

PHILIPS

Royal Philips Electronics First Quarter 2003

April 15, 2003

“Safe Harbor” Statement under the Private Securities Litigation Reform Act of October 1995

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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.

Agenda

- **Highlights**
- **Performance**
- **Agenda for 2003**

Highlights

- **The sales in the quarter were 14% lower than 1Q02 of which 11% was due to currency movements. However, the comparable sales showed a 1% increase**
- **IFO was a profit of EUR 32 m. and included special charges of EUR 31 m. and increased pension costs of EUR 78 m. In 1Q02, IFO was a profit of EUR 73 m. and included net special gains of EUR 58 m.**
- **Cash flow before financing and excluding acquisitions net was a negative of EUR 199 m., in what is normally a seasonal outflow**
- **Net debt to group equity maintained at 30:70 in spite of the equity being impacted by the dividend to be paid in 2Q03**

Highlights

- **Again record low inventories on a seasonable basis being 12.1% of MAT sales compared to 14.0% for 1Q02**
- **Unconsolidated companies result was impacted by the weak economic environment and came to a loss of EUR 24 m. including special charges of EUR 11 m.**
- **Cost reduction actions continuing throughout the company**

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Profit & Loss - 1Q03

EUR million

	P&L as published	Special items & impairment	P&L excl. special items & impairment
	A	B	=A-B
IFO	32	(31)	63
Financial Income & Expenses	(82)		(82)
Tax	12	8	4
Unconsolidated companies	(24)	(11)	(13)
Net income 1Q03	(69)	(34)	(35)
Net income 1Q02	9	16	(7)

Group Sales

EUR million unless otherwise stated

	1Q03	1Q02
Philips group sales	6,499	7,598
<hr/>		
% change from the previous year:		
Nominal change	(14)	(7)
• Consolidation change	(4)	4
• Currency effects	(11)	1
<hr/>		
Comparable change	1	(12)
• Prices	(7)	(7)
• Volume	8	(5)

IFO and special items per PD – 1Q03

EUR million

	IFO as published	Acquisition related charges	Restructuring charges & accelerated depreciation	Other sp.items	IFO without sp. items
	A	B	C	D	=A-B-C-D
Lighting	173		(4)	1	176
CE (incl. Licenses)	73		(9)	17	65
DAP	81				81
Semiconductors	(178)		(57)	(8)	(113)
Medical Systems	70		1	(2)	71
Miscellaneous	(56)		4	26	(86)
Unallocated	(131)				(131)
IFO 1Q03	32		(65)	34	63
IFO 1Q02	73	(22)	(23)	103	15

Ex-Components' IFO excluding special items

EUR million

Transferred to:

1Q03

Semiconductors

10

Consumer Electronics

(10)

Miscellaneous - businesses

(4)

Miscellaneous- PolyLED, LCOS

(13)

Total 1Q03

(17)

