

PHILIPS

Sustainable Value Creation in Consumer Electronics

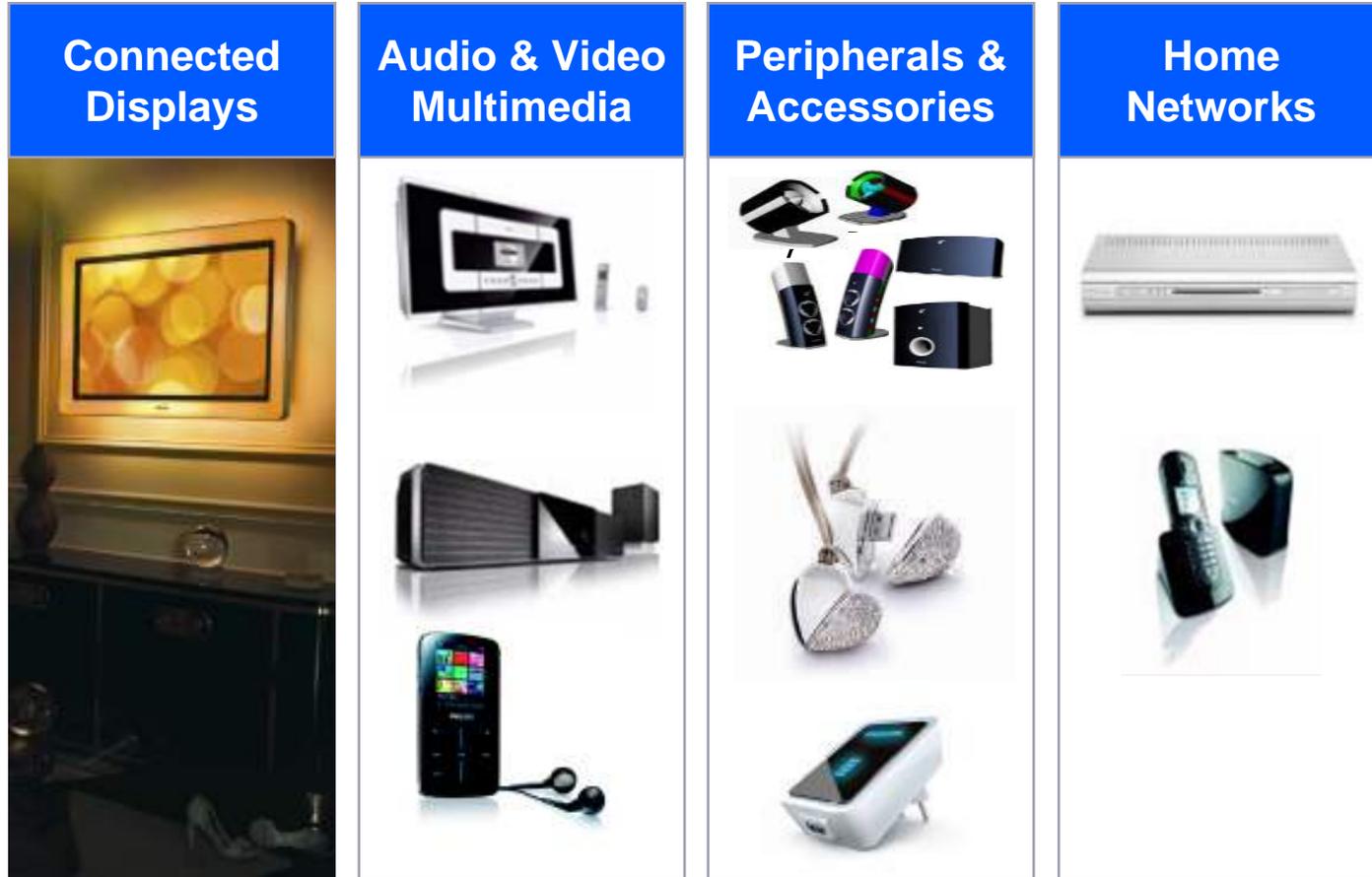
Rudy Provoost
Financial Analysts' Day
December 6, 2007

Sustainable Value Creation in Consumer Electronics

Agenda

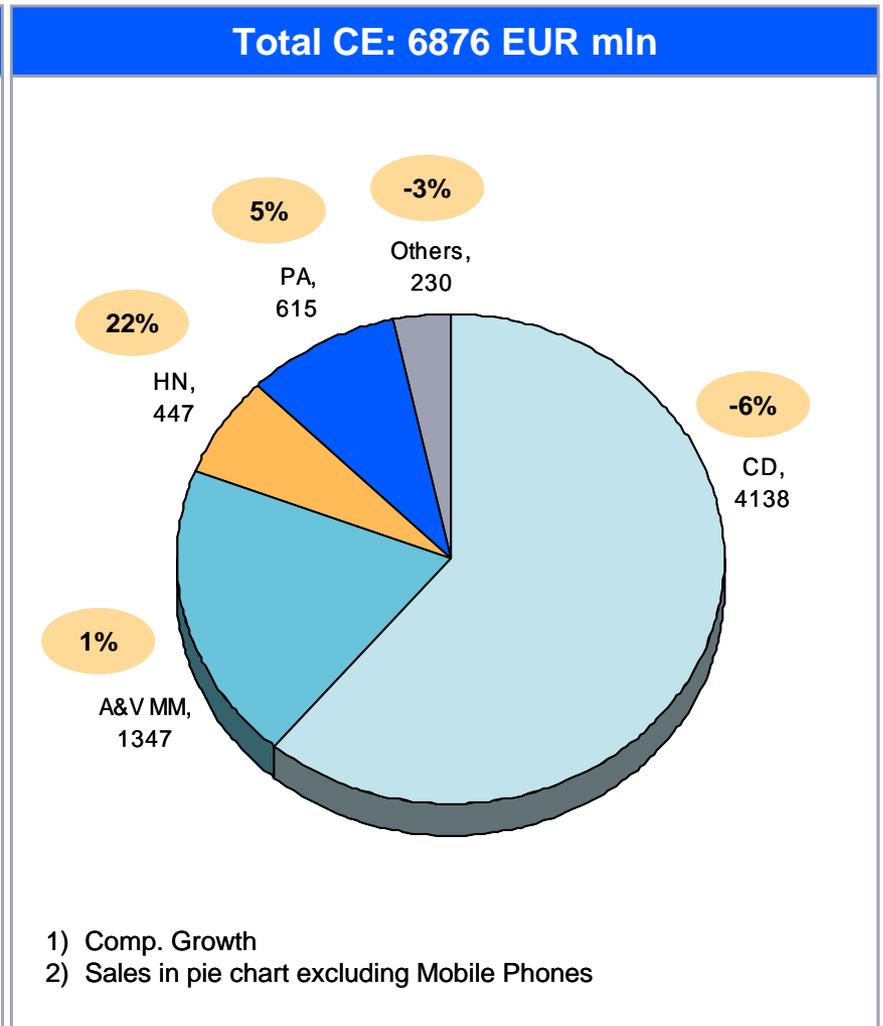
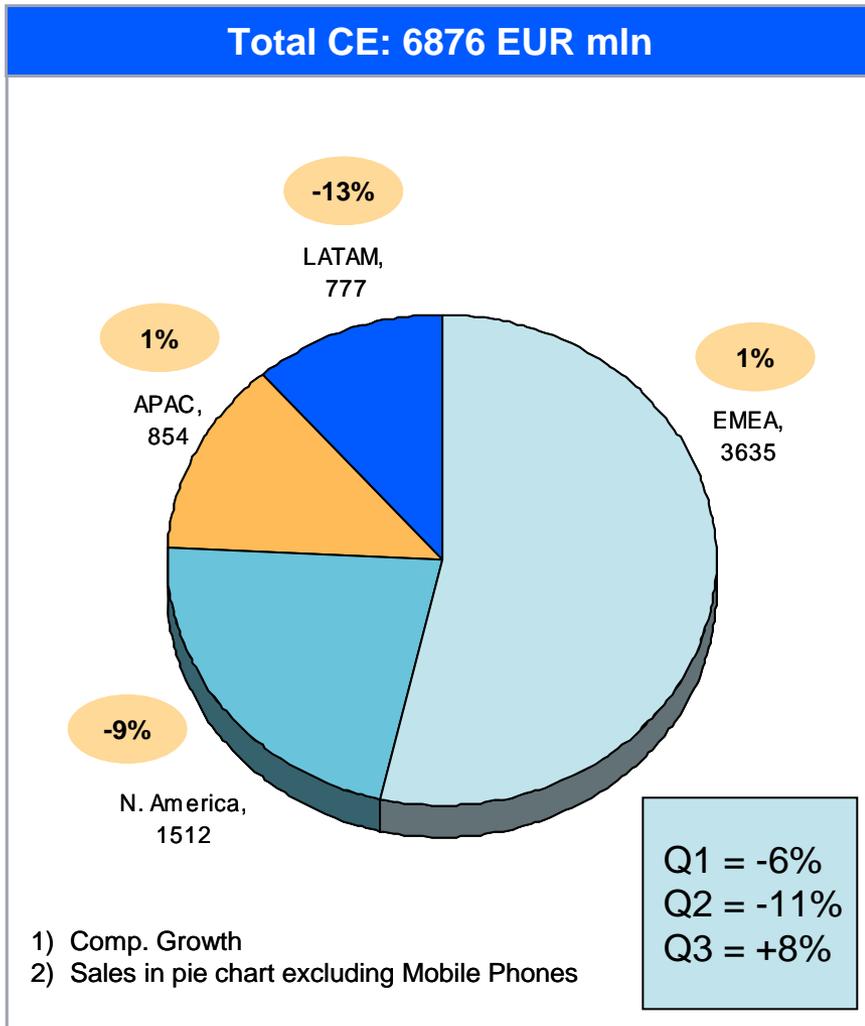
- Snapshot Consumer Electronics
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 - Relevant innovation
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Snapshot: Consumer Electronics portfolio 2007



