

PHILIPS

Simplifying and Standardizing Administrative Processes

November 23, 2004

Simplifying and Standardizing Adm. Processes

- **The way to Best-in-Class**
 - Jan Hommen Vice Chairman & CFO Royal Philips Electronics
- **Best in Finance**
 - Gerard Ruizendaal Executive Vice President & Group Controller
- **Treasury**
 - Peter Warmerdam Executive Vice President & Group Treasurer
- **IT**
 - Daniel Hartert Senior Vice President & Chief Information Officer
- **Wrap-up**
 - Jan Hommen Vice Chairman & CFO Royal Philips Electronics

PHILIPS

The way to Best-in-Class

Jan Hommen

Vice Chairman & CFO Royal Philips Electronics

November 23, 2004

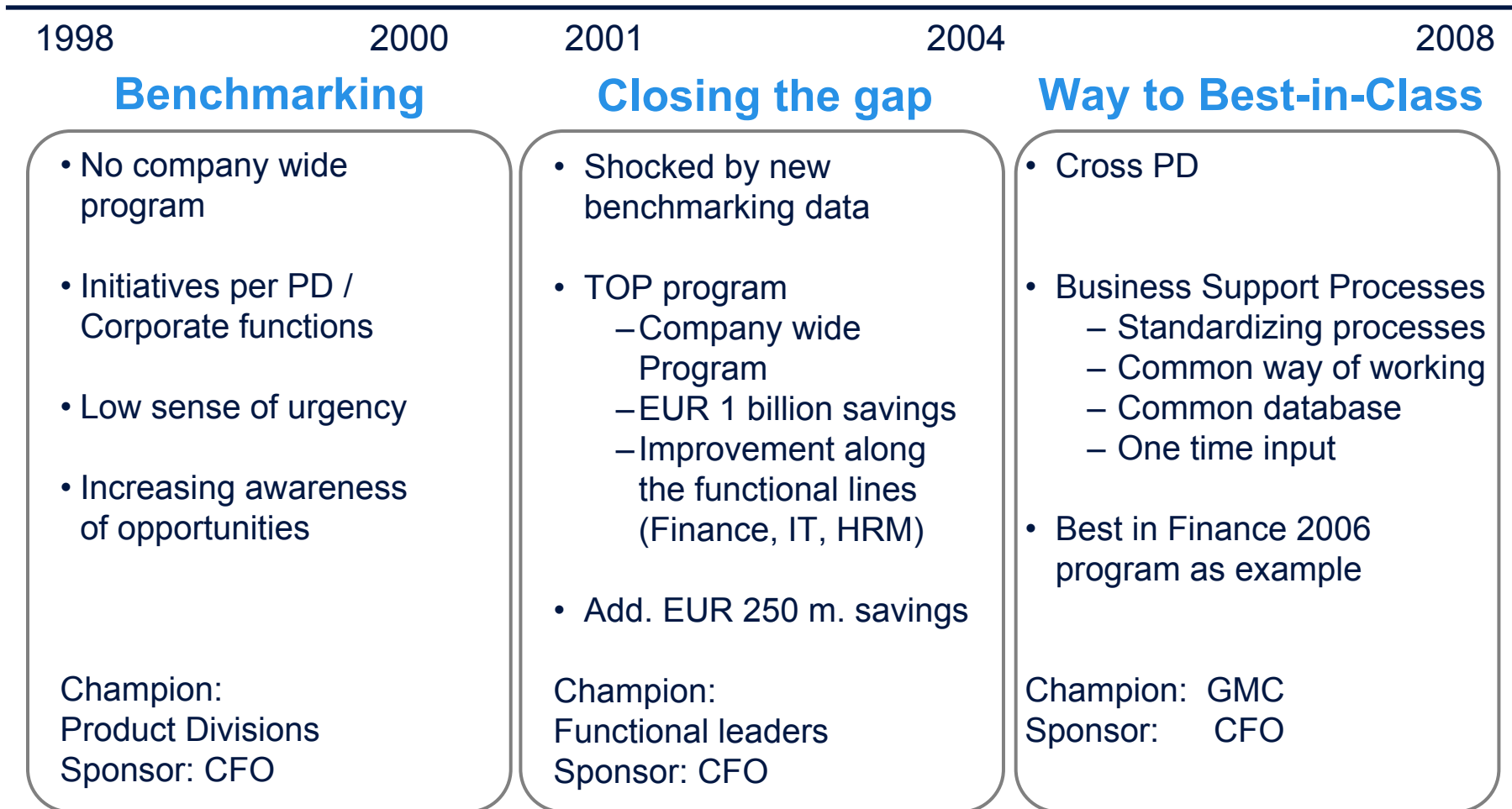
Agenda

- Introduction
- Closing the gap
- Way to Best-in-Class

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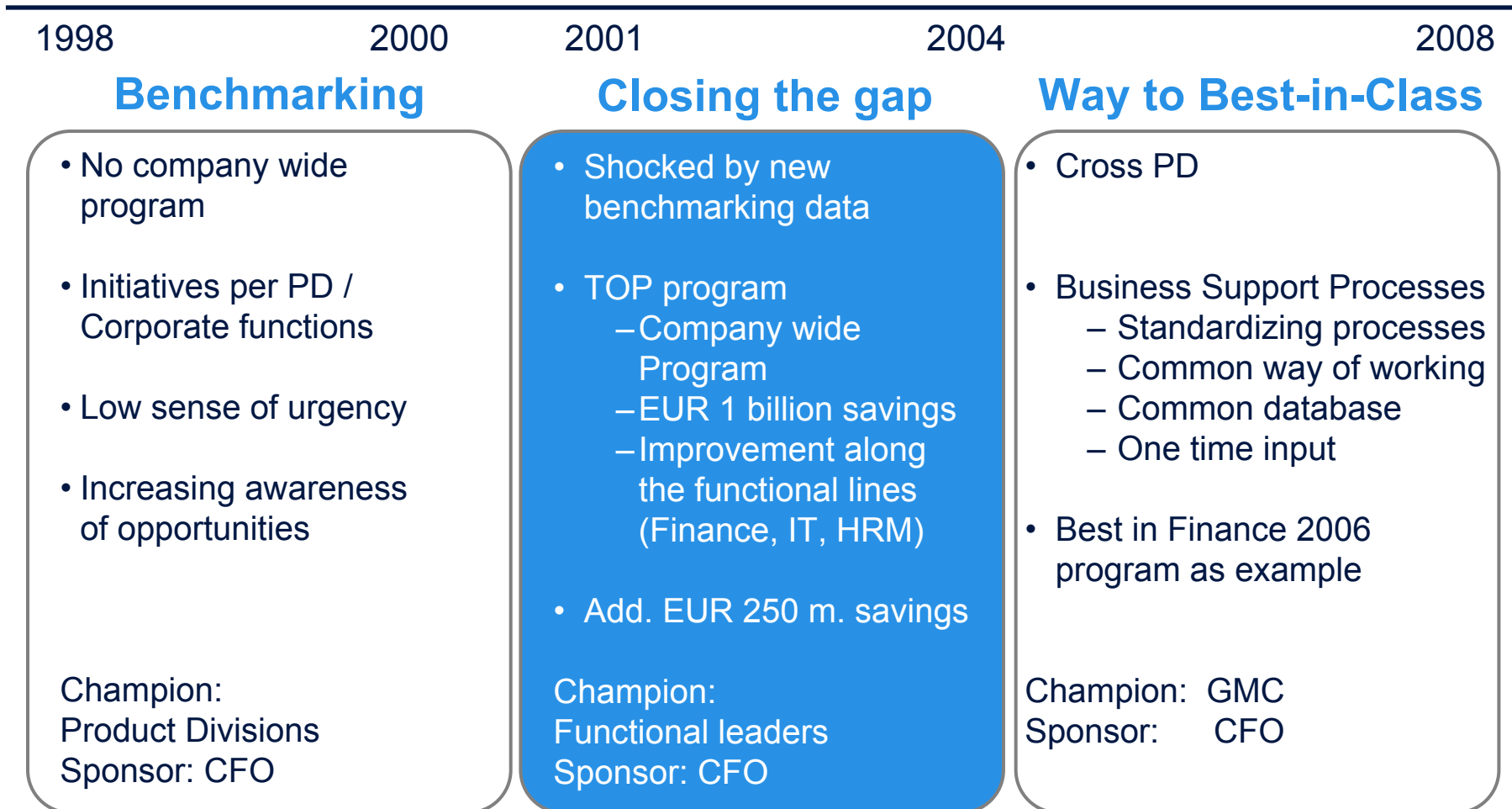
Philips continuous way to improvement



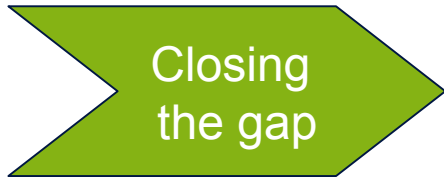
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Philips continuous way to improvement



Closing the GAP



Benchmarked

Too much variety in systems
 No common standards / data
 Processes too complex
 Cost levels too high

Shock



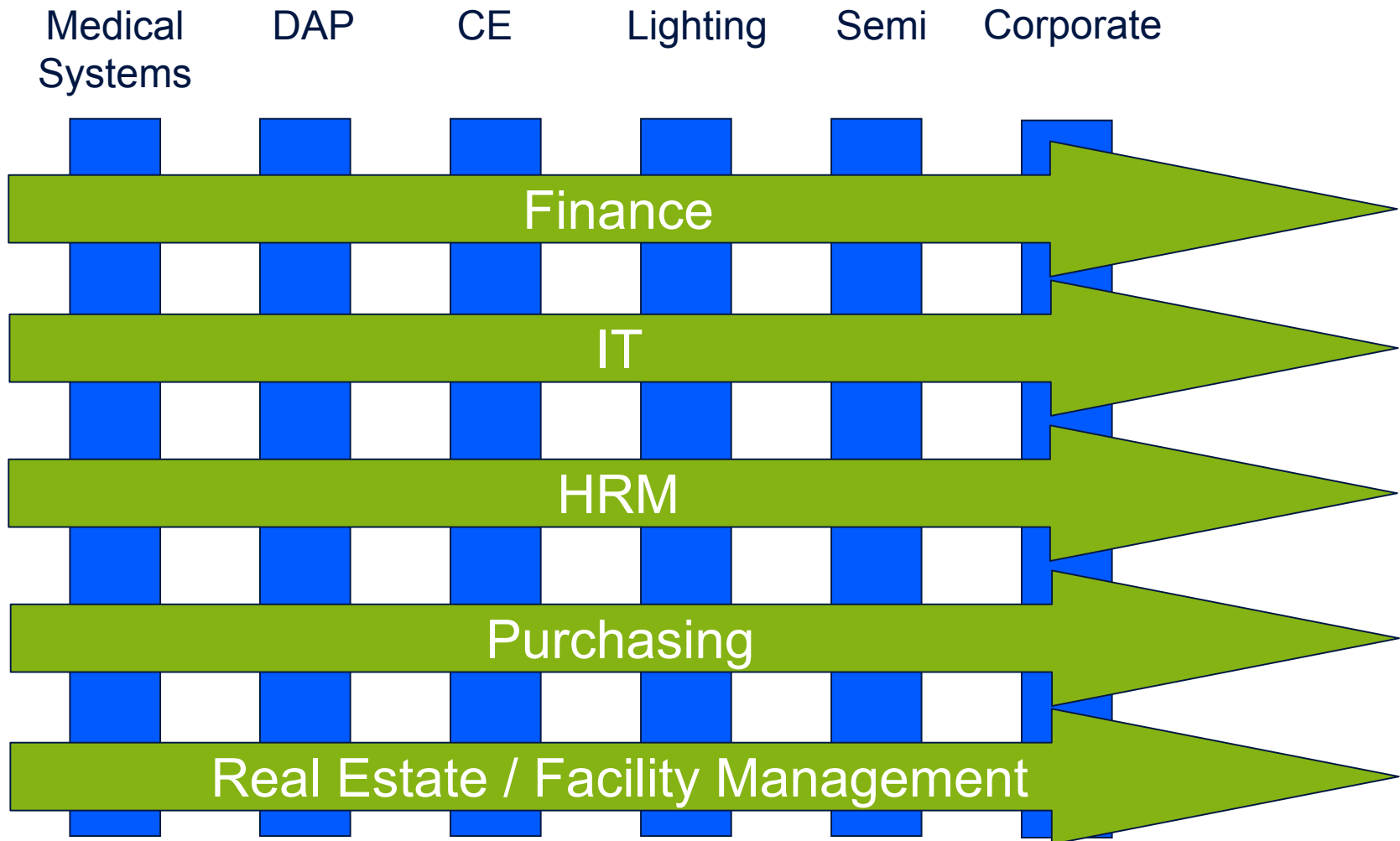
TOP program

Focus on horizontal business support Functions (F&A, HRM Purchasing and IT)

