

PHILIPS

Royal Philips Electronics

Adding Value through Innovation & Emerging
businesses and the Corporate Center

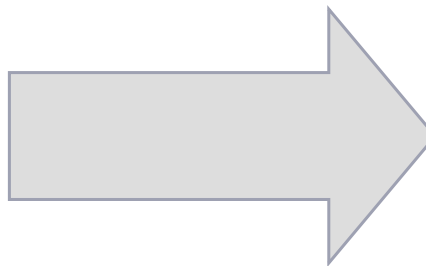
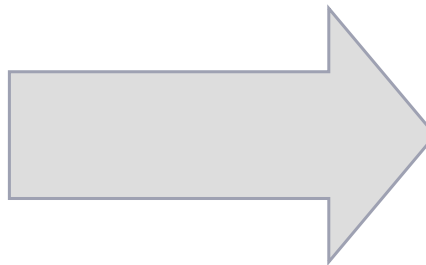
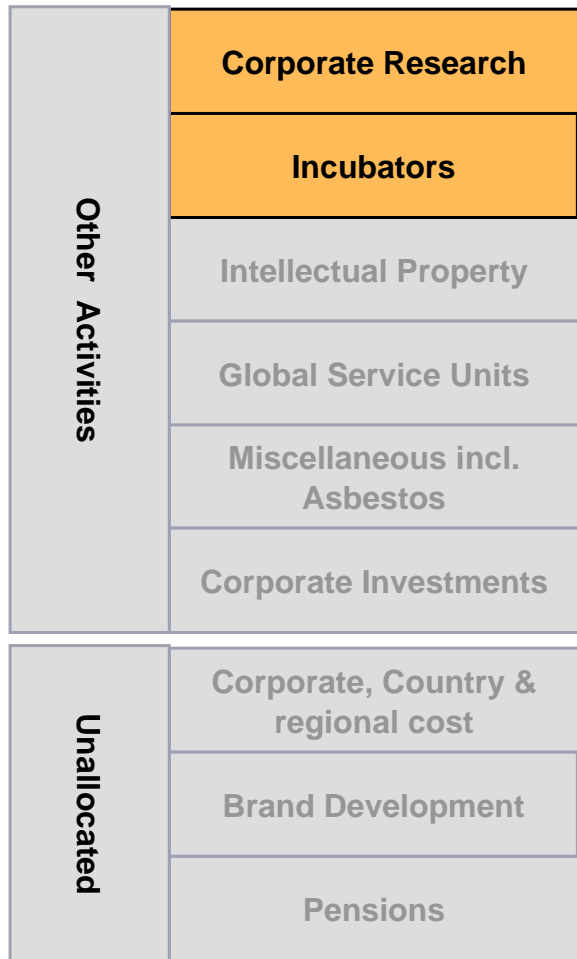
Gerard Ruizendaal
Financial Analysts' Day
December 5, 2006

2007: increased focus on the market and on innovation & emerging business, with a simpler and lower-cost Corporate Center

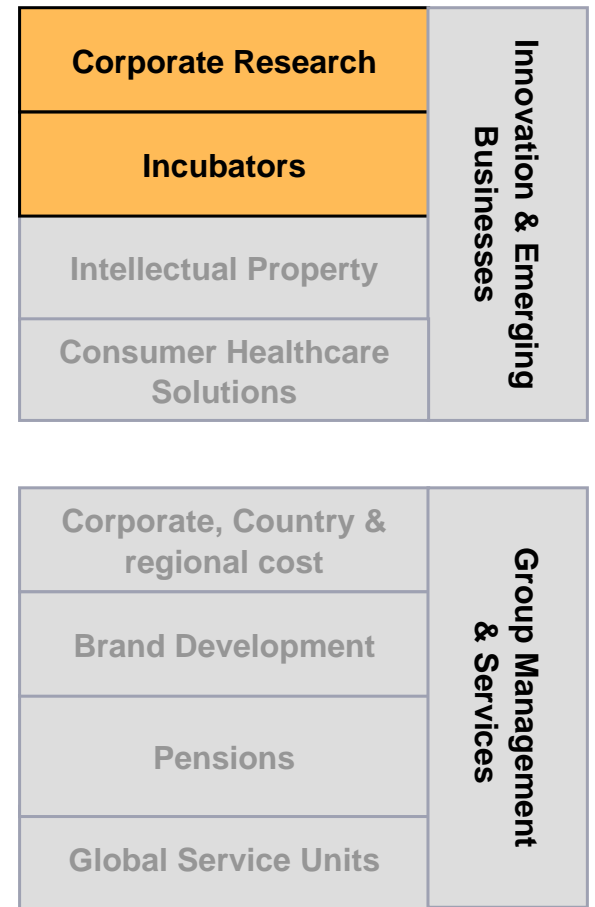
- 1 Corporate Research & the Incubators
- 2 Consumer Healthcare Solutions
- 3 Corporate Investments portfolio
- 4 Philips Brand investments
- 5 Corporate and regional costs

