KONINKLIJKE PHILIPS ELECTRONICS NV
Form 6-K
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16 of the
Securities Exchange Act of 1934

For the period commencing December 14, 2004 through January 27, 2005

KONINKLIJKE PHILIPS ELECTRONICS N.V.
(Exact name of registrant as specified in its charter)

Royal Philips Electronics
(Translation of registrant s name into English)

The Netherlands
(Jurisdiction of incorporation or organization)

Breitner Center, Amstelplein 2, 1096 BC Amsterdam, The Netherlands
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F þ Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ___

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ___

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No þ

Name and address of person authorized to receive notices
and communications from the Securities and Exchange Commission:

A. Westerlaken

Koninklijke Philips Electronics N.V.
Amstelplein 2
1096 BC Amsterdam The Netherlands

This report comprises copy of the Report on the performance of the Philips Group, copy of the Annual Review 2004 of the Philips Group as well as copies of the press releases entitled:

Philips and TPV Technology to create world s leading display partnership , dated December 16, 2004;

Philips closes seven-year US$2.5 billion revolving credit facility , dated December 16, 2004;

Mr. Pierre-Jean Sivignon set to join Philips Board of Management as new CFO , dated January 24, 2005.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf, by the undersigned, thereunto duly authorized at Amsterdam, on the 28th day of January 2005.

KONINKLIJKE PHILIPS ELECTRONICS N.V.

/s/ G.J. Kleisterlee
(President,
Chairman of the Board of Management)

/s/ J.H.M. Hommen
(Vice-Chairman of the Board of Management
and Chief Financial Officer)

Report on the performance of the Philips Group

Q4 Quarterly report January 27, 2005

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.

all amounts in millions of euros unless otherwise stated

the data included in this report are unaudited

financial reporting according to US GAAP

Philips reports full-year net income of EUR 2,836 million.

Fourth-quarter net income of EUR 498 million.

The fourth quarter of 2004 Philips recorded net income of EUR 498 million (EUR 0.39 per share), compared with net income of EUR 598 million (EUR 0.46 per share) in the same period of 2003.

Sales amounted to EUR 9,179 million, an increase of 2% over the same period of 2003. The weaker US dollar and dollar-related currencies had a downward effect of 4%. Comparable sales increased by 6%.

Income from operations was a profit of EUR 14 million, including a non-cash impairment charge of EUR 576 million related to MedQuist and a charge of EUR 133 million (net of recoveries from insurance) related to the settlement of litigation with Volumetrics Inc. In Q4 2003, income from operations was a profit of EUR 608 million, which included a non-cash goodwill-impairment charge of EUR 139 million.

Financial income and expenses resulted in income of EUR 417 million, which included gains totaling EUR 440 million on the sale of the remaining stakes in ASML and Vivendi Universal, and EUR 46 million interest income related to a final agreement on prior-years tax settlements. In Q4 2003, financial income and expenses resulted in an expense of EUR 58 million.

Unconsolidated companies contributed EUR 198 million to net income, including a gain of EUR 151 million related to the sale of shares in Atos Origin. In Q4 2003, results from unconsolidated companies amounted to EUR 183 million, which included a gain of EUR 695 million on the sale of TSMC shares and restructuring and impairment charges of EUR 804 million for LG.Philips Displays.

Cash flow from operating activities was EUR 1,939 million. In Q4 2003, cash flow from operating activities totaled EUR 1,673 million. Inventories as a percentage of sales was a new record-low of 10.7%.

For the full year, Medical Systems surpassed its 14% target by achieving an EBITA of 14.4% (adjusted for the Volumetrics settlement). 14.4% is comparable to income from operations of 12.8% of sales excluding impairment charges for MedQuist.

Gerard Kleisterlee,
Philips President and CEO:

2004 was a year of major progress for Philips. Driven by our focus on operational performance and cost management, our financial results showed considerable improvement, delivering a return well in excess of our cost of capital. With the consistent execution of our management agenda for 2004, we also took an important step forward in implementing our strategy to transform Philips into a truly market-driven healthcare, lifestyle and technology company. And with the introduction of our new brand promise Sense and simplicity we are creating a unique, differentiated positioning that will further enhance our value proposition to our customers.

Philips Group

Net income

in millions of euros unless otherwise stated

	Q4 2003	**Q4 2004**
Sales	9,017	**9,179**
Income from operations	608	**14**
as a % of sales	6.7	**0.2**
Financial income and expenses	(58)	**417**
Income taxes	(98)	**(128)**
Results unconsolidated companies	183	**198**
Minority interests	(39)	**(3)**
Cumulative effect of change in accounting principle	2	**0**
Net income	598	**498**
Per common share basic	0.46	**0.39**

Sales by sector

in millions of euros unless otherwise stated

	Q4 2003	**Q4 2004**	**nominal**	**% change comparable**
Medical Systems	1,802	**1,790**	**(1)**	**4**
DAP	751	**745**	**(1)**	**2**
CE	3,057	**3,340**	**9**	**11**
Lighting	1,243	**1,265**	**2**	**6**
Semiconductors	1,496	**1,354**	**(9)**	**(7)**
Other Activities	668	**685**	**3**	**19**
Philips Group	9,017	**9,179**	**2**	**6**

Sales per region

in millions of euros unless otherwise stated

	Q4	**Q4**	**% change compa-**

	2003	**2004**	**nominal**	**rable**
Europe/Africa	4,163	**4,348**	**4**	**5**
North America	2,251	**2,136**	**(5)**	**2**
Latin America	399	**478**	**20**	**28**
Asia Pacific	2,204	**2,217**	**1**	**6**
Philips Group	9,017	**9,179**	**2**	**6**

Highlights in the quarter

Net income

Net income totaled EUR 498 million (EUR 0.39 per share), compared with EUR 598 million (EUR 0.46 per share) in the same period of 2003.

