

# PHILIPS

## Royal Philips Electronics First Quarter 2004

*April 13, 2004*

# **“Safe Harbor” Statement under the Private Securities Litigation Reform Act of Oct. 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) in particular the outlook paragraph in this report. 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'.**

# Agenda

- **Highlights**

- **Performance**

- **Agenda for 2004**

# Highlights

- **Net income was EUR 550 m. driven by good results in Lighting, Medical Systems and Semiconductors and strong performance from unconsolidated companies**
- **Comparable sales growth was 8% compared to 1Q03. Nominal sales were up 2% with weaker currencies amounting for a decline of 7% and +1% from consolidations**
- **IFO was a profit of EUR 218 m., an improvement of EUR 186 m. compared to last year**
- **Pension costs amounted to EUR 132 m. including a settlement charge of EUR 34 m. Pensions costs are expected to be approximately EUR 288 m. for the full year 2004, versus earlier guidance of EUR 350 m.**

# Highlights

- **Substantial income from unconsolidated companies of EUR 457 m. driven by strong results of LPL of EUR 215 m. and a non-operational dilution gain in Atos Origin of EUR 156 m.**
- **Low inventories on a seasonal basis being 12.1% of MAT sales**
- **Strong cash flow from operations of EUR 404 m.**
- **In 1Q04 the net debt to group equity ratio was 18:82**

# Agenda

- **Highlights**

- **Performance**

- **Agenda 2004**

# Summary – 1Q04

*EUR million*

	1Q03	1Q04
<b>Sales</b>	<b>6,499</b>	<b>6,631</b>
<b>Income from operations</b>	<b>32</b>	<b>218</b>
<b>Unconsolidated companies</b>	<b>(24)</b>	<b>457</b>
<b>Net income</b>	<b>(69)</b>	<b>550</b>
<b>Cash flow before financing activities</b>	<b>(356)</b>	<b>141</b>

# Quarterly sales growth y-o-y

%

■ Comparable  
■ Nominal



# Sales to thirds by sector – 1Q04

*EUR million*

	1Q03	1Q04	% nom	% comp
Medical Systems	1,329	1,258	(5)	4
DAP	458	393	(14)	(9)
CE	1,943	2,011	3	9
Lighting	1,154	1,077	(7)	0
Semiconductors	1,126	1,304	16	24
Misc. / Unallocated	489	588	20	12
<b>Group sales</b>	<b>6,499</b>	<b>6,631</b>	<b>2</b>	<b>8</b>

