PHILIPS

Royal Philips Electronics

Fourth Quarter 2005

January 23, 2006

Forward Looking Statements

Forward Looking Statements

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items (including, but not limited to, cost savings) in particular the outlook paragraph in this report. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, levels of consumer and business spending in major economies, changes in consumer tastes and preferences, changes in law, the performance of the financial markets, pension costs, the levels of marketing and promotional expenditures by Philips and its competitors, raw materials and employee costs, changes in exchange and interest rates (in particular, changes in the euro and the US dollar can materially affect results), changes in tax rates and future business combinations, acquisitions or dispositions and the rate of technological changes. Statements regarding market share, including as to Philips' competitive position, contained in this document are based on outside sources such as specialized research institutes, industry and dealer panels in combination with management estimates. Where information is not yet available to Philips, those statements may also be based on estimates and projections prepared by outside sources or management. Rankings are based on sales unless otherwise stated.

Use of non-GAAP Information

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

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Highlights (I)

- Net income amounted to EUR 332 m. compared to last year's EUR 498 m. and was driven by incidental results from unconsolidated companies and an advancement of tax charge related to TSMC
- Comparable sales increased by 4%. All five operating divisions contributed to the sales growth, led by Medical Systems (8%), Semiconductors (9%) and Consumer Electronics (6%)
- IFO amounted to EUR 971 m. and benefited from a EUR 187 m. release of a provision for post-retirement medical benefits, partly offset by charges of EUR 46 m. relating to MedQuist
- The underlying operational performance in our divisions showed more evidence that targets we have set for ourselves are being or will be met

Highlights (II)

- Financial income of EUR 23 m. was positively affected by the increase in the fair value of the option on the TPV convertible bond of EUR 53 m.
- The loss from unconsolidated companies of EUR 70 m. included charges of EUR 458 m. related to LPD and a non taxable gain of EUR 211 m. from sale of LPL shares
- Inventories were at 11.4% of sales at end of 4Q05, flat on 4Q04 when currency adjusted
- Net debt : group equity ratio was (5):105 at the end 4Q05
- Proposal to the General Meeting of Shareholders to declare a dividend of EUR 0.44 per common share, an increase for the second consecutive year

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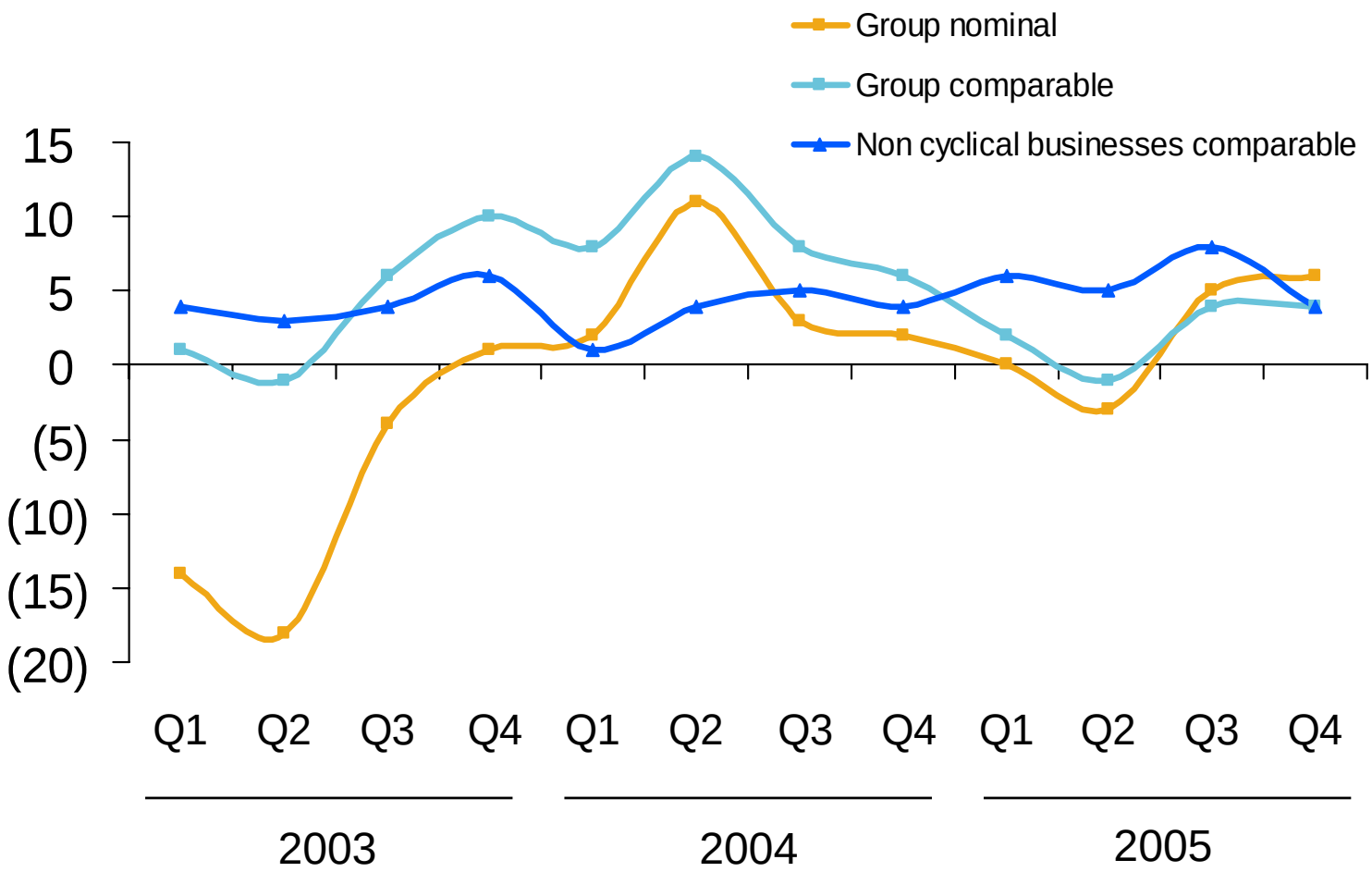
Summary - 4Q05

