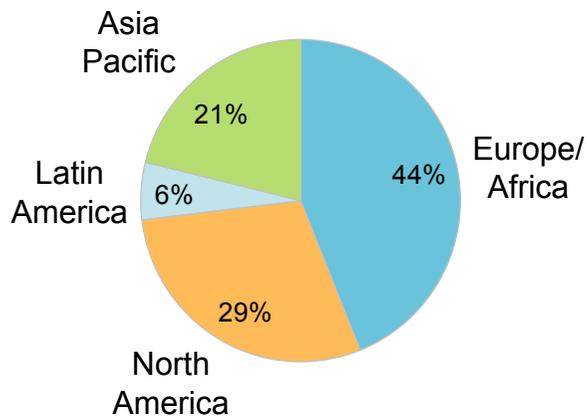
Note: Adjusted sales excludes North American TV business and PC-monitors

## Lighting: Sales growth\* around 6%; margin 12 – 14%

- Global Leader in Lighting
- Strong presence across the complete Solid State Lighting value chain
- Readily available portfolio of innovative, energy efficient lighting solutions
- Technology base and application IP will help to lead the changeover to new lighting solutions
- Profitable growth in fast-growing economies and innovative new market segments
- End-user driven Innovation and Brand both drive our profitable growth



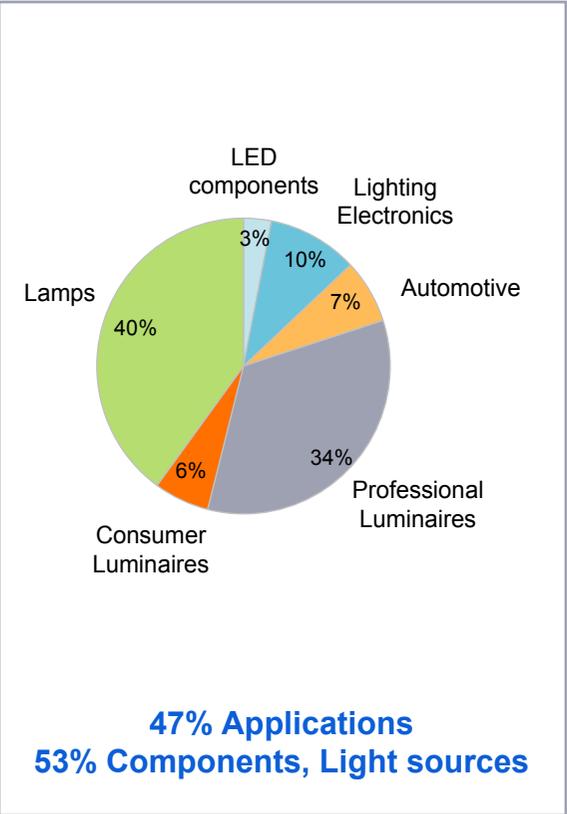
*Sales last twelve months  
June 2009*



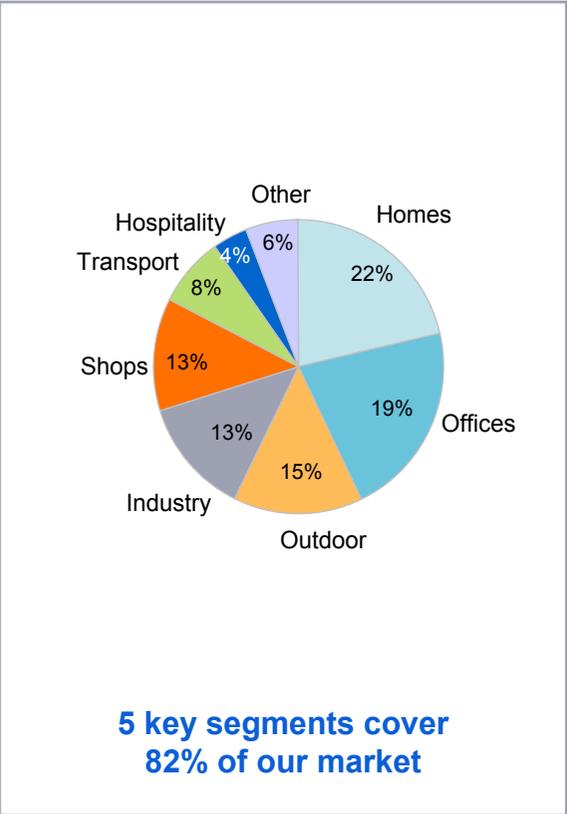
\* Annual average comparable sales growth

# Philips Lighting – balanced portfolio

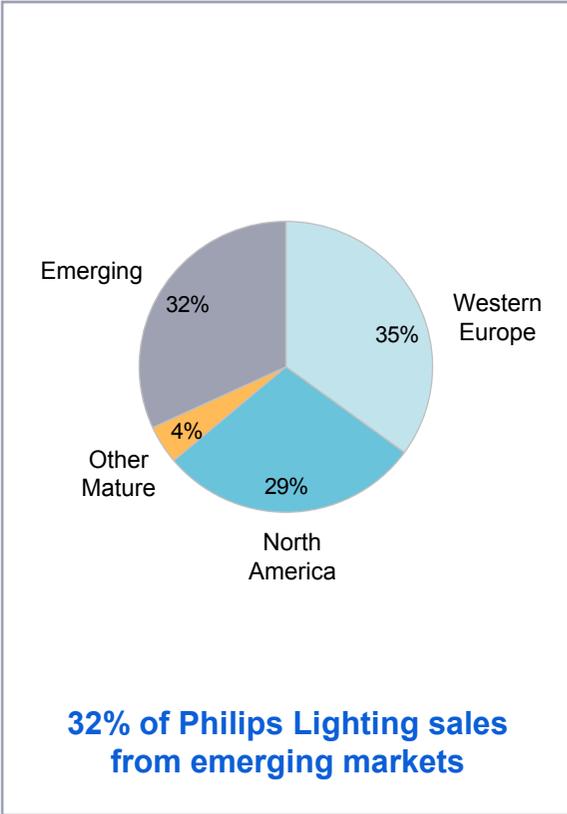
**Business structure \***



**Market segmentation \*\***



**Geographic distribution \***



\*) Last twelve months June-2009

\*\*) Approximation

1. Philips – who we are

2. Results Q2 2009

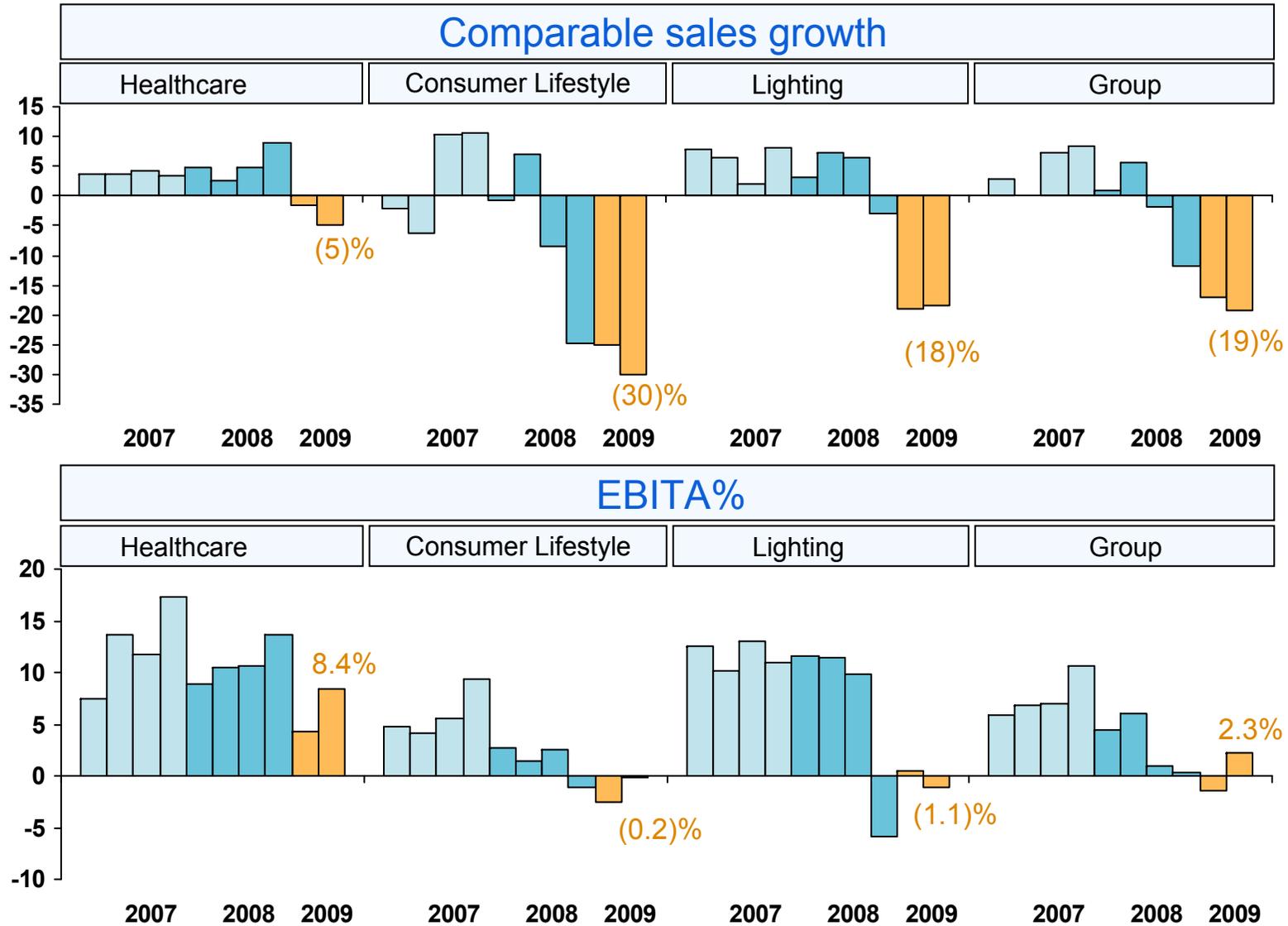
3. Philips Strategy & Targets

## Highlights in Quarter 2

- EBITA margin before restructuring charges improves compared with Q1 in all business sectors
- EUR 148 million restructuring and acquisition-related charges are booked in the quarter
- Sales decline 19% year-on-year, reflecting continuing weakness in consumer and professional markets
- Healthcare sales decline year-on-year but increase compared with Q1, supported by modest growth outside the US
- Strong free cash flow of EUR 251 million reflects ongoing tight asset management

# Sales growth and Margin development – Q2 2009

*Comparable sales growth and EBITA%*



## Summary – Q2 2009

EUR million

	Q2 2008	Q2 2009
Sales	6,463	5,230
EBITA	396 <sup>1</sup>	118 <sup>1</sup>
Financial income and expenses	516 <sup>2</sup>	(3) <sup>2</sup>
Income tax	(84)	15 <sup>3</sup>
Results equity-accounted investees	3	25 <sup>4</sup>
<b>Net income from continuing operations</b>	<b>738</b>	<b>45</b>
Discontinued operations	(3)	–
<b>Net income (loss)</b>	<b>735</b>	<b>45</b>
Net cash from operating activities	191	446
Net debt : Group equity ratio	7 : 93	6 : 94

1 - 2Q09 includes on balance EUR (75)M of various gains and charges while 2Q08 included in total EUR (49)M gains and charges

2 - 2Q09 includes a EUR 48M gain on the sale of our 17% stake in Pace; 2Q08 included a gain on the sale of part of our TSMC stake of EUR 863M and impairment charges of in total EUR 330M related to NXP and Toppoly