Group sales

Q4 2004 comprised 14 weeks, compared to 13 weeks in Q4 2003.

Nominal sales for the Group were 2% higher than in Q4 2003. Adjusted for the 4% downward effect of the weaker US dollar and dollar-related currencies, comparable sales rose 6%.

Comparable sales at Medical Systems increased by 4%, driven by Computed Tomography, X-Ray, Cardiac & Monitoring Systems and Customer Services. The 2% comparable growth at Domestic Appliances and Personal Care (DAP) was mainly attributable to Food & Beverage and Shaving & Beauty. Sales at Consumer Electronics were 11% above the level of Q4 2003, supported by all businesses (especially Licenses) and regions. At Lighting, sales increased by 6% compared to Q4 2003, driven by innovative products; improvements were visible in all businesses. Due to lower sales at Mobile Display Systems (MDS), Semiconductors showed a 7% comparable decline.

Sales per region

In Europe/Africa, all sectors posted growth, especially Medical Systems with a 6% increase. Eastern Europe showed comparable growth of 13%, with Lighting and Consumer Electronics leading with 20% and 18% comparable growth respectively in this region.

In North America, the gap between nominal and comparable sales growth was due to the weaker US dollar. Lighting and Medical Systems were the main drivers of the comparable growth.

In Latin America, all sectors contributed to the 28% comparable sales growth, especially Consumer Electronics with an outstanding 53% comparable increase.

In Asia Pacific, weaker currencies had a 7% negative effect on sales, while consolidation had a 2% positive effect. The main contributor to the 6% comparable increase was Consumer Electronics with 44% growth, whereas Semiconductors showed a 10% comparable decline due to lower sales at MDS.

Income (loss) from operations by sector

in millions of euros unless otherwise stated

	Q4 2003	**Q4 2004**
Medical Systems	70	**(354)**
DAP	160	**151**
CE	249	**264**
Lighting	161	**149**
Semiconductors	166	**46**
Other Activities	(39)	**(89)**
Unallocated	(159)	**(153)**
Income from operations	608	**14**
as a % of sales	6.7	**0.2**

Financial income and expenses

in millions of euros

	Q4 2003	**Q4 2004**
Interest expenses (net)	(61)	**(62)**
Income (loss) from non-current financial assets	(1)	**2**
Gain on sale of shares ASML/Vivendi		**440**
Other	4	**37**
Total	(58)	**417**

Results unconsolidated companies

in millions of euros

	Q4 2003	**Q4 2004**
LG.Philips LCD	199	**14**
LG.Philips Displays	(762)*	**(89)**
Others	746**	**273**
Total	183	**198**

* Includes EUR 804 million relating to restructuring and impairment (both goodwill and assets)

** Includes EUR 695 million gain on sale of TSMC shares

Income from operations by sector

Income from operations was a profit of EUR 14 million, including an impairment charge of EUR 576 million related to MedQuist (EUR 139 million in Q4 2003) and a charge of EUR 133 million (net of recoveries from insurance) for the litigation settlement with Volumetrics Inc. Ongoing operations at Medical Systems turned in a record performance, driven by increased sales of innovative new higher-margin products, higher volumes and an improved product mix (higher Customer Service component).

DAP s income from operations amounted to 20.3% of sales, slightly down on Q4 2003 s 21.3%. Margins were strong across all businesses.

Strong income for Licenses helped the performance at CE. Past-use license income of EUR 141 million compensated for the restructuring charges of EUR 79 million and a decline in product margins.

Lighting continued its solid performance, but saw its income from operations impacted by restructuring and asset impairment charges of EUR 43 million.

Results at Semiconductors were impacted by a decline in sales and lower utilization rates. Income from operations in Q4 2003 included a gain on the sale of a facility.

Income from operations of Other Activities included a restructuring charge of EUR 34 million for LCoS.

Pension costs were EUR 36 million lower than in Q4 2003.

Financial income and expenses

Financial income and expenses resulted in income of EUR 417 million, which included gains totaling EUR 440 million on the sale of the remaining stakes in ASML and Vivendi Universal, and EUR 46 million financial income related to a final agreement on prior-years tax settlements.

Results relating to unconsolidated companies

LG.Philips LCD s contribution to net income was EUR 14 million, EUR 185 million lower than in Q4 2003.

Results from LG.Philips Displays included EUR 109 million for restructuring and impairment charges.

Following the sale of a 16.5% stake in Atos Origin, a gain of EUR 151 million was recognized. Philips shareholding has been reduced to 15.4%.

Cash balance

in millions of euros

	Q4 2003	**Q4 2004**
Beginning balance	883	**1,610**
Net cash from operating activities	1,673	**1,939**
Gross capital expenditures	(319)	**(401)**
Acquisitions/divestments	827	**524**
Other cash from investing activities	114	**936**
Dividend paid		
Changes in debt/other	(106)	**(259)**
Ending balance	3,072	**4,349**

Cash balance

Cash flow from divestments included proceeds of EUR 552 million from the sale of shares in Atos Origin. In Q4 2003, the sale of TSMC shares resulted in proceeds of EUR 908 million.

The sale of the remaining stakes in ASML and Vivendi Universal resulted in a cash inflow of EUR 883 million.

