

PHILIPS

Royal Philips Electronics Annual Results 2003

February 10, 2004

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

'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 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. Market share estimates contained in this report are based on outside sources such as specialized research institutes, industry and dealer panels, etc. in combination with management estimates. Rankings are based on sales unless otherwise stated.

Use of Non-GAAP Information

In presenting and discussing the Philips Group's financial position, operating results and cash flows, management uses certain non-GAAP financial measures. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent GAAP measure and should be used in conjunction with the most directly comparable US GAAP measure(s). Unless otherwise indicated in this document, 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) is contained in the Annual Report 2003, 'Financial Statements and Analysis'.

Gerard Kleisterlee

Jan Hommen

Gerard Kleisterlee

Performance of the Philips Group

EUR million

	2001	2002	2003
Sales	32,339	31,820	29,037
Income (loss) from operations	(1,395)	420	488
Net income (loss)	(2,475)	(3,206)	695
Cash flow from operations	1,248	2,228	1,992
Net capital expenditures	(2,156)	(940)	(856)
<hr style="border-top: 1px dashed black;"/>			
Inventories as % of sales	13.3	11.1	11.0
Net debt to group equity	26 : 74	27 : 73	18 : 82
Employees	188,643	170,087	164,438

Gerard Kleisterlee

Jan Hommen

Gerard Kleisterlee

Agenda

- **Financial performance**
 - 4Q03
 - FY2003
- **Currency Exposure**
- **Key Financial Management Actions**

Agenda

- **Financial performance**

- 4Q03

- FY2003

- **Currency Exposure**

- **Key Financial Management Actions**

Summary – 4Q03

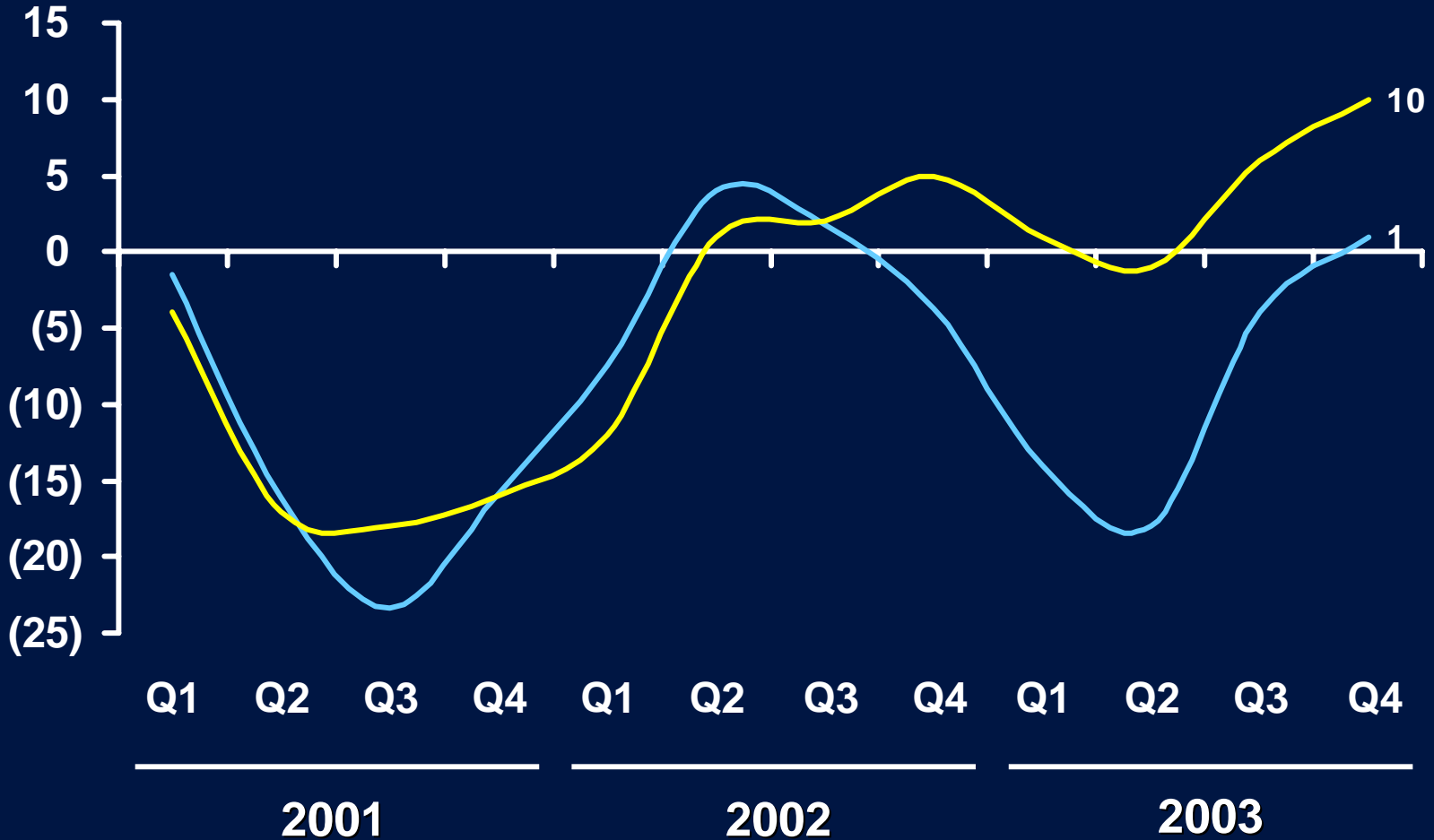
EUR million

	4Q02	4Q03
Sales	8,923	9,017
Income from operations	47	608
Unconsolidated companies	(1,391)	183
Net income	(1,530)	598
Cash flow before financing activities	1,585	2,295

Quarterly sales growth y-o-y

%

■ Comparable
■ Nominal



Sales per sector – 4Q03

EUR million

	4Q02	4Q03	% nom	% comp
Lighting	1,295	1,243	(4)	3
CE	2,953	3,057	4	11
DAP	776	751	(3)	4
Semiconductors	1,345	1,496	11	24
Medical Systems	1,883	1,802	(4)	9
Misc. / Unallocated	671	668	0	2
Philips Group	8,923	9,017	1	10

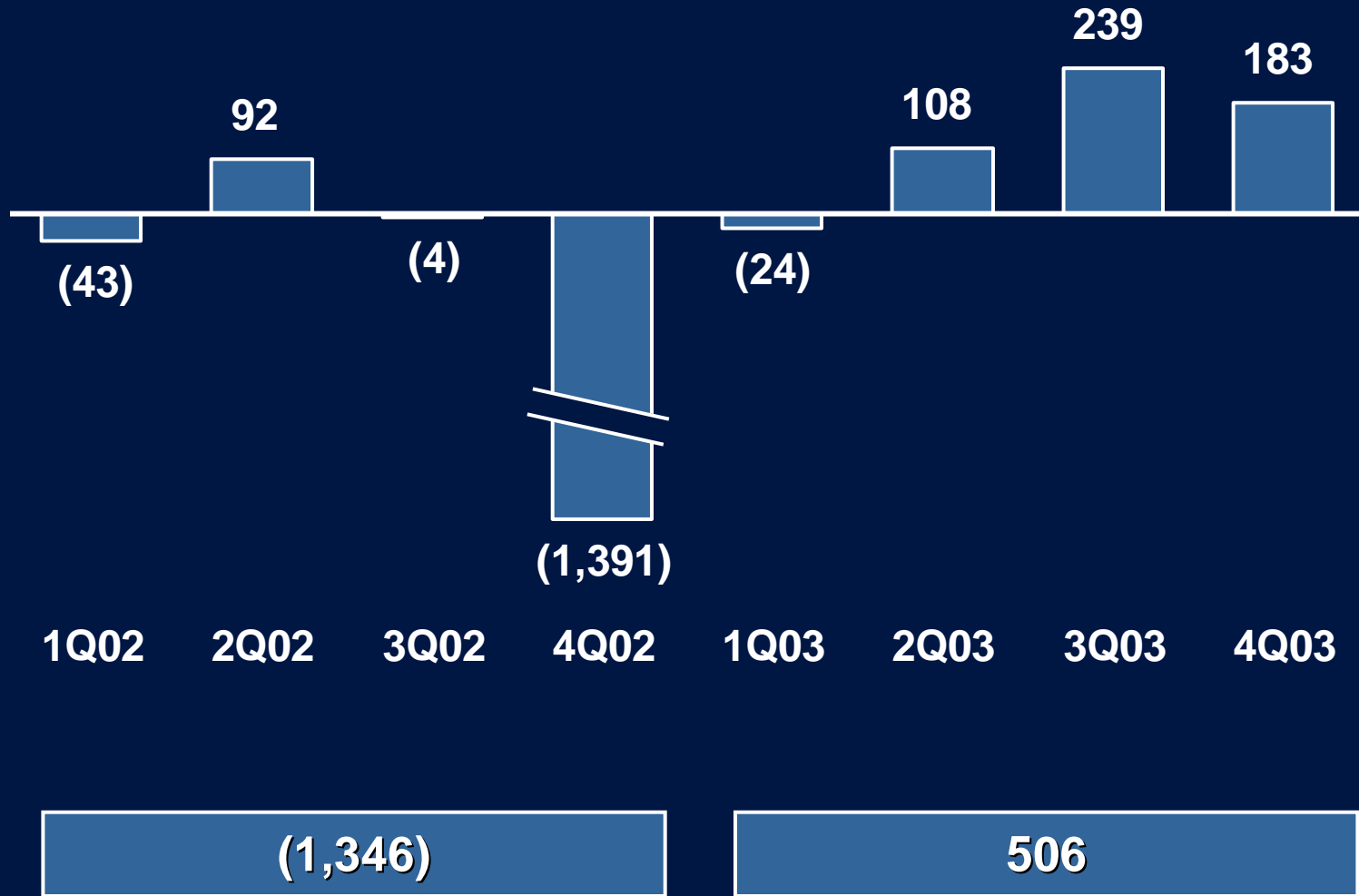
IFO per sector – 4Q03

EUR million

	4Q02	4Q03
Lighting	183	161
CE (excl. Licenses)	87	152
Licenses	35	97
DAP	183	160
Semiconductors	(304)	166
Medical Systems	239	70
Miscellaneous	(281)	(39)
Unallocated	(95)	(159)
Group IFO	47	608


