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Royal Philips Electronics Second Quarter 2003

July 15, 2003

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“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.

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Highlights

- Net income was positive EUR 42 m. driven by good performances in Medical, DAP and Lighting and strong results from unconsolidated companies. Cost reductions also contributed to the profit

- The sales in the quarter were 18% lower than 2Q02, which 13% was due to currency movements and 4% due to divestments
  Comparable sales showed a 1% decrease

- IFO was a loss of EUR 26 m. and included net special charges of EUR 84 m. and increased pension costs of EUR 85 m.
  In 2Q02, IFO was a profit of EUR 165 m. and included net special gains of EUR 96 m.

- Overhead cost reduction program delivered EUR 338 m. to-date surpassing the target of EUR 300 m.

Highlights

- Again record low inventories on a seasonal basis being 12.8% of MAT sales compared to 13.4% for 2Q02
- Operating activities generated a positive cash flow of EUR 148 m.
- Net debt to group equity improved to 29:71

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Profit & Loss - 2Q03
EUR million

	P&L as published a	Special items & impairments * b	a-b
IFO	(26)	(84)	58
Financial Expenses	(80)	78	(158)
Tax (25%)	47	21	26
UCCs	108	(10)	118
Minority interests	(7)	-	(7)
Net income 2Q03	42	5	37
Net income 2Q02	(1,355)	(1,539)	184

