

PHILIPS

Royal Philips Electronics

First Quarter 2005

April 18, 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.

Agenda

Highlights

Performance

Agenda 2005

Highlights (I)

- Net income was EUR 117 m. compared with last year's profit of EUR 550 m. The decrease was due to a EUR 435 m. lower contribution from unconsolidated companies
- Comparable sales increased by 2% driven by DAP of 9%, CE of 7%, Lighting 6% and Medical Systems 5%
- IFO was a profit of EUR 193 m. versus a profit of EUR 218 m. last year. Underlying operational performance improved in Medical Systems, Lighting and DAP mainly due to higher sales of innovative products. Also CE, excluding Licenses, improved its income from operations. Semiconductors remained profitable
- Restructuring and impairment charges in IFO amounted to EUR 45 m. compared with EUR 16 m. in 1Q04

Highlights (II)

- Pension costs were EUR 59 m. in 1Q05 versus EUR 132 m. last year
- The income from unconsolidated companies of EUR 22 m. was significantly impacted by a EUR 249 m. lower contribution from LG.Philips LCD. Also in 1Q04 a gain of EUR 156 m. was recorded for Atos Origin
- Inventories amounted to 11.9% of sales, a new record-low for the first quarter
- Net debt to group equity ratio was 8:92 in 1Q05