1 Corporate Research & the Incubators

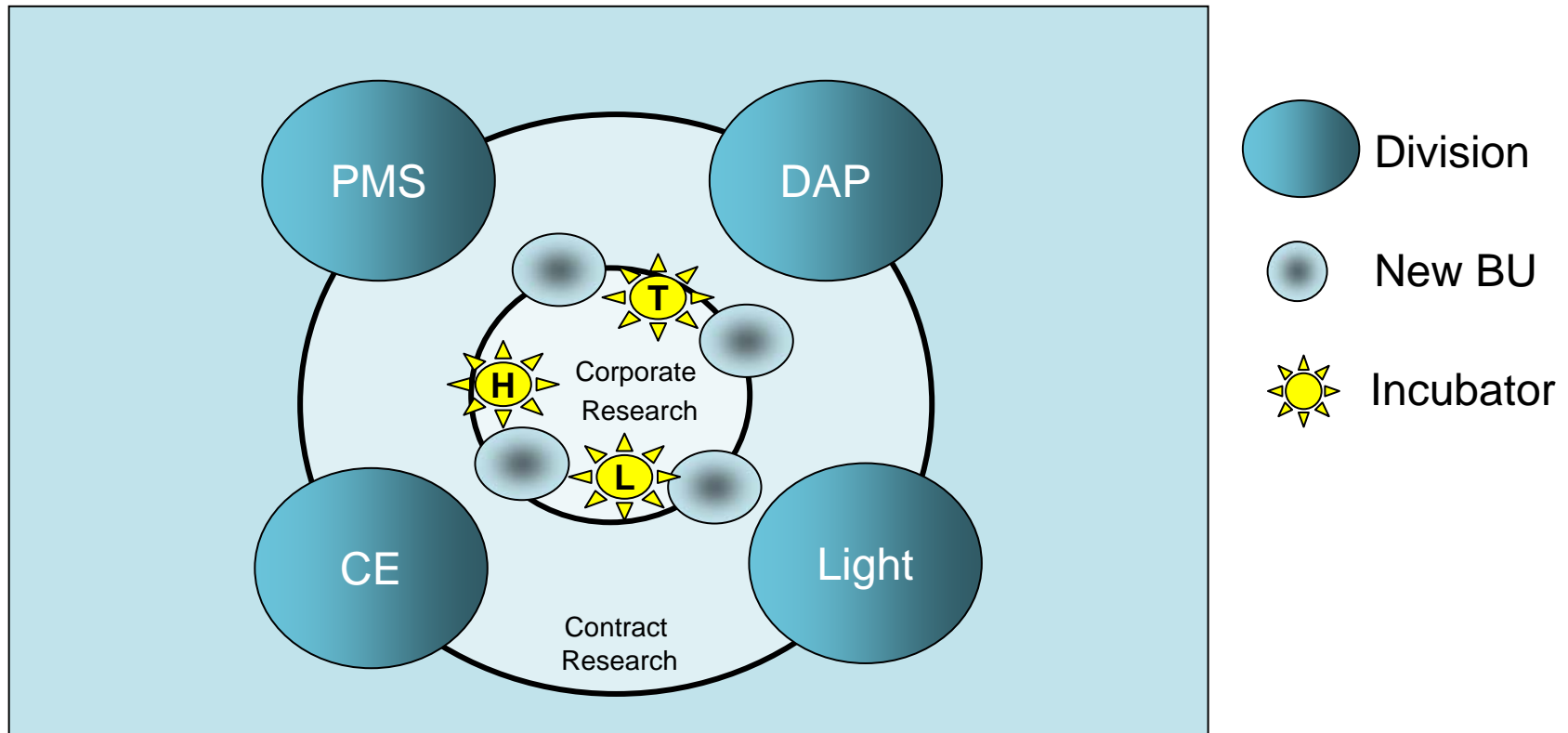
2006 Structure



2007 Structure

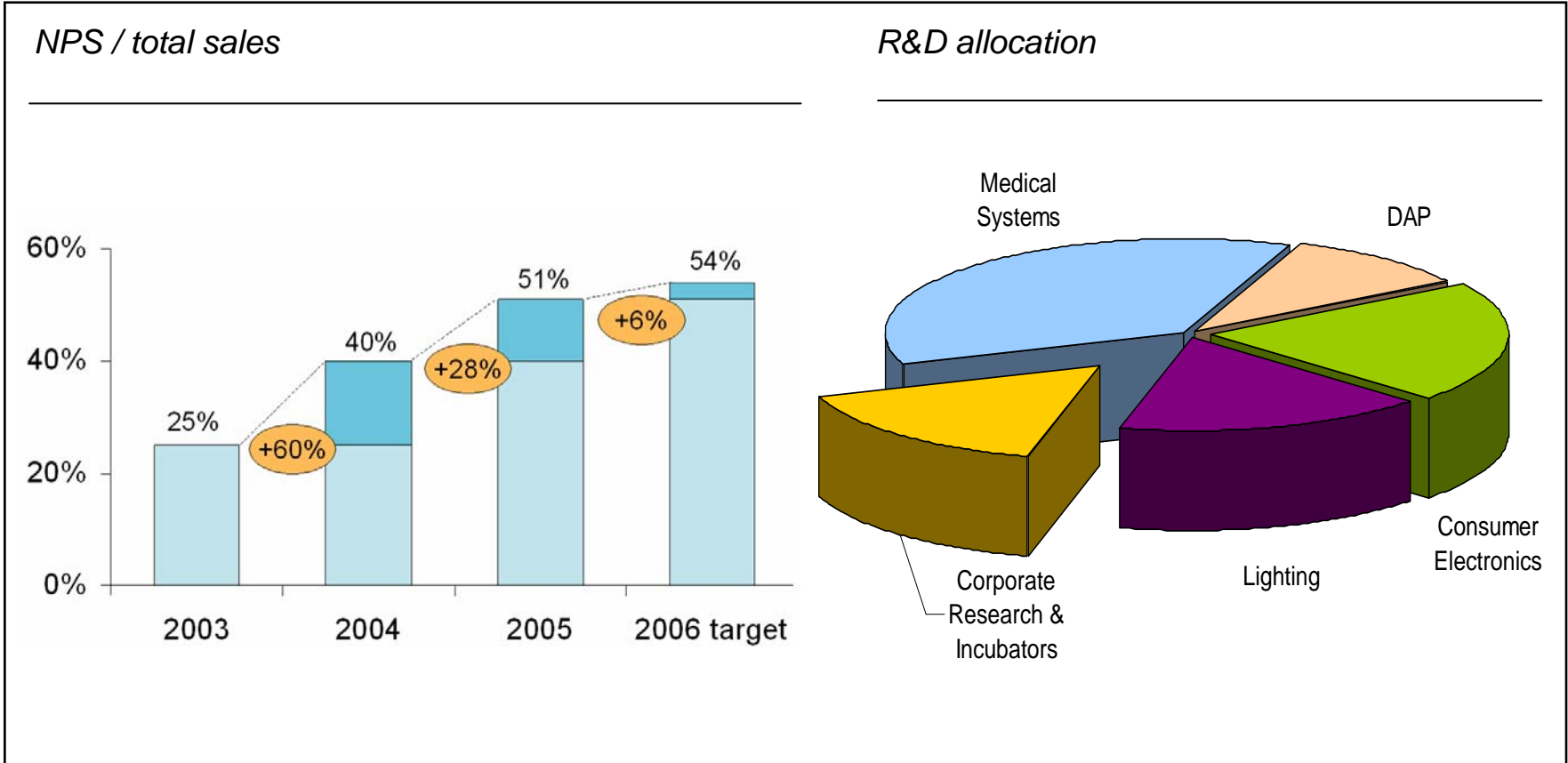


Corporate Research, Incubators and 'new frontier' emerging businesses drive the innovation pipeline.