EUR million

	4Q04	4Q05
Sales	8,948	9,518
Income from operations	15	971
Result relating to UCCs	198	(70)
Net Income	498	332
Cash flow before financing activities	2,947	1,483
Net debt : Group equity ratio	1:99	(5):105

Quarterly sales growth y-o-y

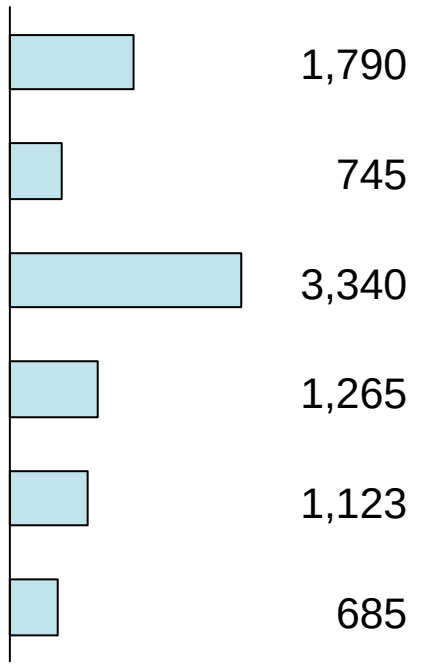
%



Non cyclical business = Medical Systems + Lighting + DAP

Sales to thirds by sector – 4Q05

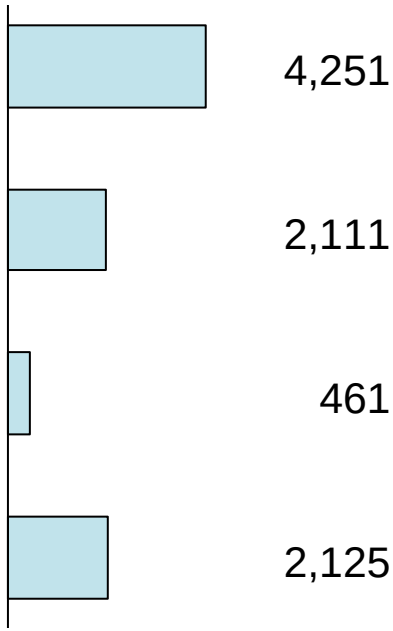
EUR million



	4Q04	4Q05	% nom	% comp
Medical Systems	1,790	2,029	13	8
DAP	745	787	6	3
CE	3,340	3,469	4	6
Lighting	1,265	1,346	6	1
Semiconductors	1,123	1,327	18	9
Other Activities	685	560	(18)	(16)
Group sales	8,948	9,518	6	4

Sales to thirds by region – 4Q05

EUR million



	4Q04	4Q05	% nom	% comp
Europe / Africa	4,251	4,141	(3)	(1)
North America	2,111	2,382	13	9
Latin America	461	598	30	9
Asia Pacific	2,125	2,397	13	8
Group sales	8,948	9,518	6	4

