

# PHILIPS

Royal Philips Electronics

*Fourth Quarter 2004*

January 27, 2005

# 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 measure 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.

# Agenda

Highlights

Performance

Agenda 2004

# Highlights (I)

- Comparable sales up 6% mainly driven by Consumer Electronics 11% and Lighting 6%. Growth at Medical 4% was also solid
- IFO was a profit of EUR 14 m. including a non-cash impairment charge of EUR 576 m. (MedQuist) and a net charge of EUR 133 m. (Volumetrics), both in Medical Systems.  
Ongoing operational performance was strong in Medical Systems, Lighting and Consumer Electronics (Licenses). Semiconductors IFO was impacted by a decline in sales and a lower utilization rate
- Restructuring and asset impairment charges in IFO amounted to EUR 178 m. in 4Q04
- Pension costs were EUR 36 m. lower than in 4Q03

## Highlights (II)

- Financial income and expenses included gains totaling EUR 440 m. on sales of ASML and Vivendi shares and a EUR 46 m. one-off income related to prior-years tax settlements
- The income from unconsolidated companies of EUR 198 m. included a gain of EUR 151 m. related to the sale of 16.5% stake in Atos Origin and restructuring and impairment charges of EUR 109 m. in LG.Philips Displays
- Inventories amounted to a new record-low 10.7% of sales
- Net debt to group equity ratio was 1:99 in 4Q04
- For the full year Medical Systems surpassed its 14% target by achieving an EBITA of 14.4% of sales (adjusted for Volumetrics settlement), which corresponds with an IFO of 12.8% of sales

