

# PHILIPS

sense and simplicity

Building the leading company in  
health and well-being

Credit Suisse – Capital Goods Conference  
September 15<sup>th</sup>, 2010

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CFO

# 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, in particular the paragraphs “Looking ahead” and “Outlook”. 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 2009 and the “Risk and uncertainties” section in our semi-annual financial report for the six months ended July 4, 2010.

## *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 2009.

## *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 or observable market data do not exist, we estimated the fair values using appropriate valuation models and 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 2009 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’.

# Agenda

- **Introduction**
- Q2 2010 Highlights
- The importance of Vision 2010 in our evolution
- Vision 2015 Highlights

## Portfolio leverages critical global trends

### *Fundamental growth trends*

#### Global trends



Population growth, aging, higher healthcare aspirations and lifestyle related diseases mean that *healthcare costs will become unsustainable*



Increased welfare and changing lifestyles will drive *consumer focus on health and well-being*



The fundamental need to reduce our eco-footprint drives demand for *energy efficiency and sustainability*



The lighting industry will face a massive shift from conventional to *digital, dynamic lighting* and the entry of new, non-traditional players



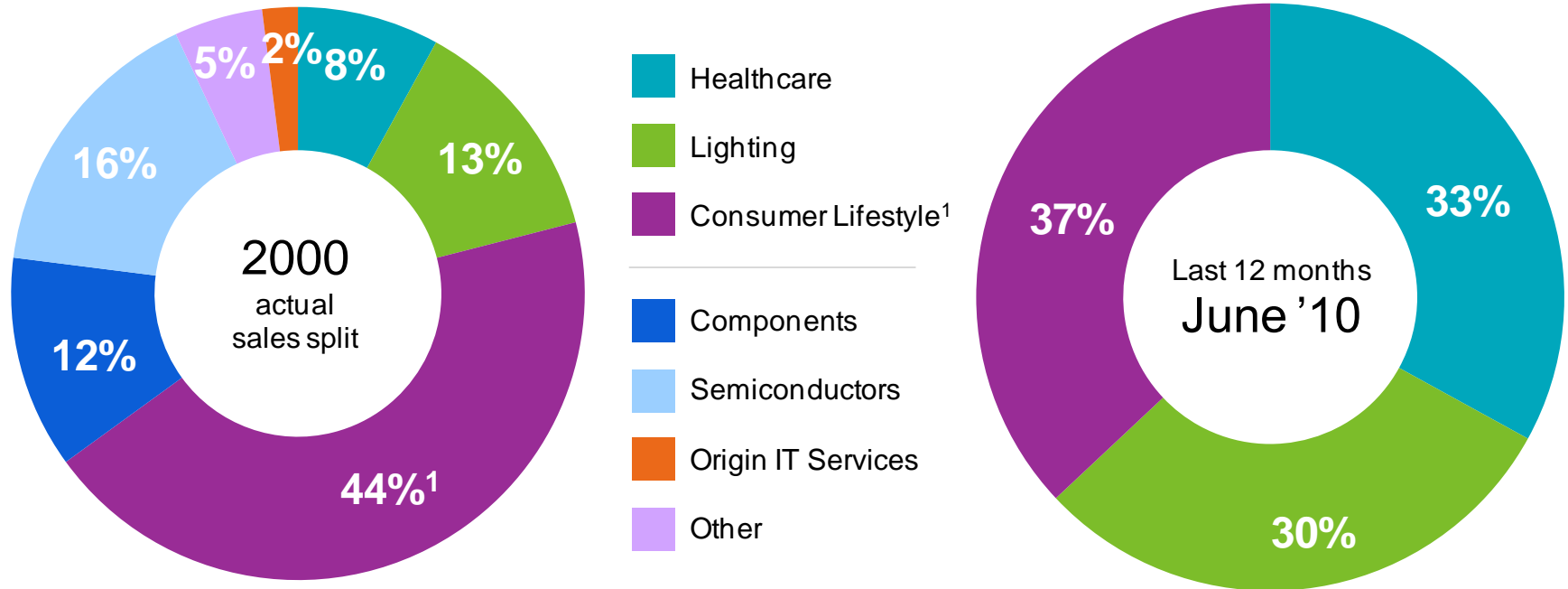
The relative importance of *emerging markets* in the world economy continues to rise

#### Our opportunities

- Efficient health diagnostics and treatment
- Home healthcare
- Healthy lifestyle and preventive health
- Personal well-being
- Light for health and well-being
- Energy efficient lighting
- Emerging markets
- Sustainability

# Building a leading company in health and well-being

Over the past decade we have fundamentally simplified our business portfolio, investing proceeds from disposals in our Healthcare, Consumer Lifestyle and Lighting businesses