3 - The lower tax income expense is mainly due to tax exemption on the sale of shares, the TPV bond option revaluation and on legal settlements

4 - Following recovery of the TPV share price, the accumulated value adjustment of the shareholding in TPV was partially reversed by EUR 25M

## Sales by sector – Q2 2009

*EUR million*

	Q2 2008	Q2 2009	% nom	% comp
Healthcare	1,800	1,872	4	(5)
Consumer Lifestyle	2,720	1,735	(36)	(30)
Lighting	1,806	1,550	(14)	(18)
I&EB	103	42	(59)	(60)
GM&S	34	31	(9)	(2)
Group sales	6,463	5,230	(19)	(19)

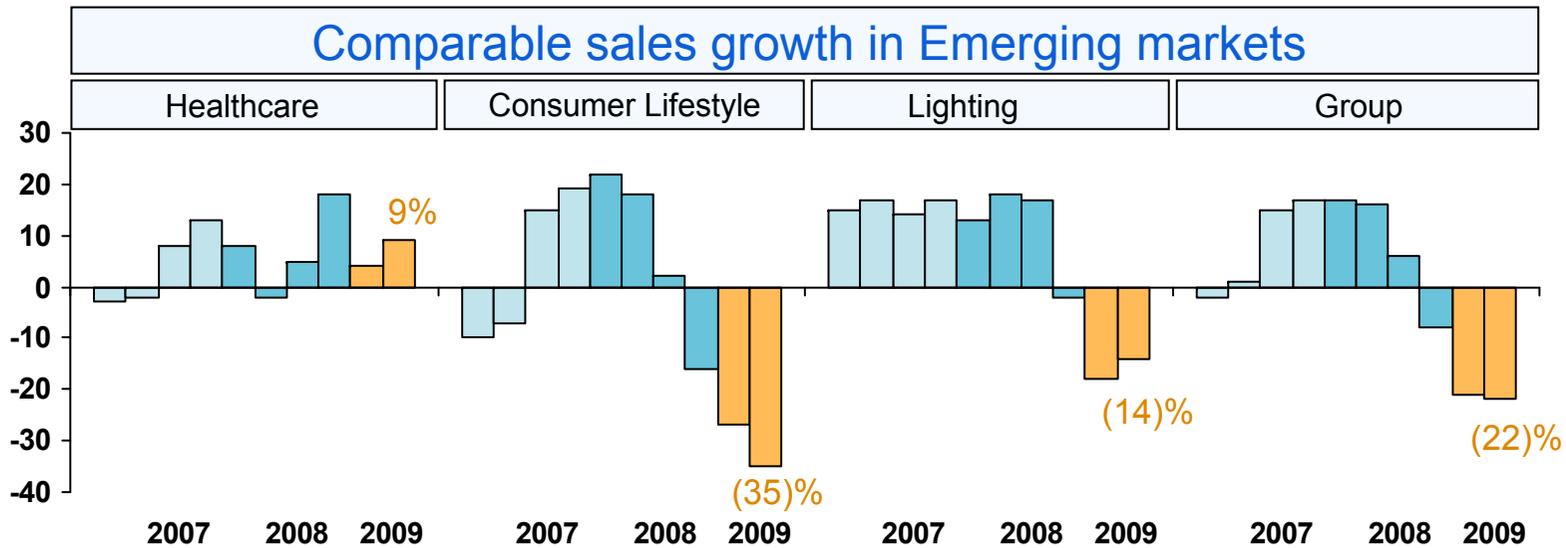
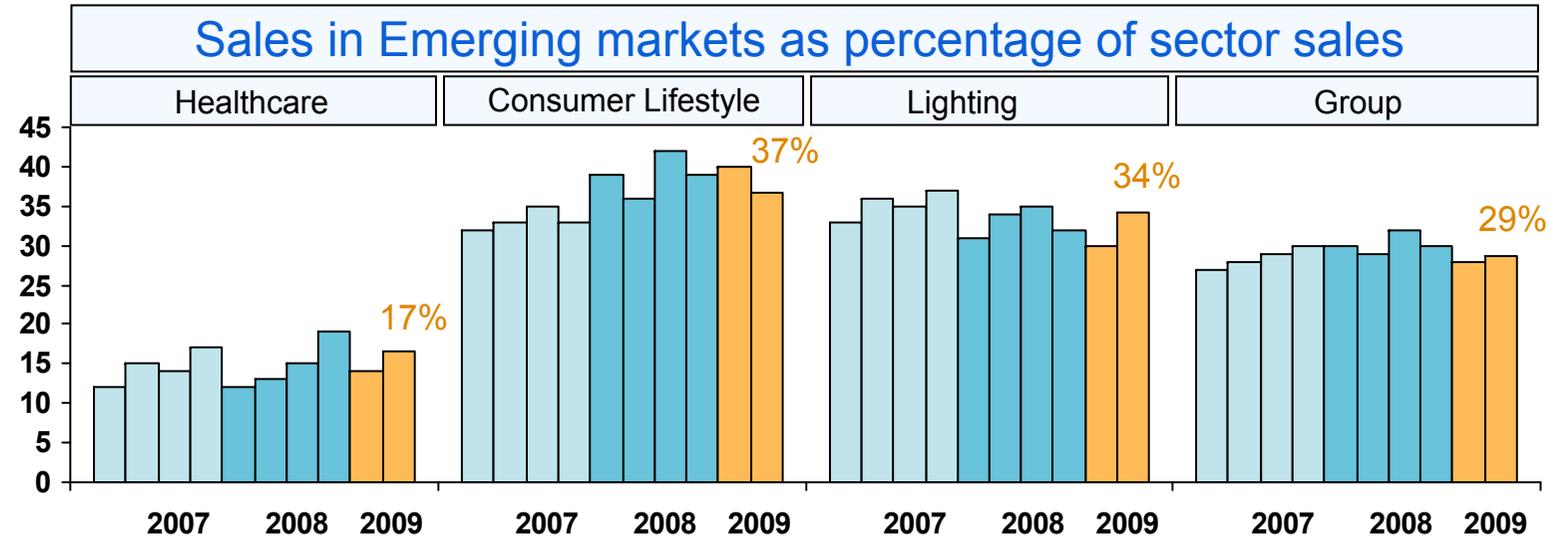
## Sales by market cluster – Q2 2009

*EUR million*

	Q2 2008	Q2 2009	% nom	% comp
Western Europe	2,280	1,775	(22)	(20)
North America	1,941	1,664	(14)	(16)
Other mature markets	326	290	(11)	(17)
Emerging markets	1,916	1,501	(22)	(22)
Group sales	6,463	5,230	(19)	(19)

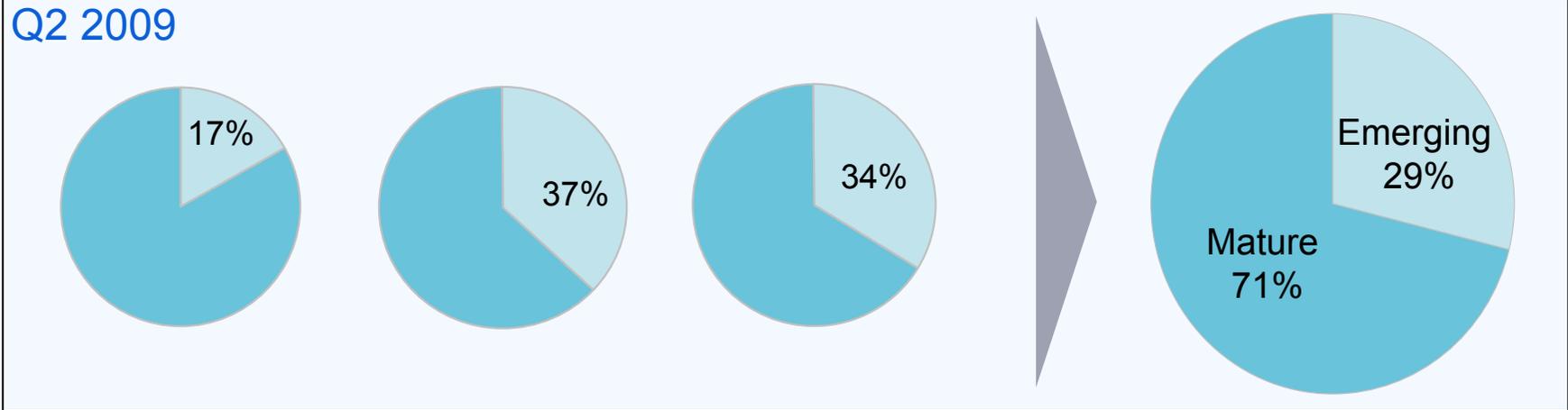
# Emerging Markets – Q2 2009

*Sales growth in emerging markets*



# Emerging Markets – Q2 2009 & last twelve months

*Sales in emerging markets*

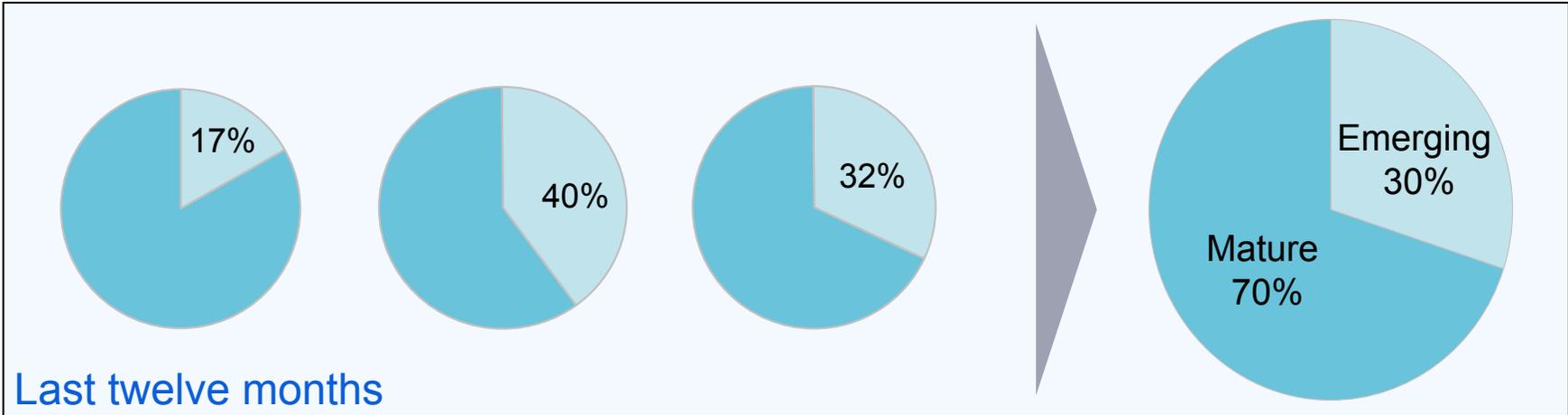


Healthcare

Consumer Lifestyle

Lighting

Philips Group



Last twelve months

## EBITA by sector – Q2 2009

EUR million

	Q2 2008	Q2 2009
Healthcare	188 <sup>1</sup>	158 <sup>1</sup>
Consumer Lifestyle	39 <sup>2</sup>	(4) <sup>2</sup>
<i>of which Television</i>	<i>(117)</i>	<i>(99)</i>
Lighting	207 <sup>3</sup>	(17) <sup>3</sup>
I&EB	(40) <sup>4</sup>	(69) <sup>4</sup>
GM&S	2 <sup>5</sup>	50 <sup>5</sup>
<b>Philips Group</b>	<b>396</b>	<b>118</b>
as % of sales	6.1%	2.3%

