

PHILIPS

sense and simplicity

Strategy update: Vision 2015
Leading in health and well-being

Gerard Kleisterlee
President and CEO, Royal Philips Electronics

Gerard Kleisterlee

Agenda

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

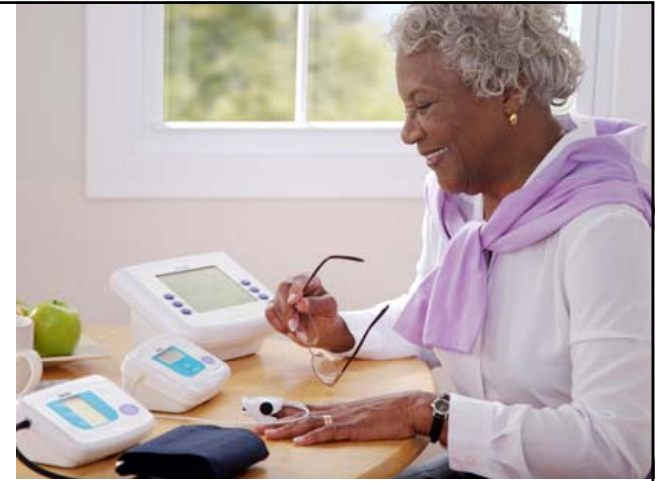
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Vision 2010 outlined 4 key priorities

- 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



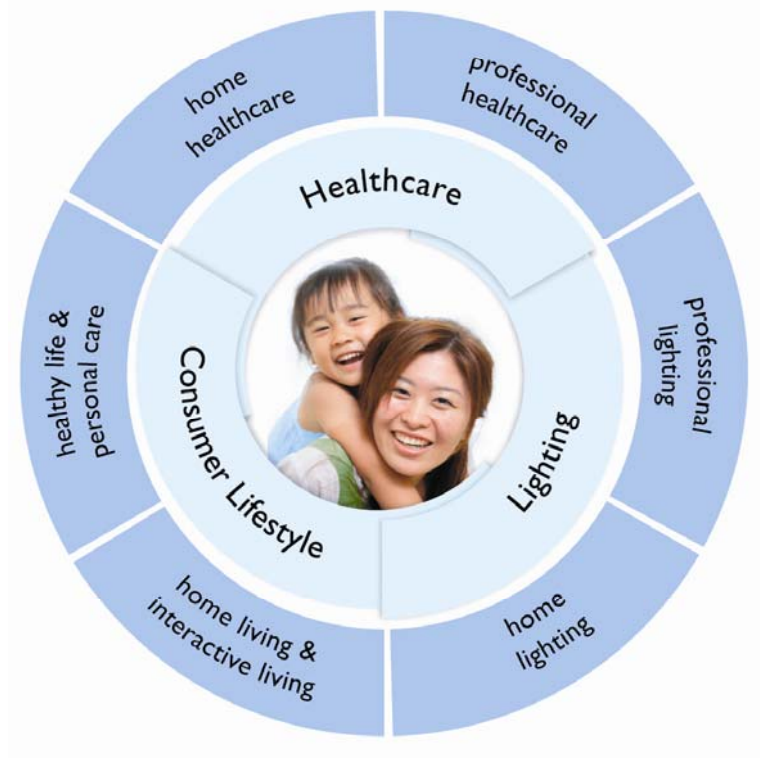
Increased consumer empowerment and sustainable lifestyles



