

PHILIPS

Getting the fundamentals right

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Financial Analysts Day

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Snapshot: Consumer Electronics portfolio

Connected Displays



Television



Multimedia Displays

Home Entertainment Networks



Audio & Video Entertainment



Peripherals & Accessories



Digital Video STB & Home Communication

Mobile Infotainment



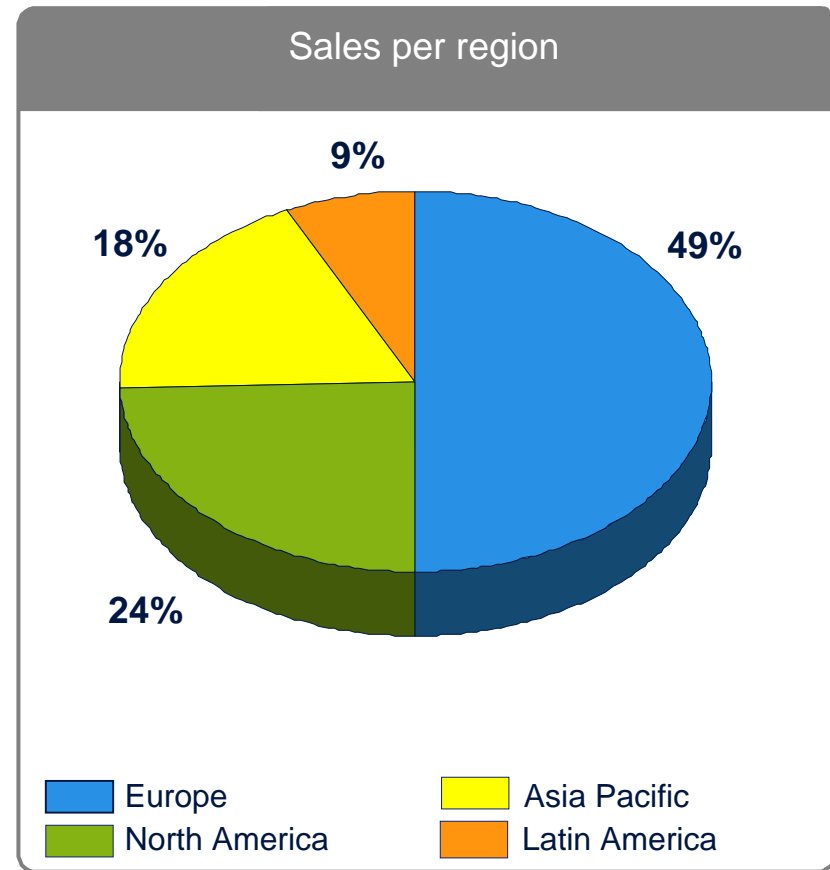
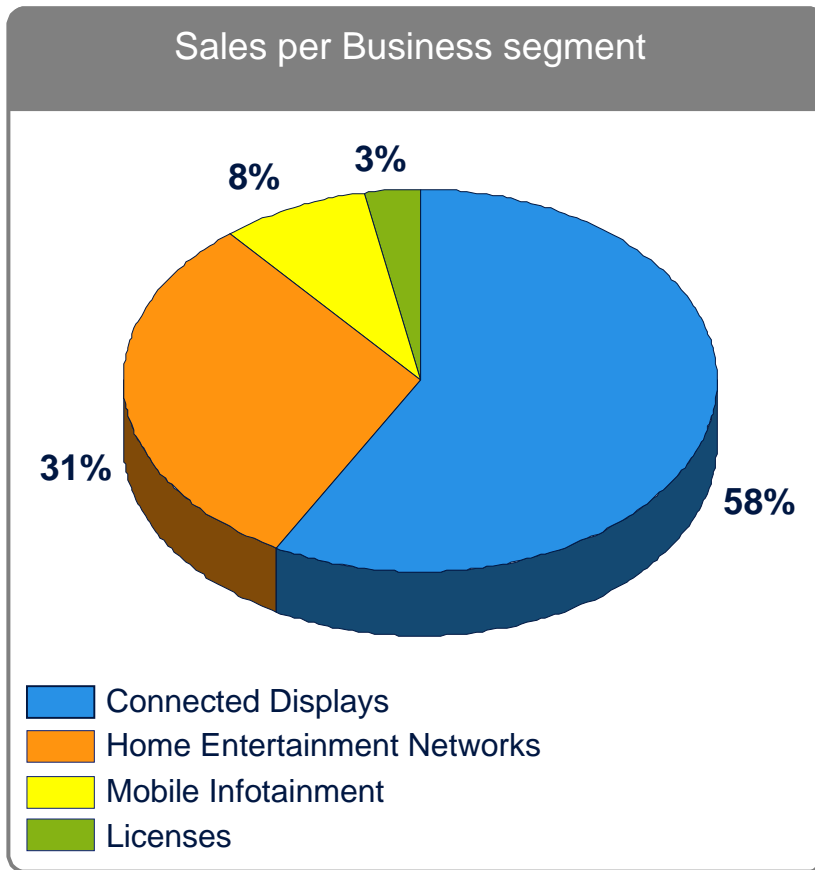
Personal Infotainment



