

PHILIPS

sense and simplicity

Financial and operational improvement update

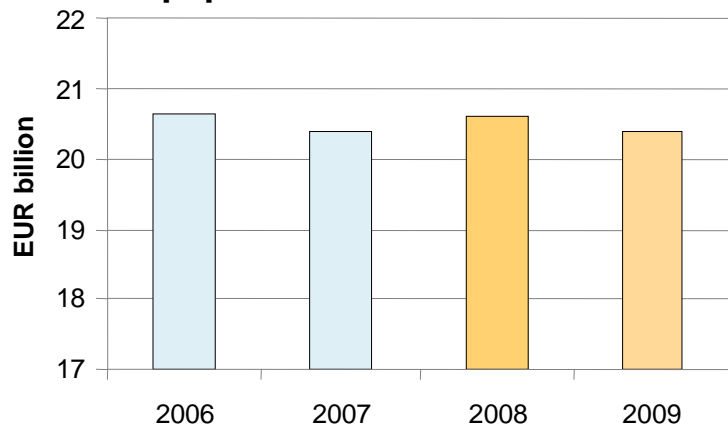
Ron Wirahadiraksa
CFO Philips Healthcare

Topics for discussion

- Philips Healthcare's performance
 - Market shares
 - Sales and EBITA
 - Working capital & cash flow
 - Progress on acquisitions
- Acceleration of existing initiatives
- Faster response to tougher market circumstances
 - Response to business risks
 - Increased use of customer financing
 - Additional cost saving measures

While the equipment market looks set to decline in 2009, we expect to continue to gain market share

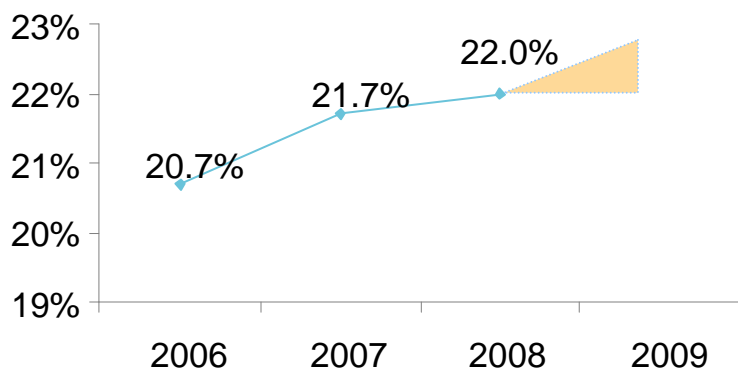
Global equipment market



Healthcare market:

- **2008 global equipment market was up 1%** driven by Clinical Care Systems and Healthcare Informatics & Patient Monitoring
- **2009 market expected to be very challenging** given the global recession and tight credit markets in North America and uncertain regulatory landscape in the USA, but opportunities still exist in Emerging markets

Philips equipment market share



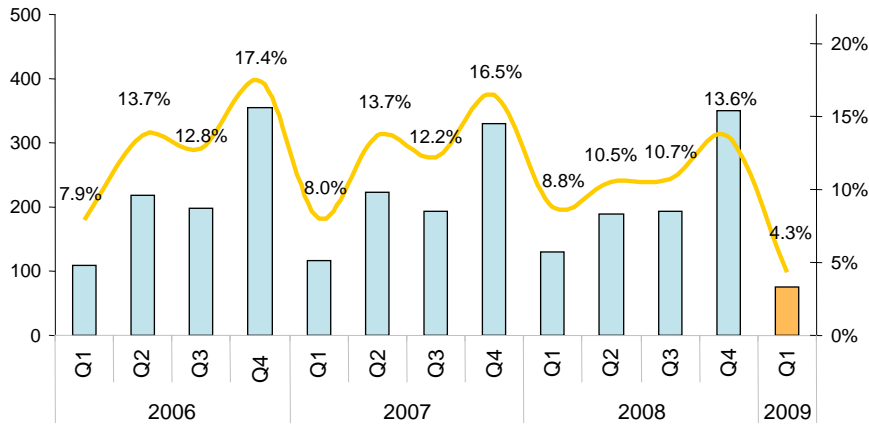
Our market share:

- **Philips gained market share in 2008** driven mostly by Patient Monitoring, Nuclear Medicine and Cardiovascular X-Ray
- **Philips will continue to focus on gaining market share in 2009** fueled by new product introductions and quality and service improvements

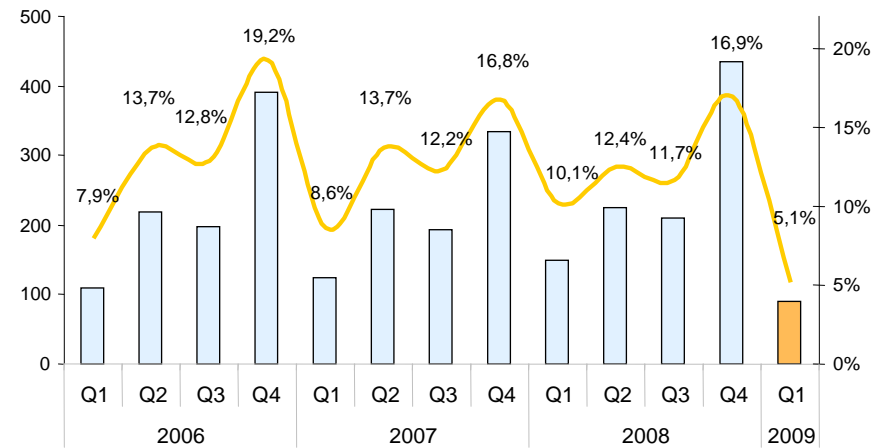
Source: NEMA, COCIR, JIRA, and Synovate; currency comparable