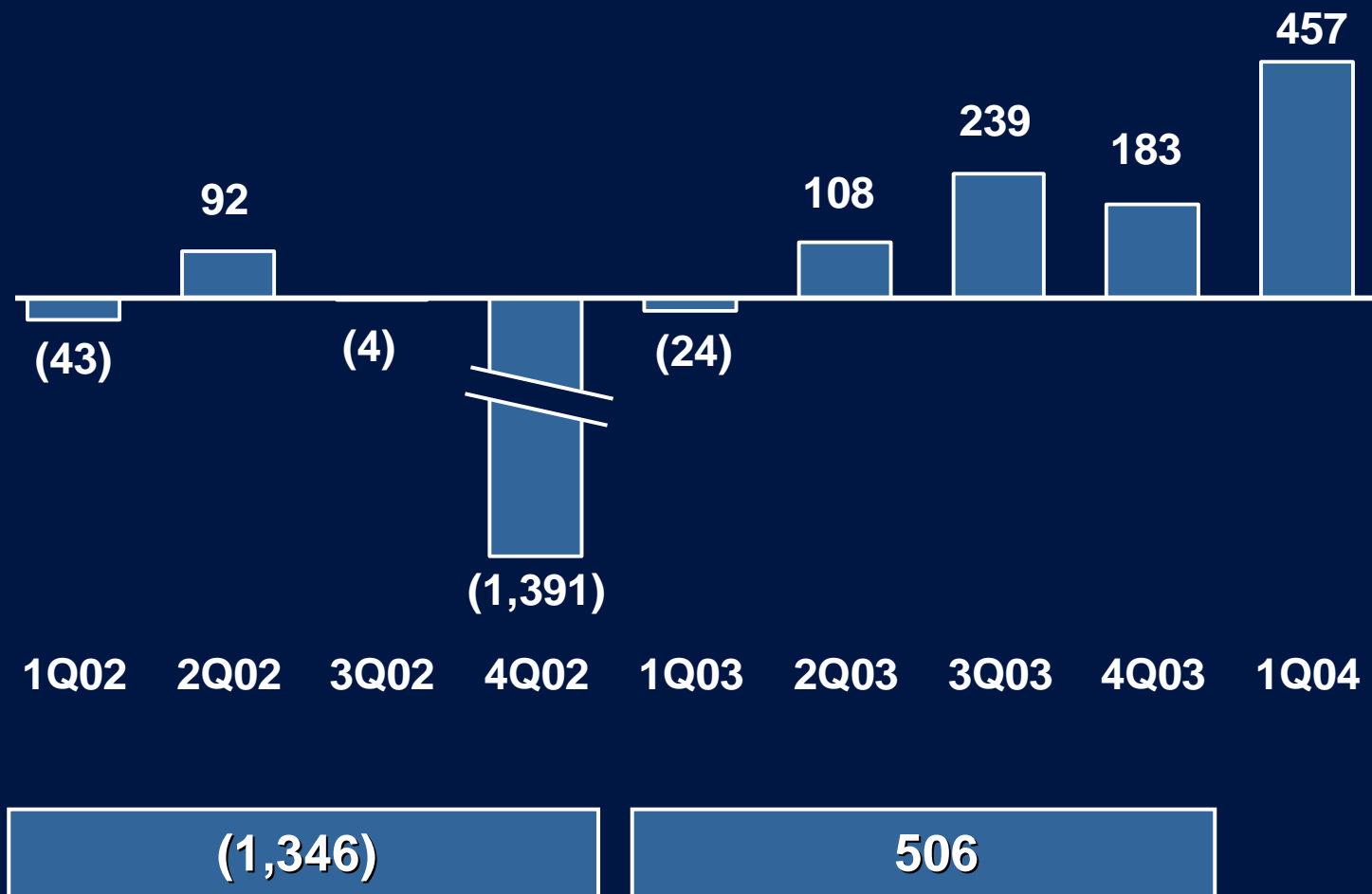
# IFO by sector – 1Q04

*EUR million*

	1Q03	1Q04
Medical Systems	70	92
DAP	81	44
CE (excl. Licenses)	(28)	(10)
Licenses	101	69
Lighting	173	165
Semiconductors	(178)	75
Miscellaneous	(56)	(63)
Unallocated	(131)	(154)
<b>Group IFO</b>	<b>32</b>	<b>218</b>

