

# Report on the performance of the Philips Group

- all amounts in millions of euros unless otherwise stated
- the data included in this report are unaudited
- financial reporting according to US GAAP



## *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.

## **Philips reports full-year net income of EUR 2,836 million. Fourth-quarter net income of EUR 498 million.**

### **The fourth quarter of 2004**

Philips recorded net income of EUR 498 million (EUR 0.39 per share), compared with net income of EUR 598 million (EUR 0.46 per share) in the same period of 2003.

Sales amounted to EUR 9,179 million, an increase of 2% over the same period of 2003.

The weaker US dollar and dollar-related currencies had a downward effect of 4%.

Comparable sales increased by 6%.

Income from operations was a profit of EUR 14 million, including a non-cash impairment charge of EUR 576 million related to MedQuist and a charge of EUR 133 million (net of recoveries from insurance) related to the settlement of litigation with Volumetrics Inc. In Q4 2003, income from operations was a profit of EUR 608 million, which included a non-cash goodwill-impairment charge of EUR 139 million.

Financial income and expenses resulted in income of EUR 417 million, which included gains totaling EUR 440 million on the sale of the remaining stakes in ASML and Vivendi Universal, and EUR 46 million interest income related to a final agreement on prior-years tax settlements. In Q4 2003, financial income and expenses resulted in an expense of EUR 58 million.

Unconsolidated companies contributed EUR 198 million to net income, including a gain of EUR 151 million related to the sale of shares in Atos Origin. In Q4 2003, results from unconsolidated companies amounted to EUR 183 million, which included a gain of EUR 695 million on the sale of TSMC shares and restructuring and impairment charges of EUR 804 million for LG.Philips Displays.

Cash flow from operating activities was EUR 1,939 million. In Q4 2003, cash flow from operating activities totaled EUR 1,673 million. Inventories as a percentage of sales was a new record-low of 10.7%.

For the full year, Medical Systems surpassed its 14% target by achieving an EBITA of 14.4% (adjusted for the Volumetrics settlement). 14.4% is comparable to income from operations of 12.8% of sales excluding impairment charges for MedQuist.

**Gerard Kleisterlee,**  
Philips' President and CEO:

“2004 was a year of major progress for Philips. Driven by our focus on operational performance and cost management, our financial results showed considerable improvement, delivering a return well in excess of our cost of capital. With the consistent execution of our management agenda for 2004, we also took an important step forward in implementing our strategy to transform Philips into a truly market-driven healthcare, lifestyle and technology company. And with the introduction of our new brand promise ‘Sense and simplicity’ we are creating a unique, differentiated positioning that will further enhance our value proposition to our customers.”

## Highlights in the quarter

### Net income

- Net income totaled EUR 498 million (EUR 0.39 per share), compared with EUR 598 million (EUR 0.46 per share) in the same period of 2003.

### Group sales

Q4 2004 comprised 14 weeks, compared to 13 weeks in Q4 2003.

- Nominal sales for the Group were 2% higher than in Q4 2003. Adjusted for the 4% downward effect of the weaker US dollar and dollar-related currencies, comparable sales rose 6%.
- Comparable sales at Medical Systems increased by 4%, driven by Computed Tomography, X-Ray, Cardiac & Monitoring Systems and Customer Services. The 2% comparable growth at Domestic Appliances and Personal Care (DAP) was mainly attributable to Food & Beverage and Shaving & Beauty. Sales at Consumer Electronics were 11% above the level of Q4 2003, supported by all businesses (especially Licenses) and regions. At Lighting, sales increased by 6% compared to Q4 2003, driven by innovative products; improvements were visible in all businesses. Due to lower sales at Mobile Display Systems (MDS), Semiconductors showed a 7% comparable decline.

### Sales per region

- In Europe/Africa, all sectors posted growth, especially Medical Systems with a 6% increase. Eastern Europe showed comparable growth of 13%, with Lighting and Consumer Electronics leading with 20% and 18% comparable growth respectively in this region.
- In North America, the gap between nominal and comparable sales growth was due to the weaker US dollar. Lighting and Medical Systems were the main drivers of the comparable growth.
- In Latin America, all sectors contributed to the 28% comparable sales growth, especially Consumer Electronics with an outstanding 53% comparable increase.
- In Asia Pacific, weaker currencies had a 7% negative effect on sales, while consolidation had a 2% positive effect. The main contributor to the 6% comparable increase was Consumer Electronics with 44% growth, whereas Semiconductors showed a 10% comparable decline due to lower sales at MDS.

### Net income

in millions of euros unless otherwise stated

	Q4 2003	Q4 2004
Sales	9,017	9,179
Income from operations	608	14
as a % of sales	6.7	0.2
Financial income and expenses	(58 )	417
Income taxes	(98 )	(128 )
Results unconsolidated companies	183	198
Minority interests	(39 )	(3 )
Cumulative effect of change in accounting principle	2	0
<b>Net income</b>	<b>598</b>	<b>498</b>
Per common share – basic	0.46	0.39

### Sales by sector

in millions of euros unless otherwise stated

	Q4 2003	Q4 2004	nominal	% change comparable
Medical Systems	1,802	1,790	(1 )	4
DAP	751	745	(1 )	2
CE	3,057	3,340	9	11
Lighting	1,243	1,265	2	6
Semiconductors	1,496	1,354	(9 )	(7 )
Other Activities	668	685	3	19
<b>Philips Group</b>	<b>9,017</b>	<b>9,179</b>	<b>2</b>	<b>6</b>

### Sales per region

in millions of euros unless otherwise stated

	Q4 2003	Q4 2004	nominal	% change comparable
Europe/Africa	4,163	4,348	4	5
North America	2,251	2,136	(5 )	2
Latin America	399	478	20	28
Asia Pacific	2,204	2,217	1	6
<b>Philips Group</b>	<b>9,017</b>	<b>9,179</b>	<b>2</b>	<b>6</b>

## Income (loss) from operations by sector

in millions of euros unless otherwise stated		
	Q4 2003	Q4 2004
Medical Systems	70	(354)
DAP	160	151
CE	249	264
Lighting	161	149
Semiconductors	166	46
Other Activities	(39)	(89)
Unallocated	(159)	(153)
<b>Income from operations</b>	<b>608</b>	<b>14</b>
<b>as a % of sales</b>	<b>6.7</b>	<b>0.2</b>

## Financial income and expenses

in millions of euros		
	Q4 2003	Q4 2004
Interest expenses (net)	(61)	(62)
Income (loss) from non-current financial assets	(1)	2
Gain on sale of shares ASML/Vivendi		440
Other	4	37
<b>Total</b>	<b>(58)</b>	<b>417</b>

## Results unconsolidated companies

in millions of euros		
	Q4 2003	Q4 2004
LG.Philips LCD	199	14
LG.Philips Displays	(762)*	(89)
Others	746**	273
<b>Total</b>	<b>183</b>	<b>198</b>

\* Includes EUR 804 million relating to restructuring and impairment (both goodwill and assets)

\*\* Includes EUR 695 million gain on sale of TSMC shares

## Income from operations by sector

- Income from operations was a profit of EUR 14 million, including an impairment charge of EUR 576 million related to MedQuist (EUR 139 million in Q4 2003) and a charge of EUR 133 million (net of recoveries from insurance) for the litigation settlement with Volumetrics Inc. Ongoing operations at Medical Systems turned in a record performance, driven by increased sales of innovative new higher-margin products, higher volumes and an improved product mix (higher Customer Service component).
- DAP's income from operations amounted to 20.3% of sales, slightly down on Q4 2003's 21.3%. Margins were strong across all businesses.
- Strong income for Licenses helped the performance at CE. Past-use license income of EUR 141 million compensated for the restructuring charges of EUR 79 million and a decline in product margins.
- Lighting continued its solid performance, but saw its income from operations impacted by restructuring and asset impairment charges of EUR 43 million.
- Results at Semiconductors were impacted by a decline in sales and lower utilization rates. Income from operations in Q4 2003 included a gain on the sale of a facility.
- Income from operations of Other Activities included a restructuring charge of EUR 34 million for LCoS.
- Pension costs were EUR 36 million lower than in Q4 2003.

## Financial income and expenses

- Financial income and expenses resulted in income of EUR 417 million, which included gains totaling EUR 440 million on the sale of the remaining stakes in ASML and Vivendi Universal, and EUR 46 million financial income related to a final agreement on prior-years tax settlements.

