

PHILIPS

sense and simplicity

Company Update

Credit Suisse – Capital Goods Conference
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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 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'.

Summary

- Continued growth in our core businesses
- Accelerate!, our performance improvement and change program is gaining traction
- Overhead cost reduction scope now EUR 800 million, of which EUR 500 million detailed
- We will continue to invest in market penetration and accelerated innovation (EUR 200 million program)
- We are confident in our mid-term performance targets of 4-6% comparable sales growth, 10-12% EBITA and 12-14% ROIC by 2013



1. Management update

2. Company introduction and portfolio strength

3. Accelerate! Change and performance

4. Path to value

Performance improvement update

Accelerate! Change and performance improvement

- ✓ • Cost program deployed: first savings expected in Q4. Total program will result in EUR 800 million savings versus original goal of EUR 500 million
- ✓ • Modified reward system for 2011 implemented (structural change to be prepared for 2012)
- ✓ • Operating model: design principles deployed
- ✓ • New set of behaviors introduced. Training programs running to drive culture change
- ✓ • Strengthen Executive Committee: New head of Strategy and head of HR on board
- Selling and R&D expenses expected to remain stable in relation to sales for this year

Addressing operational issues

- Lighting:
 - execute turn-around plan for Consumer Luminaires
 - address cost base and margin management
 - strengthen performance management and execution
 - Lumileds: performance improvement
- Consumer Lifestyle:
 - execute turn-around plan Lifestyle Entertainment
 - TV disentanglement

Portfolio

- TV Joint Venture:
 - final negotiations with TPV are progressing
 - disentanglement progressing along tight timeline for Q4 closing
 - disentanglement cost and deal result pending finalization

Disciplined Capital Use

- ✓ • 23% (per Sept 12, 2011) of EUR 2 billion share buy back program completed
- Deliver on inventory reduction programs
- Focused value delivery plan for each past acquisition

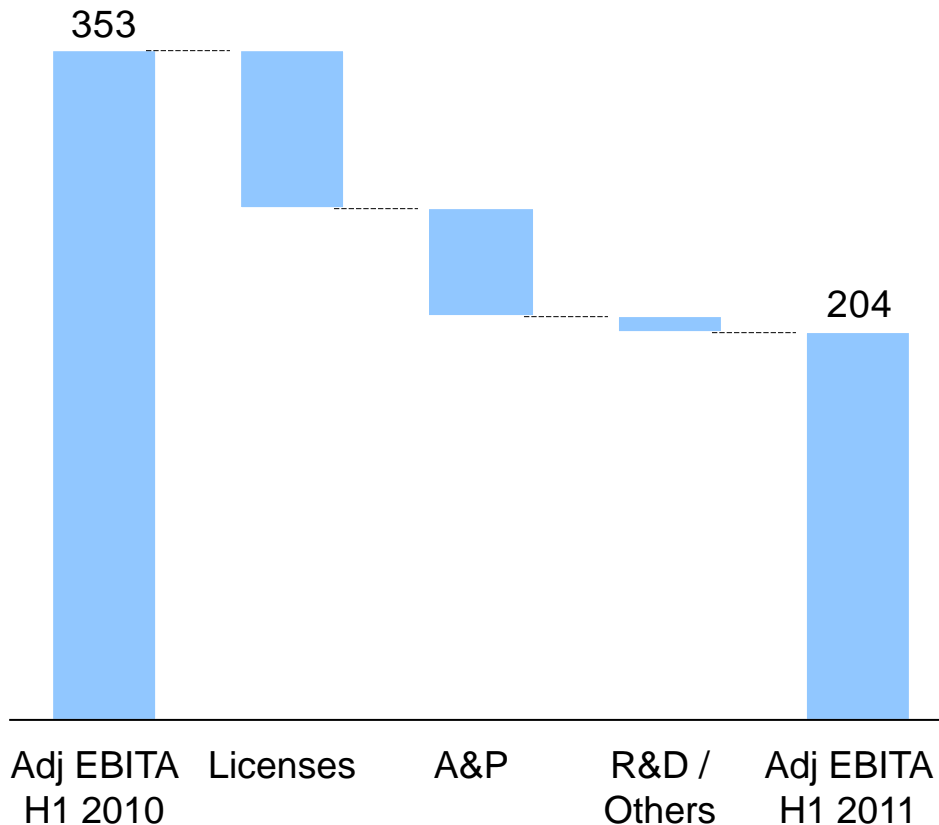
Healthcare: 1H 2011 continued strong results

