Royal Philips Electronics

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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

High Volume Electronics		Healthcare & Lifestyle
'90ties		*now …*
Portfolio	→	*One Philips*
Restructuring	→	*Growth*
Volatility	→	*Value Creation*
Let's make things better	→	*Sense and Simplicity*

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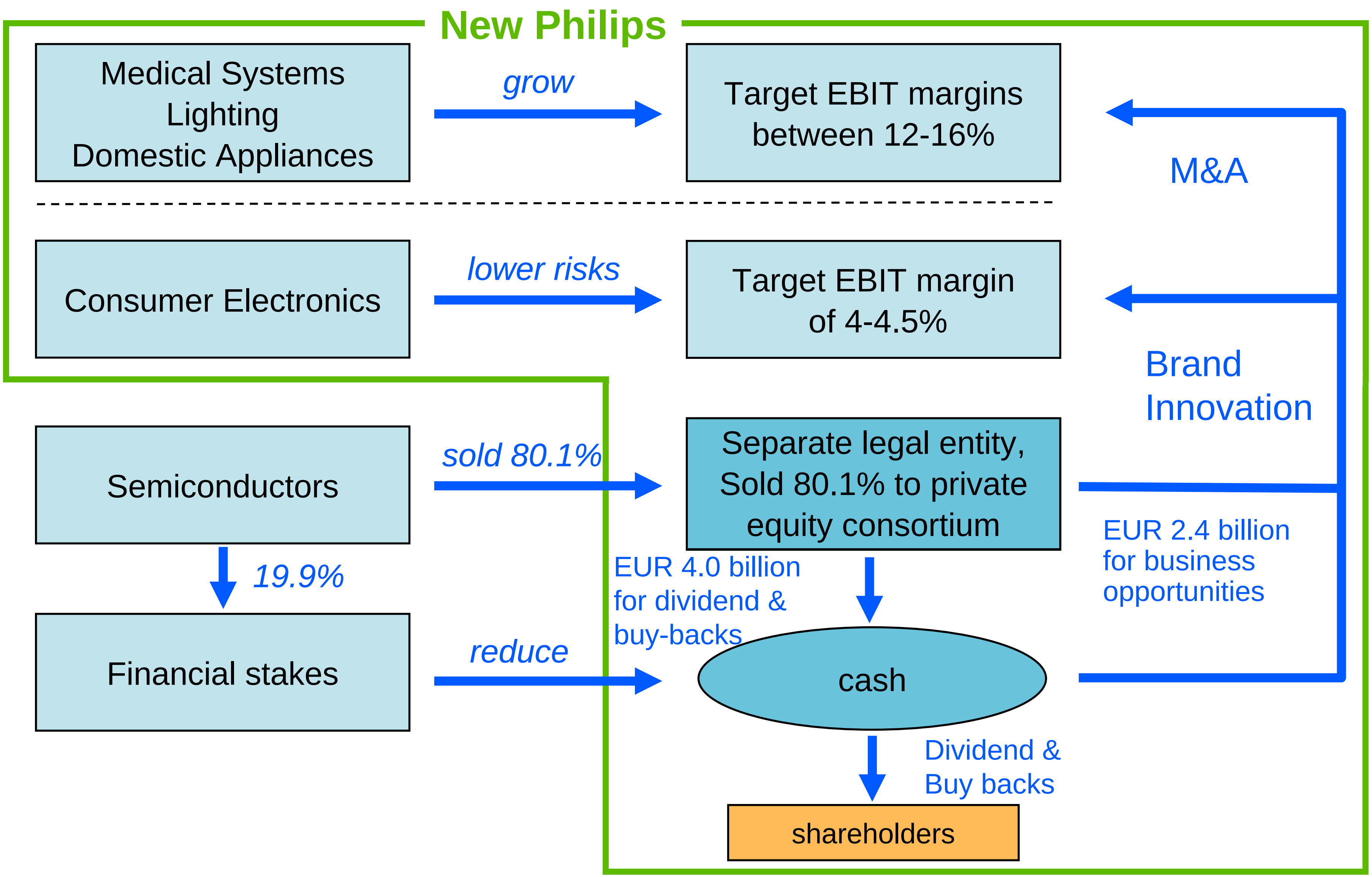
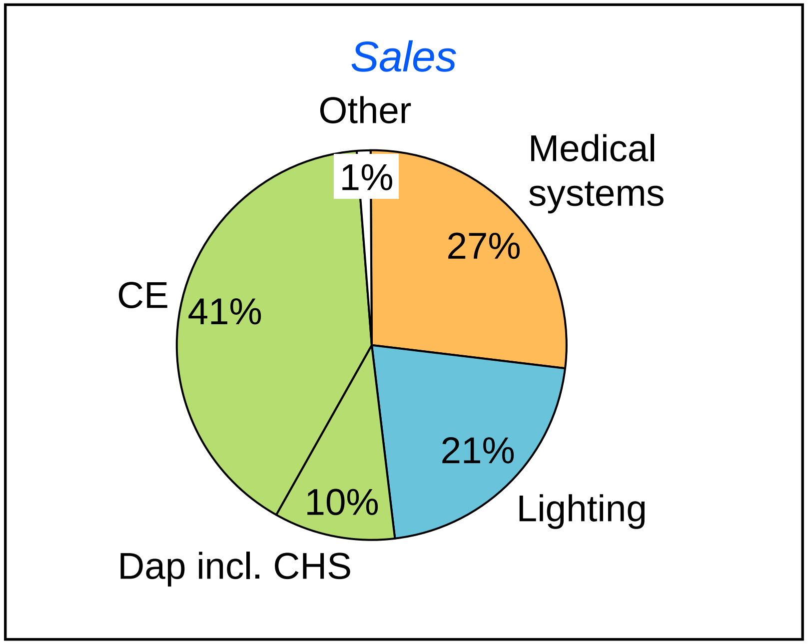
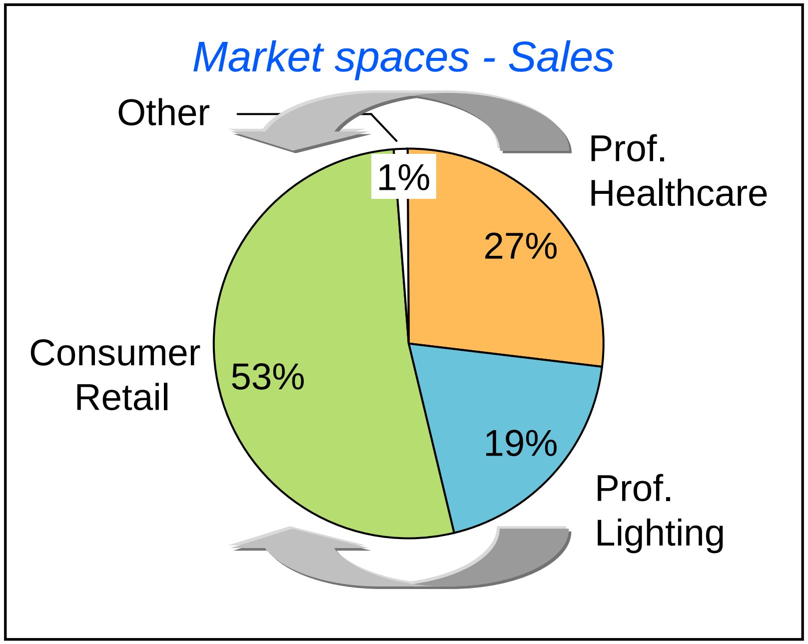
Philips portfolio now fully built around strong brand



