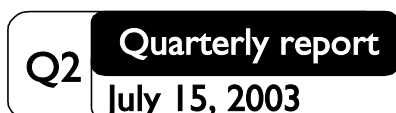


Report on the performance of the Philips Group

- 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 second quarter a net profit of EUR 42 million



- Comparable sales decrease 1% - weaker currencies main cause for 18% nominal sales decline
- Income from operations a loss of EUR 26 million
- 3% sequential comparable segment revenues increase (USD) at Semiconductors, excluding Mobile Display Systems
- Medical Systems income from operations of EUR 153 million
- Strong positive contribution from unconsolidated companies
- Overhead cost reduction target of EUR 300 million surpassed

The second quarter 2003

Philips recorded a net profit of EUR 42 million (a profit of EUR 0.03 per share) versus a loss of EUR 1,355 million (a loss of EUR 1.07 per share) in the same period last year. This year's quarter included special items of positive EUR 5 million, whilst last year's special items amounted to a negative EUR 1,539 million. Sales decreased by 18% over the same period last year, negatively impacted by the weakening of the US dollar and related currencies (13%), the downward effect from various divestments in 2002 (4%) and lower consumer spending. Income from operations was a loss of EUR 26 million, including EUR 84 million in net special charges (before tax), versus a profit of EUR 165 million last year, which included EUR 96 million net special gains (before tax).

The overhead cost reduction program delivered EUR 338 million to-date, already surpassing by more than 10% the annual savings' target of EUR 300 million. Integration savings at Medical Systems are in line with the EUR 350 million targeted savings by year-end 2003. The overall cost reduction programs are on-track to achieve the targeted EUR 1 billion in savings by 2004.

Cash flow from operating activities was a cash inflow of EUR 148 million. Inventories as percentage of sales came to another record low for a second quarter of 12.8%, compared to 13.4% last year. During the quarter the net debt position decreased by EUR 133 million to a level of EUR 5.4 billion.

'Safe Harbor' Statement under the Private Securities Litigation Reform Act of 1995

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).

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 future 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.

Gerard Kleisterlee,
Philips' President and CEO:

“It is encouraging to see that our change program is paying off. Helped by a good contribution from unconsolidated companies and the progress of the cost reduction programs, our improvement was driven by a strong performance at Medical Systems, reflecting the progress of the integration process. Lighting and DAP were able to protect their bottom line from weaker markets. Semiconductor losses have narrowed and we remain dedicated to bring the division back to profitability in the fourth quarter. CE is suffering most from weak consumer spending, but, as our increased Brand investment illustrates, we remain equally determined here to meet our goals. Focus on cost and asset management clearly remains the best course given the fragile market conditions, while we are continuing to invest in product and marketing innovation to delight our customers.”

Net income

in millions of euros unless otherwise stated		
	Q2 2002	Q2 2003
Sales	7,986	6,532
Income (loss) from operations	165	(26)
in % of sales	2.1	(0.4)
Financial income and expenses	(1,605)	(80)
Income taxes	3	47
Results unconsolidated companies	92	108
Minority interests	(10)	(7)
Net income (loss)	(1,355)	42
Per common share – basic	(1.07)	0.03
– diluted	(1.07)	0.03

Special items affecting net income

in millions of euros		
	Q2 2002	Q2 2003
Affecting income from operations:	96	(84)
Affecting financial income and exp.:	(1,536)	78
Income taxes related to special items:	3	21
Affecting results uncons. companies:	(102)	(10)
Special items affecting net income	(1,539)	5

Sales by sector

in millions of euros unless otherwise stated			% change	
	Q2 2002	Q2 2003	nominal	comparable
Lighting	1,192	1,037	(13)	(1)
Cons. Electronics	2,408	1,980	(18)	(5)
DAP	524	456	(13)	0
Semiconductors	1,311	1,114	(15)	(1)
Medical Systems	1,757	1,446	(18)	8
Miscellaneous	794	499	(37)	(11)
Philips group	7,986	6,532	(18)	(1)

Highlights in the quarter

Net income

- Net income came to a profit of EUR 42 million driven by solid performance from Lighting, Domestic Appliances and Personal Care (DAP) and the Medical Systems division, as well as from Licensing. Also unconsolidated companies made a strong contribution this quarter.
- Income from operations was a loss of EUR 26 million, including EUR 84 million in net special charges (before tax), versus a profit of EUR 165 million last year, which included EUR 96 million net special gains (before tax).
- Income taxes were calculated using an estimated effective tax rate of 25% on pre-tax income, excluding non-taxable gains.

Special items affecting net income

(Definition special items see Annual Report 2002 Management Report page 35)

- Special charges affecting income from operations were primarily related to restructuring and other charges at Semiconductors of EUR 85 million.
- Special items affecting financial income and expenses included gains of EUR 78 million resulting from selling shares of ASML and Vivendi Universal.

Group sales

- Nominal sales were 18% lower than in Q2 of last year. Weaker currencies had a downward effect of 13%, while various divestments in 2002 had a 4% lower effect.
- Comparable sales decreased 1%. Positive growth of 8% in Medical Systems was offset by 5% lower sales in Consumer Electronics and 1% lower sales at Semiconductors.
- Consumer Electronics was suffering from weak consumer confidence in major markets in Europe and the impact of the SARS virus in Asia. DAP and Lighting also experienced softer markets in North America and Europe.

Income (loss) from operations by sector

in millions of euros unless otherwise stated

	Q2 2002	Q2 2003
Lighting	126	119
Consumer Electronics	27	(42)
DAP	74	75
Semiconductors	(59)	(139)
Medical Systems	54	153
Miscellaneous	28	(61)
Unallocated	(85)	(131)
Income (loss) from operations	165	(26)
in % of sales	2.1	(0.4)

Financial income and expenses

in millions of euros

	Q2 2002	Q2 2003
Financial income and expenses	(1,605)	(80)
Impairment charges included in Financial income and expenses	(1,536)	-
Gain on sale of securities included in Financial income and expenses	-	78

Results unconsolidated companies

in millions of euros

	Q2 2002	Q2 2003
SSMC	(10)	(7)
LG.Philips LCD	127	69
LG.Philips Displays	(77)	(1)
Others	52	47
Total	92	108

IFO

- Income from operations included EUR 84 million net special charges, while Q2 2002 included EUR 96 million net special gains.
- Increase in pension costs of EUR 85 million compared to Q2 2002.
- Compared to Q1, Medical Systems more than doubled income to EUR 153 million.
- Losses in Semiconductors and Consumer Electronics.
- Lighting and DAP were able to deliver solid results despite softer markets as a result of in particular innovation, marketing and tight cost control.

