

# PHILIPS

sense and simplicity

Royal Philips Electronics

*Second Quarter 2011 & Mid-term Performance  
Trajectory Update*

July 18<sup>th</sup>, 2011

# 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. 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 2010 and the "Risk and uncertainties" section in our semi-annual financial report for the six months ended July 3, 2011.

## *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 2010.

## *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 do not exist, we estimated the fair values using appropriate valuation models, and when observable market data are not available, we used 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 2010 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'.

1. Management update

2. Group results Q2 2011

3. Accelerate! Change and performance

4. Portfolio strength

5. Path to value

6. Group and sector overview

## Management update

- Results impacted by **investments** for growth, **weaker markets**, and **impairments**
  - Healthcare performed strongly on earnings, sales growth and order book development
  - Consumer Lifestyle core businesses grew double digit, investments lead to lower margin
  - Lighting LED grew strongly, results impacted by markets and performance challenges
  - Adjusted business cases and discount rates at annual review, resulted in an EUR 1.4 billion impairment
- A comprehensive **change** and **performance** program, “**ACCELERATE!**” launched
  - EUR 500 million **cost reduction** program is one element
- We are confident in the **strength** of our **portfolio**
  - Well positioned to take advantage of **global trends**.
  - The majority of our portfolio have the **right fundamentals** to **create value** driven by ROIC.
- Accelerating growth and improving profitability is the first step on our **PATH TO VALUE**
  - Launched a EUR 2 billion share buy back program
  - Mid-term (2013) goals for the group to achieve Sales growth<sup>1</sup> of 4-6%, EBITA 10-12% and ROIC 12-14%

<sup>1</sup> Assuming real GDP growth of 3-4%

## Performance improvement update

### New Philips Business System

- ✓ Granular performance management in place at 400 BMC<sup>1</sup> level
- ✓ Strengthen the Executive team
- EUR 500 million cost program launched to improve efficiency

### Disciplined Capital Use

- ✓ Share buy back program launched to address balance sheet efficiency
- Deliver on inventory reduction programs
- Focused value delivery plan for each past acquisition
- Impairment due to change in discount rate and lower post recession recovery

### Japan Crisis, and progress on TV disentanglement

- ✓ Risk mitigation efforts in Japan for sales and supplies largely successful
- TV disentanglement progressing along tight time line for Q4 closing
- Stranded cost (EUR 130 million), disentanglement cost and deal result pending finalization

### Targeted investing in markets and innovation

- About half of EUR 200 million increase already in annual run rate costs
- Selling and R&D expenses expected to remain stable in relation to sales for this year

### Short term performance measures

- Lighting: Turn around plan for Consumer Luminaires , increase prices to compensate for higher input costs, strengthen performance management
- Consumer Lifestyle: turn-around plan Lifestyle Entertainment (AVM and Accessories); TV disentanglement, operational improvement plans

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## Headlines: Q2 2011

### Group

- Comparable sales increased 4%, led by strong growth at Healthcare
- Growth markets now represent one third of Group sales
- EBITA of EUR 370 million, 7.1% of sales
- Goodwill impairment leads to net loss of EUR 1.3 billion
- Free cash outflow of EUR 210 million

### Healthcare

- Comparable sales increased 8%, with solid increases in all businesses
- Equipment Order Intake growth of 4%, led by strong growth of 10% in NA
- EBITA increased by EUR 60 million y-o-y to EUR 276 million, or 13.3% of sales

### Consumer Lifestyle

- Comparable sales declined 2%, excluding licenses up 1%
- EBITA was low at EUR 60 million compared to last year's EUR 168 million
- Lower license income, investments in Advertising & Promotion, and sales decline at Lifestyle Entertainment led to the decline in earnings

### Lighting

- Comparable sales increased 4%, LED-based sales grew 21%
- EBITA, excl. restructuring and acquisition-related charges, amounted to EUR 115 million, compared to EUR 247 million in Q2 2010
- Pressure on margins, weaker consumer markets, specifically in Western Europe, and incremental investments in growth caused decline in EBITA

# Key Financials Summary – Q2 2011

EUR million

	Q2 2010	Q2 2011
Sales	5,346	5,213
EBITA	506 <sup>1</sup>	370 <sup>1</sup>
Financial income and expenses	(70)	(75) <sup>2</sup>
Income tax	(85)	(46)
Net income (loss)	262	(1,345)
Net Operating Capital	14,074	11,302
Net cash from operating activities	497	39
Net capital expenditures	(198)	(249)
Free cash flow	299	(210)

<sup>1</sup> 2Q11 includes EUR (24)M of charges; 2Q10 includes EUR (90)M of charges

<sup>2</sup> 2Q11 benefited from lower interest expense due to lower debt and a fair-value gain on the option related to NXP, offset by higher interest expense related to tax positions and value adjustments in respect of available-for-sale financial assets.

Note - All figures exclude discontinued operations



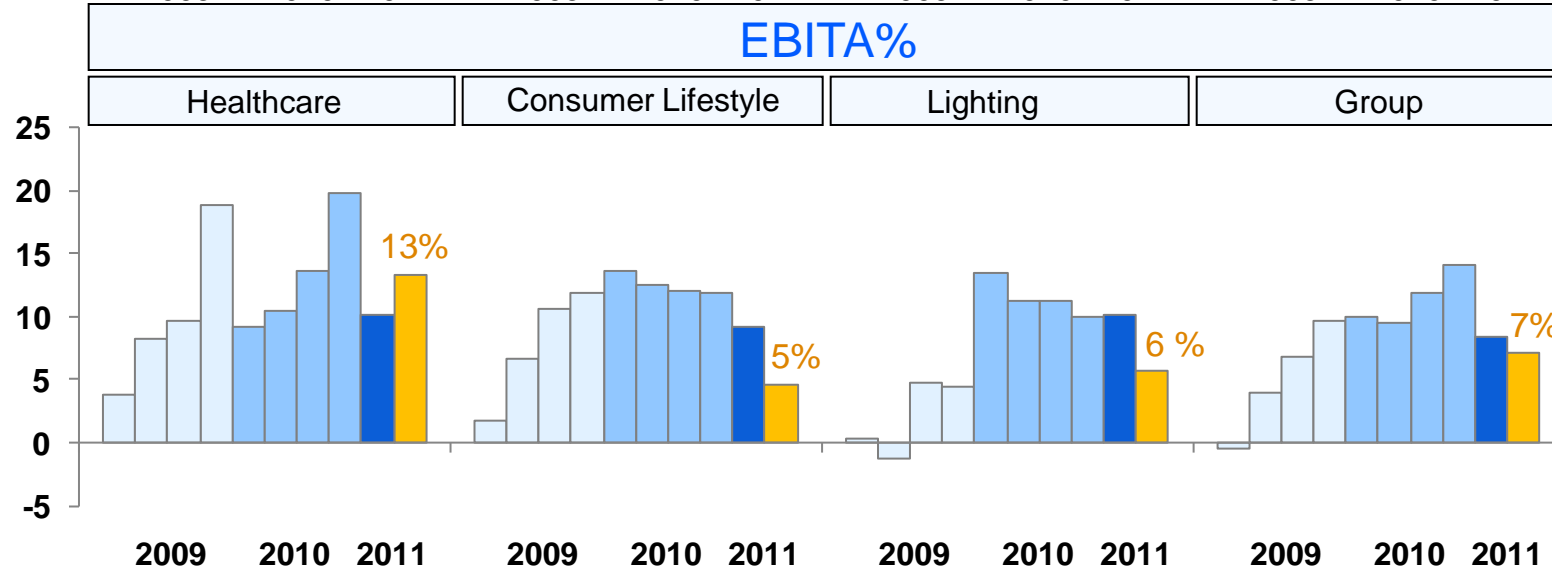
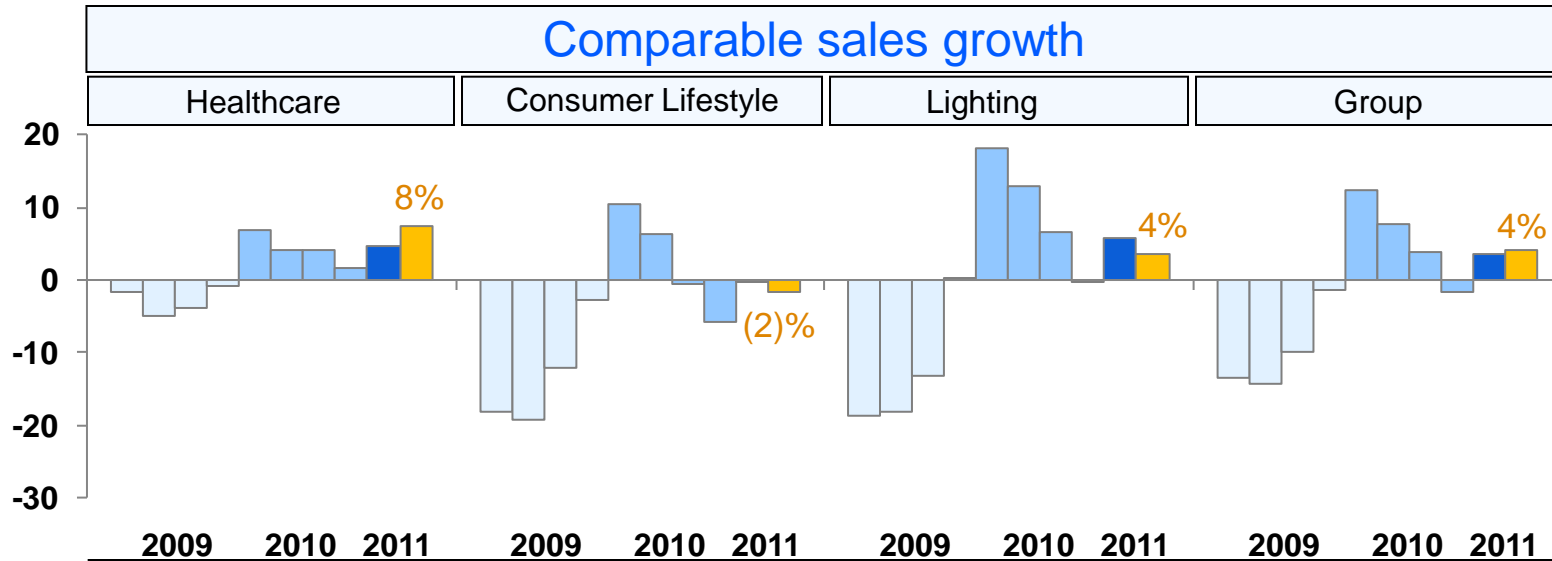
# Sales by sector – Q2 2011

*EUR million*

	Q2 2010	Q2 2011	% nom	% comp
Healthcare	2,068	2,080	1	8
Consumer Lifestyle	1,338	1,293	(3)	(2)
Lighting	1,859	1,777	(4)	4
GM&S	81	63	(22)	27
<b>Philips Group</b>	<b>5,346</b>	<b>5,213</b>	<b>(2)</b>	<b>4</b>

# Sales Growth and EBITA Margin Development

*Comparable sales growth and EBITA%*



# Sales by market cluster – Q2 2011

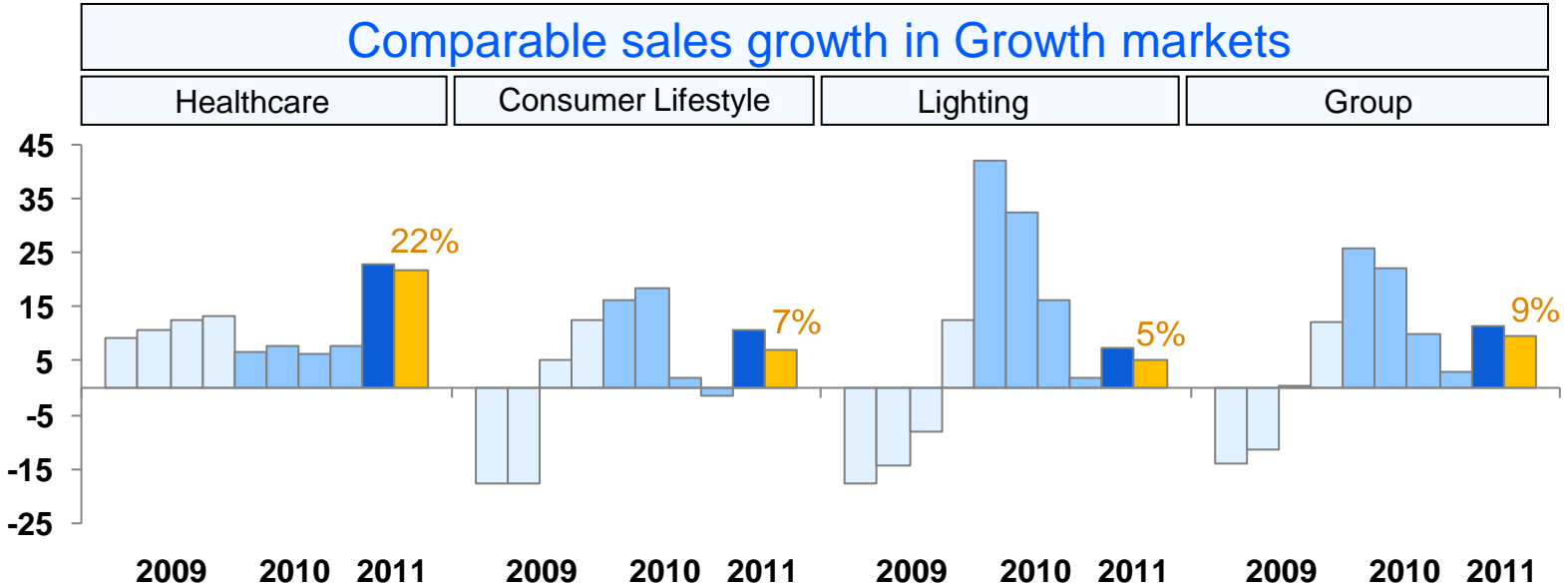
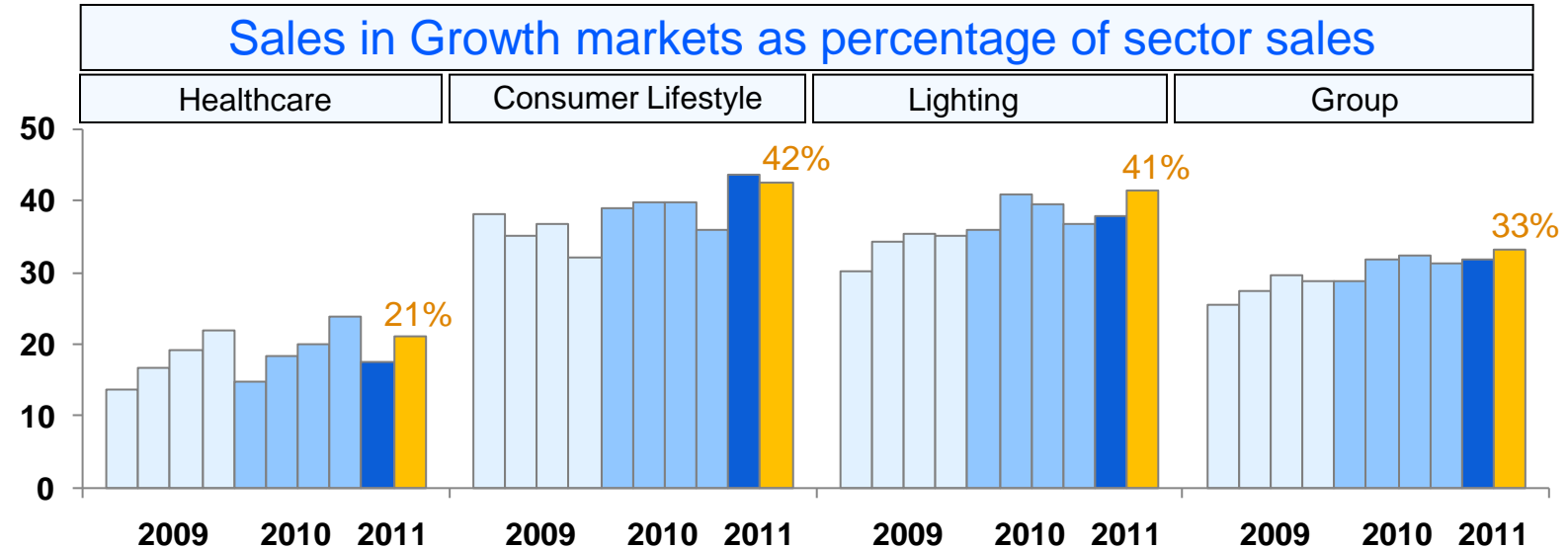
*EUR million*

	Q2 2010	Q2 2011	% nom	% comp
Western Europe	1,531	1,446	(6)	(4)
North America	1,745	1,627	(7)	4
Other mature markets	365	405	11	12
Growth markets <sup>1</sup>	1,705	1,735	2	9
<b>Philips Group</b>	<b>5,346</b>	<b>5,213</b>	<b>(2)</b>	<b>4</b>

