

PHILIPS

Royal Philips Electronics

Second Quarter 2005

July 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 983 m. compared with last year's EUR 616 m., driven by results from Unconsolidated companies
- Comparable sales decreased by 1%.
Sales growth in Medical Systems (6%) and Lighting (4%) was offset by decreases in Semiconductors (-6%) and Other Activities (-10%)
- IFO was EUR 147 m. versus EUR 356 m. last year. Operational performance continued to improve in Medical Systems and CE. Lighting and DAP maintained their gross margin levels, but were affected by weak demand in retail markets and higher investments in R&D and A&P
- Medical Systems acquired PACS vendor Stentor Inc., a best-in-class company in the rapidly growing healthcare IT market

Highlights (II)

- Total restructuring and impairment charges in IFO amounted to EUR 33 m. compared with EUR 50 m. in 2Q04
- Pension costs amounted to EUR 66 m. in 2Q05 compared to EUR 45 m. last year
- The income from Unconsolidated companies of EUR 822 m. was impacted by a EUR 753 m. gain from the sale of NAVTEQ shares and a significantly lower contribution from LG.Philips LCD
- Inventories amounted to 13.3% of sales, 0.8 percentage points above the level of 2Q04
- Net debt to group equity ratio was 8:92 in 2Q05

Agenda

Highlights

Performance

Agenda 2005

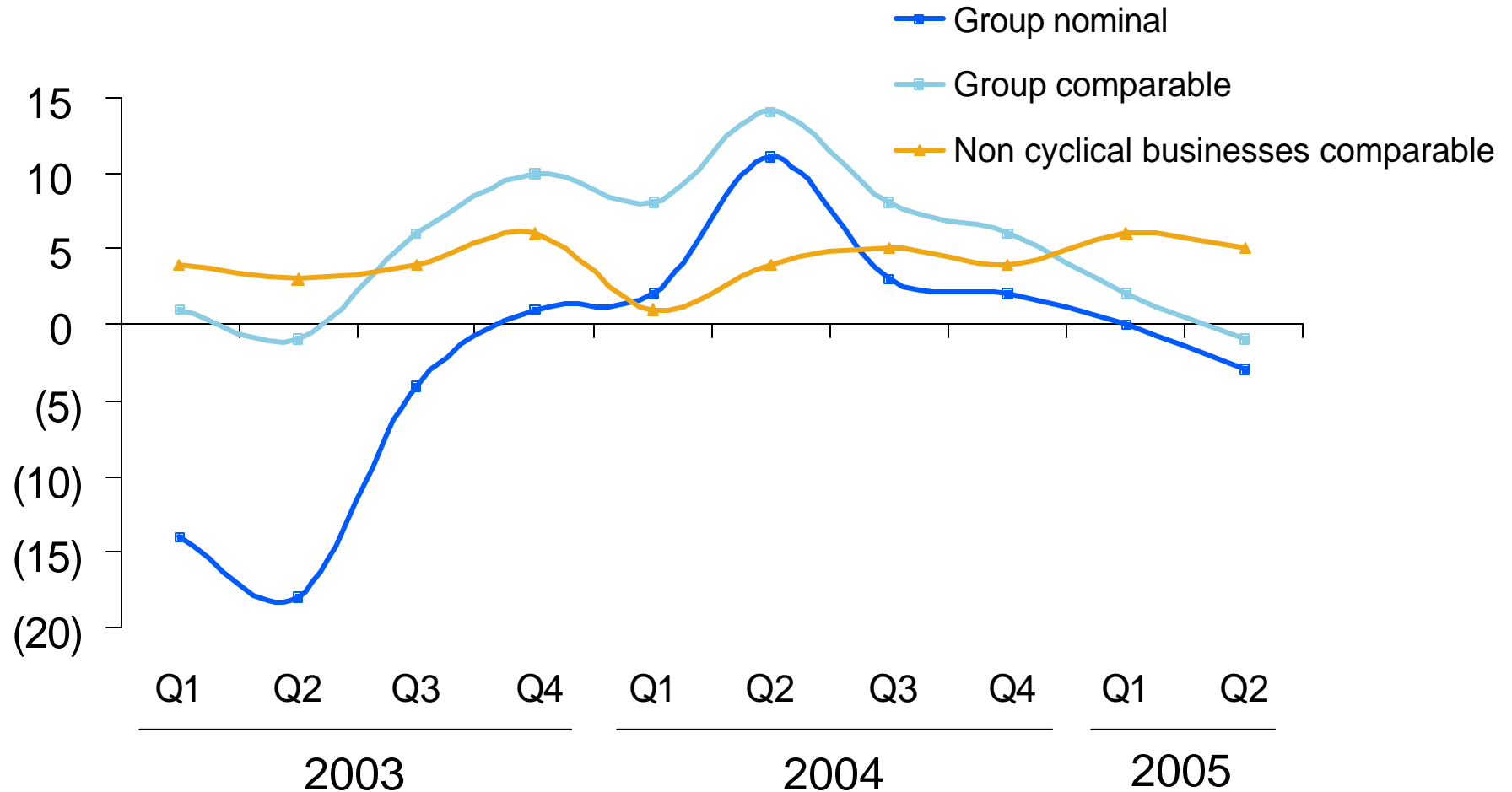
Summary - 2Q05

EUR million

	2Q04	2Q05
Sales	7,280	7,087
Income from operations	356	147
Result relating to UCCs	430	822
Net Income	616	983
Cash flow before financing activities	(245)	725
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Net debt : Group equity ratio	21:79	8:92

Quarterly sales growth y-o-y

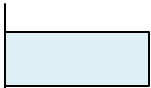







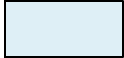



%



Non cyclical business = Medical Systems + Lighting + DAP

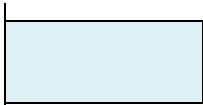

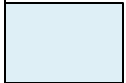



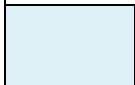

Sales to thirds by sector – 2Q05

EUR million

	2Q04	2Q05	% nom	% comp
Medical Systems	 1,428	 1,498	5	6
DAP	 456	 461	1	1
CE	 2,288	 2,259	(1)	(2)
Lighting	 1,079	 1,116	3	4
Semiconductors	 1,161	 1,088	(6)	(6)
Other Activities	 868	 665	(23)	(10)
<hr/>				
Group sales	7,280	7,087	(3)	(1)

Sales to thirds by region – 2Q05

EUR million

	<u>2Q04</u>	<u>2Q05</u>	<u>% nom</u>	<u>% comp</u>
Europe / Africa	 3,068	 2,834	(8)	(6)
North America	 1,826	 1,848	1	4
Latin America	 369	 484	31	26
Asia Pacific	 2,017	 1,921	(5)	(2)
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Group sales	7,280	7,087	(3)	(1)