- Comparable sales increased 6%, with solid increases in all businesses
- Equipment Order Intake growth of 2%, led by strong growth of 6% in North America
- EBITA increased by EUR 93 million y-o-y to EUR 475 million, or 11.7% of sales
- We continue to closely follow the overall economic environment and the impact it may have in the short term



Consumer Lifestyle: 1H 2011 impacted by lower licenses and increased investments for growth

Adj. EBITA bridge 1H 2011 versus 1H 2010

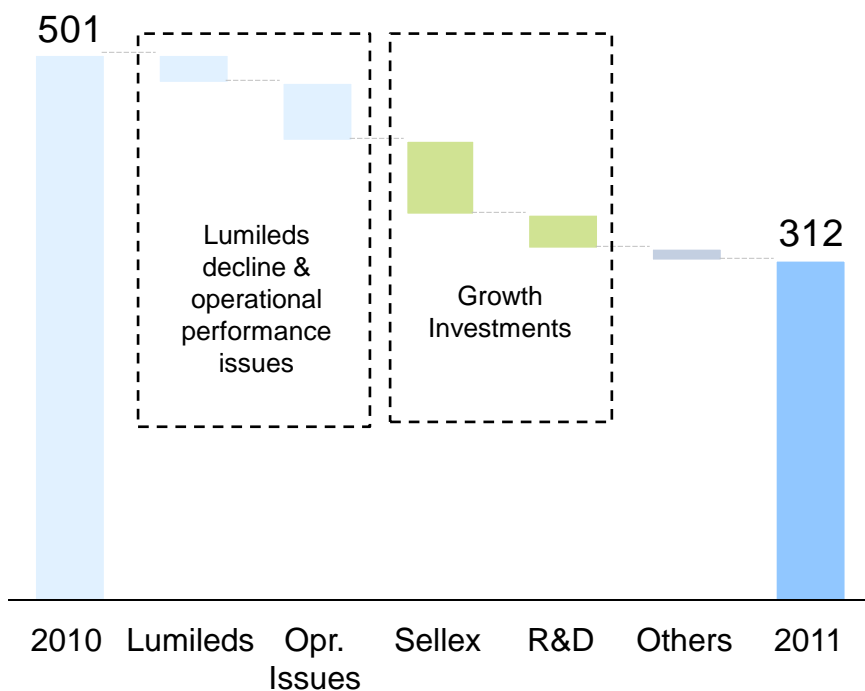


- First half 2011 adjusted EBITA is 7.9% of sales vs. 13.7% in first half 2010
- Structural decline in license income in combination with lower settlements in first half 2011
- Increased investments in A&P focused on high margin businesses and growth geographies

Lighting: 1H 2011 earnings performance impacted by operational issues and investments for growth

Adj. EBITA bridge 1H 2011 versus 1H 2010

All amounts in EUR million



- 1H2011 adjusted EBITA is 8.5% of sales vs. 13.6% in 1H2010
- Lumileds decline driven by display business, and technology investments
- Operational issues:
 - Consumer Luminaires DIY channel in EMEA affected
 - LatAm affected by logistics issues
- Margin pressure:
 - Increased raw material prices
- Growth investments:
 - R&D investments in digital lighting¹
 - Key account management and solutions selling capabilities

¹ Digital lighting includes LED lamps, LED luminaires and Controls

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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