Regional and Business Mix Sales

Ytd Q3 2007

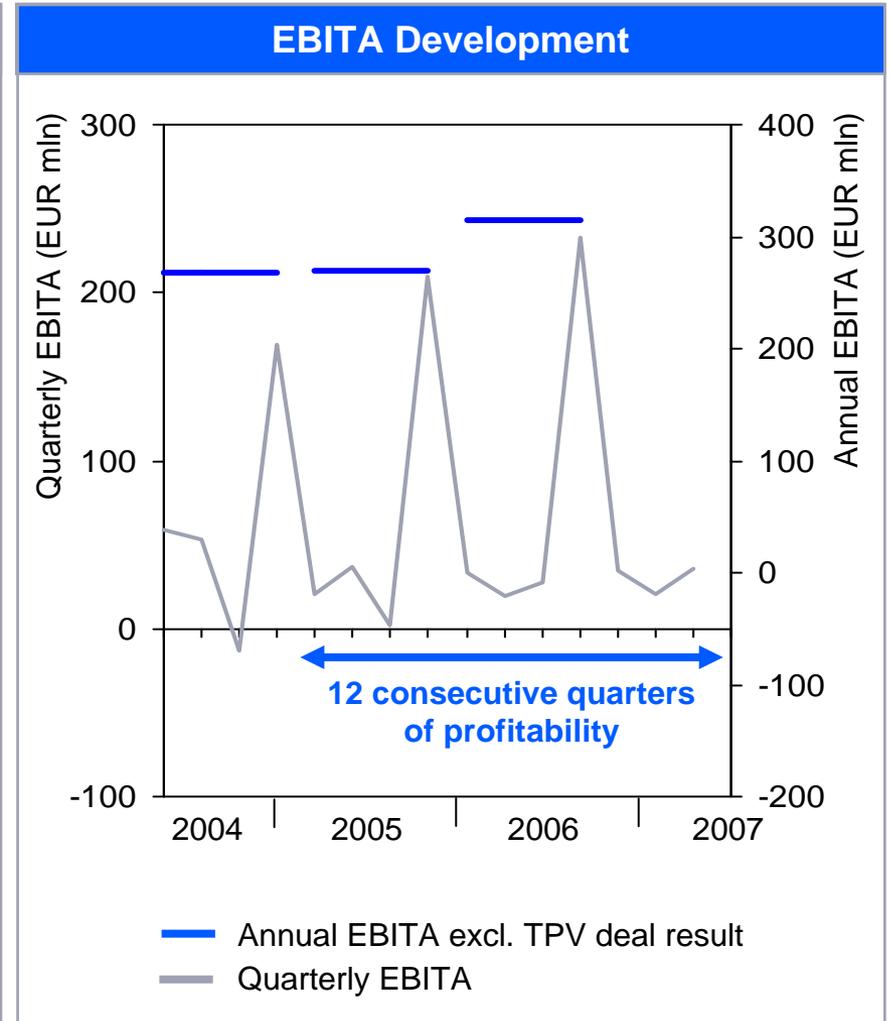
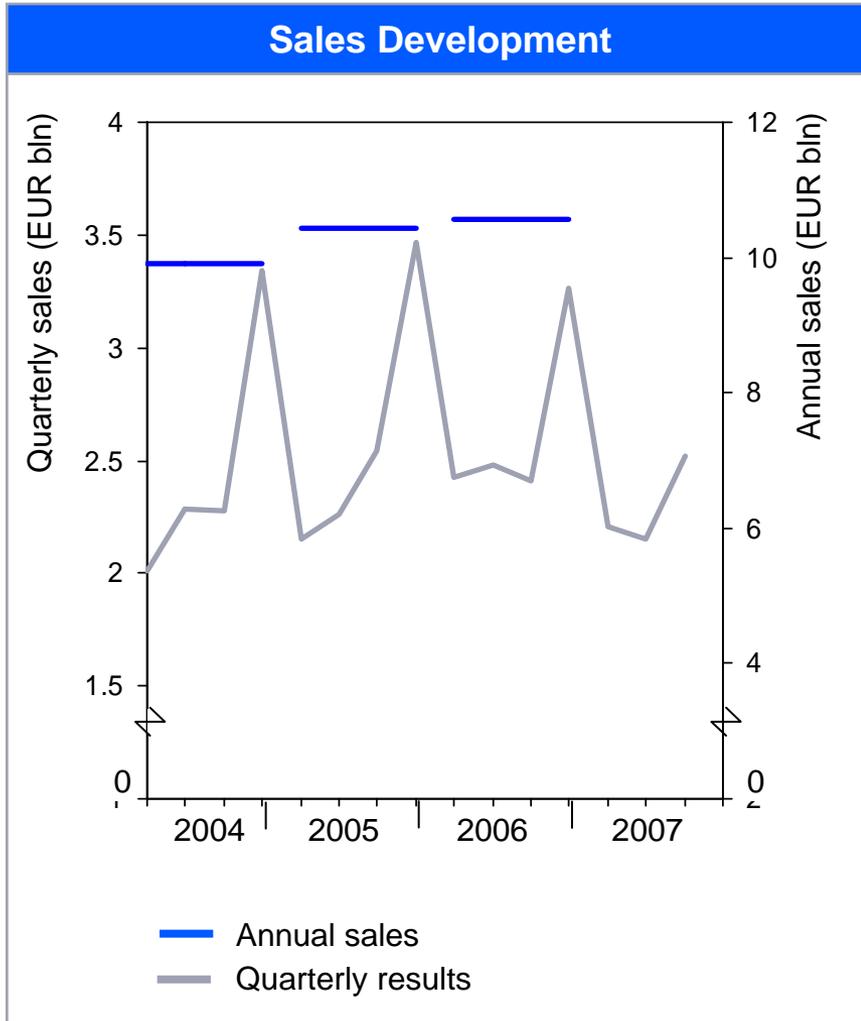