Financial income and expenses

- Financial income and expenses included EUR 78 million special gains from the sale of securities, and a pre-tax currency loss of EUR 72 million coming from a deficiency in an automated currency conversion system, which created an open position. This was further compounded by an error in the control procedures built around the system. The IT deficiency has been repaired and control procedures have been sharpened. Of the total pre-tax currency loss, EUR 21 million related to the second half of 2002 and EUR 4 million to Q1 2003.

Results relating to unconsolidated companies

- LG.Philips LCD contributed EUR 69 million to net income, an increase of EUR 86 million compared to Q1, resulting from higher volume at improved pricing. Net income of Q2 included a currency gain of EUR 28 million.
- Results from LG.Philips Displays were at break-even level, including a EUR 6 million restructuring charge and a EUR 17 million currency gain.
- Crolles 2, a joint semiconductor operation of Philips, Motorola and STMicroelectronics, represented start-up losses of EUR 15 million.

Cash balance

in millions of euros

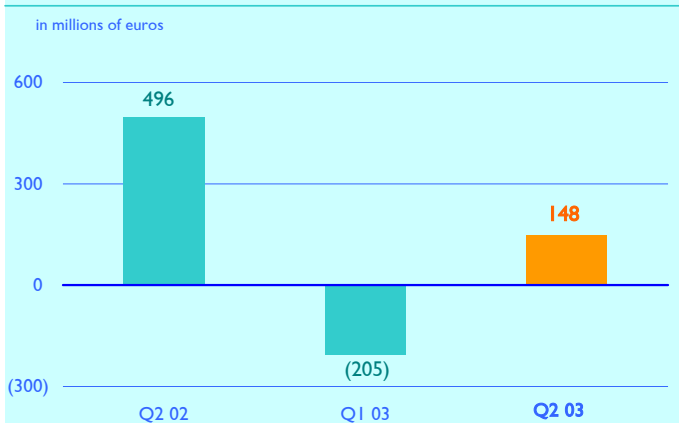
	Q2 2002	Q2 2003
Beginning balance	773	1,568
Net cash from operating activities	496	148
Gross capital expenditures	(220)	(220)
Acquisitions/divestments	(163)	308
Other cash from investing activities	258	349
Dividend paid	(459)	(460)
Changes in debt/other	(2)	(200)
Ending balance	683	1,493

Cash balance

- Cash in for divestments was mainly the result of the redemption of preferred shares by TSMC of EUR 357 million.
- Sale of securities contributed to a cash inflow of EUR 74 million.
- Reset of currency hedges generated a cash inflow of EUR 202 million.
- 2002 dividend of EUR 0.36 per share was paid following the approval of the General Meeting of Shareholders of March 27, 2003.

Cash flows from operating activities

in millions of euros

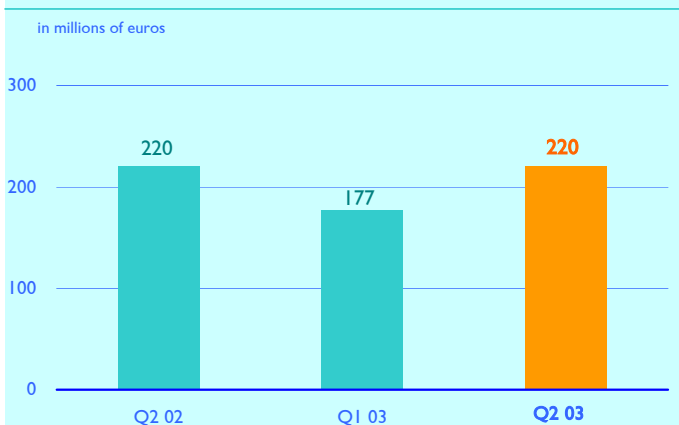


Cash flows from operating activities

- Positive cash flow from operating activities of EUR 148 million.
- Last year's quarter included a large reduction of working capital at Consumer Electronics.

Gross capital expenditures

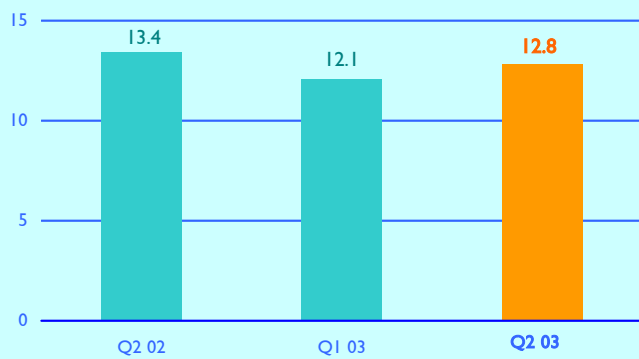
in millions of euros



Gross capital expenditures

- Gross capital expenditures of EUR 220 million were at the same level as last year.
- Capital expenditures at Semiconductors were EUR 67 million, and at Lighting EUR 44 million.
- EUR 28 million was spent on the new Technology Campus in Eindhoven.
- In addition to gross capital expenditures, investments in software and systems amounted to EUR 23 million.

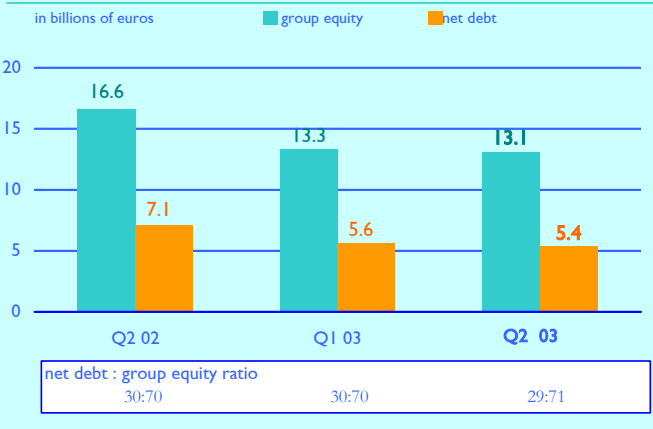
Inventories as a % of sales



Inventories

- Inventories as percentage of sales came to 12.8%, which is another record low for a second quarter.
- Improvements versus last year were visible in almost all sectors.
- Main focal point is continuous improvement of supply chain management.