Steady earnings growth affected by the severe economic climate as from the 2nd half year 2008

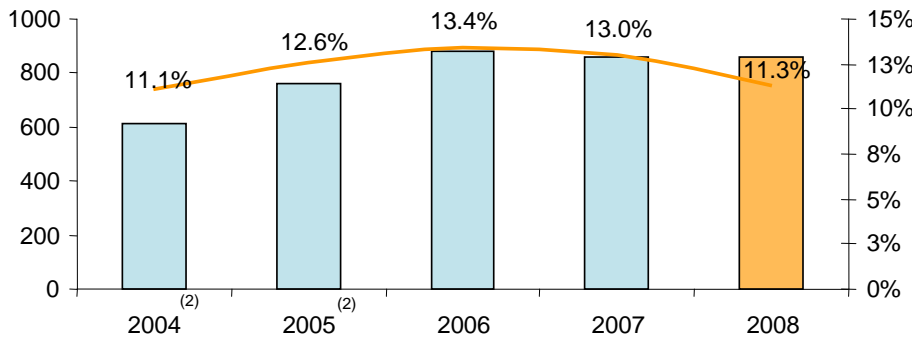
EBITA quarterly as reported



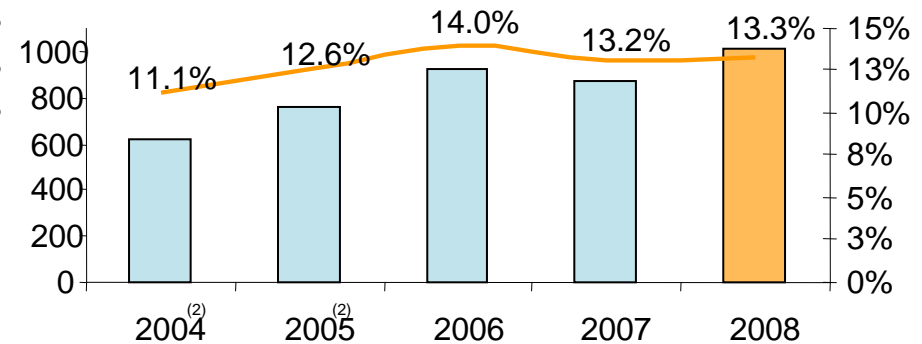
EBITA quarterly adjusted (1)



EBITA full year as reported



EBITA full year adjusted (1)

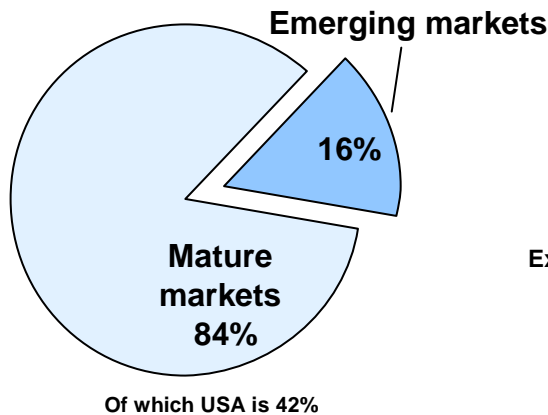


(1) Adjusted EBITA: EBITA excluding acquisition/integration related expenses, restructuring costs

