

**PHILIPS**

**sense and simplicity**

# PHILIPS

## Royal Philips Electronics

Pierre-Jean Sivignon

Executive Vice President & Chief Financial Officer

# 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.

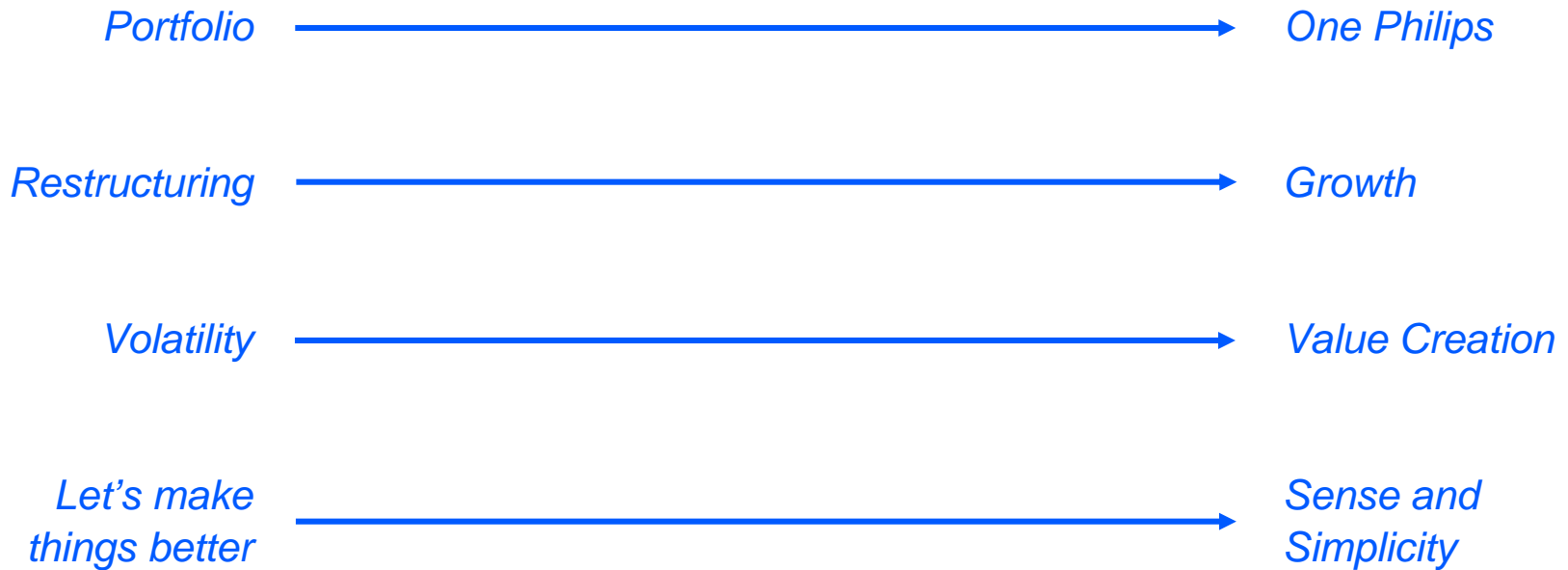
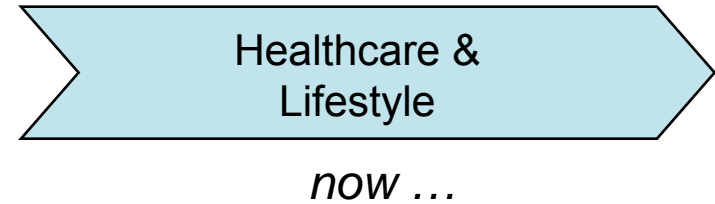
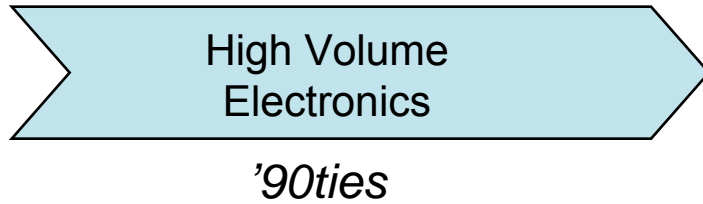
## *Use of non-GAAP Information*

