

PHILIPS

Annual Results 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 measures and should be used in conjunction with the most directly comparable US GAAP measure(s). A discussion of the non-GAAP measures included in this document and a reconciliation of such measures to the most directly comparable US GAAP measure(s) are contained in this document.

Gerard Kleisterlee

Jan Hommen

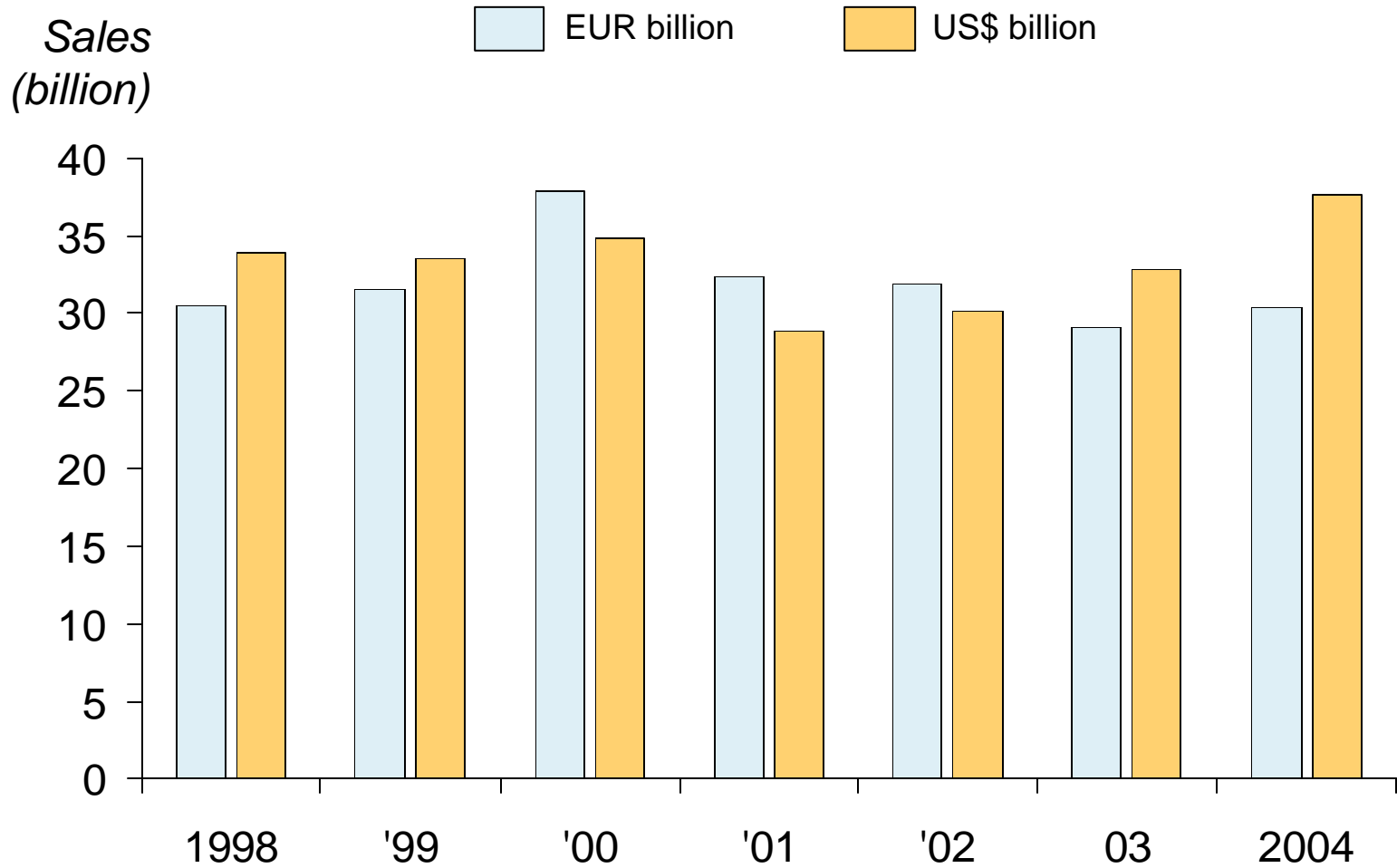
Gerard Kleisterlee

Performance of the Philips Group

EUR million

	2002	2003	2004
Sales	31,820	29,037	30,319
Income from operations	420	488	1,607
Net income (loss)	(3,206)	695	2,836
Cash flow from operations	2,228	1,992	2,697
Net capital expenditures	(940)	(856)	(1,198)
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Inventories as % of sales	11.1	11.0	10.7
Net debt to group equity	27 : 73	18 : 82	1 : 99
Employees	170,087	164,438	161,586

Euro vs. Dollar sales



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Agenda

- Financial performance FY 2004
- Currency Exposure
- Key Financial Management Actions
- Summary













Summary – FY

amounts in EUR million

	2003	2004
Sales	29,037	30,319
Income from operations	488	1,607
Result relating to UCCs	506	1,422
Net Income	695	2,836
Cash flow before financing activities	2,734	3,350
<hr/>		
Net debt / Group equity ratio	18 : 82	1 : 99

Sales to thirds – FY

amounts in EUR million

	2003	2004	% nom	% comp
Medical Systems	 5,990	 5,884	(2)	4
DAP	 2,131	 2,044	(4)	(1)
CE	 9,188	 9,919	8	11
Lighting	 4,522	 4,526	0	5
Semiconductors	 4,988	 5,464	10	13
Other activities / Unallocated	 2,218	 2,482	12	18
Philips Group	29,037	30,319	4	9

IFO – FY

amounts in EUR million

	2003	2004
Medical Systems	431	34
DAP	398	323
CE (<i>of which Licenses</i>)	248 297	361 478
Lighting	577	591
Semiconductors	(342)	450
Other Activities	(263)	366
Unallocated	(561)	(518)
<hr/>		
Philips Group	488	1,607

IFO – FY breakdown Other Activities

amounts in EUR million

	2003	2004
Corporate Investments	(63)	35
Technology Cluster	(293)	(323)
Optical Storage	51	68
Other	42	586
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Total Other Activities	(263)	366

IFO – FY breakdown Unallocated

amounts in EUR million

	2003	2004
Corporate & Regional Overheads	(307)	(367)
Pensions / postretirement benefit costs	(254)	(151)
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Total Unallocated	(561)	(518)