Agenda

Highlights

Performance

Agenda 2005

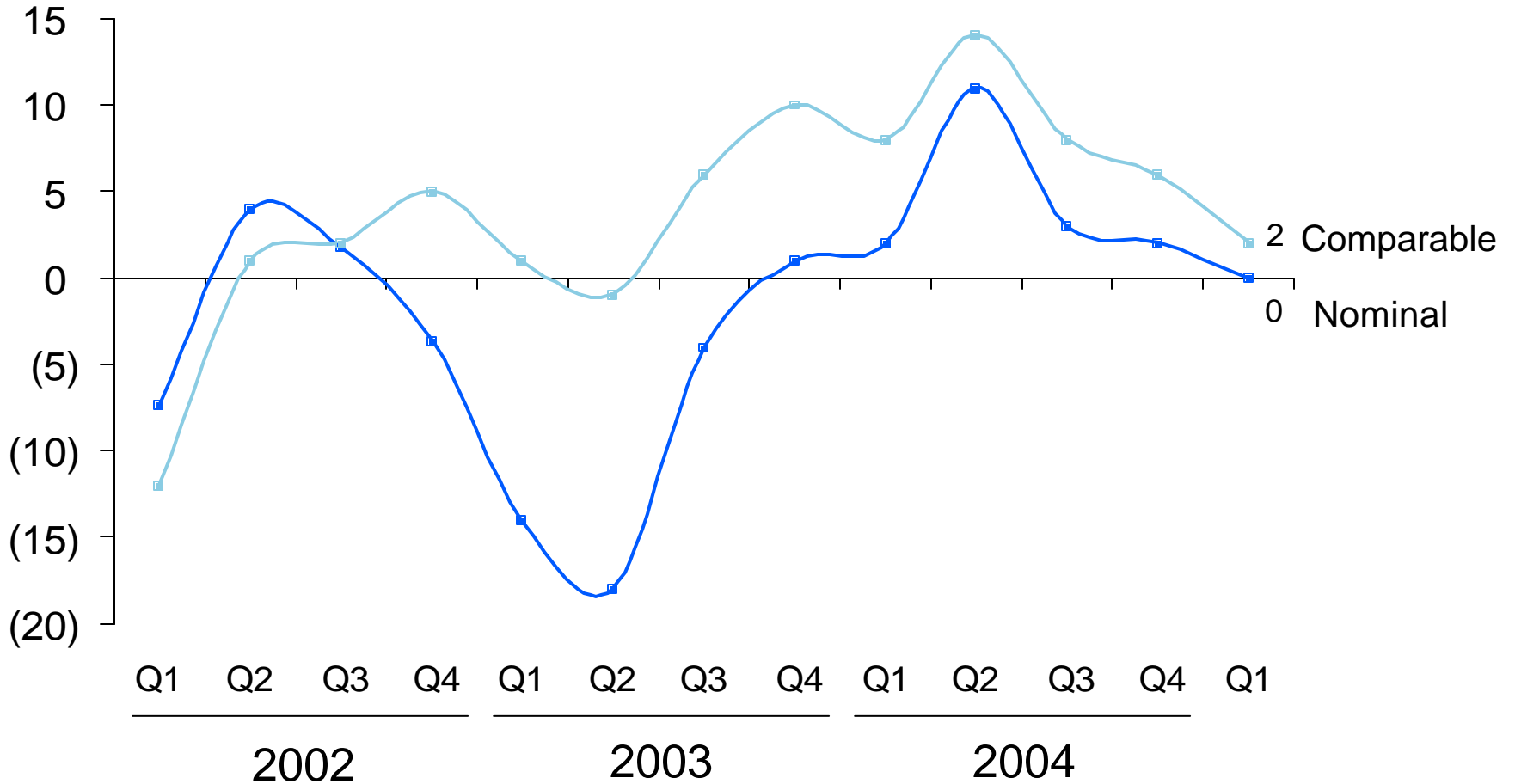
Summary - 1Q05

EUR million

	1Q04	1Q05
Sales	6,631	6,635
Income from operations	218	193
Result relating to UCCs	457	22
Net Income	550	117
Cash flow before financing activities	141	(641)
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Net debt : Group equity ratio	18:82	8:92

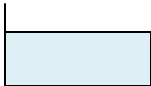











Quarterly sales growth y-o-y

%



Sales to thirds by sector – 1Q05

EUR million

	1Q04	1Q05	% nom	% comp
Medical Systems	 1,258	 1,285	2	5
DAP	 393	 427	9	9
CE	 2,011	 2,153	7	7
Lighting	 1,077	 1,128	5	6
Semiconductors	 1,039	 1,012	(3)	(2)
Other Activities	 853	 630	(26)	(15)

Group sales

6,631









6,635

0

2

Sales to thirds by region – 1Q05

EUR million

	1Q04	1Q05	% nom	% comp
Europe / Africa	 2,939	 2,909	(1)	0
North America	 1,607	 1,669	4	8
Latin America	 274	 332	21	23
Asia Pacific	 1,811	 1,725	(5)	(1)
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Group sales	6,631	6,635	0	2

