

PHILIPS

Royal Philips Electronics

Third Quarter 2005

October 17, 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 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 was EUR 1,436 m. compared with last year's EUR 1,172 m. The increase was primarily due to the sale of several stakes which yielded a non-taxable gain of EUR 1,086 m. Last year's net income included a EUR 635 m. non-taxable gain related to NAVTEQ IPO
- Comparable sales increased by 4%. Strong sales growth in DAP (13%), CE (8%), Medical Systems (7%) and Lighting (5%). Decreases in Semiconductors (-1%) and Other Activities (-11%)
- IFO was EUR 442 m. and included a gain of EUR 136 m. related to the TPV deal. Last year's IFO of EUR 1,019 m. included the gain related to NAVTEQ and a EUR 51 m. insurance settlement
- Operational performance continued to improve in Medical Systems (ex MedQuist), CE and DAP. Lighting continued the investments in R&D in innovative sectors. Semiconductors improved sequentially

Highlights (II)

- Financial income included gains on sale of shares of Atos Origin of EUR 185 m. and Great Nordic of EUR 48 m.
- The income from Unconsolidated companies of EUR 907 m. was boosted by the gains from the sale of TSMC shares (EUR 460 m.), the sale of LPL shares (EUR 121 m.) and a dilution gain at LPL (EUR 189 m.)
- Inventories were 13.2% of sales, a new record low for the third quarter
- Net debt-free position at the end of 3Q05

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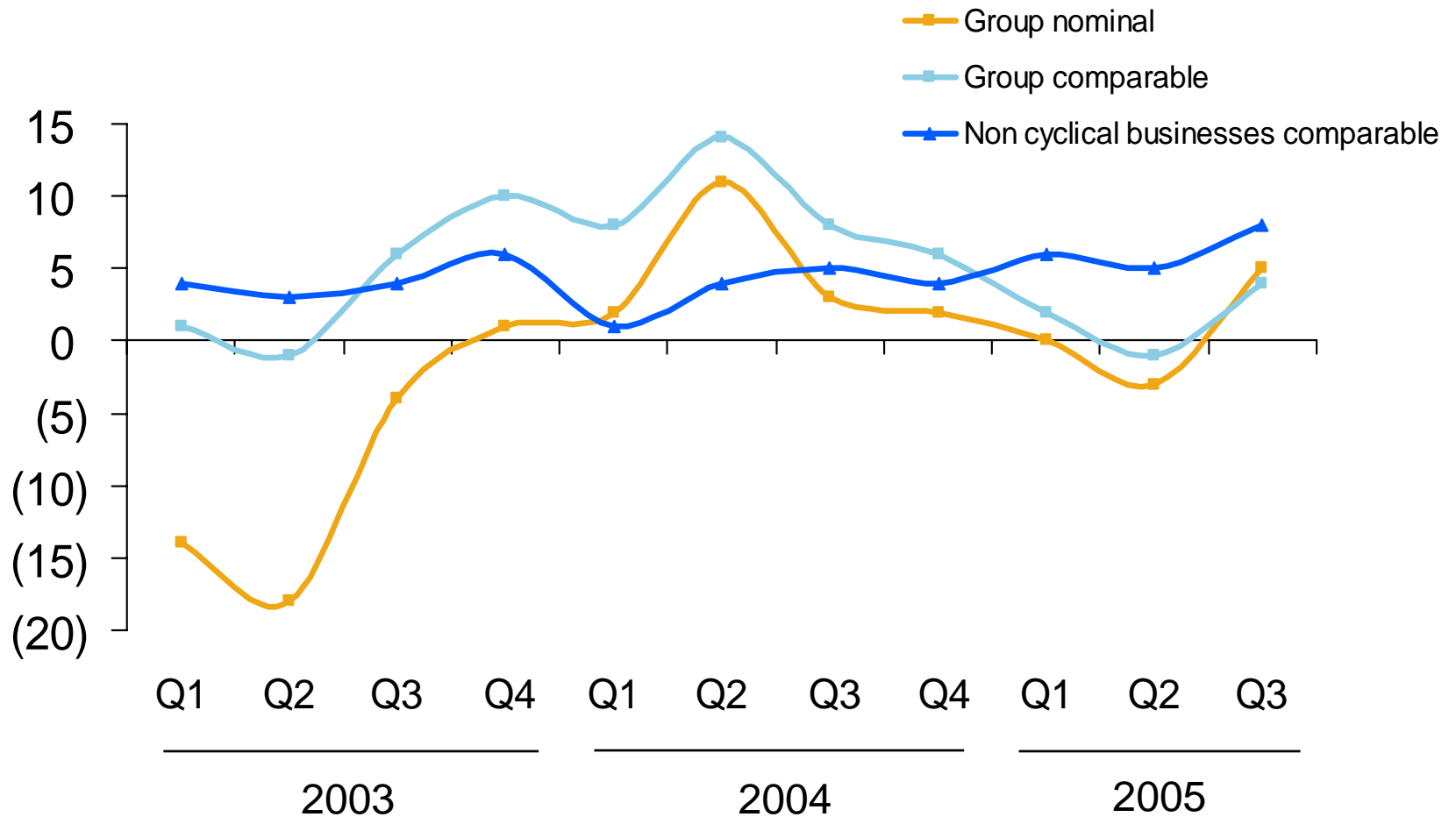
Agenda 2005

