

PHILIPS

sense and simplicity

PHILIPS

Annual Results 2005

Royal Philips Electronics
Press Conference
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 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.

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Gerard Kleisterlee

Pierre-Jean Sivignon

Gerard Kleisterlee

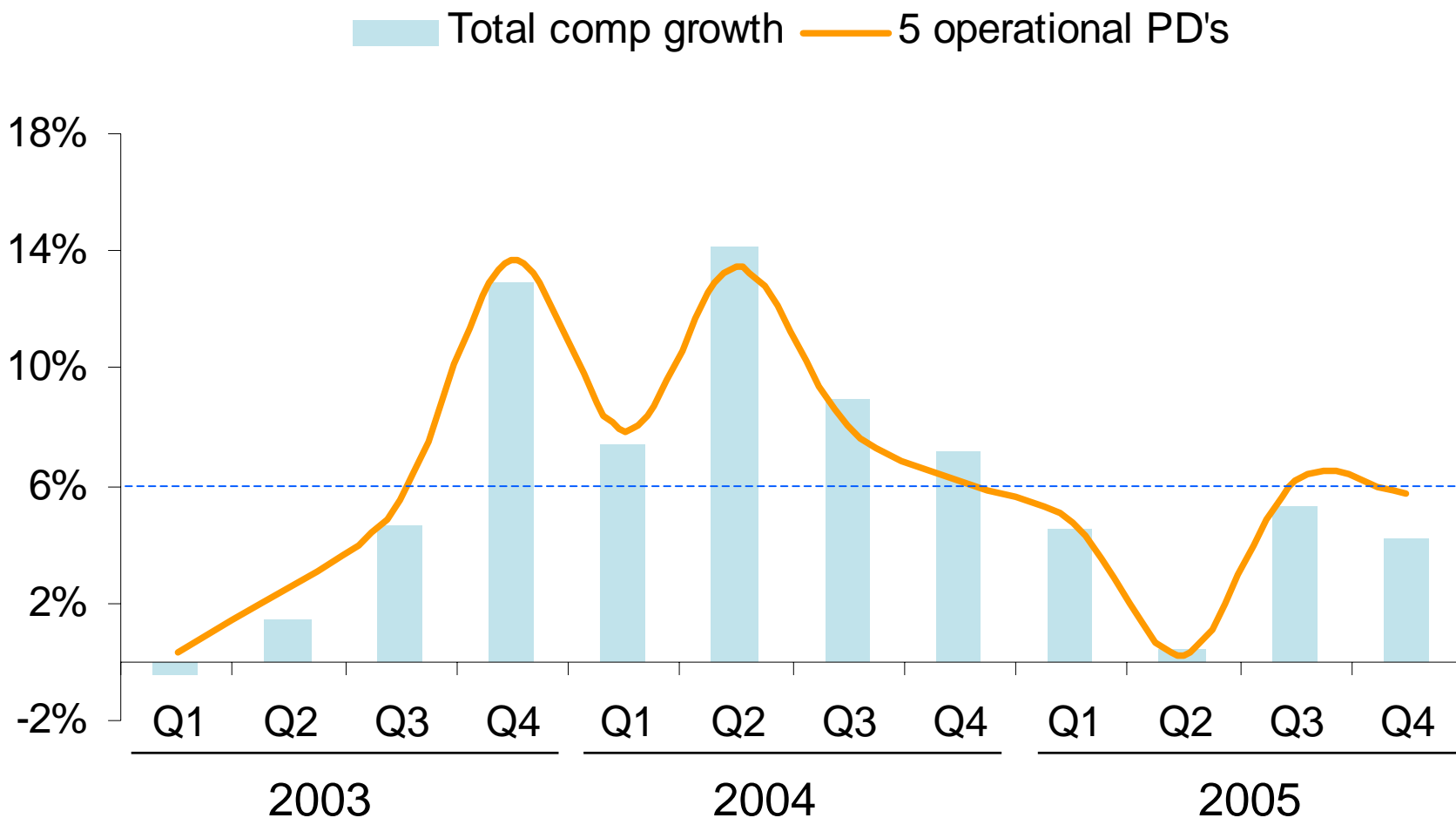
Performance of the Philips Group¹

EUR million

	2003	2004	2005
Sales	27,937	29,346	30,395
<i>Sales incl. MDS</i>	29,037	30,319	31,048
Income from operations	502	1,586	1,779
Net income	695	2,836	2,868
Cash flow from operations	2,012	2,623	2,090
Net capital expenditures	(833)	(1,185)	(819)
Inventories as % of sales	11.1	10.7	11.4
Net debt to group equity	18 : 82	1 : 99	-5 : 105
Employees	164,438	161,586	159,226