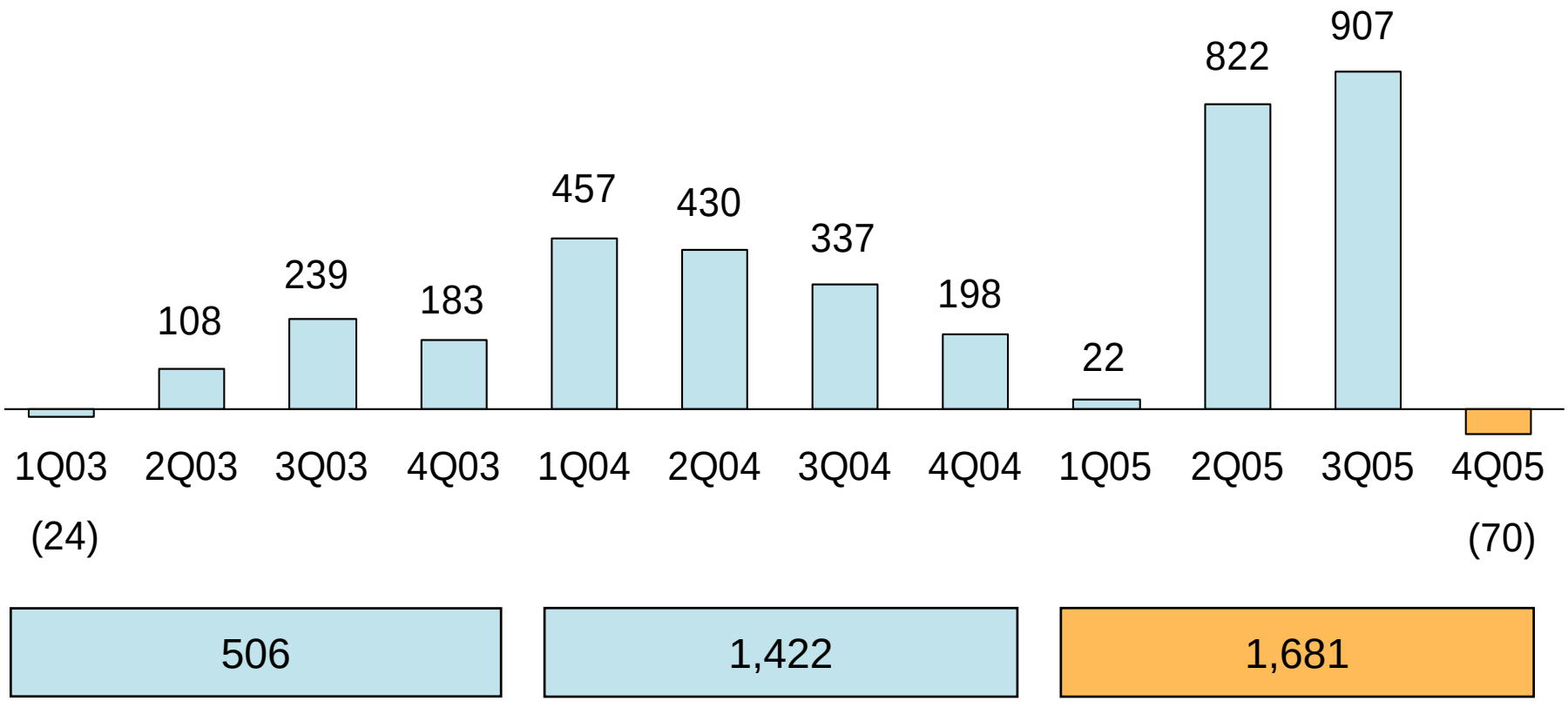
IFO by sector – 4Q05

EUR million

	4Q04		4Q05	
Medical Systems	(353)		267	
DAP	156		167	
CE (*of which Licenses*)	270	*217*	234	*64*
Lighting	151		157	
Semiconductors	48		176	
Other Activities	(89)		24	
Unallocated	(168)		(54)	
Philips Group	15		971	
as % of sales	0.2		10.2	

Results unconsolidated companies

EUR million



Major publicly quoted investments – end 4Q05

	number shares rounded in millions	% ownership	Market value end Dec 05 in EUR m.
TSMC	4,066	16.4	6,531
LG.Philips LCD	118	32.9	4,244
TPV	263	15.0	218
JDS Uniphase	39	2.7	78
FEI	8	25.1	136
Total			11,207