Mobile Phones

Snapshot: Revenue per product and region

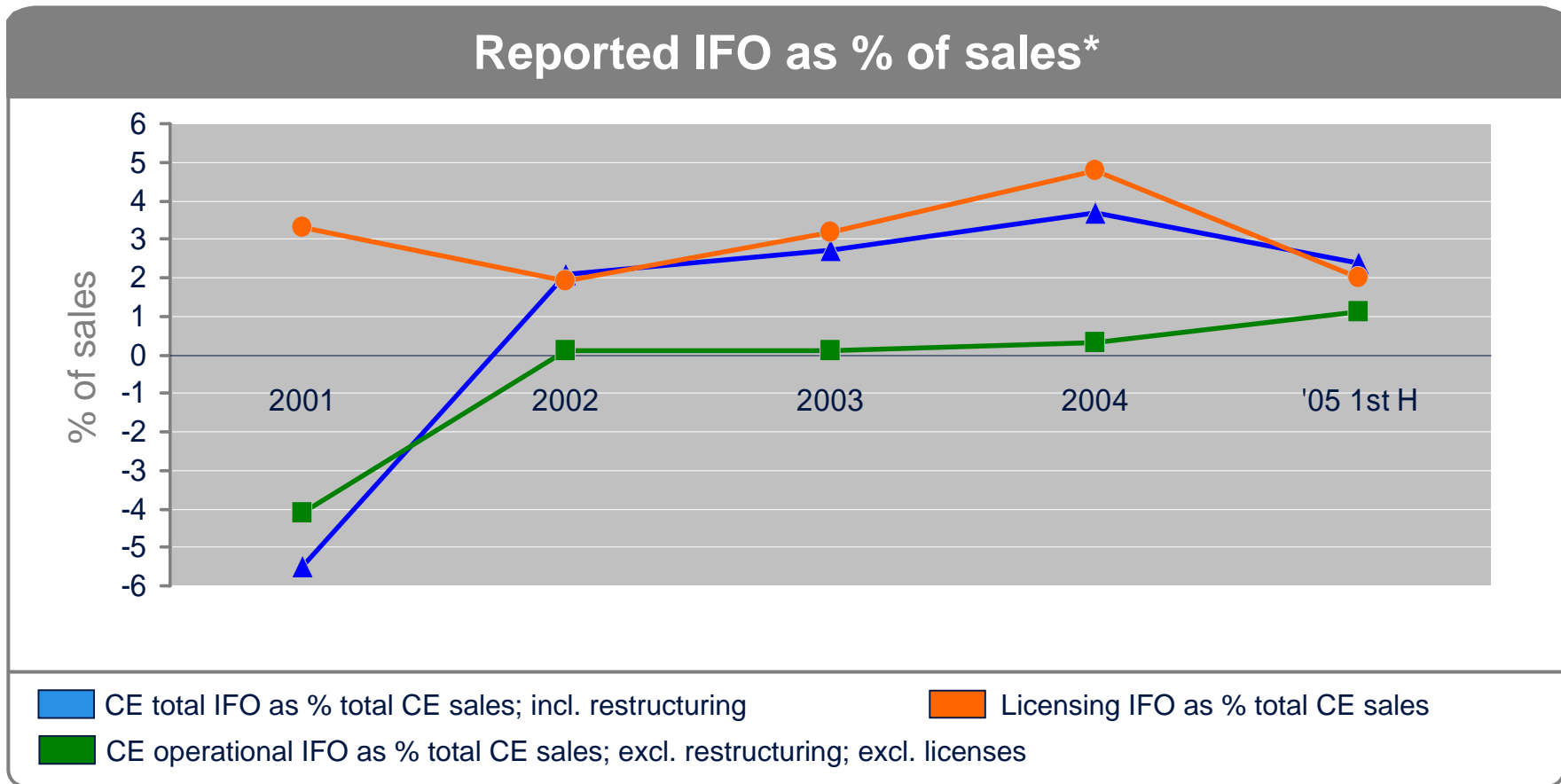
Sales to mid 2005:



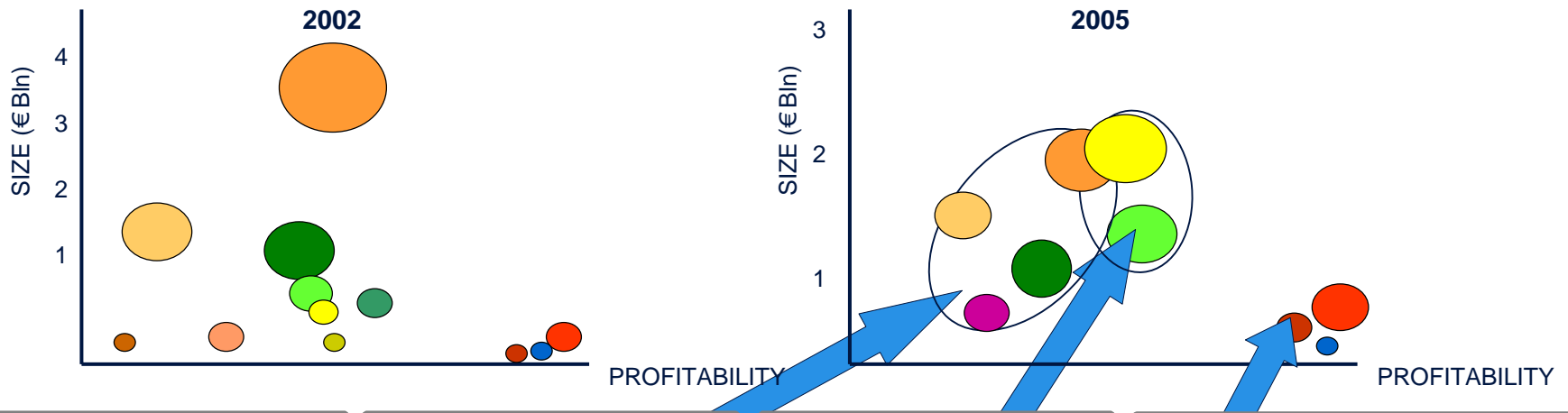
In 2003 we set out on a journey to address the fundamentals of our CE business

- Deliver consistently on financial commitments
4.0 – 4.5 % income from operations and licenses excl. restructuring and negative working capital, delivering positive cash flow and EPR
- Create a focused portfolio of businesses
- Turnaround our business in North America
- Create a lean, focused organization and realize 400 million Euro cost savings by end 2005 versus 2002 cost base
- Increase agility and become asset light through partnerships and outsourcing