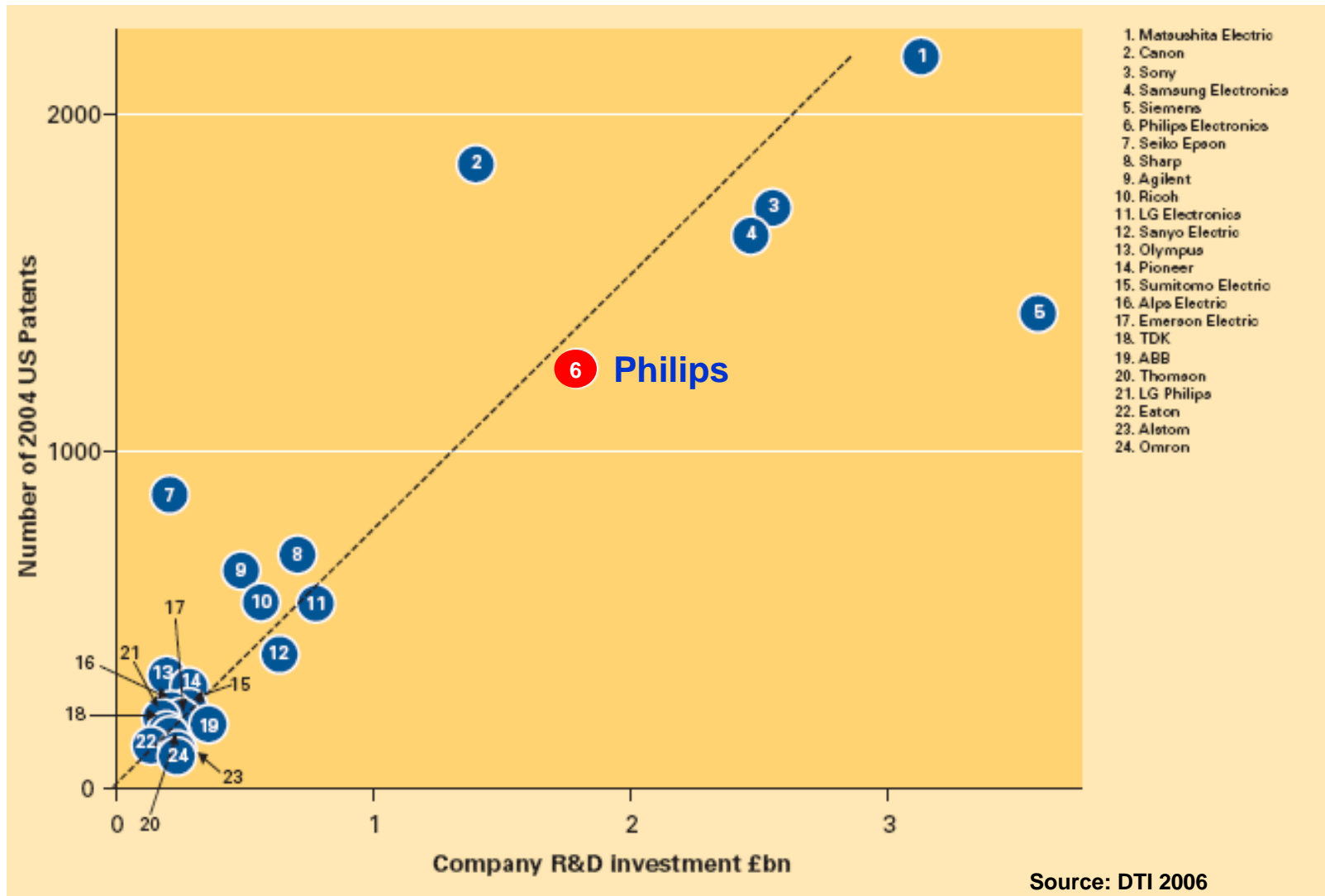
...focusing on innovation and emerging businesses not yet within, but leveraging the strengths of our current divisions and geographic markets

.....and innovation drives growth...



