

PHILIPS

Royal Philips Electronics Second Quarter 2004

July 13, 2004

“Safe Harbor” Statement under the Private Securities Litigation Reform Act of Oct. 1995

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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. Market share estimates contained in this report are based on outside sources such as specialized research institutes, industry and dealer panels, etc. in combination with management estimates. 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). Unless otherwise indicated in this document, 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) is contained in the Annual Report 2003, 'Financial Statements and Analysis'.

Agenda

- **Highlights**

- **Performance**

- **Agenda 2004**

Highlights

- **Net income was EUR 616 m. comparing with last year's profit of EUR 42 m. The improvement came from the stronger IFO of EUR 356 m. and results from unconsolidated companies of EUR 430 m.**
- **Comparable sales up 14% mainly driven by Semiconductors 28% and Consumer Electronics 19%. Sales growth at Lighting 7% and Medical Systems 3% also solid**
- **IFO increased to a profit of EUR 356 m. from a loss of EUR 26 m. last year. The biggest movement was in Semiconductors which went from a loss of EUR 139 m. to a profit of EUR 143 m.**
- **Restructuring and impairment charges totaled EUR 50 m. compared with EUR 117 m. last year.**
- **Pension costs were EUR 45 m. compared with EUR 112 m. in 2Q03**

Highlights

- **Substantial income from unconsolidated companies of EUR 430 m. driven by strong results of LPL of EUR 251 m. and a net gain of EUR 99 m. relating to InterTrust Technologies Corp.**
- **Low inventories on a seasonal basis being 12.5% of MAT sales compared with 12.8% for 2Q03**
- **Net debt to group equity ratio was 21:79 in 2Q04**

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Summary – 2Q04*EUR million*

	2Q03	2Q04
Sales	6,532	7,280
Income from operations	(26)	356
Unconsolidated companies	108	430
Net income	42	616
Cash flow before financing activities	585	(245)

Quarterly sales growth y-o-y













%

■ Comparable
■ Nominal



Sales to thirds by sector – 2Q04

EUR million

	<u>2Q03</u>	<u>2Q04</u>	<u>% nom</u>	<u>% comp</u>
Medical Systems	 1,446	 1,428	(1)	3
DAP	 456	 456	0	2
CE	 1,980	 2,288	16	19
Lighting	 1,037	 1,079	4	7
Semiconductors	 1,114	 1,418	27	28
Misc. / Unallocated	 499	 611	22	20
Group sales	6,532	7,280	11	14

