

PHILIPS

sense and simplicity

PHILIPS

Vision 2010

Next steps for becoming truly market driven

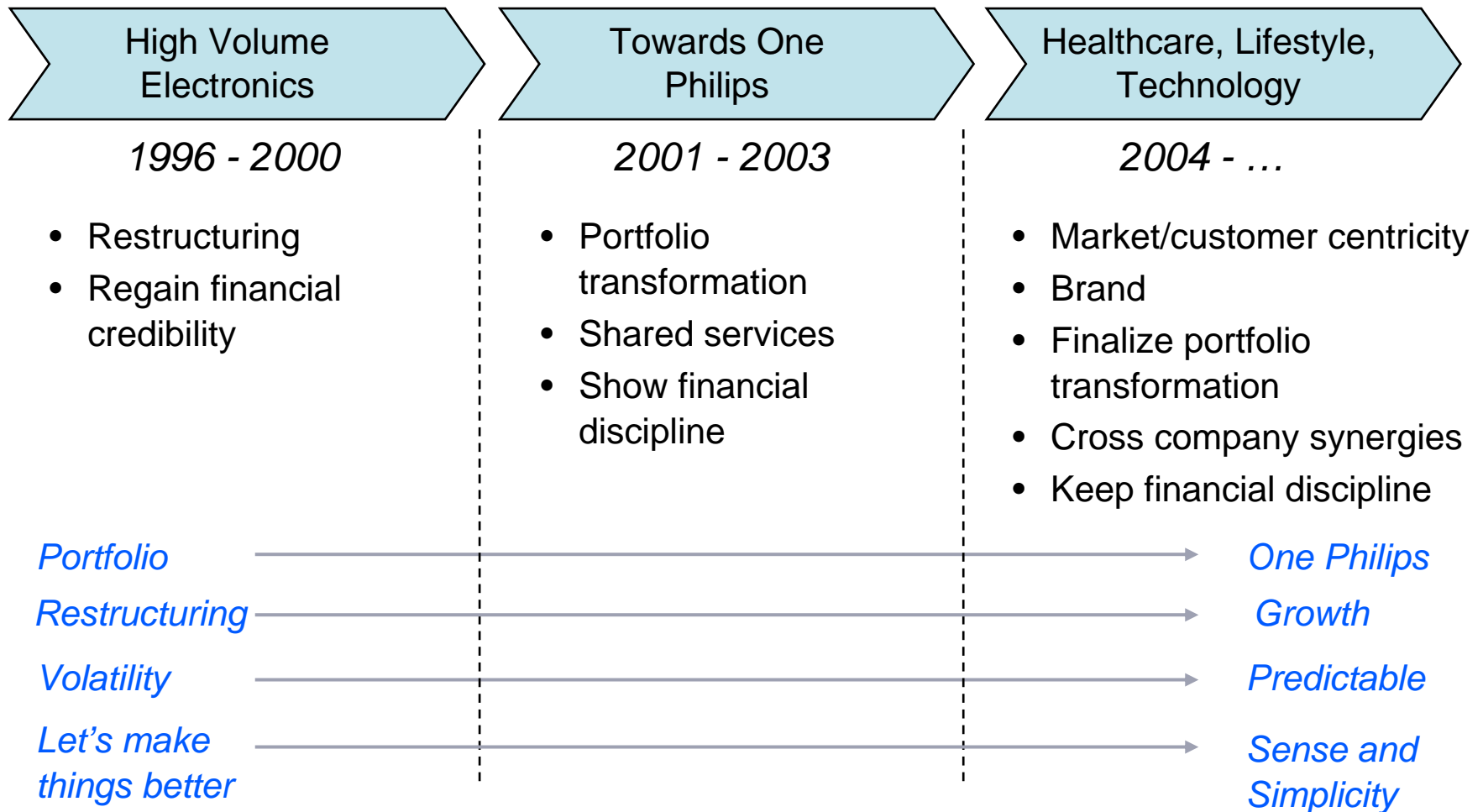
Group Strategy 2007-2010

Press Conference Presentation

September 2007

How we changed our company in the past 10 years

The journey of becoming truly market driven



The strategy setting our priorities in 2004-2007

1. *Increase profitability* through *re-allocation of resources* towards more stable, higher return opportunities
2. *Grow in selected categories and geographies* by leveraging the Philips brand and our core competencies in the areas of Healthcare, Lifestyle and Technology
3. Build *partnerships with key customers* and suppliers for Business-to-Business and Business-to-Consumer
4. Continue to invest in *world class innovation* and leverage strong IP position
5. Strengthen our *leadership competencies*
6. *Drive productivity* through Business Transformation and Operational Excellence