- Year-on-year improvements in new product sales – reaching 54% in 2006

...as well as considerable IP generation



Innovation: creating growth opportunities *From the pipeline of Innovation & Emerging Businesses*

amBX is transforming games to an immersive experience

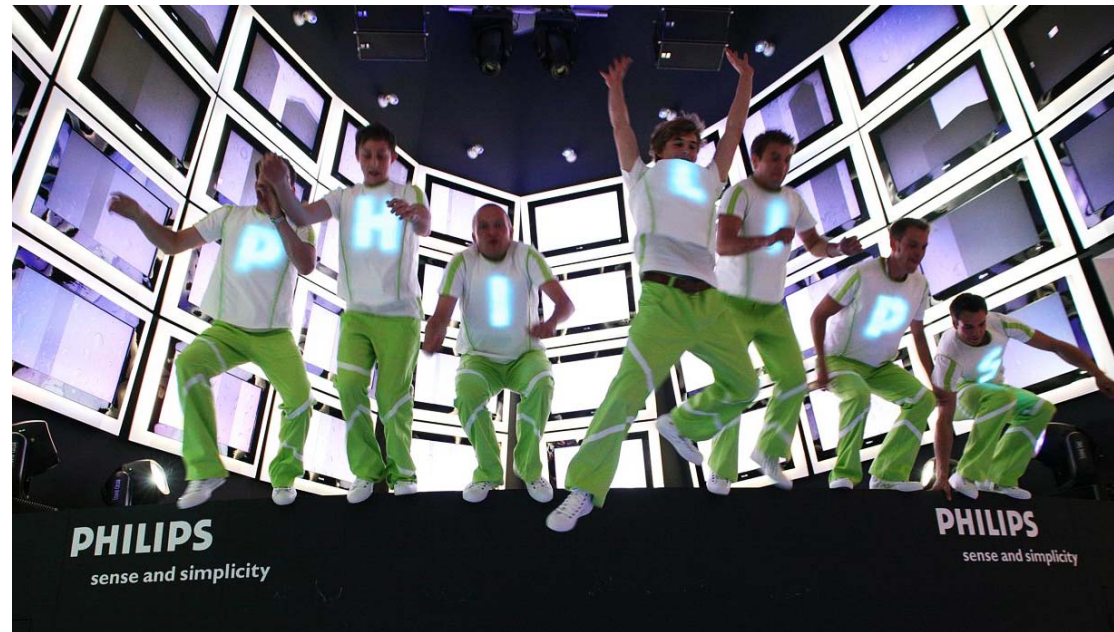
- Leverage of several in-house technologies to create a standard which is then licensed-out to game & accessory developers
- Will also result in sales of Philips products via accessory channel - amBX
PC peripherals introduced at IFA 2006



Innovation: creating growth opportunities *From the pipeline of Innovation & Emerging Businesses*

First Lumalive event wear sold in 2006

- Full-color LED array turns textiles into displays
- Presented at IFA2006; YouTube hits: 1,806,573
- Launch market: promotional industry
- Additional pick-up from textile industry (Anke Loh Fashion Show, Chicago 2006) and furniture designers (Artifort, Interieur06, Kortrijk)



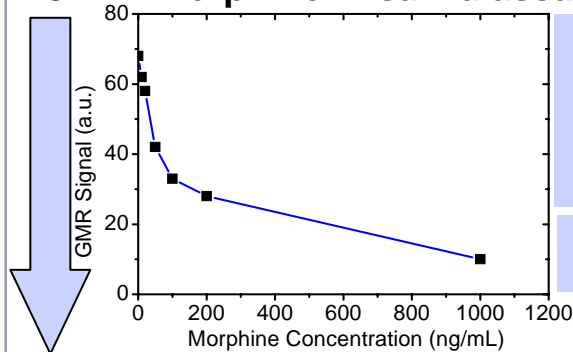
Innovation: creating growth opportunities *From the pipeline of Innovation & Emerging Businesses*

A breakthrough MDx platform - Magnetic biosensor concept:

- Low cost-in-use (magnetic read head tech)
- Integrated Biosensor with small form factor
- Makes rapid measurements possible

Initial market: Drug Abuse testing

5-min Morphine in saliva assay



UK Police perform on-the-spot drug and alcohol tests in under 5 minutes

100-500 M\$ market in 2013



Product Designs: Easy to Use & Easy to Experience

By Philips Healthcare Incubator, in Partnership with Cozart

Future market: Molecular Diagnostics

Early diagnoses and therapies of diseases will reduce cost of subsequent treatments and will save lives and improve quality of life.

Innovation: creating growth opportunities

From the pipeline of Innovation & Emerging Businesses

Direct view 3D Solutions Sales started in 2006



- Introducing a complete 3D solution:

1. 3D Content Creation
2. 3D Content Distribution
3. 3D Display



- Dual-mode: a single display can provide both high-quality 2D and 3D viewing experience
- 42" and 20" 3D Displays now sold for Digital Signage in Casinos and Point-of-Sale
- 3D Display for medical applications introduced at RSNA
- Games next big wave

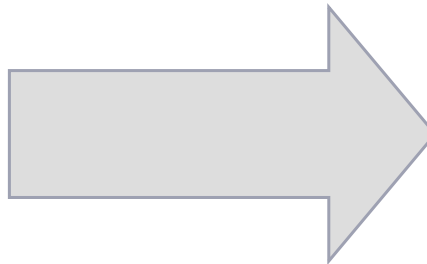
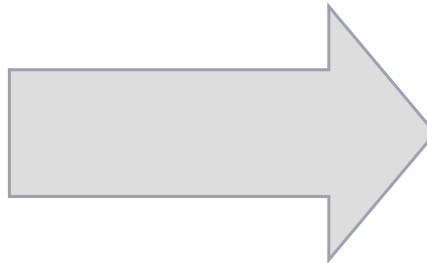


Experience a new dimension

2 Consumer Healthcare Solutions (CHS)

2006 Structure

Other Activities	Corporate Research
	Incubators
	Intellectual Property
	Global Service Units
	Miscellaneous incl. Asbestos
	Corporate Investments
Unallocated	Corporate, Country & regional cost
	Brand Development
	Pensions



2007 Structure

Corporate Research	Innovation & Emerging Businesses
Incubators	
Intellectual Property	
Consumer Healthcare Solutions	
Corporate, Country & regional cost	Group Management & Services
Brand Development	
Pensions	
Global Service Units	

CHS: solutions for effective healthcare delivery outside the hospital

Mission: aspires to be the leading provider of products and services that deliver cost-effective monitoring, treatment and care outside the hospital environment, targeting the at-risk seniors and people with functional limitations / chronic illnesses.