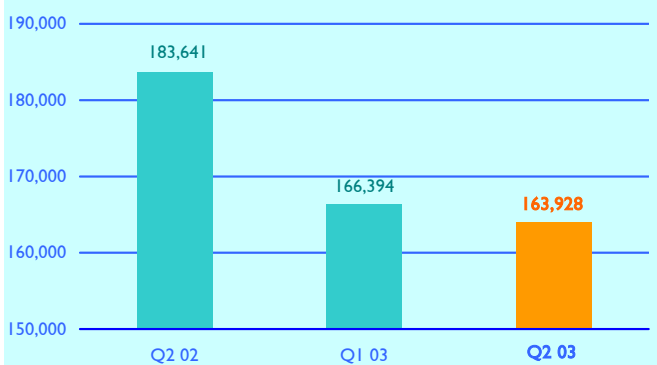
Net debt and group equity



Net debt and group equity

- In Q2 net debt was reduced by EUR 133 million to a level of EUR 5.4 billion, to a large extent caused by positive cash flow before financing.
- The decrease in group equity to EUR 13.1 billion was mainly caused by the translation effects from the decline of the US dollar and related currencies.
- Net debt : group equity ratio ended at 29:71.

Number of employees



Employment

- During Q2 the number of employees was reduced by 2,466; no major portfolio changes occurred.
- The reduction related mainly to Lighting: 1,924 employees, particularly in USA and Mexico.
- An increase of 503 was posted in Miscellaneous, mostly resulting from expanded Optical Storage activities in China.

Lighting: key data

in millions of euros unless otherwise stated

	Q2 2002	Q2 2003
Sales	1,192	1,037
Sales growth		
% increase, nominal	(6)	(13)
% increase, comparable	(6)	(1)
Income from operations	126	119
in % of sales	10.6	11.5
Special items included in IFO	(14)	(6)
in % of sales	(1.2)	(0.6)
Net operating capital (NOC)	1,867	1,775
Number of employees (FTEs)	47,205	44,044

Business highlights

- Overall market share gains spearheaded by Lamps North America and Automotive & Special Lighting.
- Continued strong growth of 9% in the Asia Pacific region.
- Weaker markets in North America and Western Europe.
- Quadrupling of UHP lamp sales for large screen projector television sets to all major industry players.

Financial performance

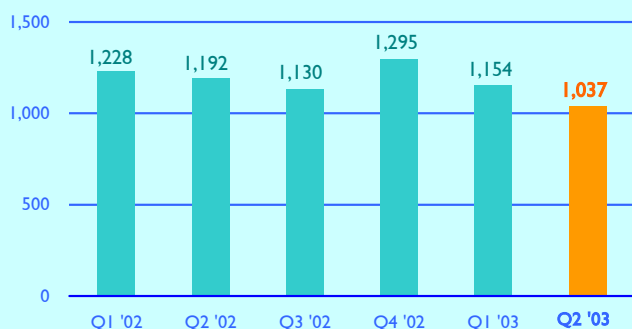
- Nominal sales were 13% lower, almost all of which was due to weaker currency rates, mainly US Dollar.
- Strong comparable sales growth in Automotive & Special Lighting.
- The Luminaires and Electronics businesses suffered from weaker markets in Europe and North America.
- Compared to Q2 last year, income from operations as % of sales improved to 11.5% driven by cost efficiencies.

Looking ahead

- Strong innovation action plan to counter the current softness in the markets and further efficiencies in operations.

Lighting sales

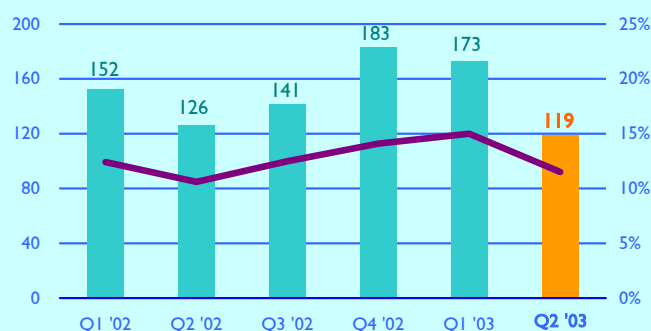
in millions of euros



Lighting income from operations (IFO)

IFO in millions of euros

IFO as a % of sales



Consumer Electronics

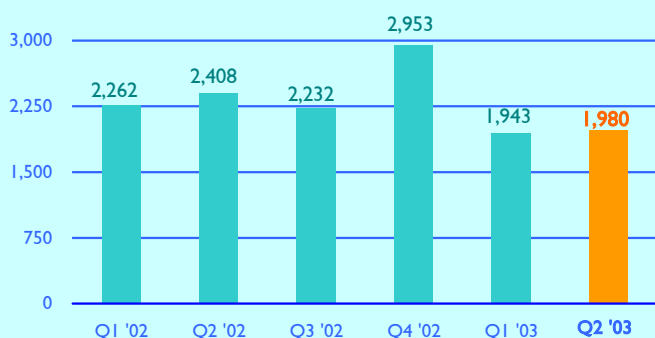
Consumer Electronics: key data

in millions of euros unless otherwise stated

	Q2 2002	Q2 2003
Sales	2,408	1,980
Sales growth		
% increase, nominal	0	(18)
% increase, comparable	1	(5)
Income (loss) from operations	27	(42)
in % of sales	1.1	(2.1)
Special items included in IFO	1	(3)
in % of sales	0	(0.2)
Net operating capital (NOC)	537	201
Number of employees (FTEs)	27,124	18,609

Consumer Electronics sales

in millions of euros



Consumer Electronics income (loss) from operations (IFO)

IFO in millions of euros

IFO as a % of sales



Business highlights

- All businesses are suffering from difficult markets. Lower consumer spending, especially in Europe and Asia Pacific (also SARS related).
- Despite weak demand, market share position gained in Europe; continue to gain market share in LCD TV in Europe.
- Global volumes of LCD monitors tripled.

Financial performance

- A lower US dollar rate substantially impacted nominal sales.
- Sales decrease was particularly noted in Television and AV Entertainment, reflecting lower demand for high-end products. Comparable sales 10% down in Europe, 7% lower in Asia Pacific, 7% up in North America.
- Price erosion increased from 10% to 12%.
- Cost of organization and working capital (inventories) adjusted to lower sales level.
- A loss of EUR 25 million in North America, excluding EUR 10 million for additional brand campaigns.
- License income from operations of EUR 56 million (including EUR 18 million past use licenses) compared to EUR 38 million last year.

Looking ahead

- Weak markets to continue for the time being.
- Strong focus on managing the supply-chain and cost control. Biannual IFA electronics show in Berlin – strong line-up of new products to be unveiled.
- Restructuring charges of approximately EUR 35 million expected in Q3 and EUR 10 million in Q4.
- Executing the North America turn around plan.