During Q4 2004, repayments of EUR 112 million were made on maturing bonds.

Cash flows from operating activities

The EUR 266 million improvement in cash flow from operating activities compared to Q4 2003 was due to reduction in working capital.

The improved cash inflow compared with Q4 2003 was mainly attributable to Semiconductors and Consumer Electronics.

Gross capital expenditures

Gross capital expenditures increased compared with Q4 2003, mainly due to increases at Semiconductors and Lighting, partly offset by declines at other product divisions.

Gross capital expenditures totaled EUR 143 million at Semiconductors and EUR 97 million at Lighting.

Compared to Q3, gross capital expenditures increased, especially in Lighting, where the increase was primarily driven by investments for innovative higher-margin products.

Inventories

Inventories as a percentage of sales amounted to a new record-low of 10.7%.

Compared to Q4 2003, inventories as a percentage of sales decreased at DAP, Consumer Electronics, Semiconductors and Other Activities; inventories as a percentage of sales increased at Medical Systems and Lighting to support the expected growth in future sales.

Net debt and group equity

As a result of the positive cash flow from operating activities and the proceeds from the sale of shares in a number of companies, net debt decreased by EUR 3,050 million during the quarter.

Employment

During Q4, the number of employees decreased by 5,221, spread over both temporary and permanent employees. The headcount decrease was visible in all product divisions.

Compared to Q4 2003, the number of employees decreased by 2,852. Both Consumer Electronics and Other Activities posted declines due to deconsolidations, whereas Medical Systems, DAP, Lighting and Semiconductors showed an increase in the number of employees (including the consolidation of SSMC, which added 1,047 employees).

Medical Systems

Medical Systems: key data

in millions of euros unless otherwise stated

	Q4 2003	**Q4 2004**
Sales	1,802	**1,790**
Sales growth		
% nominal	(4)	**(1)**
% comparable	9	**4**
Income (loss) from operations	70	**(354)**
as a % of sales	3.9	**(19.8)**
Net operating capital (NOC)	3,671	**2,862**
Number of employees (FTEs)	30,611	**30,790**

Business highlights

Committed to providing customers with service and support excellence, Philips ranked No. 1 for overall service satisfaction for the second year in a row in the 2004 IMV ServiceTrak survey for Imaging-All Systems.

The world s first ambient experience radiology suite was built at Advocate Lutheran General Children s Hospital in Chicago. The suite incorporates Philips Lighting and Consumer Electronics products to create a more comfortable, patient-friendly environment and experience for children undergoing medical exams, and helps hospitals work more efficiently.

The US Food and Drug Administration s (FDA) over-the-counter clearance for Philips HeartStart Home Defibrillator named one of Fortune Magazine s 25 Best Products of 2004 contributed to a nearly 600% increase in the number of units sold quarter over quarter.

Philips began a pilot study of a TV-based solution to help patients with chronic heart disease manage their health in the comfort of their home, while staying connected to their healthcare community.

Financial performance

Nominal sales decreased by 1%, whereas comparable sales grew by 4% compared to Q4 2003, mostly driven by Computed Tomography, X-Ray, Cardiac & Monitoring Systems and Customer Service. Europe and North America contributed predominantly to the 4% comparable sales growth.

Income from operations ended at a loss of EUR 354 million and included an impairment charge for MedQuist of EUR 576 million (EUR 139 million in Q4 2003) and a charge (net of recoveries from insurance) of EUR 133 million for the settlement of litigation with Volumetrics Inc.

Underlying income performance was a record for Q4 and was attributable to higher sales, due to new innovative products with higher margins, increased volumes and an improved product mix (higher Customer Service component).

Order intake remained strong, outperforming Q4 2003 by approximately 19%, excluding currency movements.

Looking ahead

With a significantly stronger order book, Medical Systems will maintain its focus on innovation and operational excellence, and is expected to continue improving its market shares.

Domestic Appliances and Personal Care

DAP: key data

in millions of euros unless otherwise stated

	Q4 2003	**Q4 2004**
Sales	751	**745**
Sales growth		
% nominal	(3)	**(1)**
% comparable	4	**2**
Income from operations	160	**151**
as a % of sales	21.3	**20.3**
Net operating capital (NOC)	464	**393**
Number of employees (FTEs)	8,180	**8,205**

Business highlights

Philips launched an aluminum line of the Senseo® coffee machine. Since first launching the Senseo®, Philips has sold over 8 million units to European trade customers.

Philips introduced the Azur Precise iron. Benchmarked against competing products, it was designated a Green Flagship product after being found more environmentally friendly in terms of packaging, weight and recyclability.

The Cool Skin 7000 series, which was successfully introduced in spring 2004, contributed strongly to DAP s sales performance in Q4 during the peak selling season around Christmas.

Financial performance

Nominal sales declined by 1% compared to Q4 2003. On a comparable basis, sales grew by 2%, mainly driven by Food & Beverage (particularly the Senseo® coffee machine), followed by Shaving & Beauty. Oral Healthcare s sales remained flat. Comparable sales in China showed a 20% increase in the fourth quarter.

Income from operations amounted to 20.3% of sales, slightly down on Q4 2003 s 21.3%. Margins were strong across all businesses. The additional investments in advertising and promotion were limited.

Improvement in supply chain management and continous focus on asset management, coupled with weaker currencies, led to a substantial reduction in net operating capital compared to Q4 2003.

Looking ahead

The focus will remain on launching new innovative products, extending partnerships and alliances, expanding retail channels into emerging markets and enhancing cost savings.