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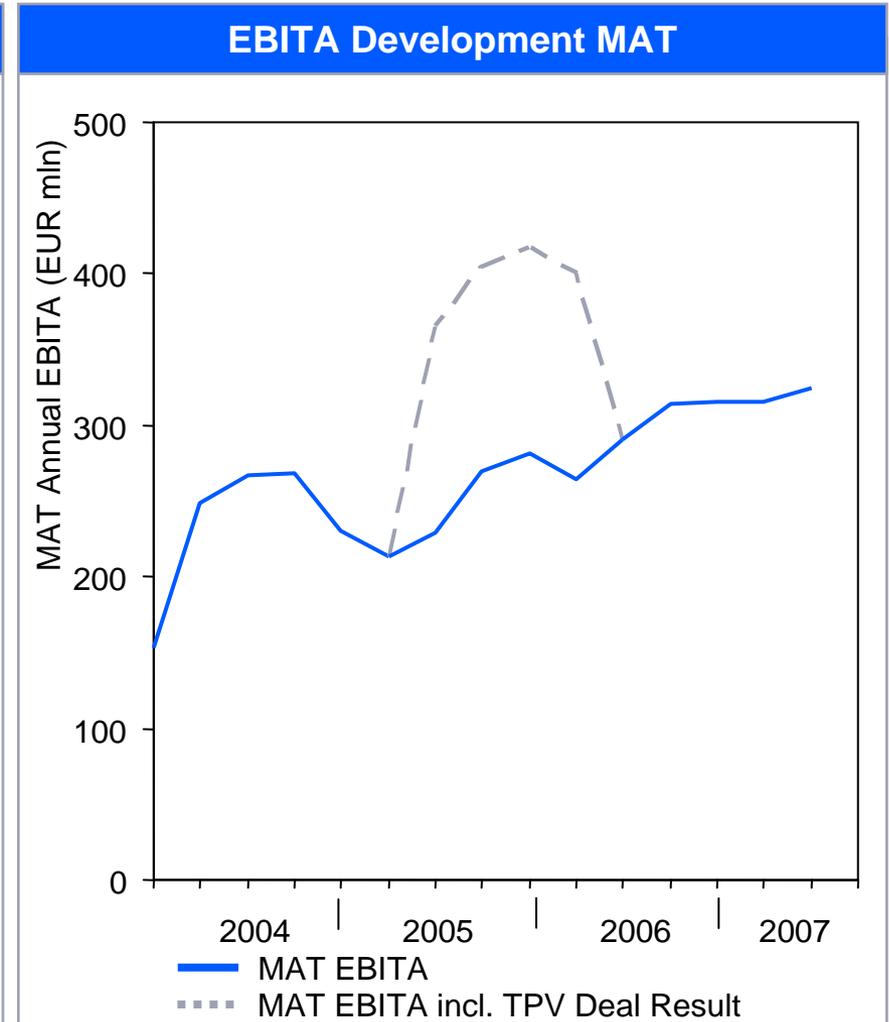
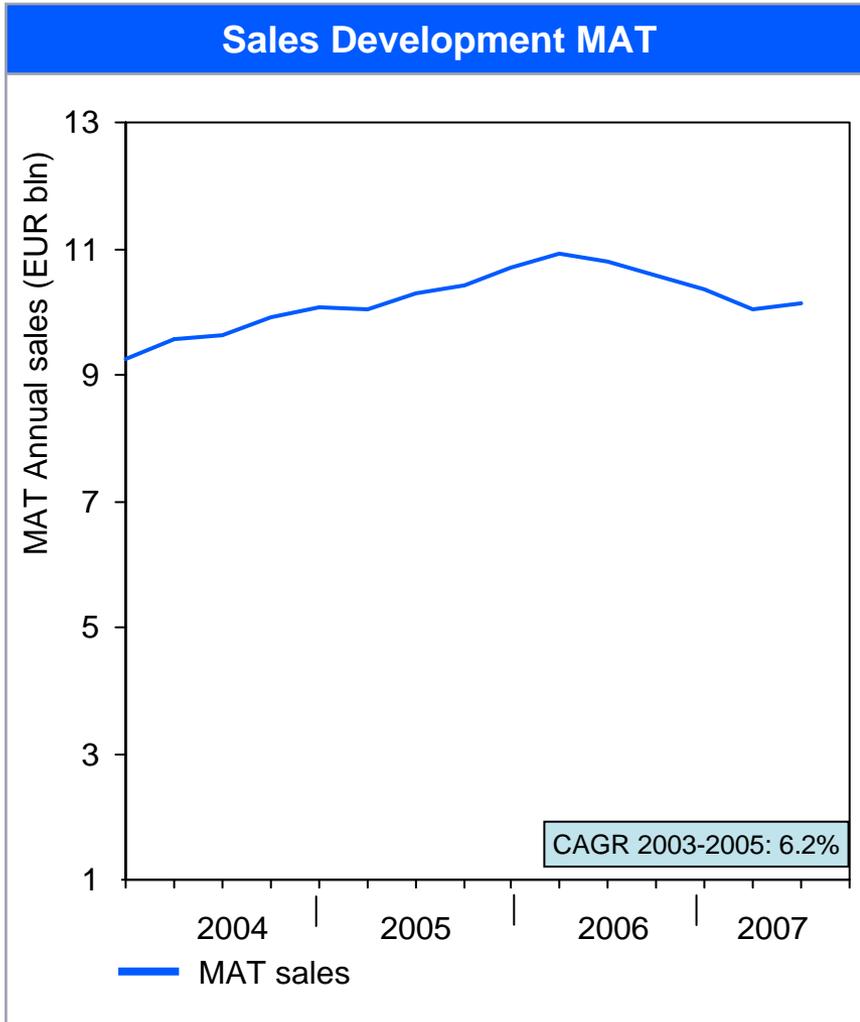
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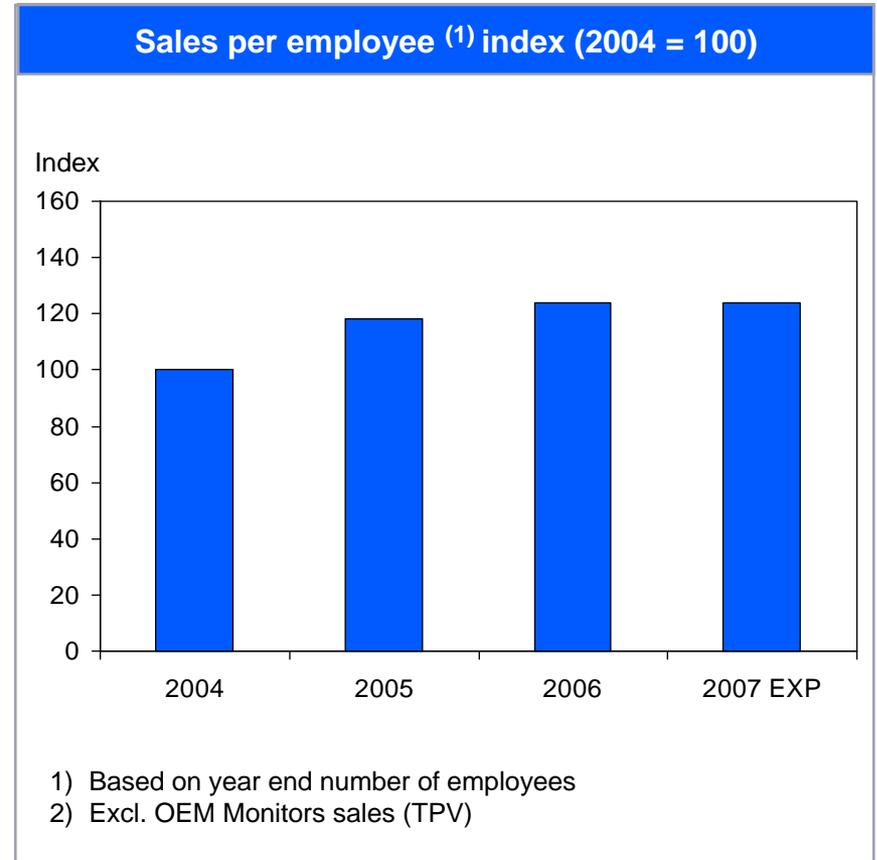
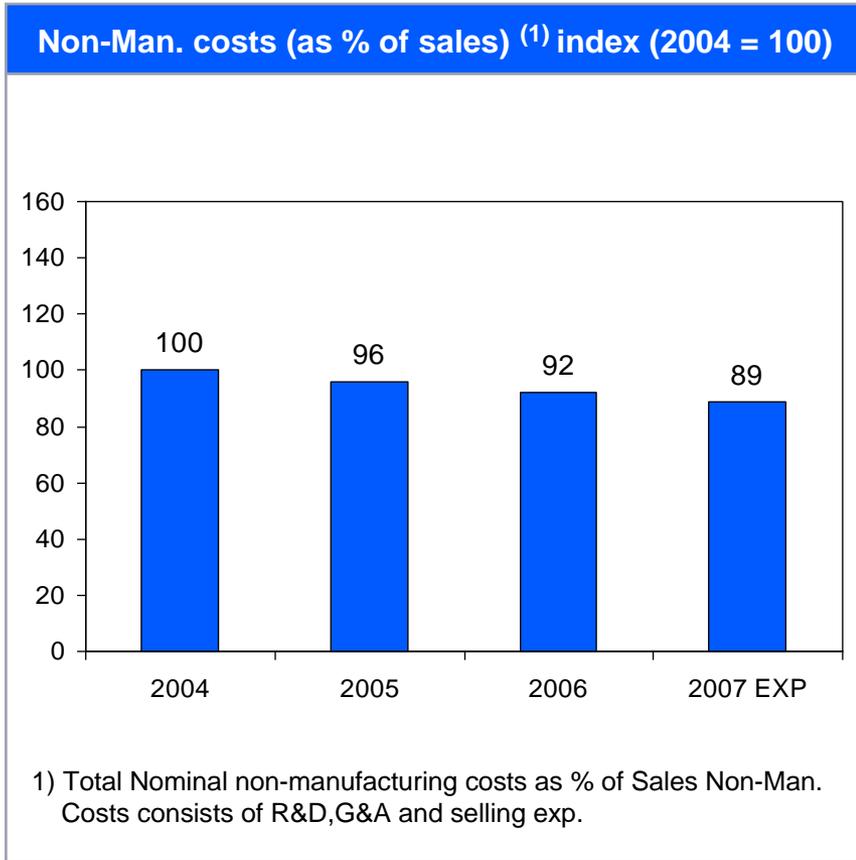
We have delivered consistent performance over the past twelve quarters