How we executed (I)

Overall assessment and highlights

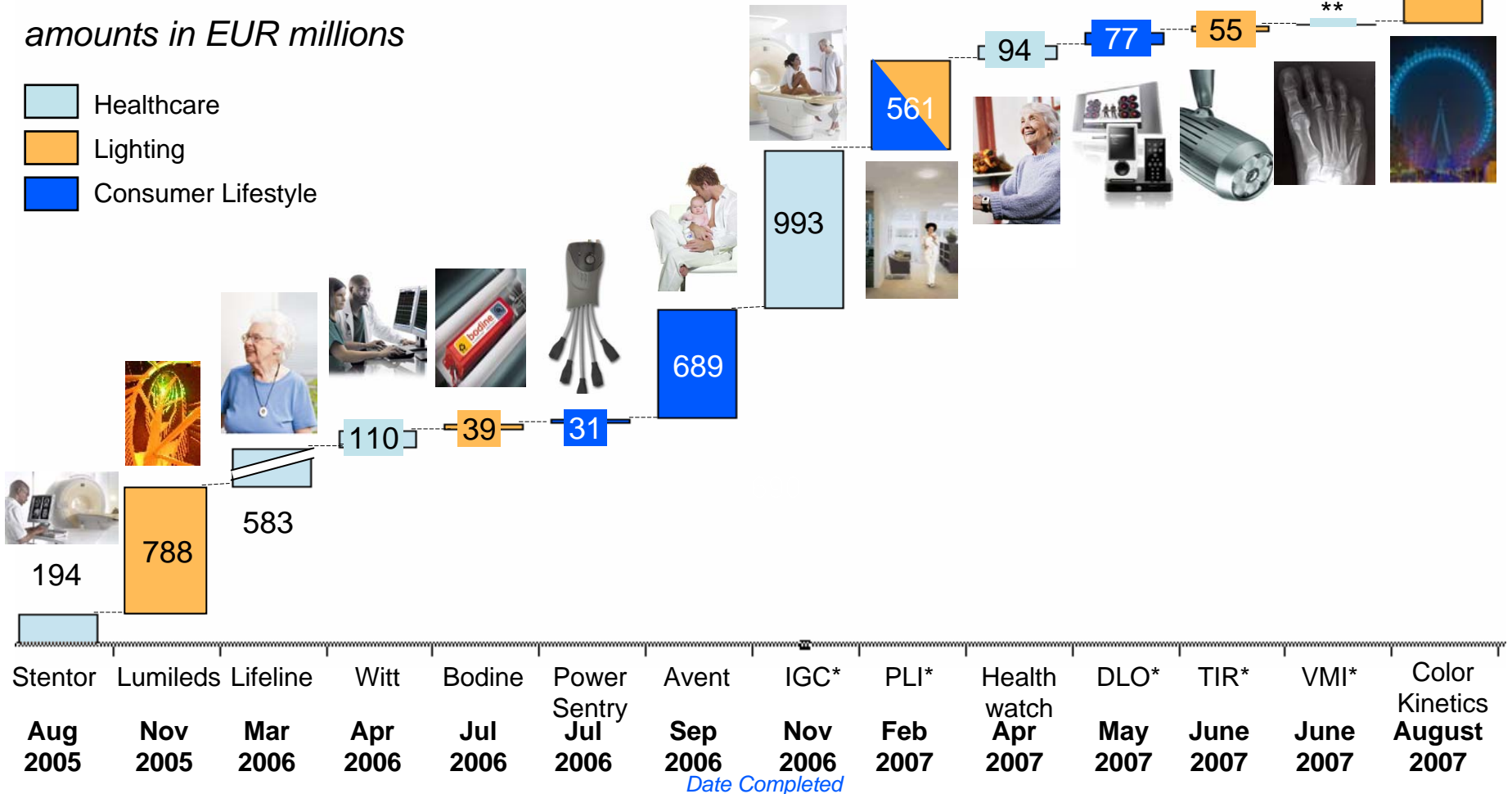
- We *exceeded our revenue and EBITA targets* in 2006 and are on track to deliver on plan for 2007.
- In 2006 we had a major achievement in *selling our Semiconductor division* making Philips more focused and less volatile.
- We have *invested ~EUR 4.7 B on acquisitions* over the past 24 months.
- We realized *strong growth in Emerging Markets* with the exception of CE in some countries where we have given priority to margin over growth.
- We have invested in *consistent brand campaign delivery* and moved Philips to rank 42 in 2007 from 65 in 2004 on the Interbrand list of global brands, and increased brand value from US\$ 4.4 B to US\$ 7.7 B.