<sup>1</sup> Growth markets are all markets excluding USA, Canada, Western Europe, and the Pacific countries Australia, New-Zealand, South Korea and Japan  
 Note - All figures exclude discontinued operations

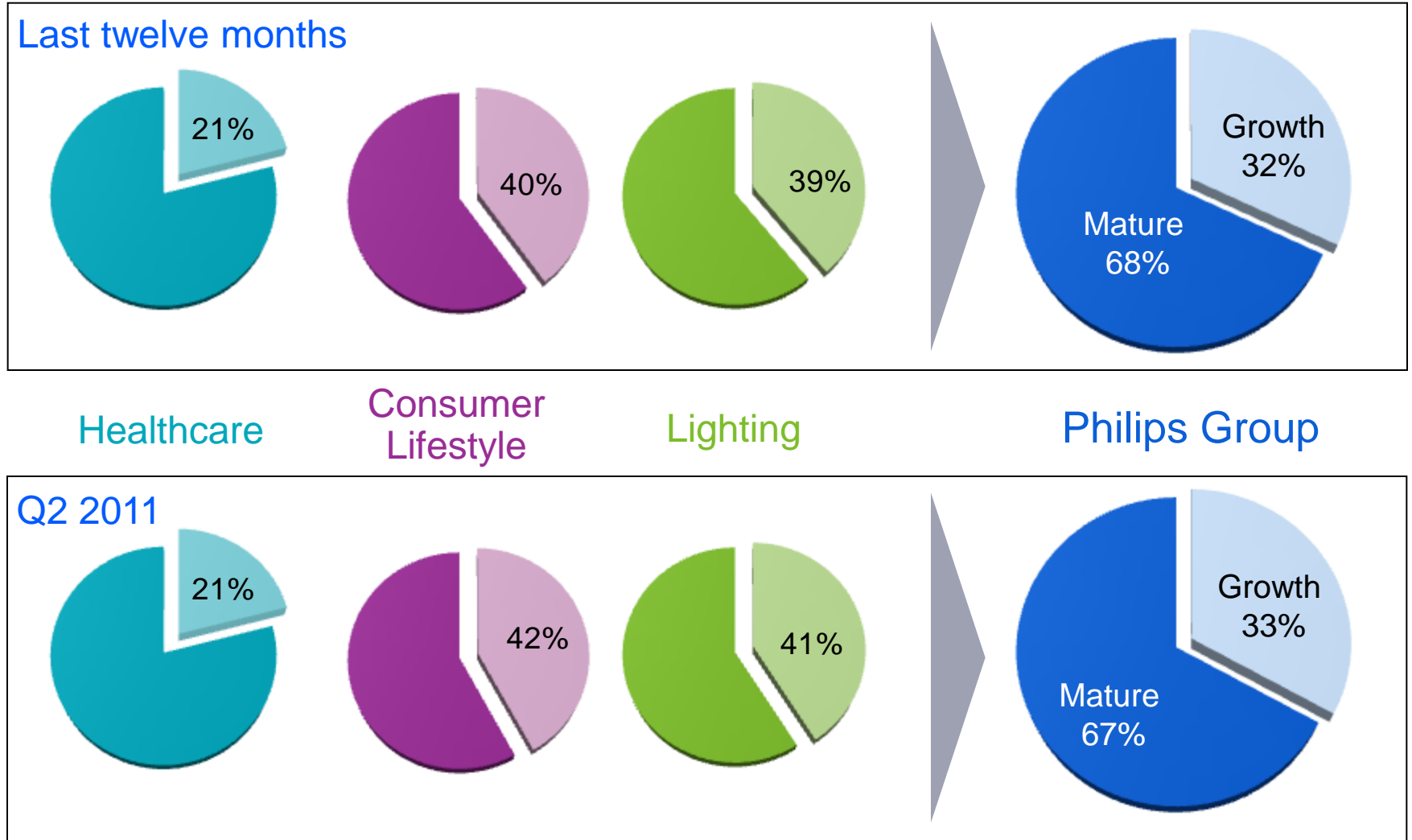
# Growth Markets: trend through Q2 2011

*Sales development in growth markets*



## Growth Markets – Q2 2011 and last twelve months

*Sales in growth markets*



# EBITA by sector – Q2 2011

EUR million

	Q2 2010	Q2 2011
Healthcare <sup>1</sup>	216	276
Consumer Lifestyle <sup>2</sup>	168	60
Lighting <sup>3</sup>	210	101
GM&S <sup>4</sup>	(88)	(67)
<b>Philips Group</b>	<b>506</b>	<b>370</b>
as % of sales	9.5%	7.1%

<sup>1</sup> 2Q11 includes EUR 1M of restructuring and acquisition-related gains; 2Q10 includes EUR (46)M of charges

<sup>2</sup> 2Q11 includes EUR (13)M of restructuring and acquisition-related charges; 2Q10 includes EUR (7)M of charges

<sup>3</sup> 2Q11 includes EUR (14)M of restructuring and acquisition-related charges; 3Q10 includes EUR (37)M of charges

<sup>4</sup> 2Q11 includes EUR 2M of gains

Note - All figures from the year 2010 onwards exclude Television as it is treated as discontinued operation

# Adjusted EBITA by sector – Q2 2011

EUR million

	Q2 2010	Q2 2011
Healthcare <sup>1</sup>	262	275
Consumer Lifestyle <sup>2</sup>	175	73
Lighting <sup>3</sup>	247	115
GM&S <sup>4</sup>	(88)	(69)
<b>Philips Group</b>	<b>596</b>	<b>394</b>
as % of sales	11.1%	7.6%

<sup>1</sup> 2Q11 excludes EUR 1M of restructuring and acquisition-related gains; 2Q10 excludes EUR (46)M of charges

<sup>2</sup> 2Q11 excludes EUR (13)M of restructuring and acquisition-related charges; 2Q10 excludes EUR (7)M of charges

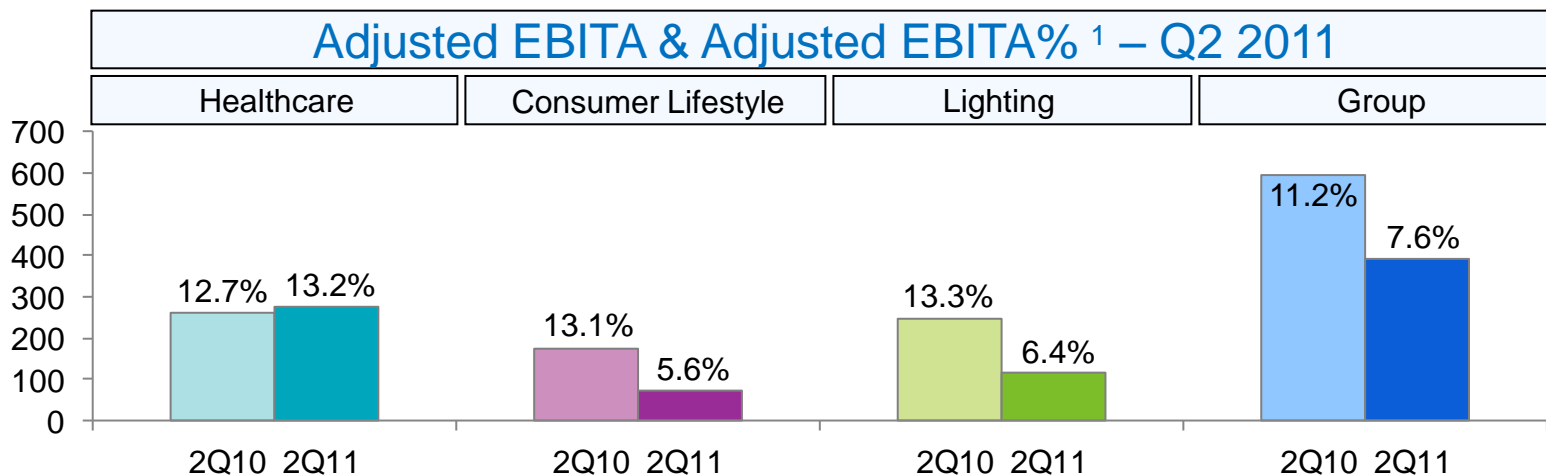
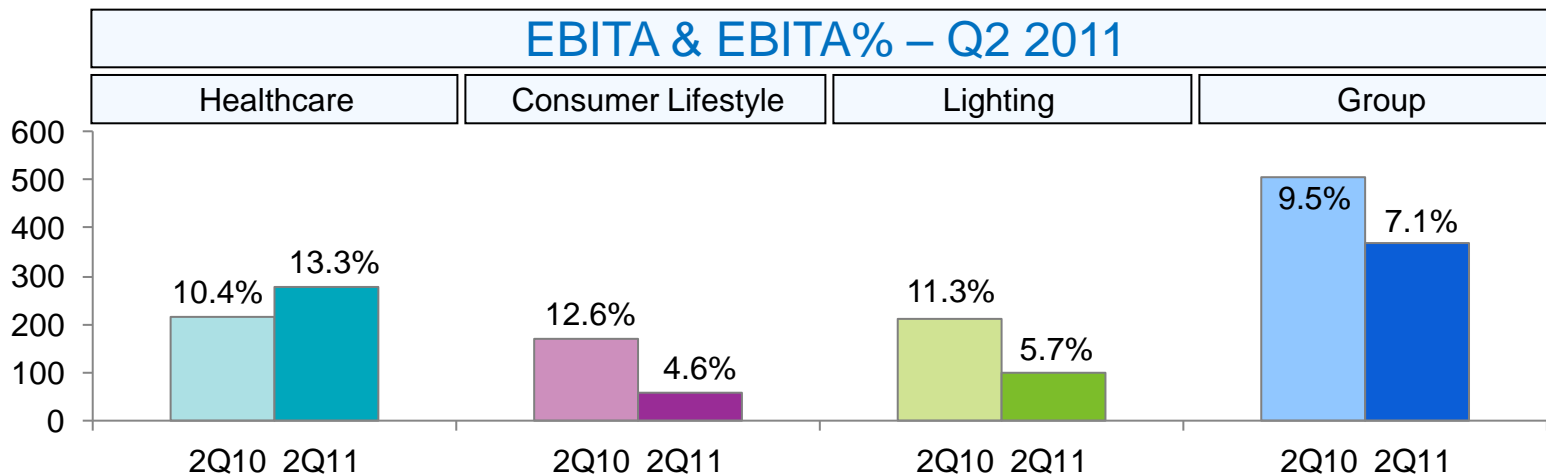
<sup>3</sup> 2Q11 excludes EUR (14)M of restructuring and acquisition-related charges; 3Q10 excludes EUR (37)M of charges

<sup>4</sup> 2Q11 excludes EUR 2M of gains

Note - All figures exclude discontinued operations

# EBITA: Q2 2011

EUR million



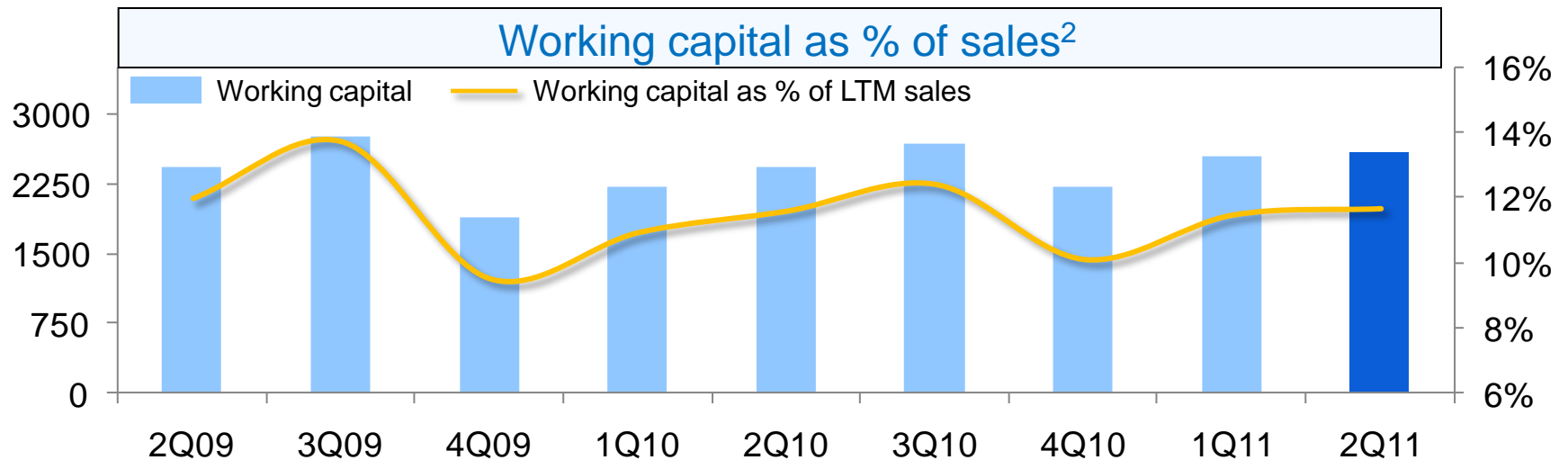
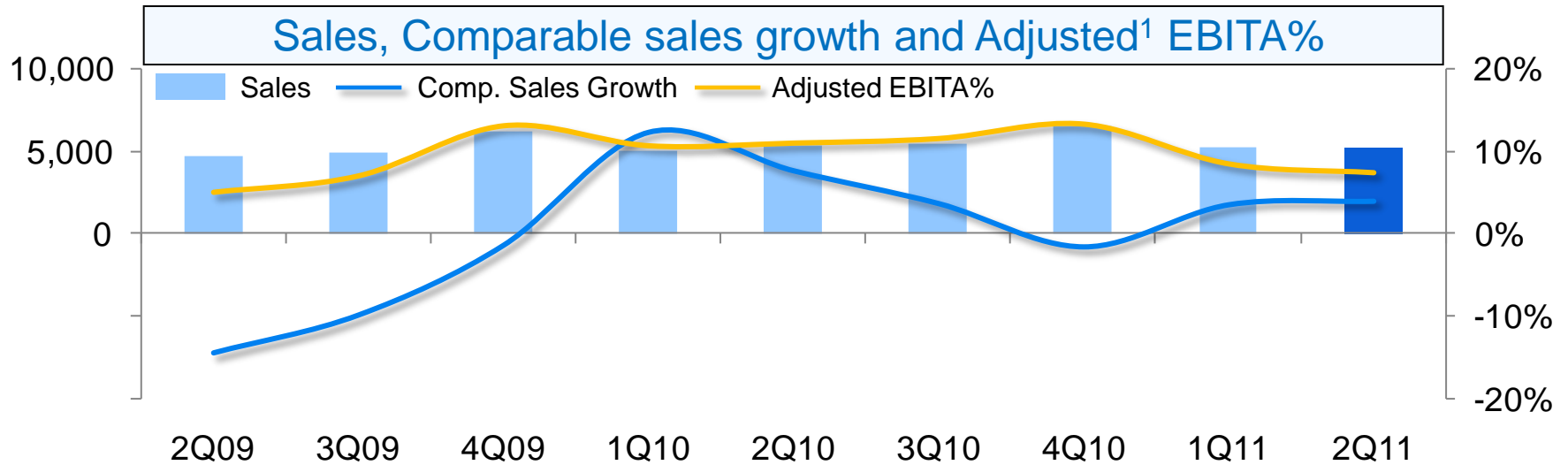
<sup>1</sup> Adjusted EBITA is EBITA corrected for incidental charges (details in quarterly information booklet slide 71)

Note - All figures exclude discontinued operations



## Philips: key financials over the last two years

EUR million



<sup>1</sup> Adjusted EBITA is EBITA corrected for incidental charges (details in quarterly information booklet slide 71)

<sup>2</sup> Working Capital as % of sales of Healthcare, Consumer Lifestyle and Lighting; excluding central sector GM&S

Note - All figures exclude discontinued operations

# Free Cash Flow – Q2 2011

*EUR million*

	Q2 2010	Q2 2011
Net income from continuing operations	240	(1,248)
Depreciation / amortization	340	362
Impairment of goodwill	-	1,355
Changes in Working Capital, of which:	97	(213)
- changes in Net inventories	(209)	(255)
- changes in Accounts receivable	(5)	(41)
- changes in Accounts payable	311	83
Other	(172)	(208)
<b>Cash flow from operations</b>	<b>497</b>	<b>39</b>
Purchase intangible assets/ Exp. on development assets	(66)	(86)
Capital expenditures on PP&E <sup>1</sup>	(158)	(184)
Proceeds from PP&E	26	21
<b>Net capital expenditures</b>	<b>(198)</b>	<b>(249)</b>
<b>Free Cash Flow</b>	<b>299</b>	<b>(210)</b>

<sup>1</sup> PP&E stands for Property, Plant and Equipment  
 Note - All figures exclude discontinued operations