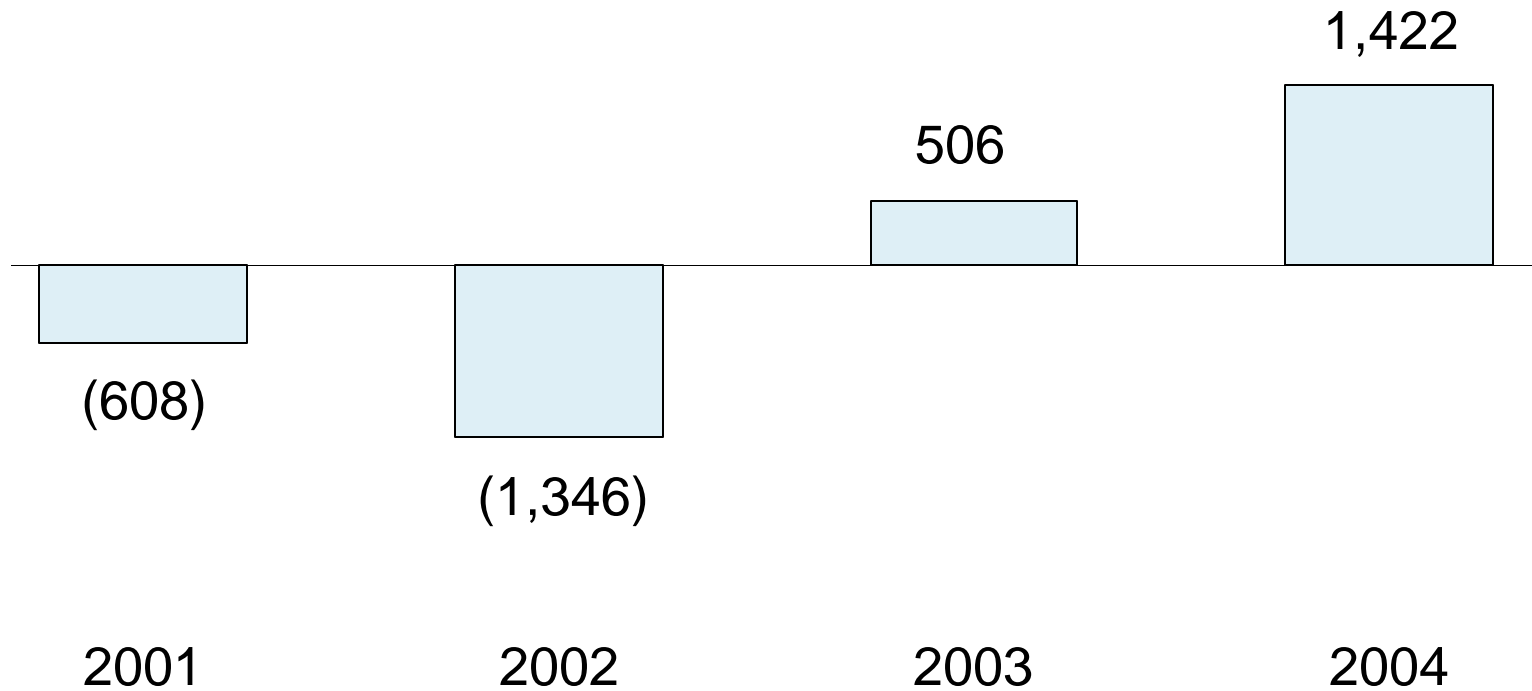
EBITA target surpassed in Medical Systems

amounts in EUR million

	2004
Revenues	5,897
IFO	34
+ Goodwill impairments MedQuist	590
+ Amortisation of intangibles	90
EBITA	714
+ Volumetrics settlement	133
EBITA (adjusted for Volumetrics)	847
as % of revenues	14.4%

Results relating to unconsolidated companies

amounts in EUR million



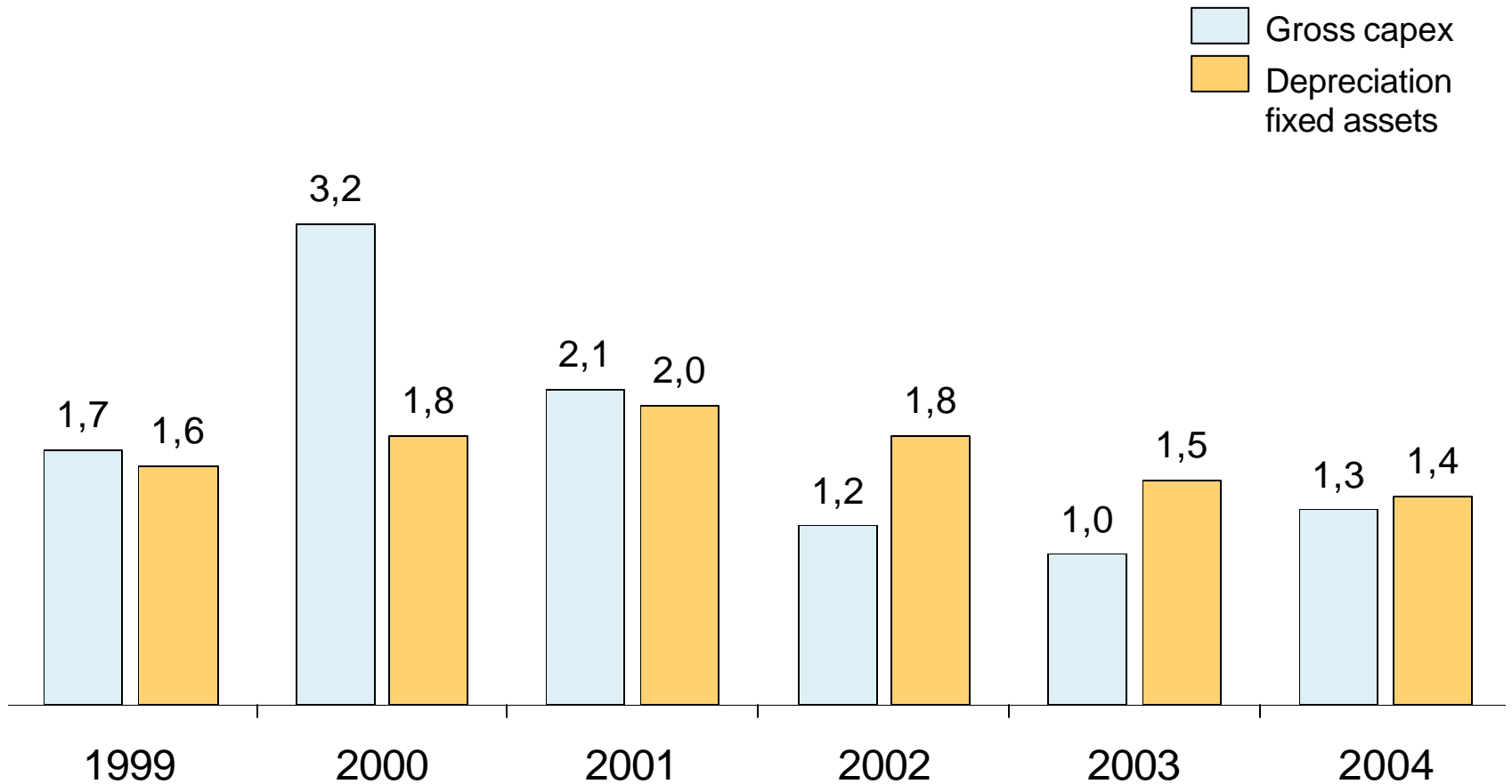
Cash Flow – FY

amounts in EUR million

	2003	2004
Net Income	695	2,836
Depreciation / Amortization / Impairments	2,787	2,301
Net gain on sale of investments	(987)	(1,328)
Income from UCCs	(569)	(1,178)
Decrease in WC / other current assets	307	354
Other	(241)	(288)
CF from operations	1,992	2,697
Gross capital expenditures	(980)	(1,286)
Acquisitions/Divestments/Other	1,722	1,939
CF before financing activities	2,734	3,350

