

PHILIPS

The road to sustainable value creation

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Financial Analysts Day

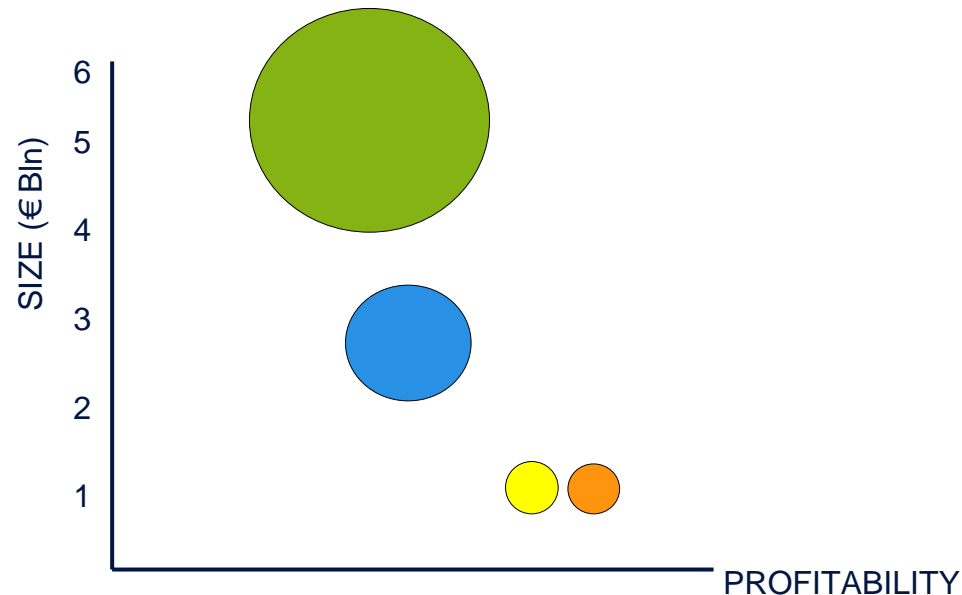
September 15, 2005

Focus on the key conditions for sustainable competitive advantage and structural profitability

- Capitalizing on a focused portfolio of businesses
- Implementing differentiated business models
- Establishing a balanced global presence in key markets
- Driving integral customer management

Capitalizing on a focused portfolio of businesses

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- Profitably grow in Flat Display through scale and innovation
- Transform Mobile and Home Entertainment into an integrated portfolio of connected solutions
- Capitalize on the opportunities in Peripherals & Accessories
- Leverage our position in Set Top Box and Home Communication

Innovation in Flat Display to deliver ‘Sense and Simplicity’ and drive integral value marketing

- Creating a true to life viewing experience
 - Successive generations of PixelPlus
 - High Definition TV
 - Ambilight enhancement roadmap
 - Continued excellence in design

- High Definition roll-out
 - Drive High Definition ecosystem (TV, Set Top Box, Blu-Ray recorders)
 - Partnerships with content providers and retailers (e.g Premiere and MediaMarkt in Germany)

- 2006 FIFA World Cup™ marketing initiative
 - Experienced by some 30 billion viewers
 - First major event to be fully broadcast in HD