Climate change and sustainable development



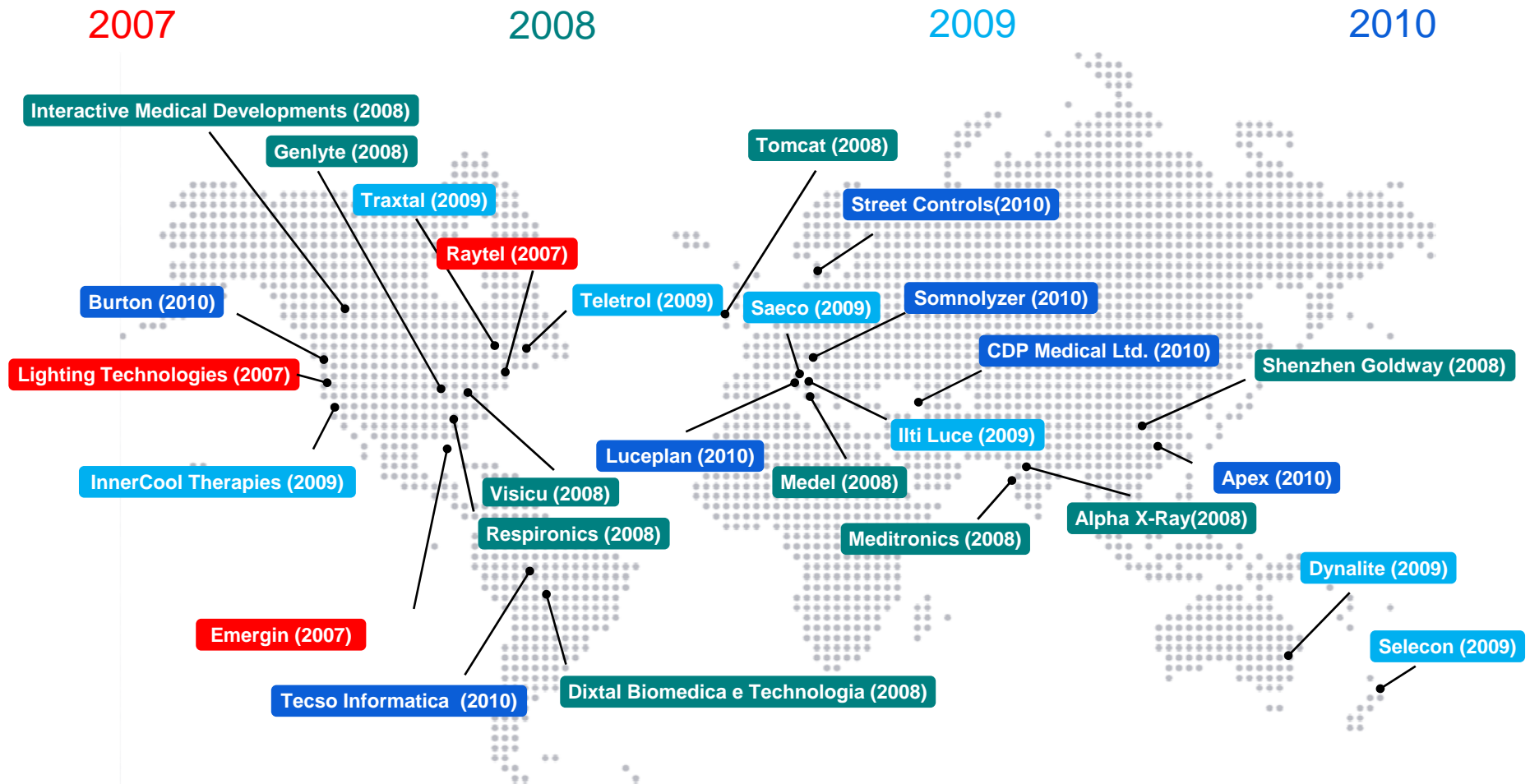
Rise of emerging markets



Vision 2010 outlined 4 key priorities

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

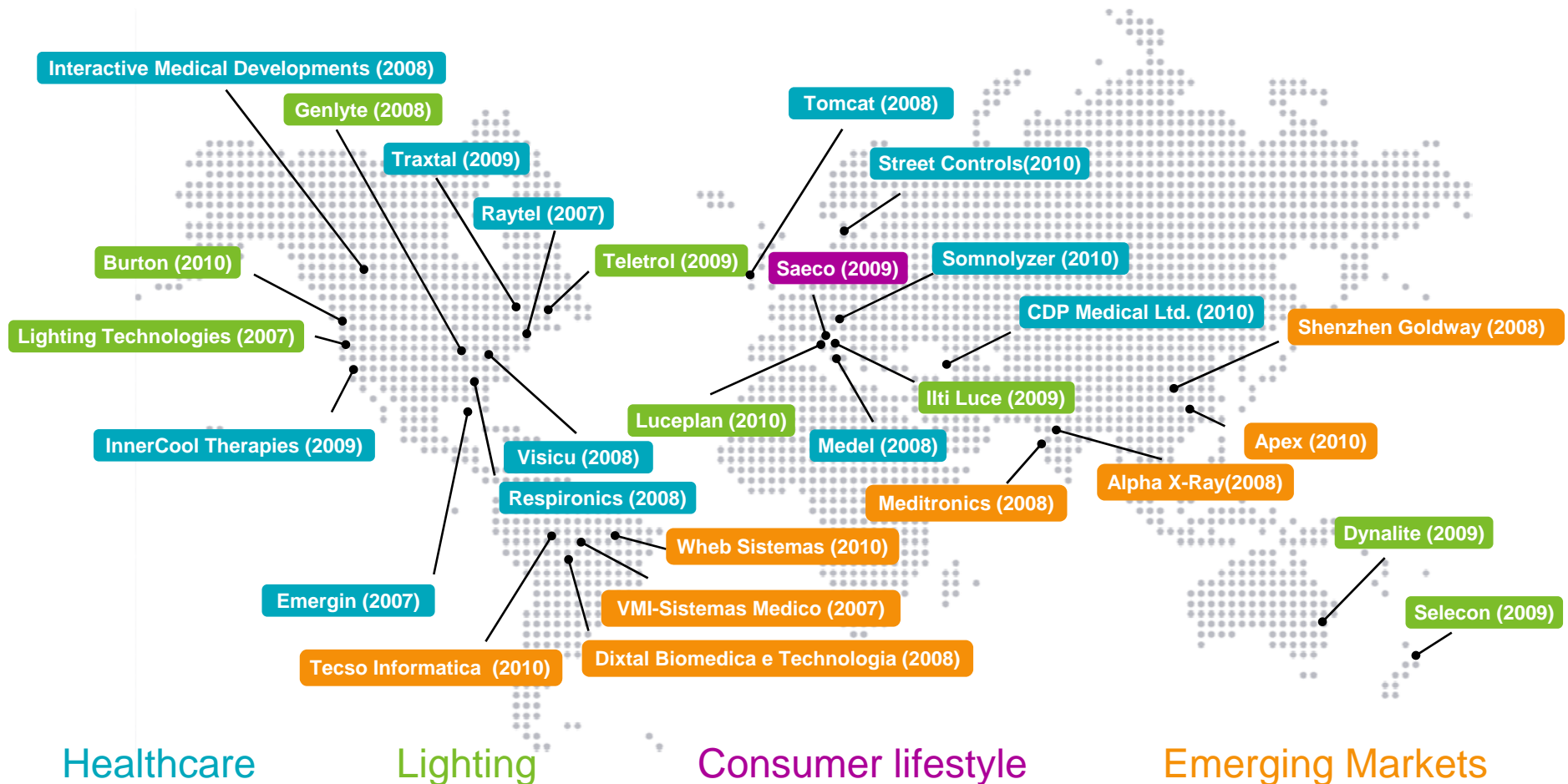
Since September 2007 we acquired 27 businesses