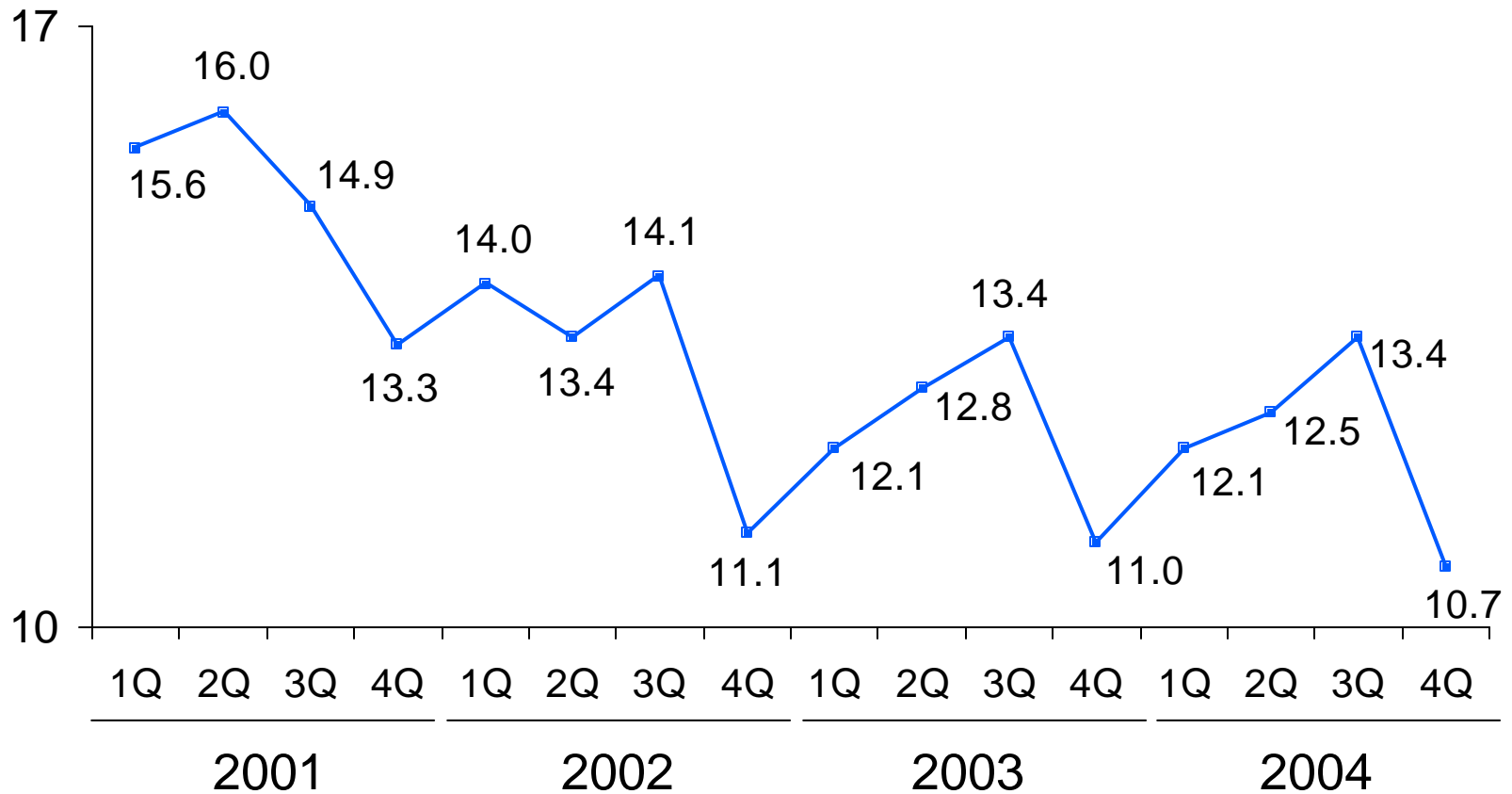
Gross capital expenditures below depreciation