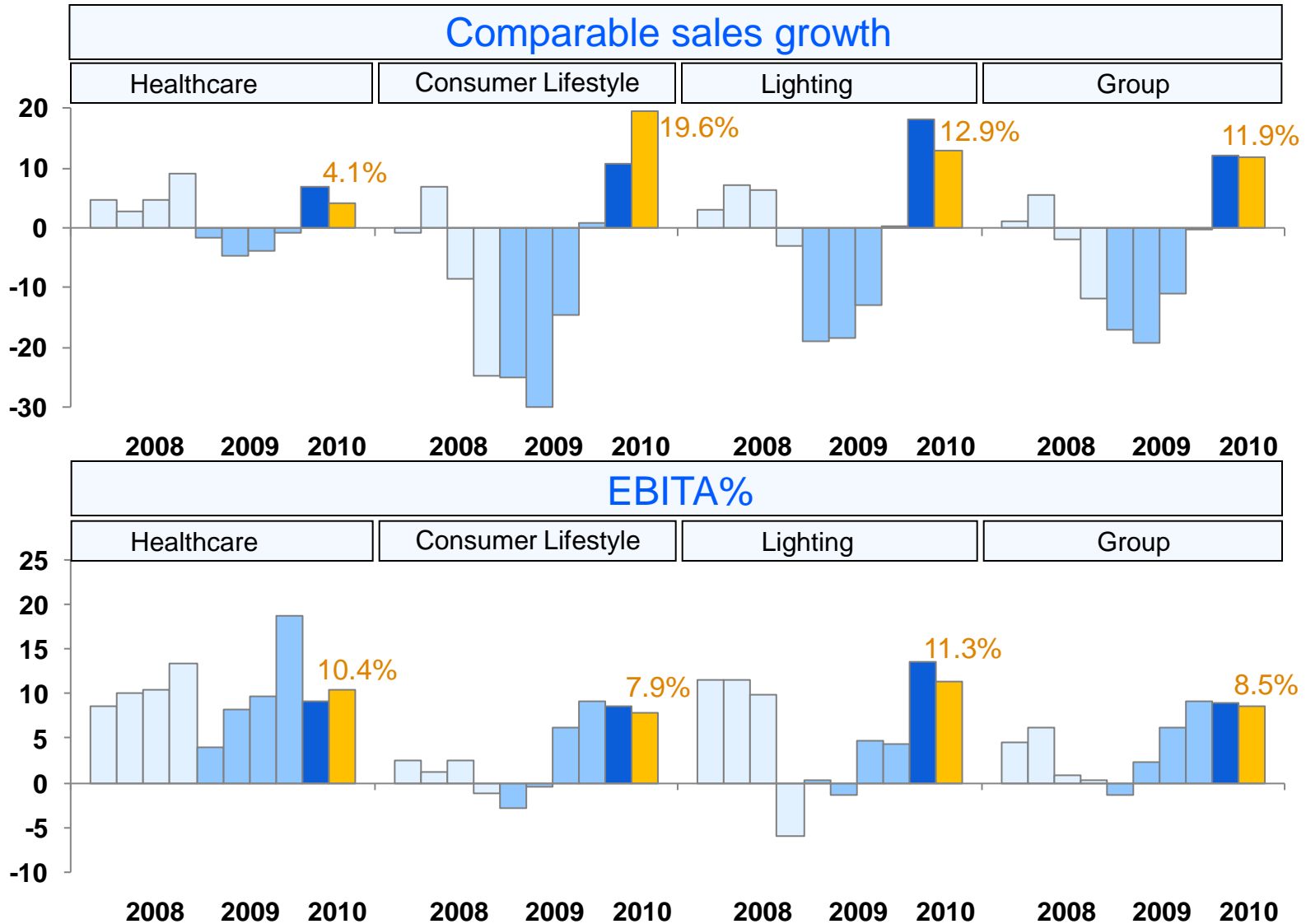
<sup>1</sup> Consumer Lifestyle in 2000 includes the former DAP and Consumer Electronics divisions

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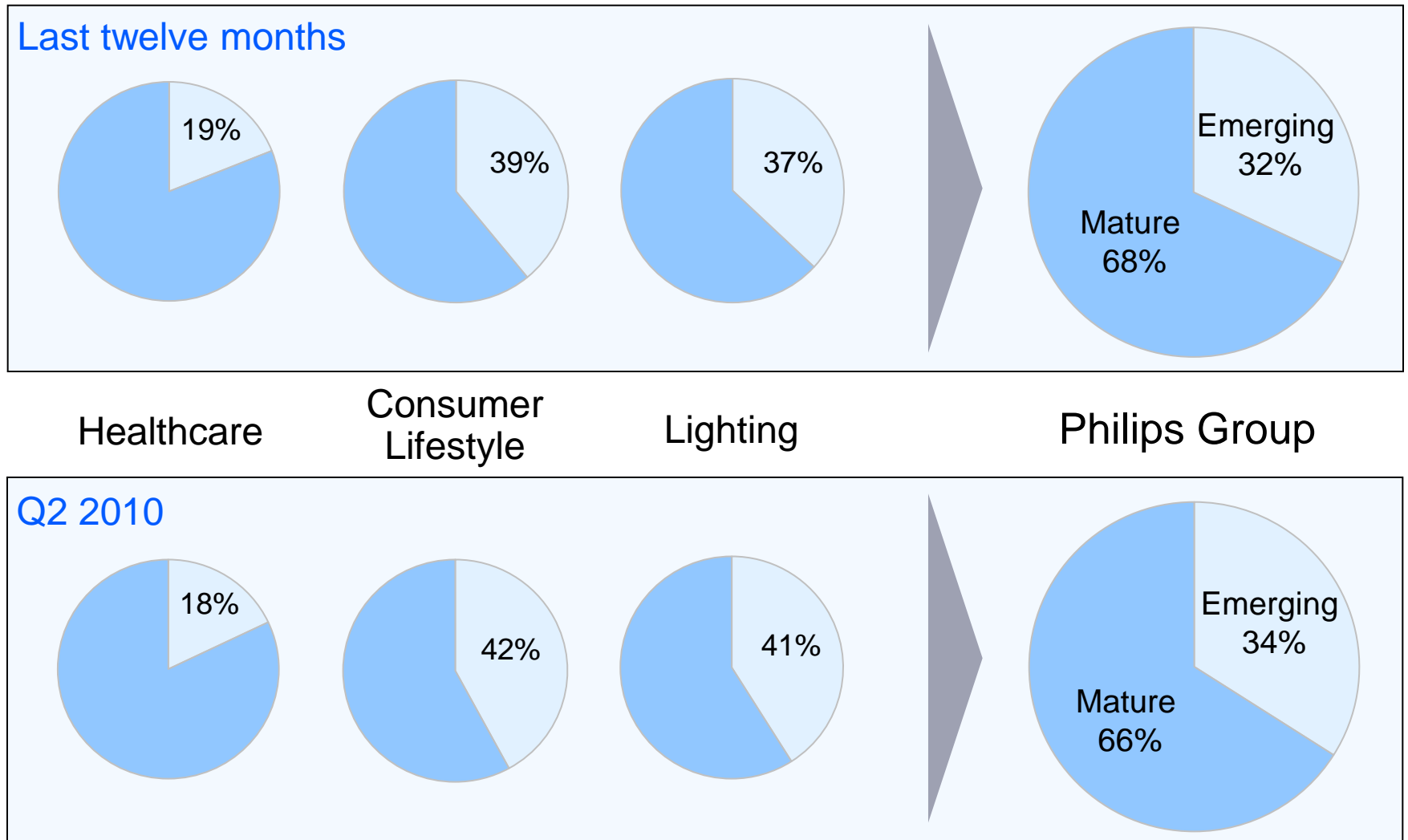
# Sales Growth and EBITA Margin Development