A well balanced portfolio across professional and consumer retail markets where the brand is crucial





Assumptions for reclassification:

- *Professional Healthcare:* Medical Systems
- *Professional Lighting:* BGs Luminaires, ASU, Lighting Electronics, Lumileds, 80% of BG Lamps
- *Consumer:* DAP, CE (including Licenses, excluding Mobile Phones), 20% of Lighting BG Lamps
- *Other:* Corporate Technologies, GSUs

Why do we want to invest in Healthcare

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 Consumer appliances

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
- Leveraging the brand
- Strong cashflow
- Comparable sales growth expected at 7% in 2006 with 15-16% EBIT margins prior to purchase-accounting charges

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 targeted at 6%

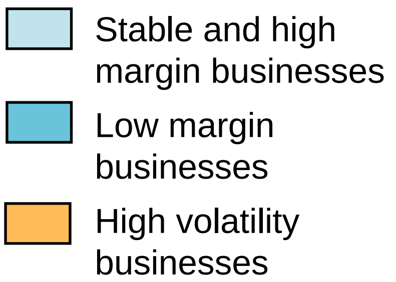
The strengthened business model of CE

Creating the new model

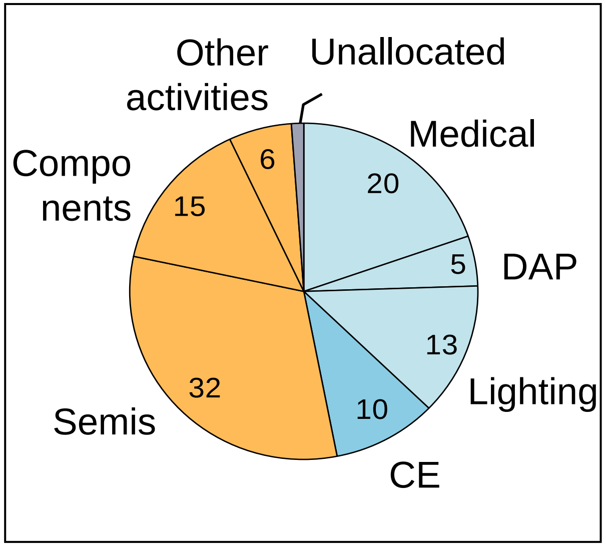
- Focus on innovation in design and marketing of high-end differentiative products
- Leveraging the Brand
- Business Renewal Program to achieve EBIT margins of 4-4.5%
- Outsourced approx. 80% of manufacturing, resulting in negative NOC
- Further de-risking the business through new business models, e.g.TPV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

