

**PHILIPS**

**sense and simplicity**

# PHILIPS

## Annual Results 2006

Royal Philips Electronics  
Press Conference

January 22, 2007

# Forward Looking Statements

## *Forward Looking Statements*

This document contains 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 (including, but not limited to, cost savings) in particular the outlook paragraph in this report. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, levels of consumer and business spending in major economies, changes in consumer tastes and preferences, changes in law, 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, changes in exchange and interest rates (in particular changes in the euro and the US dollar can materially affect results), changes in tax rates and future business combinations, acquisitions or dispositions and the rate of technological changes. 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-GAAP financial measures. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent GAAP measures and should be used in conjunction with the most directly comparable US GAAP measure(s). A discussion of the non-GAAP measures included in this document and a reconciliation of such measures to the most directly comparable US GAAP measure(s) are contained in this document.

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Gerard Kleisterlee

Pierre-Jean Sivignon

Gerard Kleisterlee

## Highlights – Going strong and getting better

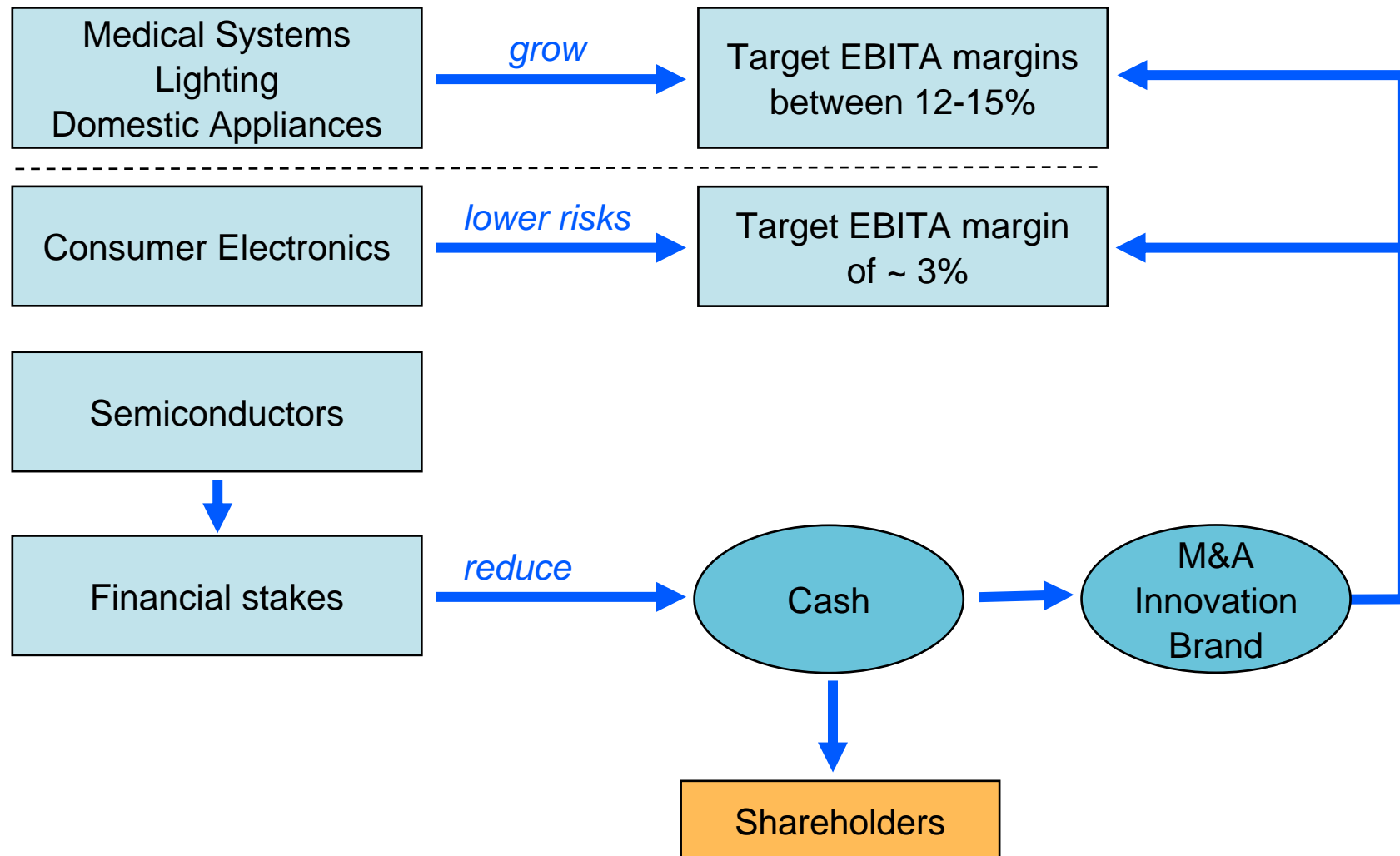
- Strong 2006 with sales of EUR 26,976 million, comparably up 6% on 2005
- Development of EBIT margin with 8.2% in Q4/2006 in line with medium term target
- Well balanced, brand focused portfolio after sale of Semiconductors and ongoing disposal of corporate investments
- Acceleration of capital reallocation including ongoing share buy-back program and proposed policy for higher dividends
- Seven acquisitions in high margin sectors since Q1/2006 will add to value creation going forward
- Strong product pipeline for 2007 and beyond, based on continued investment in innovation, brand and improved marketing

# Performance of the Philips Group

*Amounts in EUR million*

	2005	2006
Sales	25,775	26,976
Earnings before interest & tax	1,472	1,183
Net income	2,868	5,383
Cash flow from operations	1,141	342
<hr/>		
Gross capital expenditures	(644)	(703)
Inventories as % of sales	10.9	10.7
Net debt to group equity	(5) : 105	(10) : 110
Employees	121,809	121,732