Summary - 3Q05

EUR million

	3Q04	3Q05
Sales	7,229	7,626
Income from operations	1,019	442
Result relating to UCCs	337	907
Net Income	1,172	1,436
Cash flow before financing activities	456	1,792
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Net debt : Group equity ratio	17:83	0:100

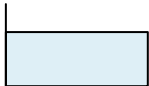













Quarterly sales growth y-o-y %



Non cyclical business = Medical Systems + Lighting + DAP

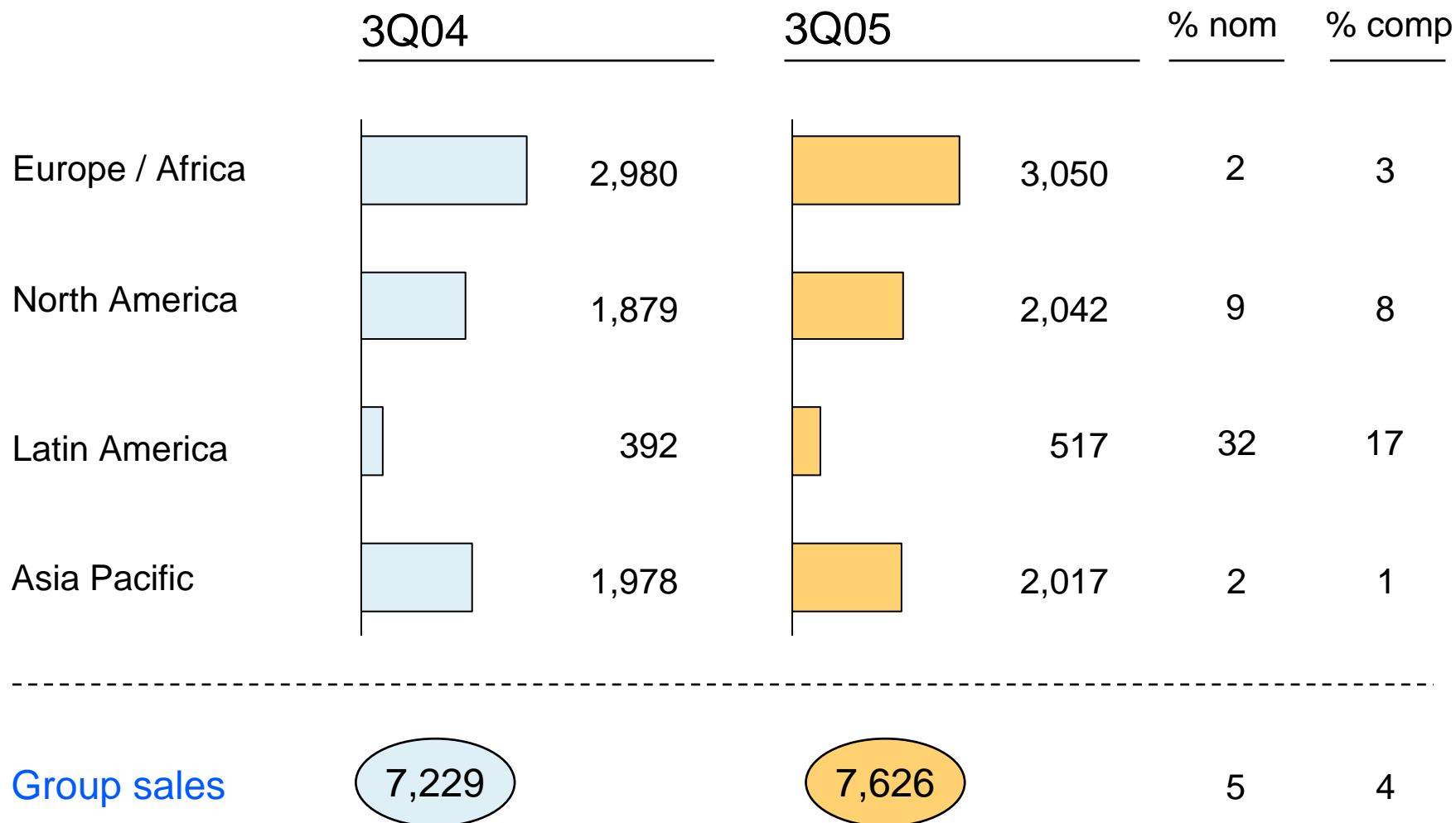
Sales to thirds by sector – 3Q05

EUR million

	3Q04		3Q05		% nom	% comp
Medical Systems		1,408		1,531	9	7
DAP		450		519	15	13
CE		2,280		2,541	11	8
Lighting		1,105		1,185	7	5
Semiconductors		1,168		1,193	2	(1)
Other Activities		818		657	(20)	(11)
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Group sales		7,229		7,626	5	4