## Results relating to unconsolidated companies

- LG.Philips LCD's contribution to net income was EUR 14 million, EUR 185 million lower than in Q4 2003.
- Results from LG.Philips Displays included EUR 109 million for restructuring and impairment charges.
- Following the sale of a 16.5% stake in Atos Origin, a gain of EUR 151 million was recognized. Philips' shareholding has been reduced to 15.4%.

## Cash balance

in millions of euros

	Q4 2003	Q4 2004
Beginning balance	883	1,610
Net cash from operating activities	1,673	1,939
Gross capital expenditures	(319)	(401)
Acquisitions/divestments	827	524
Other cash from investing activities	114	936
Dividend paid	-	-
Changes in debt/other	(106)	(259)
Ending balance	3,072	4,349

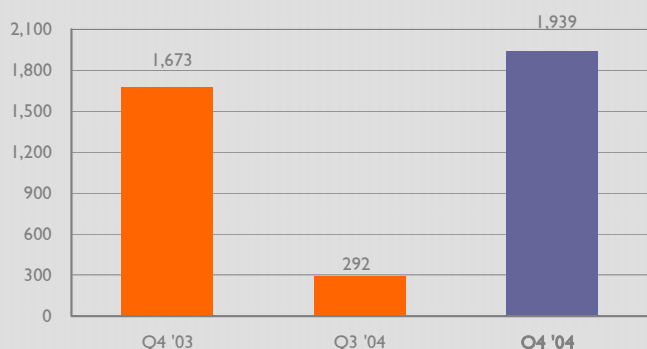
## Cash balance

- Cash flow from divestments included proceeds of EUR 552 million from the sale of shares in Atos Origin. In Q4 2003, the sale of TSMC shares resulted in proceeds of EUR 908 million.
- The sale of the remaining stakes in ASML and Vivendi Universal resulted in a cash inflow of EUR 883 million.
- During Q4 2004, repayments of EUR 112 million were made on maturing bonds.

## Cash flows from operating activities

### Cash flows from operating activities

in millions of euros

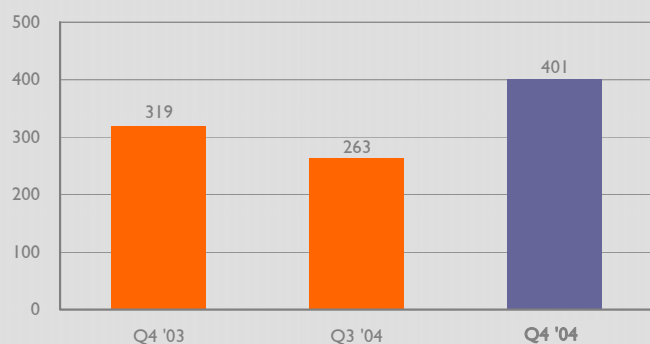


- The EUR 266 million improvement in cash flow from operating activities compared to Q4 2003 was due to reduction in working capital.
- The improved cash inflow compared with Q4 2003 was mainly attributable to Semiconductors and Consumer Electronics.

## Gross capital expenditures

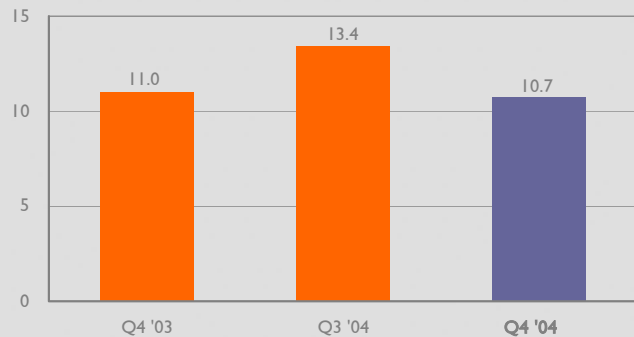
### Gross capital expenditures

in millions of euros



- Gross capital expenditures increased compared with Q4 2003, mainly due to increases at Semiconductors and Lighting, partly offset by declines at other product divisions.
- Gross capital expenditures totaled EUR 143 million at Semiconductors and EUR 97 million at Lighting.
- Compared to Q3, gross capital expenditures increased, especially in Lighting, where the increase was primarily driven by investments for innovative higher-margin products.

## Inventories as a % of sales

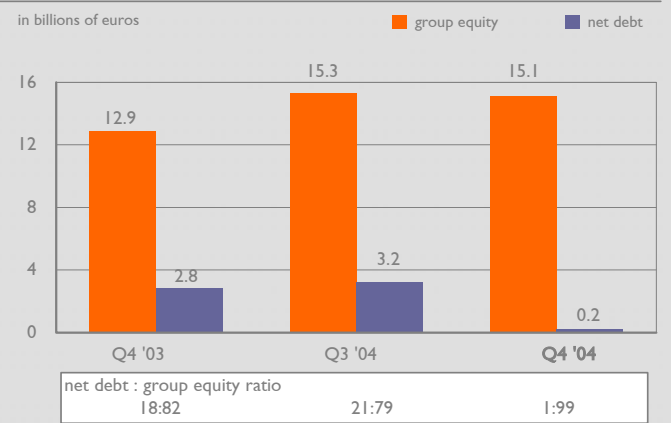


## Inventories

- Inventories as a percentage of sales amounted to a new record-low of 10.7%.
- Compared to Q4 2003, inventories as a percentage of sales decreased at DAP, Consumer Electronics, Semiconductors and Other Activities; inventories as a percentage of sales increased at Medical Systems and Lighting to support the expected growth in future sales.

## Net debt and group equity

### Net debt and group equity

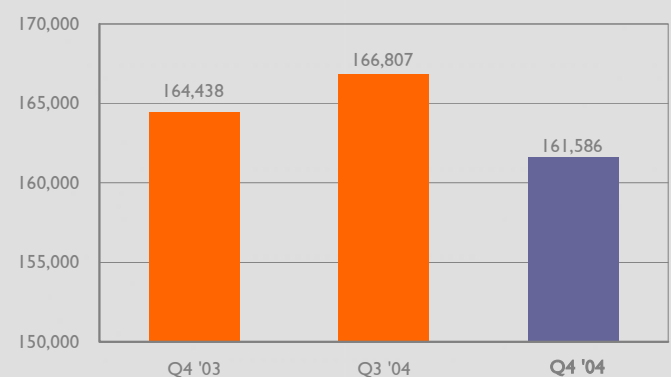


- As a result of the positive cash flow from operating activities and the proceeds from the sale of shares in a number of companies, net debt decreased by EUR 3,050 million during the quarter.

## Employment

- During Q4, the number of employees decreased by 5,221, spread over both temporary and permanent employees. The headcount decrease was visible in all product divisions.
- Compared to Q4 2003, the number of employees decreased by 2,852. Both Consumer Electronics and Other Activities posted declines due to deconsolidations, whereas Medical Systems, DAP, Lighting and Semiconductors showed an increase in the number of employees (including the consolidation of SSMC, which added 1,047 employees).

## Number of employees (FTEs)



## Medical Systems: key data

in millions of euros unless otherwise stated

	Q4 2003	Q4 2004
Sales	1,802	1,790
Sales growth		
% nominal	(4)	(1)
% comparable	9	4
Income (loss) from operations	70	(354)
as a % of sales	3.9	(19.8)
Net operating capital (NOC)	3,671	2,862
Number of employees (FTEs)	30,611	30,790

## Business highlights

- Committed to providing customers with service and support excellence, Philips ranked No. 1 for overall service satisfaction for the second year in a row in the 2004 IMV ServiceTrak survey for Imaging-All Systems.
- The world's first 'ambient experience' radiology suite was built at Advocate Lutheran General Children's Hospital in Chicago. The suite incorporates Philips Lighting and Consumer Electronics products to create a more comfortable, patient-friendly environment and experience for children undergoing medical exams, and helps hospitals work more efficiently.
- The US Food and Drug Administration's (FDA) over-the-counter clearance for Philips' HeartStart Home Defibrillator – named one of Fortune Magazine's "25 Best Products of 2004" – contributed to a nearly 600% increase in the number of units sold quarter over quarter.
- Philips began a pilot study of a TV-based solution to help patients with chronic heart disease manage their health in the comfort of their home, while staying connected to their healthcare community.