Non-consolidated companies

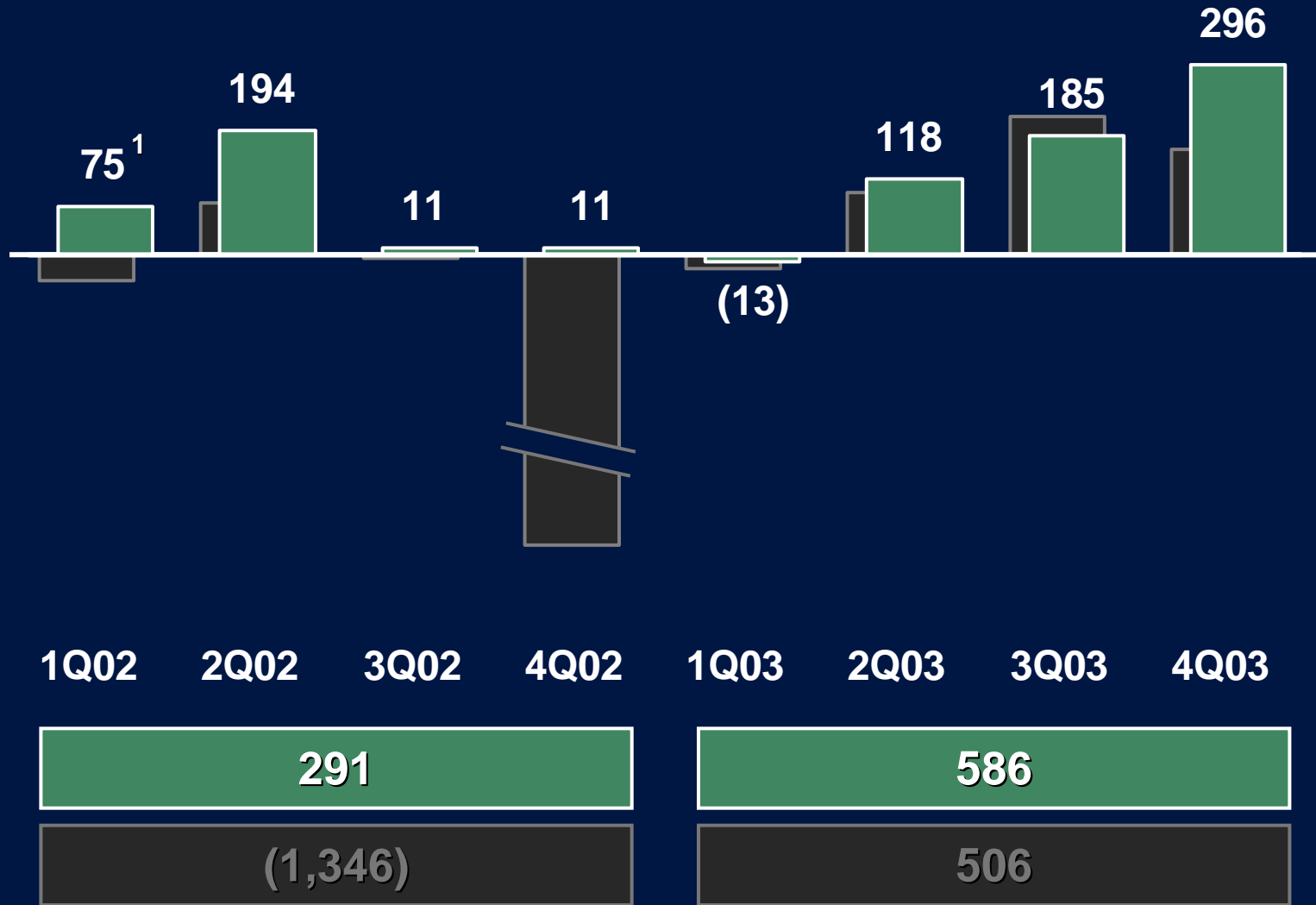
EUR million



Non-consolidated companies

EUR million

 Underlying trend
excl. special items



1 – Excluding amortization of goodwill of EUR 24 m. in Atos Origin

Cash Flow – 4Q03

EUR million

	4Q02	4Q03
Net Income	(1,530)	598
Depreciation / Amortization	664	572
Impairment of equity investments	1,340	755
Net gain on sale of investments	(172)	(732)
Changes in Working Capital	1,165	698
Loss (Income) from UCCs	136	(250)
Other	(161)	32
<i>CF from operations</i>	1,442	1,673
Gross CAPEX	(379)	(319)
Acquisitions/Divestments/Other	522	941
<i>CF before financing activities</i>	1,585	2,295

Inventories

as % of MAT sales



Agenda

- **Financial performance**

- 4Q03

- **FY2003**

- **Currency Exposure**

- **Key Financial Management Actions**

Summary – Full year 2003

EUR million

	2002	2003
Sales	31,820	29,037
Income from operations	420	488
Unconsolidated companies	(1,346)	506
Net income	(3,206)	695
Cash flow before financing activities	1,980	2,734

IFO per sector – Full year 2003

EUR million

	2002	2003
Lighting	602	577
CE (excl. Licenses)	20	(49)
Licenses	188	297
DAP	401	398
Semiconductors	(524)	(342)
Medical Systems	309	431
Miscellaneous	(246)	(263)
Unallocated	(330)	(561)
Group IFO	420	488

EBITA in Medical Systems increased by 2%

EUR million

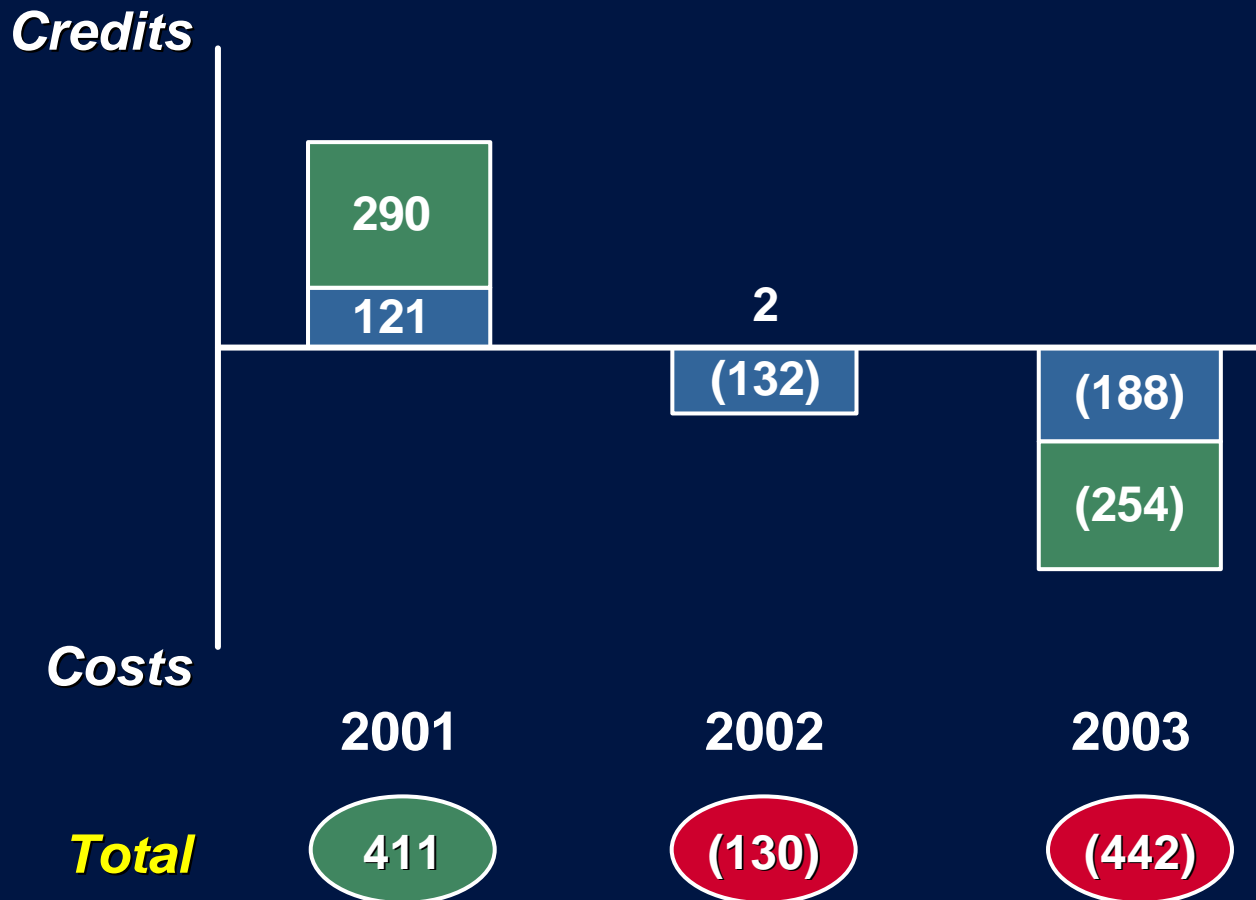
	2002 ¹	2003
IFO	363	431
special items in IFO	(79)	(147)
incidental items	(71)	(35)
amortisation of intangibles	(111)	(100)
EBITA excluding special & incidental items	624	713
% of sales	9.9%	11.9%

1 – Excluding the HCP business which was sold in 2002

Pension costs / credits

EUR million

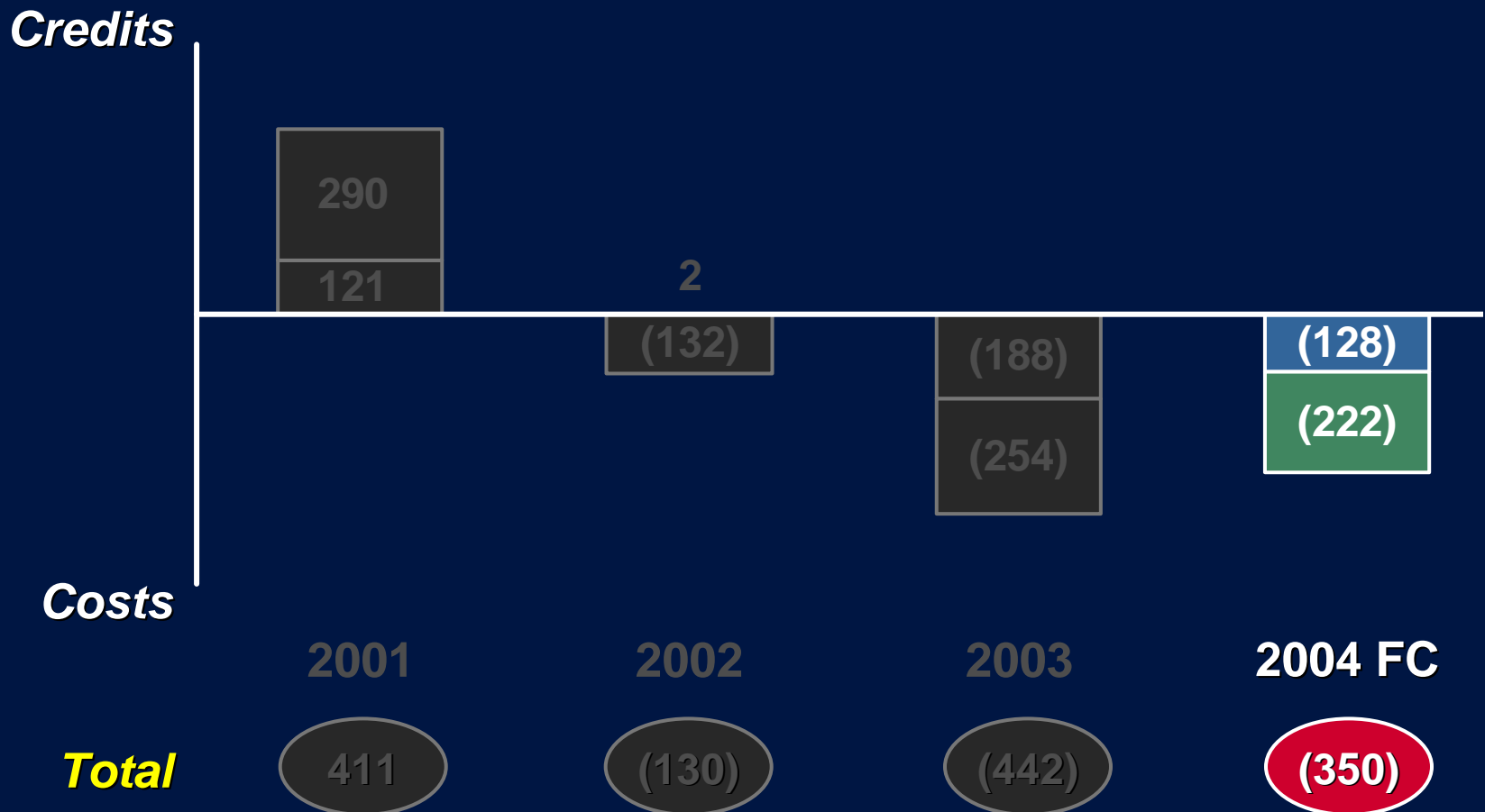
In the Product Divisions
 In Unallocated