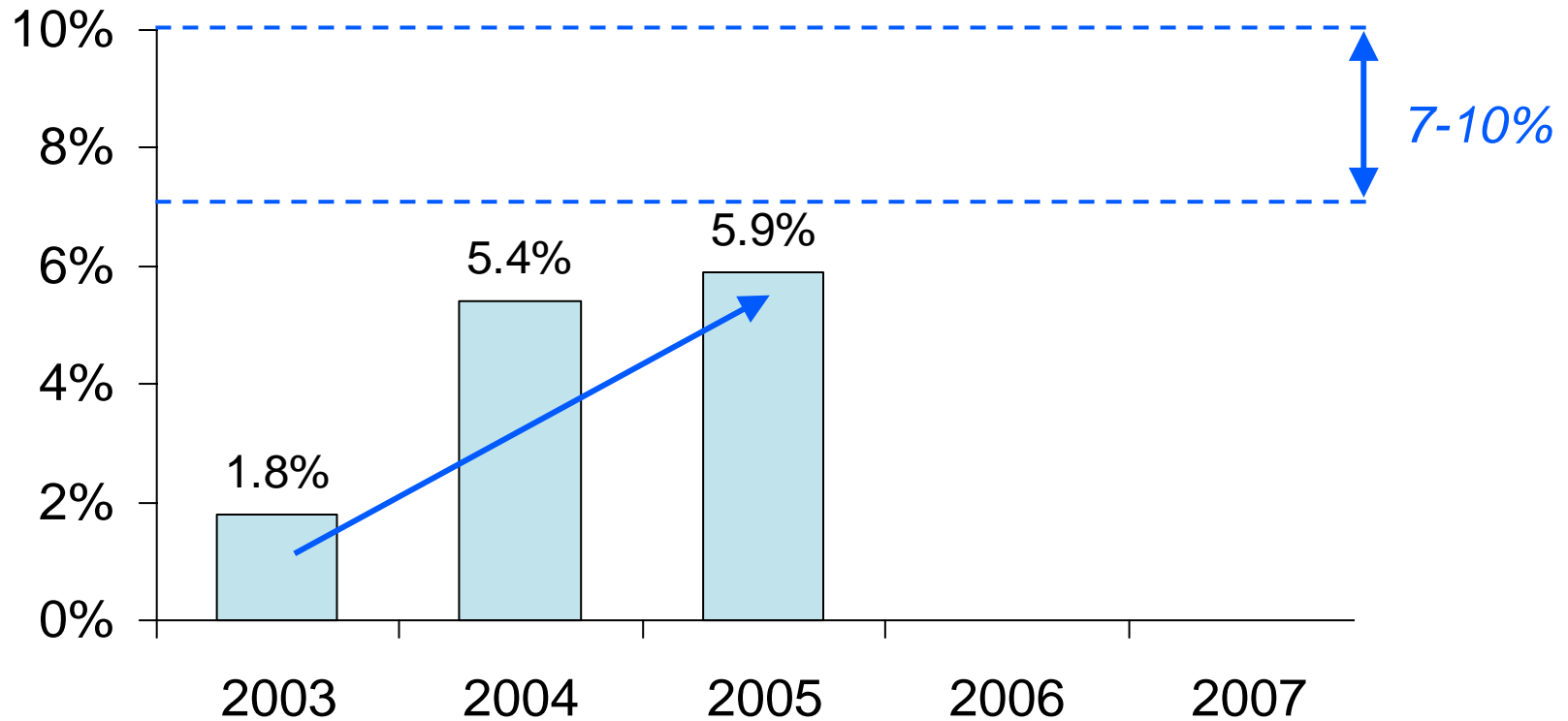
1 – Restated to reflect the intended sale of the MDS activities except employees

Comparable sales growth towards annual average of 5-6%



We are progressing well towards our target of 7-10% IFO margin

IFO margin



Performance of the Philips Group¹

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Pierre-Jean Sivignon

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Agenda

- Financial performance FY 2005
- Key Financial Management Actions
- Summary

Summary – FY¹













amounts in EUR million

	2004	2005
Sales	29,346	30,395
Income from operations	1,586	1,779
Result relating to UCCs	1,422	1,681
Net Income	2,836	2,868
Cash flow before financing activities	3,291	3,388
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Net debt / Group equity ratio	1 : 99	-5 : 105

1 – Restated to reflect the intended sale of the MDS activities

Sales to thirds – FY

amounts in EUR million

	2004		2005		% nom	% comp
Medical Systems	 5,884		 6,343		8	7
DAP	 2,044		 2,194		7	6
CE	 9,919		 10,422		5	5
Lighting	 4,526		 4,775		6	4
Semiconductors	 4,491		 4,620		3	0
Other activities / Unallocated	 2,482		 2,041		(18)	(5)

Philips Group

29,346

30,395

4

4

2005 divested Other Activities

- Mobile Display Systems *
- Optical Pick-Up Unit (part of Optical Storage) *
- Philips Aérospace
- High Tech Plastics (HTP) Automotive
- Philips Business Communications *
- CMS Louviers