Sales to thirds by region – 3Q05

EUR million



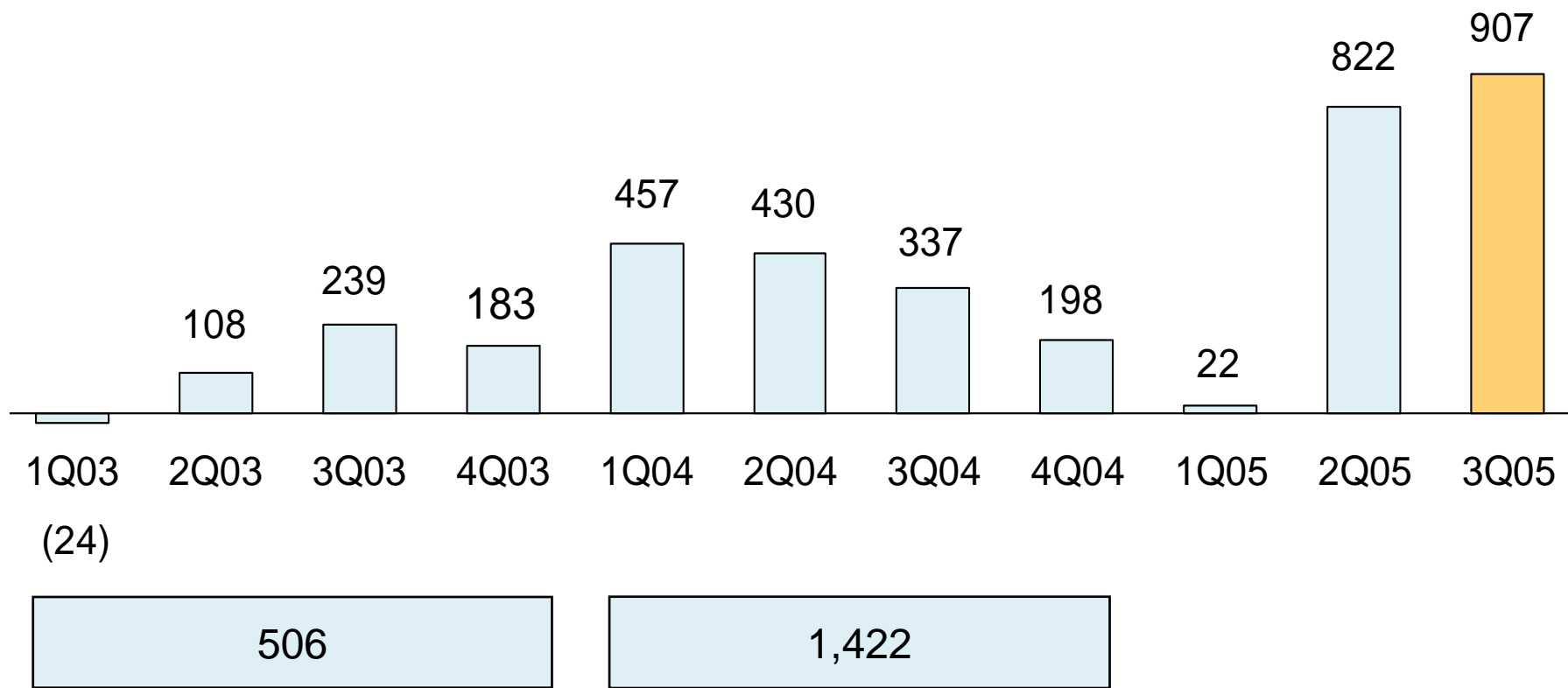
IFO by sector – 3Q05

EUR million

	3Q04	3Q05
Medical Systems	164	155
DAP	86	91
CE (<i>of which Licenses</i>)	(12) 105	164 38
Lighting	142	130
Semiconductors	179	90
Other Activities	580	(62)
Unallocated	(120)	(126)
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Philips Group	1,019	442
as % of sales	14.1	5.8

Results unconsolidated companies

EUR million



Major publicly quoted investments – end 3Q05

	number shares rounded in millions	% ownership	Market value on Sep 30,05 in EUR m.
TSMC	4,066	16.4	5,418
LG.Philips LCD	136	37.9	4,670
TPV	263	15.0	156
JDS Uniphase	39	2.7	72
FEI	8	25.3	134
Total			10,450

