

# 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 unless otherwise stated
- includes restatement of Mobile Display Systems activities from Semiconductors to Other Activities



## Philips reports net income of EUR 117 million and income from operations of EUR 193 million.

### The first quarter of 2005

Philips recorded net income of EUR 117 million (EUR 0.09 per share), compared with net income of EUR 550 million (EUR 0.43 per share) in the corresponding period of 2004. The EUR 433 million decrease in net income was due to a EUR 435 million lower contribution from unconsolidated companies.

Sales amounted to EUR 6,635 million and were flat compared to Q1 2004. The weaker US dollar and dollar-related currencies, as well as various divestments, had a downward effect of 2%. On a comparable basis, sales increased by 2%.

Income from operations amounted to EUR 193 million, compared to EUR 218 million in the same period of 2004.

Financial income and expenses resulted in an expense of EUR 48 million, compared with an expense of EUR 66 million in Q1 2004.

Unconsolidated companies contributed EUR 22 million to net income. In Q1 2004, results from unconsolidated companies amounted to EUR 457 million, which included a dilution gain of EUR 156 million on Philips' participation in Atos Origin. LG.Philips LCD's contribution to net income was a loss of EUR 34 million, compared to a profit of EUR 215 million in Q1 2004.

Cash flow from operating activities was an outflow of EUR 351 million. In Q1 2004, cash inflow from operating activities totaled EUR 404 million.

Inventories as a percentage of sales amounted to 11.9%, compared to 12.1% in Q1 2004.

#### 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, political and military developments in countries where Philips operates, the risk of a downturn in the semiconductor market, Philips' ability to secure short-term profitability and invest in long-term growth in Lighting and product R&D in Medical Systems, and industry consolidation.

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-US GAAP information

In presenting and discussing the Philips Group's financial position, operating results and cash flows, management uses certain non-US GAAP financial measures. These non-US GAAP financial measures should not be viewed in isolation as alternatives to the equivalent US GAAP measure(s) and should be used in conjunction with the most directly comparable US GAAP measure(s). A discussion of the non-US 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.

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

“It’s encouraging to see another solid quarter, with steady performance and profitability in all our main businesses. I am pleased with the progress being made in Consumer Electronics, reflecting the successful implementation of our Business Renewal Program. The cyclical nature of the technology sector had a negative impact, especially on our results from unconsolidated companies. Overall, we are on track with our management agenda. Our strong pipeline of market-driven, innovative products should position us well going forward.”

## Highlights in the quarter

### Net income

| in millions of euros unless otherwise stated |            |              |
|--|------------|--------------|
|  | Q1<br>2004 | Q1<br>2005   |
| Sales  | 6,631      | <b>6,635</b> |
| Income from operations                       | 218        | <b>193</b>   |
| as a % of sales                              | 3.3        | <b>2.9</b>   |
| Financial income and expenses                | (66)       | <b>(48)</b>  |
| Income taxes                                 | (46)       | <b>(44)</b>  |
| Results unconsolidated companies             | 457        | <b>22</b>    |
| Minority interests                           | (13)       | <b>(6)</b>   |
| Net income                                   | 550        | <b>117</b>   |
| Per common share – basic                     | 0.43       | <b>0.09</b>  |

### Net income

- Net income amounted to EUR 117 million (EUR 0.09 per share), compared to EUR 550 million (EUR 0.43 per share) in the same period of last year. The EUR 433 million decrease in net income was predominantly due to a EUR 435 million lower contribution from unconsolidated companies.

### Sales by sector

- Nominal sales for the Group were flat compared to Q1 2004. Adjusted for the 2% downward effect of the weaker US dollar and dollar-related currencies as well as various divestments, comparable sales growth was 2%.
- Comparable sales at Medical Systems increased by 5%, driven by most businesses, especially Computed Tomography and Magnetic Resonance. The 9% comparable sales growth at Domestic Appliances and Personal Care (DAP) was fueled by new product ranges. Connected Displays and Home Entertainment were the drivers of CE's sales growth of 7%. At Lighting, all businesses supported the strong comparable sales growth of 6%. The comparable 2% decline at Semiconductors was spread across its various businesses. The decline in sales of Other Activities was mainly attributable to Mobile Display Systems (MDS).

### Sales by sector

| in millions of euros unless otherwise stated |            |              |         |                        |
|--|------------|--------------|---------|------------------------|
|  | Q1<br>2004 | Q1<br>2005   | nominal | % change<br>comparable |
| Medical Systems                              | 1,258      | <b>1,285</b> | 2       | 5                      |
| DAP  | 393        | <b>427</b>   | 9       | 9                      |
| CE   | 2,011      | <b>2,153</b> | 7       | 7                      |
| Lighting                                     | 1,077      | <b>1,128</b> | 5       | 6                      |
| Semiconductors                               | 1,039      | <b>1,012</b> | (3)     | (2)                    |
| Other Activities                             | 853        | <b>630</b>   | (26)    | (15)                   |
| Philips Group                                | 6,631      | <b>6,635</b> | 0       | 2                      |

### Sales per region

- In Europe/Africa, sales increased at Lighting, DAP and Medical Systems, while the other divisions showed declines.
- In North America, Consumer Electronics and DAP were the main drivers of the growth.
- In Latin America, all businesses except Medical Systems realized significant sales growth.
- In Asia Pacific, the sales decline was primarily attributable to MDS and Licenses. Medical Systems, DAP and Lighting recorded 23%, 15% and 6% comparable growth respectively.

### Sales per region

| in millions of euros unless otherwise stated |            |              |         |                        |
|--|------------|--------------|---------|------------------------|
|  | Q1<br>2004 | Q1<br>2005   | nominal | % change<br>comparable |
| Europe/Africa                                | 2,939      | <b>2,909</b> | (1)     | 0                      |
| North America                                | 1,607      | <b>1,669</b> | 4       | 8                      |
| Latin America                                | 274        | <b>332</b>   | 21      | 23                     |
| Asia Pacific                                 | 1,811      | <b>1,725</b> | (5)     | (1)                    |
| Philips Group                                | 6,631      | <b>6,635</b> | 0       | 2                      |

## Income (loss) from operations by sector

in millions of euros unless otherwise stated

|                  | Q1<br>2004 | Q1<br>2005 |
|------------------|------------|------------|
| Medical Systems  | 92         | 100        |
| DAP              | 44         | 56         |
| CE               | 59         | 46         |
| Lighting         | 165        | 149        |
| Semiconductors   | 69         | 14         |
| Other Activities | (57)       | (73)       |
| Unallocated      | (154)      | (99)       |
| Philips Group    | 218        | 193        |
| as a % of sales  | 3.3        | 2.9        |

## Financial income and expenses

in millions of euros

|  | Q1<br>2004 | Q1<br>2005 |
|--|------------|------------|
| Interest expenses (net)                  | (66)       | (48)       |
| Income from non-current financial assets | 1          | -          |
| Other                                    | (1)        | -          |
| Total                                    | (66)       | (48)       |

## Results unconsolidated companies

in millions of euros

|                             | Q1<br>2004 | Q1<br>2005 |
|-----------------------------|------------|------------|
| LG.Philips LCD              | 215        | (34)       |
| LG.Philips Displays         |            |            |
| - operational               | 6          | 2          |
| - restructuring/impairments | (11)       | (18)       |
| Atos Origin dilution/gain   | 156        | -          |
| Others                      | 91         | 72         |
| Total                       | 457        | 22         |

## Income from operations by sector

- Income from operations for Q1 2005 was a profit of EUR 193 million, compared to a profit of EUR 218 million in the corresponding period last year. Restructuring and impairment charges amounted to EUR 45 million, compared with EUR 16 million in Q1 2004. Pension costs totaled EUR 59 million, compared to EUR 132 million in Q1 2004.
- Income from operations at Medical Systems improved by EUR 8 million, due to higher sales and a better product mix, partially offset by higher costs.
- Income from operations at DAP was 13.1% of sales, an increase of 1.9 percentage points compared to Q1 2004. Margins remained strong across all businesses.
- At CE, higher sales coupled with increased margins and lower costs supported income from operations, mainly due to Connected Displays. License income declined by EUR 37 million compared to Q1 2004.
- Lighting continued its solid performance, but income from operations was impacted by restructuring charges of EUR 27 million.
- Results at Semiconductors were mainly impacted by the decline in sales and a lower utilization rate.
- The operating loss of Other Activities increased, mainly due to the decline in sales at MDS.
- The improvement within Unallocated was entirely attributable to lower pension costs compared with Q1 2004.

## Financial income and expenses

- Net interest expenses were EUR 18 million lower than in Q1 2004 due to the lower net debt position.

## Results relating to unconsolidated companies

- Results relating to unconsolidated companies in Q1 were EUR 435 million lower than in Q1 2004, and were significantly impacted by the EUR 249 million lower contribution from LG.Philips LCD compared to Q1 2004.