Pension costs / credits

EUR million

■ In the Product Divisions
■ In Unallocated



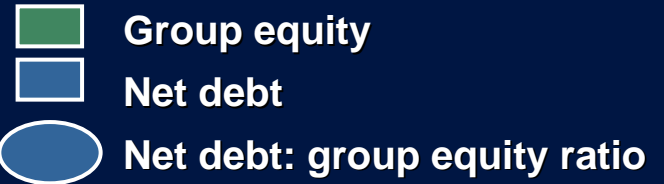
Cash Flow – Full year 2003

EUR million

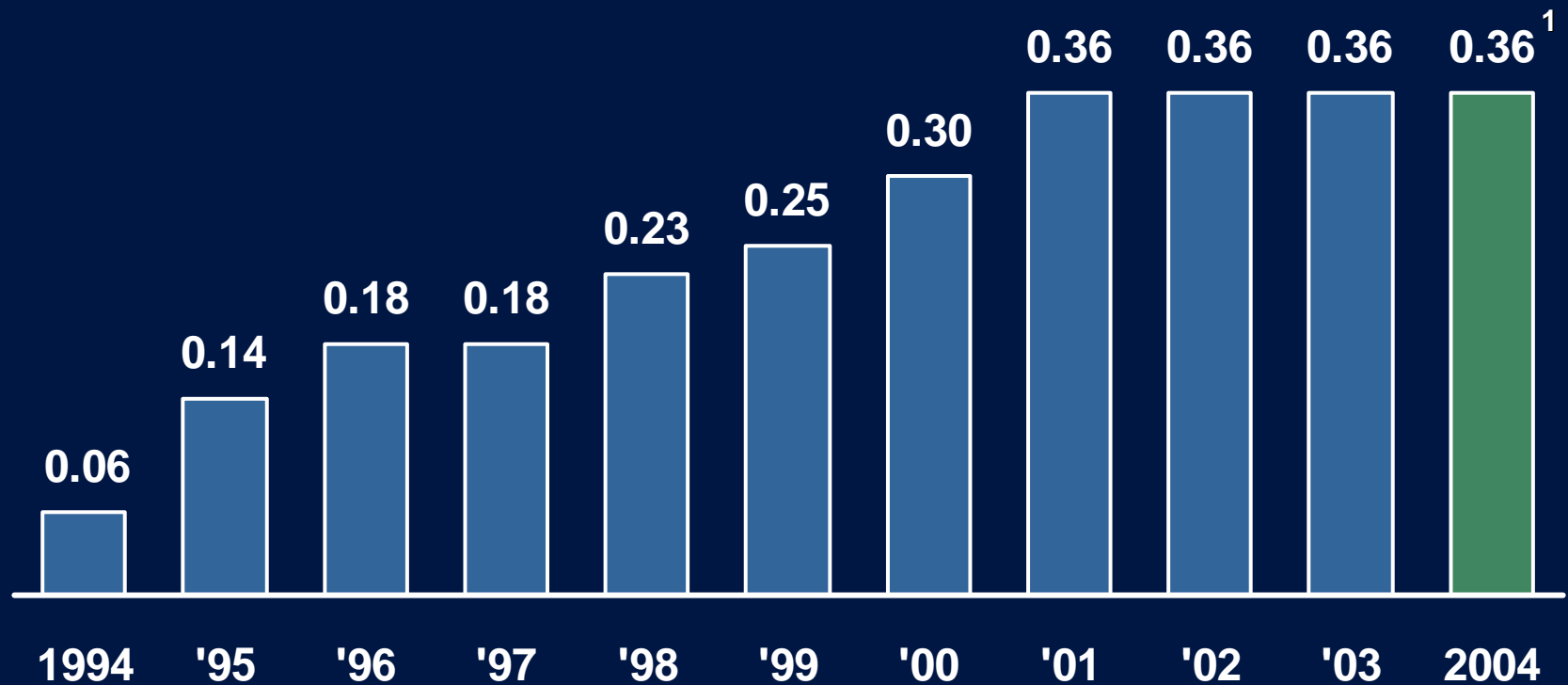
	2002	2003
Net Income	(3,206)	695
Depreciation / Amortization	2,184	2,015
Impairment of equity investments	3,260	772
Net gain on sale of investments	(643)	(987)
Changes in Working Capital	815	307
Loss (Income) from UCCs	54	(569)
Other	(236)	(241)
<i>CF from operations</i>	2,228	1,992
Gross CAPEX	(1,161)	(980)
Acquisitions/Divestments/Other	913	1,722
<i>CF before financing activities</i>	1,980	2,734

Net debt / Group equity ratio

EUR billion



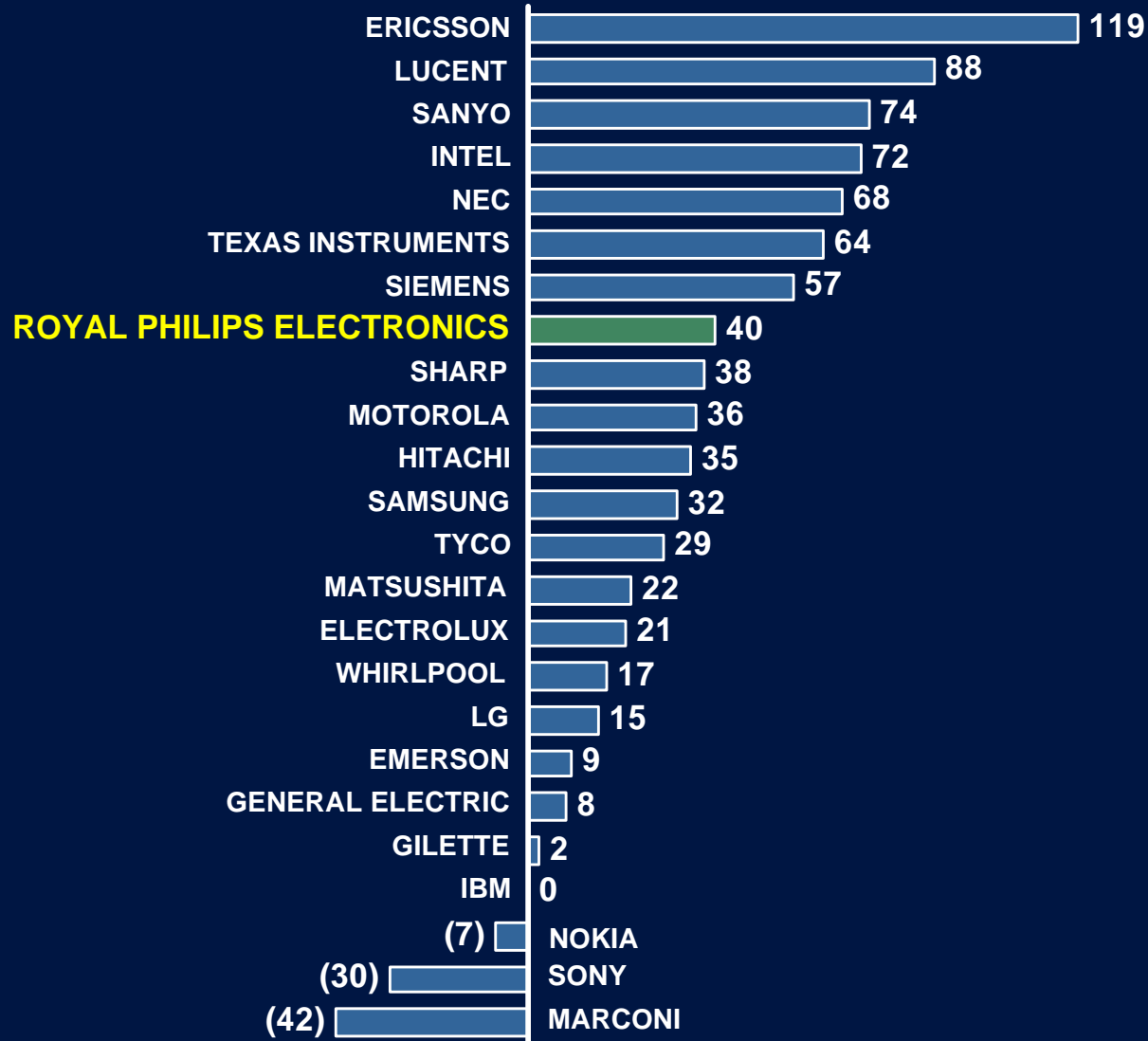
Dividend paid *EUR*



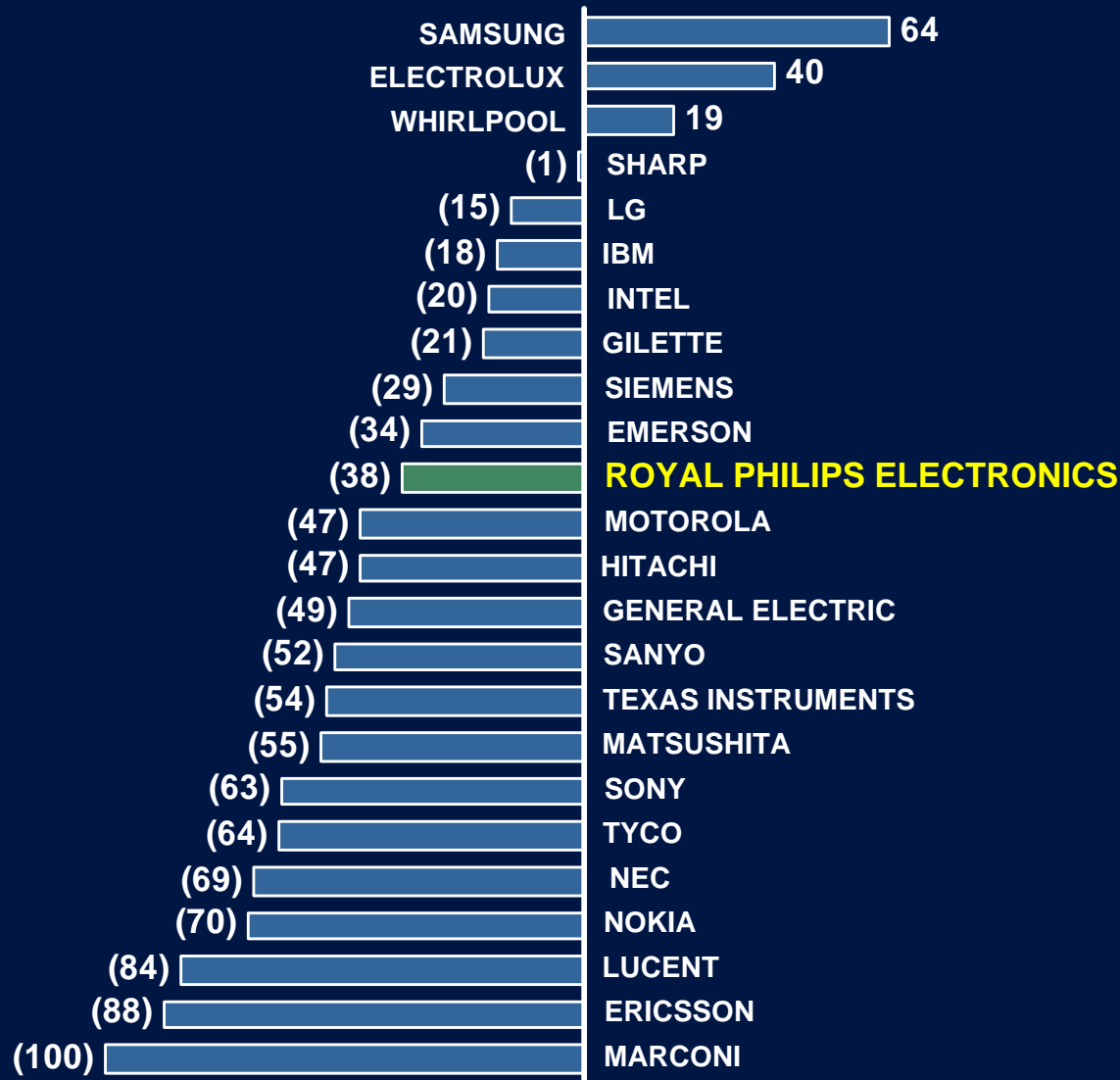
1 – Proposal subject to approval in the General Shareholders Meeting on March 25, 2004

Total Return to Shareholders – 1 Year

CAGR Jan 03' – Dec '03 - %



Total Return to Shareholders – 3 Year CAGR Jan 01' – Dec '03 - %



Agenda

- **Financial performance**
 - 4Q03
 - FY2003

- **Currency Exposure**

- **Key Financial Management Actions**

Transaction exposure on the P&L account

- **The effect of mismatch between revenues and costs for the Philips group is approx. 4% of the group sales**
- **This exposure is hedged for an average period of 6 months**