# Agenda

Highlights

Performance

Agenda 2004

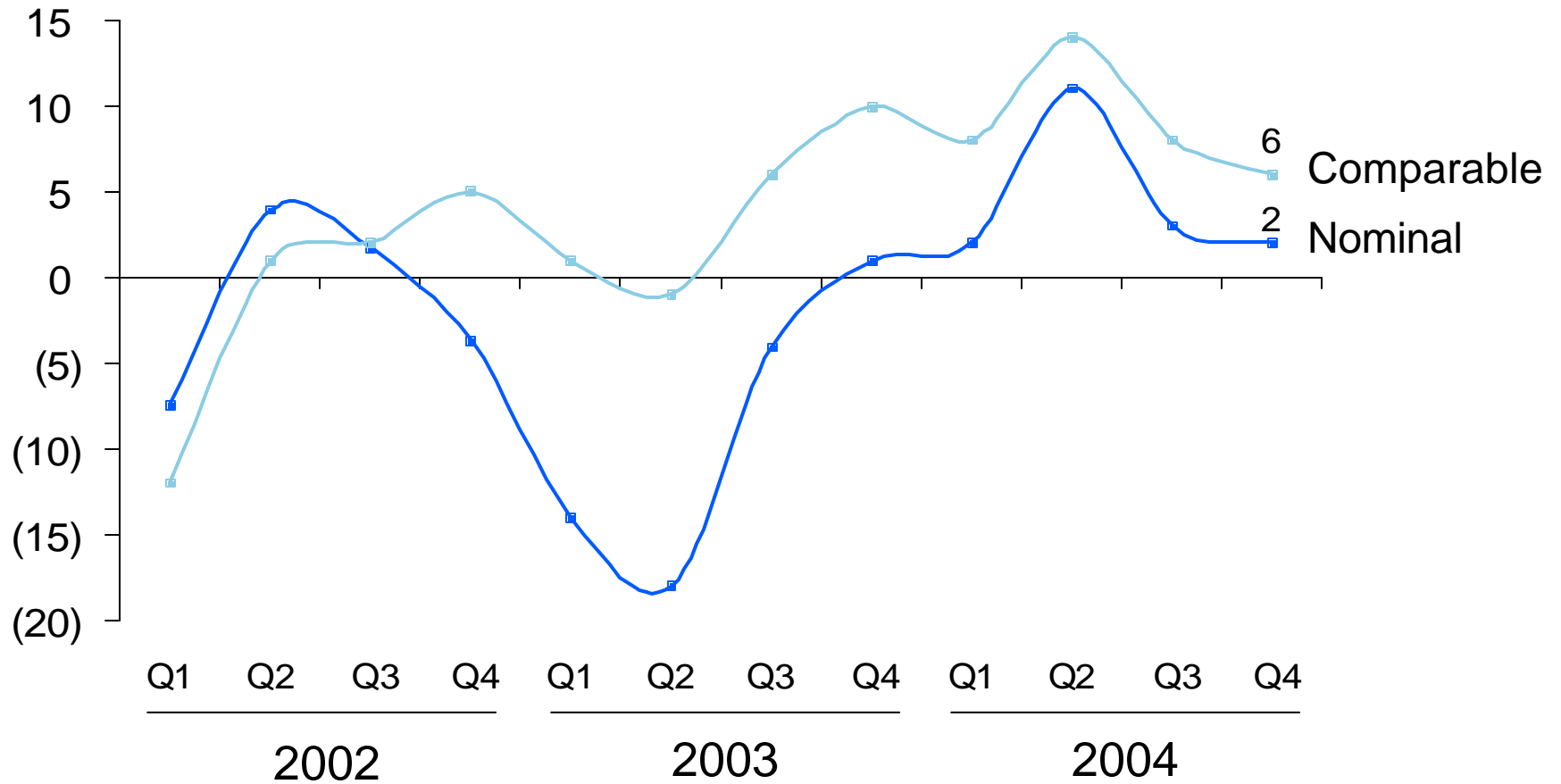
# Summary - 4Q04

*EUR million*

	4Q03	4Q04
Sales	9,017	9,179
Income from operations	608	14
Result relating to UCCs	183	198
Net Income	598	498
Cash flow before financing activities	2,295	2,998
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Net debt : Group equity ratio	18:82	1:99

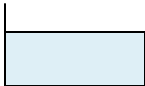



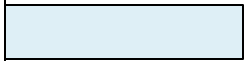

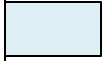





# Quarterly sales growth y-o-y

%



# Sales to thirds by sector – 4Q04

*EUR million*

	4Q03		4Q04		% nom	% comp
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

**Group sales**

9,017

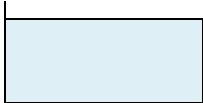







9,179

2

6

# Sales to thirds by region – 4Q04

*EUR million*

	<u>4Q03</u>	<u>4Q04</u>	<u>% nom</u>	<u>% comp</u>
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
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<b>Group sales</b>	9,017	9,179	2	6