Reallocation of capital towards stable and higher margin businesses

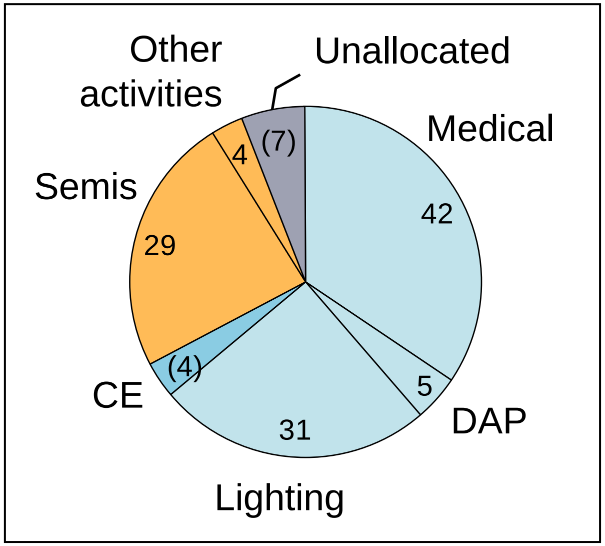
Net operating capital per division as % of total



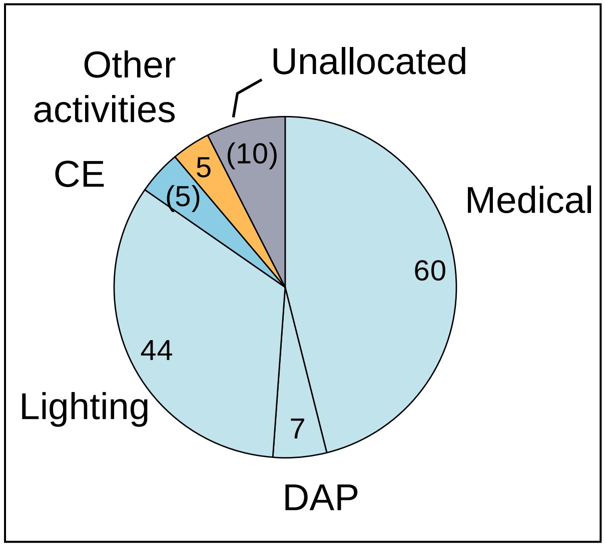
2000



2005



2005 ex Semiconductors

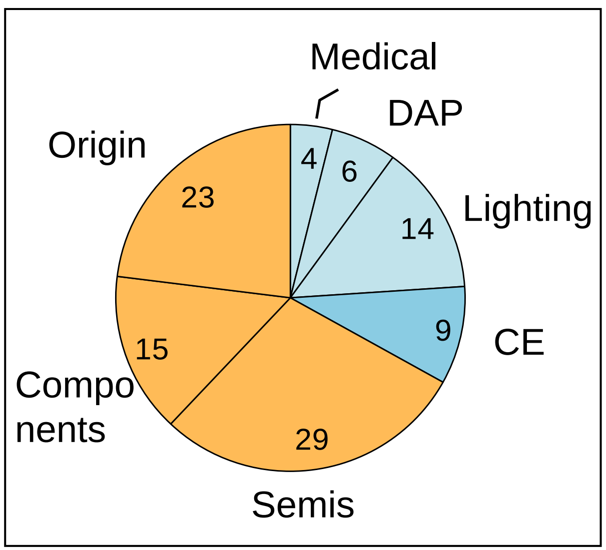


Increased earnings stability

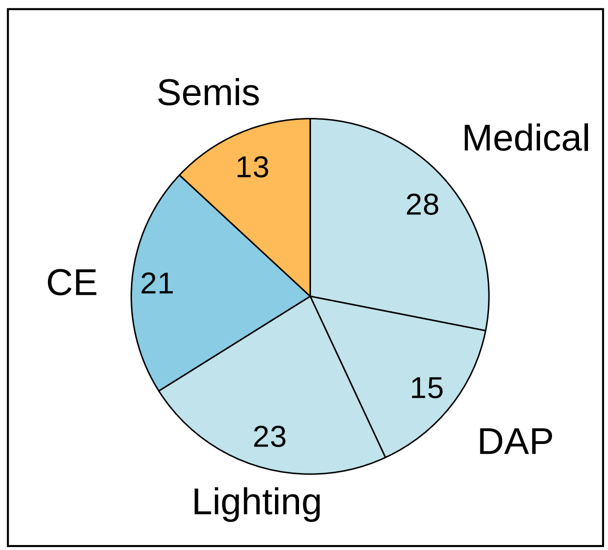
EBIT per division as % of group (excluding Other Activities and Unallocated)