## Goodwill impairment EUR 1.4 billion

Our annual impairment review which led to certain adjustments of the pre-recession businesses cases, and an adjustment of the discount rate across Philips, resulted in an EUR 1.4 billion impairment

### Healthcare: Home Healthcare Solutions - EUR 830 million

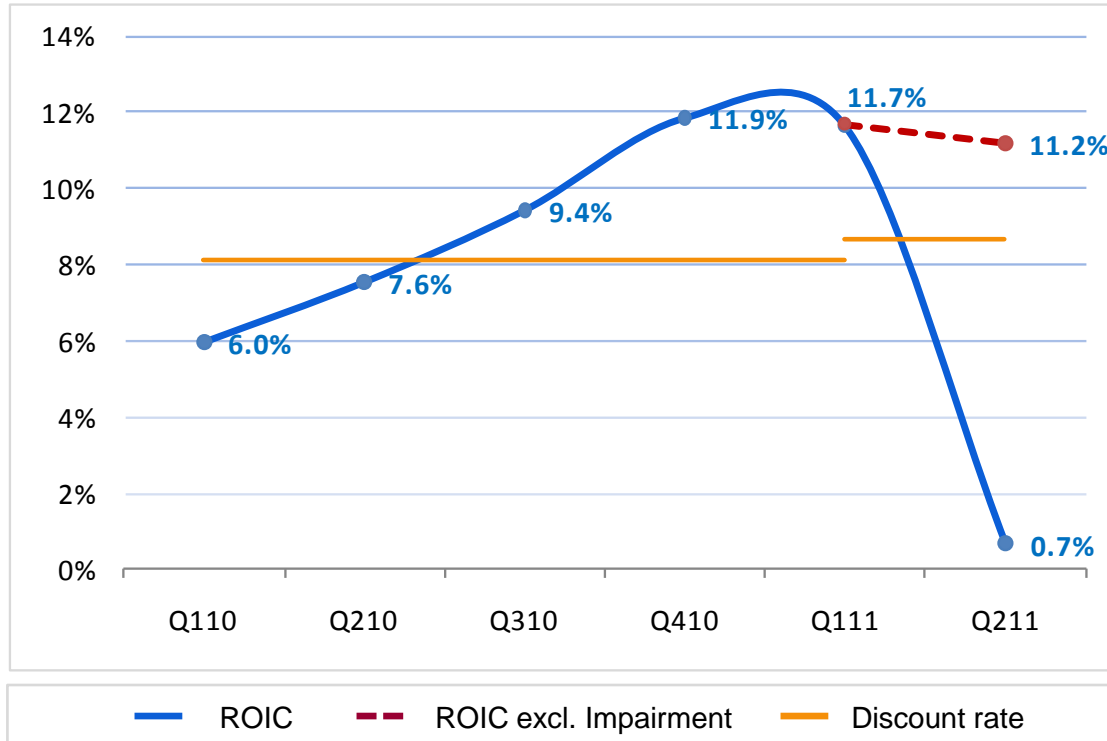
- Slower growth of US sleep market, lower reimbursement rates for remote cardiac monitoring
- Recovery from recession set-back, in particular in the US
- Impact of adjustments of discount rates

### Lighting: Professional and Consumer Luminaires - EUR 530 million

- Slower growth of US and European markets
- Recovery from recession set-back, in particular construction and mature consumer markets
- Impact of adjustments of discount rates

## ROIC impacted by impairment charge

*Development of Return on Invested Capital (ROIC)*



- **Reported ROIC** declines strongly because of impairment in Q2 2011, due to a change in discount rate and lower post-recession recovery.
- **ROIC excluding impairment** declined mainly due to lower earnings in Consumer Lifestyle and Lighting
- **Discount rate** now at 8.7%, from 8.1% mainly due to an increase in certain risk free rates and adjustments in certain peer groups

Notes:

EBIAT are earnings before interest after tax

Philips calculates ROIC % as:  $EBIAT / NOC$

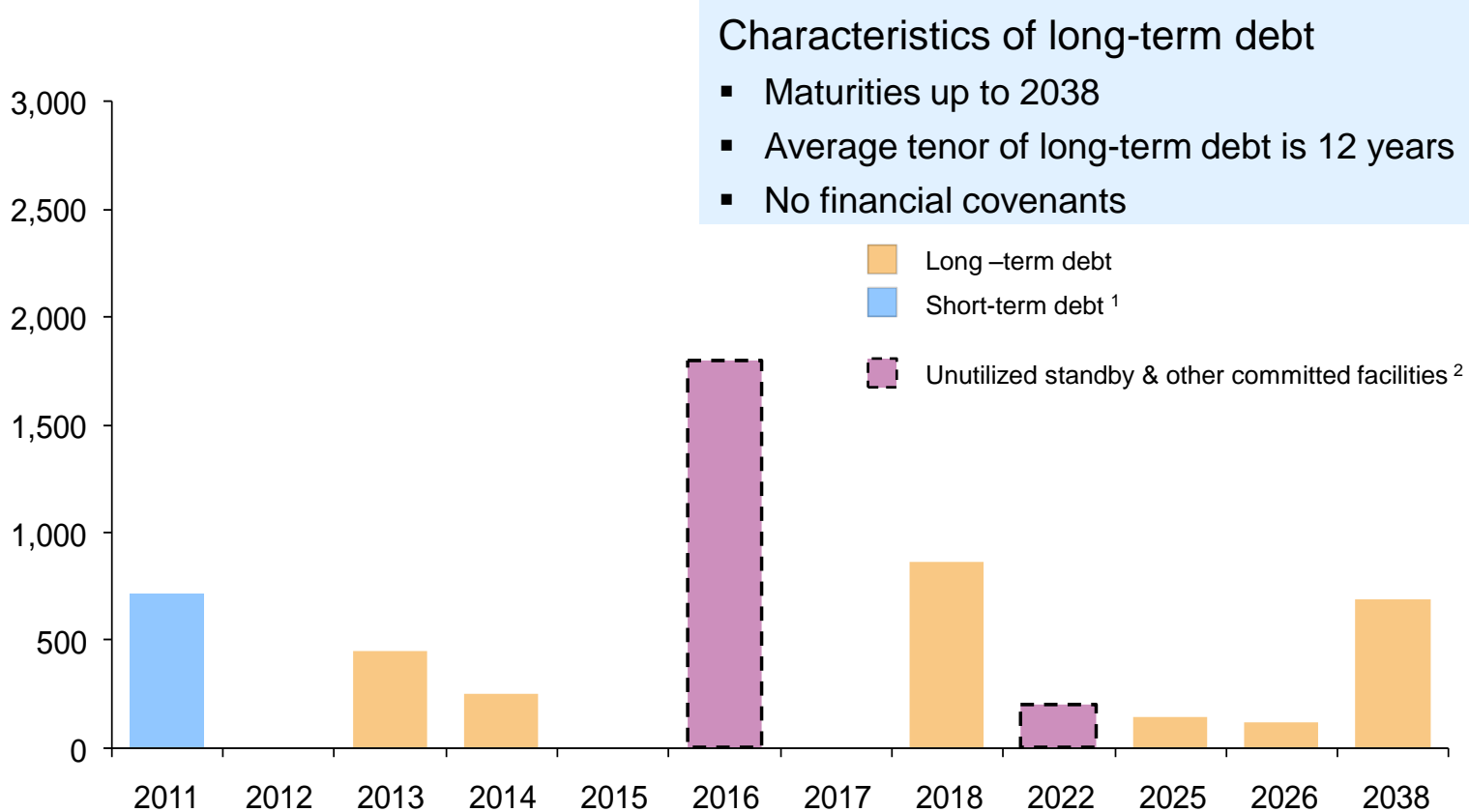
Quarterly ROIC % is based on LTM EBIAT and average NOC over the last 5 quarters

Reported tax used to calculate EBIAT

# Philips' debt has a long maturity profile

## Debt maturity profile as of June 2011

Amounts in EUR millions

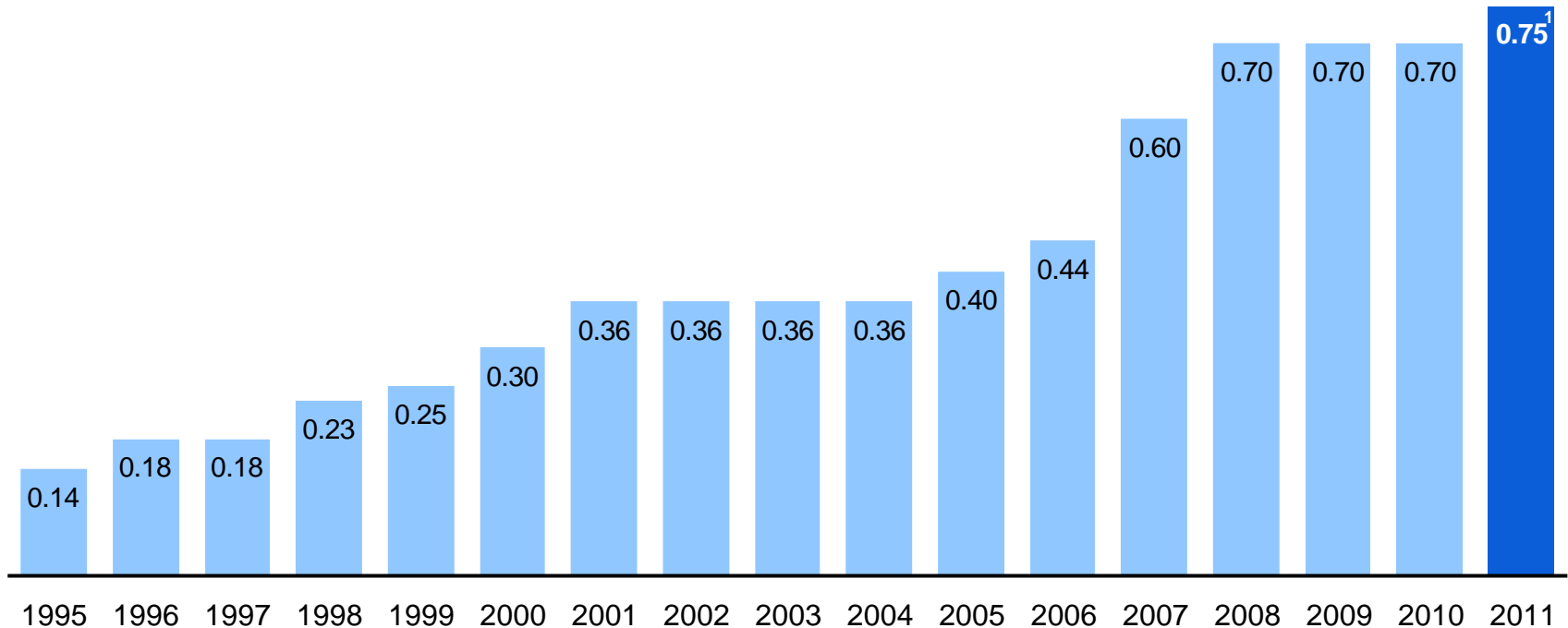


<sup>1</sup> Short term debt consists mainly of local credit facilities that are being rolled forward on a continuous basis.

<sup>2</sup> On April 13<sup>th</sup>, Philips extended the maturity of EUR1.8bn standby to 2016. Additional information is available in Press release of April 14<sup>th</sup>.

## A history of sustainable dividend growth

*EUR cents per share*



“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.”

<sup>1</sup> Elective dividend, proposal approved during the General Shareholders Meeting on March 31<sup>st</sup>, 2011

## Disciplined Capital Use

- We re-iterate our objective of retaining an A3/A- rating
- We will drive higher capital efficiency and cash flow yields through improved working capital turns and CAPEX discipline
- We are committed to a stable dividend policy with a 40% to 50% pay-out of continuing net income
- Cash will be used to:
  - Invest in value creating growth (both organic and through acquisitions)
  - Mitigate risk
  - Return capital to shareholders over time
- We will exercise stringent discipline and return criteria (including ROIC hurdles) in our end-to-end acquisition process in line with the nature of the transaction

## 2011 acquisitions at a glance

### *Healthcare*

Jun-2011	<a href="#">Sectra</a>	Imaging Systems	Expand Women's Healthcare portfolio with a unique digital mammography solution in terms of radiation dose
Jun-2011	<a href="#">AllParts Medical</a>	Customer Services	Expand capabilities in imaging equipment services, strengthening Philips' Multi-Vendor Services business
Mar-2011	<a href="#">Dameca</a>	Patient Care and Clinical Informatics	Expand portfolio with integrated, advanced anesthesia care solutions
Jan-2011	<a href="#">medSage</a>	Home Healthcare	Strengthen portfolio with by becoming a leading provider of patient interaction and management applications

### *Consumer Lifestyle*

Jul-2011	<a href="#">Povos</a>	Domestic Appliances	Expanding product portfolio in China and continue to build business creation capabilities in growth markets
Jan-2011	<a href="#">Preethi</a>	Domestic Appliances	Becoming a leading kitchen appliances company in India

### *Lighting*

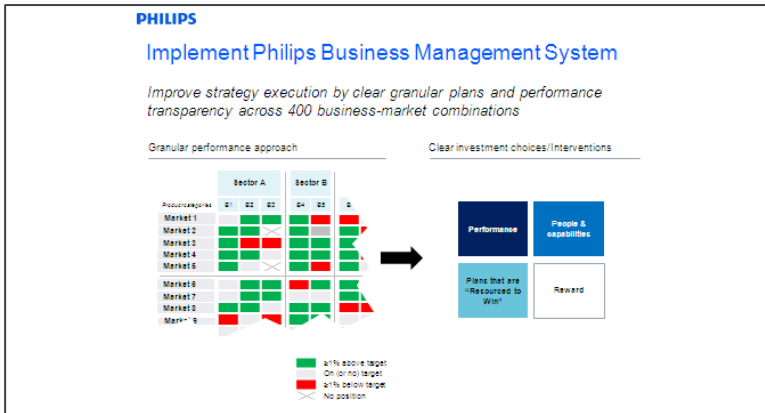
Jun-2011	<a href="#">Indal</a>	Professional Luminaires	Strengthen leading position in professional lighting within Europe
Jan-2011	<a href="#">Optimum</a>	Professional Luminaires	Expand portfolio with customized energy-efficient lighting solutions



1. Management update
2. Group results Q2 2011
3. Accelerate! Change and performance
4. Portfolio strength
5. Path to value
6. Group and sector overview

# Accelerate! Change and performance program to unlock full potential and deliver our strategy faster

<p><b>Philips Business System</b></p>	<ul style="list-style-type: none"> <li>• Performance Management, leaner operating model</li> <li>• Strengthened executive team</li> </ul>
<p><b>Resources</b></p>	<ul style="list-style-type: none"> <li>• Granular plans for key Business Market Combinations</li> <li>• Increase seniority of market teams; entrepreneurship</li> <li>• Targeted investment step-up to gain market leadership</li> </ul>
<p><b>Execution Focus</b></p>	<ul style="list-style-type: none"> <li>• Speeding up <i>time-to-market</i> and improved service levels</li> <li>• Higher capital turns</li> <li>• Increased margins, market penetration and growth</li> </ul>
<p><b>Performance Culture</b></p>	<ul style="list-style-type: none"> <li>• New behaviors introduced</li> <li>• Reward system modified (modified for 2011, structural change 2012)</li> </ul>



# Sector acceleration trajectories

Mid-term targets - 2013

Sector

Group

## ***Healthcare: Continue to accelerate strategy and performance***

- Driving to co-leadership in Imaging Systems and leadership in Patient Care and Clinical Informatics
- Invest for leadership in growth markets
- International expansion of the home healthcare business
- Executing operational excellence initiatives to increase margin and time-to-market

Reported  
EBITA  
15-17%

Sales Growth  
CAGR\* : 4-6%

\*Assuming real GDP growth of 3-4%

## ***Consumer Lifestyle: Reshaping the portfolio towards growth***

- Right-size the organization post TV exit
- Address Lifestyle Entertainment portfolio and execute turn-around plan
- Continued growth investment in core businesses towards global category leadership
- Regional business creation; leverage fill-in acquisitions in China and India

Reported  
EBITA  
8-10%

Reported  
EBITA  
10-12%

Excluding License Income

## ***Lighting: Improve profitability on the path to LED and solutions***

- Accelerate transformation to LED, applications and solutions
- Strengthen performance management and execution
- Address cost base and margin management
- Deliver on turnaround of Consumer Luminaires

Reported  
EBITA  
8-10%

ROIC  
12-14%

# Cost efficient and simplified operating model

*EUR 500 million cost reduction program launched*

- Short Term (2011 - 2012) saving plan of EUR 250 million
  - Reducing operating complexity with savings in a.o. IT costs, Real Estate Costs and other functional areas
- Medium Term (2013 - 2014) saving plan of EUR 250 million
  - further reduction of overhead costs enabled by systematic process re-engineering and business model diversity reduction and improved IT solutions
- The cost program will be margin accretive from 2013 onwards
- Baseline for cost reductions is 1<sup>st</sup> half of 2011

## Strengthen management: New Executive Committee



Frans van Houten  
Group CEO  
Acting CEO Lighting



Steve Rusckowski  
CEO Healthcare



Ron Wirahadiraksa  
Group CFO  
Acting CFO Lighting



Pieter Nota  
CEO Consumer Lifestyle



Gottfried Dutiné \*  
Chief Innovation Officer



Jim Andrew \*\*\*  
Group strategy



Patrick Kung  
CEO Greater China



Ronald de Jong  
Chief Market Leader



Carole Wainaina\*\*  
Group HR



Eric Coutinho  
General Counsel

\* Gottfried Dutiné will retire from Philips as of December 31, 2011.

