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# Delivering on targets
# Well positioned for the future

Royal Philips Electronics
2007 Annual Results Press Conference

January 21, 2008

# Forward Looking Statements

### Forward Looking Statements

This document and the related oral presentation, including responses to questions following the presentation may contain 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. We caution readers that no forward-looking statement is a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statements. Examples of forward-looking statements are statements we have made about our strategy, estimates of sales growth, future EBITA and cost savings, future developments in our organic business as well as the benefit of future acquisitions, and our capital position. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

Forward looking statements that we make are subject to, among other things, domestic and global economic and business conditions, levels of consumer and business spending in major economies, changes in consumer preferences with respect to our existing and new products, our ability to develop and market new products, changes in legislation, the successful implementation of our strategy and our ability to realize the benefits of this strategy, changes in exchange and interest rates, changes in tax rates, 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, our ability to identify and complete successful acquisitions and to integrate those acquisitions into our business, our ability to successfully exit certain product lines and businesses or restructure our operations, the rate of technological changes, political and other developments in countries where Philips operates and industry consolidation as well as the impact of competition – a number of which factors are beyond our control. As a result, our actual future results may differ materially from the plans, goals, and expectations set forth in such forward-looking statements.

Additional risks and factors are identified in our Annual Report for the fiscal year ended December 31, 2006 and our Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the "SEC"), which is available on the SEC's website at www.sec.gov. Readers should consider the disclosures in that Report and any additional disclosures that we have made or may make in documents that we have filed or furnished to the SEC or may file with or furnish to the SEC or other regulatory authorities.

Any forward-looking statements made by or on our behalf speak only as of the date they are made. We do not undertake to update forward-looking statements to reflect any changes in expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. 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).

### 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.

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# Highlights 2007 – Transformation accelerated

- Delivering on targets in a challenging economic environment
- Comparable sales up 5% to EUR 26,793 million, meeting target
- EBITA up 49% to 7.7% of sales, beating target
- Capital re-allocation program largely completed
- Strategic acquisitions strengthen global leadership positions
- Raising dividend for the fourth consecutive year
- “Vision 2010” with realistic targets for significant value creation

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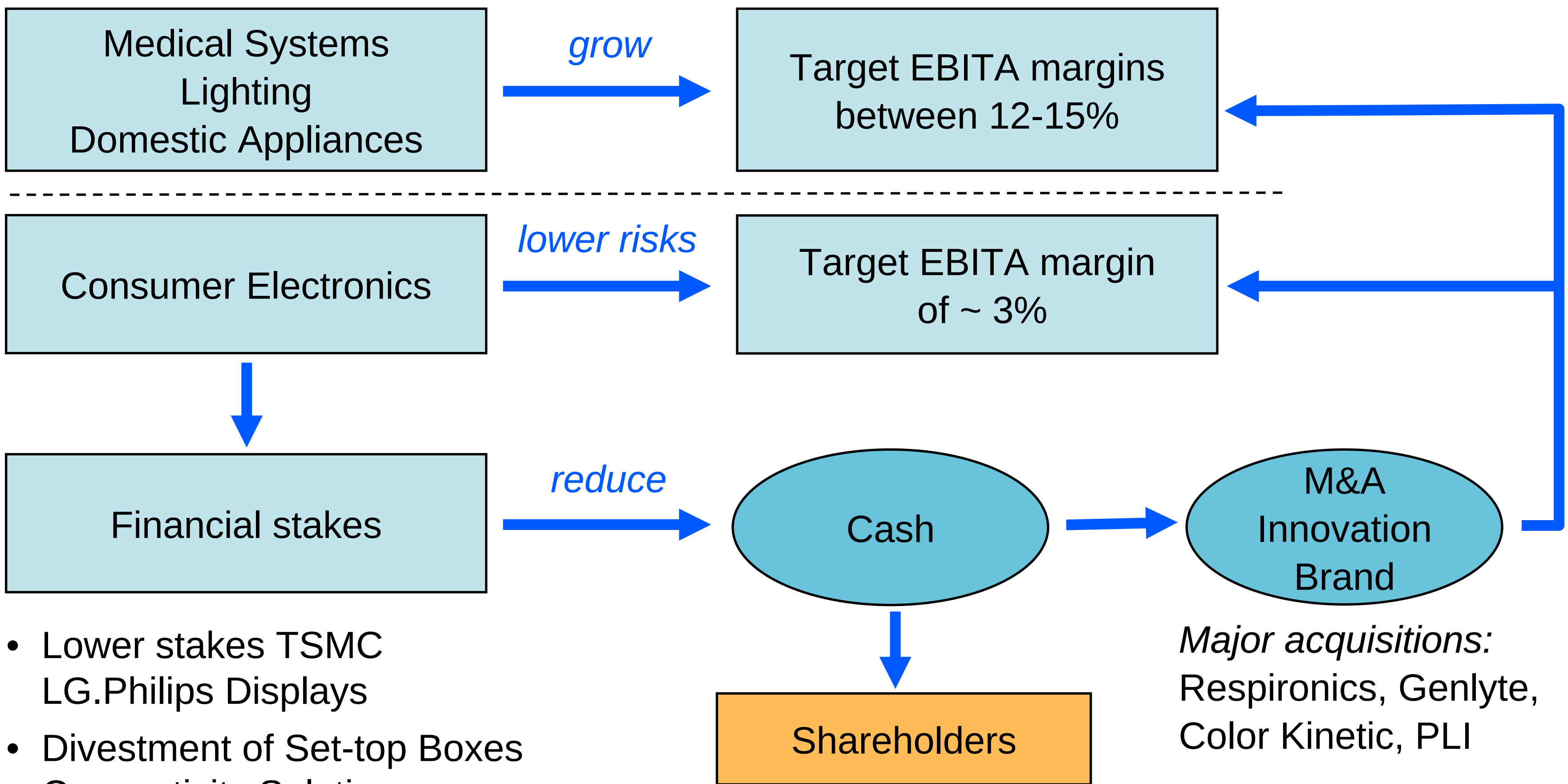
# Performance of the Philips Group[1]

*amounts in EUR million*

| | 2006 | 2007 |
|---|---|---|
| Sales | 26,682 | 26,793 |
| Comparable sales growth % | 6% | 5% |
| EBITA | 1,386 | 2,065 |
| EBITA as % of sales | 5.2% | 7.7% |
| Income from continuing operations | 901 | 4,601 |
| Net income | 5,383 | 4,168 |
| Cash flow from operations | 330 | 1,519 |
| Net debt to group equity | (10) : 110 | (32) : 132 |
| Employees | 115,092 | 118,098 |

1 – MedQuist has been restated to Discontinued Operations in all years

# Capital reallocation largely completed in 2007



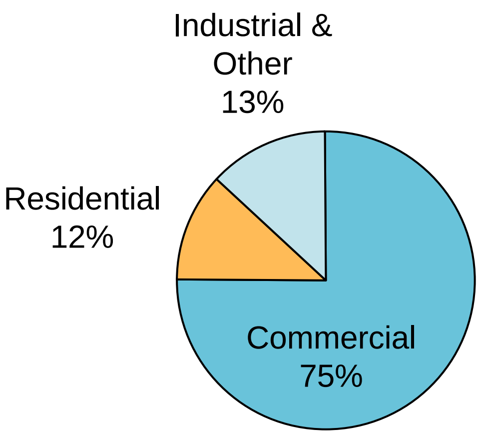

- Lower stakes TSMC
  LG.Philips Displays
- Divestment of Set-top Boxes
  Connectivity Solutions
  Mobile Phones

- EUR 5 Billion additional share buy back
- Higher dividend

*Major acquisitions:*
Respironics, Genlyte, Color Kinetic, PLI

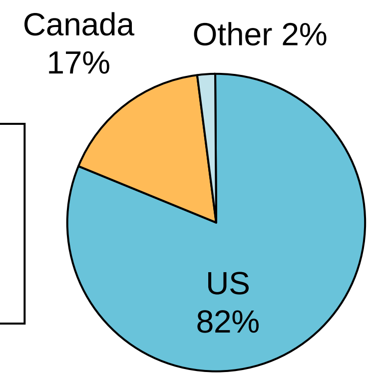
# Introducing Genlyte

Segment Sales Split (2006A)




Key Financials
MAT Sep-2007 sales: US$ 1,601 m.
MAT Sep-2007 EBITA: US$ 238 m.
EBITA margin %: 14.9%