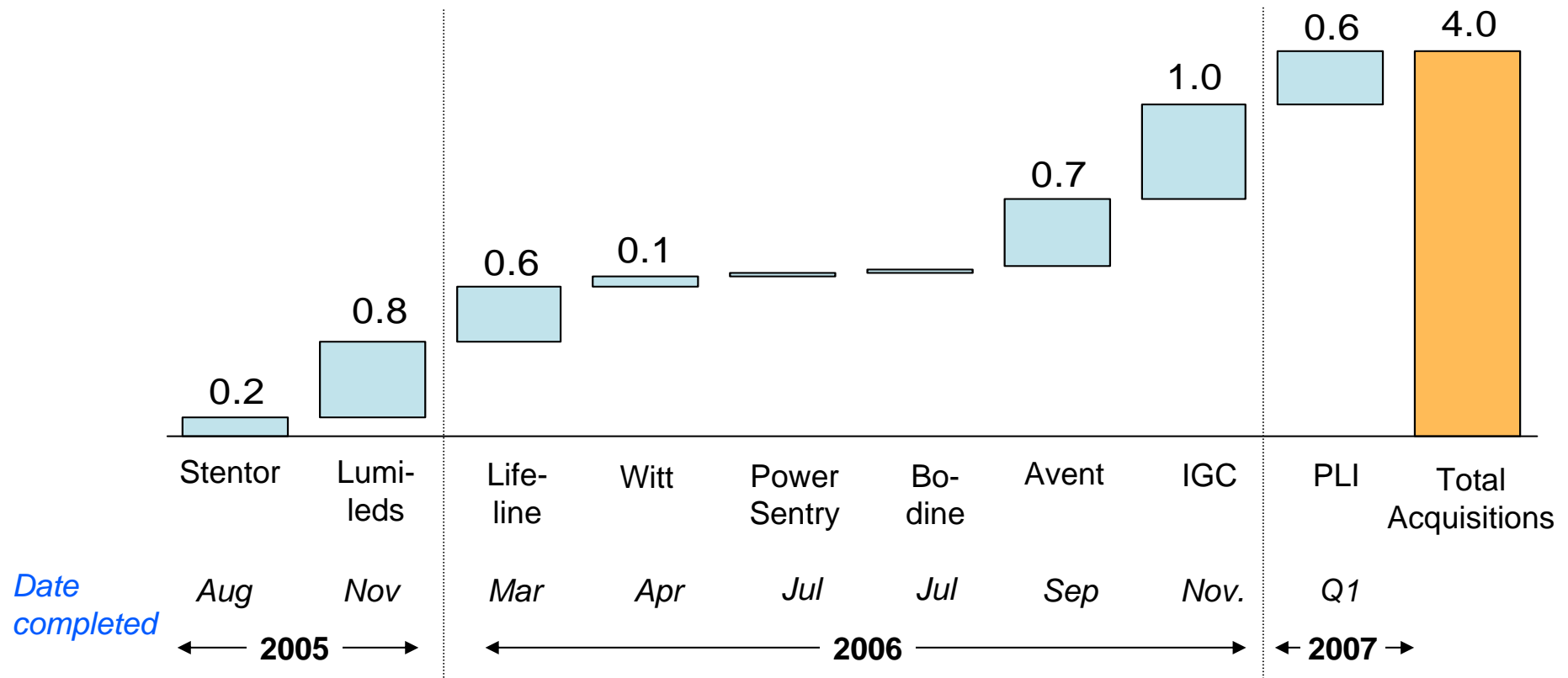
# 2006: Acceleration of capital reallocation





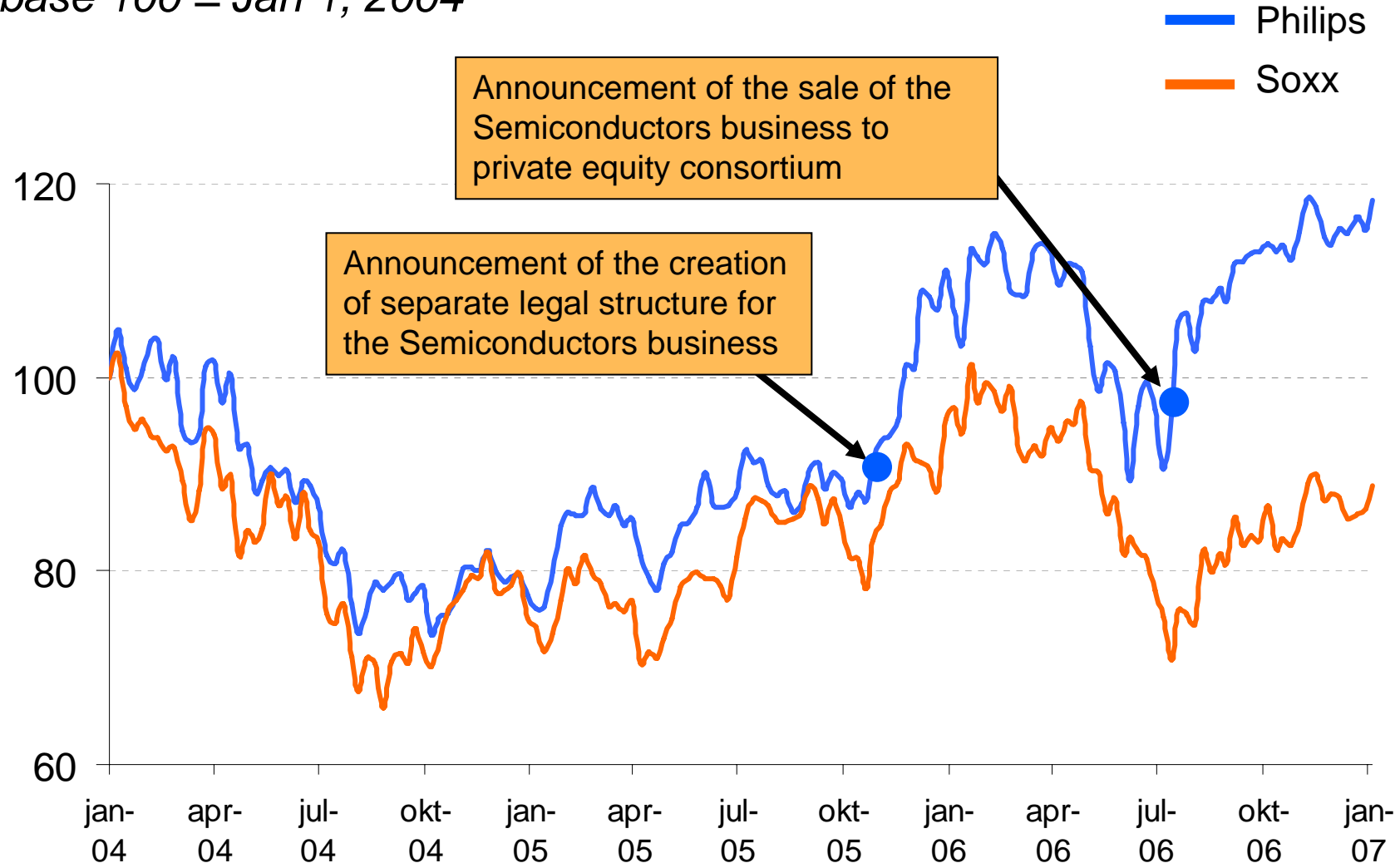
~ EUR 4 billion of mostly add-on acquisitions made over the past 18 months...