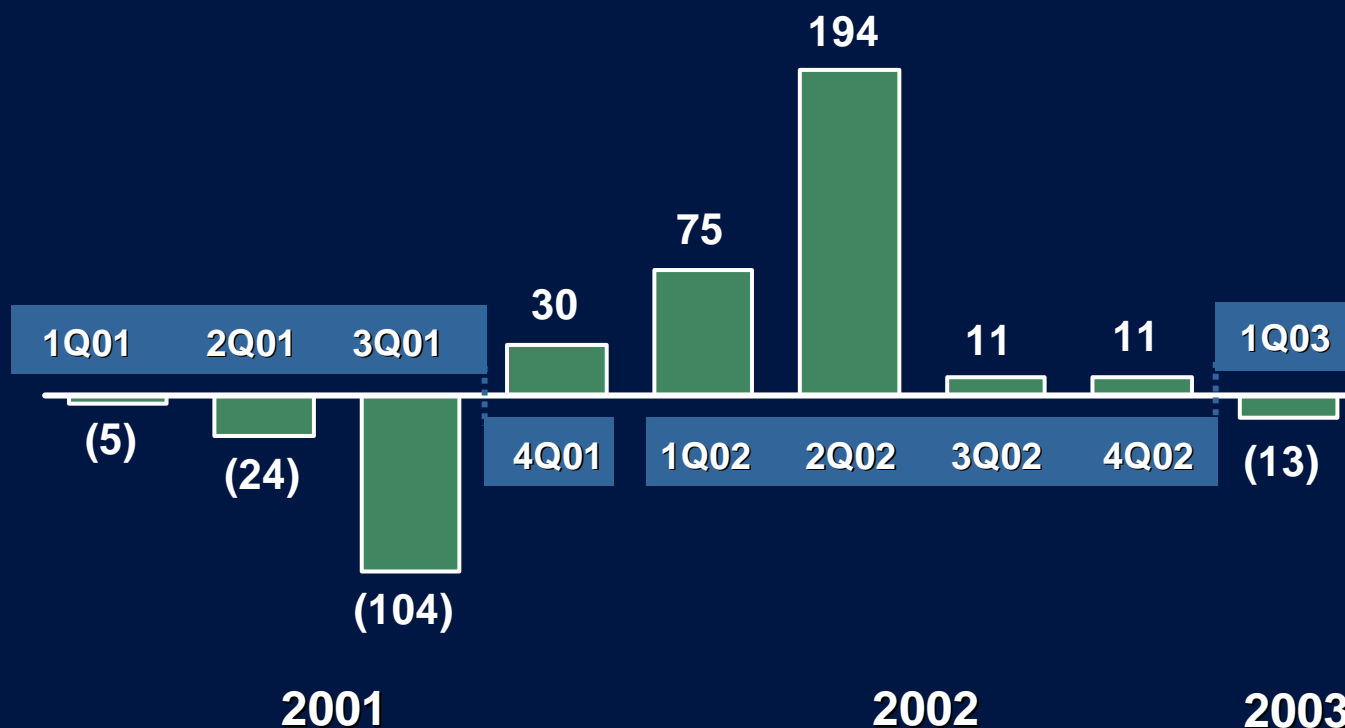
Total 1Q02

(47)

Note: These numbers are excluding special items

Non-consolidated companies (excl. special items)

EUR million



**ANNUAL
TOTAL**

(103)

291

**INCL.
SPECIALS**

(608)

(1,346)

Note: These numbers are excluding special items and amortization of goodwill.
2001 figures are restated acc. US GAAP