Geographic Sales Split (2006A)




- Founded in 1985 and located in Louisville, Kentucky, US
- Leading manufacturer of lighting fixtures, controls and related products for the commercial, industrial and residential markets
- #2 player in North America
- Strong track record in organic and acquisitive growth
- Key brands are Lightolier, Day-Brite, Capri, Thomas Lighting and Hadco
- Approximately 6700 employees

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# Genlyte: Outstanding financial track record

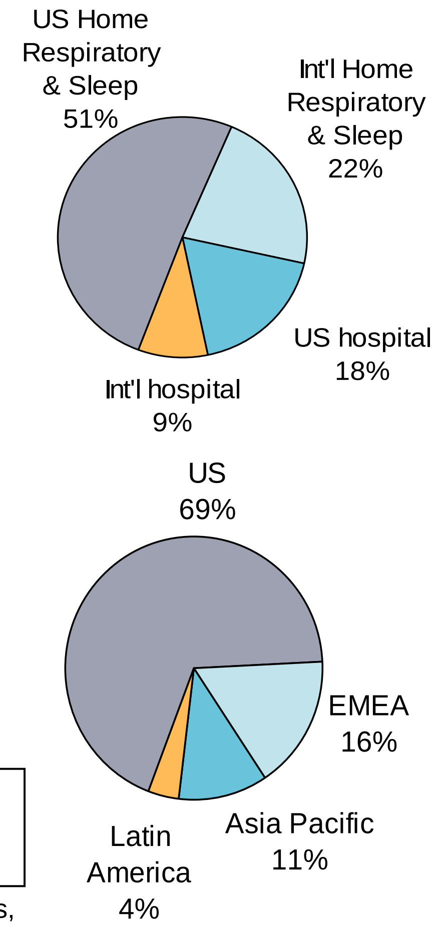
| MAT[1] September | 2004 | | 2007 | CAGR | |
|---|---|---|---|---|---|
| Sales (US$ m.) | 1,151 | → | 1,601 | 12% | • Strong sales growth[2] |
| EBITA (US$ m.) | 113 | → | 238 | 28% | • More than doubled EBITA |
| *Margin %* | *9.9%* | → | *14.9%* | | • 5% higher EBITA margin |

Source: Company filings
[1] Moving annual total
[2] Includes sales growth from acquisitions

# Introducing Respironics

- Founded in 1976 and headquartered in Murrysville, US
- A leading developer, manufacturer, and distributor of products for the global respiratory market
- #1 in the global OSA market with products distributed in over 131 countries
- History of innovation with a portfolio of emerging growth technologies
- Approximately 5,000 employees

**Sales Distribution**
(Fiscal year 2007)




<u>Key financials</u>
MAT Sept 2007 Revenue: US$ 1.2 billion
MAT Sept 2007 EBITA margin [(a)]: US$ 180 m./15%

(a): EBITA includes stock based compensation expense and excludes restructuring and acquisition related expenses, adjusted for stock based compensation EBITA is US$ 194 m./16% margin. MAT is Moving Annual Total.

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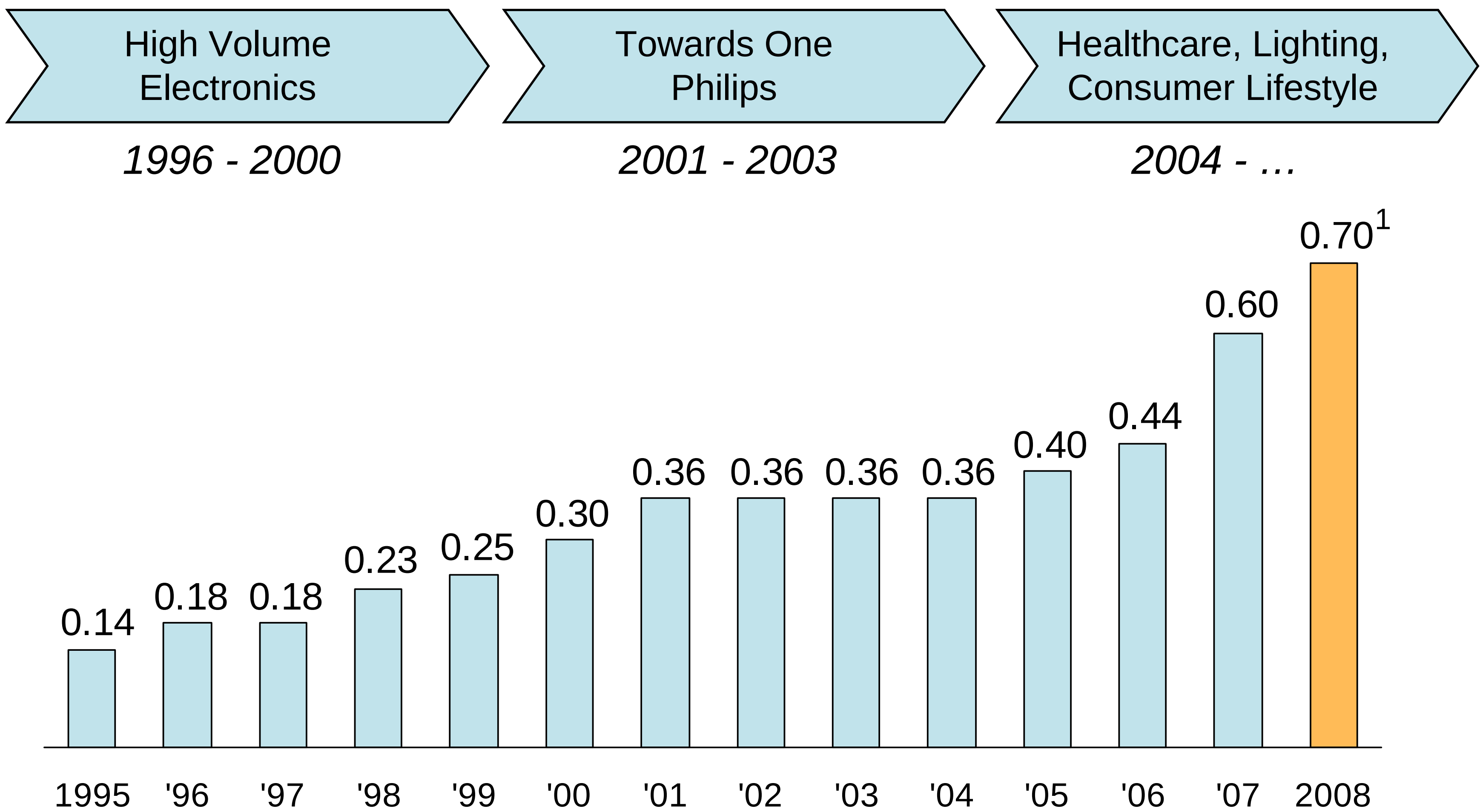
# Respironics: Outstanding financial track record

| MAT September | 2002 | 2007 | CAGR | |
|---|---|---|---|---|
| Sales (US$ m.) | 526 | 1,240 | 19% | •Double digit sales growth[(a)] |
| EBITA (US$ m.) | 80 | 180 | 18% | •Strong EBITA margin of 15% |

Note: EBITA includes stock compensation expense and excludes restructuring and acquisition related expenses
EBITA excluding stock compensation EBITA for 2007 is US$ 194m./CAGR 18%/EBITA margin 16%. MAT is Moving Annual Total
(a) Includes sales growth from acquisitions
Source: Company filings

# Continued increase in dividend

*amounts in EUR*




1 – Proposal subject to approval in the General Shareholders Meeting on March 27th, 2008

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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 buybacks and dividends ☑
- Drive a culture of superior customer experience by delivering on the brand promise and implementing the Net Promoter Score measure in the company ☑
- Be an exciting place to work and bring employee engagement to a high performance benchmark level within 2 to 3 years ☑

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# Agenda

- Financial performance 2007
- Capital re-allocation
- Summary

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# Summary - 4Q07

*EUR million*

| | 4Q06 | 4Q07 |
|---|---|---|
| Sales | 8,058 | 8,365 |
| EBITA | 738 [1] | 865 [1] |
| Financial income and expenses | (104) [2] | 579 [2] |
| Income tax | (58) [3] | (226) |
| Results equity-accounted investees | 31 | 628 [4] |
| Net income from continuing operations | 539 | 1,789 |
| Discontinued operations | 141 [5] | (396) [5] |
| Net Income | 680 | 1,393 |
| Net cash provided by operating activities | 721 | 1,357 |
| Net debt : Group equity ratio | (10):110 | (32):132 |