Additional focus will be directed towards the new initiative in Consumer Health & Wellness.

Consumer Electronics

Consumer Electronics: key data

in millions of euros unless otherwise stated

	Q4 2003	**Q4 2004**
Sales	3,057	**3,340**
Sales growth		
% nominal	4	**9**
% comparable	11	**11**
Income from operations	249	**264**
as a % of sales	8.1	**7.9**
Net operating capital (NOC)	(82)	**(161)**
Number of employees (FTEs)	19,111	**16,993**

Business highlights

Philips and TPV Technology Limited signed a letter of intent transferring the OEM sales, manufacturing and development of PC monitors and entry-level Flat TVs to TPV. This agreement will further de-risk the business and is expected to be implemented in mid-2005.

MiraVision Mirror TV was named one of Fortune Magazine s 25 Best Products of 2004 and one of Time Magazine s Coolest Inventions of 2004 .

Hollywood-based IFILM one of the world s top ten streaming media websites entered into a global partnership with Philips to offer its popular entertainment content via Philips Streamium products.

At the Consumer Electronics Show in Las Vegas, Philips received 12 innovation awards for products in the Home Theatre, Audio, Portable Audio, Electronic Gaming and Accessories categories.

Financial performance

Comparable sales grew by 11%. All businesses and regions contributed to this growth, in particular Connected Displays (driven by Flat TV featuring Philips innovative Ambilight concept), Licenses (98% growth) and the regions Asia Pacific and Latin America.

Income from operations for Licenses amounted to EUR 217 million, up from EUR 97 million in Q4 2003, due to higher past-use license income.

Income from operations included restructuring charges of EUR 79 million, mainly related to the closure of LCoS and front-end projection display activities.

Margins remained under pressure, mainly in the Flat TV and DVD recorder segments; however, margins recovered from Q3 levels. The lower margins were partly compensated by savings generated by the Business Renewal

Program.

Enhanced supply chain and working capital management resulted in a record-low negative net operating capital of EUR 161 million.

Looking ahead

The Business Renewal Program will be accelerated further and will result in cost savings higher than the EUR 400 million targeted by year-end 2005 (based on Q4 2005 run rate).

In connection with this program, restructuring charges of approximately EUR 25 million are expected in Q1 2005.

Improved products and reduced costs will help us to move towards an operating margin target of 2 - 2.5% plus 2% from license income by the end of 2005.

Lighting

Lighting: key data

in millions of euros unless otherwise stated

	Q4 2003	**Q4 2004**
Sales	1,243	**1,265**
Sales growth		
% nominal	(4)	**2**
% comparable	3	**6**
Income from operations	161	**149**
as a % of sales	13.0	**11.8**
Net operating capital (NOC)	1,521	**1,493**
Number of employees (FTEs)	43,800	**44,004**

Business highlights

Philips launched the Night Guide automotive headlight, which uses three colors on three parts of the road to increase visibility and improve driver safety.

Philips signed a four-year partnership with Saks Fifth Avenue stores in the United States, which will see Philips light-emitting diodes (LEDs) illuminating Saks storefronts during the Christmas season.

Philips and Lumileds Lighting extended an existing partnership to begin developing and marketing new modular LEDs for the automotive industry.

The US National Television Academy honored Philips Ultra High Performance (UHP) lamp technology with an Emmy® Award for Technology and Engineering for excellence in engineering creativity in lighting solutions for large-screen projection TVs .

Philips further strengthened its innovative and market leadership in lighting for greenhouses (flowers and vegetables) with the new 1000W GreenPower electronic system offering maximum-growth light while saving electricity and thus protecting the environment.

Financial performance

Compared to Q4 2003, sales increased by 2% on a nominal basis and 6% on a comparable basis, driven by improvements in all businesses. Sales in Europe went up by 6%, primarily led by Lamps and Automotive, Special Lighting & UHP.

Compared to Q4 2003, income from operations decreased by EUR 12 million to EUR 149 million. Income from operations in Q4 2004 was impacted by restructuring and asset-impairment charges, mainly in Europe, of EUR 43 million, whereas a write-off of EUR 24 million for the phasing-out of production lines was recognized in income from operations in Q4 2003.

Gross capital expenditures increased to EUR 97 million, EUR 35 million higher than in Q4 2003, primarily due to investments for innovative higher-margin products.

Looking ahead

The division will maintain strict cost control and further optimize supply chain management.

Increased investment in R&D and capital expenditures will continue to propel innovation and sales growth.

As part of the continued drive to optimize asset utilization, restructuring charges of approximately EUR 30 million are expected in Q1 2005.

Semiconductors

Semiconductors: key data

in millions of euros unless otherwise stated

	Q4 2003	**Q4 2004**
Sales	1,496	**1,354**
Sales growth		
% nominal	11	**(9)**
% comparable	24	**(7)**
Income from operations	166	**46**
as a % of sales	11.1	**3.4**
Net operating capital (NOC)	2,676	**2,669**
Number of employees (FTEs)	33,177	**35,116**

Business highlights

In Germany, Philips and Nokia began the first trials of Near Field Communication (NFC) ticketing. Passengers on a Frankfurt bus route can now pay by passing an NFC-equipped Nokia 3220 phone by a contactless reader as they enter the bus.

Philips set an industry record with the production and shipment of the one-billionth mobile display for the telecommunications, automotive and avionics markets.

To enhance security at its facilities, the US Department of the Interior decided to issue up to 30,000 smart cards incorporating Philips MIFARE DESFire contactless chip technology to its employees.