We have invested ~EUR 4.7B on acquisitions over the past 2 years

Acquisitions

amounts in EUR millions

- Healthcare
- Lighting
- Consumer Lifestyle



* IGC: Intermagnetics, PLI: Partners in Lighting, DLO: Digital Lifestyle Outfitters, TIR: TIR Systems, VMI-sistemas medicos (Brazil)

** undisclosed

Our increased brand focus fuels growth

Brand

Initiatives

- Sustained competitive investment behind brand campaign
- Use A&P to ‘claim’ simplicity, also establish a dialogue with our stakeholders to allow them to experience the brand.
- Creating conditions to ‘live the brand’ by filters in all key processes (8 commitments)

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

Interbrand

“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.”

Our increased innovation focus fuels growth

Innovation

Initiatives

- We deliver innovation by investing in world class strengths in end-user insights, technology, design and superior supplier networks.
- We increased our investments in Incubation, Molecular Healthcare and Emerging Market new business development.

Results

- Our New Product Sales index increased from 39% (2004) to 53% (2006).
- We continue to move up in Business Week's ranking of most innovative companies:
 - 2006: 67
 - 2007: 38



THE MOST INNOVATIVE COMPANIES

38. Royal Philips Electronics
2006 rank: 67

The former consumer electronics giant is reinventing itself as a design-led health, lifestyle, and technology player.

“The former consumer electronics giant is reinventing itself as a design-led health, lifestyle, and technology player. Think in-home health-monitoring devices for heart patients, computer games with sensory effects, and energy-efficient color-changing lighting. Philips taps teams of futurists, cultural anthropologists, designers, and scientists to develop user-centered products and services.”

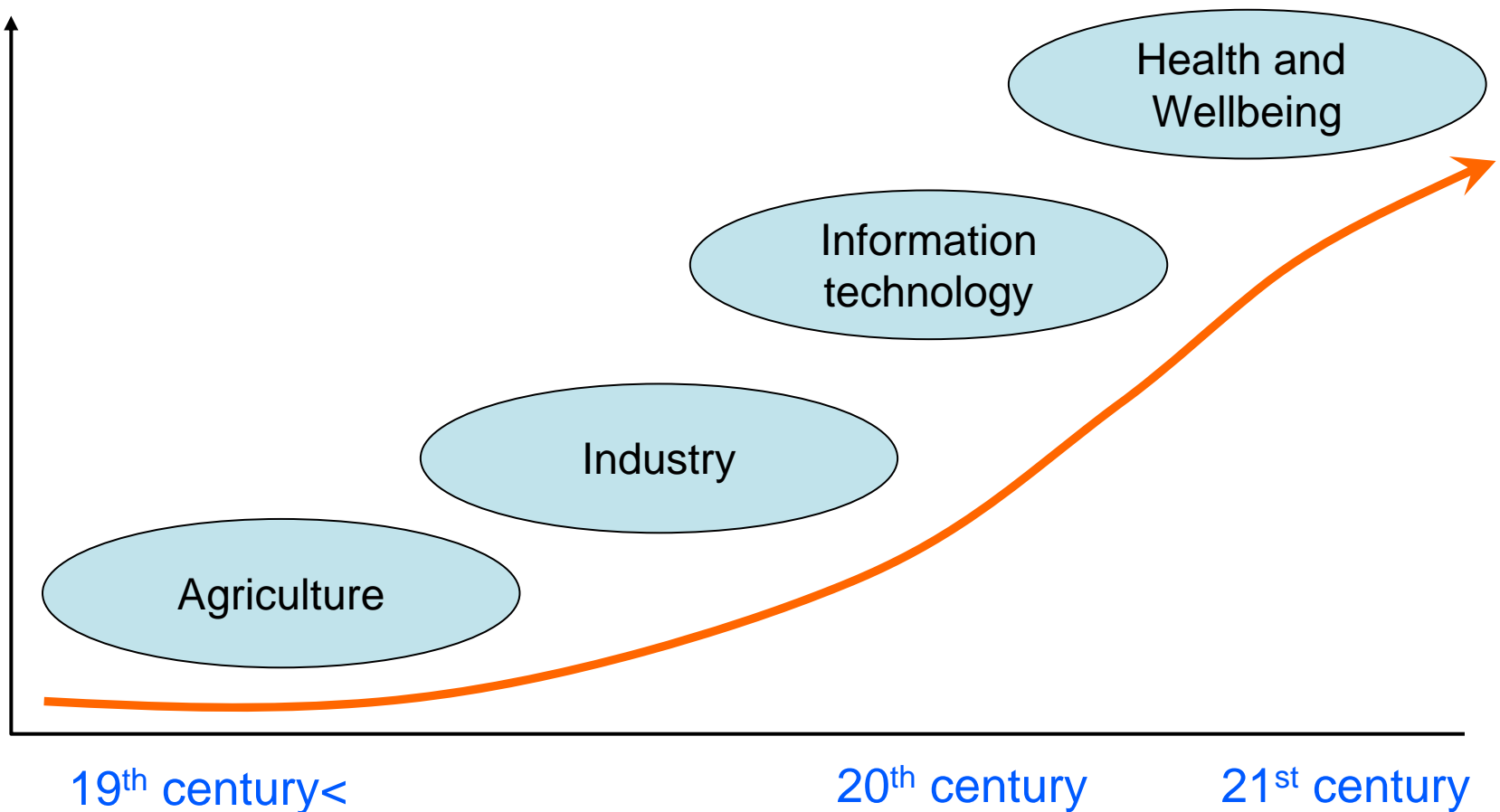
How we executed (II)