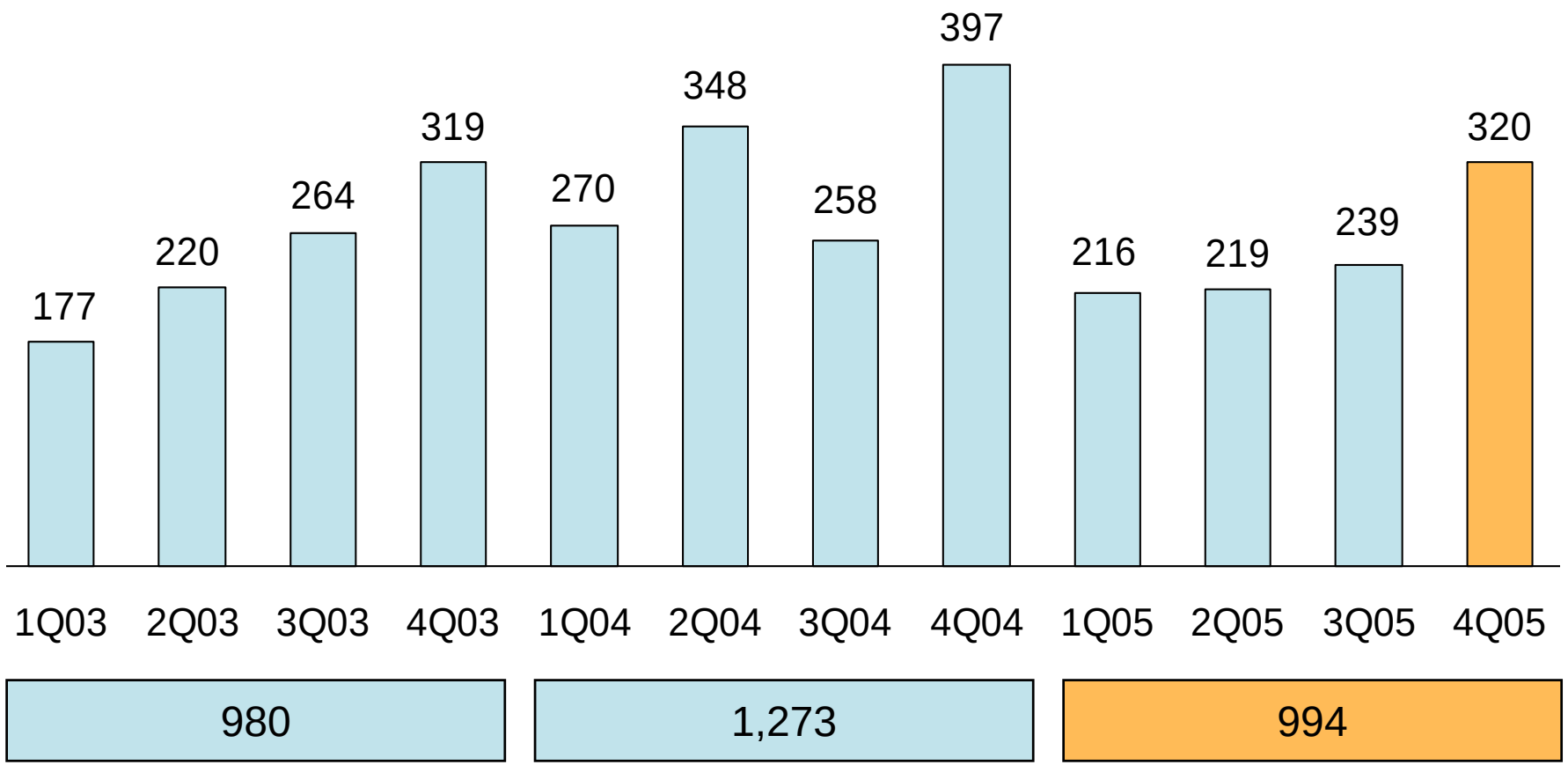
Cash Flow – 4Q05

EUR million

	4Q04	4Q05
Net income from continuing operations	499	389
Depreciation / amortization / impairments	1,082	840
Net gain on sale of assets	(623)	(382)
Income from UCCs	(36)	(143)
Decrease in WC/other current assets	1,340	1,189
Other	(380)	(4)
CF from operations	1,882	1,889
Gross capital investments	(397)	(320)
Acquisitions/divestments/other	1,462	(86)
CF before financing activities	2,947	1,483