CINEOS

- PixelPlus 2 HD
- Ambilight

By 2006 95% of our Flat TVs will be HD-ready

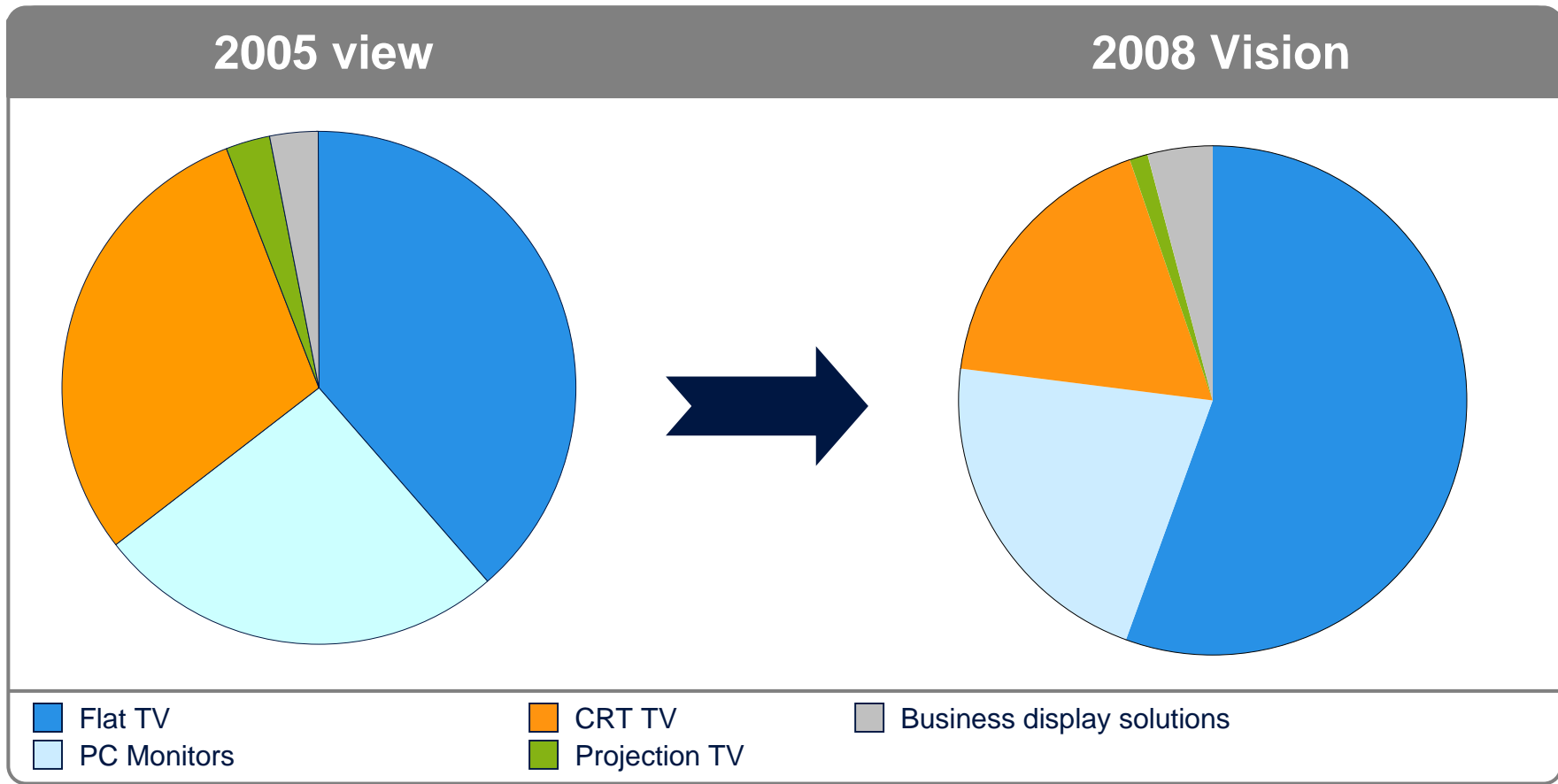




It wouldn't be the FIFA World Cup™ without TV
Philips. Proud sponsor.



Driving scale in Flat Display



Connected entertainment solutions to leverage the broadband and content revolution