*Comparable sales growth and EBITA%*



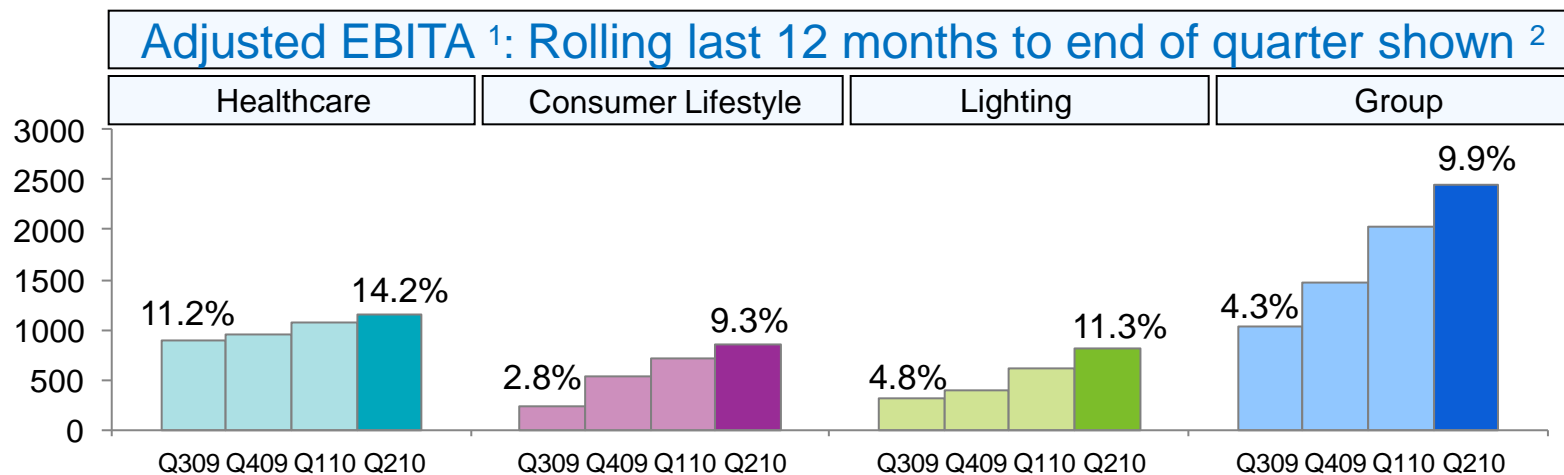
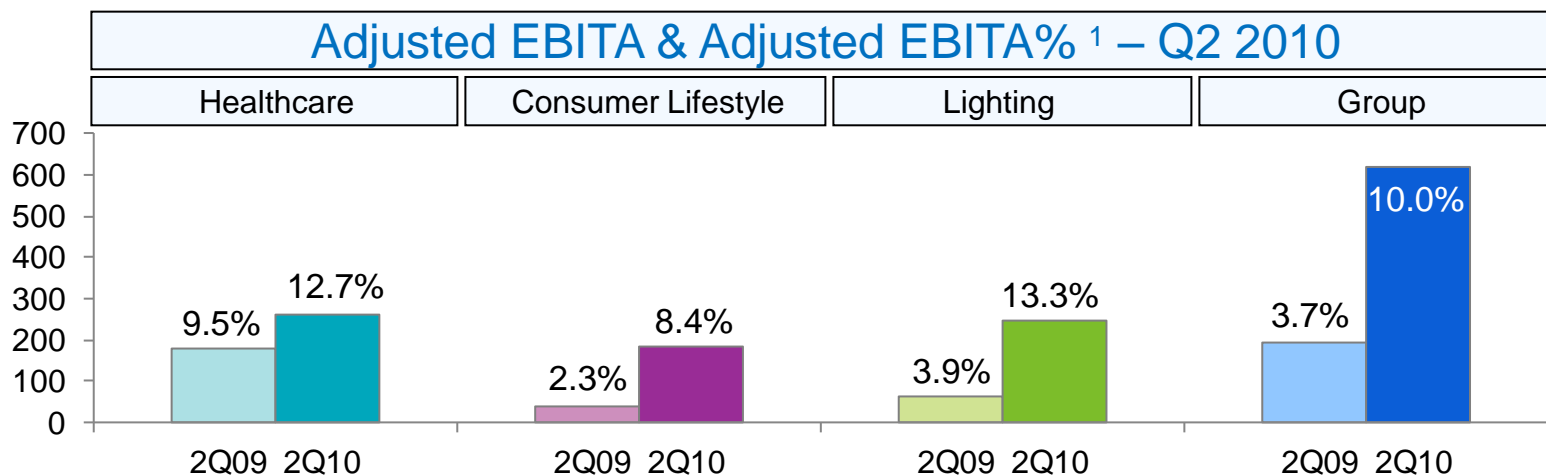
## Emerging Markets – Q2 2010 & last twelve months