1 - Q4 2006 results included a EUR 42 m gain on the sale of Philips Sound Solutions, while Q4 2007 included EUR 48 m. increase in IP income
2 - Q4 2006 included fair-value adjustments related to TPO and TPV totaling EUR (125) m; Further sale of shares in TSMC led to a gain of EUR 579 m in Q4 2007
3 - Income tax charges in Q4 2006 included the positive impact of a reduction of the Dutch corporate tax rate on the net deferred tax position
4 - Further sale of shares in LG.Philips LCD led to a gain of EUR 508 m in Q4 2007
5 - Discontinued operations in 4Q07 consisted of EUR 325 m currency translation loss related to MedQuist and EUR 79 m charges related to certain pension obligations stemming from the 2006 sale of a majority stake in the Semiconductors division

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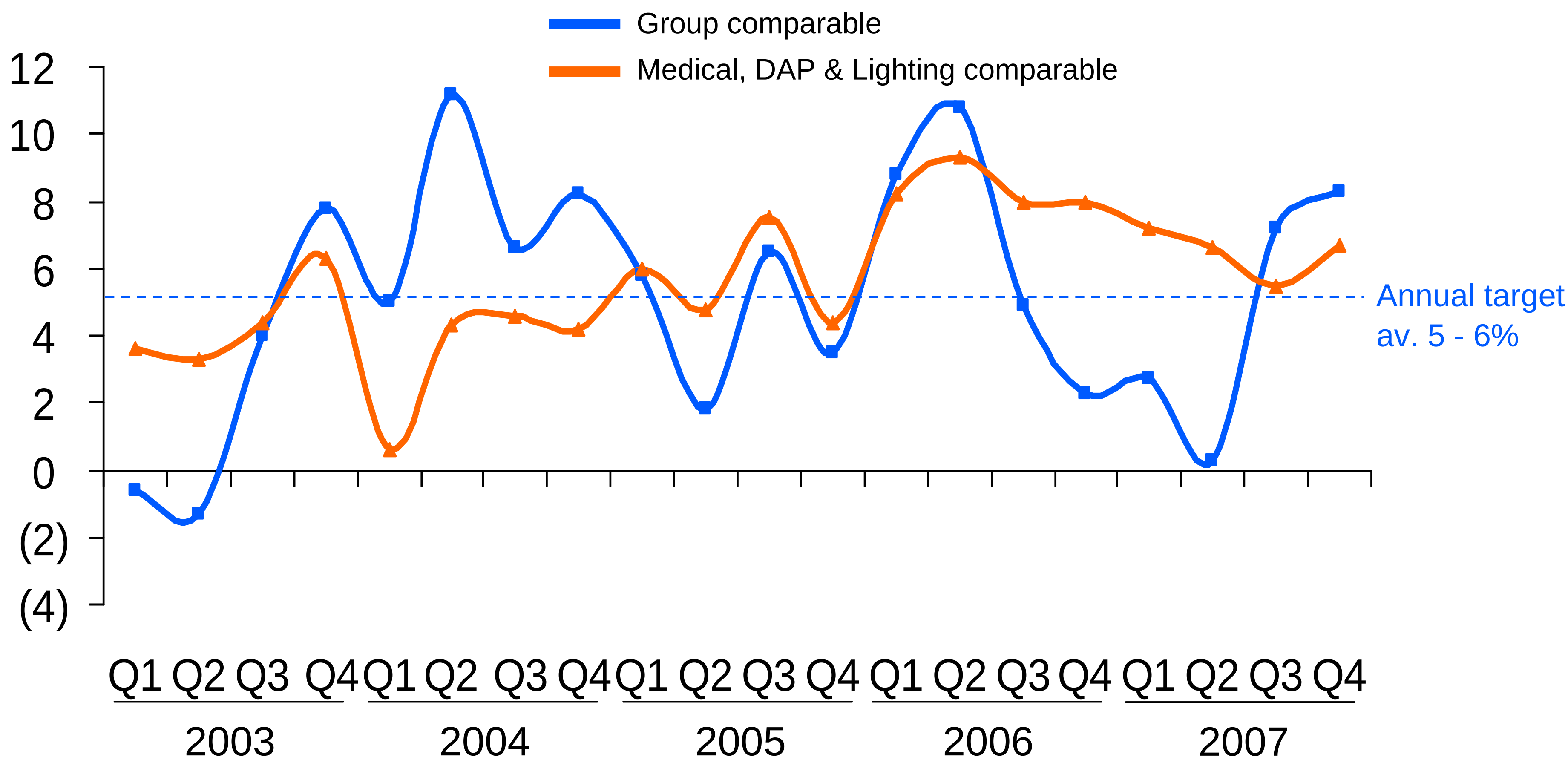
# Quarterly sales growth y-o-y

*%*



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# Summary - FY 2007

*EUR million*

| | FY2006 | FY2007 |
|---|---|---|
| Sales | 26,682 | 26,793 |
| EBITA | 1,386 | 2,065 |
| Financial income and expenses | 28 | 2,613 |
| Income tax | (167) | (622) |
| Results equity-accounted investees | (157) | 763 |
| Net income from continuing operations | 901 | 4,601 |
| Discontinued operations | 4,482 | (433) |
| Net Income | 5,383 | 4,168 |
| Net cash provided by operating activities | 330 | 1,519 |
| Net debt : Group equity ratio | (10):110 | (32):132 |

# Sales to thirds – FY

*EUR million*

| | 2006 | 2007 | % nom | % comp |
|---|---|---|---|---|
| Medical Systems | 6,448 | 6,470 | 0 | 4 |
| DAP | 2,532 | 2,968 | 17 | 15 |
| CE | 10,576 | 10,362 | (2) | 1 |
| Lighting | 5,466 | 6,093 | 11 | 6 |
| Innovation & Emerging Businesses and Group Management Services | 1,660 | 900 | (46) | 32 |
| **Philips Group** | 26,682 | 26,793 | 0 | 5 |

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# EBITA[1] – FY

*EUR million*

| | 2006 | 2007 |
|---|---|---|
| Medical Systems | 861 | 875 |
| DAP | 378 | 523 |
| CE | 314 | 325 |
| Lighting | 608 | 722 |
| *Main divisions* | *2,161* | *2,445* |
| Innovation & Emerging Businesses / Group Management Services | (775) | (380) |
| Philips Group | 1,386 | 2,065 |
| EBITA margin | 5.2% | 7.7% |

*Including EUR 265 m. product liability related charge*

1 – MedQuist has been restated to Discontinued Operations in all years

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# Cash Flow from continuing operations – FY

*EUR million*

| | 2006 | 2007 |
|---|---|---|
| Net income | 5,383 | 4,168 |
| Income/loss discontinued operations | (4,481) | 433 |
| Depreciation / amortization / impairments | 818 | 890 |
| Net gain on sale of assets | (289) | (3,107) |
| Income from equity accounted investees | 228 | (222) |
| Decrease in WC/other current assets | (1,344) | (884) |
| Other | 15 | 241 |
| *CF from operations* | 330 | 1,519 |
| Gross capital investments | (694) | (661) |
| Acquisitions/divestments/other | (2,108) | 4,591 |
| *CF before financing activities* | (2,472) | 5,449 |