Portfolio now 65% business-to-business

Growth Markets

32% of sales generated in Growth Geographies

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

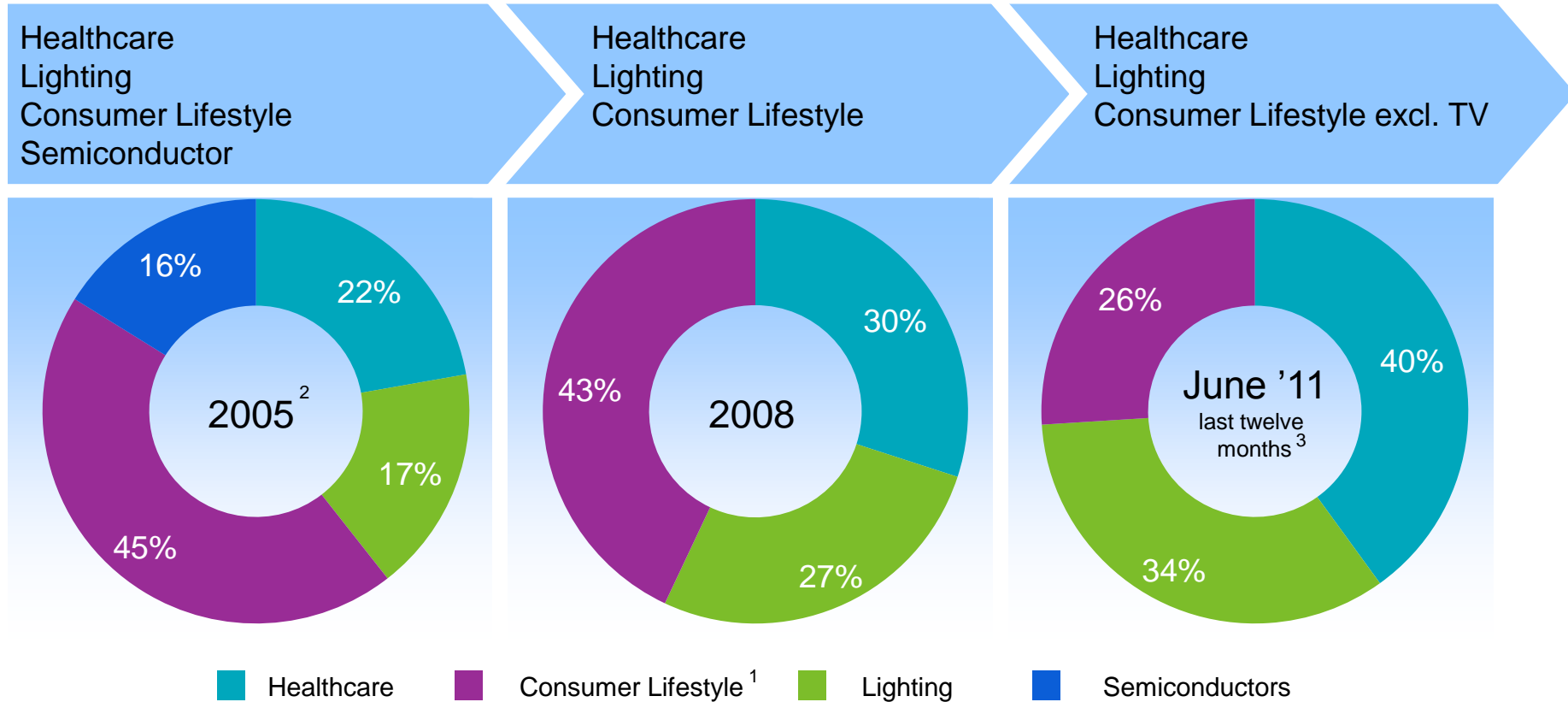
€1.5 billion investment in R&D, 7% of sales

54,000 patent rights – 39,000 trademark rights –
70,000 design rights



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

¹ Consumer Lifestyle in 2005 includes the former DAP and Consumer Electronics divisions

² 2005 figures are based on US GAAP

³ Figures exclude Television as it is treated as discontinued operation

Unique leadership positions in many markets²

Supported by 54,000 patent rights

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

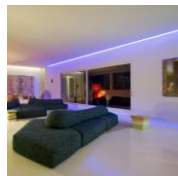


*Regional
(China)*
Haircare



*Regional
(LatAm, China)*
Kitchen
Appliances

Lighting



Global
Professional
Lamps



Global
Professional
Luminaires



Global
General
Illumination LED



Global
Automotive
Lighting



Global
Lighting Systems
& Controls

¹ 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

² Examples of current NPS leadership positions

1. Management update
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4. Path to value



Accelerate! change and performance program to unlock full potential faster

Customer Centricity

- Markets led by empowered Entrepreneurs
- Locally relevant product portfolio to gain market share
- Increase performance adherence to plan per BMC > 80%
- Increase Employee Engagement in markets by 300 bps

Resource to Win

- Increase number of BMC's in which we are an outright leader
- Granular plans and Performance Management for key BMC's
- Increase seniority of market teams
- Targeted investment step-ups (EUR 200 million) to gain market leadership