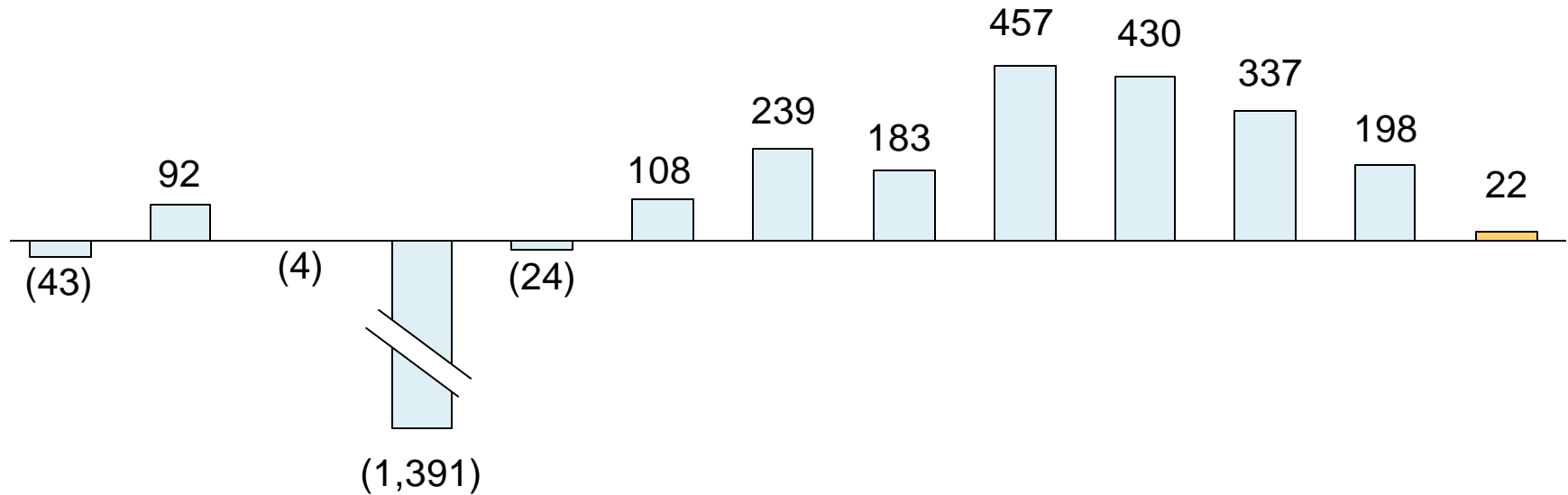
IFO by sector – 1Q05

EUR million

	1Q04	1Q05
Medical Systems	92	100
DAP	44	56
CE (<i>of which Licenses</i>)	59 69	46 32
Lighting	165	149
Semiconductors	69	14
Other Activities	(57)	(73)
Unallocated	(154)	(99)
<hr/>		
Philips Group	218	193
As % of sales	3.3	2.9

Results unconsolidated companies

EUR million



1Q02 2Q02 3Q02 4Q02 1Q03 2Q03 3Q03 4Q03 1Q04 2Q04 3Q04 4Q04 1Q05

(1,346)