* Announced in 2005, scheduled for 2006

IFO – FY

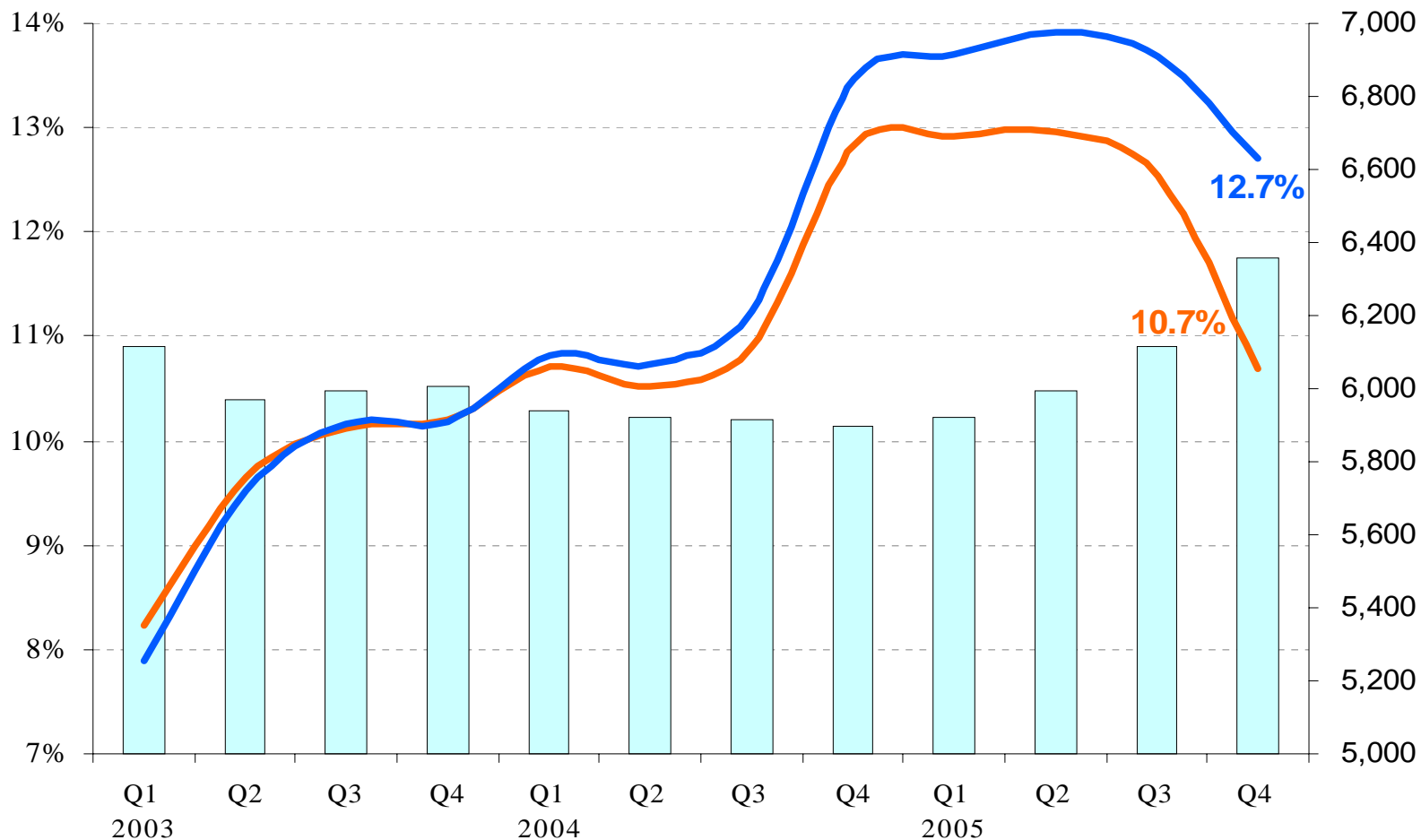
amounts in EUR million

	2004	2005
Medical Systems	35	679
DAP	332	358
CE (<i>of which Licenses</i>)	370 478	506 190
Lighting	593	556
Semiconductors	430	307
Other Activities	366	(156)
Unallocated	(540)	(471)
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Philips Group	1,586	1,779
IFO margin	5.4%	5.9%

MAT EBIT % versus MAT sales – Medical Systems

amounts in EUR million

■ MAT Sales
 — MAT IFO % ¹
 — MAT IFO % excl. MedQuist ²
 MAT = Moving Annual Total = Rolling 12 months



¹ – Excluding the HCP business sold in 2002, restructurings in 2003, the settlement for the litigation with Volumetrics Inc. of EUR 133 m. and MedQuist impairment charge of EUR 590 m. in 2004.

² – Excluding all the above and MedQuist operational result.

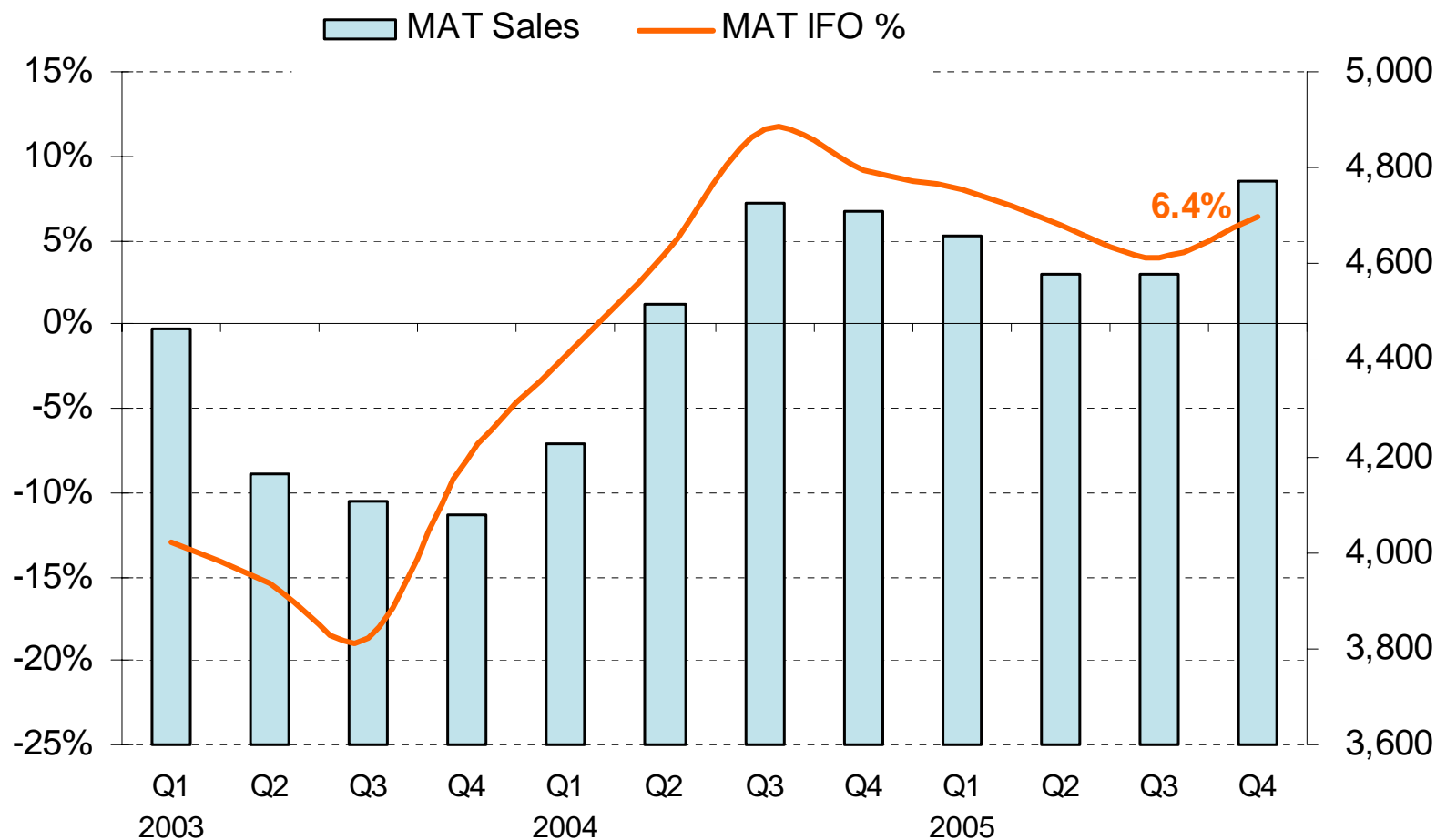
IFO – FY

amounts in EUR million

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IFO margin	5.4%	5.9%

MAT EBIT % versus MAT sales – Semiconductors

amounts in EUR million



IFO – FY breakdown Other Activities

amounts in EUR million

	2004	2005
Corporate Investments	35	(62)
Corporate Technologies	(323)	(219)
Optical Storage	68	4
Other	586	121

Total Other Activities	366	(156)

Incl. EUR 635 m. NAVTEQ

IFO – FY breakdown Unallocated

amounts in EUR million

	2004	2005
Corporate & Regional Overheads	(309)	(317)
Pensions / postretirement benefit costs	(151)	(16)
Global Brand Campaign	(80)	(138)
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Total Unallocated	(540)	(471)