- Stable and high margin businesses
- Low margin businesses
- High volatility businesses

2000



2005



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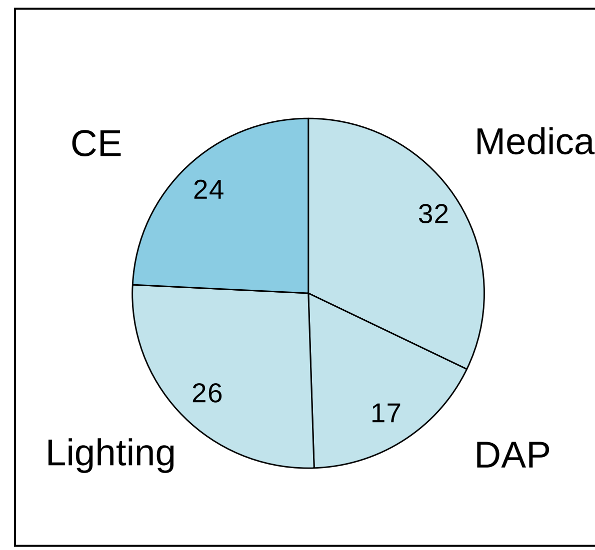

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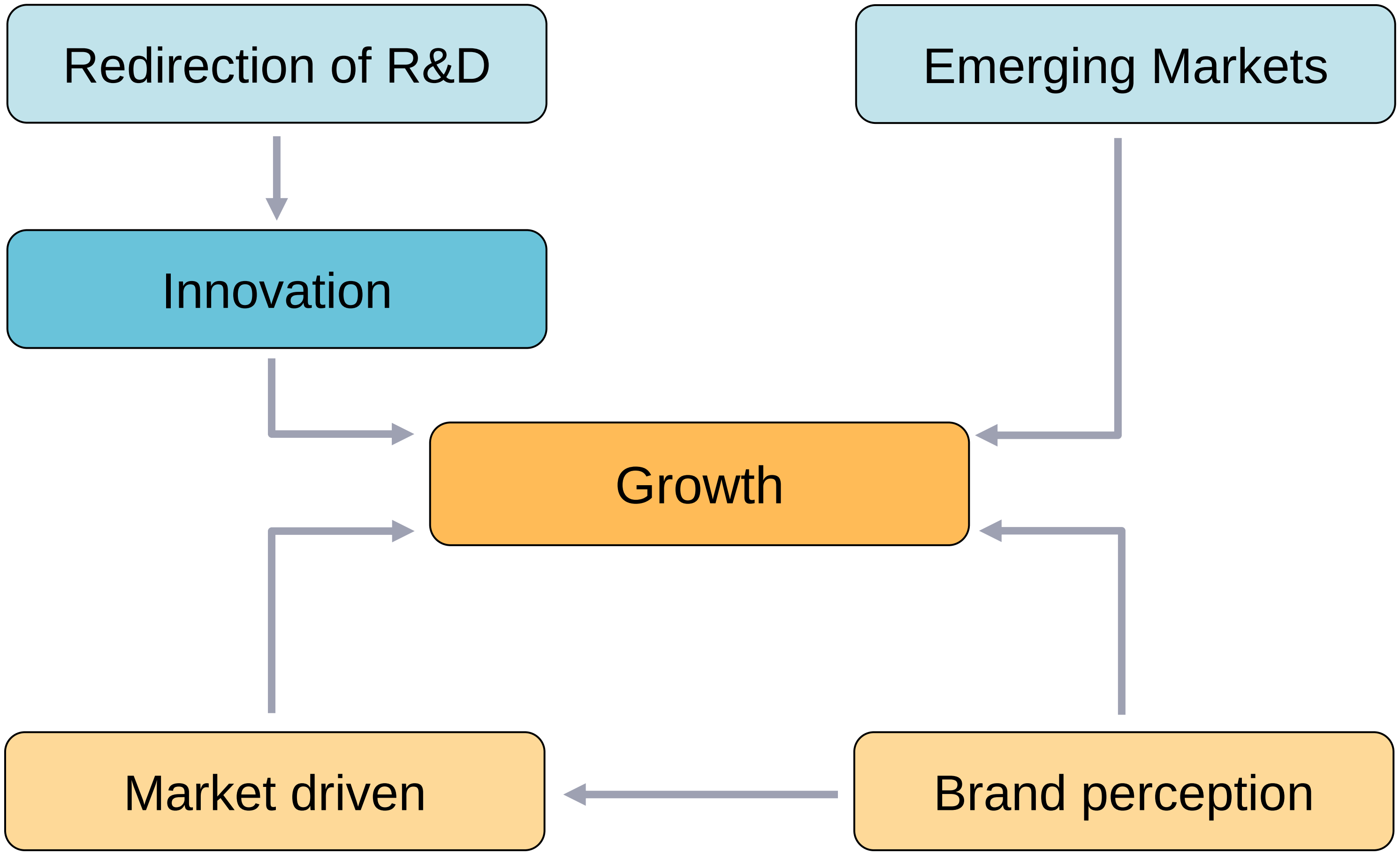
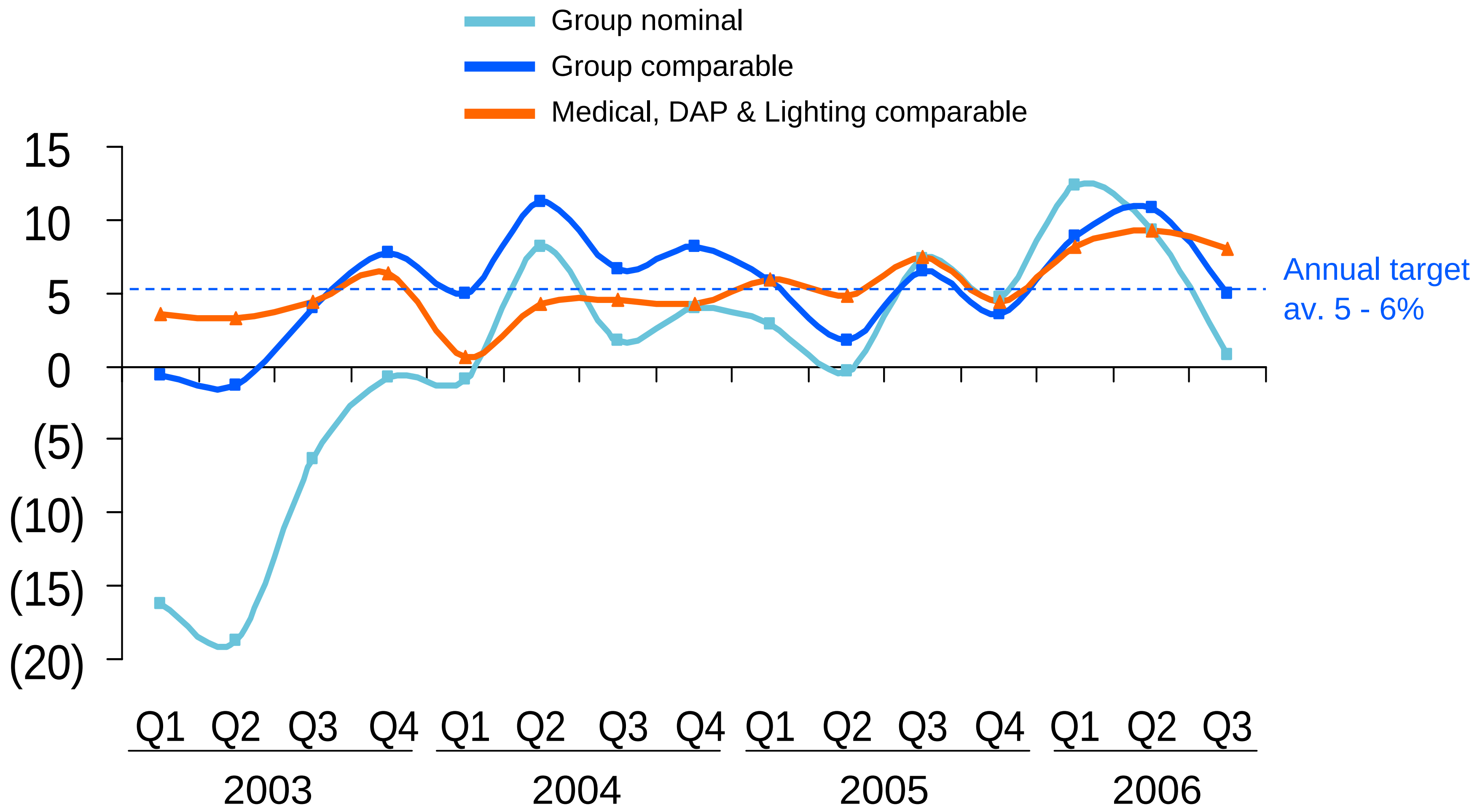
Creating growth opportunities



Comparable sales growth towards annual average of 5-6%, excl. Semi



Comparable sales growth towards annual average of 5-6%

	2005	3Q06 YTD	Disclosed target
Medical	7%	8%	6%
DAP	6%	10%	7%
Lighting	4%	9%	6%
CE	5%	10%	*
Total Group (Excl.Semiconductors)	4%	8%	5 – 6%

* No targets disclosed

Significant new product introductions in 2005/2006

Medical Systems

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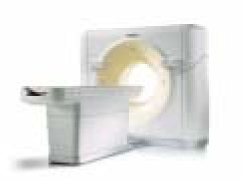
Panorama MR 1.0T