Introduced new way of workings

- Shared service centers for transaction processes
- DATA Management
- Alignment / reduction ERP systems

Improvement of functional processes

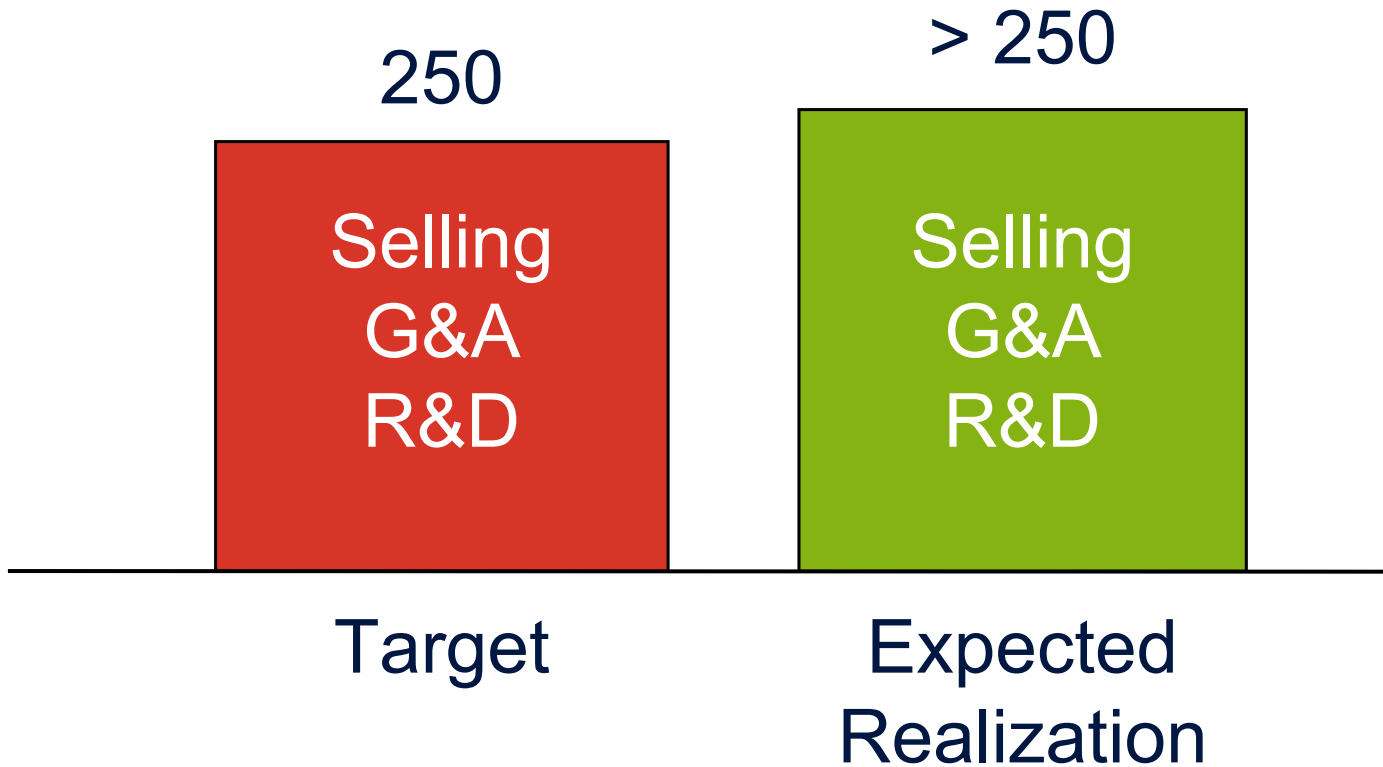


Cost savings program – EUR 1 billion

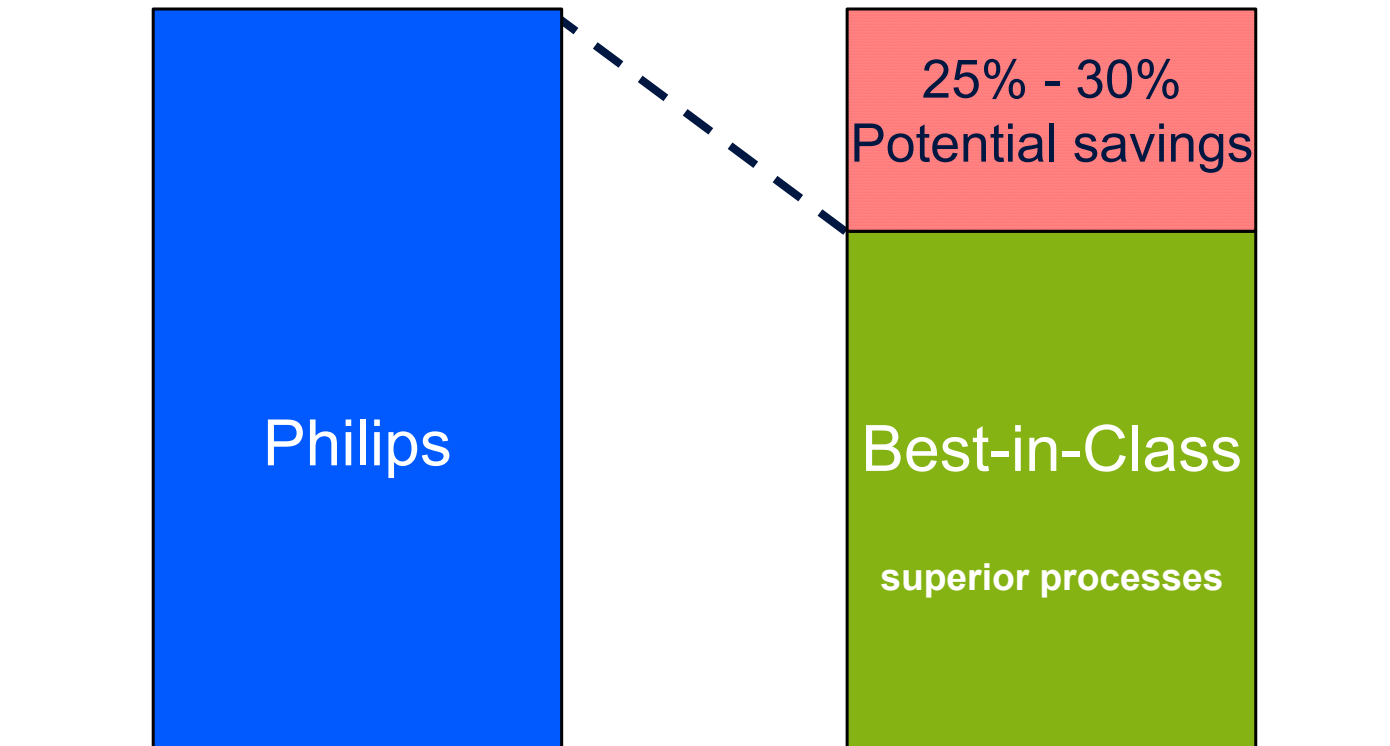


Target of EUR 1 billion surpassed

Indirect cost reductions in 2004 – EUR 250 M amounts in EUR million



New ambition level after benchmarking Best-in-Class



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Philips continuous way to improvement

1998

2000

2001

2004

2008

Benchmarking

- No company wide program