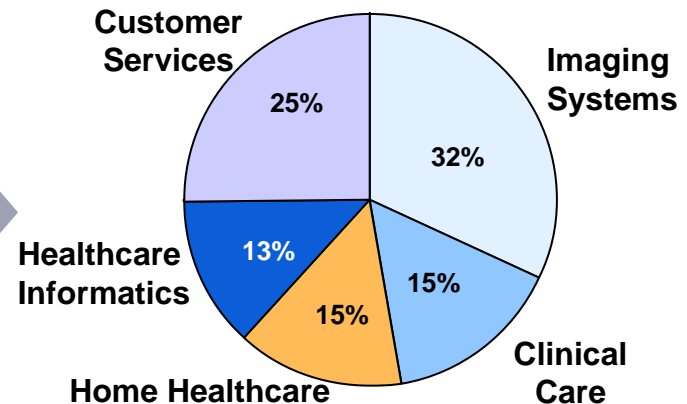
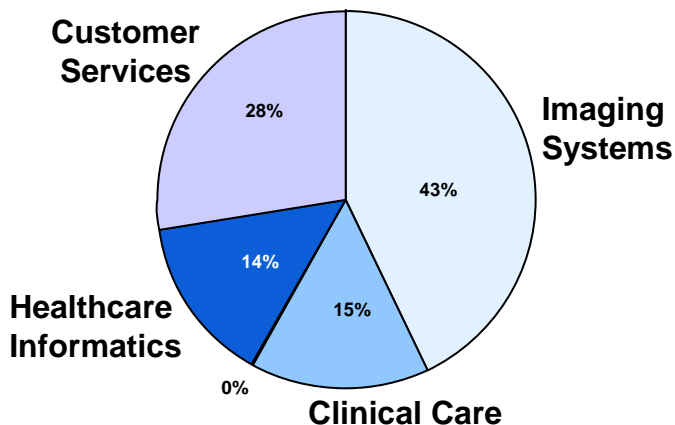
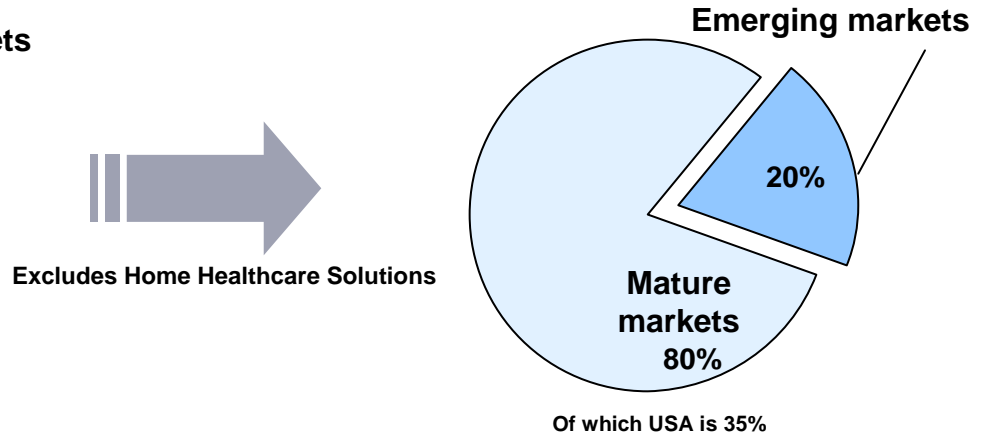
(2) 2004 and 2005 based on US GAAP

We continue to invest in high growth geographies and businesses

2006 sales: Actual



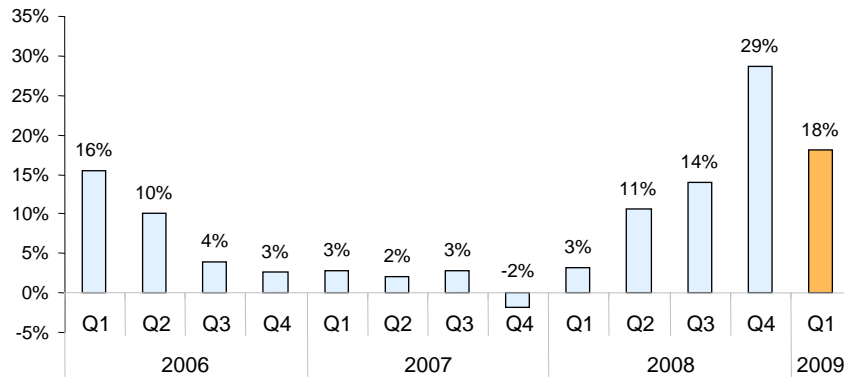
2009 Sales: Indication



Solid progress in expanding our non-Imaging Systems portfolio

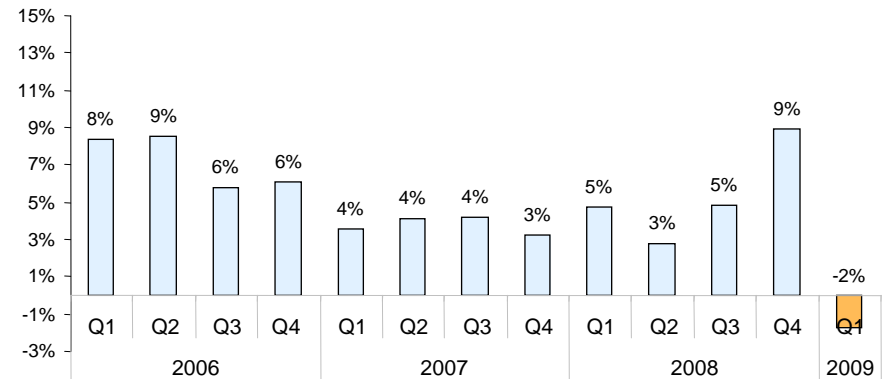
... which is driving our annual sales growth

Quarterly nominal

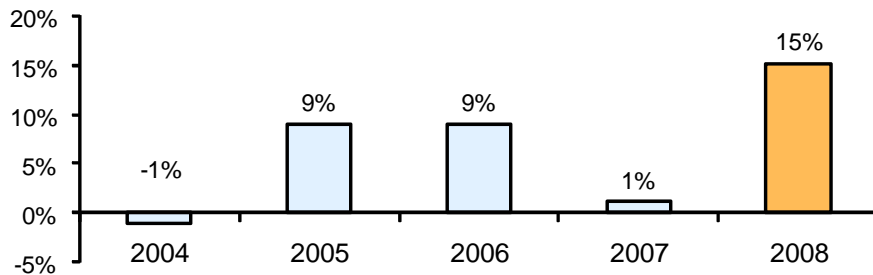


Quarterly comparable

(adjusted for currency and portfolio)

