

PHILIPS

sense and simplicity

PHILIPS

Royal Philips Electronics
The “New” Philips

Gerard Kleisterlee
President and CEO

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, 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, changes in tax rates and future business combinations, acquisitions or dispositions and the rate of technological changes, political and military developments in countries where Philips operates and industry consolidation. 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-US GAAP financial measures. These non-US GAAP financial measures should not be viewed in isolation as alternatives to the equivalent US GAAP measure(s) and should be used in conjunction with the most directly comparable US GAAP measure(s). A discussion of the non-US 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.

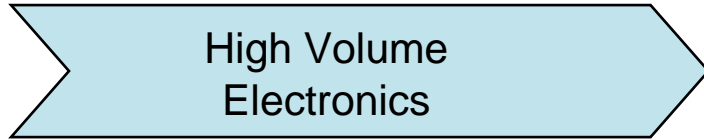
Use of fair value measurements

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 a readily determinable market value does not exist, fair values are estimated using valuation models which we believe are appropriate for their purpose. They require management to make significant assumptions with respect to future developments which are inherently uncertain and may therefore deviate from actual developments. In certain cases, independent valuations are obtained to support management's determination of fair values.

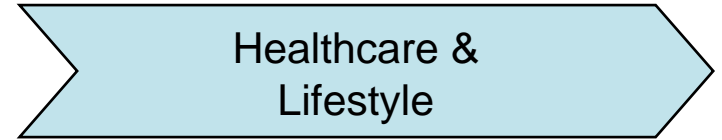
Agenda

- Portfolio changes
- Capital reallocation
- Growth
- Acquisitions
- Conclusion

Strategy Evolution



'90ties



now ...

Portfolio



One Philips

Restructuring



Growth

Volatility



Value Creation

*Let's make
things better*



*Sense and
Simplicity*

Our Mission

Philips has reinvented itself many times, but through it all our core, the soul of our company, remained intact. That is because it was part of our company since its inception in 1891. It is the passion to...

*“Improve the quality of people’s lives
through timely introduction of
meaningful innovations”*

Our Brand Promise

We empower people to benefit from innovation by delivering on our *brand promise* of

Sense and Simplicity

This brand promise of “Sense and Simplicity” encapsulates our commitment to deliver solutions that are advanced, easy to use, and designed around the needs of all our users.

Designed around you

Easy to experience

Advanced

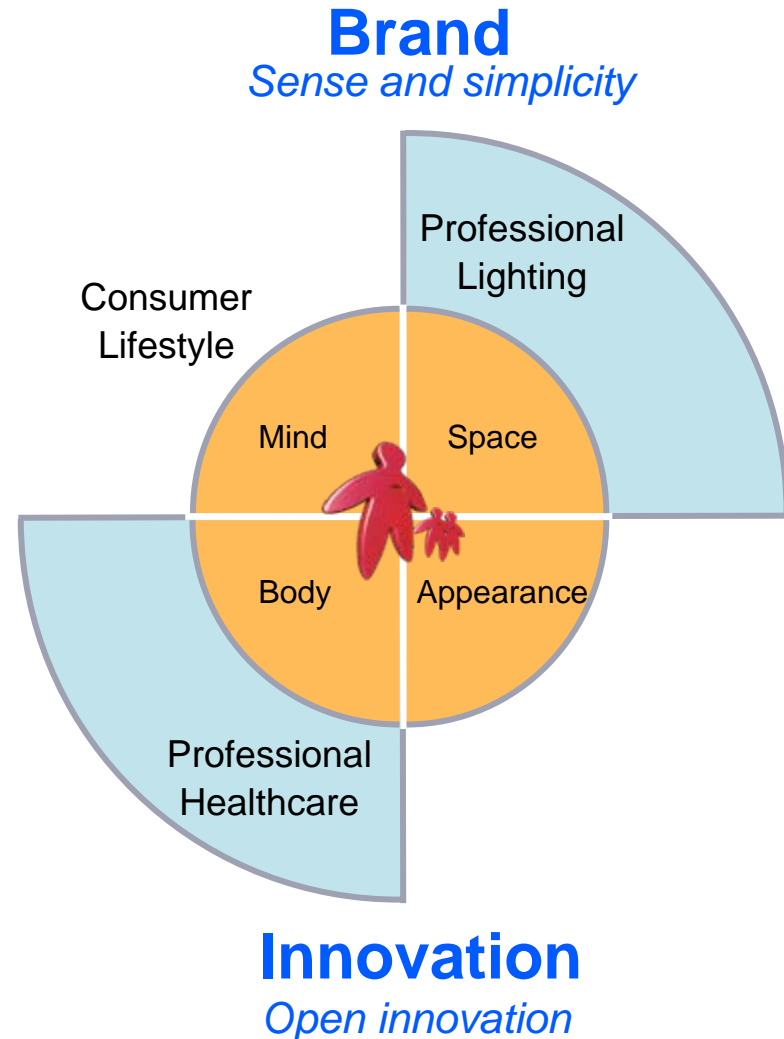
Where and how we compete

Our businesses are centered around *people* and the *quality of their lives*

We address the needs of people in the four domains of lifestyle; *space, appearance, body and mind* ...

..and the needs of *professionals* that improve the quality of life in the domains of body (*healthcare*) and space (*lighting*)

Our competitive differentiation is in our *brand* and in our *innovation* capabilities



Our growth objectives

- Build a company with a significantly higher market capitalization and with significantly higher revenues
- We want to realize this through
 - 5-6 % average annual organic growth
 - Achieving above 7.5% EBITA margin
 - Adding value through acquisitions
- Maintain consistent quarterly performance