## Financial performance

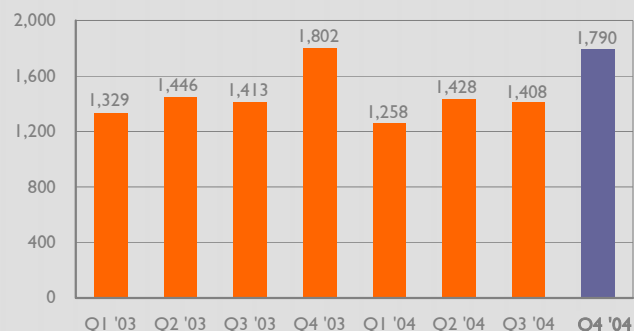
- Nominal sales decreased by 1%, whereas comparable sales grew by 4% compared to Q4 2003, mostly driven by Computed Tomography, X-Ray, Cardiac & Monitoring Systems and Customer Service. Europe and North America contributed predominantly to the 4% comparable sales growth.
- Income from operations ended at a loss of EUR 354 million and included an impairment charge for MedQuist of EUR 576 million (EUR 139 million in Q4 2003) and a charge (net of recoveries from insurance) of EUR 133 million for the settlement of litigation with Volumetrics Inc.
- Underlying income performance was a record for Q4 and was attributable to higher sales, due to new innovative products with higher margins, increased volumes and an improved product mix (higher Customer Service component).
- Order intake remained strong, outperforming Q4 2003 by approximately 19%, excluding currency movements.

## Looking ahead

- With a significantly stronger order book, Medical Systems will maintain its focus on innovation and operational excellence, and is expected to continue improving its market shares.

## Medical Systems sales

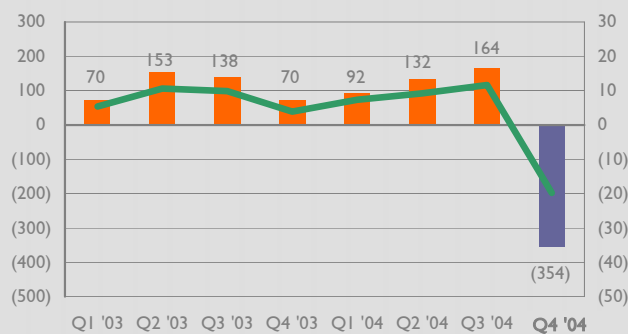
in millions of euros



## Medical Systems income from operations (IFO)

IFO in millions of euros

IFO as a % of sales



# Domestic Appliances and Personal Care

## DAP: key data

in millions of euros unless otherwise stated

	Q4 2003	Q4 2004
Sales	751	745
Sales growth		
% nominal	(3)	(1)
% comparable	4	2
Income from operations	160	151
as a % of sales	21.3	20.3
Net operating capital (NOC)	464	393
Number of employees (FTEs)	8,180	8,205

## Business highlights

- Philips launched an aluminum line of the Senseo® coffee machine. Since first launching the Senseo®, Philips has sold over 8 million units to European trade customers.
- Philips introduced the Azur Precise iron. Benchmarked against competing products, it was designated a “Green Flagship” product after being found more environmentally friendly in terms of packaging, weight and recyclability.
- The Cool Skin 7000 series, which was successfully introduced in spring 2004, contributed strongly to DAP's sales performance in Q4 during the peak selling season around Christmas.

## Financial performance

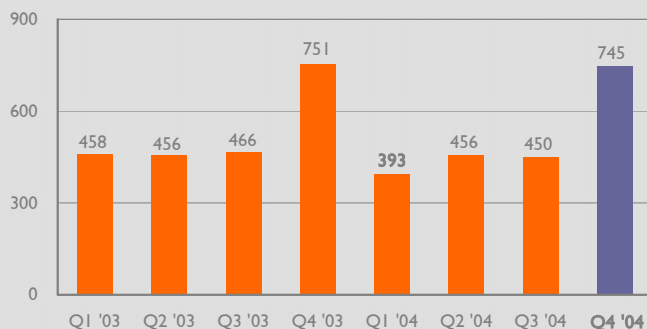
- Nominal sales declined by 1% compared to Q4 2003. On a comparable basis, sales grew by 2%, mainly driven by Food & Beverage (particularly the Senseo® coffee machine), followed by Shaving & Beauty. Oral Healthcare's sales remained flat. Comparable sales in China showed a 20% increase in the fourth quarter.
- Income from operations amounted to 20.3% of sales, slightly down on Q4 2003's 21.3%. Margins were strong across all businesses. The additional investments in advertising and promotion were limited.
- Improvement in supply chain management and continuous focus on asset management, coupled with weaker currencies, led to a substantial reduction in net operating capital compared to Q4 2003.

## Looking ahead

- The focus will remain on launching new innovative products, extending partnerships and alliances, expanding retail channels into emerging markets and enhancing cost savings.
- Additional focus will be directed towards the new initiative in Consumer Health & Wellness.

## DAP sales

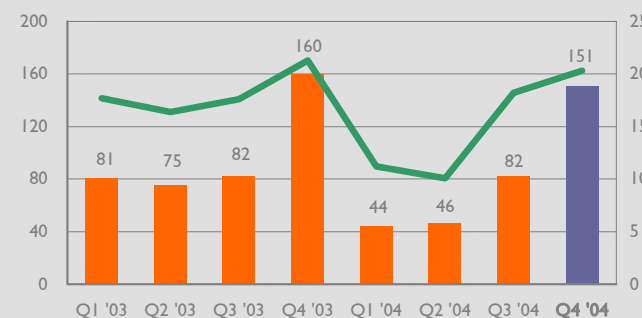
in millions of euros



## DAP income from operations (IFO)

IFO in millions of euros

IFO as a % of sales



# Consumer Electronics

## Consumer Electronics: key data

in millions of euros unless otherwise stated

	Q4 2003	Q4 2004
Sales	3,057	3,340
Sales growth		
% nominal	4	9
% comparable	11	11
Income from operations	249	264
as a % of sales	8.1	7.9
Net operating capital (NOC)	(82)	(161)
Number of employees (FTEs)	19,111	16,993

## Business highlights

- Philips and TPV Technology Limited signed a letter of intent transferring the OEM sales, manufacturing and development of PC monitors and entry-level Flat TVs to TPV. This agreement will further de-risk the business and is expected to be implemented in mid-2005.
- MiraVision™ Mirror TV was named one of Fortune Magazine's "25 Best Products of 2004" and one of Time Magazine's "Coolest Inventions of 2004".
- Hollywood-based IFILM – one of the world's top ten streaming media websites – entered into a global partnership with Philips to offer its popular entertainment content via Philips Streamium products.
- At the Consumer Electronics Show in Las Vegas, Philips received 12 innovation awards for products in the Home Theatre, Audio, Portable Audio, Electronic Gaming and Accessories categories.

## Financial performance

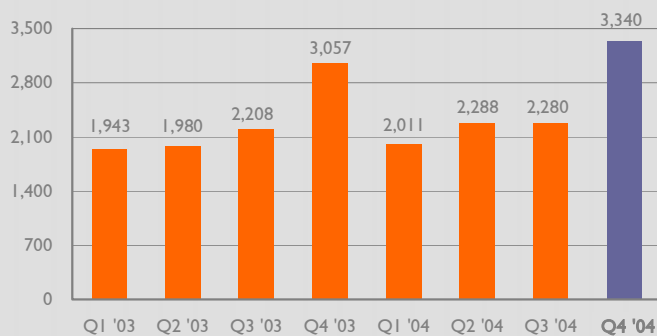
- Comparable sales grew by 11%. All businesses and regions contributed to this growth, in particular Connected Displays (driven by Flat TV featuring Philips' innovative Ambilight concept), Licenses (98% growth) and the regions Asia Pacific and Latin America.
- Income from operations for Licenses amounted to EUR 217 million, up from EUR 97 million in Q4 2003, due to higher past-use license income.
- Income from operations included restructuring charges of EUR 79 million, mainly related to the closure of LCoS and front-end projection display activities.
- Margins remained under pressure, mainly in the Flat TV and DVD recorder segments; however, margins recovered from Q3 levels. The lower margins were partly compensated by savings generated by the Business Renewal Program.
- Enhanced supply chain and working capital management resulted in a record-low negative net operating capital of EUR 161 million.

## Looking ahead

- The Business Renewal Program will be accelerated further and will result in cost savings higher than the EUR 400 million targeted by year-end 2005 (based on Q4 2005 run rate).
- In connection with this program, restructuring charges of approximately EUR 25 million are expected in Q1 2005.
- Improved products and reduced costs will help us to move towards an operating margin target of 2 – 2.5% plus 2% from license income by the end of 2005.