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

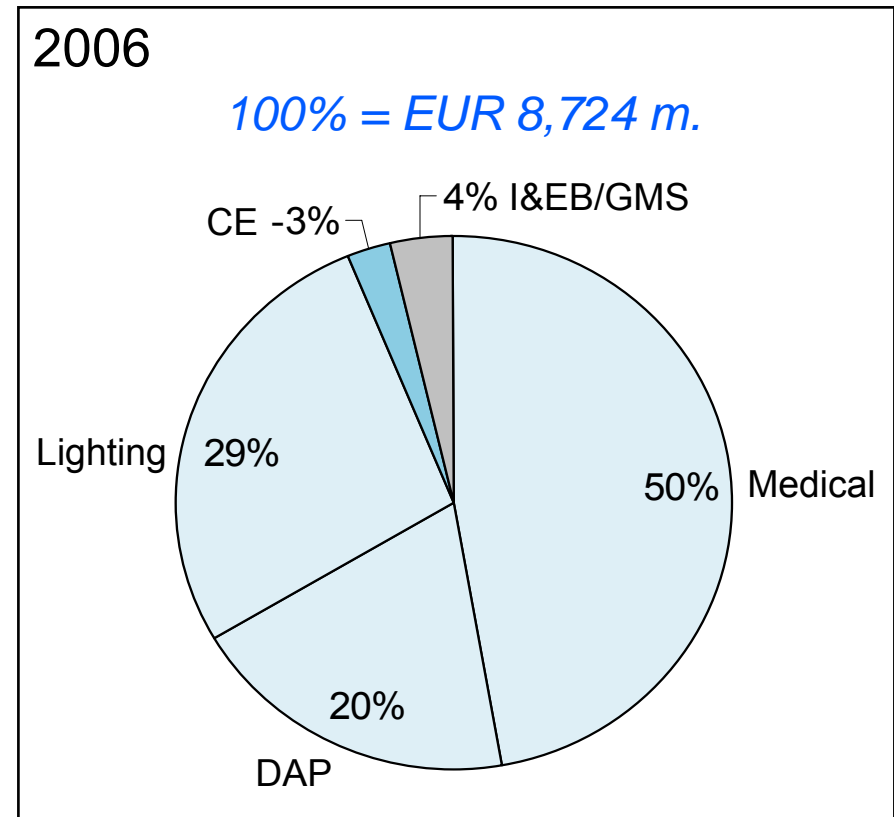
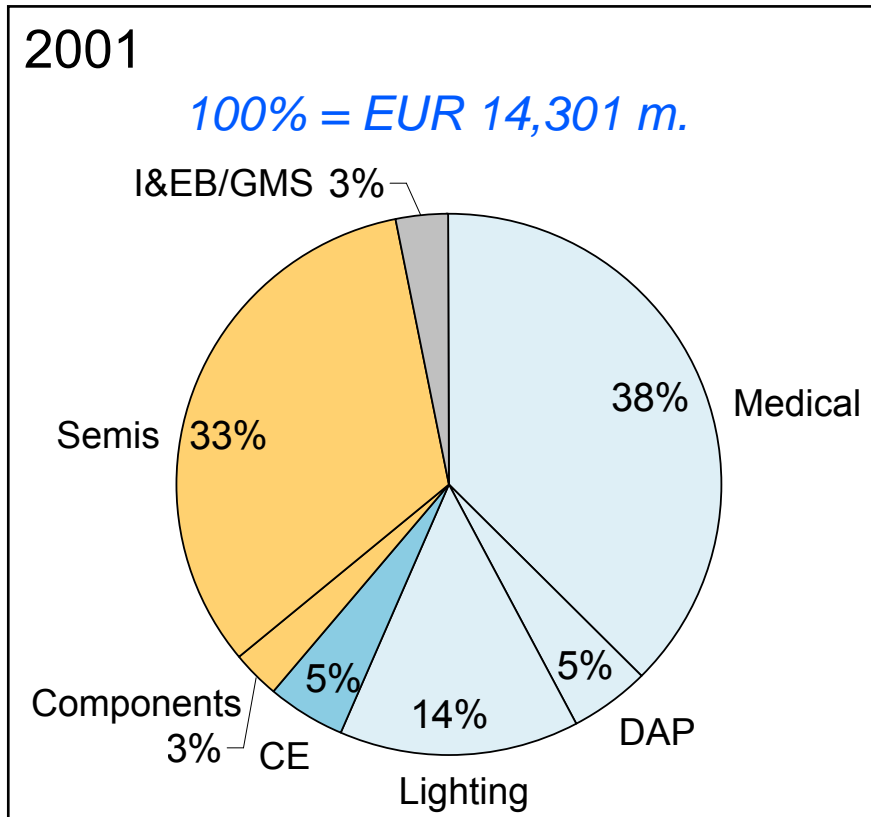
- Strategic direction
- Growth strategy
- Acquisition discipline
- Financial discipline
- Conclusion