Foreign exchange exposures

Hedging policy

Transactions

Hedged

Loans and Deposits

Hedged

Equity holdings and investments

Not hedged

Translation of results

Not hedged

Translation impact on the P&L account

% reported in USD or USD related

Sales

50 – 55%

IFO

30 – 35%

Financial expenses

75 – 80%

Unconsolidated companies

90 – 95%

Translation exposure on the Balance Sheet

- Philips equity is partially exposed to the USD
- Most of our debt is in USD or swapped into USD
- Consequently the net debt: group equity ratio is predominantly protected against currency movements

Agenda

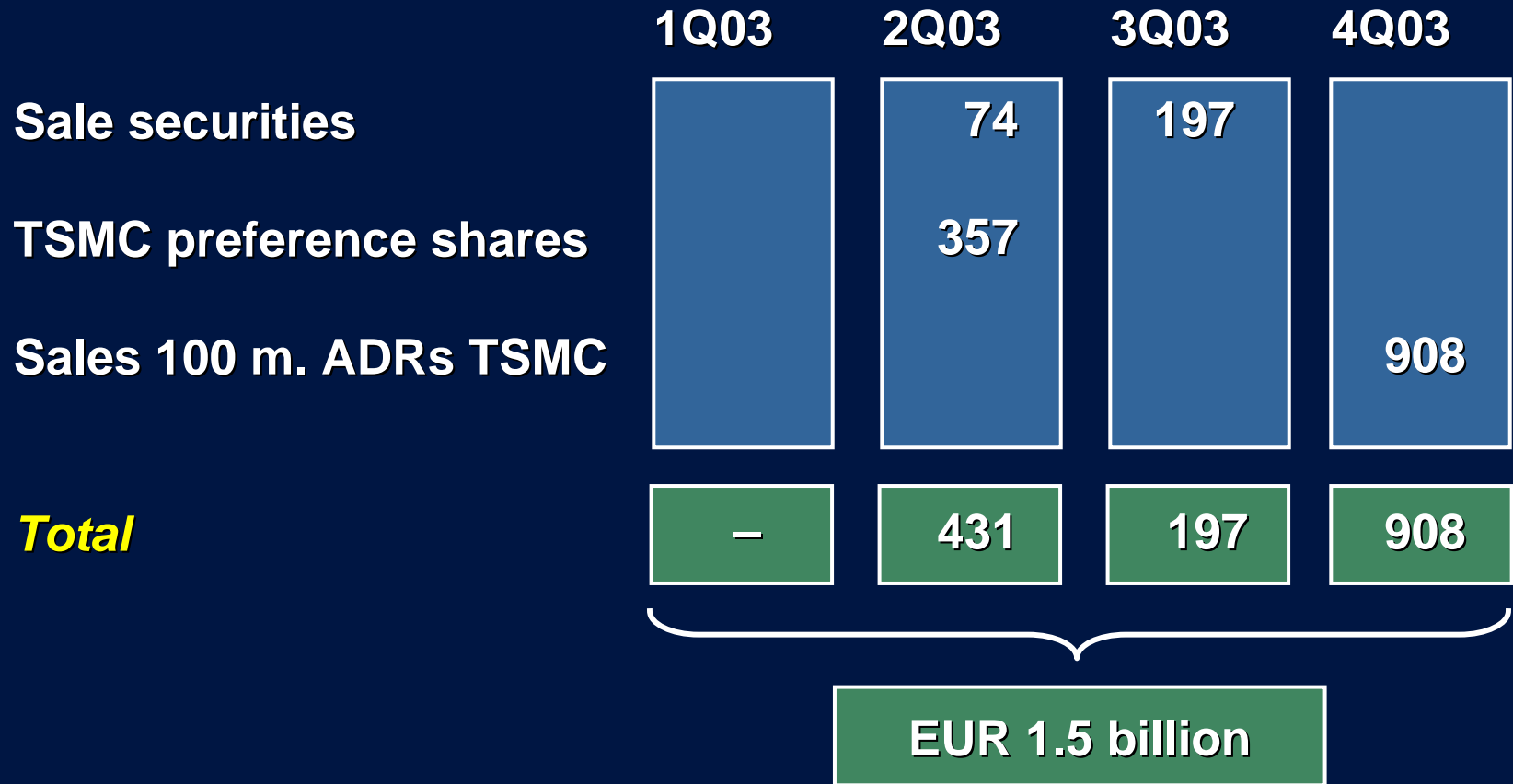
- **Financial performance**
 - 4Q03
 - FY2003

- **Currency Exposure**

- **Key Financial Management Actions**

Financial assets: Cash generated in 2003

EUR million

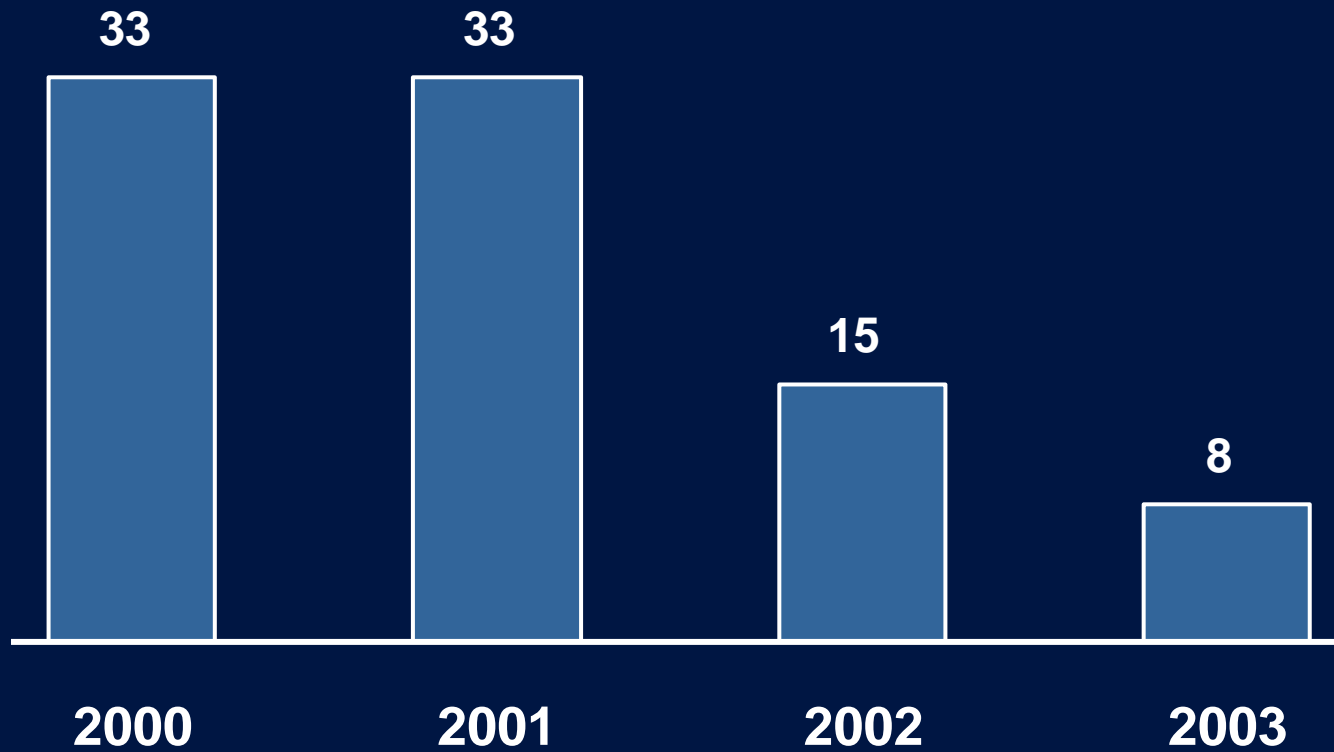


Publicly quoted investments: market value

EUR million

	Dec, 2002	Dec, 2003	Feb 05, 2004
TSMC	4,738	5,748	5,802
JDS Uniphase	117	114	148
ASML	217	211	195
FEI	118	150	141
Vivendi	589	622	669
Great Nordic	19	35	41
Atos Origin	495	1,081	1,122
Total	6,293	7,961	8,118

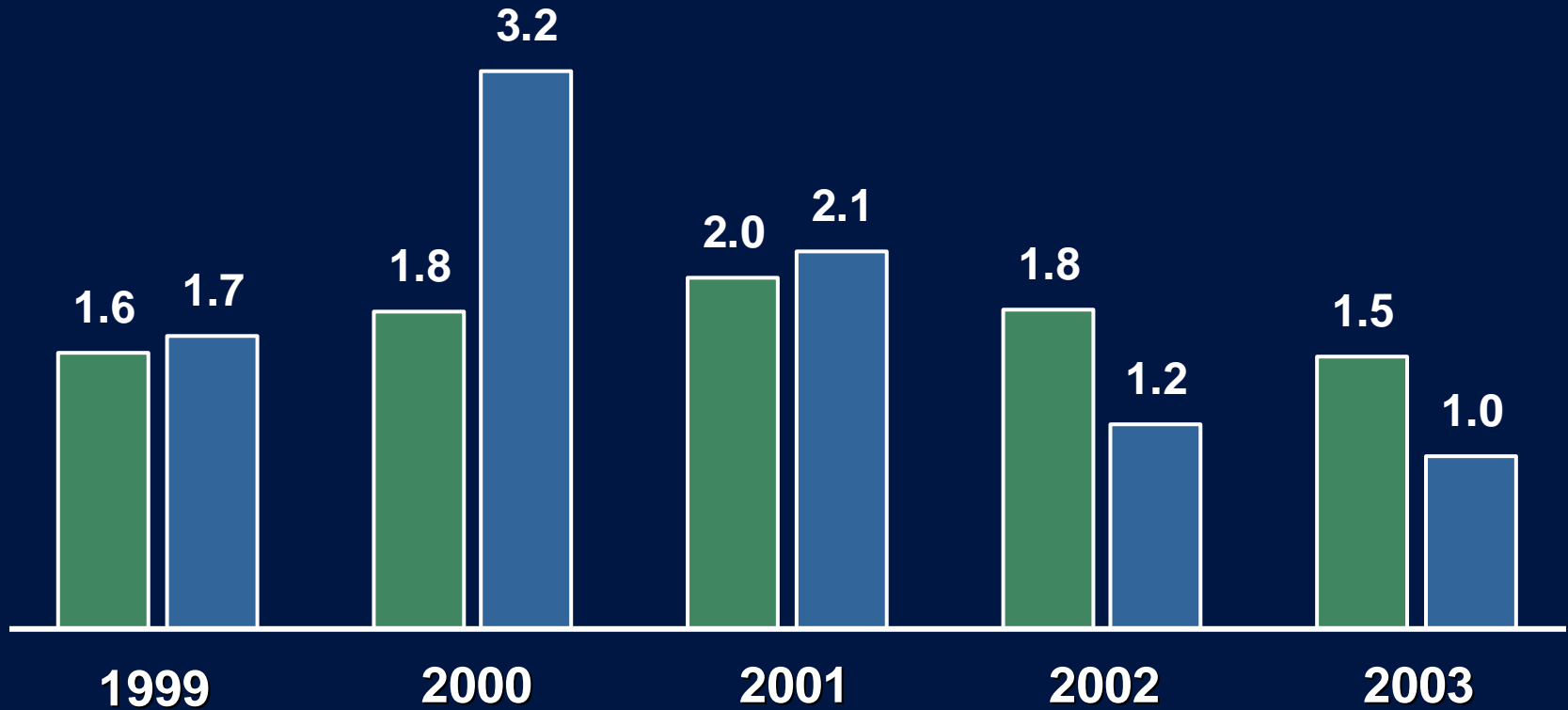
Cash conversion cycle reduction *at year-end*