Overall assessment and highlights

- We *expanded our key account management program* (International Retail Board (IRB), Global, National and Business Key Account Management). Nearly all PDs did grow their sales with Global Key Accounts and International Key Accounts at double digit rates and we achieved 25% growth with top 6 accounts, representing sales of EUR 2.5 B.
- In 2006, we started an ambitious program to reduce organizational complexity to *better align internal processes towards retail customers* and to reduce costs through the subsequent merger of our consumer retail organizations.
- By the end of 2007, we *will have completed our EUR 500 M cost reduction program* by simplifying our organization, consistent cost optimization and timely transformation programs.

We are well positioned to grasp opportunities from global trends (I)

Global
GDP



We are well positioned to grasp opportunities from global trends (II)

Global trends

- Globalization, urbanization and rise of emerging markets
- Aging population
- Climate Change
- Consumer empowerment
- Digitalization and connectivity
- Sustainable development



Philips opportunities

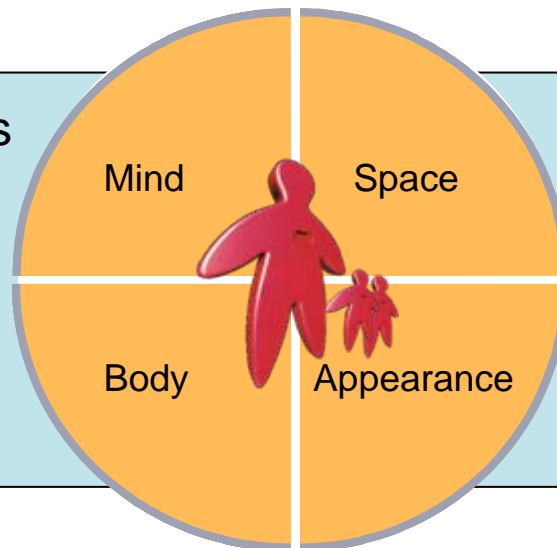
- Energy efficiency*
- Personalized experiences and atmospheres*
- Personal wellbeing*
- Home care, independent living*
- Better healthcare for all at lower cost*

Vision 2010

We are taking the next evolutionary step in our journey towards becoming a market-driven global leader in Healthcare, Lifestyle and Technology

Brand

Formation of market sectors to realign our organization and go to market approach with the healthcare and lifestyle technology company strategy.



Integration of our businesses within these sectors will leverage our best capabilities to deliver on customer focus, growth and profitability targets.

Innovation

Our mission

*“Improve the quality of people’s lives
through the timely introduction of
meaningful innovations”*