Cash Flow – 1Q03

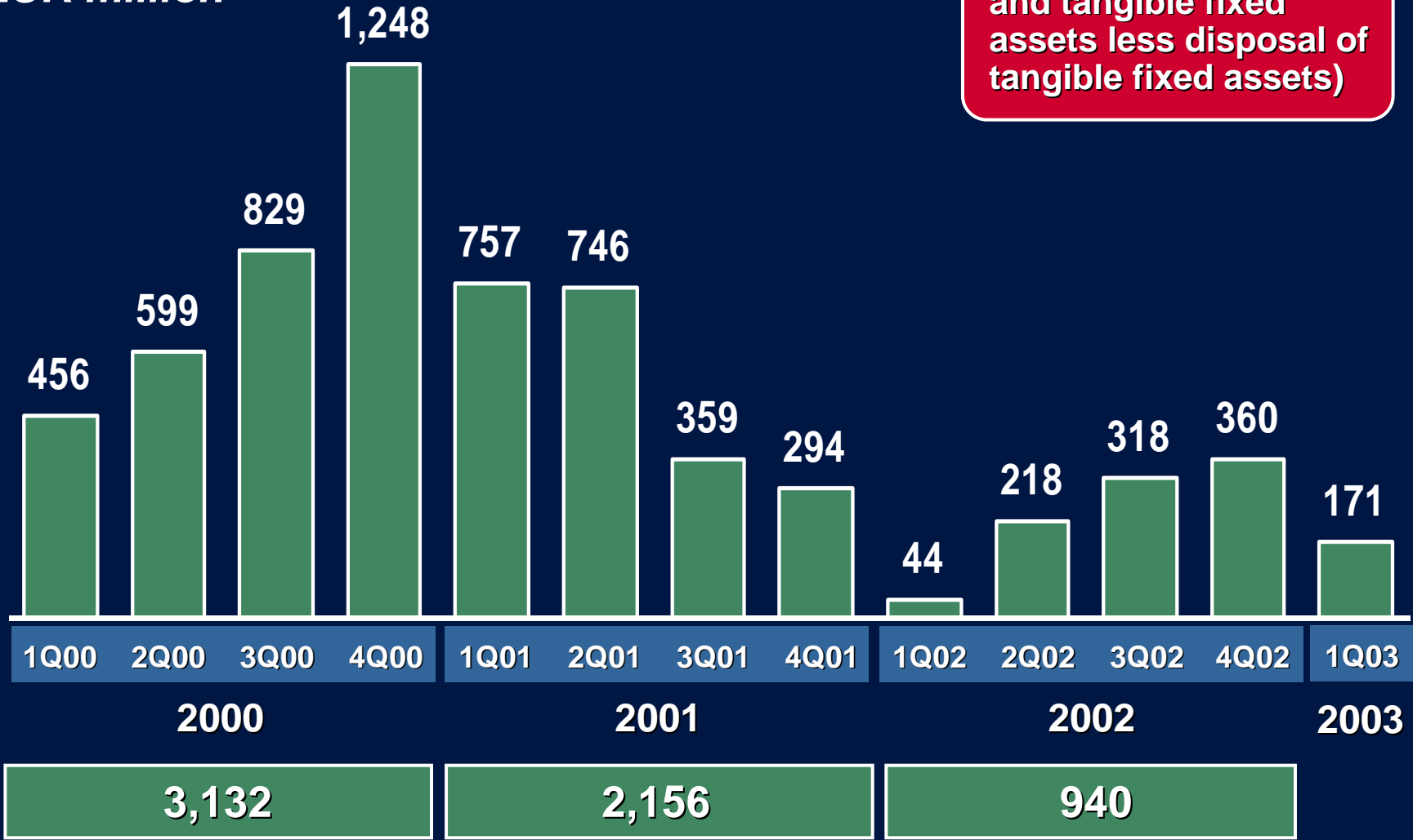
EUR million

	1Q03	1Q02
Net Income	(69)	9
Depreciation / Amortization	473	496
Net gain on sale of investments	(44)	(180)
Changes in Working Capital/Other current assets	(627)	(498)
Other	62	119
CF FROM OPERATIONS	(205)	(54)
Net CAPEX	(171)	(44)
Acquisitions/Divestments/Other	20	(143)
CF BEFORE FINANCING ACTIVITIES	(356)	(241)

Capital Investments

EUR million

(Purchase of intangible and tangible fixed assets less disposal of tangible fixed assets)



Inventories

as % of MAT sales



Head Count Reduction *Personnel*

	1Q03
At the beginning of the period	170,087
Consolidation	
Deconsolidation	(1,206)
Real movements	(2,487)
<i>AS AT MARCH 31, 2003</i>	166,394