Philips affirmed its leading position in the mobile acoustic solutions market with the production of its one-billionth mobile phone loudspeaker at its plant in Vienna.

Financial performance

The nominal sales decrease of 9% was mainly driven by 33% lower sales at Mobile Display Systems (MDS) compared with Q4 2003. Sequentially, segment revenues of MDS increased by 11% in US dollar terms; segment revenues excluding MDS were flat in US dollar terms.

The book-to-bill ratio increased from 0.66 at the end of Q3 to 0.73 at the end of Q4. The utilization rate declined to 81% (Q3: 98%), mainly due to a build-down of inventories in anticipation of Q1 sales.

The planned reduction in inventories from Q3 had a negative effect of approximately EUR 36 million on income from operations compared to Q3 2004. In addition, higher R&D expenses and a lower sales level had an unfavorable impact of EUR 11 million and EUR 30 million respectively compared to Q3 2004.

Compared to Q4 2003, the main reasons for the lower income were a lower level of business activity, the weaker US dollar and an inventory build-down. A gain of EUR 21 million relating to the sale of the San Antonio facility was realized in Q4 2003.

Looking ahead

A high-single-digit sequential decrease in sales is expected in Q1 2005 (in US dollar terms, excluding MDS). A double-digit sequential decrease is forecasted for MDS (in US dollar terms).

Programs are being implemented to reduce the cost base in Europe.

Other Activities

Other Activities: key data

in millions of euros unless otherwise stated

	Q4 2003	**Q4 2004**
Sales	668	**685**
Sales growth		
% nominal	0	**3**
% comparable	2	**19**
IFO Technology Cluster	(96)	**(92)**
IFO Corp. Investments/Other	57	**3**
Income (loss) from operations	(39)	**(89)**
as a % of sales	(5.8)	**(13.0)**
Net operating capital (NOC)	150	**117**
Number of employees (FTEs)	27,086	**23,869**

Business highlights

Philips received the 2004 Hong Kong Award for Industry for the key 019 Digital Camcorder and the PSS010 Personal Sound System a recognition of these products innovative aesthetics, materials and ability to meet users needs.

Philips introduced its RepliTrack technology, which embeds a unique watermark onto a DVD disc. Any copy from a disc will carry the watermark, allowing illegal copies to be traced.

Philips established its third Intellectual Property Academy in China, at Fudan University in Shanghai. Sponsored by Philips, the Academy provides professional training on intellectual property issues.

Financial performance Technology Cluster

The loss in the Technology Cluster was EUR 4 million lower than the loss in Q4 2003. Restructuring charges of EUR 34 million for the closure of the LCoS activities were more than offset by lower costs and increased income from various Technology activities.

Financial performance Corp. Investments/Other

Comparable sales growth was driven by Optical Storage and to a lesser extent Assembléon and Philips Enabling Technologies (ETG).

All major businesses in Corporate Investments were profitable due to improved conditions in technology markets and the benefits of earlier restructuring programs.

Income from operations in Q4 2003 was positively impacted by the release of a provision for a put option amounting to EUR 50 million.

Looking ahead

Further execution of the divestment program is expected, assuming acceptable market conditions.

Unallocated

Unallocated: key data

in millions of euros unless otherwise stated

	Q4 2003	**Q4 2004**
Corporate and regional overheads	(98)	**(125)**
Pensions/postretirement benefit costs	(61)	**(28)**
Income (loss) from operations	(159)	**(153)**
Number of employees (FTEs)	2,473	**2,609**

Business highlights

Chinese Premier Wen Jia Bao visited Philips Amsterdam headquarters, where he was introduced to emerging healthcare and telecommunications technologies that can support China s goal of sustainable development.

In its 2004 Euro Investor Relations Awards, IR Magazine ranked Philips 1st out of the top 50 companies on the Dow Jones Euro Stoxx index for best corporate governance, and 3rd for best overall investor relations.

At the 13th EuroFinance International Cash and Treasury Management Conference in Paris, Philips was chosen as the 2004 International Treasury Excellence winner for shifting to a streamlined, consulting-based treasury function.

Philips held its first Global Supplier Forum with 20 key suppliers. The meeting aimed to begin building closer relationships with these strategic partners.

In a ranking of the best internet sites by Byte Level Research, Philips global site was 4th out of 200 companies.

Financial performance

Corporate and Regional Overhead costs increased by EUR 27 million, mainly due to higher marketing investments and the roll-out of the new brand positioning.

Pension costs and the cost of other postretirement benefits decreased by EUR 33 million compared to Q4 2003, primarily due to a reduction in pension costs in the United States, the Netherlands and various other European countries.

Looking ahead

Investments related to the new brand positioning will continue in 2005.

In 2005, pension costs for the Philips Group are expected to be approximately EUR 235 million, approximately EUR 50 million lower than in 2004, of which approximately EUR 20 million in the sector Unallocated .

LG.Philips Displays

LG.Philips Displays joint venture (100%)

in millions of euros unless otherwise stated

	Q4 2003	**Q4 2004**
Sales	932	**765**
Sales growth		
% nominal	(23)	**(18)**
Income from operations	(703)	**(162)**
as a % of sales	(75.4)	**(21.2)**
Net income (loss) (100%)	(703)	**(177)**
of which Philips share (50%)	(351)	**(89)**
Net operating capital (NOC)	1,469	**1,246**
Number of employees (FTEs)	26,888	**22,376**

LG.Philips Displays joint venture (100%)

Sales declined by 18% compared to Q4 2003, but by 10% in US dollar terms.