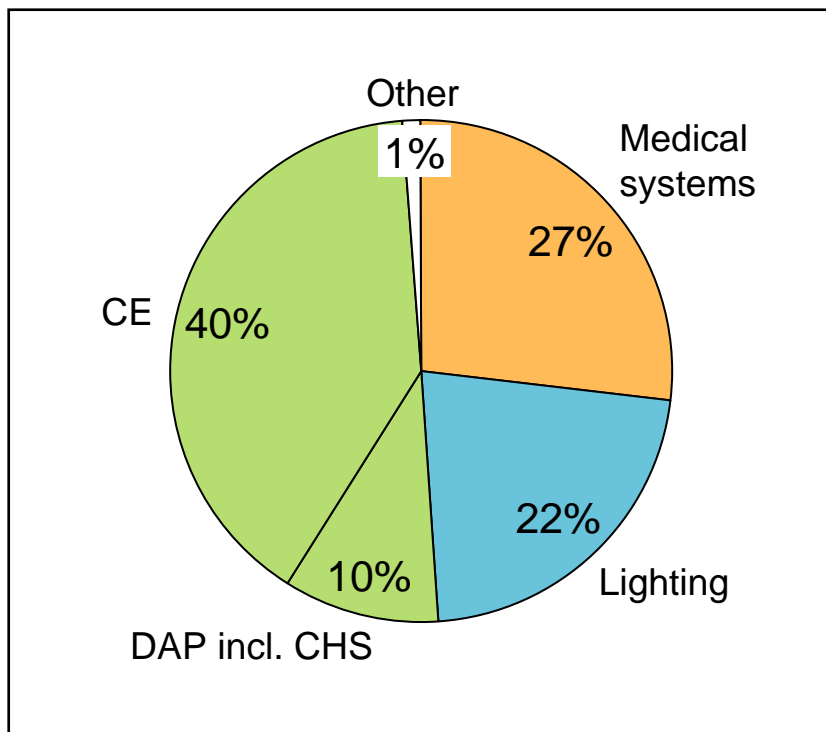


We will reach our objectives by executing on the following strategic actions

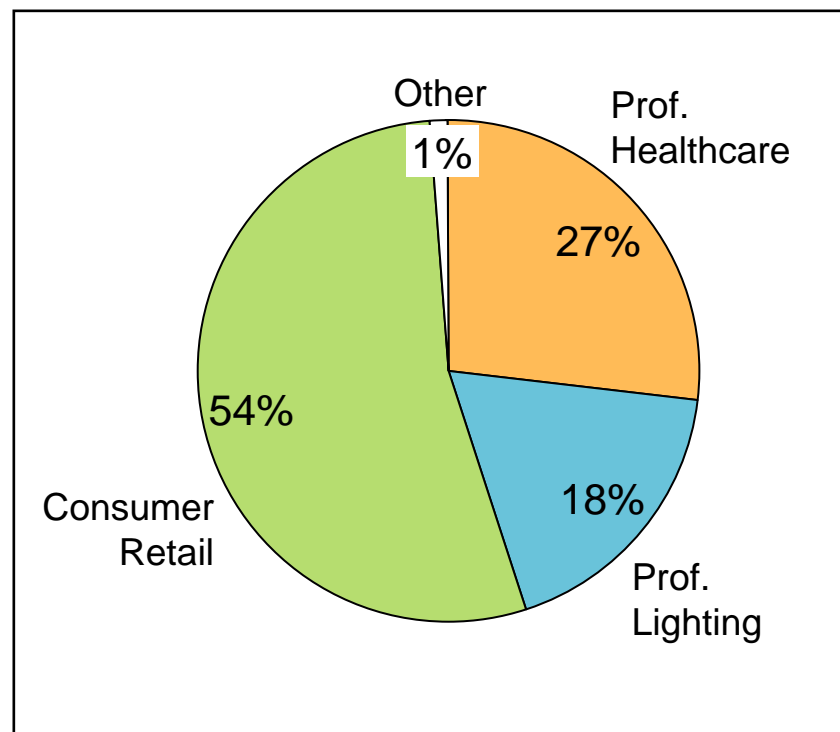
1. We are a *people-centric* company that organizes around *customers and markets*
2. We invest in a *strong brand* and consistently deliver on our *brand promise* of “*sense and simplicity*”, in our actions, products and services
3. We deliver *innovation* by investing in world class strengths in *end-user insights, technology, design* and superior *supplier networks*
4. We develop our *people’s leadership, talent* and *engagement* and align ourselves with high performance benchmarks
5. We invest in *high growth and profitable businesses* and *emerging geographies* to achieve *market leadership* positions
6. We are committed to *sustainability* and focus on making the difference in *efficient energy use*
7. We drive *operational excellence* and *quality* to best in class levels, allowing us the above mentioned strategic investments in our businesses