## Consumer Electronics sales

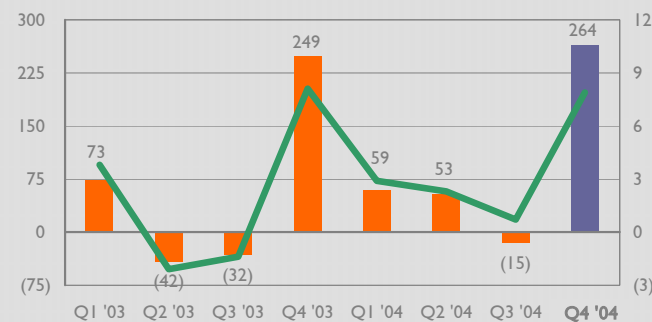
in millions of euros



## Consumer Electronics income from operations (IFO)

IFO in millions of euros

IFO as a % of sales

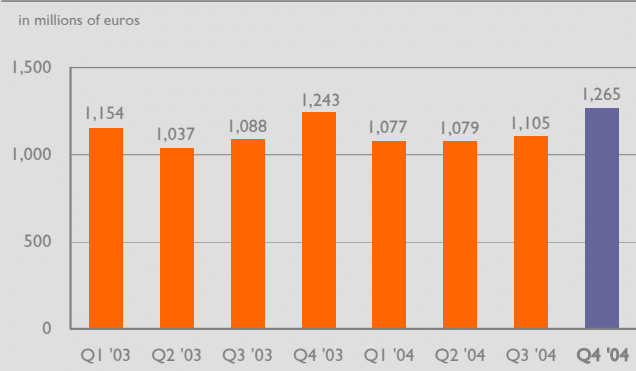


## Lighting: key data

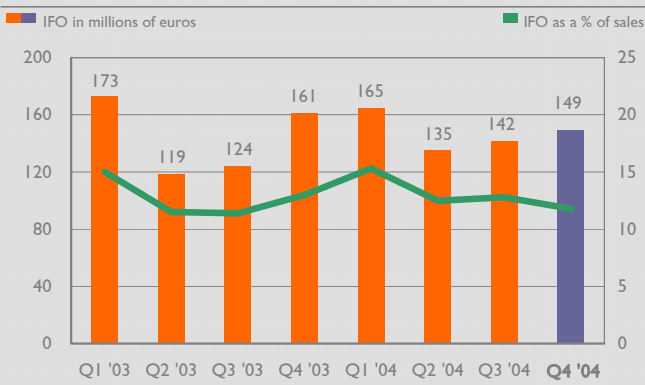
in millions of euros unless otherwise stated

	Q4 2003	Q4 2004
Sales	1,243	1,265
Sales growth		
% nominal	(4)	2
% comparable	3	6
Income from operations	161	149
as a % of sales	13.0	11.8
Net operating capital (NOC)	1,521	1,493
Number of employees (FTEs)	43,800	44,004

## Lighting sales



## Lighting income from operations (IFO)



## Business highlights

- Philips launched the Night Guide automotive headlight, which uses three colors on three parts of the road to increase visibility and improve driver safety.
- Philips signed a four-year partnership with Saks Fifth Avenue stores in the United States, which will see Philips' light-emitting diodes (LEDs) illuminating Saks storefronts during the Christmas season.
- Philips and Lumileds Lighting extended an existing partnership to begin developing and marketing new modular LEDs for the automotive industry.
- The US National Television Academy honored Philips' Ultra High Performance (UHP) lamp technology with an Emmy® Award for Technology and Engineering for "excellence in engineering creativity in lighting solutions for large-screen projection TVs".
- Philips further strengthened its innovative and market leadership in lighting for greenhouses (flowers and vegetables) with the new 1000W GreenPower electronic system offering maximum-growth light while saving electricity and thus protecting the environment.

## Financial performance

- Compared to Q4 2003, sales increased by 2% on a nominal basis and 6% on a comparable basis, driven by improvements in all businesses. Sales in Europe went up by 6%, primarily led by Lamps and Automotive, Special Lighting & UHP.
- Compared to Q4 2003, income from operations decreased by EUR 12 million to EUR 149 million. Income from operations in Q4 2004 was impacted by restructuring and asset-impairment charges, mainly in Europe, of EUR 43 million, whereas a write-off of EUR 24 million for the phasing-out of production lines was recognized in income from operations in Q4 2003.
- Gross capital expenditures increased to EUR 97 million, EUR 35 million higher than in Q4 2003, primarily due to investments for innovative higher-margin products.

## Looking ahead

- The division will maintain strict cost control and further optimize supply chain management.
- Increased investment in R&D and capital expenditures will continue to propel innovation and sales growth.
- As part of the continued drive to optimize asset utilization, restructuring charges of approximately EUR 30 million are expected in Q1 2005.

## Semiconductors: key data

in millions of euros unless otherwise stated

	Q4 2003	Q4 2004
Sales	1,496	1,354
Sales growth		
% nominal	11	(9)
% comparable	24	(7)
Income from operations	166	46
as a % of sales	11.1	3.4
Net operating capital (NOC)	2,676	2,669
Number of employees (FTEs)	33,177	35,116

## Business highlights

- In Germany, Philips and Nokia began the first trials of Near Field Communication (NFC) ticketing. Passengers on a Frankfurt bus route can now pay by passing an NFC-equipped Nokia 3220 phone by a contactless reader as they enter the bus.
- Philips set an industry record with the production and shipment of the one-billionth mobile display for the telecommunications, automotive and avionics markets.
- To enhance security at its facilities, the US Department of the Interior decided to issue up to 30,000 smart cards incorporating Philips' MIFARE DESFire contactless chip technology to its employees.
- Philips affirmed its leading position in the mobile acoustic solutions market with the production of its one-billionth mobile phone loudspeaker at its plant in Vienna.

## Financial performance

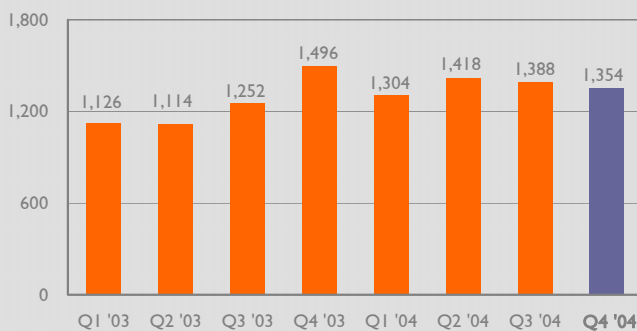
- The nominal sales decrease of 9% was mainly driven by 33% lower sales at Mobile Display Systems (MDS) compared with Q4 2003. Sequentially, segment revenues of MDS increased by 11% in US dollar terms; segment revenues excluding MDS were flat in US dollar terms.
- The book-to-bill ratio increased from 0.66 at the end of Q3 to 0.73 at the end of Q4. The utilization rate declined to 81% (Q3: 98%), mainly due to a build-down of inventories in anticipation of Q1 sales.
- The planned reduction in inventories from Q3 had a negative effect of approximately EUR 36 million on income from operations compared to Q3 2004. In addition, higher R&D expenses and a lower sales level had an unfavorable impact of EUR 11 million and EUR 30 million respectively compared to Q3 2004.
- Compared to Q4 2003, the main reasons for the lower income were a lower level of business activity, the weaker US dollar and an inventory build-down. A gain of EUR 21 million relating to the sale of the San Antonio facility was realized in Q4 2003.

## Looking ahead

- A high-single-digit sequential decrease in sales is expected in Q1 2005 (in US dollar terms, excluding MDS). A double-digit sequential decrease is forecasted for MDS (in US dollar terms).
- Programs are being implemented to reduce the cost base in Europe.

## Semiconductors sales

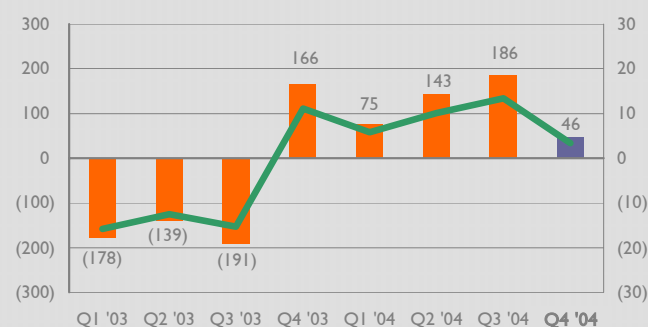
in millions of euros



## Semiconductors income from operations (IFO)

IFO in millions of euros

IFO as a % of sales



## Other Activities

### Other Activities: key data

in millions of euros unless otherwise stated

	Q4 2003	Q4 2004
Sales	668	685
Sales growth		
% nominal	0	3
% comparable	2	19
IFO Technology Cluster	(96)	(92)
IFO Corp. Investments/Other	57	3
Income (loss) from operations	(39)	(89)
as a % of sales	(5.8)	(13.0)
Net operating capital (NOC)	150	117
Number of employees (FTEs)	27,086	23,869

### Business highlights

- Philips received the 2004 Hong Kong Award for Industry for the key 019 Digital Camcorder and the PSS010 Personal Sound System – a recognition of these products' innovative aesthetics, materials and ability to meet users' needs.
- Philips introduced its RepliTrack technology, which embeds a unique watermark onto a DVD disc. Any copy from a disc will carry the watermark, allowing illegal copies to be traced.
- Philips established its third Intellectual Property Academy in China, at Fudan University in Shanghai. Sponsored by Philips, the Academy provides professional training on intellectual property issues.