Profitability has improved thanks to effective and consistent execution

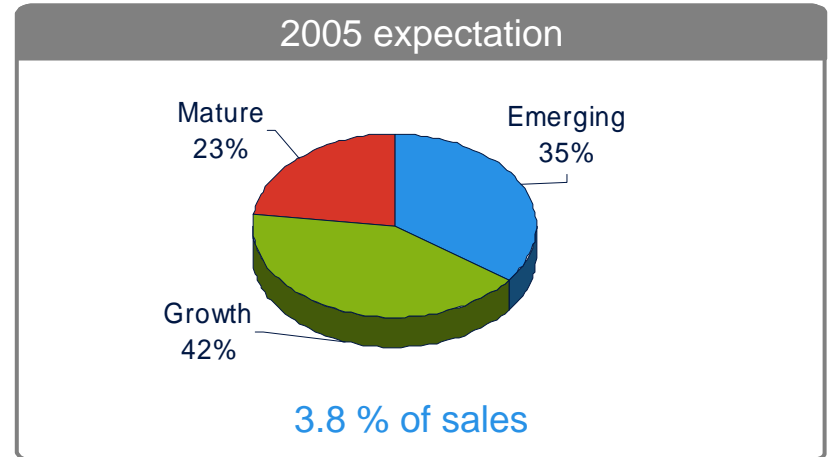
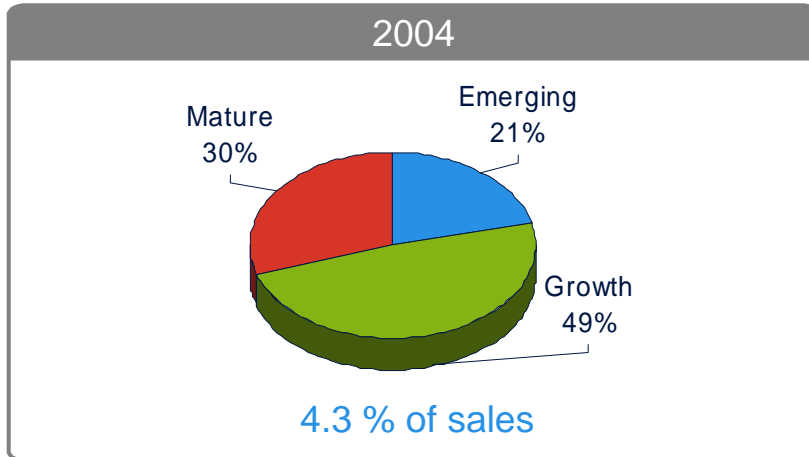
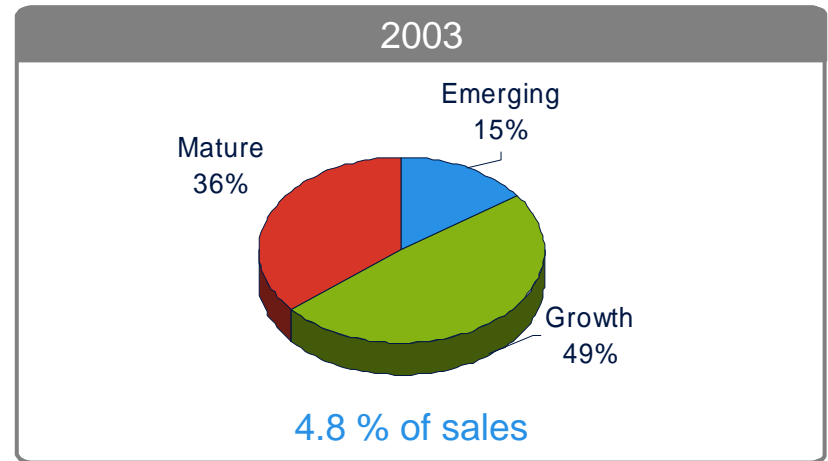
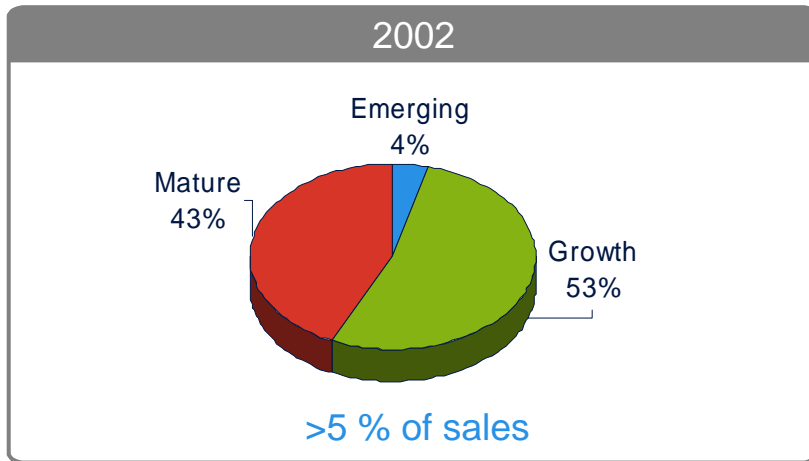