Gross capital expenditures below depreciation

EURO billion

■ Depreciation fixed assets
■ Gross capex



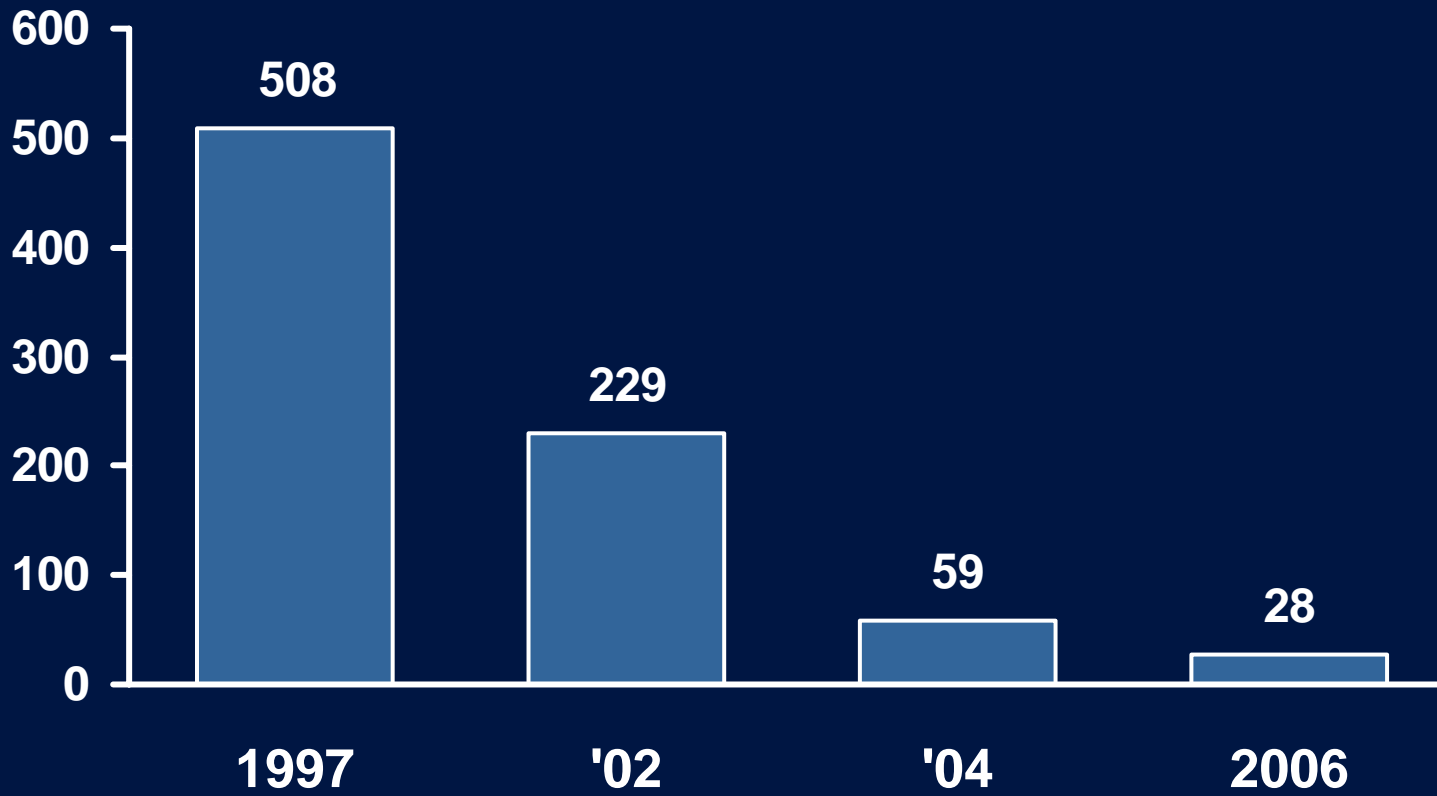
Cost savings program – EUR 1 billion

	2002	2003	Achieved
Overhead reductions	257	168	425
Medical Systems	173	169	342
R&D & other projects ¹	185	149	334
Total	615	486	1,101

Target of EUR 1 billion surpassed!

1 – Excluding R&D savings at Semiconductors & PMS

Number of different ERP systems used in Philips



Gerard Kleisterlee

Jan Hommen

Gerard Kleisterlee

2003 Management Agenda

Achieve the cost-savings target of €1 billion

€1,1 billion in savings

Return Semiconductors to profitability

Profit of €166 m. in Q4

Bring Consumer Electronics in the USA to full profitability from the fourth quarter onward

Breakeven in Q4

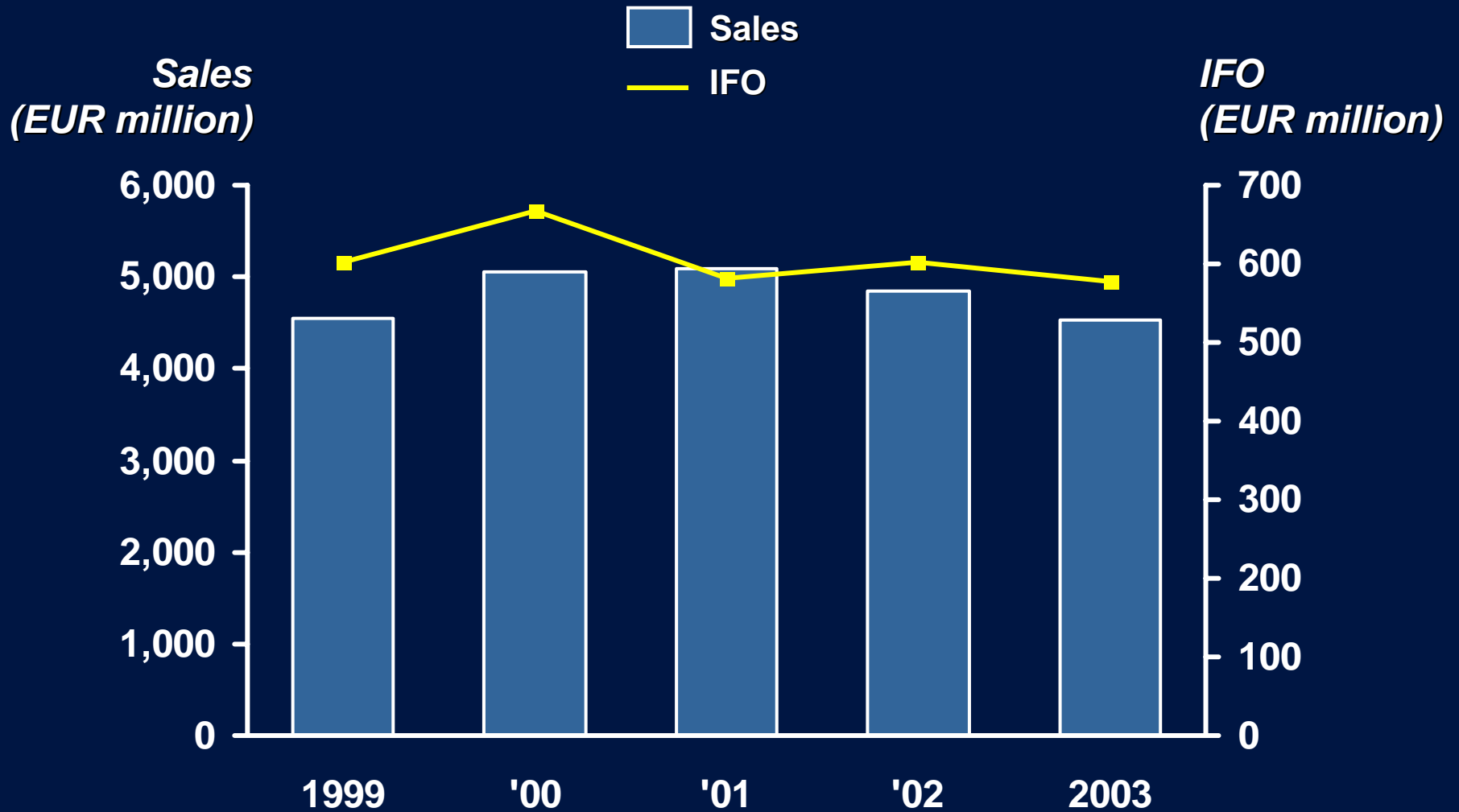
Move Medical Systems forward to achieve 14% EBITA in 2004

Program on-track

Make Philips a truly market-driven company

Solid progress

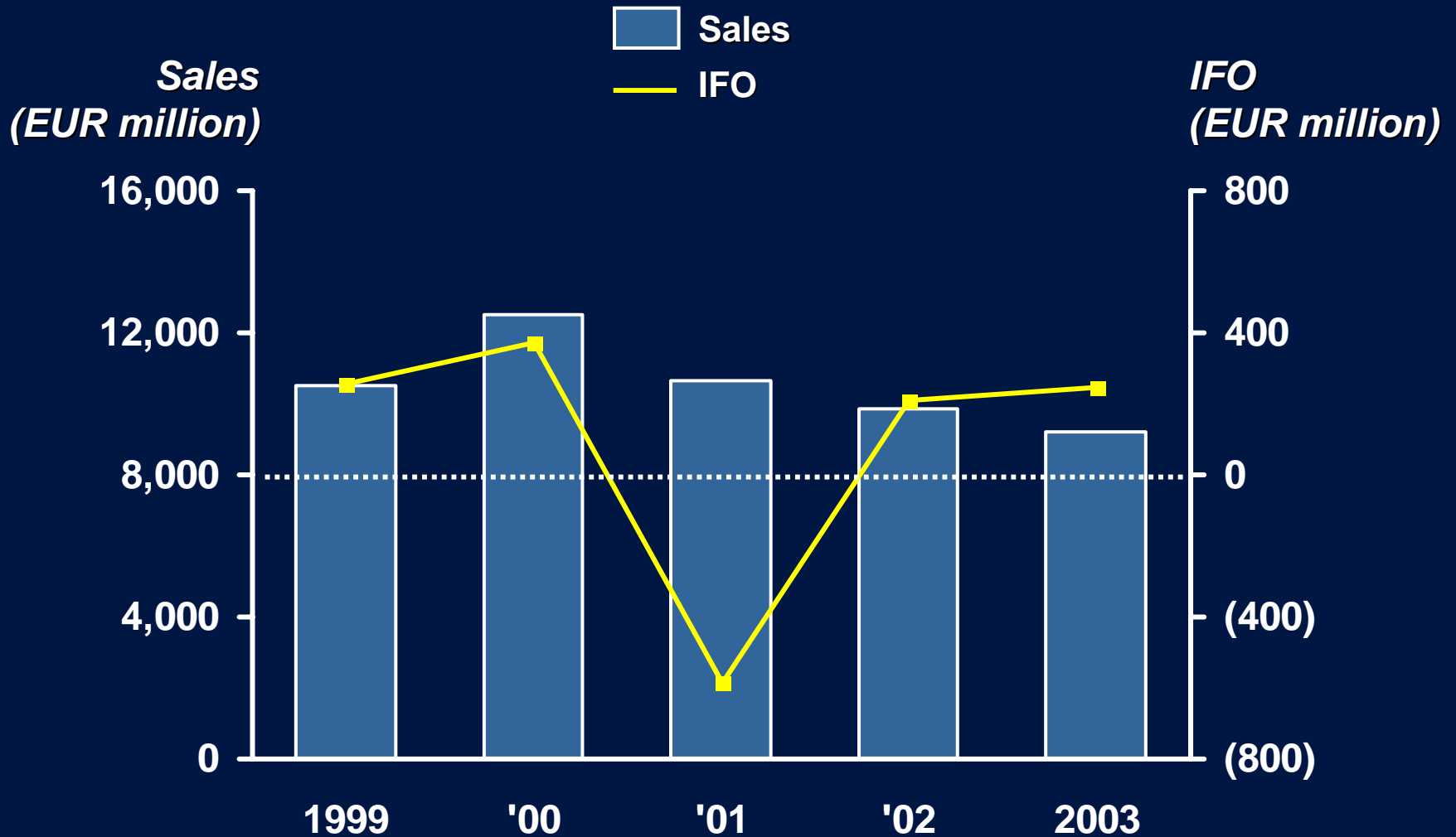
Lighting



Lighting

- **Looking for accelerated growth from new products and new technologies**
- **Continuing focus on marketing excellence and customer leadership**
- **Strong margins and cashflow**