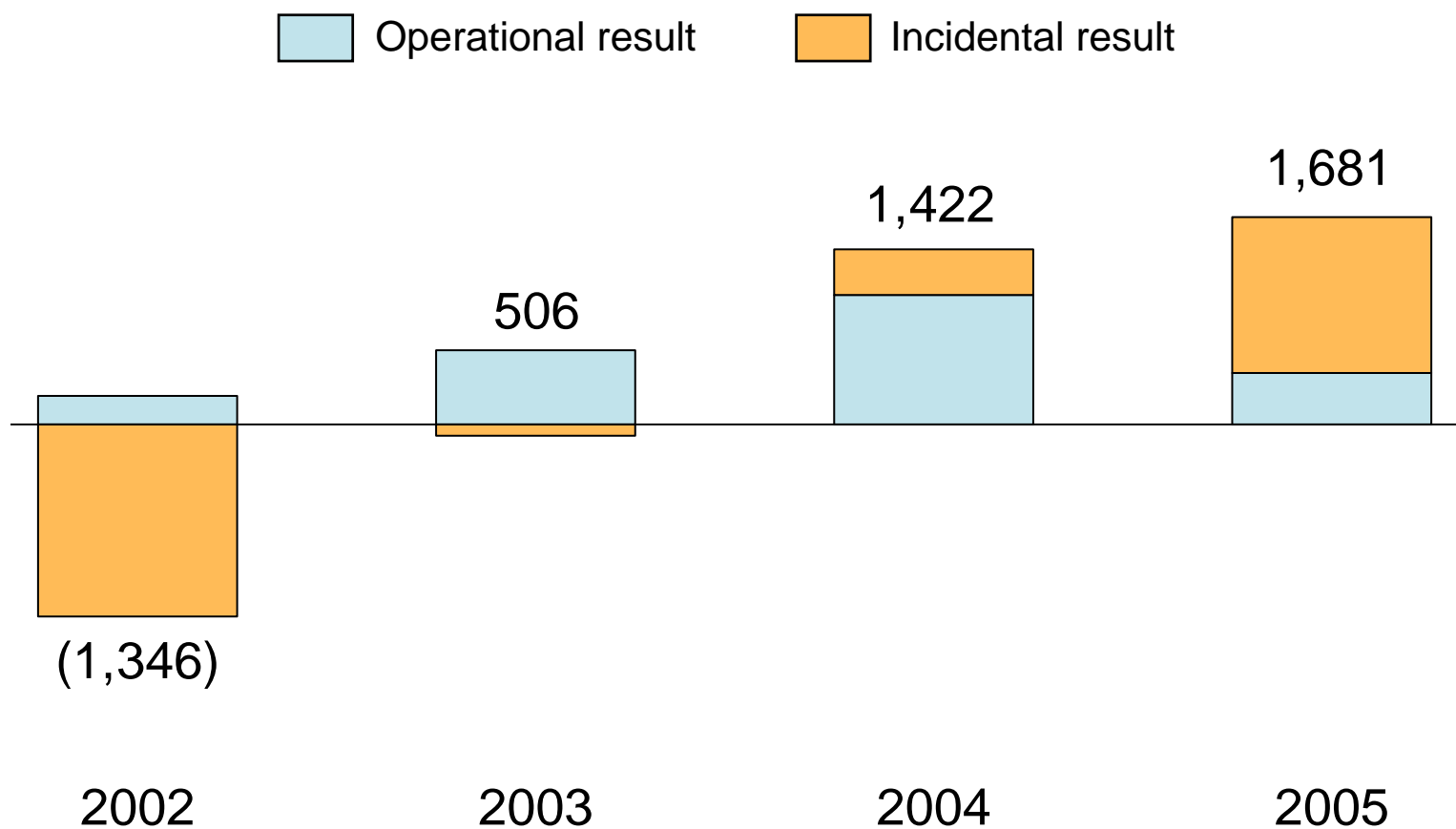
We made active progress in the EUR 500 m. cost reduction program

amounts in EUR million

- Continuous drive to simplify Philips and take out costs
 - Reduction supply base from 50,000 to 30,000
 - Continued roll-out of shared-service centers
- Many cost reduction initiatives launched, e.g. Business Renewal in Semiconductors with EUR 250 million expected savings
- We are well on track to exceed EUR 500 million overall cost reduction by end 2007 on a run-rate basis.