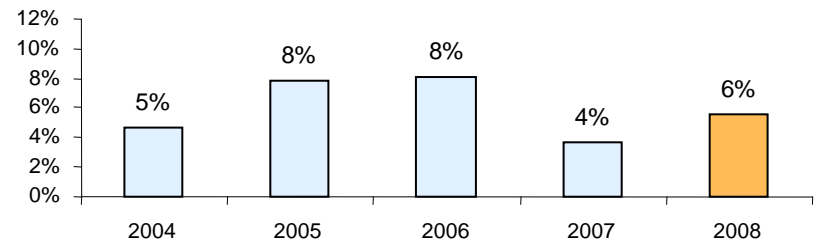


Full year nominal



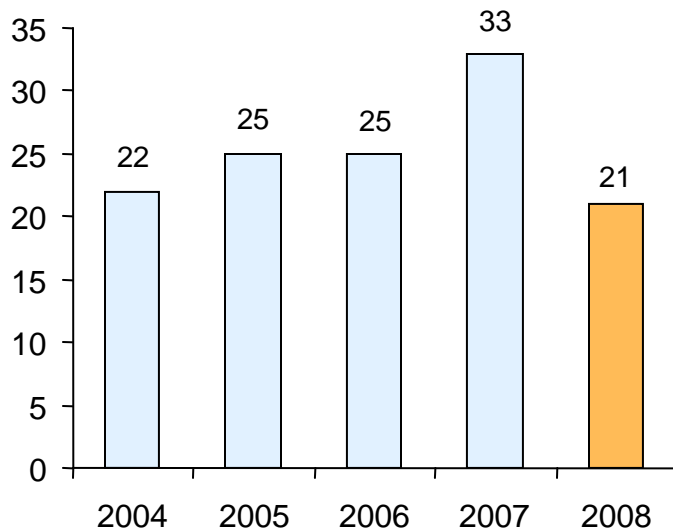
Full year comparable

(adjusted for currency and portfolio)

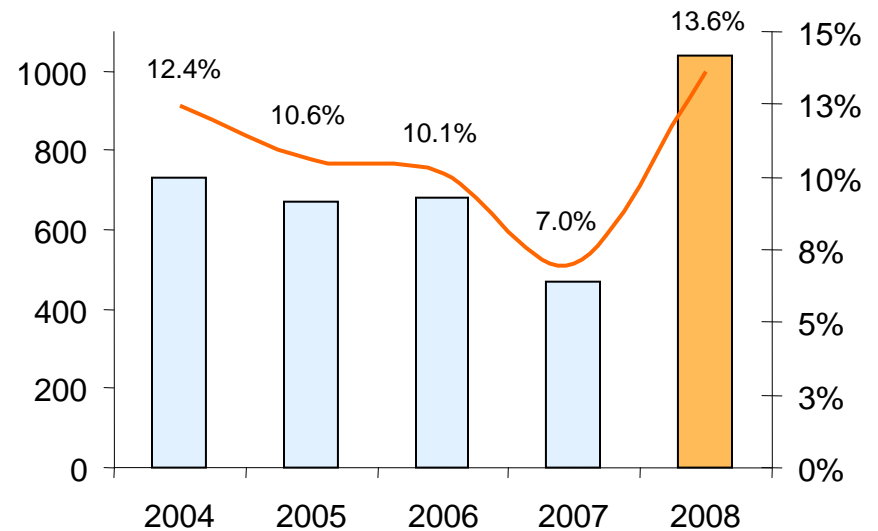


Our enhanced focus on cash is paying off...