Vision 2010 outlined 4 key priorities

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

Since September 2007 we acquired 27 businesses



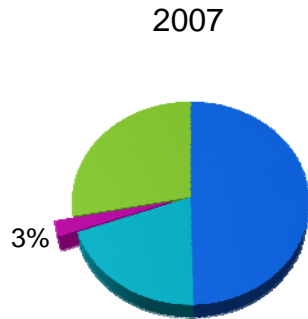
Note: All acquisitions closed from September 2007, with the exception of VMI Sistemas (closed earlier in 2007) and Wheb Sistemas (announced Sept. 13, 2010)

Vision 2010 outlined 4 key priorities

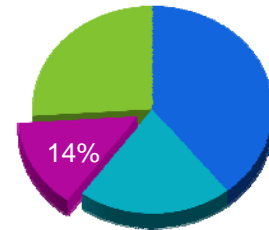
We built a portfolio of businesses that stands to grow on the back of global trends

Healthcare

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



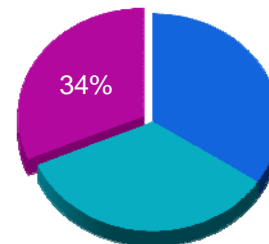
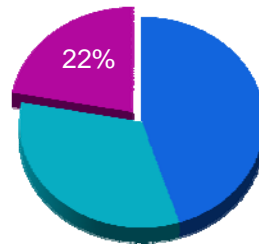
2010 Q2 LTM*



- Imaging Systems
- Patient Care and Clinical Informatics
- Home Healthcare
- Customer Services

Consumer Lifestyle

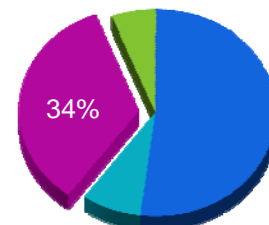
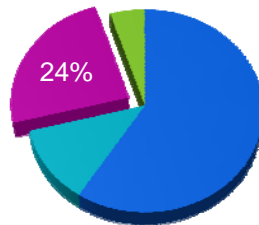
We managed to grow higher-margin categories such as Health and Wellness and Domestic Appliances



- TV
- Health and wellness, Domestic appliances, Personal Care
- Other

Lighting

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



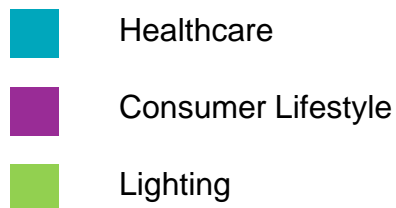
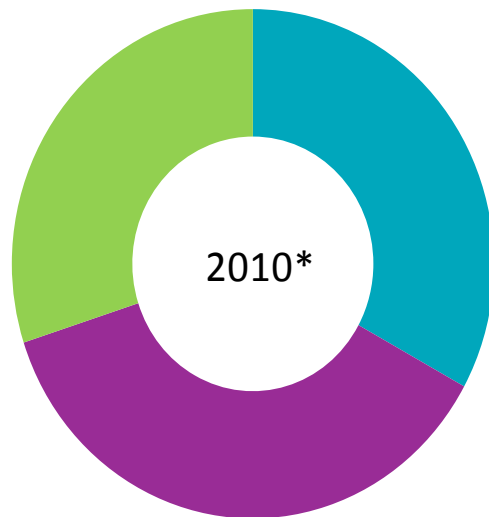
- Lamps & Lighting Electronics
- Professional & Consumer Luminaries
- Packaged LEDs
- Other