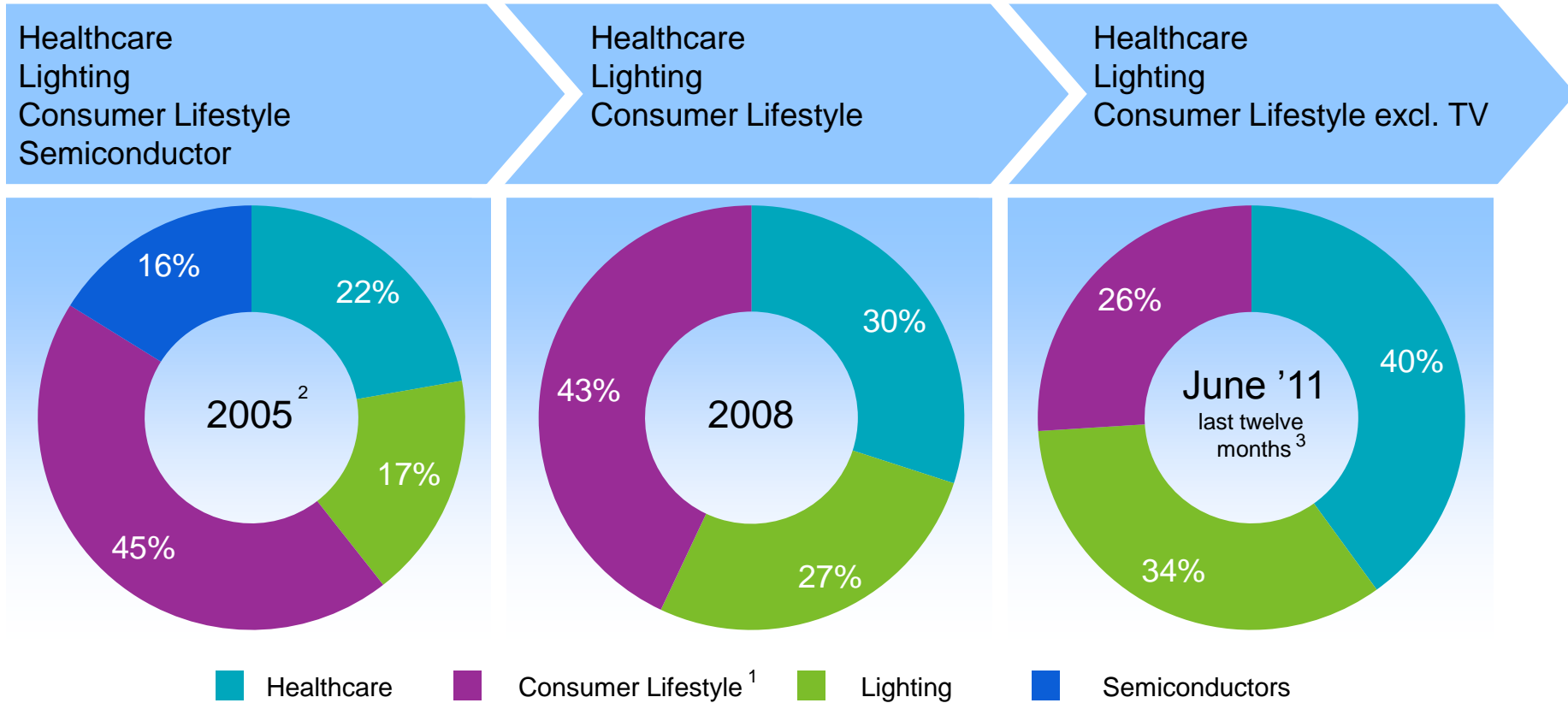
\*\* Carole Wainaina will join Philips as of September 1, 2011.

\*\*\* In the course of 2011, Jim Andrew will also take over the innovation portfolio from Gottfried Dutiné.

1. Management update
2. Group results Q2 2011
3. Accelerate! Change and performance
4. Portfolio strength
5. Path to value
6. Group and sector overview

# Improving our portfolio: Starting point of our journey

*Portfolio now consists of ~65% B2B businesses*









Large majority of our businesses have the right fundamentals for profitable growth

<sup>1</sup> Consumer Lifestyle in 2005 includes the former DAP and Consumer Electronics divisions

<sup>2</sup> 2005 figures are based on US GAAP

<sup>3</sup> Figures exclude Television as it is treated as discontinued operation

# Strong assets underpin our portfolio

Our assets	Our track record
 <p data-bbox="291 415 662 454">Innovation capabilities</p>	<ul data-bbox="803 382 1818 486" style="list-style-type: none"> <li>• New product sales increased from 48% of total sales '09 to 52% '10</li> <li>• Technology, know-how and strong IP positions (48,000 registered patents)</li> </ul>
 <p data-bbox="291 548 510 586">Philips brand</p>	<ul data-bbox="803 515 1827 625" style="list-style-type: none"> <li>• World's 42<sup>nd</sup> most valuable brand 2010 compared to the 65<sup>th</sup> 2004</li> <li>• Consistently among top-ranked players, top 10% in India, China and Brazil, top 20% globally in the Corporate brand equity index<sup>1</sup></li> </ul>
 <p data-bbox="291 682 548 721">Global footprint</p>	<ul data-bbox="803 672 1470 743" style="list-style-type: none"> <li>• Loyal customer base in 100+ countries</li> <li>• 1/3 of group revenues from growth markets</li> </ul>
 <p data-bbox="291 833 413 872">People</p>	<ul data-bbox="803 791 1846 901" style="list-style-type: none"> <li>• Employee Engagement Index<sup>2</sup> exceeds high performance benchmark value of 70%</li> <li>• Culturally diverse top-200 leadership team</li> </ul>
 <p data-bbox="291 968 606 1006">Domain leadership</p>	<ul data-bbox="803 933 1889 1043" style="list-style-type: none"> <li>• Global market leader in Lighting</li> <li>• Top 3 Healthcare player</li> <li>• Leading Consumer Lifestyle brands: E.g. Philips, Sonicare, Avent, Saeco</li> </ul>
 <p data-bbox="291 1105 620 1143">Solid balance sheet</p>	<ul data-bbox="803 1110 1572 1143" style="list-style-type: none"> <li>• A3 rating by Moody's and A- by Standard &amp; Poor's</li> </ul>

<sup>1</sup> Consumer Heart BEAT brand equity study 2010

<sup>2</sup> Based on annual Philips' Employee Engagement Survey



## Unique leadership positions in many markets

Examples of current NPS leadership positions<sup>1</sup>

### Healthcare



*Global*  
Cardiovascular  
X-ray



*Global*  
Patient  
Monitoring



*Regional*  
Cardiac  
resuscitation



*Global*  
Ultrasound



*Regional (USA)*  
Home  
Monitoring

### Consumer Lifestyle



*Global*  
Male electric  
shaving



*Global*  
Mother and Child  
Care



*Global*  
Oral  
Healthcare

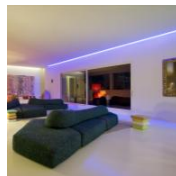


*Regional  
(China)*  
Haircare



*Regional  
(LatAm, China)*  
Kitchen  
Appliances

### Lighting



*Global*  
Professional  
Lamps



*Global*  
Professional  
Luminaires



*Global*  
General  
Illumination LED



*Global*  
Automotive  
Lighting

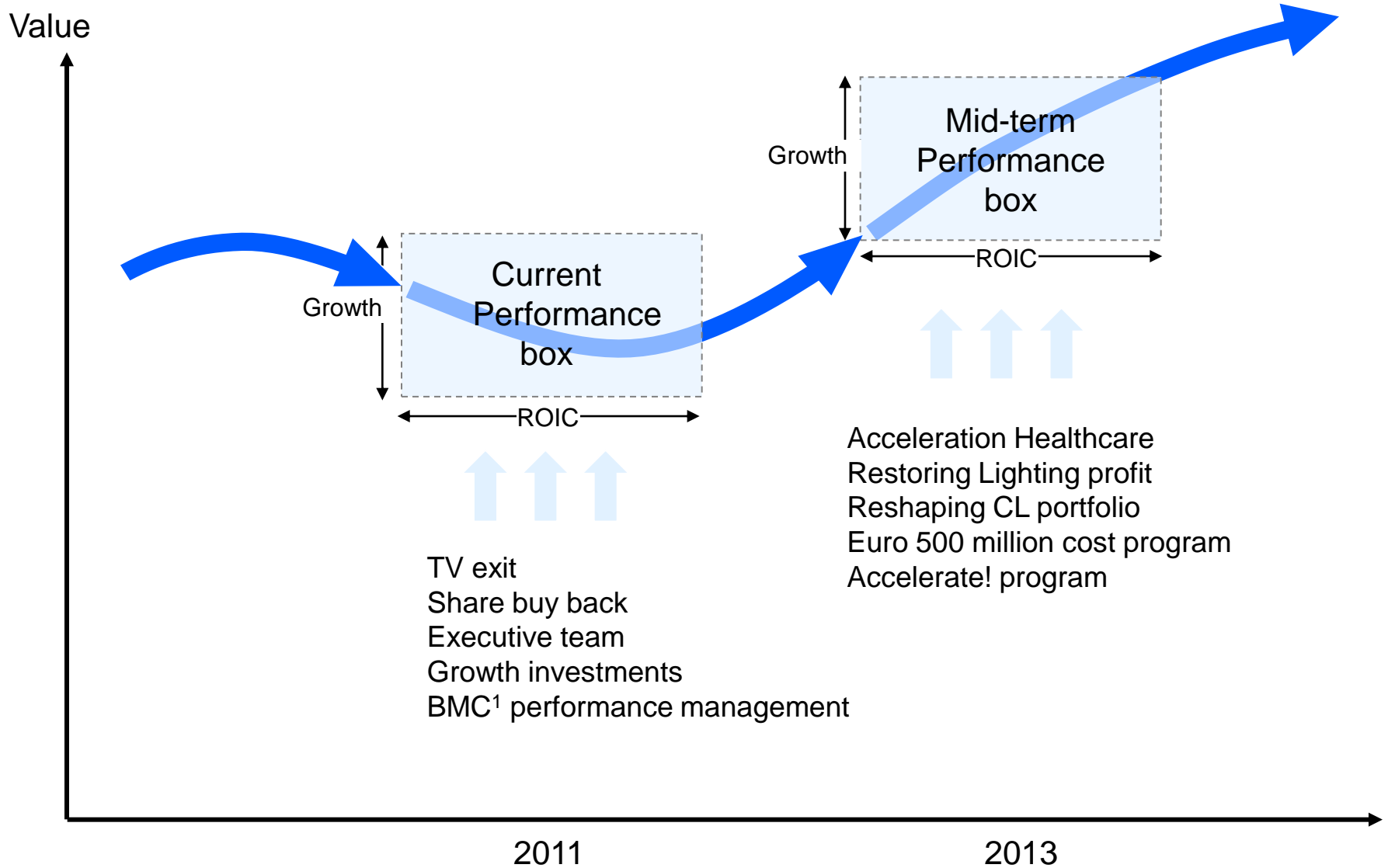


*Global*  
Lighting Systems  
& Controls

<sup>1</sup> Leadership is made up of outright leadership (outperforming the best competitor by >5%) and co-leadership (on par with best competitor, within 5%), globally or regionally

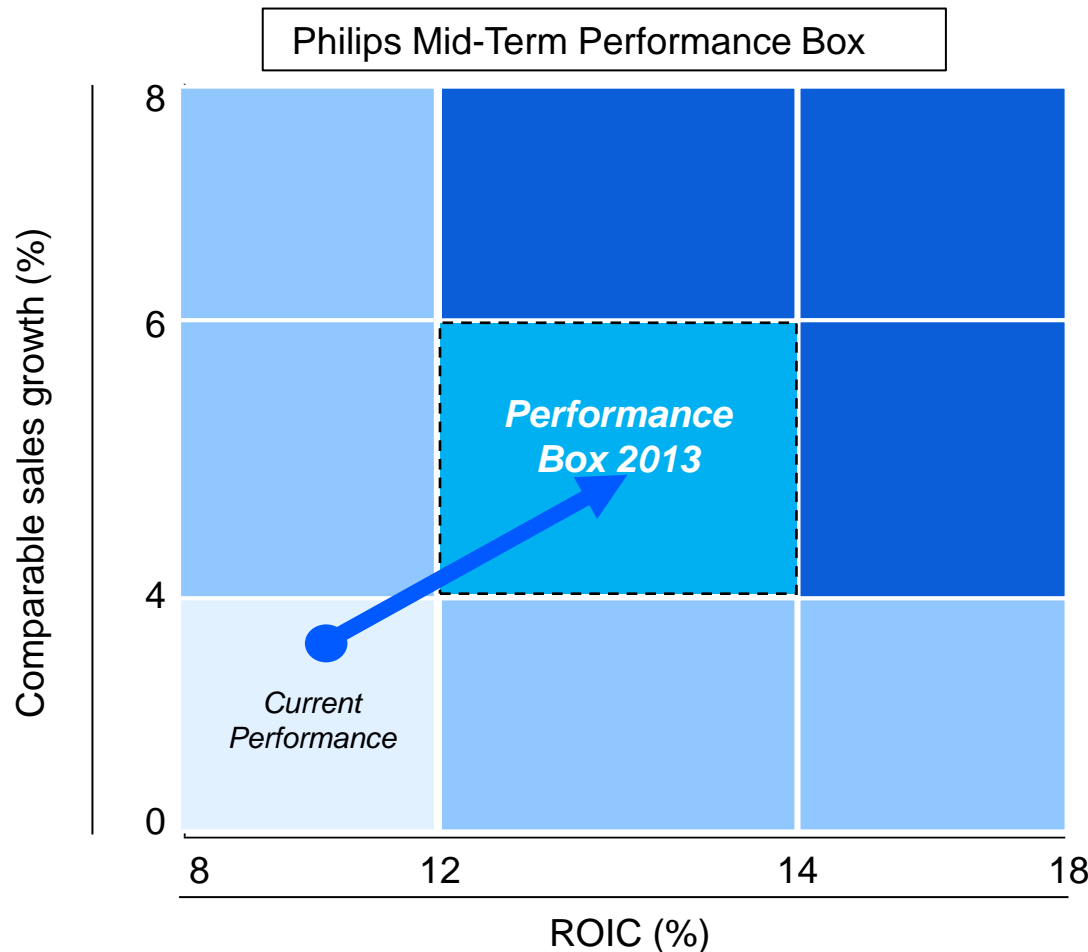
1. Management update
2. Group results Q2 2011
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4. Portfolio strength
5. Path to value
6. Group and sector overview

## Our path to value



<sup>1</sup> BMC = Business Market Combination

# Mid-term Targets: Move into performance box of 12-14% ROIC and 4-6% comparable sales growth



**Mid-Term financial objectives (2013)**

Sales growth CAGR <sup>1</sup>	4 - 6%
Group Reported <sup>2</sup> EBITA	10 - 12%
- Healthcare	15 - 17%
- Consumer Lifestyle <sup>3</sup>	8 - 10%
- Lighting	8 - 10%
Group ROIC	12 - 14%

<sup>1</sup> Assuming real GDP growth of 3-4%  
<sup>2</sup> Including restructuring and acquisition related charges  
<sup>3</sup> Excluding licenses

## Share buy back program of EUR 2 billion

- Given our confidence in our future performance trajectory we have launched a share buyback program of EUR 2 billion. This is:
  - Based on thoroughly assessing the capital structure under various economic scenarios addressing the financial needs for organic growth, bolt-on acquisitions and risk mitigation
  - Consistent with our Capital Allocation policy, driven by the disciplined use of capital
  - Addressing the efficiency of the balance sheet
- The buy back program of EUR 2 billion shares for cancellation purposes starts immediately and is to be completed by mid – 2012

Note 1: Subject to approval by the Annual General Meeting of Shareholders, to be held in April 2012, all shares repurchased under this new program will be cancelled, resulting in a reduction of Philips' outstanding share capital.

Note 2: Philips has entered into a discretionary management agreements with a bank to repurchase Philips shares within the limits of relevant laws and regulations (in particular EC Regulation 2273/2003) and Philips' articles of association.

