

PHILIPS

Royal Philips Electronics Third Quarter 2003

October 14, 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

- **Net income was positive EUR 124 m. driven by good performances in Medical, Lighting and DAP and strong results from unconsolidated companies**
- **Comparable sales growth was positive 6% compared to 3Q02. Nominal sales decreased with 4% due to currency movements - 7% and divestments - 3%**
- **IFO was a loss of EUR 126 m. and included net special charges of EUR 197 m. and increased pension costs of EUR 84 m. In 3Q02, IFO was a profit of EUR 135 m. and included net special gains of EUR 60 m.**
- **Overhead cost reduction program delivered EUR 379 m. to-date**

Highlights

- **Again record low inventories on a seasonal basis being 13.4% of MAT sales compared to 14.1% for 3Q02**
- **Operating activities generated a positive cash flow of EUR 376 m.**
- **In 3Q03 net debt reduced by EUR 201 m. resulting in an improved net debt to group equity of 28:72**

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Profit & Loss - 3Q03

EUR million

	P&L as published	Special items & impairments *	
	a	b	a-b
IFO	(126)	(197)	71
Financial Expenses	(24)	68	(92)
Tax (25%)	54	49	5
UCCs	239	54	185
Minority interests	(3)	-	(3)
Other cum. effect	(16)	-	(16)
Net income 3Q03	124	(26)	150
Net income 3Q02	(330)	(303)	(27)

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

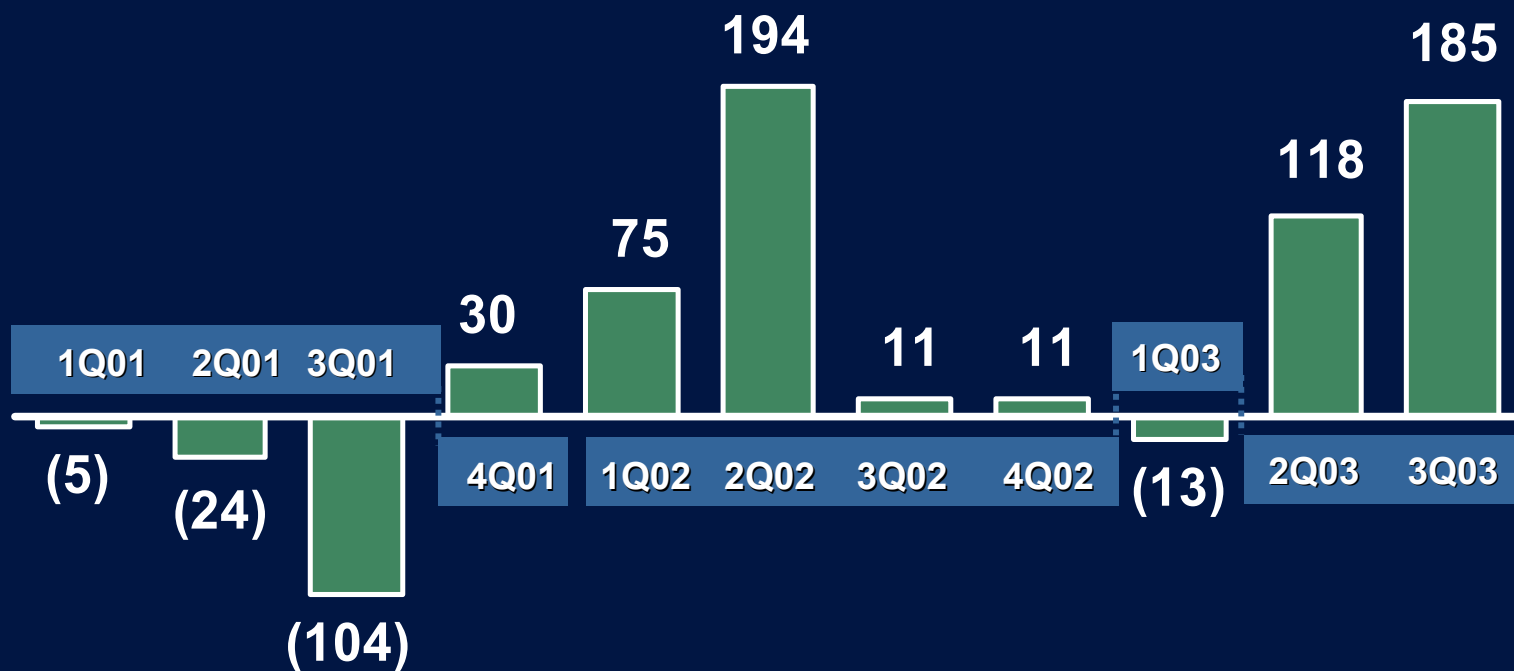
IFO and special items per PD – 3Q03

EUR million

	IFO as published	Restructuring charges & accelerated depreciation	Other special items	
	a	b ₁	b ₂	a-b ₁ - b ₂
Lighting	124	(6)	5	125
CE (ex. Licenses)	(75)	(28)		(47)
Licenses	43			43
DAP	82			82
Semiconductors	(191)	(157)	5	(39)
Medical Systems	138	(3)	(1)	142
Miscellaneous	(107)	(14)	2	(95)
Unallocated	(140)			(140)
IFO 3Q03	(126)	(208)	11	71
IFO 3Q02	135	(28)	88	75