* LTM: Last 12 months

Vision 2010 outlined 4 key priorities

We simplified Philips to optimally tap into market opportunities

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



* LTM: Last 12 months

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

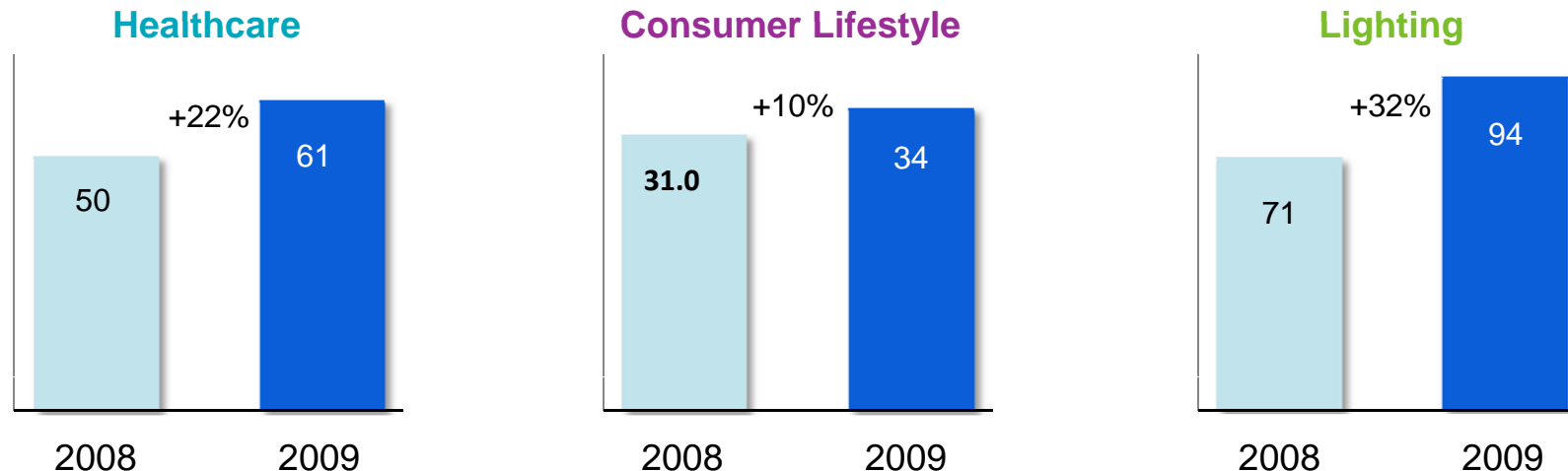
Innovation

- 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*



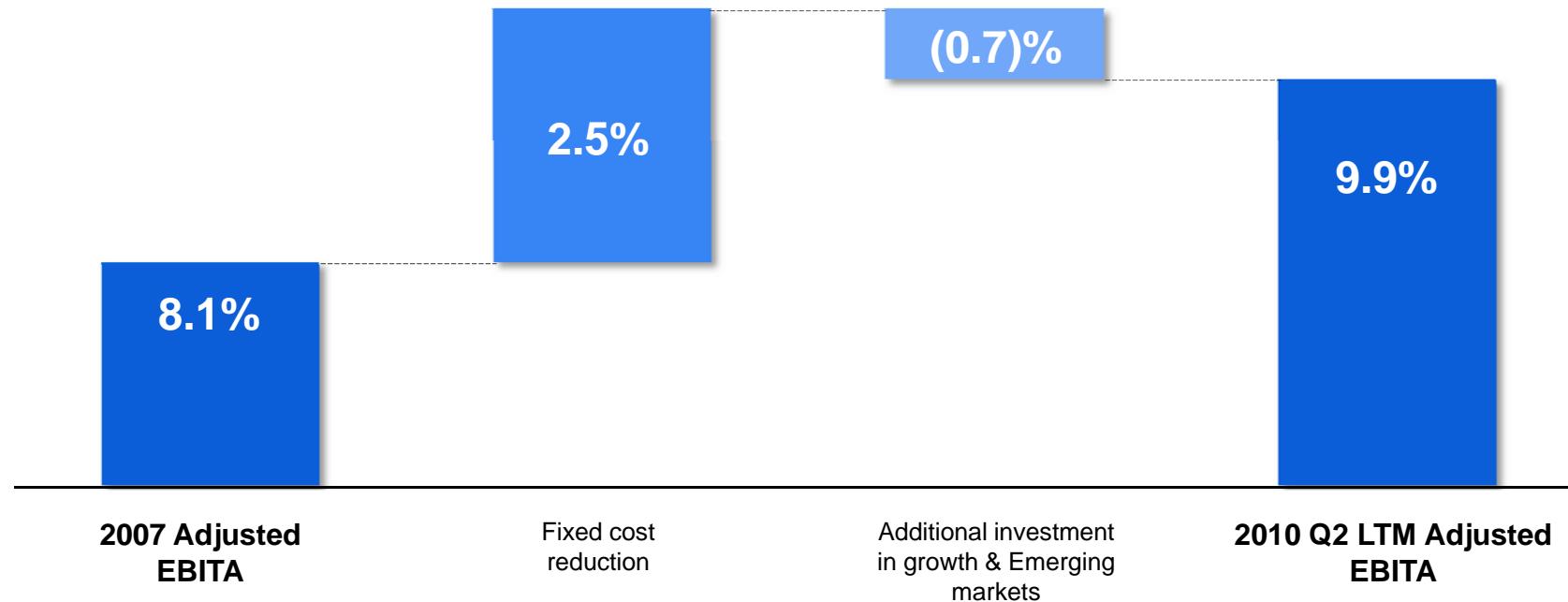
* New product sales is revenues generated from products that were launched in the last two years