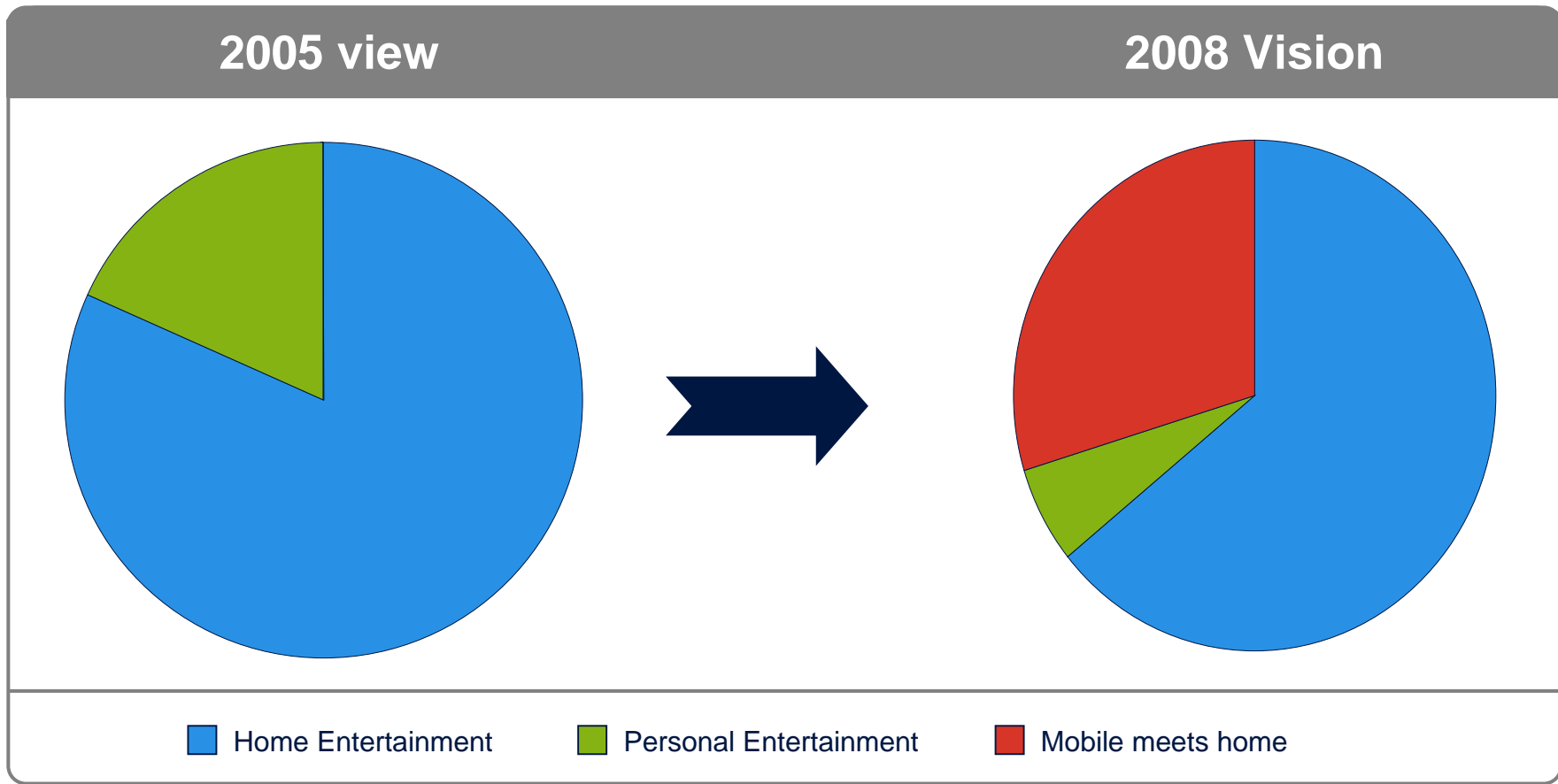
- Attractive execution of the Connected Planet strategy
 - Next generations of Media Centre PCs and applications
 - Wireless solutions
 - Connectivity and networking made easy

- Leverage service partnerships that are linked to the connected proposition
 - ‘Mobile meets home’
 - Microsoft partnership
 - Subscription models, like triple play

- Support High Definition roll-out
 - Create synergies in true to life viewing experience between Philips devices