Gross capital expenditures

EUR million



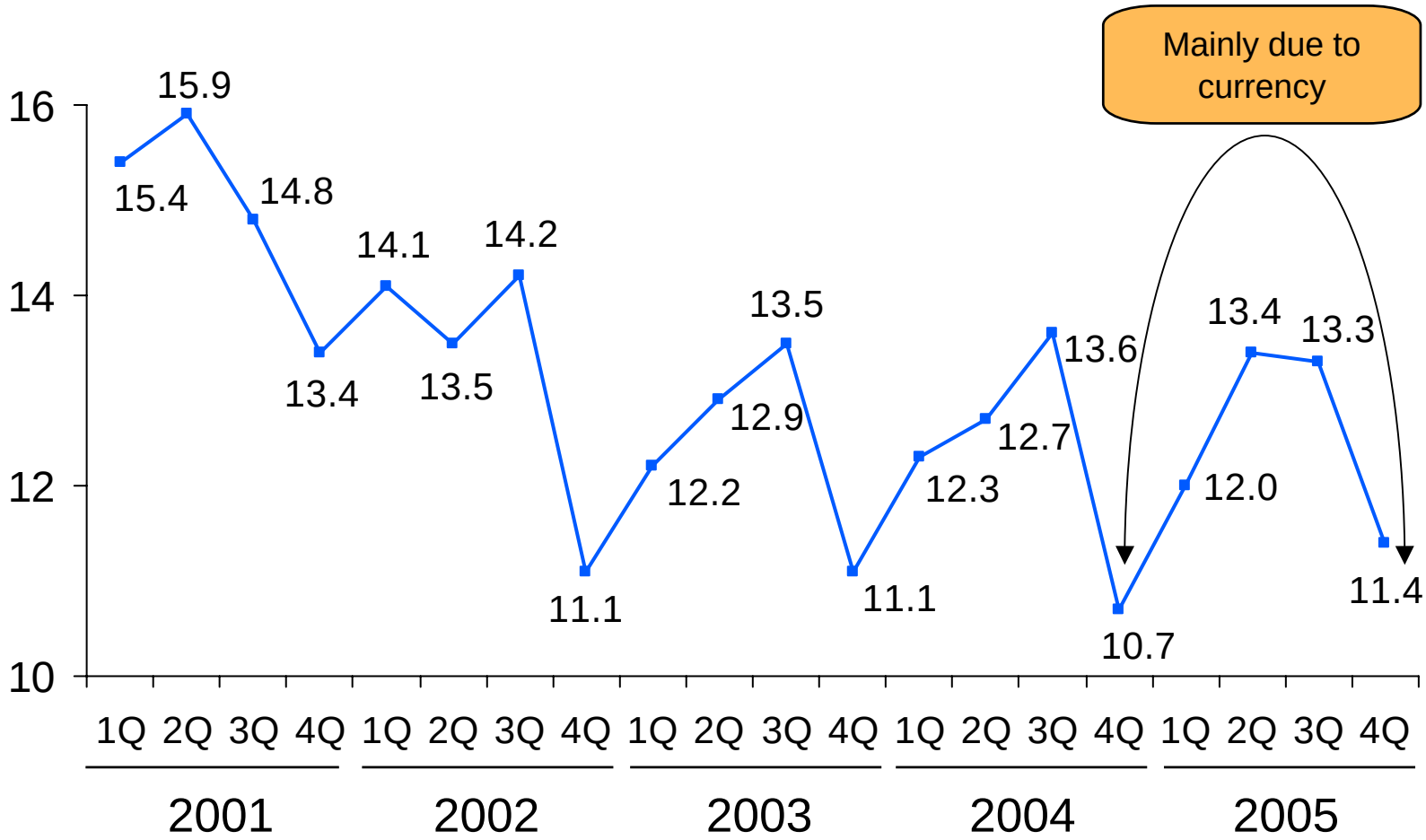
Gross capital expenditures by sector – 4Q05

EUR million

	4Q04	4Q05
Medical Systems	37	21
DAP	24	29
CE	18	17
Lighting	97	80
Semiconductors	139	104
Other Activities	80	68
Unallocated	2	1
Group gross capex	397	320