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

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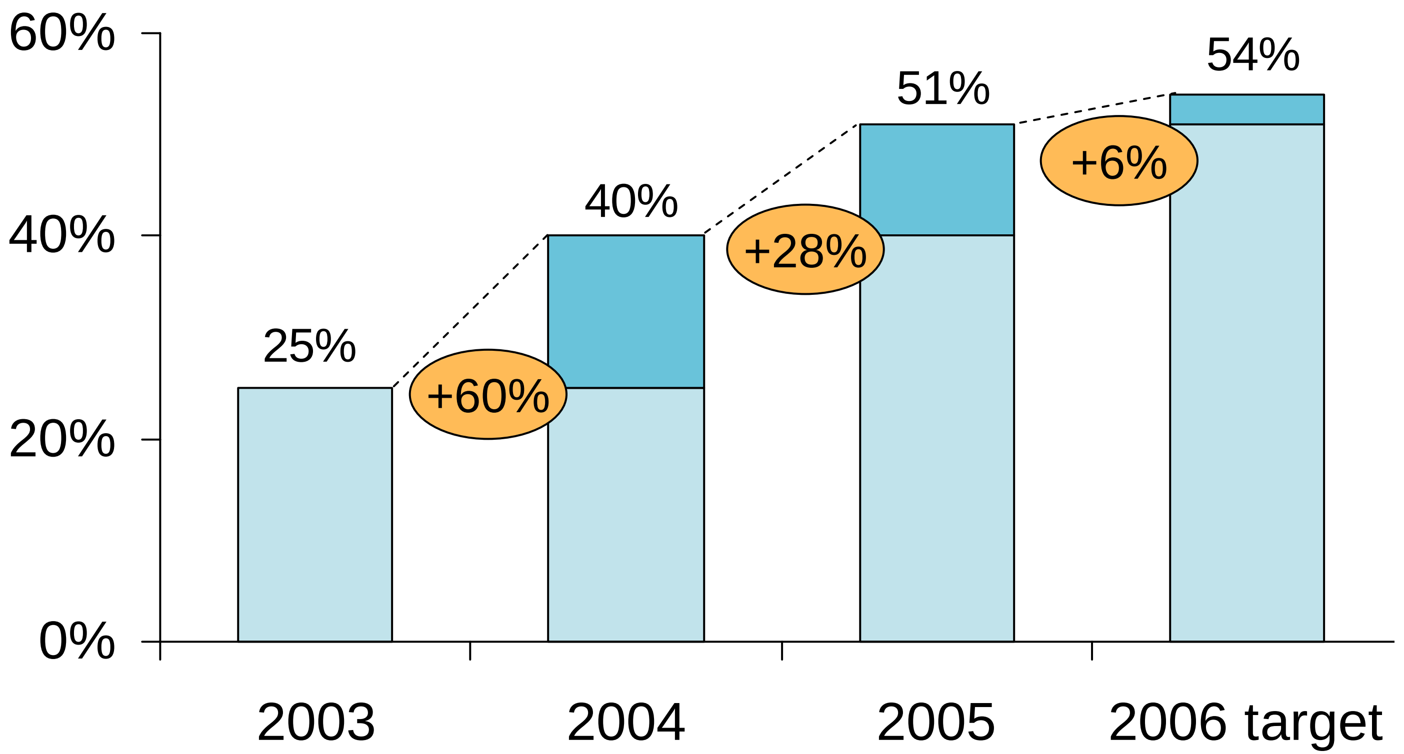
Group revenues from new products excl. Semi



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

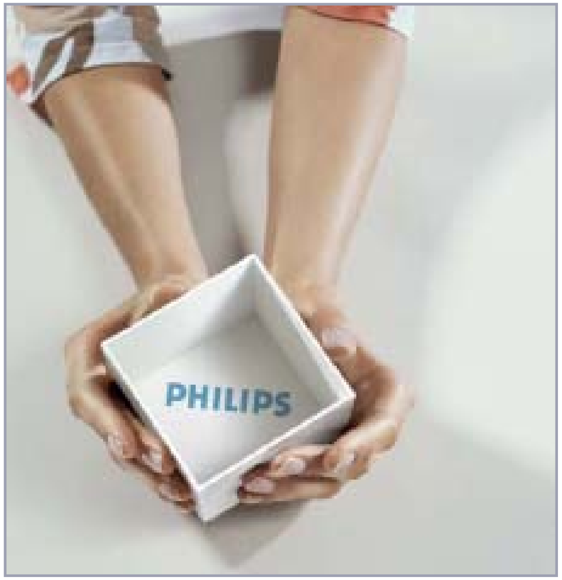
- Continued roll out of “Sense and Simplicity” moving Philips to rank 48 from 53 last year and 65 in 2004 on the Interbrand list