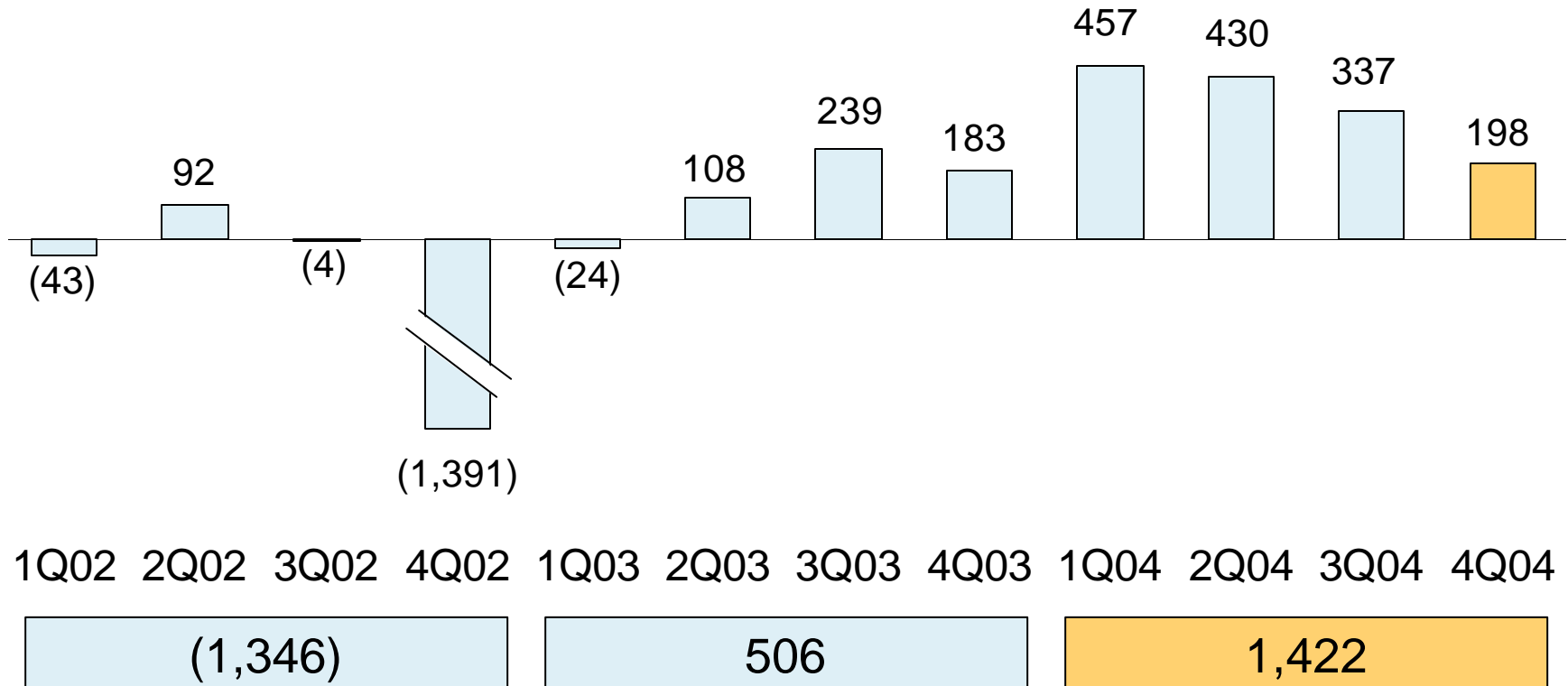
# IFO by sector – 4Q04

*EUR million*

	4Q03	4Q04
Medical Systems	70	(354)
DAP	160	151
CE ( <i>of which Licenses</i> )	249 97	264 217
Lighting	161	149
Semiconductors	166	46
Other Activities	(39)	(89)
Unallocated	(159)	(153)
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Philips Group	608	14
As % of sales	6.7	0.2