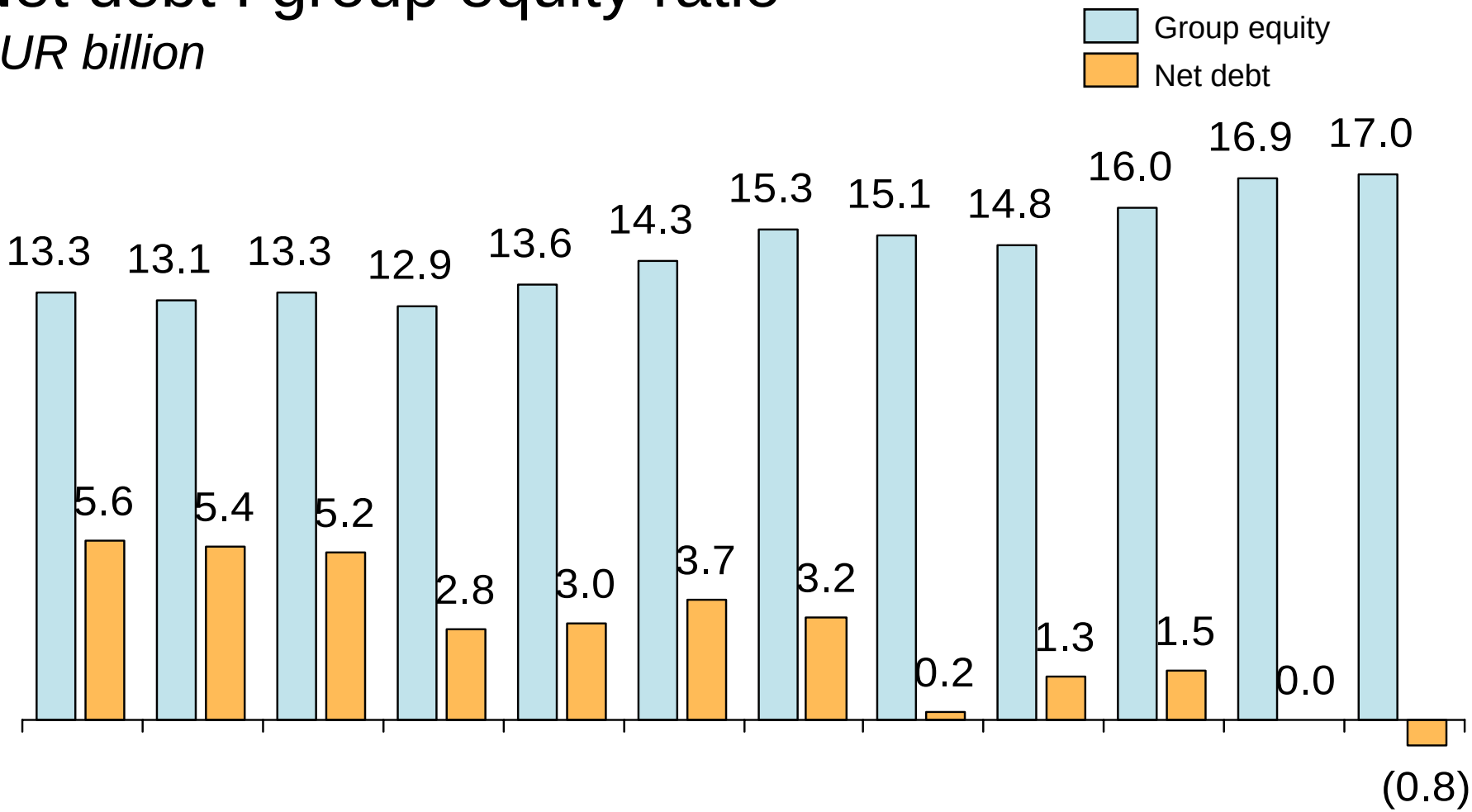
Inventories

as % of MAT sales



Net debt : group equity ratio

EUR billion



	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05
Ratio	30:70	29:71	28:72	18:82	18:82	21:79	17:83	1:99	8:92	8:92	0:100	(5):105

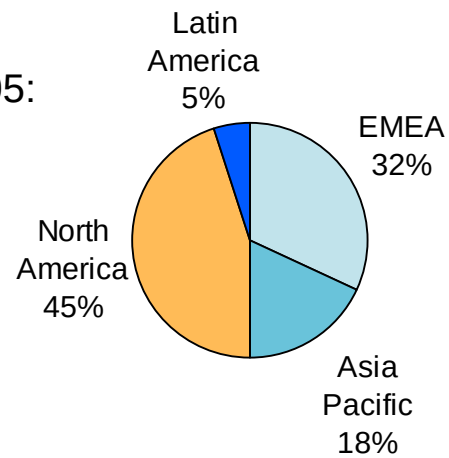
Medical Systems

EUR million unless otherwise stated

Key figures

	4Q04	3Q05	4Q05
Sales	1,790	1,531	2,029
% sales growth comp.	4	7	8
IFO	(353)	155	267
IFO as % of sales	(19.7)	10.1	13.2
NOC	2,862	3,506	3,400
Employees (FTEs)	30,790	31,245	30,978

Sales per region in 4Q05:



Financial performance

- Comparable sales up 8% driven by double digit growth in CT, Nuclear Medicine, Cardiac & Monitoring Systems, Ultrasound and X-Ray. Strong sales in Latin America and Asia Pacific
- IFO affected by EUR 66 m. loss in MedQuist and approx. EUR 10 m. negative impact from Stentor acquisition charges and related revenue delays
- Rapid revenue growth in Asia Pacific, Latin America and other emerging markets, as well as a change in sales mix between equipment and service, negatively affected profitability
- R&D investment increased compared to 4Q04

Looking ahead

- Based on strong order intake and high demand for iSite® IT solution, the division is well positioned for further growth
- Focus on operational effectiveness to bring the division back on track to expand margins

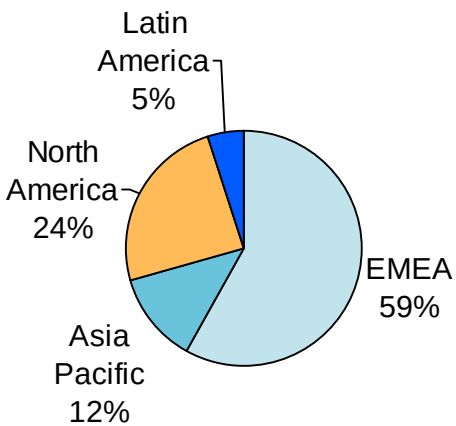
DAP

EUR million unless otherwise stated

Key figures

	4Q04	3Q05	4Q05
Sales	745	519	787
% sales growth comp.	2	13	3
IFO	156	91	167
IFO as % of sales	20.9	17.5	21.2
NOC	393	569	370
Employees (FTEs)	8,205	8,801	8,203

Sales per region in 4Q05:



Financial performance

- Comparable sales up 3% driven by Shaving & Beauty and Food & Beverage
- Sales showed double-digit growth in Asia, Eastern Europe and Latin America
- IFO increase compared to 4Q04 was driven by higher sales
- FY05 comparable sales growth of 6% and profitability of 16.3%, just above DAP's annual target
- Cash flow before financing activities increased due to improvements in working capital

Looking ahead

- Focus on maintaining the 15 -16% operating margin and achieving 7% comparable sales growth by bringing innovative products to the market
- DAP will continue to invest in the start-up of its Consumer Health & Wellness business