*Re-allocation of resources (€ B)*



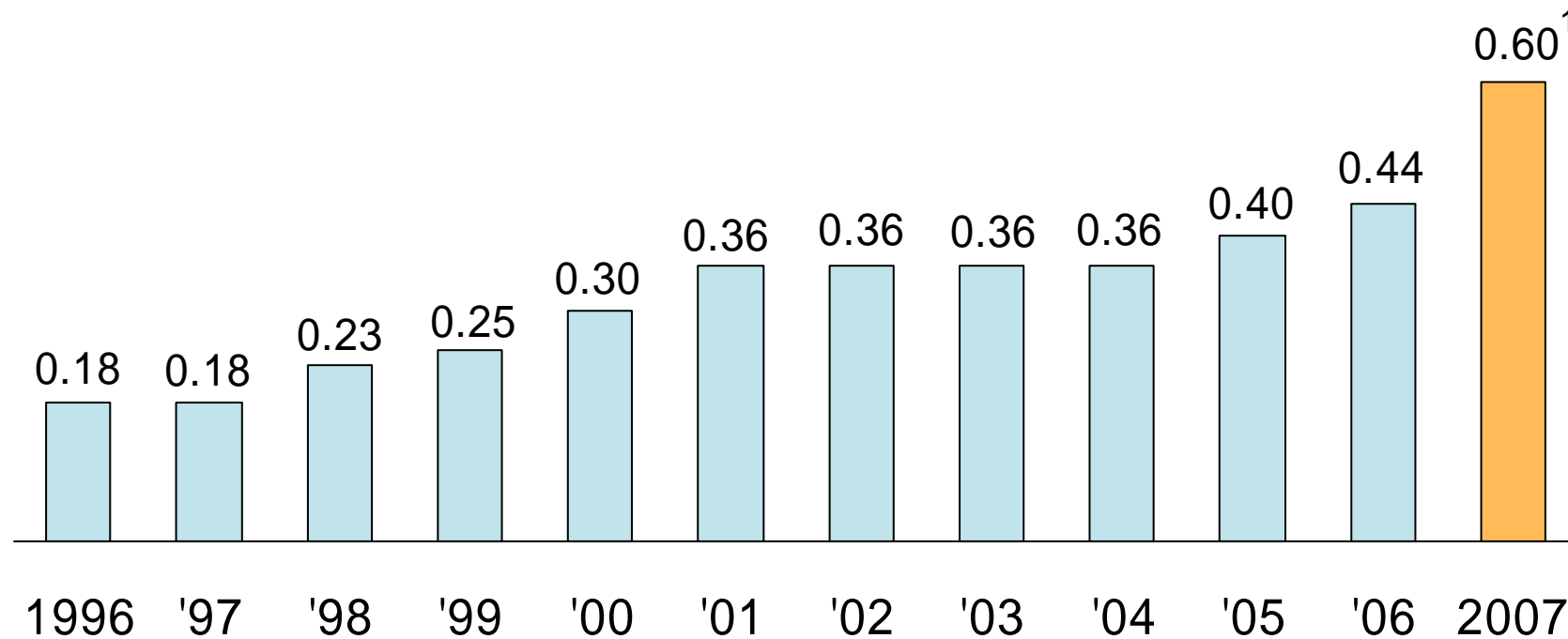
# Share price gained momentum after decoupling from Semiconductor Index

*base 100 = Jan 1, 2004*



# Biggest dividend increase in 10 years

*Proposal to shareholders, amounts in EUR per share*



1 – Proposal subject to approval in the General Shareholders Meeting on March 29th, 2007

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# Agenda

- Financial performance 2006
- Key Financial Management Actions
- Summary

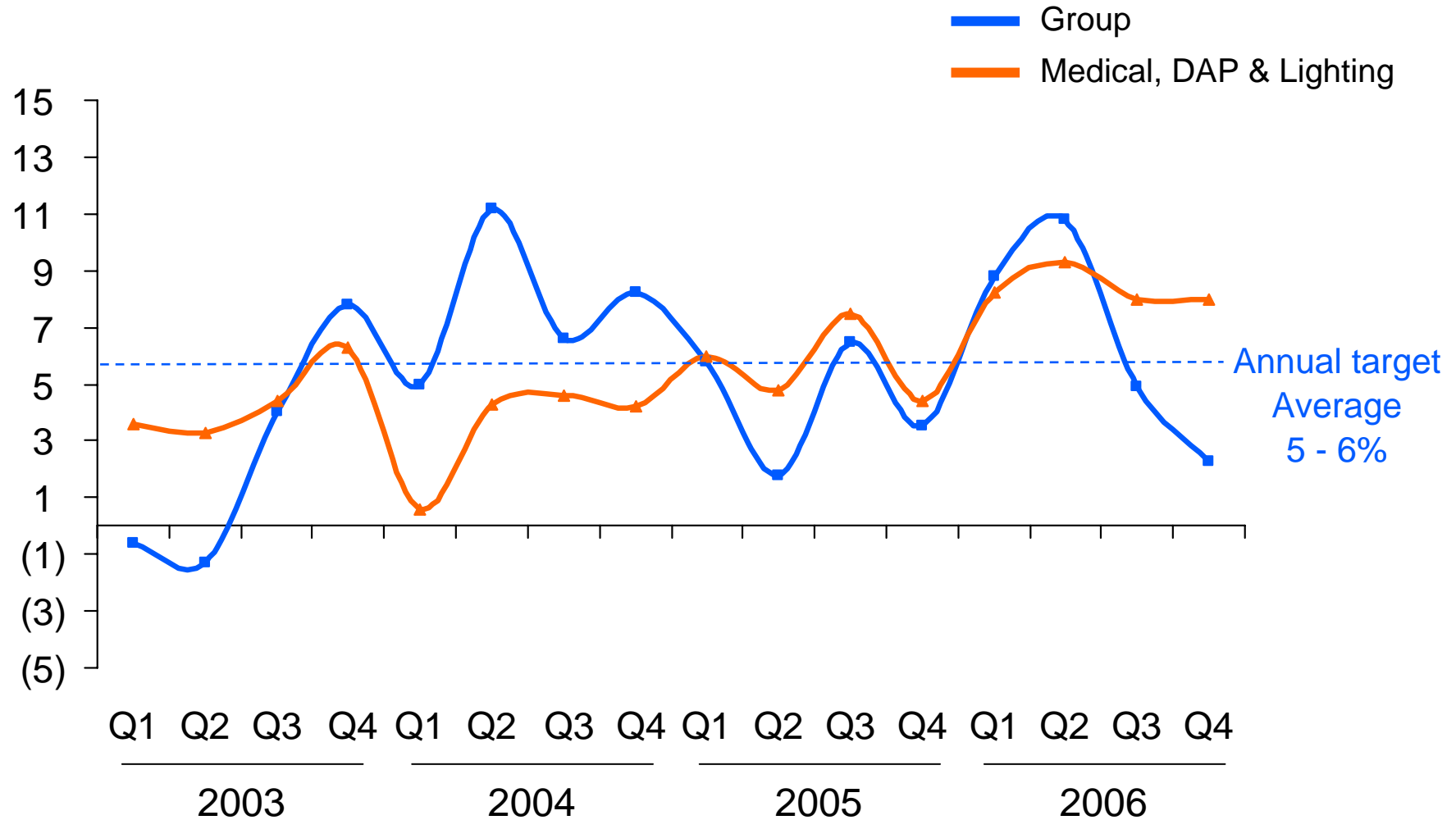
# Summary – 4Q06

*amounts in EUR million*

	4Q05	4Q06
Sales	8,191	8,128
EBIT	795	665
Result relating to UCCs	(46)	30
Net income from continuing operations	299	551
Discontinued operations	33	129
Net Income	332	680
Net cash provided by operating activities	1,460	740
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Net debt : Group equity ratio	(5) :105	(10) :110

## Y-o-Y quarterly sales growth

%



# Summary - FY 2006











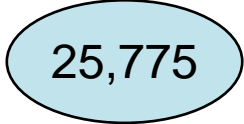

*amounts in EUR million*

	2005	2006
Sales	25,775	26,976
EBIT	1,472	1,183
Result relating to UCCs	1,754	(157)
Net income from continuing operations	2,831	919
Discontinued operations	37	4,464
Net Income	2,868	5,383
<hr style="border-top: 1px dashed black;"/>		
Net cash provided by (used for) operating activities	1,141	342



# Sales to thirds – FY

*amounts in EUR million*

	2005		2006		% nom	% comp
Medical Systems		6,343		6,742	6	7
DAP		2,194		2,645	21	11
CE		10,422		10,576	2	5
Lighting		4,775		5,466	15	8
Other Activities / Unallocated		2,041		1,547	(24)	(7)
<hr style="border-top: 1px dashed black;"/>						
<b>Philips Group</b>		25,775		26,976	5	6

## EBIT – FY

amounts in EUR million

	2005	2006
Medical Systems	679	795
DAP	358	386
CE	506	416
Lighting	556	635
<i>Main divisions</i>	2,099	2,232
Other Activities / Unallocated	(627)	(1,049)
<b>Philips Group</b>	1,472	1,183
<b>EBIT margin</b>	5.7%	4.4%

Including Q3 EUR 136 m. TPV gain

Including Q3 EUR 265 m. asbestos provision

Including Q4 EUR 170 m. Post-retirement benefits provision release

# Portfolio changes in 2006

*In EUR millions*

## Major acquisitions<sup>1</sup>

- Lifeline Systems
- Witt Biomedical
- Avent
- Intermagnetics

Sales to 3rd	415
Comp. growth	20%
EBIT	60
% of sales	14.5%



## Divestments<sup>2</sup>

- MDS
- Activities in Optical Storage (Optical Pick-up Unit / Sound Solutions / BenQ Digital Storage)
- Enabling Technologies Group
- HTP Tooling

Sales to 3rd	1,570
Comp. growth	-15%
EBIT	-73
% of sales	-4.6%

1: US GAAP restated 2005 sales and EBIT excluding annualized amortization costs. Comp. growth based on RFA.