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

Divisions – Sales*



Market spaces - Sales



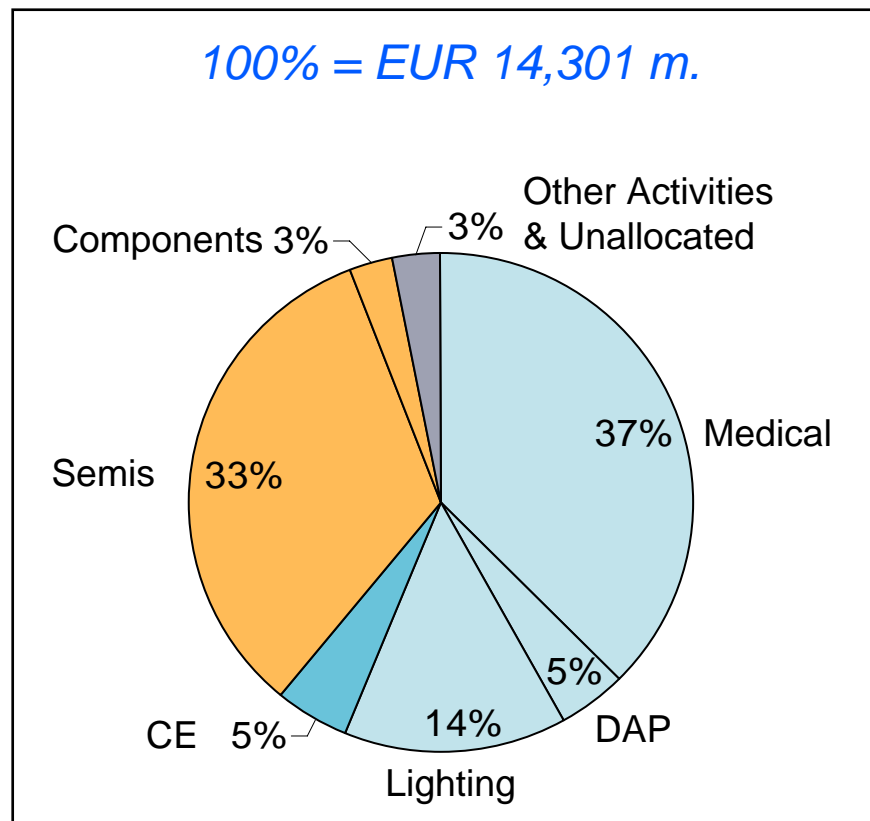
* 2006 excluding disposed of activities

Reallocation of capital towards stable and higher margin businesses

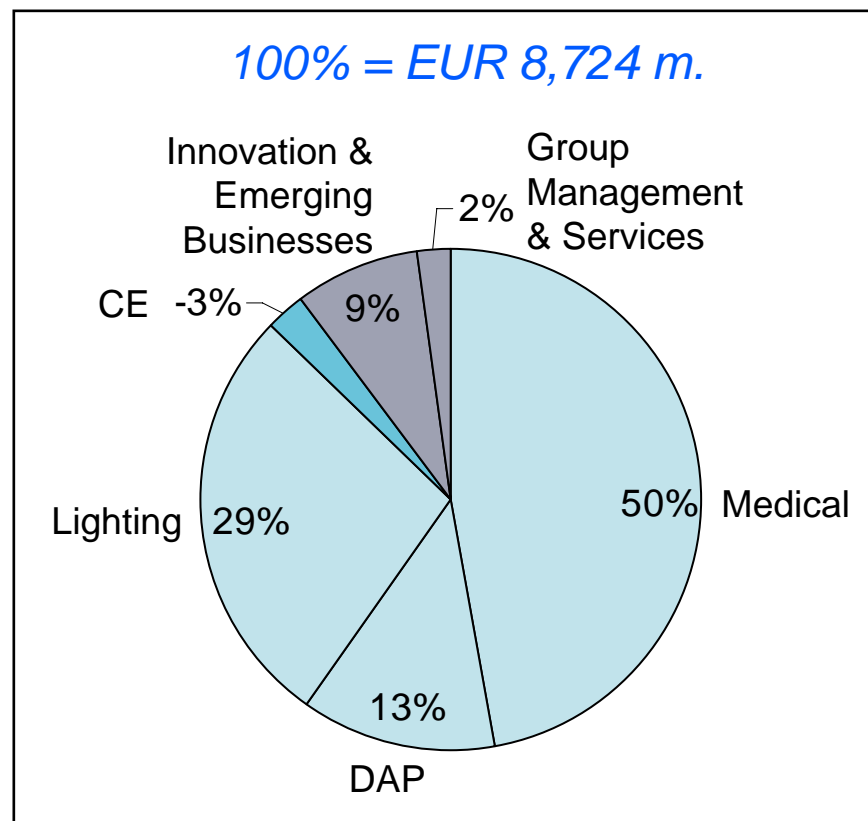
NOC as % of group NOC

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

2001



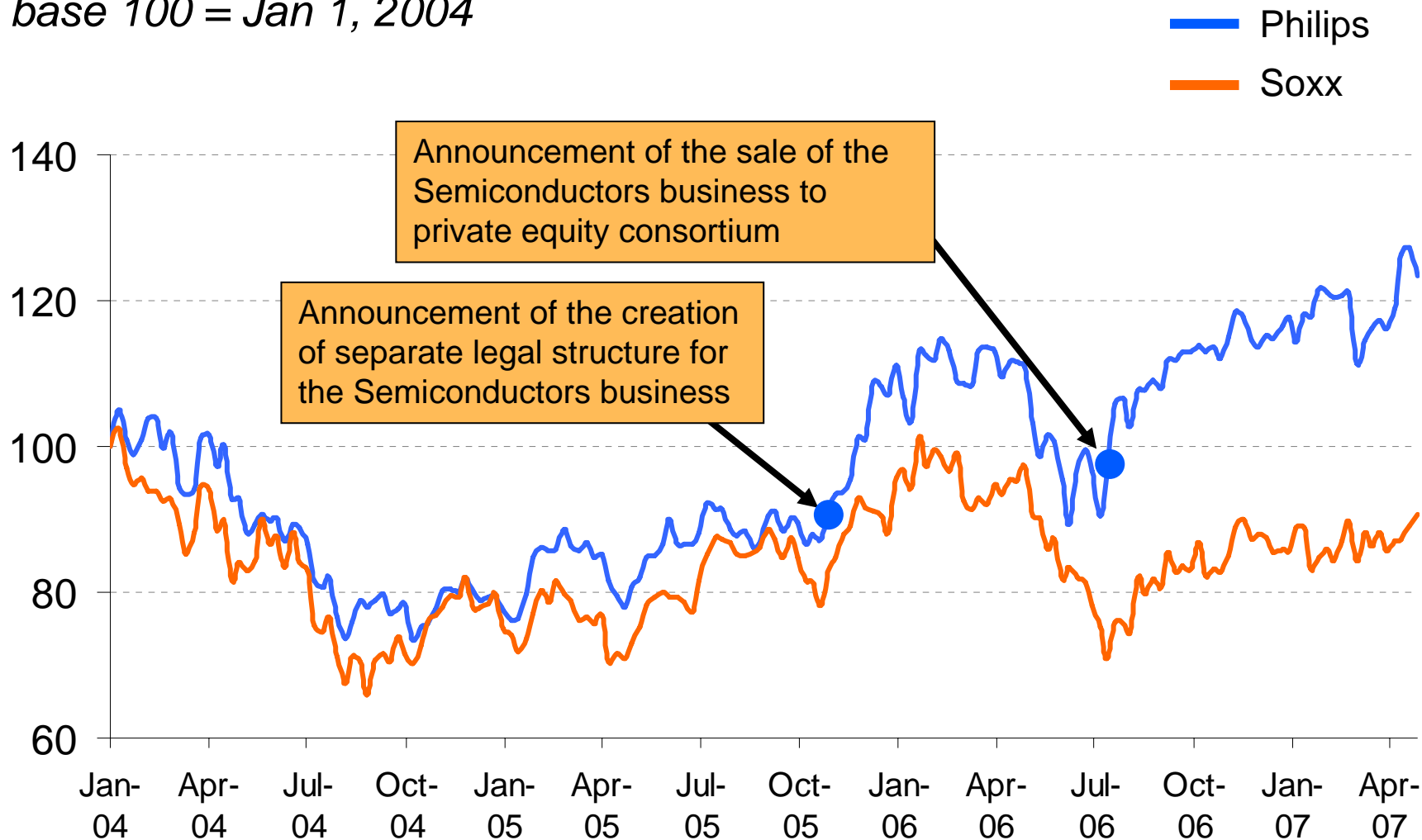
2006



* 2006 restated for new reporting structure

Share price gained momentum after decoupling from Semiconductor Index

base 100 = Jan 1, 2004



Medical Systems

- 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 cash flow

BrightView
SPECT



EP Navigator



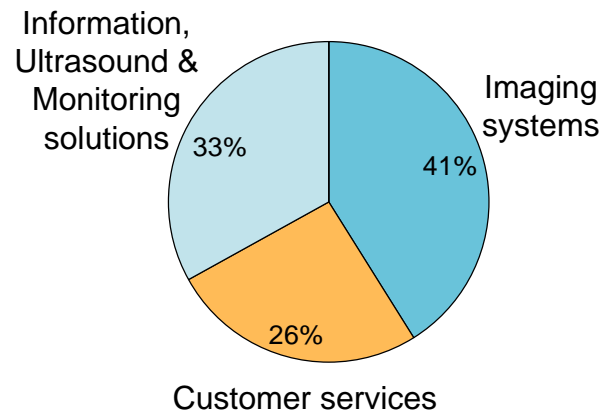
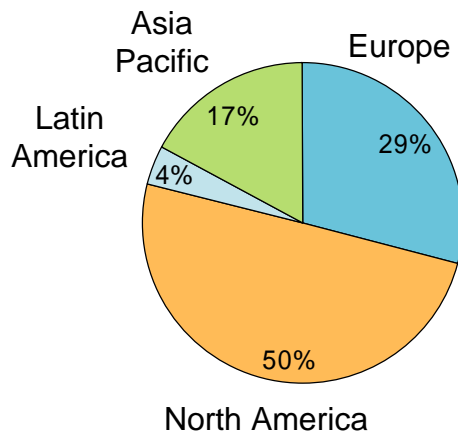
MR
Achieva 3.0T