amounts in EUR billion



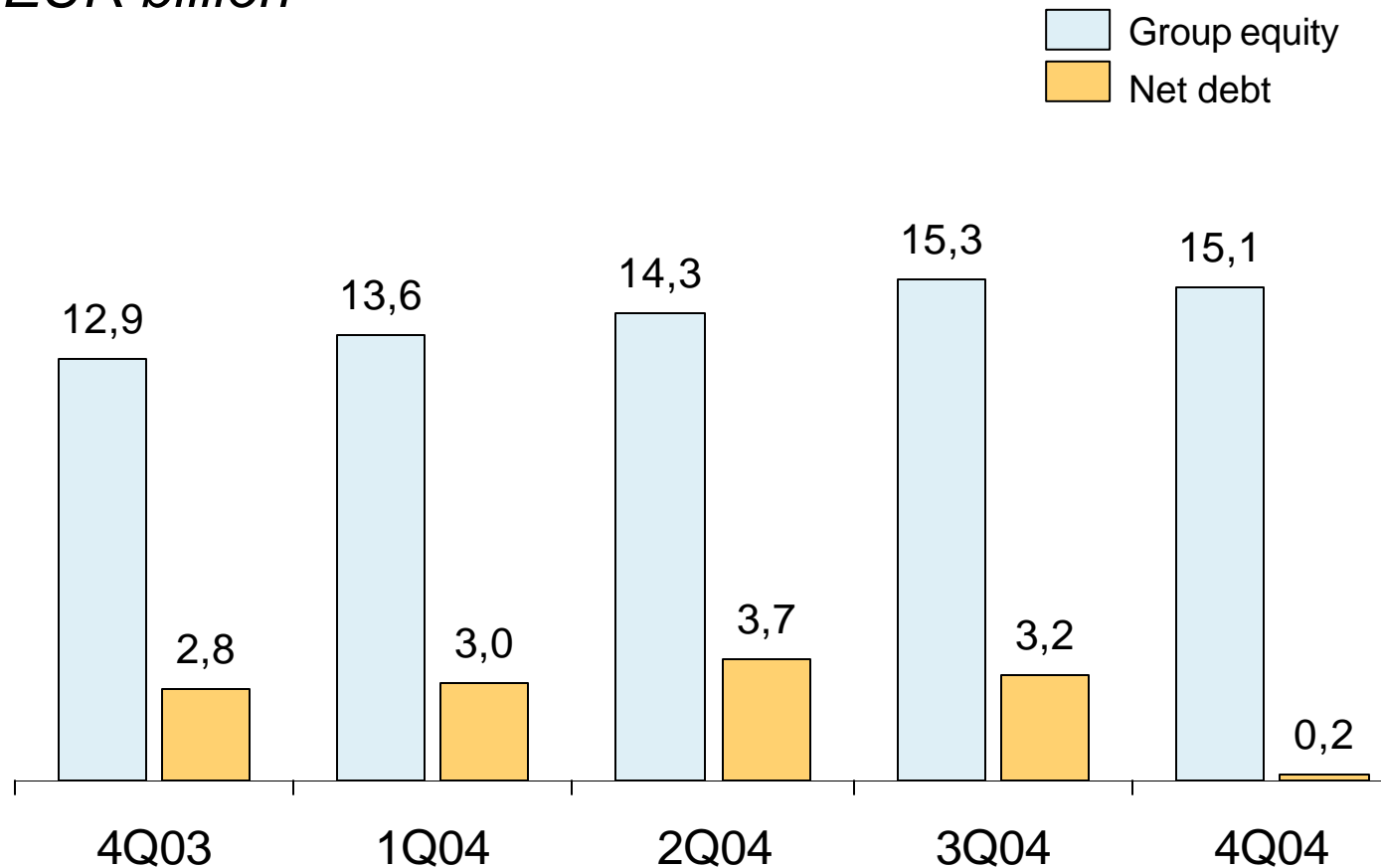
Inventories

as % of MAT sales



Net debt / Group equity ratio

amounts in EUR billion



Net debt /
group equity ratio

18:82

18:82

21:79

17:83

1:99

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Transaction exposure on the P&L account

- The effect of mismatch between revenues and costs for the Philips group is approx. 4% of the group sales
- This exposure is hedged for an average period of 6 months
- Trying to match our revenues with a cost structure in the same currency

Foreign exchange exposures

Hedging policy

Transactions

Hedged

Loans and cash deposits

Hedged

Equity holdings and investments

Not hedged

Translation of results

Not hedged

Translation impact on the P&L account

% reported in USD or USD related

Sales

50 – 55%

IFO

40 – 45%

Financial expenses

75 – 80%

Unconsolidated companies

90 – 95%

Translation exposure on the Balance Sheet

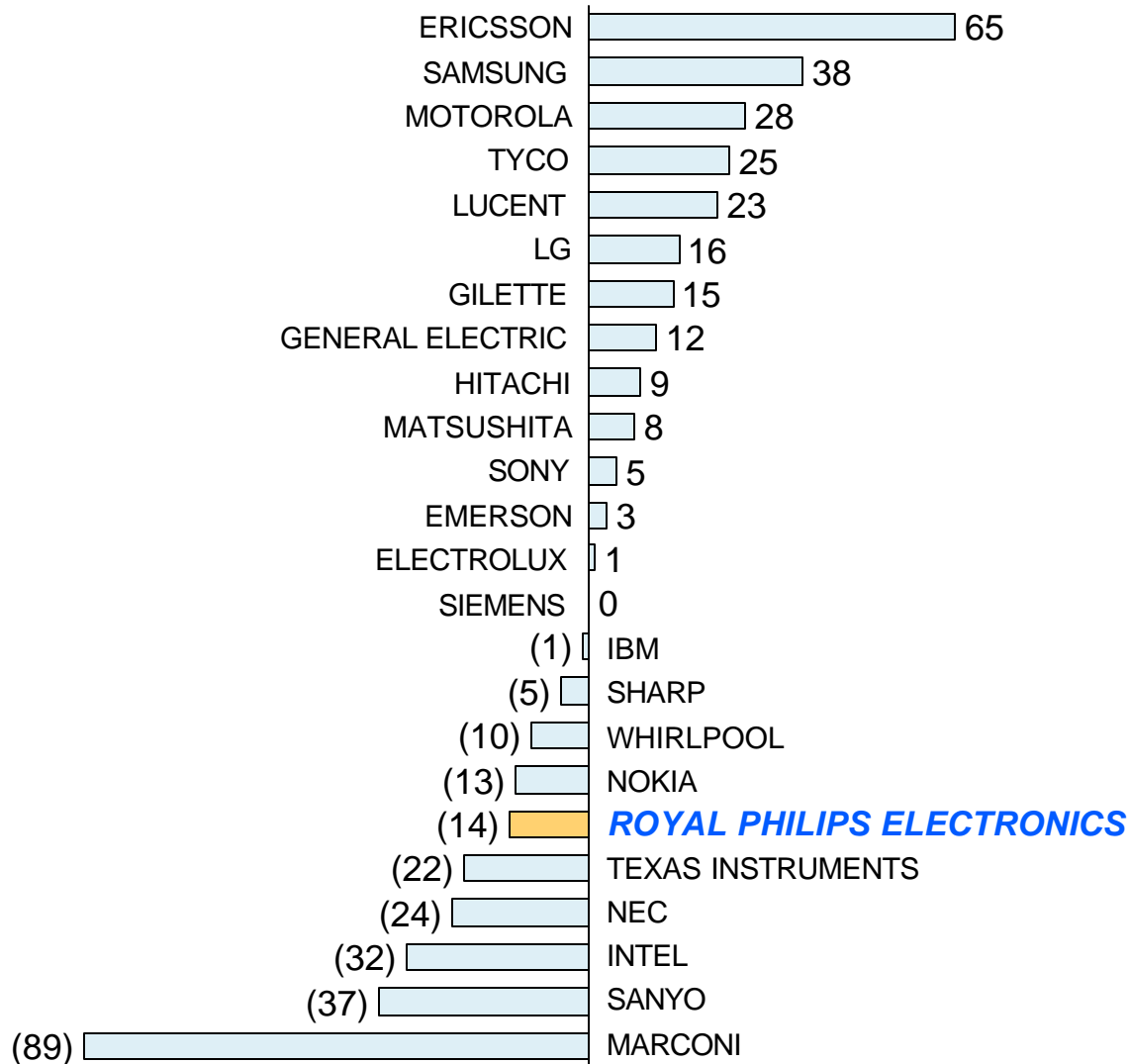
- Philips equity is partially exposed to the USD
- Most of our debt is in USD or swapped into USD