Debt/Equity ratio

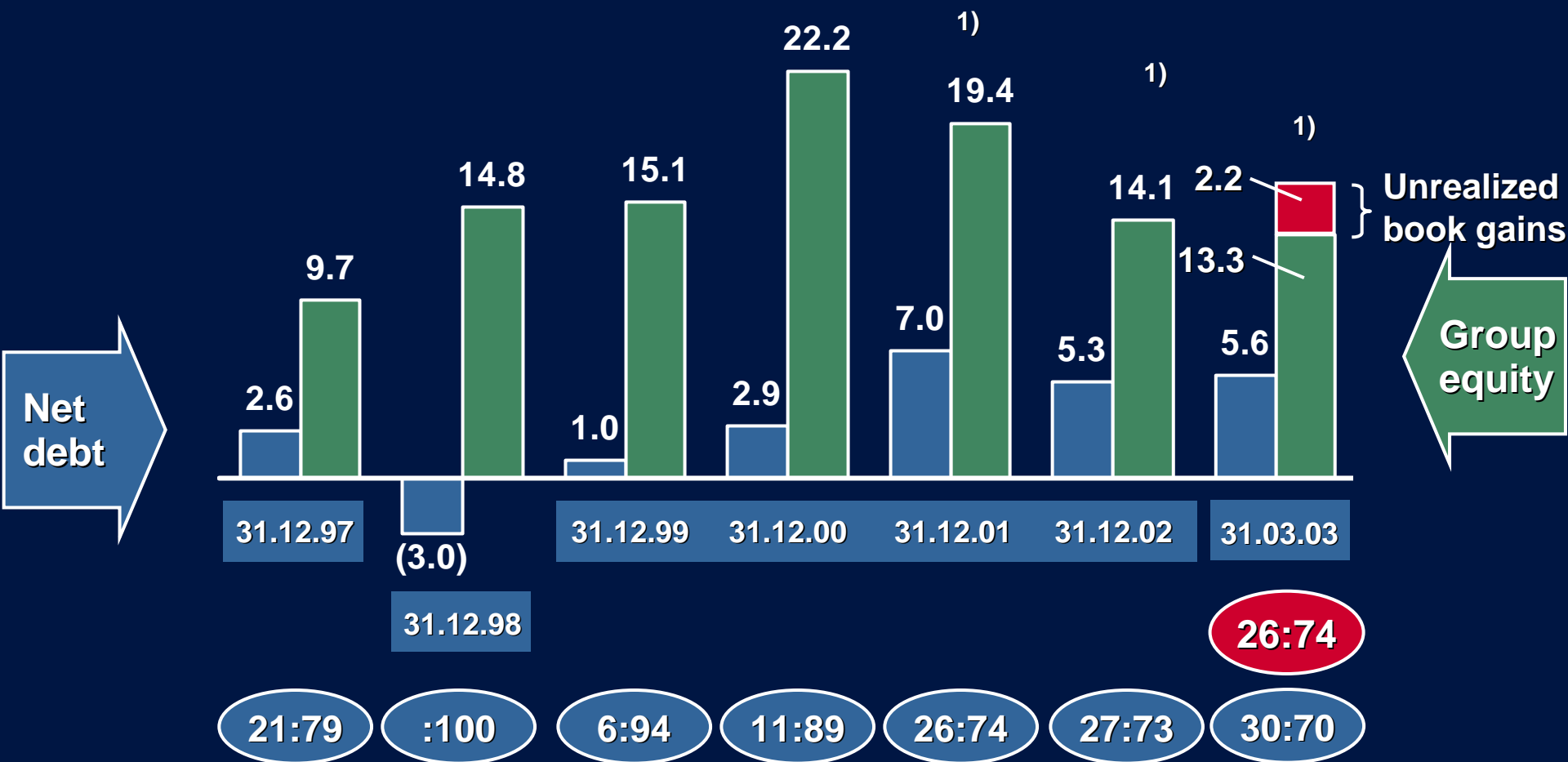
EUR billion



1) according to US GAAP

Debt/Equity ratio

EUR billion



1) according to US GAAP

Lighting

- **Sales impacted by 10% negative currency movements compared to 1Q02. However, there was a 4% comparable sales increase particularly driven by Automotive & Special Lighting, Asia Pacific and stepped up supplies to Home Depot**
- **IFO margin increased to 15.0% from 12.4% in 1Q02 benefiting from improved product mix, lower purchasing costs and lower overheads**
- **Strong cash flow**
- **Continuing emphasis on product innovation and cost and asset management**

Consumer Electronics

- **Comparable sales decreased by 5% compared to 1Q02 with lower sales in all geographical regions, specifically Latin America and NAFTA. In product terms, the main reduction was in TV**
- **Price erosion was approximately unchanged from 4Q02 at 10%**
- **The IFO, excluding License income, was a loss of EUR 28 m. and included special items of:**
 - **Restructuring charges** -EUR 9 m.
 - **Gain sale of PCMS (Hasselt & Bruges)** +EUR 16 m.
- **Other incidentals were:**
 - **Release of STB provision** +EUR 17 m.

