

# PHILIPS

sense and simplicity

## Financial Strategy

Paul Verhagen

CFO Philips Consumer Lifestyle

# Agenda

- Key financials
- Economic situation
- Risk management
- Key takeaways



# Key Performance Indicators through Q3 2008

## KPIs

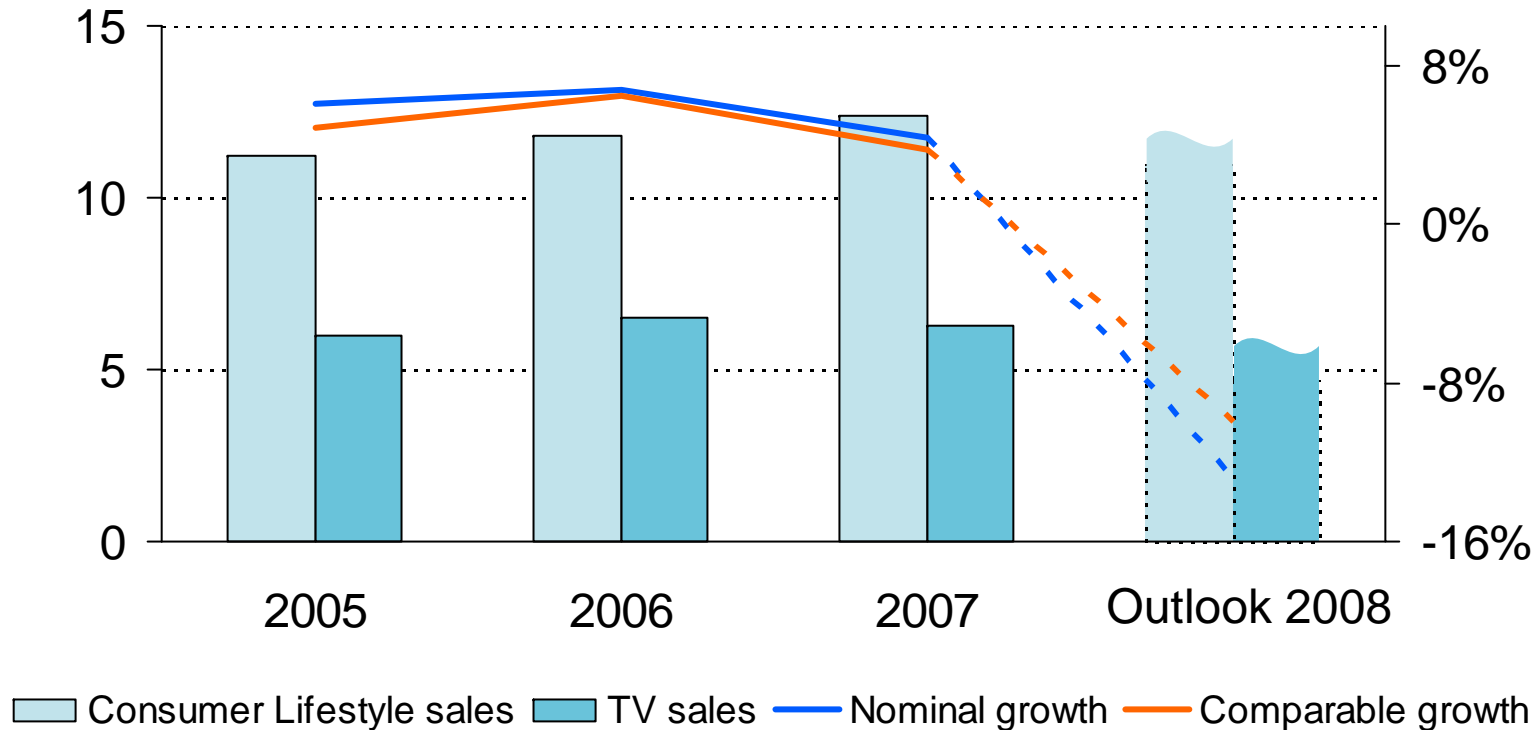
Comparable sales growth	<ul style="list-style-type: none"><li>• Approximately flat to large extent driven by own portfolio choices as well as the economic downturn</li></ul>
EBITA excl restructuring as % of sales	<ul style="list-style-type: none"><li>• Just below 2007 (-0.4%)</li></ul>
Employee Engagement Score (EES)	<ul style="list-style-type: none"><li>• We have a motivated team. EES scores up again and are close to the high performance benchmark</li></ul>
Net Promoter Score (NPS)	<ul style="list-style-type: none"><li>• Significant progress made in implementing and measuring NPS</li></ul>
Productivity	<ul style="list-style-type: none"><li>• Added value per employee improved by approximately 6%</li></ul>