- Initiatives per PD / Corporate functions
- Low sense of urgency
- Increasing awareness of opportunities

Champion:
Product Divisions
Sponsor: CFO

Closing the gap

- Shocked by new benchmarking data
- TOP program
 - Company wide Program
 - EUR 1 billion savings
 - Improvement along the functional lines (Finance, IT, HRM)
- Add. EUR 250 m. savings

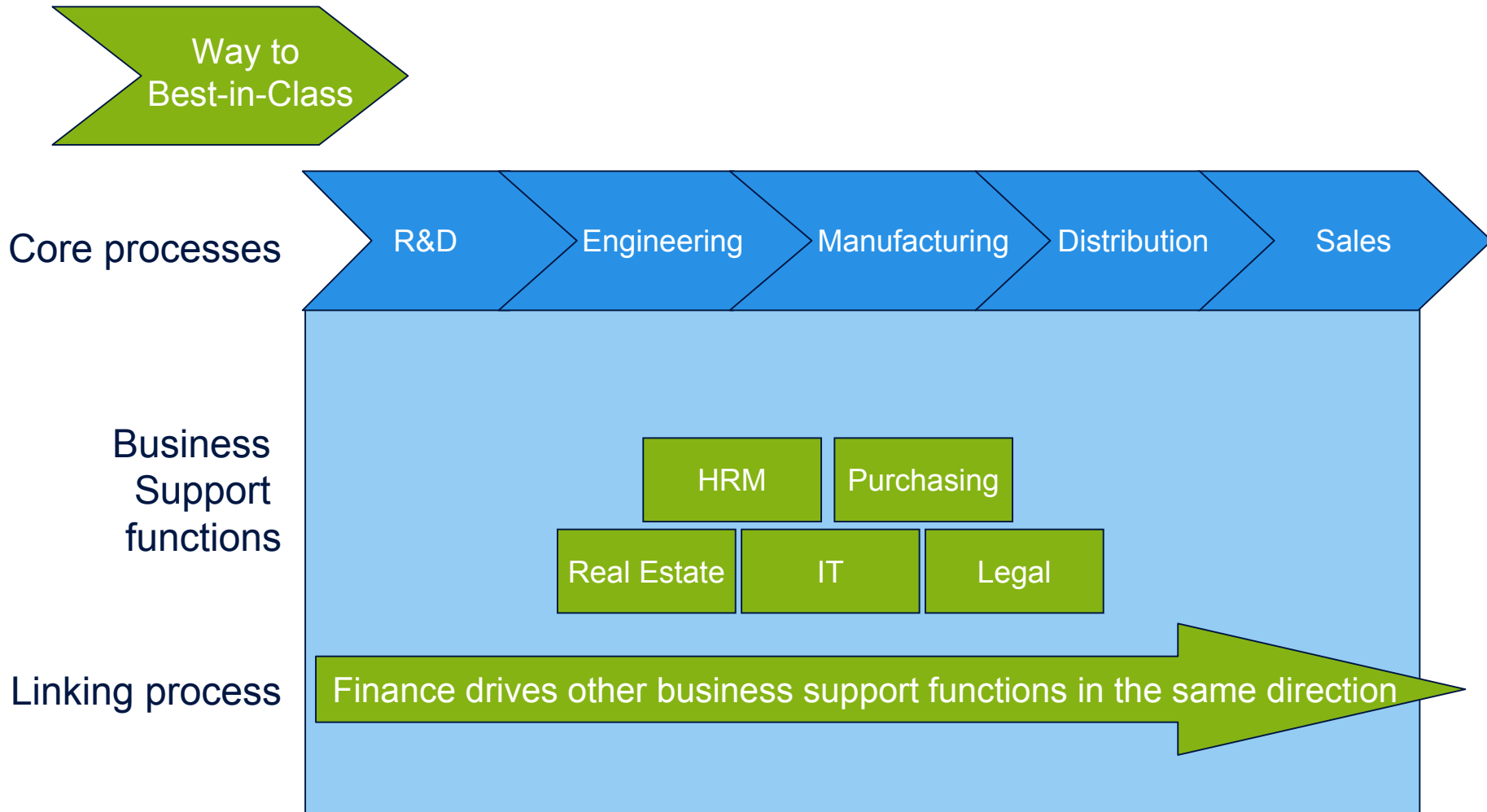
Champion:
Functional leaders
Sponsor: CFO

Way to Best-in-Class

- Cross PD
- Business Support Processes
 - Standardizing processes
 - Common way of working
 - Common database
 - One time input
- Best in Finance 2006 program as example