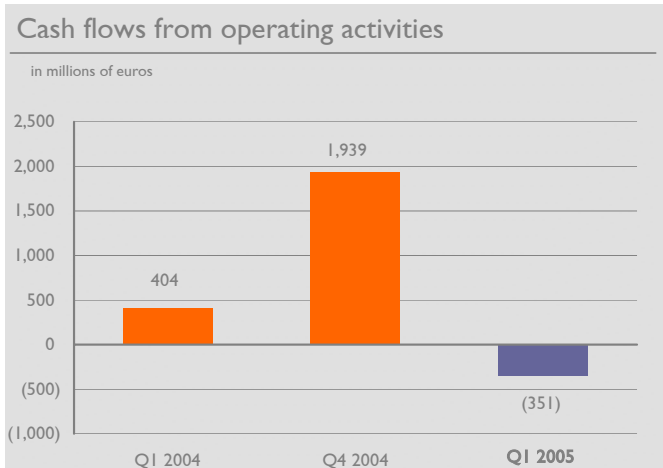
## Cash balance

| in millions of euros                 |            |            |
|--------------------------------------|------------|------------|
|                                      | Q1<br>2004 | Q1<br>2005 |
| Beginning balance                    | 3,072      | 4,349      |
| Net cash from operating activities   | 404        | (351)      |
| Gross capital expenditures           | (272)      | (226)      |
| Acquisitions/divestments             | (18)       | (74)       |
| Other cash from investing activities | 27         | 10         |
| Changes in debt/other                | (108)      | (498)      |
| Ending balance                       | 3,105      | 3,210      |

## Cash balance

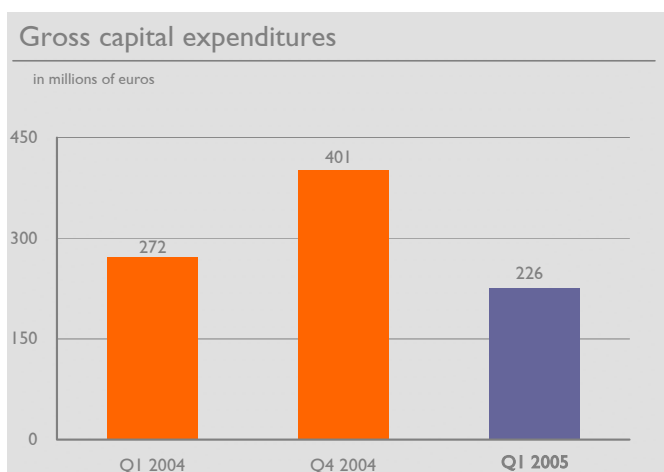
- In Q1, the cash position decreased by EUR 1,139 million.
- A payment of EUR 64 million was made for an additional investment in NAVTEQ (execution of an option).
- In connection with the share repurchase program, a cash amount of EUR 252 million was used for capital reduction, and EUR 174 million to hedge long-term incentive and employee stock purchase programs.

## Cash flows from operating activities



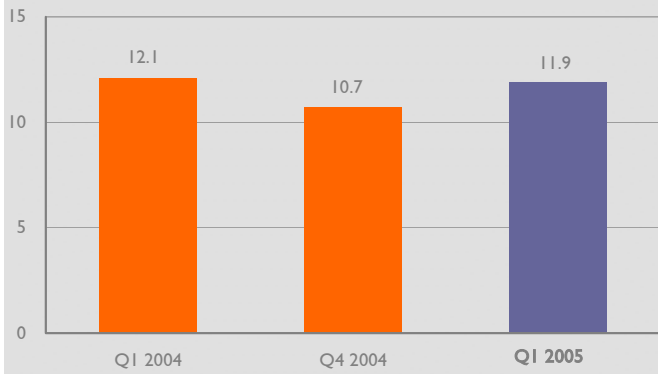
- After a very strong cash inflow in Q4 2004, higher working capital needs (mainly due to lower accounts payable) in Q1 2005 led to a EUR 351 million cash outflow from operating activities.
- Cash flow from operating activities was down on Q1 2004 across all product divisions, but in particular at Consumer Electronics (anticipated decline after the strong Q4 cash inflow), Semiconductors and Group Overheads and Services (pensions).
- A dividend payment received from the unconsolidated company InterTrust Technologies Corp. had a positive impact of EUR 90 million on cash flow from operating activities.

## Gross capital expenditures



- Capital expenditures totaled EUR 79 million at Semiconductors, EUR 38 million at Lighting and EUR 71 million at Other Activities.
- Primarily due to continued investments in innovative products, capital expenditures increased at Lighting.
- Compared to Q1 2004, capital expenditures were reduced by EUR 46 million, mainly at Semiconductors.

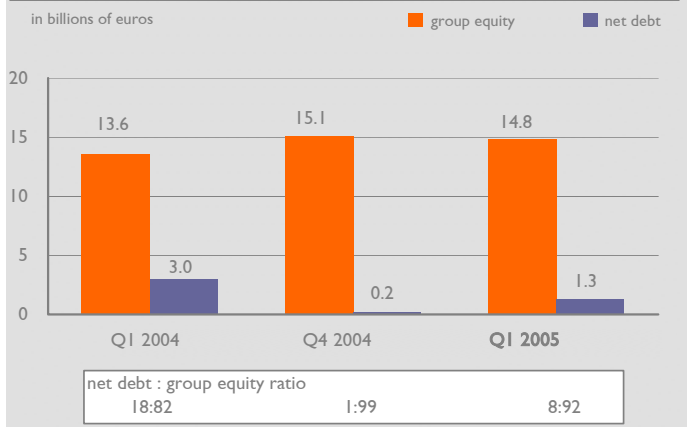
## Inventories as a % of sales



## Inventories

- Inventories as a percentage of sales amounted to 11.9%, a new record-low for the first quarter.
- Compared to Q1 2004, inventories as a percentage of sales decreased in all divisions except Lighting and Medical Systems.

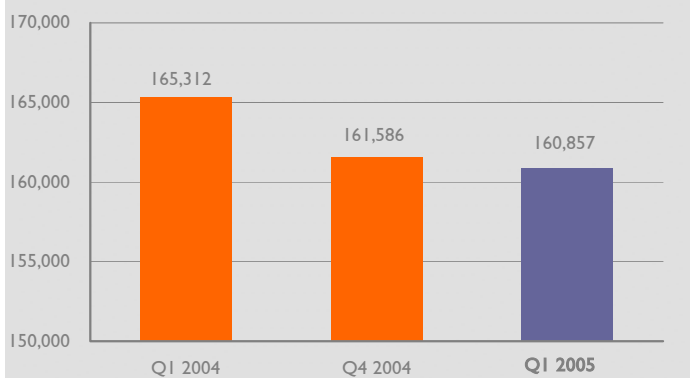
## Net debt and group equity



## Net debt and group equity

- During the quarter, net debt increased by EUR 1,123 million, primarily due to a EUR 641 million cash outflow before financing activities and a EUR 426 million cash outflow for the buy-back of shares.
- Compared to Q4 2004, group equity decreased by EUR 332 million. This was largely due to the repurchase of shares and a charge of EUR 504 million for dividend to be paid in April, partly offset by positive translation differences.

## Number of employees (FTEs)



## Employment

- The number of employees at the end of Q1 2005 was 160,857. Adjusted for a decrease of 554 in Other Activities in connection with the divestment of Philips High-Tech Plastics, the actual decrease during Q1 was 175.

# Medical Systems

## Medical Systems: key data

in millions of euros unless otherwise stated

|                             | Q1<br>2004 | Q1<br>2005    |
|-----------------------------|------------|---------------|
| Sales                       | 1,258      | <b>1,285</b>  |
| Sales growth                |            |               |
| % nominal                   | (5 )       | <b>2</b>      |
| % comparable                | 4          | <b>5</b>      |
| Income from operations      | 92         | <b>100</b>    |
| as a % of sales             | 7.3        | <b>7.8</b>    |
| Net operating capital (NOC) | 3,803      | <b>3,058</b>  |
| Number of employees (FTEs)  | 30,210     | <b>30,756</b> |

## Business highlights

- Metro Health hospital in Grand Rapids, Michigan, has chosen the Philips Xtenity Enterprise information system, which supports a comprehensive electronic patient record accessible by physicians and patients alike, thus helping to increase clinical efficiency and improve the quality of care.
- Philips introduced the HeartStart FRx – the first defibrillator to transmit data wirelessly. The HeartStart FRx has an infrared data port that can transmit information wirelessly to palmOne personal digital assistants (PDAs).
- Philips reaffirmed its leadership position in patient-friendly, non-claustrophobic medical equipment by installing its 100th 3.0 T Magnetic Resonance compact whole-body scanner – the only product of its kind on the market.