# Sales declining in 2008 mainly because of portfolio pruning

*But tougher economic climate puts additional pressure on sales*

EUR billions

% growth



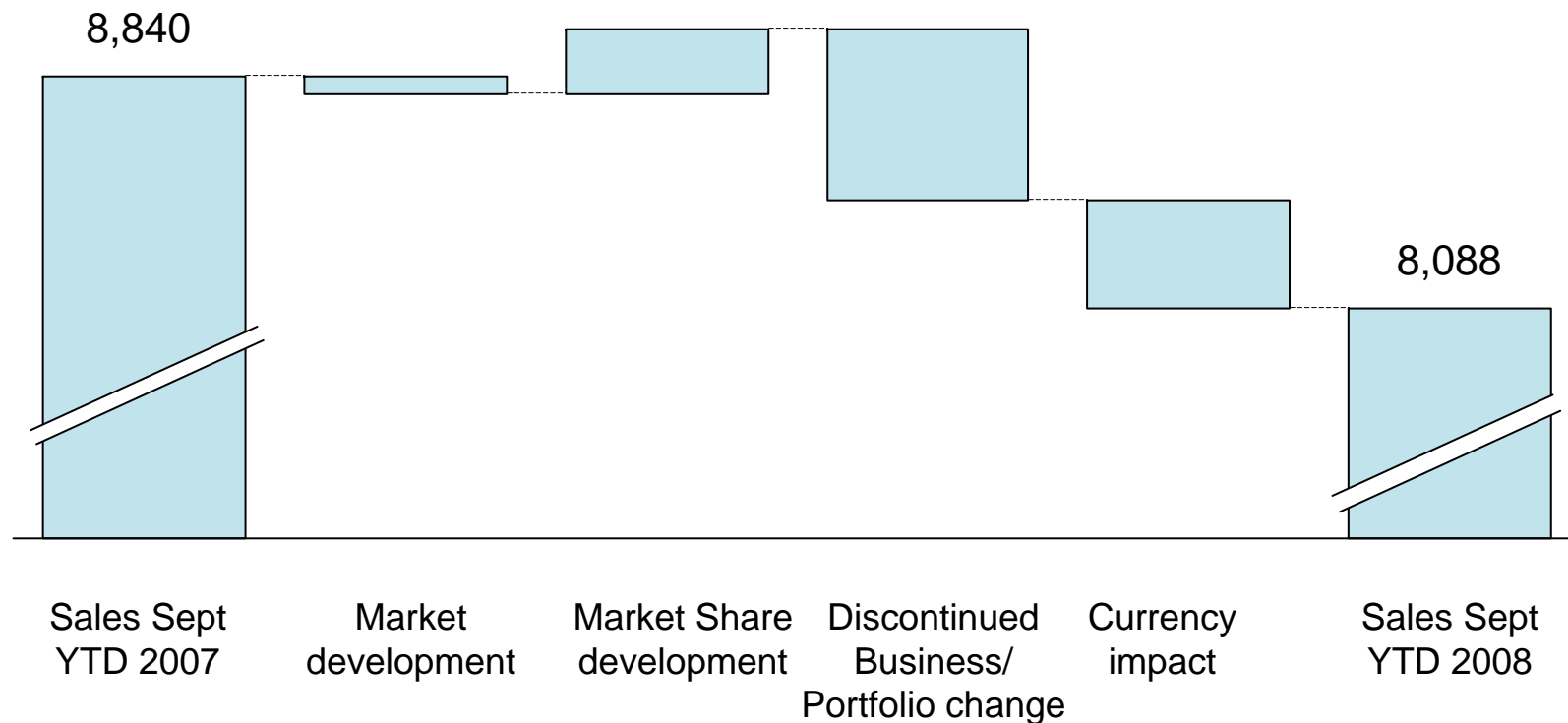
Note:  
Sector sales, excluding Home Networks (HN) and Mobile Phones (MP)

# While sales are down, market share is up

*Discontinued businesses, portfolio pruning and currency development result in lower nominal sales*

*Sales bridge year to date September 2007 versus September 2008*

*EUR millions*

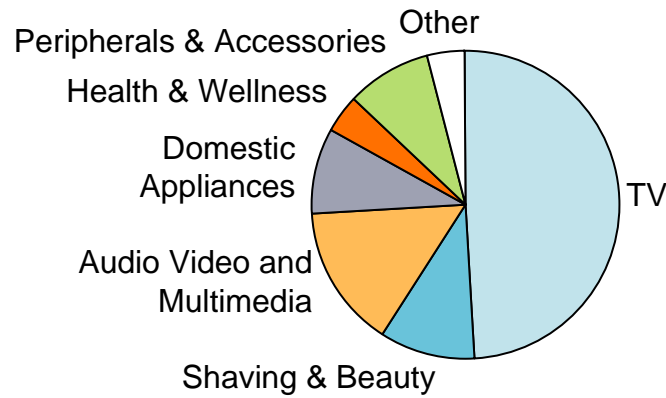


Source: GfK (Jul-Aug'08) for Western Europe, Russia and Poland; other counties are estimated by Philips Market Intelligence