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

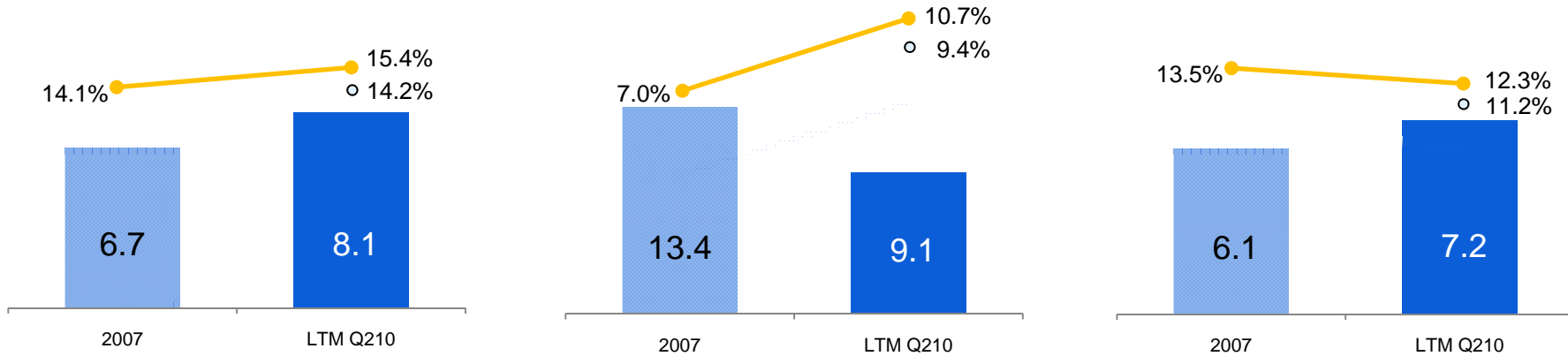


* LTM: Last 12 months

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



Healthcare

Consumer Lifestyle

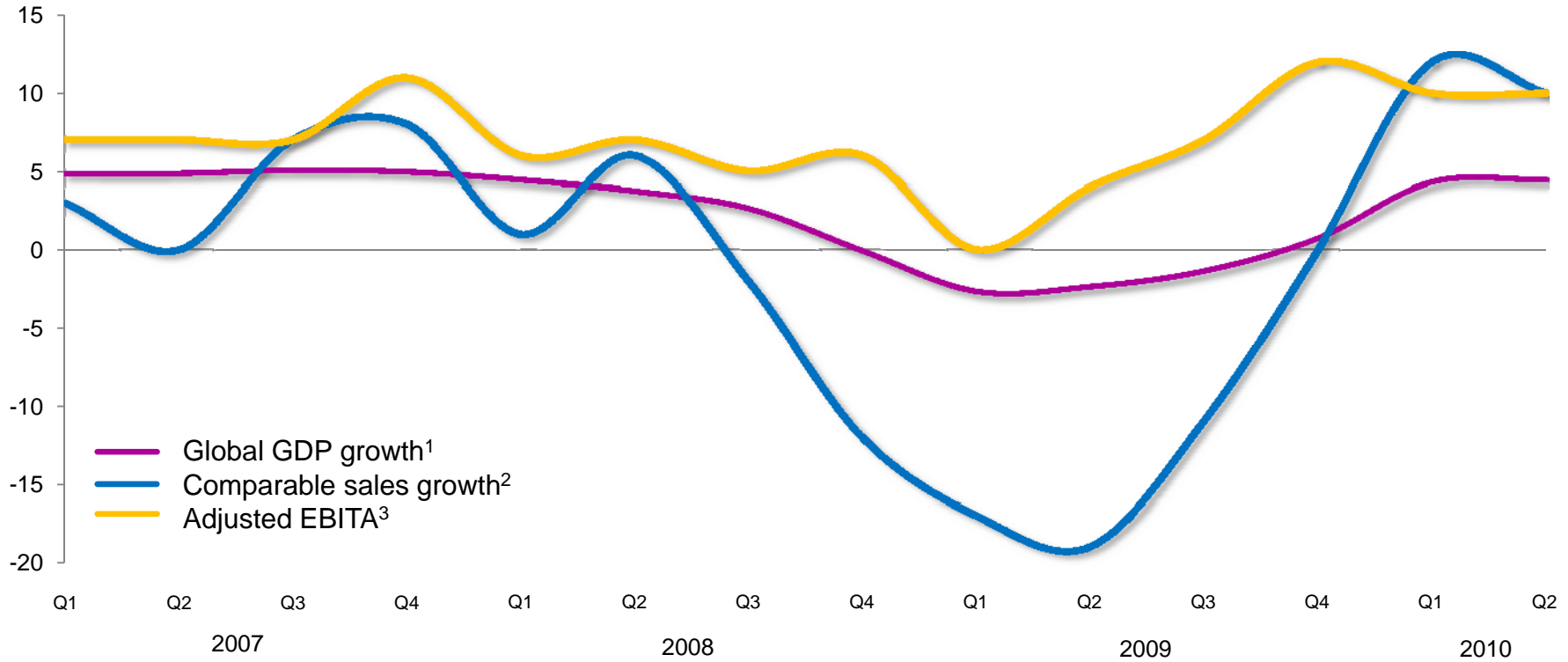
Lighting

- 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

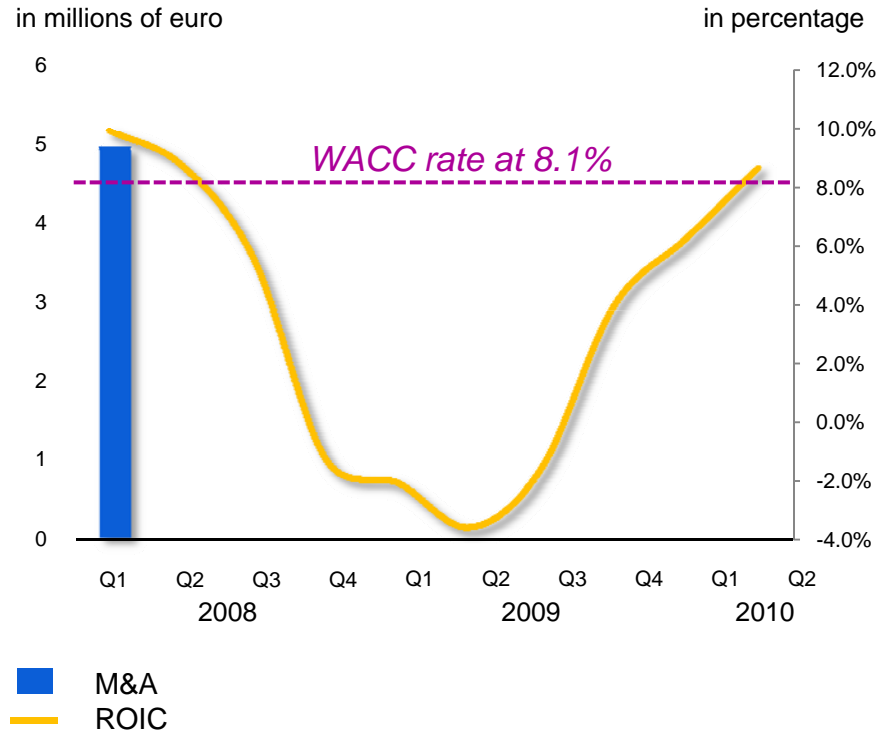
% growth by quarter



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



Notes:

EBIAT are earnings before interest after tax

Philips calculates ROIC % as: $EBIAT / NOC$