SureSigns VM



2006



Domestic Appliances and Personal care

- Breakthrough products through innovation and customer understanding with many leading market positions
- Unique appliance-consumable propositions with major consumer brands
- Continuation of marketing excellence and best-in-class cost position
- Expanding retail channels into emerging markets
- Leveraging the brand
- Strong cash flow

Smart Touch XL



Sonicare



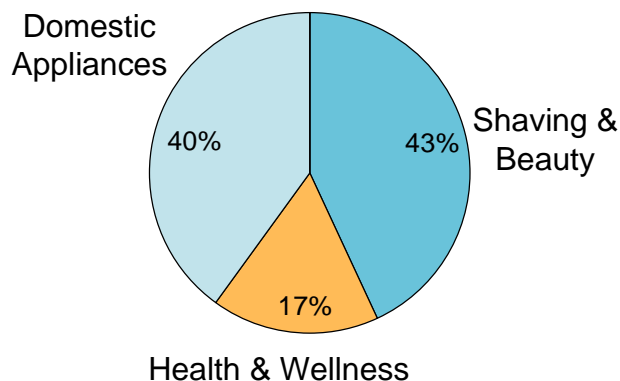
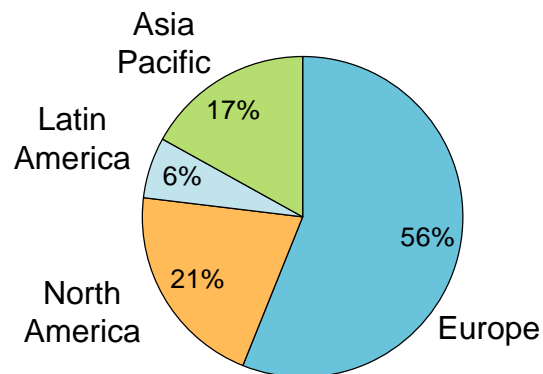
Wake up light



Wardrobe care



2006



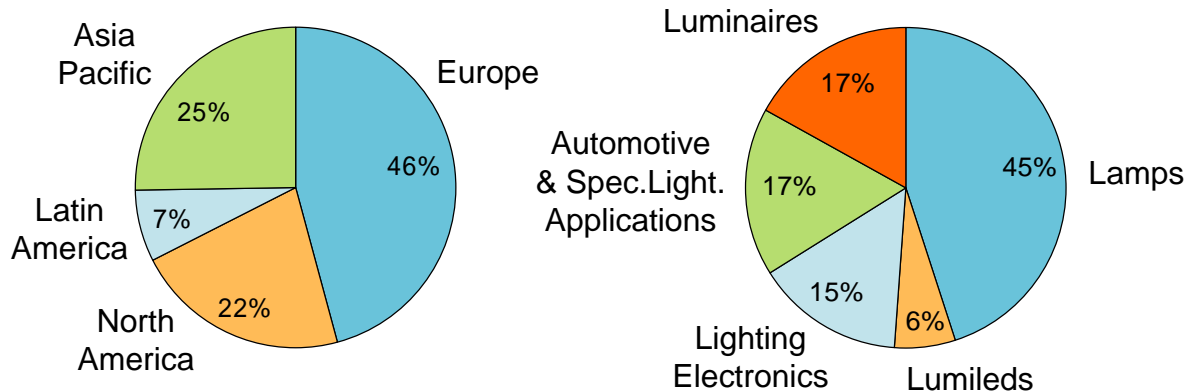
* Excluding CHS



Lighting

- Number 1 market position globally with strong margins and cash flows
- End-user-driven innovation, marketing and supply excellence
- Wide range of energy saving propositions
- Profitable growth in fast-growing economies in innovative new market segments
- Investments in R&D and capital expenditures to propel innovation and growth

2006



Luxeon
Automotive LEDs



Edore



Mini CDM
Mastercolour



CosmoPolis



Consumer Electronics

- Focus on innovation in design and marketing of high-end differentiative products
- Leveraging the Brand
- Business Renewal Program to achieve EBITA margins of approximately 3% with negative capital base
- Outsourced approx. 80% of manufacturing, resulting in negative NOC
- Further de-risking the business through new business models

Portable Media devices



Wireless music center



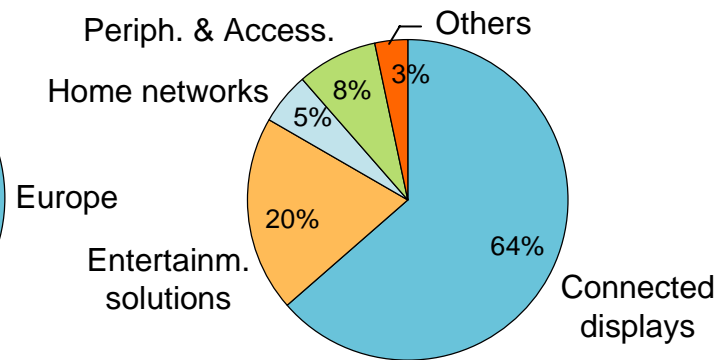
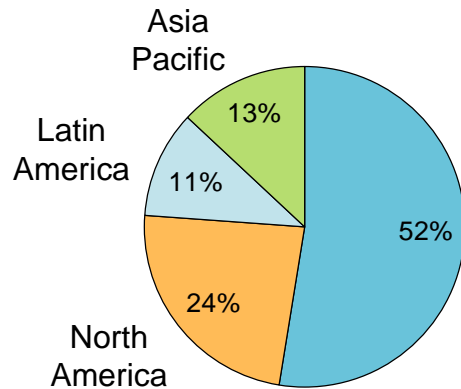
VOIP phone