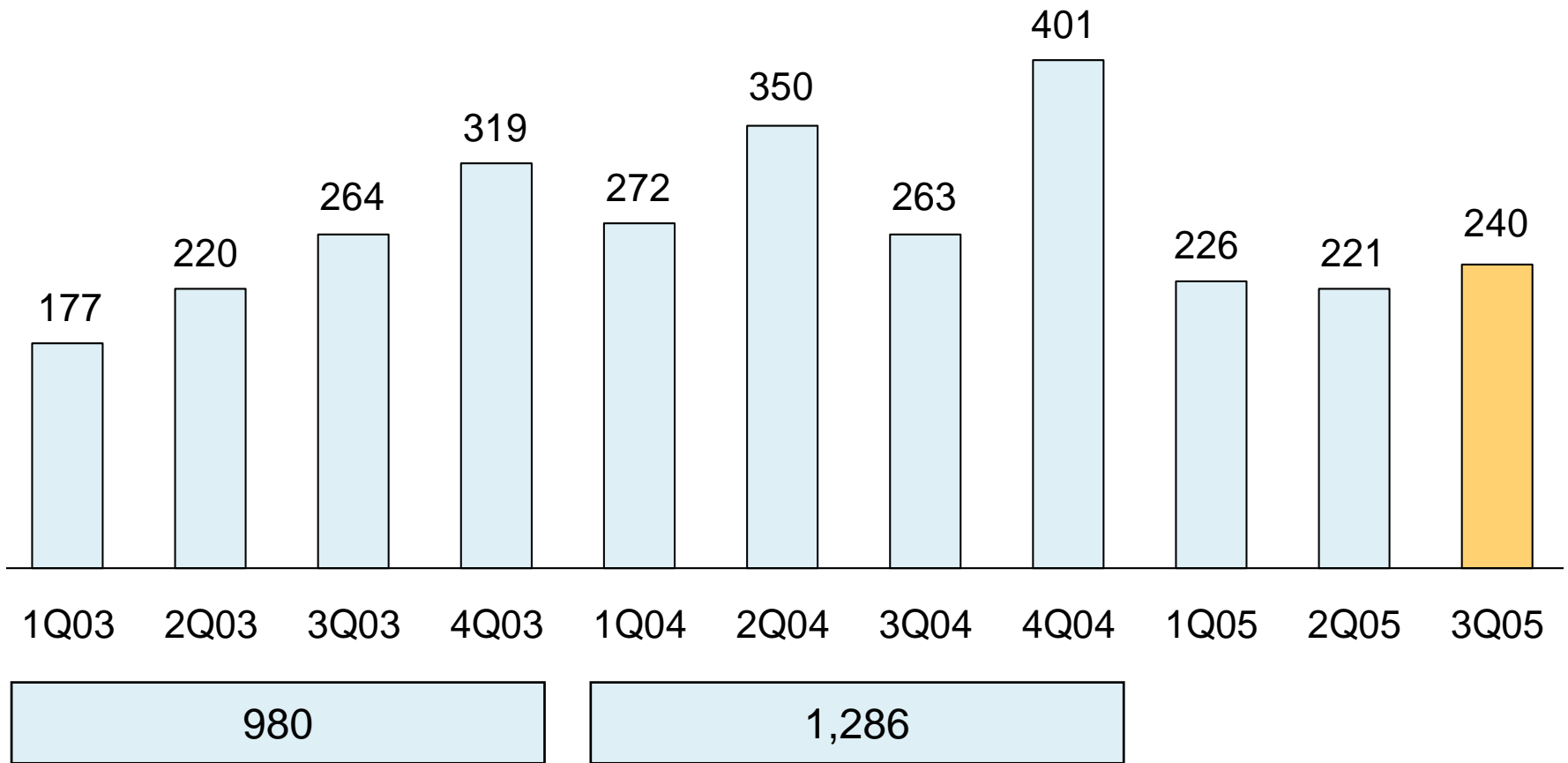
Cash Flow – 3Q05

EUR million

	3Q04	3Q05
Net income	1,172	1,436
Depreciation / amortization / impairments	411	374
Net gain on sale of assets	(660)	(960)
Income from UCCs	(265)	(106)
Increase in WC / other current assets	(396)	(239)
Other	30	(9)
<i>CF from operations</i>	292	496
Gross capital investments	(263)	(240)
Acquisitions/divestments/other	427	1,536
<i>CF before financing activities</i>	456	1,792