Income from operations included impairment and restructuring charges totaling EUR 218 million (Philips share was EUR 109 million).

In Q4 2003, restructuring and impairment charges amounted to EUR 786 million (Philips share was EUR 393 million).

Philips share in the net income of LG.Philips Displays in Q4 2004 was a loss of EUR 89 million.

Cash flow before financing activities continued to be very strong and improved compared to both Q4 2003 and Q3 2004.

Highlights full-year 2004

The year 2004

Sales in 2004 amounted to EUR 30,319 million, up 4% compared with 2003; on a comparable basis sales growth was 9%, mainly generated by the technology-related sectors

Income from operations amounted to EUR 1,607 million in 2004, compared with EUR 488 million in 2003

Net income amounted to EUR 2,836 million, due to a better underlying operating performance at Semiconductors and Medical Systems and improved income from unconsolidated companies

Positive cash flow from operating activities of EUR 2.7 billion; net debt of Company virtually nil

Net income

in millions of euros

		2002	2003	**2004**
Sales		31,820	29,037	**30,319**
Income from operations		420	488	**1,607**
as a % of sales		1.3	1.7	**5.3**
Financial income and expenses		(2,227)	(244)	**216**
Income taxes		(27)	15	**(358)**
Results unconsolidated companies		(1,346)	506	**1,422**
Minority interests		(26)	(56)	**(51)**
Cumulative effect of change in accounting principle			(14)	
Net income (loss)		(3,206)	695	**2,836**
Per common share	basic	(2.51)	0.54	**2.22**
	diluted	(2.51)	0.54	**2.21**

Summary

(For more details, see the Annual Review 2004 of Royal Philips Electronics or www.philips.com.)

The year 2004 and the financial performance of the Philips Group were characterized by the following major developments:

The cyclical upturn of the technology markets, which started in the third quarter of 2003 and lasted until the end of the third quarter of 2004, benefited in particular the Semiconductors sector and the LCD activities, as well as Optical Storage and certain other parts of the Other Activities sector.

The performance of the Medical Systems sector continued to improve with the introduction of innovative new products and enhanced service capability. Together with tight cost control, this led to the achievement of the profitability target that was set three years ago.

Accelerated digitalization of Consumer Electronics product mix, new entrants and new business models put severe pressure on gross margins, which could not be fully offset by higher sales volumes and reduced costs. In order to further improve its Consumer Electronics business, Philips intends to transfer its monitor display business and part of its flat display business to the Taiwan-based company TPV.

The decline of the US dollar against the euro had a large impact on the Company s sales revenues. The impact on the bottom line was partly muted by disciplined hedging strategies and by adjusting the currencies of cost structures to better balance the currencies of revenues.

A number of events had significant positive and negative effects on the financial performance of the Company. The events with a positive impact were the IPOs of NAVTEQ and LG.Philips LCD, the sale of shares of Atos Origin, Vivendi Universal and ASML, and gains associated with transactions by Atos Origin and InterTrust. The total positive impact of these events was EUR 635 million on income from operations and EUR 1,590 million on net income. The events with negative financial consequences were the impairment charge for MedQuist and the litigation settlement for Volumetrics, which had an impact of EUR 723 million on income from operations and of EUR 676 million on net income.

The Company benefited from a continued focus on cost reductions. Pension costs were reduced as part of new wage settlements with the unions in the Netherlands, and the benefits of earlier cost-reduction and restructuring programs were secured and brought to the bottom line in 2004, partly offset by higher expenses for global brand and advertising campaigns.

Overall, this resulted in high operational and financial cash flows, which reduced the net debt to group equity position to 1:99 by year-end, providing the Company with a strong balance sheet and ample flexibility for growth and financial strategies.

Other information

Proposed dividend to shareholders

A proposal will be submitted to the General Meeting of Shareholders to declare a dividend of EUR 0.40 per common share (EUR 513 million). In 2004 a dividend of EUR 0.36 per common share was paid (EUR 460 million).

Share repurchase program

The Company will start a share repurchase program of up to EUR 750 million to be executed during the next 6 months; EUR 500 million will be used for capital reduction and up to EUR 250 million to hedge long-term incentive and employee stock purchase programs.

Other information

As announced earlier, MedQuist, in which Philips holds approximately 70.9% of the common stock, is conducting a review of the company s billing practices and related matters. MedQuist has not been able to complete the audit of its fiscal years 2003 and 2004 and has postponed the filing of its Form 10-K for fiscal year 2003. The MedQuist board has announced that the company s previously issued financial statements for the fiscal year ended December 31, 2002 and all earnings releases and similar communications relating to subsequent periods should no longer be relied upon. MedQuist also stated that it was unable to assess whether the result of the review of its billing practices and related litigation may have a material impact on its reported revenues, results and financial position. It remains uncertain when the review can be completed. In the event that additional information becomes available in the coming weeks with respect to the possible financial impact of the review, Philips will determine whether such information has accounting consequences for Philips.

In view of the uncertainties with respect to the impact of the alleged potential improper billing practices and related litigation on the past and future performance of MedQuist, Philips concluded in November that the valuation of its investment in MedQuist could no longer be supported.

The carrying value of the investment in MedQuist was brought in line with the value at which the shares of MedQuist had been trading on the over-the-counter market subsequent to November 2, 2004, when MedQuist announced that its previously issued financial statements should no longer be relied upon. In 2004, Philips recognized non-cash impairment charges of EUR 590 million on its investment in MedQuist.