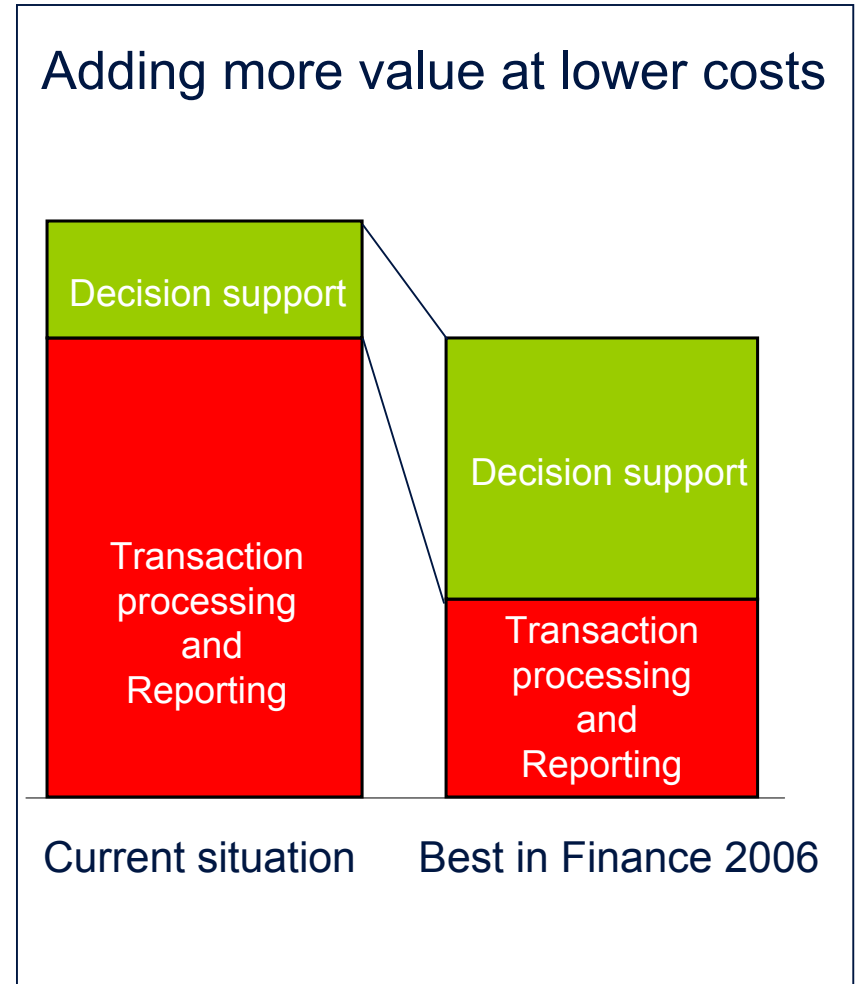
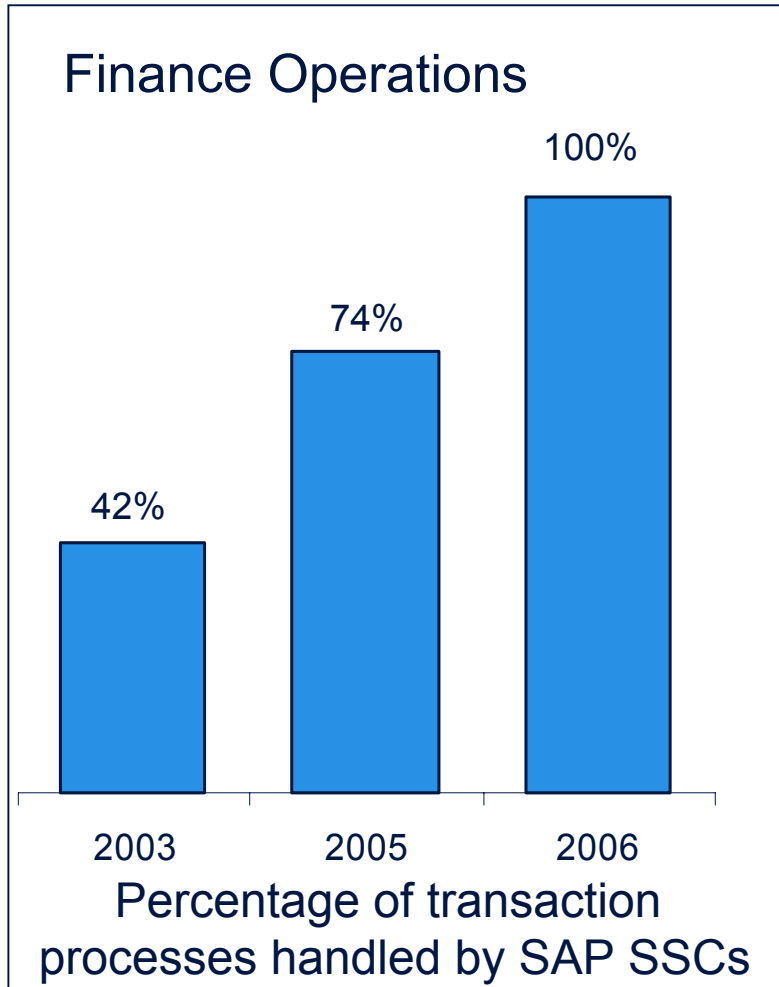
Champion: GMC
Sponsor: CFO