Agenda

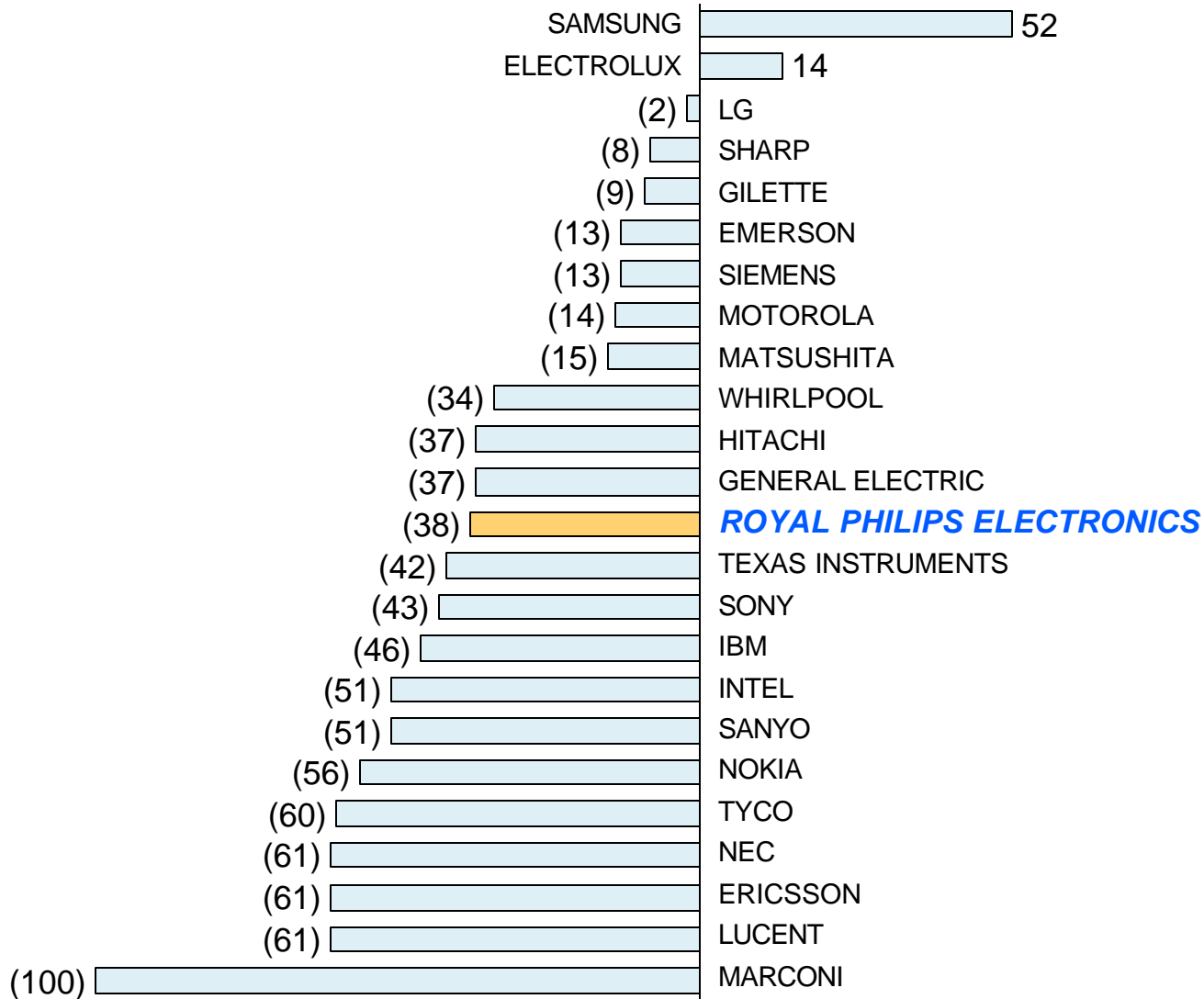
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Total Return to Shareholders – 1 Year

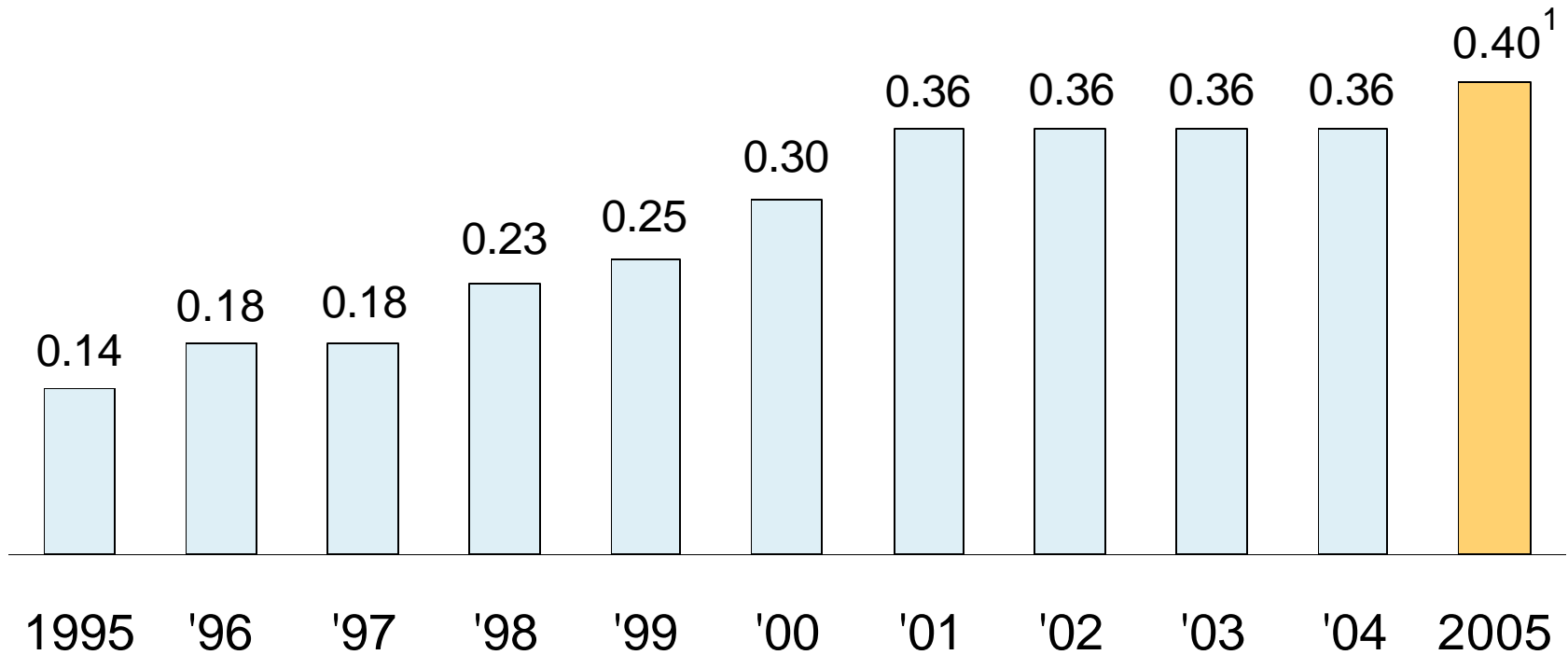
CAGR Jan 04' – Dec '04 - %



Total Return to Shareholders – 3 Year CAGR Jan 02' – Dec '04 - %



Dividend paid *amounts in EUR*



1 – Proposal subject to approval in the General Shareholders Meeting on March 31, 2005