# Strategy Evolution



# Reallocation of capital towards stable and higher margin businesses

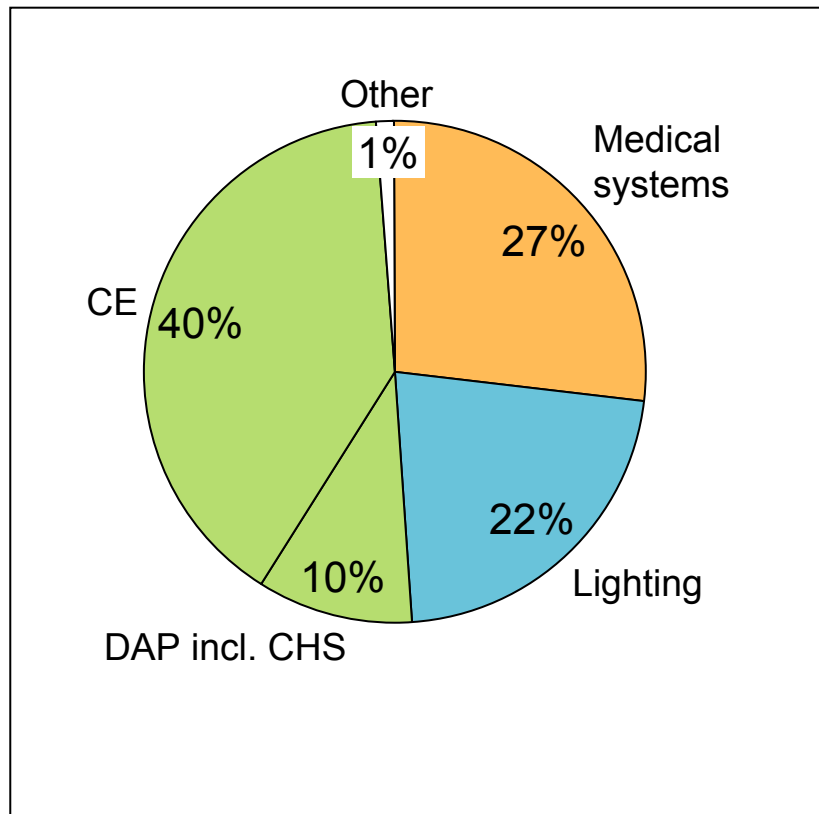
*NOC as % of group NOC*



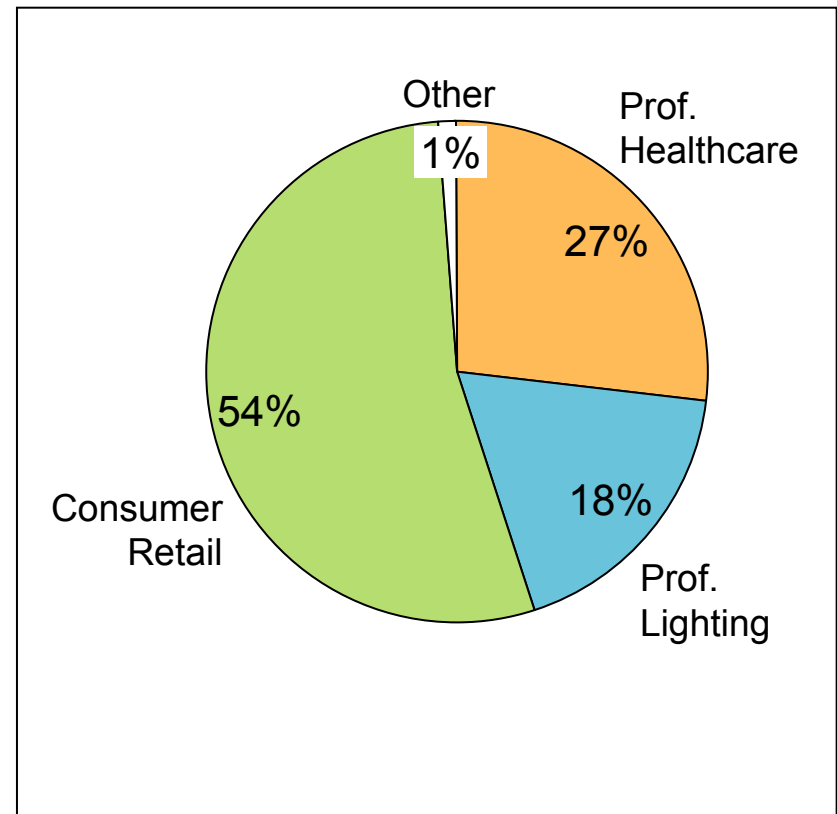
- Stable and high margin businesses
- Low margin businesses
- High volatility businesses