- 1 - 2Q09 includes EUR 24M of restructuring and acquisition-related charges, while 2Q08 included EUR 35M acquisition-related charges  
 2 - 2Q09 includes EUR 30M restructuring charges and a product recall related charge of EUR 17M; 2Q08 included EUR 70M restructuring  
 3 - 2Q09 includes EUR 82M of restructuring and acquisition-related charges, while 2Q08 included EUR 19M acquisition-related charges  
 4 - 2Q09 includes EUR 8M of restructuring; no charges were disclosed for 2Q08  
 5 - 2Q09 includes EUR 4M of restructuring offset by a positive of EUR 90M coming from insurance recoveries and a legal settlement;  
 2Q08 includes EUR 1M of restructuring and a EUR 39M real-estate gain

## Cash Flow from continuing operations – Q2 2009

*EUR million*

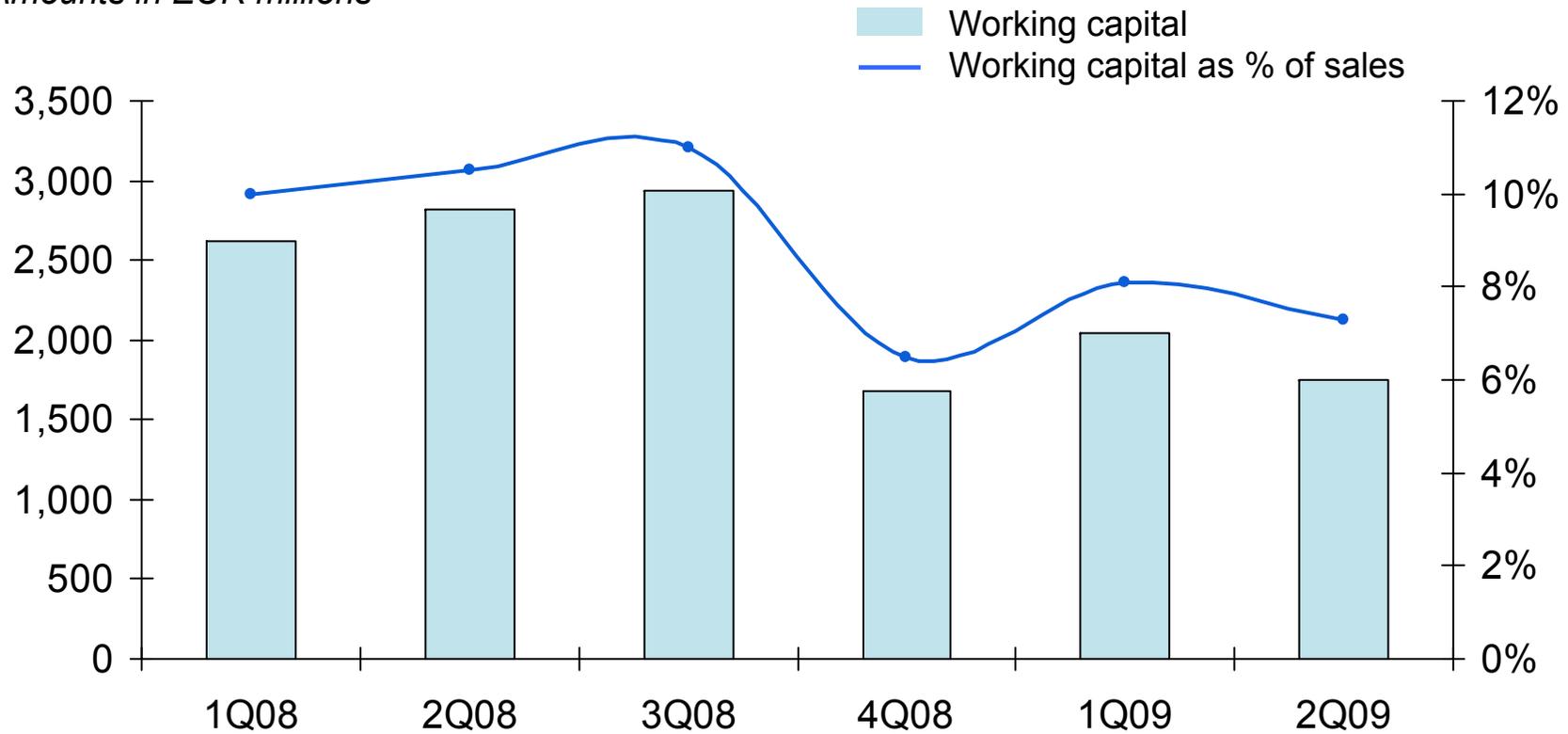
	Q2 2008	Q2 2009
Net income from continuing operations	735	44
Depreciation / amortization / impairments	626	321
Net gain on sale of assets	(930)	(51)
- changes in Net inventories	(95)	108
- changes in Accounts receivable	(14)	98
- changes in Accounts payable	(75)	23
Changes in Working Capital	(184)	229
Other	(56)	(97)
<b>Cash flow from operations</b>	<b>191</b>	<b>446</b>
Expenditures on development assets	(50)	(52)
Gross capital investments	(178)	(140)
Acquisitions / divestments / other	1,200	7
<b>Cash flow before financing activities</b>	<b>1,163</b>	<b>261</b>

# Continued strict cash flow management

*Significant improvement in working capital*

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

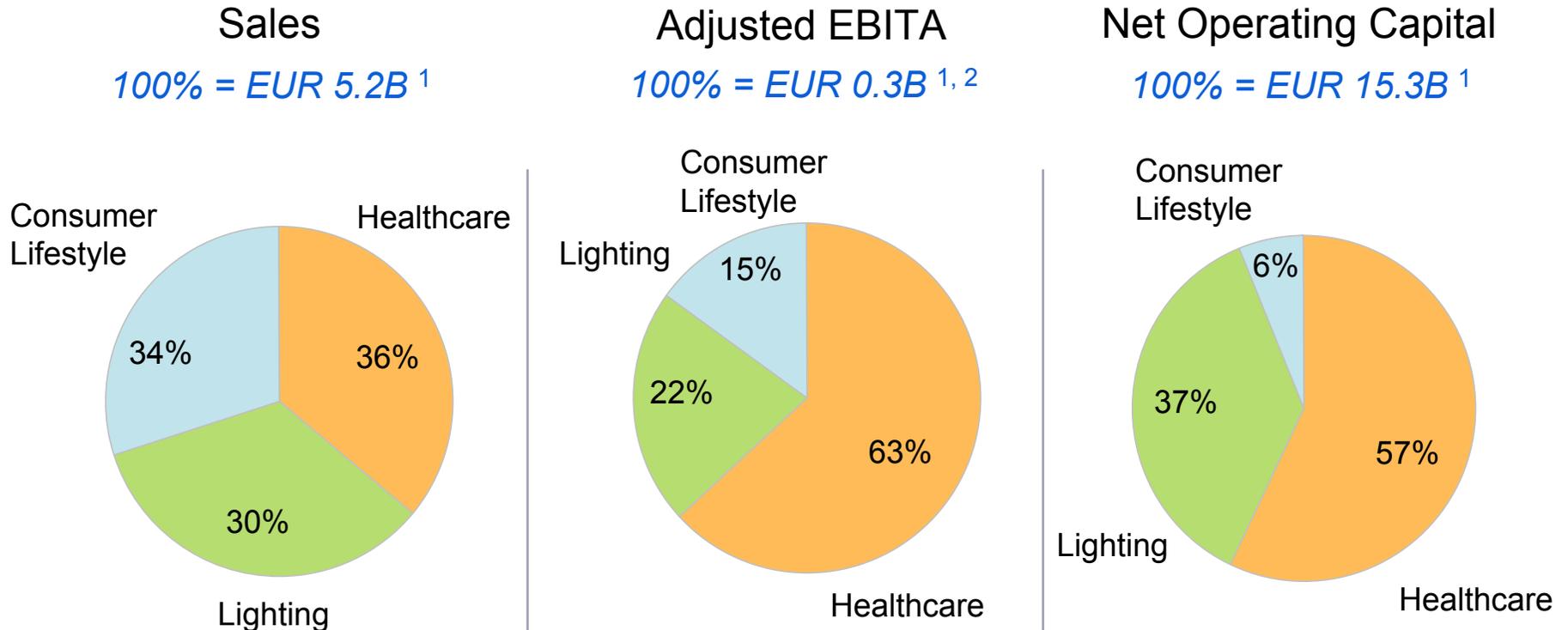
Amounts in EUR millions



1 – Working Capital of Healthcare, Consumer Lifestyle and Lighting; excluding central sectors I&EB and GM&S

# Simplified business structure in 3 core sectors: Healthcare, Consumer Lifestyle and Lighting

Q2 2009



1 – Excluding Central sectors (I&EB; GM&S)

2 – EBITA corrected to exclude disclosed charges; for Healthcare EUR 24M, for Consumer Lifestyle EUR 47M and for Lighting EUR 82M charges are excluded.

# Sector analysis – Healthcare

EUR million

## Key figures

	2Q08	1Q09	2Q09
Sales	1,800	1,741	1,872
<i>% sales growth comp.</i>	3	(2)	(5)
EBITA	188	75	158
<i>EBITA as % of sales</i>	10.4	4.3	8.4
EBIT	133	8	93
<i>EBIT as % of sales</i>	7.4	0.5	5.0
NOC	8,290	8,957	8,738
Employees (FTEs)	35,087	34,960	35,094

Sales per region	2Q09	Emerging markets
Latin America	4%	
Europe/Africa	28%	
North America	50%	
Asia Pacific	18%	
		17%

## Financial performance

- Equipment order intake declined 9% year-on-year. A decrease in North American orders, broadly in line with that of Q1 2009, was partly offset by solid growth in other, particularly emerging, markets. Along the business axis, declines were mainly seen at Imaging Systems and Clinical Care Systems.
- Comparable sales declined 5% y-o-y, with softness in mature markets, particularly North America, being partly offset by growth in emerging markets. Growth at Customer Services was more than offset by lower sales at Clinical Care Systems, Healthcare Informatics (mainly Patient Monitoring) and Imaging. Sales at Home Healthcare Solutions showed a minor decline.
- EBITA declined EUR 30 million compared to Q2 2008, mainly due to lower volume, price and currency effects, partly offset by cost savings. Year-on-year declines were seen at Imaging Systems, Clinical Care Systems and Healthcare Informatics, while profitability within Customer Services and Home Healthcare Solutions remained strong.
- EBITA included EUR 24M restructuring and acquisition-related charges. Excluding this, EBITA margin of 9.7% has improved compared to an equivalent EBITA profitability of 5.2% in 1Q09.
- Net operating capital increased by EUR 448 million compared to Q2 2008, mainly due to US dollar currency effects.