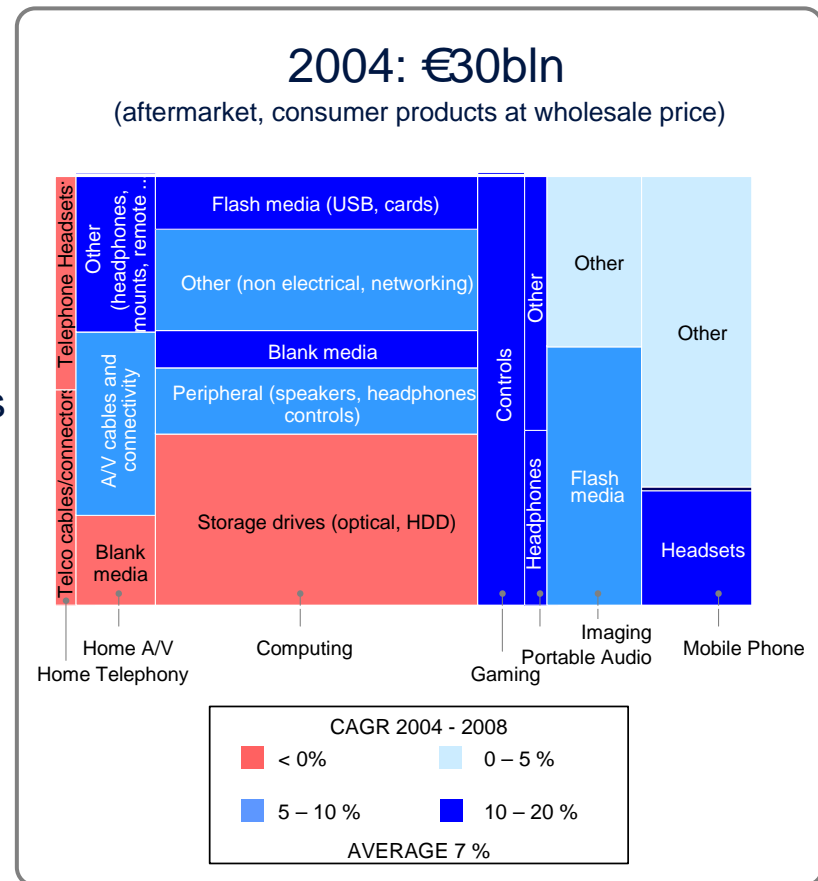


Creating an integrated mobile and home entertainment portfolio



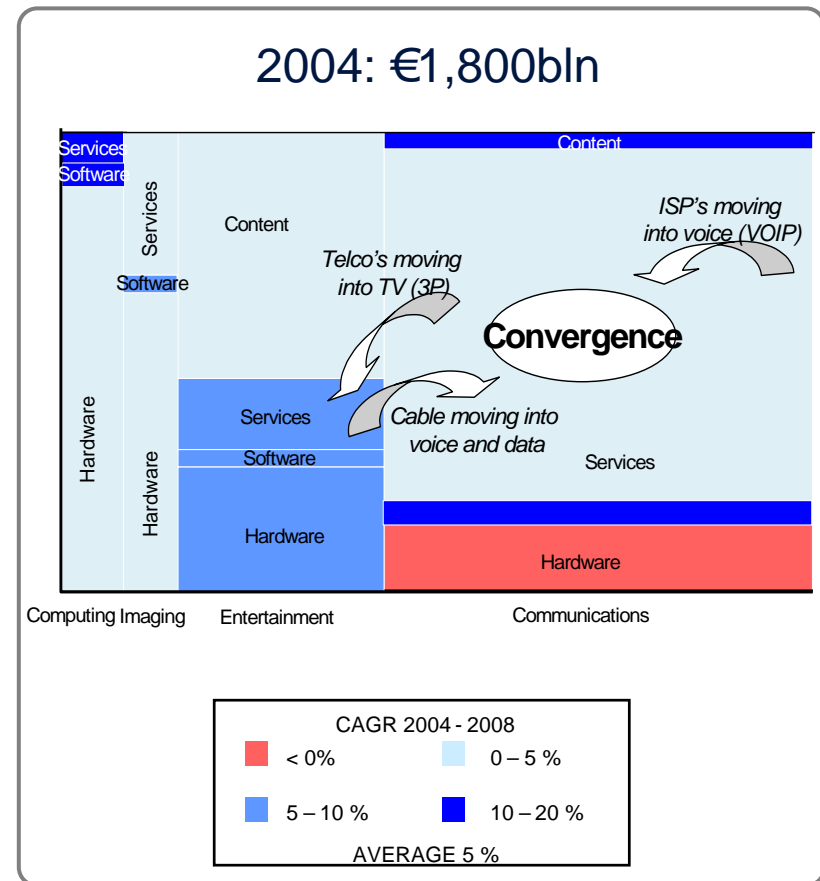
Building on our Gemini platform to create value in the growing Peripherals and Accessories space

- Leverage position in Europe and North America
 - Increase in placements
 - World class “peripherals & accessories” logistic infrastructure
 - Benchmark in category management
- Accelerated growth by roll-out to other regions
 - China start Q4 2005
- Ambition to be a top-3 global player
 - Become ‘category champion’ for leading retailers
 - Leverage logistic infrastructure
 - Extend offer to a comprehensive portfolio
Audio – video / Mobility / PC



Capture profitable growth in the vertical entertainment and communication networks space

- Leverage Set Top Box and Home Communication position
 - Partnerships with key operators like DirecTV, KPN
 - Capitalize on connecting - converging content
- Organise around key customer groups
 - Telco operators
 - Cable/satellite operators Americas
 - Cable/satellite operators Europe
- Launch new applications
 - Voice over IP, Skype partnership
 - Videophony, KPN partnership