## Financial performance

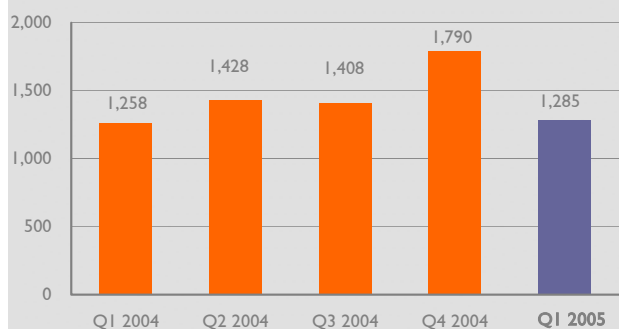
- Q1 order intake showed year-over-year comparable growth of 9%, mainly for products and systems.
- Sales grew by 2% nominally and by 5% when adjusted for unfavorable currency movements. This growth was driven by most businesses, and in particular by double-digit increases in Computed Tomography and Magnetic Resonance, reflecting the successful introduction of innovative products.
- Income from operations increased by EUR 8 million from Q1 2004 to EUR 100 million, largely due to higher sales and improved gross margins, partially offset by a EUR 10 million reduction in income at MedQuist. The latter was due to lower sales and increased costs (mainly legal fees). Income from operations as a percentage of sales increased by 0.5 percentage points to 7.8% in Q1 2005.
- The Q1 year-over-year reduction in net operating capital was mainly due to impairment charges for MedQuist in 2004.

## Looking ahead

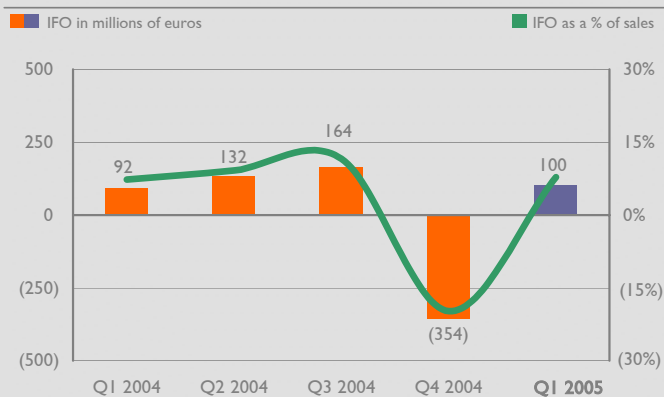
- With its strong order book, Medical Systems is expected to further improve its market share, and it will maintain its focus on innovation and operational excellence.

## Medical Systems sales

in millions of euros



## Medical Systems income (loss) from operations (IFO)



# Domestic Appliances and Personal Care

## DAP: key data

in millions of euros unless otherwise stated

|                             | Q1<br>2004 | Q1<br>2005   |
|-----------------------------|------------|--------------|
| Sales                       | 393        | <b>427</b>   |
| Sales growth                |            |              |
| % nominal                   | (14)       | <b>9</b>     |
| % comparable                | (9)        | <b>9</b>     |
| Income from operations      | 44         | <b>56</b>    |
| as a % of sales             | 11.2       | <b>13.1</b>  |
| Net operating capital (NOC) | 522        | <b>460</b>   |
| Number of employees (FTEs)  | 8,263      | <b>8,542</b> |

## Business highlights

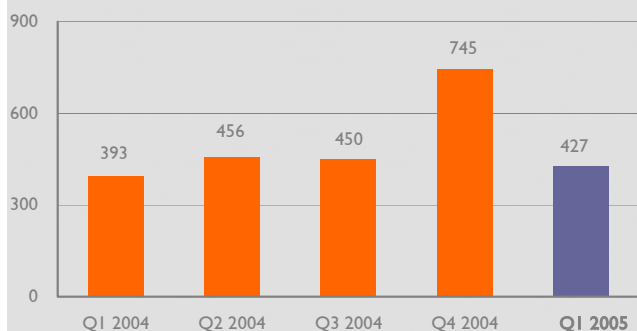
- In the first quarter, Philips passed the milestone of 1 million Senseo coffee machines sold in Belgium and 2 million sold in Germany.
- Philips expanded its existing range of floor-cleaning products with the launch of a new easy-to-use bagless vacuum cleaner under the slogan “cleaner made simpler”.
- Philips’ Ladyshave and the Senseo Aluminum coffee machine won prestigious 2005 European iF design awards for outstanding and innovative design.

## Financial performance

- Sales increased by 9% compared to Q1 2004, both on a nominal and a comparable basis. Comparable sales growth was mainly driven by Food & Beverage (Senseo coffee machine), followed by Shaving & Beauty and Oral Healthcare (IntelliClean). All regions contributed to the rise in comparable sales. In China, comparable sales showed a 17% increase.
- Sales growth from new product introductions contributed to sustained strong margins which, combined with cost containment, led to a substantial improvement in profitability.
- Income from operations amounted to 13.1% of sales, an increase of 1.9 percentage points compared to Q1 2004. The increase was mainly attributable to higher sales in Food & Beverage.
- Net operating capital decreased by EUR 62 million, mainly driven by improvements in supply chain management and reductions in fixed assets.

## DAP sales

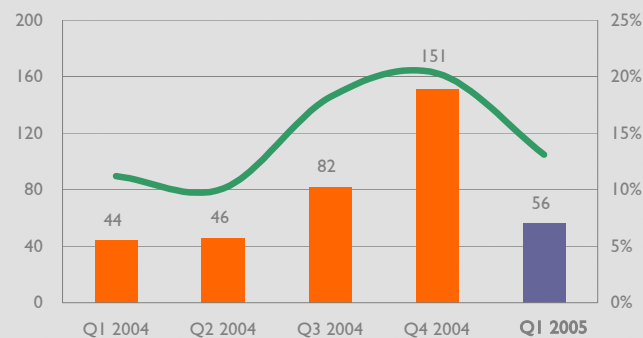
in millions of euros



## DAP income from operations (IFO)

IFO in millions of euros

IFO as a % of sales



## Looking ahead

- The focus will remain on launching innovative products, extending alliances and expanding retail channels into emerging markets.

# Consumer Electronics

## Consumer Electronics: key data

in millions of euros unless otherwise stated

|                             | Q1<br>2004 | Q1<br>2005 |
|-----------------------------|------------|------------|
| Sales                       | 2,011      | 2,153      |
| Sales growth                |            |            |
| % nominal                   | 3          | 7          |
| % comparable                | 9          | 7          |
| Income from operations      | 59         | 46         |
| as a % of sales             | 2.9        | 2.1        |
| Net operating capital (NOC) | 71         | 108        |
| Number of employees (FTEs)  | 17,893     | 16,725     |

## Business highlights

- Philips' Ambilight Flat TV and the Key019 Digital Wearable Camcorder won 2005 European iF design awards for integrating advanced technologies into a consumer-friendly design.
- Premiere, a leading German pay-TV operator, chose Philips as the exclusive supplier of set-top boxes for its high-definition television service.
- In North America, Philips achieved strong placements in key retail stores, supporting sales growth in Flat TV, and recorded strong sales in digital set-top boxes.

## Financial performance

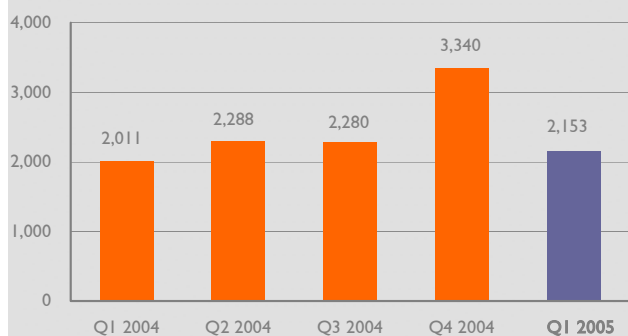
- Connected Displays and Home Entertainment were the main drivers of the 7% sales growth, both nominal and comparable, which was partly offset by a downturn in Licenses. Sales growth was particularly strong in North America (29%), mainly driven by TV displays and digital set-top boxes, and Latin America (44%).
- Income from operations for Licenses amounted to EUR 32 million, compared to EUR 69 million in Q1 2004. Limited past-use license income and lower volumes in general resulted in a EUR 37 million decline in income from operations.
- The strong performance of Connected Displays and the benefits of the Business Renewal Program were the main factors behind the Q1 income from operations (excluding Licenses) of EUR 14 million. In Q1, the operating margin was 1.5% (when adjusted for restructuring), on track to reach the target of 2 - 2.5% plus 2% from Licenses income by the end of 2005.
- Income from operations included restructuring charges of EUR 19 million, compared to EUR 14 million last year.

## Looking ahead

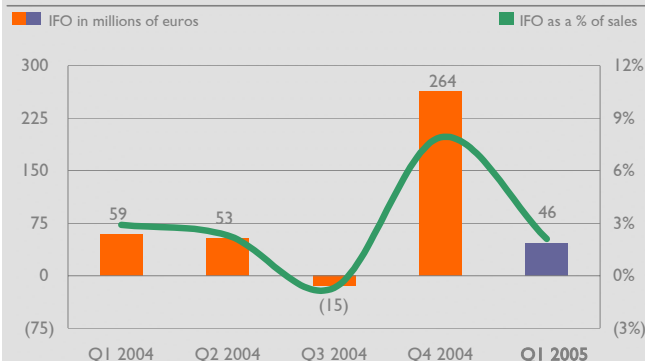
- It is expected that the agreement with TPV Technology Limited to transfer the OEM sales, manufacturing and development of PC monitors and entry-level Flat TVs to TPV will be closed by early Q3 2005.
- The Business Renewal Program is on track to exceed the EUR 400 million savings on a run-rate basis by year-end 2005.
- In connection with the Business Renewal Program, restructuring charges of approximately EUR 20 million are expected in Q2 2005.