## So, what will be different this time?

- We have a strong portfolio, with good positions in growth and mature markets  
and
- Have identified the operational issues which we will deal with decisively  
to
- Drive granular execution of our plans and make the necessary investments in people, systems, and markets to deliver profitable growth and return on invested capital  
by
- Leveraging a new culture of entrepreneurship and accountability

1. Management update
2. Group results Q2 2011
3. Accelerate! Change and performance
4. Portfolio strength
5. Path to value
6. Group and sector overview

## A strong diversified industrial group leading in health and well-being

Founded in 1891

Headquartered in Amsterdam, the Netherlands

Sales over EUR 22.3 billion in 2010

Growth Markets

32% of sales generated in Growth Markets

Globally recognized brand (world top 50)

Our brand value doubled to \$8.7bn since 2004

120,000 employees

Sales and service outlets in over 100 countries

€1.5 billion investment in R&D, 7% of sales





## Our market opportunity

### Global trends and challenges

### Examples market positions

#### Healthcare

- Ageing population leading
- Increase in patients managing chronic conditions
- Growth markets wealth creating demand
- Lifestyle changes, fueling cardiovascular illnesses and respiratory and sleeping disorders

- #1 cardiovascular X-ray
- #1 home healthcare
- #1 patient monitoring
- Close #3 imaging



#### Consumer Lifestyle

- Consumers focus on the health and well-being
- Rising middle class in growth markets
- Back to basics: simple propositions, trusted brands

- #1 male electric shaving & grooming
- #1 garment care
- #1 food preparation
- #2 oral healthcare



#### Lighting

- Ongoing urbanisation and globalisation
- Increasing need for energy efficient solutions
- Fast growing global illumination market
- Expanding renovation market
- Rapid adoption of LED-based lighting solutions

- #1 lamps
- #1 luminaires
- #1 automotive
- #2 high power LEDs
- #1 in overall LED illumination



## A strong position in growth markets

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

Growth markets represent 32% of sales

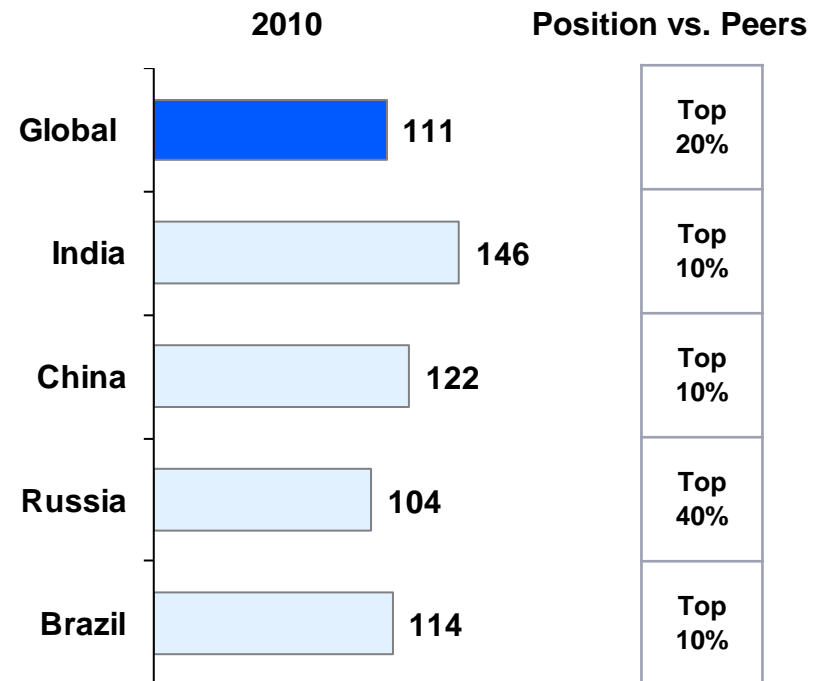
### Championing growth with dedicated strategies

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

### Increasing our footprint

- Domestic Appliances management is located in Shanghai
- Imaging value segment management located in Suzhou
- Patient Care and Clinical Informatics value segment management located in Shenzhen
- LED Lighting competence centre located in Shanghai
- Manufacturing for value segment products located in India
- Four healthcare companies acquired in Brazil

Corporate brand equity index,<sup>1</sup> 2010  
BRIC Markets



<sup>1</sup> Source: Consumer Heart BEAT brand equity study 2010

## Sustainability as a driver for growth



### Success of EcoVision4

Our Green Product sales represented around 30% of sales in 2009, 3 years ahead of our 2012 target. And we have completed our 2012 goal of cumulative EUR 1 billion of Green Investment in 2010.

### Launch of our EcoVision5 program

A clear example of how we continue to drive business growth through Sustainability is the launch of our EcoVision5 program in 2010.

### Targets for the period 2010 – 2015

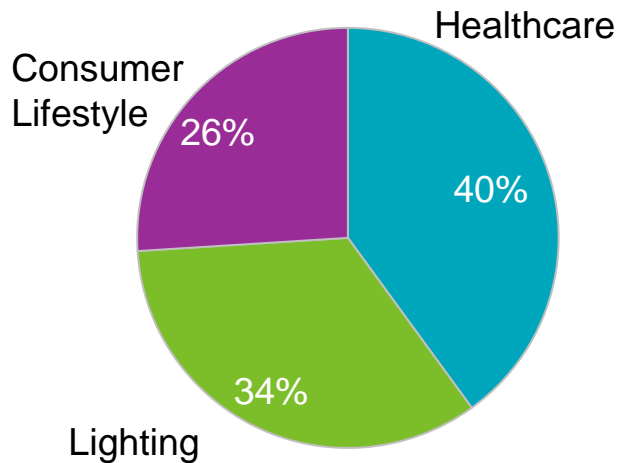
- To bring care to 500 million people
- To improve the energy efficiency of our overall portfolio by 50%
- To double the amount of recycled materials in our products as well as to double the collection and recycling of Philips products

# Our focused health and well-being portfolio: Healthcare, Consumer Lifestyle and Lighting

*Last twelve months*

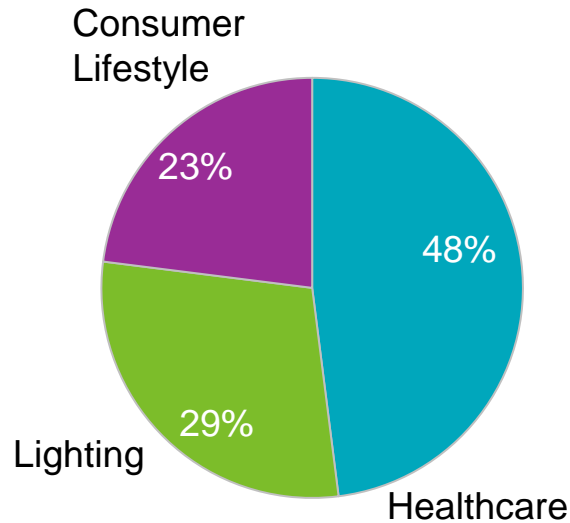
## Sales

100% = EUR 22.1B <sup>1</sup>



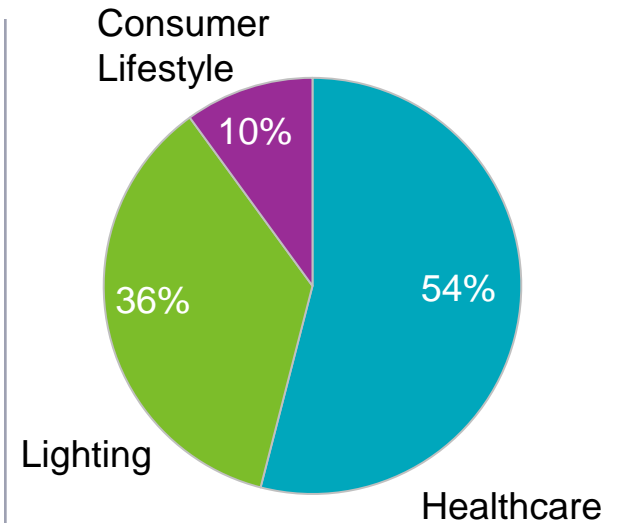
## Adjusted EBITA

100% = EUR 2.7B <sup>1, 2</sup>



## Net Operating Capital

100% = EUR 14.0B <sup>1</sup>



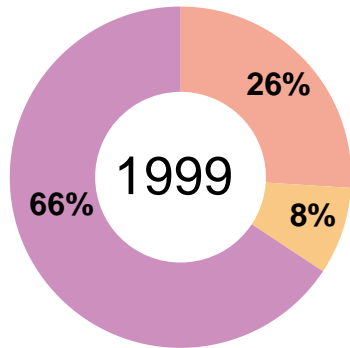
<sup>1</sup> Excluding Central sector (GM&S)

<sup>2</sup> EBITA adjustments based on the following gains/ charges; for Healthcare EUR 1M, Consumer Lifestyle EUR (41)M and Lighting EUR (70)M

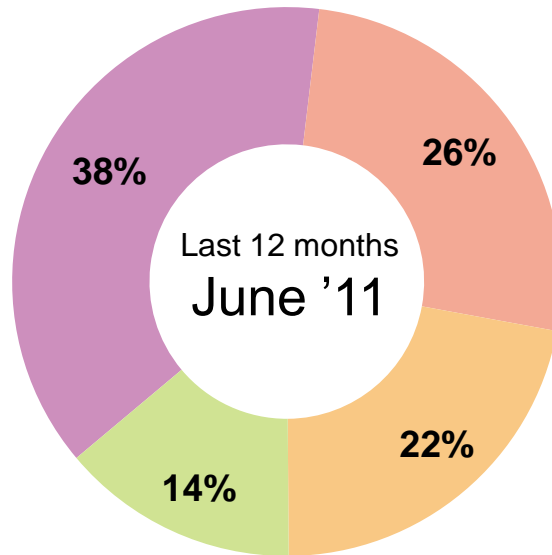
Note - All figures exclude discontinued operations

## Strong development of the Healthcare portfolio

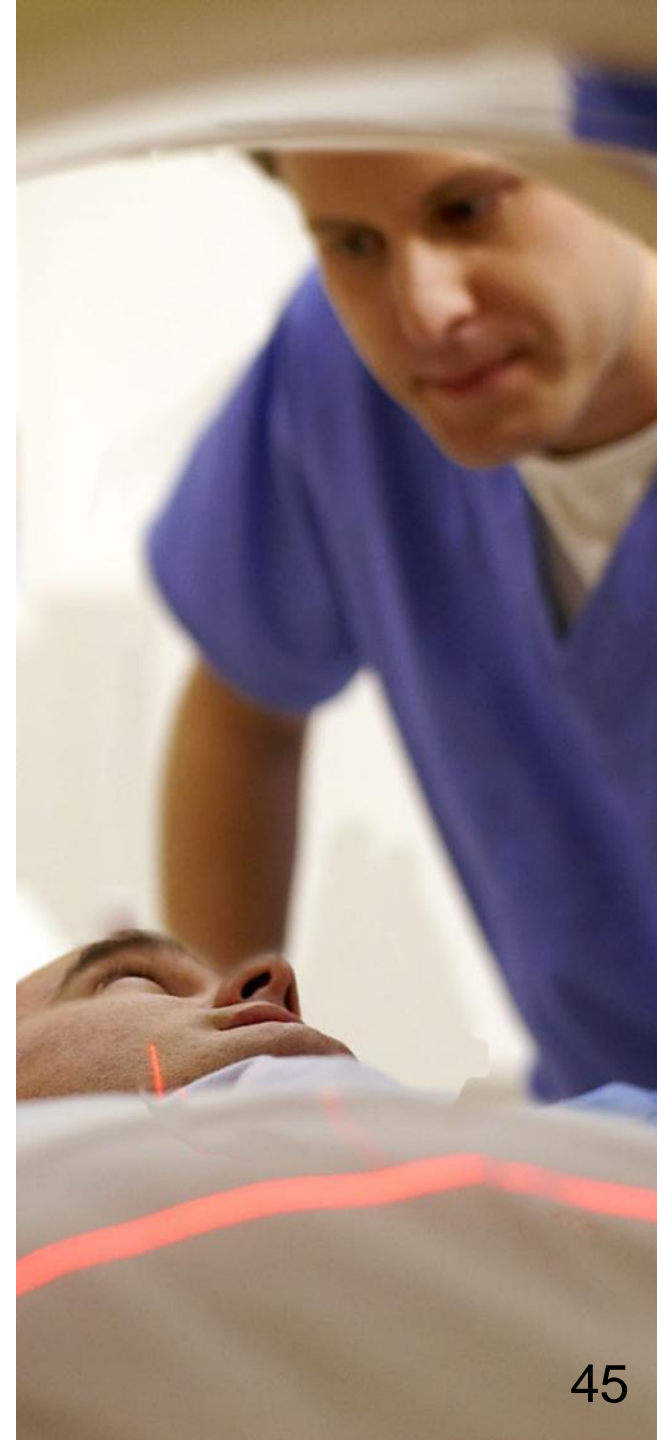
Total sales EUR 2.5 billion



Total sales EUR 8.8 billion

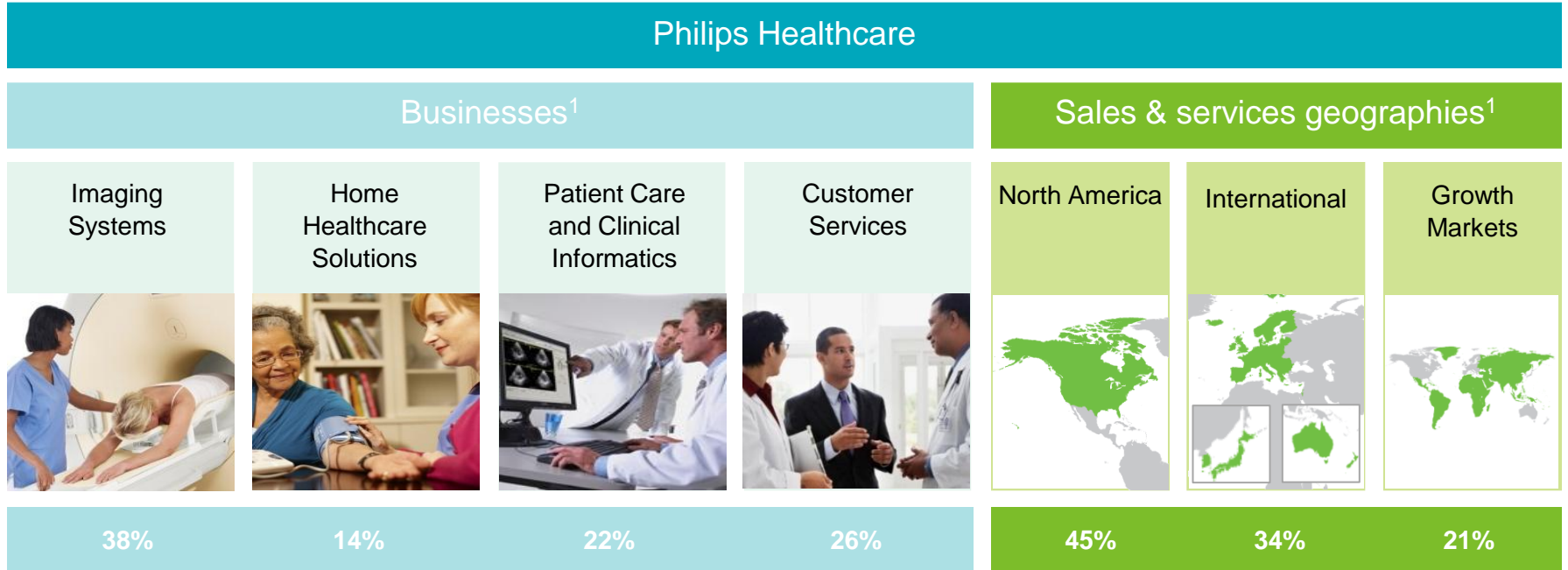


- Imaging
- Customer Service
- Patient Care and Clinical Informatics
- Home Healthcare Solutions