End2End Execution Focus

- Transform customer value chains to 7 LEAN business models, enabled by effective IT
- Reduce Cost of Non Quality by 30%
- Accelerate innovation time to market by average 40%; Increase customer service >95%
- Inventory reduction plans and targets under preparation

Growth and Performance Culture

- Introduce new behaviors; Training programs to drive culture change
- Strengthen executive teams
- Overhaul reward system

Operating Model

- Decrease number of layers to speed up decision making
- Reduce overhead and support costs by EUR 800 million
- Implement integral BMC reporting
- Implement collaborative P&L between businesses & markets with clear accountability



Improving growth and performance by leveraging granular performance management

Granular performance approach

Some valuable insights

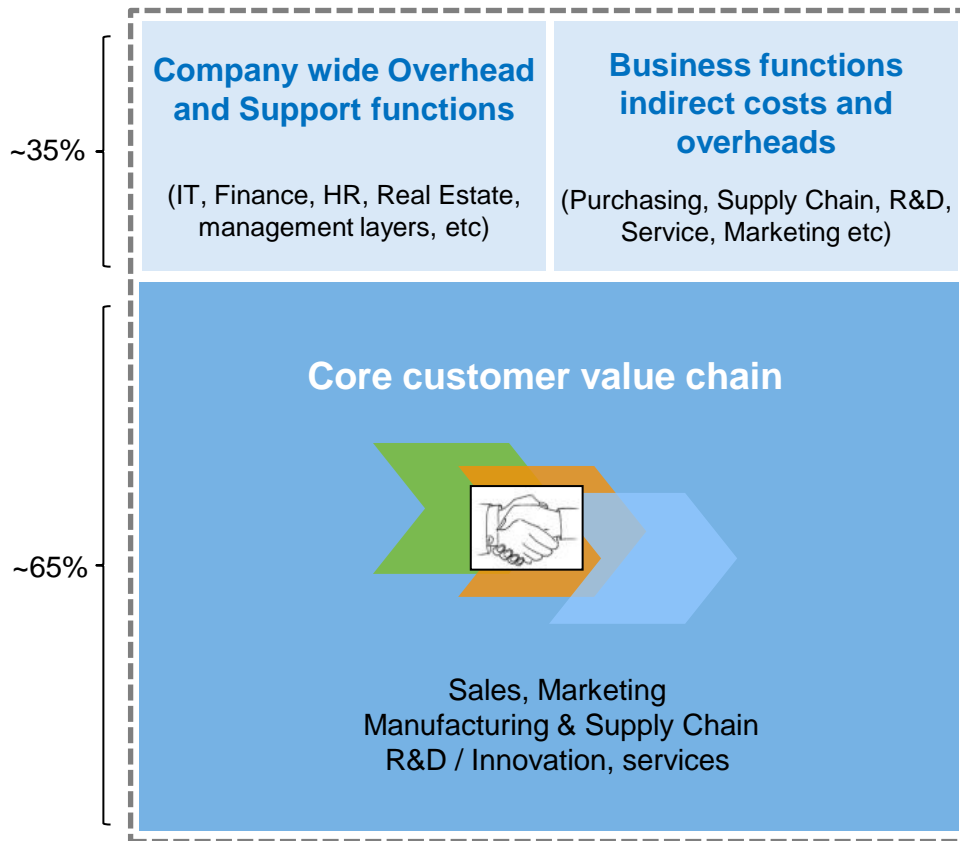


- Second quarter of new performance management approach
- Our growth businesses in Consumer Lifestyle show early signs of success in the targeted BMC's, which we can now replicate
- Granular performance management has given us insight based on which we have made management changes
- Sales underperformance in smaller BMC's, calling for strengthening of management & tighter plans



Cost reduction program targeting overhead & indirect costs will bring EUR 800 million in savings

■ Cost reduction scope



Clear design principles

- Taking out overhead and support cost
 - *All overheads, layers and support functions*: IT, F&A, HR, Real Estate, Management, etc
 - Indirect business functions not directly involved in the *customer value chain*
 - *Single added value layer* (no duplication) and *reduce complexity*
- All savings against H1 2011 baseline
- Focus on sustainable structural savings instead of “variable” costs



Detailing of EUR 500 million cost reduction done, with additional EUR 300 million identified