We have been successfully addressing our business portfolio challenges



| Discontinue / Divest | De-risking / Outsourcing | Grow for scale | Grow High margin niches |
|---|---|--|--|
| <ul style="list-style-type: none"> • LCoS (09-04) • Projection TV (Knoxville closure Q4-04) • Projection displays (04-04) • Manufacturing | <ul style="list-style-type: none"> • PC Monitors (TPV) • CRT-TV (TCL, Jabil) • Traditional Audio-Video entertainment | <ul style="list-style-type: none"> • Flat TV / Displays • Digital Audio-Video entertainment (DVD recording, media centre applications) | <ul style="list-style-type: none"> • 'End-to-end' Peripherals & Accessories opportunities (Gemini extension, new categories) • 'Vertical' applications (Business Display Solutions, Set Top Box, Home Communication, new categories) |

To secure the future, we have refocused our R&D investments to fuel the innovation engine



Resulting in acknowledgement and recognition of our market leadership

Supplier of the Year Awards



12 CES 2004 Innovation awards and Popular Mechanics Editors' Choice award



2 EISA 2005-2006 Awards

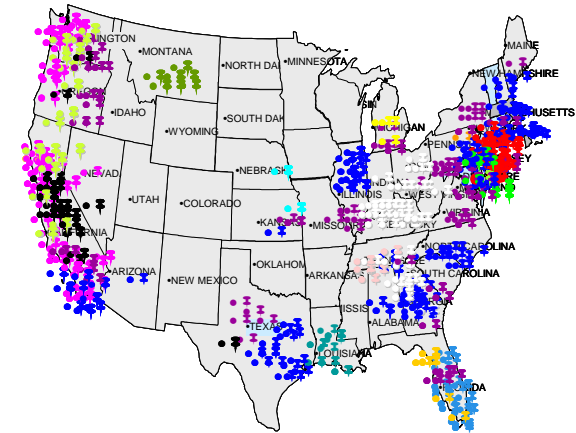


'European Audio Compact System Of The Year, 2005-2006', and 'European Video Innovation Of The Year, 2005-2006'

The turnaround in North America is driven by business model differentiation and organizational simplification

- We have capitalized on our market presence and brand franchise:
 - Focused product portfolio
 - Partnerships with winning retailers
 - Combination of Philips and Magnavox brands

- Business renewal program deliverables:
 - Differentiated business models; Philips innovation range vs Philips/Magnavox mass market products
 - Organizational right-sizing
 - Reengineering and outsourcing
 - Supply chain alignment with business models