- 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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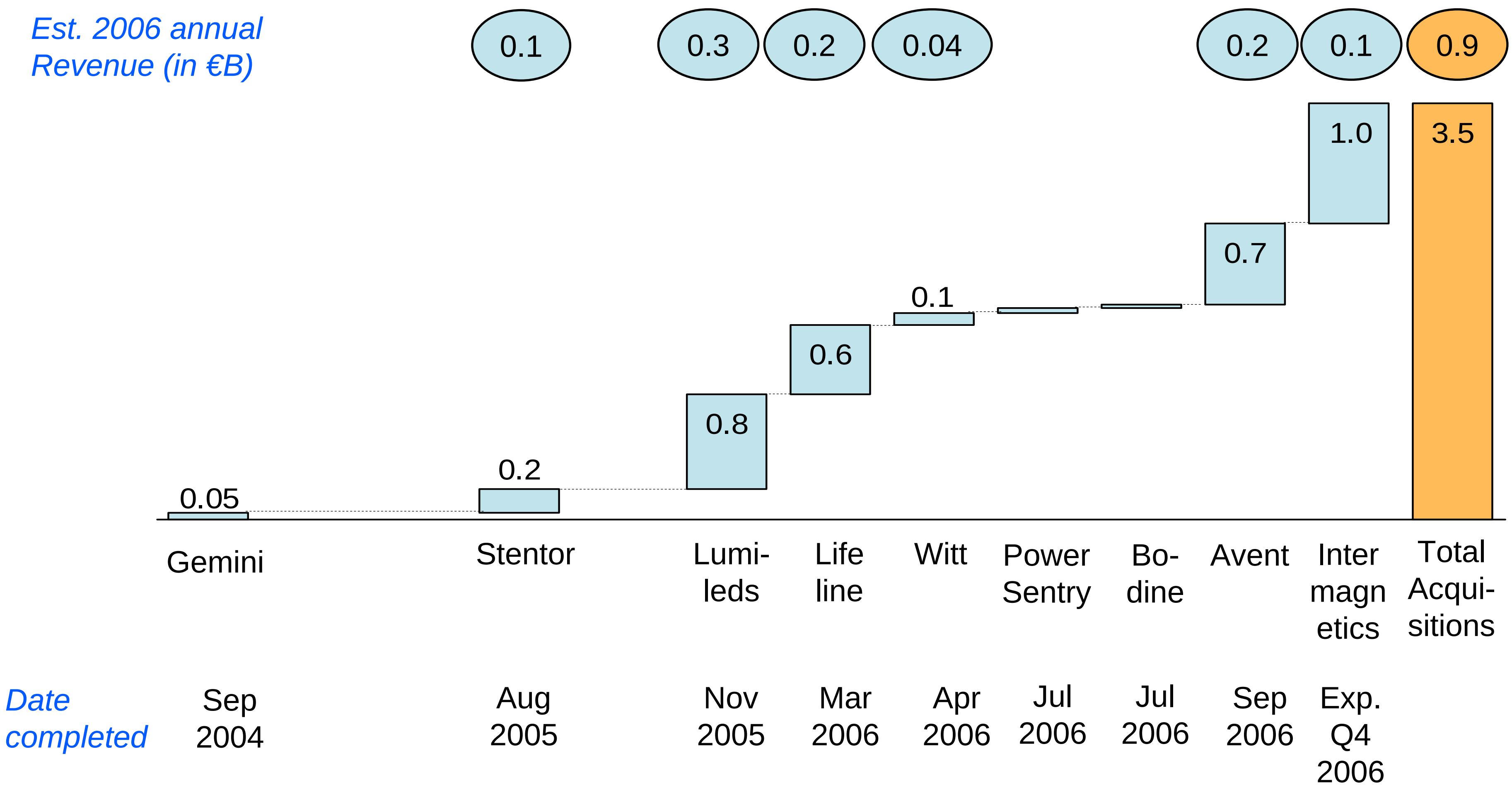
Guiding principles for acquisitions

1. Growth opportunities in our high margin, more predictable businesses
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

→ Value Creation

Over the past 12 months we have made ~€3.5B of mostly add-on acquisitions …

Re-allocation of resources (€ B)



Source: Company press releases, RFA document

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

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Growth through acquisitions …..

Lifeline Health & Wellness (DAP) EUR 579 m.	▸ Number 1 in Personal emergency response ▸ Become global player in home healthcare ▸ Leveraging Lifeline sales & distribution channels ▸ Leverage Philips' technologies ▸ Access to target group
Avent DAP EUR 675 m.	▸ Leader in baby care ▸ Premium mother and baby care brand ▸ Leveraging sales & distribution channels ▸ Platform for growth
Power Sentry CE	▸ Grow in high margin peripherals and accessory market ▸ Improve position in audio-visual, PC and mobility accessory market
Bodine Lighting	▸ Enter strategic new market segments ▸ Broaden product portfolio

…that have a different profile compared to existing Philips business

In EUR millions

	Philips 2005 actual[2]	2006 Pro-rata performance of acquisitions[1]
Sales	25,774	927
Comparable Growth	4%	22%
EBIT	1,471	165
%	5.7%	17.5%

