The transformation journey of Philips

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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, developments within the euro zone, 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 2012.

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
specialized 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 our Annual Report 2012. Further information on non-GAAP measures can be found in our Annual Report 2012.

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 2012 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.
Agenda

1. Establishing a repeatable Philips Business System
2. Reshaping the Portfolio
3. Focusing our competitive levers: our “CAPs”
4. Improving operational excellence through Accelerate!
5. Progress on our Path-to-Value
Top to bottom overhaul: Accelerate! transformation

2011

Burning platform

Accelerate initiatives

2017

High performing Company

Strategy & Portfolio

Resource to Win

Customer Centricity

Growth & Performance Culture

Operating model

End2End
Philips Business System: How we run our company to deliver our Mission and Vision

**Group Strategy:** We manage our portfolio with clearly defined strategies and allocate resources to maximize value creation.

**CAPs:** We strengthen and leverage our core Capabilities, Assets & Positions as they create differential value.

**Excellence:** We are a learning organization that applies common operating principles to deliver Philips Excellence.

**Path-to-Value:** We define and execute business plans that deliver sustainable results along a credible Path-to-Value.
Decisive actions have improved our portfolio

- Successfully commenced the TV joint venture with TPV as per schedule, on April 1, 2012
- Announced a new future for Lifestyle Entertainment with Funai Electric Co. Ltd., of Japan
- Strong improvement in the financial performance of Imaging Systems, the largest business in Healthcare
- Operational and organizational changes lead to five quarters of improved operational performance in Lighting
- Investing for growth in Consumer Lifestyle paying off with third consecutive quarter of double-digits growth
Reshaping the portfolio

Portfolio now consists of ~70% B2B businesses

Our portfolio has 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. Last twelve months March 2013 figures are restated to exclude Lifestyle Entertainment
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Making clear choices what our differentiating CAPs\(^1\) are.

\(^1\) CAPs = Capabilities, Assets and Positions
ClearVue ultrasound and remote imaging services
unlocking demand in Africa
Driving global leadership in Consumer Lifestyle
We are expanding the business with locally relevant products and campaigns

Sonicare Airfloss
Multicooker
Soupmaker
The world’s smartest LED bulb
Philips hue marked a new era in home lighting
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EUR 1.1 billion cost reduction program

Program started in Q3 2011, expected to be completed by 2014

<table>
<thead>
<tr>
<th>Cumulative gross savings</th>
<th>EUR million</th>
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<tbody>
<tr>
<td>2011 Actual</td>
<td>25</td>
</tr>
<tr>
<td>2012 Actual</td>
<td>471</td>
</tr>
<tr>
<td>1Q13 Actual</td>
<td>549</td>
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<tr>
<td>2013 Plan</td>
<td>900</td>
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<tr>
<td>2014 Plan</td>
<td>1,100</td>
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<table>
<thead>
<tr>
<th>Annual restructuring costs</th>
<th>EUR million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 Actual</td>
<td>(37)</td>
</tr>
<tr>
<td>2012 Actual</td>
<td>(249)</td>
</tr>
<tr>
<td>1Q13 Actual</td>
<td>(13)</td>
</tr>
<tr>
<td>2013 Plan</td>
<td>(125)</td>
</tr>
<tr>
<td>2014 Plan</td>
<td>(60)</td>
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Approximately 77% of the targeted 6,700 headcount reduction completed by Q4 2012

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<th>Annual investments</th>
<th>EUR million</th>
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<tbody>
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<td>2011 Actual</td>
<td>(37)</td>
</tr>
<tr>
<td>2012 Actual</td>
<td>(128)</td>
</tr>
<tr>
<td>1Q13 Actual</td>
<td>(29)</td>
</tr>
<tr>
<td>2013 Plan</td>
<td>(100)</td>
</tr>
<tr>
<td>2014 Plan</td>
<td>(100)</td>
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Note - The above figures include results related to the Audio, Video, Multimedia and Accessories business of:
Cumulative gross savings up to Q1 2013 of EUR 43M, annual restructuring costs in 2012 of EUR 11M and EUR 3M in Q1 2013, investments of EUR 1M in Q1 2013 and a cumulative headcount reduction of 99 employees
The plan for 2014 includes savings for the Audio, Video, Multimedia and Accessories business of EUR 57M and a headcount reduction of 99 employees
Overhauling our business model architecture

From 70+ business models

To 4 End2End business models

- Standard Products
  - Owner: Pieter Nota

- Solutions
  - Owner: Eric Rondolat

- Services
  - Owner: Deborah DiSanzo

- Software
  - Owner: Deborah DiSanzo

- All Philips businesses to adopt one of four standardized business models
- Investments being made to standardize processes, data, and new IT backbone
- A single planning, performance and reward cycle across Philips
- Investing to create a culture for such a major change
Applying DfX* in the product creation process

*Design for X; X = cost, quality, manufacturing etc.

- End2End approach to product creation, with one integrated team of procurement, supply chain, R&D, marketing, finance and the supplier upfront to drive breakthrough cost savings through:
  - Value engineering
  - Re-design the purchasing value chain
  - Leveraging global spend

- Early successes show that significant cost savings can be achieved in mature products, i.e. products being manufactured over 5 years, as well as new product introductions

- Currently building a funnel of opportunities targeting additional cumulative savings of EUR 1 billion over the period 2014 to 2016
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Progressing on our Path-to-Value

Laying the foundation to improve performance

- Executive Committee
- Growth investments
- Philips Business System
- BMC\(^1\) performance management
- Share buy back
- TV Joint Venture
- Improving Lighting performance

Accelerating performance improvement

- Good sales growth
- Improved operating margins
- Increased cost reduction plan
- Inventory improvement
- Share buy back
- Lumileds and Consumer Luminaires returned to profitability
- Culture change

Transform Philips through Accelerate!

- Accelerate! Healthcare
- Restoring Lighting profitability, leading the LED transformation
- Closing the Audio, Video, Multimedia and Accessories deal
- EUR 1.1 billion cost reduction program
- Cost savings on procurement
- Value delivery from past acquisitions
- Next value creation steps beyond 2013
- Performance culture

\(^{1}\) BMC = Business Market Combination

\(\checkmark\) = Areas of ongoing focus in 2013
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 unrelated licenses
Key takeaways

• We are transforming Philips, and this is a multi-year journey

• The Philips Business System, is being implemented across the organization

• Operating margins across all sectors improved in Q1 2013, despite modest sales growth. Consumer Lifestyle delivers robust growth.

• While we are facing increasing headwinds, we remain committed to reach our financial targets this year