2: Based on actual 2005

# EUR 500M overall cost reduction target

*Amounts in EUR million*

- **Well on track to achieve the target with over EUR 450m of savings already in 2005 & 2006 combined**
- **Considerable savings generated from business renewal and organizational simplification within the businesses**
- **Additional savings from general purchasing (distribution costs, travel costs, real estate, information technology etc)**
- **Expect EUR 500M target to be met in the course of 2007, excluding the separately-announced plan to reduce corporate and regional costs by EUR 75 million on a run-rate basis by the end of 2007**

# Cash Flow – FY

*amounts in EUR million*

	2005	2006
CF from operations before Pension add. funding	1,141	1,025
Additional funding for UK and US	-	(683)
<hr/>		
CF from operations	1,141	342
Gross capital expenditures	(644)	(703)
Acquisitions/Divestments/Other	2,331	(2,108)
<hr/>		
CF before financing activities	2,828	(2,469)
CF for financing activities	(2,589)	(3,715)
<hr/>		
Total cash flow from continuing operations	239	(6,184)

# Agenda

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# Cash generated from non-core activities

*amounts in EUR million*

	2005	2006
<i>Divestments</i>	51	7,227
• 80.1% Semiconductors	-	7,053
• Corp. Investments Portfolio	-	174
• Pension competence center	51	-
<i>Sale of participations / securities</i>	3,261	154
• LG.Philips LCD	938	-
• TSMC	770	-
• NAVTEQ	932	-
• Atos Origin	554	-
• FEI	-	154
• Other securities	67	-
Dividend TSMC	218	223
<b>Total</b>	<b>3,530</b>	<b>7,604</b>

# Cash utilization

*amounts in EUR million*

	2005	2006
<i>Acquisitions</i>	<i>(982)</i>	<i>(2,445)</i>
• Lumileds	(788)	-
• Stentor	(194)	-
• Intermagnetics	-	(993)
• Lifeline	-	(582)
• Avent	-	(690)
• Witt Biomedical	-	(110)
• Bodine & Power Sentry	-	(70)
Share repurchase programs	(1,836)	(2,781)
Dividend	(504)	(523)
Extra funding for Pensions (UK & US)	-	(683)
TSMC withholding tax payment	-	(240)
<b>Total</b>	<b>(3,322)</b>	<b>(6,672)</b>



# Publicly quoted investments: market value

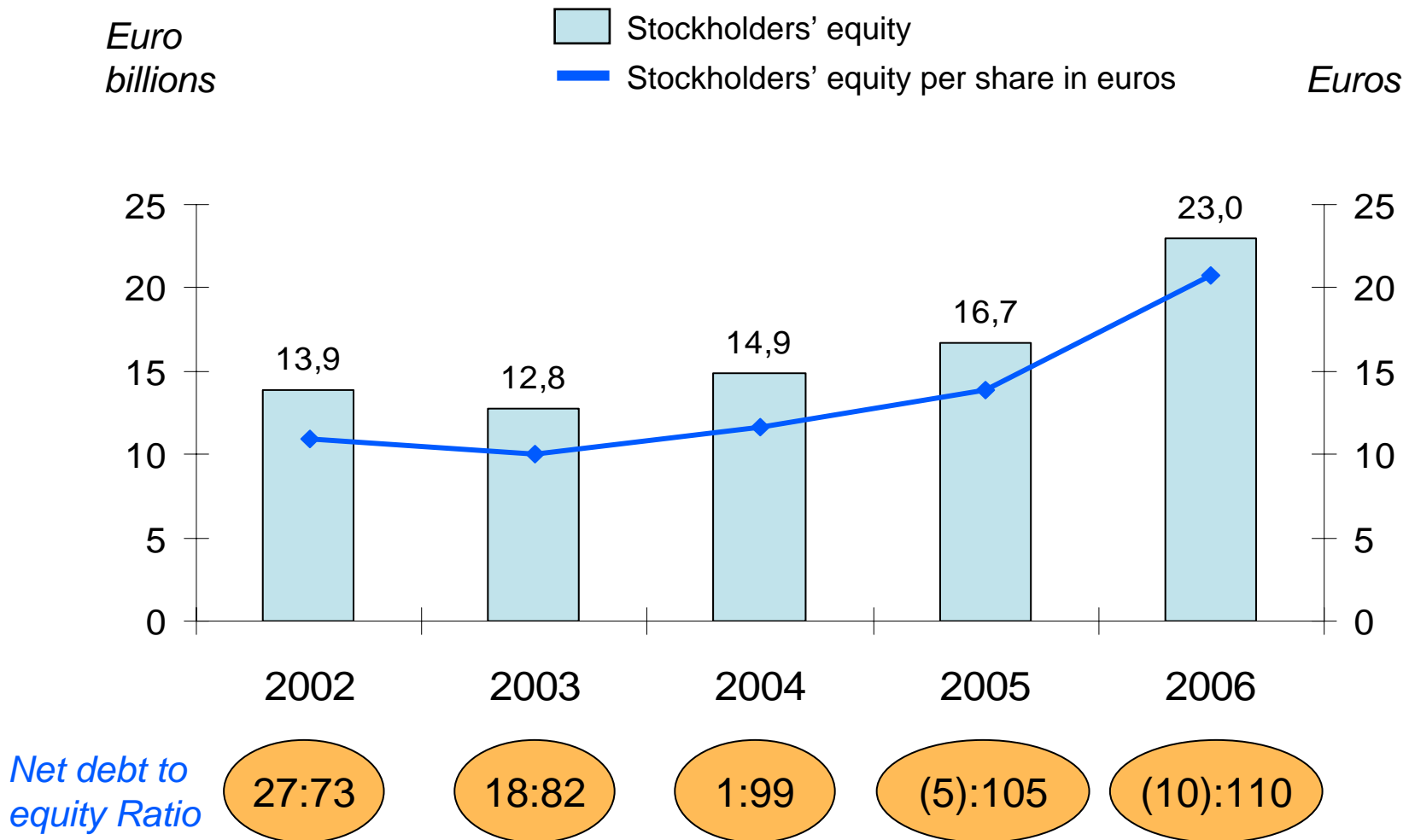
*amounts in EUR million*

	Dec, 2005	Dec, 2006	Dec, 2005	Dec, 2006
TSMC <sup>1</sup>	6,531	6,587	16.4%	16.4%
JDS Uniphase	78	62	2.7%	2.7%
FEI	136	—	25.1%	—
TPV	218	126	15.0%	13.8%
LG.Philips LCD	4,244	2,673	32.9%	32.9%
<hr/>				
<b>Total</b>	<b>11,207</b>	<b>9,448</b>		

Note:

1 – including 122 million shares classified as trading securities, representing a market value of EUR 192 million.