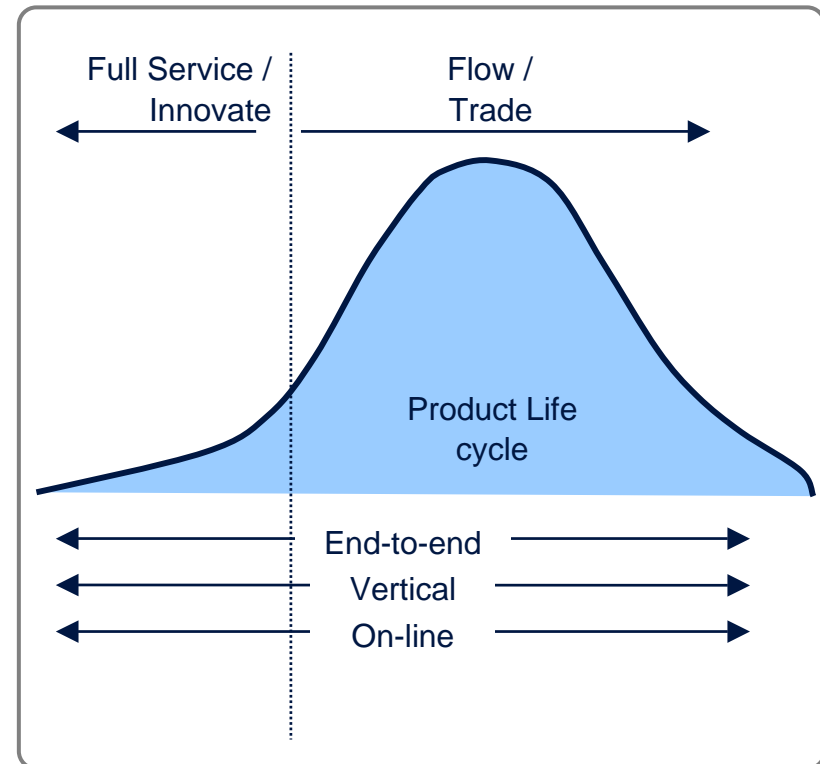
Implementing differentiated business models

Implementing differentiated business models

No “one size fit all” to the CE business

Distinct Business models to respond to life cycle dynamics

- Full Service / Innovate [Premier]
- Flow / Trade [Mainstream]
- End-to-End
- Vertical
- On-line



Differentiated value chains per business model

Innovate / Full Service [Premier]

- Launch and drive the success of product innovations
- Focus on value and new markets
- 360° consumer marketing programs within the Philips brand campaign
- Selling floors & specialty channels
- Supply chain organised for responsiveness



Trade / Flow [Mainstream]

- Drive cost down throughout the value chain
- Maximise volume of sales
- Trade marketing and collaborative planning to optimise service levels
- Mass market channels
- Supply chain organised for efficiency & minimal costs



Differentiated value chains per business model

End-to-end

- Category management for leading retailers (> 99.5% service levels)
- Optimise shelf profitability
- In-store product marketing
- Supply chain organised for flexibility