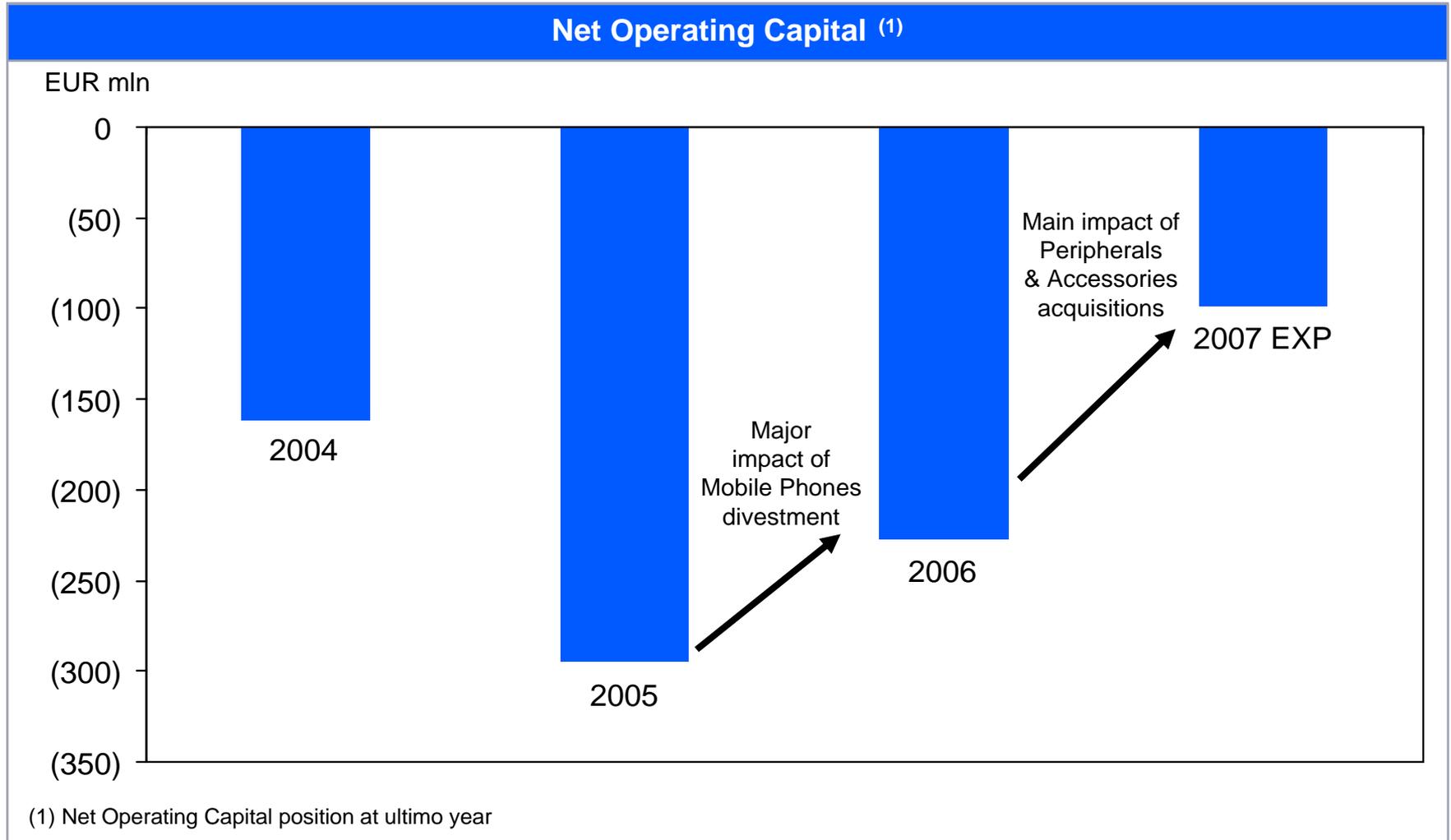
Both Sales and EBITA show a positive trend