Domestic Appliances and Personal Care

DAP: key data

in millions of euros unless otherwise stated

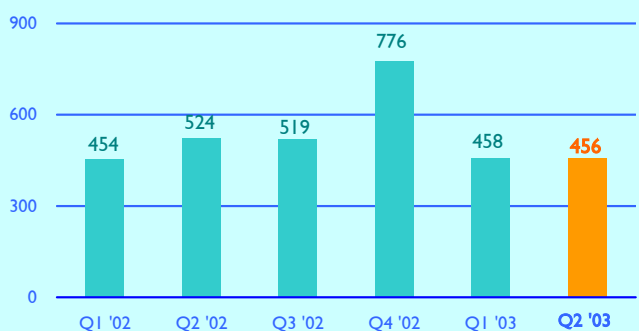
	Q2 2002	Q2 2003
Sales	524	456
Sales growth		
% increase, nominal	1	(13)
% increase, comparable	2	0
Income from operations	74	75
in % of sales	14.1	16.4
Special items included in IFO	(7)	-
in % of sales	(1.3)	-
Net operating capital (NOC)	672	589
Number of employees (FTEs)	9,519	8,525

Business highlights

- New Sonic Toothbrush ‘Elite’ introduced at the Dental Show in Cologne (Germany).
- Senseo coffee maker reached 15% market share in German market since its launch in October 2002.
- Philips DAP Hong Kong achieved the “Caring Company” Award.
- The Cologne Court of Appeals confirmed positive decision on triple head rotary shavers for Philips, following a preliminary injunction from August 2002.

DAP sales

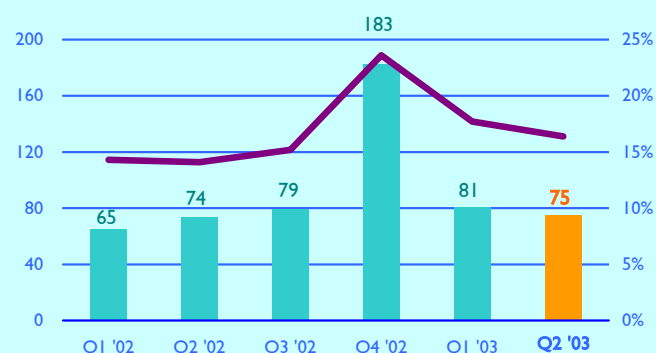
in millions of euros



DAP income from operations (IFO)

IFO in millions of euros

IFO as a % of sales



Financial performance

- Q2 sales were hampered by weak currencies, and remained at approximately the same level as previous year’s Q2 on a comparable basis.
- Ongoing sluggish demand in North America and slow down in Western Europe hampered sales growth of most of the businesses.
- Expansion of coffee makers and Oral healthcare continued; the latter posted a strong performance with a comparable sales growth of 23%.
- Despite lower nominal sales and adverse translation effects, record income from operations for the second quarter.
- Purchasing efficiencies and lower costs main drivers for profit.

Looking ahead

- Weakness in markets across all regions.
- Focus on innovation, new product introductions, enhancing purchasing savings, reducing costs and gaining efficiencies in the utilization of capital.

Semiconductors

Semiconductors: key data

in millions of euros unless otherwise stated

	Q2 2002	Q2 2003
Sales	1,311	1,114
Segment revenues	1,439	1,155
Segment revenues growth		
% increase, nominal	1	(20)
% increase, comparable	3	(6)
Income (loss) from operations	(59)	(139)
In % of segment revenues	(4.1)	(12.0)
in % of sales	(4.5)	(12.5)
Special items included in IFO	4	(85)
In % of segment revenues	0.3	(7.4)
in % of sales	0.3	(7.6)
Net operating capital (NOC)	4,377	3,132
Number of employees (FTEs)	35,615	33,943

Business highlights

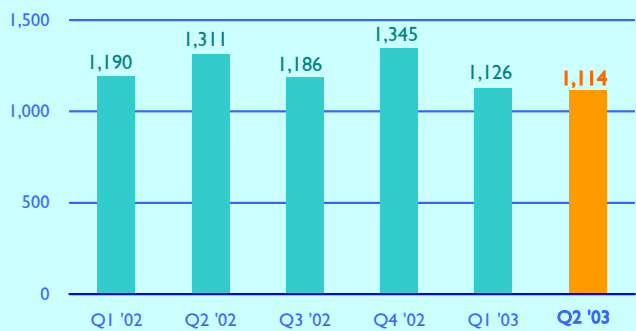
- Philips Nexperia™ multimedia processor deployed in Sony Ericsson P800 smart phone.
- Philips and Visa form an alliance to promote application of contactless payment technology.
- Philips first to unveil semiconductors design for a DVD-recorder based Home-Theater-in-a-Box.
- METRO Group uses Philips' RFID technology to shape the future of retail.
- First commercial wafers produced at Crolles 2.

Financial performance

- Consumer markets and demand for Standard products remained weak, while Automotive was stable.
- Sequential revenues excluding MDS decreased by 3% in EUR terms and increased by 3% in USD terms. Sequential comparable revenue growth in MDS was 9%.
- SARS negatively affected sales of Mobile Communications and to a lesser extent Consumer sales.
- Book-to-bill ratio of Semiconductors, excluding MDS, at quarter's end at 1.06 versus 1.05 at Q1 2003.
- Results of Crolles 2 (start-up losses of EUR 15 million) reported under Unconsolidated Companies. Crolles 2 became operational during the second quarter.
- Special items included EUR 20 million for accelerated depreciation of assets at Albuquerque and EUR 70 million restructuring charges at San Antonio.
- Utilization rate further up to 66% at quarter's end versus 61% at Q1 2003, partly due to an increase of inventories.

Semiconductors sales

in millions of euros



Semiconductors income (loss) from operations (IFO)

IFO in millions of euros

IFO as a % of sales



Looking ahead

- In Q3 sequential revenues growth (in USD) approximately at the same level as Q2.
- Restructurings according to plan; expected special charges for Albuquerque and San Antonio of approximately EUR 120 million in Q3.
- Q4 is expected to be profitable.