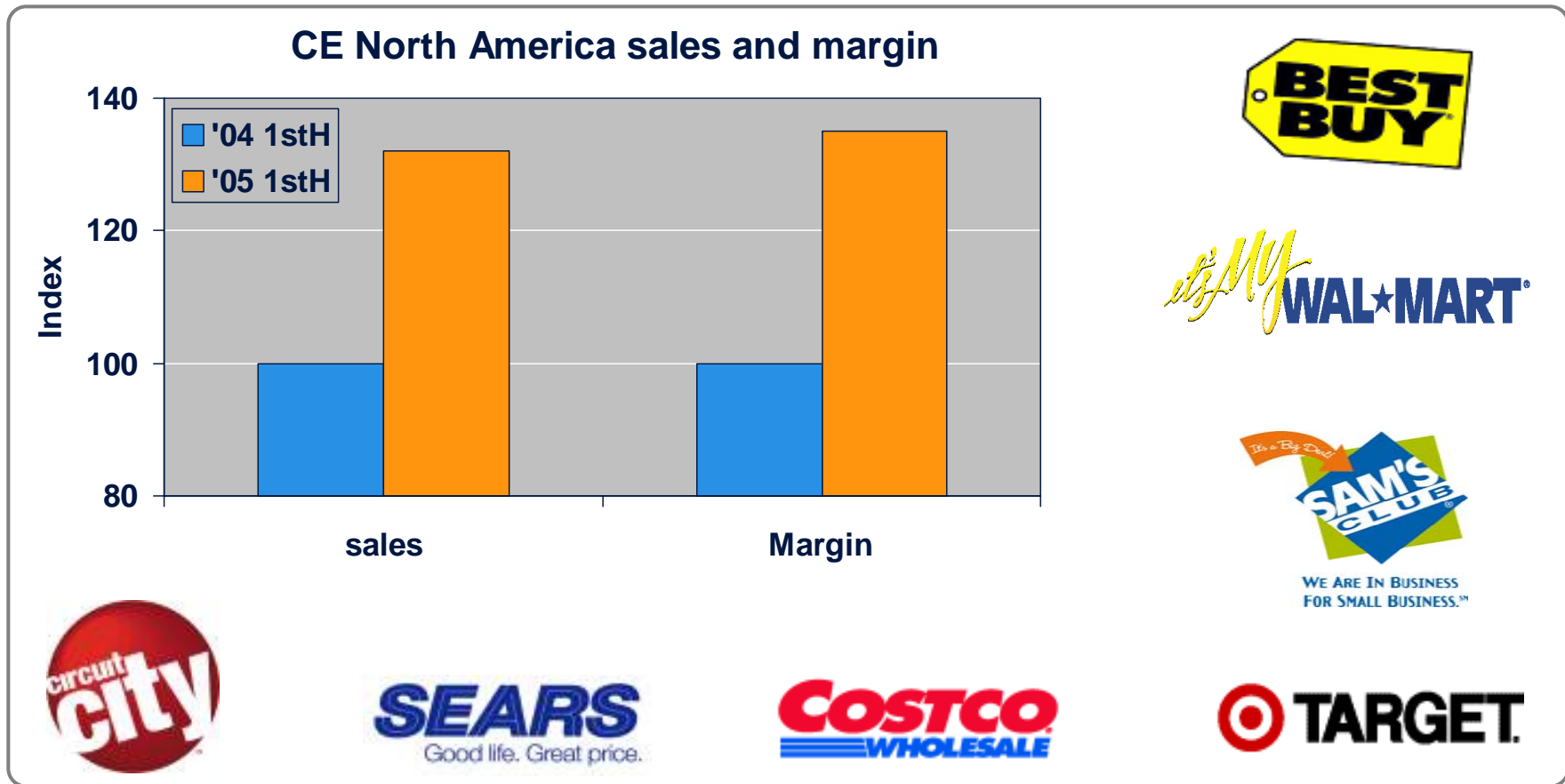


Customer comments:

"Here is why our business is booming with you this year, and if we continue on this path, we have further opportunities:

1. Your **brand is important** to our consumers.
2. You **bring technology more affordable** for our members without sacrificing quality. Example is your 42" HD plasma TV.
3. You have **improved your supply chain** and are working much more closely with my team on forecast.
4. We both **improved communication** between the teams. No surprises.
5. **Better alignment of our strategies**. I believe that Philips truly understands what we are all about. At the same token, we appreciate Philips brand, products and the support.