Business: next to Lifeline, the CHS business includes exploratory activities in other outside-hospital emerging care services such as Patient Tele-monitoring (PTS) and Motiva.

Update: Lifeline Systems, acquired in March 2006, is a leading personal emergency response service company; its key metrics continue to improve:

Number of subscribers



12%* improvement

12 Month rolling subscriber churn rate



3%* improvement

Average revenue per subscriber per month



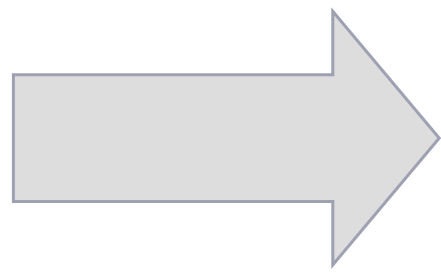
5%* improvement

* October 2005 to October 2006

3 Corporate Investments

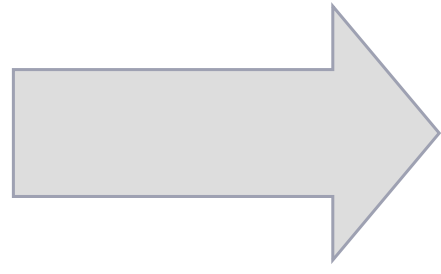
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Corporate Investments: portfolio refocusing will be completed in first half of 2007

2005/2006 divestments

- Philips Aerospace
- PolyLed
- HTP Automotive
- CMS Louviers
- Anteryon BV
- Philips Business Communications
- HTP Toolings
- Mobile Display Solutions
- Optical Pick-up Unit
- Advanced Metrology Systems
- Enabling Technologies Group
- Philips Sound Solutions
- Optical Storage

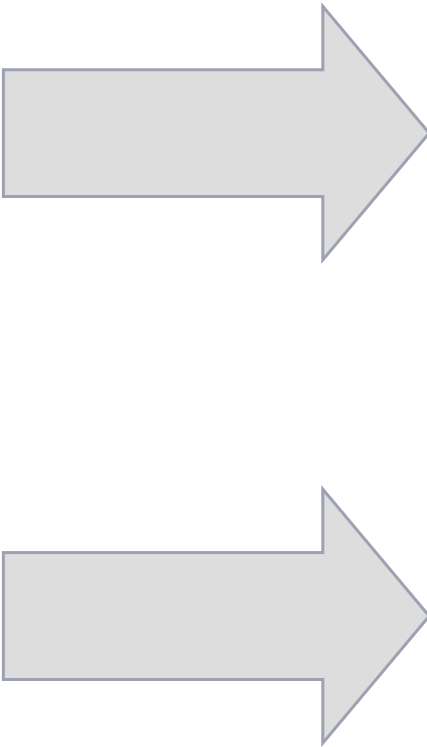
Amounts divested over last 2 years

in EUR millions	2005	2006
Annual Sales*	60	2,000
Employees	907	8,400
NOC	18	250

* Approximate figures based on previous year's sales

4 Adding value through the Philips Brand

2006 Structure



2007 Structure

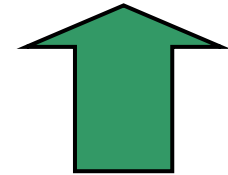


Investments in Philips Brand are paying off...



The Philips Brand continues to jump up the Business Week / Interbrand rankings tracking brand value

2006	48 th place
2005	53 rd place
2004	65 th place



In 2006, the brand value was estimated at USD 6.7 billion

Brand investment will be approximately EUR 100 million in 2007.

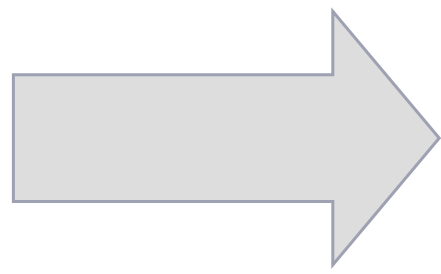
Brand now supports the entire Philips portfolio



5 Corporate & regional costs

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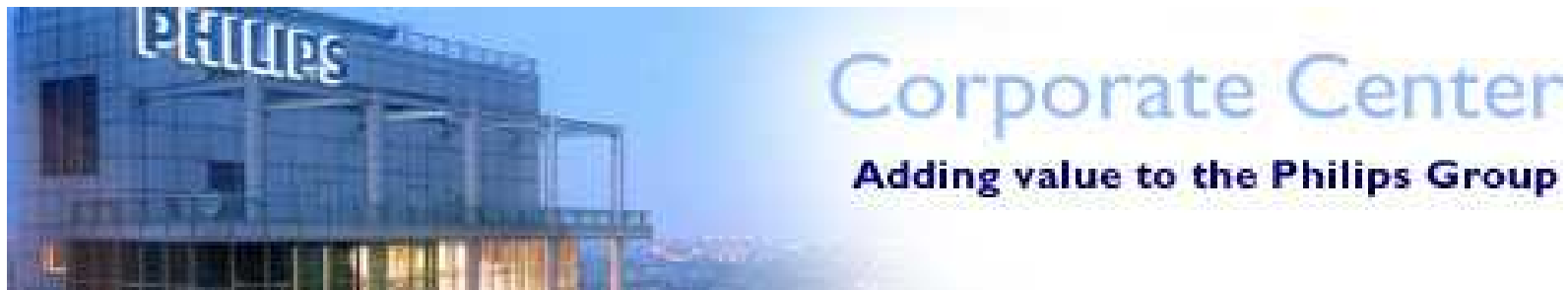
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Corporate & regional costs: annual run rate will be reduced by EUR 75 million from 2nd half 2007

EUR 75 million reduction in Corporate, country and regional costs...