Medical Systems

Medical Systems: key data

in millions of euros unless otherwise stated

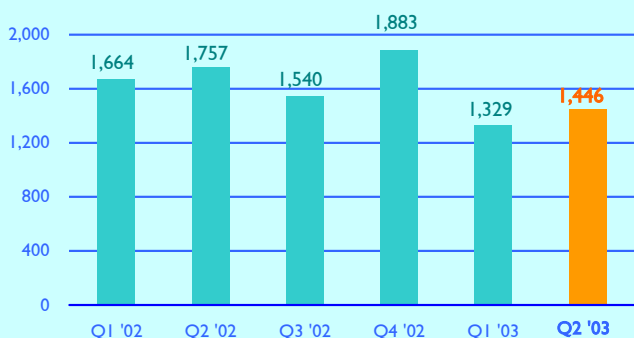
	Q2 2002	Q2 2003
Sales	1,757	1,446
Sales growth		
% increase, nominal	85	(18)
% increase, comparable	8	8
Income from operations	54	153
in % of sales	3.1	10.6
Special items included in IFO	(34)	(4)
in % of sales	(1.9)	(0.3)
Net operating capital (NOC)	5,217	4,634
Number of employees (FTEs)	31,340	31,166

Business highlights

- Memorandum of understanding signed with Société Générale to establish a financing vehicle for Medical Systems' European customers.
- Very strong performance Patient Monitoring, supported by range of new products, and Medical IT.
- Several large solutions orders in hospitals in USA, UK, Korea and Taiwan.
- Gold Award for the Heartstart Home Defibrillator in the 2003 Industrial Design Excellence Awards, from the Industrial Designers Society of North America
- Nine iF awards from the International Forum Design GmbH in Germany for product designs of MR and X-ray systems.

Medical Systems sales

in millions of euros



Financial performance

- Nominal sales were 18% lower, of which weaker currencies had a 18% impact and divestments 2002 had a 8% downward effect.
- The 8% sales increase on a comparable basis was mainly driven by higher sales within Cardiac and Monitoring Systems (Patient Monitoring), Customer Service and Medical IT.
- Sales growth came especially from European and Asia Pacific regions.
- Income from operations more than doubled compared to Q1, mainly due to increased sales, higher margins and cost reductions.
- Special items included a restructuring charge for the North America region of EUR 6 million.

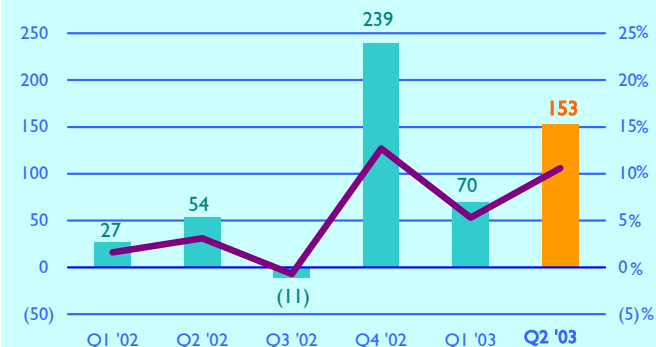
Looking ahead

- Cautious market outlook due to continued macro economic weakness and its impact on Medical industry
- Integration program to achieve EUR 350 million savings at the end of 2003 on-track.

Medical Systems income (loss) from operations (IFO)

IFO in millions of euros

IFO as a % of sales



Miscellaneous

Miscellaneous: key data

in millions of euros unless otherwise stated

	Q2 2002	Q2 2003
Sales	794	499
Sales growth		
% increase, nominal	(36)	(37)
% increase, comparable	(4)	(11)
IFO Corporate Technology	(67)	(47)
IFO Corp. Investments and others	95	(14)
Income (loss) from operations	28	(61)
in % of sales	3.5	(12.2)
Special items included in IFO	146	15
in % of sales	18.4	3.0
Net operating capital (NOC)	367	(135)
Number of employees (FTEs)	28,171	25,064

Business highlights

- Since May the Optical Storage venture with BenQ has been successfully operational and profitable.
- Shipments of new DVD+R/+RW data drive to HP by Optical Storage started in June.

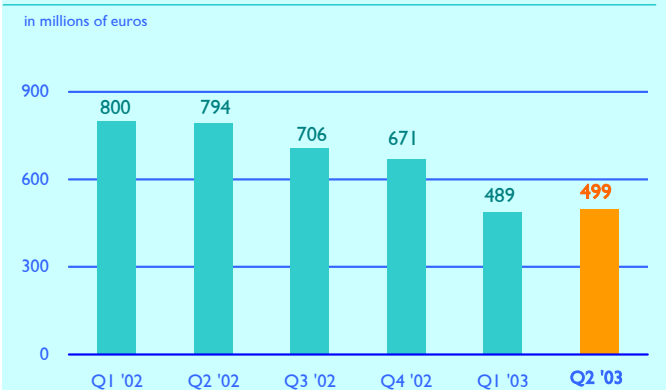
Financial performance

- Shortfall in sales was mainly visible in ETG and Assembléon.
- Optical Storage continued to show a positive trend, income from operation slightly improved versus break-even in the first quarter and a loss last year.
- Special items of EUR 15 million included gains on some real estate disposals.

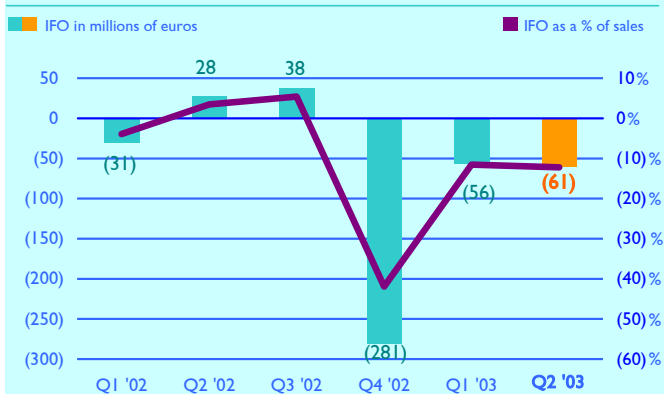
Looking ahead

- The divestment program of Corporate Investments is moving ahead.
- In Q3 the value of Philips' equity in Atos Origin will increase due to conversion of Atos Origin's mandatory convertible bonds, which were issued in connection with an acquisition at a price in excess of the current cost price of our shares. The consequential dilution of our shareholding in Atos Origin will lead to a non-cash dilution gain of approximately EUR 65 million (will be reported in results relating to unconsolidated companies in Q3).

