

PHILIPS

Changes in reporting and other matters

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Financial Analysts' Day
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Agenda

- Reporting affecting 2007 - discontinued operations
 - MedQuist Inc.
 - Settlement NXP pension obligations
- Effective as of 1st quarter 2008
 - New sector structure
 - New IFRS pension accounting
- Effective as of 1st quarter 2009
 - IFRS-only

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MedQuist – discontinued operations in Q4 2007

- On November 2, 2007, Philips announced that it has decided to proceed with the [sale of its approximately 70% ownership interest in MedQuist Inc](#)
- Consequently, the financial results attributable to Philips' interest in MedQuist will be [presented under discontinued operations for the entire year 2007](#)
- Also, prior periods' consolidated financial statements will be restated to present MedQuist as a discontinued operation
- The decision has resulted in an [impairment charge of some EUR 320 million](#) to be recognized in Q4 2007, and to be presented under discontinued operations

[This non-cash charge will not affect Philips' equity](#) as it takes into account the release of the cumulative translation differences related to Philips' USD-denominated investment in MedQuist, which have been accumulated under equity as of the date of acquisition in mid-2000

MedQuist – discontinued operations in Q4 2007

continued

- The key restated financials for the period year-to-date September 2007 are as follows:
- The financials for the divisions Lighting, CE, DAP and IE&B remain unchanged
- Further details about restated key financial figures for the preceding 7 quarters will be made available separately today on our investor relations website

<i>in EUR million</i>	January – September 2007	
	Medical Systems	Philips Group
Sales	4,519	18,428
Sales growth		
<i>% nominal</i>	1.6	(1.1)
<i>% comparable</i>	3.8	3.4
EBITA	521	1,200
<i>as % of sales</i>	11.5	6.5
EBIT	421	1,042
Discontinued operations		(37)
Net income		2,775
NOC	4,043	11,320

Settlement NXP pension obligations in Q4 2007

- In Philips' press release of Q3 2006, it was stated that:
 - The settlement of certain NXP pension obligations will be recorded in 2007
 - These charges will be reported under income from discontinued operations, and are expected to amount to approximately EUR 75 million before tax
- We confirm that the above charges will be recorded in Q4 2007

This settlement is expected to amount to approximately EUR 60 million after tax

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New sector structure as of January 1, 2008

- Philips aims to simplify its organizational structure by forming **three core sectors – Healthcare, Lighting and Consumer Lifestyle** – as a next step in the evolution into a market-driven, people-centric global leader in its field
- The revised structure is part of “Vision 2010”. **Vision 2010 aims to fuel growth through sharpened strategies** for Healthcare and Lighting and an integrated approach for Consumer Lifestyle
- Through “Vision 2010”, Philips aims to deliver **a minimum of 6% comparable annual average sales growth over the period 2008-2010**

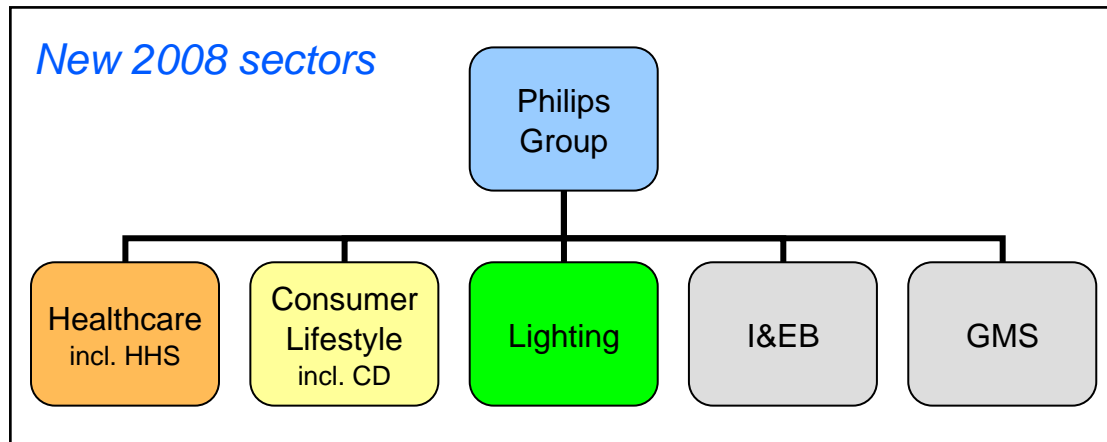
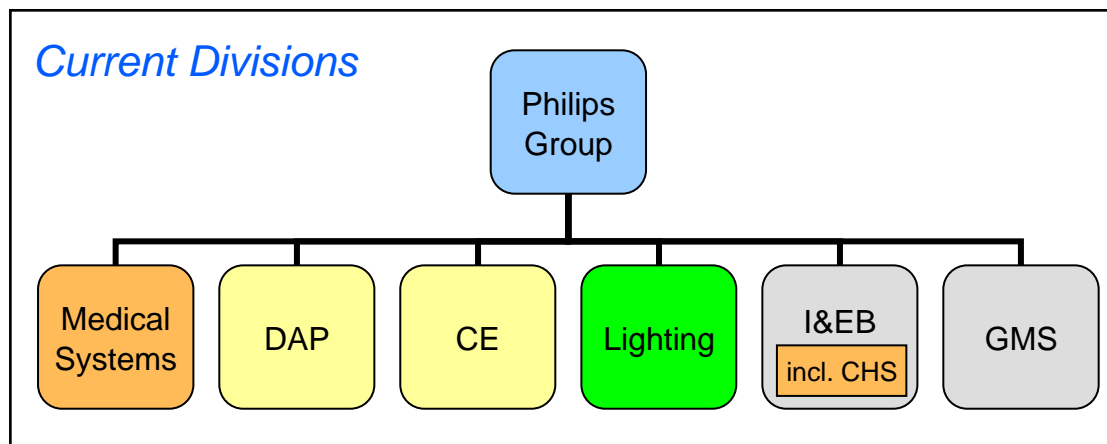
Philips intends to arrive at **an efficient balance sheet by the end of 2009** through a combination of value-creating acquisitions as well as continued return of capital to shareholders