## Depth and reach of Philips Healthcare

*What we do. Where we are.*



**€8.6**

Billion sales  
in 2010

**36,000+**

People employed  
worldwide in 100 countries

**8%**

of sales invested in R&D  
in 2010

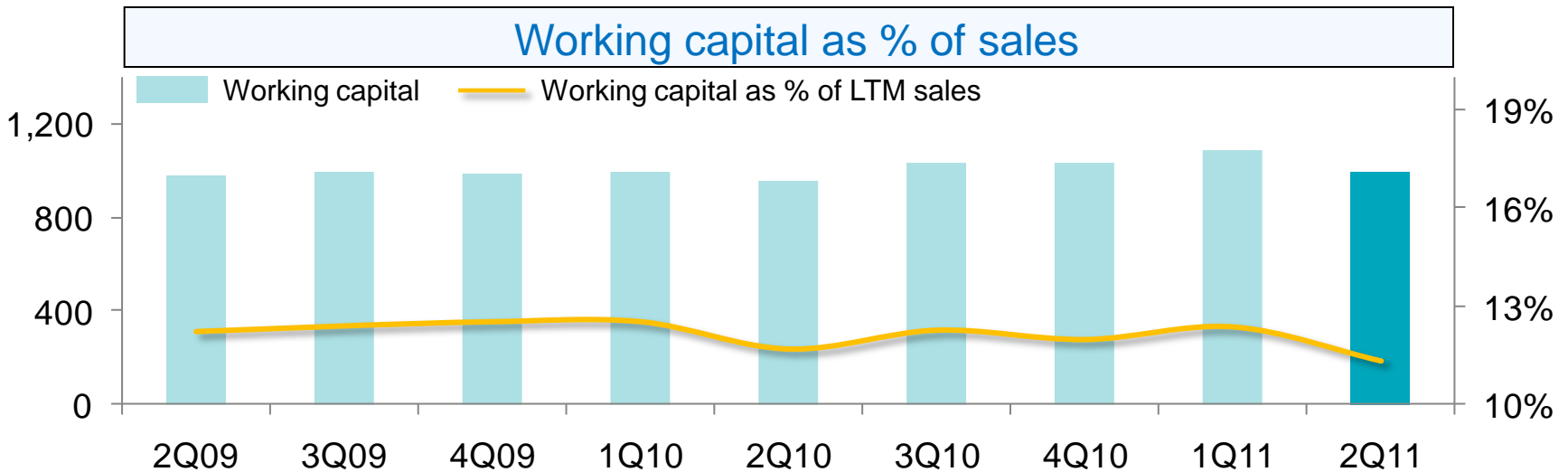
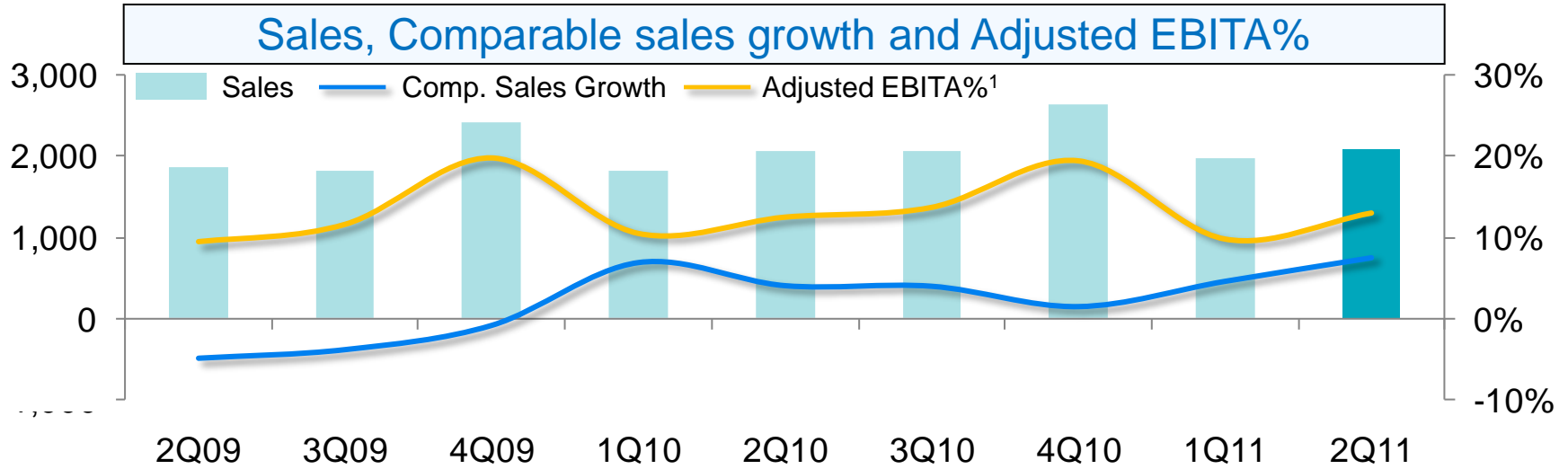
**450+**

Products & services  
offered in over 100 countries

<sup>1</sup> Last twelve months June 2011

# Healthcare: key financials over the last two years

EUR million



<sup>1</sup> Adjusted EBITA is EBITA corrected for incidental charges (details on slide 71)

# Healthcare: Q2 2011 Sector analysis

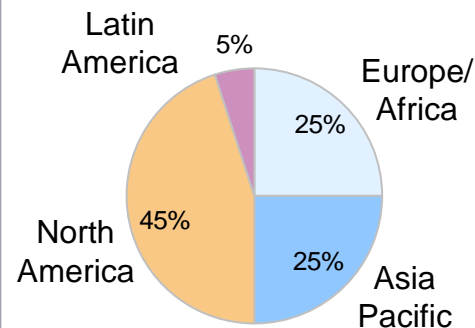
EUR million

## Key figures

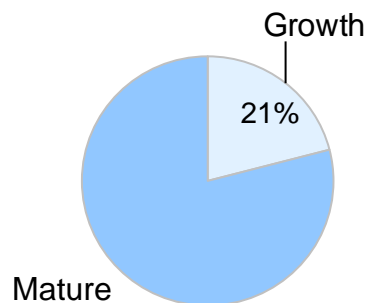
	2Q10	1Q11	2Q11
Sales	2,068	1,971	2,080
<i>% sales growth comp.</i>	4	5	8
EBITA	216	199	276
<i>EBITA as % of sales</i>	10.4	10.1	13.3
EBIT	148	138	(611)
<i>EBIT as % of sales</i>	7.2	7.0	(29.4)
NOC	9,545	8,534	7,534
Employees (FTEs)	34,344	35,756	36,469

### Sales per region

2Q11



### Growth markets



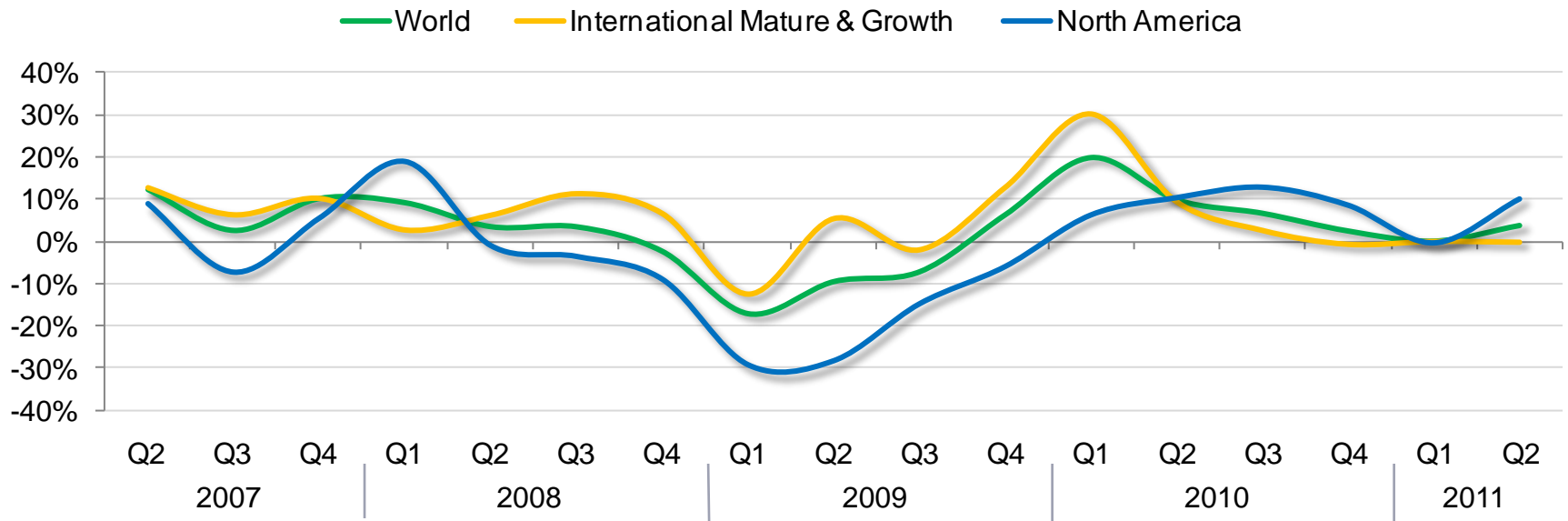
## Financial performance

- Comparable sales were 8% higher year-on-year, with solid sales increases in all businesses, notably high single-digit growth at Home Healthcare and Imaging Systems. From a regional perspective, comparable sales in mature markets grew 4% year-on-year, with sales in North America 8% higher than in Q2 2010. Growth market sales grew 22%, with notably better sales at Imaging Systems.
- EBITA increased by EUR 60 million year-on-year to EUR 276 million, or 13.3% of sales. EBITA improvement was driven by gross margin improvements in most businesses. Excluding restructuring and acquisition related charges, EBITA amounted to EUR 275 million, or 13.2% of sales, compared to EUR 262 million, or 12.7% of sales, in Q2 2010.
- EBIT decreased by EUR 759 million year-on-year. EBIT was impacted by a EUR 824 million goodwill impairment charge at Home Healthcare Solutions following a slower-than-planned post-recession recovery and revised growth projections for the US sleep market. It includes a value adjustment from a discount rate increase, reflecting growing economic uncertainties.
- Net operating capital decreased by EUR 2.0 billion to EUR 7.5 billion, mainly due to currency effects and goodwill impairment.



# Healthcare: Equipment order intake

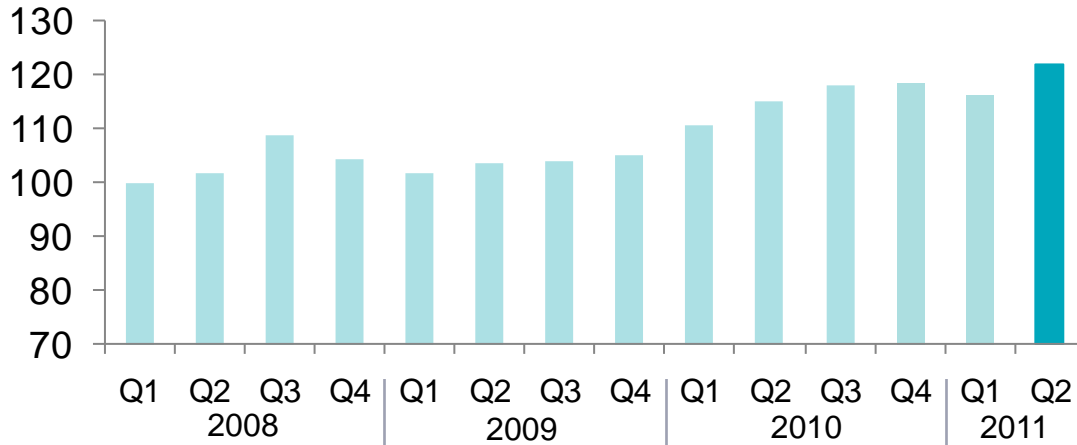
Quarterly currency adjusted equipment order intake



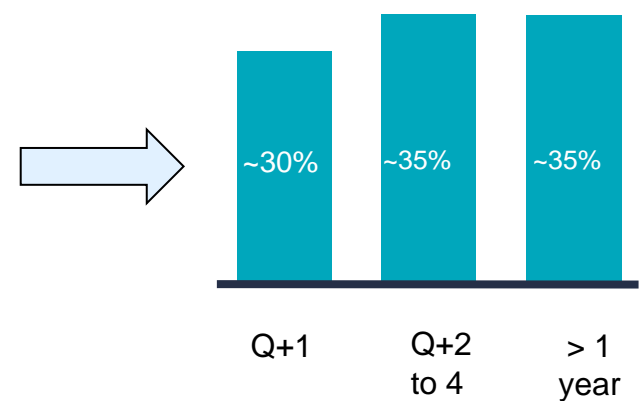
Currency adjusted order intake only relates to the Imaging Systems and Patient Care & Clinical Informatics businesses

# Healthcare: Equipment order intake impact

Indexed Equipment Order Book Development

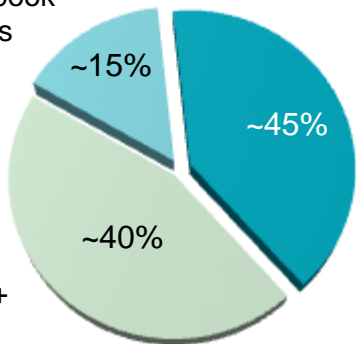


Typical profile of equipment order book conversion to sales



Quarter end equipment order book is a leading indicator for ~45% of sales the following quarters

Equipment book and bill sales



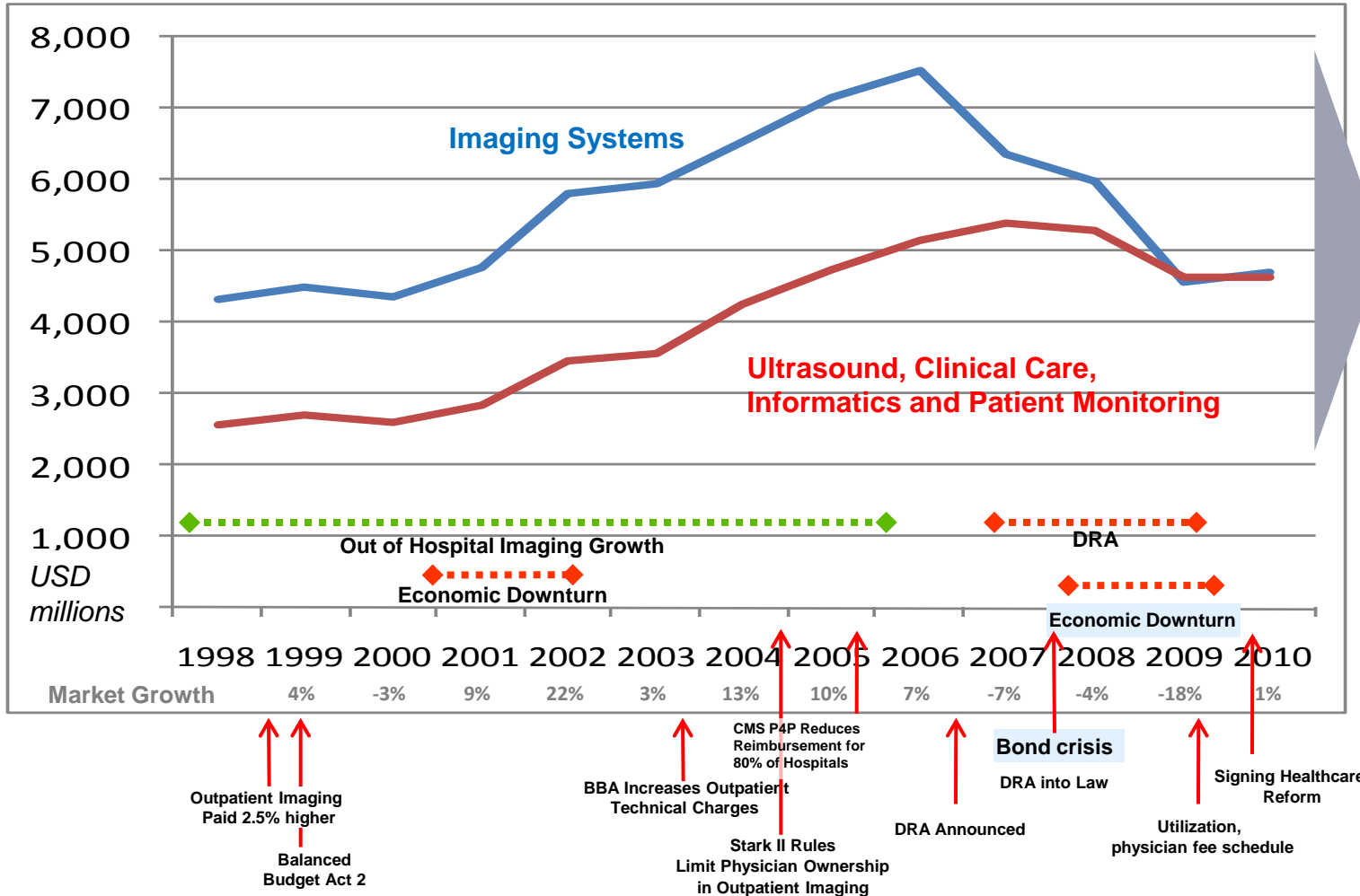
Equipment sales from order book - Leading indicator of future sales

Home Healthcare + Customer Services sales

- Order book level back to pre-crisis levels
- Approximately 60-65% of the current order book results in sales within a year

# Healthcare historical market development

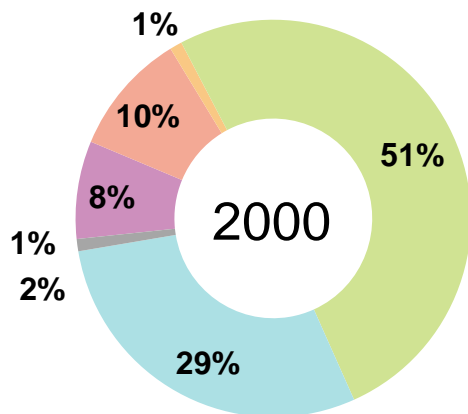
## North America Market Size/ Growth and Impacts