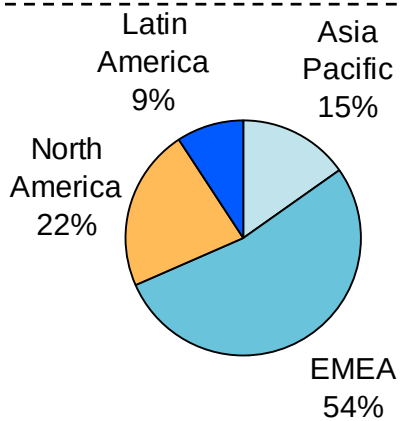
Consumer Electronics

EUR million unless otherwise stated

Key figures

	4Q04	3Q05	4Q05
Sales	3,340	2,541	3,469
% sales growth comp.	11	8	6
IFO CE mainstream	53	126	170
IFO Optical Licenses	217	38	64
Total IFO CE	270	164	234
IFO as % of sales	8.1	6.5	6.7
NOC	(161)	212	(296)
Employees (FTEs)	16,993	16,570	15,537

Sales per region in 4Q05:



Financial performance

- Comparable sales of CE, excluding Optical Licenses, up 11% driven by Connected Displays (Flat Displays)
- All regions showed sales growth particularly North America and Latin America
- IFO of CE mainstream improved in all businesses, due to better operational performance, lower restructuring charges and ongoing benefits of business renewal program
- Restructuring charges of EUR 18 m. in 4Q05

Looking ahead

- By year-end 2005, run-rate savings from CE's business renewal program amounted to EUR 450 m. Further savings to be realized in 2006
- CE is on track to maintain profitability within targeted 4 - 4.5% in 2006

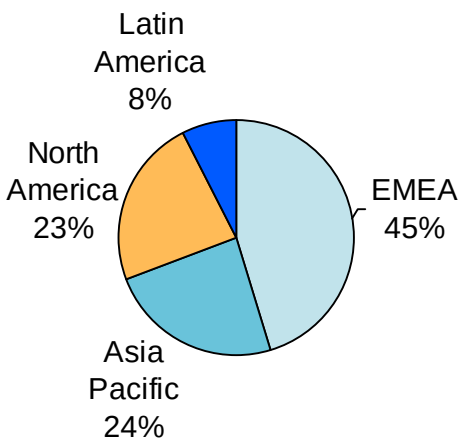
Lighting

EUR million unless otherwise stated

Key figures

	4Q04	3Q05	4Q05
Sales	1,265	1,185	1,346
% sales growth comp.	6	5	1
IFO	151	130	157
IFO as % of sales	11.9	11.0	11.7
NOC	1,493	1,721	2,491
Employees (FTEs)	44,004	44,559	45,649

Sales per region in 4Q05:



Financial performance

- Nominal sales increased by 6% in 4Q05 of which 1% from consolidation of Lumileds
- Underlying profitability decreased due to lower gross margin (resulting from weak demand for UHP applications), higher expenditure on innovation and purchase accounting charges related to the consolidation of Lumileds
- Lumileds' consolidation added EUR 884 m. to the net operating capital

Looking ahead

- Current higher level of R&D to be maintained, primarily in LCD backlighting, with product deliveries beginning to ramp up in 1Q06
- A negative EUR 44 m. will affect IFO in 2006, due to purchase accounting related amortizations (Lumileds' consolidation)

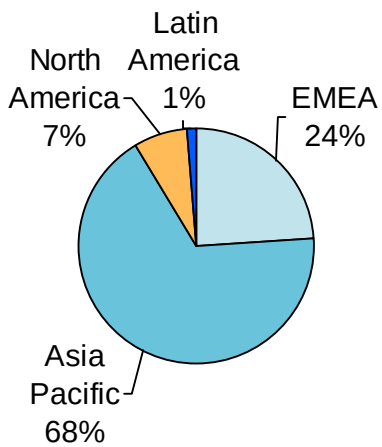
Semiconductors

EUR million unless otherwise stated

Key figures

	4Q04	3Q05	4Q05
Sales	1,123	1,193	1,327
% sales growth comp.	0	(1)	9
IFO	48	90	176
IFO as % of sales	4.3	7.5	13.3
NOC	2,520	2,536	2,363
Employees (FTEs)	32,580	35,790	35,637

Sales per region in 4Q05:



Financial performance

- Sequential sales growth of 8% in USD
- Book-to-bill ratio at 0.96 at the end of 4Q05
- Utilization rate improved to 83% in 4Q05 compared to 81% in 3Q05
- IFOs improved performance resulted from higher sales and better utilization, supported by the ongoing business renewal program
- IFO positively impacted by release of post-retirement medical benefits provision of EUR 17 m. in 4Q05

Looking ahead

- High-single-digit sequential sales decline in USD expected in 1Q06 due to seasonality
- Continue implementation of business renewal plan
- Semiconductors to incur certain costs related to set-up of separate legal structure for the division

