

# PHILIPS

## Royal Philips Electronics

Alan Cathcart

Senior Vice President – Investor Relations

# PHILIPS

sense and simplicity

# Forward Looking Statements

## *Forward Looking Statements*

This document contains 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 (including, but not limited to, cost savings) in particular the outlook paragraph in this report. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, levels of consumer and business spending in major economies, changes in consumer tastes and preferences, changes in law, the performance of the financial markets, pension costs, the levels of marketing and promotional expenditures by Philips and its competitors, raw materials and employee costs, changes in exchange and interest rates (in particular changes in the euro and the US dollar can materially affect results), changes in tax rates and future business combinations, acquisitions or dispositions and the rate of technological changes. Statements regarding market share, including as to 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.

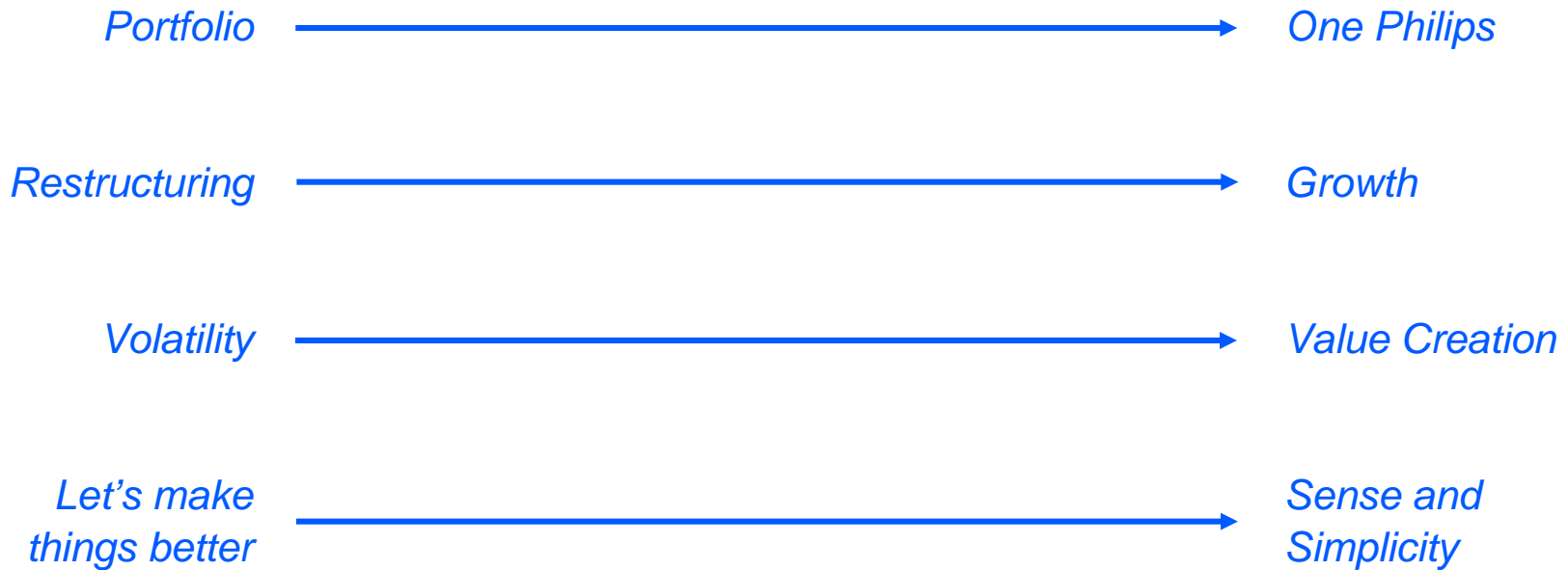
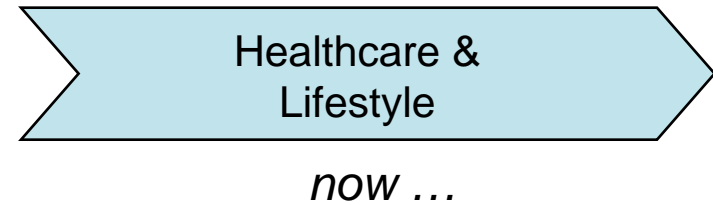
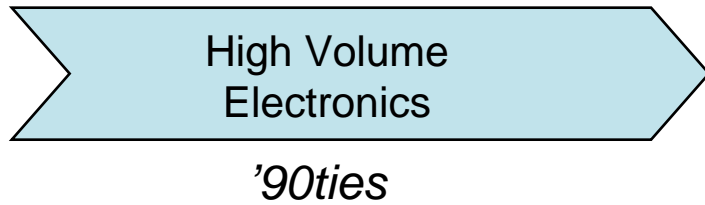
## *Use of non-GAAP Information*

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 GAAP measures and should be used in conjunction with the most directly comparable US GAAP measure(s). A discussion of the non-GAAP measures included in this document and a reconciliation of such measures to the most directly comparable US GAAP measure(s) are contained in this document.