Finance taking the lead to Best-in-Class



Best in Finance

Huge number of projects aiming at Operations and Value adding

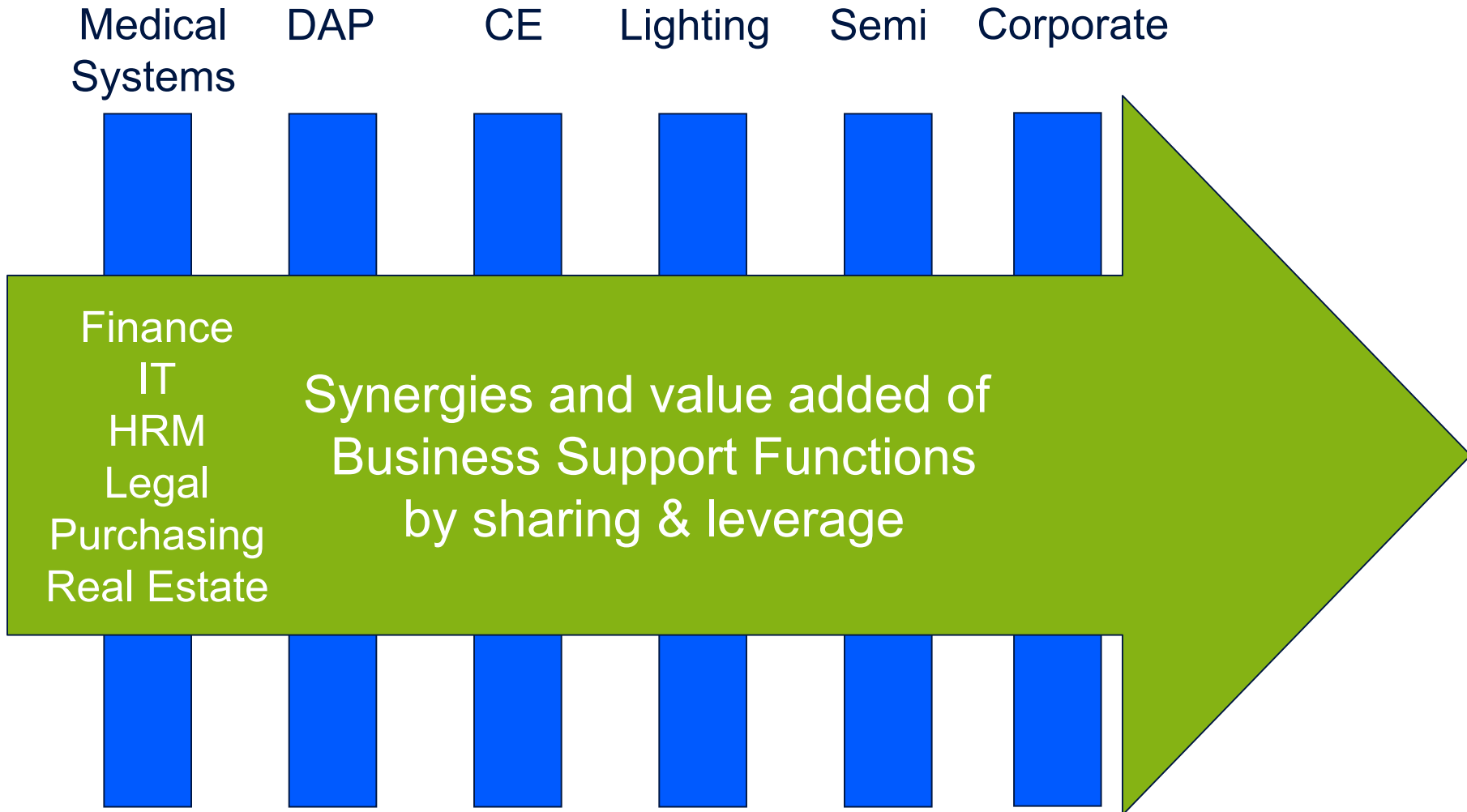


Best in Finance 2006

The domains

- Finance operations
- Decisions support
- Business planning
- Reporting and Analysis
- Closing & Consolidation

Way to Best-in-Class



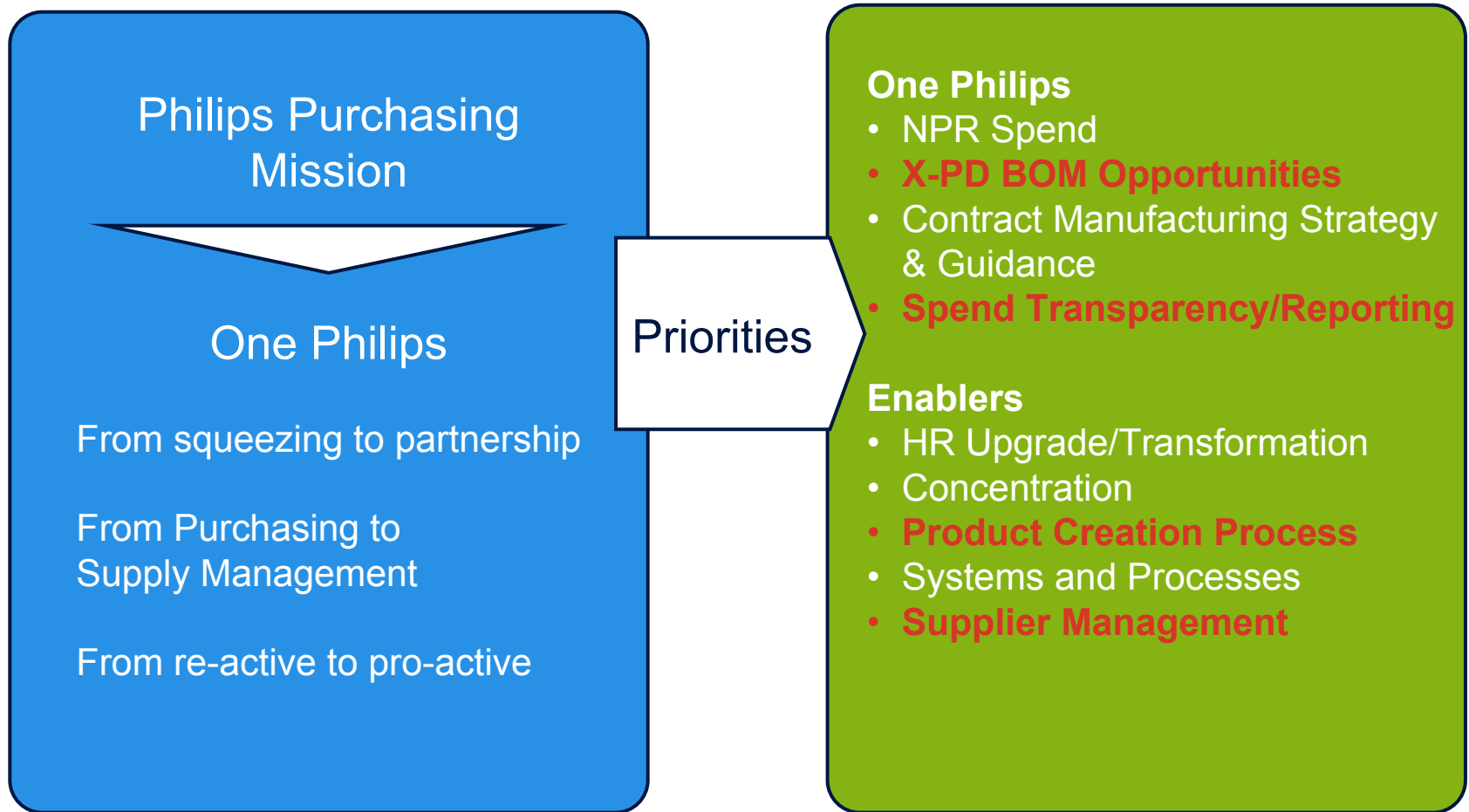
When will Philips's shared services reach Best-In-Class standards?