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

Effective Tax Rate used to calculate EBIAT

- 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

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:

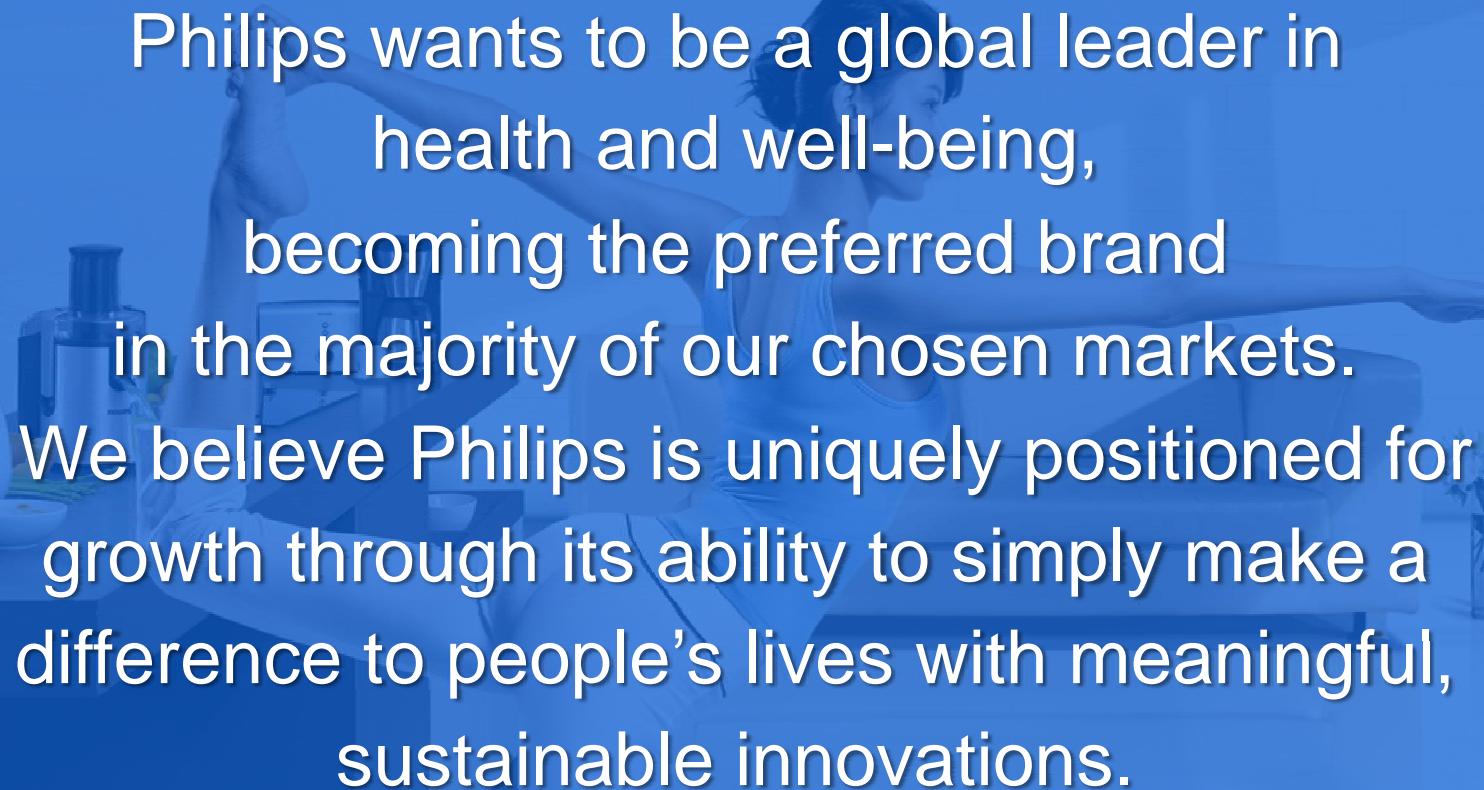
- **Healthcare 15-17%** ✓
- **Lighting 12-14%** ✓
- **Consumer Lifestyle 8-10%** ✓
- **Generate ROIC of 12-13% on invested capital** ❌

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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.