## Consumer Electronics sales

in millions of euros



## Consumer Electronics income (loss) from operations (IFO)



# Lighting

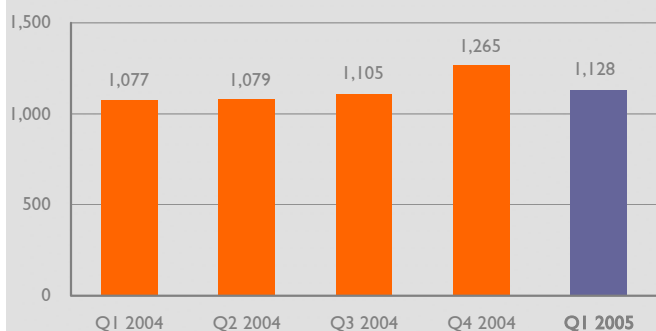
## Lighting: key data

in millions of euros unless otherwise stated

|                             | Q1<br>2004 | Q1<br>2005 |
|-----------------------------|------------|------------|
| Sales                       | 1,077      | 1,128      |
| Sales growth                |            |            |
| % nominal                   | (7)        | 5          |
| % comparable                | 0          | 6          |
| Income from operations      | 165        | 149        |
| as a % of sales             | 15.3       | 13.2       |
| Net operating capital (NOC) | 1,614      | 1,617      |
| Number of employees (FTEs)  | 44,353     | 44,429     |

## Lighting sales

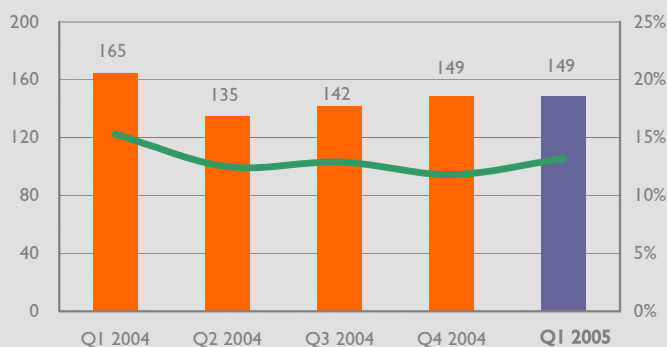
in millions of euros



## Lighting income from operations (IFO)

■ IFO in millions of euros

■ IFO as a % of sales



## Business highlights

- Capitalizing on the trend in shops of using lighting to create a unique look and feel, Philips introduced the MASTER Colour Elite – the first dimmable lamp to recreate natural lighting – at this year’s EuroShop, the leading retail lighting trade fair, held in Düsseldorf.
- The European Lamp Companies Federation – which includes Philips – presented the European Union with proposals for developing energy-efficient lighting technologies to help meet Kyoto CO<sub>2</sub> emissions targets.
- The leading US industrial manufacturing magazine Plant Engineering named Philips’ energy-saving T8 tubular lamp “Product of the Year” in the lighting category in recognition of its energy efficiency and long life.

## Financial performance

- Compared to Q1 2004, sales increased 5% on a nominal basis and 6% on a comparable basis, driven by strong improvements across all businesses.
- Strong profitable growth in sales of Lamps throughout Europe was driven by innovative products for shops and outdoor applications, offering better quality of light combined with lower energy consumption.
- Compared with Q1 2004, income from operations was down EUR 16 million at EUR 149 million, which included restructuring charges of EUR 27 million.

## Looking ahead

- Slight weakness in certain markets (lighting for consumer applications and North America).
- Continue to invest in innovative sectors via increased R&D and capital expenditures for solid-state lighting and consumer applications.
- Further develop marketing expertise in order to deliver solutions to the market faster and more effectively.

# Semiconductors

## Semiconductors: key data

in millions of euros unless otherwise stated

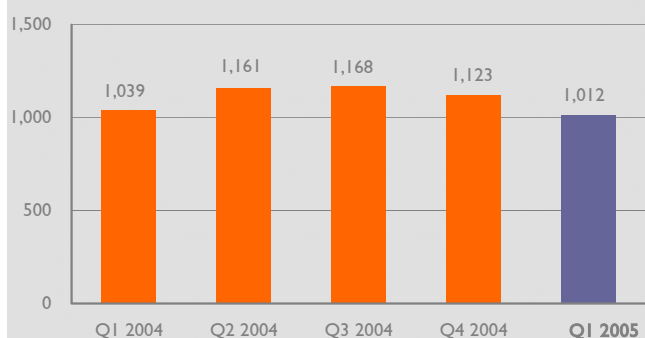
|                             | Q1<br>2004 | Q1<br>2005    |
|-----------------------------|------------|---------------|
| Sales                       | 1,039      | <b>1,012</b>  |
| Sales growth                |            |               |
| % nominal                   | 16         | <b>(3)</b>    |
| % comparable                | 22         | <b>(2)</b>    |
| Income from operations      | 69         | <b>14</b>     |
| as a % of sales             | 6.6        | <b>1.4</b>    |
| Net operating capital (NOC) | 3,004      | <b>2,649</b>  |
| Number of employees (FTEs)  | 32,693     | <b>34,856</b> |

## Business highlights

- Samsung announced its first GSM/GPRS/EDGE handsets based on Philips' Nexperia Cellular System Solution. This solution enables high-speed wireless connectivity for video streaming and real-time audio.
- Philips deployed radio frequency identification (RFID) in its supply chain in Asia – the first major rollout in the semiconductor industry.
- Philips unveiled a System-in-Package solution for TV on mobile phones. This solution, based on the DVB-H standard, will enable consumers to connect to live TV, as well as pictures, movies and music, all on the move.

## Semiconductors sales

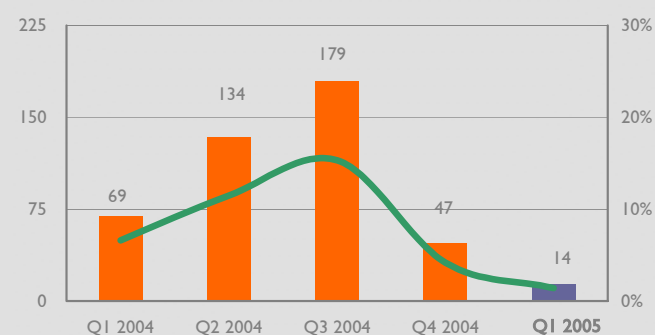
in millions of euros



## Semiconductors income from operations (IFO)

IFO in millions of euros

IFO as a % of sales



## Financial performance

- The reporting on the activities of MDS has been transferred from Semiconductors to Other Activities, effective January 1, 2005. The figures for 2004 have been restated accordingly.
- RF Solutions has been transferred to Semiconductors from Other Activities, effective January 1, 2005. The impact of this on Semiconductors in Q1 2005 was a 3% increase in sales, and EUR 3 million additional income from operations; it also increased headcount by 2,035 employees. The figures for 2004 have not been restated.
- Nominal sales decreased by 3% compared to Q1 2004. Sequentially, sales declined by 9% in US dollar terms; this decline mainly related to Consumer and Connectivity (part of Communications) products, reflecting seasonality.
- The utilization rate declined from 90% in Q1 2004 to 81% in Q4 2004 and 75% in Q1 2005.
- The decline in income from operations compared with Q4 2004 was mainly attributable to lower sales, partly offset by lower sector costs and a build-down of inventories in Q4.
- Compared with Q1 2004, the decrease in income from operations was mainly due to lower sales and a decline in the US dollar.
- The book-to-bill ratio improved from 0.73 at the end of 2004 to 1.01 at the end of Q1 2005.

## Looking ahead

- Low-to-mid-single-digit sequential sales growth (in US dollar terms) is expected in Q2 2005.

## Other Activities

### Other Activities: key data

in millions of euros unless otherwise stated

|                                  | Q1<br>2004 | Q1<br>2005    |
|----------------------------------|------------|---------------|
| Sales                            | 853        | <b>630</b>    |
| Sales growth                     |            |               |
| % nominal                        | 19         | <b>(26)</b>   |
| % comparable                     | 18         | <b>(15)</b>   |
| IFO Technology Cluster           | (72)       | <b>(70)</b>   |
| IFO Corp. Investments and others | 15         | <b>(3)</b>    |
| Income (loss) from operations    | (57)       | <b>(73)</b>   |
| as a % of sales                  | (6.7)      | <b>(11.6)</b> |
| Net operating capital (NOC)      | 308        | <b>448</b>    |
| Number of employees (FTEs)       | 29,226     | <b>23,044</b> |

### Business highlights

- At the 2005 International Forum Design in Hanover, Germany, Philips received 12 iF awards for a range of healthcare and lifestyle products. The awards recognize designs combining technological sense with user friendliness.
- Philips Research, Eindhoven University of Technology, Maastricht University and Maastricht University Hospital signed a letter of intent to set up a “Center for Molecular Medicine” to explore molecular imaging, diagnostics and therapy.
- Philips, InterTrust Technologies, Matsushita, Samsung and Sony formed the “Marlin Joint Development Association” to establish standard specifications for managing consumer electronics content.
- Philips Research and New Venture Partners announced a partnership deal to identify and create spin-off businesses based on technology from Philips Research's global network of laboratories.