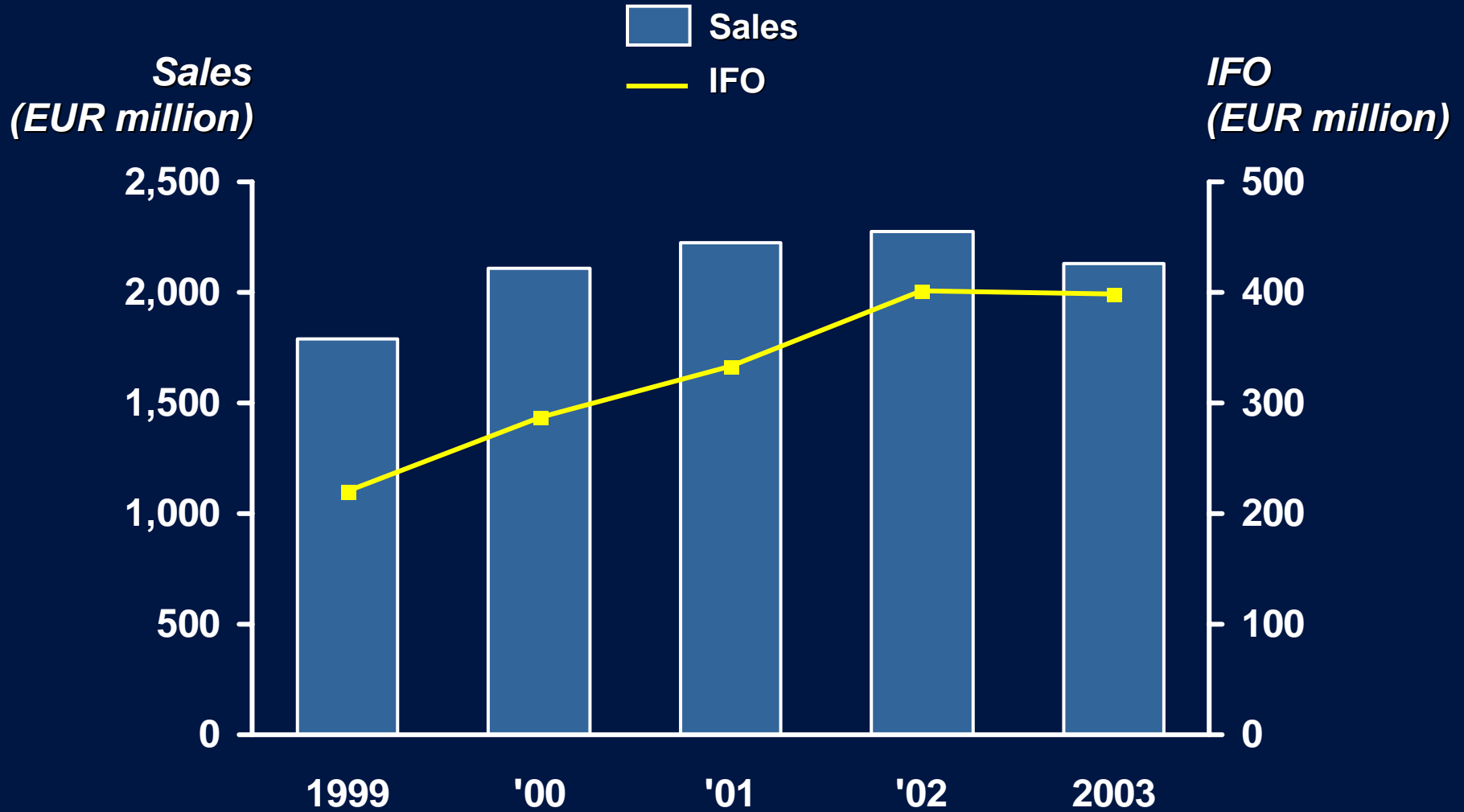
Consumer Electronics



Consumer Electronics

- **Increasing competition from non-traditional sources**
- **Renewal program defined and deployed**
- **Supply chain excellence**
- **Improving product innovation**

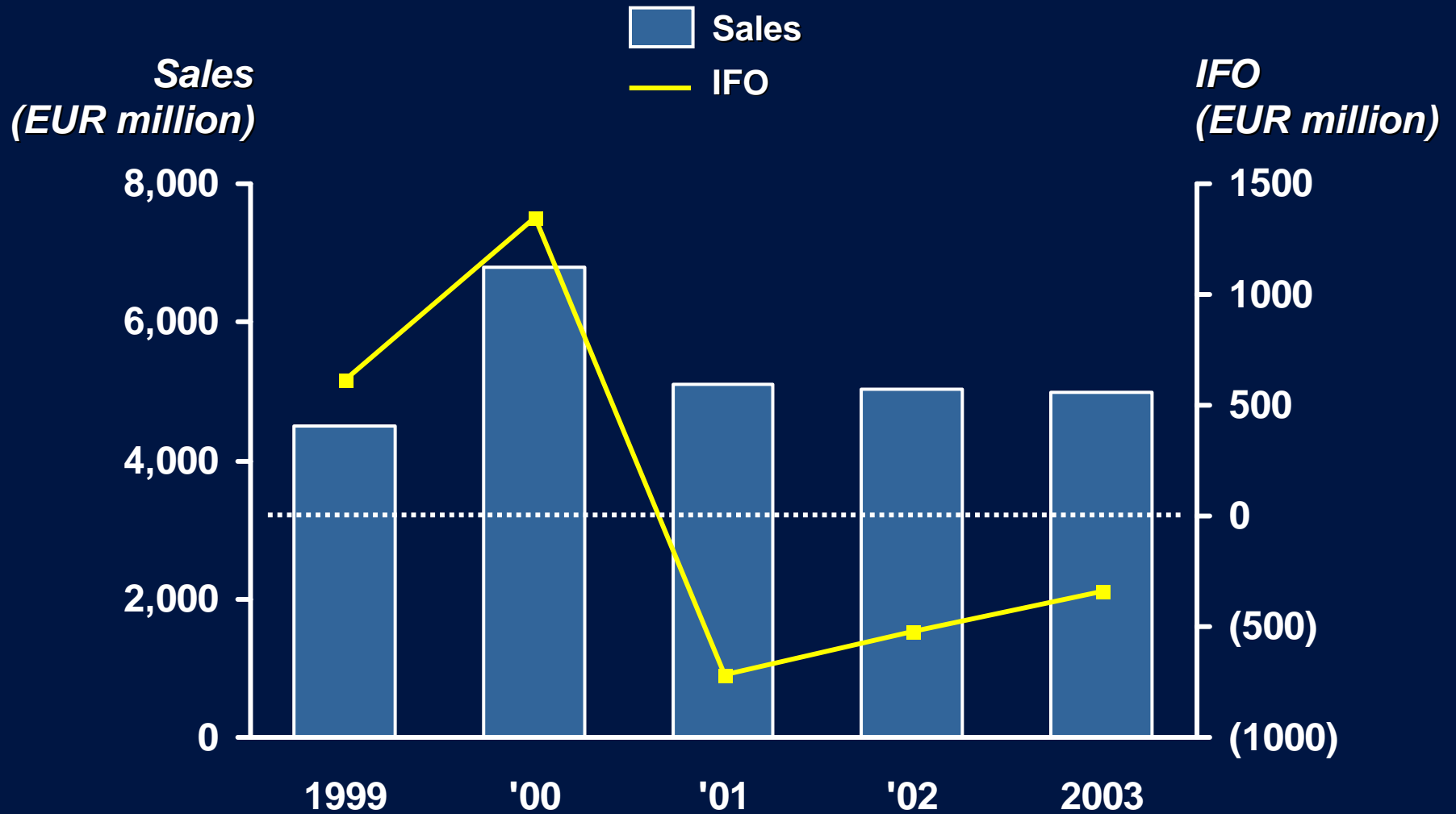
Domestic Appliances & Personal Care



Domestic Appliances & Personal Care

- **Continuing to drive innovation and further leverage the consumables business model**
- **Significant opportunity for geographic expansion**
- **Aggressive competition in North American shaving market**

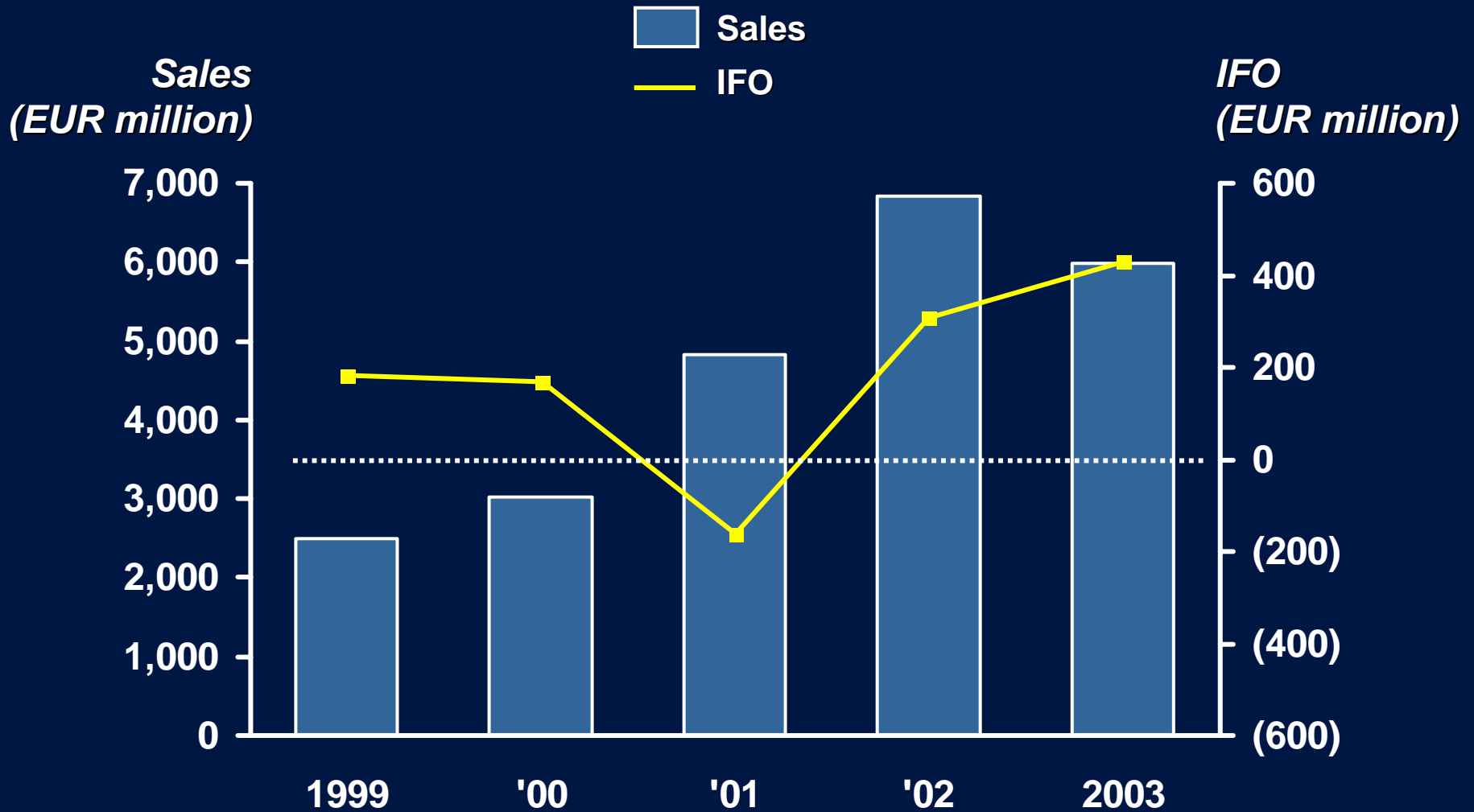
Semiconductors



Semiconductors

- **Nexperia gaining market share and RFID beginning to take-off**
- **Management actions successful in returning business to sustainable profitability**
- **Continued focus on building market leading positions**

Medical Systems



Medical Systems

- **Pressure on healthcare spending**
- **14% EBITA target on-track**
- **Renewed product portfolio**
- **EPIC alliance in Medical IT**
- **Neusoft joint venture in China**