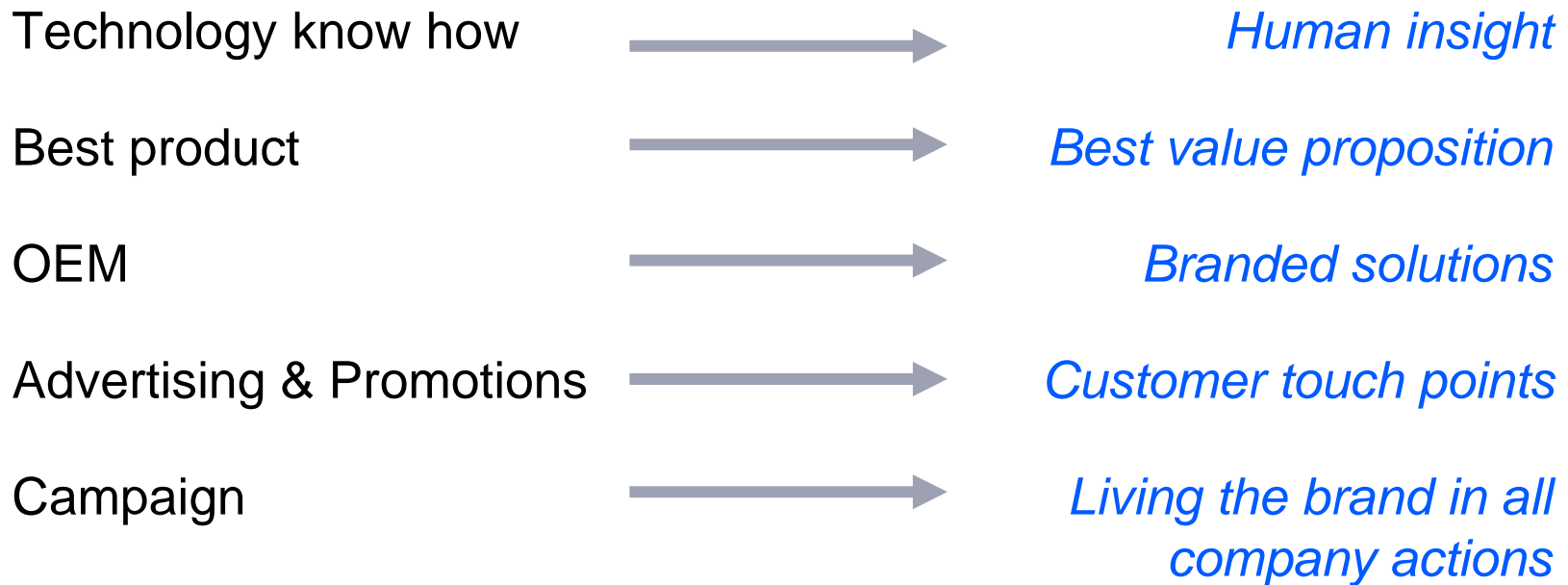
Our vision

“In a world where complexity increasingly touches every aspect of our daily lives, we will lead in bringing sense and simplicity to people”