*Sales in emerging markets*



# Adjusted EBITA: Q2 2010 & last twelve months

EUR million

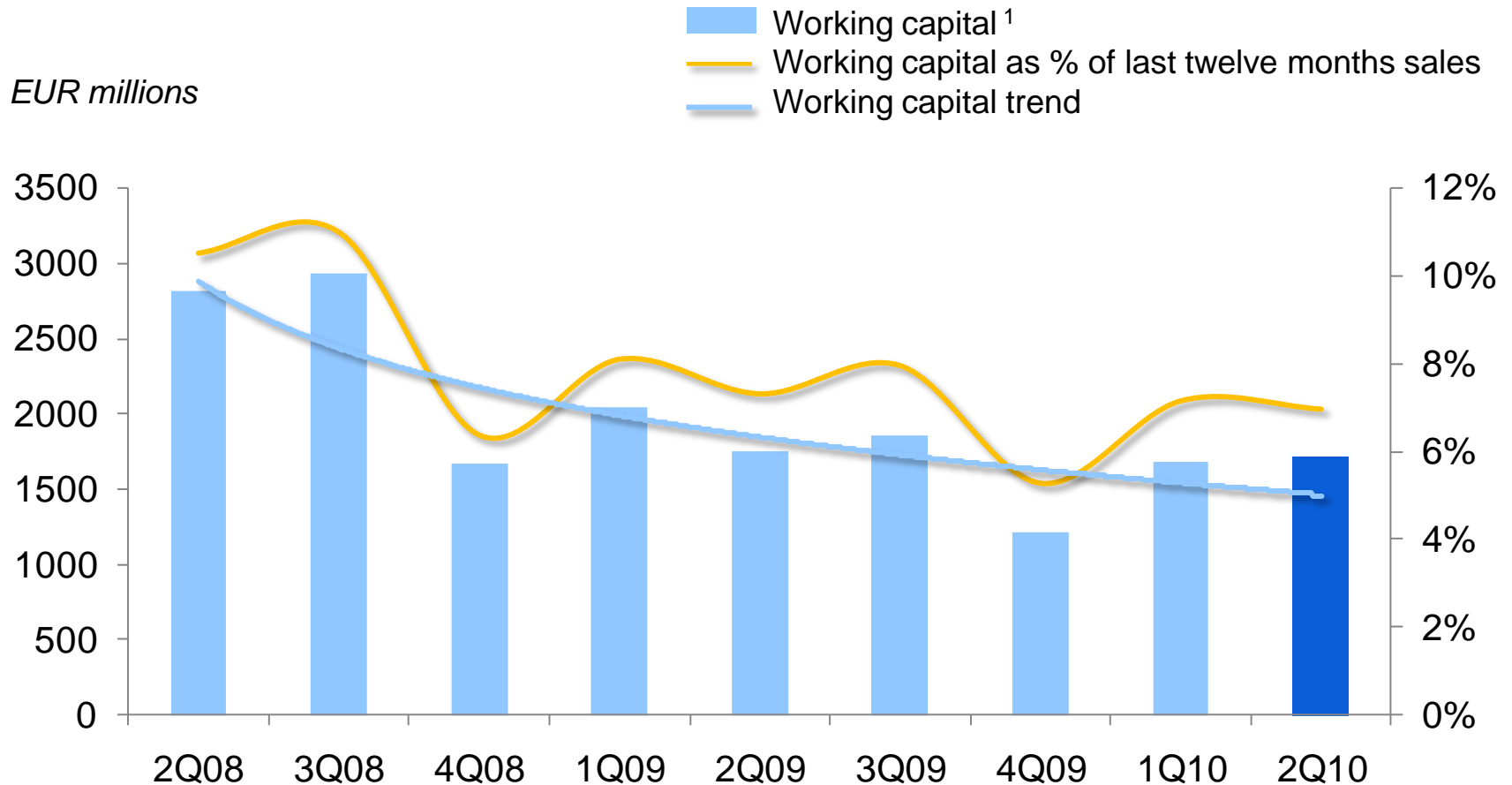


<sup>1</sup> Adjusted EBITA is EBITA corrected for incidental charges (details 2008 in quarterly information booklet Q4 2009 and details 2009/ 2010 in this quarterly information booklet slide 65)

<sup>2</sup> The lower chart shows the last twelve months adjusted EBITA ending in each of the four quarters shown

# Continued strict cash flow management

*Structural reduction in working capital turns*

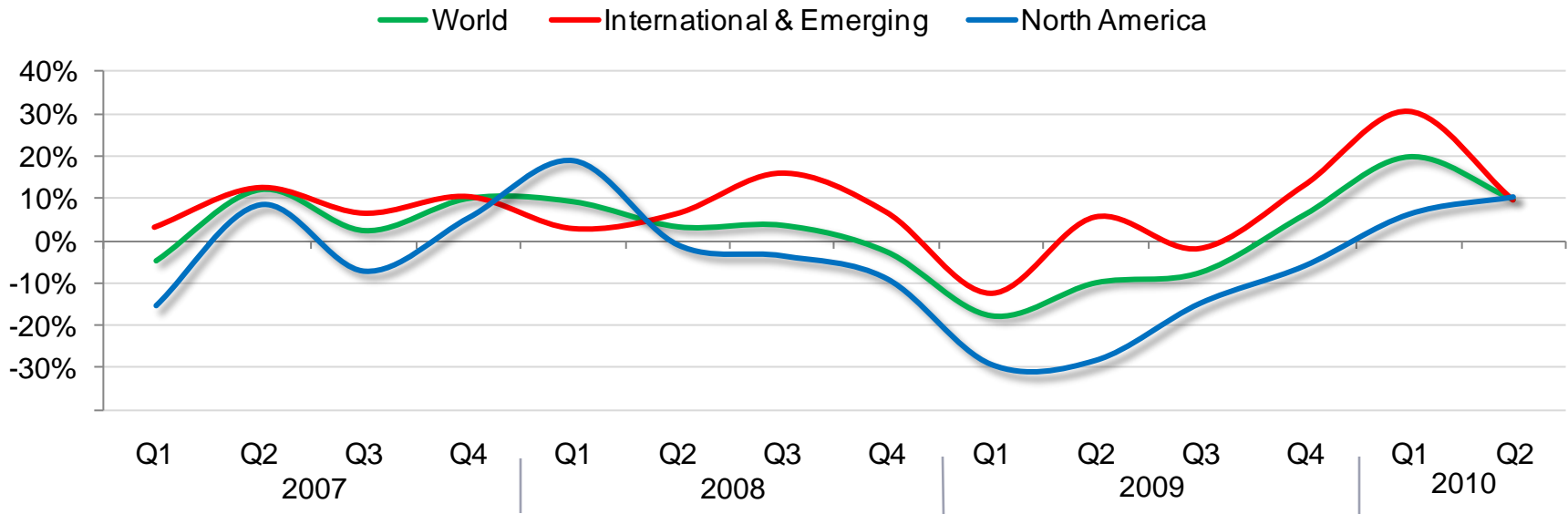


<sup>1</sup> Working Capital of Healthcare, Consumer Lifestyle and Lighting; excluding central sector GM&S