Financial assets: Cash generated from sale of participations

amounts in EUR million

	2003	2004
Sale securities	272	883
Sale Atos Origin shares	–	552
NAVTEQ IPO	–	672
TSMC preference shares	357	–
Sale TSMC ADRs	908	–
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Total	1,537	2,107

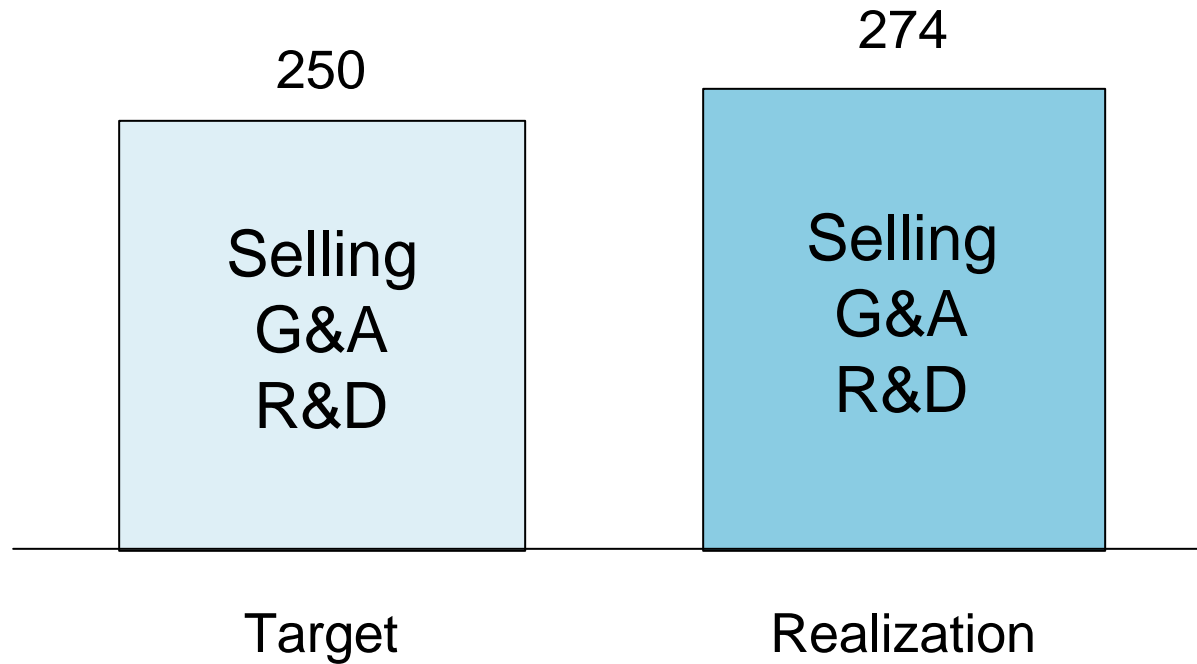
Publicly quoted investments: market value

amounts in EUR million

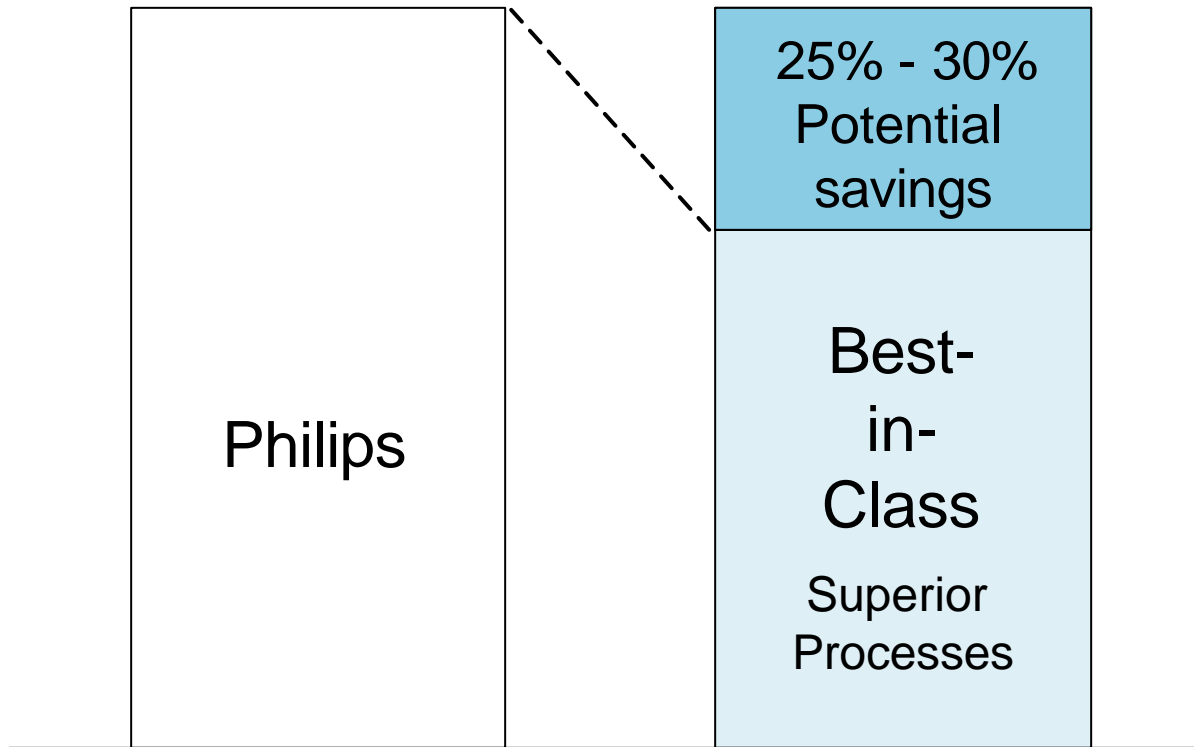
	Dec, 2003	Dec, 2004	Jan 24, 2005
TSMC	5,748	5,174	4,995
JDS Uniphase	114	91	72
FEI	150	124	120
Great Nordic	35	56	55
Atos Origin	1,081	516	496
LG.Philips LCD	-	4,031	4,840
NAVTEQ	-	1,043	969
Total	7,961	11,035	11,547

Indirect cost reductions in 2004 – EUR 250 m.

amounts in EUR million



New ambition level after benchmarking Best-in-Class



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Summary

We are now a company with following characteristics:

- Lower costs
- Simpler to understand
- Growing stability and predictability
- Strong financial position
- Many more “best-in-class” processes
- Desire for greater improvements