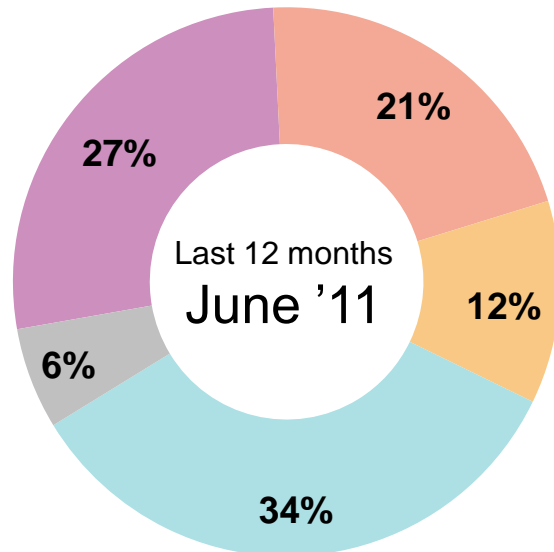
*Philips current expectation for the US Imaging Systems market for 2011 is low single-digit growth*

## Transforming Lifestyle beyond the Consumer Electronics legacy

Total sales EUR 11.3 billion<sup>1</sup>



Total sales EUR 5.8 billion



- Domestic appliances
- Personal Care
- Health & wellness
- Lifestyle Entertainment
- Other incl. Licenses
- Television



<sup>1</sup> DAP and Mainstream part of Consumer Electronics only

## Consumer Lifestyle

*What we do. Where we are.*

### Philips Consumer Lifestyle

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

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

Personal  
Care

Health &  
Wellness

Domestic  
Appliances

Lifestyle  
Entertainment

Mature  
Markets

Growth  
Markets



21%

12%

27%

34%

60%

40%

## €5.8

Billion sales  
in 2010

## 17,000+

People employed  
worldwide

## 5%

of sales invested  
in R&D in 2010

## 34%

of green product  
sales in 2010

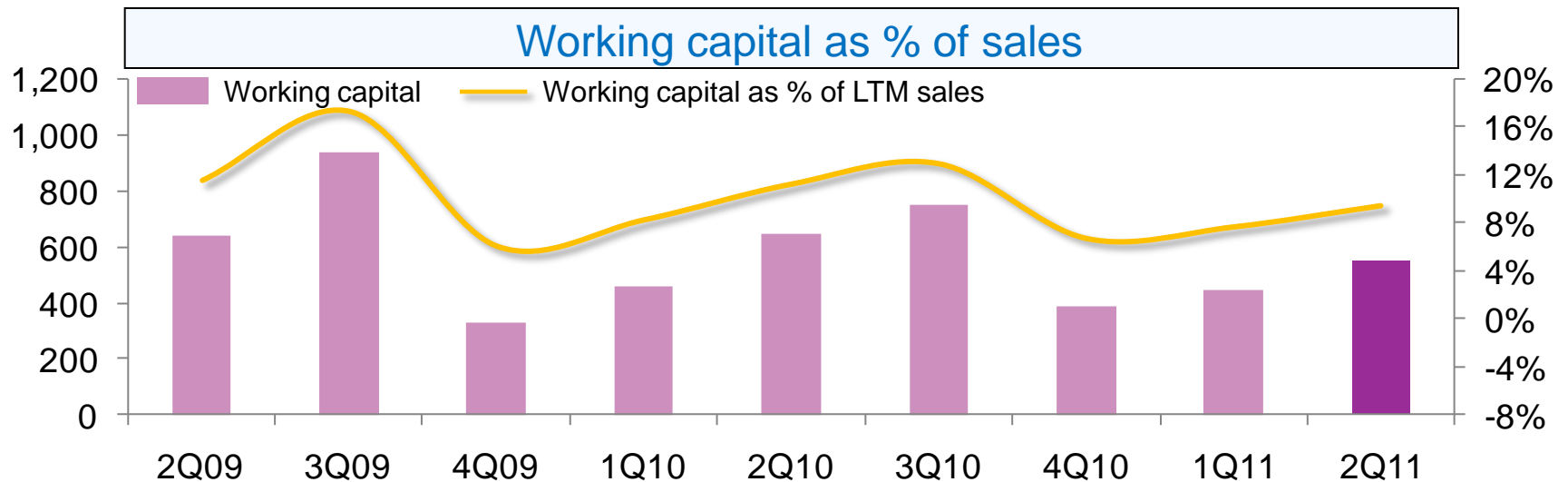
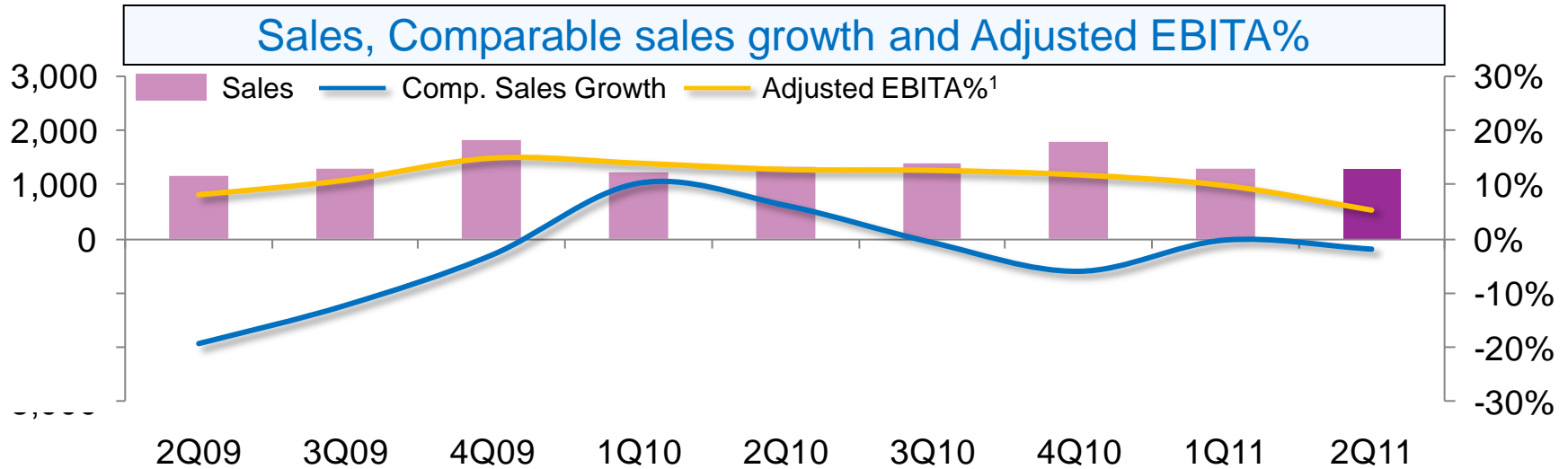
<sup>1</sup> Last twelve months June 2011

<sup>2</sup> Other category (6%) is mainly license income and is omitted from this overview

Note - All figures exclude discontinued operations

# Consumer Lifestyle: financials over the last two years

EUR million



<sup>1</sup> Adjusted EBITA is EBITA corrected for incidental charges (details on slide 71)

Note - All figures exclude discontinued operations

# Consumer Lifestyle: Q2 2011 Sector analysis

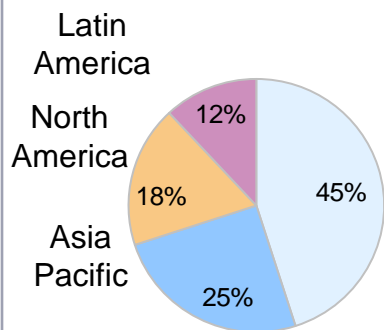
EUR million

## Key figures

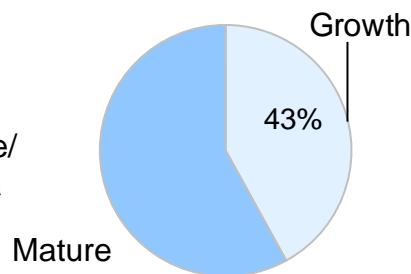
	2Q10	1Q11	2Q11
Sales	1,338	1,300	1,293
<i>% sales growth comp.</i>	6	-	(2)
EBITA	168	119	60
<i>EBITA as % of sales</i>	12.6	9.1	4.6
EBIT	160	104	24
<i>EBIT as % of sales</i>	12.0	8.0	1.9
NOC	1,055	1,518	1,463
Employees (FTEs)	13,892	14,423	17,026

### Sales per region

2Q11



### Growth markets

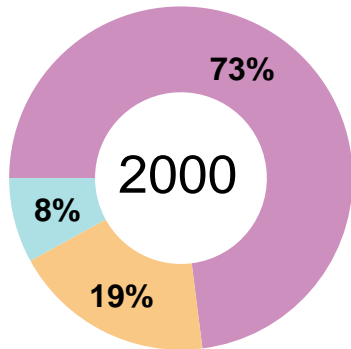


## Financial performance

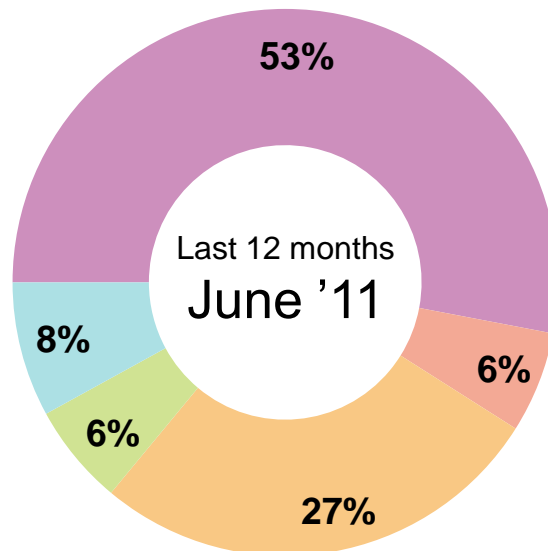
- Sales declined 3% nominally year-on-year. On a comparable basis, sales were 2% below Q2 2010. Double-digit comparable growth at Health & Wellness and Personal Care, and high single-digit growth at Domestic Appliances were offset by significantly lower license revenue and declines at Lifestyle Entertainment. Comparable sales growth excluding licenses was 1%.
- EBITA includes an amount of EUR 17 million (EUR 13 million in Q2 2010) of costs formerly reported as part of the Television business in Consumer Lifestyle.
- EBITA was EUR 108 million lower year-on-year, which was attributable to lower license income, a sales decline at Lifestyle Entertainment and higher investments in Advertising & Promotion across all businesses. Excluding restructuring and acquisition-related charges of EUR 7 million in Q2 2010 and EUR 13 million in Q2 2011, EBITA declined from 13.1% to 5.6%.
- Net operating capital increased by EUR 408 million, largely due to the discontinued operations of Television and the acquisitions of Discus and Preethi.






## Transitioning Lighting from light source to solutions

Total sales EUR 4.9 billion<sup>1</sup>



Total sales EUR 7.6 billion



-  Lamps/ lighting systems & controls
-  Professional luminaires
-  Consumer luminaires
-  Automotive
-  Packaged LEDs

<sup>1</sup> Excluding batteries EUR 0.2 billion





## We increase our focus towards the people we serve

*Further strengthening our global leadership in Lighting*



**€7.6**

Billion sales  
in 2010

**54,000+**

People employed  
worldwide in 60 countries

**5%**

of sales invested  
in R&D in 2010

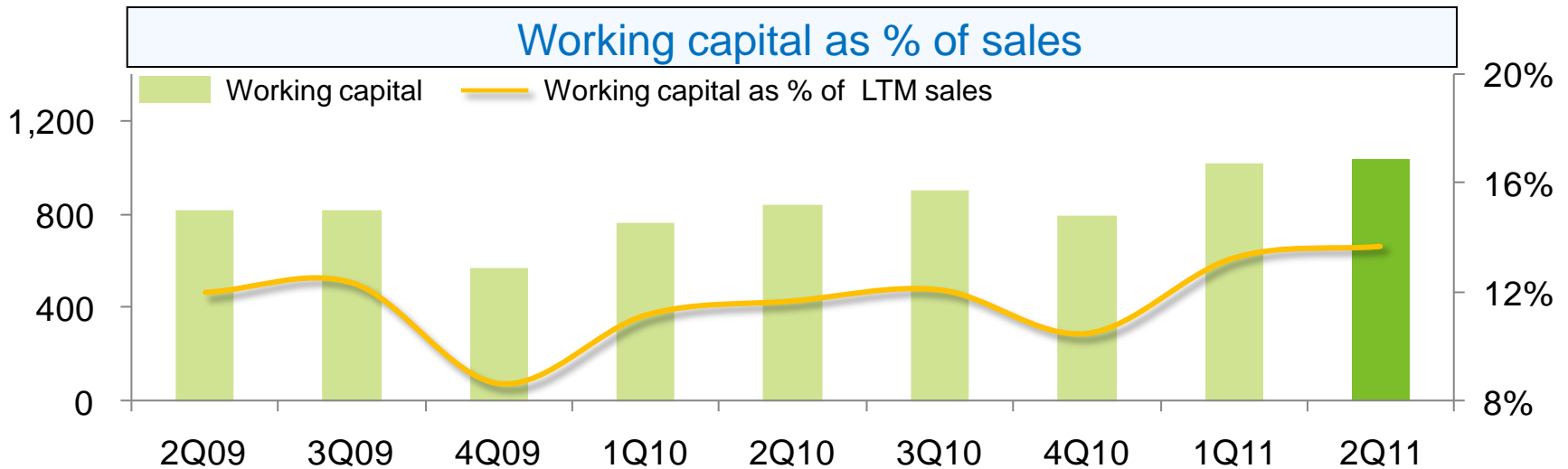
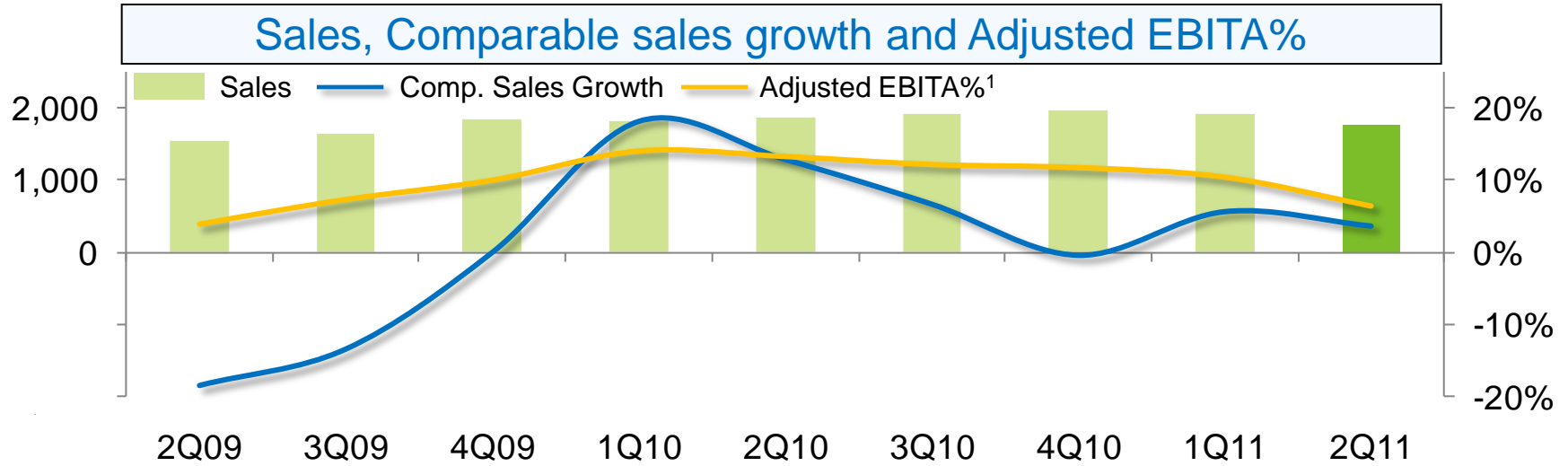
**80,000+**

Products & services  
offered in 2010

<sup>1</sup> Indicative split

# Lighting: financials over the last two years

EUR million



<sup>1</sup> Adjusted EBITA is EBITA corrected for incidental charges (details on slide 71)

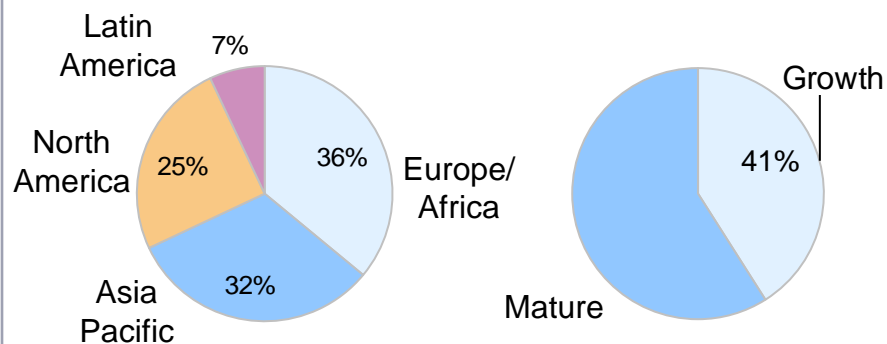
## Lighting: Q2 2011 Sector analysis

EUR million

### Key figures

	2Q10	1Q11	2Q11
Sales	1,859	1,903	1,777
<i>% sales growth comp.</i>	13	6	4
EBITA	210	193	101
<i>EBITA as % of sales</i>	11.3	10.1	5.7
EBIT	166	152	(470)
<i>EBIT as % of sales</i>	8.9	8.0	(26.4)
NOC	5,934	5,580	5,021
Employees (FTEs)	52,031	54,856	54,728

### Sales per region 2Q11 Growth markets



### Financial performance

- Comparable sales increased by 4%. Lighting Systems & Controls and Professional Luminaires recorded double-digit sales growth, while the rest of Lighting remained flat. From a geographic perspective, double digit sales growth in growth markets, with strong growth in China in particular, was tempered by low single-digit growth in mature markets, reflecting weaker-than-expected market conditions in the consumer sector in Western Europe and continued weakness in construction markets.
- EBITA, excluding restructuring and acquisition-related charges of EUR 14 million (Q2 2010: EUR 37 million), amounted to EUR 115 million, or 6.5% of sales. Operational issues, including pressure on margins caused by raw material price increases amongst others, and incremental investments in innovations and marketing resulted in a year-on-year EBITA decrease.
- EBIT decreased by EUR 636 million year-on-year. EBIT was impacted by a EUR 531 million goodwill impairment charge at Professional and Consumer Luminaires, following setbacks in post-recession sales recovery and revised growth projections for construction and mature consumer markets. It includes a value adjustment from a discount rate increase, reflecting growing global economic uncertainties.