Consumer Electronics

- **Weak operational performance in GSM with a loss of EUR 14 m.**
- **Further restructuring charges will be in 2003:**
 - **2Q: EUR 26 m.**
 - **3Q: EUR 20 m.**
 - **4Q: EUR 22 m.**
- **Continuing low level of Net Operating Capital**

Domestic Appliances & Personal Care

- **Comparable sales growth of 12% driven by new product introductions or existing products into new markets. The products involved are shavers, Sonicare and Senseo.**
- **Record results for a first quarter with an operating profit margin of 17.7%, an increase over 14.3% for 1Q02, due primarily to:**
 - **strong margins on innovative products**
 - **lower purchasing costs**
 - **strict cost control measures**
- **Strong cash flow**

Semiconductors

- **Revenues, excluding MDS, declined sequentially by 16% in EUR and 11% in USD with specific weakness seen in Consumer and some push-outs in Communications. On a year on year basis same revenue declined 18% in EUR and stayed on par in USD**
- **Price erosion, excluding MDS, was 10% with a relative improvement in standard products**
- **MDS sales sequentially declined due to seasonality. Color has overtaken monochrome screens in terms of sales**
- **Book-to-bill was 1.05 reflecting continuing short order lead times**

Semiconductors

- **The IFO loss in 1Q03 of EUR 178 m. included special items of:**
 - **-EUR 22 m. accelerated depreciation**
 - **-EUR 30 m. restructuring in San Antonio**
 - **-EUR 13 m. write-off of intangible assets**
- **Other incidental in IFO was:**
 - **+EUR 17 m. recovery of insurance claim**
- **CAPEX in the quarter was EUR 45 m. of which EUR 30 m. was for Semiconductors. For the full year we expect EUR 325 m. for Semiconductors excluding MDS and EUR 60 m. for MDS**

Semiconductors

- **Continuing efforts to reduce costs in line with announced plans**
- **Further restructuring charges will be in 2003:**
 - **2Q: EUR 94 m.**
 - **3Q: EUR 126 m.**
- **Our current expectation is 7-10% sequential sales increase for 2Q03**

Medical Systems

- **The comparable sales were at the same level as 1Q02. However, last year's sales were partly affected by former ADAC being higher than normal due to delay shipments from 4Q01**
- **The reported operating income was 5.3% of sales and EBITA was 7.2%**
- **Higher IT and other costs reflect the ongoing investment in improved systems and supply chain management**
- **Cost reduction actions are on track to achieve the EUR 350 m. reduction by the end of the year**
- **EBITA target of 14% for 2004 again reconfirmed**

Miscellaneous

- **The loss in the quarter was EUR 56 m. of which EUR 70 m. for Corporate Technology.**
- **IFO included a special gain of EUR 19 m. on the sale of speech recognition activities**
- **Optical Storage's result, excluding a past use license payment of EUR 9 m., improved to just above break-even in 1Q03 coming from a loss giving situation last year**

Unallocated

- **Corporate and regional overhead costs were 13% lower than the same period last year, driven by savings from the cost reduction program**
- **Pension costs were EUR 58 m. higher than last year**

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Agenda for 2003

- **Achieve the cost-savings target of EUR 1 billion**
- **Return Semiconductors to profitability**
- **Bring Consumer Electronics in the USA to full profitability from the fourth quarter onward**
- **Move Medical Systems forward to achieve 14% EBITA in 2004**
- **Make Philips a truly market-driven company**