- merging of country & business management
- removal of entire regional management layer
- adapted size of Corporate staff a.o. by transferring staff to NXP to establish their Corporate center.
- cost savings partially reinvested to drive growth in emerging markets



Adding Value through the Innovation & Emerging Businesses and the Corporate Center: [takeaways](#)

- 1 Corporate Research & the Incubators focus on driving innovation and emerging businesses not yet within, but leveraging the strengths of our current divisions and geographic markets
- 2 Consumer Healthcare Solutions will move to the I&EB sector in 2007. The business will be expanded around the mature anchor of Lifeline Systems which continues to show good progress on all key metrics.
- 3 The refocusing of the Corporate Investments portfolio will be completed by the first half of 2007.
- 4 Investments made in recent years in building the Philips brand are paying off. Brand investments in 2007 will be approx. EUR 100 m.
- 5 Significant reduction in 2007 Corporate and regional cost levels as a result of the NXP deal and driven by our desire to become a simpler, more market-driven organisation



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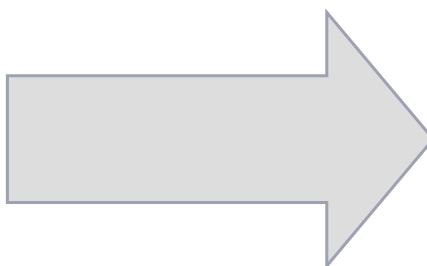
Changes in reporting

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① CHS will be transferred from DAP to the Innovation and Emerging Businesses sector

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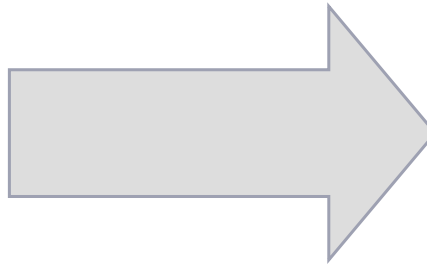


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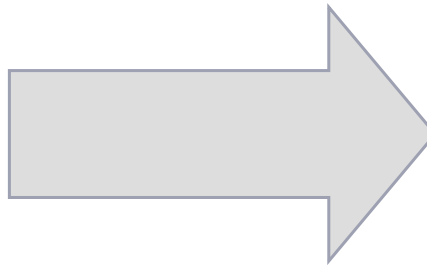
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② The GSU's (shared service centers) will be moved to Group Management & Services