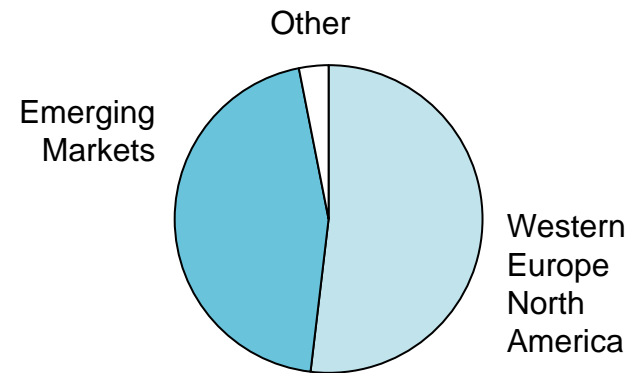
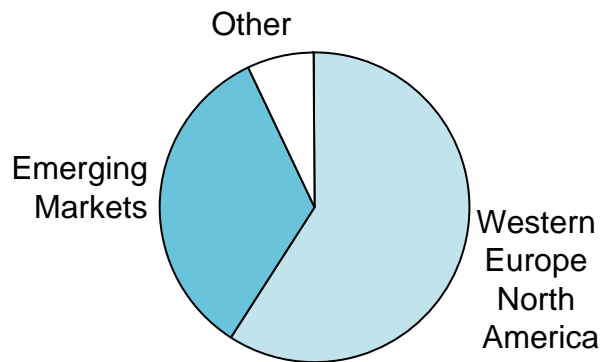
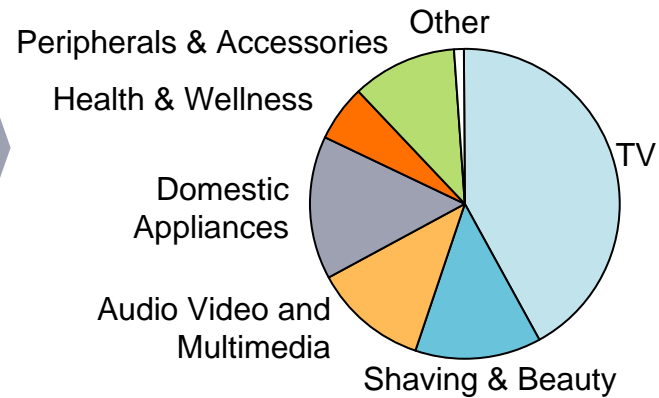
# Our portfolio and geographical mix are looking increasingly well-balanced

