



Royal Philips Electronics Second Quarter 2000

July 18th, 2000

Let's make things better.



PHILIPS

Agenda

Second Quarter's Results 2000

- **Highlights**

- **Growth**

- **Performance**

- **Management Agenda**

Let's make things better.



PHILIPS

Highlights

- **Achieved RONA of 25.3% for the half year**
- **Sales growth - Nominal 25%, Comparable 15% for the quarter, both percentages being higher than 1Q00**
- **Strong Semiconductor performance**
- **Much improved performance in Components**
- **Good performance across other sectors, except Origin, including strong license revenue**

Let's make things better.



PHILIPS

Highlights

- **Large contribution from non-consolidated companies including one-off gains:**
 - **ASML Euro 2595m**
 - **TSMC Euro 189m**
 - **Beltone Euro 121m**
- **Miscellaneous includes charges of approx. Euro 80m relating to the sale of our projects business and restructuring charges at the Research Center.**

Agenda

Second Quarter's Results 2000

- Highlights

- Growth

- Performance

- Management Agenda

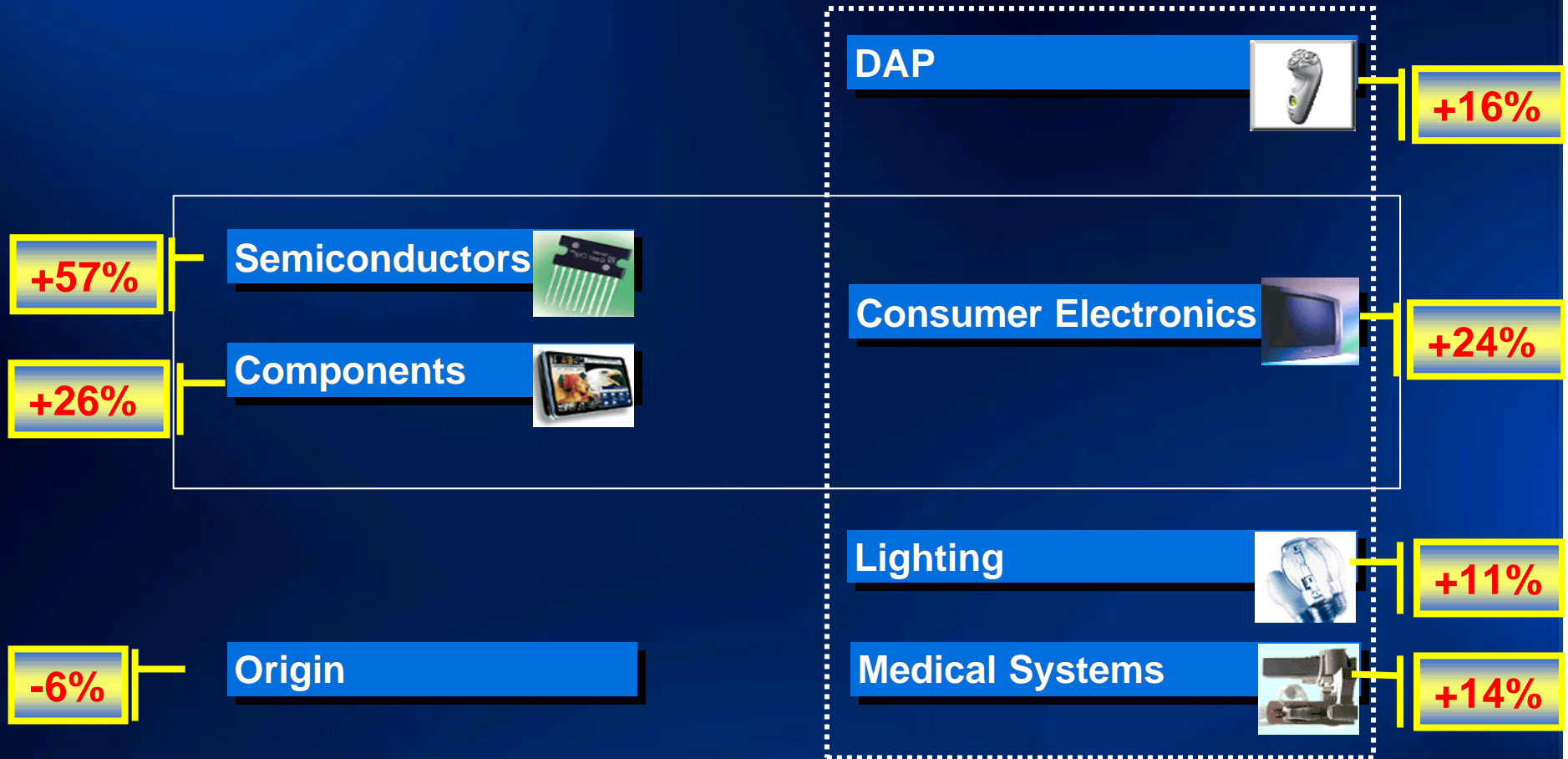
Let's make things better.