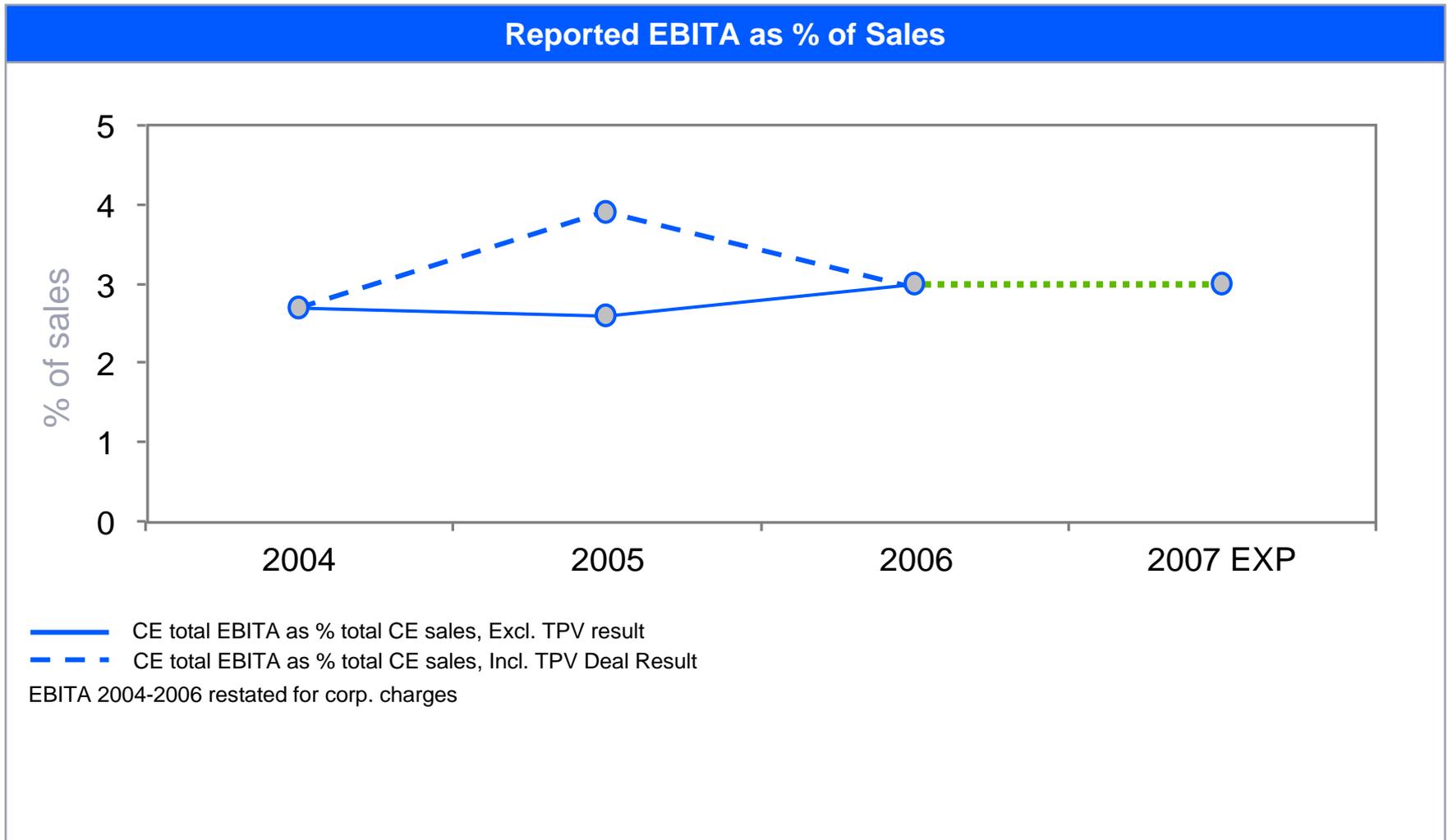
Consistent cost productivity improvements have been made keeping up overall sales productivity



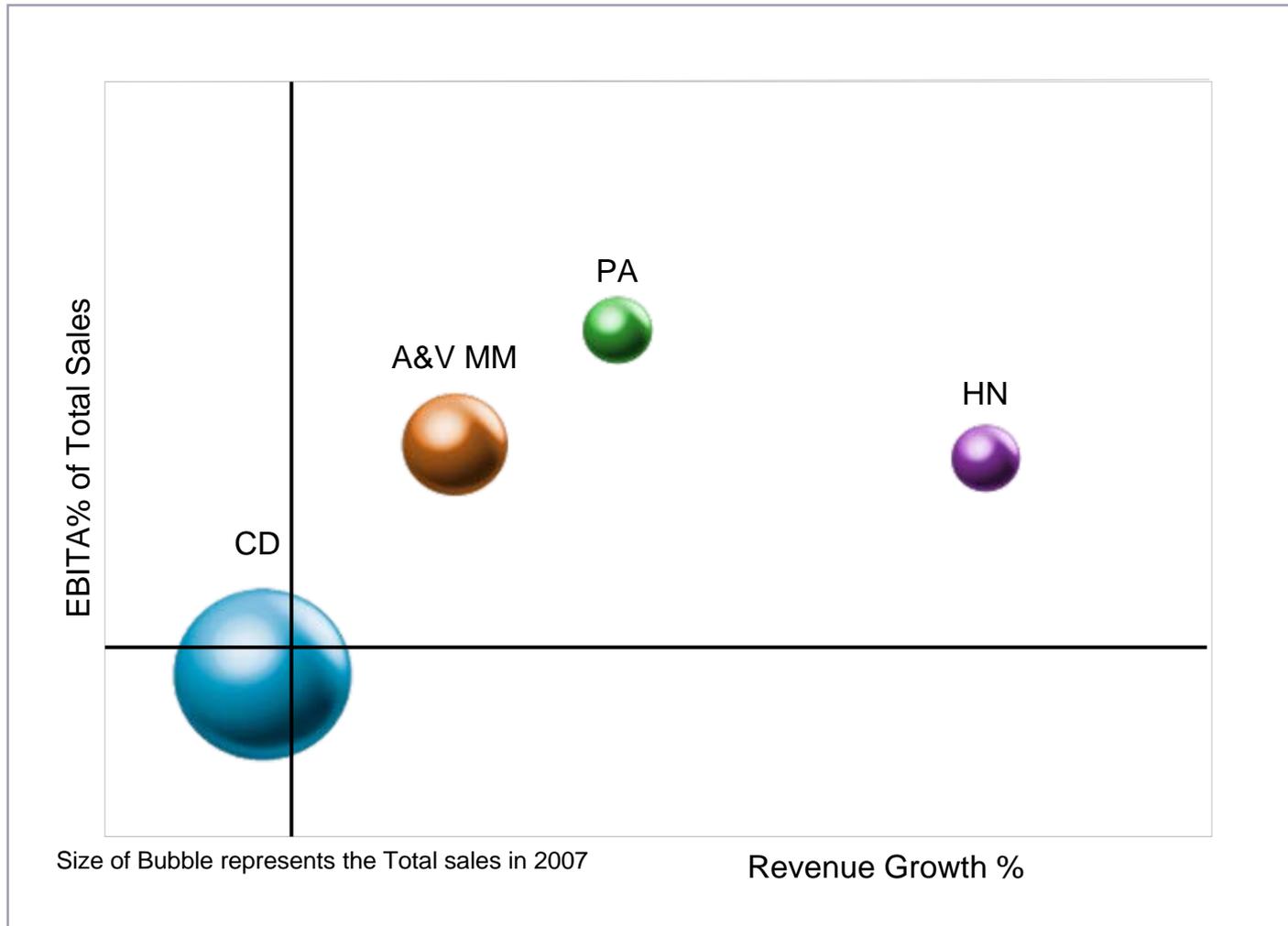
We have executed our asset light strategy despite changes in portfolio and business