# Healthcare: Equipment order intake

*An improving trend in recent quarters*

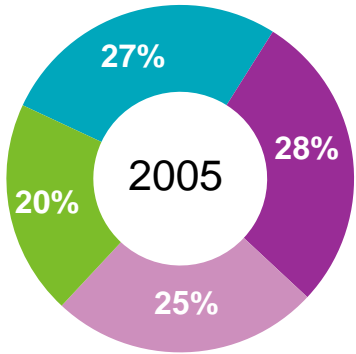
## Quarterly currency adjusted equipment order intake



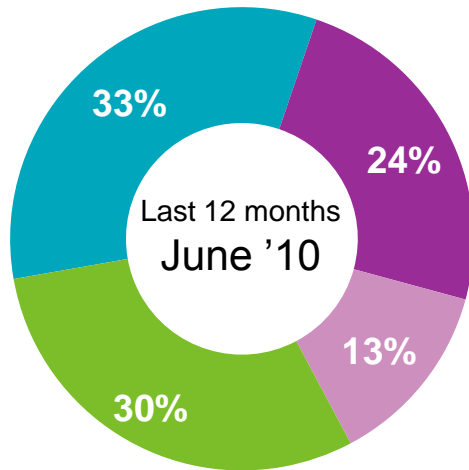
Currency adjusted order intake only relates to the Imaging Systems and Patient Care & Clinical Informatics businesses which account for approximately 60% of the Healthcare portfolio.

## Television within Philips

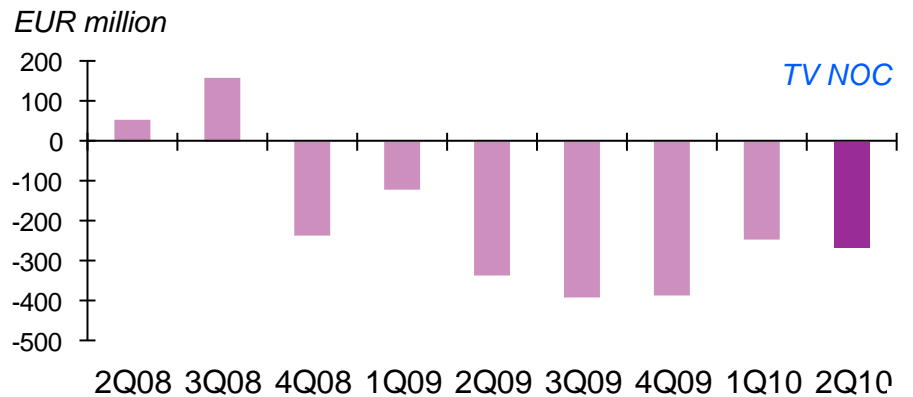
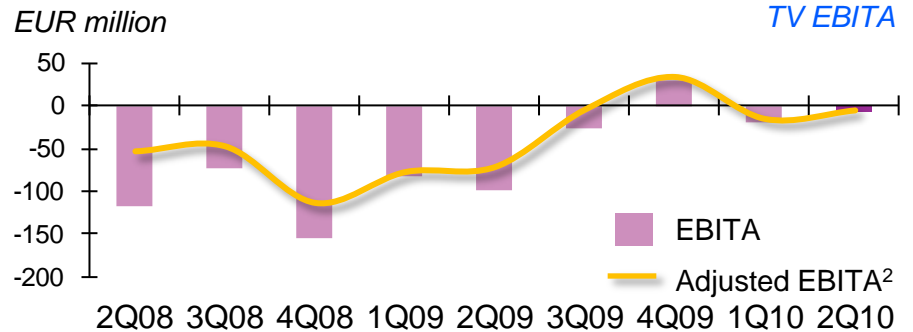
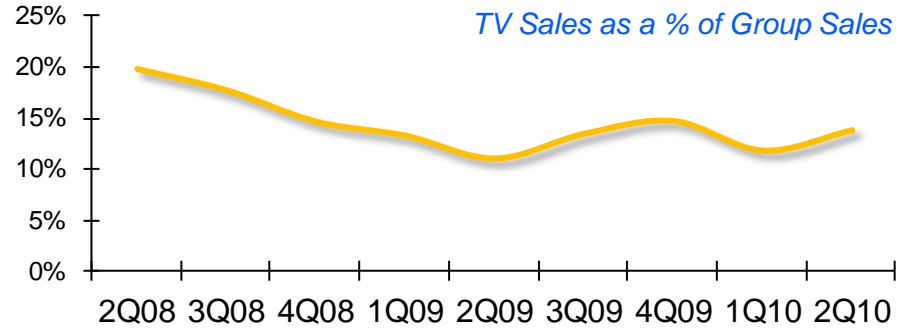
Total sales EUR 23.7 billion<sup>1</sup>