During the 4th quarter, various plaintiffs, including (former) customers, shareholders and transcriptionists, filed four actions arising from allegations of inappropriate billing by MedQuist for its transcription services. These matters are in their initial stages and, on the basis of current knowledge, management cannot establish whether a loss is probable with respect to these actions.

Outlook

Outlook

The mixed signals coming from the world s major economies make us cautious, certainly for the first half of 2005. This will mainly impact our technology-related businesses, and to a lesser extent Consumer Electronics. We expect that Medical Systems, Lighting and DAP will continue to grow their market positions through innovation and especially at Medical Systems and Consumer Health & Wellness selected acquisitions. Our financial position is excellent and offers significant strategic flexibility.

We will continue to focus our attention on technology and marketing leadership to achieve sustainable growth through innovation, also improving our cost structure and further simplifying our corporate core processes. The pursuit of operational excellence will drive productivity improvements. Our ongoing transformation into a truly market-driven company is reflected in our marketing investments, which together with our strong R&D competencies will help us to deliver the advanced and innovative products that our customers want.

Amsterdam, January 27, 2005

Board of Management

Consolidated statements of income

all amounts in millions of euros unless otherwise stated

	4th quarter		January to December	
	2003	2004	2003	2004
Sales	9,017	**9,179**	29,037	**30,319**
Cost of sales	(5,945)	**(6,058)**	(19,558)	**(20,155)**
Gross margin	3,072	**3,121**	9,479	**10,164**
Selling expenses	(1,268)	**(1,344)**	(4,575)	**(4,520)**
General and administrative expenses	(400)	**(314)**	(1,492)	**(1,332)**
Research and development expenses	(725)	**(625)**	(2,617)	**(2,534)**
Impairment of goodwill	(139)	**(578)**	(148)	**(596)**
Restructuring and asset impairments	(16)	**(178)**	(407)	**(288)**
Other business income (expense)	84	**(68)**	248	**713**
Income from operations	608	**14**	488	**1,607**
Financial income and expenses	(58)	**417**	(244)	**216**
Income before taxes	550	**431**	244	**1,823**
Income tax (expense) benefit	(98)	**(128)**	15	**(358)**
Income after taxes	452	**303**	259	**1,465**
Results relating to unconsolidated companies including a year-to-date net dilution gain of EUR 254 million (2003: 53 million)	183	**198**	506	**1,422**
Minority interests	(39)	**(3)**	(56)	**(51)**
Income before cumulative effect of a change in accounting principles	596	**498**	709	**2,836**
Cumulative effect of a change in accounting principles, net of tax	2	**0**	(14)	**0**
Net income	598	**498**	695	**2,836**
Income from operations				
as a % of sales	6.7	**0.2**	1.7	**5.3**
Weighted average number of common shares outstanding (after deduction of treasury stock) during the period (in thousands):				
basic			1,277,174	**1,280,251**
diluted			1,281,227	**1,283,716**
Basic earnings per common share in euros:				
Income before cumulative effect of a change in accounting principles	0.46	**0.39**	0.55	**2.22**
Net income	0.46	**0.39**	0.54	**2.22**
Diluted earnings per common share in euros:				
	0.46	**0.39**	0.55	**2.21**

Income before cumulative effect of a change in accounting principles				
Net income	0.46	**0.39**	0.54	**2.21**

The Group financial statements have been prepared on a basis consistent with US GAAP, which differs in certain respects from accounting principles as required by Dutch law (Dutch GAAP). Net income determined in accordance with Dutch GAAP amounted to EUR 2,336 million in 2004, compared to EUR 705 million in 2003. These aggregate amounts result in basic earnings per common share of EUR 1.82 in 2004 compared to EUR 0.55 in 2003. The difference between Dutch GAAP and US GAAP is caused by the fact that goodwill is no longer amortized under US GAAP and by income recognition in respect of reversals of security impairments under Dutch GAAP.

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Consolidated balance sheets and additional ratios

all amounts in millions of euros unless otherwise stated

Consolidated balance sheet

	December 31, 2003	**December 31, 2004**
Current assets:		
Cash and cash equivalents	3,072	**4,349**
Receivables	4,628	**4,528**
Inventories	3,204	**3,230**
Other current assets	1,010	**1,216**
Total current assets	11,914	**13,323**
Non-current assets:		
Investments in unconsolidated companies	4,841	**5,670**
Other non-current financial assets	1,213	**876**
Non-current receivables	218	**227**
Other non-current assets	2,581	**2,823**
Property, plant and equipment	4,879	**4,997**
Intangible assets excluding goodwill	1,271	**989**
Goodwill	2,494	**1,818**
Total assets	29,411	**30,723**
Current liabilities:		
Accounts and notes payable	3,205	**3,499**
Accrued liabilities	3,165	**3,307**
Short-term provisions	949	**781**
Other current liabilities	649	**627**
Short-term debt	1,860	**961**
Total current liabilities	9,828	**9,175**
Non-current liabilities:		
Long-term debt	4,016	**3,552**
Long-term provisions	1,976	**2,117**
Other non-current liabilities	653	**736**
Total liabilities	16,473	**15,580**
Minority interests	175	**283**
Stockholders equity	12,763	**14,860**
Total liabilities and equity	29,411	**30,723**
Number of common shares outstanding at the end of period (in thousands)	1,280,686	**1,281,527**
Ratios		
Stockholders equity,	12,763	**14,860**
per common share in euros	9.97	**11.60**
Inventories as a % of sales	11.0	**10.7**

Net debt: group equity ratio	18:82	**1:99**

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Stockholders equity determined in accordance with Dutch GAAP amounted to EUR 14,016 million as of December 31, 2004 compared to EUR 14,860 million under US GAAP.