Non-consolidated companies (excl. special items)

EUR million



Annual totals



inc. special items & amortiz. goodwill



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

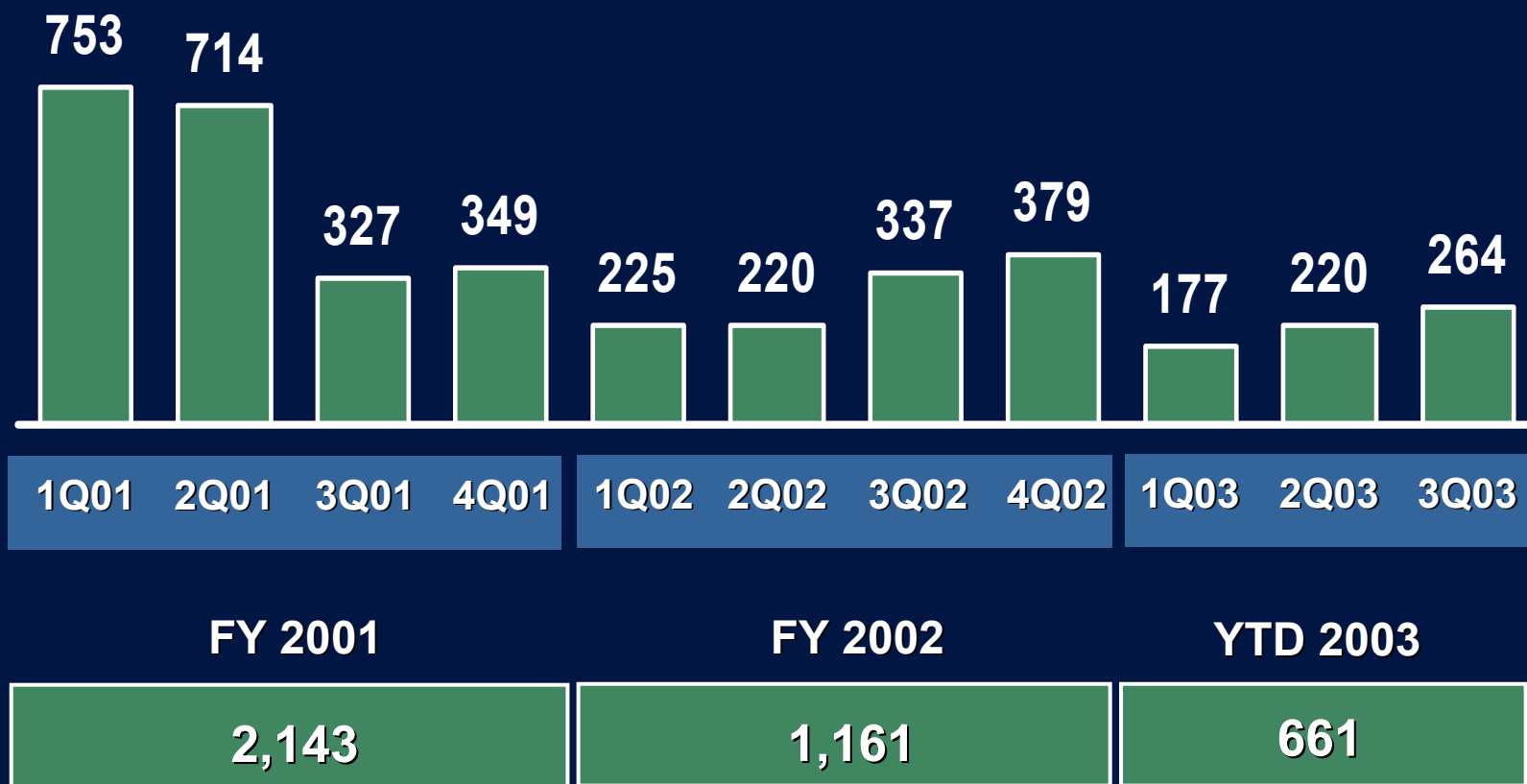
Cash balance

EUR million

	3Q02	3Q03
Beginning balance	683	1,493
Net cash from operating activities	344	376
Gross capital expenditures	(337)	(264)
Acquisitions / divestments	176	(76)
Other cash from investing activities	82	174
Dividend paid	-	-
Changes in debt / other	(126)	(820)
Ending balance	822	883

Gross capital investments

EUR million



Gross capital expenditures per PD – 3Q03

EUR million

	3Q02	3Q03	YTD 3Q03
Lighting	35	36	112
CE	(13)	25	63
DAP	18	33	58
Components	21	-	-
Semiconductors	183	92	213
Medical Systems	27	21	63
Miscellaneous	57	57	151
Unallocated	9	-	1
Gross Capital expenditures	337	264	661