## Looking ahead

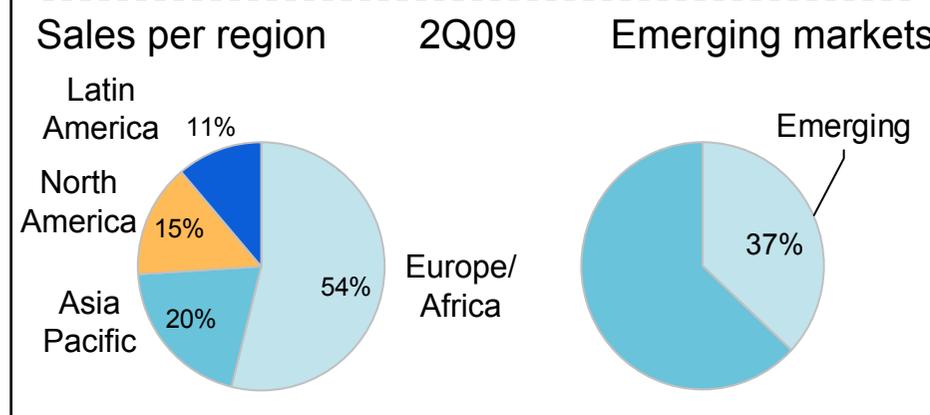
- Illustrating the success of our Brilliance iCT 256 slice CT, Philips expects to mark its 100th global installation in Q3.
- The sector will continue to improve its cost base and strengthen its customer focus. In connection with this we expect acquisition-related and restructuring charges to amount to approximately EUR 50 million in Q3.

# Sector analysis – Consumer Lifestyle

EUR million

## Key figures

	2Q08	1Q09	2Q09
Sales	2,720	1,756	1,735
<i>% sales growth comp.</i>	7	(25)	(30)
EBITA	39	(46)	(4)
<i>EBITA as % of sales</i>	1.4	(2.6)	(0.2)
EBIT	35	(50)	(9)
<i>EBIT as % of sales</i>	1.3	(2.8)	(0.5)
NOC	1,658	1,052	903
Employees (FTEs)	21,480	16,270	17,018



## Financial performance

- Despite a drop in sales value of almost EUR 1B, the sector's flexible business model, stringent cost management and ongoing rightsizing initiatives have resulted in a comparatively modest y-o-y EBITA decline of EUR 43M. Health & Wellness, Domestic Appliances and Shaving & Beauty again proved to be comparatively resilient with a combined sales decline of 6%.
- EBITA included EUR 30M of restructuring and acquisition-related charges and EUR 17M of product recall charges. Excluding these charges, the EBITA margin of 2.5% has improved compared to the -0.2% equivalent EBITA margin in Q1 2009.
- In Q2 2008 the sector reported EBITA of EUR 39M, which included restructuring charges of EUR 70M and a EUR 36M gain on the sale of the Set-Top Box business
- Net operating capital declined by EUR 755 million due to both lower sales as well as structural improvements in all elements of working capital management.

## Looking ahead

- Philips reached an agreement to acquire Saeco International Group S.p.A., a leading espresso machine maker controlled by PAI partners. Closing of this acquisition requires certain regulatory approvals and is expected in Q3.
- Philips will further expand its leadership in Oral Healthcare through the launch of Sonicare for Kids in Q3.
- In connection with its plans to further improve the profitability of the Television business, the sector expects restructuring charges of approximately EUR 40 million in Q3.

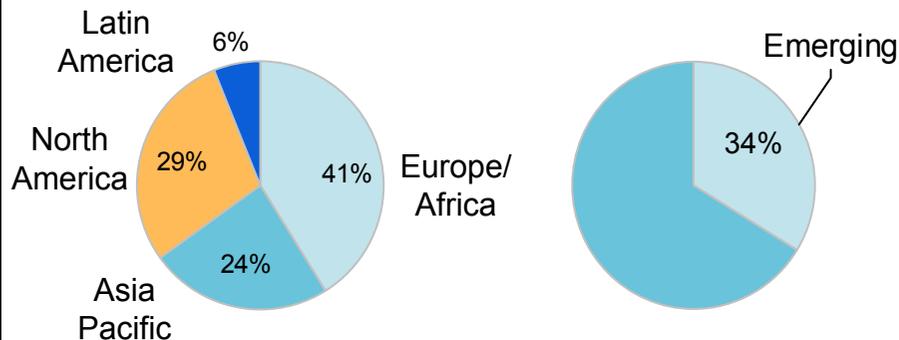
# Sector analysis – Lighting

EUR million

## Key figures

	2Q08	1Q09	2Q09
Sales	1,806	1,504	1,550
<i>% sales growth comp.</i>	7	(19)	(18)
EBITA	207	7	(17)
<i>EBITA as % of sales</i>	11.5	0.5	(1.1)
EBIT	173	(34)	(57)
<i>EBIT as % of sales</i>	9.6	(2.3)	(3.7)
NOC	6,319	5,964	5,676
Employees (FTEs)	59,969	52,766	51,627

### Sales per region 2Q09 Emerging markets



## Financial performance

- Comparable sales declined by 18% compared to Q2 2008, just ahead of the 19% decline in Q1 2009, with a broadly similar sales performance in the main geographic regions. The comparable sales decline at all business was less pronounced than in Q1, except at Professional Luminaires, which saw a further weakening of the construction market, particularly in North America.
- The decline in EBITA was due to lower sales, an adverse shift in the portfolio mix, and production cuts to manage inventory.
- EBITA included restructuring and acquisition-related charges of EUR 82 million. Excluding these charges, the EBITA margin of 4.2% has improved compared to the 1.8% equivalent EBITA margin in Q1 2009.
- Compared to Q2 2008, net operating capital decreased due to currency effects and lower working capital.

## Looking ahead

- In Q3 the sector will continue to implement measures to reduce its fixed cost base. Restructuring and acquisition-related charges of up to EUR 50 million are expected.
- In the second half of 2009, the sector will start to benefit from a number of government stimulus programs: Philips will deliver an initial EUR 20 million worth of energy-saving lighting products to China as part of the green lighting purchase program subsidized by the Chinese government.

# Sector analysis – Innovation & Emerging Businesses

EUR million

## Key figures

	2Q08	1Q09	2Q09
Sales	103	41	42
<i>% sales growth comp.</i>	8	(49)	(60)
EBITA Technologies / Incubators	(35)	(51)	(56)
EBITA Others	(5)	(12)	(13)
-----			
EBITA	(40)	(63)	(69)
EBIT	(40)	(63)	(69)
NOC	217	152	167
Employees (FTEs)	5,534	5,270	5,358

## Financial performance

- Sales fell by EUR 61 million compared to Q2 2008, due to lower intellectual property (IP) revenues and Assembléon.
- EBITA included EUR 8 million restructuring charges. Excluding this impact, losses were EUR 20 million higher year-over-year, largely due to a reduction in IP income.

## Looking ahead

- In the second half of 2009, corporate spending on Research is expected to total EUR 55 million on a run-rate basis, with higher spending anticipated in Q3.
- On slide 30 more detail is given on changes to the central sectors Innovation & Emerging Businesses and Group Management & Services

# Sector analysis – Group Management & Services

EUR million

## Key figures

	2Q08	1Q09	2Q09
Sales	34	33	31
<i>% sales growth comp.</i>	<i>(27)</i>	<i>(13)</i>	<i>(2)</i>
Corporate & Regional Costs	(38)	(28)	(20)
Global Brand campaign	(14)	(7)	(10)
Service units, Pensions and Other	54	(12)	80
-----			
EBITA	2	(47)	50
EBIT	2	(47)	50
NOC	1,006	(1,533)	(3,680)
Employees (FTEs)	5,814	6,916	6,926

## Financial performance

- Corporate & Regional overhead costs were EUR 18 million lower than in Q2 2008 as a result of the improved corporate cost structure.
- EBITA at Other businesses was favorably impacted by EUR 57 million insurance recoveries and a EUR 33 million legal settlement, whereas Q2 2008 earnings included a EUR 39 million gain on a real estate transaction.
- The significant decline in net operating capital was mainly due to adjustments on pension assets and liabilities.
- The 1,112 increase in headcount was due to a reallocation of IT resources and finance operations to centralized service units.

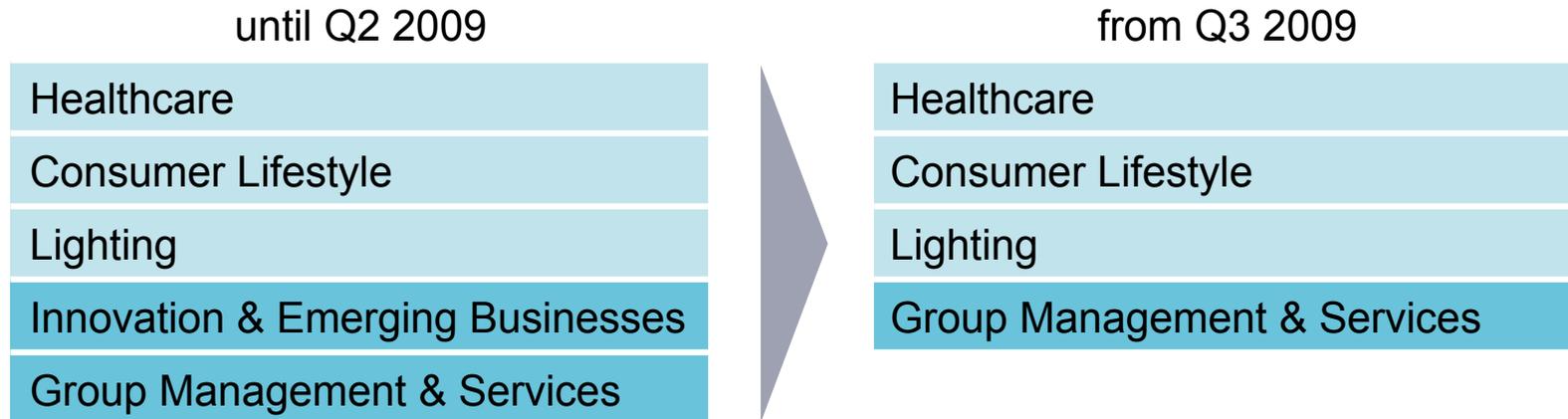
## Looking ahead

- Brand campaign expenditures are expected to total EUR 25 million for the remainder of the year, with spending skewed towards Q3.
- We will further improve the effectiveness and lower the costs of the extended GM&S organization; restructuring charges of around EUR 55 million are anticipated for the second half of the year.
- On slide 30 more detail is given on changes to the central sectors Innovation & Emerging Businesses and Group Management & Services.

## Sector simplification per Q3 2009

As our incubator activities are now maturing and increasingly aligned with the growth plans of our individual sectors, all activities of the Incubators, as of Q3 2009, will be charged to Research & Development cost of the business sectors.

In conjunction with this, as of the same date, the activities of Group Management & Services and the remaining Innovation & Emerging Businesses will be reported under one reporting unit: Group Management & Services.



## Acceleration of plans to improve margins

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 fixed cost base of more than EUR 600 million on an annual basis.