By 2010, Philips expects the EBITA margin of its current businesses to exceed 10%, and **to more than double EBITA per share from the level expected in 2007**

New sector structure as of January 1, 2008

continued

- Consumer Electronics (CE) and Domestic Appliances and Personal Care (DAP) will be combined to form the Consumer Lifestyle sector
- Consumer Healthcare Solutions (CHS), currently part of IE&B, will be renamed Home Healthcare Solutions (HHS) and become part of Medical Systems
- Medical Systems will be renamed Healthcare
- Key financials of the business Connected Displays (CD), part of the sector Consumer Lifestyle, will be disclosed separately



New sector structure as of January 1, 2008

continued

- The first 9 months of 2007 restated to the new 2008 structure would look as follows *:

<i>in EUR million</i>	January – September 2007					
	Healthcare	Consumer Lifestyle	Lighting	IE&B	GMS	Philips Group
Sales	4,641	8,840	4,434	372	141	18,428
Sales growth						
<i>% nominal</i>	2.5	(0.9)	10.5	(65.4)	53.7	(1.1)
<i>% comparable</i>	3.9	0.6	5.3	38.3)	75.9	3.4
EBITA	524	418	537	(101)	(178)	1,200
<i>as % of sales</i>	11.3	4.7	12.1	(27.2)	(126.2)	6.5
EBIT	411	405	505	(101)	(178)	1,042
NOC	4,751	1,507	4,116	217	729	11,320

- The financials for Lighting, GMS and Philips Group will, of course, remain unchanged
- Further details about key restated financials for all quarters of 2007 will be made available in Q1 2008 on our investor relations website

* includes restatement to present the MedQuist business as a discontinued operation

Pension accounting IFRS as of January 1, 2008

Implementation of SoRIE approach and IFRIC 14

- Currently, under IFRS, actuarial gains and losses are - under certain criteria - gradually recognized in both the balance sheet and the profit and loss account in accordance with applicable amortization schemes
- Philips will move to the SoRIE (Statement of Recognized Income & Expense) approach, under which:
 - actuarial gains and losses are recorded directly in equity and disclosed in the SoRIE
 - the SoRIE will be introduced in addition to the current profit and loss account, balance sheet and cash flow statement
 - actuarial gains and losses are immediately and fully recognized on the balance sheet
 - actuarial gains and losses remain outside the profit and loss account
- Philips will also apply IFRIC 14 Defined Benefit Assets & Minimum Funding Requirements. This interpretation gives guidance on the extent to which differences between defined-benefit pension plan assets and liabilities may be recognized as an asset
- These changes will be applied as of January 1, 2008, and prior years will be restated accordingly

Pension accounting IFRS as of January 1, 2008

Financial impact on Philips

- Retrospective application of SoRIE is expected to eliminate most differences with regard to net income between IFRS and US GAAP as from 2005
 - the cost of pension and other post-retirement benefits was EUR 194 million in 2006 under US GAAP
 - of this amount, pension cost amounted to EUR 155 million
 - pension contribution payments amounted to EUR 325 million in 2006
 - excluding a payment of EUR 582 million to the UK pension fund following a change in regulation, and an accelerated contribution of EUR 101 million to the local pension fund in the US
- SoRIE will also result in recognition of actuarial gains and losses on the balance sheet
 - impact for 2006: EUR 354 million decrease in equity – net of tax
- The impact of IFRIC 14 on the recognition of pension assets is still to be determined
- Further detailed financial information under US GAAP and IFRS can be found in notes 20 & 21 and note 52 respectively of the Annual Report 2006

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IFRS-only reporting as of January 1, 2009

- Currently, Philips' primary reporting is based on US GAAP. In addition, Philips issues quarterly and annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS)
- The US Securities and Exchange Commission (SEC) has withdrawn the requirement that 'Foreign Private Issuers' such as Philips file US GAAP based financial statements or a reconciliation thereto, and will accept reporting solely based on IFRS as adopted by the IASB
- In order to simplify reporting and reduce cost, Philips has started its preparations to migrate to IFRS as its only internal and external reporting standard from January 1, 2009, and to discontinue the use of US GAAP as of the same date

Philips' reconciliation between US GAAP & IFRS

Main differences in net income – January to September 2007

in EUR million

US GAAP net income **2,775**

Development assets 27
of which capitalization 157
of which amortization (130)

Pensions and other postretirement benefits (209)

Realized gain on TSMC securities 181

Other (5)

IFRS net income **2,769**

IFRS requires capitalization and amortization of development costs, whereas under US GAAP these costs are recorded as an expense.

Adoption of SoRIE as of January 1, 2008 is expected to eliminate most of this difference (see slide 13).

One-off impact sale TSMC securities: release of different amounts of cumulative translation differences between US GAAP and IFRS.

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sense and simplicity