### Financial performance Technology Cluster

- In the Technology Cluster, the loss from operations was slightly smaller than in Q1 2004.

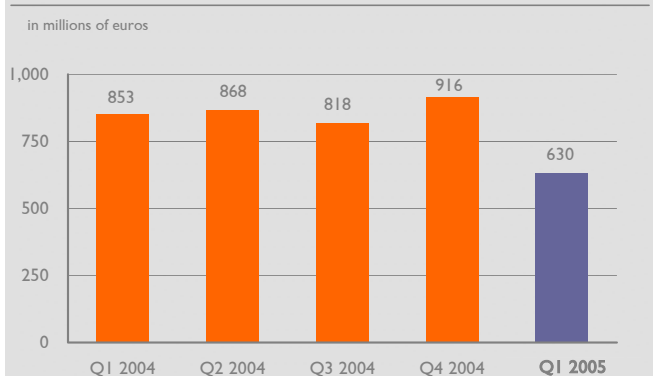
### Financial performance Corp. Investments/others

- Comparable sales at MDS declined 45%.
- On a comparable basis, sales in Corporate Investments were flat, while at Optical Storage sales growth amounted to 5%.
- Due to the lower sales level, MDS posted a loss; this was the main reason for the lower income from operations compared to Q1 2004.

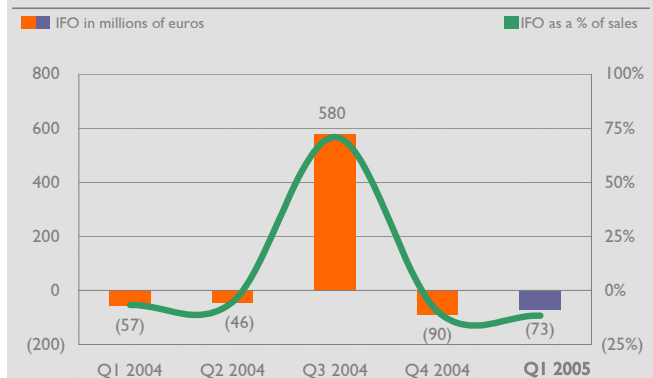
### Looking ahead

- In Q2 2005, restructuring charges of approximately EUR 30 million are expected, principally for the Technology Cluster and Corporate Investments.

### Other Activities sales



### Other Activities income (loss) from operations (IFO)



# Unallocated

## Unallocated: key data

in millions of euros unless otherwise stated

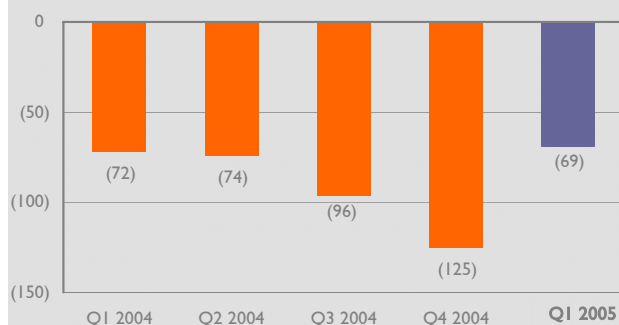
|                                       | Q1<br>2004 | Q1<br>2005 |
|---------------------------------------|------------|------------|
| Corporate and regional overheads      | (72)       | (69)       |
| Pensions/postretirement benefit costs | (82)       | (30)       |
| Income (loss) from operations         | (154)      | (99)       |
| Number of employees (FTEs)            | 2,674      | 2,505      |

## Business highlights

- In 2004, Philips introduced 21 new Green Flagship products, bringing the number of products with improved environmental performance – in weight, energy consumption, hazardous substances, packaging, recycling or disposal – to over 100.
- At the World Economic Forum in Davos, Switzerland, Philips was chosen as one of the Global 100 Most Sustainable Corporations, out of a total of approximately 2000 companies.
- Philips published its 3<sup>rd</sup> Sustainability Report, which outlined further progress made in embedding sustainability in the company's business practices.

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

in millions of euros

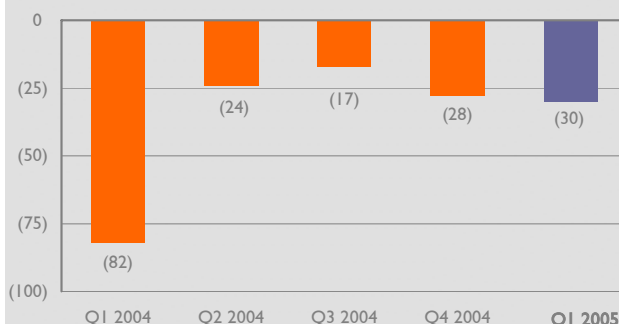


## Financial performance

- Corporate and Regional Overhead costs remained virtually flat compared to Q1 2004.
- Compared to Q4 2004, Corporate and Regional overhead costs were EUR 56 million lower, mainly due to higher marketing investments and the roll-out of the new brand positioning in Q4 2004.
- Pension costs and the cost of postretirement benefits decreased by EUR 52 million compared to Q1 2004, mainly due to lower pension costs in The Netherlands.

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

in millions of euros



## Looking ahead

- Investments related to the new brand positioning are expected to total approximately EUR 50 million in Q2 2005.

## LG.Philips Displays

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

in millions of euros unless otherwise stated

|  | Q1<br>2004 | Q1<br>2005             |
|--|------------|------------------------|
| Sales  | 803        | <b>658</b>             |
| Sales growth<br>% nominal                        | (14 )      | <b>(18 )</b>           |
| Income (loss) from operations<br>as a % of sales | 26<br>3.2  | <b>(8 )<br/>(1.2 )</b> |
| Net income (loss) (100%)                         | (10 )      | <b>(33 )</b>           |
| Net income (loss)<br>(Philips share = 50%)       | (5 )       | <b>(16 )</b>           |
| Net operating capital (NOC)                      | 1,485      | <b>1,174</b>           |
| Number of employees (FTEs)                       | 26,441     | <b>21,994</b>          |

### LG.Philips Displays JV (100%)

- Sales declined by 18% compared to Q1 2004 (by 14% in US dollar terms).
- Income from operations included restructuring charges of EUR 37 million, compared to EUR 23 million in Q1 2004.
- Philips' share in the net loss was EUR 16 million, compared to a share in the net loss of EUR 5 million in Q1 2004.
- Cash flow before financing activities remained positive.

## Outlook

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We expect that Medical Systems, Lighting and DAP will continue to post solid performances; for Semiconductors we do not expect improved market conditions until the second half of the year, and Consumer Electronics is on track to achieve the 4 – 4.5% profitability target by the end of the year.

We are focusing on innovation across the group, on products with higher margins in markets offering better opportunities for growth, and on further steady improvement in our cost structure.

Our transformation into a truly market-driven organization will be demonstrated by the introduction, in 2005, of many innovative new products reflecting our ‘sense and simplicity’ brand promise. And our brand campaign will receive fresh impetus this year, with its extension to other major markets such as India and Russia.

Amsterdam, April 18, 2005

*Board of Management*

## Consolidated statements of income

all amounts in millions of euros unless otherwise stated

|  | January to March |              |
|--|------------------|--------------|
|  | 2004             | 2005         |
| Sales  | 6,631            | 6,635        |
| Cost of sales  | (4,438)          | (4,494)      |
| <b>Gross margin</b>  | <b>2,193</b>     | <b>2,141</b> |
| Selling expenses   | (1,005)          | (1,008)      |
| General and administrative expenses  | (361)            | (307)        |
| Research and development expenses  | (614)            | (620)        |
| Restructuring and impairment charges   | (16)             | (45)         |
| Other business income (expense)  | 21               | 32           |
| <b>Income from operations</b>  | <b>218</b>       | <b>193</b>   |
| Financial income and expenses  | (66)             | (48)         |
| Income before taxes  | 152              | 145          |
| Income tax expense   | (46)             | (44)         |
| Income after taxes   | 106              | 101          |
| Results relating to unconsolidated companies, including net dilution gain of EUR 156 million in 2004                       | 457              | 22           |
| Minority interests   | (13)             | (6)          |
| <b>Net income</b>  | <b>550</b>       | <b>117</b>   |
| Income from operations as a % of sales   | 3.3              | 2.9          |
| Weighted average number of common shares outstanding (after deduction of treasury stock) during the period (in thousands): |                  |              |
| • basic  | 1,280,770        | 1,276,078    |
| • diluted  | 1,285,477        | 1,279,471    |
| Net income per common share in euros:  |                  |              |
| • basic  | 0.43             | 0.09         |
| • diluted  | 0.43             | 0.09         |