Improvements in North America have also been driven by a significant upturn in placements



We have created a lean, focused organisation

2003 organization

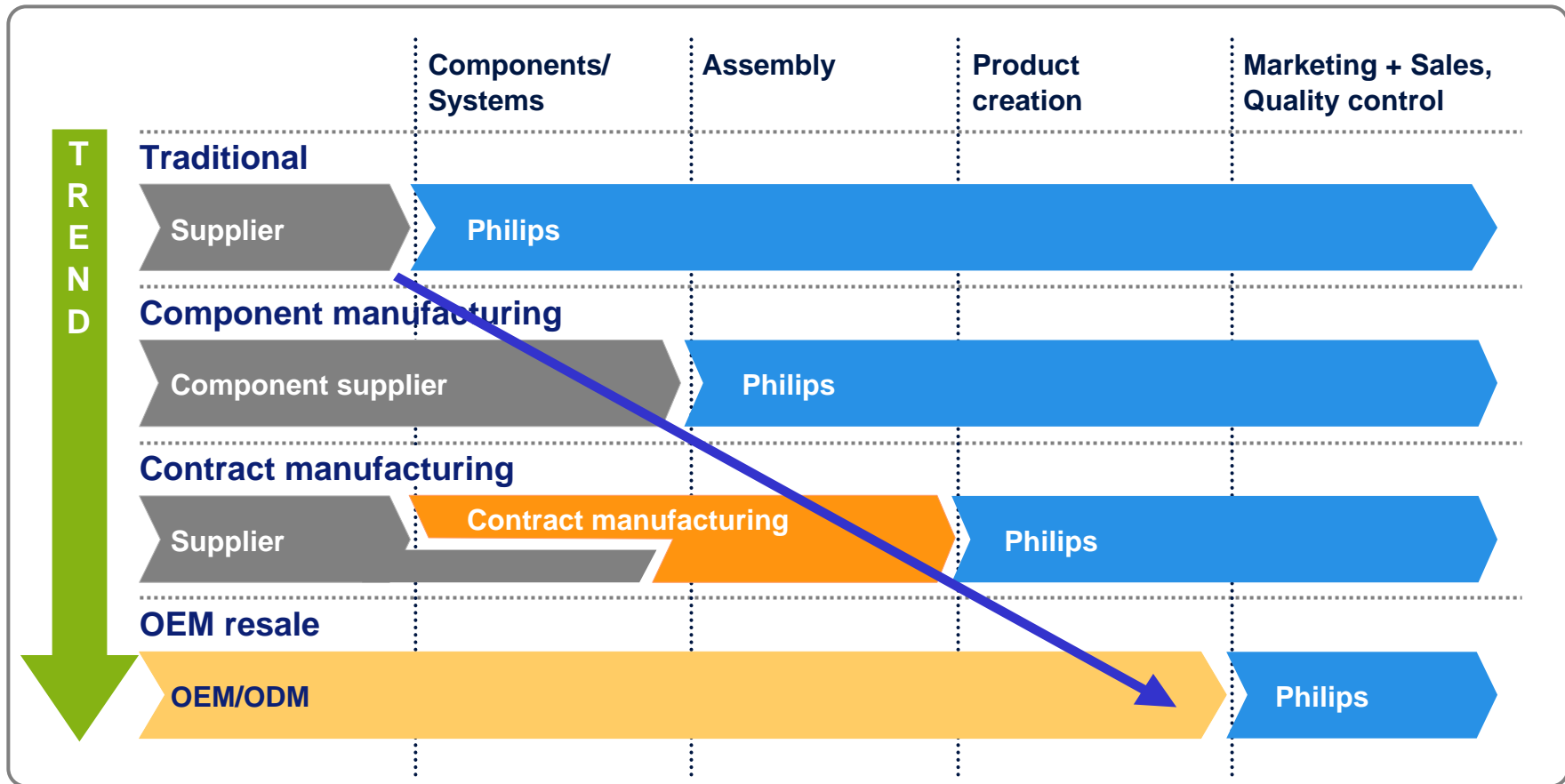
- De-centralised business planning, logistics and accounting
- 7 Business Units;
21 Creation Teams
- Each team individual R&D approach
- Distinct regional marketing programs
- Undifferentiated business models
- USA: focus on improving retail position
- In house infrastructure
- Large own consumer service organisation