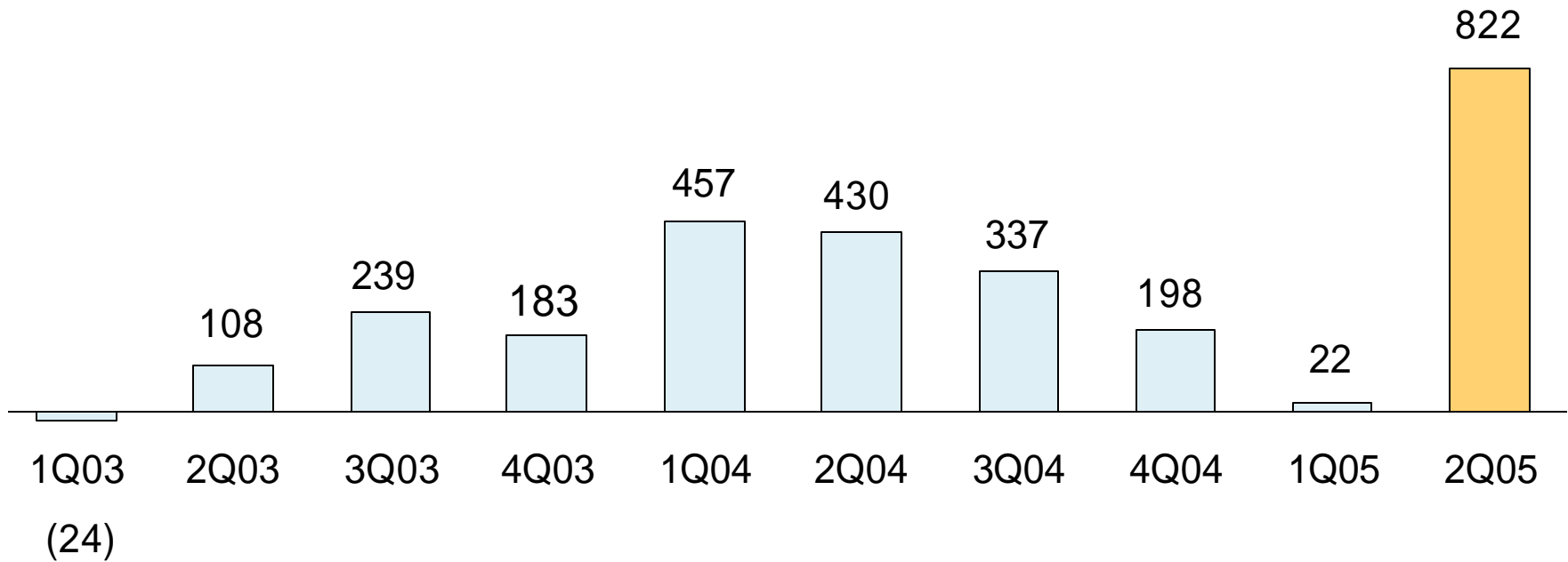
IFO by sector – 2Q05

EUR million

	2Q04	2Q05
Medical Systems	132	157
DAP	46	44
CE (<i>of which Licenses</i>)	53 87	62 56
Lighting	135	120
Semiconductors	134	27
Other Activities	(46)	(71)
Unallocated	(98)	(192)
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Philips Group	356	147
as % of sales	4.9	2.1