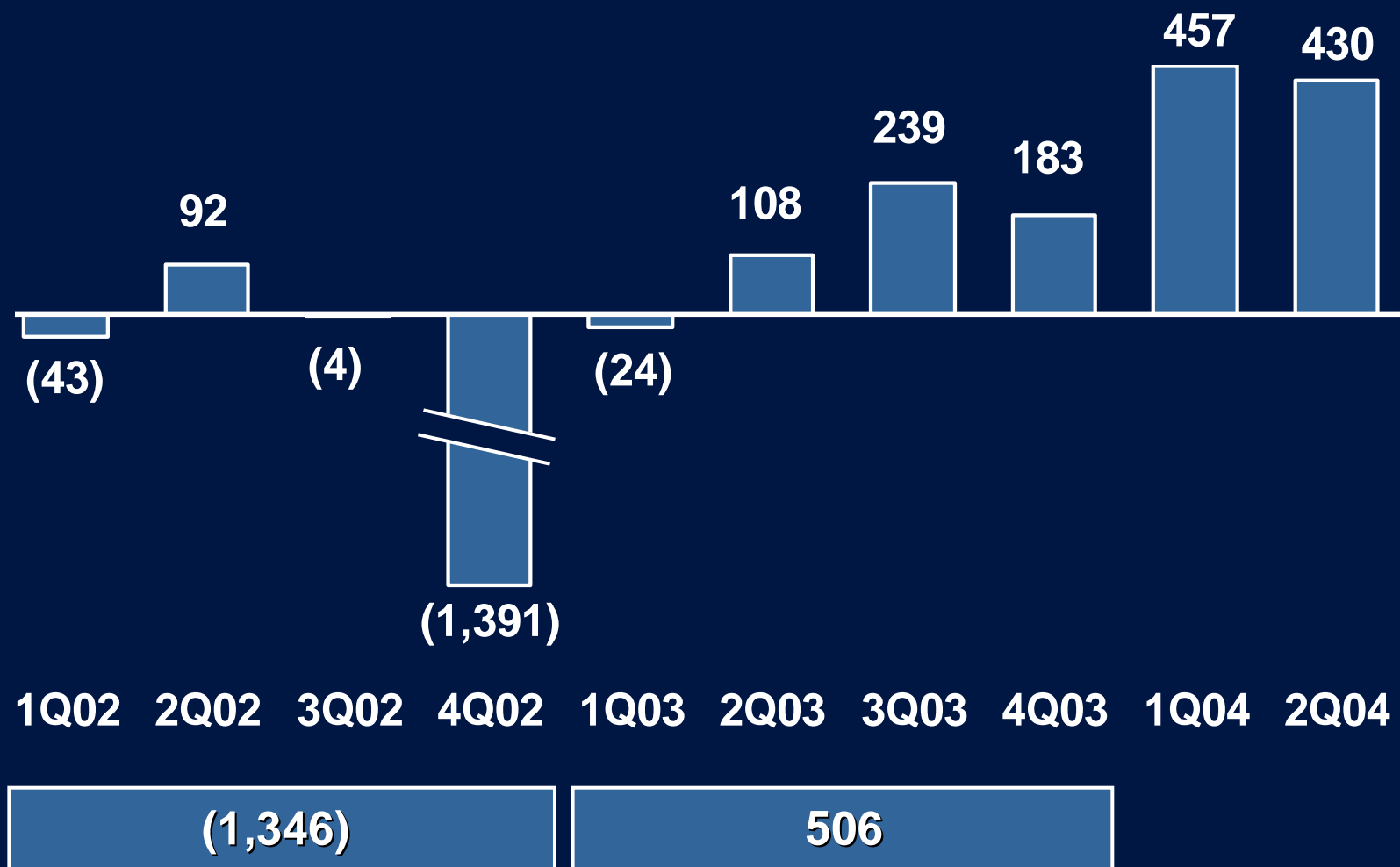
IFO by sector – 2Q04

EUR million

	2Q03	2Q04
Medical Systems	153	132
DAP	75	46
CE (excl. Licenses)	(98)	(34)
Licenses	56	87
Lighting	119	135
Semiconductors	(139)	143
Miscellaneous	(61)	(55)
Unallocated	(131)	(98)
Group IFO	(26)	356