*Relative share of high-margin businesses and growth geographies is increasing*

**Full-Year 2007**



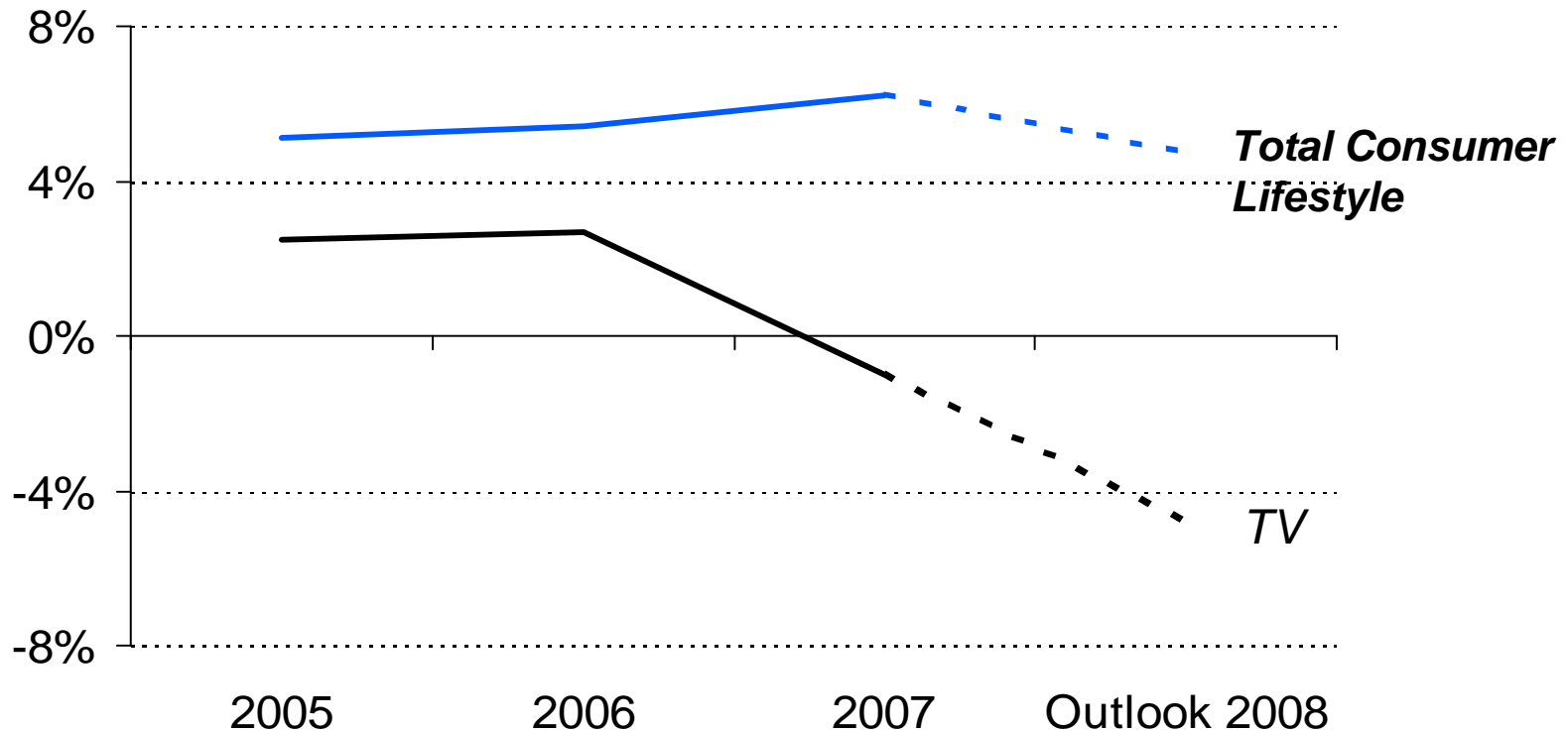
**Indication 2009**



# Profitability under pressure particularly in TV

*Current tough economic climate creates additional margin pressure on all businesses*

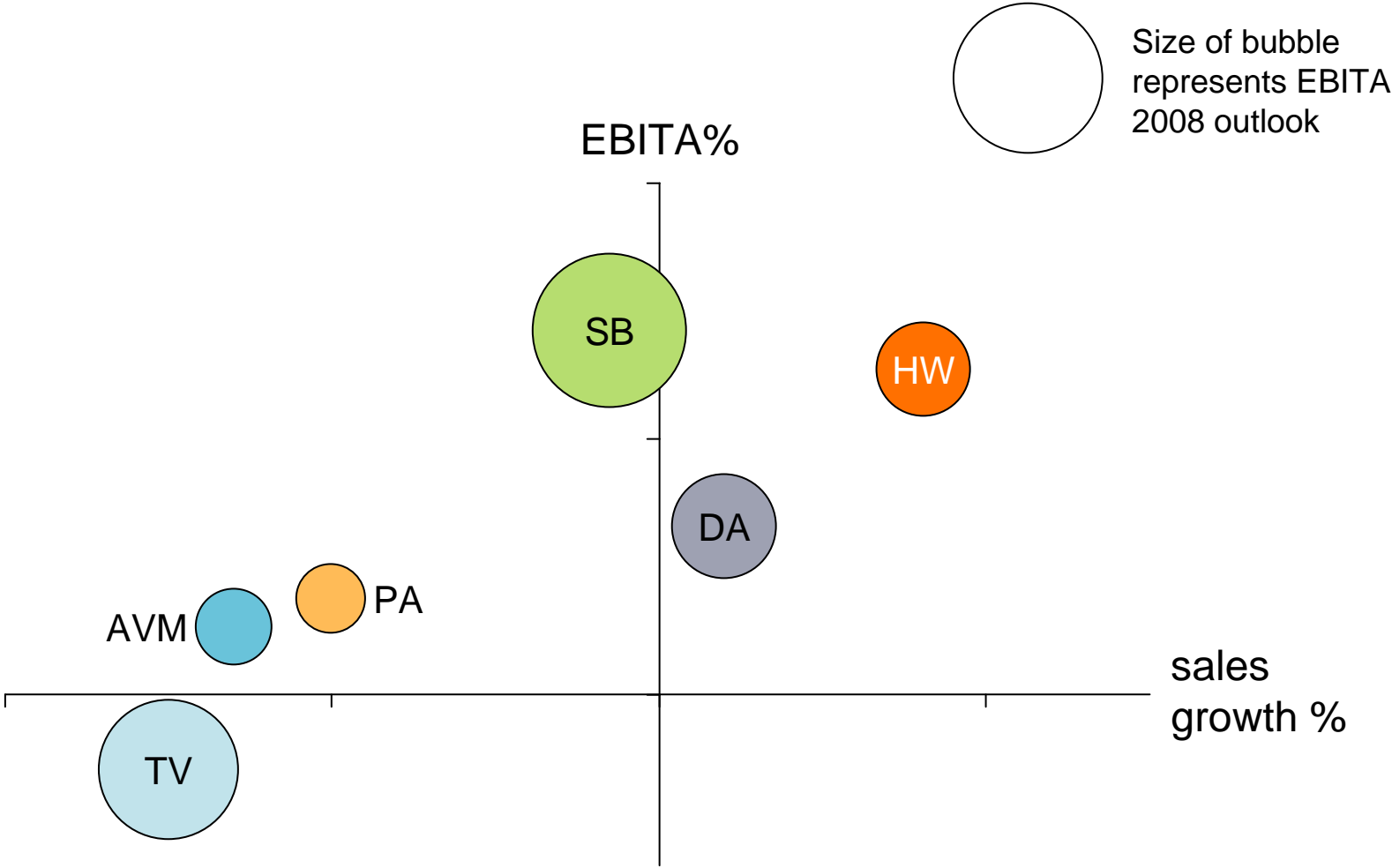
*EBITA excl. restructuring as % of sales*