Cash conversion cycle ⁽¹⁾ in days



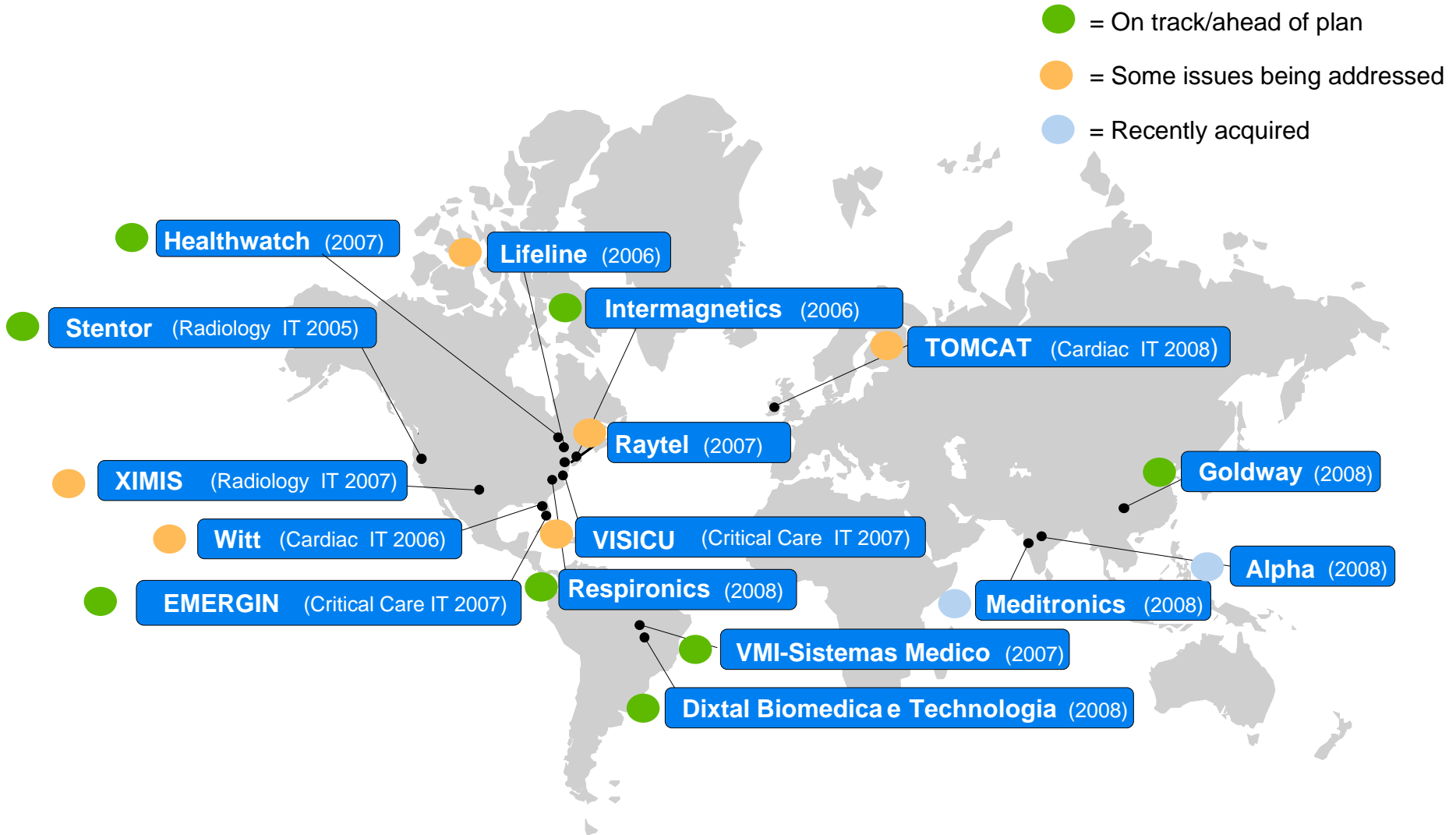
Free cash flow ⁽²⁾ as a % of sales



1) Cash conversion cycle is defined as days sales and inventories outstanding minus days payables and accruals outstanding

2) Free cash flow is defined as cash flow from operating activities minus net capital expenditures

Delivering value from existing acquisitions






The acquisition portfolio is on track to deliver the expected results

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We are accelerating our existing operational improvement initiatives

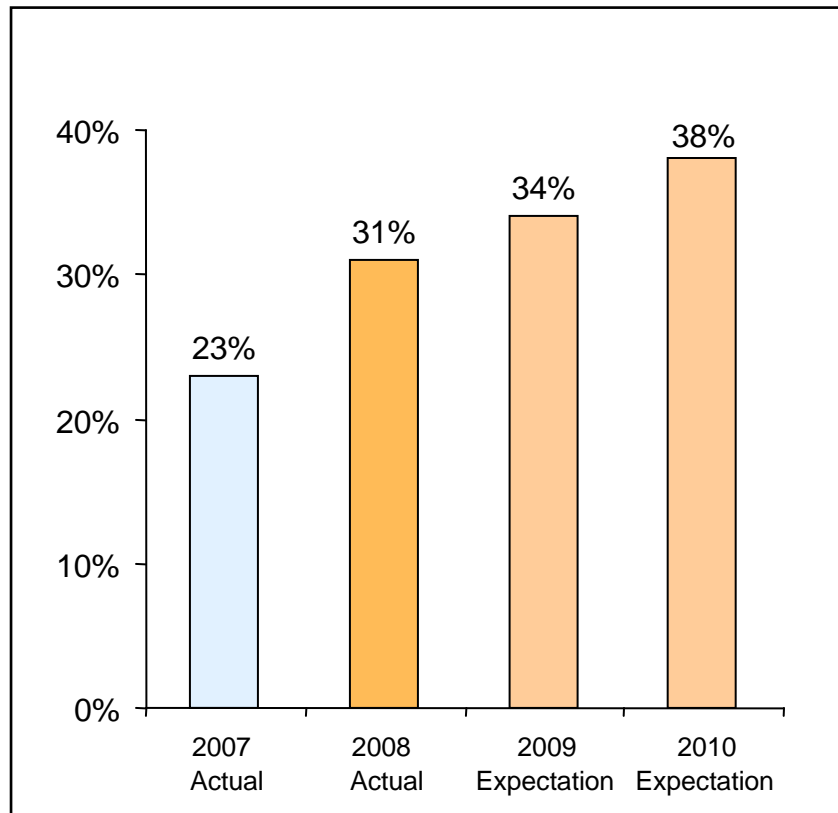
Focus areas	Programs	Objectives
Accelerate growth	OMA (Optimize Market Approach)	<ul style="list-style-type: none"> • Deliver significant top and bottom line benefits through value based pricing
Increase margins	SBO (Supply Base Optimization) 	<ul style="list-style-type: none"> • Establish a highly flexible and responsive supply chain with an optimal industrial footprint • Optimize total external purchasing spend
	ICS (Integrated Customer Service) 	<ul style="list-style-type: none"> • Improve overall customer service infrastructure by optimizing field service, remote services, supply and usage of spare parts
	Q2C (Quote to Cash) 	<ul style="list-style-type: none"> • Improve Quote to Cash process through process optimization and the establishment of Business Centers to drive visibility and accountability-enabled changes • Contributes to reducing IT cost.