Total sales EUR 24.4 billion<sup>1</sup>



- Healthcare
- CL excluding TV
- Television
- Lighting

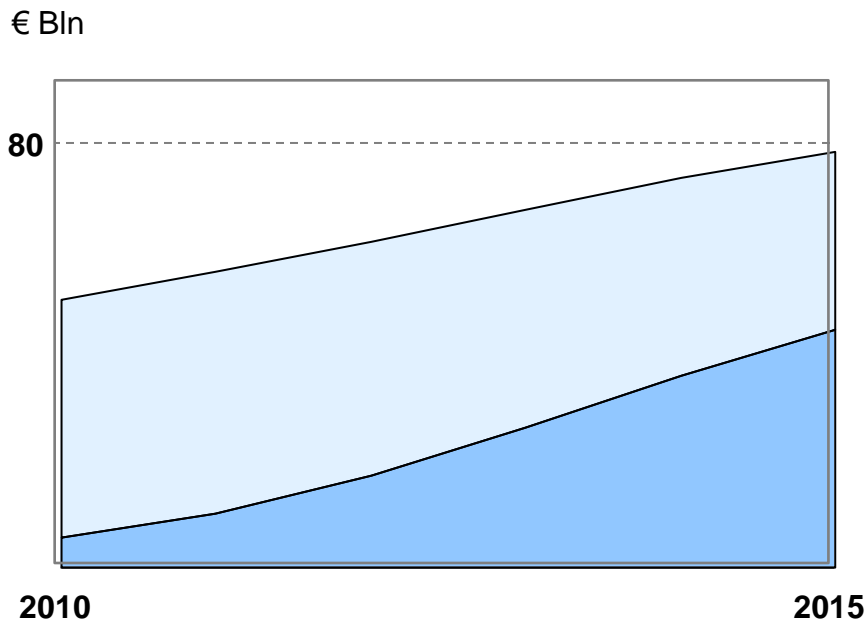


<sup>1</sup> Sales in sectors which are still in portfolio, excluding central sector (GM&S)

<sup>2</sup> Adjusted EBITA is EBITA corrected for restructuring charges (details on slide 65)

## The general illumination market offers major growth opportunities

### Global illumination market



□ Conventional lighting  
■ LED lighting

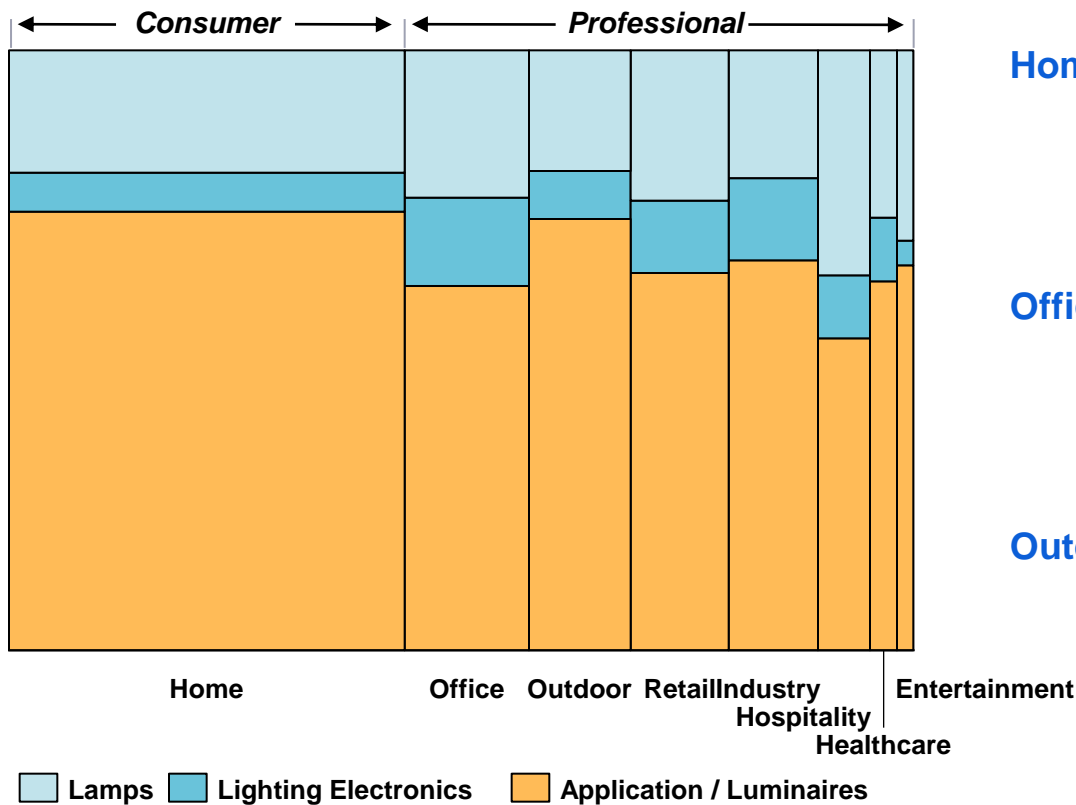
CAGR of 7-9%,  
assuming  
nominal GDP  
growth of ~4%

### Market overview

- The global lighting market is expected to grow at a CAGR of around 7-9% during 2010-15, to around €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