First savings expected in Q4 2011 and completion by 2014

	Net savings ¹			
<i>EUR million</i>	2011	2012	2013	2014
TOTAL	40	350	475	500

	Restructuring costs ¹			
<i>EUR million</i>	2011	2012	2013	2014
Sectors	5	45	45	10
GM&S	15	155	85	15
TOTAL	20	200	130	25

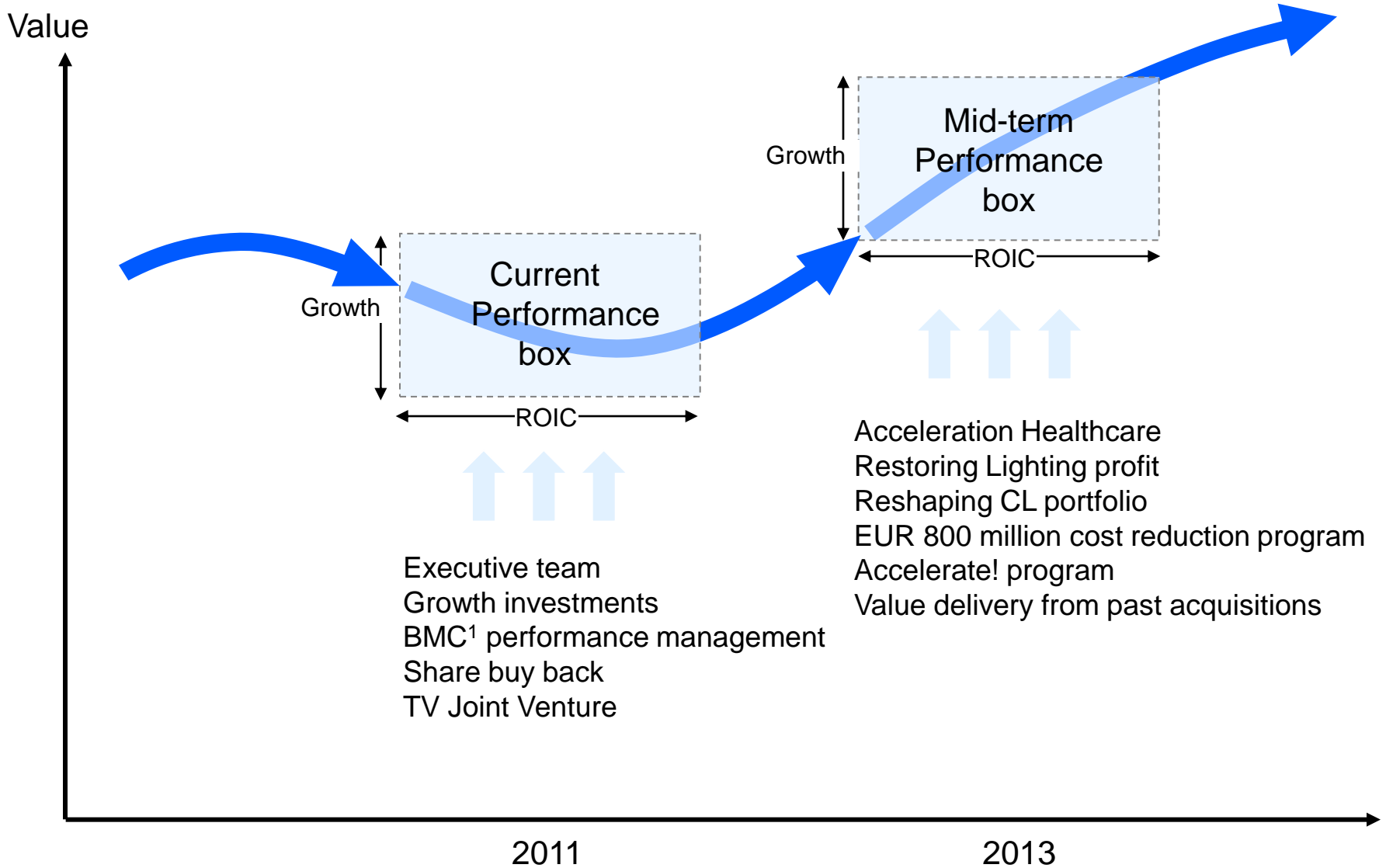
Deployment

- Strong organizational engagement with 9 functional workstreams and 3 Sector teams
- Highest potential in IT, Finance, HR and Real Estate
- First savings commitments signed off 31st August, deployment from Q4 '11
- First savings expected in Q4 2011
- Most of GM&S savings will flow back to sectors
- Additional saving opportunities of EUR 300 million are being detailed