Note:
1 – Included in the analysis are : Stentor, Lumileds,Lifeline, Witt, Avent and Intermagnetics; Based on annual figures from RFA documents, excluding purchase accounting charges
2 – Data excluding Semiconductors

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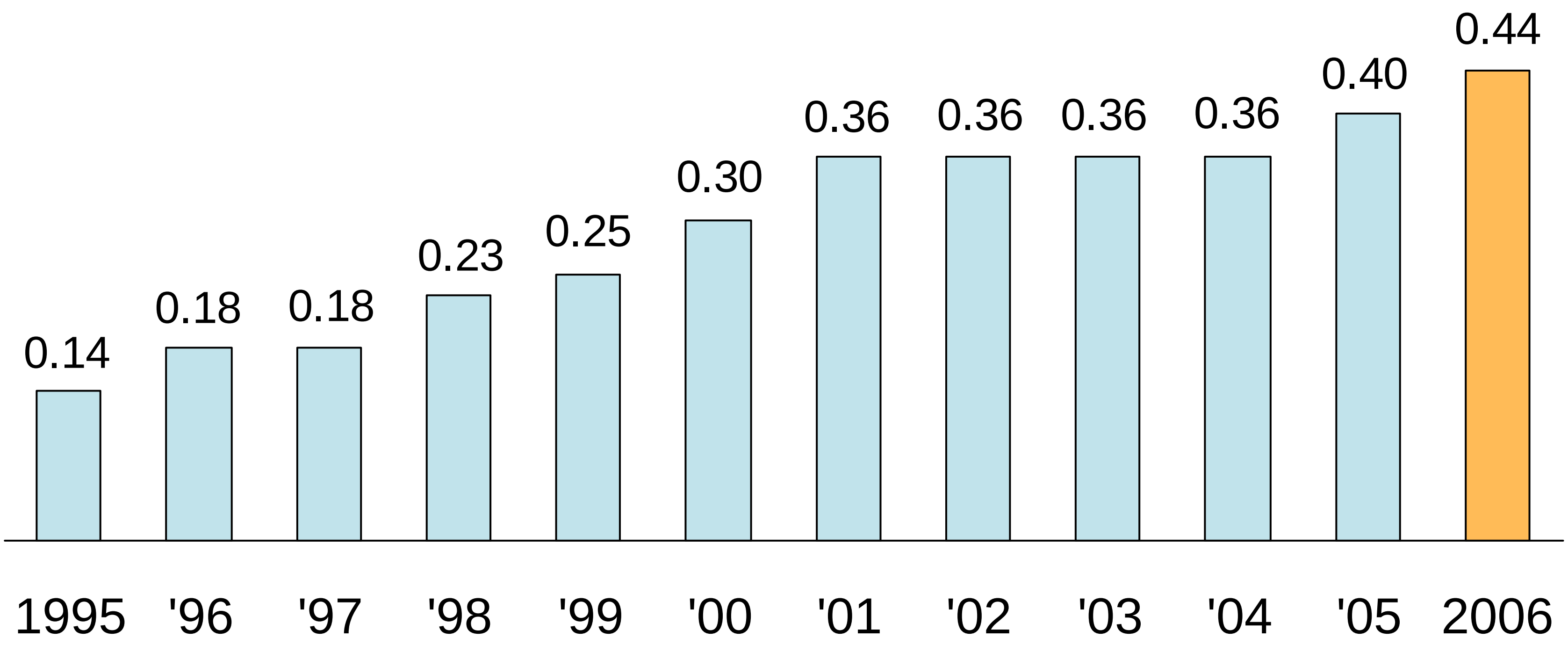
Delivering consistent performance

- 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
Total	2,107	3,261	6,400

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Financial assets: Cash utilization

EUR million

	2004	2005	Announced** 2006 & beyond	Total
Acquisition Stentor	–	194	–	3,373 *28.9 %*
Acquisition Witt Biomedical	–	–	137*	
Acquisition Lifeline	–	–	579*	
Acquisition Intermagnetics	–	–	1,000	
Acquisition Lumileds	–	788	–	
Acquisition Avent	–	–	675*	
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	
Total	460	3,307	7,910	11,677

* Already paid for

** Excl. acquisitions of Bodine and Power Sentry

Color: Healthcare, Lighting & DAP

Major publicly quoted investments

	number shares rounded in millions	% ownership	Market value October 31th, *2006 in EUR m.*
TSMC	4,188	16.4	6,051
LG.Philips LCD	118	32.9	2,950
TPV	263	13.8	172
FEI	8	25.1	151
JDS Uniphase	5	2.7	56
Total			9,381

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Summary

- Simplified portfolio of world-class businesses build around a strong brand
- Focus on market driven Innovation provides basis for growth across the portfolio
- Focus on high margin products & markets
- Grow via acquisitions when value is created
- Leverage the brand
- Continue to improve the predictability of results
- Continue to focus on cash flow

Creating Shareholder Value

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