506

1,422

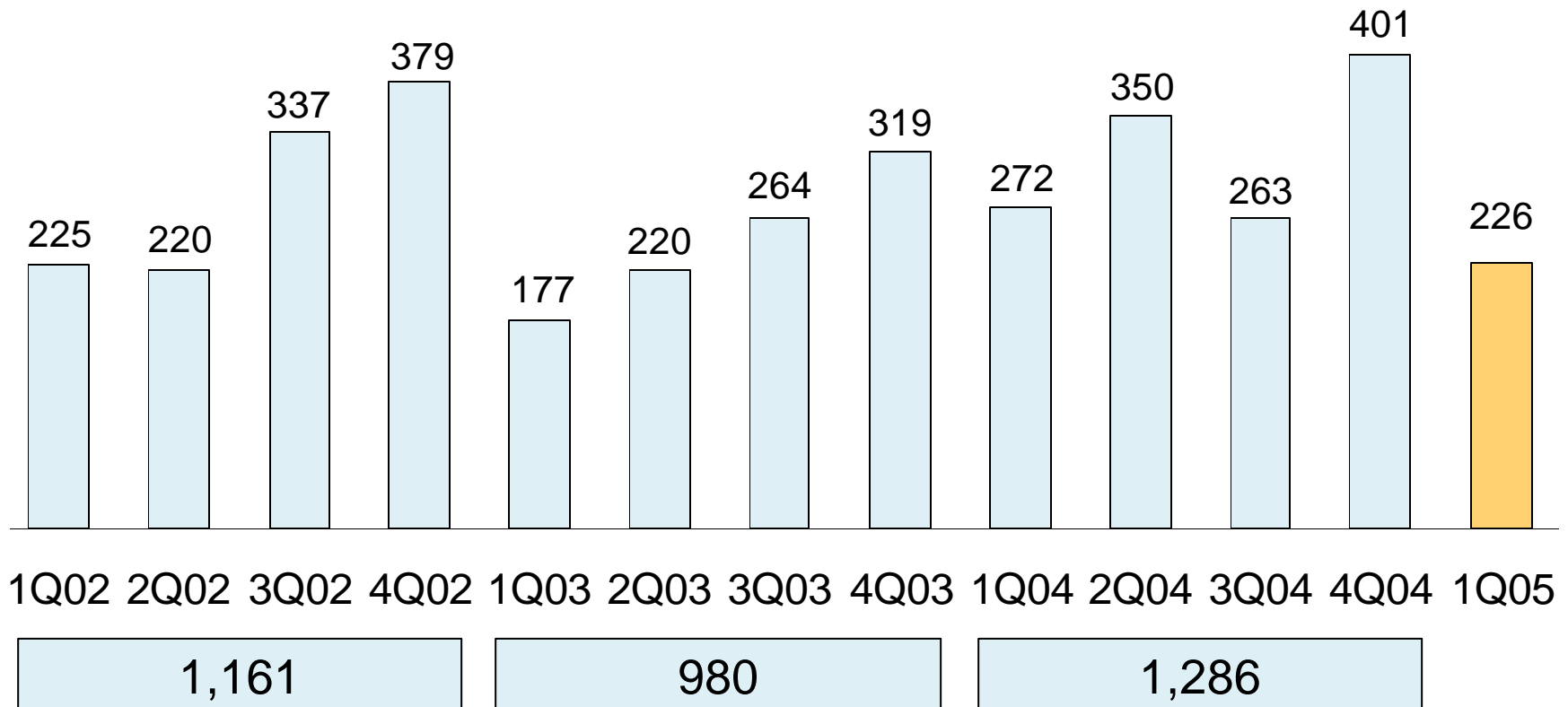
Cash Flow – 1Q05

EUR million

	1Q04	1Q05
Net income	550	117
Depreciation / amortization / impairments	381	362
Net gain on sale of assets	(17)	(17)
Income from UCCs	(454)	67
Decrease in WC / other current assets	(236)	(807)
Other	180	(73)
<i>CF from operations</i>	404	(351)
Gross capital investments	(272)	(226)
Acquisitions/divestments/other	9	(64)
<i>CF before financing activities</i>	141	(641)

