

PHILIPS

sense **and** simplicity

Royal Philips Electronics

Management Introduction

Frans van Houten – CEO

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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.

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.

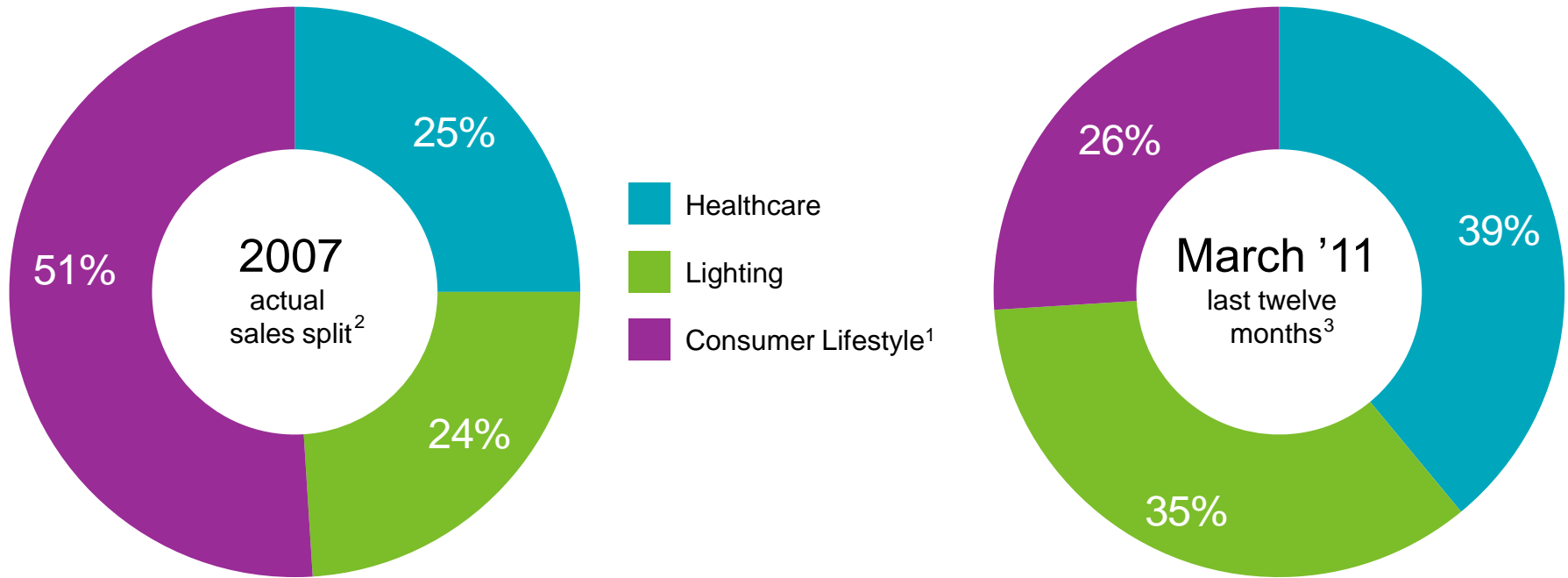
Use of fair-value measurements

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'.

TV divestment increases focus on the profitable and growing health and well-being portfolio

Portfolio now consists of ~65% B 2 B businesses



The reported EBITA for Consumer Lifestyle was 6.4%

The reported EBITA for Consumer Lifestyle was 11.4%, excl. Television, which is treated as discontinued operations

¹ Consumer Lifestyle in 2007 includes the former DAP and Consumer Electronics divisions/ Consumer Lifestyle 2011 is excluding Television activities

² 2007 figures are based on US GAAP

³ All figures from the year 2010 onwards exclude Television as it is treated as discontinued operation

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 *growth 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
- Growth markets
- Sustainability

We are positive about our opportunities

- **Strong Diversified Industrial Group in health & well-being:**
 - Our Healthcare, Lifestyle and Lighting markets have **long term growth and profit potential**. We have a very good starting base to build on
 - We aim to achieve **market leadership** by delivering **meaningful innovations** to improve people's lives, and **value to our customers**
 - We leverage our core competencies and group synergies in innovation, the **Philips brand**, customer **access in 100+ countries**, our **talent base**, shared services, and a **solid balance sheet**
 - We are committed to doing business in a manner that is **sustainable and responsible to society**, with **financial discipline** to drive **shareholder value**

We are positive about our opportunities

- **We will drive our strategic priorities with urgency:**
 - Drive our **Healthcare businesses** to leadership in a **changing landscape**
 - Reshape our **Consumer Lifestyle** to leadership in consumer **health and well-being**
 - Win the **Lighting** transformation to **LED**, with adjacent value creation through **local lighting solutions**
 - Realize full potential in **mature and high growth** geographies

Near term focus is on performance improvement

- **Accelerate the current “course & speed” (currently below Vision 2015):**
 - Flawlessly **execute** the **TV plan** which will impact short term earnings
 - Roll-out new **Philips Business Management System** to improve **strategy execution**
 - Increase **value delivery** from **past acquisitions**
 - Raise **cost effectiveness** at Group and Sector levels
 - Step up **targeted investments** in **market penetration** and **accelerated innovation**
 - **Mitigate risks** of Japan tragedy (revenue and supply chain impact)
 - Improve **capital turns** and **ROIC**

Implement Philips Business Management System

Improve strategy execution by clear granular plans and performance transparency across 400 business-market combinations

Granular performance approach

Clear investment choices/Interventions

Product categories	Sector A			Sector B		B
	B1	B2	B3	B4	B5	
Market 1		█	█	█	█	█
Market 2	█	█	✕	█	█	█
Market 3	█	█	█	█	█	█
Market 4	█	█		█	█	█
Market 5	█		✕	█	█	█
Market 6		█	█	█	█	█
Market 7		█	█			█
Market 8	█	█		█	█	█
Market 9	█		█	█	█	█



- █ ≥1% above target
- █ On (or no) target
- █ ≥1% below target
- ✕ No position

Near term focus is on performance improvement

- **Further enabled by:**
 - Building the required **performance culture**
 - Strengthening **customer focus** and **entrepreneurship**
 - Higher **empowerment** and **accountability**
 - **Reward-system** adaptation
 - Improving **speed and execution** to market

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**



*For our Q1 2011 results presentation, please visit:
<http://www.philips.com/about/investor/financialresults/1Q11results.page>*