2005 organization

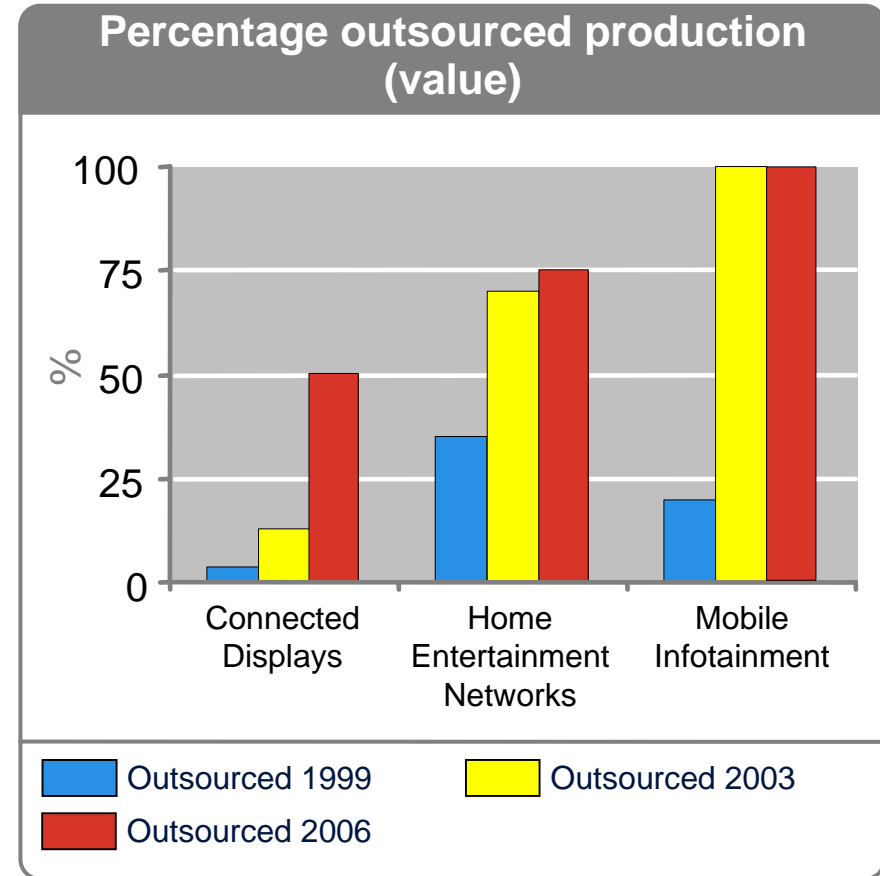
- ✓ Centralised business planning, logistics and accounting
- ✓ 3 Business Units;
12 Creation Teams
- ✓ Aligned R&D roadmaps
- ✓ Coherent global marketing approaches
- ✓ Business model adapted to life-cycle
- ✓ USA: lean organisation; executing global programs to drive business
- ✓ Outsourced, shared service centres
- ✓ Outsourced consumer service organisation

Our operating model is increasingly becoming more agile and asset light



Outsourcing increases; our partnership with TPV is a significant milestone in 2005

- Combining Philips and TPV monitors
 - #1 global monitor maker (26.5% share)
 - Combined shipments of 35 million sets
 - Combined revenues over \$5 billion
- Philips will be able to focus on branding and marketing
- Asset light strategy: Philips becomes a strategic partner with shareholding in TPV



Connected Displays outsourced production (volume) 2006 = 70%

Drastic reduction of the risk profile by managing the value chain instead of owning it