Gross capital expenditures

EUR million



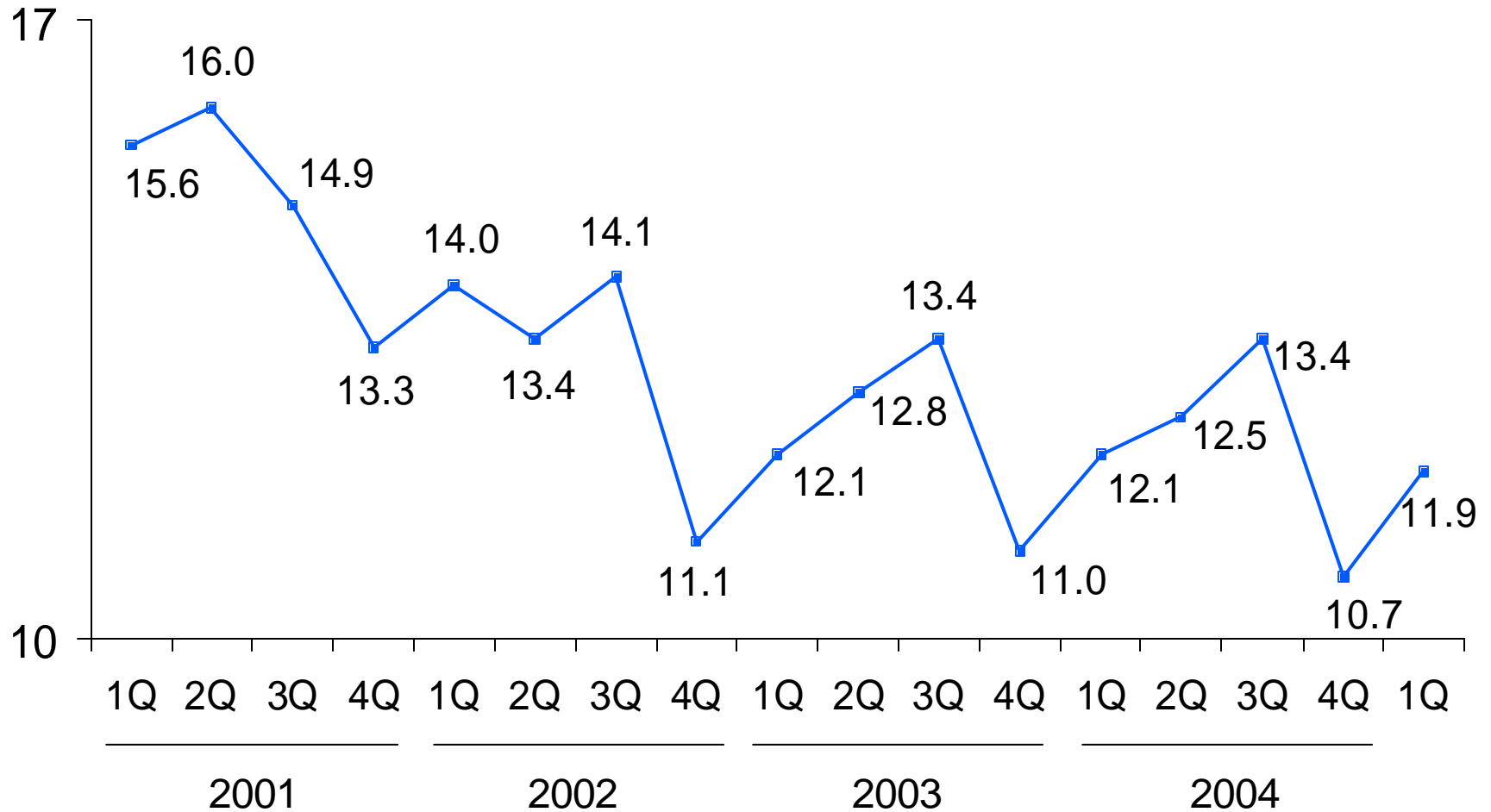
Gross capital expenditures by sector – 1Q05

EUR million

	1Q04	1Q05
Medical Systems	12	12
DAP	21	7
CE	17	18
Lighting	27	38
Semiconductors	163	79
Other Activities	32	71
Unallocated	-	1
Group gross capex	272	226