# Results unconsolidated companies

*EUR million*



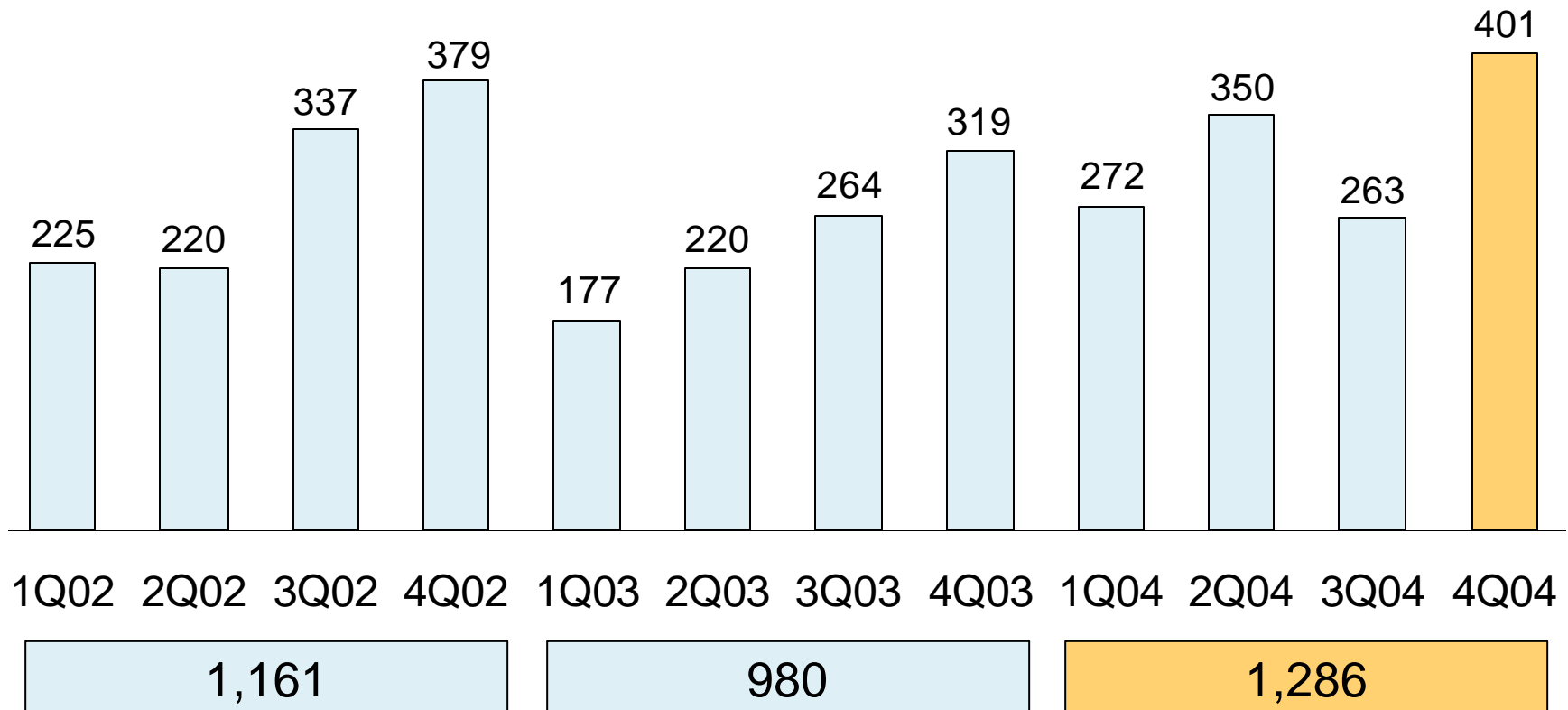
# Cash Flow – 4Q04

*EUR million*

	4Q03	4Q04
Net income	598	498
Depreciation / amortization / impairments	1,327	1,090
Net gain on sale of assets	(732)	(623)
Income from UCCs	(250)	(36)
Decrease in WC / other current assets	698	1,390