# Stockholders' equity per share almost doubled during the past 4 years



# Agenda

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# Summary

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

- More focused portfolio
- Simpler to understand
- Growing in a sustainable manner
- More predictable
- Strong financial position
- Continuing to manage efficiently the disposal of its stakes
- Pursuing opportunities for acquisitions, provided they represent value for money
- Continuing to return cash to its shareholders
- Increased shareholder value

Gerard Kleisterlee

Pierre-Jean Sivignon

Gerard Kleisterlee

# 2006 Management Agenda

Realize 5-6% top-line growth and attain 7-10% EBIT margin



Continue to grow Healthcare as part of the portfolio



Accelerate movement to become a simpler, market oriented organization



Set up separate legal structure for Semiconductors and create value by pursuing strategic options



Increase the number of entrepreneurial business leaders with broad based experience

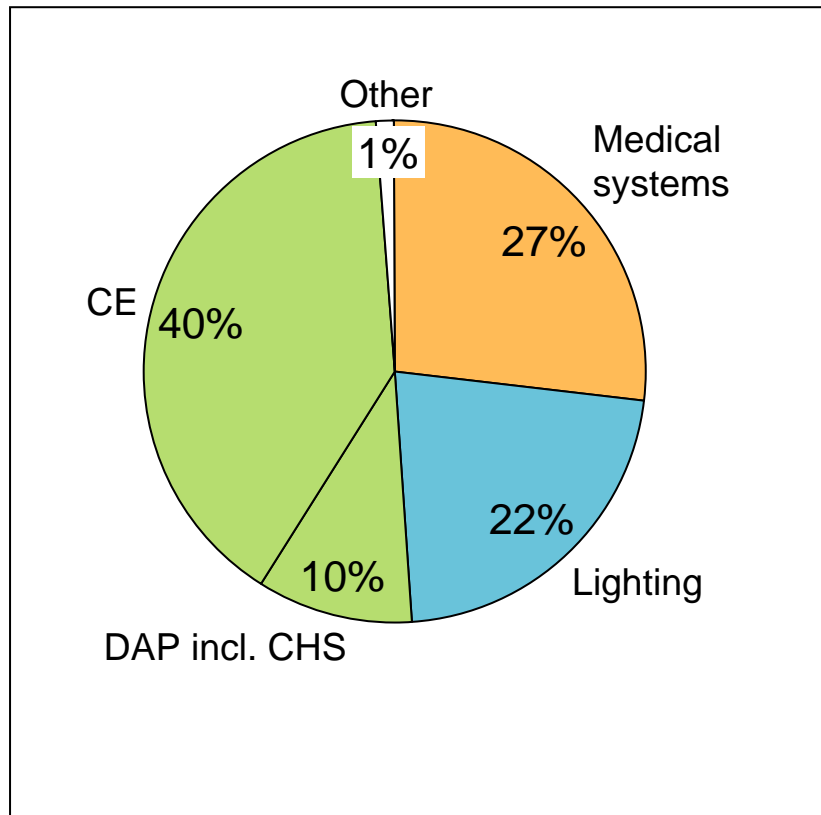


Exceed € 500M overall cost reduction target (2-3 years)