PHILIPS

Growth:

2Q00 Nominal Segment Revenue Growth



Let's make things better.



PHILIPS

Topline Growth

SALES	2nd Quarter		1st Half	
	1999	2000	1999	2000
Nominal growth (Euro)	-2	25	-3	24
. Consolidation changes	-3	1	-3	2
. Currency charges	0	9	-2	9
Comparable growth	1	15	2	13
. Price erosion	-8	-5	-8	-5
. Volume growth	9	20	10	19

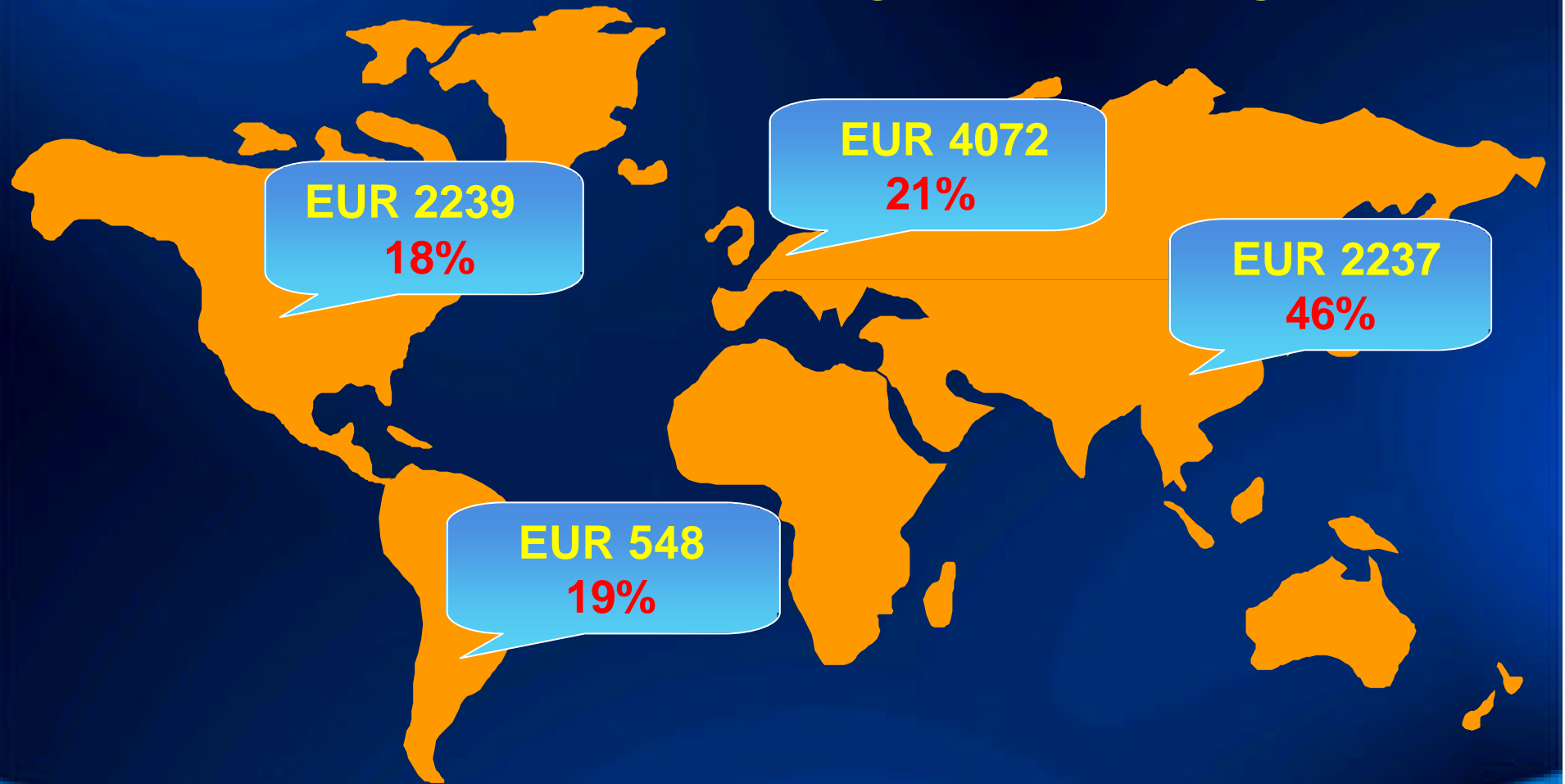
Let's make things better.