Results relating to unconsolidated companies

amounts in EUR million



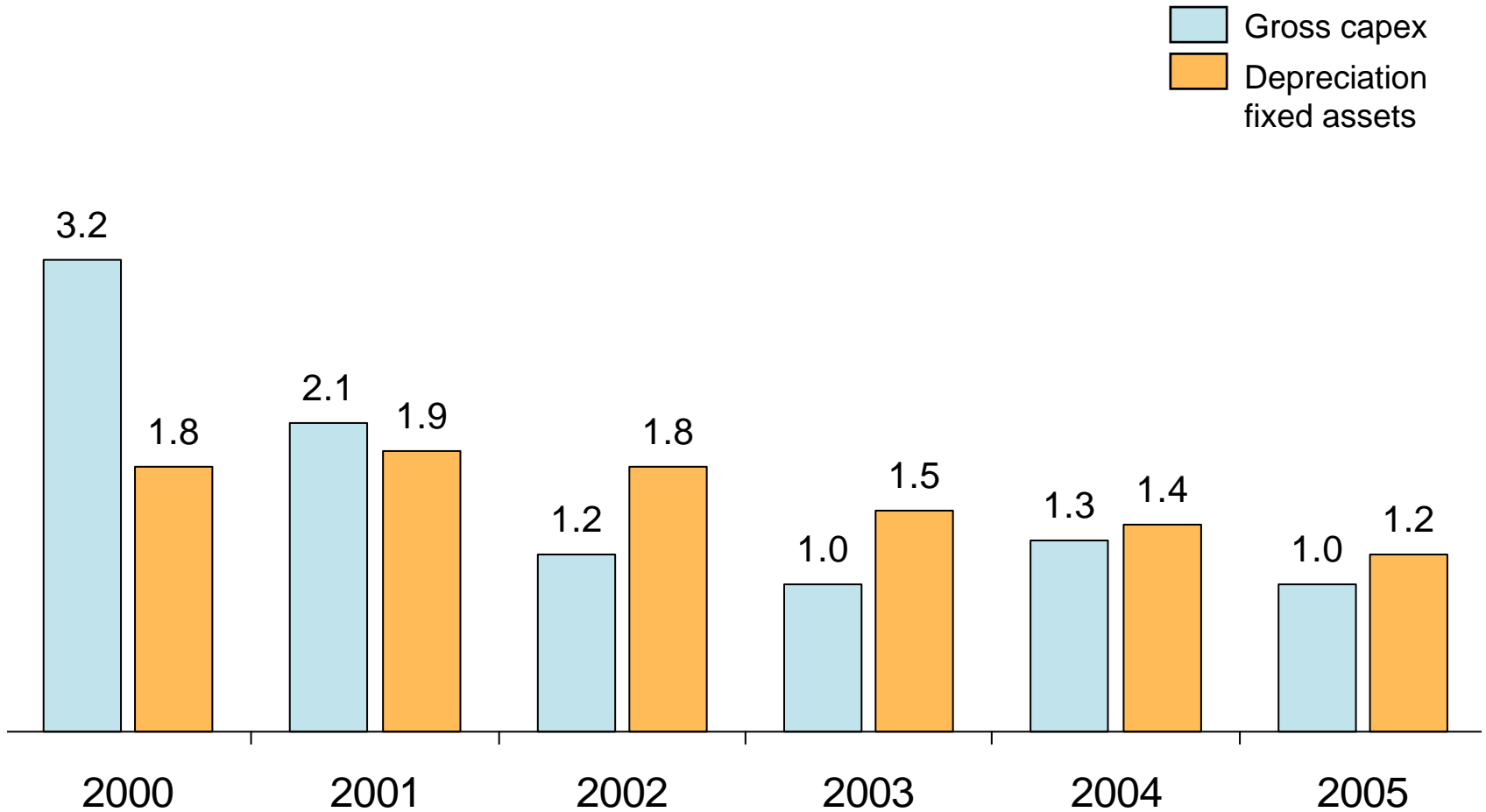
Cash Flow – FY

amounts in EUR million

	2004	2005
Income from continuing operations	2,815	2,951
Depreciation / Amortization / Impairments	2,260	1,508
Net gain on sale of investments	(1,328)	(2,118)
Income from UCCs	(1,178)	(251)
Decrease (increase) in WC / oth. cur. assets	334	(115)
Other	(280)	115
CF from operations	2,623	2,090
Gross capital expenditures	(1,273)	(997)
Acquisitions/Divestments/Other	1,941	2,295
CF before financing activities	3,291	3,388

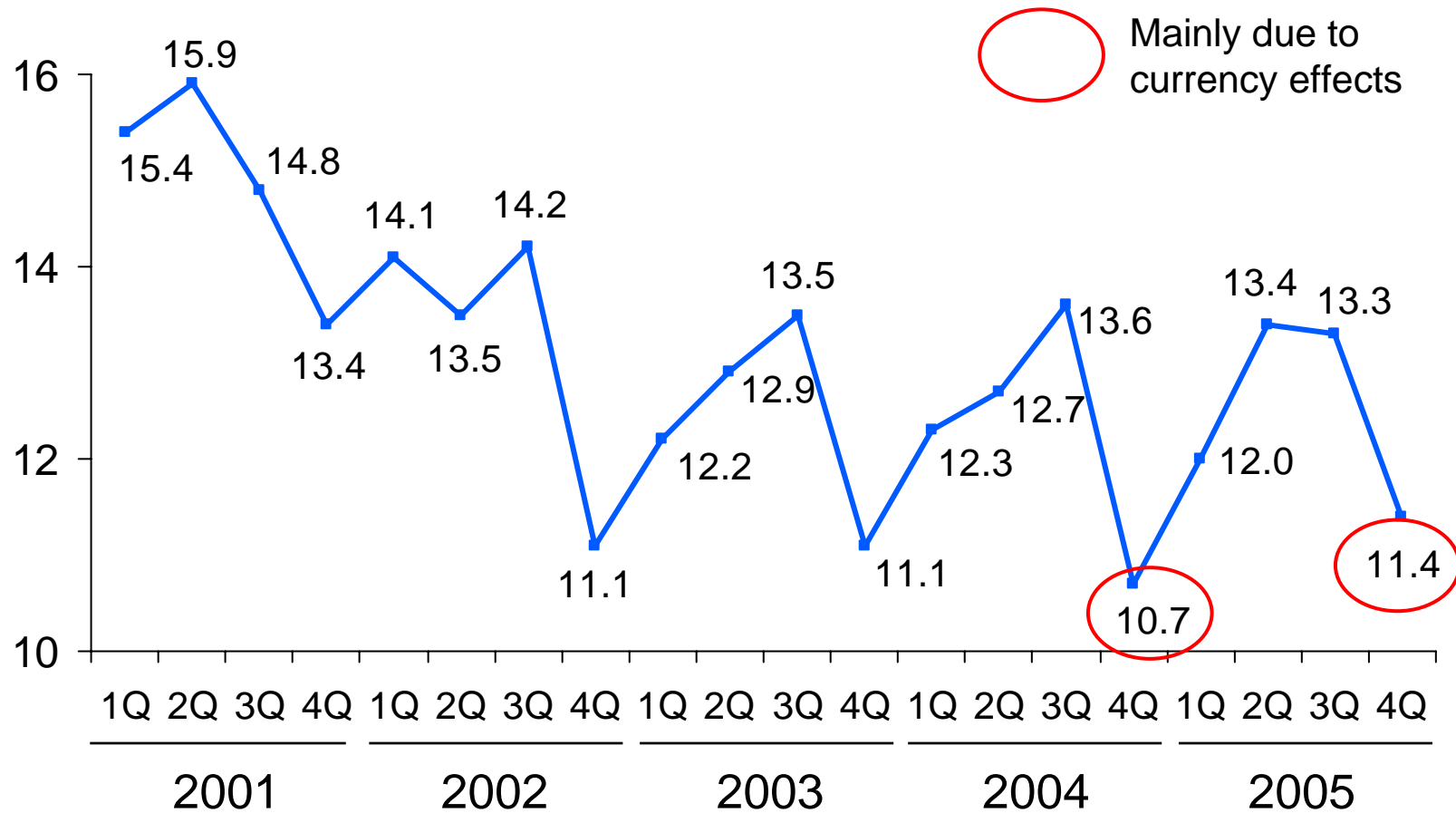
Gross capital expenditures below depreciation