* Definition of special items: see Annual Report 2002 Management Report page 35

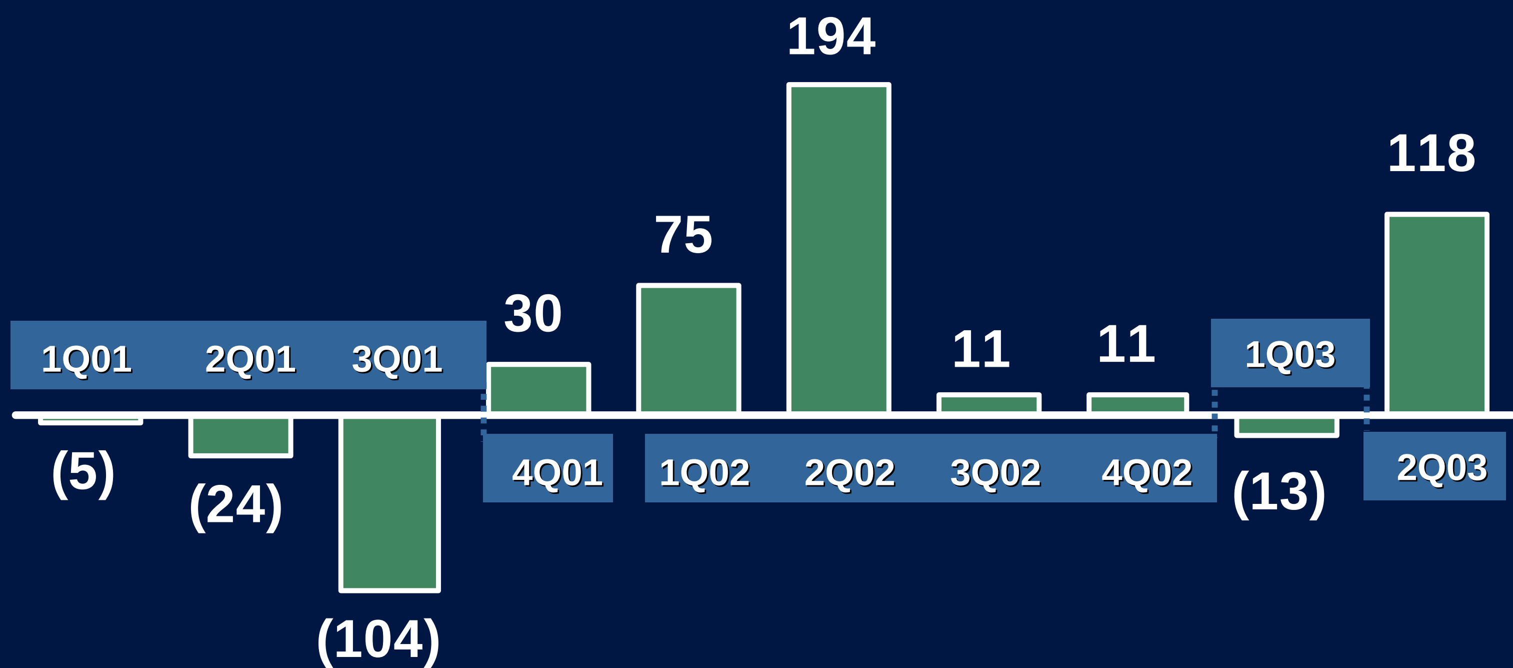
IFO and special items per PD – 2Q03

EUR million

	IFO as published a	Restructuring charges & accelerated depreciation b_1	Other special items b_2	$a-b_1-b_2$
Lighting	119	(8)	2	125
CE (ex. Licenses)	(98)	(11)	8	(95)
Licenses	56			56
DAP	75			75
Semiconductors	(139)	(90)	5	(54)
Medical Systems	153	(6)	2	157
Miscellaneous	(61)	(3)	18	(76)
Unallocated	(131)		(1)	(130)
IFO 2Q03	(26)	(118)	34	58
IFO 2Q02	165	(27)	123	69

Non-consolidated companies (excl. special items)

EUR million



Annual totals	(103)	291
inc. special items & amortiz. goodwill	(608)	(1,346)

Note: 2001 and 1Q 2002 figures are excluding amortization of goodwill

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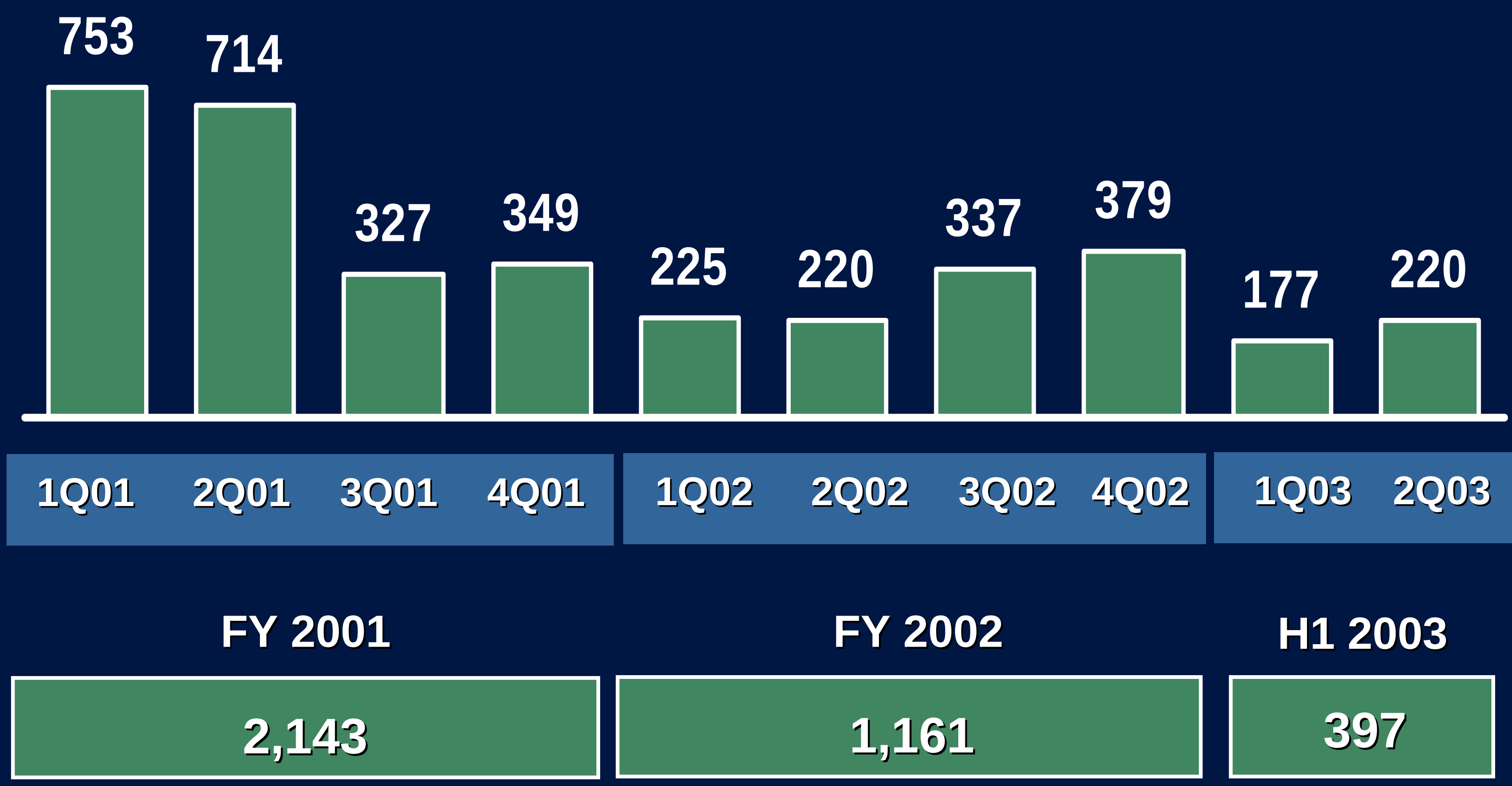
Cash balance
EUR million