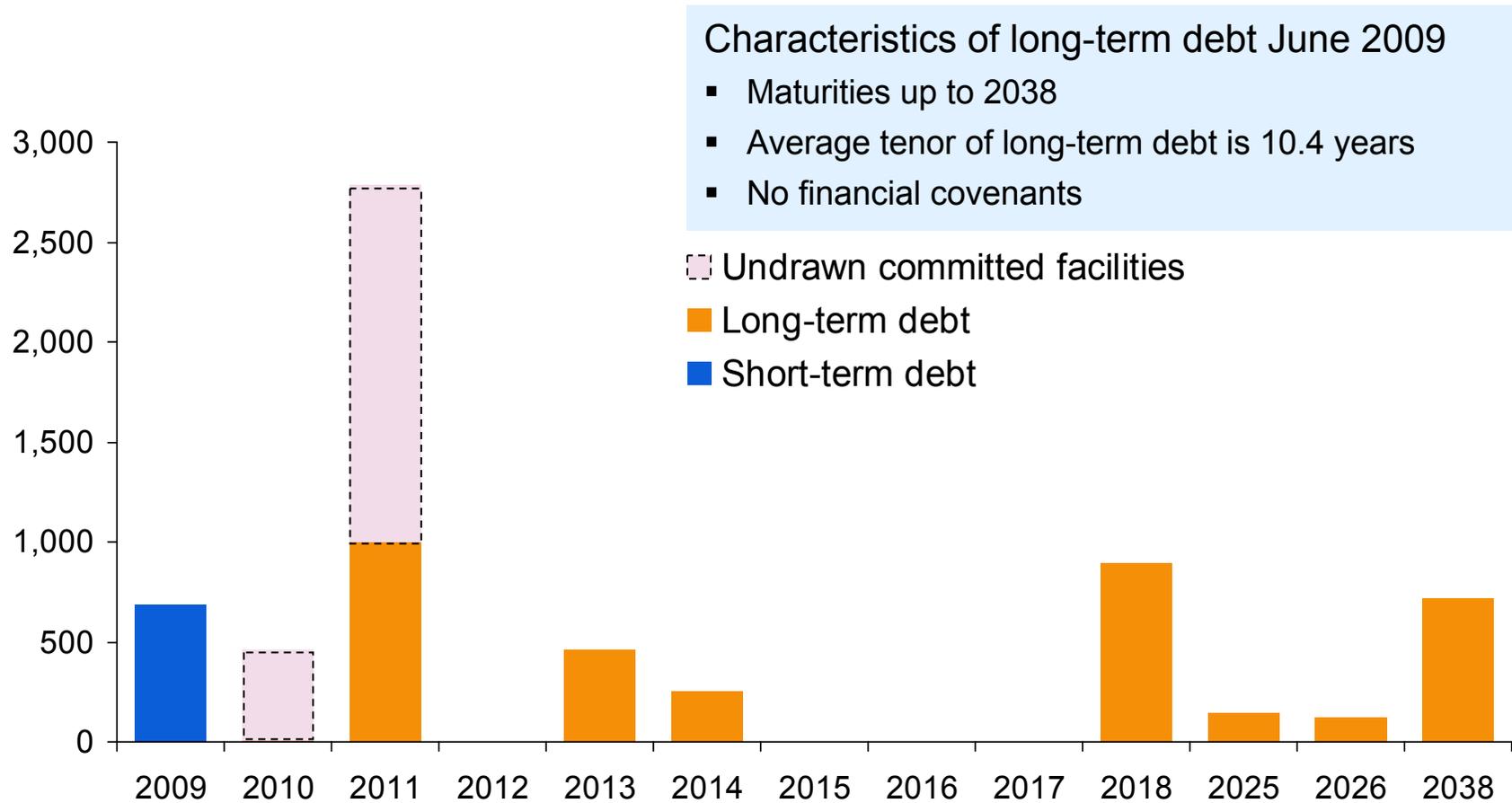
Restructuring <i>EUR million</i>	Cost			Cash out	Benefit	
	FY2008	1Q09	2Q09	3Q09E	2009E <sup>1</sup>	2H09E
Healthcare	<b>(65)</b>		(10)	(30)	<b>(100)</b>	<b>65</b>
Consumer Lifestyle	<b>(198)</b>	(13)	(30)	(40)	<b>(135)</b>	<b>125</b>
Lighting	<b>(222)</b>	(16)	(76)	(40)	<b>(195)</b>	<b>56</b>
I&EB	<b>(18)</b>	(1)	(8)	Moved to GM&S		
GM&S	<b>(13)</b>	(1)	(4)	(35)	<b>(40)</b>	<b>26</b>
<b>TOTAL</b>	<b>(516)</b>	<b>(31)</b>	<b>(128)</b>	<b>(145)</b>	<b>(470)</b>	<b>272</b>

Note - These numbers exclude acquisition-related charges of EUR 131 million for FY2008, EUR 19m for 1Q09, EUR 20m for 2Q09 and EUR 25m for 3Q09

# First long-term debt maturing as of 2011

## Debt maturity profile as of June 2009

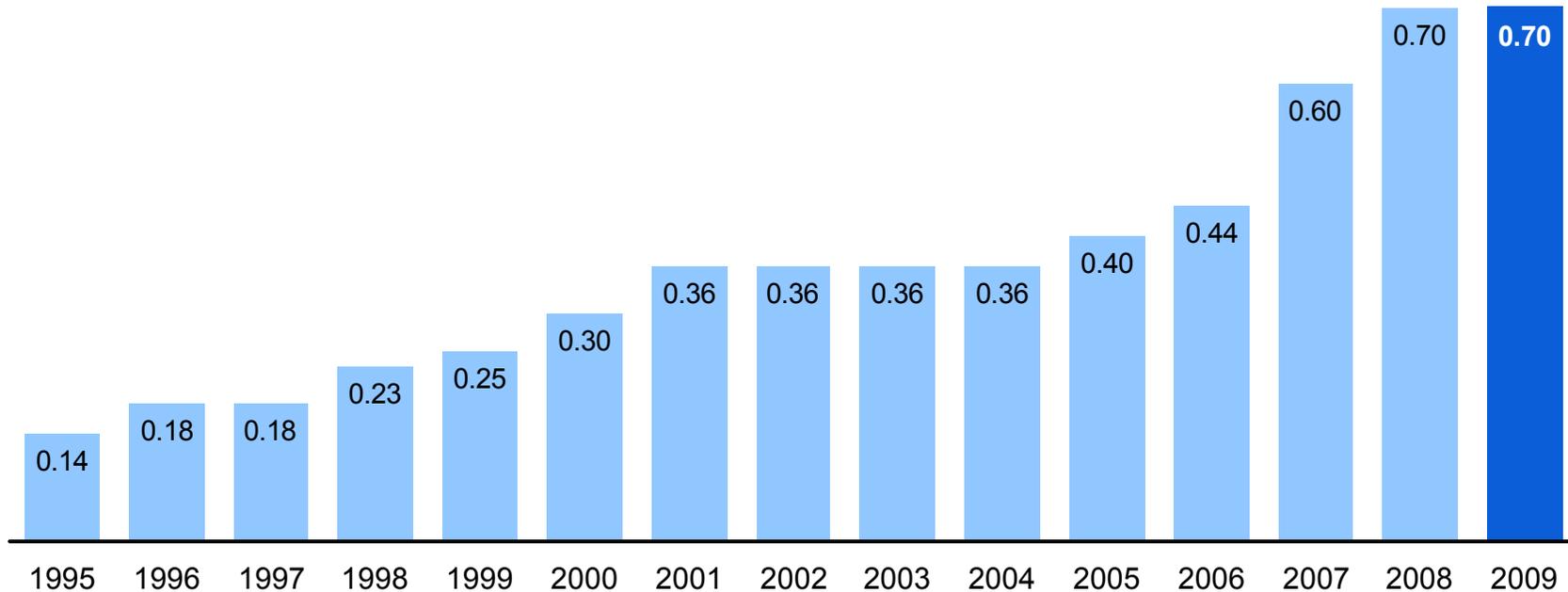
Amounts in EUR millions



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

## Distribution maintained at 70ct per share

*Amounts in EUR*



“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.”

## Philips Pensions Plans: Half Year Update

In our half-year IFRS report, we give an interim update on the state of our main pension plans. The main changes impacting the status of the plans are:

- A reduction in the **expected return on assets**
- An increase in the assumed **inflation rate**
- A **narrowing of credit spreads** affecting the PBO discount rate

*The consequence of these changes is that*

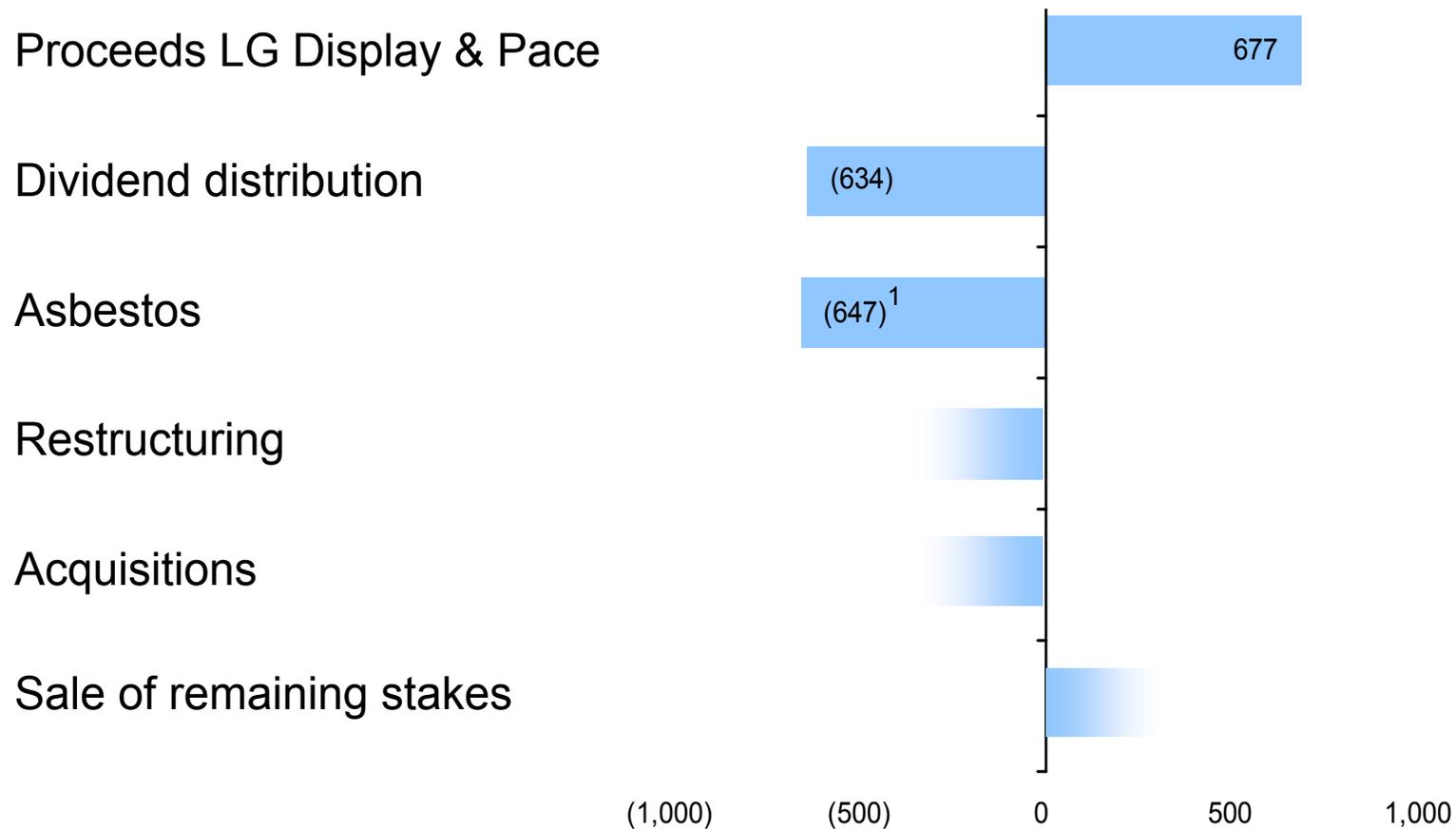
- The funded status of the plans has been reduced by EUR 1.6 billion in **actuarial losses**
- The net balance sheet position of these plans has reduced by a further EUR 0.8 billion as the **pension asset** we are able to recognize under accounting rules has fallen by this amount.