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# Agenda

- Financial performance 2007
- Capital re-allocation
- Summary

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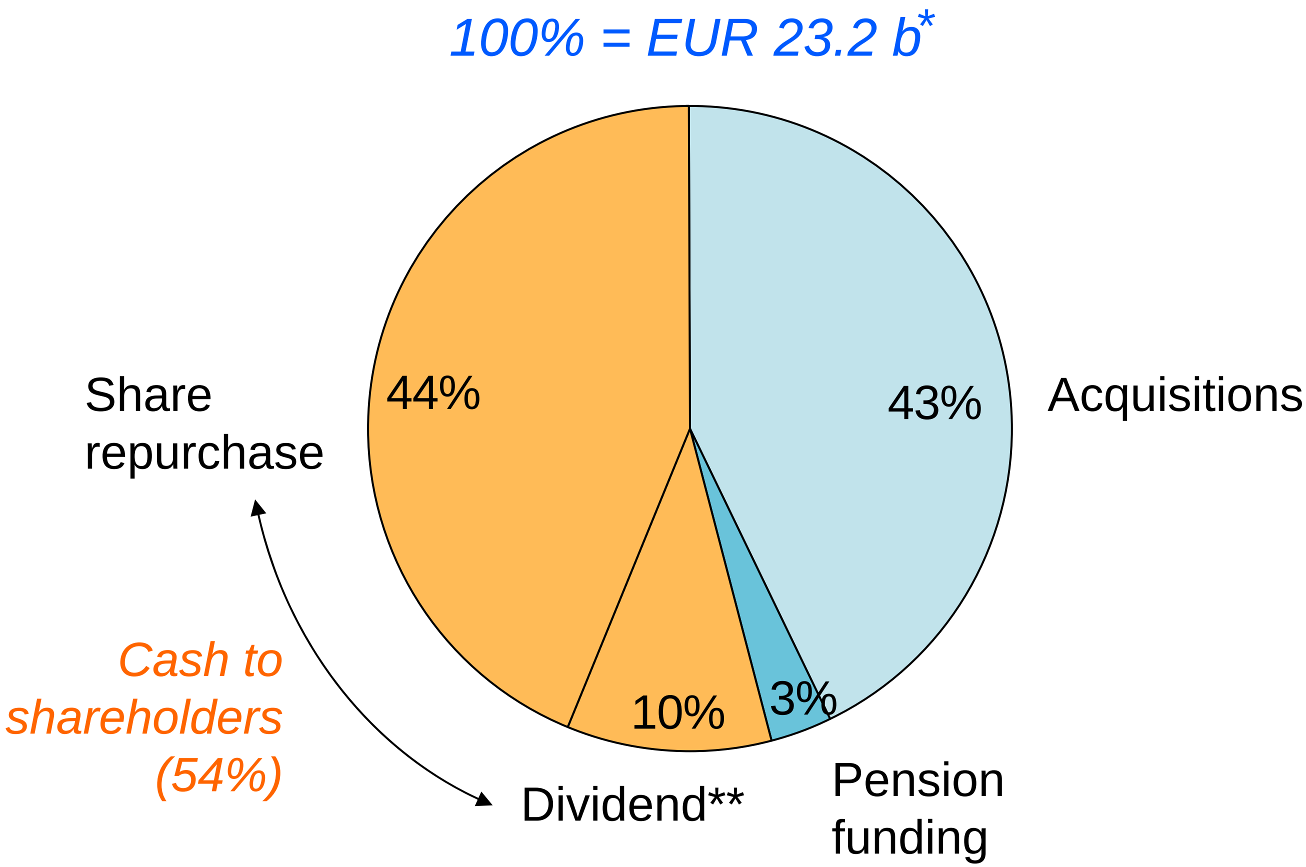
# Capital re-allocation

*Year 2005-2008*




* Includes announced acquisitions and share repurchase program of EUR 5.0 b, which we expect will be largely completed in 2008

** Includes proposed dividend approx EUR 715 million

# Cash generated from sale of major participations

*EUR million*

| | 2004 | 2005 | 2006 | 2007 | Total |
|---|---|---|---|---|---|
| Sale securities | 883 | 67 | – | – | 950 |
| Sale Atos Origin shares | 552 | 554 | – | – | 1,106 |
| NAVTEQ | 672 | 932 | – | – | 1,604 |
| TSMC | – | 770 | – | 4,083 * | 4,853 |
| LG.Philips LCD | – | 938 | – | 1,547 | 2,485 |
| FEI | – | – | 154 | – | 154 |
| Semiconductors (NXP) | – | – | 7,059 | (99) | 6,960 |
| Total | 2,107 | 3,261 | 7,213 | 5,531 | 18,112 |

* First three parts of announced program to sell down stake in TSMC completed (see press release March 9, 2007)

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# Remaining holdings

| | number shares rounded in millions | % ownership | Jan 17th, 2008 *in EUR m.* |
|---|---|---|---|
| *Quoted* | | | Market value |
| LG.Philips LCD | 71 | 19.9 | 2,230 |
| TSMC | 1,311 | 5.0 | 1,503 |
| TPV | 263 | 13.5 | 107 |
| *Non-quoted* | | | Book value |
| NXP | 18 | 19.9[1] | 854 |
| Total | | | 4,694 |

[1] Economic ownership

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# Cash utilization

*EUR million*

***Acquisitions***

- Healthcare
- Lighting
- Consumer Lifestyle

| | 2005/2007 | Announced / being implemented | Total*** |
|---|---|---|---|
| Stentor | 194 | – | 9,933 *42.8%* |
| Witt Biomedical | 110 | – | |
| Lifeline | 583 | – | |
| Intermagnetics | 993 | – | |
| VISICU | – | 200 * | |
| Respironics | – | 3,400 * | |
| Lumileds | 788 | – | |
| PLI | 561 | – | |
| Color Kinetics | 515 | – | |
| Genlyte | – | 1,900 * | |
| Avent | 689 | – | |
| Extra funding pensions (UK&US) | 683 | – | 683 / *2.9%* |
| Share repurchase program | 5,187 | – | 12,588 *54.3%* |
| Dividend | 1,686 | 715 ** | |
| EUR 5.0 billion buy-back program | – | 5,000 * | |
| *Total* | 11,989 | 11,215 | 23,204 |

* Still to be completed
** Proposed dividend approximately EUR 715 million
*** Excluding acquisitions of Bodine, Power Sentry, TIR, Health Watch, DLO, LTI, Ximis, Raytel & Emergin because amounts were small

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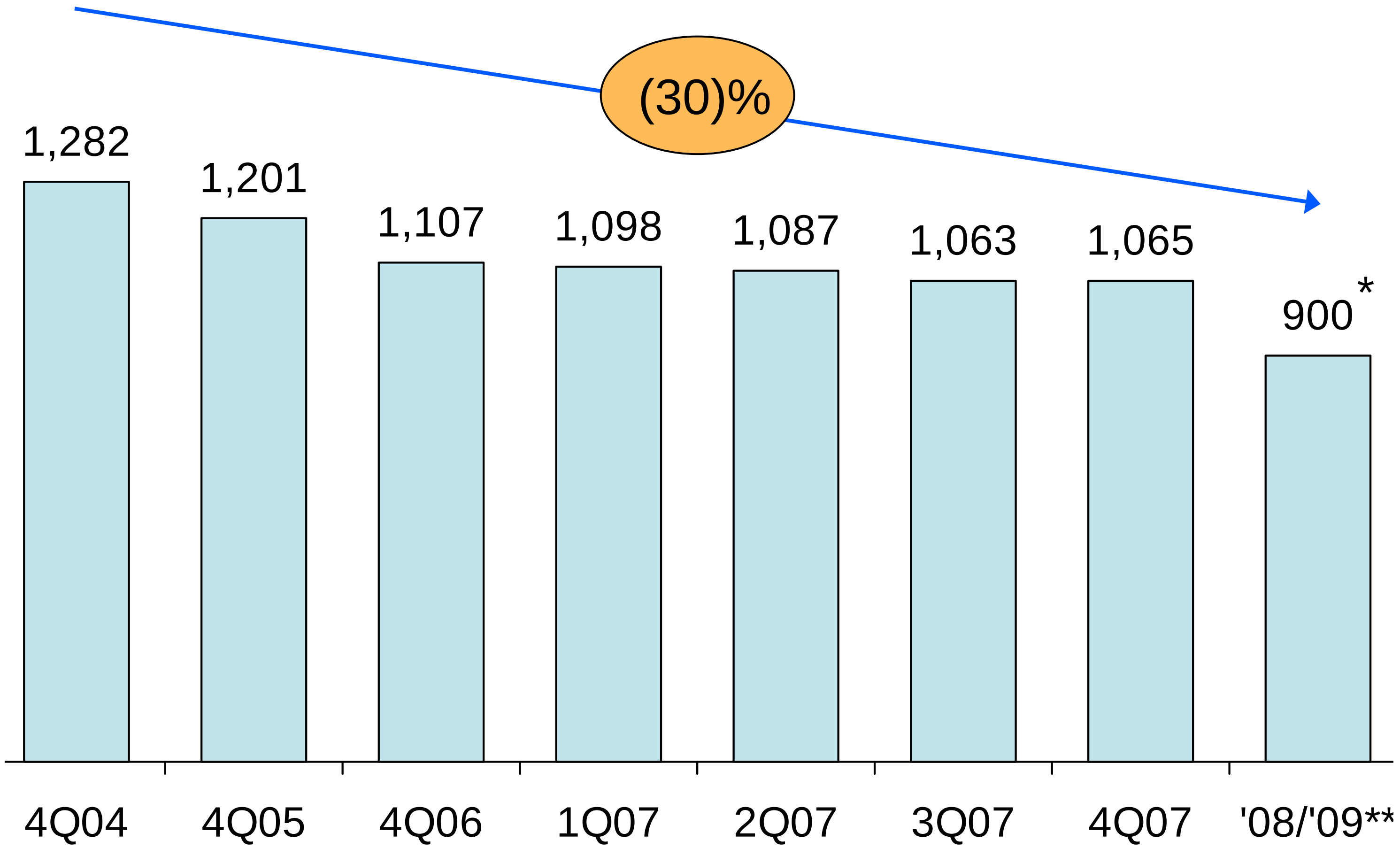
# Basic shares outstanding

*Million*




* After finalizing announced repurchase program; calculation includes average purchase price of EUR 30.