## A well-balanced portfolio in consumer retail and professional markets built around the brand

Divisions – Sales\*

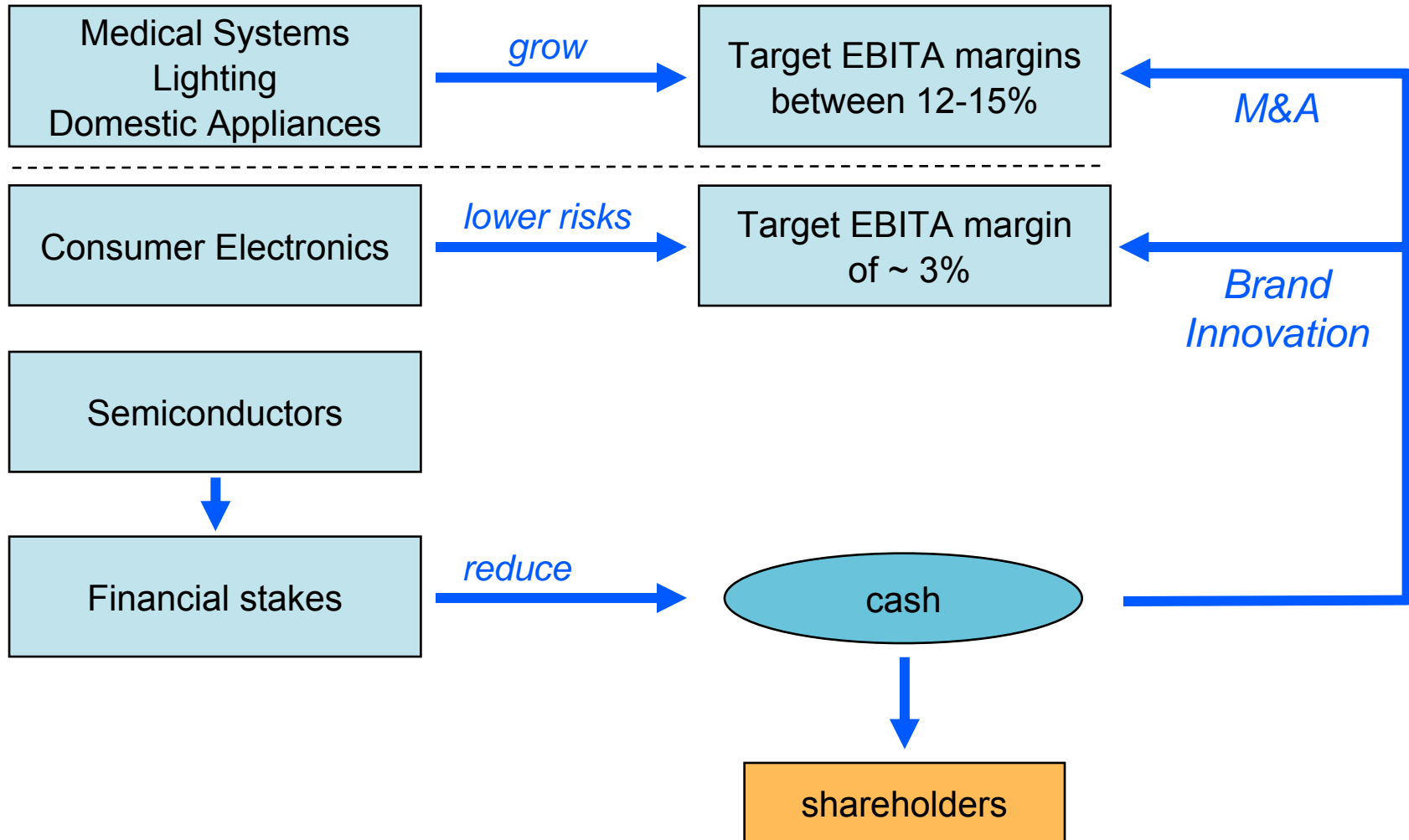


Market spaces - Sales



\* 2006 excluding Mobile Phones and Corporate Investments

# 2006: Acceleration of capital reallocation



## Agenda

- Strategic direction

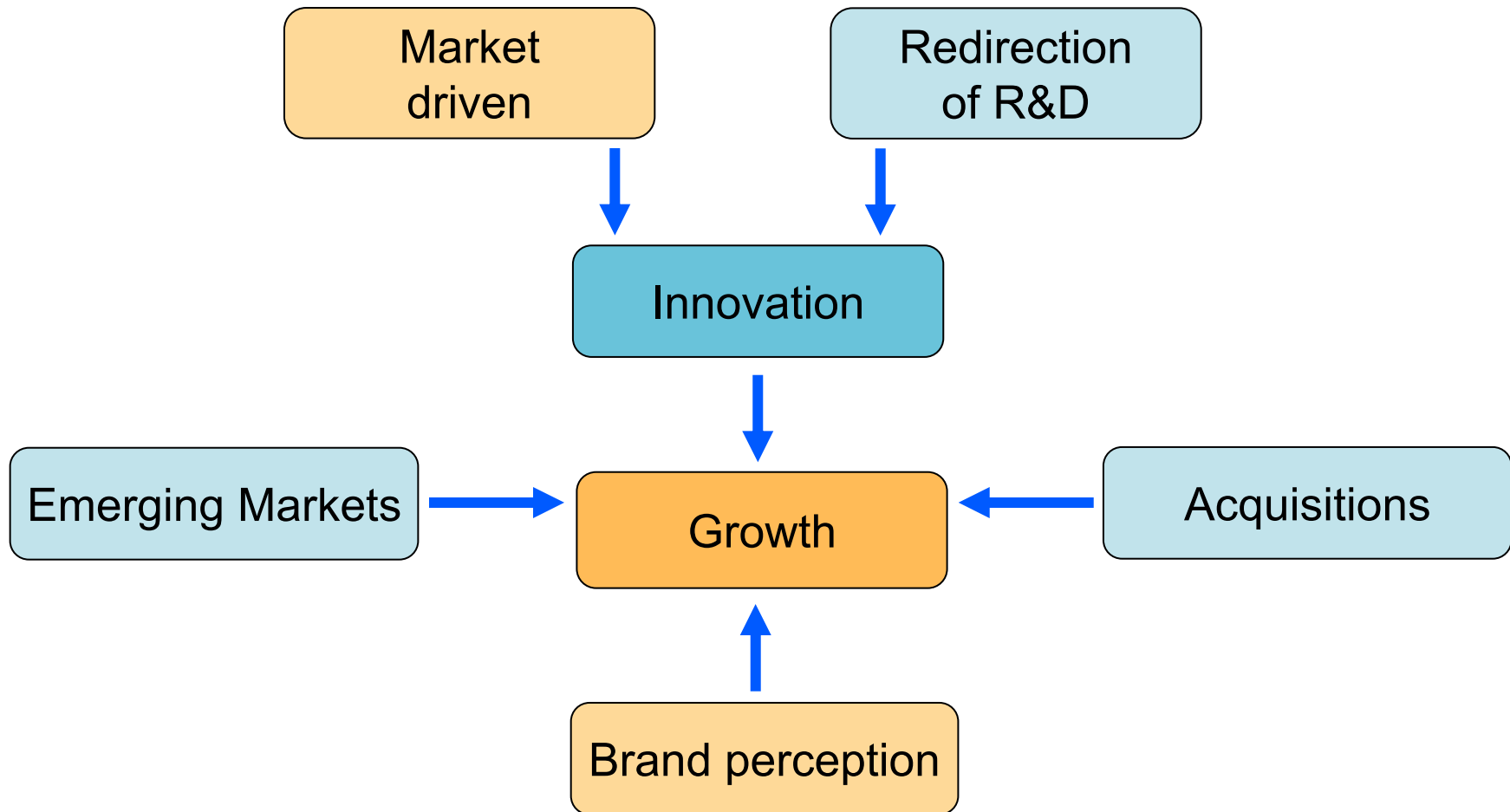
- Growth strategy

- Acquisition discipline