- One Finance - by end 2006
- IT - by end of 2007
- Purchasing - by end of 2007
- Legal - by end of 2006/2007
- HR - by end of 2007/2008
- Real Estate - by end of 2006/2007

Way to Best-in-Class: examples

- Best in Finance - Gerard Ruizendaal
- Treasury /Real Estate - Peter Warmerdam
- IT - Daniel Hartert
- Purchasing
- Legal
- HRM

From Plan to Best-in-Class Purchasing



Spend Transparency Project

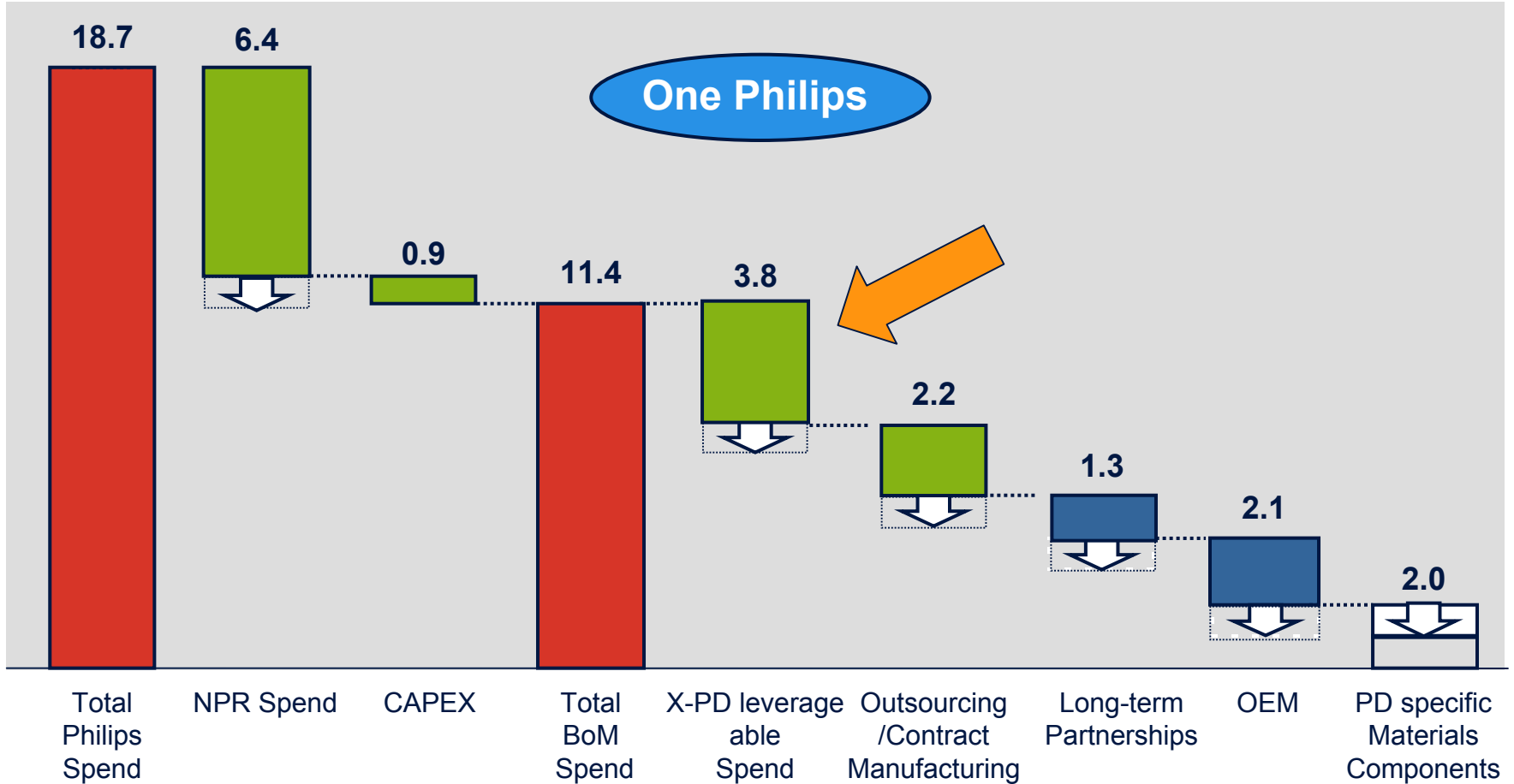
Process

- Spend Analysis
- Strategic Sourcing
- Vendor Management
- Compliance
- Payment Terms
- Price Comparison
- Standardization
- Currency Risk

Information Needs

- Spend by vendor
- Spend by currency
- Spend by payment term
- Spend by commodity
- Spend by organization
- Spend by geography
- Spend by period (Philips month)
- Price comparison (12NC)
- Delta spend (difference between AP and PO spend)

Leverage opportunities



2003 spend

From EUR 3.8 billion to EUR 2.9 billion identified savings by cross PD cooperation

2004 forecasted savings in euro of millions

Commodities	Total Spend	Leverage able spend	Savings
Packaging	230	126	10
Main Cords	35	35	4
Plastics	555	178	10
PCBs	135	106	14
Metals	470	109	8
Motors	30	21	3
Cables	190	121	13
Connectors	95	80	9
Wire wounds	305	157	16
Batteries	50	29	2
PCBA	745	450	28
Switches	40	36	4
Total	2,880	1,448	120