** We expect our recently announced EUR 5 billion share repurchase program will be largely completed by the end of 2008

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# Agenda

- Financial performance 2007
- Capital re-allocation
- Summary

# Summary

*We are now a company with the following characteristics:*

- Focused on integrating acquisitions to deliver growth and return targets
- More predictable
- In a strong financial position
- Ongoing efficient and responsible management of stake disposals
- Disciplined in reallocating capital towards an efficient balance

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# Agenda

- A different company – a new peer group
- Vision 2010
- Management agenda 2008

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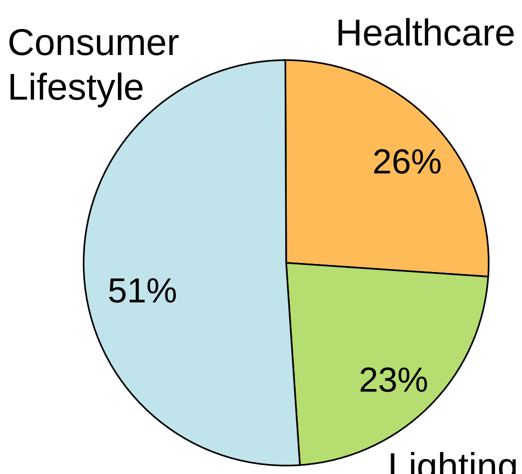
# Simplifying business structure by creating three core sectors: Healthcare, Lighting and Consumer Lifestyle

*Q4 2007 Year-to-date, EUR million*

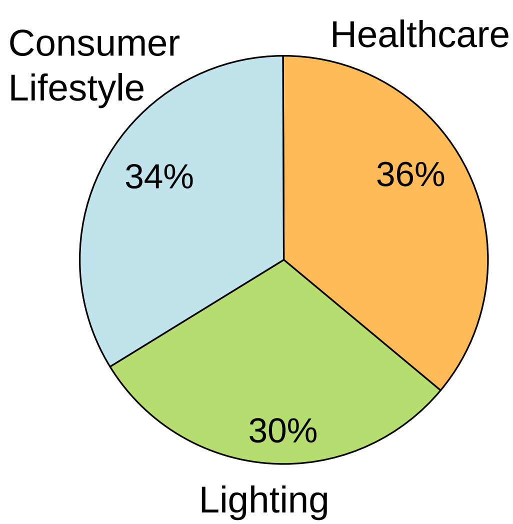
Sales

*100% = EUR 26.0 b **



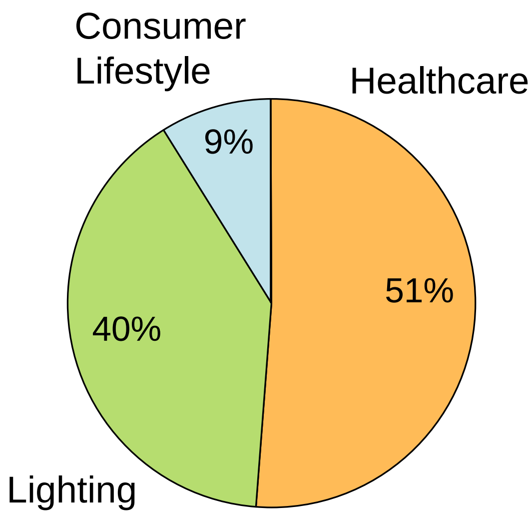

EBITA

*100% = EUR 2.4 b **




Net Operating Capital

*100% = EUR 9.6 b **




* Excluding Central sectors

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# Healthcare

- Long-term growth driven by demographics and economic advancement of emerging markets
- Building EUR 8 billion business with strong market position and market share
- Global leadership positions in cardiac care, acute care and home healthcare
- Driving profitability by focus on operational excellence and leveraging acquisitions

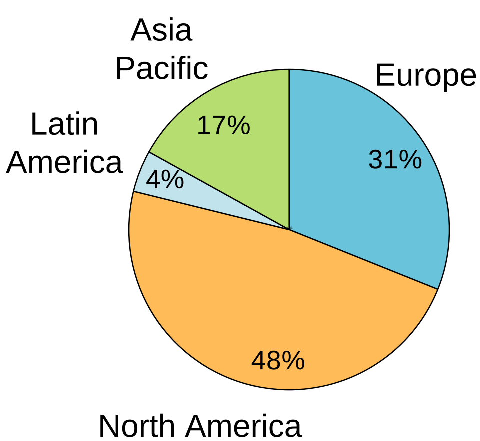
*BrightView SPECT*

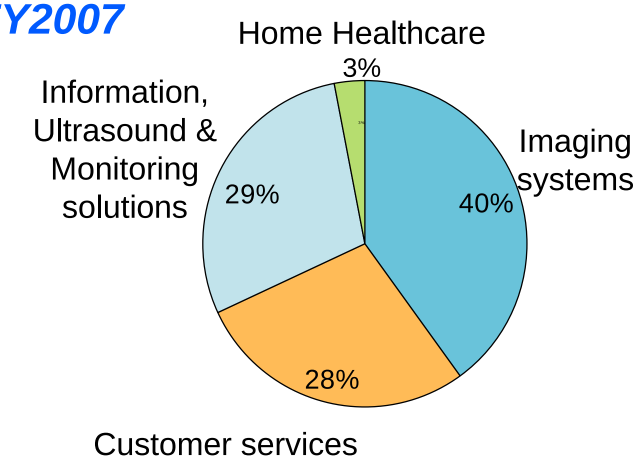
*EP Navigator*

*MR Achieva 3.0T*

*Healthcare informatics*

***Sales FY2007***




# Lighting

- Building EUR 8 billion business with clear number 1 market position globally
- Global leadership in energy saving propositions and advanced lighting solutions
- End-user-driven innovation, marketing and supply excellence
- Shift from products to application focus
- Drive profitability by managing for higher than historical growth

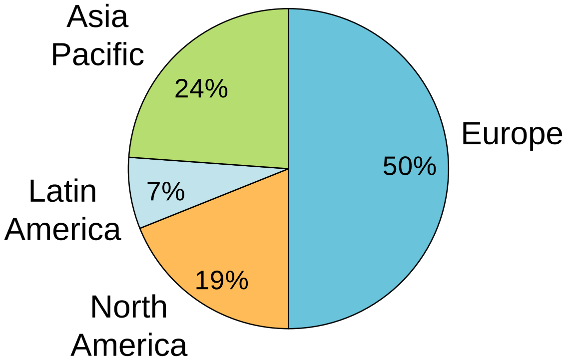
*Luxeon Automotive LEDs*

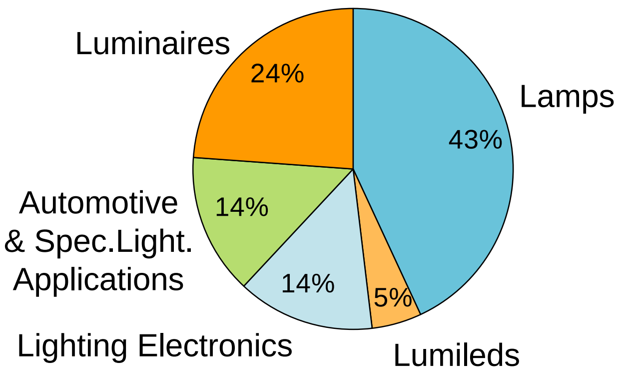
*Mini softone*

*LivingColors*

*CosmoPolis*

***Sales FY2007***




# Consumer Lifestyle

- Focused on innovative lifestyle solutions for personal wellbeing
- Many leading market positions
- Contributing to the Philips brand
- Strong marketing and sales capabilities
- Consumer-driven insights and dedicated business models driving innovation and differentiation
- Entering strategic new value spaces
- Driving sustainable, profitable growth