Turning the brand promise into reality

sense **and** simplicity



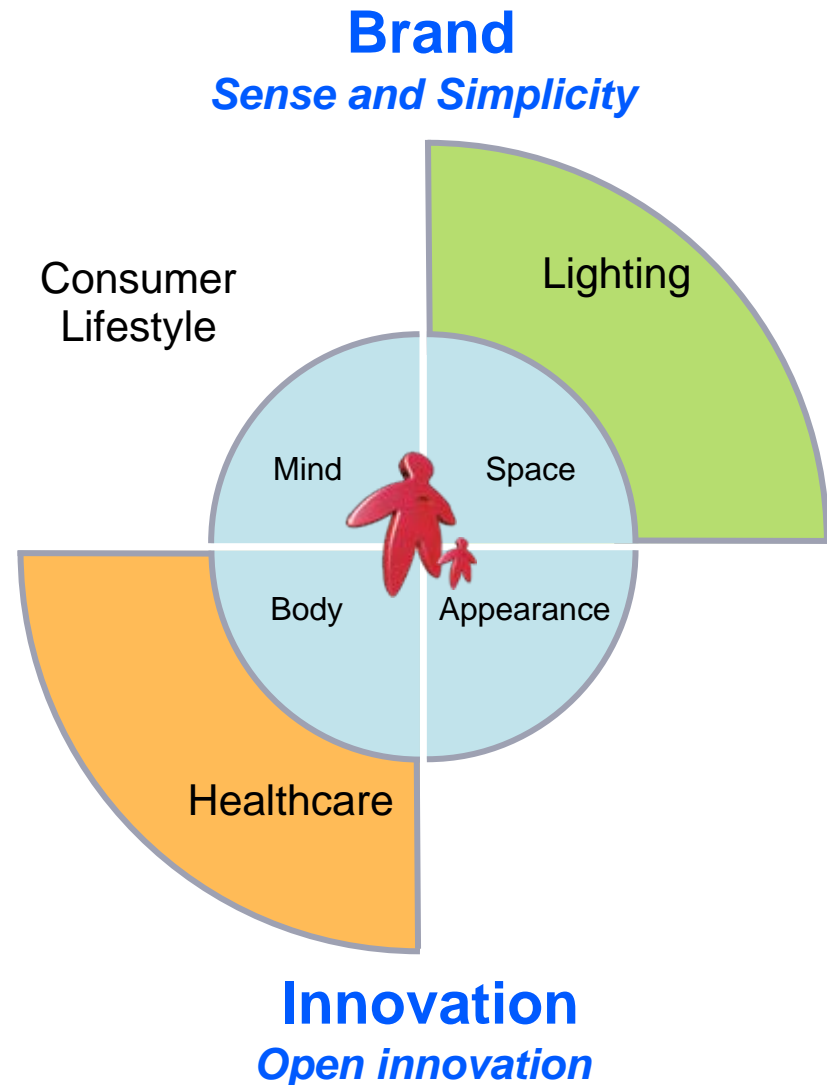
Winning in our chosen market sectors

Our businesses are centered around *people* and the *quality of their lives*

We address the needs of *consumers* in the four domains of lifestyle; *space, appearance, body and mind...*

..and the needs of *professionals* that improve the quality of life in the domains of body (*healthcare*) and space (*lighting*)

Our competitive differentiation is in our *brand* and in our *innovation* capabilities



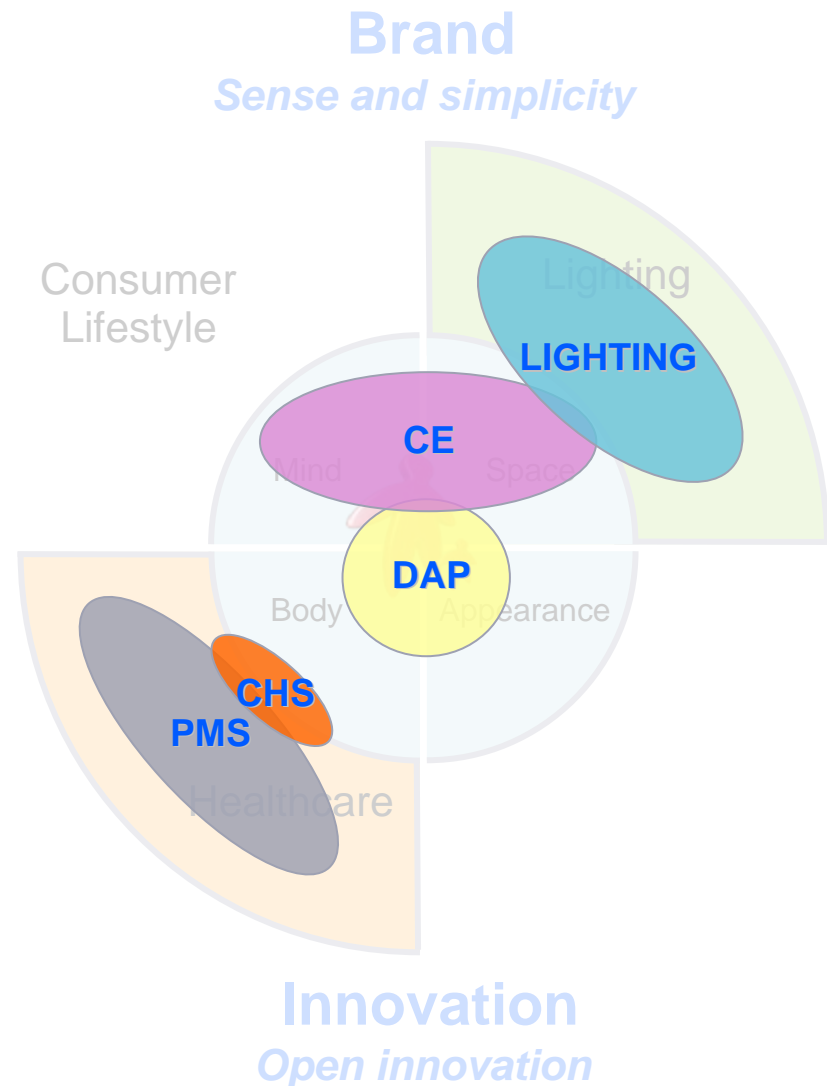
From product divisions to market sectors