Gross capital expenditures

EUR million



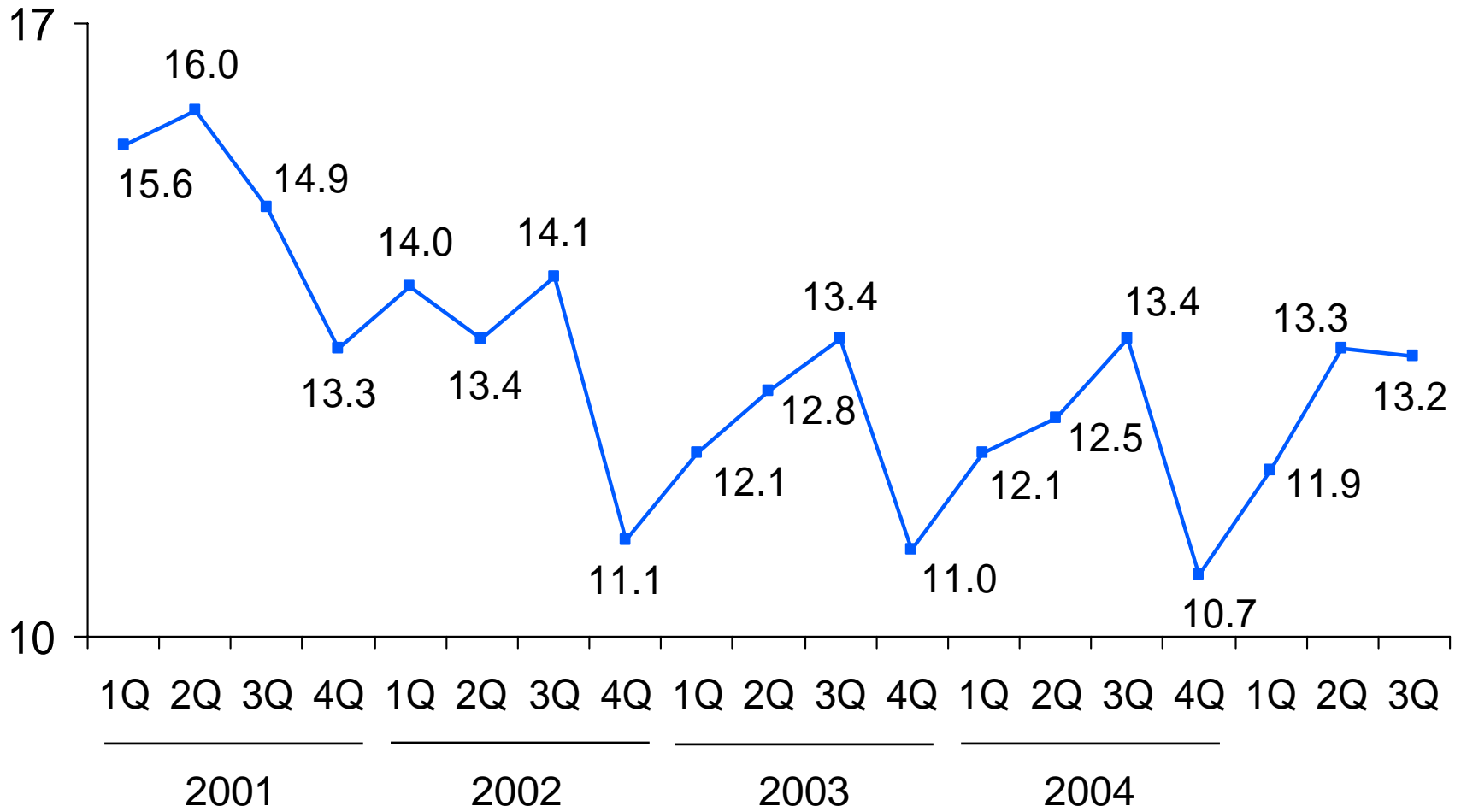
Gross capital expenditures by sector – 3Q05

EUR million

	3Q04	3Q05
Medical Systems	8	24
DAP	21	18
CE	20	19
Lighting	54	45
Semiconductors	117	85
Other Activities	43	48
Unallocated	0	1
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Group gross capex	263	240