EBITA includes the results of businesses and geographies until closure of transactions

# Profitability by Business Unit

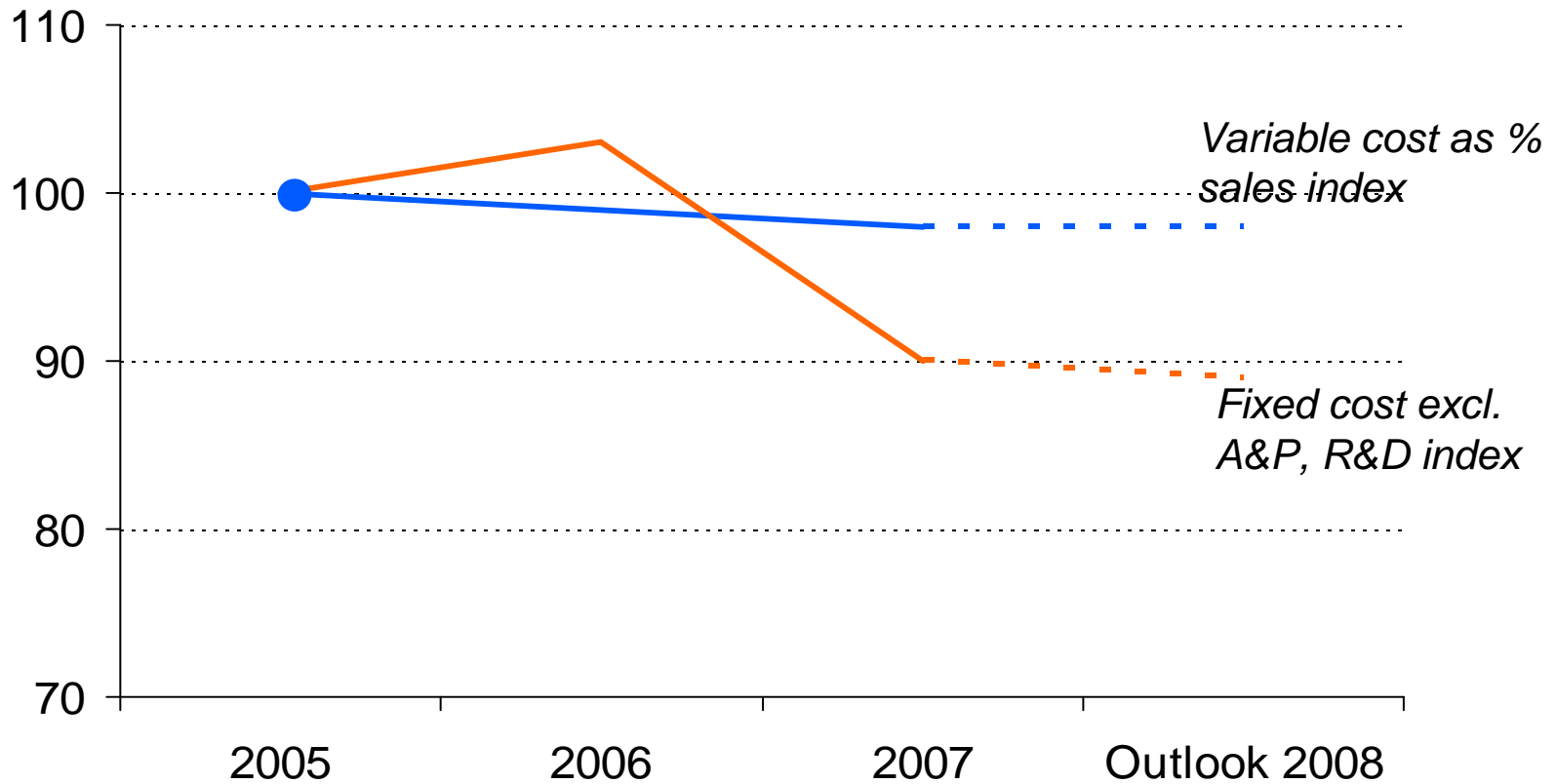
*High margin businesses prove to be relatively more resilient*