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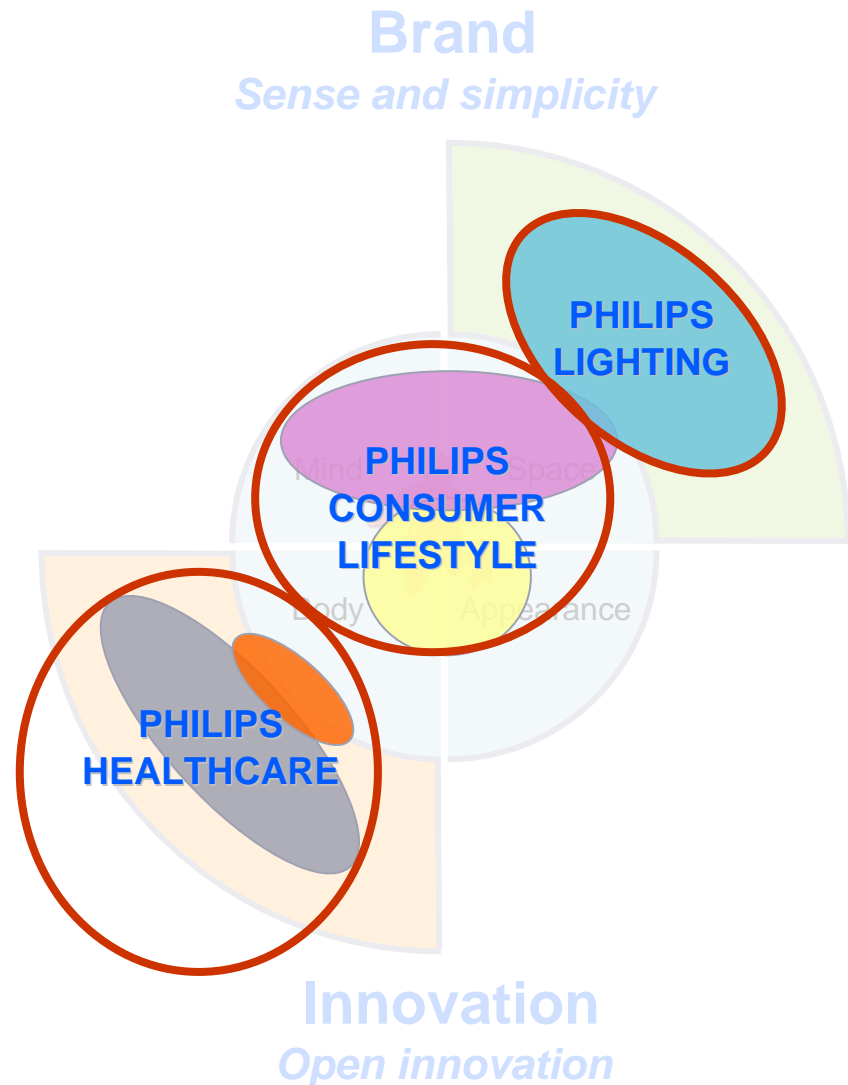
Simplifying the Philips organization

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Our New Market Sectors

Philips Healthcare



- Imaging Systems
 - Intermagnetics
 - Witt
 - VMI
- Customer Services
- Healthcare Informatics
 - Stentor
- Ultrasound & Monitoring Solutions
- Home Healthcare Solutions
 - Lifeline, HealthWatch

Philips Lighting



- Lamps
- Professional Luminaires & Systems
 - Color Kinetics
- Home Luminaires & Systems
 - PLI
- Lighting Electronics
 - Bodine
- Automotive
- Solid State Modules
 - TIR Systems
- Lumileds
- Special Lighting Applications

Philips Consumer Lifestyle



- Domestic Appliances
- Health and Wellness
 - Avent
- Shaving and Beauty
- Connected Displays
- Peripherals and Accessories
 - Power Sentry, DLO
- Home Networks
- Video and Multimedia
- Audio and Multimedia
- Professional and Business Solutions