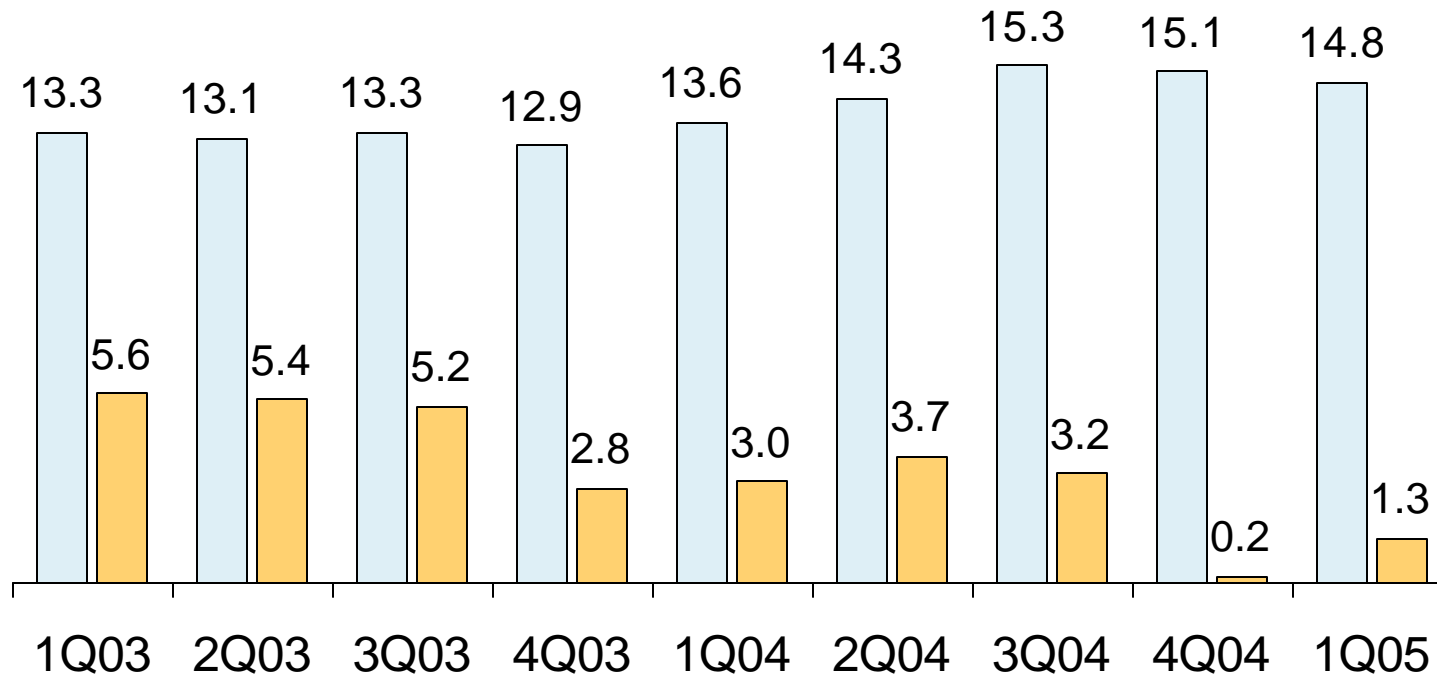
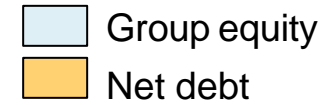
Inventories

as % of MAT sales

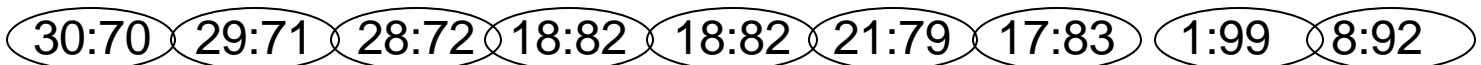


Net debt : group equity ratio

EUR billion



Net debt /
group equity
ratio



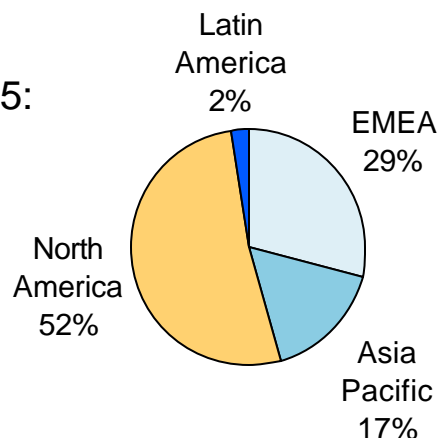
Medical Systems

EUR million unless otherwise stated

Key figures

	1Q04	4Q04	1Q05
Sales	1,258	1,790	1,285
% sales growth comp.	4	4	5
IFO	92	(354)	100
IFO as % of sales	7.3	(19.8)	7.8
NOC	3,803	2,862	3,058
Employees (FTEs)	30,210	30,790	30,756

Sales per region in 1Q05:



Financial performance

- Comparable sales up driven by most businesses. Double-digit increases in CT and MR reflecting the successful introduction of innovative products
- IFO improved compared to 1Q04 due to higher sales and better gross margins, partly offset by a EUR 10 m. reduction in income at MedQuist
- IFO as % of sales increased by 0.5% points to 7.8%