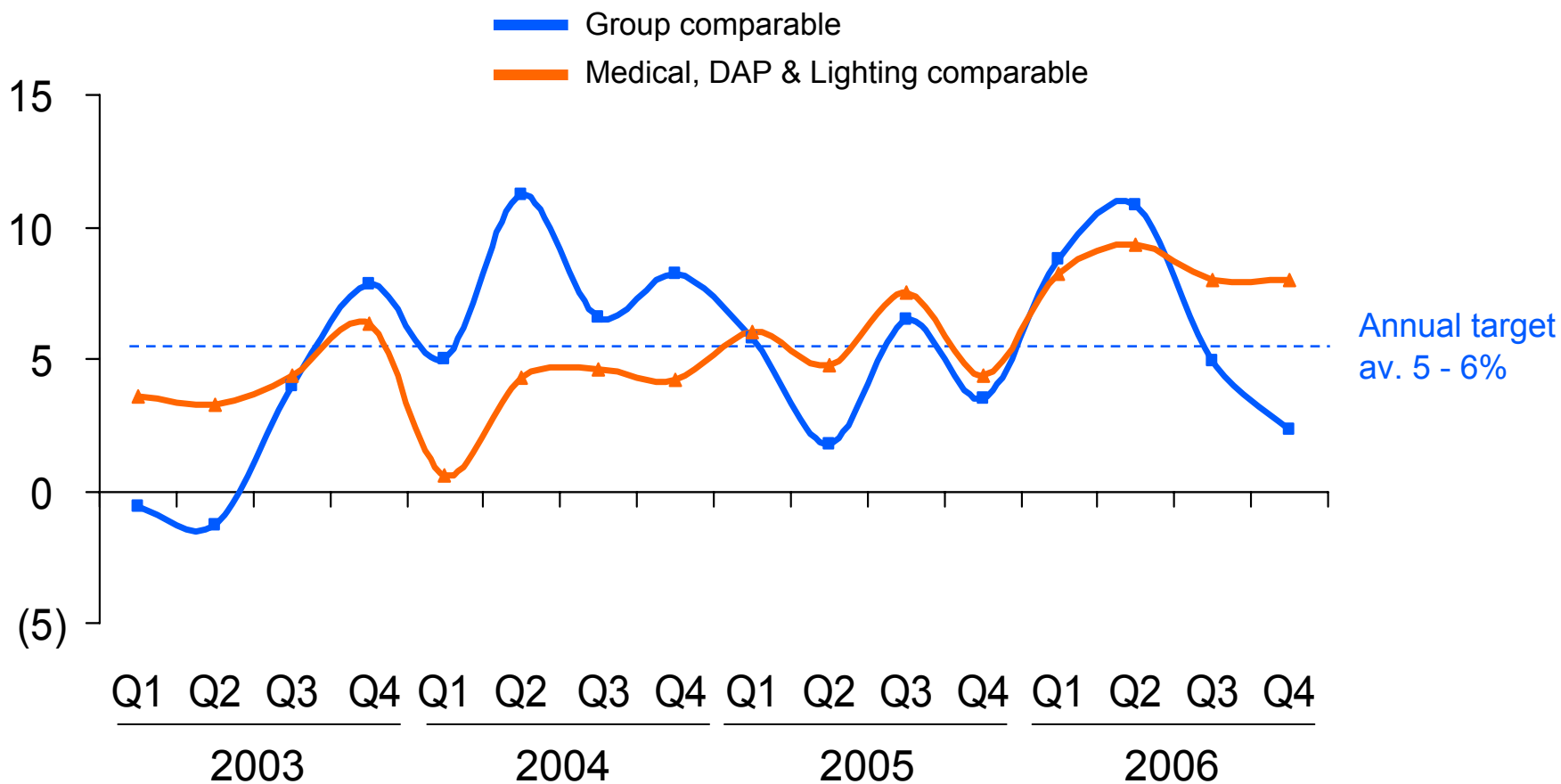
- Financial discipline

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# Creating growth opportunities in healthcare, lifestyle and technology



## Quarterly sales growth y-o-y %



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

	2005	2006	Disclosed target
Medical	7%	7%	6%
DAP	6%	11%	7%
Lighting	4%	8%	6%
CE	5%	5%	*
<hr/>			
<i>Total Group</i> <i>(Excl. Semiconductors)</i>	4%	6%	5 – 6%