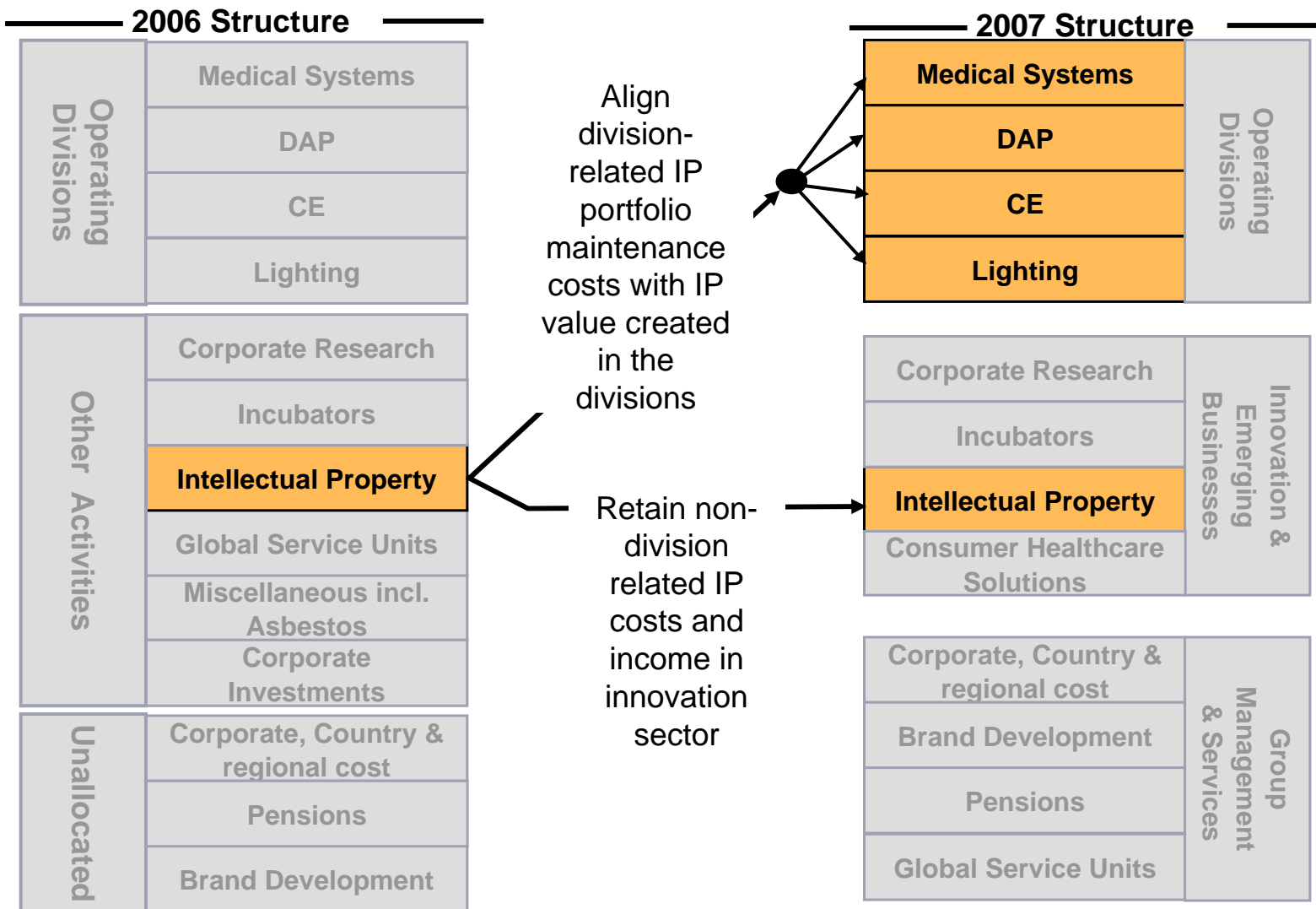
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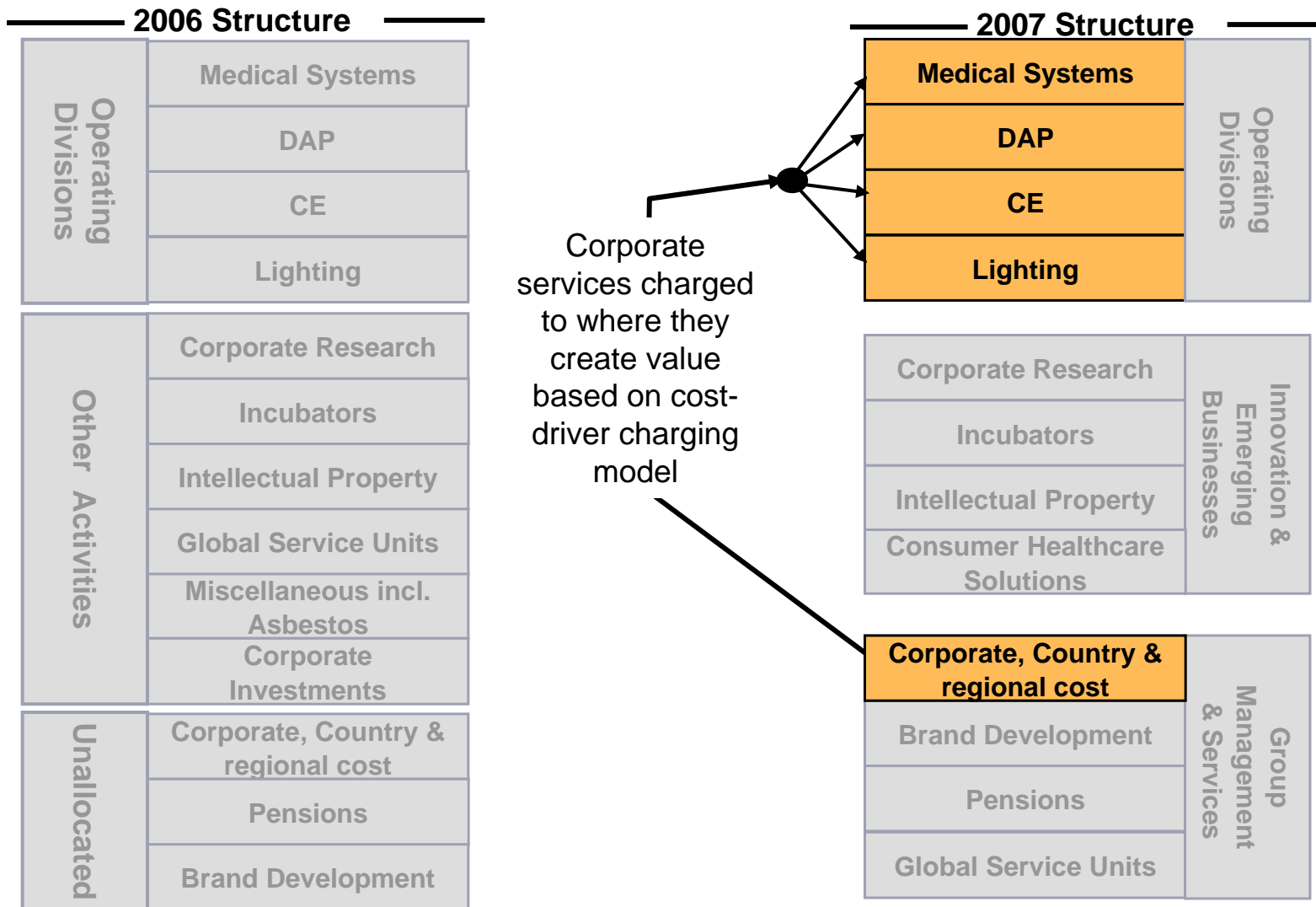
2007 Structure