Other	32	(380)
<i>CF from operations</i>	1,673	1,939
Gross capital investments	(319)	(401)
Acquisitions/divestments/other	941	1,460
<i>CF before financing activities</i>	2,295	2,998

# Gross capital expenditures

*EUR million*



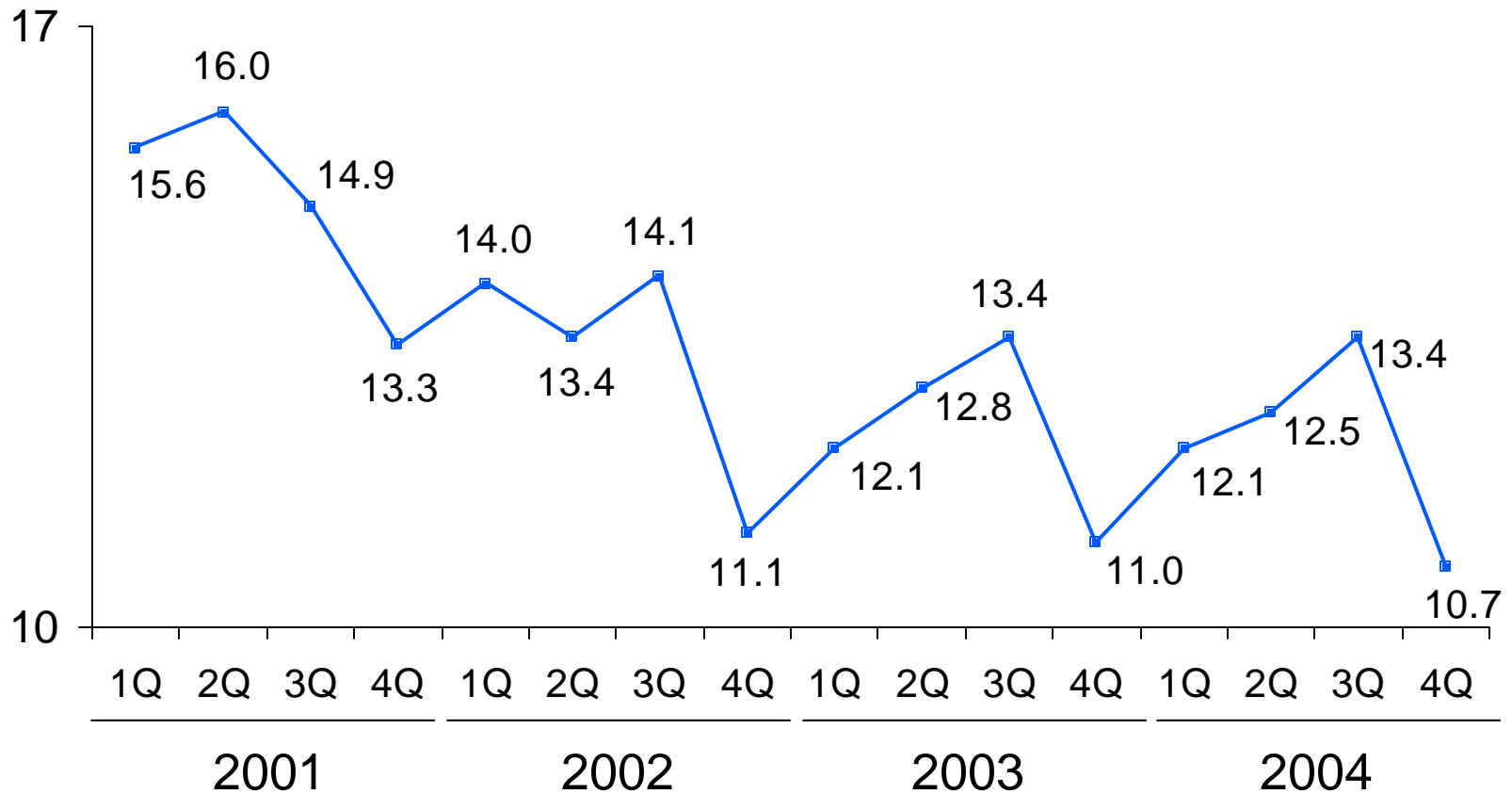
# Gross capital expenditures by sector – 4Q04