## Consolidated balance sheets and additional ratios

all amounts in millions of euros unless otherwise stated

|   | March 31,<br>2004 | December<br>31, 2004 | March 31,<br>2005 |
|---|-------------------|----------------------|-------------------|
| Current assets:   |                   |                      |                   |
| Cash and cash equivalents   | 3,105             | 4,349                | 3,210             |
| Receivables   | 4,868             | 4,528                | 4,548             |
| Inventories   | 3,543             | 3,230                | 3,609             |
| Other current assets  | 1,004             | 1,216                | 1,017             |
| <b>Total current assets</b>   | <b>12,520</b>     | <b>13,323</b>        | <b>12,384</b>     |
| Non-current assets:   |                   |                      |                   |
| Investments in unconsolidated companies   | 5,506             | 5,670                | 6,011             |
| Other non-current financial assets  | 1,322             | 876                  | 867               |
| Non-current receivables   | 227               | 227                  | 159               |
| Other non-current assets  | 2,450             | 2,823                | 3,036             |
| Property, plant and equipment   | 5,413             | 4,997                | 4,992             |
| Intangible assets excluding goodwill  | 1,255             | 989                  | 982               |
| Goodwill  | 2,591             | 1,818                | 1,911             |
| <b>Total assets</b>   | <b>31,284</b>     | <b>30,723</b>        | <b>30,342</b>     |
| Current liabilities:  |                   |                      |                   |
| Accounts and notes payable  | 3,206             | 3,499                | 3,087             |
| Accrued liabilities   | 3,399             | 3,307                | 3,184             |
| Short-term provisions   | 863               | 781                  | 830               |
| Other current liabilities   | 744               | 627                  | 619               |
| Dividend payable  | 460               | -                    | 504               |
| Short-term debt   | 2,008             | 961                  | 889               |
| <b>Total current liabilities</b>  | <b>10,680</b>     | <b>9,175</b>         | <b>9,113</b>      |
| Non-current liabilities:  |                   |                      |                   |
| Long-term debt  | 4,131             | 3,552                | 3,608             |
| Long-term provisions  | 2,131             | 2,117                | 2,104             |
| Other non-current liabilities   | 742               | 736                  | 706               |
| <b>Total liabilities</b>  | <b>17,684</b>     | <b>15,580</b>        | <b>15,531</b>     |
| Minority interests  | 314               | 283                  | 305               |
| Stockholders' equity  | 13,286            | 14,860               | 14,506            |
| <b>Total liabilities and equity</b>   | <b>31,284</b>     | <b>30,723</b>        | <b>30,342</b>     |
| Number of common shares outstanding (after deduction of treasury stock) at the end of period (in thousands) | 1,279,125         | 1,281,527            | 1,261,725         |
| <b>Ratios</b>   |                   |                      |                   |
| Stockholders' equity per common share in euros  | 10.39             | 11.60                | 11.50             |
| Inventories as a % of sales   | 12.1              | 10.7                 | 11.9              |
| Net debt : group equity ratio   | 18:82             | 1:99                 | 8:92              |
| Net operating capital   | 8,558             | 7,192                | 8,074             |
| Employees at end of period  | 165,312           | 161,586              | 160,857           |

## Consolidated statements of cash flows \*

all amounts in millions of euros

|  | January to March |         |
|--|------------------|---------|
|  | 2004             | 2005    |
| <i>Cash flows from operating activities:</i>   |                  |         |
| <b>Net income</b>  | 550              | 117     |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: |                  |         |
| Depreciation and amortization  | 378              | 362     |
| Impairment of equity investments   | 3                | -       |
| Net gain on sale of assets   | (17)             | (17)    |
| Unconsolidated companies (net of dividends received)   | (454)            | 67      |
| Minority interests (net of dividends paid)   | 13               | 6       |
| Increase in working capital/other current assets   | (236)            | (807)   |
| Decrease (increase) in non-current receivables/other assets                                  | 167              | (89)    |
| Decrease in provisions   | (7)              | (9)     |
| Other items  | 7                | 19      |
| <b>Net cash provided by (used for) operating activities</b>                                  | 404              | (351)   |
| <i>Cash flows from investing activities:</i>   |                  |         |
| Purchase of intangible assets  | (14)             | (14)    |
| Capital expenditures on property, plant and equipment  | (272)            | (226)   |
| Proceeds from disposals of property, plant and equipment                                     | 27               | 37      |
| Cash from derivatives  | 8                | (9)     |
| Proceeds from sale (purchase of) other non-current financial assets                          | 6                | (4)     |
| Proceeds from sale (purchase of) businesses  | (18)             | (74)    |
| <b>Net cash used for investing activities</b>  | (263)            | (290)   |
| <b>Cash flows before financing activities</b>  | 141              | (641)   |
| <i>Cash flows from financing activities:</i>   |                  |         |
| Decrease in debt   | (212)            | (129)   |
| Treasury stock transactions  | (47)             | (414)   |
| Dividends paid   | -                | -       |
| <b>Net cash used for financing activities</b>  | (259)            | (543)   |
| <b>Decrease in cash and cash equivalents</b>   | (118)            | (1,184) |
| Effect of change in consolidations on cash positions   | 116              | -       |
| Effect of changes in exchange rates on cash positions  | 35               | 45      |
| Cash and cash equivalents at beginning of the period   | 3,072            | 4,349   |
| <b>Cash and cash equivalents at end of period</b>  | 3,105            | 3,210   |

\* 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 March 2005 |   |                      |   |   |   |   |                |                                       |  |   |
|--|-----------------------|---|----------------------|---|---|---|---|----------------|---------------------------------------|--|---|
|  | Common<br>stock       | Capital<br>in excess<br>of par<br>value | Retained<br>earnings | Accumulated other comprehensive income (loss) |   |   | Treasury shares at cost                               |                | Total<br>stock-<br>holders'<br>equity |  |   |
|  |                       |   |                      | Currency<br>translation<br>differences        | Unrealized<br>gain (loss)<br>on<br>available-<br>for-sale<br>securities | Additional<br>minimum<br>pension<br>liability | Changes<br>in fair<br>value of<br>cash flow<br>hedges | Total          |                                       | To hedge<br>share-based<br>compen-<br>sation plans | To cover<br>capital<br>reduction<br>program |
|  |                       |   |                      |   |   |   |   |                |                                       |  |   |
| Balance as of December 31, 2004                          | 263                   | 97                                      | 19,346               | (3,407)                                       | 174   | (429)   | 55  | (3,607)        | (1,239)                               | 14,860   |   |
| Net income   |                       |   | 117                  |   |   |   |   |                |                                       | 117  |   |
| Net current period change                                |                       |   |                      | 487   | (17)  | (14)  | (28)  | 428            |                                       | 428  |   |
| Reclassifications into income                            |                       |   |                      |   |   |   | (1)   | (1)            |                                       | (1)  |   |
| <b>Total comprehensive income<br/>(loss), net of tax</b> |                       |   | 117                  | 487   | (17)  | (14)  | (29)  | 427            |                                       | 544  |   |
| Dividend payable   |                       |   | (504)                |   |   |   |   |                |                                       | (504)  |   |
| Purchase of treasury stock                               |                       |   |                      |   |   |   |   |                | (174)                                 | (252)  |   |
| Re-issuance of treasury stock                            |                       | (14)                                    |                      |   |   |   |   |                | 26                                    | 12   |   |
| Share-based compensation plans                           |                       | 20                                      |                      |   |   |   |   |                |                                       | 20   |   |
| <b>Balance as of March 31, 2005</b>                      | <b>263</b>            | <b>103</b>                              | <b>18,959</b>        | <b>(2,920)</b>                                | <b>157</b>  | <b>(443)</b>                                  | <b>26</b>   | <b>(3,180)</b> | <b>(1,387)</b>                        | <b>(252)</b>                                       | <b>14,506</b>                               |

## Product sectors

includes restatement of Mobile Display Systems activities from Semiconductors to Other Activities  
all amounts in millions of euros unless otherwise stated

### Sales and income from operations

|                      | January to March |                               |            |              |                               |            |
|----------------------|------------------|-------------------------------|------------|--------------|-------------------------------|------------|
|                      | 2004             |                               |            | 2005         |                               |            |
|                      | Sales            | Income (loss) from operations |            | Sales        | Income (loss) from operations |            |
|                      | amount           | as a % of sales               |            | amount       | as a % of sales               |            |
| Medical Systems      | 1,258            | 92                            | 7.3        | 1,285        | 100                           | 7.8        |
| DAP                  | 393              | 44                            | 11.2       | 427          | 56                            | 13.1       |
| Consumer Electronics | 2,011            | 59                            | 2.9        | 2,153        | 46                            | 2.1        |
| Lighting             | 1,077            | 165                           | 15.3       | 1,128        | 149                           | 13.2       |
| Semiconductors       | 1,039            | 69                            | 6.6        | 1,012        | 14                            | 1.4        |
| Other Activities     | 853              | (57)                          | (6.7)      | 630          | (73)                          | (11.6)     |
| Unallocated          |                  | (154)                         |            |              | (99)                          |            |
| <b>Total</b>         | <b>6,631</b>     | <b>218</b>                    | <b>3.3</b> | <b>6,635</b> | <b>193</b>                    | <b>2.9</b> |