*The impact on the financial statements, costs and cash funding is*

- The combined effect of EUR 2.4 billion (EUR 1.8 billion net of tax) is reflected in our financial statements as a **balance sheet-only effect** at the end of June. The counter entry reduces equity by the same amount. There is **no P&L effect** There is **no impact on cash**.
- There is **no change to pension costs** or pension **cash funding** in 2009.

## Major cash flow items in 2009

*Amounts in EUR millions*



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 648m at ECB fixing of July 10: 1.3901) may occur in the second half of 2009.

## Managing risk

Philips recognizes different risk categories and has taken measures accordingly. Current market situation asks for even more demanding controls which have been put in place.

- **Capital expenditures**      Capital expenditure target in place to reduce investments in line with sales decrease
- **Supplier risk**              We strengthened the purchase team to more closely assess our supplier risk
- **Credit risk**                  Proactive assessment on our stakeholders regarding our exposures and focus on cash flow / liquidity, where necessary at the expense of bottom line
- **Risk of obsolescence**      Production carefully managed to prevent excess inventory, risk of obsolescence and write-downs
- **Foreign Exchange**          Active hedging policy in place on transactional risk
- **Country risk**                 We closely monitor the country default risk

## Better positioned after downturn

Despite weakness in market and the impact on our reported results we clearly see the benefits of the measures we've taken. Once markets recover the adapted portfolio and organization structure with lowered fixed cost base will result in improved performance of the group.

### ● Cost savings

Consumer Lifestyle is on track to deliver planned savings of EUR 150 – 200 million as a result of the decision taken to merge the former Consumer Electronics & DAP sectors per Jan 1, 2008.

### ● Restructuring

Restructuring charges of EUR 820 million have already been taken or announced in 2008 and 2009, savings from which are now expected to exceed EUR 600 million on an annualized basis by the end of this year

### ● Business structure

Divestment of North-American TV business, divestment of Home Networks, transfer of PC monitor business to TPV and further pruning of the portfolio has reduced our exposure to more cyclical and high ticket products leading to a more balanced portfolio.

The activities of Group Management & Services and the remaining Innovation & Emerging Businesses will be reported under one reporting unit

### ● Supply chain

Channels are shaken out with respect to inventories leading to tighter and more efficient supply chain going forward

# Global stimulus plans

	Plan size	Timing	Details	Possible impact		
				Healthcare	Lifestyle	Lighting
USA	USD 787B	2009 – 2019	\$121B for Healthcare (\$87B Medicaid, \$20B Electronic records) \$13B for energy efficiency			
China	USD 586B	2009 – 2010	\$464B infrastructure, of which \$51B energy eff. Extra \$124B spending over 3 yrs to improve Healthcare			
Japan	USD 240B	2008 – 2009	Create job opportunities, fixed sum benefit to every household of \$600 for family of four			
Germany	EUR 82B	2009 – 2010	Infrastructure and tax relief; bonus of €2,500 to give up old cars to buy new one			
Italy	EUR 80B		Fiscal stimulus plan, bonus of €2,500 to give up old cars to buy new one			
France	EUR 67B	2009 – 2011	Energy and construction, job subsidies			
United Kingdom	GBP 20B		Cut VAT rate			

Note – ‘Possible impact’ shows own estimation of whether stimulus plan can have positive impact on sector sales. Possible impact ranges from no impact (white ball) to definitively positive impact (black ball)

# Latest announced acquisitions

Nov-2008	<b>Meditronics</b>	Healthcare – Imaging Systems	Expansion of industrial and commercial footprint in India
Dec-2008	<b>Aerosol therapy</b>	Healthcare – Home Healthcare	Build industrial and commercial presence, strengthen emerging market presence
Feb-2009	<b>Ilti Luce</b>	Lighting – Professional Luminaires	Enhance ability to offer unique indoor architectural lighting solutions
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



# Management agenda 2009

Staying the course

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

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

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

1. Philips – who we are

2. Results Q2 2009

3. Philips Strategy & Targets

# PHILIPS

## Philips portfolio leverages a number of critical global trends

### 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

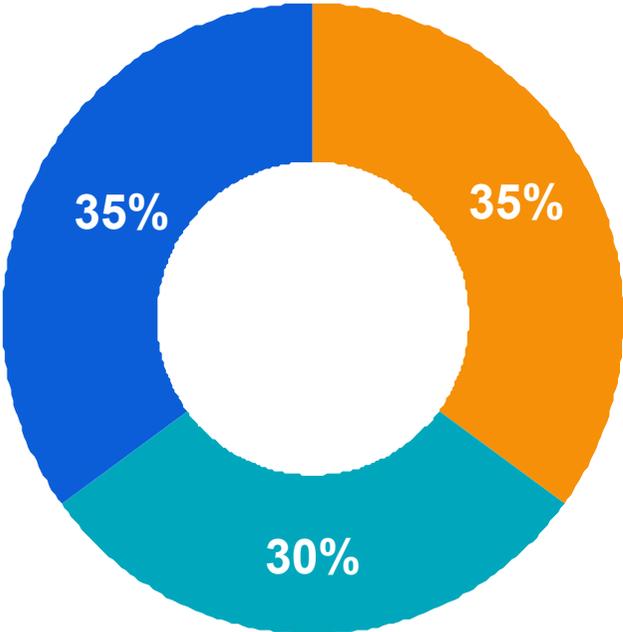
Demanding solutions to fulfill their personal needs.

### 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!



# Our health and well-being offer is powered by 3 businesses



2009 indicative sales split

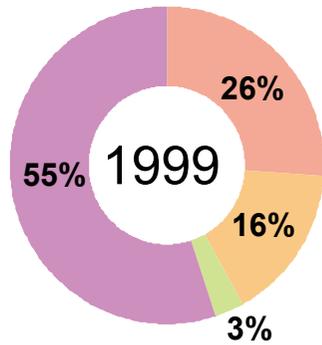
- Healthcare
- Lighting
- Consumer Lifestyle



# The power of Healthcare

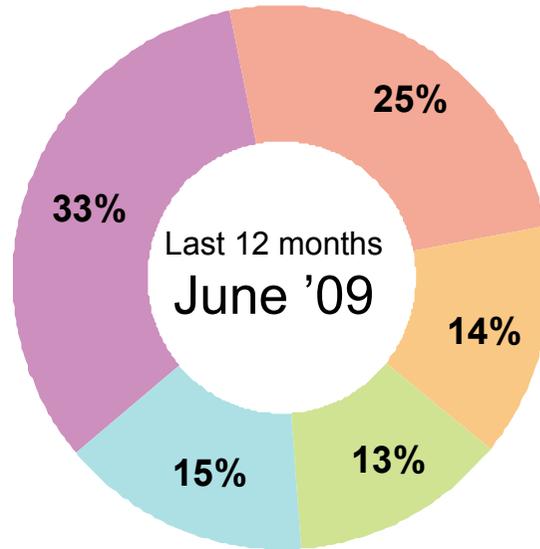
Further strengthening our global leadership

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



**PHILIPS**

# The power of Healthcare

Further strengthening our global leadership

## Clinical care systems

Global market leadership for automated external defibrillators

## Home healthcare solutions

No.1 provider of personal emergency response services in the US

## Patient monitoring

Leadership position offering significant reduction in mortality and length of stay in ICUs equipped with VISICU eICU

## Imaging systems

Cardiovascular X-ray is no.1 in overall manufacturing satisfaction

## Customer services

No.1 in service performance in patient monitoring systems and ultrasound

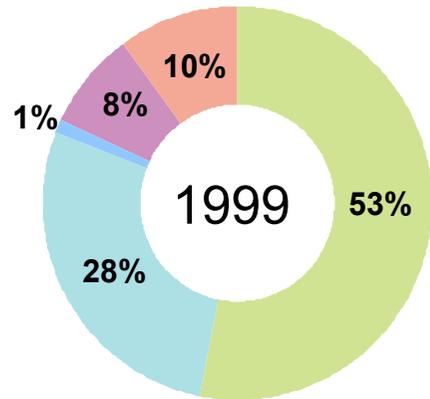
EBITA target of 15-17%



# The power of Consumer Lifestyle

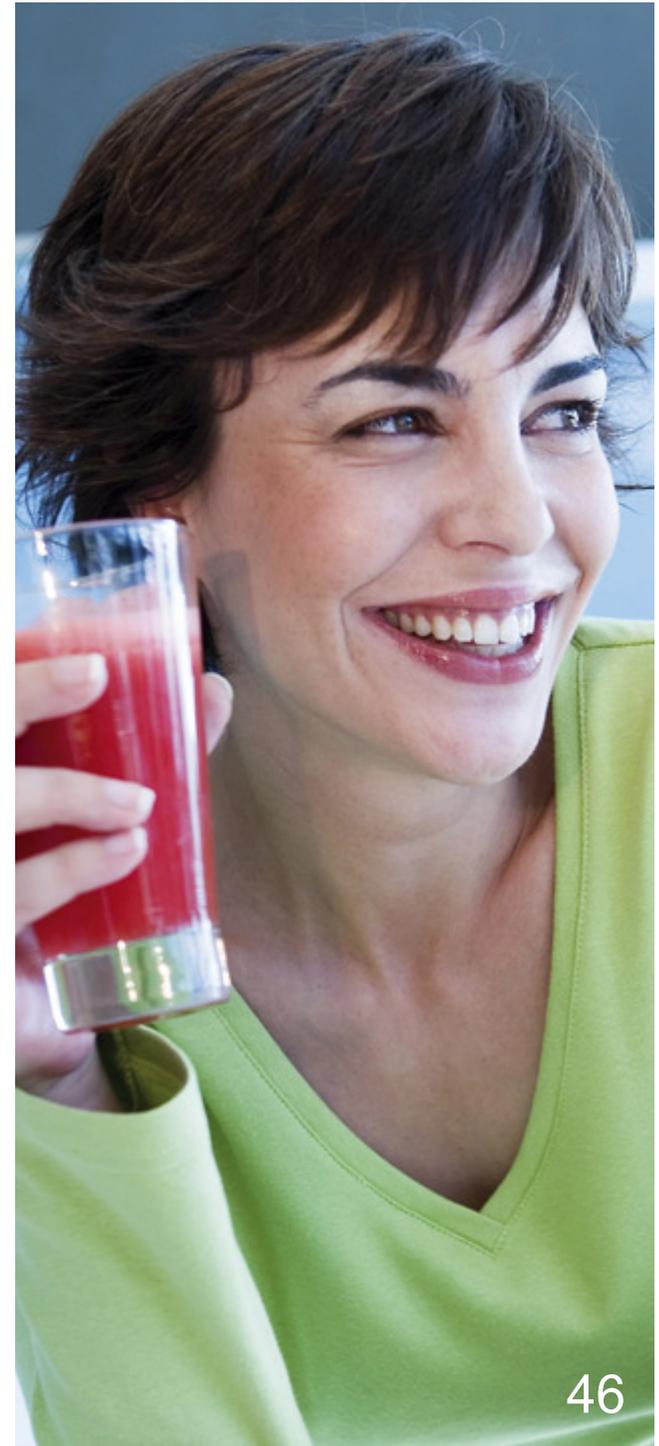
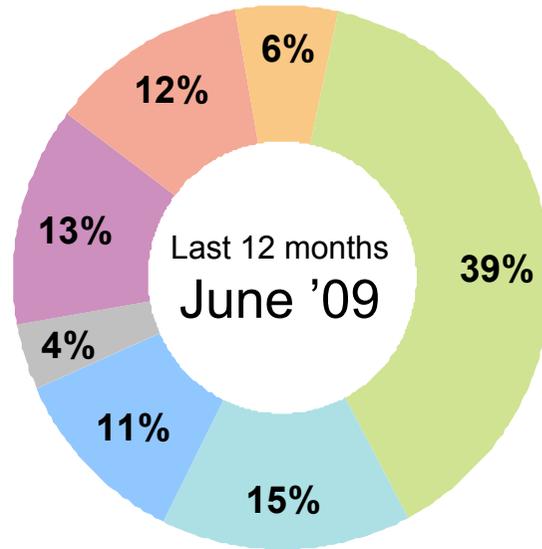
Focusing on differentiating profitable businesses