# Efforts to reduce fixed costs show results

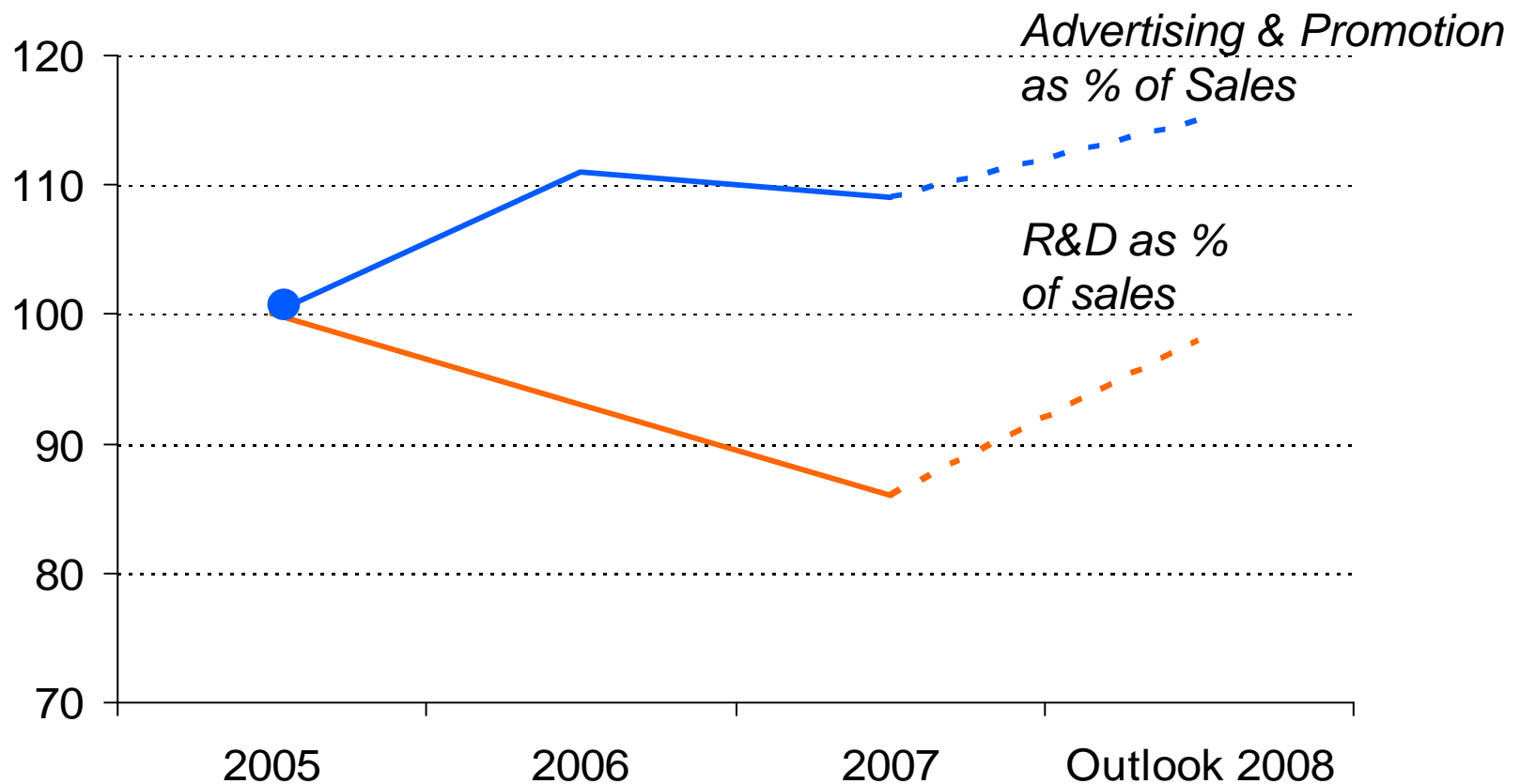
*We continue to manage costs downward resulting in a lower break-even point for the sector*



Note: excluding Home Networks (HN) and Mobile Phones (MP)