3 Resources creating the IP income value in the divisions will be charged to the divisions



3 Part of Corporate services will be charged to the divisions which drive and create value from these resources

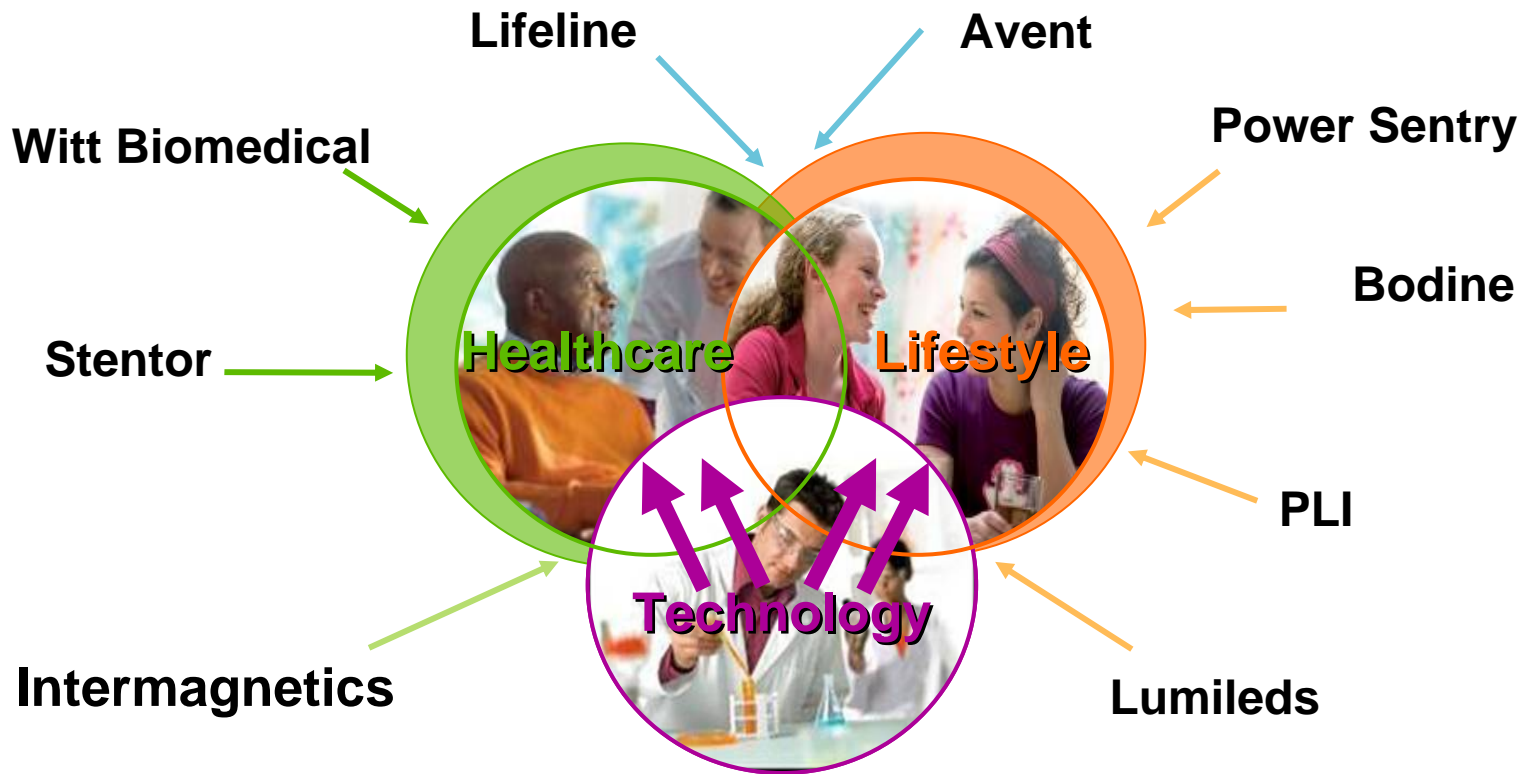


Total EBIT impact of charging IP generation resources and Corporate services to the divisions

amounts in EUR millions

	<u>Actual 2005</u>	<u>Indicative 2006</u>
Medical Systems	(73)	(82)
DAP	(30)	(38)
CE	(105)	(110)
Lighting	(50)	(58)
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Other Act	141	150
Unallocated	183	207
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Disc. Operations (NXP)	(66)	(67)

4 With 9 acquisitions in last 18 months...



...amortization & other changes make **EBIT** a less relevant indicator of underlying business performance....and so Philips will increasingly reference **EBITA** to increase transparency

Revised Mid-Term Guidance

% of Sales

Medical

14-15% EBITA

DAP

~ 15% EBITA

CE

~ 3% EBITA

Lighting

~ 12% EBITA

I&EB

EUR 80 m. per year

Corporate and Regional Overhead

Target 0.5% of sales

Brand Investment

EUR 100 m. in 2007

Philips Group

Above 7.5% EBITA

5 Pensions – FAS 158

- Mandatory change in pension accounting under US GAAP
- Effective date for employers with publicly traded equity securities:
effective as from “the end of the fiscal year ending after December 15, 2006”
- Balance sheet
 - old approach
 - unexpected gains and losses not recognized
 - funded status ***excluding unrecognized items*** reflected on balance sheet
 - new approach
 - ***funded status fully recognized*** on the balance sheet
 - unexpected gains and losses reflected in “***other comprehensive income***”
 - makes “***stockholders’ equity***” ***more volatile***
 - One-time initial impact
 - “stockholders equity” likely to be ***reduced by EUR 350 million or 1.5%*** based on position as at December 2005.
- Income statement remains unaffected

Changes in Reporting: **takeaways**

- ① Consumer Healthcare Solutions will move to the I&EB sector in 2007

- ② The GSU's (shared service centres) will move to Group Management & Services in 2007.

- ③ Part of Corporate and IP-generation resources will be charged to the divisions which drive and create value from these resources.

- ④ EBITA will increasingly be used as a more relevant indicator of underlying business performance. Future guidance will be on EBITA.

- ⑤ Philips will adapt its pension accounting in 2006 to comply with FAS158. This will result in a net reduction in group equity of approximately EUR 350 million.

PHILIPS

sense and simplicity