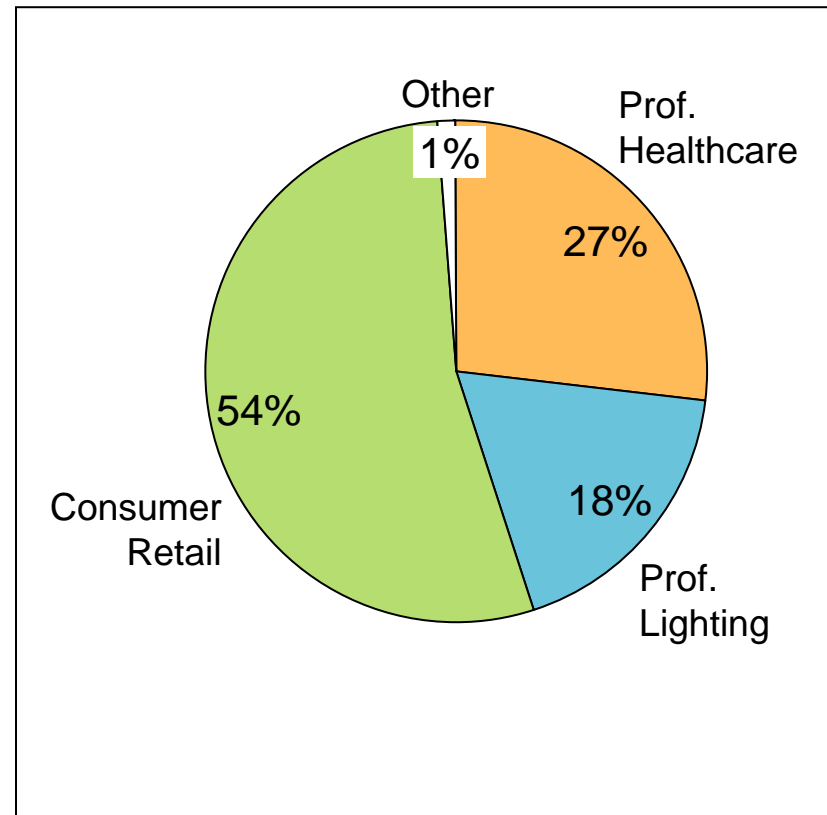


# A well-balanced portfolio in consumer retail and professional markets built around the brand

Divisions – Sales\*

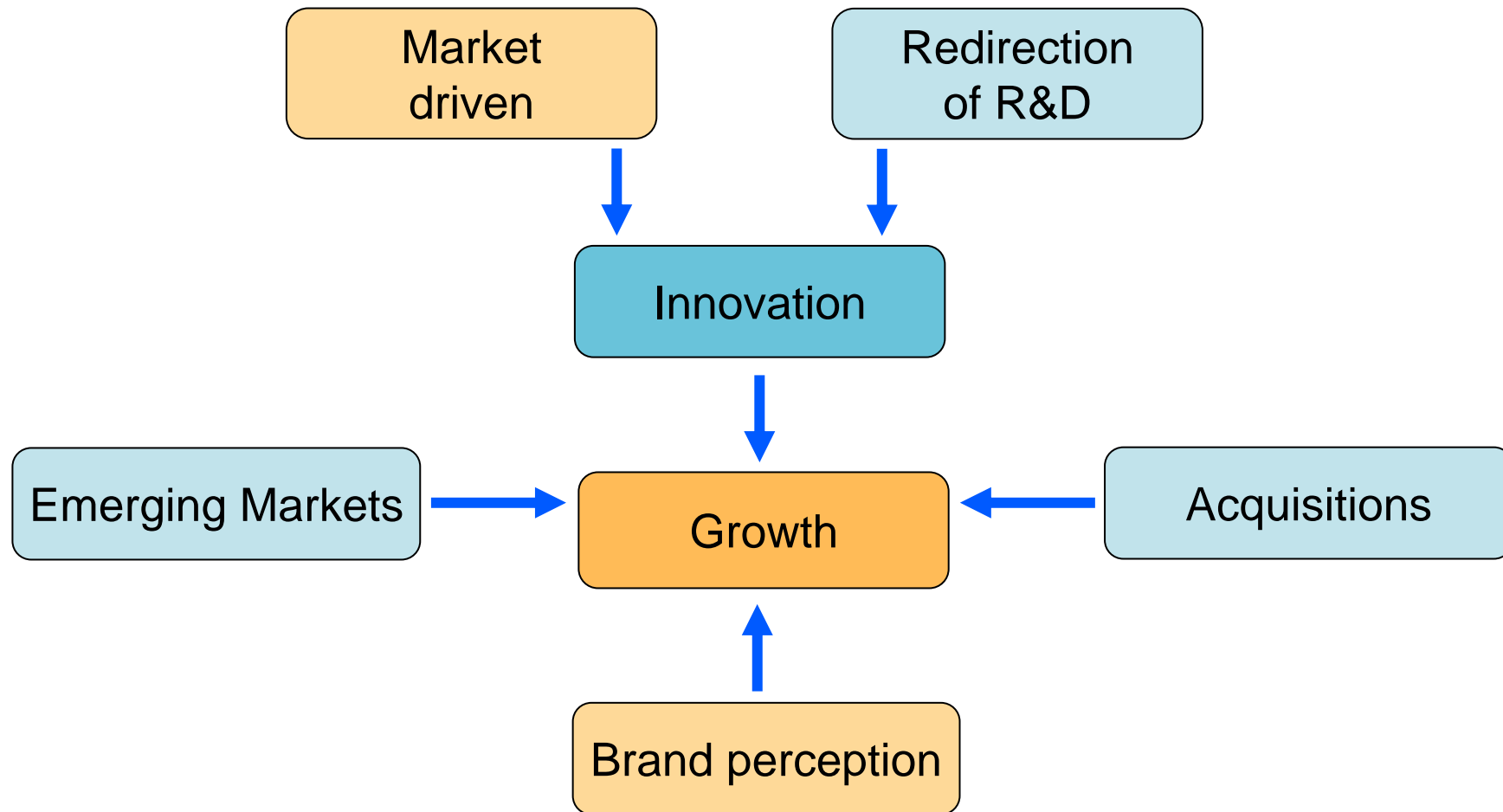


Market spaces - Sales



\* 2006 excluding Mobile Phones and Corporate Investments

# Creating growth opportunities in healthcare, lifestyle and technology





## Brand investments drive growth

BusinessWeek

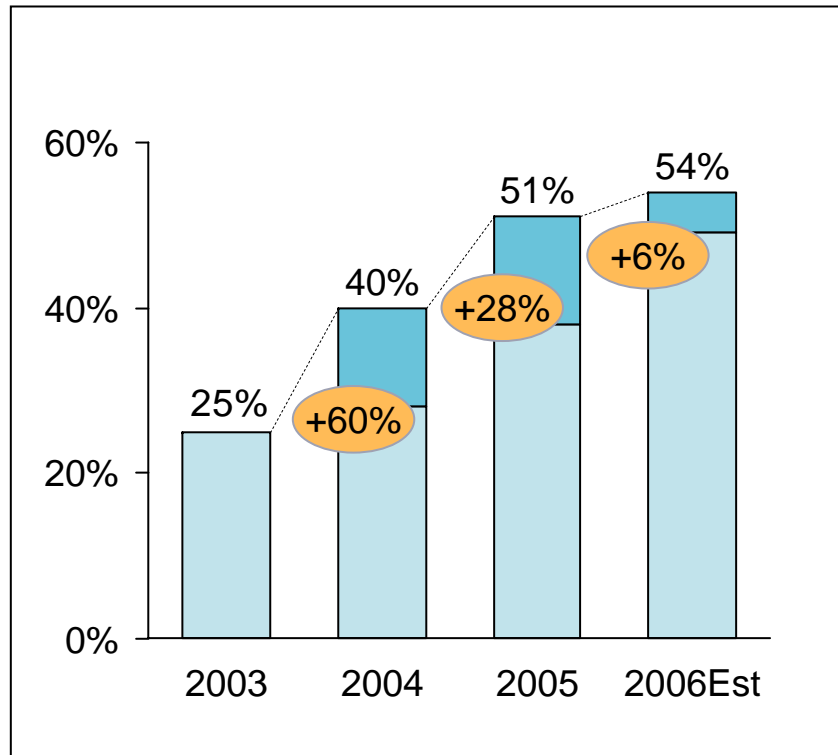
Interbrand

- The Philips Brand continues to move up the Business Week / Interbrand rankings tracking brand value
  - 2006: 48th place
  - 2005: 53rd place
  - 2004: 65th place
- In 2006, the brand value was estimated at USD 6.7 billion
- Sense and Simplicity supports the entire Philips portfolio
- Brand investment will be continued in 2007, supporting profitable growth

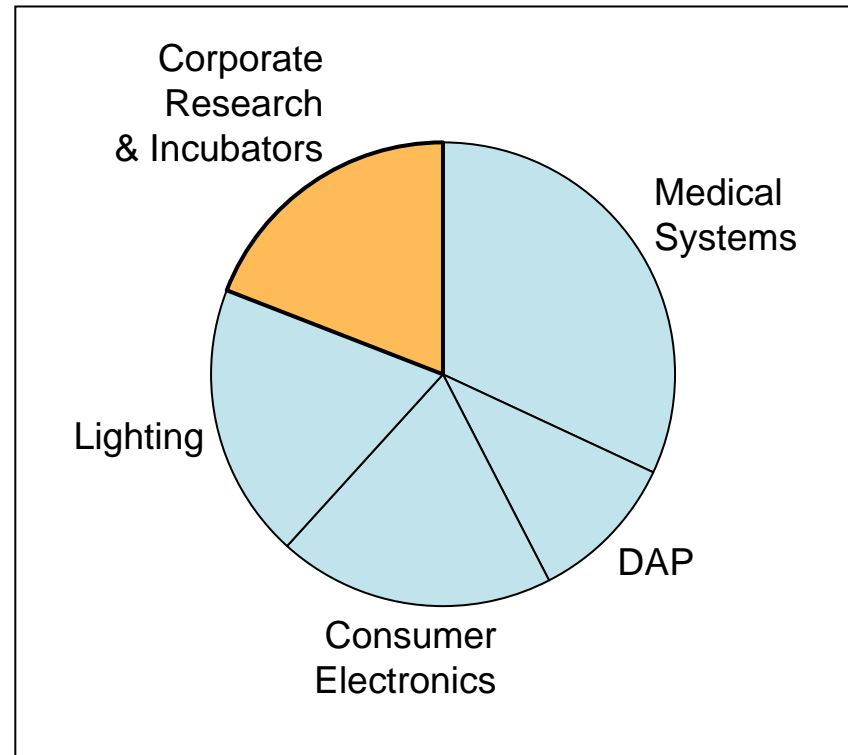


# Innovation drives growth

New Product sales / total sales



R&D allocation



Corporate Research and Incubators merged into new Innovation and Emerging Markets group together with Consumer Healthcare Solutions

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

## Professional Healthcare

- Major product innovations in 2006 included the BrightView SPECT nuclear medicine camera
- Major product innovations in 2007 will include innovations in Cardiology