*EUR million*

	4Q03	4Q04
Medical Systems	41	37
DAP	32	24
CE	24	18
Lighting	62	97
Semiconductors	86	143
Other Activities	73	80
Unallocated	1	2
<b>Group gross capex</b>	<b>319</b>	<b>401</b>

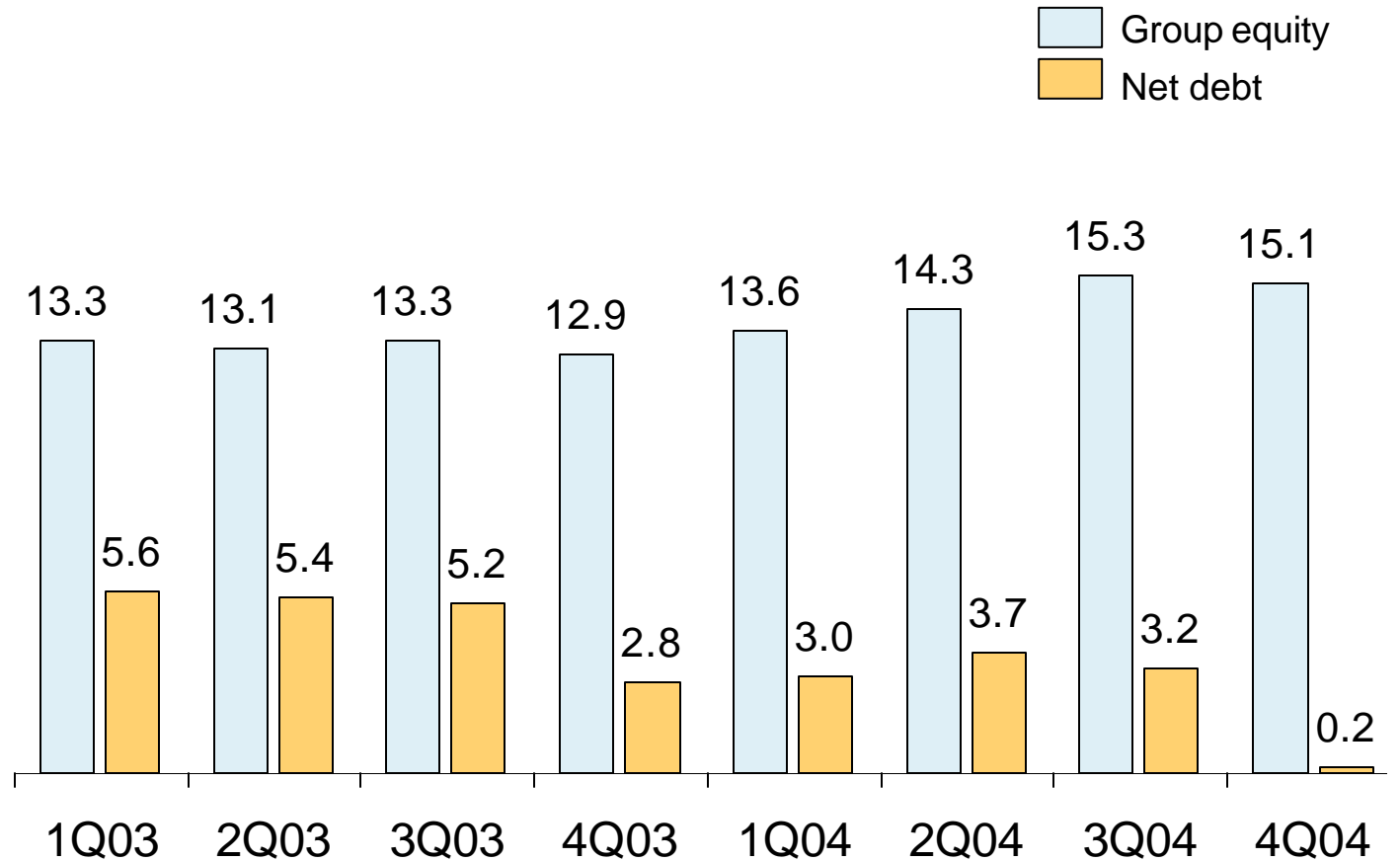
# Inventories

*as % of MAT sales*

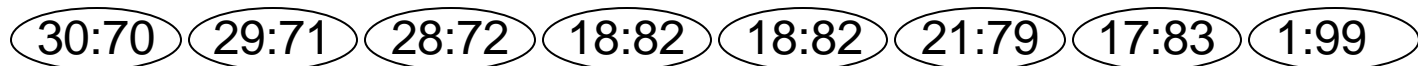


# Net debt : group equity ratio

EUR billion



Net debt /  
group equity  
ratio



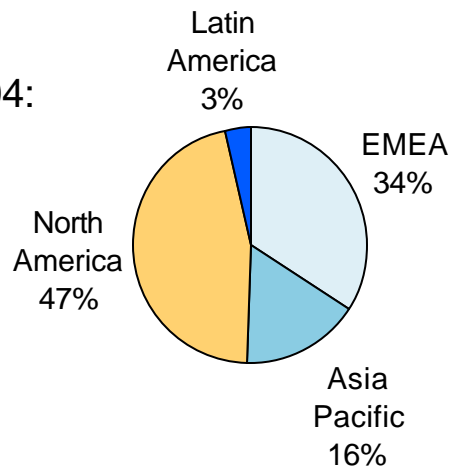
# Medical Systems

*EUR million unless otherwise stated*

## Key figures

	4Q03	3Q04	4Q04
Sales	1,802	1,408	1,790
% sales growth comp.	9	5	4
IFO	70	164	(354)
IFO as % of sales	3.9	11.6	(19.8)
NOC	3,671	3,815	2,862
Employees (FTEs)	30,611	30,856	30,790

Sales per region in 4Q04:



## Financial performance

- Comparable sales up driven by CT, X-Ray, CMS and Customer Service. Europe and N.America mostly contributed to the growth
- IFO included an impairment charge of EUR 576 m. (MedQuist) and a net charge of EUR 133 m. (Volumetrics). Underlying performance was record for 4Q with higher sales of innovative products, increased volumes and an improved product mix
- FY EBITA of 14.4% of sales, adjusted for Volumetrics (12.8% IFO)

## Looking ahead

- Order intake remained strong with comparable increase of approx. 19%
- Maintain focus on innovation and operational excellence
- Continue improving market shares