## Product sectors and main countries

includes restatement of Mobile Display Systems activities from Semiconductors to Other Activities

all amounts in millions of euros

### Sales and total assets

|                      | <b>Sales (to third parties)</b> |       | <b>Total assets</b> |        |
|----------------------|---------------------------------|-------|---------------------|--------|
|                      | January to March                |       | March 31,           |        |
|                      | 2004                            | 2005  | 2004                | 2005   |
| Medical Systems      | 1,258                           | 1,285 | 5,651               | 4,932  |
| DAP                  | 393                             | 427   | 876                 | 835    |
| Consumer Electronics | 2,011                           | 2,153 | 2,383               | 2,393  |
| Lighting             | 1,077                           | 1,128 | 2,505               | 2,576  |
| Semiconductors       | 1,039                           | 1,012 | 4,314               | 3,922  |
| Other Activities     | 853                             | 630   | 7,446               | 7,596  |
| Unallocated          |                                 |       | 8,109               | 8,088  |
| <b>Total</b>         | 6,631                           | 6,635 | 31,284              | 30,342 |

### Sales and long-lived assets

|                 | <b>Sales (to third parties)</b> |       | <b>Long-lived assets *</b> |       |
|-----------------|---------------------------------|-------|----------------------------|-------|
|                 | January to March                |       | March 31,                  |       |
|                 | 2004                            | 2005  | 2004                       | 2005  |
| Netherlands     | 275                             | 271   | 1,559                      | 1,495 |
| United States   | 1,523                           | 1,582 | 4,057                      | 3,002 |
| Germany         | 569                             | 540   | 605                        | 556   |
| France          | 412                             | 402   | 422                        | 190   |
| United Kingdom  | 275                             | 265   | 246                        | 194   |
| China           | 667                             | 634   | 380                        | 418   |
| Other countries | 2,910                           | 2,941 | 1,990                      | 2,030 |
| <b>Total</b>    | 6,631                           | 6,635 | 9,259                      | 7,885 |

\* Includes property, plant and equipment and intangible assets

## Pension costs

all amounts in millions of euros unless otherwise stated

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

|  | January-March 2004 |           | January-March 2005 |           |
|--|--------------------|-----------|--------------------|-----------|
|  | Netherlands        | Other     | Netherlands        | Other     |
| Service cost                                       | 52                 | 28        | 53                 | 29        |
| Interest cost on the projected benefit obligation  | 160                | 93        | 139                | 92        |
| Expected return on plan assets                     | (184)              | (89)      | (184)              | (86)      |
| Amortization of unrecognized transition obligation | -                  | 8         | -                  | -         |
| Net actuarial (gain) loss recognized               | (2)                | 9         | (7)                | 11        |
| Amortization of prior service cost                 | -                  | 6         | (14)               | 6         |
| Settlement loss                                    | 34                 | 1         | -                  | 1         |
| Other  | 3                  | 1         | -                  | 1         |
| <b>Net periodic cost (income)</b>                  | <b>63</b>          | <b>57</b> | <b>(13)</b>        | <b>54</b> |

The net periodic pension costs in the first quarter of 2005 amounted to EUR 59 million, of which EUR 41 million for defined-benefit plans (the Netherlands income of EUR 13 million, other countries cost of EUR 54 million) and EUR 18 million related to defined-contribution plans outside the Netherlands.

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

|  | January-March 2004 |           | January-March 2005 |          |
|--|--------------------|-----------|--------------------|----------|
|  | Netherlands        | Other     | Netherlands        | Other    |
| Service cost   | 3                  | 1         | 4                  | 1        |
| Interest cost on the accumulated postretirement benefit obligation | 4                  | 7         | 4                  | 6        |
| Amortization of unrecognized transition obligation                 | 1                  | 1         | 1                  | 1        |
| Net actuarial loss recognized                                      | 1                  | 1         | 1                  | 1        |
| Curtailment loss   | -                  | 2         | -                  | -        |
| <b>Net periodic cost</b>   | <b>9</b>           | <b>12</b> | <b>10</b>          | <b>9</b> |

## Consolidated statements of income in accordance with IFRS

all amounts in millions of euros unless otherwise stated

|  | January to March |           |
|--|------------------|-----------|
|  | 2004             | 2005      |
| Sales  | 6,631            | 6,635     |
| Cost of sales  | (4,447)          | (4,506)   |
| <b>Gross margin</b>  | 2,184            | 2,129     |
| Selling expenses   | (1,007)          | (1,010)   |
| General and administrative expenses  | (387)            | (341)     |
| Research and development expenses  | (569)            | (551)     |
| Restructuring and impairment charges   | (16)             | (45)      |
| Other business income (expense)  | 18               | 23        |
| <b>Income from operations</b>  | 223              | 205       |
| Financial income and expenses  | (66)             | (49)      |
| Income before taxes  | 157              | 156       |
| Income tax expense   | (48)             | (47)      |
| Income after taxes   | 109              | 109       |
| Results relating to unconsolidated companies, including net dilution gain<br>of EUR 156 million in 2004                      | 451              | 22        |
| Minority interests   | (13)             | (7)       |
| <b>Net income</b>  | 547              | 124       |
| Income from operations as a % of sales   | 3.4              | 3.1       |
| Weighted average number of common shares outstanding (after<br>deduction of treasury stock) during the period (in thousands) |                  |           |
| • basic  | 1,280,770        | 1,276,078 |
| • diluted  | 1,285,477        | 1,279,471 |
| Net income per common share in euros:  |                  |           |
| • basic  | 0.43             | 0.10      |
| • diluted  | 0.43             | 0.10      |

## Consolidated balance sheets and additional ratios in accordance with IFRS

all amounts in millions of euros unless otherwise stated

|   | March 31,<br>2004 | December<br>31, 2004 | March 31,<br>2005 |
|---|-------------------|----------------------|-------------------|
| Current assets:   |                   |                      |                   |
| Cash and cash equivalents   | 3,105             | 4,349                | 3,210             |
| Receivables   | 4,868             | 4,528                | 4,548             |
| Inventories   | 3,543             | 3,230                | 3,609             |
| Other current assets  | 492               | 883                  | 731               |
| <b>Total current assets</b>   | <b>12,008</b>     | <b>12,990</b>        | <b>12,098</b>     |
| Non-current assets:   |                   |                      |                   |
| Investments in unconsolidated companies   | 5,250             | 5,441                | 5,764             |
| Other non-current financial assets  | 1,322             | 876                  | 867               |
| Non-current receivables   | 227               | 227                  | 159               |
| Other non-current assets  | 2,114             | 2,122                | 2,210             |
| Property, plant and equipment   | 5,450             | 5,028                | 5,023             |
| Intangible assets excluding goodwill  | 2,401             | 2,324                | 2,399             |
| Goodwill  | 2,189             | 1,463                | 1,537             |
| <b>Total assets</b>   | <b>30,961</b>     | <b>30,471</b>        | <b>30,057</b>     |
| Current liabilities:  |                   |                      |                   |
| Accounts and notes payable  | 3,206             | 3,499                | 3,087             |
| Accrued liabilities   | 3,325             | 3,231                | 3,115             |
| Short-term provisions   | 1,059             | 976                  | 860               |
| Other current liabilities   | 744               | 627                  | 619               |
| Dividend payable  | 460               | 0                    | 504               |
| Short-term debt   | 2,009             | 962                  | 890               |
| <b>Total current liabilities</b>  | <b>10,803</b>     | <b>9,295</b>         | <b>9,075</b>      |
| Non-current liabilities:  |                   |                      |                   |
| Long-term debt  | 4,167             | 3,583                | 3,638             |
| Long-term provisions  | 2,328             | 2,237                | 2,389             |
| Other non-current liabilities   | 926               | 832                  | 796               |
| <b>Total liabilities</b>  | <b>18,224</b>     | <b>15,947</b>        | <b>15,898</b>     |
| Minority interests  | 314               | 285                  | 308               |
| Stockholders' equity  | 12,423            | 14,239               | 13,851            |
| <b>Total liabilities and equity</b>   | <b>30,961</b>     | <b>30,471</b>        | <b>30,057</b>     |
| Number of common shares outstanding (after deduction of treasury stock) at the end of period (in thousands) | 1,279,125         | 1,281,527            | 1,261,725         |
| <b>Ratios</b>   |                   |                      |                   |
| Stockholders' equity per common share in euros  | 9.71              | 11.11                | 10.98             |
| Inventories as a % of sales   | 12.1              | 10.7                 | 11.9              |
| Net debt : group equity ratio   | 19:81             | 1:99                 | 9:91              |
| Employees at end of period  | 165,312           | 161,586              | 160,857           |

## Reconciliation from US GAAP to IFRS

all amounts in millions of euros unless otherwise stated

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### Reconciliation of net income from US GAAP to IFRS

|  | January to March |      |
|--|------------------|------|
|  | 2004             | 2005 |
| Net income as per the consolidated statements of income on a US GAAP basis | 550              | 117  |
| Adjustments to IFRS:   |                  |      |
| Capitalized product development expenses                                   | 139              | 163  |
| Amortization product development assets                                    | (89)             | (86) |
| Pensions and other postretirement benefits                                 | (37)             | (56) |
| Unconsolidated companies   | (6)              | -    |
| Other differences in income  | (8)              | (11) |
| Deferred income tax effects  | (2)              | (3)  |
| <b>Net income in accordance with IFRS</b>                                  | 547              | 124  |