Ambilight



2006



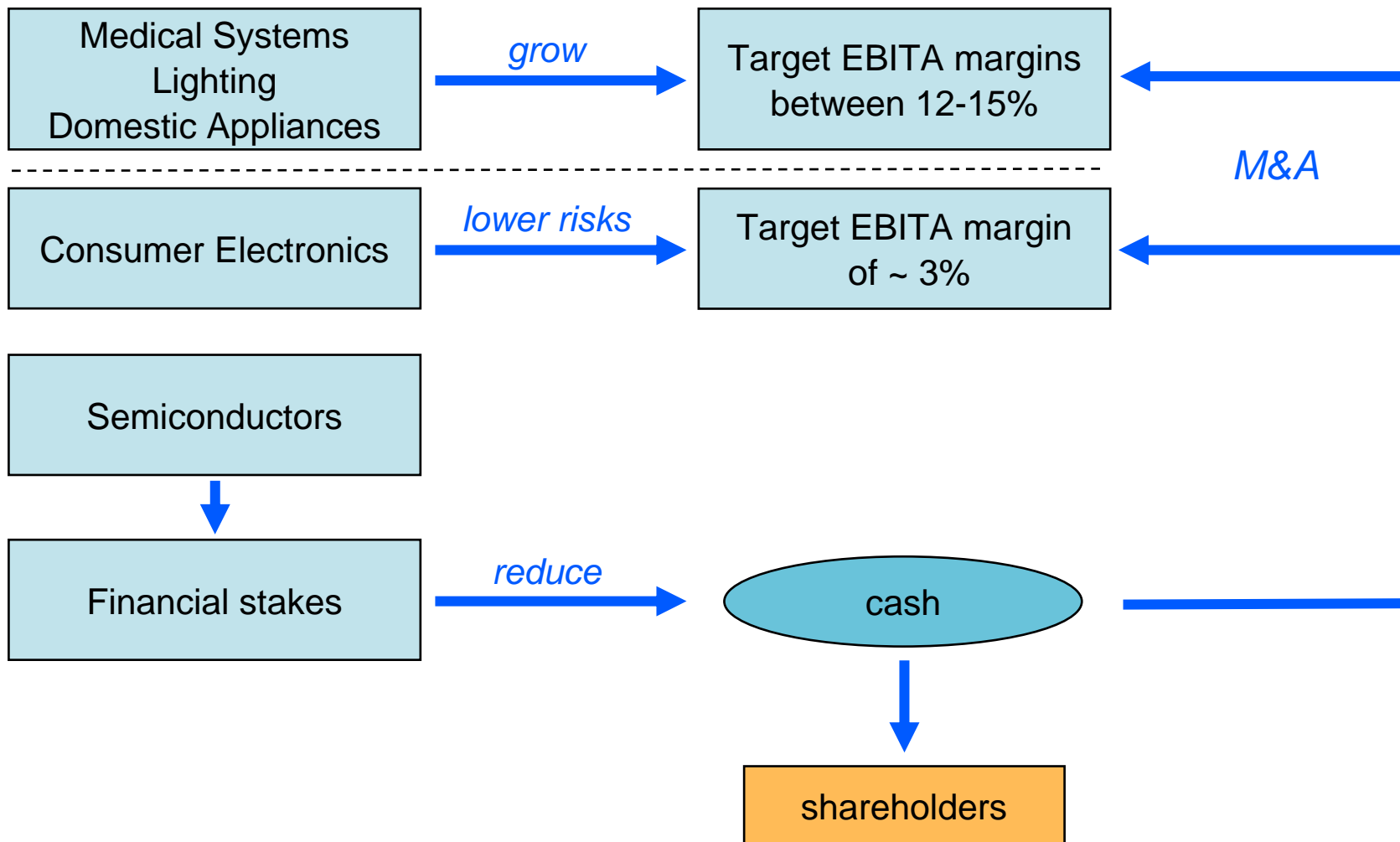
* Excluding Mobile Phones



Agenda

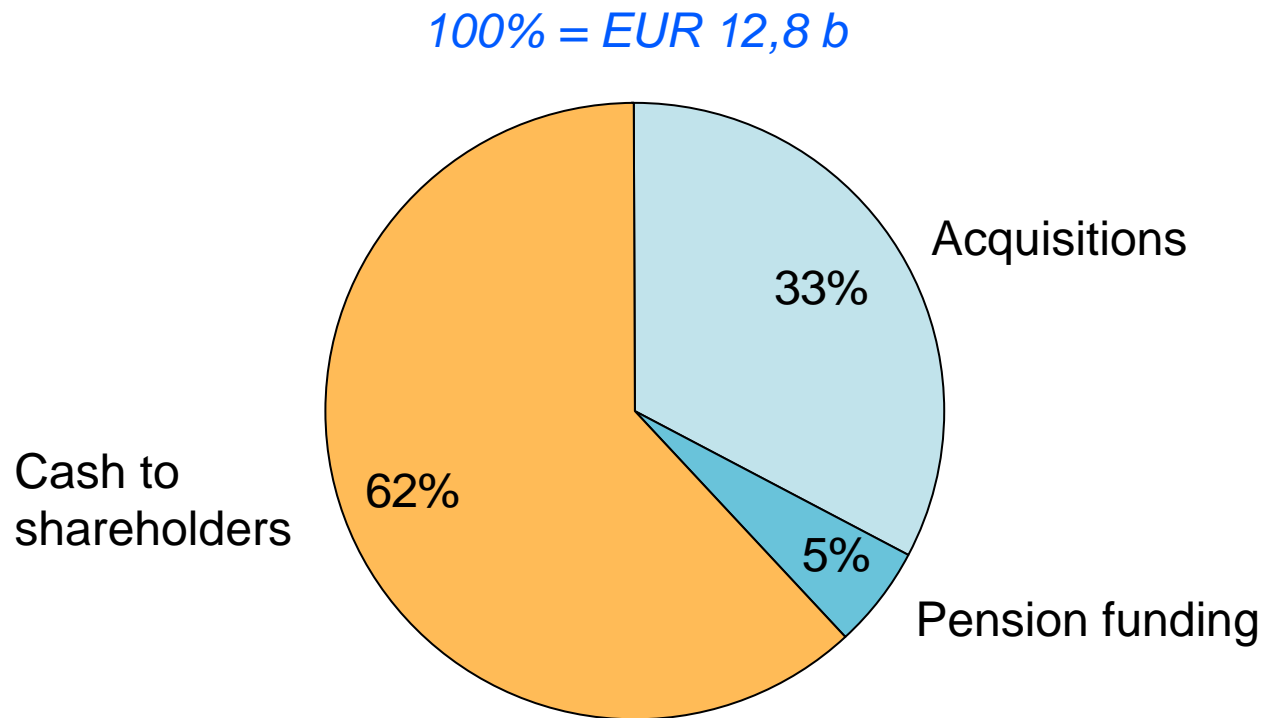
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Acceleration of capital reallocation



Financial assets: Cash utilization

*Year 2005 – 2007 **



* Including announced acquisitions and share repurchase program

Portfolio changes in 2006

In EUR millions

Major acquisitions ¹

- Lifeline Systems
- Witt Biomedical
- Avent
- Intermagnetics

Sales	415 ²
Comp. growth	20%
EBIT	60
% of sales	14.5%



Divestments ³

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

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.