\* No targets disclosed

# Significant new product introductions in 2006/2007

**Medical Systems**

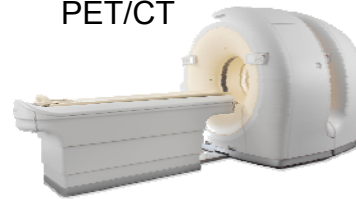
BrightView SPECT



EP Navigator



Gemini time-of-flight PET/CT



SureSigns VM



**DAP**



Bodygroom



Williams F1 shaver



Wake up light



Wardrobe care

**Consumer Electronics**



Ambilight



VOIP phone



Portable media devices



Wireless music center

**Lighting**



UHP

halogen energy saving lamp



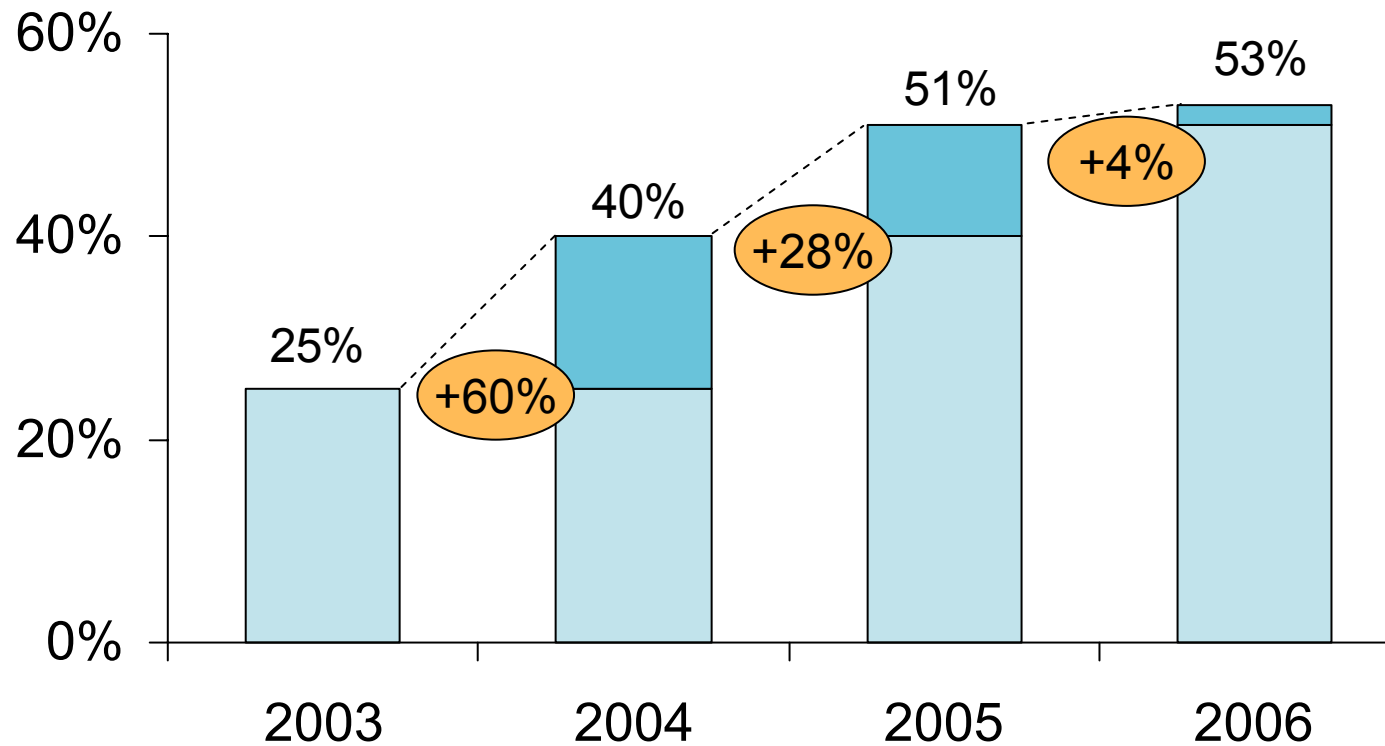
Edore

Mini CDM Mastercolour



CosmoPolis

# Group revenues from new products



## 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

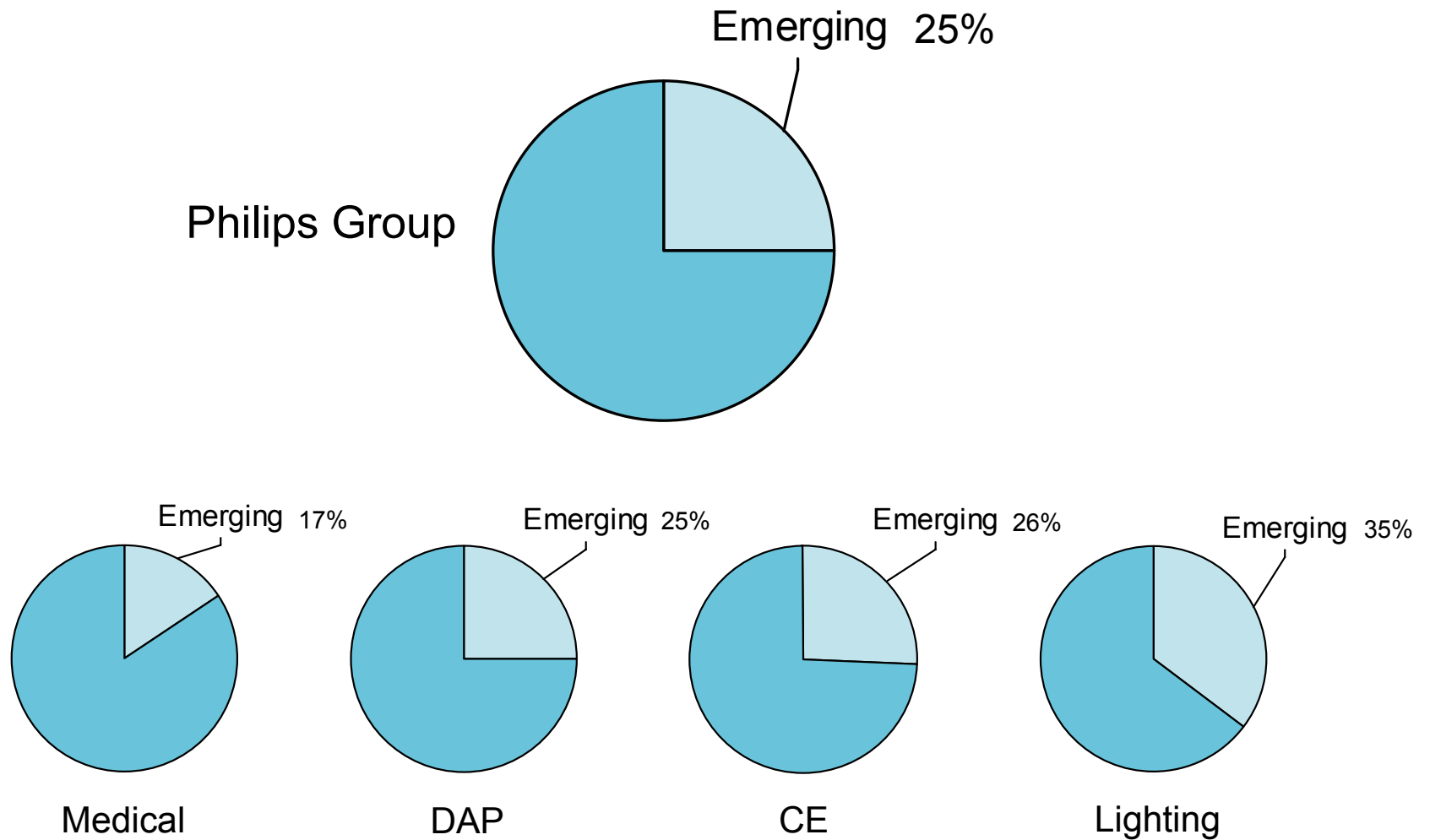
## Becoming a more market driven organization

- 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



# Emerging markets

## *Sales in emerging markets Q4 2006*



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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

## Portfolio changes in 2006

In EUR millions

### Major acquisitions <sup>1</sup>

- Lifeline Systems
- Witt Biomedical
- Avent
- Intermagnetics



### Divestments <sup>3</sup>

- MDS
- Activities in Optical Storage (Optical Pick-up Unit / Sound Solutions / BenQ Digital Storage)
- Enabling Technologies Group
- HTP Tooling

Sales	415 <sup>2</sup>
Comp. growth	20%
EBIT	60
% of sales	14.5%

Sales	1,570
Comp. growth	-15%
EBIT	-73
% of sales	-4.6%

1: US GAAP restated 2005 sales and EBIT excluding annualized amortization costs. Comp. growth based on RFA.