Looking ahead

- Order intake showed y-o-y comparable growth of 9%
- Expected to further improve market shares
- Maintain focus on innovation and operational excellence

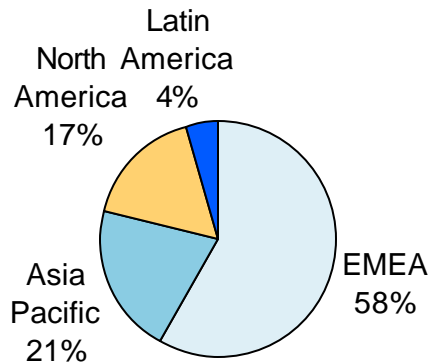
DAP

EUR million unless otherwise stated

Key figures

	1Q04	4Q04	1Q05
Sales	393	745	427
% sales growth comp.	(9)	2	9
IFO	44	151	56
IFO as % of sales	11.2	20.3	13.1
NOC	522	393	460
Employees (FTEs)	8,263	8,205	8,542

Sales per region in 1Q05:



Financial performance

- Comparable sales up driven mainly by Food & Beverage (SENSEO®). All regions contributed to the sales rise with China showing a 17% increase
- Sales growth from new product introductions contributed to sustained strong margins
- Reduction in NOC driven by improvements in supply chain management and reductions in fixed assets

Looking ahead

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

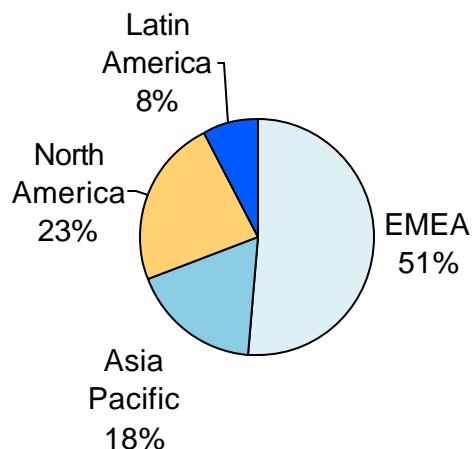
Consumer Electronics

EUR million unless otherwise stated

Key figures

	1Q04	4Q04	1Q05
Sales	2,011	3,340	2,153
% sales growth comp.	9	11	7
IFO	59	264	46
IFO as % of sales	2.9	7.9	2.1
NOC	71	(161)	108
Employees (FTEs)	17,893	16,993	16,725

Sales per region in 1Q05:



Financial performance

- Comparable sales up driven by Connected Displays and Home Entertainment partly offset by lower Licenses
- Strong sales growth in North America of 29% and Latin America of 44%
- IFO included restructuring charges of EUR 19 m.
- License income of EUR 32 m. in 1Q05 compared to EUR 69 m. last year

Looking ahead

- TPV agreement expected to be closed by early 3Q 2005
- Business Renewal Program on track to exceed the EUR 400 m. savings by year-end 2005
- Restructuring charges of approx. EUR 20 m. expected in 2Q05

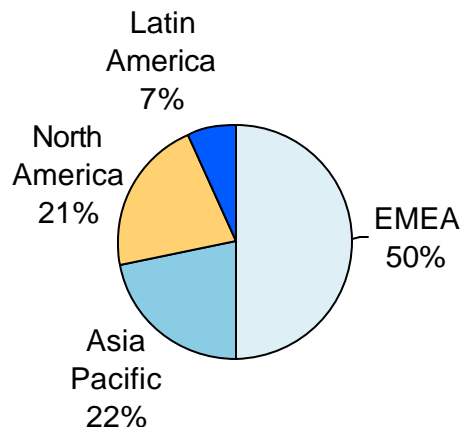
Lighting

EUR million unless otherwise stated

Key figures

	1Q04	4Q04	1Q05
Sales	1,077	1,265	1,128
% sales growth comp.	0	6	6
IFO	165	149	149
IFO as % of sales	15.3	11.8	13.2
NOC	1,614	1,493	1,617
Employees (FTEs)	44,353	44,004	44,429

Sales per region in 1Q05:



Financial performance

- Comparable sales up driven by strong improvements across all businesses
- Strong profitable sales growth in Lamps throughout Europe driven by innovative products for shops and outdoor applications
- IFO impacted by restructuring charges of EUR 27 m.