Total sales EUR 9.5 billion



- Domestic appliances
- Shaving & beauty
- Health & wellness
- TV
- Audio & video multimedia
- Peripherals & accessories
- Other

Total sales EUR 9.0 billion



## The power of Consumer Lifestyle

Focusing on differentiating profitable businesses

### Mother and childcare

Philips AVENT is market leader. Its feeding bottles have been clinically proven to reduce colic\*

\*At 2 weeks of age, babies fed with the AVENT Bottle experienced less colic than babies fed with a conventional bottle

### Male electric shaving

No.1, with every 2nd shaver in the world is a Philips shaver

### Power toothbrushes

Philips Sonicare is the number 1 recommended sonic toothbrush brand by dental professionals worldwide

### Domestic appliances

Over one million 'healthy living' aluminum Juicers sold since launch

### TVs

Philips invented the successful Ambilight flat TV concept

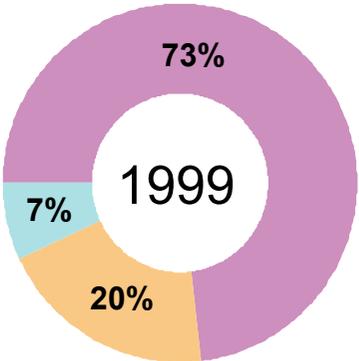
EBITA target of 8-10%



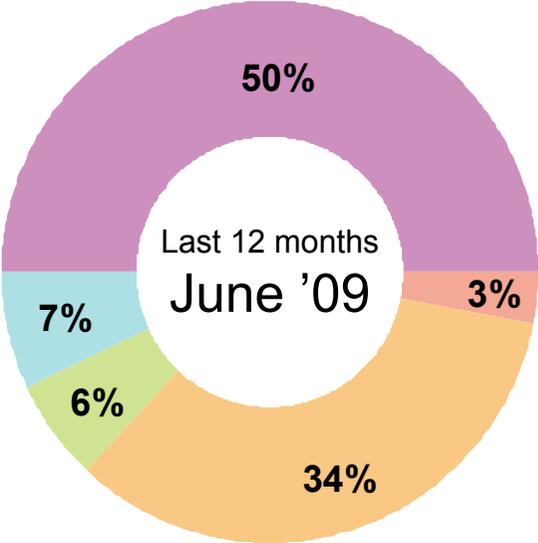
# The power of Lighting

Focusing on differentiating profitable businesses

Total sales EUR 4.5 billion



Total sales EUR 6.8 billion



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



## The power of Lighting

Further strengthening our global leadership

### Lamps

Market leader: 1 out of every 4 lamps used worldwide is a Philips lamp

### Professional luminaires

No.1 lighting 65% of world's top airports and 30% of offices, hospitals and landmarks

### Consumer luminaires

Market leader and front runner in driving the switch to energy efficient lighting

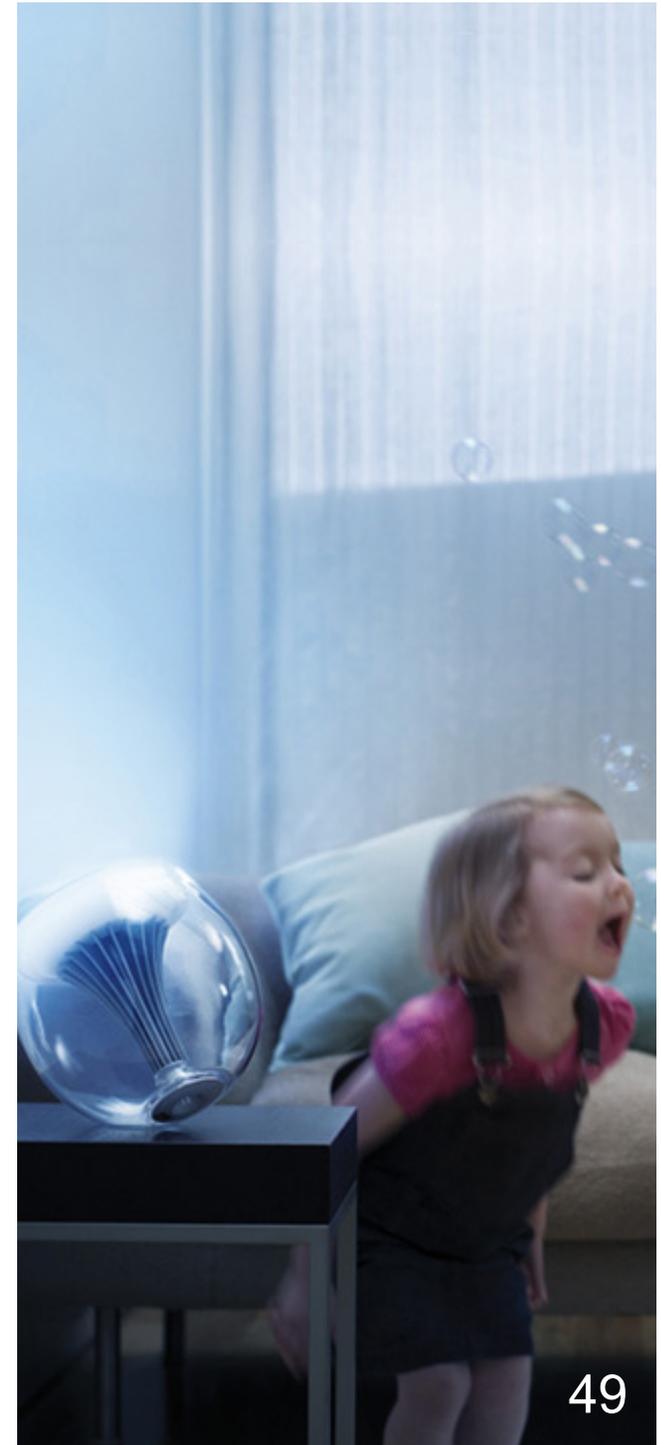
### LEDs

Strong presence in the complete solid state lighting chain

### Automotive lighting

Leads the market, with 1 in 3 cars worldwide using Philips automotive lighting

EBITA target of 12-14%



# Building our leadership of tomorrow

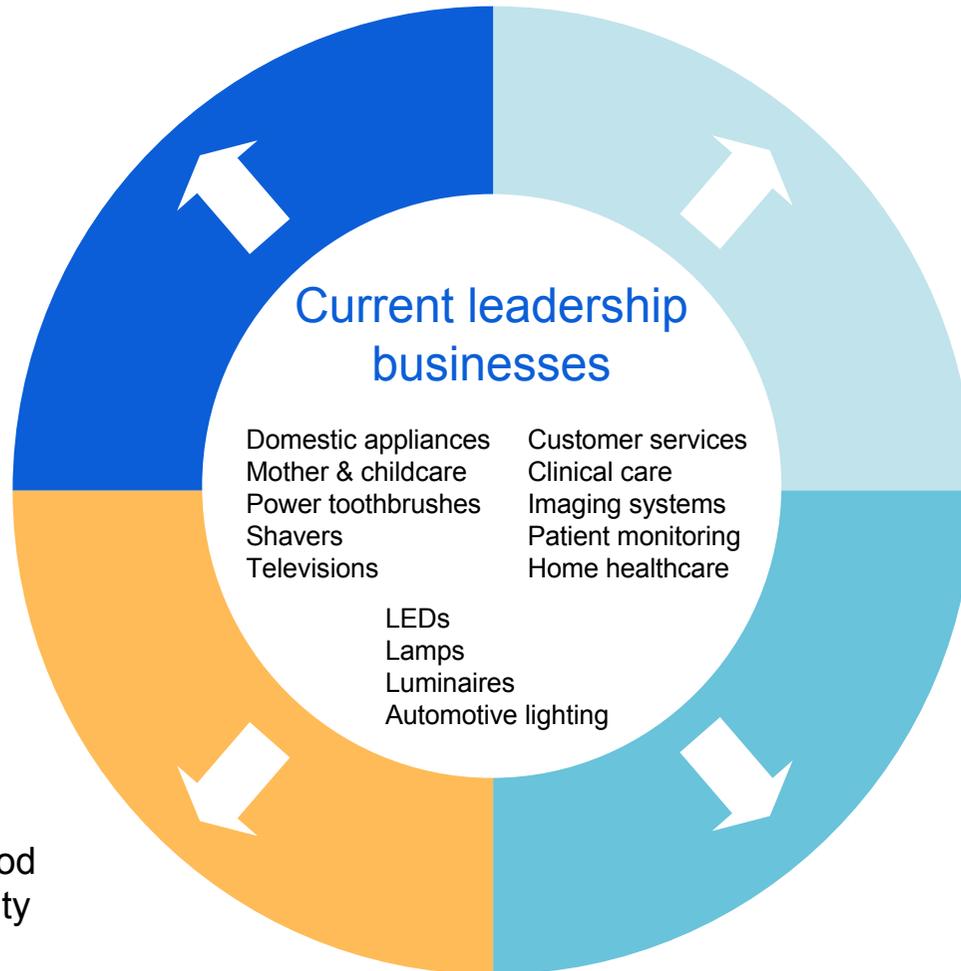
Further strengthening our global leadership

## Healthy living

A focus on sleep and skincare

## Preventive healthcare

Personal health monitoring and coaching



## Sustainable home lifestyle

Efficient use of resources, and good air and water quality

## Independent living

Developing new sales channels, and innovation in the field of respiration

# PHILIPS

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



# Creating meaningful innovations

Improving lives in new ways



Gain deep insights into people's needs and aspirations by following a process requiring end-user input at every stage

Transform insights into innovations by combining the diverse perspectives of different disciplines

“Learn fast, fail cheap” by applying a rigorous process to assess value potential early

Lead in open innovation by working closely together with partners in a spirit of open innovation

# End-user input

at every stage of our innovation process



**Insights on needs** and aspirations are gathered by listening, watching and engaging our end-users and customers

**Multiple solutions** are created by in-house Marketing, R&D, and Design teams who collaborate, together with external specialists

**Conclusions are validated** with end-users and customers, both globally and locally.

**Product creation process** continues outside-in thinking throughout, with experiential” and “simplicity” testing.

# 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:

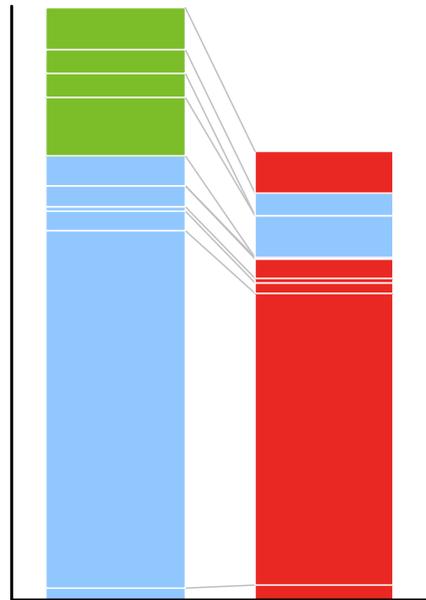
“would you recommend us to a friend or colleague?”