Results unconsolidated companies

EUR million



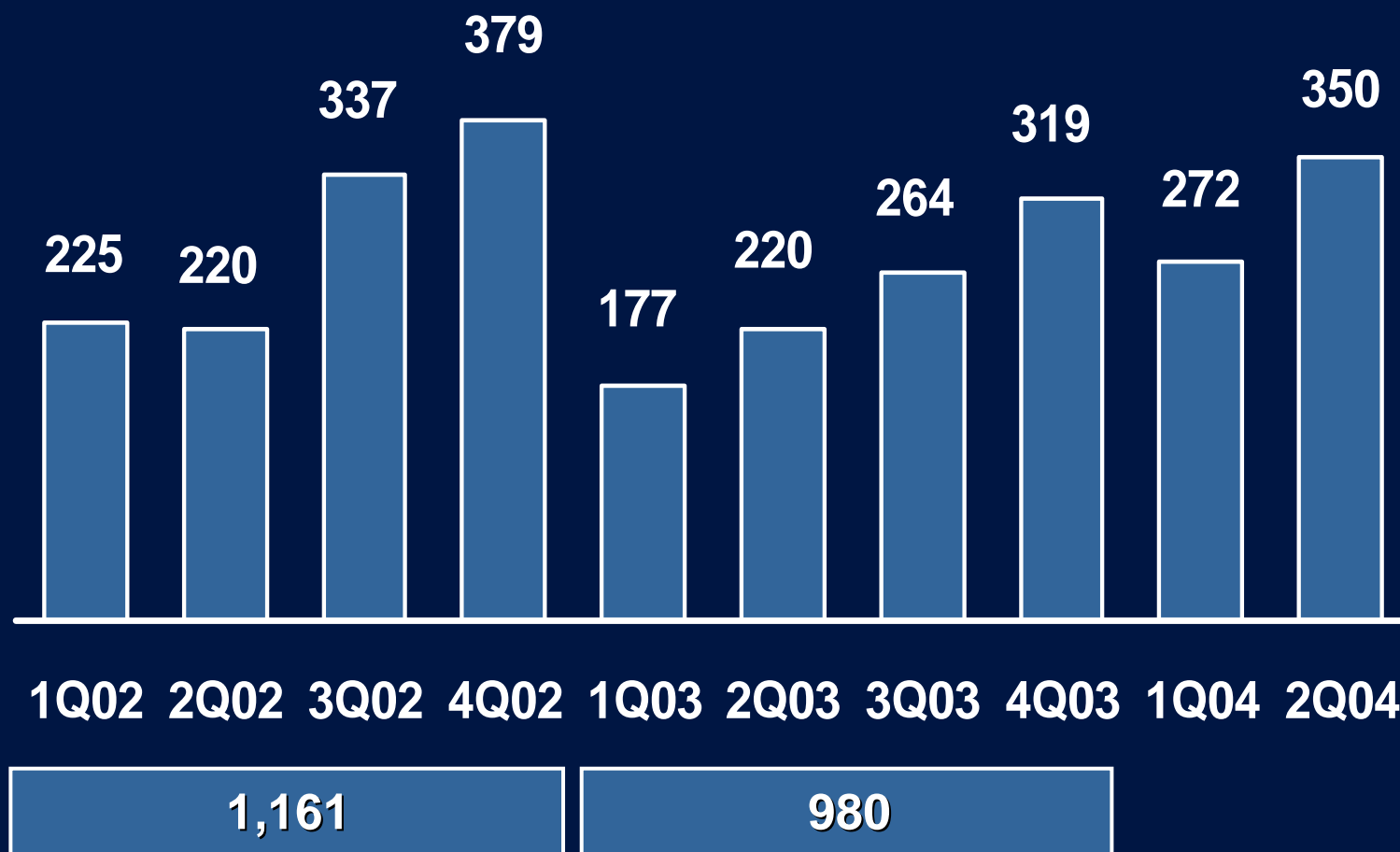
Cash Flow – 2Q04

EUR million

	2Q03	2Q04
Net income	42	616
Depreciation / amortization	482	418
Impairment of equity investments	9	1
Net gain on sale of assets	(116)	(28)
Changes in working capital	(172)	(404)
Loss (income) from UCCs	(108)	(423)
Other	11	(118)
<i>CF from operations</i>	148	62
Gross capital investments	(220)	(350)
Acquisitions/divestments/other	657	43
<i>CF before financing activities</i>	585	(245)