Increase Margins SBO: Establish a highly flexible supply chain with an optimal industrial footprint.

1	Industrial consolidation	<ul style="list-style-type: none">• Final assembly and test sites are being consolidated
2	Divestment of non-key components	<ul style="list-style-type: none">• Vertically integrated non-key components are being divested
3	Outsourcing of non-core assembly	<ul style="list-style-type: none">• All non core product assembly activities are either being outsourced or transferred to low-cost countries
4	Low-cost country manufacturing and sourcing	<ul style="list-style-type: none">• Expansion of Imaging Systems Manufacturing Centers in China, Brazil and India to serve the local and the global market
5	Commercial back office consolidation	<ul style="list-style-type: none">• Consolidation of key-market back-offices

Increase Margins SBO: Increasing low cost country sourcing

Healthcare low-cost country sourcing



- On track with low cost country sourcing expansion goals - **total Healthcare 34%** for 2009
- **Leveraging supply base** of newest acquisitions
- **Expansion of activities** in China, Brazil, India and Mexico
- Increase **utilization of low-cost-country supply base** to support global factories

Note: Percentages represented in the above graph represent the total bill of material expenses originating in a low cost country
Respironics included as of 2008

Increase Margins ICS: Optimizing integrated customer service

ICS

Enable our service organization to support customers in delivering excellent patient care, improve operational performance, and deliver incremental EBITA

Spare parts optimization	Material usage reduction	Remote productivity	Field productivity
<ul style="list-style-type: none"> • Deploy spare parts 'redesign' • Deploy UPS as global logistics provider in ASIA (NA & Europe Complete) • Lower logistics costs 	<ul style="list-style-type: none"> • Improve parts purchase approval process • Reduce parts defective on arrival • Develop lower cost service parts 	<ul style="list-style-type: none"> • Increase remote resolution (visit avoidance) • Increase remote monitoring / maintenance (call avoidance) 	<ul style="list-style-type: none"> • Increase field productivity and capabilities of service team • Improve matching of field capacity & demand

Foundation → Enablers across work streams like Call/knowledge management, Engineer scheduling, and Mobile tools

IT infrastructure

ICS brings four major services productivity initiatives under one program, driving further cost reduction

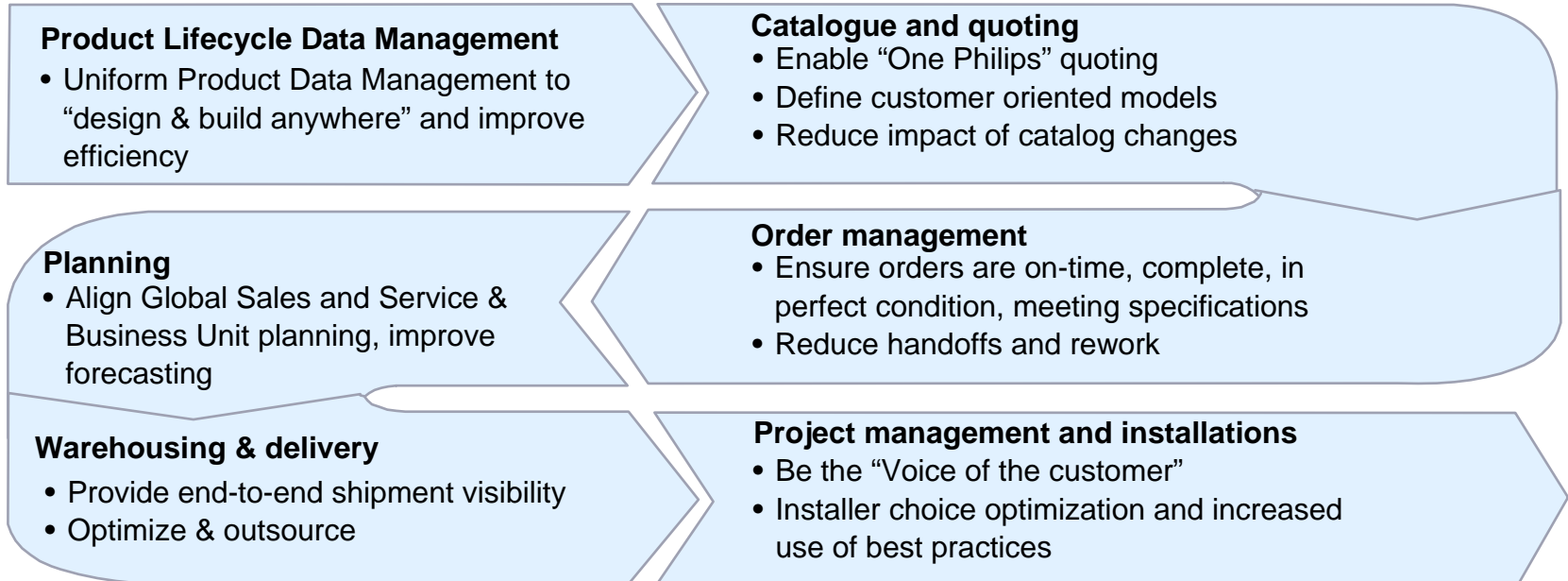
Increase Margins Q2C: Improving the quote to cash process...