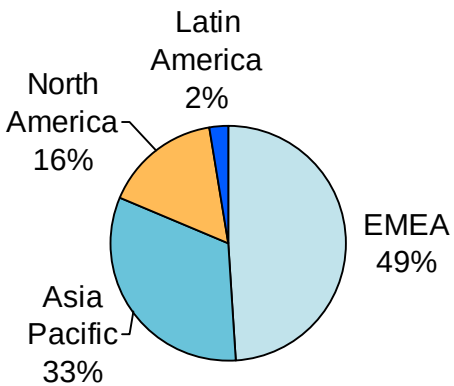
Other Activities

EUR million unless otherwise stated

Key figures*

	4Q04	3Q05	4Q05
Sales	685	489	560
% sales growth comp.	19	(5)	(16)
IFO	(89)	(61)	24
IFO as % of sales	(13.0)	(12.5)	4.3
NOC	117	395	272
Employees (FTEs)	23,869	19,844	19,050

Sales per region in 4Q05:



Financial performance

- Comparable sales down 16% mainly due to Corporate Investments, partly as a consequence of divestments
- IFO included in 4Q05:
  - Restructuring and impairment charges of EUR 13 m.
  - IFO of Real Estate amounted to EUR 76 m. in 4Q05 compared to a loss of EUR 8 m in 4Q04
  - Gain from the sale of Philips Pension Competence Center of EUR 42 m.
  - Positive impact of EUR 21 m. from release of post-retirement medical benefits provision

Looking ahead

- Further execution of the divestment program is expected in 2006

* Figures adjusted to exclude MDS

Unallocated

EUR million unless otherwise stated

Key figures

	4Q04	3Q05	4Q05
Corporate and regional overheads	(93)	(71)	(92)
Global brand campaign	(47)	(13)	(54)
Pensions/postretirement benefit costs	(28)	(42)	92
IFO	(168)	(126)	(54)
Employees (FTEs)	2,609	2,397	2,392

Financial performance

- Corporate and regional overhead costs slightly below 4Q04
- Spending on the brand campaign in line with expectations. Full year spending was EUR 138 m.
- Pension costs positively affected by EUR 116 m. from a provision release for post-retirement medical benefits

Looking ahead

- Spending on the brand campaign will be at a similar level, and will follow a similar seasonal pattern, to 2005
- Pension costs for Group expected to be approx. EUR 220 m. in 2006, of which approx. EUR 80 m. in Unallocated

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Looking ahead information in the 4Q quarterly report on January 23,2006 - I

Medical Systems

- Based on its strong order intake and high demand for its iSite® IT solution, the division is well positioned for further growth.
- Increased focus on operational effectiveness will bring the division back on track to expand margins.

Domestic Appliances and Personal Care

- The focus will be on maintaining the 15-16% operating margin and achieving 7% comparable sales growth by bringing innovative products to the market.
- DAP will continue to invest in the start-up of its Consumer Health & Wellness business

Consumer Electronics

- By year-end 2005, run-rate savings from CE's business renewal program amounted to EUR 450 million. Further savings will be realized in 2006.
- CE is on track to maintain profitability within its targeted bandwidth of 4 - 4.5% in 2006. In 2005, the profitability of CE (excluding restructuring and the gain on the TPV deal) was 4.2%.

Lighting

- The current higher level of R&D spending will be maintained, primarily in LCD backlighting, with product deliveries beginning to ramp up in Q1 2006.
- The division will further drive profitable growth through its consolidation of Lumileds. The consolidation of Lumileds will have a negative impact of approximately EUR 44 million in 2006 due to purchase accounting related amortizations.

Looking ahead information in the 4Q quarterly report on January 23,2006 – II

Semiconductors

- A high-single-digit sequential sales decline in US dollar terms is expected in Q1 2006 due to seasonality.
- The division will continue the implementation of its business renewal plan.
- Semiconductors will incur certain costs related to the set-up of a separate legal structure for the division.

Other Activities

- Further execution of the divestment program is expected in 2006.

Unallocated

- Spending on the brand campaign will be at a similar level, and will follow a similar seasonal pattern, to 2005.
- In 2006, pension costs for the Philips Group are expected to be approximately EUR 220 million, of which approximately EUR 80 million will be in the sector Unallocated.

Outlook

- Growing the Company's top and bottom line and creating shareholder value have been the highest priorities of the Board in recent years. In 2006 we expect all divisions will continue to show growth, driven by both innovation and increased focus on emerging markets. Selected acquisitions will complement this organic growth, especially at Medical Systems and Consumer Health & Wellness. We will complete the set-up of a separate legal structure for our Semiconductors activities to allow the pursuit of strategic options to further strengthen the long-term performance of this business.
- We will continue our drive to simplify Philips, lower our cost structure and improve our operational excellence. Our ongoing R&D and extended incubator program promise a strong innovation pipeline which – together with our marketing investments – will help us meet our targeted 7% - 10% annual IFO margin from the end of 2006 and to continue to achieve an annual average sales growth of 5-6%, with returns in excess of our cost of capital.
- Overall, our financial position remains excellent, offering significant strategic flexibility.

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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 EUR 500 m. in savings (3-4 years)


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