The deviation is caused by the fact that under Dutch GAAP goodwill has to be amortized and charged to income, whereas under US GAAP it is no longer amortized, but instead tested for impairment.

Consolidated statements of cash flows *

all amounts in millions of euros

	4th quarter		January to December	
	2003	2004	2003	2004
Cash flows from operating activities:				
Net income	598	**498**	695	**2,836**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	572	**1,086**	2,015	**2,293**
Impairment of equity investments	755	**4**	772	**8**
Net gain on sale of assets	(732)	**(623)**	(987)	**(1,328)**
Income from unconsolidated companies (net of dividends received)	(250)	**(36)**	(569)	**(1,178)**
Minority interests (net of dividends paid)	39		49	**35**
Decrease in working capital/other current assets	698	**1,390**	307	**354**
Increase in non-current receivables/other assets	(16)	**(470)**	(243)	**(435)**
(Decrease) increase in provisions	(17)	**61**	(155)	**48**
Other items	26	**29**	108	**64**
Net cash provided by operating activities	1,673	**1,939**	1,992	**2,697**
Cash flows from investing activities:				
Purchase of intangible assets	(28)	**(47)**	(96)	**(103)**
Capital expenditures on property, plant and equipment	(319)	**(401)**	(980)	**(1,286)**
Proceeds from disposals of property, plant and equipment	106	**64**	220	**191**
Cash from derivatives	31	**32**	391	**125**
Proceeds from sale of other non-current financial assets	5	**887**	305	**893**
Proceeds from sale of businesses (purchase of businesses)	827	**524**	902	**833**
Net cash provided by investing activities	622	**1,059**	742	**653**
Cash flows before financing activities	2,295	**2,998**	2,734	**3,350**
Cash flows from financing activities:				
Decrease in debt	(65)	**(198)**	(944)	**(1,667)**
Treasury stock transactions	21	**9**	49	**(18)**
Dividends paid			(460)	**(460)**
Net cash used for financing activities	(44)	**(189)**	(1,355)	**(2,145)**
Increase in cash and cash equivalents	2,251	**2,809**	1,379	**1,205**
Effect of change in consolidations on cash positions				**117**
Effect of changes in exchange rates on cash positions	(62)	**(70)**	(165)	**(45)**
Cash and cash equivalents at beginning of the period	883	**1,610**	1,858	**3,072**
Cash and cash equivalents at end of period	3,072	**4,349**	3,072	**4,349**

* For a number of reasons, principally the effects of translation differences and consolidation changes, certain items in the statements of cash flows do not correspond to the differences between the balance sheet amounts for the respective items.

Consolidated statement of changes in stockholders equity

all amounts in millions of euros

January to December 2004

	Common stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss): Translation differences	Available-for-sale securities	Minimum pension liability	Cash flow hedges	Treasury shares at cost	Total stock-holders equity
Balance as of December 31, 2003	263	71	16,970	(3,364)	416	(362)	25	(1,256)	12,763
Net income			2,836						2,836
Net current period change				(93)	205	(67)	4		49
Reclassifications into income				50	(447)		26		(371)
Total comprehensive income (loss), net of tax			2,836	(43)	(242)	(67)	30		2,514
Dividend paid			(460)						(460)
Purchase of treasury stock								(96)	(96)
Re-issuance of treasury stock		(28)						113	85
Share-based compensation plans		54							54
Balance as of December 31, 2004	**263**	**97**	**19,346**	**(3,407)**	**174**	**(429)**	**55**	**(1,239)**	**14,860**

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Product sectors

all amounts in millions of euros unless otherwise stated

Sales and income from operations

	4th quarter					
			2003			2004
	sales	Income (loss) from operations		sales	Income (loss) from operations	
		amount	as a % of sales		amount	as a % of sales
Medical Systems	1,802	70	3.9	**1,790**	**(354)**	**(19.8)**
DAP	751	160	21.3	**745**	**151**	**20.3**
Consumer Electronics	3,057	249	8.1	**3,340**	**264**	**7.9**
Lighting	1,243	161	13.0	**1,265**	**149**	**11.8**
Semiconductors	1,496	166	11.1	**1,354**	**46**	**3.4**
Other Activities	668	(39)	(5.8)	**685**	**(89)**	**(13.0)**
Unallocated		(159)			**(153)**	
Total	9,017	608	6.7	**9,179**	**14**	**0.2**

Product sectors (continued)

all amounts in millions of euros unless otherwise stated

Sales and income from operations

	January to December					
			2003			2004
	sales	Income (loss) from operations		sales	Income (loss) from operations	
		amount	as a % of sales		amount	as a % of sales
Medical Systems	5,990	431	7.2	**5,884**	**34**	**0.6**
DAP	2,131	398	18.7	**2,044**	**323**	**15.8**
Consumer Electronics	9,188	248	2.7	**9,919**	**361**	**3.6**
Lighting	4,522	577	12.8	**4,526**	**591**	**13.1**
Semiconductors	4,988	(342)	(6.9)	**5,464**	**450**	**8.2**
Other Activities	2,218	(263)	(11.9)	**2,482**	**366**	**14.7**
Unallocated		(561)			**(518)**	
Total	29,037	488	1.7	**30,319**	**1,607**	**5.3**

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