amounts in EUR billion



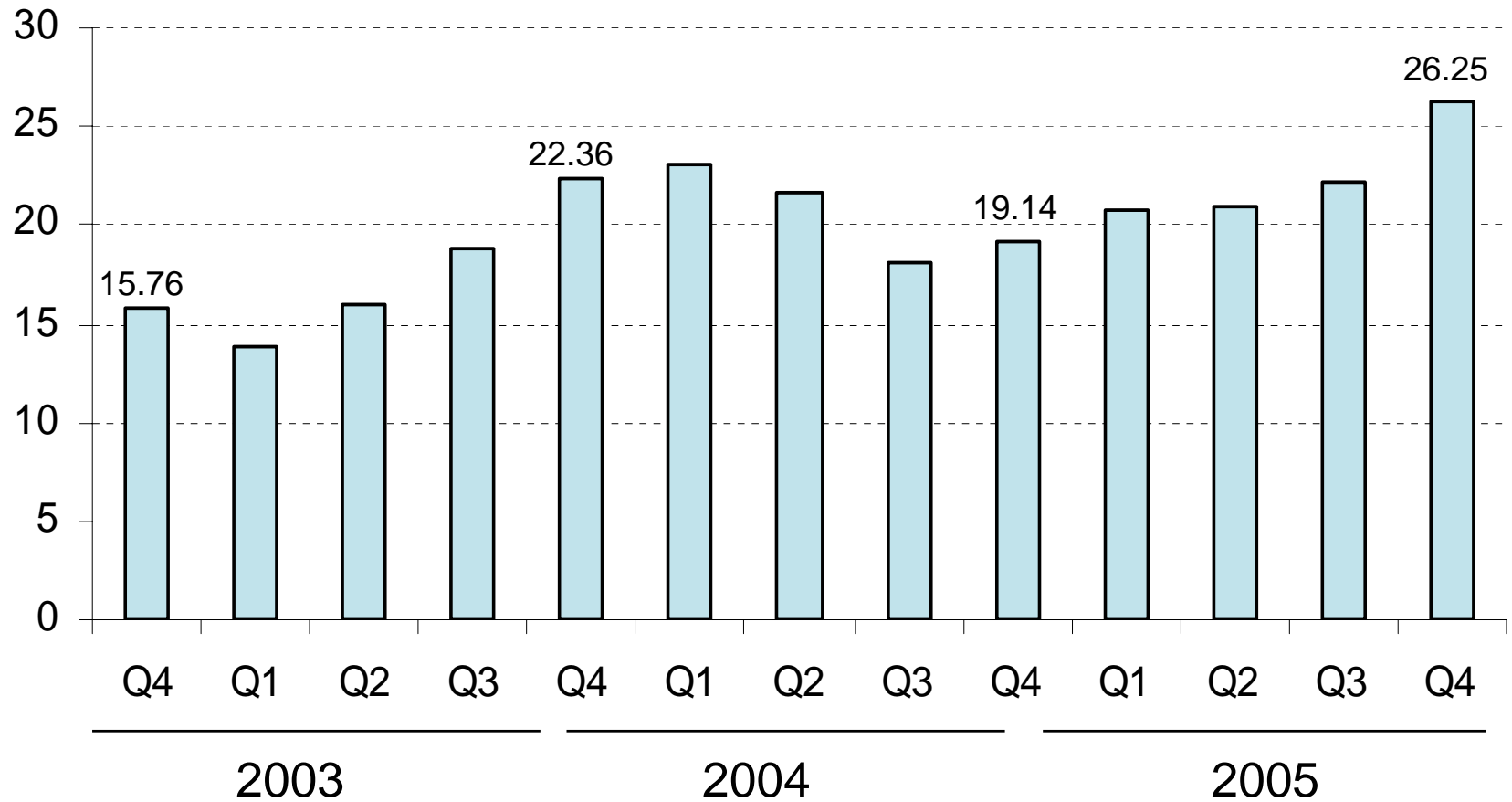
Inventories

as % of MAT sales



Share price development

amount in EUR



Agenda

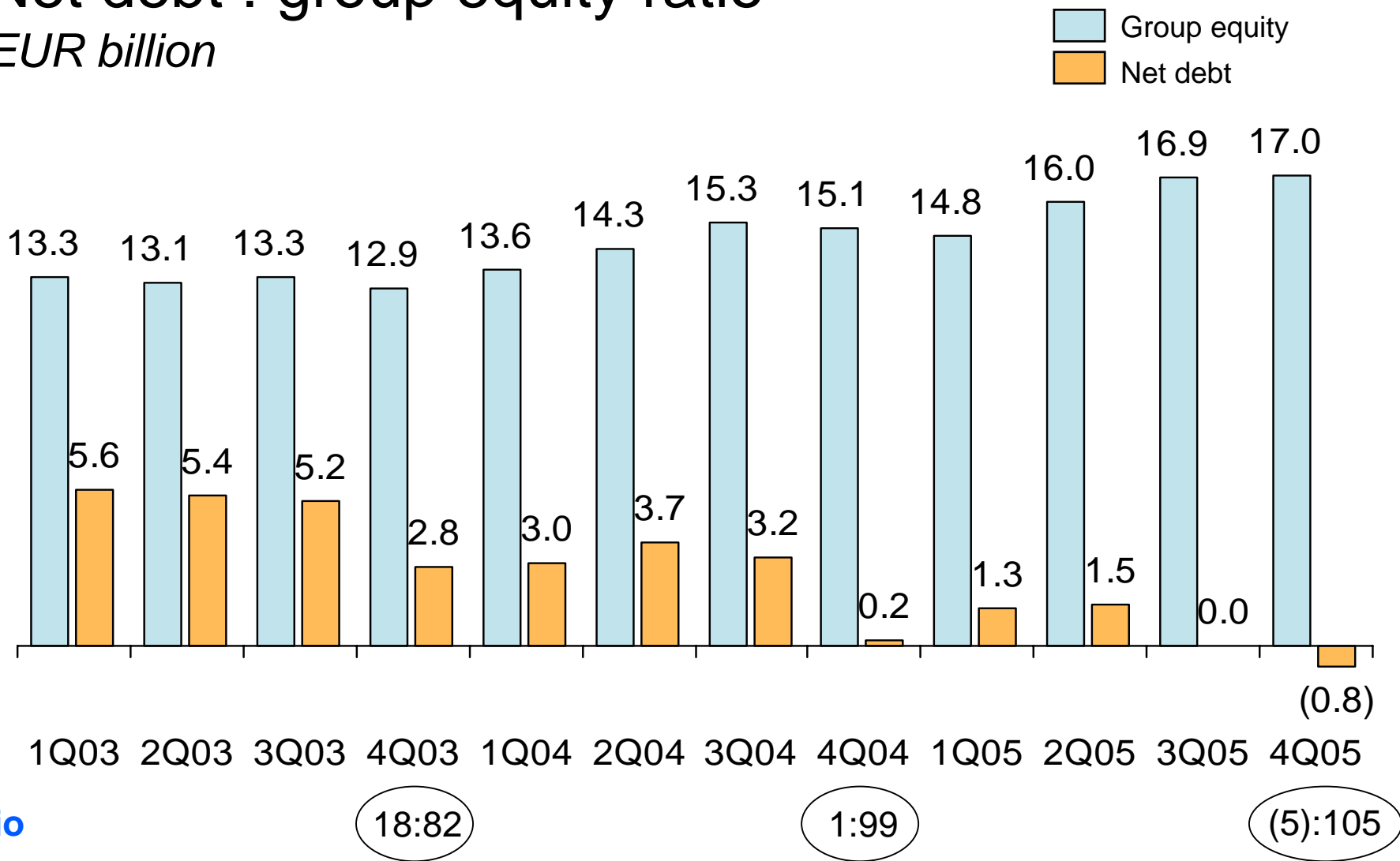
- Financial performance FY 2005

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Net debt : group equity ratio

EUR billion



Ratio

Financial assets: Cash generated from sale of participations

amounts in EUR million

	2004	2005
Sale securities	883	67
Sale Atos Origin shares	552	554
NAVTEQ	672	932
TSMC	–	770
LG.Philips LCD	–	938
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Total	2,107	3,261

Publicly quoted investments: market value

amounts in EUR million

	Dec, 2004	Dec, 2005	Dec, 2004	Dec, 2005
TSMC	5,174	6,531	19.2%	16.4%
JDS Uniphase	91	78	2.7%	2.7%