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2004 Management Agenda

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

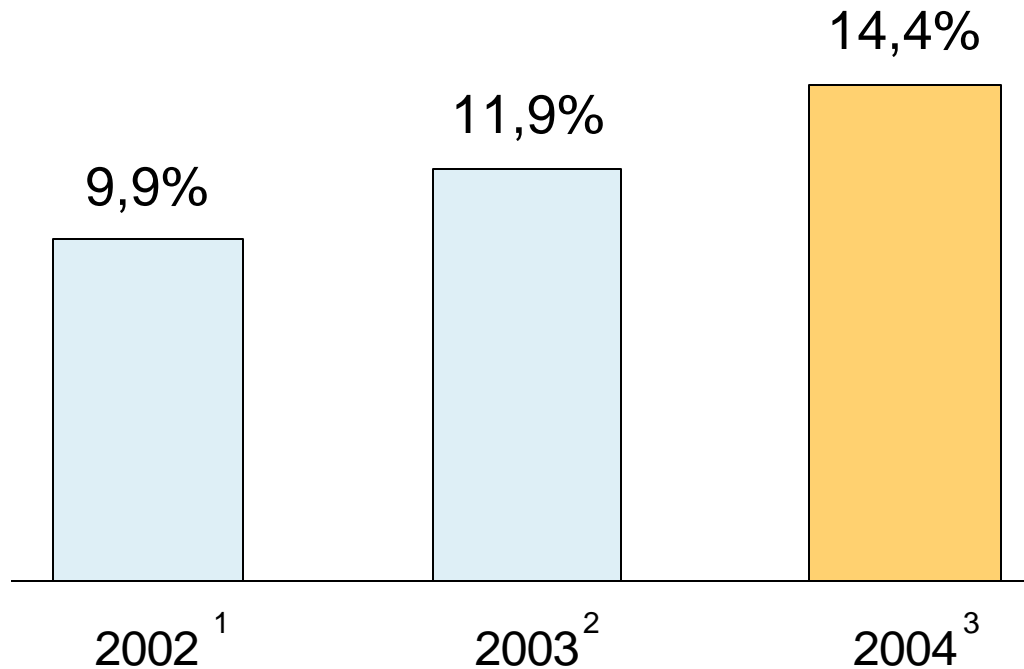


Continued focus on indirect costs to achieve additional savings of €250M



Medical Systems -14% EBITA target surpassed

EBITA as % of sales



1 – Excluding the HCP business which was sold in 2002

2 – Excluding restructurings

3 – Excluding the settlement for the litigation with Volumetrics Inc. of EUR 133 m.

Implement CE renewal program to achieve stable 4 - 4.5% IFO by the end of 2005

- Implementation of strategy including business renewal on-track
 - Signed Letter of Intent with TPV
 - Acquired Gemini accessories business
 - Cost savings ahead of schedule
 - Strong Q4 with excellent cash flow
- Strong collection of past due licenses more than compensated for restructuring - resulting in 3.6% combined IFO
- Fast commoditization of digital products leading to increased pressure on margins
- Margin pressure will remain through 2005, with less compensation from license income

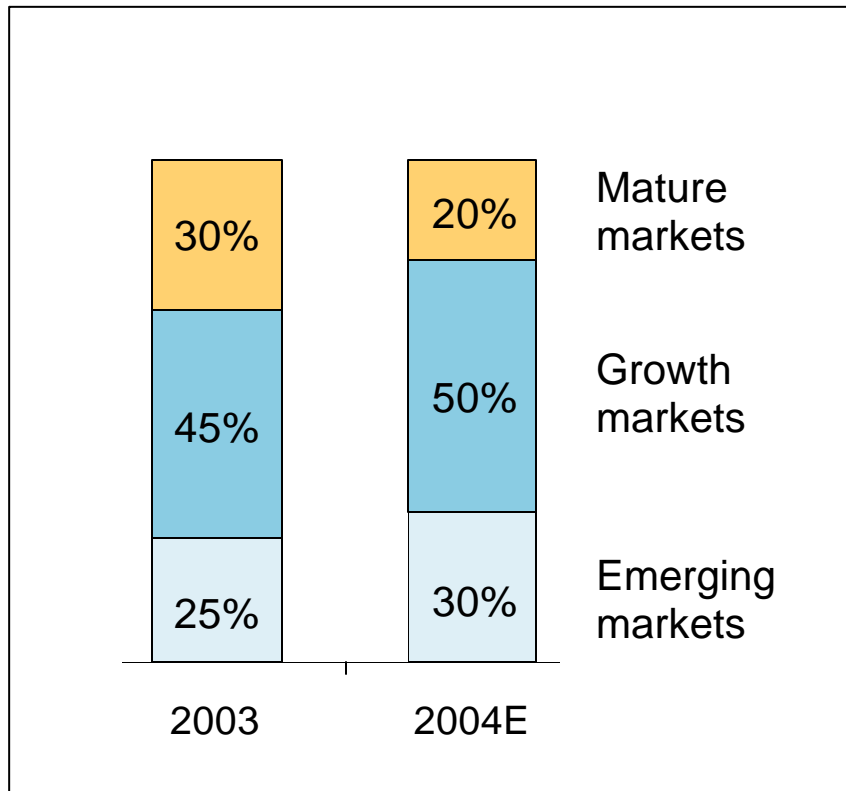
Becoming a more market driven organization

- Launched Board–led cross-PD Key Account management
- Extensive deployment of the brand pillars across the organization
 - Advanced
 - Easy to experience
 - Designed around you
- Successful launch of “Sense and Simplicity”