Our Market Sector Leaders in the Board

From Jan 1, 2008

Philips Healthcare



Steve Rusckowski

Philips Lighting



Theo van Deursen

Philips Consumer Lifestyle



Andrea Ragnetti

Our Market Sector Leaders in the Board

From April 1, 2008

Philips Healthcare



Steve Rusckowski

Philips Lighting



Rudy Provoost

Philips Consumer Lifestyle



Andrea Ragnetti

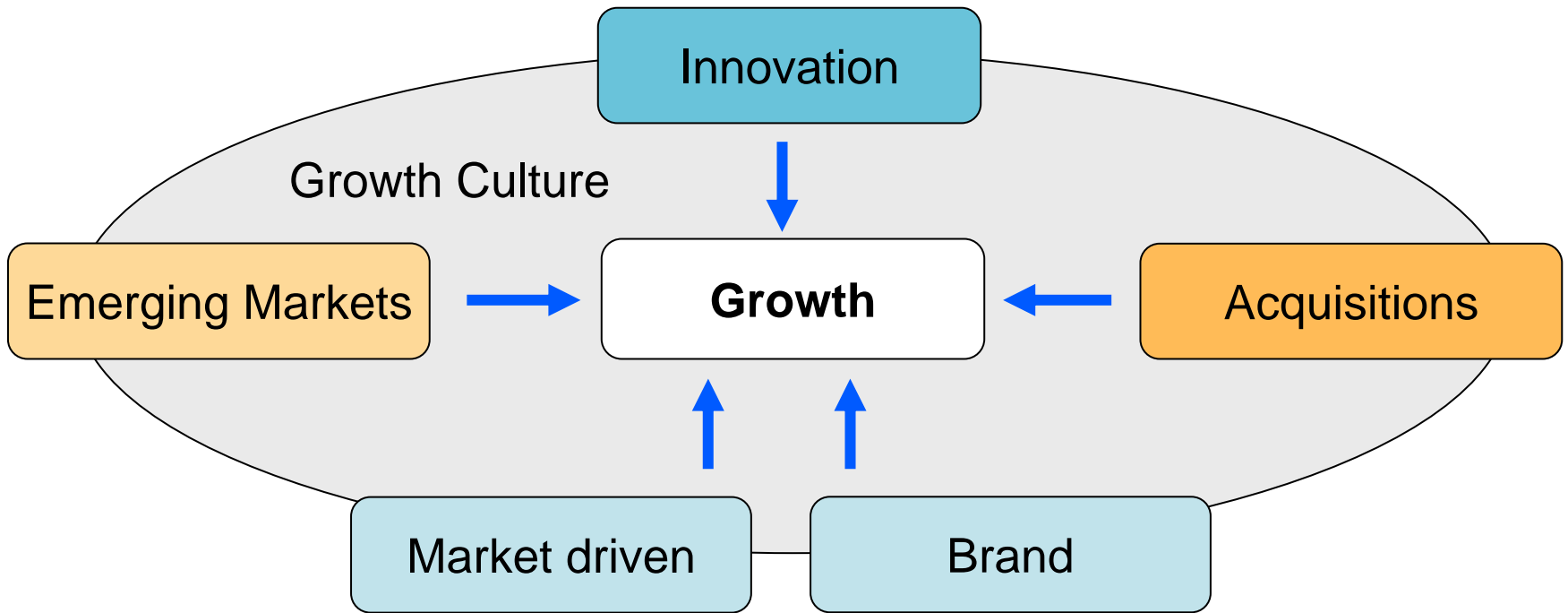
Our 2010 ambition

- We have the ambition to significantly increase shareholder value by:
 - *Improving EBITA margin of our current businesses* to exceed 10% from our 2007 target of >7.5% through:
 - Improved *margin management*
 - Increased contribution from recent *acquisitions*
 - Improvement of our *product mix*
 - Cost benefits of EUR 150-200M through effects of *organizational simplification*
 - *Driving comparable growth* at a minimum of 6% average per year for the period 2008-2010
- This will result in an efficient balance sheet by the end of 2009 through a combination of value-creating acquisitions and continued return of capital to shareholders
- Thanks to these measures we expect to *more than double our EBITA per common share by 2010* compared to 2007

We will reach our objectives by executing on the following strategic actions

1. We are a *people-centric* company that organizes around *customers and markets*
2. We invest in a *strong brand* and consistently deliver on our *brand promise* of “*sense and simplicity*” in our actions, products and services
3. We deliver *innovation* by investing in world class strengths in *end-user insights, technology, design* and superior *supplier networks*
4. We develop our *people’s leadership, talent* and *engagement* and align ourselves with high performance benchmarks
5. We invest in *high growth and profitable businesses* and *emerging geographies* to achieve *market leadership* positions
6. We are committed to *sustainability* and focus on making the difference in *efficient energy use*
7. We drive *operational excellence* and *quality* to best in class levels, allowing us the above mentioned strategic investments in our businesses

Pulling all levers of growth



Vision 2010 outlines the next phase in our journey to become truly market driven

- We will continue to position Philips as a truly market-driven company and to build a company structure and way of working that optimally reflects the needs of our customers
- We will simplify our organizational structure into 3 market sectors: Philips Healthcare, Philips Lighting and Philips Consumer Lifestyle (i.e. product divisions as entities disappear)
- Combined Healthcare Sector will be unique in offering innovative solutions across the entire care cycle from hospital to home
- We will further extend our world leadership in Lighting solutions and technologies, both in existing and new markets
- Consumer Lifestyle combines the best of CE and DAP into a consumer solutions powerhouse with a single consumer lifestyle strategy

PHILIPS

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