Miscellaneous sales



Miscellaneous income (loss) from operations (IFO)



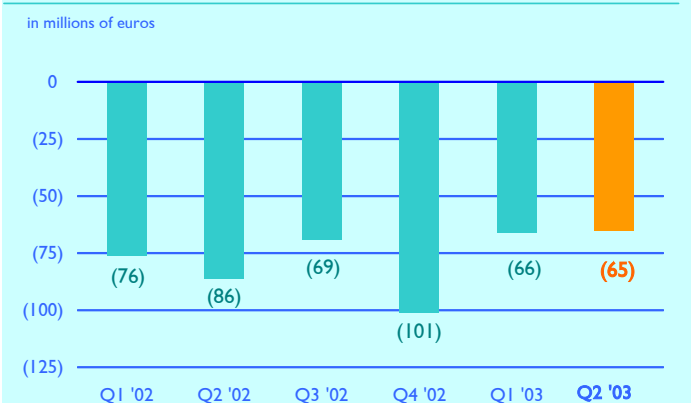
Unallocated

Unallocated: key data

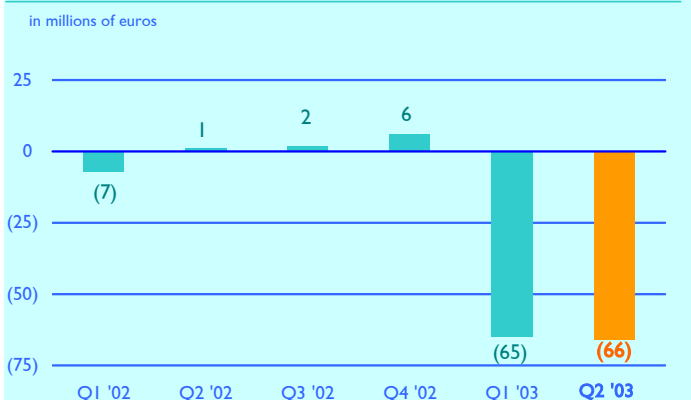
in millions of euros unless otherwise stated

	Q2 2002	Q2 2003
Corporate and regional overheads	(86)	(65)
Pensions	1	(66)
Income (loss) from operations	(85)	(131)
Number of employees (FTEs)	4,667	2,577

Unallocated: Corporate and Regional Overheads income (loss) from operations (IFO)



Unallocated: Pensions income (loss) from operations (IFO)



Business highlights

- DDB appointed as sole advertising agency.
- Transfer of employees from Unallocated to Miscellaneous, related to headcount of Shared Service Centers. This had no impact on income from operations.

Financial performance

- Corporate and regional overheads were 24% lower (EUR 21 million) than the same period last year, mainly driven by savings from the overhead cost reduction program.
- Pension costs have increased by EUR 67 million compared to previous year.

Looking ahead

- Ongoing focus on costs savings.

Joint ventures LG.Philips LCD and LG.Philips Displays

LG.Philips LCD joint venture (100%)

in millions of euros unless otherwise stated		
	Q2 2002	Q2 2003
Sales	882	954
Sales growth % increase, nominal	65	8
Income from operations in % of sales	224 25.4	125 13.1
Net income (100%)	254	138
Net income (Philips share = 50%)	127	69
Net operating capital (NOC)	2,722	2,612
Number of employees (FTEs)	5,284	6,530

LG.Philips LCD joint venture (100%)

- Q2 sales grew by 8% compared to last year, and 20% in Korean Won terms.
- 70% increase in number of panels shipped for monitors and TVs, coupled with favorable mix. Increase in volume was driven by the additional output from the new 5th generation facility.
- Average panel prices were 10% up compared to Q1.
- Net income included currency gains of EUR 56 million.

LG.Philips Displays joint venture (100%)

in millions of euros unless otherwise stated		
	Q2 2002	Q2 2003
Sales	1,140	780
Sales growth % increase, nominal	.	(32)
Income (loss) from operations in % of sales	(124) (10.9)	(35) (4.5)
Net income (loss) (100%)	(151)	(2)
Net income (loss) (Philips share = 50%)	(76)	(1)
Net operating capital (NOC)	3,096	2,419
Number of employees (FTEs)	34,290	28,835

LG.Philips Displays joint venture (100%)

- Market share gained in shrinking market.
- In USD terms, sales deteriorated by 12%, largely driven by shrinking CRT market both for monitors and television sets.
- IFO for the quarter included EUR 11 million restructuring charges.
- Functional currency at the holding company of the JV was adjusted to the currency of the business (US dollar) retroactively January 1, 2003, which improved net income by EUR 33 million as a result of currency gains.
- Second quarter witnessed a strong improvement in the cash flow, despite lower income. Cash inflow from operating activities amounted to EUR 212 million. (Q1 2003: EUR 22 million inflow) largely driven by improvements in working capital.
- Continued focus on cash flow and cost reductions.

Highlights in the 1st half year

Net income

in millions of euros unless otherwise stated		
	January- June 2002	January- June 2003
Sales	15,584	13,031
Income from operations	238	6
in % of sales	1.5	0.0
Financial income and expenses	(1,625)	(162)
Income taxes	6	59
Results related to unconsolidated companies	49	84
Minority interests	(14)	(14)
Net income (loss)	(1,346)	(27)
Per common share – basic	(1.06)	(0.02)
– diluted	(1.06)	(0.02)

Special items affecting net income

in millions of euros		
	January- June 2002	January- June 2003
Affecting income from operations:	154	(115)
Affecting financial income and exp.:	(1,469)	78
Income taxes related to special items:	(12)	29
Affecting results uncons. companies:	(196)	(21)
Special items affecting net income	(1,523)	(29)

Group net income

Net income

- Nominal sales were 16% lower than in same period last year. Weaker currencies had a downward effect of 12%, while a 4% downwards effect came from various divestments carried out in 2002.
- On a comparable basis, sales were flat versus last year.
- Despite strongly improved results at Medical Systems, income from operations was lower, mainly due to special charges at Semiconductors, lower income at Consumer Electronics and EUR 163 million in higher pension costs.
- Net income came to a loss of EUR 27 million. The loss of last year was caused predominantly by impairment charges.

Special items affecting net income

- Special charges affecting income from operations were primarily related to restructuring and other charges at Semiconductors of EUR 150 million, partly offset by gains on sale of businesses of EUR 35 million.
- Special gains affecting financial income and expenses included EUR 78 million for gains on the sale of securities.

Other information

With respect to the claim of Volumetrics, Inc. against the Philips Ultrasound business of Medical Systems, a trial judge in Winston-Salem, North Carolina, USA confirmed a jury verdict against a Philips subsidiary and granted Volumetrics' motion to treble the damages. As was announced earlier, the resulting verdict is for approximately USD 319 million plus interest. Philips does not believe that the facts of the case or the relevant legal principles support the decision and has decided to appeal. The outcome of the appeal is not something Philips can predict and it is impossible to come to reasonable estimate of a possible future loss. Consequently, such a possible loss has not been accrued for.