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

Total market size in 2010\*: 50-55 B€



### Biggest segments

#### Home



#### Office



#### Outdoor



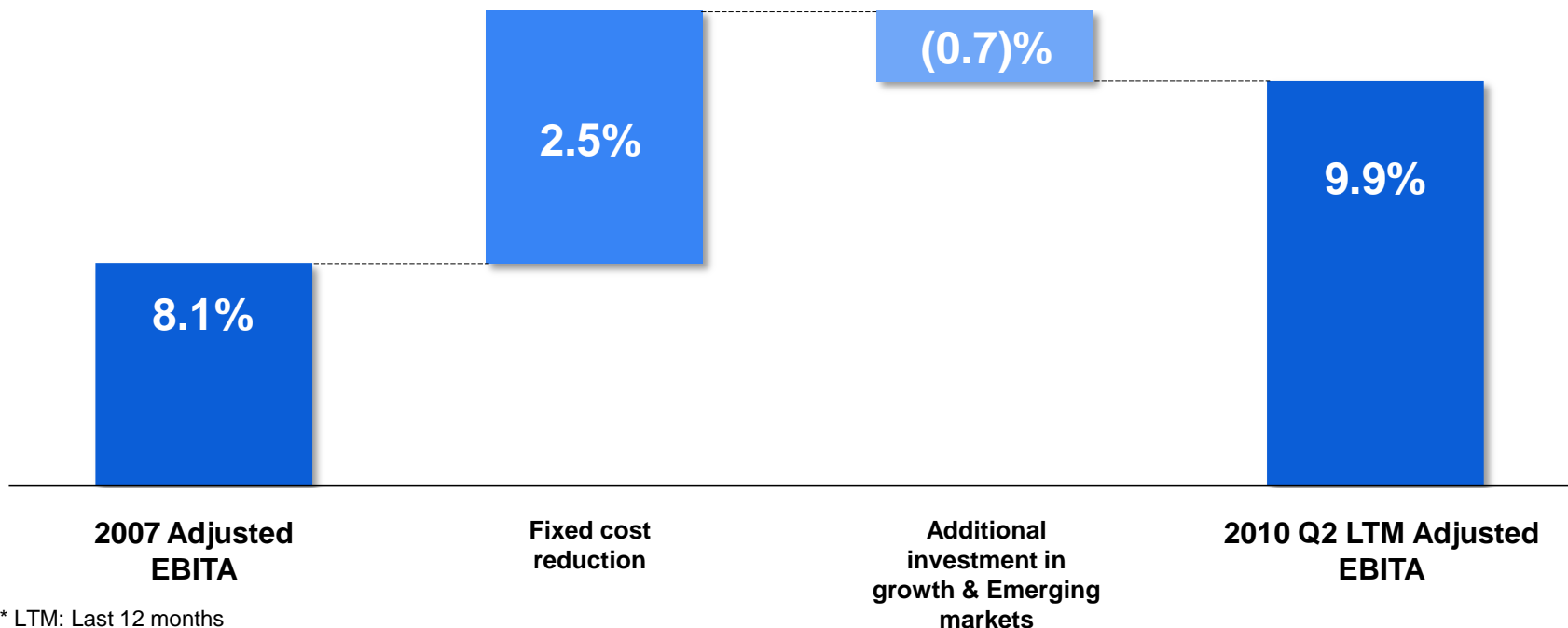
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## We structurally lowered our costs and increased profitability