Results unconsolidated companies

EUR million



506

1,422

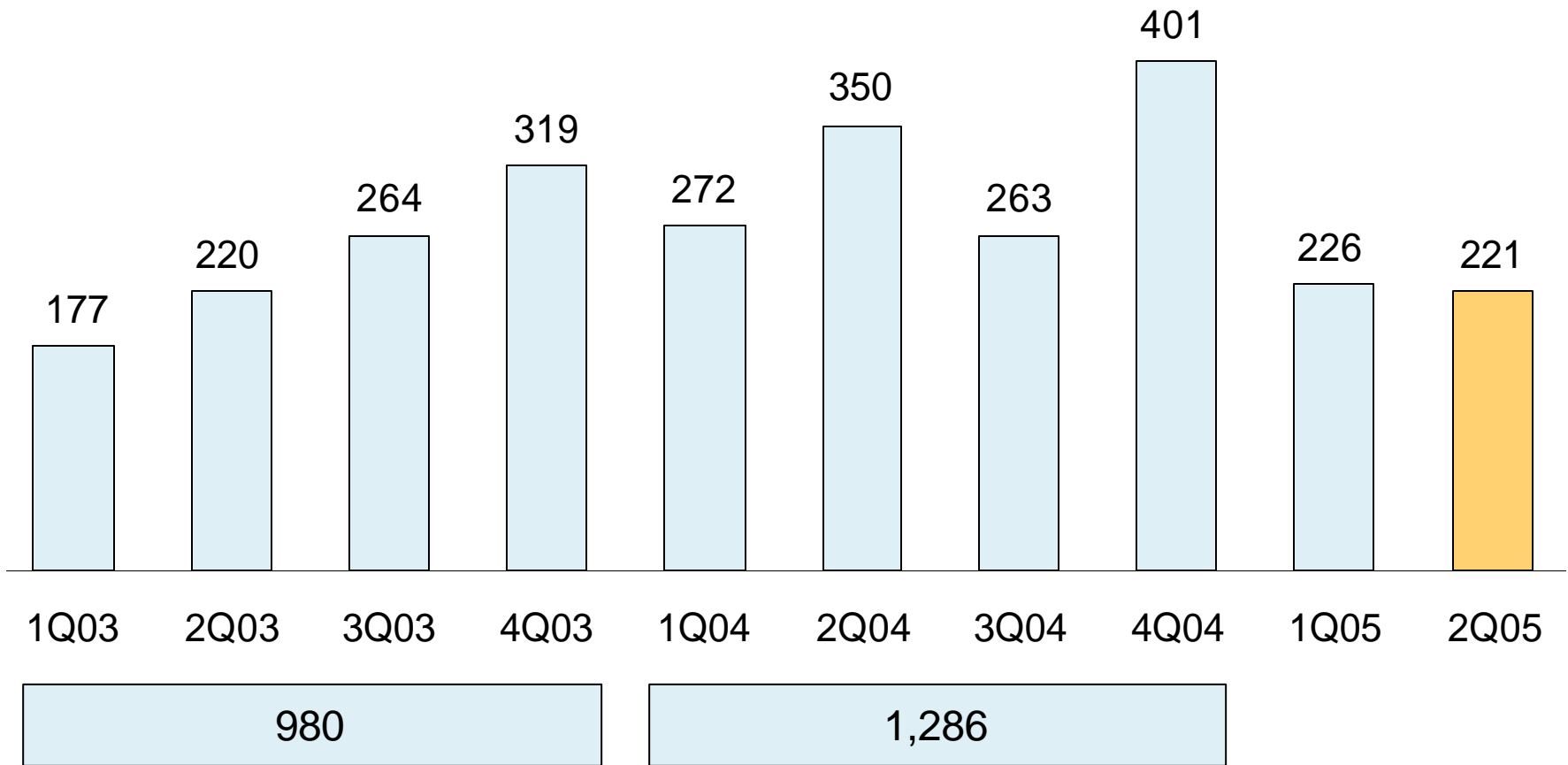
Cash Flow – 2Q05

EUR million

	2Q04	2Q05
Net income	616	983
Depreciation / amortization / impairments	419	379
Net gain on sale of assets	(28)	(760)
Income from UCCs	(423)	(69)
Increase in WC / other current assets	(404)	(274)
Other	(118)	(222)
<i>CF from operations</i>	62	37
Gross capital investments	(350)	(221)
Acquisitions/divestments/other	43	909
<i>CF before financing activities</i>	(245)	725