### Financial performance Technology Cluster

- The loss in the Technology Cluster was EUR 4 million lower than the loss in Q4 2003. Restructuring charges of EUR 34 million for the closure of the LCoS activities were more than offset by lower costs and increased income from various Technology activities.

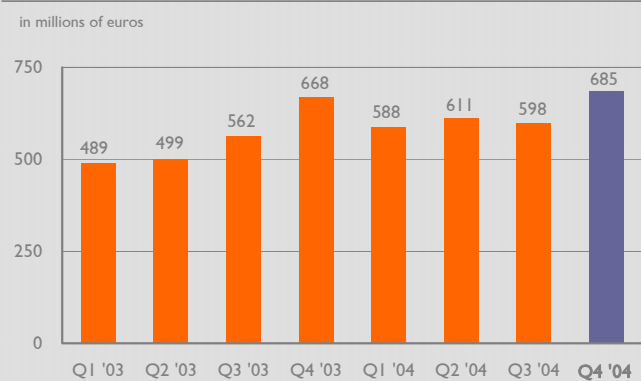
### Financial performance Corp. Investments/Other

- Comparable sales growth was driven by Optical Storage and to a lesser extent Assembléon and Philips Enabling Technologies (ETG).
- All major businesses in Corporate Investments were profitable due to improved conditions in technology markets and the benefits of earlier restructuring programs.
- Income from operations in Q4 2003 was positively impacted by the release of a provision for a put option amounting to EUR 50 million.

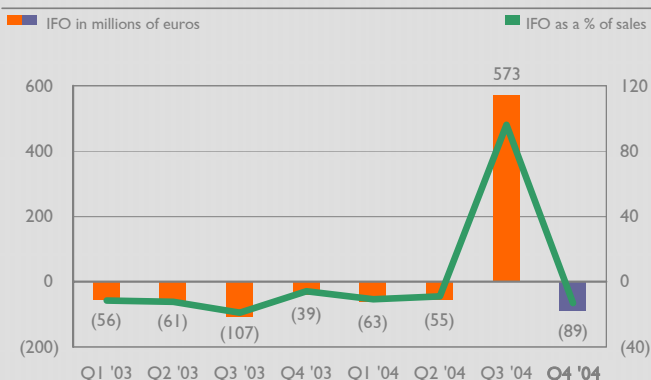
### Looking ahead

- Further execution of the divestment program is expected, assuming acceptable market conditions.

### Other Activities sales



### Other Activities income from operations (IFO)

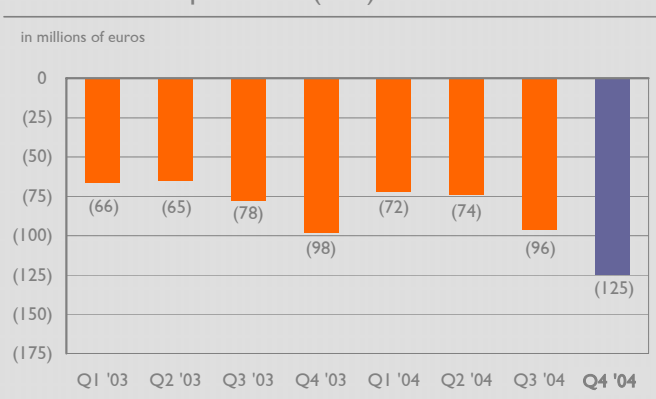


## Unallocated: key data

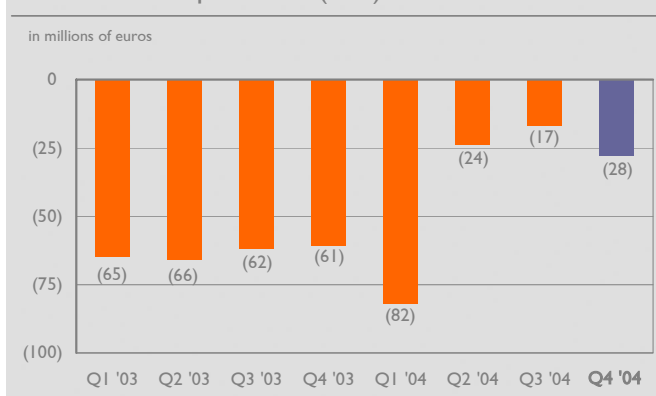
in millions of euros unless otherwise stated

	Q4 2003	Q4 2004
Corporate and regional overheads	(98)	(125)
Pensions / postretirement benefit costs	(61)	(28)
Income (loss) from operations	(159)	(153)
Number of employees (FTEs)	2,473	2,609

## Unallocated: Corporate and Regional Overheads income from operations (IFO)



## Unallocated: Pensions/postretirement benefit costs income from operations (IFO)



## Business highlights

- Chinese Premier Wen Jia Bao visited Philips' Amsterdam headquarters, where he was introduced to emerging healthcare and telecommunications technologies that can support China's goal of sustainable development.
- In its 2004 Euro Investor Relations Awards, IR Magazine ranked Philips 1<sup>st</sup> out of the top 50 companies on the Dow Jones Euro Stoxx index for best corporate governance, and 3<sup>rd</sup> for best overall investor relations.
- At the 13th EuroFinance International Cash and Treasury Management Conference in Paris, Philips was chosen as the 2004 International Treasury Excellence winner for shifting to a streamlined, consulting-based treasury function.
- Philips held its first Global Supplier Forum with 20 key suppliers. The meeting aimed to begin building closer relationships with these strategic partners.
- In a ranking of the best internet sites by Byte Level Research, Philips' global site was 4th out of 200 companies.

## Financial performance

- Corporate and Regional Overhead costs increased by EUR 27 million, mainly due to higher marketing investments and the roll-out of the new brand positioning.
- Pension costs and the cost of other postretirement benefits decreased by EUR 33 million compared to Q4 2003, primarily due to a reduction in pension costs in the United States, the Netherlands and various other European countries.

## Looking ahead

- Investments related to the new brand positioning will continue in 2005.
- In 2005, pension costs for the Philips Group are expected to be approximately EUR 235 million, approximately EUR 50 million lower than in 2004, of which approximately EUR 20 million in the sector "Unallocated".

## LG.Philips Displays joint venture (100%)

in millions of euros unless otherwise stated

	Q4 2003	Q4 2004
Sales	932	765
Sales growth % nominal	(23 )	(18 )
Income from operations	(703 )	(162 )
as a % of sales	(75.4)	(21.2)
Net income (loss) (100%)	(703 )	(177 )
of which Philips' share (50%)	(351 )	(89 )
Net operating capital (NOC)	1,469	1,246
Number of employees (FTEs)	26,888	22,376

## LG.Philips Displays joint venture (100%)

- Sales declined by 18% compared to Q4 2003, but by 10% in US dollar terms.
- Income from operations included impairment and restructuring charges totaling EUR 218 million (Philips' share was EUR 109 million).
- In Q4 2003, restructuring and impairment charges amounted to EUR 786 million (Philips' share was EUR 393 million).
- Philips' share in the net income of LG.Philips Displays in Q4 2004 was a loss of EUR 89 million.
- Cash flow before financing activities continued to be very strong and improved compared to both Q4 2003 and Q3 2004.