# We continue to invest in Advertising & Promotion and R&D to support future profitable growth

*Index as % of sales*

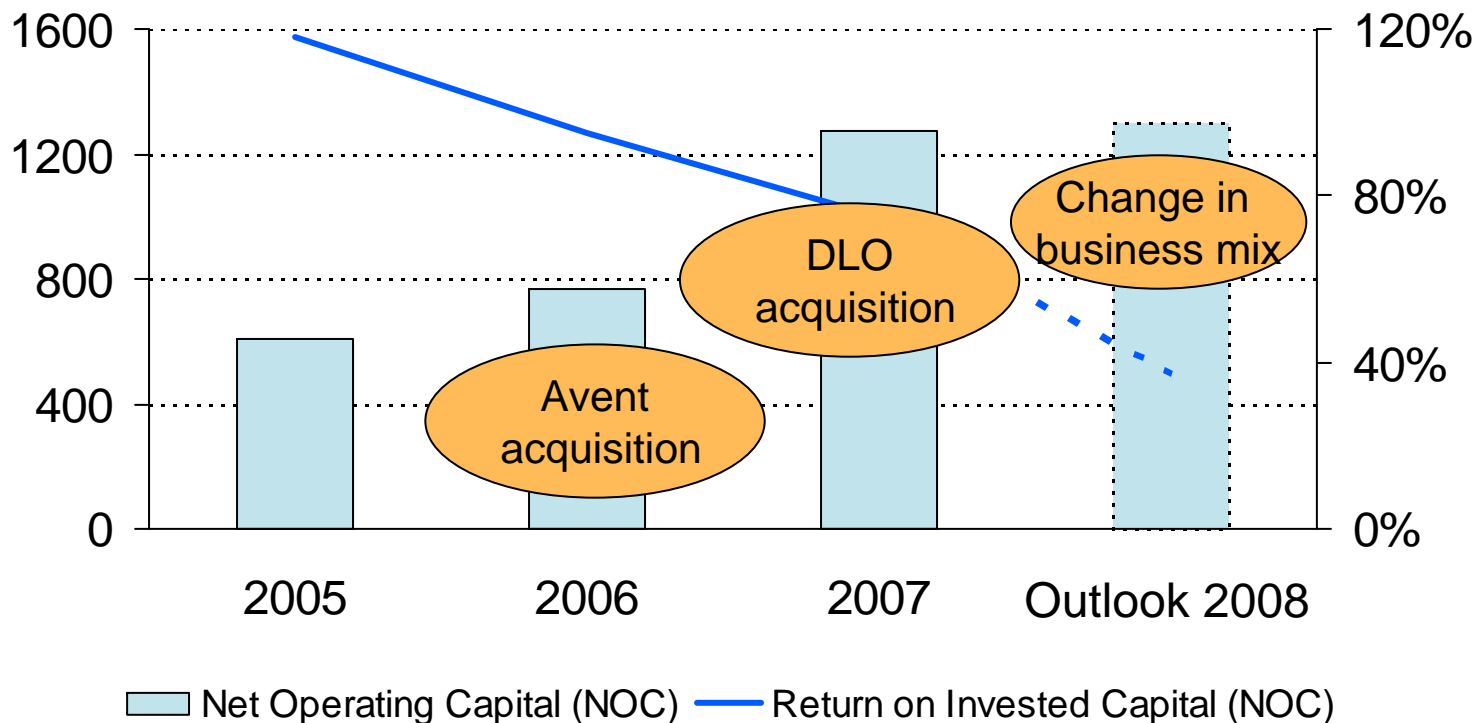


Note: excluding Home Networks (HN) and Mobile Phones (MP)

Although NOC increases on the back of acquisitions,  
 ROIC remains very attractive  
*We continue to manage an asset light model*

five-quarter average NOC  
 in EUR millions

RoIC %



ROIC includes the results of businesses and geographies until closure of transactions

## Earn 2 Invest (E2I) is our ongoing extensive business improvement program

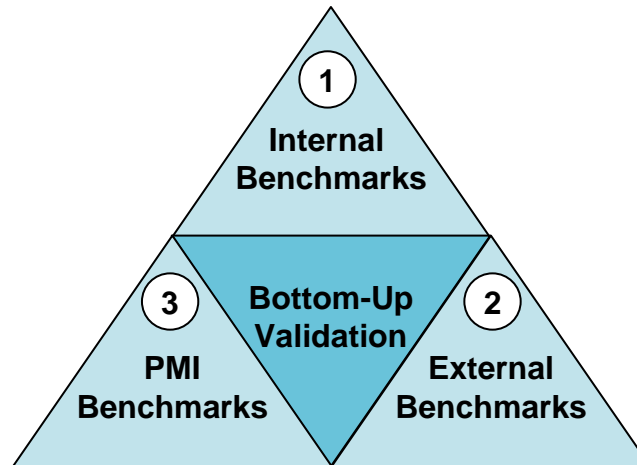
*We are on track to realize savings at the upper end of the EUR 150-200 million range*