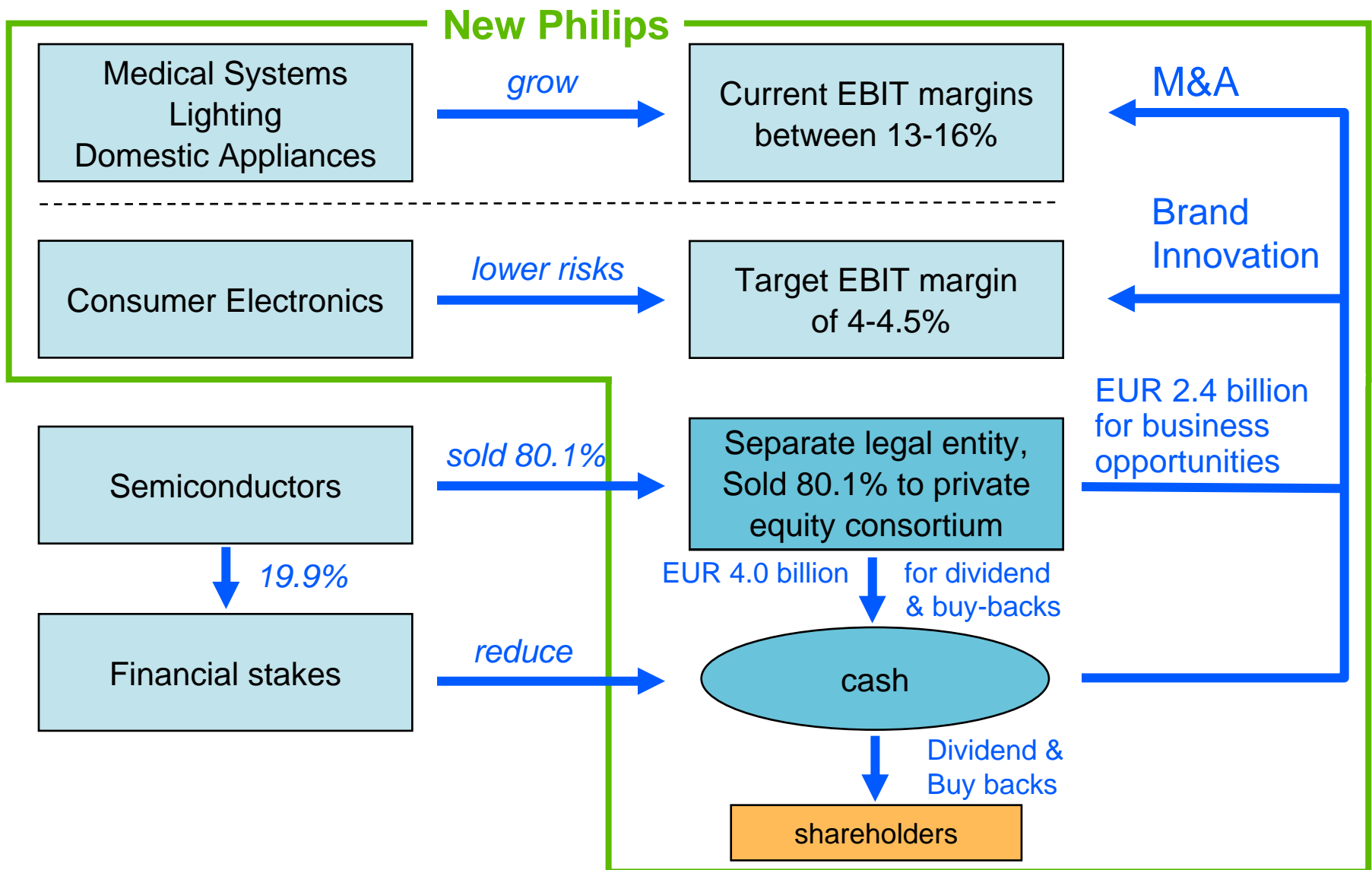
# Agenda

- Strategic direction
- Growth strategy
- Acquisition discipline
- Financial discipline
- Conclusion

# Strategy Evolution



## Philips portfolio now and in the future



## Why do we want to invest in Medical

*Creating the future*

- Long-term growth driven by demographics and economic advancement of emerging markets
- Strong market position and market share
- Making wide use of Philips range of skills
- Strong margins based on innovation
- Strong cashflow
- High-single-digit comparable sales growth is expected in 2006



## Why do we want to invest in DAP

*Creating the future*

- Breakthrough products through innovation and customer understanding
- Unique appliance-consumable propositions with major consumer brands
- Continuation of marketing excellence and best-in-class cost position
- Expanding retail channels into emerging markets
- Roadmap defined for CHW
- Strong margins
- Strong cashflow
- Comparable sales growth expected at 7% in 2006 with 15-16% EBIT margins



## Why do we want to invest in Lighting

*Creating the future*

- Number 1 market position globally with strong margins and cash flows
- End-user-driven innovation, marketing and supply excellence
- Profitable growth in fast-growing economies in innovative new market segments
- Investments in R&D and capital expenditures to propel innovation and growth
- Comparable sales growth expected at 6% in 2006



## The strengthened business model of CE

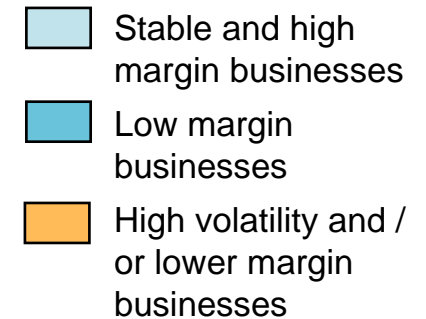
### *Creating the new model*

- Business Renewal Program to achieve EBIT margins of 4-4.5%
- Continuous reduction of asset base → negative at year end since 2001
- Further de-risking the business through new business models, e.g. TPV deal
- Outsourced approx. 80% of manufacturing
- Focus on innovation in design and marketing of high-end differentiative products
- Leveraging the Brand

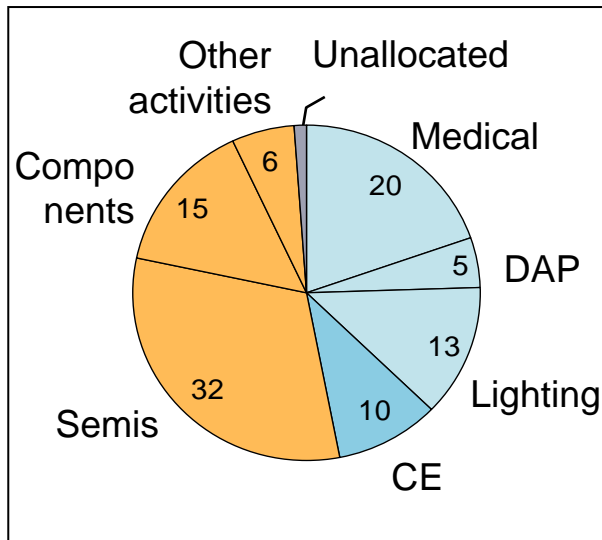


## Reallocation of capital towards stable and higher margin businesses

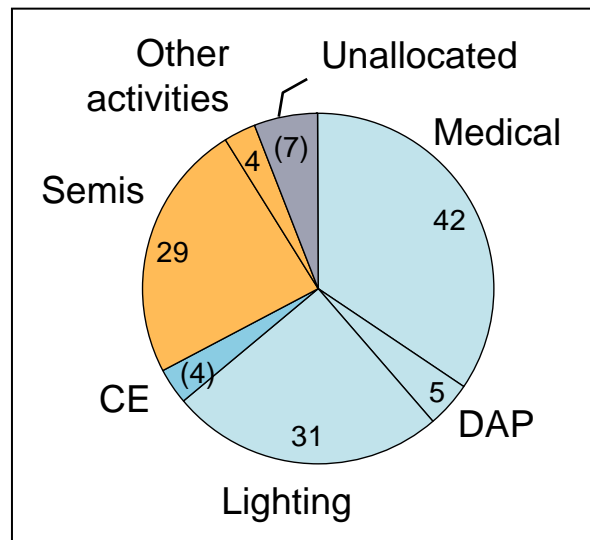
*Net operating capital per division as % of total*