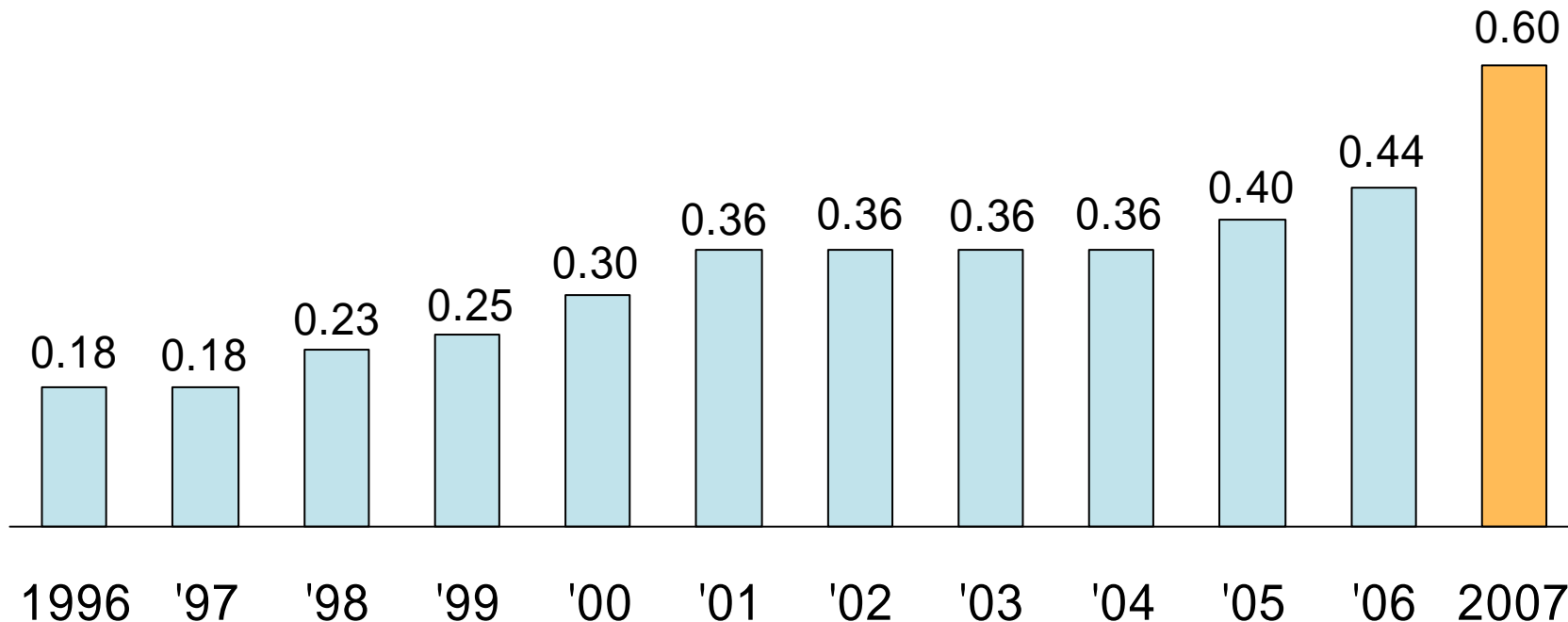
2: Excluding sales from Intermagnetics to Philips

3: Based on actual 2005

Biggest dividend increase in 10 years

amounts in EUR

“Philips aims for a sustainable dividend reflecting, over time, a distribution of 40% to 50% of continuing net income. This is an increase from our previous pay out ratio of 25%-35%.”



Major investments

	number shares rounded in millions	% ownership	May 10 th , 2007 <i>in EUR m.</i>
<i>Quoted</i>			
TSMC	3,301	12.8	Market value 5,009
LG.Philips LCD	118	32.9	3,797
TPV	263	13.6	145
JDS Uniphase	5	2.3	50
<i>Non-quoted</i>			
NXP	18	19.9*	Book value 854
Total			9,855