Gross capital expenditures

EUR million



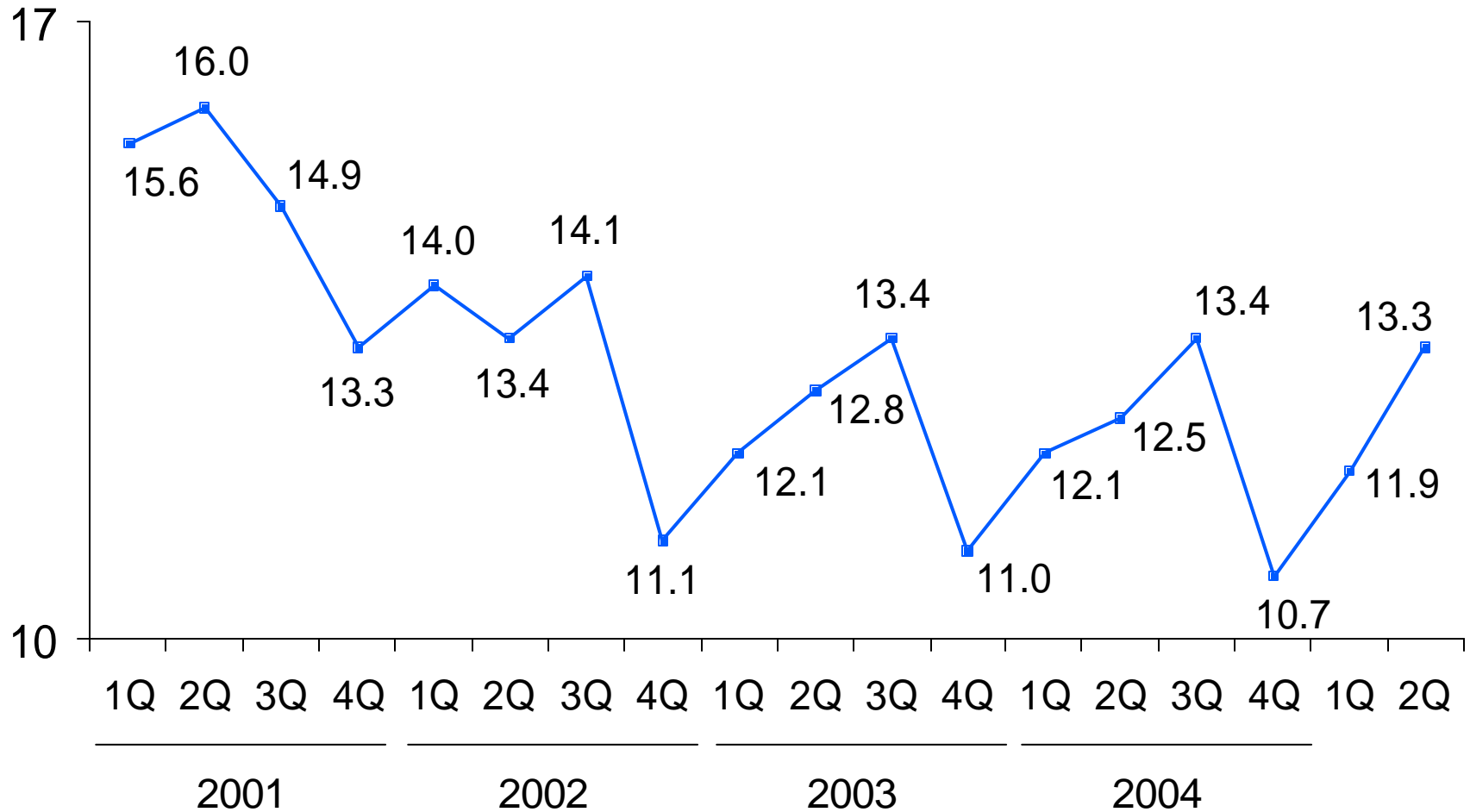
Gross capital expenditures by sector – 2Q05

EUR million

	2Q04	2Q05
Medical Systems	19	14
DAP	17	19
CE	26	15
Lighting	33	43
Semiconductors	189	85
Other Activities	65	45
Unallocated	1	0
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Group gross capex	350	221