	2Q02	2Q03
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
Dividends paid	(459)	(460)
Changes in debt / other	(2)	(200)
Ending balance	683	1,493

Gross capital Investments

EUR million



Inventories

as % of MAT sales

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Head Count Reduction
Personnel

	2Q03	2Q03 YTD
At the beginning of the period	166,394	170,087
Deconsolidation	(126)	(1,332)
Real movements	(2,340)	(4,827)
As of end 2Q03	163,928	163,928

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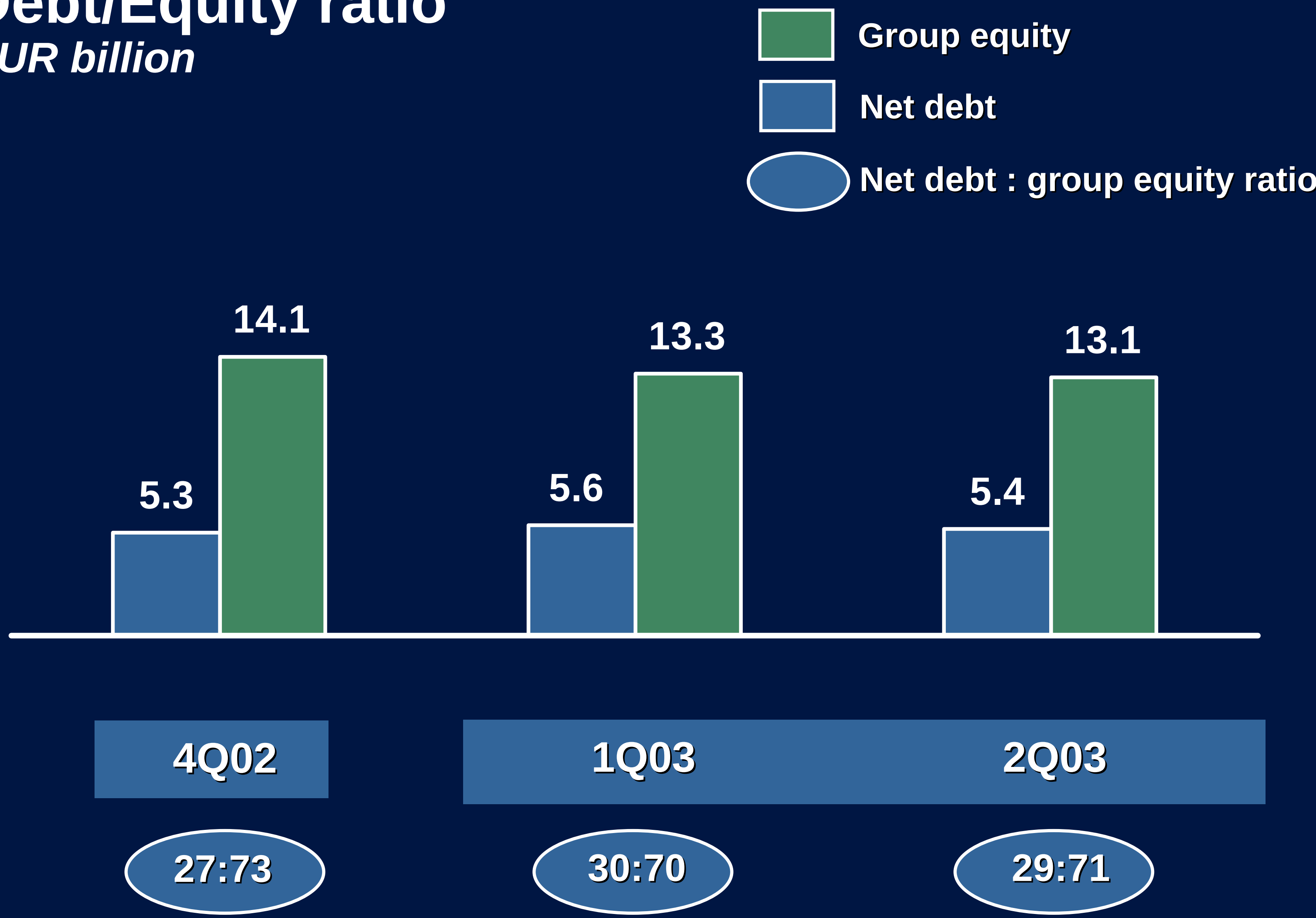
Debt/Equity ratio
EUR billion