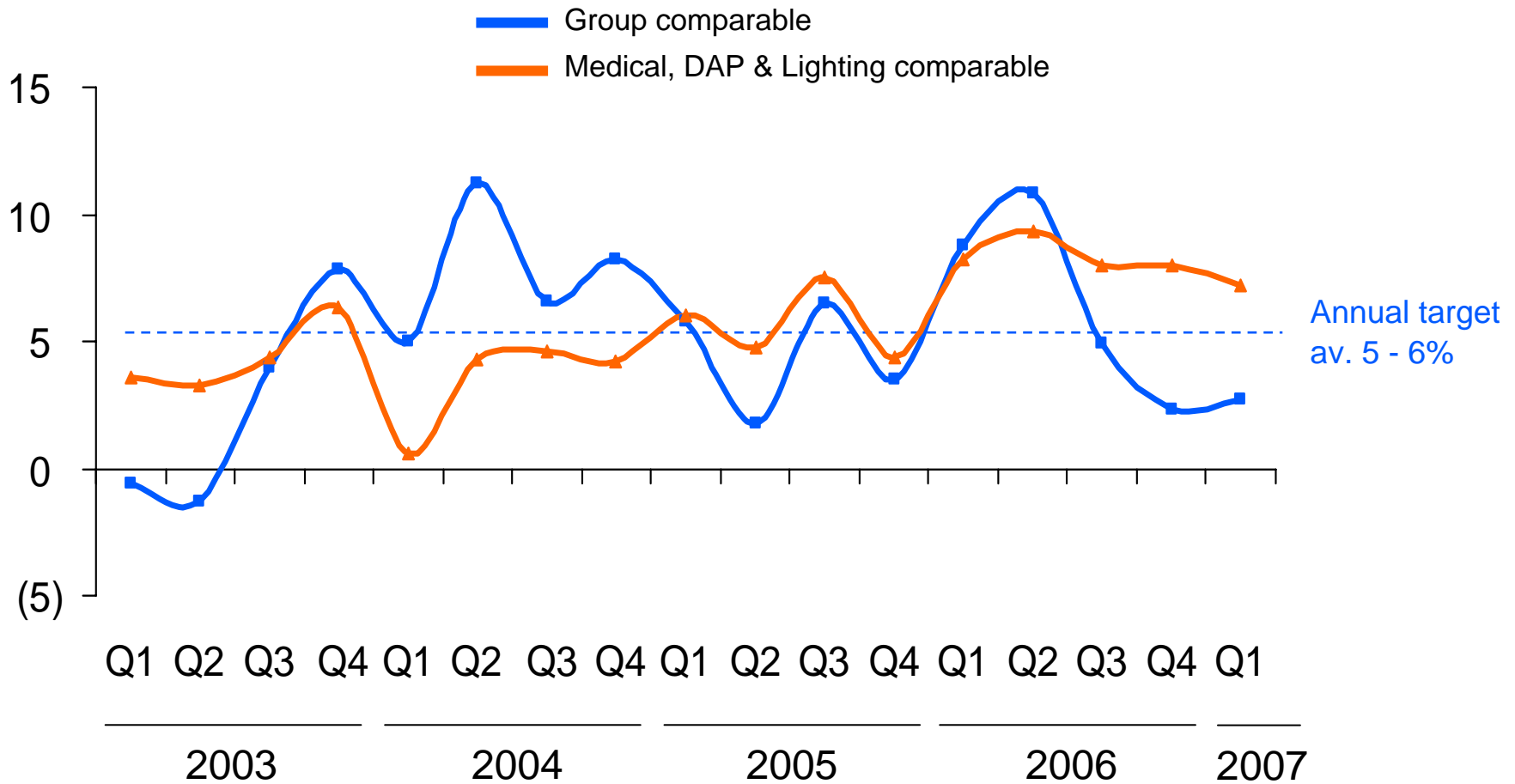
* Economic ownership

Agenda

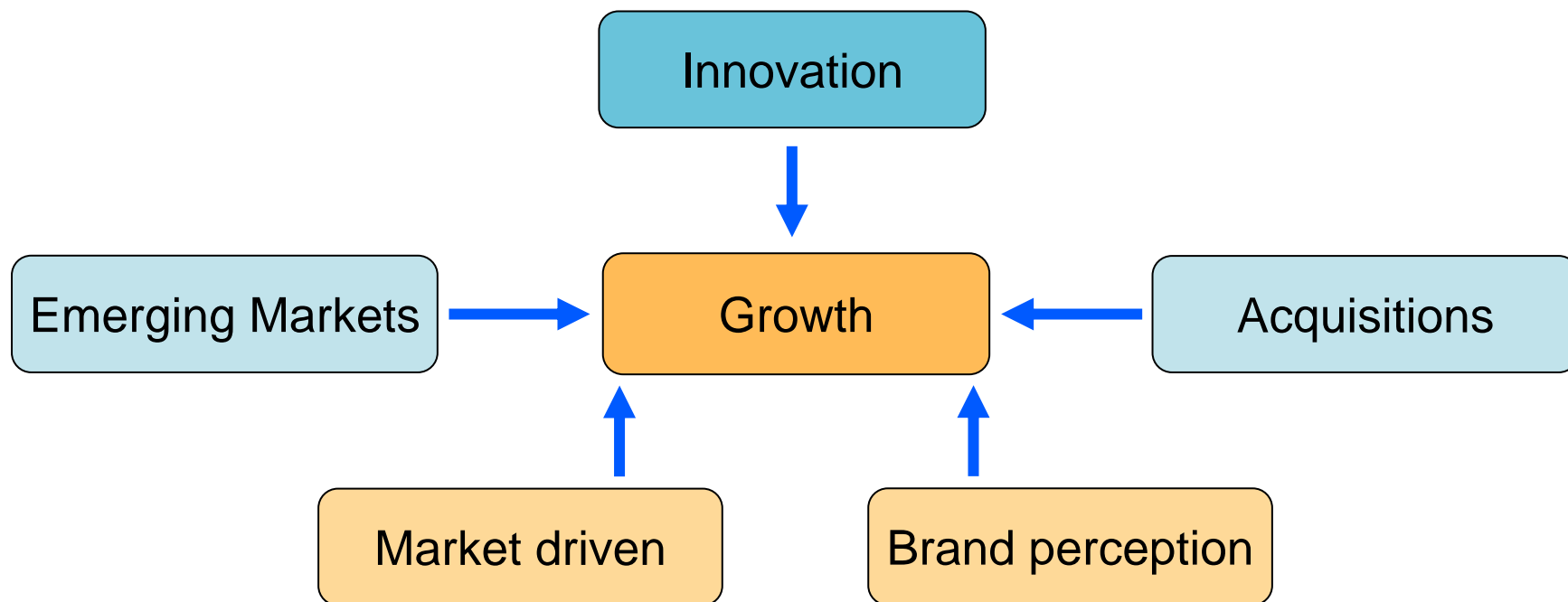
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Quarterly sales growth y-o-y

%



Creating growth opportunities in healthcare, lifestyle and technology



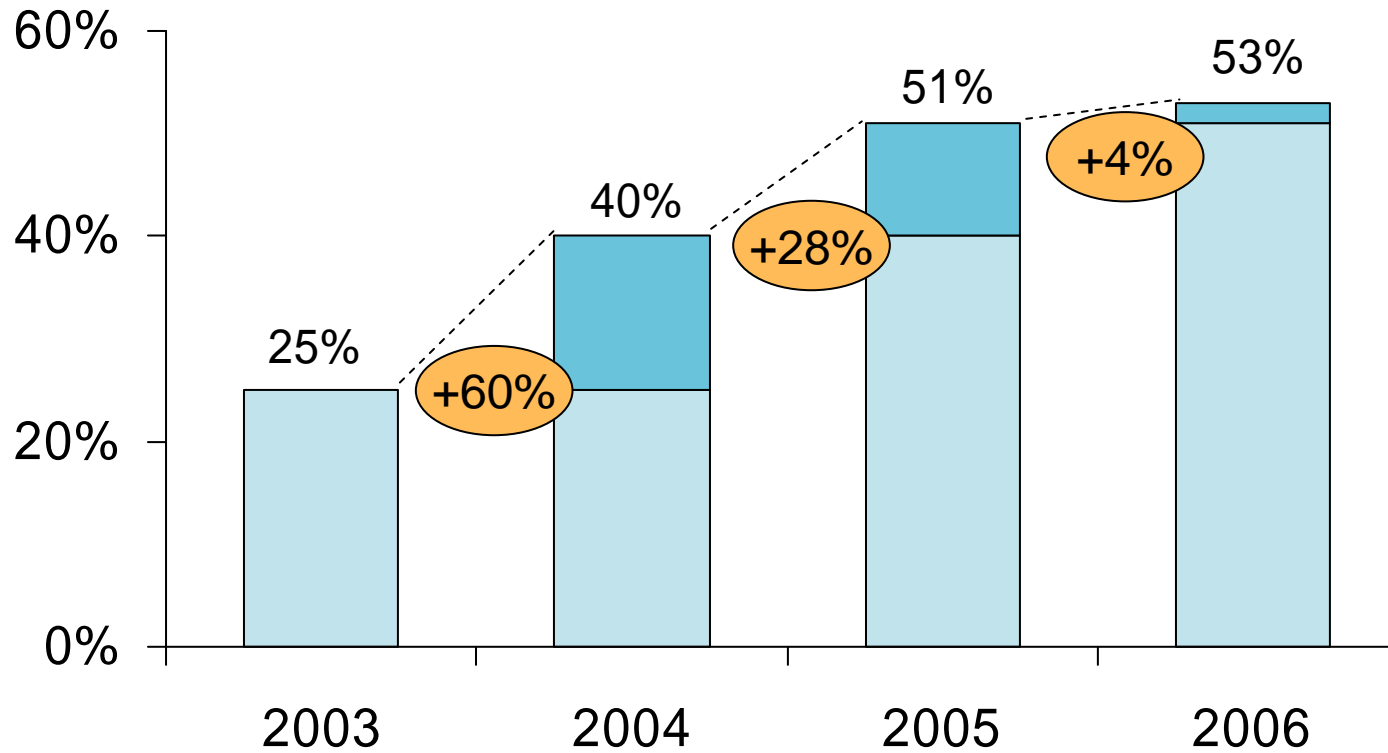
Becoming a more market driven organization