Consistent EBITA as % of Sales performance



Overview of the 2007 CE portfolio



Connected Displays facing significant challenges and requiring further action and attention

FTV market remains challenging

- Continuous margin pressure
- Highly competitive and structurally difficult North American market
 - Severe price compression due to Plasma/LCD competition
 - Psychological price point wars
 - Fierce retail dynamics
 - Disruptive low-cost players
 - Low brand loyalty
- Ongoing supply chain challenges
 - Tension between supply and demand
 - Panel x module x set design and manufacturing
 - New business models

We are actively addressing this challenge

- Addressing North American FTV issue
 - Eliminating/limiting presence in no/low profit segments/customers
 - Streamlining organization
 - Leveraging Consumer Lifestyle synergies
- Reinforcing our Europe position
- Driving growth in BRICA
- Driving competitive differentiation
 - Introducing new concepts and consumer insight-driven innovation (e.g., Aurea)
 - Increased focus on design
- Increasing our overall competitiveness
 - Continued portfolio optimization
 - Improved architecture and platform effectiveness
 - Industrial and supply base rationalization
 - Triangular strategic partnerships
 - Localized set-up for emerging markets

Audio & Video Multimedia, Peripherals & Accessories and Home Networks with solid year-o-year improvements

Audio & Video Multimedia	Peripherals and Accessories	Home Networks
<p style="text-align: center;">Securing a platform for profitable growth</p> <ul style="list-style-type: none"> • Major turn-around of portable audio business (current #2 pos Europe-wide in MP3 with video) • Driving growth through category extensions (Ambisound home theatre) • Profitably revitalizing mainstream entertainment categories (home audio, DVD and portable DVD) • Success formula in emerging markets 	<p style="text-align: center;">Driving strong growth and profit in attractive market</p> <ul style="list-style-type: none"> • State-of-the-art category management capabilities and end-to-end business model • Consumer insight-driven innovation powering category captain positions • Growing portfolio of customers, products and categories • Value-added brand alliances and acquisitions 	<p style="text-align: center;">Exploring strategic options for continued success</p> <ul style="list-style-type: none"> • Continued growth driven by convergence, IP and HD content • Partnerships with leading providers/operators, based on strong B2B KAM • Strong improved geographical footprint • Competitive platforms

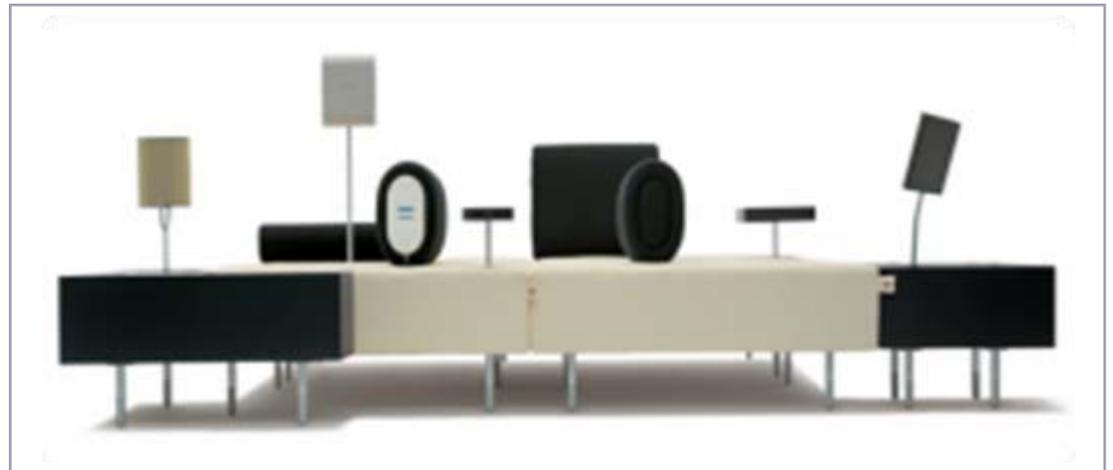
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Innovation through simplicity-led design

- Early 2007 the role of a Chief Design Officer (CDO) was created in order to ensure a more structural and consistent implementation of a differentiating Design strategy throughout the business creation process
- In the context of Sense & Simplicity, Design is a key differentiator in the crowded marketplace of CE and a unique way to create compelling and unique Lifestyle propositions
- Design is able to create solutions which reflect brand identity and consistency throughout the complete end-user experience



Innovation by reinventing existing value spaces

Example: Aurea revolutionizes television viewing

Consumer insight

Going to the cinema/stadium gives me a very special feeling. You are really into it and forget everything around you. I wish there was away to re-create that special cinema/stadium feeling at home

Simplicity Is ...

..a light that seduces the soul...

Immersive TV viewing



- Outstanding minimalist, high-class design
- Strong Aurea sales launch from 28th of September in Europe
- Aurea creating uplift for the total Ambilight range, leading to 1 million Ambilight TV sales in 2007
- Prominent placement in shops across Europe i.e Harrods

Innovation to extend and link existing value spaces

Example: Ambisound benefiting from cross marketing with Ambilight

Consumer insight

I want to have a real cinema experience when I watch movies and TV at home. I wish I could have a HTS that gives me great sound performance without giving up the look and feel of my living room.

Simplicity Is ...

... being surrounded by sound not speakers....

Cross marketing with Ambilight



- Strong emphasis on an innovative design, fitting any Flat TV
- Plug and play without wires
- Uses 50 % less energy than its nearest competitor

Innovation to capture the value in emerging and converging value spaces

Example : Personal Multimedia with GoGear

Consumer insight

I love that we now have easy access to all sorts of entertainment via the internet. Most of these things are on my PC. I wish there was a convenient way to enjoy my favorite shows, movies, photos, and music not only at home, but also away from home.

Simplicity Is ...

...Enjoying your personal favorite content, when and where you want it...

Personal Multimedia at your fingertips



- Driving the shift from MP3 to MP4 by:
 - Bringing user friendly video solutions at key price points
 - Differentiating innovations in design... opening new sales channels.
- Resulting in global volume share growth from 2% to 5% in 2007, with double digit market shares in key countries in Europe

Innovation to invent and create new value spaces

Example: Philips Swarovski Partnership

Consumer insight

'I would like to listen to music and look very fashionable at the same time.'
'MP3 players are quite fashionable these days, but headphones are often still very plain and boring.'

Simplicity Is ...