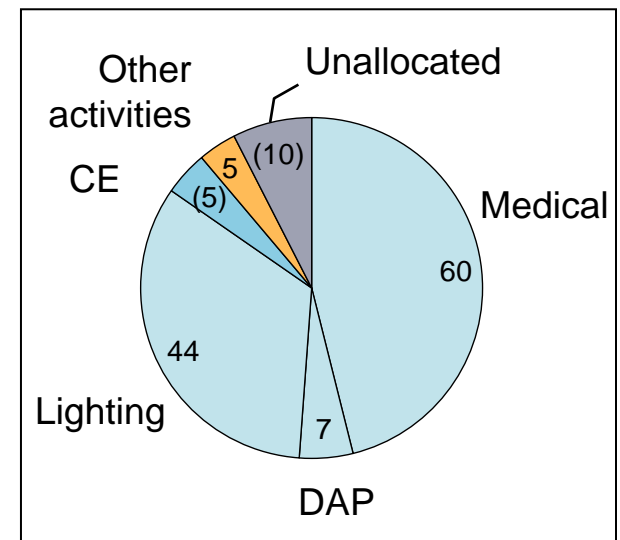
2000



2005

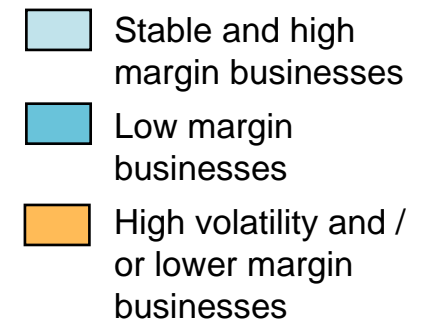


2005 ex Semiconductors

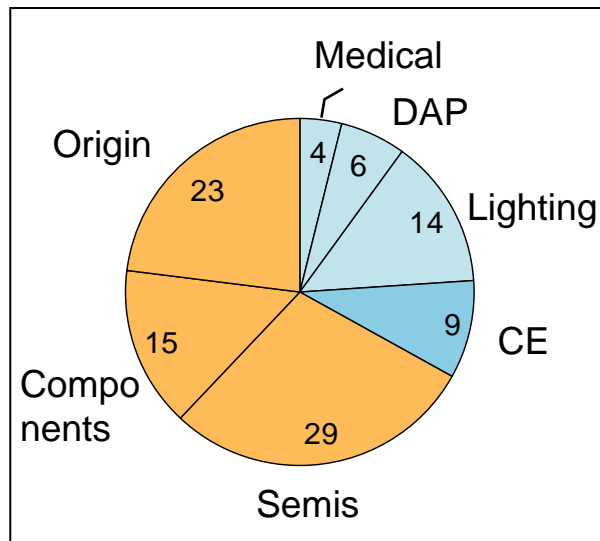


## Increased earnings stability

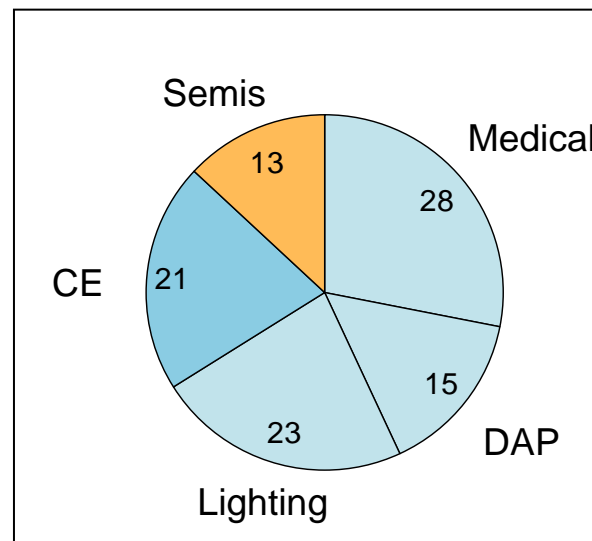
*EBIT per division as % of group (excluding Other Activities and Unallocated)*