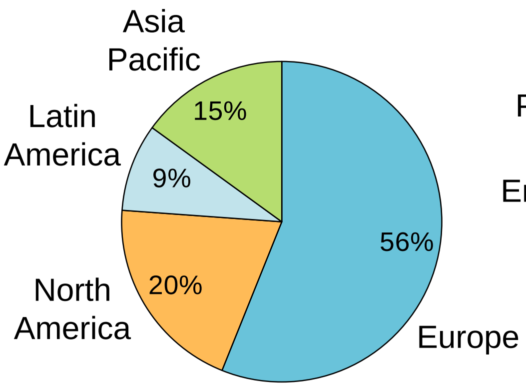
*Active Crystals*

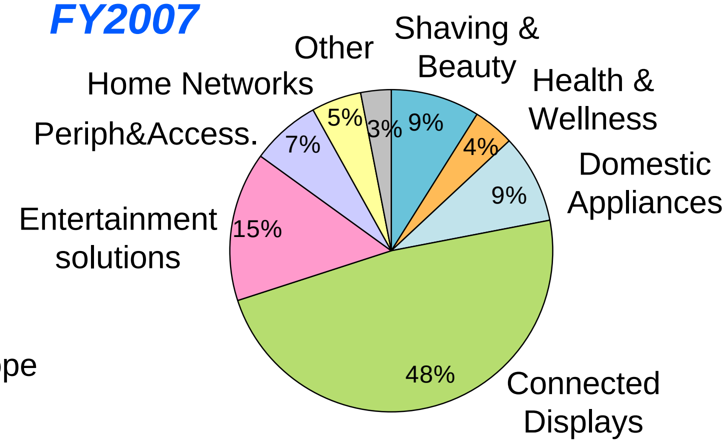
*Portable Media devices*

*Arcitec*

*Flexcare*

***Sales FY2007***

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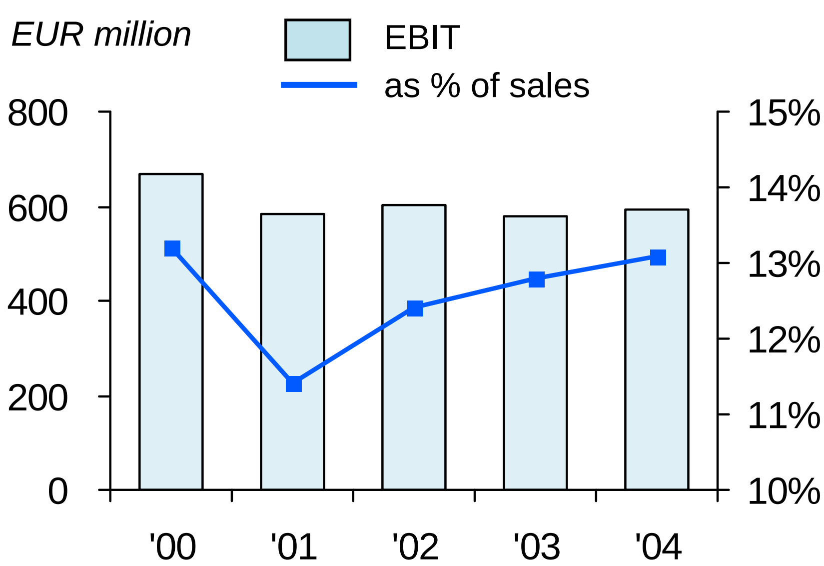
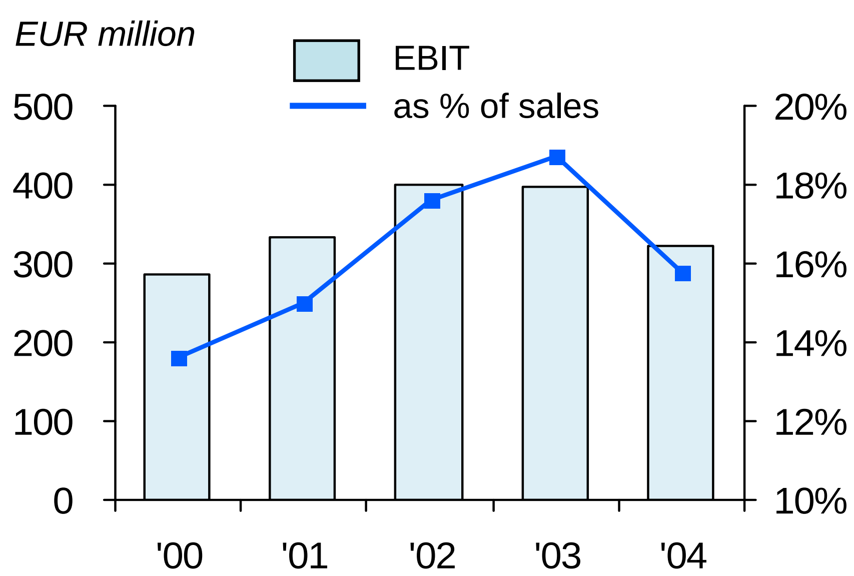
# A portfolio with strong defensive qualities

- Healthcare a primary need in good and bad times
- A derisked CE portfolio representing < 13% of 3 sector’s EBITA
- DAP and Lighting businesses that have demonstrated resilience during previous downturn