- 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



Innovation drives growth

Group revenues from new products

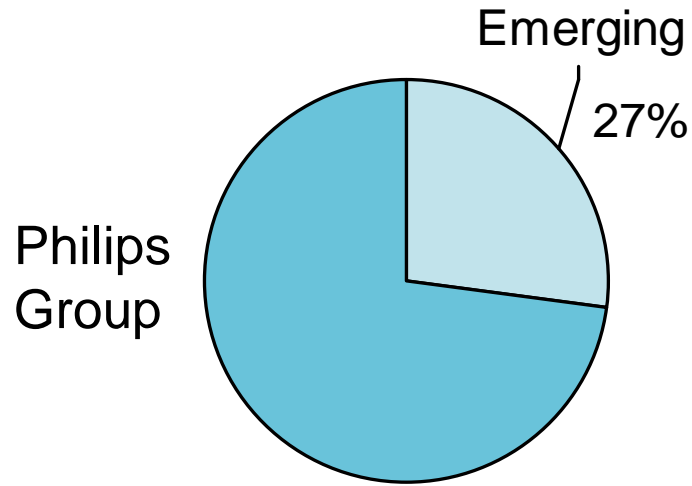


Brand strength

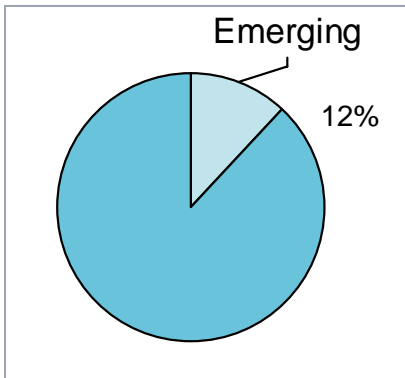
- Deployment of brand strategy
 - sustained competitive investment behind brand campaign
 - developing and airing product-based advertising
 - *resulting in improved brand rankings*
- Creating conditions to deliver brand promise
 - by embedded filters in all key processes we ensure that everything we 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

Emerging markets

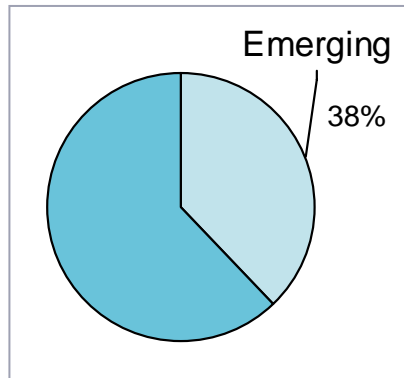
Sales in emerging markets Q1 2007



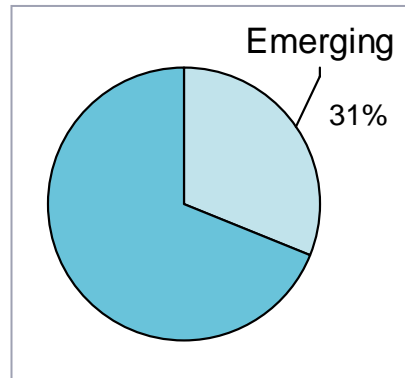
Medical



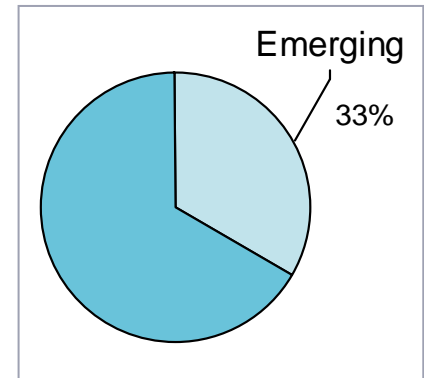
DAP



CE



Lighting



Comparable growth and EBITA targets

	EBITA		Comp. sales growth	
	2006	Target	2006	Target
Medical	13%	14-15%	7%	6%
DAP	15%	~15%	11%	7%
Lighting	11%	~12%	8%	6%
CE	3%	~ 3%	5%	*
<hr/>				
<i>Total Group</i>	5%	> 7.5%	6%	5 – 6%

* No target disclosed

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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

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 totaled €230 million
 - included €28M of new orders in international markets
 - order volume grew 87% over full year 2005 (pre and post acquisition)
- 2006 sales grew by 41% and we expect 46% sales growth in 2007
- Performance level is in line with original plans
- Expansion into EMEA and APAC is gaining traction
- Business growth has been based on an excellent Stentor product combined with the strength of Philips in the market

Intermagnetics: Magnetic Resonance Imaging

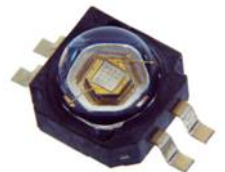
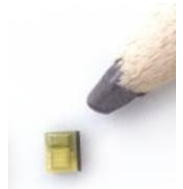
Purchase price EUR 993 million

- 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

Philips + Lumileds: A powerful combination

Total purchase price EUR 873 million

- 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
- Underscoring its technological leadership, Philips Lumileds announced in March 2007 the launch of LUXEON Rebel power LEDs with new packaging technology that will dramatically reduce the size of LEDs (footprint 75% smaller than other surface-mount LEDs) and enable new approaches to solid-state lighting design.
- Philips made an offer in February 2007 to acquire TIR Systems, a Canada-based leading supplier of SSL modules for high-quality white light. TIR Systems holds a patent portfolio that will strengthen Philips' IP position and give us a leadership position in SSL modules in the high- and mid-end segments of this market.
- 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
- Our target for the EBITA margin for the coming years remains 25%



PLI: Leading European Consumer Luminaire player

Purchase price EUR 561 million

- The acquisition of PLI is a strategic move to enter new market segment for Philips Lighting: Consumer Luminaires
- Sales for 2007 is expected to be around EUR 420 million (full year basis) with a recurring EBITA above 12%
- 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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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.

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