# Highlights full-year 2004

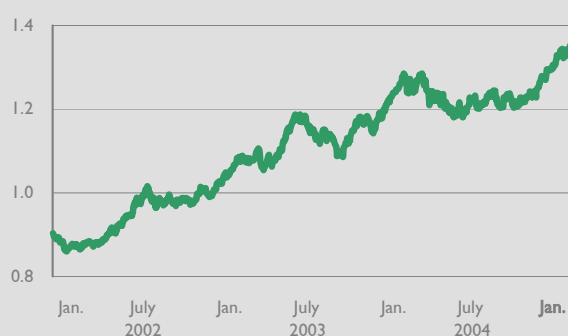
## The year 2004

- Sales in 2004 amounted to EUR 30,319 million, up 4% compared with 2003; on a comparable basis sales growth was 9%, mainly generated by the technology-related sectors
- Income from operations amounted to EUR 1,607 million in 2004, compared with EUR 488 million in 2003
- Net income amounted to EUR 2,836 million, due to a better underlying operating performance at Semiconductors and Medical Systems and improved income from unconsolidated companies
- Positive cash flow from operating activities of EUR 2.7 billion; net debt of Company virtually nil

## Net income

in millions of euros	2002	2003	2004
Sales	31,820	29,037	<b>30,319</b>
Income from operations	420	488	<b>1,607</b>
as a % of sales	1.3	1.7	<b>5.3</b>
Financial income and expenses	(2,227 )	(244 )	<b>216</b>
Income taxes	(27 )	15	<b>(358 )</b>
Results unconsolidated companies	(1,346 )	506	<b>1,422</b>
Minority interests	(26 )	(56 )	<b>(51 )</b>
Cumulative effect of change in accounting principle	-	(14 )	-
Net income (loss)	(3,206 )	695	<b>2,836</b>
Per common share - basic	(2.51 )	0.54	<b>2.22</b>
- diluted	(2.51 )	0.54	<b>2.21</b>

## Euro rate against the US dollar



## Summary

(For more details, see the Annual Review 2004 of Royal Philips Electronics or [www.philips.com](http://www.philips.com).)

The year 2004 and the financial performance of the Philips Group were characterized by the following major developments:

- The cyclical upturn of the technology markets, which started in the third quarter of 2003 and lasted until the end of the third quarter of 2004, benefited in particular the Semiconductors sector and the LCD activities, as well as Optical Storage and certain other parts of the Other Activities sector.
- The performance of the Medical Systems sector continued to improve with the introduction of innovative new products and enhanced service capability. Together with tight cost control, this led to the achievement of the profitability target that was set three years ago.
- Accelerated digitalization of Consumer Electronics' product mix, new entrants and new business models put severe pressure on gross margins, which could not be fully offset by higher sales volumes and reduced costs. In order to further improve its Consumer Electronics business, Philips intends to transfer its monitor display business and part of its flat display business to the Taiwan-based company TPV.
- The decline of the US dollar against the euro had a large impact on the Company's sales revenues. The impact on the bottom line was partly muted by disciplined hedging strategies and by adjusting the currencies of cost structures to better balance the currencies of revenues.
- A number of events had significant positive and negative effects on the financial performance of the Company. The events with a positive impact were the IPOs of NAVTEQ and LG.Philips LCD, the sale of shares of Atos Origin, Vivendi Universal and ASML, and gains associated with transactions by Atos Origin and InterTrust. The total positive impact of these events was EUR 635 million on income from operations and EUR 1,590 million on net income. The events with negative financial consequences were the impairment charge for MedQuist and the litigation settlement for Volumetrics, which had an impact of EUR 723 million on income from operations and of EUR 676 million on net income.
- The Company benefited from a continued focus on cost reductions. Pension costs were reduced as part of new wage settlements with the unions in the Netherlands, and the benefits of earlier cost-reduction and restructuring programs were secured and brought to the bottom line in 2004, partly offset by higher expenses for global brand and advertising campaigns.

Overall, this resulted in high operational and financial cash flows, which reduced the net debt to group equity position to 1:99 by year-end, providing the Company with a strong balance sheet and ample flexibility for growth and financial strategies.

### Proposed dividend to shareholders

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A proposal will be submitted to the General Meeting of Shareholders to declare a dividend of EUR 0.40 per common share (EUR 513 million). In 2004 a dividend of EUR 0.36 per common share was paid (EUR 460 million).

### Share repurchase program

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The Company will start a share repurchase program of up to EUR 750 million to be executed during the next 6 months; EUR 500 million will be used for capital reduction and up to EUR 250 million to hedge long-term incentive and employee stock purchase programs.

### Other information

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As announced earlier, MedQuist, in which Philips holds approximately 70.9% of the common stock, is conducting a review of the company's billing practices and related matters. MedQuist has not been able to complete the audit of its fiscal years 2003 and 2004 and has postponed the filing of its Form 10-K for fiscal year 2003. The MedQuist board has announced that the company's previously issued financial statements for the fiscal year ended December 31, 2002 and all earnings releases and similar communications relating to subsequent periods should no longer be relied upon.

MedQuist also stated that it was unable to assess whether the result of the review of its billing practices and related litigation may have a material impact on its reported revenues, results and financial position. It remains uncertain when the review can be completed. In the event that additional information becomes available in the coming weeks with respect to the possible financial impact of the review, Philips will determine whether such information has accounting consequences for Philips.

In view of the uncertainties with respect to the impact of the alleged potential improper billing practices and related litigation on the past and future performance of MedQuist, Philips concluded in November that the valuation of its investment in MedQuist could no longer be supported.

The carrying value of the investment in MedQuist was brought in line with the value at which the shares of MedQuist had been trading on the over-the-counter market subsequent to November 2, 2004, when MedQuist announced that its previously issued financial statements should no longer be relied upon. In 2004, Philips recognized non-cash impairment charges of EUR 590 million on its investment in MedQuist.

During the 4th quarter, various plaintiffs, including (former) customers, shareholders and transcriptionists, filed four actions arising from allegations of inappropriate billing by MedQuist for its transcription services. These matters are in their initial stages and, on the basis of current knowledge, management cannot establish whether a loss is probable with respect to these actions.

## Outlook

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The mixed signals coming from the world's major economies make us cautious, certainly for the first half of 2005. This will mainly impact our technology-related businesses, and to a lesser extent Consumer Electronics. We expect that Medical Systems, Lighting and DAP will continue to grow their market positions through innovation and – especially at Medical Systems and Consumer Health & Wellness – selected acquisitions. Our financial position is excellent and offers significant strategic flexibility.

We will continue to focus our attention on technology and marketing leadership to achieve sustainable growth through innovation, also improving our cost structure and further simplifying our corporate core processes. The pursuit of operational excellence will drive productivity improvements. Our ongoing transformation into a truly market-driven company is reflected in our marketing investments, which – together with our strong R&D competencies – will help us to deliver the advanced and innovative products that our customers want.

Amsterdam, January 27, 2005

Board of Management

# Consolidated statements of income

all amounts in millions of euros unless otherwise stated

	2003	4 <sup>th</sup> quarter 2004	January to December 2003	2004
Sales	9,017	9,179	29,037	30,319
Cost of sales	(5,945)	(6,058)	(19,558)	(20,155)
<b>Gross margin</b>	3,072	3,121	9,479	10,164
Selling expenses	(1,268)	(1,344)	(4,575)	(4,520)
General and administrative expenses	(400)	(314)	(1,492)	(1,332)
Research and development expenses	(725)	(625)	(2,617)	(2,534)
Impairment of goodwill	(139)	(578)	(148)	(596)
Restructuring and asset impairments	(16)	(178)	(407)	(288)
Other business income (expense)	84	(68)	248	713
<b>Income from operations</b>	608	14	488	1,607
Financial income and expenses	(58)	417	(244)	216
Income before taxes	550	431	244	1,823
Income tax (expense) benefit	(98)	(128)	15	(358)
Income after taxes	452	303	259	1,465
Results relating to unconsolidated companies including a year-to-date net dilution gain of EUR 254 million (2003: 53 million)	183	198	506	1,422
Minority interests	(39)	(3)	(56)	(51)
Income before cumulative effect of a change in accounting principles	596	498	709	2,836
Cumulative effect of a change in accounting principles, net of tax	2	0	(14)	0
<b>Net income</b>	598	498	695	2,836
<b>Income from operations</b> as a % of sales	6.7	0.2	1.7	5.3
<b>Weighted average number of common shares outstanding (after deduction of treasury stock) during the period (in thousands):</b>				
• basic			1,277,174	1,280,251
• diluted			1,281,227	1,283,716
<b>Basic earnings per common share in euros:</b>				
Income before cumulative effect of a change in accounting principles	0.46	0.39	0.55	2.22
Net income	0.46	0.39	0.54	2.22
<b>Diluted earnings per common share in euros:</b>				
Income before cumulative effect of a change in accounting principles	0.46	0.39	0.55	2.21
Net income	0.46	0.39	0.54	2.21

The Group financial statements have been prepared on a basis consistent with US GAAP, which differs in certain respects from accounting principles as required by Dutch law (Dutch GAAP). Net income determined in accordance with Dutch GAAP amounted to EUR 2,336 million in 2004, compared to EUR 705 million in 2003. These aggregate amounts result in basic earnings per common share of EUR 1.82 in 2004 compared to EUR 0.55 in 2003. The difference between Dutch GAAP and US GAAP is caused by the fact that goodwill is no longer amortized under US GAAP and by income recognition in respect of reversals of security impairments under Dutch GAAP.