Create every day technology for women that is more fashionable and glamorous

Consumer Lifestyle through Active Crystals



- Designed by women for women
- Addressing the market of the luxury and fashionable electronic accessories for women
- Creates a new product and consumer segment to drive market share and margins

Innovation through Business Model optimization

Example: Category Management in Peripherals & Accessories

- End-to-End business model throughout the value chain enabling state-of-the-art Category Management of Peripherals & Accessories with leading global and international retailers
- Integrated marketing backbone, connecting “upstream” business creation and product delivery with “downstream” shelf management and sell-through at retail
- Cross-fertilization and synergies between DAP and CE categories
- Category captain position offering an effective and efficient platform to get fast returns on R&D investments and broaden the offer with new ranges i.e. Power4Life range



Innovation supported by focused acquisitions

Example : Peripherals & Accessories acquisitions on track

- **Gemini and Powersentry integration successfully completed**
- **Digital Lifestyle Outfitters (DLO) acquisition on track**
 - Integration in Philips in progress
 - DLO leading in the field of MP3 accessories
 - DLO had sales in 2006 of approximately USD 100 million
 - DLO achieves double-digit operating margins



Innovation by embracing the Philips EcoVision2012 and overall sustainability agenda

Integral part of business creation process:

- At least ten Green Flagships across the entire Philips Consumer Electronics product range every year
- Mandatory requirements for each business group

Alignment on costs and environmental benefits in:

- Packaging reduction
- Solving e-waste
- Reducing environmentally relevant substances
- Reducing energy consumption. Energy consumption represents 70-80% of the overall environmental impact of CE products



CES
Innovations
EcoDesign
awards for:
- 42PFL5603D
FlatTV
- VoIP Travel
Phone



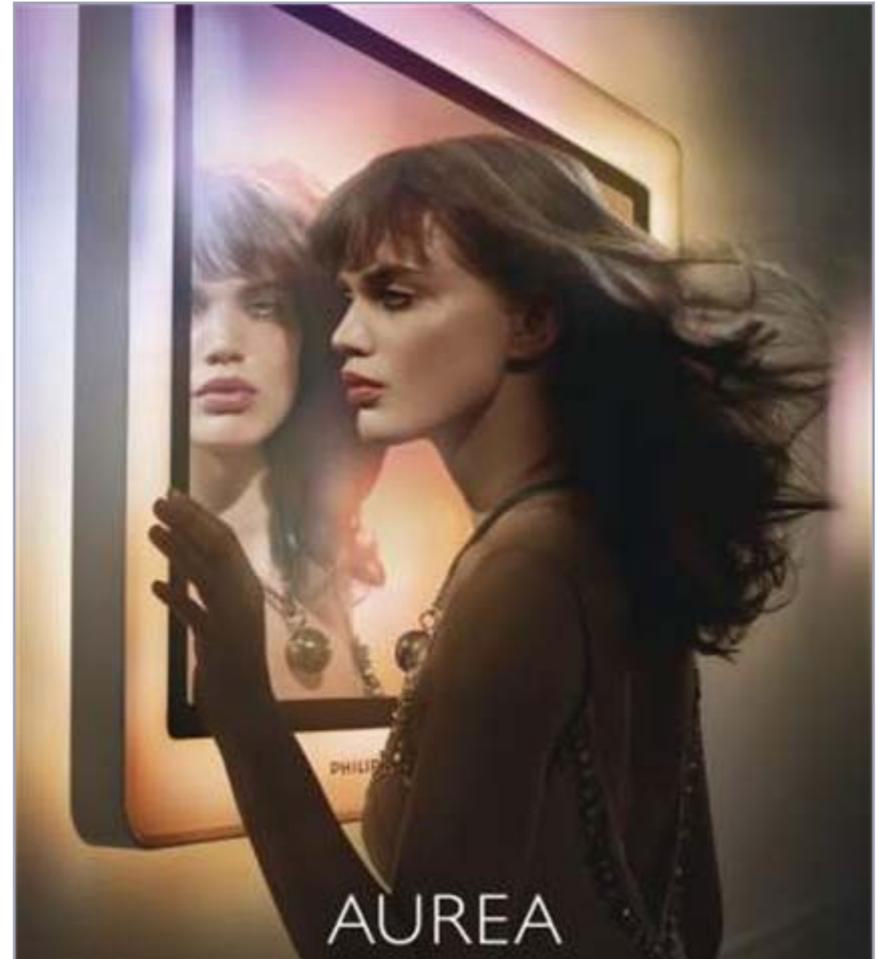
Our innovation track record continues to be recognized and supported by important awards

NA	Europe	APAC	LATAM
 	 	  	 
<p>19 Innovation Award Winners at CES 2008</p>	<p>2 EISA Awards: best Full HD LCD TV & Best Home Theater</p>	<p>2 Hong Kong Design Awards</p>	<p>One of the most admired brands regarding sustainability</p>

We continue to move up in the Business Week's ranking of most Innovative companies from a position of nr. 67 in 2006 to nr. 38 in 2007

We will continue to drive our innovation capabilities and investments

- CE innovation Board
- Healthcare, Lifestyle and Technology Incubators
- Care lab, Home lab, Experience lab
- Consumer experience centers in all innovation labs
- New governance model for Design
- Next Simplicity initiatives with Design, Research and Applied Technologies



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Our increased brand focus fuels growth

Results

- The Philips Brand continues to move up in the Interbrand Best Global Brands ranking
 - 2004: 65
 - 2005: 53
 - 2006: 48
 - 2007: 42

		Brand value in US\$		
		2007	2006	change
41	30 FORD	8,982	11,056	-19%
42	48 PHILIPS	7,741	6,730	15%
43	44 SIEMENS	7,737	7,828	-1%
44	51 NINTENDO	7,730	6,559	18%
60 BusinessWeek August 6, 2007				

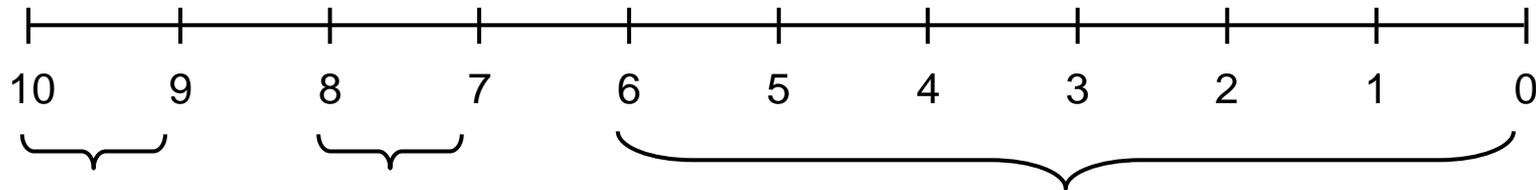
“Philips brand value shows an impressive growth rate. The 15% increase in value not only reflects that investments in the brand paid off, but it also reveals that the brand’s core messages resonate with customers. Philips not only talks about simplicity; it lives simplicity – through its focus on core activities and efficient operations Philips managed to simplify the organization and reduce costs, and through its focus on customers and their needs the brand signals that it makes a true effort to stay attractive for customers.”

Net Promoter Score provides insights into brand recommendation by consumers

Would you recommend X to your friends/colleagues?