Gross capital expenditures

EUR million



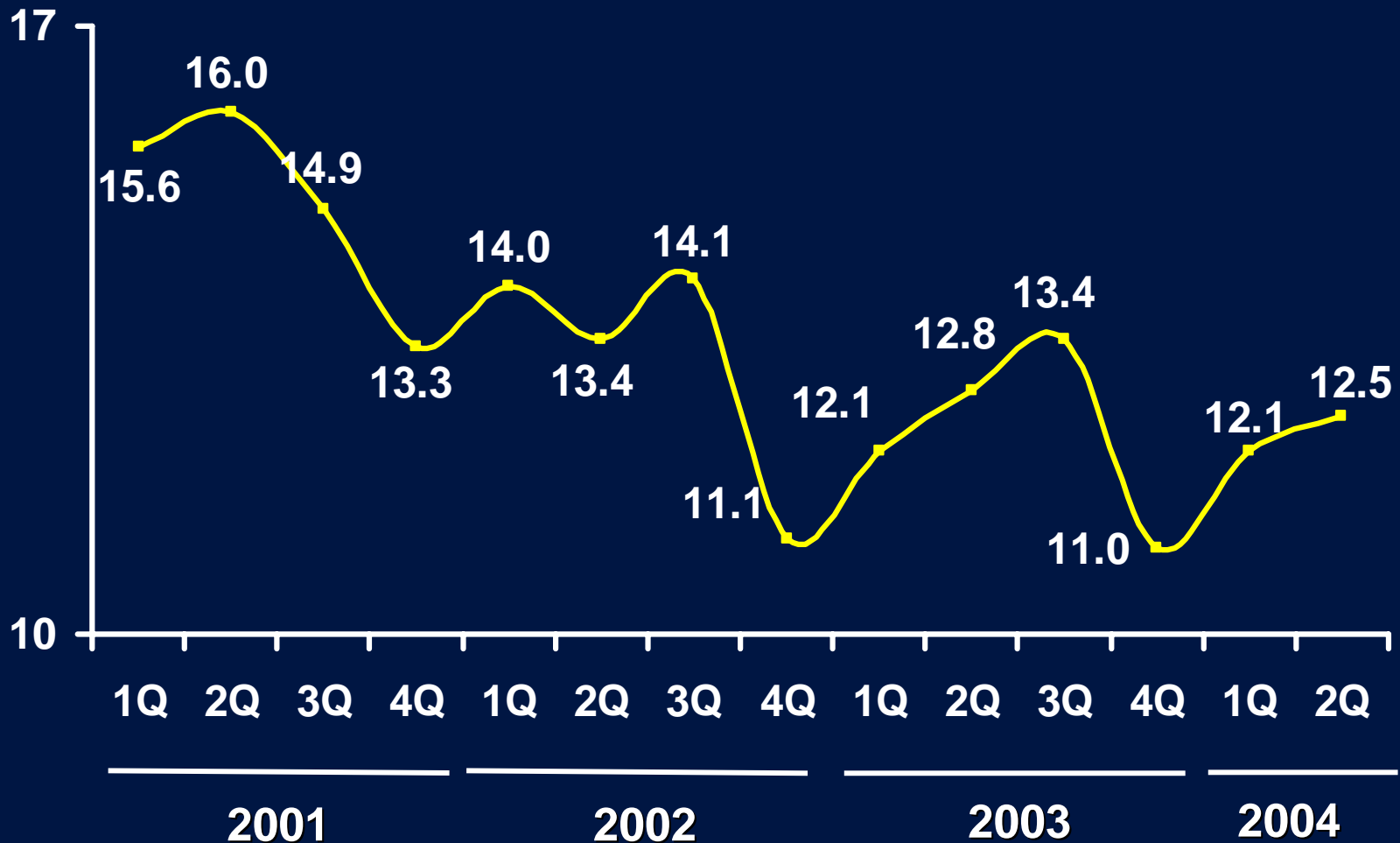
Gross capital expenditures by sector – 2Q04

EUR million

	2Q03	2Q04
Medical Systems	17	19
DAP	13	17
CE	25	26
Lighting	44	33
Semiconductors	67	189
Miscellaneous	53	65
Unallocated	1	1
Group gross capex	220	350

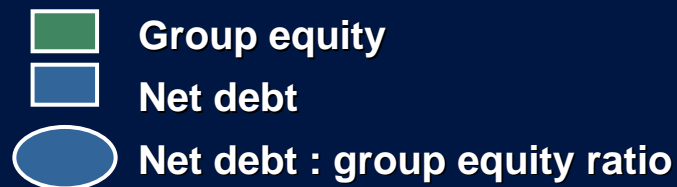
Inventories

as % of MAT sales



Net debt : group equity ratio

EUR billion



Medical Systems

Financial performance

- **Comparable sales up 3% mainly driven by CT and X-Ray**
- **Growth in all regions especially EMEA, Asia Pacific & Latin America**
- **IFO included EUR 14 m. goodwill impairment charge for MedQuist and investments in new business initiatives for molecular imaging and diagnostics**
- **Cash flow benefited from effective working capital management**