Miscellaneous & Unconsolidated Companies

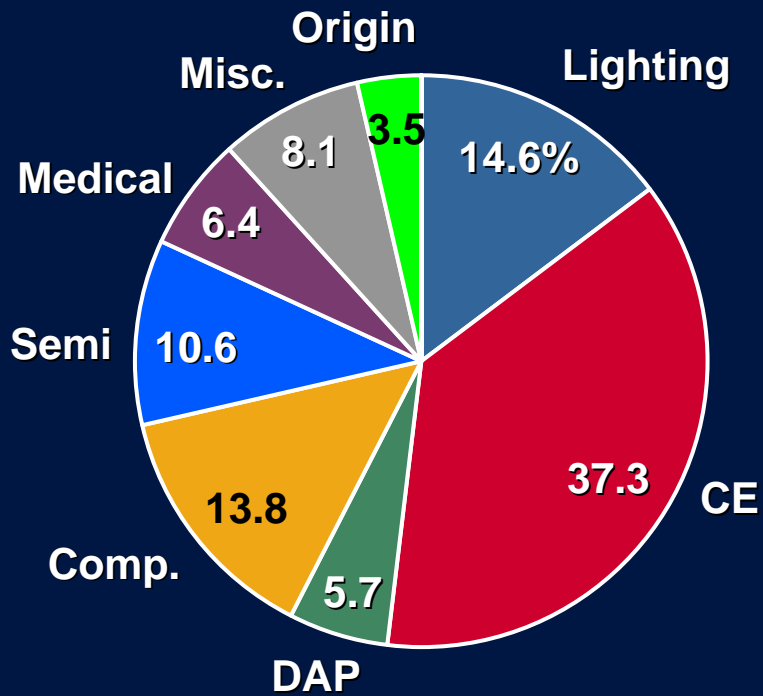
- **Optical storage turn-around very successful**
- **NavTech showing great promise**
- **LPL growth and value creation**
- **LPD necessary corrective actions**

More focused

Sales per sector, as % of total

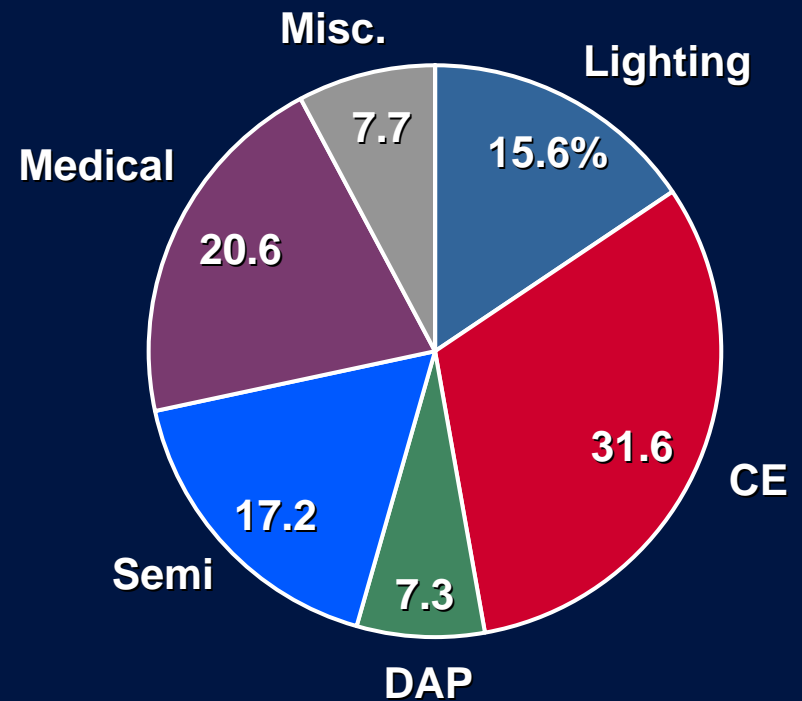
1998

100% = EUR 30.5B

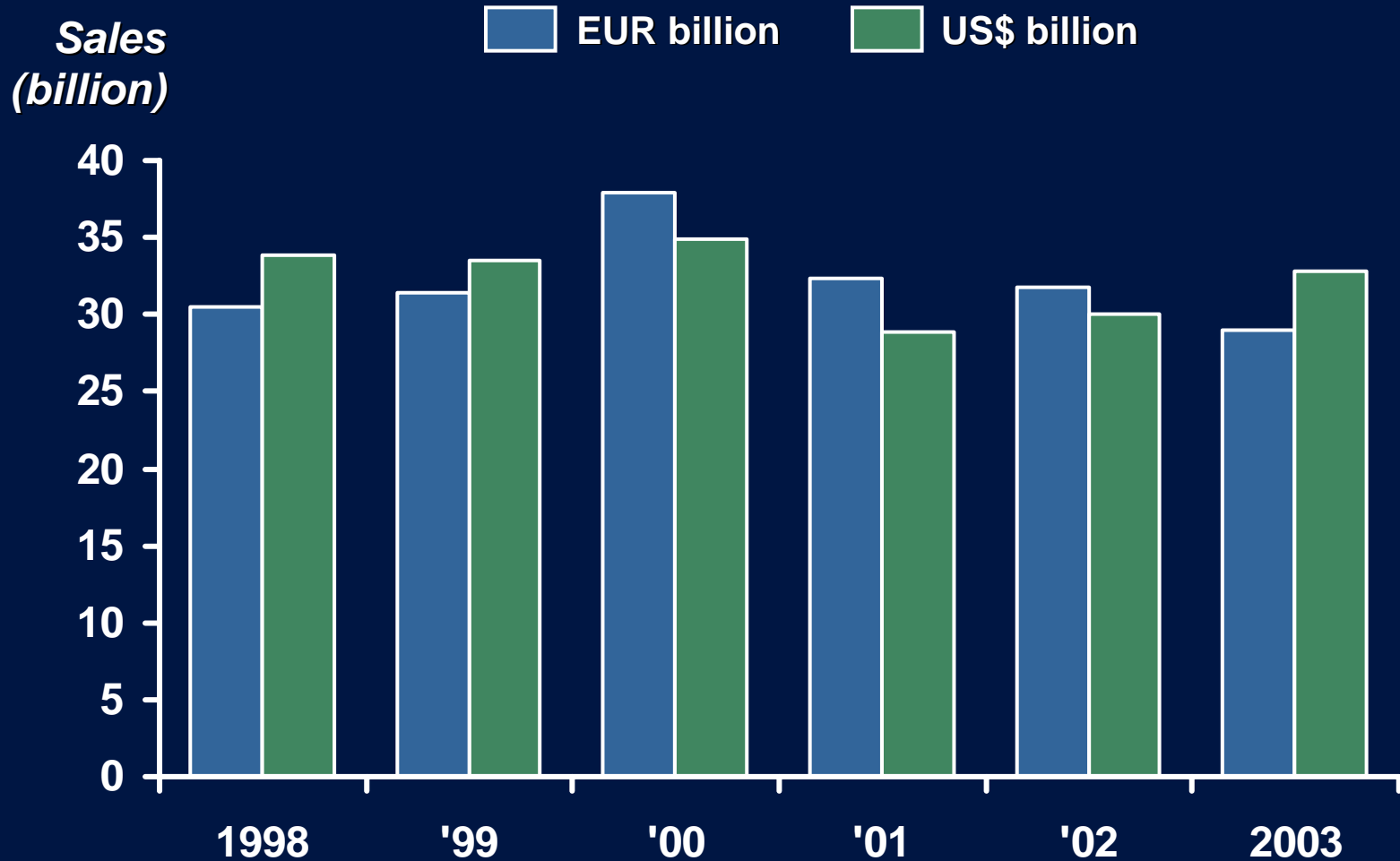


2003

100% = EUR 29.0B

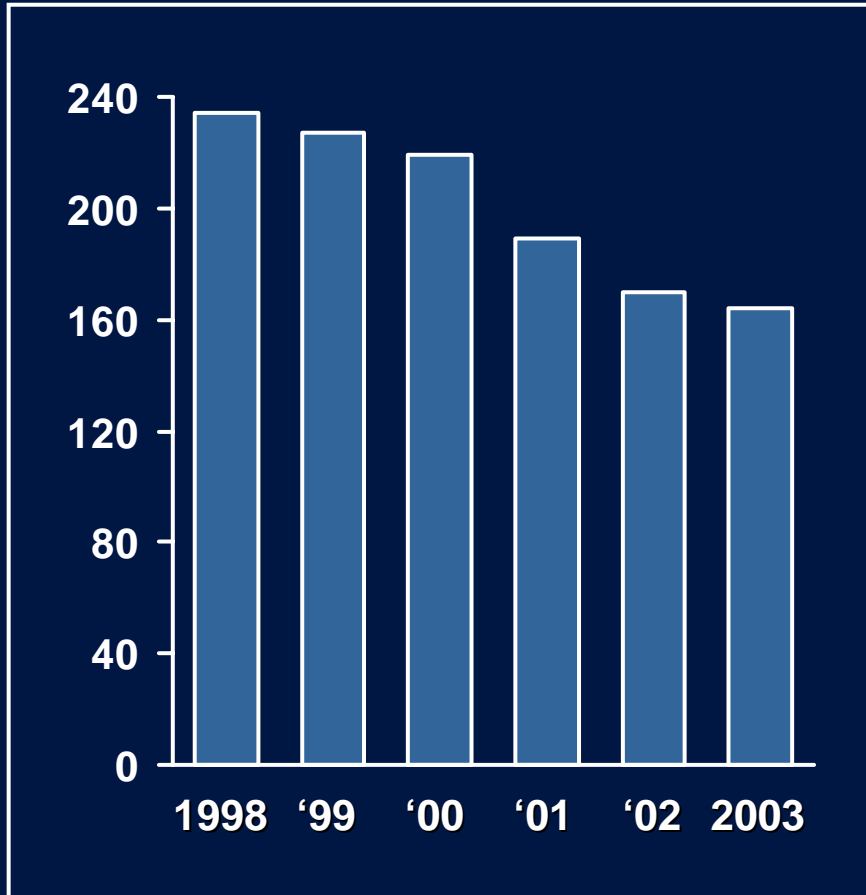


Resuming growth

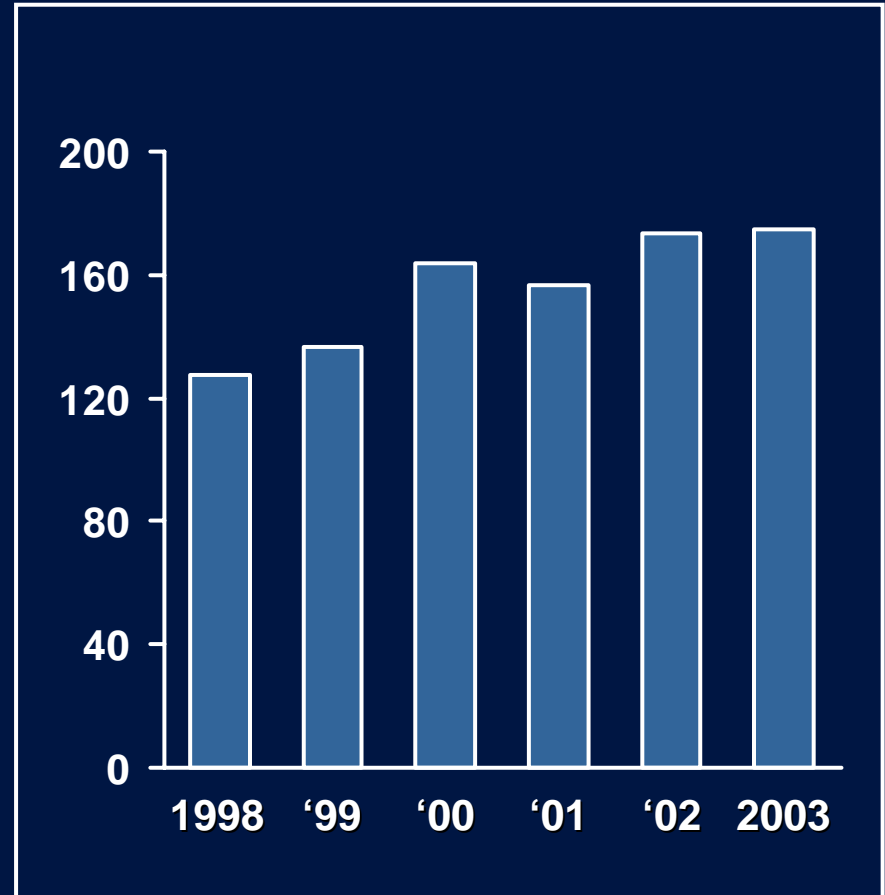


Driving productivity

Number of employees (k)