Extremely likely

Extremely unlikely



Promoter

Passive

Detractor



Net Promoter[®] score = % Promoters - % Detractors

The Ambilight Flat TV Net Promotor Score is a driving force in terms of brand value creation

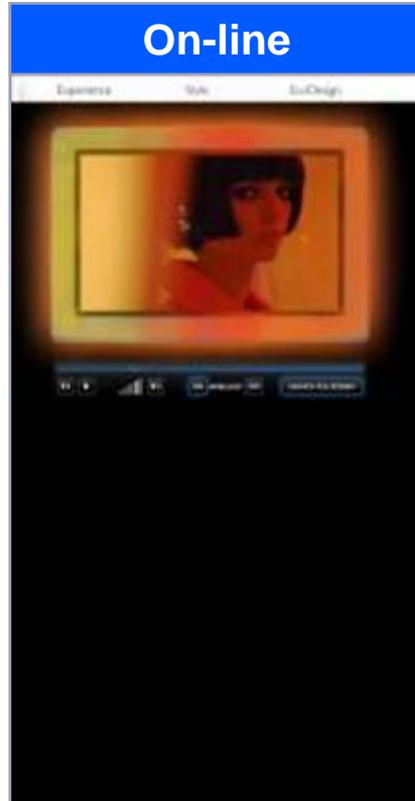
- Flat TV is a category with a very high aspirational value and drives relatively high NPS scores
- Ambilight shows best in class NPS scores across Philips as well as in comparison with industry benchmarks
- Ambilight achieves approximately a 10 % higher score compared to non-Ambilight Flat TV's
- Ambilight NPS shows a strong rising trend over the past 4 quarters and consistent top tier, above 60% NPS levels



Consistent execution of brand communication across all consumer touchpoints



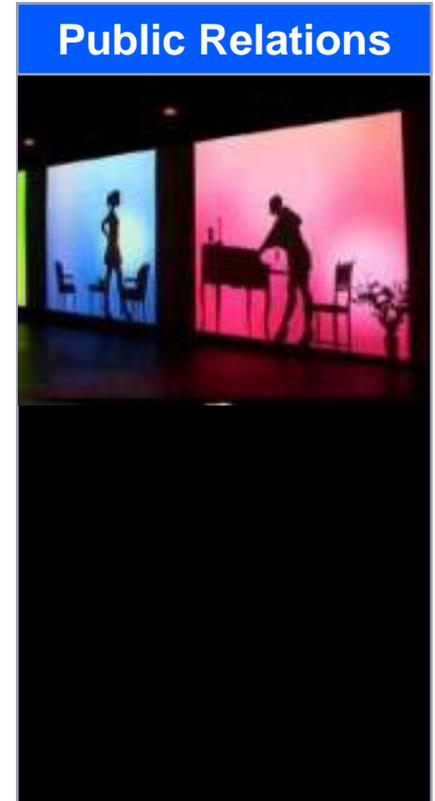
Aurea advertorials



Aurea website showing movie by Wong Kar Wai



Dedicated Aurea in- store displays



Staged introduction to media and consumers

Brand of choice and partner of preference with leading global and international retailers

International Retail Board as a key platform to manage and grow global and international retail key accounts profitably by aligning the development and implementation of strategies and decision making processes on a One Philips and Consumer Lifestyle basis and by establishing world class competencies and tools

Philips CE World Class in Key Account Management

Dixons Store Group International Best Supplier of the Year Award for Consumer Electronics and Overall Best Supplier of the Year Award



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Strong platform of employee engagement

- World class level of Employee Engagement
- Capabilities in place to orchestrate the Value Chain
- Break-through Business Creation
- Strong focus on Marketing capabilities
- State-of-the-Art Key Account Management
- Leading Design capabilities



High performance organization

Employee Engagement Index	People Leadership Index	Inclusive Leadership Index
<p>2007 CE top 640 Leaders</p> <p>Score: 73%</p> <p>9%  2007 Philips</p> <p>3%  HP norm</p>	<p>2007 CE top 640 Leaders</p> <p>Score: 76%</p> <p>12%  2007 Philips</p>	<p>2007 CE top 640 Leaders</p> <p>Score: 80%</p> <p>16%  2007 Philips</p>

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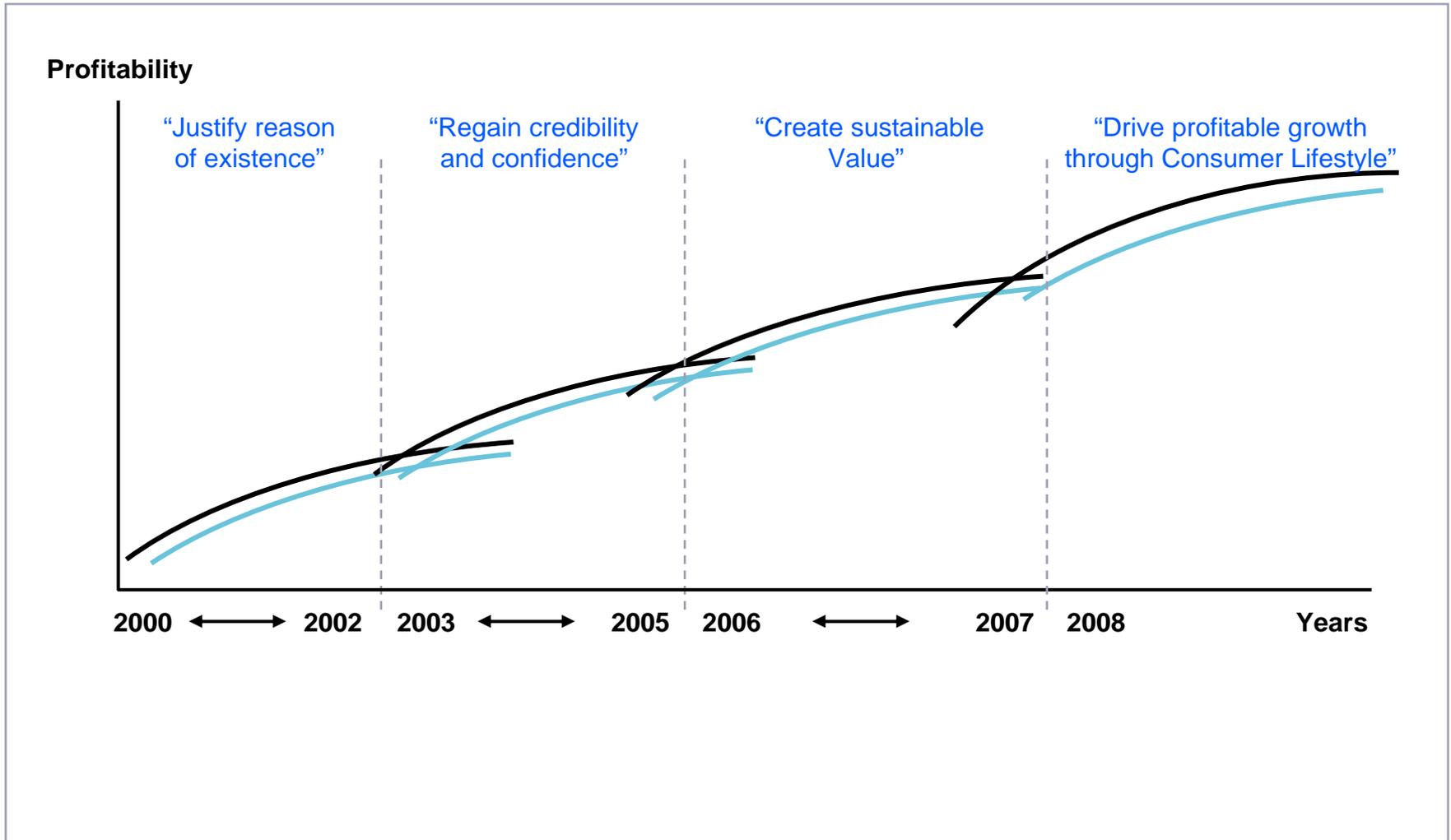
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Consumer Electronics in summary

- Consumer Electronics has shown consistent sustainable performance over 12 consecutive quarters
- Expected profitability for 2007 around 3 % EBITA
- Focus on Sustainable performance, Relevant innovation, Recommended brand and Transformational leadership has brought significant progress on many fronts

Consumer Lifestyle as the next stepping stone for Consumer Electronics to make Vision2010 a reality



PHILIPS

sense and simplicity