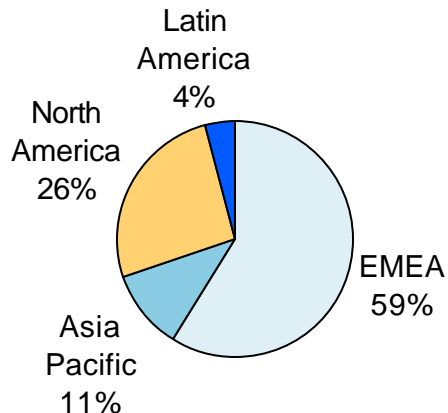
# DAP

*EUR million unless otherwise stated*

## Key figures

	4Q03	3Q04	4Q04
Sales	751	450	745
% sales growth comp.	4	0	2
IFO	160	82	151
IFO as % of sales	21.3	18.2	20.3
NOC	464	571	393
Employees (FTEs)	8,180	8,739	8,205

Sales per region in 4Q04:



## Financial performance

- Comparable sales up driven mainly by Food & Beverage (mainly SENSEO®). China showed a 20% sales increase
- Profitability margin reached 20.3% and was strong in all businesses
- Improvements in supply chain management and focus on asset management, coupled with weaker currencies, led to a substantial reduction in NOC

## Looking ahead

- Focus on new innovative products, partnerships and alliances, retail channels in emerging markets and cost savings
- Additional focus directed towards the new initiative in Consumer Health & Wellness

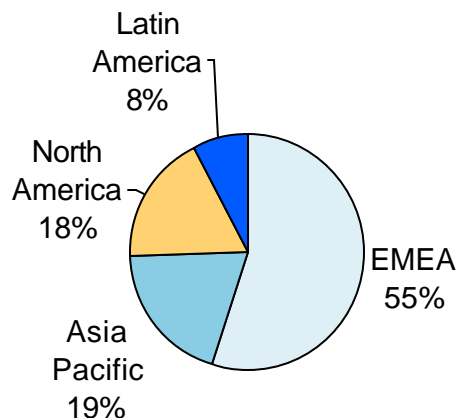
# Consumer Electronics

*EUR million unless otherwise stated*

## Key figures

	4Q03	3Q04	4Q04
Sales	3,057	2,280	3,340
% sales growth comp.	11	7	11
IFO	249	(15)	264
IFO as % of sales	8.1	(0.7)	7.9
NOC	(82)	308	(161)
Employees (FTEs)	19,111	18,996	16,993

Sales per region in 4Q04:



## Financial performance

- Comparable sales up driven by all businesses and all regions
- IFO included charges of EUR 79 m. mainly related to closure of certain display activit.
- Margins remained under pressure mainly in the Flat TV and DVD recorder segments
- License income of EUR 217 m. in 4Q04 including EUR 141 m. past-use
- Record-low negative NOC

## Looking ahead

- Business Renewal Program will be accelerated
- Restructuring charges of approx. EUR 25 m. expected in 1Q05
- Improved products and reduced costs will help move towards targeted margin of 4 - 4.5% by the end of 2005

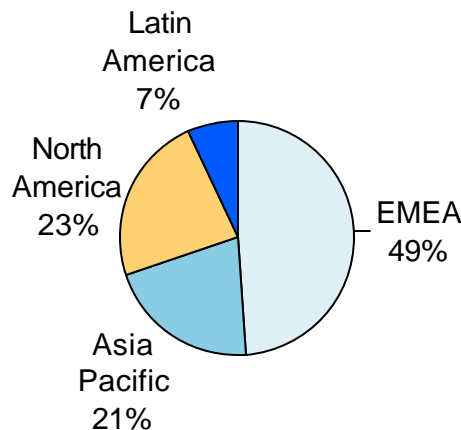
# Lighting

*EUR million unless otherwise stated*

## Key figures

	4Q03	3Q04	4Q04
Sales	1,243	1,105	1,265
% sales growth comp.	3	7	6
IFO	161	142	149
IFO as % of sales	13.0	12.9	11.8
NOC	1,521	1,679	1,493
Employees (FTEs)	43,800	44,571	44,004

Sales per region in 4Q04:



## Financial performance

- Comparable sales up driven by all businesses. Sales were 6% up in Europe led by Lamps and Automotive, Special Lighting & UHP
- IFO impacted by restructuring and asset impairment charges of EUR 43 m.
- Capital expenditures increased compared to 4Q03 driven by investments for innovative higher-margin products