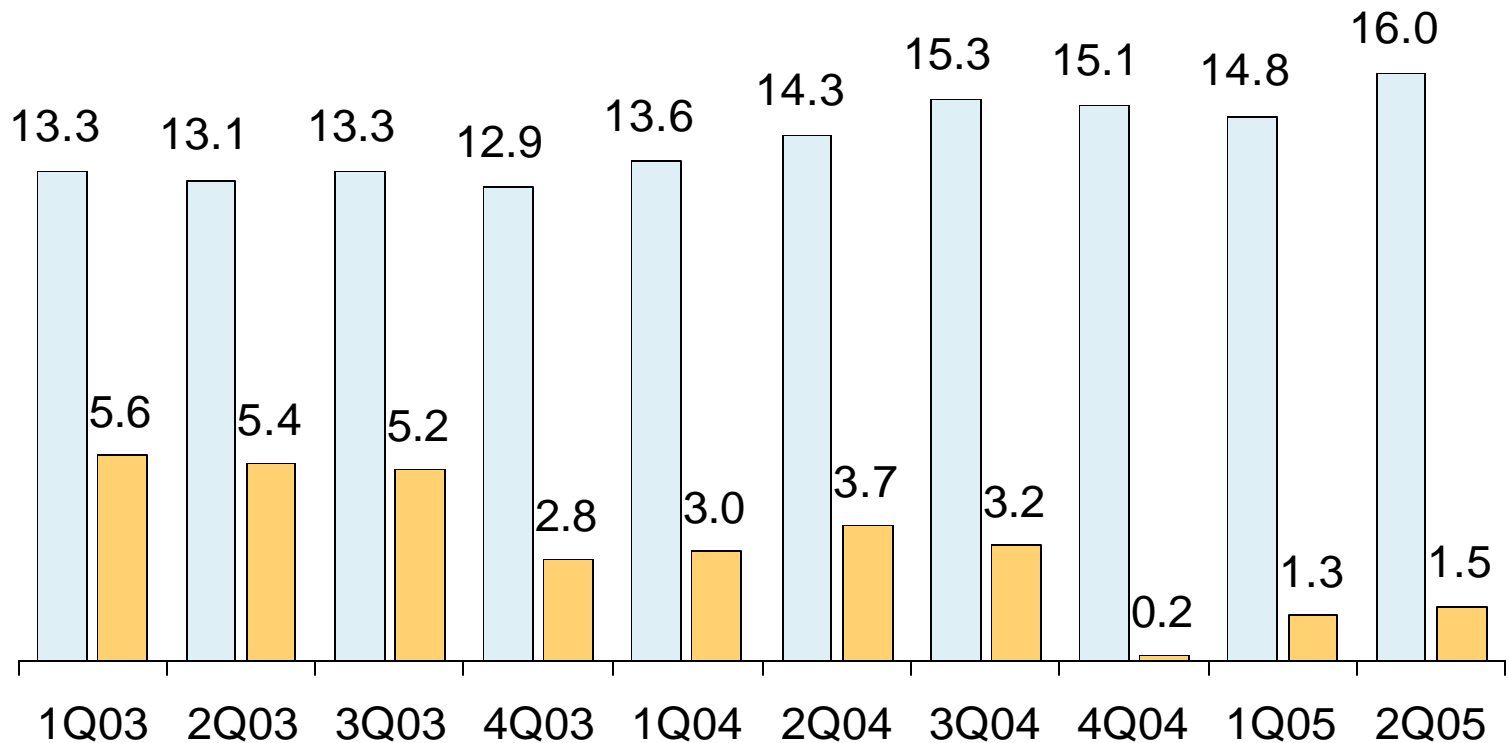
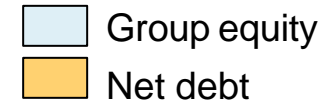
Inventories

as % of MAT sales



Net debt : group equity ratio

EUR billion



Net debt /

group equity ratio

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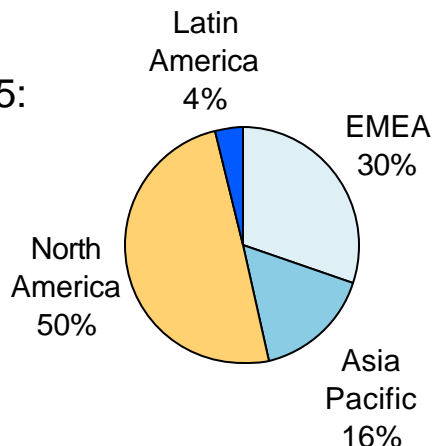
Medical Systems

EUR million unless otherwise stated

Key figures

	2Q04	1Q05	2Q05
Sales	1,428	1,285	1,498
% sales growth comp.	3	5	6
IFO	132	100	157
IFO as % of sales	9.2	7.8	10.5
NOC	3,763	3,058	3,287
Employees (FTEs)	30,155	30,756	30,965

Sales per region in 2Q05:



Financial performance

- Comparable sales up driven by all businesses and regions, except MedQuist. Double-digit growth in Ultrasound and CT mainly due to successful introduction of innovative products
- IFO improved compared to 2Q04 mainly due to higher sales, a better product mix and productivity improvements
- MedQuist's operational income decreased by EUR 11 m. vs 2Q04 due to higher costs

Looking ahead

- Order intake showed y-o-y comparable growth of 8% in equipment orders
- Expected to further increase market shares across all businesses
- Maintain focus on innovation and operational improvements