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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

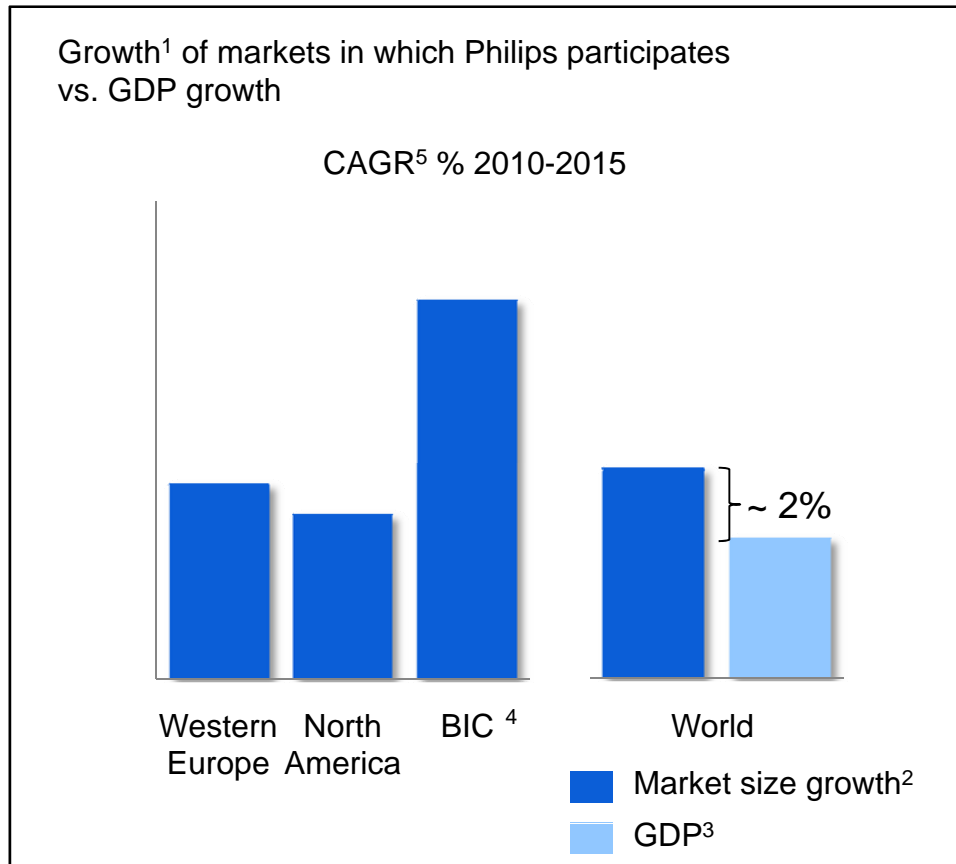


Climate change and sustainable development

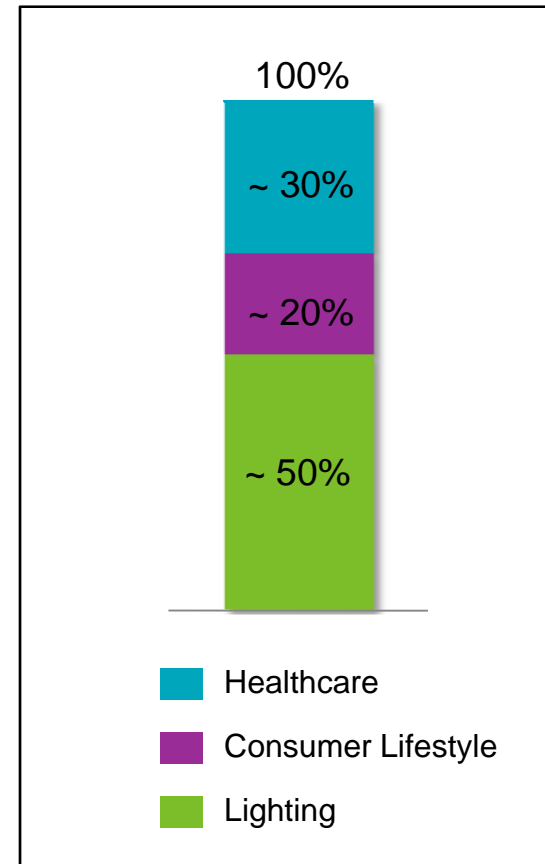
We expect our markets to grow faster than GDP³

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...