Looking ahead

- **Comparable increase in order intake by about 15% in 2Q04 due to product innovations**
- **With positive order intake and strict cost control, Medical Systems on track to reach 14% EBITA as % of sales in 2004**

DAP

Financial performance

- **Comparable sales up 2% while DAP's main markets were flat or declining**
- **Comparable growth driven by Shaving & Beauty and Food & Beverage**
- **IFO included approx. EUR 20 m. for extra investments in A&P and expansion into emerging markets**
- **Solid strong gross margins maintained**
- **Continued focus on asset management led to a NOC reduction**

Looking ahead

- **Focus on launching new products, extending partnerships, expanding retail channels into emerging markets and enhancing purchasing and cost savings**
- **Investments in A&P will be ongoing in 3Q and 4Q**
- **Continuous competitive pressure in North America and Western Europe**

Consumer Electronics

Financial performance

- **Comparable sales of CE (ex Licenses) up 18% mainly driven by Connected Displays and Mobile Infotainment**
- **Growth in all regions particularly in Europe and Asia Pacific**
- **IFO (ex Licenses) improved EUR 64 m. compared to 2Q03 due to top-line growth and savings from the Business Renewal Program**
- **Sales of Licenses EUR 108 m.**
- **IFO of Licenses EUR 87 m.**

Looking ahead

- **Business Renewal Program remains on target to achieve EUR 400 m. savings by year-end 2005**
- **Restructuring charges are expected to be approx. EUR 30 m. in 3Q and approx. EUR 20 m. in 4Q**
- **Certain markets in Europe are weak**

Lighting

Financial performance

- **Comparable sales up 7% mainly driven by innovative new products in Lighting Electronics, Automotive, Special Lighting & UHP**
- **IFO margin improved to 12.5% of sales reflecting improved markets and a successful drive towards operational excellence**

Looking ahead

- **Focus on profitable growth driven by innovation and cost management**
- **Continue to build capacity for innovative products**
- **Continue to optimize supply chain management and asset utilization**

Semiconductors

Financial performance

- Sequential revenue growth (ex. MDS): + 7% in US dollar terms
Sequential growth MDS: - 7% in US dollar terms
- Improved IFO driven by Standard Products and Mobile Communications businesses and higher loading of the manufacturing operations
- Wafer-fab utilization rate rose to 99% in 2Q

Looking ahead

- Book-to-bill ratio at end 2Q remains strong at 1.13
- Low-single-digit sequential increase in segment revenues in US dollar terms expected in 3Q04
- Restructuring charges expected in the second half of the year (probably 4Q) in connection with the reorganization of the plant in Nijmegen, The Netherlands

Miscellaneous

Financial performance

- **Comparable sales up 20% mainly driven by Optical Storage, Navigation Technologies (NAVTEQ) and Philips Enabling Technologies Group (ETG)**
- **Optical Storage and NAVTEQ continued to perform strongly**
- **IFO of Assembléon and ETG improved compared to last year**

Looking ahead

- **Secondary offering of shares of NAVTEQ common stock expected in 3Q**
- **Further execution of divestment program expected, assuming market conditions continue to improve**

Unallocated

Financial performance

- Corporate and Regional Overhead costs slightly higher due to higher personnel-related costs
- Pension costs decreased mainly due to lower pension costs in The Netherlands

Looking ahead

- In 3Q, IFO related to pension/postretirement benefit costs in the sector 'Unallocated' is expected to be at approximately the same level as in 2Q04
- Increase in cost expected in the second half of the year due to higher marketing investments and roll-out of the new brand positioning

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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)**