FEI	124	136	25.3%	25.1%
TPV	–	218	–	15.0%
Atos Origin	516	–	15.4%	–
LG.Philips LCD	4,031	4,244	44.6%	32.9%
NAVTEQ	1,043	–	34.8%	–
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Total	10,979	11,207		

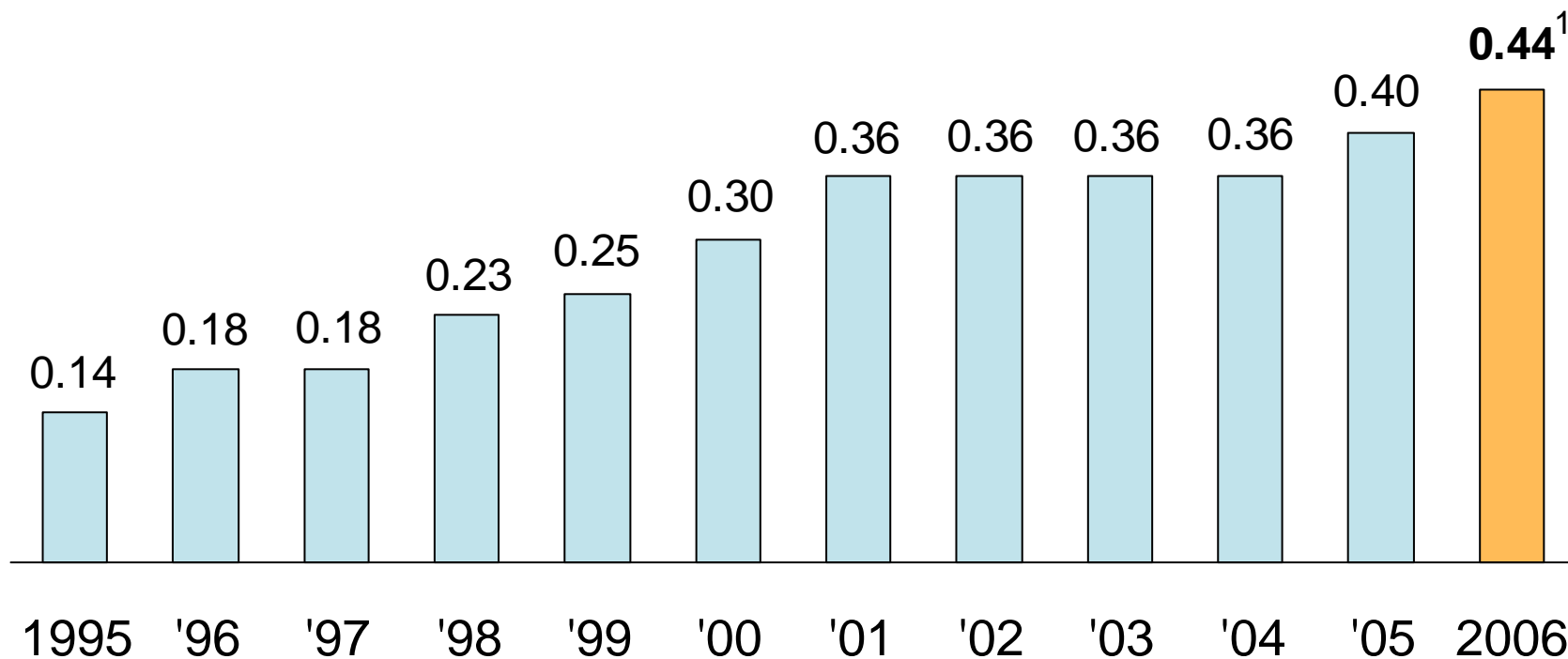
Financial assets: Cash utilization

amounts in EUR million

	2004	2005
Acquisition Lumileds	—	(788)
Acquisition Stentor	—	(194)
Share repurchase programs	—	(1,821)
Dividend	(460)	(504)
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Total	(460)	(3,307)

Dividend paid

amounts in EUR



1 – Proposal subject to approval in the General Shareholders Meeting on March 30th, 2006

Agenda

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Summary

We are now a company with following characteristics:

- More focused portfolio
- Simpler to understand
- Growing stability and predictability
- Strong financial position
- Pursuing opportunities for acquisitions, provided they represent value for money
- Increased shareholder value

Gerard Kleisterlee

Pierre-Jean Sivignon

Gerard Kleisterlee

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)

Healthcare grew significantly in 2005

- PMS organic growth 7%, making it the fastest growing part of our portfolio. Order intake up 14%
- Acquisition of Stentor completed
- Alliance with Schering for optical imaging
- CHW started business activities in 'Skincare' and 'Mother and Child care'
- Roadmap defined for CHW and agreement signed to acquire Lifeline Systems for \$750 million in Jan '06



Becoming a more market driven organization

- **Continued roll out of “Sense and Simplicity” moving Philips to rank 53 from 65 last year in Interbrand/Business Week**
- **Medical Systems ‘most customer-driven’ for the 2nd year in the USA**
- **Key Account Management under International Retail Board resulting in 25% growth with top 6 accounts, representing sales of EUR 2.5 billion**
- **Named ‘International Supplier of the Year’ by WalMart**
- **Philips Lighting (US) named ‘Best of the Best’ for Marketing by National Association of Distributors**
- **Reorganized Semiconductors into 4 market oriented Business Units**



Significant new product introductions in 2005/2006

Medical Systems

iu 22



Panorama MR 1.0T



Brilliance CT



Xtenity



DAP



Bodygroom



Smart Touch XL



PerfectDraft

Consumer Electronics



Ambilight



VOIP video phone



GoGear JukeBox

Wireless music center



Lighting

UHP



Mini CDM Mastercolour



Aptura



Nightguide



Semiconductors

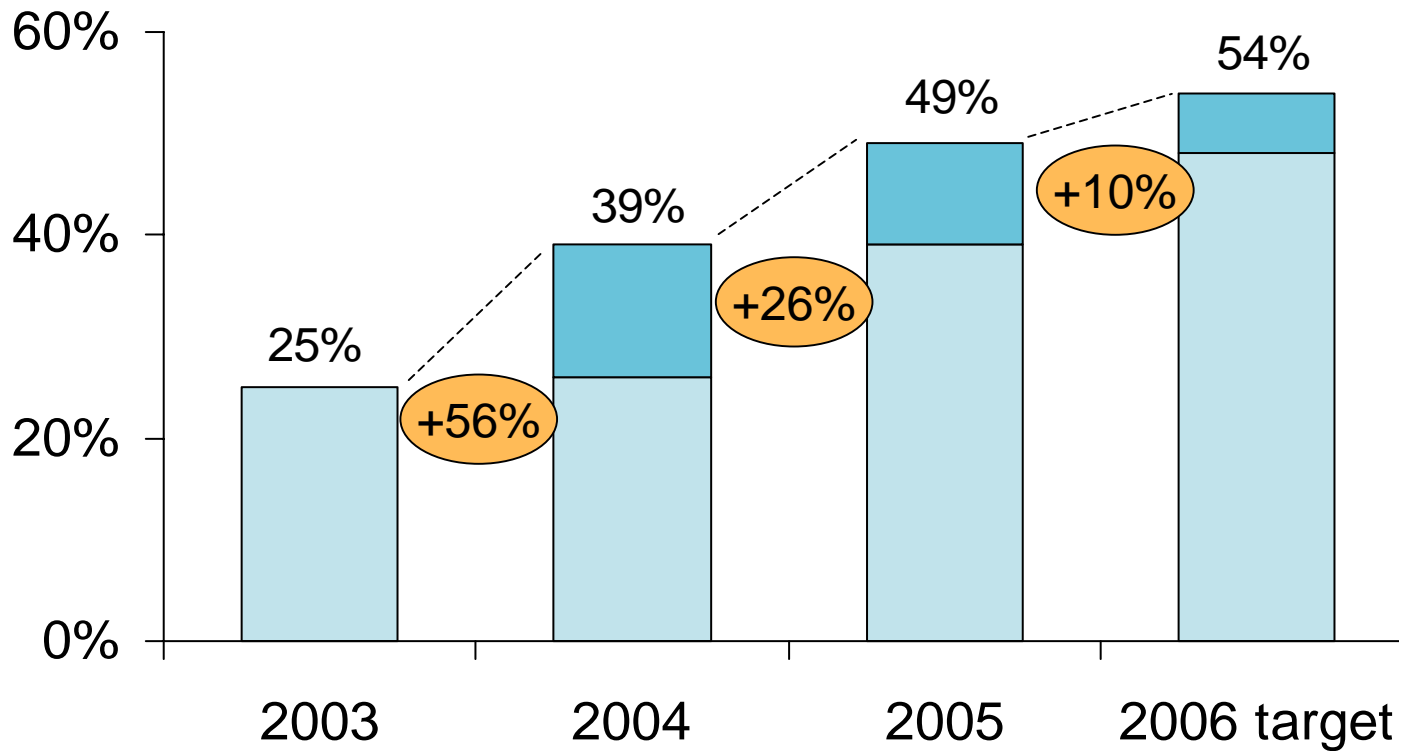


Near Field Communication

TV on Mobile



Group revenues from new products



Philips has become more stable and predictable

- Successfully implemented business transformation of Consumer Electronics
- Effectively divested MDS through merger with Toppoly
- Good (early) results in business renewal of Semiconductors
- Decision to create a separate legal structure for Semiconductors
- Continued divestment program of holdings in TSMC and LG.Philips LCD
- Continued to divest non-core businesses
- Selective acquisitions in stable growth areas (Lumileds, Stentor)

We made active progress in the EUR 500 m. cost reduction program

amounts in EUR million

- Continuous drive to simplify Philips and take out costs
 - Reduction supply base from 50,000 to 30,000
 - Continued roll-out of shared-service centers
- Many cost reduction initiatives launched, e.g. Business Renewal in Semiconductors with EUR 250 million expected savings
- We are well on track to exceed EUR 500 million overall cost reduction by end 2007 on a run-rate basis

2006 Management Agenda

- Realize 5-6% top-line growth and attain 7-10% IFO margin
- Continue to grow Healthcare as part of the portfolio
- Accelerate movement to become a simpler, market oriented organization
- Set up separate legal structure for Semiconductors and create value by pursuing strategic options
- Increase the number of entrepreneurial business leaders with broad based experience
- Exceed € 500M overall cost reduction target (2-3 years)



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