Outlook

We expect that the Lighting and Domestic Appliances divisions will continue their solid performance throughout the year. The integration of our Medical Systems division remains on-track to achieve the performance targets for 2004 including the targeted EUR 350 million savings by year-end 2003. Consumer Electronics will manage the costs and supply chain in line with lower sales. Should low consumer confidence in major markets continue, it will have an impact on the sales of Consumer Electronics. The recovery plan for the Semiconductor division is expected to turn this division back into the black in Q4.

The company will continue cost reduction initiatives, including reduction in overhead costs, and ongoing asset management programs.

Currency movements may continue to impact sales and to a lesser extent net income, whilst the value of the Company's financial and pension assets remains sensitive to volatility in financial markets.

Amsterdam, July 15, 2003

Board of Management

Consolidated statements of income

all amounts in millions of euros unless otherwise stated

	2 nd quarter		January to June	
	2003	2002	2003	2002
Sales	6,532	7,986	13,031	15,584
Cost of sales	(4,449)	(5,420)	(8,852)	(10,649)
Gross margin	2,083	2,566	4,179	4,935
Selling expenses	(1,034)	(1,335)	(2,106)	(2,589)
General and administrative expenses	(371)	(380)	(744)	(721)
Research and development expenses	(650)	(786)	(1,283)	(1,545)
Write-off of acquired in-process R&D	-	-	-	-
Impairment of goodwill	-	-	(9)	-
Restructuring and impairment charges	(117)	(27)	(183)	(50)
	(2,172)	(2,528)	(4,325)	(4,905)
Other business income (expenses) - net	63	127	152	208
Income (loss) from operations	(26)	165	6	238
Financial income and expenses:				
– interest	(96)	(107)	(177)	(209)
– impairment charges	-	(1,536)	-	(1,536)
– other	16	38	15	120
	(80)	(1,605)	(162)	(1,625)
Income before taxes	(106)	(1,440)	(156)	(1,387)
Income taxes	47	3	59	6
Income after taxes	(59)	(1,437)	(97)	(1,381)
Results relating to unconsolidated companies:				
– impairment charges	(9)	(34)	(9)	(37)
– other	117	126	93	86
Minority interests	(7)	(10)	(14)	(14)
Net income	42	(1,355)	(27)	(1,346)
Income from operations				
as a % of sales	(0.4)	2.1	0.0	1.5
as a % of net operating capital (RONA)			0.1	3.4
Weighted average number of common shares outstanding during the period (in thousands): (after deduction of treasury stock)				
• basic			1,276,544	1,274,900
• diluted			1,277,740	1,282,248
Net earnings per common share in euros:				
• basic	0.03	(1.07)	(0.02)	(1.06)
• diluted	0.03	(1.07)	(0.02)	(1.06)

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 a loss of EUR 383 million in the first six months of 2003, compared to a loss of EUR 1,693 million in the corresponding period last year. These aggregate amounts result in basic earnings per common share of a loss of EUR 0.30 in January-June 2003 compared to a loss of EUR 1.33 last year. The difference between Dutch GAAP and US GAAP is caused by the fact that goodwill is no longer amortized under US GAAP but instead tested for impairment.

Consolidated balance sheets and additional ratios

all amounts in millions of euros unless otherwise stated

Consolidated balance sheet

	June 30, 2003	December 31, 2002	June 30, 2002
Current assets:			
Cash and cash equivalents	1,493	1,858	683
Receivables	4,801	5,068	5,393
Inventories	3,740	3,522	4,307
Other current assets	841	603	870
Total current assets	10,875	11,051	11,253
Unconsolidated companies	5,893	6,089	7,645
Other non-current financial assets	1,193	1,306	1,819
Non-current receivables	234	219	137
Other non-current assets	2,381	2,553	2,733
Property, plant and equipment	5,234	6,137	6,784
Intangible assets excl. goodwill	1,520	1,742	1,692
Goodwill	3,003	3,192	3,349
Total assets	30,333	32,289	35,412
Current liabilities:			
Accounts and notes payable	2,743	3,228	2,975
Accrued liabilities	3,230	3,314	3,587
Short-term provisions	1,011	1,276	942
Other current liabilities	643	691	746
Short-term debt	1,749	617	1,392
Total current liabilities	9,376	9,126	9,642
Long-term debt	5,185	6,492	6,415
Long-term provisions	2,050	1,970	2,565
Other non-current liabilities	590	603	200
Total liabilities	17,201	18,191	18,822
Minority interests	182	179	191
Stockholders' equity	12,950	13,919	16,399
Total liabilities and stockholders' equity	30,333	32,289	35,412
Number of common shares outstanding at the end of period			
• shares in thousands	1,277,082	1,275,978	1,274,575
Ratios			
Stockholders' equity, per common share in euros	12,950 10.14	13,919 10.91	16,399 12.87
Inventories as a % of sales	12.8	11.1	13.4
Net debt : group equity ratio	29:71	27:73	30:70

Stockholders' equity determined in accordance with Dutch GAAP amounted to EUR 12,109 million as of June 30, 2003 compared to EUR 12,950 million under US GAAP.

The deviation is caused by the fact that goodwill under Dutch GAAP 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

	2 nd quarter		January to June	
	2003	2002	2003	2002
<i>Cash flows from operating activities:</i>				
Net income (loss)	42	(1,355)	(27)	(1,346)
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	482	527	955	1,023
Impairment of equity investments	9	1,570	9	1,573
Net gain on sale of assets	(116)	(149)	(160)	(329)
(Income) loss from unconsolidated companies (net of dividends received)	(108)	(124)	(83)	(84)
Minority interests (net of dividends paid)	1	10	14	14
(Increase) decrease in working capital/other current assets	(172)	85	(799)	(413)
(Increase) decrease in non-current receivables/other assets	(2)	(86)	58	112
(Decrease) increase in provisions	(59)	25	(97)	(96)
Other items	71	(7)	73	(12)
Net cash provided by (used for) operating activities	148	496	(57)	442
<i>Cash flows from investing activities:</i>				
Purchase of intangible assets (software)	(23)	(42)	(51)	(80)
Capital expenditures on property, plant and equipment	(220)	(220)	(397)	(445)
Proceeds from disposals of property, plant and equipment	57	44	91	263
Proceeds from sale (purchase) of other non-current financial assets and derivatives	315	256	492	332
Proceeds from sale of businesses (purchase of businesses)	308	(163)	151	(382)
Net cash provided by (used for) investing activities	437	(125)	286	(312)
Cash flows before financing activities	585	371	229	130