# Results unconsolidated companies

*EUR million*



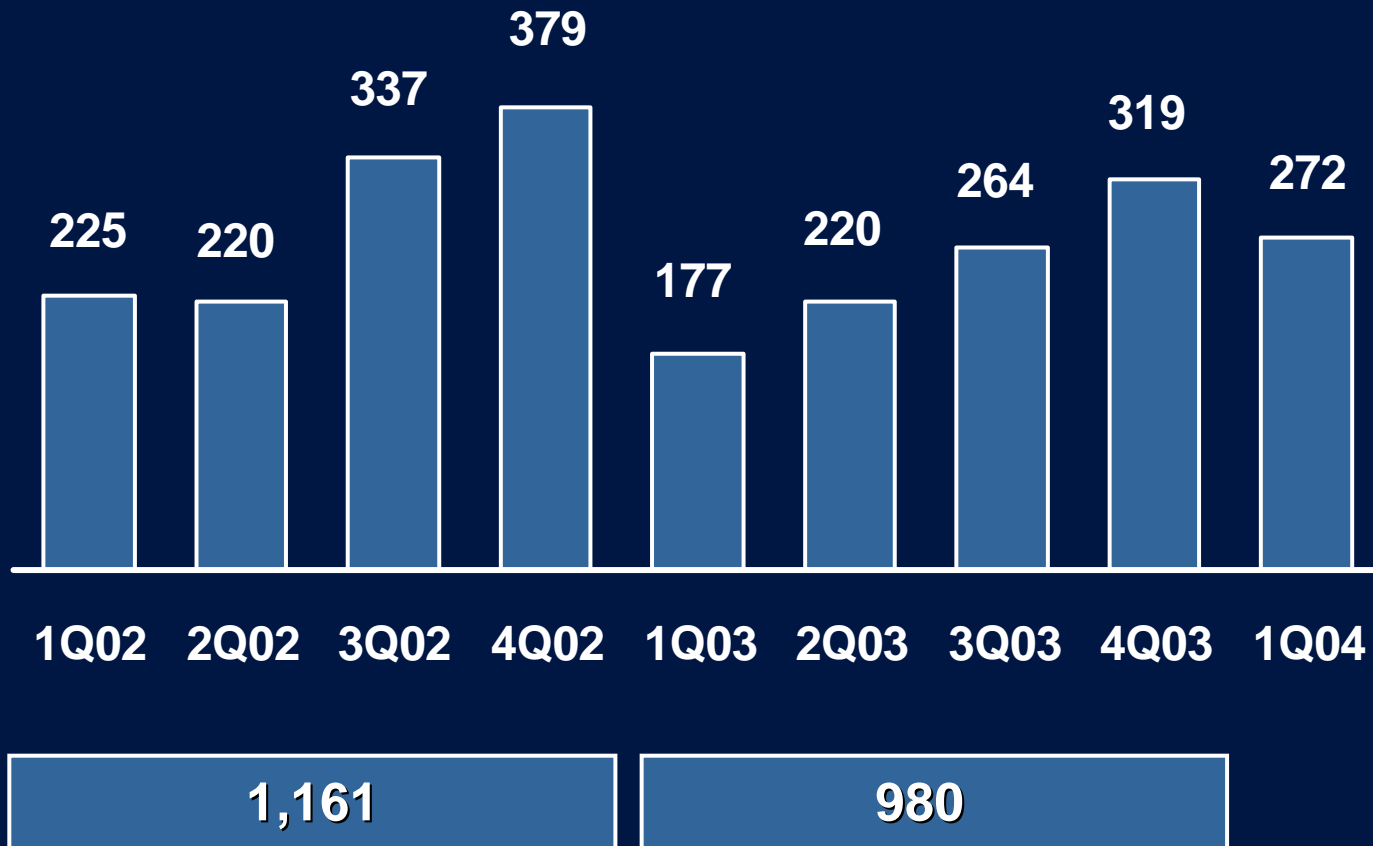
# Cash Flow – 1Q04

EUR million

	1Q03	1Q04
Net income (loss)	(69)	550
Depreciation / amortization	473	378
Impairment of equity investments	-	3
Net gain on sale of assets	(44)	(17)
Changes in working capital	(627)	(236)
Loss (income) from UCCs	25	(454)
Other	37	180
<b>CF from operations</b>	<b>(205)</b>	<b>404</b>
Gross capital investments	(177)	(272)
Acquisitions/divestments/other	26	9
<b>CF before financing activities</b>	<b>(356)</b>	<b>141</b>

# Gross capital investments

*EUR million*



# Gross capital expenditures by sector – 1Q04

*EUR million*

	1Q03	1Q04
Medical Systems	24	12
DAP	11	21
CE	14	17
Lighting	31	27
Semiconductors	55	163
Miscellaneous	41	32
Unallocated	1	-
<b>Group gross capex</b>	<b>177</b>	<b>272</b>