## Consolidated balance sheets and additional ratios

all amounts in millions of euros unless otherwise stated

### Consolidated balance sheet

	December 31, 2003	December 31, 2004
Current assets:		
Cash and cash equivalents	3,072	4,349
Receivables	4,628	4,528
Inventories	3,204	3,230
Other current assets	1,010	1,216
<b>Total current assets</b>	<b>11,914</b>	<b>13,323</b>
Non-current assets:		
Investments in unconsolidated companies	4,841	5,670
Other non-current financial assets	1,213	876
Non-current receivables	218	227
Other non-current assets	2,581	2,823
Property, plant and equipment	4,879	4,997
Intangible assets excluding goodwill	1,271	989
Goodwill	2,494	1,818
<b>Total assets</b>	<b>29,411</b>	<b>30,723</b>
Current liabilities:		
Accounts and notes payable	3,205	3,499
Accrued liabilities	3,165	3,307
Short-term provisions	949	781
Other current liabilities	649	627
Short-term debt	1,860	961
<b>Total current liabilities</b>	<b>9,828</b>	<b>9,175</b>
Non-current liabilities:		
Long-term debt	4,016	3,552
Long-term provisions	1,976	2,117
Other non-current liabilities	653	736
<b>Total liabilities</b>	<b>16,473</b>	<b>15,580</b>
Minority interests	175	283
Stockholders' equity	12,763	14,860
<b>Total liabilities and equity</b>	<b>29,411</b>	<b>30,723</b>
Number of common shares outstanding at the end of period (in thousands)	1,280,686	1,281,527
<b>Ratios</b>		
Stockholders' equity, per common share in euros	12,763 9.97	14,860 11.60
Inventories as a % of sales	11.0	10.7
Net debt : group equity ratio	18:82	1:99

Stockholders' equity determined in accordance with Dutch GAAP amounted to EUR 14,016 million as of December 31, 2004 compared to EUR 14,860 million under US GAAP.

The deviation is caused by the fact that under Dutch GAAP goodwill has to be amortized and charged to income, whereas under US GAAP it is no longer amortized, but instead tested for impairment.

## Consolidated statements of cash flows \*

all amounts in millions of euros

	4 <sup>th</sup> quarter		January to December	
	2003	2004	2003	2004
<i>Cash flows from operating activities:</i>				
<b>Net income</b>	598	498	695	2,836
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	572	1,086	2,015	2,293
Impairment of equity investments	755	4	772	8
Net gain on sale of assets	(732)	(623)	(987)	(1,328)
Income from unconsolidated companies (net of dividends received)	(250)	(36)	(569)	(1,178)
Minority interests (net of dividends paid)	39	-	49	35
Decrease in working capital/other current assets	698	1,390	307	354
Increase in non-current receivables/other assets	(16)	(470)	(243)	(435)
(Decrease) increase in provisions	(17)	61	(155)	48
Other items	26	29	108	64
<b>Net cash provided by operating activities</b>	1,673	1,939	1,992	2,697
<i>Cash flows from investing activities:</i>				
Purchase of intangible assets	(28)	(47)	(96)	(103)
Capital expenditures on property, plant and equipment	(319)	(401)	(980)	(1,286)
Proceeds from disposals of property, plant and equipment	106	64	220	191
Cash from derivatives	31	32	391	125
Proceeds from sale of other non-current financial assets	5	887	305	893
Proceeds from sale of businesses (purchase of businesses)	827	524	902	833
<b>Net cash provided by investing activities</b>	622	1,059	742	653
<b>Cash flows before financing activities</b>	2,295	2,998	2,734	3,350
<i>Cash flows from financing activities:</i>				
Decrease in debt	(65)	(198)	(944)	(1,667)
Treasury stock transactions	21	9	49	(18)
Dividends paid	-	-	(460)	(460)
<b>Net cash used for financing activities</b>	(44)	(189)	(1,355)	(2,145)
<b>Increase in cash and cash equivalents</b>	2,251	2,809	1,379	1,205
Effect of change in consolidations on cash positions	-	-	-	117
Effect of changes in exchange rates on cash positions	(62)	(70)	(165)	(45)
Cash and cash equivalents at beginning of the period	883	1,610	1,858	3,072
<b>Cash and cash equivalents at end of period</b>	3,072	4,349	3,072	4,349

\* For a number of reasons, principally the effects of translation differences and consolidation changes, certain items in the statements of cash flows do not correspond to the differences between the balance sheet amounts for the respective items.

## Consolidated statement of changes in stockholders' equity

all amounts in millions of euros

	January to December 2004								
	Common stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss)			Treasury shares at cost	Total stock- holders' equity	
				Translation differences	Available- for-sale securities	Minimum pension liability			Cash flow hedges
Balance as of December 31, 2003	263	71	16,970	(3,364)	416	(362)	25	(1,256)	12,763
Net income			2,836						2,836
Net current period change				(93)	205	(67)	4		49
Reclassifications into income				50	(447)		26		(371)
<b>Total comprehensive income (loss), net of tax</b>			2,836	(43)	(242)	(67)	30		2,514
Dividend paid			(460)						(460)
Purchase of treasury stock								(96)	(96)
Re-issuance of treasury stock		(28)						113	85
Share-based compensation plans		54							54
<b>Balance as of December 31, 2004</b>	<b>263</b>	<b>97</b>	<b>19,346</b>	<b>(3,407)</b>	<b>174</b>	<b>(429)</b>	<b>55</b>	<b>(1,239)</b>	<b>14,860</b>

## Product sectors

all amounts in millions of euros unless otherwise stated

### Sales and income from operations

	4 <sup>th</sup> quarter					
	2003			2004		
	sales	Income (loss) from operations		sales	Income (loss) from operations	
	amount	as a % of sales		amount	as a % of sales	
Medical Systems	1,802	70	3.9	<b>1,790</b>	<b>(354)</b>	<b>(19.8)</b>
DAP	751	160	21.3	<b>745</b>	<b>151</b>	<b>20.3</b>
Consumer Electronics	3,057	249	8.1	<b>3,340</b>	<b>264</b>	<b>7.9</b>
Lighting	1,243	161	13.0	<b>1,265</b>	<b>149</b>	<b>11.8</b>
Semiconductors	1,496	166	11.1	<b>1,354</b>	<b>46</b>	<b>3.4</b>
Other Activities	668	(39)	(5.8)	<b>685</b>	<b>(89)</b>	<b>(13.0)</b>
Unallocated		(159)			<b>(153)</b>	
Total	9,017	608	6.7	<b>9,179</b>	<b>14</b>	<b>0.2</b>

## Product sectors (continued)

all amounts in millions of euros unless otherwise stated

### Sales and income from operations

	January to December					
	2003			2004		
	sales	Income (loss) from operations		sales	Income (loss) from operations	
	amount	as a % of sales		amount	as a % of sales	
Medical Systems	5,990	431	7.2	5,884	34	0.6
DAP	2,131	398	18.7	2,044	323	15.8
Consumer Electronics	9,188	248	2.7	9,919	361	3.6
Lighting	4,522	577	12.8	4,526	591	13.1
Semiconductors	4,988	(342)	(6.9)	5,464	450	8.2
Other Activities	2,218	(263)	(11.9)	2,482	366	14.7
Unallocated		(561)			(518)	
Total	29,037	488	1.7	30,319	1,607	5.3

## Product sectors, main countries and regions

all amounts in millions of euros

### Sales and total assets

	<b>Sales (to third parties)</b>		<b>Total assets</b>	
	January to December		December 31,	
	2003	2004	2003	2004
Medical Systems	5,990	5,884	5,420	4,675
DAP	2,131	2,044	840	816
Consumer Electronics	9,188	9,919	2,370	2,396
Lighting	4,522	4,526	2,341	2,413
Semiconductors	4,988	5,464	5,777*	4,196
Other Activities	2,218	2,482	4,526	6,944*
Unallocated			8,137	9,283
<b>Total</b>	29,037	30,319	29,411	30,723

\* Includes carrying value of investment in TSMC

### Sales and long-lived assets

	<b>Sales (to third parties)</b>		<b>Long-lived assets *</b>	
	January to December		December 31,	
	2003	2004	2003	2004
Netherlands	1,181	1,201	1,610	1,497
United States	7,532	7,041	3,933	2,906
Germany	2,184	2,365	619	572
France	1,952	1,964	206	191
United Kingdom	1,258	1,238	240	186
China	2,699	2,889	361	421
Other countries	12,231	13,621	1,675	2,031
<b>Total</b>	29,037	30,319	8,644	7,804