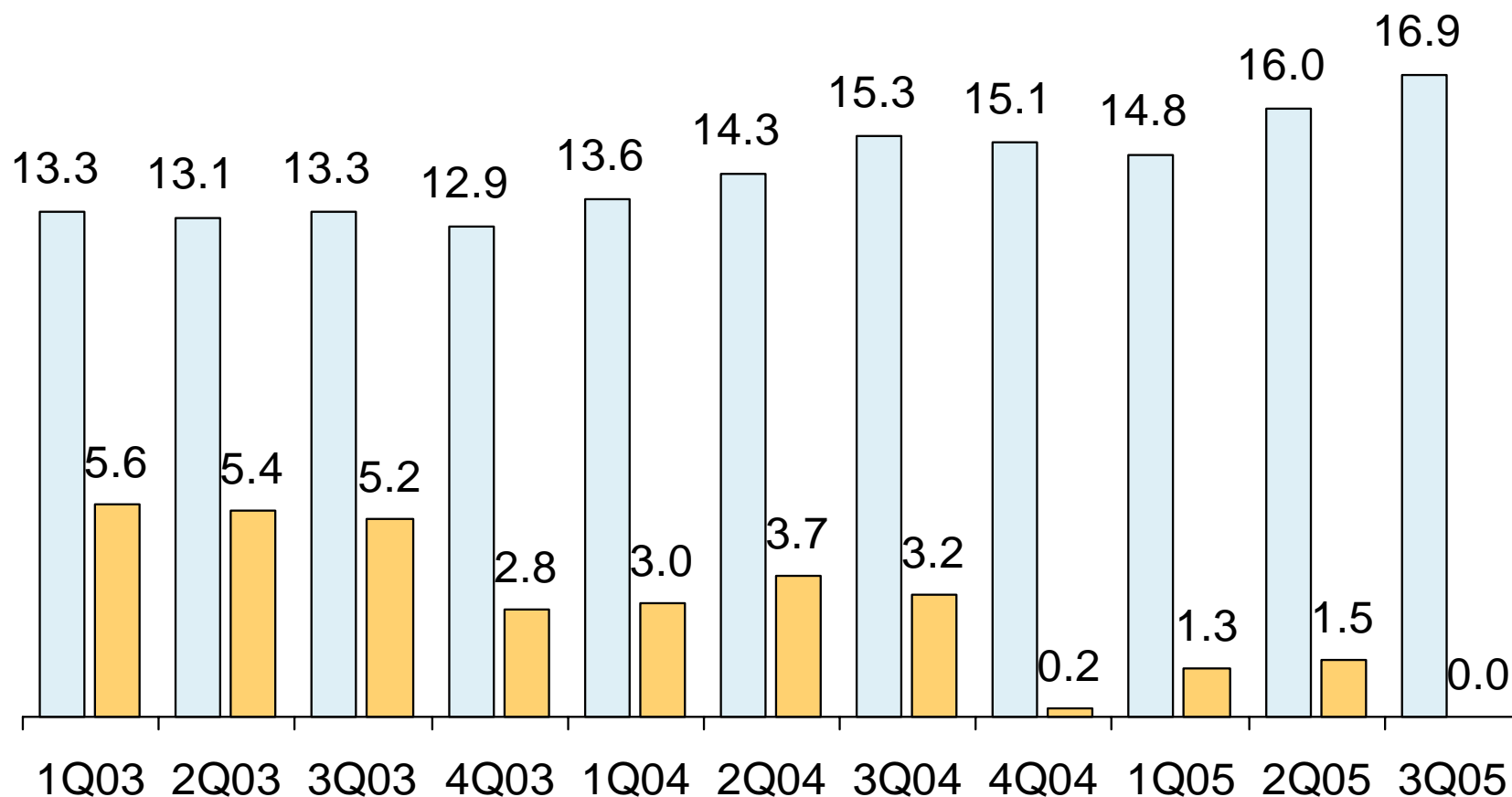
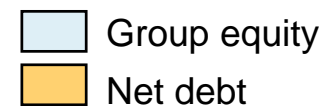
Inventories

as % of MAT sales



Net debt : group equity ratio

EUR billion



Ratio 30:70 29:71 28:72 18:82 18:82 21:79 17:83 1:99 8:92 8:92 0:100

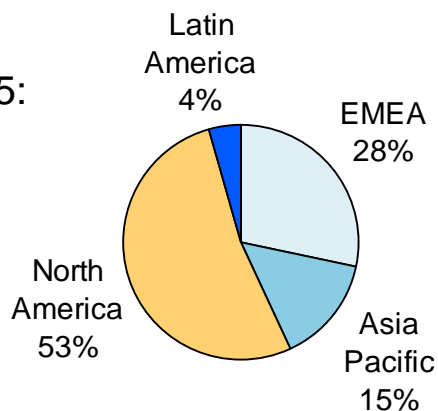
Medical Systems

EUR million unless otherwise stated

Key figures

	3Q04	2Q05	3Q05
Sales	1,408	1,498	1,531
% sales growth comp.	5	6	7
IFO	164	157	155
IFO as % of sales	11.6	10.5	10.1
NOC	3,815	3,287	3,506
Employees (FTEs)	30,856	30,965	31,245

Sales per region in 3Q05:



Financial performance

- Comparable sales up 7% driven by all businesses except MedQuist, Nuclear Medicine and Medical IT. CT, X-Ray and Cardiac & Monitoring Systems posted double-digit growth. Very strong growth in China and Japan
- IFO was affected by a EUR 13 m. decline at MedQuist and approx. EUR 11 m. negative impact due to Stentor acquisition charges and related revenue delays, and an unfavorable geographical sales mix effect

Looking ahead

- Order intake showed y-o-y comparable growth of 9% in equipment orders
- Aiming to further increase market share in all businesses and maintaining focus on innovation and operational efficiencies

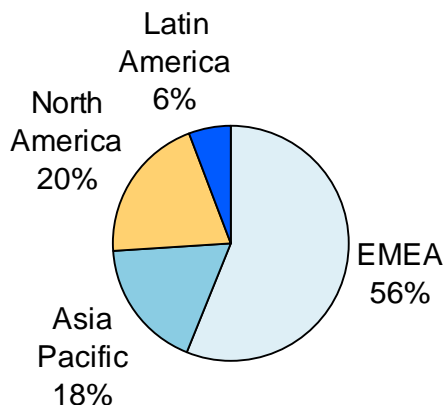
DAP

EUR million unless otherwise stated

Key figures

	3Q04	2Q05	3Q05
Sales	450	461	519
% sales growth comp.	0	1	13
IFO	86	44	91
IFO as % of sales	19.1	9.5	17.5
NOC	571	511	569
Employees (FTEs)	8,739	8,510	8,801