* 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 statements of cash flows (continued) *

all amounts in millions of euros

	2 nd quarter		January to June	
	2003	2002	2003	2002
Cash flows before financing activities	585	371	229	130
<i>Cash flows from financing activities:</i>				
(Decrease) increase in debt	(122)	141	(56)	221
Treasury stock transactions	8	(64)	16	(41)
Dividends paid	(460)	(459)	(460)	(459)
Net cash used for financing activities	(574)	(382)	(500)	(279)
Increase (decrease) in cash and cash equivalents	11	(11)	(271)	(149)
Effect of changes in exchange rates on cash positions	(86)	(79)	(94)	(58)
Cash and cash equivalents at beginning of the period	1,568	773	1,858	890
Cash and cash equivalents at end of period	1,493	683	1,493	683

* 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 June 2003								
	Common stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss)			Treasury shares at cost	Total stock- holders' equity	
				Translation differences	Available for sale securities	Minimum pension liability			Cash flow hedges
Balance as of January 1, 2003	263	14	16,738	(1,712)	265	(353)	11	(1,307)	13,919
Net income (loss)			(27)						(27)
Net current period change				(533)	71	26	23		(413)
Reclassifications into income				-	(78)		(15)		(93)
Total comprehensive income (loss), net of tax			(27)	(533)	(7)	26	8		(533)
Dividends			(462)						(462)
Purchase of treasury stock								(1)	(1)
Re-issuance of treasury stock		5						12	17
Stock options accrual		10							10
Balance as of June 30, 2003	263	29	16,249	(2,245)	258	(327)	19	(1,296)	12,950

Product sectors

all amounts in millions of euros unless otherwise stated

Segment revenues and income from operations

	2 nd quarter					
	2003			2002		
	segment revenues	Income (loss) from operations		segment revenues	Income (loss) from operations	
	amount	as % of segment revenues		amount	as % of segment revenues	
Lighting	1,042	119	11.4	1,200	126	10.5
Consumer Electronics	1,999	(42)	(2.1)	2,425	27	1.1
DAP	459	75	16.3	529	74	14.0
Semiconductors	1,155	(139)	(12.0)	1,439	(59)	(4.1)
Medical Systems	1,450	153	10.6	1,758	54	3.1
Miscellaneous	698	(61)	(8.7)	945	28	3.0
Unallocated		(131)			(85)	
Total	6,803	(26)		8,296	165	
Intersegment revenues	(271)			(310)		
Sales	6,532			7,986		
Income from operations as a % of sales		(0.4)			2.1	

Product sectors (continued)

all amounts in millions of euros unless otherwise stated

Segment revenues and income from operations

	January to June					
	2003			2002		
	segment revenues	Income (loss) from operations		segment revenues	Income (loss) from operations	
	amount	as % of segment revenues		amount	as % of segment revenues	
Lighting	2,202	292	13.3	2,435	278	11.4
Consumer Electronics	3,961	31	0.8	4,707	78	1.7
DAP	922	156	16.9	988	139	14.1
Semiconductors	2,328	(317)	(13.6)	2,741	(167)	(6.1)
Medical Systems	2,782	223	8.0	3,423	81	2.4
Miscellaneous	1,387	(117)	(8.4)	1,890	(3)	(0.2)
Unallocated		(262)			(168)	
Total	13,582	6		16,184	238	
Intersegment revenues	(551)			(600)		
Sales	13,031			15,584		
Income from operations as a % of sales		0.0			1.5	

Product sectors and main countries

all amounts in millions of euros

Sales and total assets

	<u>Sales (to third parties)</u>		<u>Total assets</u>	
	January to June		June 30,	June 30,
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Lighting	2,191	2,420	2,598	2,771
Consumer Electronics	3,923	4,670	2,421	3,017
DAP	914	978	925	1,051
Semiconductors	2,240	2,501	6,292	8,025
Medical Systems	2,775	3,421	6,427	7,297
Miscellaneous	988	1,594	5,277	6,798
Unallocated			6,393	6,453
Total	13,031	15,584	30,333	35,412

Sales and long-lived assets

	<u>Sales (to third parties)</u>		<u>Long-lived assets *</u>	
	January to June		June 30,	June 30,
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Netherlands	563	741	1,553	1,689
United States	3,508	4,757	4,865	6,201
Germany	991	1,099	643	649
France	882	904	226	293
United Kingdom	524	703	268	189
China	1,153	1,167	339	427
Other countries	5,410	6,213	1,863	2,377
Total	13,031	15,584	9,757	11,825

* Includes property, plant and equipment and intangible assets-net.

Philips quarterly statistics

all amounts in millions of euros unless otherwise stated; percentage increases always in relation to the corresponding period of previous year

	2002				2003			
	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter
Sales	7,598	7,986	7,313	8,923	6,499	6,532		
% increase	(7)	4	2	(4)	(14)	(18)		
Income (loss) from operations	73	165	135	47	32	(26)		
as % of sales	1.0	2.1	1.8	0.5	0.5	(0.4)		
% increase	(77)	.	.	.	(56)	.		
Net income (loss)	9	(1,355)	(330)	(1,530)	(69)	42		
% increase	(90)	.	.	.	.	.
per common share in euros	0.01	(1.07)	(0.25)	(1.20)	(0.05)	0.03		
	January- March	January- June	January- September	January- December	January- March	January- June	January- September	January- December
Sales	7,598	15,584	22,897	31,820	6,499	13,031		
% increase	(7)	(2)	(1)	(2)	(14)	(16)		
Income (loss) from operations	73	238	373	420	32	6		
as % of sales	1.0	1.5	1.6	1.3	0.5	0.0		
% increase	(77)	.	.	.	(56)	.		
as a % of net operating capital (RONA)	2.0	3.4	3.8	3.2	1.2	0.1		
Net income (loss)	9	(1,346)	(1,676)	(3,206)	(69)	(27)		
% increase	(90)	.	.	.	.	.
as a % of stockholders' equity (ROE)	0.2	(14.7)	(13.3)	(19.2)	(2.1)	(0.3)		
per common share in euros	0.01	(1.06)	(1.31)	(2.51)	(0.05)	(0.02)		
	period ending 2002				period ending 2003			
Inventories as % of sales	14.0	13.4	14.1	11.1	12.1	12.8		
Net debt : group equity ratio	28:72	30:70	30:70	27:73	30:70	29:71		
Total employees (in thousands)	186	184	183	170	166	164		

Information also available on Internet, address: www.investor.philips.com
Printed in the Netherlands