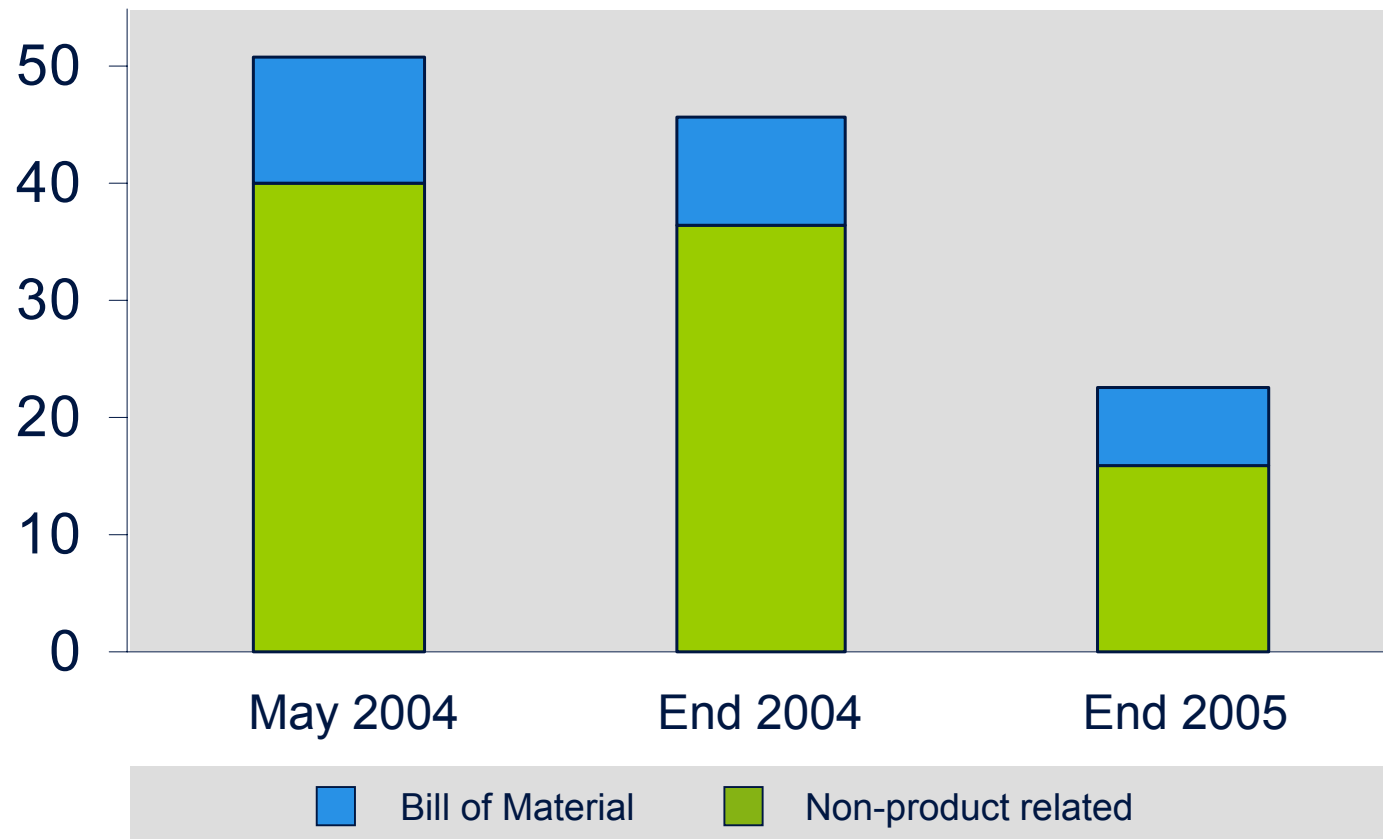
Cross PD BoM leverage: Lead Buyer concept

- All CPO's delegated Total Spend responsibilities to Lead CPO
- Global Commodity Manager appointed
- Cross PD commodity team installed, cross functional team members empowered by the PDs
- 'Suitcase' of standard processes, documents and systems defined

Supplier concentration: 'Cutting off the tail'

55 % Reduction by end 2005

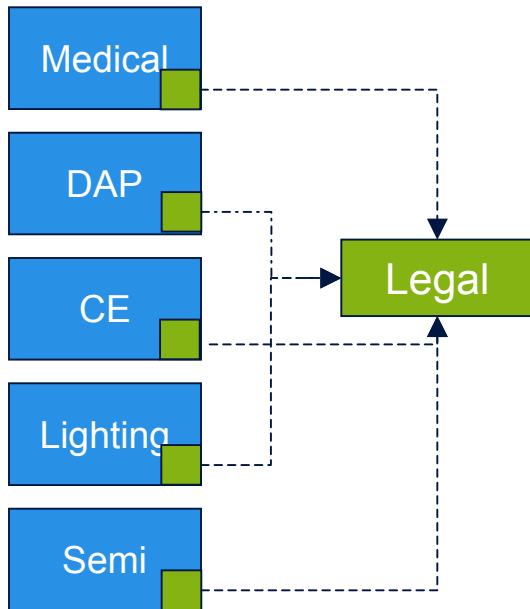
Amounts in thousands



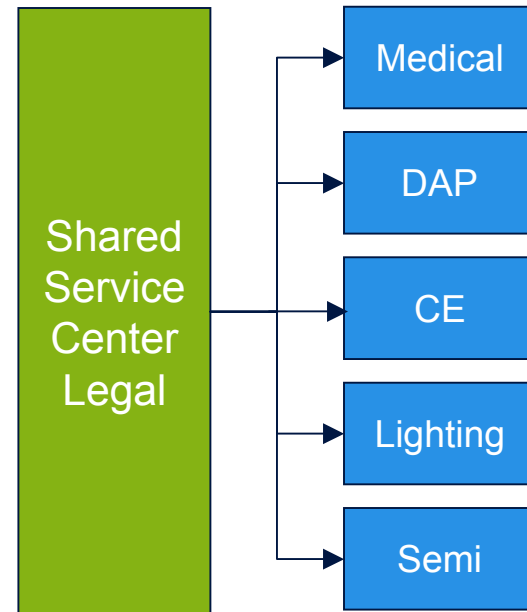
Summary Purchasing

- Program well under way
- Opportunities identified so far EUR ~ 250 million
- Total opportunities not quantified yet
- Standardization
- Earlier involvement Purchasing

Concentration of Legal activities



- Scattered knowledge
- No clear visibility on spend
- Re-active



- Shared expertise
- Clear visibility on spend
- Improved resource planning
- Pro-active

HRM: Focus on real value adding



HRM: Few examples

Old situation

- 25 career centers
- Non-aligned recruitment process
- No clear message to labor market

- Scattered training policies
- Inconsistent learning value proposition

- No consistent policy for expats
- Share plan administration in house on outdated legacy systems
- No global employee database

New situation

- One center both for in – and external
- One Philips recruitment process
- One Philips employer brand

- Global web- based learning program
- More effective training at lower costs

- One global market based expat policy
- Share plan administration outsourced to third party
- One global database

Wrap-up



Way to Best-in-Class will be top priority for GMC