## Looking ahead

- Strict cost control and further optimization of supply chain management
- Increased investments in R&D and capex to propel innovation and sales growth
- Restructuring charges of approx. EUR 30 m. expected in 1Q05

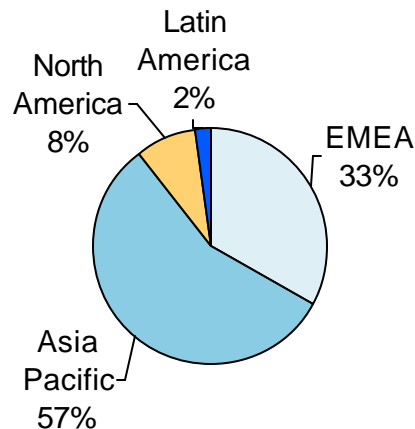
# Semiconductors

*EUR million unless otherwise stated*

## Key figures

	4Q03	3Q04	4Q04
Sales	1,496	1,388	1,354
% sales growth comp.	24	14	(7)
IFO	166	186	46
IFO as % of sales	11.1	13.4	3.4
NOC	2,676	3,254	2,669
Employees (FTEs)	33,177	35,925	35,116

Sales per region in 4Q04:



## Financial performance

- Sequential revenue growth in USD:
  - Semis ex MDS: flat
  - MDS: + 11%
- IFO impacted by reduction in inventories, higher R&D expenses and lower sales level than in 3Q04
- Book-to-bill ratio end 4Q at 0.73
- Utilization rate end 4Q at 81%

## Looking ahead

- Sequential sales decrease expected in 1Q05 in USD:
  - Semis ex MDS: high-single-digit
  - MDS: double-digit
- Programs being implemented to reduce the cost base in Europe

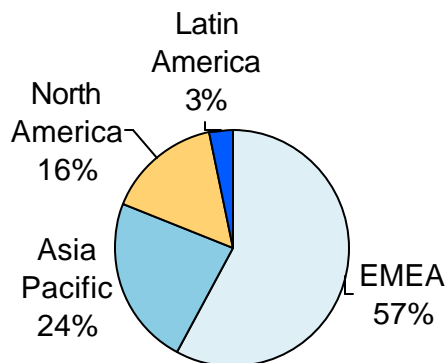
# Other Activities

*EUR million unless otherwise stated*

## Key figures

	4Q03	3Q04	4Q04
Sales	668	598	685
% sales growth comp.	2	17	19
IFO	(39)	573	(89)
IFO as % of sales	(5.8)	95.8	(13.0)
NOC	150	9	117
Employees (FTEs)	27,086	25,120	23,869

Sales per region in 4Q04:



## Financial performance

- IFO impacted by EUR 34 m. restructuring charges for reorganization LCoS activities
- Comparable sales growth driven by Optical Storage and, to a lesser extent, Assembléon and ETG
- All major businesses in Corporate Investments profitable due to improved market conditions and benefits of earlier restructuring programs

## Looking ahead

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

# Unallocated

*EUR million unless otherwise stated*

## Key figures

	4Q03	3Q04	4Q04
Corporate and regional overheads	(98)	(96)	(125)
Pensions	(61)	(17)	(28)
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IFO	(159)	(113)	(153)
Employees (FTEs)	2,473	2,600	2,609

## Financial performance

- Corporate and Regional Overhead costs were higher than in 4Q03 mainly due to higher marketing investments and roll-out of the new brand positioning
- Pension and postretirement benefits costs decreased compared to 4Q03 due to lower pension costs in the USA, The Netherlands and various other European countries

## Looking ahead

- Investments related to the new brand positioning will continue in 2005
- In 2005 pensions/ postretirement benefit costs expected to decrease in Unallocated by EUR 20 m. compared to 2004

# Agenda

Highlights

Performance

Agenda 2004

# Management agenda 2004

- Achieve 14% EBITA in Medical Systems
- Implement CE renewal program to achieve stable 4 - 4.5% IFO by the end of 2005
- Accelerate profitable growth through sustained transformation of Philips into a market driven organization
- Extend number of product leadership positions and increase innovation rate across the group
- Continued focus on indirect costs to achieve additional savings of EUR 250 m. (Q4 run rate)