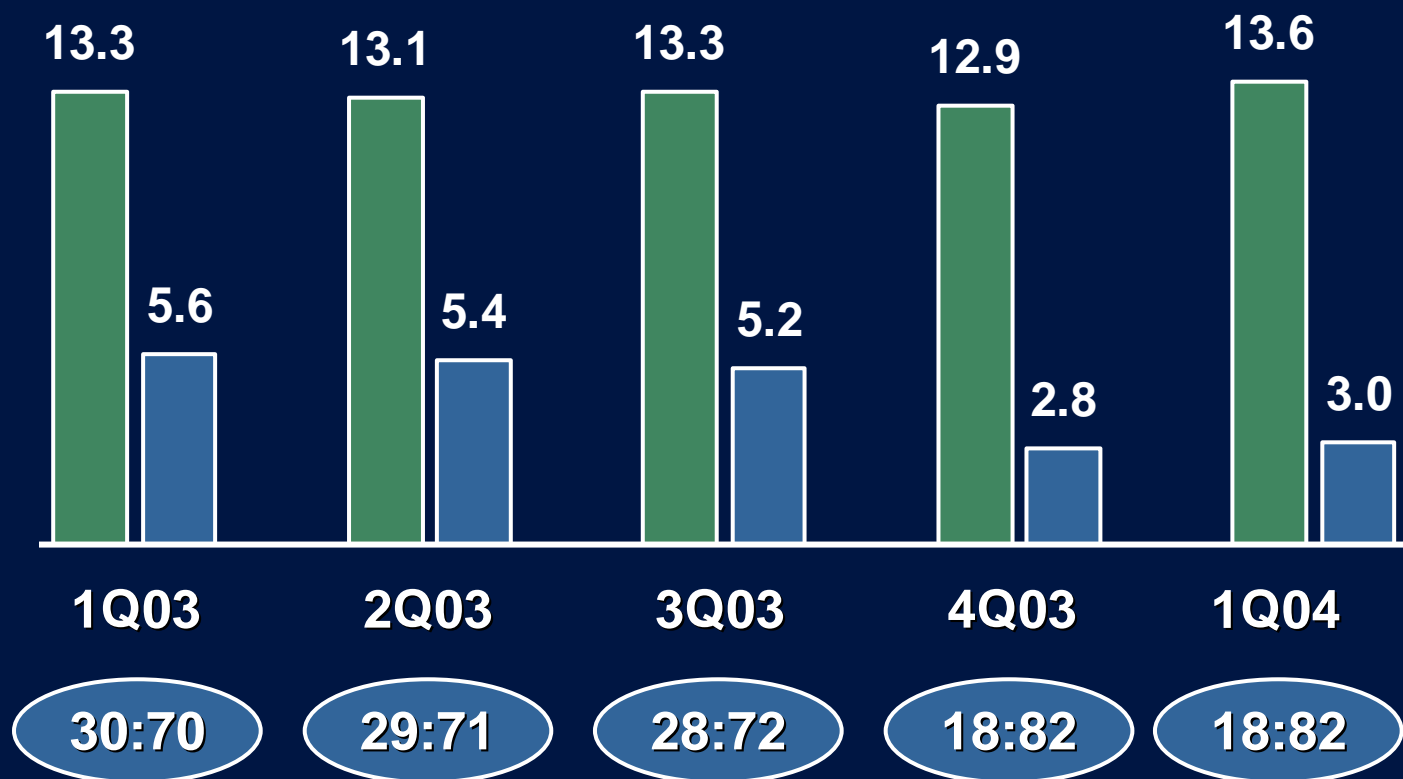
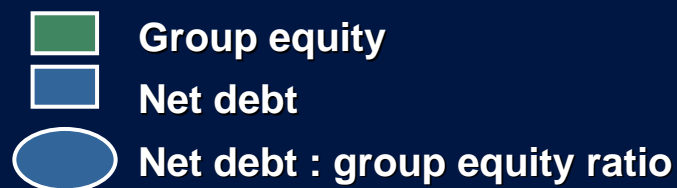
# Inventories