Sales per region in 3Q05:



Financial performance

- Comparable sales up 13% driven by all product groups and mainly Shaving & Beauty (13%) and Food & Beverage (23%)
- Sales growth most marked in Europe, Latin America and Asia, while North America showed a more modest increase
- IFO increase was driven by strong sales growth

Looking ahead

- Focus remains on launching innovative products, extending alliances and expanding retail channels into emerging markets
- Given the current market expectations, DAP expected to achieve its profitability target of 15-16% for the full year

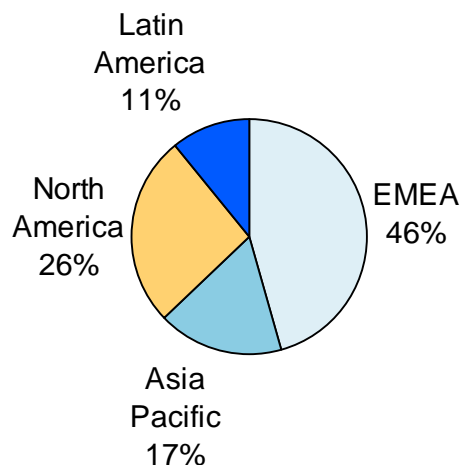
Consumer Electronics

EUR million unless otherwise stated

Key figures

	3Q04	2Q05	3Q05
Sales	2,280	2,259	2,541
% sales growth comp.	7	(2)	8
IFO	(12)	62	164
IFO as % of sales	(0.5)	2.7	6.5
NOC	308	232	212
Employees (FTEs)	18,996	16,746	16,570

Sales per region in 3Q05:



Financial performance

- Comparable sales up 8% driven by Connected Displays and Home Entertainment Networks. Sales grew in all regions mainly North America and Latin America while Licenses showed a decline of 49%
- IFO included a gain from deal with TPV of EUR 136 m. and restructuring charges of EUR 22 m. this quarter
- License income was EUR 38 m.

Looking ahead

- Expected restructuring charges of approx. EUR 20 m. in 4Q05
- CE (including Licenses) on track to achieve its 2006 profitability target of 4 - 4.5%

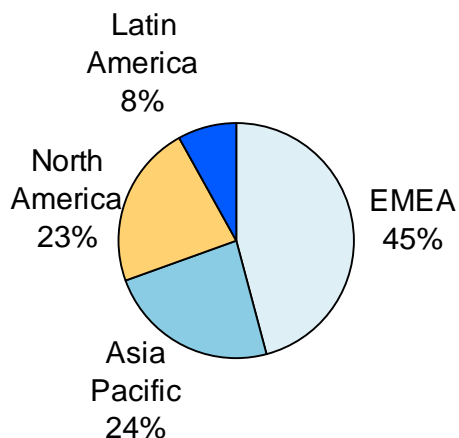
Lighting

EUR million unless otherwise stated

Key figures

	3Q04	2Q05	3Q05
Sales	1,105	1,116	1,185
% sales growth comp.	7	4	5
IFO	142	120	130
IFO as % of sales	12.9	10.8	11.0
NOC	1,679	1,702	1,721
Employees (FTEs)	44,571	42,977	44,559

Sales per region in 3Q05:



Financial performance

- Comparable sales 5% up driven by solid growth in Lamps and Luminaires
- On a regional basis, higher sales were recorded in Europe, Asia and North America. Lighting increased its global market shares in the quarter
- IFO was below last year's level due to weak demand for UHP systems and additional R&D investments in new innovative products

Looking ahead

- Lumileds Lighting expected to be consolidated during 4Q05
- Continue to invest R&D and capital in innovative sectors such as solid-state lighting, LCD backlighting, gas-discharge and automotive lamps

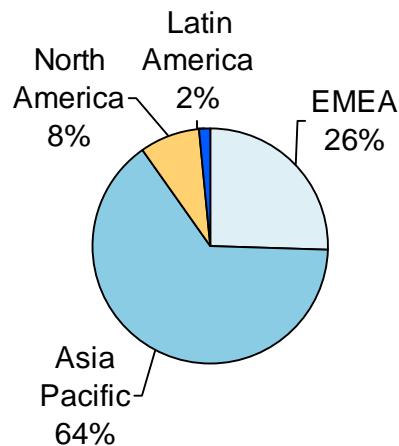
Semiconductors

EUR million unless otherwise stated

Key figures

	3Q04	2Q05	3Q05
Sales	1,168	1,088	1,193
% sales growth comp.	22	(6)	(1)
IFO	179	27	90
IFO as % of sales	15.3	2.5	7.5
NOC	3,042	2,629	2,536
Employees (FTEs)	33,369	35,682	35,790

Sales per region in 3Q05:



Financial performance

- Sequential sales growth of 7% in USD
- Book-to-bill ratio at 1.09 at the end of 3Q05
- Utilization rate improved to 81% in 3Q05 compared to 77% in 2Q05
- The sequential increase in IFO due to higher foundry utilization and the initial impact of the business renewal program
- Improvement visible across all businesses

Looking ahead

- Sequential sales growth expected to be similar to that in 3Q05 in USD

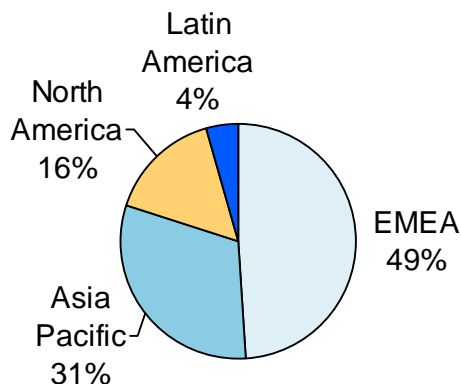
Other Activities

EUR million unless otherwise stated

Key figures

	3Q04	2Q05	3Q05
Sales	818	665	657
% sales growth comp.	6	(10)	(11)
IFO	580	(71)	(62)
IFO as % of sales	70.9	(10.7)	(9.4)
NOC	221	711	564
Employees (FTEs)	27,676	22,329	21,734

Sales per region in 3Q05:



Financial performance

- Comparable sales down 11% mainly due lower sales at Corporate Investments and MDS
- The IFO of Corporate Technologies positively affected by the discontinuation of LCoS and PolyLED
- Optical Storage's result impacted by high price pressure and additional license costs
- Compared to 3Q04, IFO included a positive effect of EUR 19 m. related to past product-liability settlements

Looking ahead

- The strategic options for MDS remain under review. This could lead to impairment charges in 4Q05
- Restructuring charges of approx. EUR 30 m. expected in Corporate Investments in 4Q05

Unallocated

EUR million unless otherwise stated

Key figures

	3Q04	2Q05	3Q05
Corporate and regional overheads	(70)	(87)	(71)
Pensions/postretirement benefit costs	(17)	(36)	(42)
Global brand campaign	(33)	(69)	(13)

IFO	(120)	(192)	(126)
Employees (FTEs)	2,600	2,500	2,397

Financial performance

- Pension costs were higher than last year mainly in North America and Europe.
- In North America, an actuarial finalization of pension expense for inactive employees increased charges by EUR 14 m.
- In Europe, the increased costs were related to the migration from a defined-benefit to a defined-contribution plan in certain countries

Looking ahead

- Investments related to the second wave of the brand campaign are expected to be approx. EUR 60 m. in 4Q05

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Looking ahead information in the 3Q quarterly report on October 17,2005 - I

- **Medical Systems**

- Backed by its steadily growing order book, Medical Systems aims to further increase market shares across all businesses while maintaining its focus on innovation and operational efficiencies

- **Domestic Appliances and Personal Care**

- The focus will remain on launching innovative products, extending alliances and expanding retail channels into emerging markets
- Given the current market expectations, DAP is expected to achieve its profitability target of 15-16% for the full year

- **Consumer Electronics**

- In connection with the successful Business Renewal Program, restructuring charges of approximately EUR 20 million are expected in Q4 2005
- CE (including Licenses) is on track to achieve its 2006 profitability target of 4 – 4.5%

- **Lighting**

- Following the announcement of the planned acquisition of Lumileds Lighting, it is expected that this business will be consolidated during Q4 2005
- The division will continue to invest R&D and capital in innovative sectors - solid-state-lighting, LCD backlighting, gas-discharge and automotive lamps – with product deliveries beginning to ramp up in Q1 2006

Looking ahead information in the 3Q quarterly report on October 17,2005 – II

- **Semiconductors**

- Sequential sales growth in US dollars is expected to be similar to that in Q3 2005

- **Other Activities**

- The strategic options for MDS remain under review. This could lead to impairment charges in Q4
- Restructuring charges of approximately EUR 30 million are expected in Q4 for Corporate Investments

- **Unallocated**

- Investments related to the second wave of brand campaign are expected to total approximately EUR 60 million in Q4

- **LG.Philips Displays joint venture**

- The success of flat displays is putting increasing pressure on the demand and prices for CRTs. The management of LPD is studying measures to further improve the cost base and to align capacity. This could require accelerated restructuring programs, the cost of which cannot be estimated at this time.

Looking ahead information in the 3Q quarterly report on October 17, 2005 – III

- **Outlook**

- By building on our improved performance in the third quarter, leveraging our strong order book and capitalizing on positive market reactions to new product launches, we expect Philips to close the year with another solid quarter, keeping us on track to meet our objectives. During the fourth quarter, we plan to complete the acquisition of Agilent's stake in Lumileds, which will position us to create a new, profitable business in solid-state lighting. And, backed by our strong balance sheet, we will continue to explore opportunities to add to organic growth through other targeted acquisitions that create value for shareholders.

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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)