¹ Estimated amounts

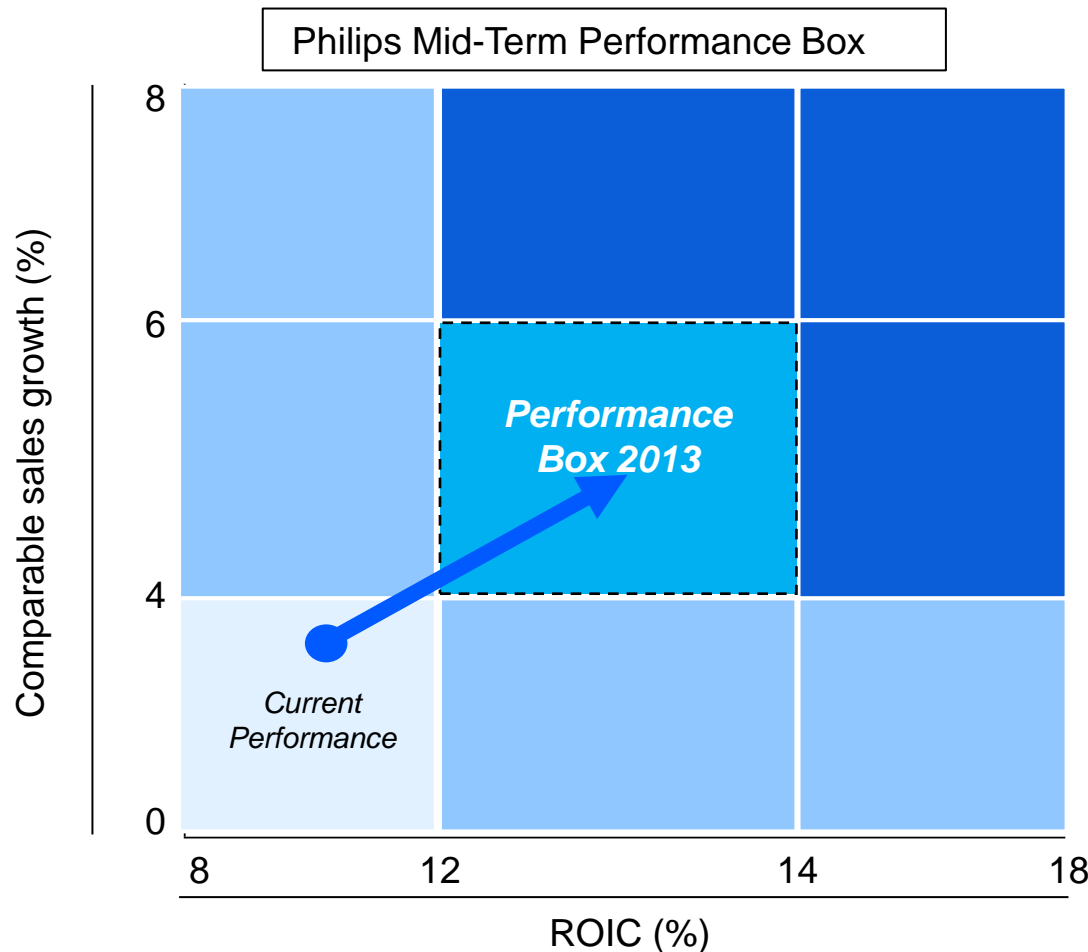
1. Management update
2. Company introduction and portfolio strength
3. Accelerate! Change and performance
4. Path to value

Our path to value



¹ 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 ¹	4 - 6%
Group Reported ² EBITA	10 - 12%
- Healthcare	15 - 17%
- Consumer Lifestyle ³	8 - 10%
- Lighting	8 - 10%
Group ROIC	12 - 14%

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

Key takeaways

- Continued growth in our core businesses
- We are addressing our operational issues decisively
- We have a focused portfolio, with strong potential in growth and mature markets
- Accelerate! will drive granular execution of our plans and enable the necessary investments in innovation, people, systems, and markets to deliver improved profitable growth
- We will leverage our new culture of entrepreneurship and accountability
- Despite economic challenges, we are confident in delivering our mid-term financial targets by 2013