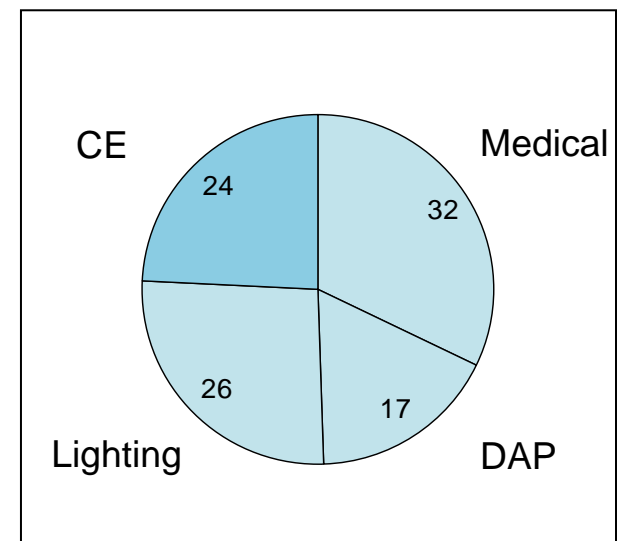
2000



2005



2005 ex Semiconductors



## Agenda

- Strategic direction

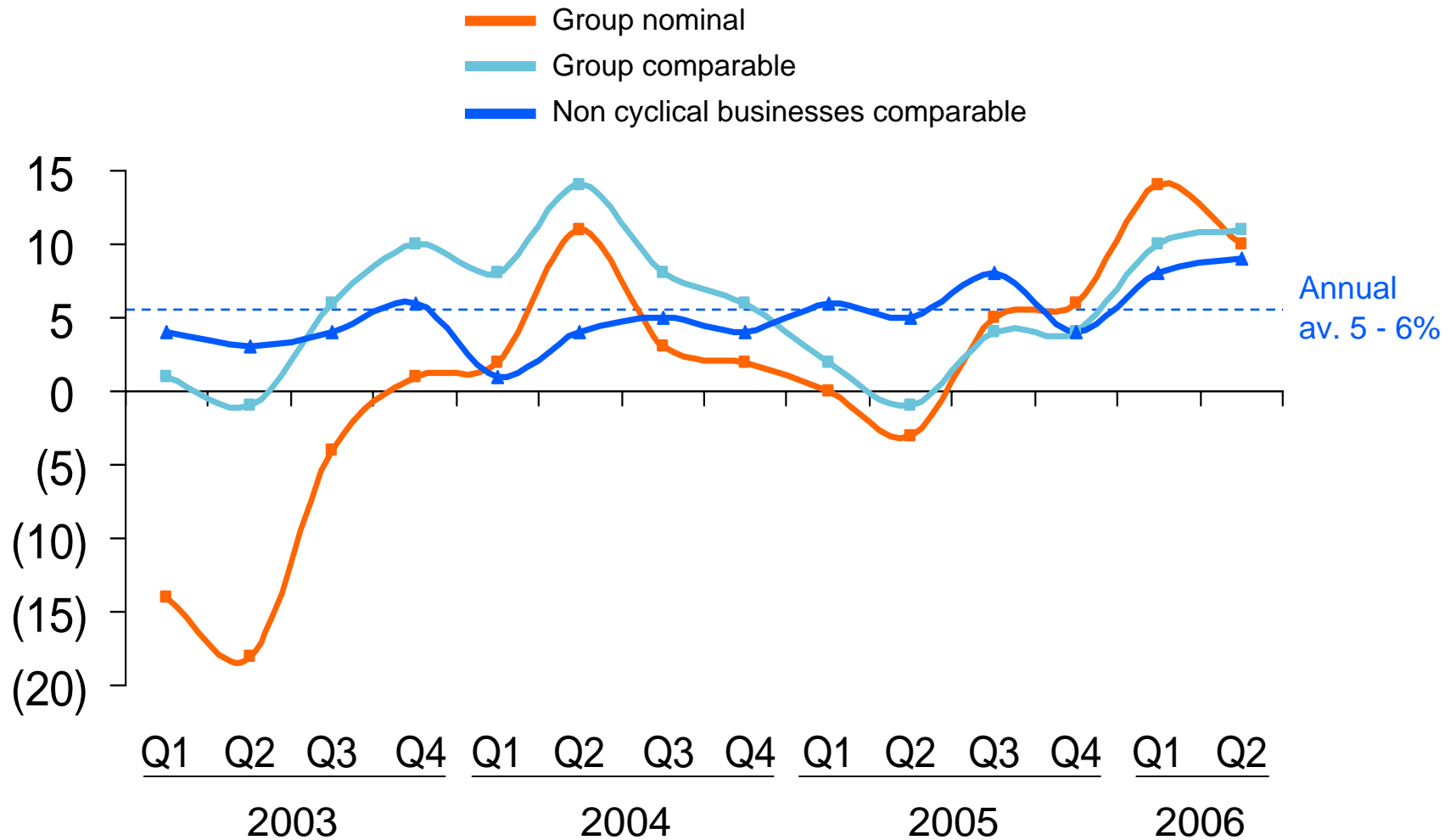
- Growth strategy

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# Comparable sales growth towards annual average of 5-6%



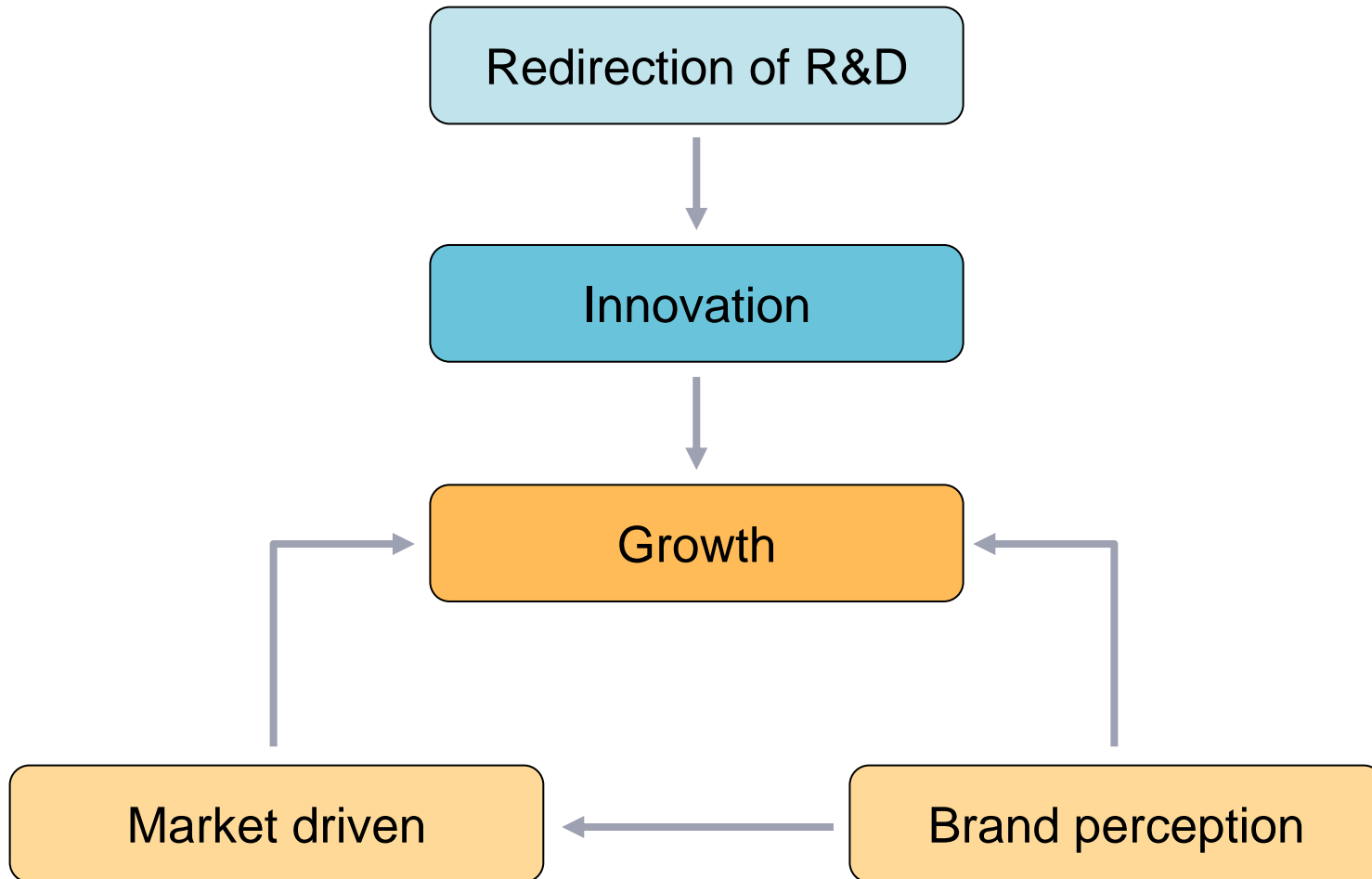
Non cyclical business = Medical Systems + Lighting + DAP

# Comparable sales growth towards annual average of 5-6%

	2005	1H06	Disclosed target
Medical	7%	8%	6%
DAP	6%	11%	7%
Lighting	4%	8%	6%
CE	5%	16%	*
<hr/>			
<i>Total Group</i> <i>(Excl. Semiconductors)</i>	4%	10%	5 – 6%