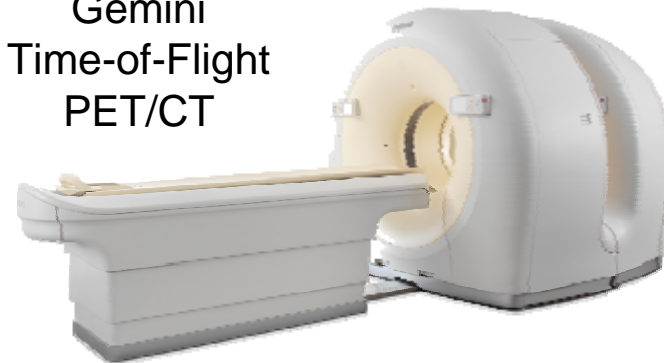


BrightView SPECT

EP Navigator



Gemini  
Time-of-Flight  
PET/CT



SureSigns VM



## Acquisitions



- No. 1 magnetic resonance imaging (MRI) components and accessories manufacturer



- Picture Archiving and Communication Systems (PACS) company with unique web-based technology and service model



Tomorrow's software in today's systems



- Through acquisition, Philips can offer integrated, best-in-class technologies for Cath Labs



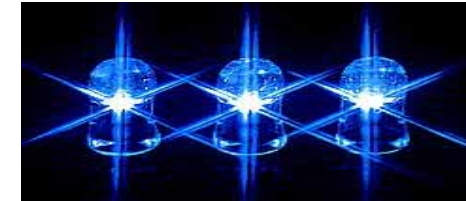
- Leader in 'personal emergency response' services targeting seniors living at home
- Network of 2,500 hospitals and over 500,000 subscribers

## Professional Lighting

- Major product innovations in 2006 included Cosmopolis
- Major product innovations in 2007 will further build on Philips' leading position in energy efficient solid state lighting



## Acquisitions



- Industry leader in high power light emitting diodes (LEDs)
- LEDs will change the future of lighting with totally new applications and business models
- Acquisition an important step to ensure leading position in high growth, profitable LED market



- Leading manufacturer of emergency ballasts
- Acquisition gives Philips strong position in emergency ballast market
- Enables Philips to enter strategic new market segments



- The leading European player in home luminaires
- More than 10,000 home lighting luminaires,
- Enhances Philips's position in emerging solid state lighting (LED) market

## Consumer Retail

- Major product innovations in 2006 included the Wakeup Light and the Full Surround Ambilight
- Major product innovations in 2007 expected in new and existing categories e.g. shaving, coffee brewing and Flat TV



Wake up light



Williams F1 shaver



Portable Media Devices



Ambilight



VOIP phone

## Acquisitions



- Leading provider of baby care products in the UK and US
- Expands Philips' presence in health & wellness

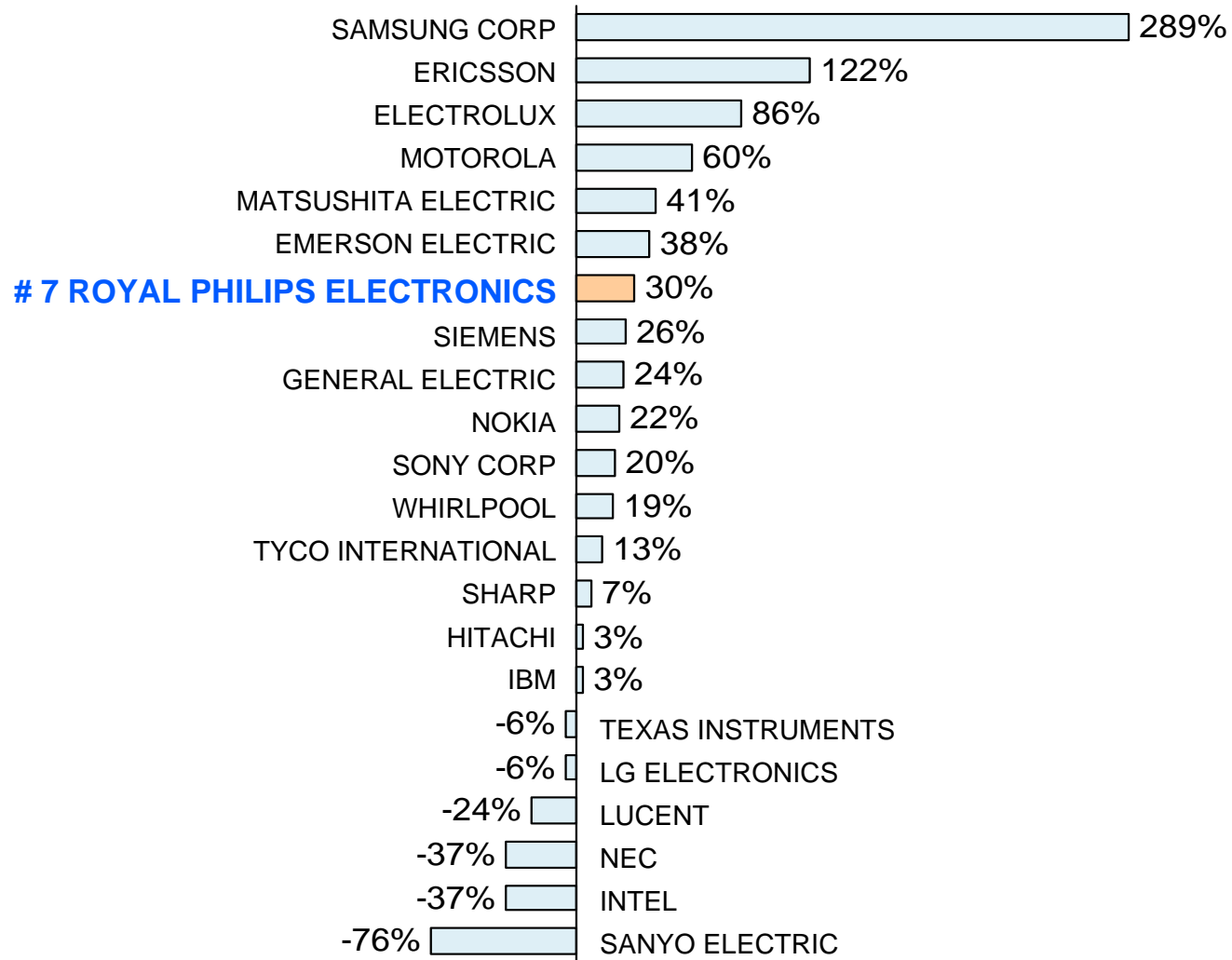


- #2 player in the North American plug-in power surge market
- Accessories and peripherals is fast growing, high margin consumer electronics business
- Builds on earlier Gemini acquisition, and helps round out product offering



# Total Return to Shareholders – 3 Years

*Existing peer group*



# Adapt peer group to Philips transformation

## Existing peer group (until 2006)

Electrolux  
Emerson Electric  
General Electric  
Hitachi  
Matsushita  
Siemens

**Existing members**



Ericsson  
Gillette  
IBM  
Intel  
LG Electronics  
Lucent  
Marconi  
Motorola  
NEC

Nokia  
Samsung  
Sanyo Electric  
Sharp  
Sony  
Texas Instruments  
Tyco International  
Whirlpool