Structural optimization



- Improve customer satisfaction
- Improve complete and on-time shipments
- Reduce errors due to handoffs
- Control to drive harmonization to enable “One Philips”
- Enable end-to-end order visibility
- Establish clear accountability
- Tax benefits from Business Center
- Reduce cost and working capital
- Build talent and capabilities

Process optimization



Product Lifecycle Data Management

- Uniform Product Data Management to “design & build anywhere” and improve efficiency

Catalogue and quoting

- Enable “One Philips” quoting
- Define customer oriented models
- Reduce impact of catalog changes

Planning

- Align Global Sales and Service & Business Unit planning, improve forecasting

Order management

- Ensure orders are on-time, complete, in perfect condition, meeting specifications
- Reduce handoffs and rework

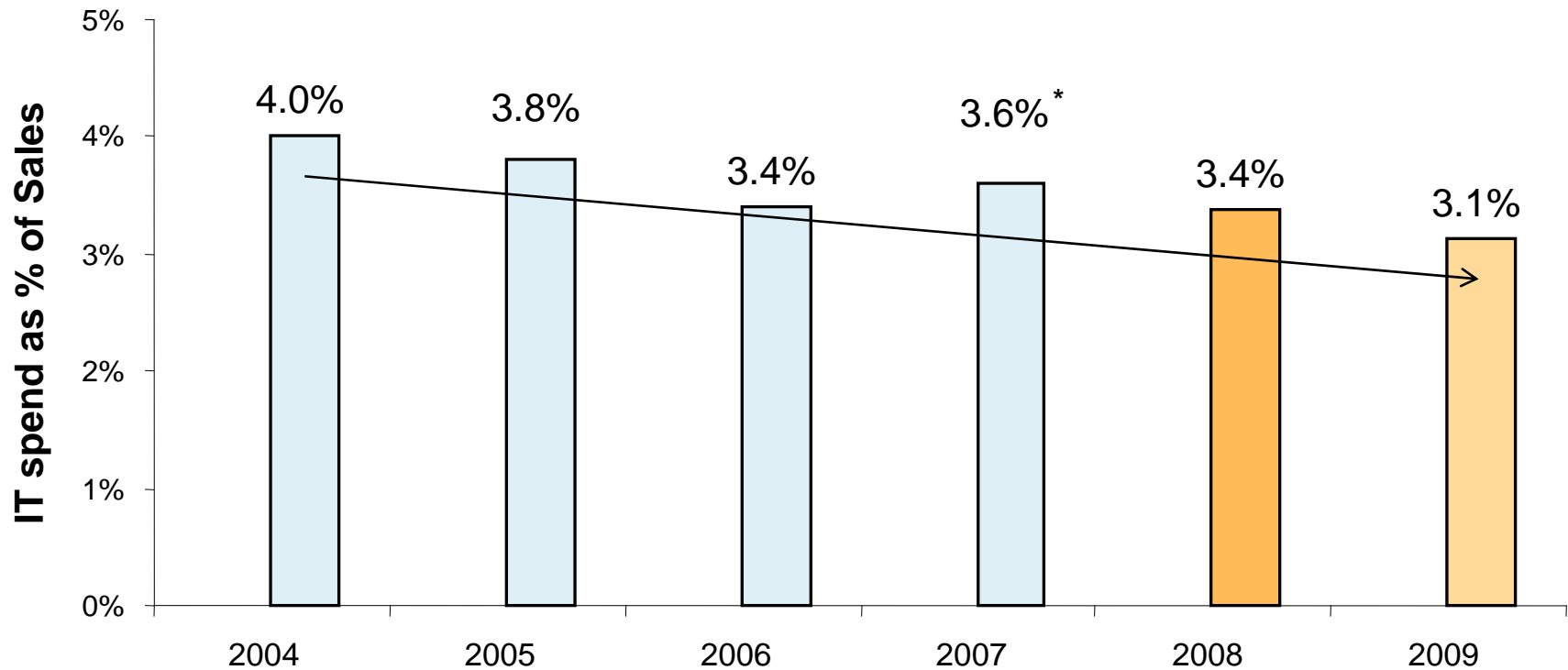
Warehousing & delivery

- Provide end-to-end shipment visibility
- Optimize & outsource

Project management and installations

- Be the “Voice of the customer”
- Installer choice optimization and increased use of best practices

Increase Margins Q2C: Contributes to lower IT spend as a % of sales



* In 2007, the IT spend increased as a % of sales due to the North American commercial SAP implementation