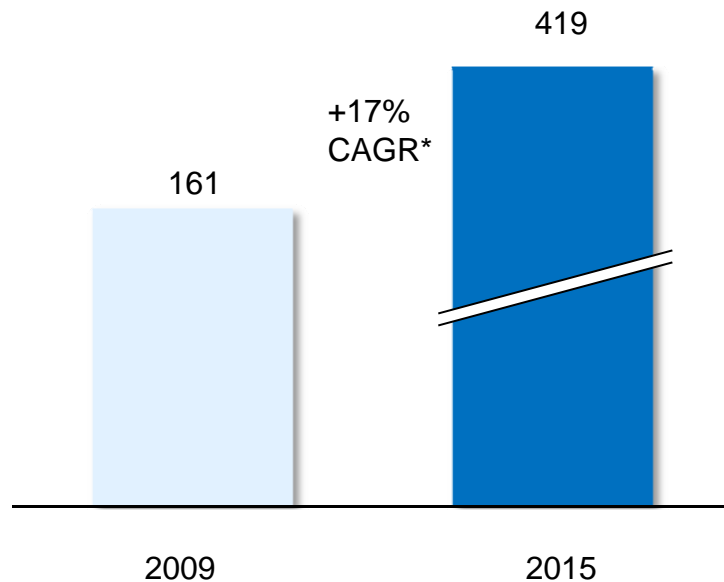
1. Excluding TV
 2. Based on internal analysis

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

					
<i>Regional</i> Cardiovascular	<i>Global</i> Patient Monitoring	<i>Regional</i> Cardiac resuscitation	<i>Regional</i> Radiation Oncology Systems	<i>Global</i> Ultrasound	<i>Regional</i> 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

						
<i>Regional</i> Male dry shaving and grooming	<i>Global</i> Mother and Child Care	<i>Regional</i> Power Toothbrushes	<i>Global</i> Female depilation	<i>Global</i> Steam irons	<i>Regional</i> Blenders	<i>Global</i> 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



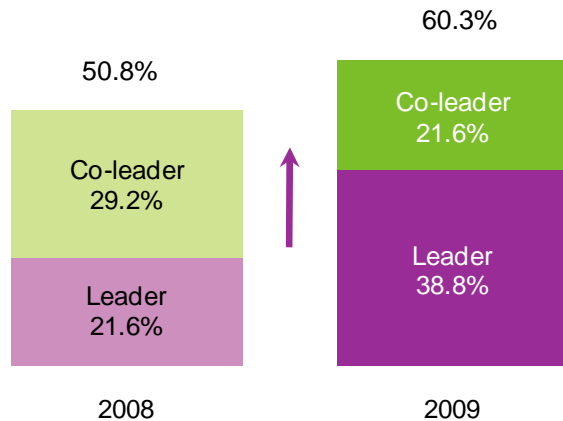
	Manage for cash	Optimize position	Drive growth	Invest for longer term growth
Lighting		<ul style="list-style-type: none"> Automotive Conventional lighting 	<ul style="list-style-type: none"> LED lamps Professional Luminaires Consumer Luminaires 	<ul style="list-style-type: none"> Smart Lighting Solutions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

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

Well positioned to capture the emerging markets opportunity

Current presence is a strong base for growth



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

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%

* 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

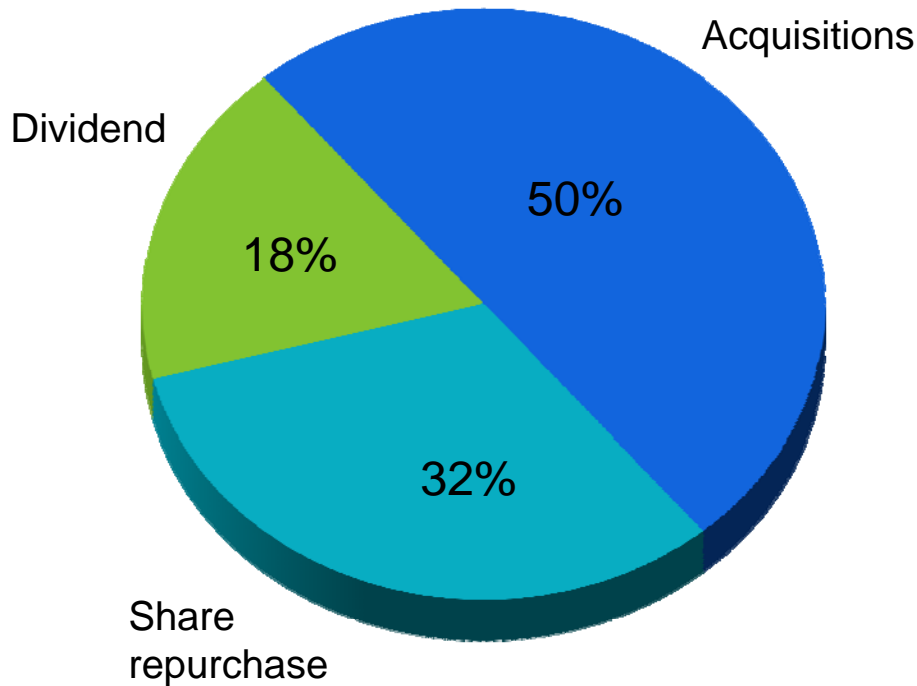
Goals and Aspirations

- **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

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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 global GDP
- We aspire 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



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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”

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