2: Excluding sales from Intermagnetics to Philips

3: Based on actual 2005

# Stentor: World-class in healthcare IT

*Purchase price EUR 194 million*

- Acquired August 5, 2005 and fully integrated within 5 months
- 2006 i-Site order intake was over EUR 200 million and grew by 105%, we expect ~30% growth in 2007
- 2006 sales grew by 25% and we expect ~65% growth in 2007
- Performance level is well ahead of original plans
- Expansion into Europe taking place
- The growth has been based on an excellent Stentor product combined with the strength of Philips in hospitals

# Witt Biomedical: World leader in Hemodynamic Reporting

*Purchase price EUR 110 million*

- Acquired April 27, 2006 and positioned Philips as the #1 global provider of fully integrated Cath Labs
- 2006 order intake grew by 34% and we expect ~70% growth in 2007
- 2006 sales grew by 10% and we expect ~50% growth in 2007
- Performance level is well ahead of original plans
- Philips now ranked as number 1 in Hemodynamic Reporting with no position prior to acquisition

# Intermagnetics: Magnetic Resonance Imaging

*Purchase price EUR 993 million*

- Acquired November 9, 2006
- Approximately 4 points additional growth in Philips' MRI market share within 3 years
- Improved supply chain cost, 3-5 margin points
- Acceleration time-to-market by approx. 20-25%
- Rationalize business footprint of Philips' MR business
- Growing coils & monitoring business using our global reach
- Positioning for future, expands PMS's portfolio with a leading position in MR compatibles patient monitors
- Take advantage of the new magnet technology

## Lifeline: Consumer healthcare market

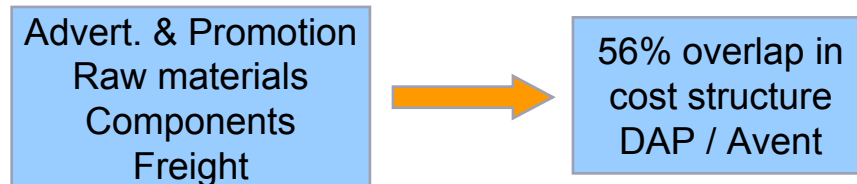
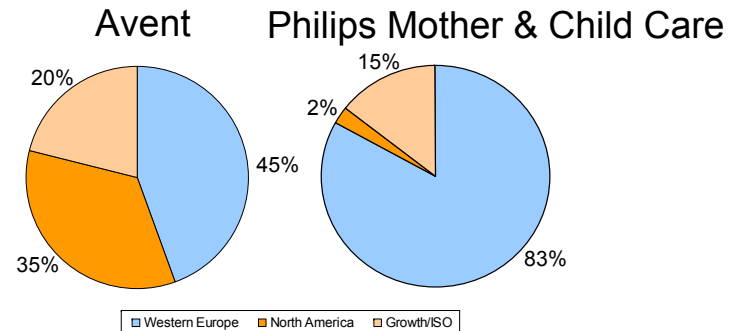
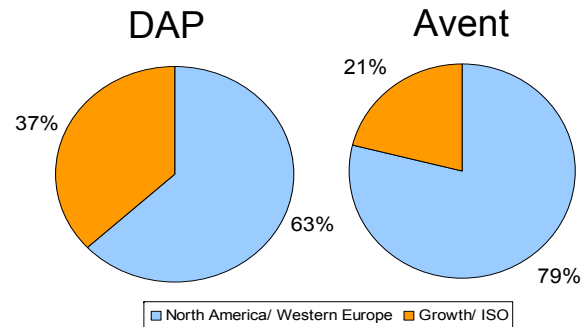
*Purchase price EUR 583 million*

- Lifeline is an acquisition that has created a platform for building a consumer healthcare market
- 2007 sales expected to be in excess of USD 200 million which is more than 15% organic growth over 2006 and represents an acceleration of the growth achieved in 2006.
- The growth is based on:
  - increase in the subscriber base
  - increase in average monthly income per subscriber
  - sales synergies expected from the brand and from the introduction of the telemarketing business into the Lifeline channel
  - R&D investment increased to stimulate further growth

# Avent: Growth in Health & Wellness

*Purchase price EUR 689 million*

- DAP's larger presence in Emerging Markets provides growth opportunities for Avent
- Avent's regional strengths provides growth opportunity for existing Philips M&CC business
- large overlap in major components of cost structure of Avent provides cost synergy opportunities



## Philips + Lumileds: A powerful combination

*Purchase price EUR 873 million (including price of already owned stake)*

- Lumileds will launch superior Luxeon platforms from combining their significant LED capabilities with the rich knowledge of Philips about phosphors, manufacturing processes and lighting technology
- Philips Luminares became a world leader in LED-based general lighting by leveraging Luxeon
- Lumileds' sales grew 33% (target 25%) in 2006, outperforming the market. Demand for applications in cell phone camera flash and general lighting was particularly strong
- Lumileds will continue to lead in the fast growing high power LED market it pioneered
- The acquisition enabled Philips to fully leverage the 49% that we already owned which cost approx. USD 90 million
- Our target for the pre-acquisition margin for the coming years remains 25%



## PLI: Leading European Consumer Luminaire player

*Purchase price EUR 590 million*

- The acquisition of PLI is a strategic move to enter new market segment for Philips Lighting: Consumer Luminaires
- LED content in Consumer Luminaires will increase driven by consumers needs in the area of energy efficiency and ambiance creation
- With the increasing use of LED in general Lighting, Consumer Luminaires and light sources are become increasingly integrated
- The acquisition generates the following synergies:
  - Combining Philips Leadership in LED with PLI's competence to quickly address market and consumer lifestyle trends
  - Regional expansion by leveraging Philips' global reach and resources
  - Leverage of sales channels
- The acquisition positions Philips Lighting to become the global industry shaper in the consumer LED application market