WAL★MART®

Vertical

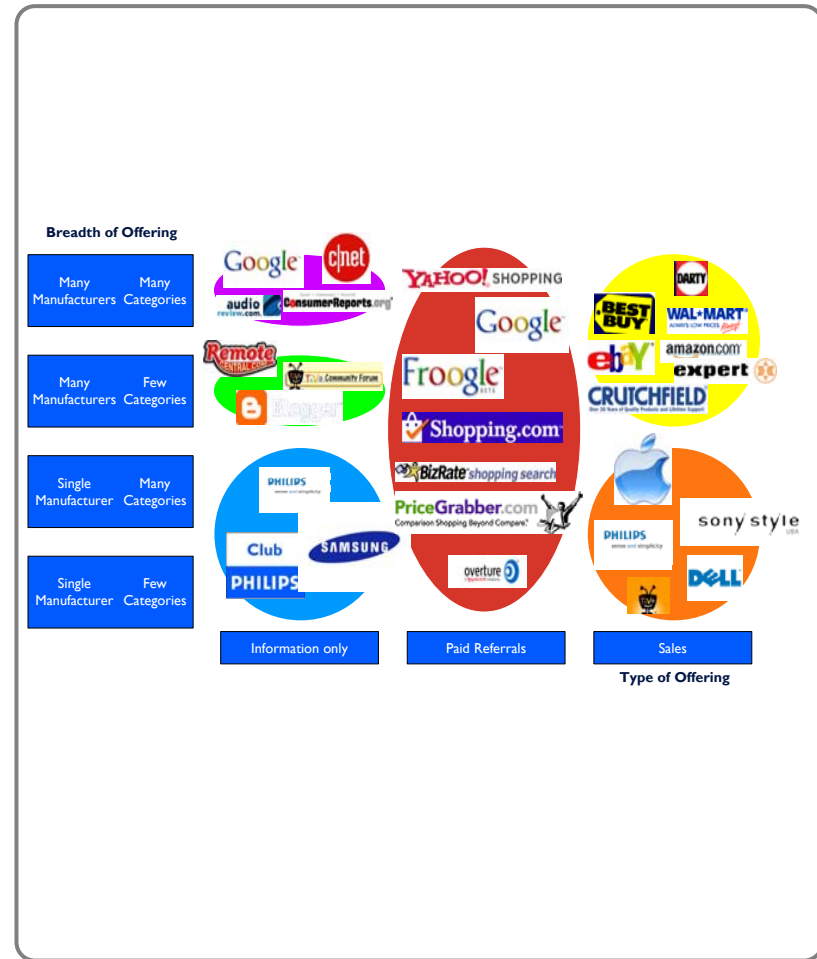
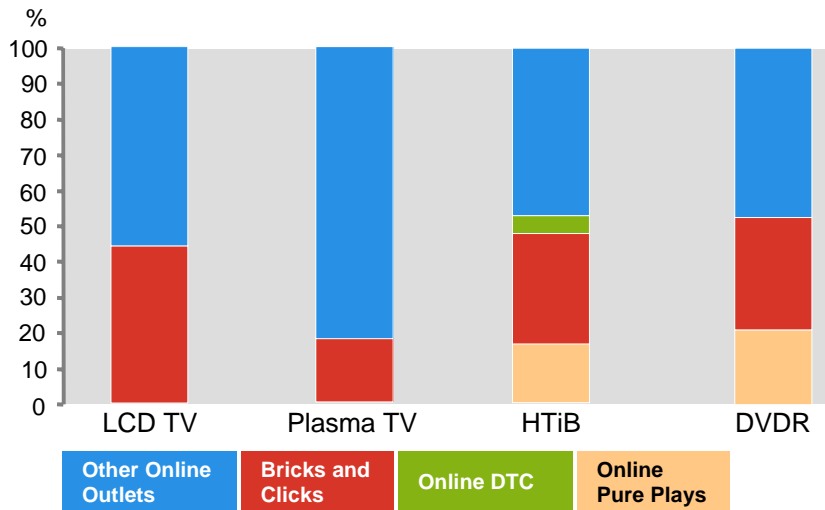
- Partnerships with leading providers/operators
- Organise to 'mirror' customer
- Joint marketing initiatives
- Integration of supply chains



Differentiated value chains per business model

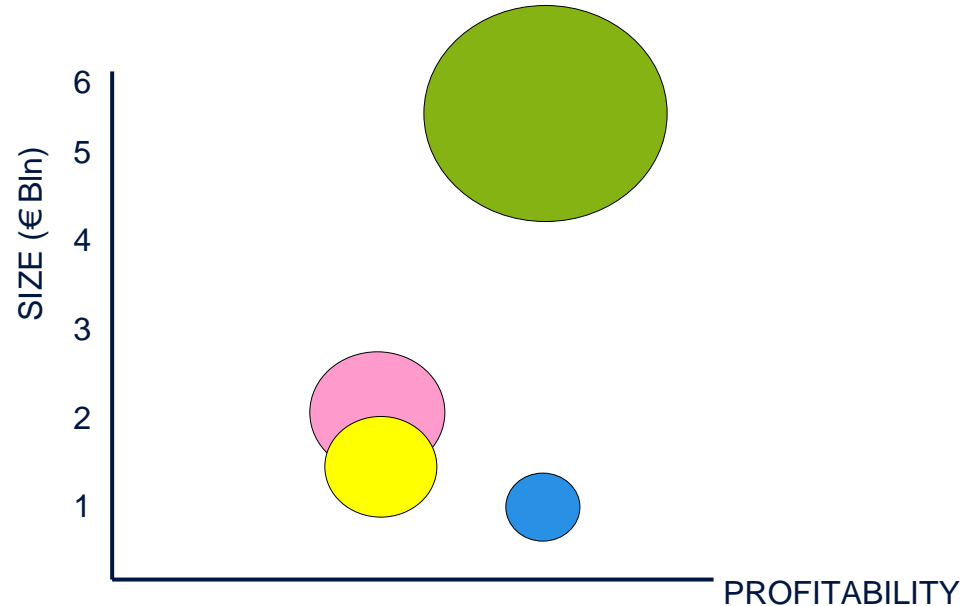
On-line

- Multi-faceted marketing and sales approach
- Supply chain optimised for preciseness
- Bricks and clicks key account relationships key for on-line sales