## Proposed peer group (2007-)

### *Existing members*

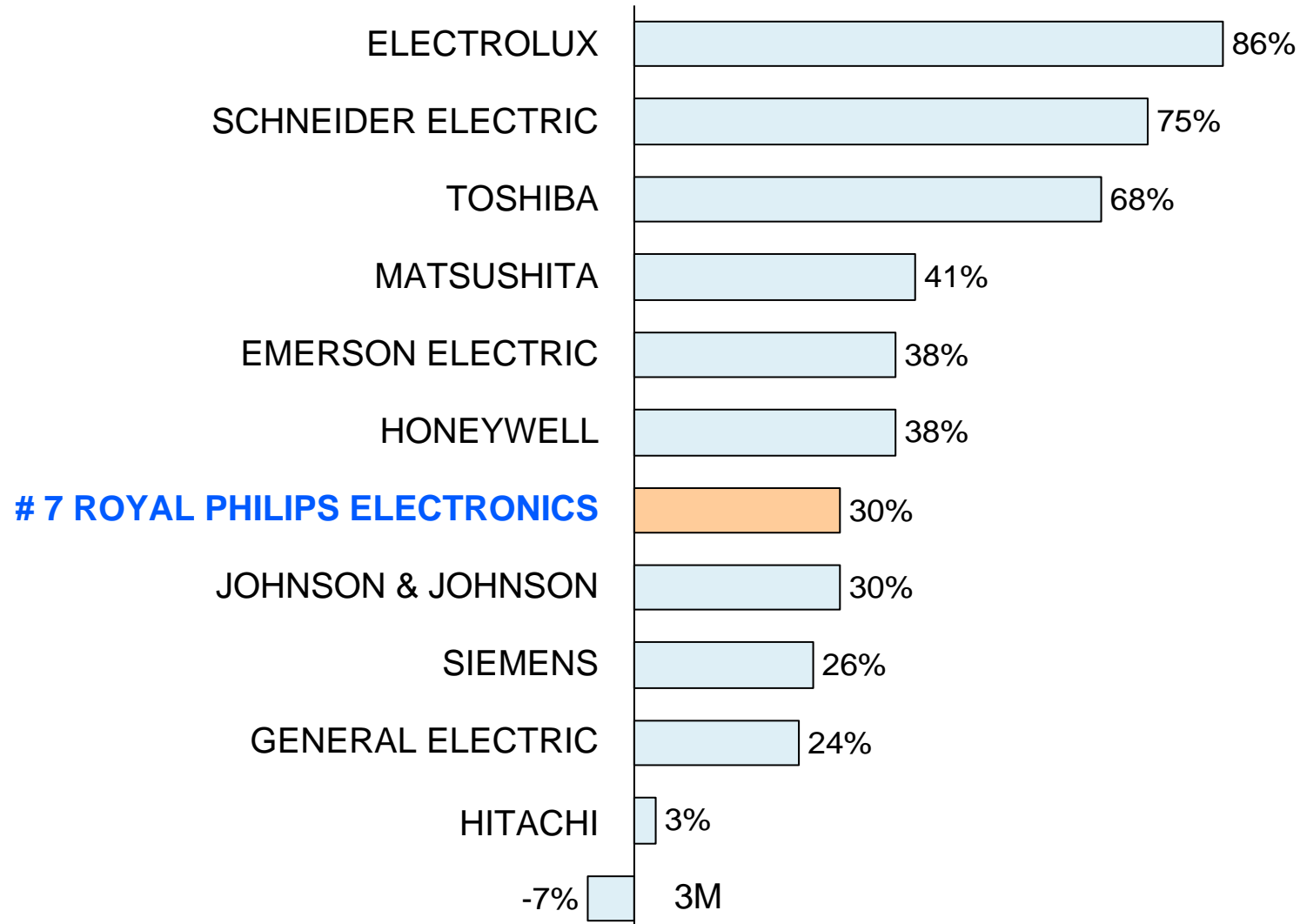
Electrolux  
Emerson Electric  
General Electric  
Hitachi  
Matsushita  
Siemens

### *New members*

Honeywell  
Johnson & Johnson  
Schneider Electric  
Toshiba  
3M

# Total Return to Shareholders – 3 Years

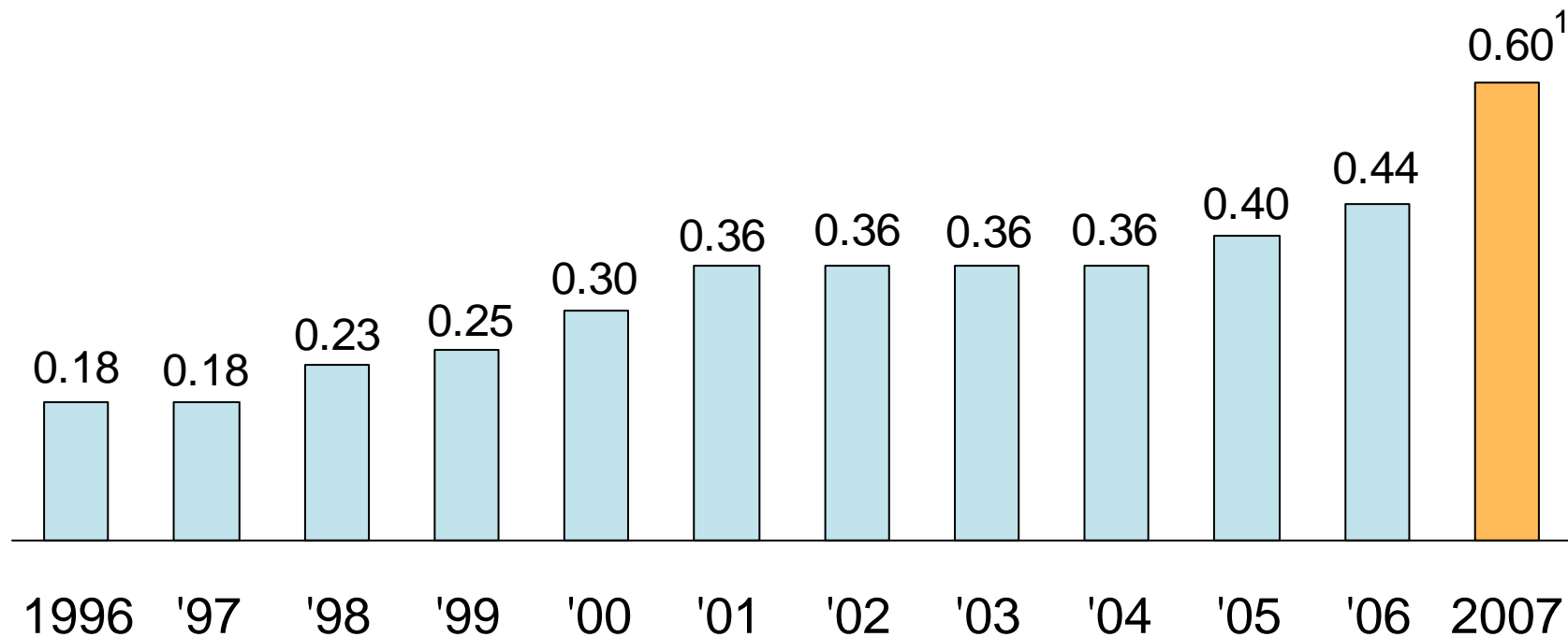
*Proposal new peer group*



# Biggest dividend increase in 10 years

*Proposal to shareholders, amounts in EUR per share*

*“Philips’ present dividend policy is based on an average annual pay-out ratio of 25-35% of continuing net income. Philips will explain a revised dividend policy at the 2007 General Meeting of Shareholders which raises this average annual pay out ratio to 40-50% of continuing net income”*



1 – Proposal subject to approval in the General Shareholders Meeting on March 29th, 2007

## 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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