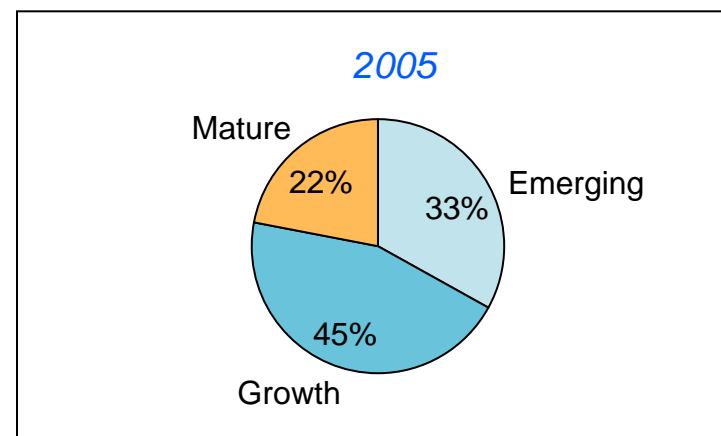
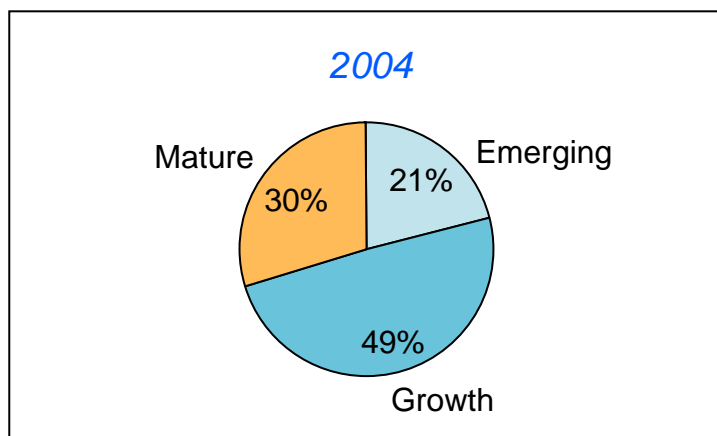
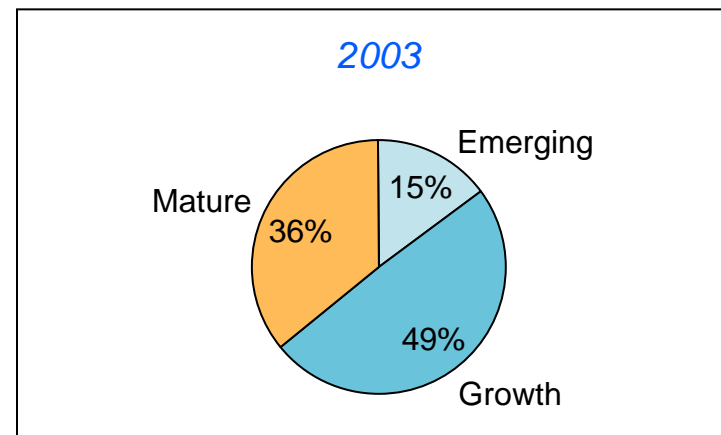
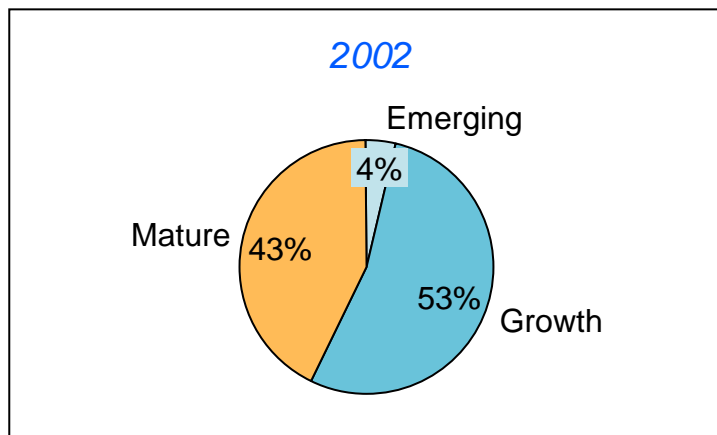
\* No targets disclosed

# Creating growth opportunities



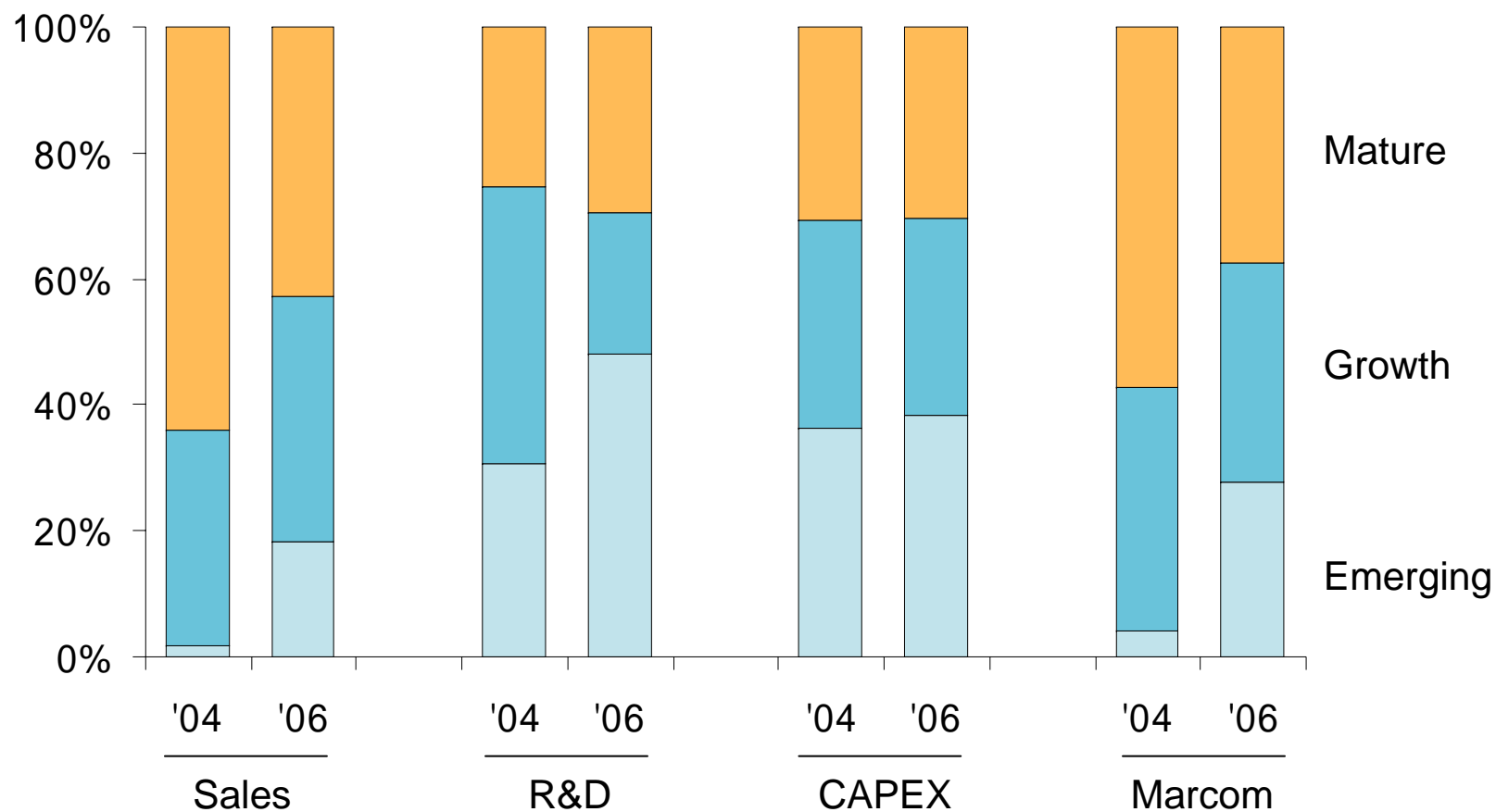
# CE – To secure the future, we have refocused our R&D investments to fuel the innovation engine