Establishing a balanced global presence in key markets

Establishing a balanced global presence in key markets



- Consolidate the turnaround in NA
- Successfully complete the business transformation and secure our stronghold in Europe
- Stay the course in LATAM
- Drive profitable growth in Asia Pacific, with focus on China, India and ASEAN

North America

- Fine tune business model execution
- Lead the curve in accelerated shift from CRT to LCD
- Leverage Flat display position to catch opportunities in the broader entertainment space
- Accelerate growth through 'One Philips' approach to international retailers

Europe

- Drive transformation through completion business model implementation
- Leverage consumer franchise and reinforce leadership in key categories to successfully transform from analogue to digital leadership positions
- Be the partner of preference and remain the benchmark with leading key accounts
- Grow in emerging markets such as Russia, and other Eastern Europe/Emerging markets

LATAM

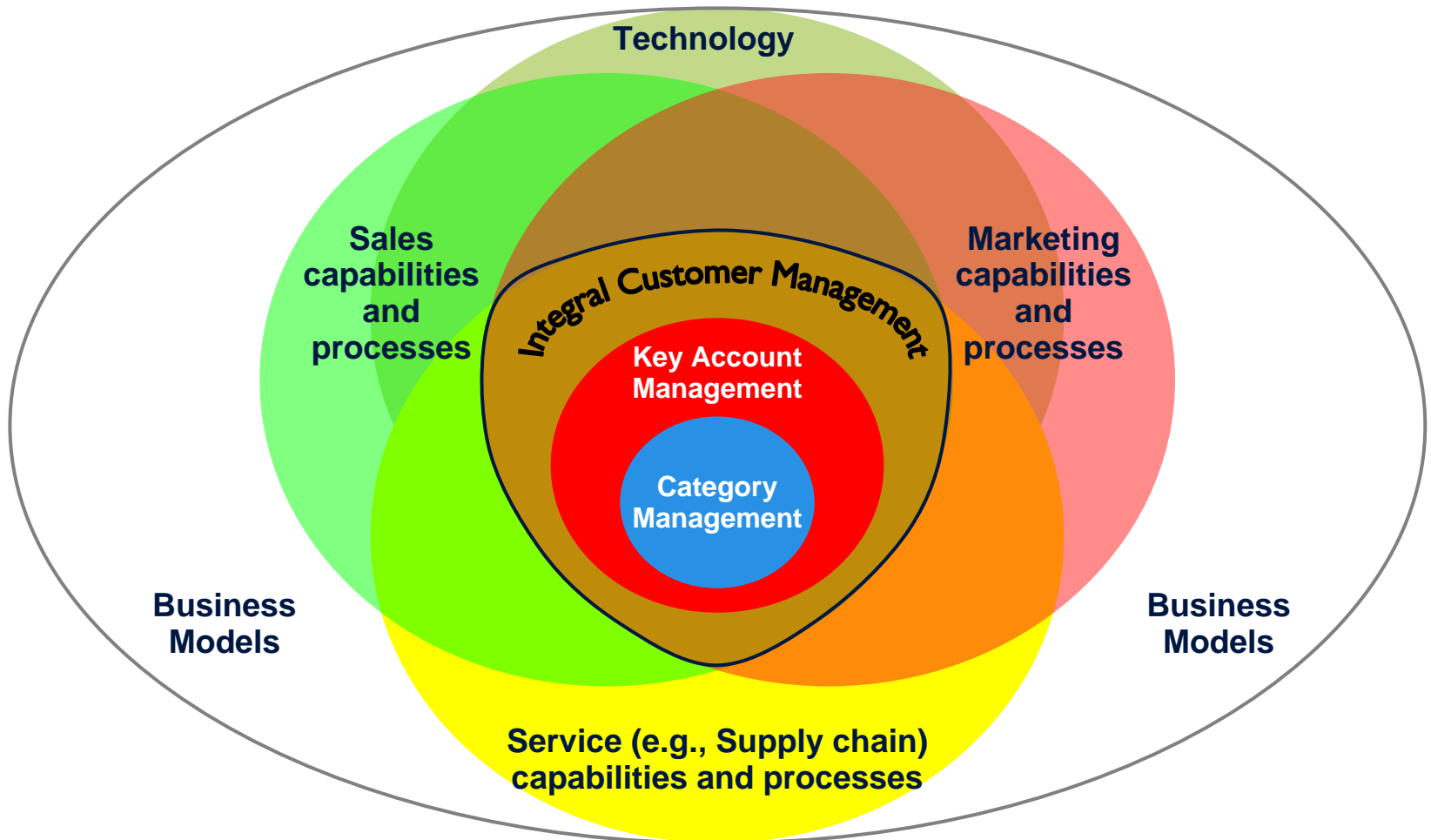
- Balanced growth:
 - Capitalize on Brazil as a stronghold
 - Drive Platino/Pacific
 - Lean distributor model to tap into opportunities emerging markets
- Capitalize on business portfolio for LATAM markets
- Grow regional top-10 customers via International Key account management
- Implementation of Business model essentials