# NPS improvement drives revenue growth

Lighting Accounts with improving NPS show increasing sales

## NPS deteriorated

Annual revenue change (07-08)

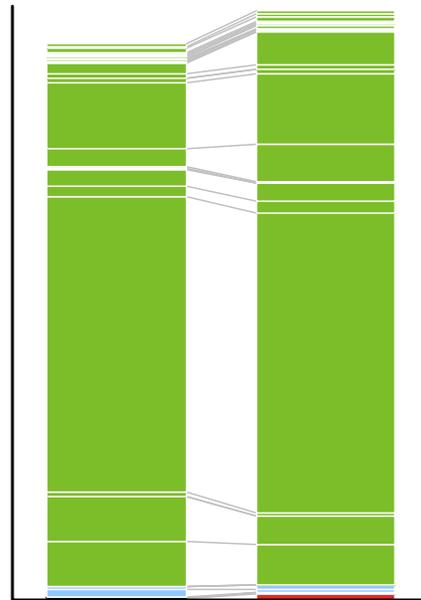


1st wave (2007)    3rd wave (2008)

**-24% decline** (11 accounts)

## NPS remained equal

Annual revenue change (07-08)

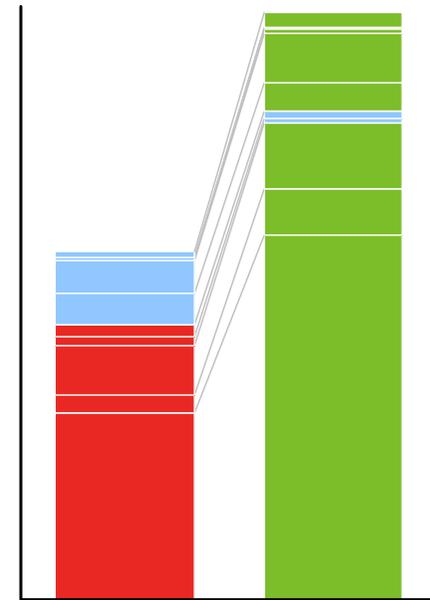


1st wave (2007)    3rd wave (2008)

**6% increase** (35 accounts)

## NPS improved

Annual revenue change (07-08)



1st wave (2007)    3rd wave (2008)

**69% increase** (10 accounts)

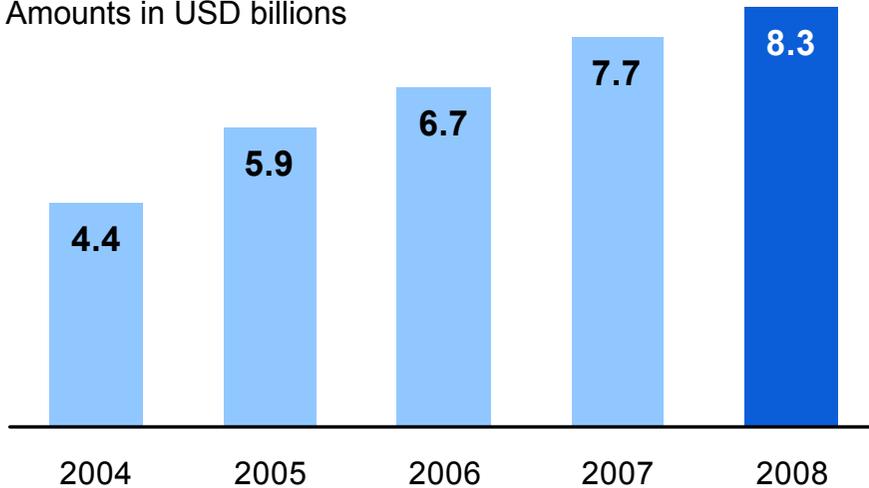


Note: NPS measured at end 2007 and end 2008; NN Sales compared 2008 vs. 2007

# Continued investment in building our brand

## Value of the Philips brand

Amounts in 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 we would all like to see a heart attack coming from a mile away.

**PHILIPS**  
sense and simplicity

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

**PHILIPS**  
sense and simplicity

\*because needing an MRI is scary enough.

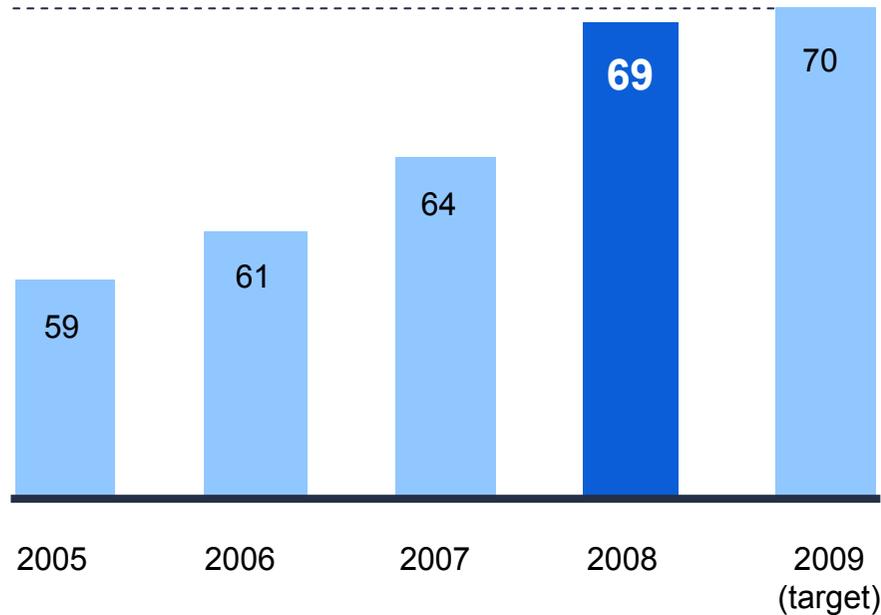
**PHILIPS**  
sense and simplicity

# 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 significantly outperformed growth in mature markets in 2008

## Championing growth with dedicated strategies

Based on local market insights, supported by increased marketing investment up 27% (2008 YTD vs. 2007)

## Increasing our footprint

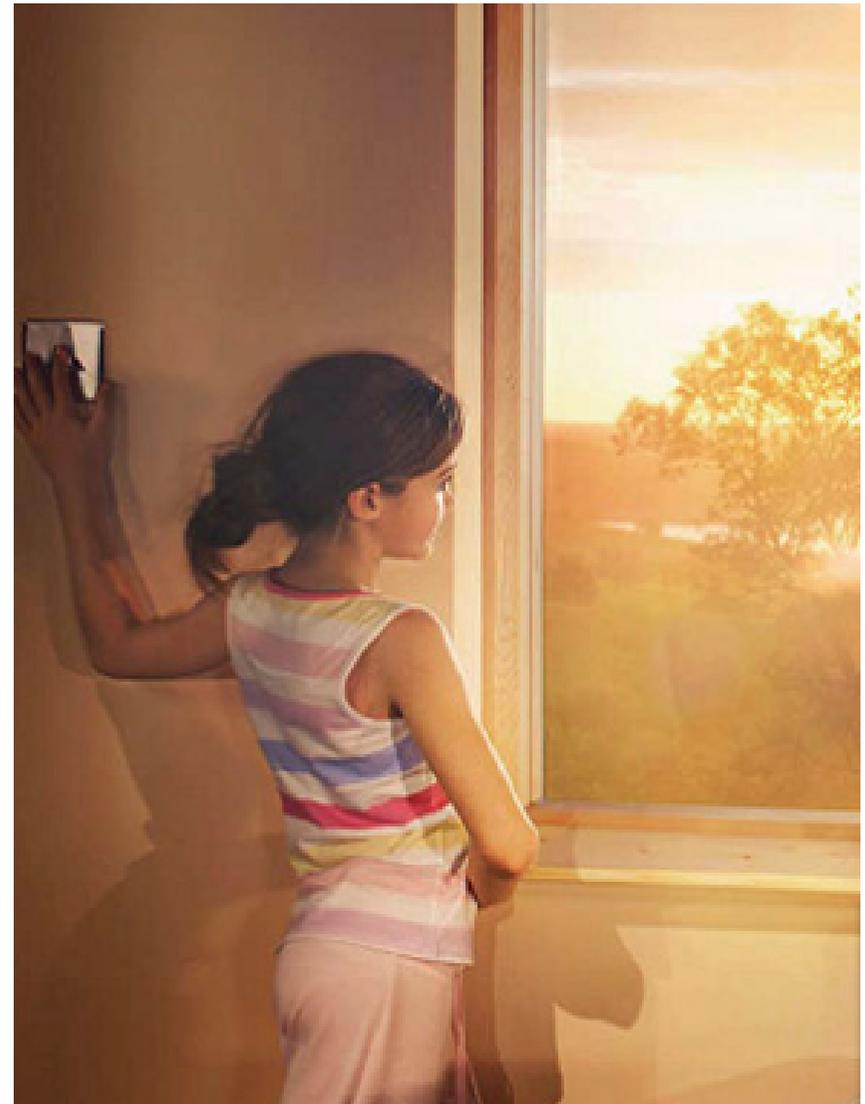
Significant increases in R&D, manufacturing and marketing. 5 strategic acquisitions to strengthen local market leadership positions

## High corporate brand equity

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

## Sustainability is a strategic driver

- ▶ Our superb heritage in innovation and design helps us realize meaningful innovations in **Healthcare**, **Lighting** and **Consumer lifestyle**
- ▶ Our brand promise ***Sense and Simplicity*** and sustainability provide the framework for the way we do business.
- ▶ Our strategy fuels growth through sharpened, market-focused, people-centric strategies
- ▶ One of the strategic drivers behind our targets is a commitment to sustainability and making a difference in energy efficiency



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 € 1 billion
- Further increase the energy efficiency of our operations by 25%

## Leading today, into tomorrow

### Summing up

- Confident about overall strength of business portfolio
- Balanced portfolio of leading businesses
- Ongoing focus on working capital management
- Stringent approach to cost and cash management
- Strong balance sheet position
- Managing businesses relative to market and competition
- Sustaining investments in R&D and marketing
- Ambitions and strategy unchanged
- Well positioned to build the leading company in health and well-being



**PHILIPS**

**sense and simplicity**

# Appendix

## Development cost capitalization & amortization by sector

*EUR million*

	Capitalization		Amortization	
	Q2 2008	Q2 2009	Q2 2008	Q2 2009
Healthcare	14	29	10	15
Consumer Lifestyle	24	15	40	18
Lighting	7	6	5	7
I&EB	5	2	2	-
GMS	-	-	-	-
<b>Group</b>	<b>50</b>	<b>52</b>	<b>57</b>	<b>40</b>

## Fixed assets expenditures & Depreciation by sector \*

*EUR million*

	Gross CapEx		Depreciation	
	Q2 2008	Q2 2009	Q2 2008	Q2 2009
Healthcare	52	49	36	43
Consumer Lifestyle	39	39	41	37
Lighting	74	38	61	69
I&EB	0	2	7	7
GMS	13	12	12	15
<b>Group</b>	<b>178</b>	<b>140</b>	<b>157</b>	<b>171</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	91	139
Consumer Lifestyle	164	171	156	170
Lighting	247	304	217	329
I&EB	53	5	39	31
GMS	28	84	59	60
<b>Group</b>	<b>658</b>	<b>770</b>	<b>562</b>	<b>729</b>

\* Excluding software related capital expenditures and depreciation

**PHILIPS**