*Redirection of R&D in CE*



# DAP – Capital allocation

*Redirection of R&D in DAP*

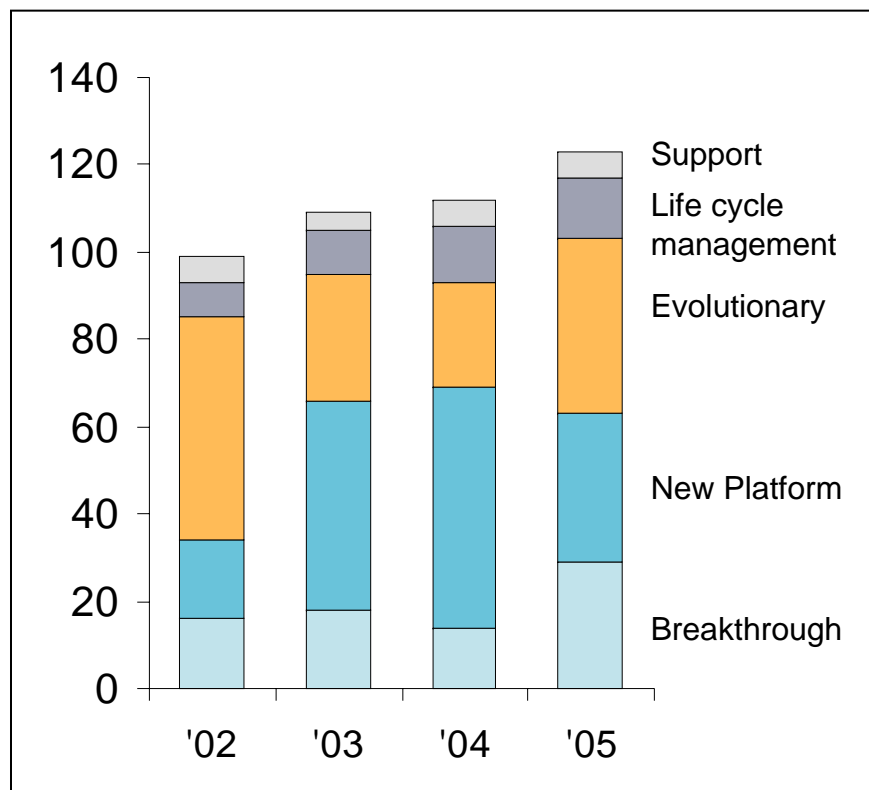


## PMS – Renewing Product Portfolio

### *Redirection of R&D in Medical*

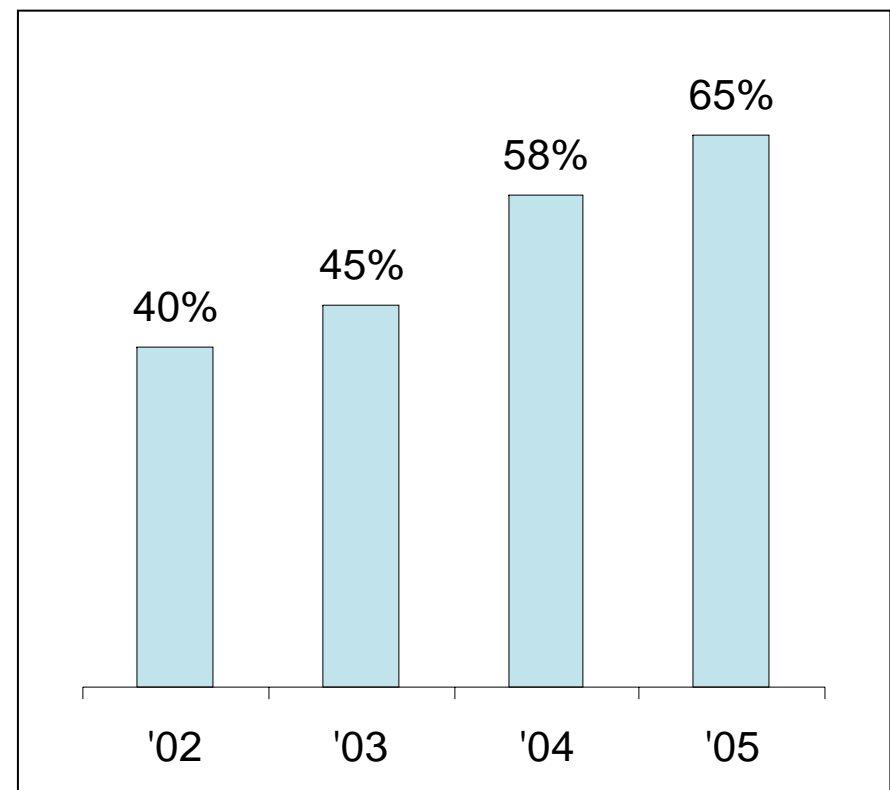
#### Balanced Investment

*R&D spending at comparable currency  
(indexed: 2002=100)*



#### Accelerated Product Renewal

*% Revenues based on products < 2 yrs old*



## Significant new product introductions in 2005/2006

### Medical Systems

iu 22



Panorama MR  
1.0T



Brilliance CT



SureSigns



### DAP



Bodygroom



Smart Touch  
XL



PerfectDraft

### Consumer Electronics



Ambilight



VOIP  
video phone



GoGear  
JukeBox

Wireless  
music center



### Lighting

UHP



Mini CDM  
Mastercolour



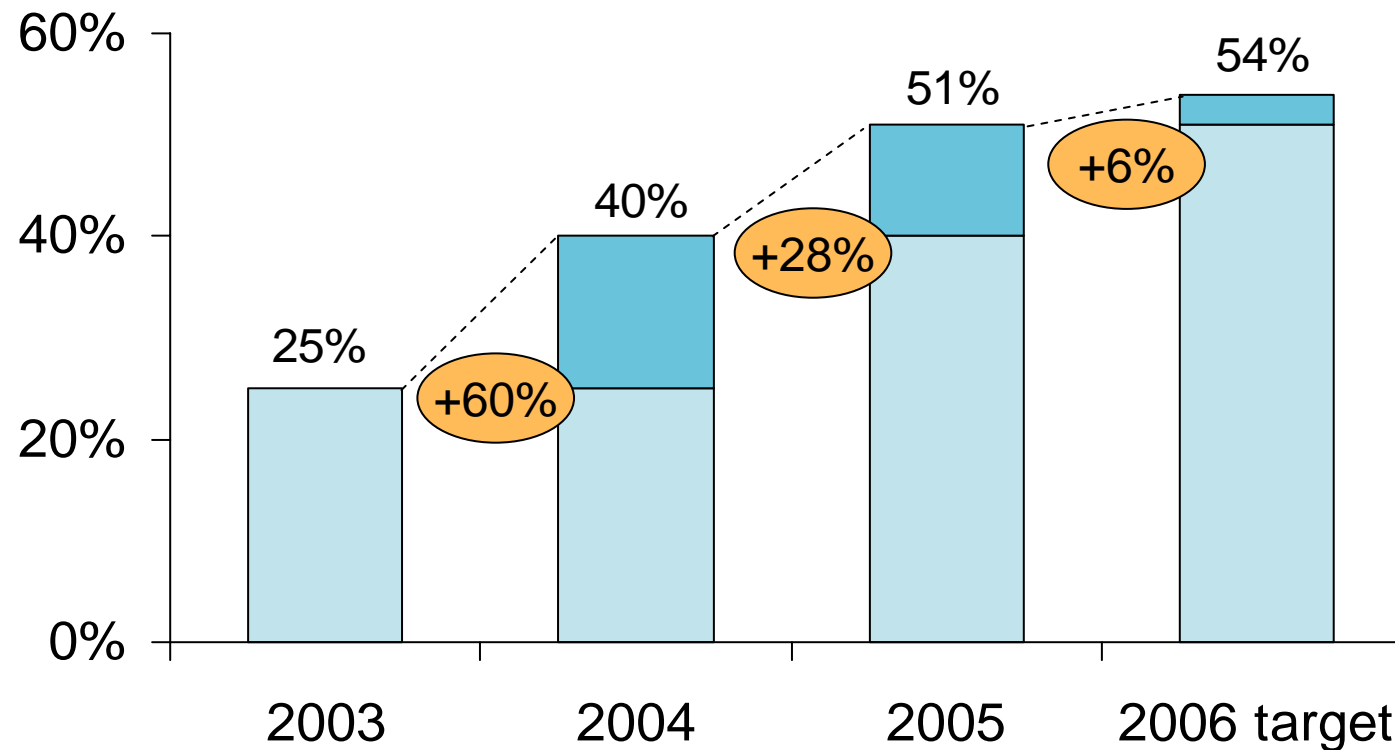
Aptura



Nightguide



# Group revenues from new products excl. Semi



## Brand strength

- Deployment of brand strategy
  - sustained competitive investment behind brand campaign
  - developing and airing product-based advertising
    - *resulting in improved brand rankings*
- Creating conditions to deliver brand promise
  - by embedded filters in all key processes we ensure that everything we do is
    - designed around a relevant end-user insight
    - easy to experience
    - technologically advanced
- Go-to-market approach
  - direct resources to areas with most potential growth
- Further develop marketing organization
  - attract marketing talent
  - increased focus on business development to support innovation projects