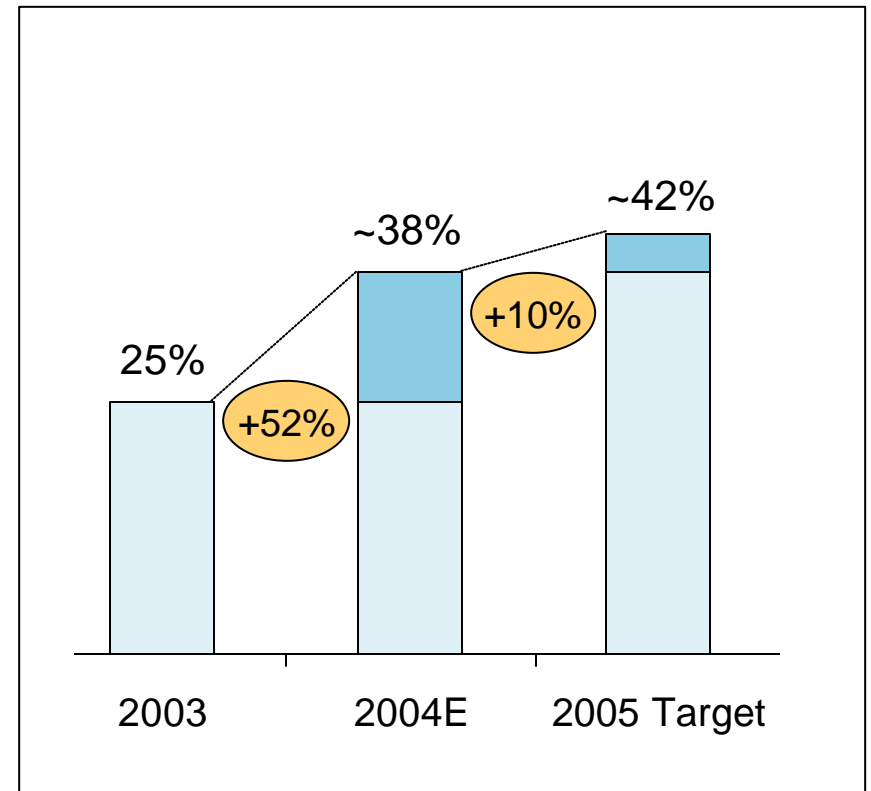


R&D drives innovation and product leadership

Allocation of Group R&D budget



Group revenues from new products



Significant new product introductions in 2004 /2005

Medical
Systems

U 22



Precedence
SPECT/CT



Panorama
MR 1.0T



Brilliance CT



DAP

Perfective



IntelliClean



Perfect
Draft



Consumer
Electronics

Ambilight



Wireless
music center



Lighting

UHP



Mini CDM
Mastercolour



Nightguide



Xenon



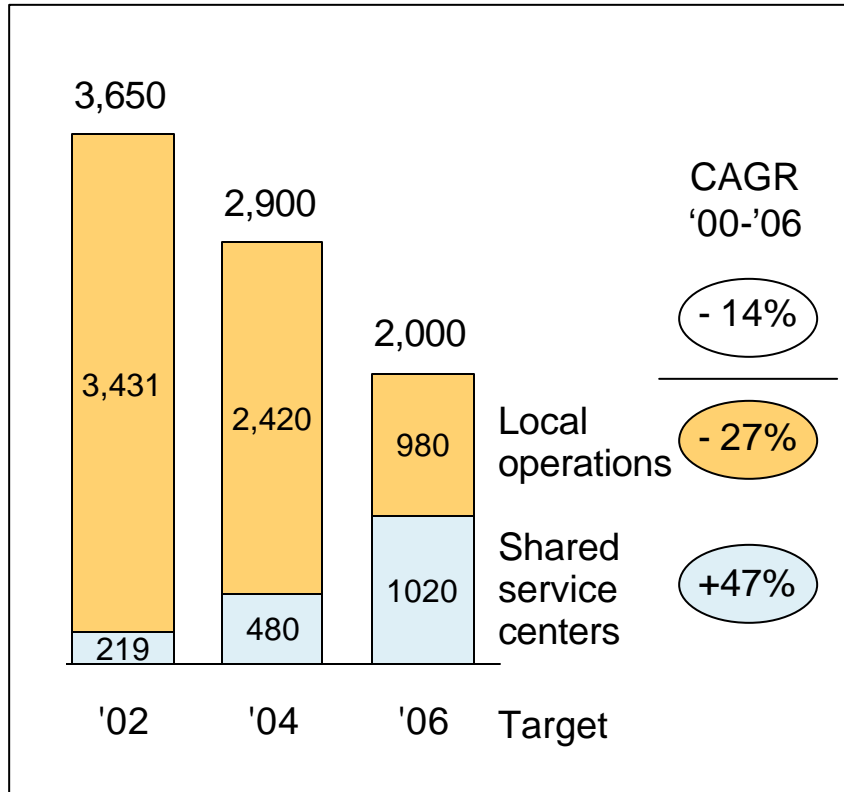
Semiconductors



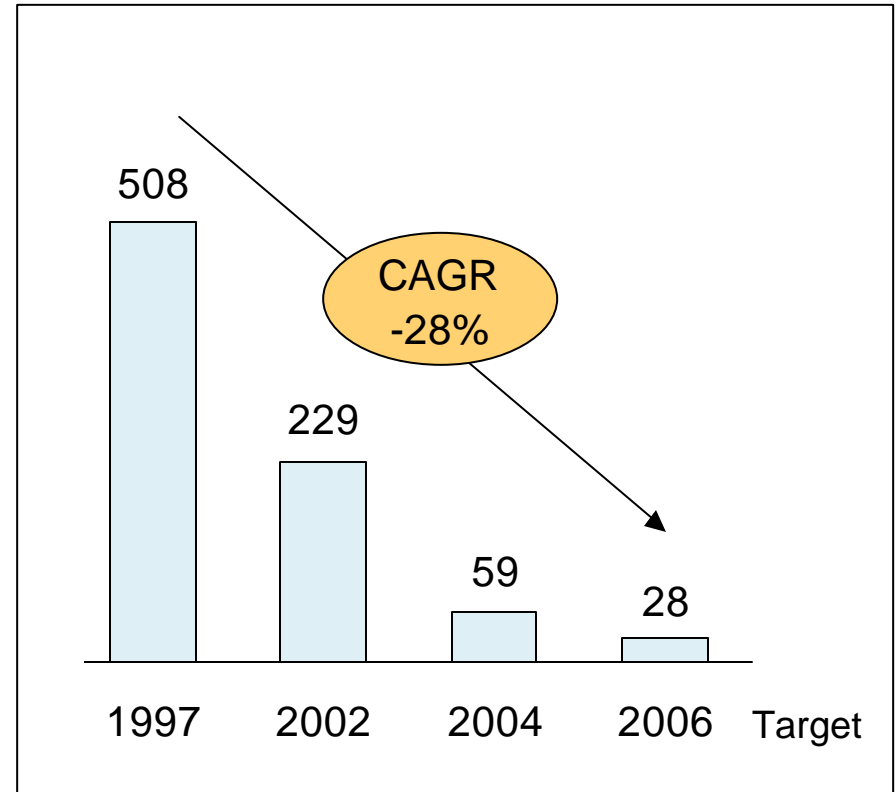
Near Field
Communication

Strong progress in further reducing costs – surpassing €250M in 2004

Headcount reduction from local Finance operations to SSC



Reduction of the numbers of ERPs used in Philips



Philips Strategy

- Increase profitability through allocation of resources towards higher return opportunities
- Leverage the Philips brand and our core competencies in the areas of Healthcare, Lifestyle and Technology to grow in selected categories and geographies
- Build partnerships with key customers and suppliers for B2B and B2C markets
- Continue to invest in world class innovation and leverage strong IP position
- Strengthen our leadership competencies
- Drive productivity through Business Transformation and Operational Excellence

2005 Management Agenda

- Grow Healthcare as part of the portfolio
- Continue the transformation of Philips into a market driven organization
- Focus on innovation across the Group
- Reduce earnings volatility of cyclical businesses
- Further simplifying Philips – reducing overall costs by an additional € 500M in savings (3-4 years)

2005 Management Agenda

- Grow Healthcare as part of the portfolio
- Continue the transformation of Philips into a market driven organization
- Focus on innovation across the Group
- Reduce earnings volatility of cyclical businesses
- Further simplifying Philips – reducing overall costs by an additional € 500M in savings (3-4 years)

Philips Group Objectives

- IFO margins 7-10% in the next 1-2 years
- Consistent returns in excess of the cost of capital
- Reduce earnings volatility of cyclical businesses
- Improve stability / predictability across the portfolio

Summary

- Grow in Healthcare
- Focus on Innovation
- Higher margin products & markets
- Improving predictability in results
- Strong operational cashflow