Inventories

as % of MAT sales



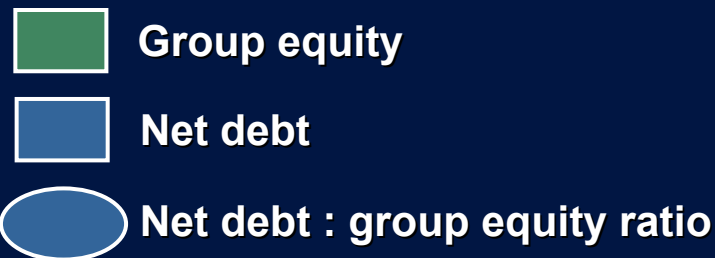
Head count reduction

Personnel

	3Q03	3Q03 YTD
At the beginning of the period	163,928	170,087
Deconsolidation	(71)	(1,403)
Real movements	2,607	(2,220)
As of end 2Q03	166,464	166,464

Net debt / Group equity ratio

EUR billion



Lighting

Financial performance

- **Market share gained in flat market**
- **Comparable sales increase 2%. Automotive & Special Lighting and Lighting Electronics increased while Luminaires decreased**
- **Sales of Lamps solid in spite of industry pressure**
- **Profitability approx. same level as 2Q03 but lower than 3Q02 due to currency effects and lower gross margins**

Looking ahead

- **Ongoing softness in markets**
- **Strict cost control, enhancing purchase savings and gaining efficiencies in utilization of assets**
- **Expanding capacity for innovative products (UHP, Xenon)**

Consumer Electronics

Financial performance

- CE ex Licenses sales EUR 2,147 m. Comparable growth 6% driven by Asia Pacific. Increased sales of TVs, GSM, STB and monitors
- Loss of EUR 23 m. in NA including EUR 15 m. for sales and brand support
- Restructuring charges of EUR 28 m. for TV factory in France
- Sales Licenses EUR 61 m.
- IFO Licenses EUR 43 m.

Looking ahead

- Business renewal program to realign the businesses, simplify the organization and streamline global processes. Program aiming to achieve EUR 400 m. annual savings by end 2005
- North America expected to be close to break-even in 4Q
- Additional income of EUR 35 m. for past used licenses expected in 4Q
- Restructuring charges of EUR 15 m. expected in 4Q

DAP

Financial performance

- **Comparable sales decrease due to weaker demand, primarily in West Europe**
- **Profitability margin up to 17.6% due to strong margin management and delayed advertising and promotion costs**
- **Ongoing cost control and purchasing efficiencies**

Looking ahead

- **Weakness in markets across all regions except China**
- **Higher than normal marketing investments planned for 4Q**
- **Ongoing focus on innovation, purchasing efficiencies, cost savings and efficient utilization of capital**

Semiconductors

Financial performance

- **Sequential revenue growth (ex. MDS): +9 % in USD: Communications (+13%) & Consumer (+19%). Sequential growth MDS: +18% in USD**
- **Book-to-bill ratio ex. MDS at 1.16**
- **Special charges of EUR 115 m. in San Antonio & Albuquerque and EUR 42 m. for factories in Europe**
- **Other negative incidentals: power failure in NA (EUR 6 m.) and obsolescence (EUR 11 m.)**
- **Utilization rate at 69% in 3Q**

Looking ahead

- **Expectation to be profitable in 4Q reconfirmed**
- **Expected sequential revenue growth (ex. MDS) in 4Q approx. same as in 3Q (in USD)**
- **R&D cost reduction according to plan; sharpened focus on spending**
- **Continued design wins for Nexperia particularly in DVD+RW**
- **28% of DVD recorders sold in 2003 will be based on Nexperia**

Medical Systems

Financial performance

- **Comparable sales increase of 9% mainly driven by Cardiac and Monitoring Systems (Patient Monitoring), Medical IT and Customer Services**
- **IFO exceeded last year due to better product mix and lower costs of organization**
- **EBITA ex. special items at 11.8%**

Looking ahead

- **Continued cautious outlook due to macroeconomic weakness and lower public spending, particularly in Europe**
- **Increasing competition and more price pressure**
- **Strong continued focus on innovation, productivity and cost control**
- **Integration program to achieve EUR 350 m. savings at the end 2003 on-track**

Miscellaneous

Financial performance

- **Nominal sales decrease due to divestment of CSI and lower sales at ETG and Assembléon, resulting in IFO loss of EUR 35 m., which included EUR 12 m. restructuring charges**
- **General research and other development projects on new technologies impacted negatively IFO with EUR 79 m.**
- **Optical Storage continued to improve**

Looking ahead

- **Additional activities in Corporate Investments portfolio to be divested given suitable market conditions**

Unallocated

Financial performance

- **Corporate and regional overheads were EUR 4 m. lower than last year however IFO was affected by incidental results**
- **Unallocated pension costs increase by EUR 64 m. compared to previous year**

Looking ahead

- **Ongoing focus on cost control**

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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**