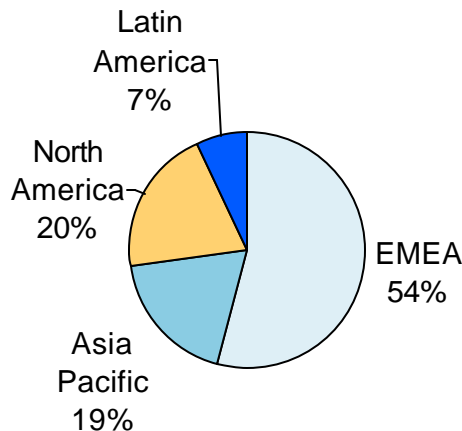
DAP

EUR million unless otherwise stated

Key figures

	2Q04	1Q05	2Q05
Sales	456	427	461
% sales growth comp.	2	9	1
IFO	46	56	44
IFO as % of sales	10.1	13.1	9.5
NOC	528	460	511
Employees (FTEs)	8,301	8,542	8,510

Sales per region in 2Q05:



Financial performance

- Comparable sales up 1% driven by Oral Healthcare and Food & Beverage
- Sales in Western Europe and North America declined due to a weakened consumer retail environment. Strong sales growth in Latin America and China
- Despite weakened retail markets, margins were maintained at the level of 2Q04

Looking ahead

- Focus remains on launching innovative products, extending alliances and expanding retail channels into emerging markets
- Demand in Western Europe and North America expected to remain weak. Retail channels appear somewhat overstocked in certain product categories

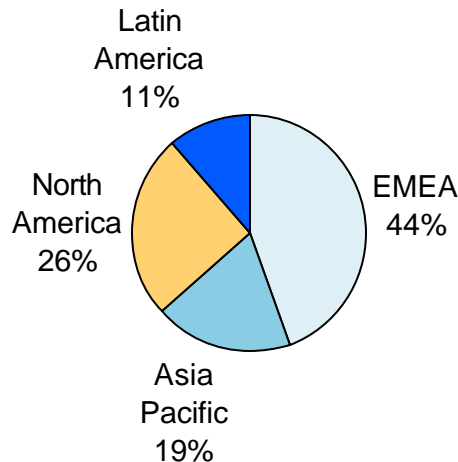
Consumer Electronics

EUR million unless otherwise stated

Key figures

	2Q04	1Q05	2Q05
Sales	2,288	2,153	2,259
% sales growth comp.	19	7	(2)
IFO	53	46	62
IFO as % of sales	2.3	2.1	2.7
NOC	133	108	232
Employees (FTEs)	17,716	16,725	16,746

Sales per region in 2Q05:



Financial performance

- Comparable sales down 2%. Connected Displays and Home Entertainment Networks posted growth, while Licenses declined. Strong sales in North America and Latin America, while Europe was hampered by weak consumer environment
- IFO included restructuring charges of EUR 8 m. this quarter
- License income was EUR 56 m. and included EUR 16 m. for past use

Looking ahead

- TPV agreement expected to close in 3Q05
- Demand in Europe expected to remain weak. Retail channels appear somewhat overstocked, mainly with B and C brands
- Expected restructuring charges of approx. EUR 40 m. in 3Q05 and EUR 20 m. in 4Q05

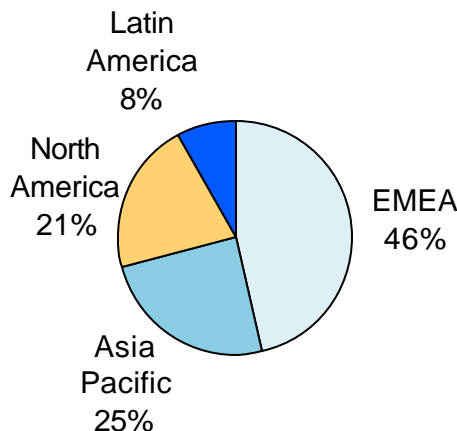
Lighting

EUR million unless otherwise stated

Key figures

	2Q04	1Q05	2Q05
Sales	1,079	1,128	1,116
% sales growth comp.	7	6	4
IFO	135	149	120
IFO as % of sales	12.5	13.2	10.8
NOC	1,641	1,617	1,702
Employees (FTEs)	44,516	44,429	42,977

Sales per region in 2Q05:



Financial performance

- Comparable sales up driven by Lamps and Luminaires. Automotive, Special Lighting & UHP suffering from a weakened market for consumer applications in North America
- All regions showed comparable sales growth except North America
- IFO decreased mainly due to additional R&D expenditure for LCD backlighting and solid-state-lighting technologies

Looking ahead

- Markets for consumer applications in North America expected to remain weak
- Strict cost control and optimization of supply chain management will remain a priority
- Continue to invest in innovative sectors

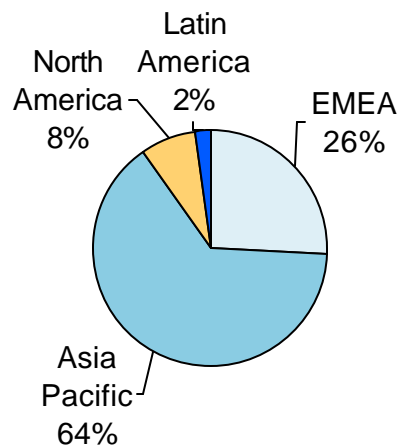
Semiconductors

EUR million unless otherwise stated

Key figures

	2Q04	1Q05	2Q05
Sales	1,161	1,012	1,088
% sales growth comp.	32	(2)	(6)
IFO	134	14	27
IFO as % of sales	11.5	1.4	2.5
NOC	3,034	2,649	2,629
Employees (FTEs)	33,448	34,856	35,682

Sales per region in 2Q05:



Financial performance

- Sequential sales growth of 3% in USD
- Book-to-bill ratio at 1.00 at the end of 2Q05
- Utilization rate improved to 77% in 2Q05 compared to 75% in 1Q05
- The sequential increase in IFO mainly due to higher sales activity and stronger dollar

Looking ahead

- Mid-single-digit sequential sales growth expected in 3Q05 in USD

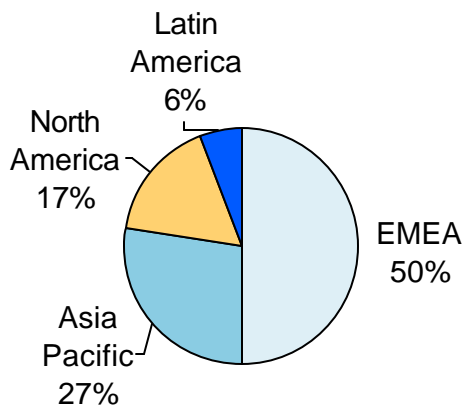
Other Activities

EUR million unless otherwise stated

Key figures

	2Q04	1Q05	2Q05
Sales	868	630	665
% sales growth comp.	18	(15)	(10)
IFO	(46)	(73)	(71)
IFO as % of sales	(5.3)	(11.6)	(10.7)
NOC	359	448	711
Employees (FTEs)	28,823	23,044	22,329

Sales per region in 2Q05:



Financial performance

- IFO included restructuring charges of EUR 18 m. (EUR 9 m. in Corporate Investments and EUR 9 m. in Corporate Technology)
- Lower R&D spending and some incidentals positively impacted IFO
- MDS: Comparable sales declined 36% compared to 2Q04, resulting in a loss from operations
- Optical Storage: IFO impacted by high price pressure and additional license costs

Looking ahead

- Corporate Investments and MDS' sales expected to remain under pressure in 3Q05
- Restructuring charges of approx. EUR 15 m. expected in 3Q05

Unallocated

EUR million unless otherwise stated

Key figures

	2Q04	1Q05	2Q05
Corporate and regional overheads	(74)	(67)	(87)
Pensions/postretirement benefit costs	(24)	(30)	(36)
Global brand campaign	-	(2)	(69)
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IFO	(98)	(99)	(192)
Employees (FTEs)	2,656	2,505	2,500

Financial performance

- Corporate and Regional Overheads' result included higher investments in projects enabling future cost reductions
- Pension costs were EUR 12 m. higher than 2Q04 mainly due to the release of an early-retirement provision last year

Looking ahead

- Investments in the global brand campaign are expected to be approx. EUR 20 m. in 3Q05

Agenda

Highlights

Performance

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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)

