

# PHILIPS

## Overview of 2005/2006 accounting matters

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Financial Analysts Meeting  
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# Agenda

- Other Activities
- Mobile Display Solutions
- TSMC
- WEEE

# Other Activities: Overall Structure

	IFO Q3ytd	NOC Q3	Headcount
Corporate Investments	(49)	114	5,254
Corporate Technology	(174)	56	4,777
MDS	(26)	170	1,890
Optical Storage (POS)	10	85	5,477
Global Service Units/ Miscellaneous	33	139	4,336
<b>Total</b>	<b>(206)</b>	<b>564</b>	<b>21,734</b>

 Euro Million

# Other Activities: Corporate Investments/Technology

## Corporate Investments

Consists of a number of stand alone businesses which have limited or zero strategic synergy with the main Product Divisions. **Objective** of Corporate Investments is to maximize value for Philips by either divesting, joint venturing, or reintegrating within the PD's.

The main activities are:

- (1) **Operational businesses** such as Assembleon and Enabling Technology Group.
- (2) **After care for businesses** that are divested such as Philips Aerospace, HTP Automotive and Philips Business Communications.

## Corporate Technology

Consists of almost 5000 employees at 20 locations worldwide dedicated to:

- (1) **Research activities**  
company-level research and contract research.
- (2) **Intellectual Property & Standards**  
Cost and income of the patent portfolio not attributable to the Product Divisions.
- (1) **System Integration Services**  
provide technology and develop new, products, subsystems and applications.
- (2) **Emerging Businesses**  
Mainly technology incubator activities. The resulting innovative products are transferred to the PD's for commercial exploitation e.g Twin Eye mouse.
- (3) **Technology, Competence & Innovation Management.**

# Global Service Units (Shared Service Centers)

Consists in its present form since January 2004. During 2004 and 2005, **more Service Units were added** such as Finance, HRM and IT. Some GSU's already existed in another form and others are completely new.

The **objective** of the Service Units is to maximise efficiency & lower costs by leveraging common processes and resources across the Philips Group.

**Geographically**, the shared service centres are increasingly located in low-wage countries such as India, Poland and Thailand.

All service units - except Real Estate - are **targeted to break-even**.

1

**GSU Real Estate** possesses and manages about 1/3 of the total group real estate and provides services in facility management.

2

**GSU General Purchasing** provides organizations with – non-product related – purchasing services.

3

**GSU Finance Shared Services** provides financial services to the organizations.

4

**GSU People Services** provides services in recruitment, development courses, and the payroll of Philips employees.

5

**GSU Global Infrastructure Services** provides common IT infrastructure services.

6

**GSU Business Applications Services** provides IT business applications (e.g. SAP).

7

**Philips Design** provides the Philips group with: world-wide design capabilities.

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# Events in Q4: MDS

*“The planned merger of the MDS business with Toppoly will result in presentation of this activity as discontinued operations in our financial statements.”*

## MDS Key Figures

	FY 2004	Q3 YTD 2005
Sales to thirds	973	471
IFO	22	(26)
NOC	149	170
Headcount	2,536	1,890

**Rationale:** the fact that MDS constitutes the full discontinuation of a material business segment for Philips triggers this accounting treatment.

**Accounting Impact:** the MDS figures will be deconsolidated (removed) from the Income Statement. Instead, the Net Income of MDS will be shown separately as a single line item. The Group IFO will change accordingly. Additionally, MDS asset & liability positions will be separately detailed in the balance sheet.

**Time periods:** this accounting treatment will be applied for full year 2005 and in 2006 until the transaction is completed. The impact on 2006 profitability will be negligible as the fair value of the deal was recorded when announced in 2005.

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# TSMC –(1)

*“As a result of the sell-down in Philips shareholding and a reduction in the number of board seats held by Philips, the accounting treatment of TSMC will change per January 2006”*

**Q3, 2005**

<b>Shareholding</b>	<b>16.4%</b>
<b># of Shares (M)</b>	<b>4,066</b>
<b>Local Share Price</b>	<b>TWD 53.30</b>
<b>Market Value</b> (EUR million)	<b>5,418</b>
<b>Book Value</b> (EUR million)	<b>1,823</b>
<b>Unrealised Book Gain</b> (EUR million)	<b>3,595</b>

Per January 2006, Philips will no longer account for its shareholding in TSMC as an **‘equity investment’** within UCC’s but as **‘available for sale securities’**. The latter will be reported on the balance sheet under “Other Non-Current Financial Assets”

The main effect of this change in accounting treatment is that the TSMC shareholding will be held on the balance sheet at **market value** rather than **book value**. This effectively **adds the amount of the unrealized book gain** (net of tax, as applicable) **to the assets and equity values respectively.**

# TSMC –(2)

*“The change in accounting methodology per key line items of the Income Statement and Balance Sheet is as follows. The equity value of Philips will increase by approximately EUR 3.6 Billion (Q3 2005 valuation)”*

	2005	2006
Accounting Method	<b>Equity Accounting</b>	<b>Available for sale securities</b>
Income (loss) to P&L	<b>Recognize share of TSMC results</b>	<b>Dividend income only</b>
Reporting line in P&L	<b>Results from UCC’s</b>	<b>Financial Inc &amp; Expense</b>
Value on Balance Sheet	<b>Book Value</b>	<b>Market Value</b>
Reporting line on Balance Sheet	<b>Participation in UCC’s</b>	<b>Other Non-Current financial assets</b>

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# Industry directive on recycling of electrical waste

- The European Union has made all suppliers of electrical and electronic equipment (WEEE) responsible for the prevention, recycling and reuse of waste from such equipment with the introduction of EC Directive 2002/96 which is currently being implemented in the laws of individual member states. Local legislation should be in force for waste from private households put on the market after August 13, 2005 but this deadline is not met in all member states.

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- Philips is actively involved in setting-up and funding collective recycling bodies that have been or are being established in individual EU-member states. These bodies will arrange the collection and recycling on behalf of industry.

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- Philips is of the opinion that it fulfills its legal obligations under the directive by setting up and financing such bodies. Clarification from the EU has been requested to ensure that this indeed fully covers the obligations envisaged by the European Commission.

# The Accounting

*“Historic Waste.”*

- Producers are responsible for the financing of the collection and treatment of **historical** waste on the basis of their market share at the time when the waste is collected. Philips invoices fees to customers for these costs and pays these fees into the collective recycling bodies. As Philips only acts as a collection agent for the recycling bodies (no profit or loss on the fees) revenue and costs for the company are not impacted.

# The Accounting

*“Future Waste.”*

- In addition producers are also responsible for the financing of the collection of **future** waste that is put on the market after August 13. As long as the intentions of the European Commission with respect to the responsibility of producers are not further clarified Philips assumes that the company is liable for the expected cost of collection and treatment of future waste.
  - Philips is providing adequate funding for collection bodies in the member states where it operates to enable these bodies to collect and process future waste once it is returned by private house holds. Due to the fact that funding is in place and transferred to the independent recycling bodies Philips deems it appropriate to offset the liability it incurs against the funding in the recycling bodies (that provides a cover for future waste) and only recognize a provision in case of funding shortfalls. Fees charged to customers will again be accounted for as flow through items not impacting revenue and costs
  - In those markets/countries where collective bodies are not available the company will have to recognize a liability/provision for future waste. In that case fees will be treated as revenue and the costs for future disposal as expense.

**These initial conclusions may change when further information form the EU or from the IASB/IFRIC becomes available**