## Becoming a more market driven organization

- Continued roll out of “Sense and Simplicity” moving Philips to rank 48 from 53 last year and 65 in 2004 on the Interbrand list
- Medical Systems ‘most customer-driven’ for the 2nd year in the USA
- Key Account Management under International Retail Board resulting in 25% growth with top 6 accounts, representing sales of EUR 2.5 billion
- Named ‘International Supplier of the Year’ by WalMart
- Philips Lighting (US) named ‘Best of the Best’ for Marketing by National Association of Distributors

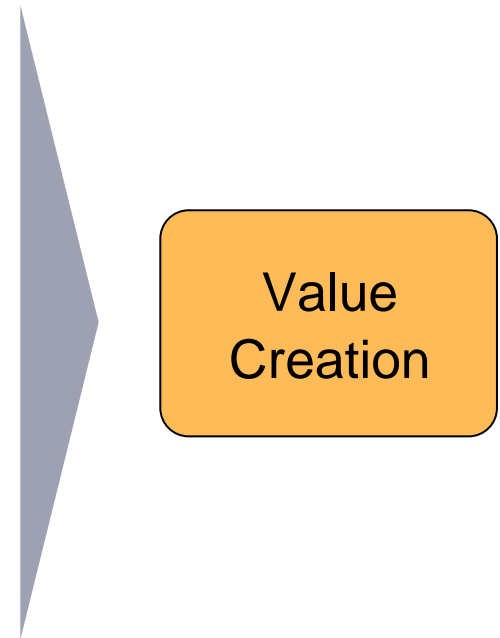


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# Guiding principles for acquisitions

- ① Growth opportunities
- ② No or time-limited margin dilution
- ③ Quality of management
- ④ Clear commercial, clinical, and technology synergies
- ⑤ Complementary position
- ⑥ Strong market position
- ⑦ Integration strategy part of acquisition decision
- ⑧ Walk-away price set at discussion start
- ⑨ A good alliance is an alternative to acquisition



## Growth through acquisitions

Stentor  
Medical  
EUR 194 m.

- ▶ World-class unique technology for cardiology PACS
- ▶ Number 1 KLAS ranking in multiple rankings
- ▶ Synergies with imaging business
- ▶ Leverage Philips' world-wide resources

Witt Biomedical  
Medical  
EUR 137 m.

- ▶ Leading position in integrated Cath Lab
- ▶ Number 1 KLAS ranking in hemodynamics and clinical reporting
- ▶ Strengthened in cardiology market

Intermagnetics  
Medical  
EUR 1.0 b.