## *Lighting*

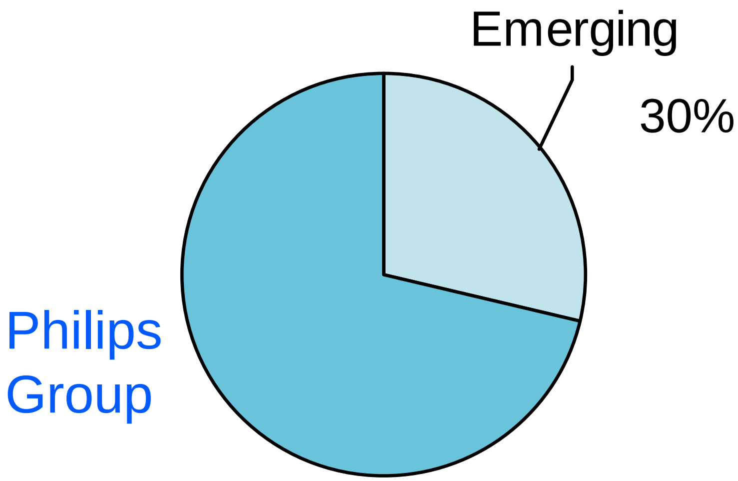



## *DAP*

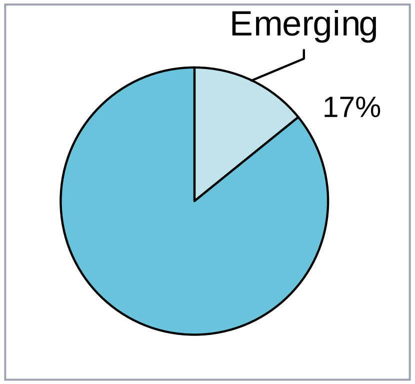


# …and well positioned in emerging markets

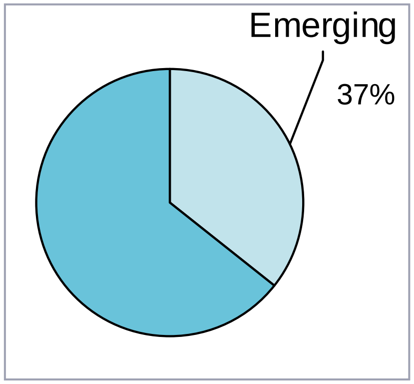
*Sales in emerging markets FY 2007*



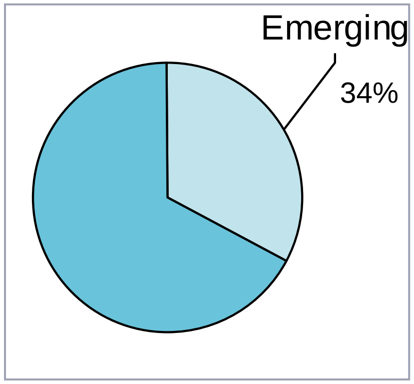

**Healthcare**




**Lighting**



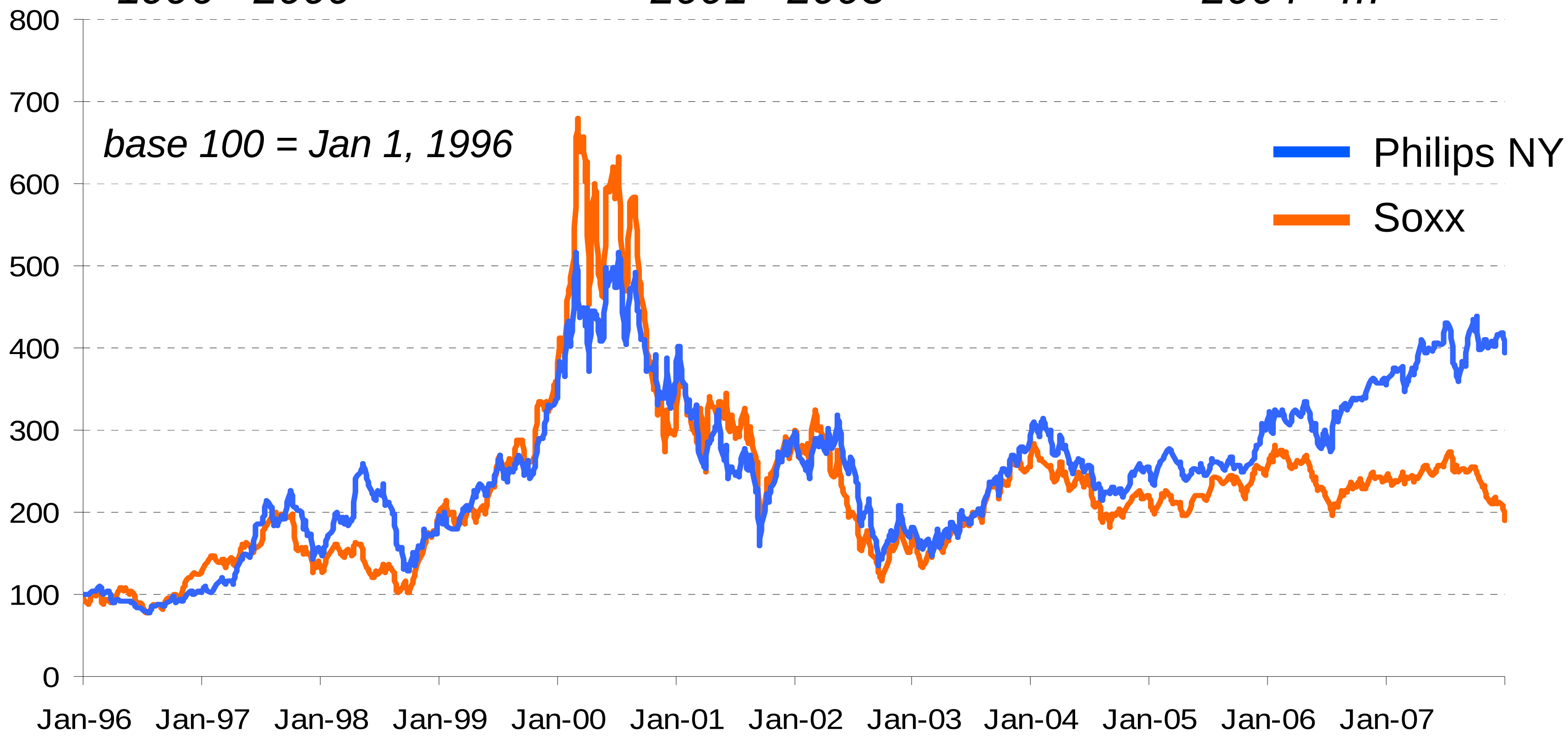

**Consumer Lifestyle**



# Refocusing the portfolio – creating a different company

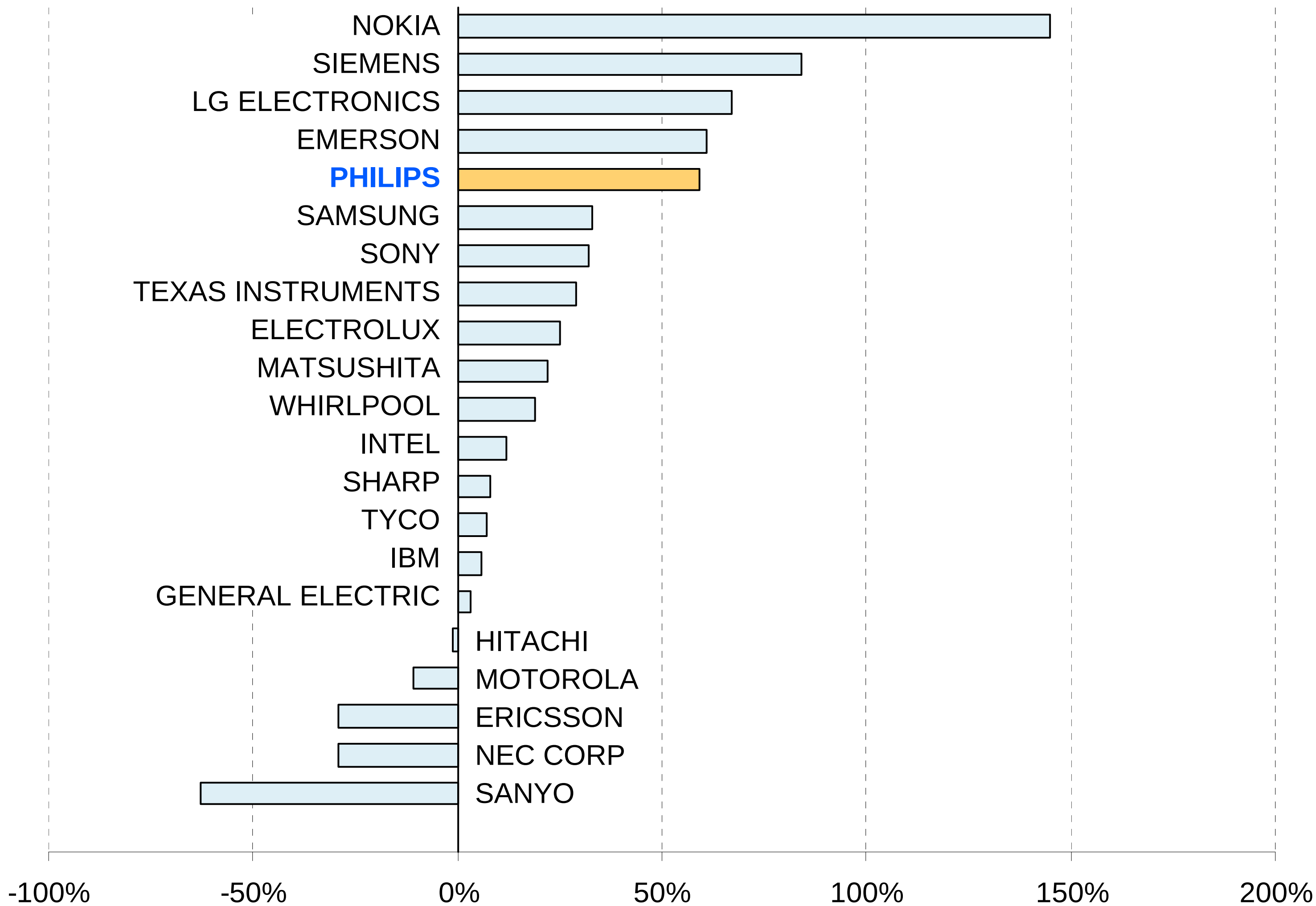
*Transformation from vertical integration to customer focus gets traction*

| High Volume Electronics | Towards One Philips | Healthcare, Lighting, Consumer Lifestyle |
|---|---|---|
| *1996 - 2000* | *2001 - 2003* | *2004 - …* |