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Response to business risks

Risk

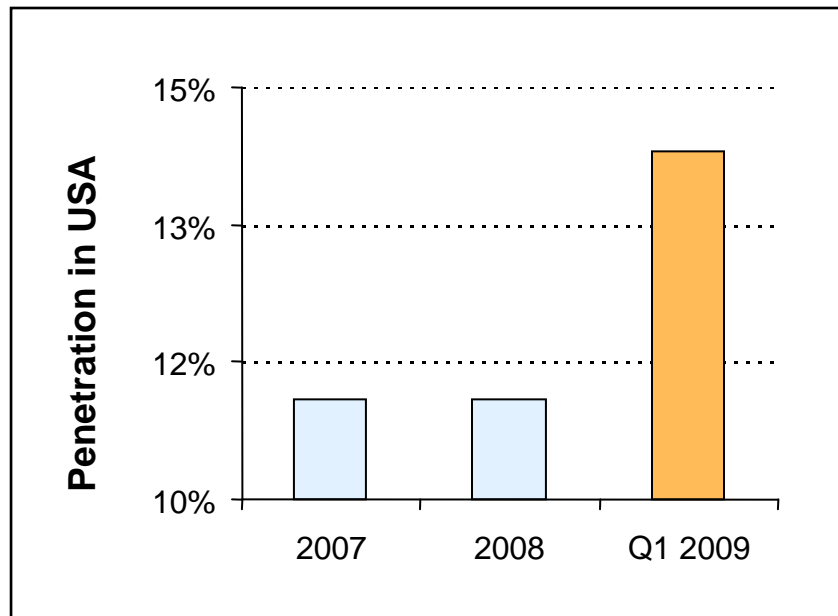
- Funding for hospital capital purchases is under increased pressure
- Further contraction of order intake across the regions (above and beyond Q1)
- Accelerated price erosion in orders to compete for existing 'sockets'

Responses

- Philips Medical Capital provides real solutions to meet customer's financing needs
- We are aggressively reducing the cost base to maintain profitability and will further adjust cost levels as necessary
- Strengthen low-end product offering to drive profitable growth

Philips Medical Capital continues to grow and offer sustainable finance at competitive rates

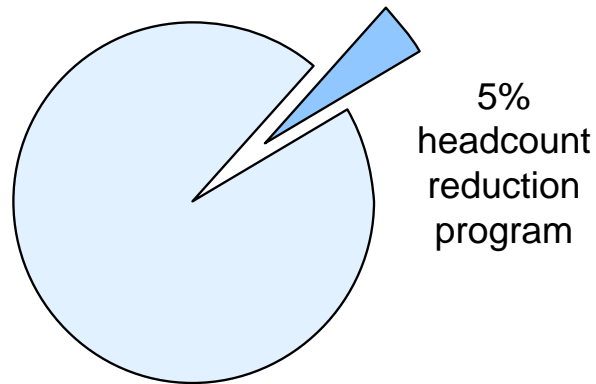
Philips Medical Capital - USA



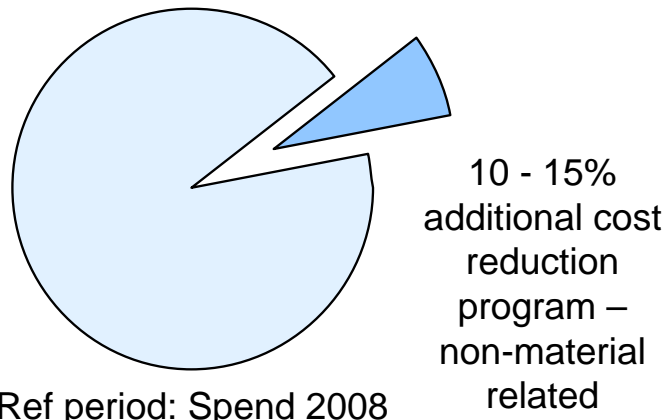
Notes: Philips Medical Capital is a minority joint venture with De Lage Landen, operating in the USA. For Europe & Asia there are different structures and different partners (Societe Generale for Europe and De Lage Landen for Asia)

- **The Healthcare industry**, particularly the hospital segment, is **faced with a difficult liquidity market** in which credit criteria have tightened
- There is a **strong demand for financing** particularly in the USA
- **PMC has benefited** with an increase of its **market penetration by almost 3 points** in the quarter over the prior year
- **PMC's USA position** has been helped by having a **strong financing partner in De Lage Landen (RaboBank)**

Fixed & discretionary cost savings to increase agility and profitability



Ref period: Headcount 2008



Ref period: Spend 2008

Headcount reduction

- Slowdown in order intake has resulted in immediate action to reduce headcount
- Headcount reduced 5% compared to 2008 level will lead to ~ EUR 60 million saving in the second half of 2009.

Discretionary cost reduction


- As a result of further deteriorating market circumstances impacting earnings, additional cost reduction measures totaling approximately EUR 90 million for the year have been taken

Further restructuring actions

- We will continue to manage our business in line with market developments and will take action to further adjust our cost levels as required.


Overall savings for 2009 are expected to be **EUR 150 million**

In conclusion....




Accelerate growth

- Despite challenging market circumstances we expect to see:
 - modest market share growth and to expand in emerging markets
 - Solid progress in expanding our non-Imaging Systems portfolio
 - Value-based pricing approach to deliver top and bottom line growth



Increase margins

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- Addressing the recent economic impact on earnings through
 - implementing structural operational improvements / savings through
 - Supply Base Optimization
 - Improvements in Integrated Customer Service
 - Re-engineered Quote to Cash processes
 - structural and discretionary cost savings expected to amount to EUR 150 million in 2009
 - Managing working capital to maintain strong cash flow



Capitalize on acquisitions

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- Committed to effective integration, synergy capture and growth of acquisitions