\* Includes property, plant and equipment and intangible assets

### Sales by region

	<b>Sales (to third parties)</b>	
	January to December	
	2003	2004
Europe/Africa	12,768	13,335
North America	7,911	7,448
Latin America	1,236	1,513
Asia Pacific	7,122	8,023
<b>Total</b>	29,037	30,319

## Pension costs

all amounts in millions of euros unless otherwise stated

In accordance with SFAS No. 132 (revised 2003) the components of net periodic pension costs and costs of postretirement benefits other than pensions are as follows:

### Net periodic pension costs of defined-benefit plans

	4 <sup>th</sup> quarter 2004		January-December 2004	
	Netherlands	Other	Netherlands	Other
Service cost-benefits earned during the period	45	45	175	128
Interest cost on the projected benefit obligation	148	101	598	386
Expected return on plan assets	(184)	(98)	(726)	(370)
Net amortization of unrecognized net transition (assets)/liabilities	-	(4)	-	5
Net actuarial (gain) loss recognized	1	6	(1)	19
Amortization of prior service cost	(15)	6	(43)	26
Settlement loss	-	1	34	3
Other	(4)	4	(12)	7
<b>Net periodic cost (income)</b>	<b>(9)</b>	<b>61</b>	<b>25</b>	<b>204</b>

The net periodic pension costs in the fourth quarter of 2004 amounted to EUR 66 million, of which EUR 52 million for defined-benefit plans (the Netherlands EUR (9) million, Other countries EUR 61 million) and EUR 14 million related to defined-contribution plans outside the Netherlands.

### Net periodic costs of postretirement benefits other than pensions

	4 <sup>th</sup> quarter 2004		January-December 2004	
	Netherlands	Other	Netherlands	Other
Service cost-benefits earned during the period	4	1	13	4
Interest cost on the accumulated postretirement benefit obligation	3	6	17	24
Amortization of unrecognized transition obligation	-	2	3	6
Net actuarial loss recognized	1	-	5	3
Curtailement loss	-	1	-	3
<b>Net periodic cost</b>	<b>8</b>	<b>10</b>	<b>38</b>	<b>40</b>

## Reconciliation of non-GAAP information

all amounts in millions of euros unless otherwise stated

Certain non-GAAP financial measures are presented when discussing the Philips Group's financial position. In the following tables, a reconciliation to the most directly comparable GAAP financial measure is made for each non-GAAP performance measure.

### Sales growth composition (in %)

	Comparable growth	Currency effects	Consolidation changes	Nominal growth
<b>4<sup>th</sup> quarter 2004 versus 4<sup>th</sup> quarter 2003</b>				
Medical Systems	4.0	(5.3)	0.6	(0.7)
DAP	1.9	(2.7)	-	(0.8)
Consumer Electronics	10.8	(3.3)	1.7	9.2
Lighting	6.3	(3.8)	(0.7)	1.8
Semiconductors	(7.1)	(5.0)	2.6	(9.5)
Other Activities	19.3	(3.7)	(13.1)	2.5
Philips Group	5.7	(4.0)	0.1	1.8

### Full year 2004 versus full year 2003

Medical Systems	3.9	(5.9)	0.2	(1.8)
DAP	(0.6)	(3.5)	-	(4.1)
Consumer Electronics	11.3	(4.0)	0.7	8.0
Lighting	5.1	(4.2)	(0.8)	0.1
Semiconductors	12.9	(6.4)	3.0	9.5
Other Activities	17.7	(3.7)	(2.1)	11.9
Philips Group	8.7	(4.8)	0.5	4.4

### Composition net debt to group equity

	December 31, 2003	December 31, 2004
Long-term debt	4,016	3,552
Short-term debt	1,860	961
Total debt	5,876	4,513
Cash and cash equivalents	(3,072)	(4,349)
Net debt (total debt less cash and cash equivalents)	2,804	164
Minority interests	175	283
Stockholders' equity	12,763	14,860
Group equity	12,938	15,143
Net debt and group equity	15,742	15,307
Net debt divided by net debt and group equity (in %)	18	1
Group equity divided by net debt and group equity (in %)	82	99

## Net operating capital (NOC) to total assets

	Philips Group	Medical Systems	DAP	Consumer Electronics	Lighting	Semiconductors	Other Activities	Unallocated
<b>December 31, 2004</b>								
Net operating capital (NOC)	7,192	2,862	393	(161)	1,493	2,669	117	(181)
Eliminate liabilities comprised in NOC:								
– payables/liabilities	8,169	1,492	353	2,162	710	985	1,120	1,347
– intercompany accounts	0	35	10	62	26	11	(115)	(29)
– provisions <sup>1)</sup>	2,670	240	60	314	138	225	619	1,074
Include assets not comprised in NOC:								
– investments in unconsolidated comp.	5,670	46		19	46	306	5,203	50
– other non-current financial assets	876							876
– deferred tax assets	1,797							1,797
– liquid assets	4,349							4,349
<b>Total assets</b>	<b>30,723</b>	<b>4,675</b>	<b>816</b>	<b>2,396</b>	<b>2,413</b>	<b>4,196</b>	<b>6,944</b>	<b>9,283</b>

<sup>1)</sup> provisions on balance sheet EUR 2,898 million excluding deferred tax liabilities EUR 228 million

## December 31, 2003

Net operating capital (NOC)	8,071	3,671	464	(82)	1,521	2,676	150	(329)
Eliminate liabilities comprised in NOC:								
– payables/liabilities	7,672	1,427	317	2,017	656	920	1,051	1,284
– intercompany accounts	0	24	4	77	11	(7)	(67)	(42)
– provisions <sup>1)</sup>	2,768	257	55	338	134	234	650	1,100
Include assets not comprised in NOC:								
– investments in unconsolidated comp.	4,841	41		20	19	1,954	2,742	65
– other non-current financial assets	1,213							1,213
– deferred tax assets	1,774							1,774
– liquid assets	3,072							3,072
<b>Total assets</b>	<b>29,411</b>	<b>5,420</b>	<b>840</b>	<b>2,370</b>	<b>2,341</b>	<b>5,777</b>	<b>4,526</b>	<b>8,137</b>

<sup>1)</sup> provisions on balance sheet EUR 2,925 million excluding deferred tax liabilities EUR 157 million

## Composition cash flow before financing activities

	2003	4 <sup>th</sup> quarter 2004	2003	January to December 2004
Cash flow from operating activities	1,673	1,939	1,992	2,697
Cash flow from investing activities	622	1,059	742	653
Cash flow before financing activities	2,295	2,998	2,734	3,350

## Philips quarterly statistics

all amounts in millions of euros unless otherwise stated; percentage increases always in relation to the corresponding period of previous year

	2003				2004			
	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter
Sales	6,499	6,532	6,989	9,017	6,631	7,280	7,229	9,179
% increase	(14)	(18)	(4)	1	2	11	3	2
Income (loss) from operations	32	(26)	(126)	608	218	356	1,019	14
as a % of sales	0.5	(0.4)	(1.8)	6.7	3.3	4.9	14.1	0.2
Net income (loss)	(69)	42	124	598	550	616	1,172	498
per common share in euros	(0.05)	0.03	0.10	0.46	0.43	0.48	0.92	0.39
	January-	January-	January-	January-	January-	January-	January-	January-
	March	June	September	December	March	June	September	December
Sales	6,499	13,031	20,020	29,037	6,631	13,911	21,140	30,319
% increase	(14)	(16)	(13)	(9)	2	7	6	4
Income (loss) from operations	32	6	(120)	488	218	574	1,593	1,607
as a % of sales	0.5	0.0	(0.6)	1.7	3.3	4.1	7.5	5.3
Net income (loss)	(69)	(27)	97	695	550	1,166	2,338	2,836
as a % of stockholders' equity (ROE)	(2.1)	(0.3)	1.0	5.3	18.5	19.0	24.5	20.3
per common share in euros	(0.05)	(0.02)	0.08	0.54	0.43	0.91	1.83	2.22
	<b>period ending 2003</b>				<b>period ending 2004</b>			
Inventories as a % of sales	12.1	12.8	13.4	11.0	12.1	12.5	13.4	10.7
Net debt : group equity ratio	30:70	29:71	28:72	18:82	18:82	21:79	17:83	1:99
Total employees (in thousands)	166	164	166	164	165	166	167	162

Information also available on Internet, address: [www.investor.philips.com](http://www.investor.philips.com)  
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