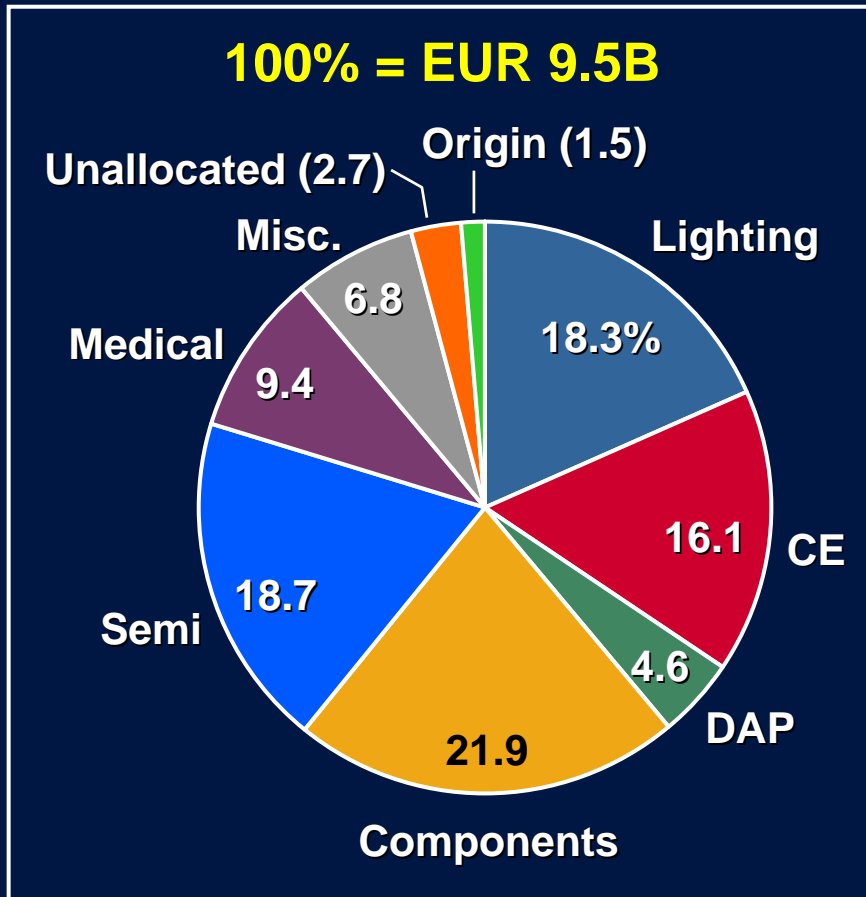
Sales per employee (k)



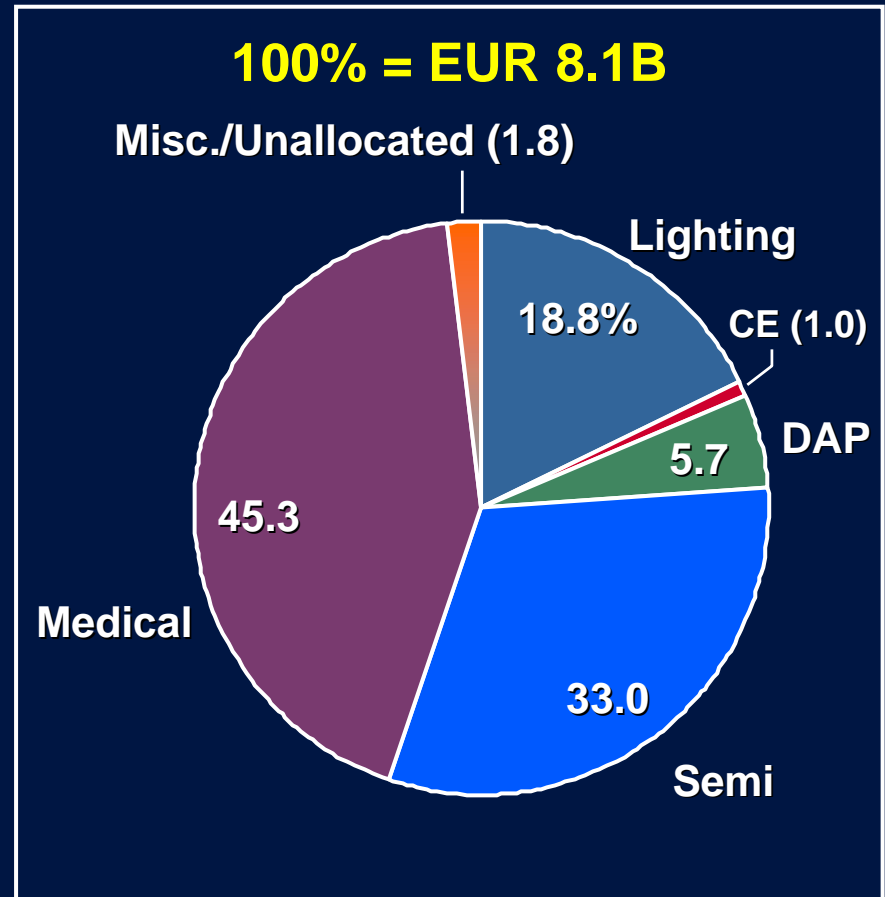
Reallocation of capital towards higher return opportunities

Net operating capital per sector, as % of total

1998



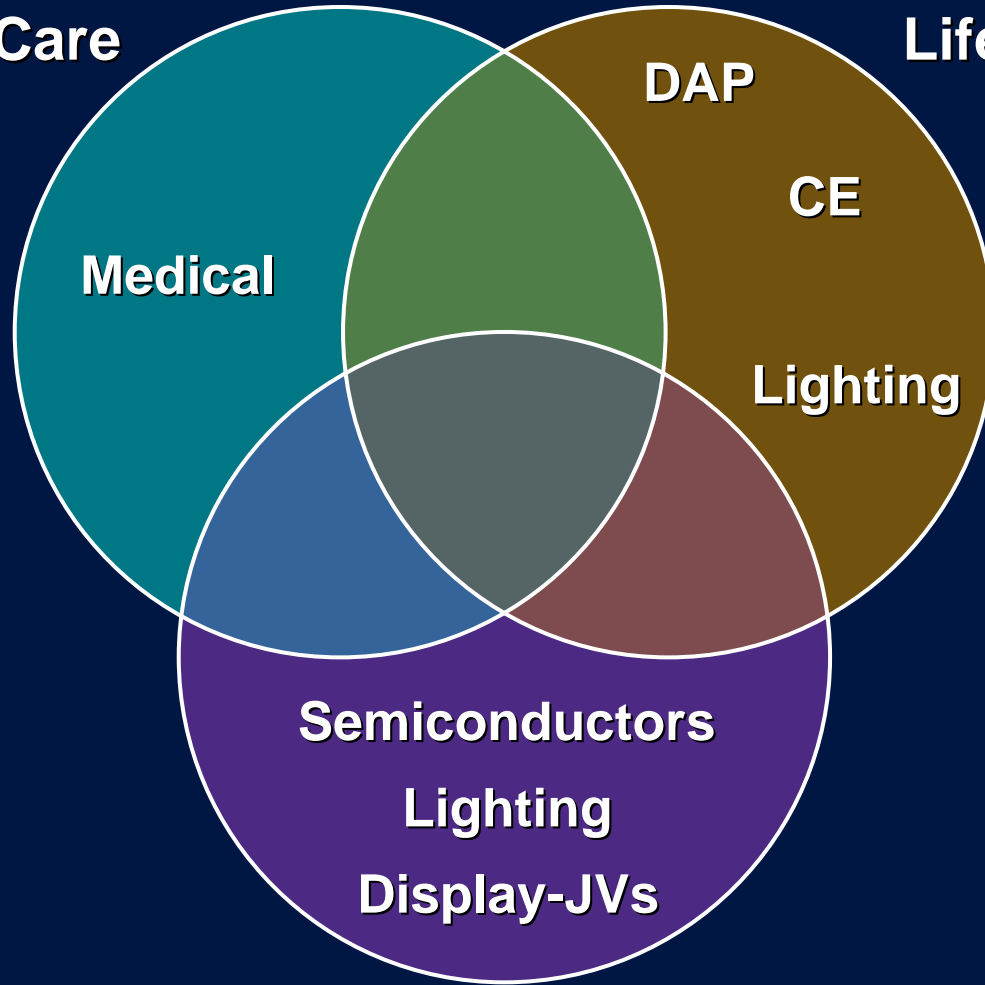
2003



One Philips

Health Care

Lifestyle



Technology

One Philips

Mission

We improve the quality of people's lives through timely introduction of meaningful technological innovations

Vision

In a world where technology increasingly touches every aspect of our daily lives, we will be a leading solutions provider in the areas of healthcare, lifestyle and technology, aspiring to become the most admired company in our industry as seen by our stakeholders

Group Strategy

- **Increase profitability through re-allocation of capital towards higher return opportunities**
- **Leverage the Philips brand and our core competencies in the areas of Healthcare, Lifestyle and Technology to grow in selected categories and geographies**
- **Build partnerships with key customers both in B2B and B2C markets**
- **Continue to invest in world class R&D and leverage strong IP position**
- **Strengthen our leadership competencies**
- **Drive productivity through Business Transformation and Operational Excellence**

Group Objectives

- **Financial Targets:**
 - Consistent returns in excess of our cost of capital
 - 7 - 10% Group IFO (in 2 to 3 years)
- **Customers and Partners:**
 - Best company to deal with (reputation surveys)
- **Employees:**
 - Best company to work for (employer surveys)
- **Society:**
 - Number 1 in our category in the DJSI

Management Agenda 2004

- **Achieve 14% EBITA in Medical Systems**
- **Implement CE renewal program to achieve stable 4 - 4.5% IFO by the end of 2005**
- **Accelerate profitable growth through sustained transformation of Philips into a market driven organization**
- **Extend number of product leadership positions and increase innovation rate across the group**
- **Continued focus on indirect costs to achieve additional savings of €250 m. (Q4 run rate)**

Additional information

Special items¹ in IFO – 4Q03

EUR million

	4Q02	4Q03
Lighting	1	(4)
CE (excl. Licenses)	(14)	(8)
Licenses	–	–
DAP	(3)	–
Semiconductors	(171)	23
Medical Systems	21	(138)
Miscellaneous	(89)	6
Unallocated	1	2
Total special items	(254)	(119)

1 – Definition of special items: see Annual Report 2003 Financial Statements and Analysis page 6

Incidentals in IFO as mentioned in 4Q03 press release

EUR million

Lighting	(24)
CE (excl. Licenses)	10
Licenses	38
DAP	–
Semiconductors	(10)
Medical Systems	(35)
Miscellaneous	74
Unallocated	–
<i>Total incidentals</i>	53

Special items affecting net income – 4Q03

EUR million

	4Q02	4Q03
In IFO	(254)	(119)
In financial Income & expenses	(80)	–
Income taxes related	148	22
In unconsolidated companies	(1,402)	(113)
<i>Special items in net income</i>	(1,588)	(210)

Special items in IFO – Full year 2003

EUR million

	2002	2003
Lighting	(14)	(14)
CE (excl. Licenses)	(14)	(31)
Licenses	–	–
DAP	(12)	–
Semiconductors	(160)	(279)
Medical Systems	(126)	(147)
Miscellaneous	285	39
Unallocated	1	1
Total special items	(40)	(431)

Special items in net income – Full year 2003

EUR million

	2002	2003
In IFO	(40)	(431)
In financial Income & expenses	(1,888)	146
Income taxes related	127	100
In unconsolidated companies	(1,613)	(80)
<i>Special items in net income</i>	(3,414)	(265)