## The leading global lighting company

Market leadership across most categories  
 Market share per Business Group by Region,  
 as at March '11

	Europe	North America	Latin America	Asia/Pacific <sup>1</sup>	Total
Lamps	Green	Yellow	Green	Green	Green
Consumer Luminaires	Green	Red	Red	Red	Green
Professional Luminaires	Green	Yellow	Yellow	Green	Green
Lighting Electronics	Green	Green	Green	Green	Green
Automotive	Green	Yellow	Green	Green	Green
High Power LEDs	Yellow	Yellow	Yellow	Yellow	Yellow
<b>Overall Lighting</b>	Green	Green	Green	Green	Green

Number 1
  Number 2 or 3
  Not in top 3



<sup>1</sup> Excluding Japan  
 Source: Customer panels and Industry associations

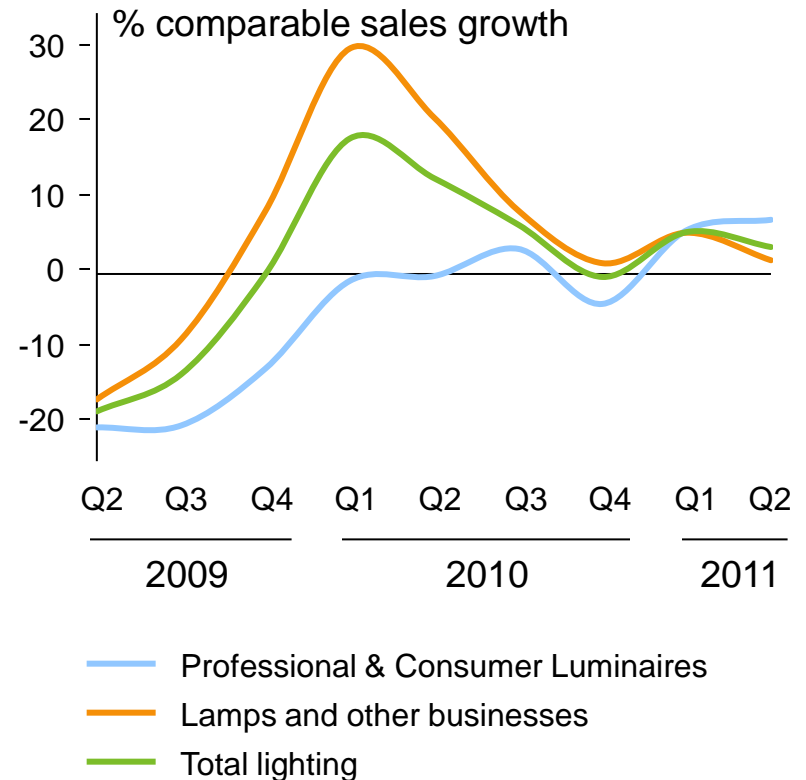
## Sales recovery despite current weakness in the construction market in mature economies

Around 25% of Philips Lighting sales driven by New Build in Western Europe & North America (WE&NA)

Philips Lighting	New Build	Replacement	Total
Residential	12%	13%	25%
Commercial	30%	22%	52%
Other	17%	6%	23%
<b>Total</b>	<b>59%</b>	<b>41%</b>	<b>100%</b>

New Build	WE&NA	ROW	Total
Residential	7%	5%	12%
Commercial	18%	12%	30%
<b>Total</b>	<b>25%</b>	<b>17%</b>	<b>42%</b>

Not yet firing on all cylinders: sales recovery despite soft luminaires market in mature economies

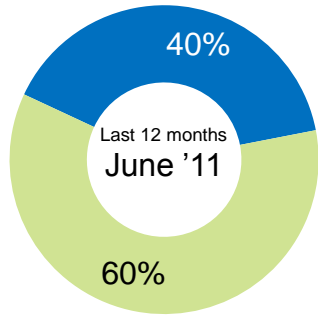


## LED lighting

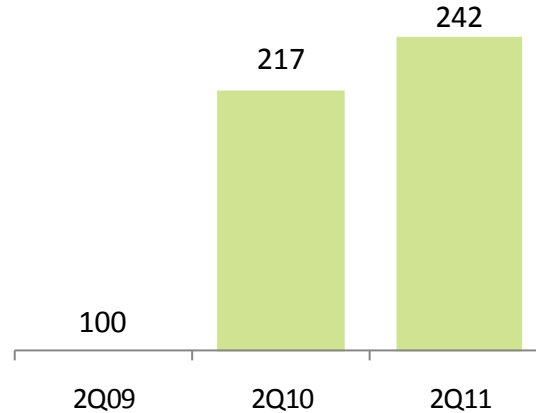
*Exponential growth*

Total external sales EUR 1.1 billion

Growth LED Lighting<sup>1</sup>



- Packaged LEDs
- LED Lamps and Luminaires



The move to LED will increasingly drive growth in the general lighting market in the years ahead, notably in luminaires. LED also offers an opportunity to create additional value across the innovation chain.

Philips is the broadest player in both light sources and solutions offering LED lamps, LED luminaire solutions as well as a LED licensing program. Philips is currently the world's largest high power LED company. Leading company in illumination segments, leader in consumer mobile phone camera flash and automotive LED signaling.

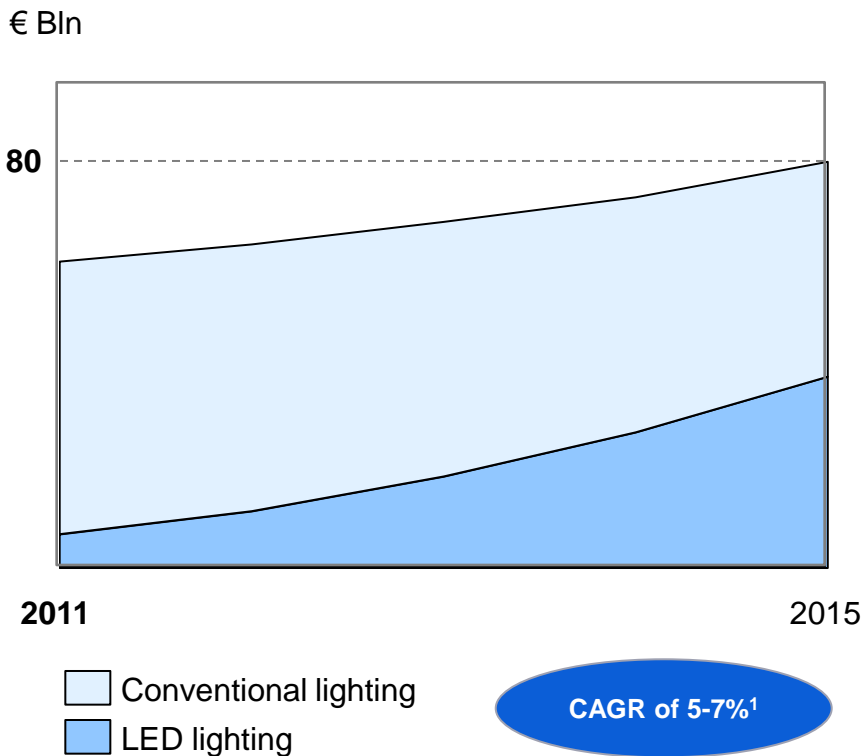
LED sales as a percentage of Lighting sales were 14% over the last twelve months.

<sup>1</sup> Indexed Growth, base Q2 2009 = 100



# The general illumination market offers large growth opportunities

## Global illumination market, 2011-2015



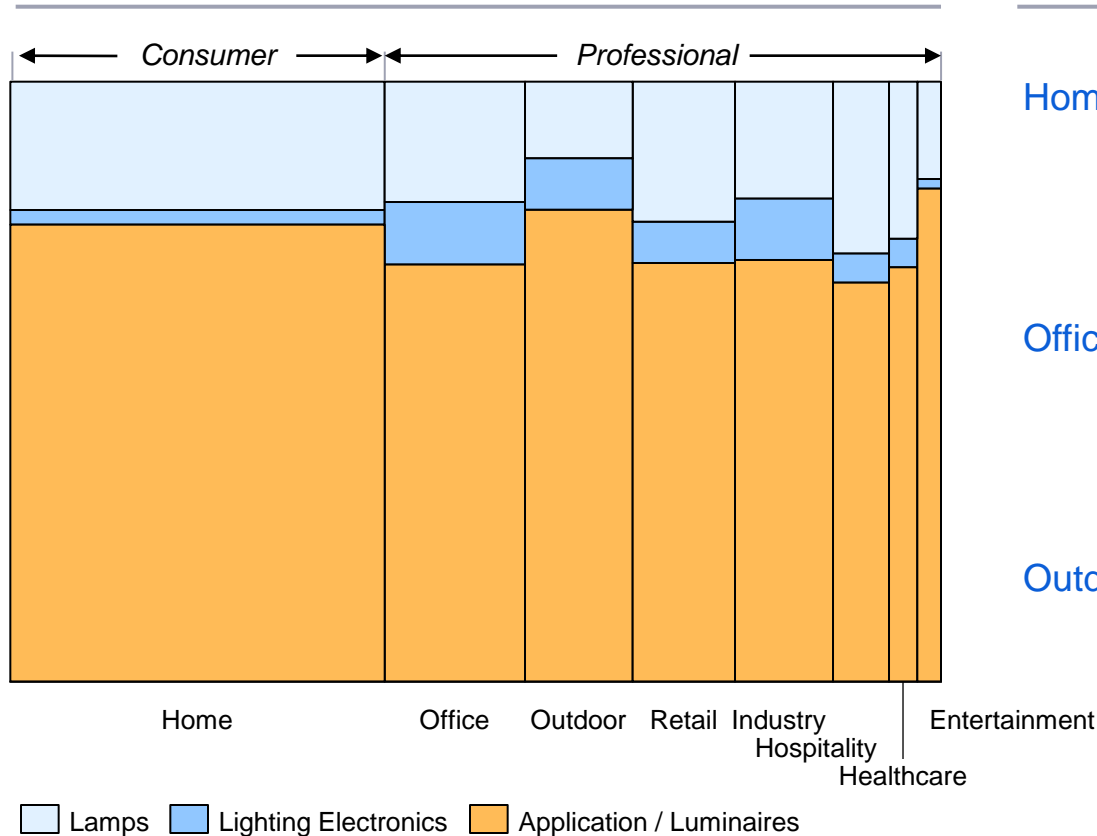
## Market overview

- The global lighting market is expected to grow at a CAGR of around 5-7% during 2011-15, to around EUR 80 billion
- Growth in global illumination market is driven by the LED revolution with rapid adoption of LED-based lighting solutions
- Conventional lighting continues to be a large part of the market

<sup>1</sup> Earlier estimated at CAGR of 7-9%  
 Source: Philips Lighting global market study 2010, updated for 2011

## Home, Office, and Outdoor are the biggest segments Professional is the largest channel

Total market size in 2011<sup>1</sup>: EUR 55-60 billion



Biggest segments

Home



Office



Outdoor



<sup>1</sup> General illumination (excludes Automotive)  
Source: Philips Lighting global market study 2010, updated for 2011



## Group Management & Services

*Adding value to the businesses*

### Corporate Technologies

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

### Corporate & Regional Costs

Corporate center and country & regional overheads

### Pensions

Pension and other postretirement benefit costs mostly related to former Philips' employees

### Service Units and Other

Global service units; Shared service centers; Corporate Investments, New venture integration and Philips Design

# Sector analysis Q2 – Group Management & Services

EUR million

## Key figures

	2Q10	1Q11	2Q11
Sales	81	80	63
<i>% sales growth comp.</i>	<i>11</i>	<i>(8)</i>	<i>27</i>
<b>EBITA:</b>			
Corporate Technologies	(22)	(13)	2
Corporate & Regional Costs	(35)	(32)	(28)
Pensions	(9)	(13)	(13)
Service Units and Other	(22)	(16)	(28)
-----			
EBITA	(88)	(74)	(67)
EBIT	(90)	(76)	(66)
NOC	(2,460)	(2,982)	(2,716)
Employees (FTEs)	11,807	12,213	12,128

## Financial performance

- Sales decreased from EUR 81 million in Q2 2010 to EUR 63 million in Q2 2011, due to the divestment of Assembléon.
- EBITA amounted to a net cost of EUR 67 million, a cost decrease of EUR 21 million year-on-year, driven by higher license revenues, lower expenses at Research and a gain on the sale of assets.
- EBITA included an amount of EUR 15 million (EUR 16 million in Q2 2010) of costs formerly reported as part of the Television business in Consumer Lifestyle.
- Net operating capital decreased by EUR 256 million year-on-year, mainly due to real estate assets reclassified to assets held for sale.

**PHILIPS**

**sense and simplicity**

# Appendix

# Development cost capitalization & amortization by sector

*EUR million*

	Capitalization		Amortization	
	Q2 2010	Q2 2011	Q2 2010	Q2 2011
Healthcare	24	46	19	18
Consumer Lifestyle	9	9	10	8
Lighting	7	14	7	7
GM&S	1	-	-	-
<b>Group</b>	<b>41</b>	<b>69</b>	<b>36</b>	<b>33</b>

# Fixed assets expenditures & Depreciation by sector<sup>1</sup>

*EUR million*

	Gross CapEx		Depreciation	
	Q2 2010	Q2 2011	Q2 2010	Q2 2011
Healthcare	61	60	49	43
Consumer Lifestyle	28	34	23	25
Lighting	65	73	63	68
GM&S	4	17	20	23
<b>Group</b>	<b>158</b>	<b>184</b>	<b>155</b>	<b>159</b>

<sup>1</sup> Excluding software related capital expenditures and depreciation

# Restructuring, acquisition-related and other incidentals

*EUR million*

	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11
Acq.-related charges	(9)	(8)	(9)	(3)	<b>(29)</b>	(2)	(3)
Restructuring	(20)	(38)	3	7	<b>(48)</b>	4	4
<b>Healthcare</b>	(29)	(46)	(6)	4	<b>(77)</b>	2	1
Acq.-related charges	(3)	(3)	(7)	(6)	<b>(19)</b>	(10)	(12)
Restructuring	(6)	(4)	(5)	3	<b>(12)</b>	(3)	(1)
<b>Consumer Lifestyle</b>	(9)	(7)	(12)	(3)	<b>(31)</b>	(13)	(13)
Acq.-related charges	(4)	(5)	(6)	(8)	<b>(23)</b>	(2)	(11)
Restructuring	(5)	(32)	(11)	(26)	<b>(74)</b>	(3)	(3)
<b>Lighting</b>	(9)	(37)	(17)	(34)	<b>(97)</b>	(5)	(14)
Restructuring	1		6	(5)	<b>2</b>	1	1
Other Incidentals			36	83	<b>119</b>		1
<b>GM&amp;S</b>	1	-	42	78	<b>121</b>	1	2
<b>Grand Total</b>	(46)	(90)	7	45	<b>(84)</b>	(15)	(24)