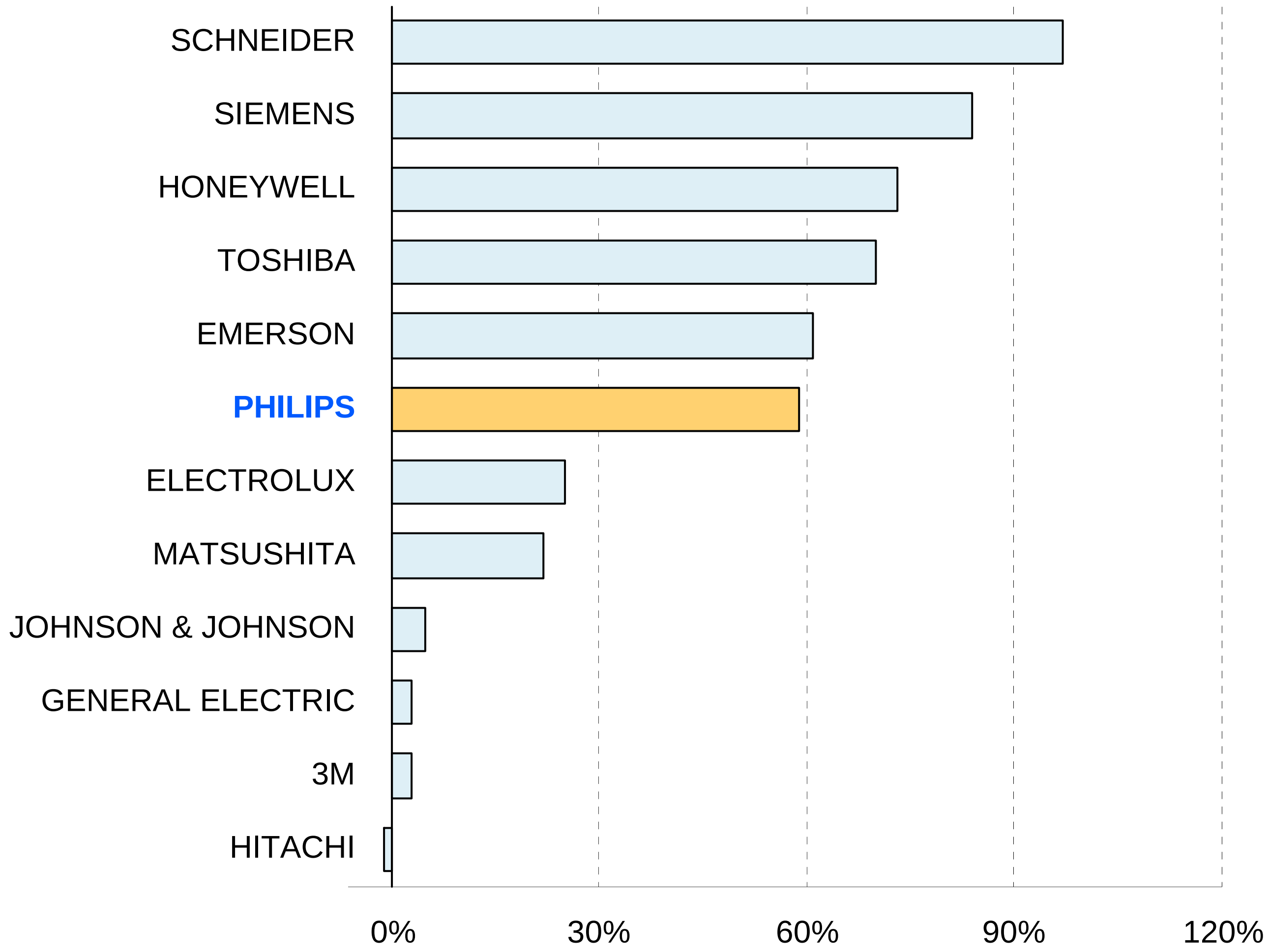
# Total Return to Shareholders – 3 Years

*Previous peer group*



# Total Return to Shareholders – 3 Years

*New peer group*



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# Agenda

- A different company – a new peer group
- Vision 2010
- Management agenda 2008

# Vision 2010: ambition to significantly increase shareholder value

- Improving the EBITA margin of our current businesses to exceed 10%
- Driving comparable sales growth at a minimum of 6% CAGR for the period 2008-2010
- An efficient balance sheet by the end of 2009 through a combination of value-creating acquisitions and continued return of capital to shareholders

# Vision 2010: ambition to significantly increase shareholder value

*Improving EBITA margin of our current businesses to exceed 10%*

- >2.3% additional EBITA required over 3 years to bridge from 7.7% to >10%

| | |
|---|---|
| – Phasing out the Corporate Brand Campaign | ~ 0.4% ( EUR 100 M) |
| – Simplifying our organizational structure | ~ 0.7% (EUR 150-200 M) |
| – Mix / margin management per sector<br>– Leveraging earlier acquisitions<br>– Growing high margin businesses<br>– Productivity improvement | >1.2% |

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# Vision 2010: ambition to significantly increase shareholder value

*Driving comparable sales growth at a minimum of 6% CAGR for the period 2008-2010*

- Allocate resources consistently towards high growth opportunities
  - Emerging markets: 17% growth in Q4 ’07 across all sectors
  - Green Switch: 12% growth in Q4 ’07 in Lamps, Luminaires, L.E.
  - Solid state Lighting: 300% growth in SSL applications in ‘07
  - Health and Wellness: 14% growth in Q4 ’07
  - Appliances: 18% growth in Q4 ’07
  - Healthcare: strong 10% order intake growth in Q4

*Growth will add further to EBITA and support margin expansion*

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# Vision 2010: ambition to significantly increase shareholder value

*An efficient balance sheet by the end of 2009 through a combination of value-creating acquisitions and continued return of capital to shareholders*

- Announced EUR 5 billion share repurchase program to be largely completed in 2008 resulting in a reduction of 15 – 20%
- 4th consecutive year of dividend increase with EUR 0.70 proposal*
- Acquisitions of Genlyte and Respironics add high growth high EBITA margin businesses and strengthen Philips leadership in Lighting and Home Healthcare

→ *Capital reallocation process largely completed*

* Proposal subject to approval in the General Shareholders Meeting on March 27th, 2008

# Vision 2010: ambition to significantly increase shareholder value

- Improving the EBITA margin of our current businesses to exceed 10%
- Driving comparable sales growth at a minimum of 6% CAGR for the period 2008-2010
- An efficient balance sheet by the end of 2009 through a combination of value-creating acquisitions and continued return of capital to shareholders

*We expect to more than double our EBITA per common share by 2010 compared to 2007*

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# Agenda

- A different company – a new peer group
- Vision 2010
- Management agenda 2008

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# We are well positioned to address global challenges and trends

| Global trends | Philips opportunities |
| --- | --- |
| Globalization, urbanization and rise of emerging markets | *Energy efficiency* |
| Aging population | *Personalized experiences and atmospheres* |
| Climate Change | *Personal wellbeing* |
| Consumer empowerment | *Home care, independent living* |
| Sustainable development | *Better healthcare for all at lower cost* |

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# Significant new product introductions ‘06/ ‘07

## Healthcare

*Cardiology*

Integrated cath lab

EP Navigator

*Neurology*

World’s first combined MR, X-Ray and CT machine installed in Japan

*Women’s Health*

Avalon FM 20 & FM 30 fetal monitors

*Healthcare Informatics*

Xcelera R2.1 cardiovascular workstation

## Lighting

ActiLume

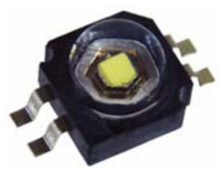
CosmoPolis

Luxeon Automotive LEDs

Mini softone

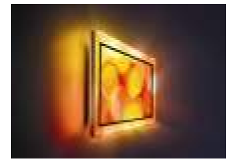
Living Colours

Solid state signage



Luxeon ® K2LED

## Consumer Lifestyle



Aurea

Ambisound

Go-gear XLS MP4 player

One-Touch Espresso Machine

Active Crystals

DECT Baby Monitor

**arc**itec

Wake-Up light

Whole-Fruit Juicer

FlexCare

# 2008 Management Agenda: Focus on Execution!

- Integrate and leverage recent acquisitions, delivering anticipated return on investment
- Take decisive steps to structurally deal with unsatisfactory EBITA margins in Connected Displays
- Improve productivity as a driver for margin expansion
- Step up resource investment in Developing Markets to accelerate growth in excess of 2x GDP
- Increase innovation focus in support of Philips growth ambition
- Continue to drive a culture of superior customer experience
- Bring employee engagement to high performance benchmark

**Delivering on this agenda, we will achieve the targets as set out in our Vision 2010**

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sense and simplicity