Asia Pacific

- Growth in selected markets:
 - Profitable growth in China exceeding €1bn sales by 2008
 - Asean and India growth
 - Lean distributor model to tap into opportunities emerging markets
- Leverage Flat display position to catch opportunities in the broader entertainment space
- Leverage cross-regional Key Account Management opportunities
- Implementation of Business model essentials

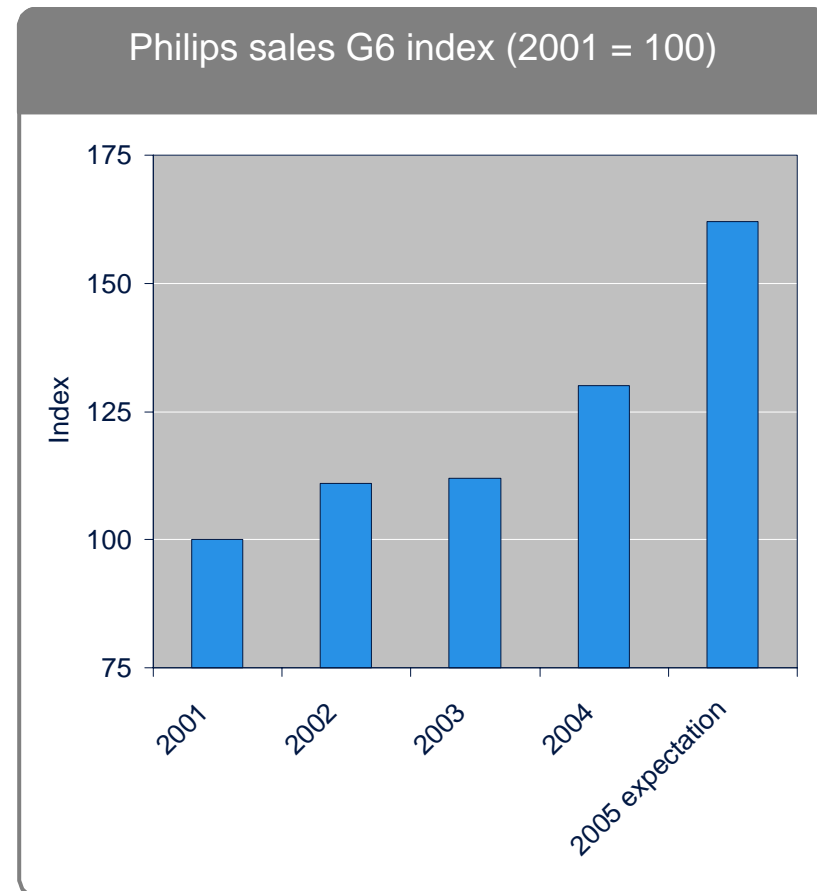
Driving integral customer management

Integral customer management as a source of sustainable competitive advantage



A 'One Philips' and 'Sense and Simplicity' approach for International Key Account Management

- Improve global/international coordination through global, multi-disciplinary key account teams 'designed around the customer'
- Offer one face to the customer with dedicated Global Key Account Director to make Philips 'easier to experience' for leading retailers
- Benefit from further investing in 'advanced' world class key account management capabilities, competences, systems and tools



The road to sustainable value creation

Value

Sustainable competitive advantage and structural profitability:

- Capitalizing on a focused portfolio of businesses
- Implementing differentiated business models
- Establishing a balanced global presence in key markets
- Driving integral customer management

Asset light, agile and
de-risked operating model

Excellence in execution

Competencies

Summary

- Having achieved our business renewal CoO targets we will continue to drive cost productivity and pursue more simplicity and efficiency
- Thanks to our asset-light strategy we have reduced our risk profile
- We have an increasingly focused portfolio of businesses
- Our business model redesign is generating results globally
- We are building a more balanced presence in key markets
- Integral customer management is strengthening our position with leading retailers

We are confident that we are on the right track to create sustainable value in the years to come