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

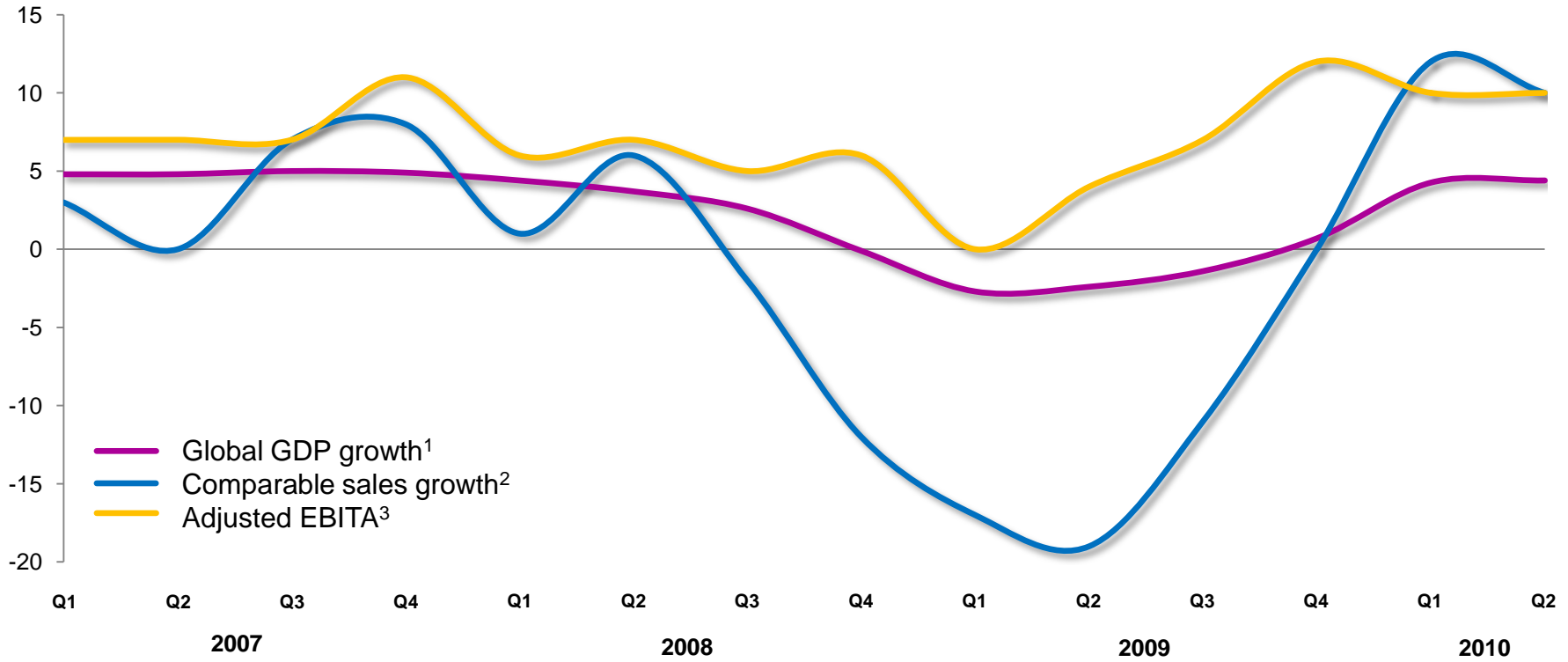


\* LTM: Last 12 months

## 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



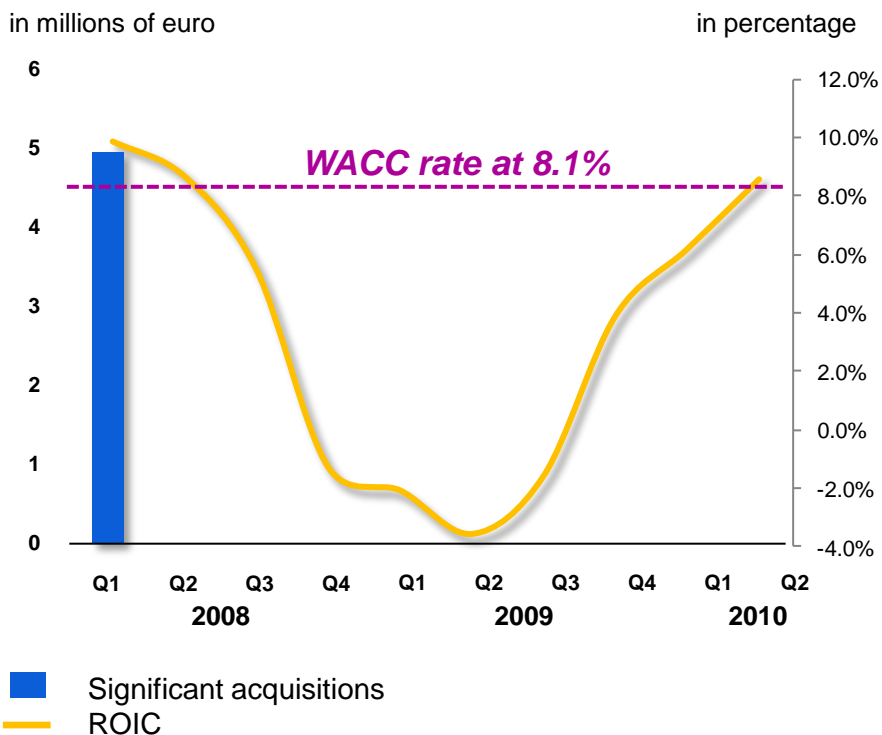
1 – Real GDP growth, year-on-year; Source: IMF

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



- 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

Notes:

EBIAT are earnings before interest after tax



Philips calculates ROIC % as:  $\text{EBIAT} / \text{NOC}$

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





Effective Tax Rate used to calculate EBIAT

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** 

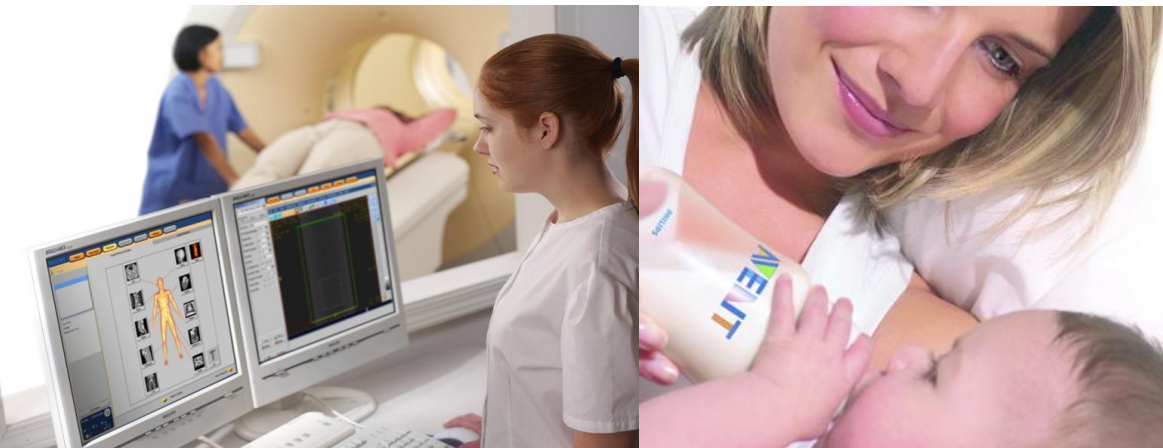
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## Philips investment proposition

### *Strategy and main financial objectives*

“Philips’ strategy is to become the leading company in health and well-being. We believe that a steadily growing demand for healthcare, a healthy lifestyle and energy-efficient lighting solutions will – driven by an aging population, increased environmental awareness and expanding emerging markets – allow Philips to generate double-digit EBITA margins.”



### Main financial objectives:

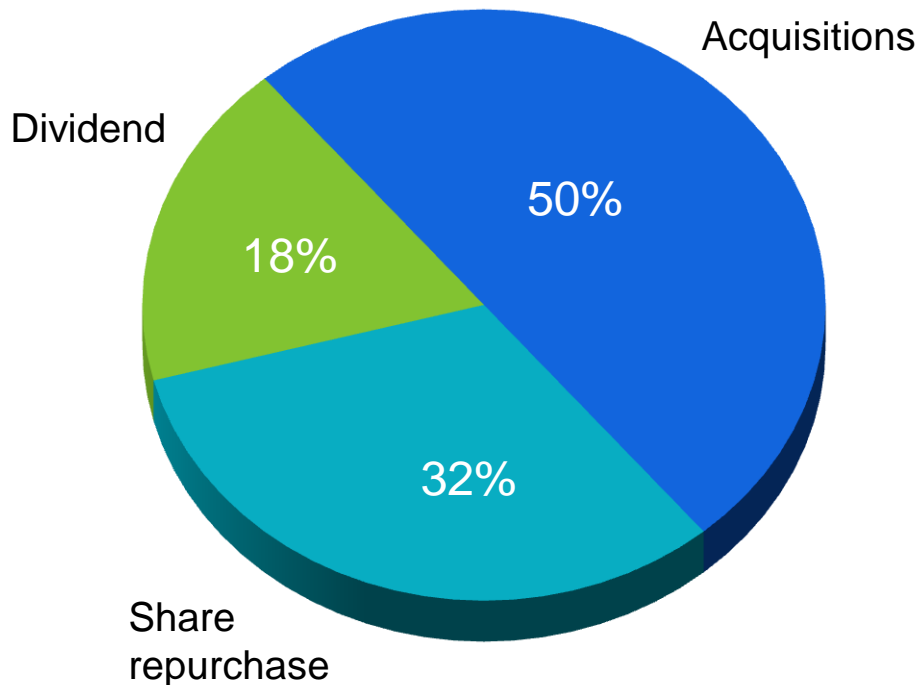
- Comparable sales growth on annual average basis equal to **real GDP + a minimum of 2%**
- Reported **EBITA margin between 10% and 13% of sales** of which:

Healthcare	16-18%
Consumer Lifestyle	9-11%
Lighting	12-14%
- **Grow EPS** at double the rate of comparable annual sales growth
- Generate a **return on invested capital of 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