- E2I phase 1 successfully started in DAP in 2007
- E2I phase 2 is the program to realize the synergy savings following the merge of DAP and CE and will be accelerated
- E2I phase 3 will be kicked off in January 2009 and will focus on additional actions to manage economic downturn
- Is based on internal and external benchmarks and best practices
- Covers all Consumer Lifestyle cost of organization (excl. bill of material)
- Split into six functional work streams (sales, marketing and A&P, consumer care and quality, R&D, supply and G&A)
- More than 50 main projects defined

# The E2I program uses internal and external benchmarking to underpin ambitious targets

## Three-Way Benchmarking Validation

Comparisons between other Philips businesses and historical comparisons



Typical Post Merger Integration (PMI) synergies realized in consumer goods and consumer electronics

Potential savings from comparison to industry average and best practice

## We are on track to realize savings at the upper end of the EUR 150-200 million range

*Key projects are already well underway*

Organization	<ul style="list-style-type: none"><li>• Simplification, de-layering and rightsizing of organization across all functions and geographies</li></ul>
Advertising & Promotion	<ul style="list-style-type: none"><li>• Improvement of Advertising and Promotion effectiveness</li></ul>
Supply Chain	<ul style="list-style-type: none"><li>• Supply Chain improvement projects, e.g. reducing Stock Keeping Units by over 30%, consolidation of warehouses and distribution flows, deploying '<b>SimplyPhilips</b>' operating system in Szekes, Glemsford and Drachten</li></ul>
Industrial Footprint	<ul style="list-style-type: none"><li>• Further optimization of Supply footprint</li></ul>
Research & Development	<ul style="list-style-type: none"><li>• Improvement of R&amp;D effectiveness, reduction of license-paid costs, more open innovation and building effective partnerships</li></ul>
IT	<ul style="list-style-type: none"><li>• Integration of two SAP commercial kernels into one</li><li>• Reduction of IT infrastructure cost</li><li>• Transactional support from shared services</li></ul>

## Risk Management

*Current economic climate puts risk management at the top of the agenda*

### ***What are we doing?***

*Clearly understand the potential size of the risk*

- Identify extreme scenarios
- Determine sensitivities of each business to current downturn
- Understand various risks (market, business, operational)

*Determine how to best manage the risk*

- We have determined guiding principles on how to prioritize investments and cuts

*Take action based on defined trigger points*

- Focus on rigorous execution via E2I program

# Risk Management (1)

*We are making tough choices and adopt swiftly to changing situations in the current economic crisis*

Revenue	<ul style="list-style-type: none"><li>• Top line revenue protection – we steer on market share</li><li>• Smart and proven marketing investments that generate revenue</li></ul>
Credit risk	<ul style="list-style-type: none"><li>• Step up intelligence as to really understand our customer financial situation</li><li>• We are prepared to give up sales</li></ul>
Margin	<ul style="list-style-type: none"><li>• Sales prices will be increased, if needed, to protect margins</li><li>• Current environment offers additional Bill of Material price reduction opportunities</li><li>• We continue to prune geographies, products and customers mainly in TV and AVM</li></ul>
Costs	<ul style="list-style-type: none"><li>• E2I phase 2 will be accelerated, E2I phase 3 will kick off in January</li><li>• Execution is key – monitoring of brutal execution via E2I program</li><li>• Continue to optimize Supply and R&amp;D footprint</li><li>• Additional restructuring will be done if and when needed</li></ul>



## Risk Management (2)

*We are making tough choices and adopt swiftly to changing situations in the current economic crisis*

Investment

- We prioritize investments and cuts from overall Sector and market point of view and not from Business Unit point of view
- Prioritize and manage long term opportunities/investments
- Continue to scan market for M&A opportunities

Currency

- Continue to hedge currency risks
- Rebalance natural hedge via sourcing strategy

Cash

- Cash is king – manage cash conversion cycle
  - we closely manage Days Sales Outstanding and overdues
  - we will improve Days Payable Outstanding to benchmark levels
  - rigorous supply and stock management

## Key takeaways

- We focus on profitable growth and ROIC
- We have cut sales through aggressive portfolio pruning in businesses that do not meet our margin targets
- We are rigorously managing cost and make selective investments through Earn 2 Invest program
- Cash is king
- Since end of Q3 we see a rapid deterioration in the economic environment putting severe pressure on topline
- A granular approach in managing economic downturn is required as impact differs per Business Unit and market
- We closely monitor external situation and swiftly adopt to change.