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### Reconciliation of stockholders' equity from US GAAP to IFRS

|  | March 31, |         |
|--|-----------|---------|
|  | 2004      | 2005    |
| Stockholders' equity as per the consolidated balance sheets on a US GAAP basis | 13,286    | 14,506  |
| Adjustments to IFRS:   |           |         |
| Product development expenses   | 1,286     | 1,524   |
| Pensions and other postretirement benefits                                     | (1,797)   | (1,782) |
| Goodwill amortization  | (402)     | (373)   |
| Unconsolidated companies   | (256)     | (247)   |
| Recognized results on sale and leaseback transactions                          | 104       | 94      |
| Deferred income tax effects  | 202       | 129     |
| <b>Stockholders' equity in accordance with IFRS</b>                            | 12,423    | 13,851  |

## Reconciliation of non-US GAAP performance measures

all amounts in millions of euros unless otherwise stated

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

### Sales growth composition (in %)

|                         | January to March     |                     |                          |                   |
|-------------------------|----------------------|---------------------|--------------------------|-------------------|
|                         | Comparable<br>growth | Currency<br>effects | Consolidation<br>changes | Nominal<br>growth |
| <b>2005 versus 2004</b> |                      |                     |                          |                   |
| Medical Systems         | 4.8                  | (2.9)               | 0.2                      | 2.1               |
| DAP                     | 9.2                  | (0.5)               |                          | 8.7               |
| Consumer Electronics    | 6.5                  | (0.9)               | 1.5                      | 7.1               |
| Lighting                | 6.1                  | (1.4)               |                          | 4.7               |
| Semiconductors          | (2.4)                | (2.8)               | 2.6                      | (2.6)             |
| Other Activities        | (14.6)               | (1.6)               | (9.9)                    | (26.1)            |
| <b>Philips Group</b>    | <b>2.4</b>           | <b>(1.7)</b>        | <b>(0.6)</b>             | <b>0.1</b>        |

### Composition of net debt and group equity

|   | March 31,<br>2004 | March 31,<br>2005 |
|---|-------------------|-------------------|
| Long-term debt  | 4,131             | 3,608             |
| Short-term debt   | 2,008             | 889               |
| <b>Total debt</b>   | <b>6,139</b>      | <b>4,497</b>      |
| Cash and cash equivalents                                   | (3,105)           | (3,210)           |
| <b>Net debt (total debt less cash and cash equivalents)</b> | <b>3,034</b>      | <b>1,287</b>      |
| Minority interests  | 314               | 305               |
| Stockholders' equity  | 13,286            | 14,506            |
| <b>Group equity</b>   | <b>13,600</b>     | <b>14,811</b>     |
| <b>Net debt and group equity</b>                            | <b>16,634</b>     | <b>16,098</b>     |
| Net debt divided by net debt and group equity (in %)        | 18                | 8                 |
| Group equity divided by net debt and group equity (in %)    | 82                | 92                |

## Reconciliation of non-US GAAP performance measures (continued)

### Net operating capital to total assets

|   | Philips<br>Group | Medical<br>Systems | DAP        | Consumer<br>Electronics | Lighting     | Semi-<br>conductors | Other<br>Activities | Unallocated  |
|---|------------------|--------------------|------------|-------------------------|--------------|---------------------|---------------------|--------------|
| <b>March 31, 2005</b>                   |                  |                    |            |                         |              |                     |                     |              |
| Net operating capital (NOC)             | 8,074            | 3,058              | 460        | 108                     | 1,617        | 2,649               | 448                 | (266)        |
| Eliminate liabilities comprised in NOC: |                  |                    |            |                         |              |                     |                     |              |
| – payables/liabilities                  | 7,596            | 1,541              | 305        | 1,886                   | 724          | 738                 | 1,122               | 1,280        |
| – intercompany accounts                 | -                | 33                 | 13         | 74                      | 40           |                     | (134)               | (26)         |
| – provisions <sup>1)</sup>              | 2,714            | 245                | 57         | 305                     | 139          | 228                 | 639                 | 1,101        |
| Include assets not comprised in NOC:    |                  |                    |            |                         |              |                     |                     |              |
| – investments in unconsolidated comp.   | 6,011            | 55                 |            | 20                      | 56           | 307                 | 5,521               | 52           |
| – other non-current financial assets    | 867              |                    |            |                         |              |                     |                     | 867          |
| – deferred tax assets                   | 1,870            |                    |            |                         |              |                     |                     | 1,870        |
| – liquid assets                         | 3,210            |                    |            |                         |              |                     |                     | 3,210        |
| <b>Total assets</b>                     | <b>30,342</b>    | <b>4,932</b>       | <b>835</b> | <b>2,393</b>            | <b>2,576</b> | <b>3,922</b>        | <b>7,596</b>        | <b>8,088</b> |

<sup>1)</sup> provisions on balance sheet EUR 2,934 million excluding deferred tax liabilities EUR 220 million

### March 31, 2004

|   |               |              |            |              |              |              |              |              |
|---|---------------|--------------|------------|--------------|--------------|--------------|--------------|--------------|
| Net operating capital (NOC)             | 8,558         | 3,803        | 522        | 71           | 1,614        | 3,004        | 308          | (764)        |
| Eliminate liabilities comprised in NOC: |               |              |            |              |              |              |              |              |
| – payables/liabilities                  | 8,091         | 1,527        | 295        | 1,920        | 721          | 782          | 1,433        | 1,413        |
| – intercompany accounts                 | -             | 22           | 5          | 53           | 15           | 16           | (84)         | (27)         |
| – provisions <sup>2)</sup>              | 2,852         | 254          | 54         | 318          | 128          | 237          | 711          | 1,150        |
| Include assets not comprised in NOC:    |               |              |            |              |              |              |              |              |
| – investments in unconsolidated comp.   | 5,506         | 45           |            | 21           | 27           | 275          | 5,078        | 60           |
| – other non-current financial assets    | 1,322         |              |            |              |              |              |              | 1,322        |
| – deferred tax assets                   | 1,850         |              |            |              |              |              |              | 1,850        |
| – liquid assets                         | 3,105         |              |            |              |              |              |              | 3,105        |
| <b>Total assets</b>                     | <b>31,284</b> | <b>5,651</b> | <b>876</b> | <b>2,383</b> | <b>2,505</b> | <b>4,314</b> | <b>7,446</b> | <b>8,109</b> |

<sup>2)</sup> provisions on balance sheet EUR 2,994 million excluding deferred tax liabilities EUR 142 million

### Composition cash flow before financing activities

|  | January to March |              |
|--|------------------|--------------|
|  | 2004             | 2005         |
| Cash flow from operating activities          | 404              | (351)        |
| Cash flow from investing activities          | (263)            | (290)        |
| <b>Cash flow before financing activities</b> | <b>141</b>       | <b>(641)</b> |

## Philips quarterly statistics

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

|  | 2004                    |                         |                         |                         | 2005                    |                         |                         |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|  | 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  | 6,631                   | 7,280                   | 7,229                   | 9,179                   | 6,635                   |                         |                         |                         |
| % increase   | 2                       | 11                      | 3                       | 2                       | 0                       |                         |                         |                         |
| Income from operations<br>as a % of sales  | 218<br>3.3              | 356<br>4.9              | 1,019<br>14.1           | 14<br>0.2               | 193<br>2.9              |                         |                         |                         |
| Net income<br>per common share in euros  | 550<br>0.43             | 616<br>0.48             | 1,172<br>0.92           | 498<br>0.39             | 117<br>0.09             |                         |                         |                         |
|  | January-<br>March       | January-<br>June        | January-<br>September   | January-<br>December    | January-<br>March       | January-<br>June        | January-<br>September   | January-<br>December    |
| Sales  | 6,631                   | 13,911                  | 21,140                  | 30,319                  | 6,635                   |                         |                         |                         |
| % increase   | 2                       | 7                       | 6                       | 4                       | 0                       |                         |                         |                         |
| Income from operations<br>as a % of sales  | 218<br>3.3              | 574<br>4.1              | 1,593<br>7.5            | 1,607<br>5.3            | 193<br>2.9              |                         |                         |                         |
| Net income<br>as a % of stockholders'<br>equity (ROE)<br>per common share in euros | 550<br>18.5<br>0.43     | 1,166<br>19.0<br>0.91   | 2,338<br>24.5<br>1.83   | 2,836<br>20.3<br>2.22   | 117<br>3.7<br>0.09      |                         |                         |                         |
|  | period ending 2004      |                         |                         |                         | period ending 2005      |                         |                         |                         |
| Inventories as a % of sales  | 12.1                    | 12.5                    | 13.4                    | 10.7                    | 11.9                    |                         |                         |                         |
| Net debt : group equity ratio  | 18:82                   | 21:79                   | 17:83                   | 1:99                    | 8:92                    |                         |                         |                         |
| Total employees (in thousands)   | 165                     | 166                     | 167                     | 162                     | 161                     |                         |                         |                         |

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