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Lighting

Financial performance

- Sales impacted by weaker currency rates, mainly USD
- Strong comparable growth in Automotive & Special Lighting
- Luminaires and Electronics businesses saw weak markets in Europe and North America
- Operating margin improved to 11.5% driven by cost efficiencies

Looking ahead

- Strong innovation action plan to counter current softness in the markets
- Further efficiencies in operations

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Consumer Electronics

Financial performance

- Sales decrease mainly in TV and AV Lower USD impacted sales substantially
- Price erosion increased to 12% from 10%
- North America: loss EUR 25 m. excluding additional brand campaign expenses of EUR 10 m.
- License income: EUR 56 m. including EUR 18 m. past use licenses

Looking ahead

- Weak markets to continue
- Strong focus on managing the supply chain and cost control
- Biannual IFA in Berlin: new products to be unveiled
- Restructuring charges expected in
  3Q: EUR 35 m.
  4Q: EUR 10 m.
- Executing the North America turn around plan

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DAP

Financial performance

- Flat comparable sales hampered by weak currencies
- Ongoing sluggish demand in North America and slow down in Western Europe
- Oral healthcare: comparable sales growth of 23%
- Income from operations driven by purchasing efficiencies and lower costs

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

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Semiconductors

Financial performance

- Q-o-Q revenue growth (ex. MDS):
  - in EUR: - 3%
  - In USD: + 3%
- Q-o-Q comparable revenue growth MDS: +9%
- SARS negatively affected mobile communication & consumer sales
- Book-to-bill ratio ex. MDS at 1.06
- Special charges of EUR 90 m. in San Antonio & Albuquerque
- Utilization rate at 66%

Looking ahead

- Expected sequential revenues growth in 3Q approx. same as in 2Q03 (in USD)
- Restructuring according to plan
- Expected special charges for Albuquerque and San Antonio in 3Q: EUR 120 m.
- Q4 expected to be profitable

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Medical Systems

Financial performance

- Nominal sales 18% lower; weaker currencies impacted sales with 20%
- Comparable sales increase of 8% driven by CMS (Patient Monitoring), Customer Service and Medical IT
- Sales growth mainly in Europe and Asia Pacific
- IFO driven by increased sales, higher margins and cost reductions
- EBITA ex. special items at 12.6%

Looking ahead

- Cautious market outlook due to continued macro economic weakness
- Integration program to achieve EUR 350 m. savings at end of 2003 on track

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Miscellaneous

Financial performance

- Shortfall in sales mainly visible in ETG and Assembléon
- Optical Storage continued positive trend with income slightly improved
- Special gains of EUR 15 m. included gains on real estate disposals

Looking ahead

- Divestment program of Corporate Investments is moving ahead
- Non cash dilution gain of approx. EUR 65 m. related to Atos Origin (to be reported under results UCCs in 3Q)

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Unallocated

Financial performance

- Corporate and regional overheads were 24% lower y-o-y, driven by savings from the overhead cost reduction program
- Pension costs increase by EUR 67 m. compared to previous year

Looking ahead

- Ongoing focus on cost savings

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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

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