Looking ahead

- Slight weakness in certain markets
- Continue to invest in innovative sectors via increased R&D and capital expenditures for solid-state lighting and consumer applications
- Further develop marketing expertise

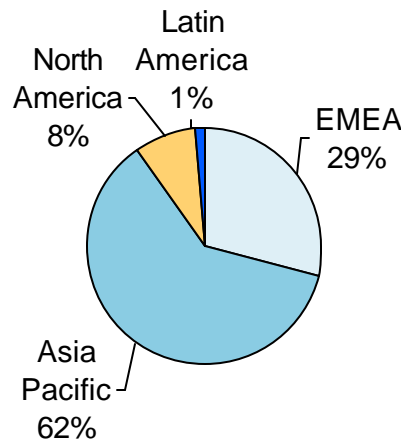
Semiconductors

EUR million unless otherwise stated

Key figures

	1Q04	4Q04	1Q05
Sales	1,039	1,123	1,012
% sales growth comp.	22	0	(2)
IFO	69	47	14
IFO as % of sales	6.6	4.2	1.4
NOC	3,004	2,520	2,649
Employees (FTEs)	32,693	32,580	34,856

Sales per region in 1Q05:



Financial performance

- Sequential sales decline was 9% in USD mainly in Consumer and Connectivity products
- The sequential decline in IFO was mainly due to lower sales, partly offset by lower sector costs and a build down of inventories
- Book-to-bill ratio improved to 1.01 at the end of 1Q05
- Utilization rate at 75% in 1Q05

Looking ahead

- Low-to-mid-single-digit sequential sales increase expected in 2Q05 in USD

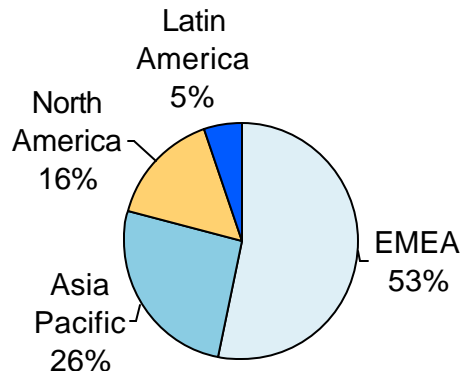
Other Activities

EUR million unless otherwise stated

Key figures

	1Q04	4Q04	1Q05
Sales	853	916	630
% sales growth comp.	18	1	(15)
IFO	(57)	(90)	(73)
IFO as % of sales	(6.7)	(9.8)	(11.6)
NOC	308	266	448
Employees (FTEs)	29,226	26,405	23,044

Sales per region in 1Q05:



Financial performance

- Comparable sales decline was mainly attributable to MDS, while Optical Storage's sales grew with 5%
- Due to lower sales, MDS reported a loss in 1Q05

Looking ahead

- Restructuring charges of approx. EUR 30 m. expected in 2Q05, for the Technology cluster and Corporate Investments

Unallocated

EUR million unless otherwise stated

Key figures

	1Q04	4Q04	1Q05
Corporate and regional overheads	(72)	(125)	(69)
Pensions	(82)	(28)	(30)
IFO	(154)	(153)	(99)
Employees (FTEs)	2,674	2,609	2,505

Financial performance

- Corporate and Regional Overhead costs remained flat compared to 1Q04
- Pension and postretirement benefits costs decreased mainly due to lower pension costs in The Netherlands

Looking ahead

- Investments related to the new brand positioning are expected to be approx. EUR 50 m. in 2Q05

Agenda

Highlights

Performance

Agenda 2005

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)