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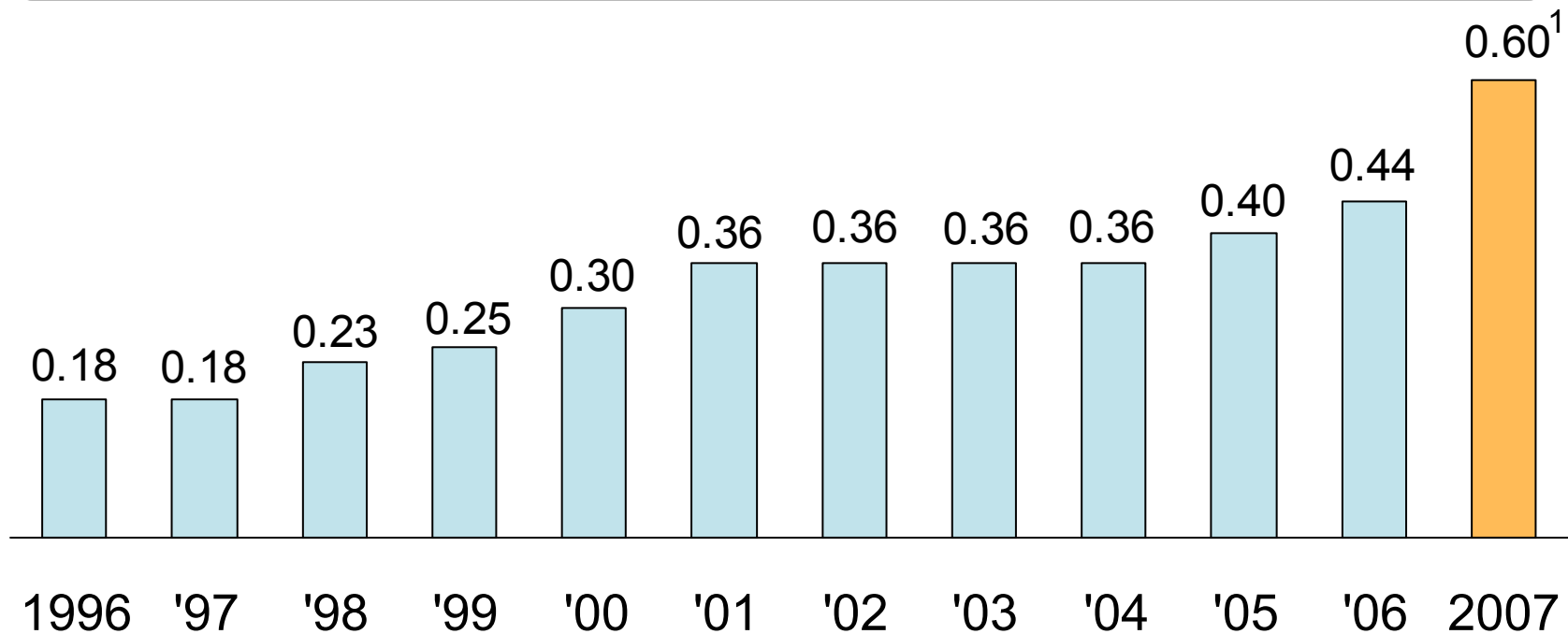
# Delivering consistent performance

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

# Biggest dividend increase in 10 years

*Proposal to shareholders, amounts in EUR*

*“Philips’ present dividend policy is based on an average annual pay-out ratio of 25-35% of continuing net income. Philips will explain a revised dividend policy at the 2007 General Meeting of Shareholders which raises this average annual pay-out ratio to 40-50% of continuing net income”*



<sup>1</sup> Proposal subject to approval in the General Shareholders Meeting on March 29th, 2007

# Financial assets: Cash generated from sale of participations

*EUR million*

	2004	2005	2006	Total
Sale securities	883	67	–	950
Sale Atos Origin shares	552	554	–	1,106
NAVTEQ	672	932	–	1,604
TSMC	–	770	–	770
LG.Philips LCD	–	938	–	938
FEI	–	–	154	154
Semiconductors (NXP)	–	–	7,059*	7,059
<b>Total</b>	<b>2,107</b>	<b>3,261</b>	<b>7,213</b>	<b>12,581</b>

\* Excluding the recorded income tax expense which has yet to be paid

# Financial assets: Cash utilization

EUR million

	2005	2006 **	Announced 2007	Total
Acquisition Stentor	194	—	—	3,947 31.5 %
Acquisition Witt Biomedical	—	110	—	
Acquisition Lifeline	—	583	—	
Acquisition Intermagnetics	—	993	—	
Acquisition Lumileds	788	—	—	
Acquisition PLI	—	—	590***	683 5.4 %
Acquisition Avent	—	689	—	
Extra funding pensions (UK&US)	—	683	—	7,907 63.1 %
Share repurchase program	1,836	414	—	
Dividend	504	523	630*	
EUR 4.0 billion buy-back program	—	2,367	1,633	
<b>Total</b>	<b>3,322</b>	<b>6,362</b>	<b>2,853</b>	<b>12,537</b>

\* Proposed dividend approx. EUR 630 million

\*\* Excl. acquisitions of Bodine and Power Sentry because amounts were small

\*\*\* Acquisition completed on February 6, 2007

# Major publicly quoted investments

	number shares rounded in millions	% ownership	Market value March 1 <sup>st</sup> , 2007 <i>in EUR m.</i>
TSMC	4,188	16.2	6,403
LG.Philips LCD	118	32.9	2,923
TPV	263	13.6	118
JDS Uniphase	5	2.3	58
<hr/>			
<b>Total</b>			<b>9,502</b>

# Share repurchase program in 2007

## *Technicalities of the 'second trading line'*

- Philips announced a EUR 1,633 million share repurchase program for capital reduction purposes to complete the EUR 4.0 billion share buy-back program
- The second trading line will enable Philips to buy back shares from holders who are tax-exempt or are able to achieve tax compensation
- By effectuating the repurchase program over the second trading line, Philips will not incur grossed up Dutch dividend withholding tax (DWT)
- Trades on second trading line will take the form of regular "off exchange" transactions of at least 10,000 shares (ISIN NL0000009322)
- Transactions will be settled net of 15% DWT
- Philips has mandated ABN AMRO who will be the only member who can offer bid prices on the second trading line on behalf of Philips
- Holders contemplating selling shares over the second trading line should contact their tax advisers to carefully examine their tax position

## 2007 Management Agenda

- Maintain annual average sales growth of 5-6% and achieve above 7.5% EBITA
- Continue to redeploy capital in a disciplined way through value creating acquisitions, share buy back and dividends
- Drive a culture of superior customer experience by delivering on the brand promise and implement the Net Promoter Score measure in the company.
- Be an exciting place to work and bring employee engagement to high performance benchmark level within 2-3 years.

# Agenda

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# Summary

- Simplified portfolio of world-class businesses built 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**

**PHILIPS**

**sense and simplicity**