- ▶ Leading MRI components & accessories manufacturer
- ▶ Positioning for future
- ▶ Improved supply chain cost
- ▶ Acceleration of time-to-market

Lumileds  
Lighting  
EUR 788 m.

- ▶ Number 1 in high brightness LED
- ▶ Strengthen position in emerging and fast growing LED markets

## Growth through acquisitions

- |   |   |
|---|---|
| Lifeline<br>Health & Wellness (DAP)<br>EUR 579 m. | <ul style="list-style-type: none"><li>▶ Number 1 in Personal emergency response</li><li>▶ Become global player in home healthcare</li><li>▶ Leveraging Lifeline sales &amp; distribution channels</li><li>▶ Leverage Philips' technologies</li><li>▶ Access to target group</li></ul> |
| Avent<br>DAP<br>EUR 675 m.                        | <ul style="list-style-type: none"><li>▶ Leader in baby care</li><li>▶ Premium mother and baby care brand</li><li>▶ Leveraging sales &amp; distribution channels</li><li>▶ Platform for growth</li></ul>   |
| Power Sentry<br>CE                                | <ul style="list-style-type: none"><li>▶ Grow in high margin peripherals and accessory market</li><li>▶ Improve position in audio-visual, PC and mobility accessory market</li></ul>   |
| Bodine<br>Lighting                                | <ul style="list-style-type: none"><li>▶ Enter strategic new market segments</li><li>▶ Broaden product portfolio</li></ul>   |

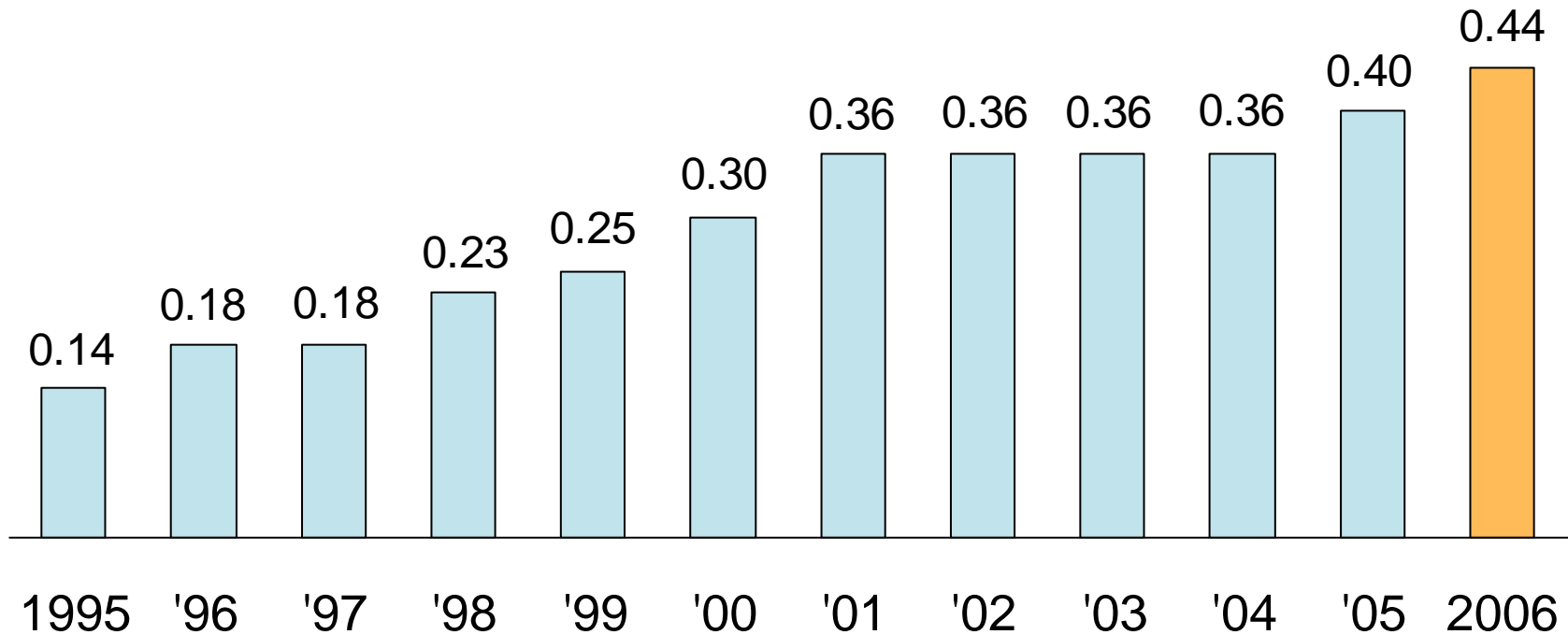
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## Delivering consistent performance

- Strong balance sheet
- Ongoing cost reduction programs
- Continuous improvement in operational efficiencies
- Significantly reduced NOC

## Dividend paid *Amounts in EUR*



# Financial assets: Cash generated from sale of participations

*EUR million*

	2004	2005	2006
Sale securities	883	67	—
Sale Atos Origin shares	552	554	—
NAVTEQ	672	932	—
TSMC	—	770	—
LG.Philips LCD	—	938	—
Semiconductors	—	—	6,400
<hr/>			
<b>Total</b>	<b>2,107</b>	<b>3,261</b>	<b>6,400</b>

# Financial assets: Cash utilization

EUR million

Announced\*\*

	2004	2005	2006 & beyond	Total
Acquisition Lumileds	—	788	—	3,373 28.9 %
Acquisition Stentor	—	194	—	
Acquisition Witt Biomedical	—	—	137*	
Acquisition Lifeline	—	—	579*	
Acquisition Avent	—	—	675	
Acquisition Intermagnetics	—	—	1,000	
UK pension fund	—	—	582*	582 5.0 %
Share repurchase program	—	1,821	414*	7,722 66.1 %
Dividend	460	504	523*	
Announced buy-back & extra dividend	—	—	4,000	
<b>Total</b>	<b>460</b>	<b>3,307</b>	<b>7,910</b>	<b>11,677</b>

\* Already paid for

\*\* Excl. acquisitions of Bodine and Power Sentry

## Major publicly quoted investments

	number shares rounded in millions	% ownership	Market value September 1 <sup>st</sup> , 2006 <i>in EUR m.</i>
TSMC	4,188	16.4	5,860
LG.Philips LCD	118	32.9	3,654
TPV	263	14.7	217
JDS Uniphase	39	2.7	70
FEI	8	25.1	134
<b>Total</b>			<b>9,935</b>

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## Summary

- Grow in Healthcare
- Focus on Innovation
- Higher margin products & markets
- Improving predictability in results
- Strong operational cashflow
- Focus on shareholder value

**PHILIPS**

**sense and simplicity**