*as % of MAT sales*



# Net debt : group equity ratio

*EUR billion*



# Medical Systems

## Financial performance

- Comparable sales up 4% mainly driven by X-Ray, CT, Patient Monitoring and Medical IT
- In particular, North America, Latin America and Asia Pacific contributed to the sales growth
- IFO improved EUR 22 m. mainly due to productivity improvements and cost control

## Looking ahead

- Increasing competition and price pressure in the healthcare industry as a result of ongoing consolidation
- On track to reaching 14% EBITA as a percentage of sales in 2004

## DAP

### Financial performance

- **Comparable sales down 9% mainly due to soft markets in Western Europe and North America. De-stocking of inventories in retail channels contributed to the decline**
- **China, however, achieved a 20% comparable growth in sales**
- **The decline in sales contributed to the lower IFO. Nevertheless, solid gross margins maintained**
- **Focus in asset management led to a reduction in NOC**

### Looking ahead

- **Focus on launching new products, building partnerships, expansion of retail channels into new geographical regions, and enhancing purchasing and cost savings**
- **Investments in advertising and promotion will be increased in 2Q04 to stimulate demand**
- **Competitive pressure – in particular in the North American Shaving business**

# Consumer Electronics

## Financial performance

- **CE (ex Licenses) sales comparable growth was 12% mainly due to improved GSM and Set-top Boxes**
- **IFO of CE (ex Licenses) improved EUR 18 m. compared to last year. Improvements visible across all businesses**
- **Sales of Licenses were EUR 80 m.**
- **IFO of Licenses was EUR 69 m. including EUR 25 m. past use**

## Looking ahead

- **Business renewal project on track**
- **Expected restructuring charges in 2Q of approx. EUR 35 m. will be partly offset by savings in the quarter**
- **Summer Olympics and European Football Championships expected to compensate for high stock levels in the retail channels**

# Lighting

## Financial performance

- **Comparable sales were at same level as last year. Comparable positive growth in Automotive, Special Lighting & UHP and Lighting Electronics**
- **Solid IFO due to lower selling expenses and a sustained gross margin percentages**
- **Ongoing operational improvements**
- **Improvement in the development of working capital contributed to a strong cash flow**

## Looking ahead

- **Capacity for innovative products (UHP, Xenon) to be expanded**
- **Capital expenditures to be focused on innovative products and new technologies**
- **Continue strict cost control, optimize supply chain management, use assets more efficiently and enhance savings in purchasing**

# Semiconductors

## Financial performance

- **Sequential revenue growth (ex. MDS & SSMC): - 5 % in US dollar**  
**Sequential growth MDS: - 20% in US dollar**
- **Improved performance in Mobile Communications and Standard Products businesses**
- **Compared to 4Q03, IFO was hampered by lower sales, lower margins in particular for consumer ICs, a lower US dollar and lower revenues from customer development services**

## Looking ahead

- **Book-to-bill ratio ex. MDS at 1.25 at end 1Q. Lengthening lead-times in the order book**
- **Mid-single-digit sequential increase in US dollar terms in segment revenues expected in 2Q04**
- **Focus on further efficiencies to streamline manufacturing processes**

# Miscellaneous

## Financial performance

- Increase in sales driven by Optical Storage and Navigation Technologies (NAVTEQ)
- Optical Storage and NAVTEQ continued to improve their profitability
- IFO at Assembléon also improved compared to last year

## Looking ahead

- Further execution of divestment program expected, assuming market conditions continue to improve

# Unallocated

## Financial performance

- IFO included an allocation of EUR 22 m. for a settlement charge relating to changes to the Dutch pension plan

## Looking ahead

- Pensions and postretirement benefit costs in the sector 'Unallocated' are expected to reduce from a negative EUR 82 m. in 1Q04 to a negative of approximately EUR 30 m. per quarter from 2Q04 onwards

# Agenda

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- **Agenda 2004**

# 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 EUR 250 m. (Q4 run rate)**