PHILIPS

Growth:

2Q00 Sales and nominal growth per Region



Let's make things better.



PHILIPS

Agenda

Second Quarter's Results 2000

- Highlights
- Growth
- **Performance**
- Management Agenda

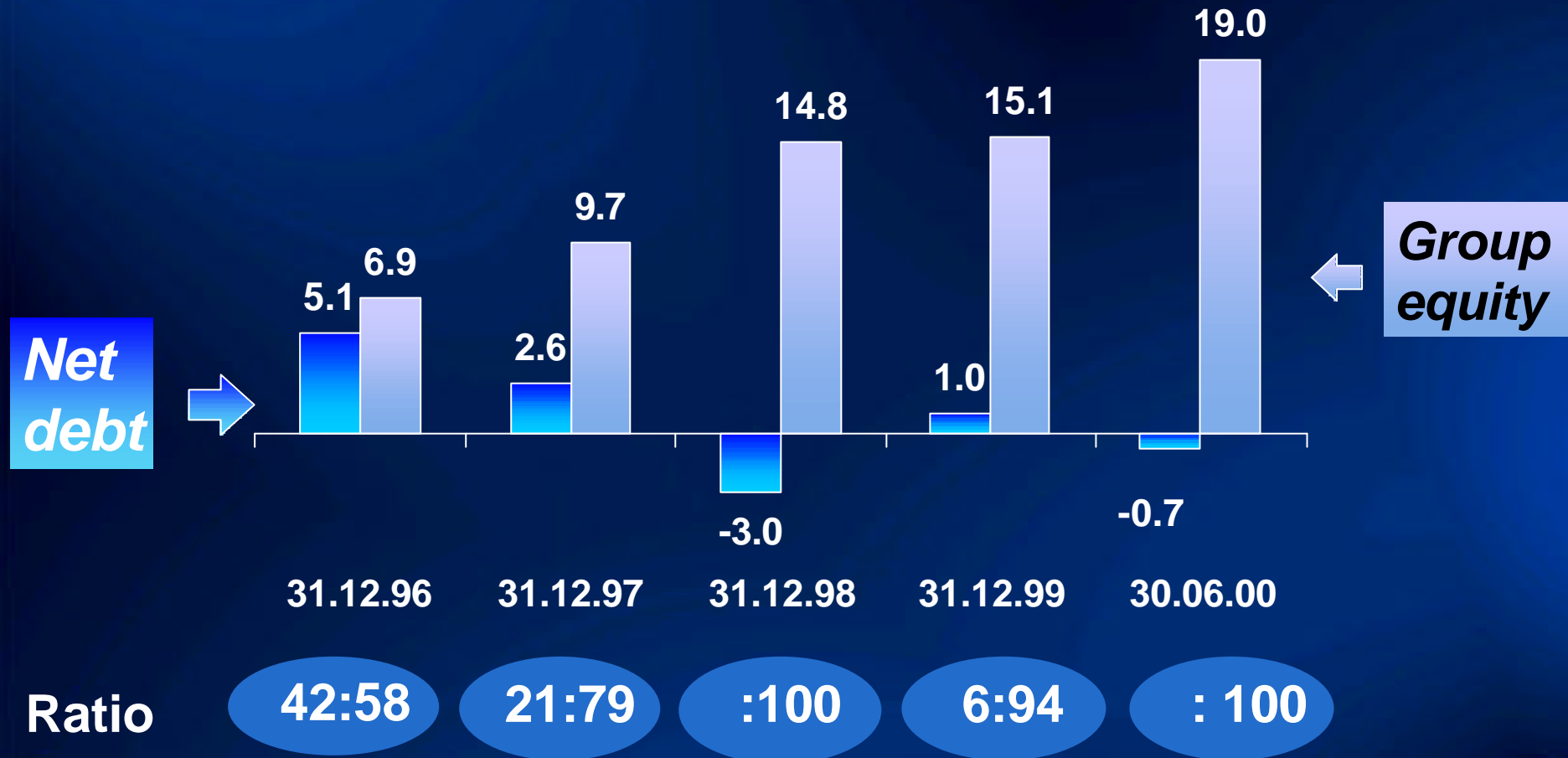
Let's make things better.



PHILIPS

Performance:

Net Debt/Group Equity in billion EUR

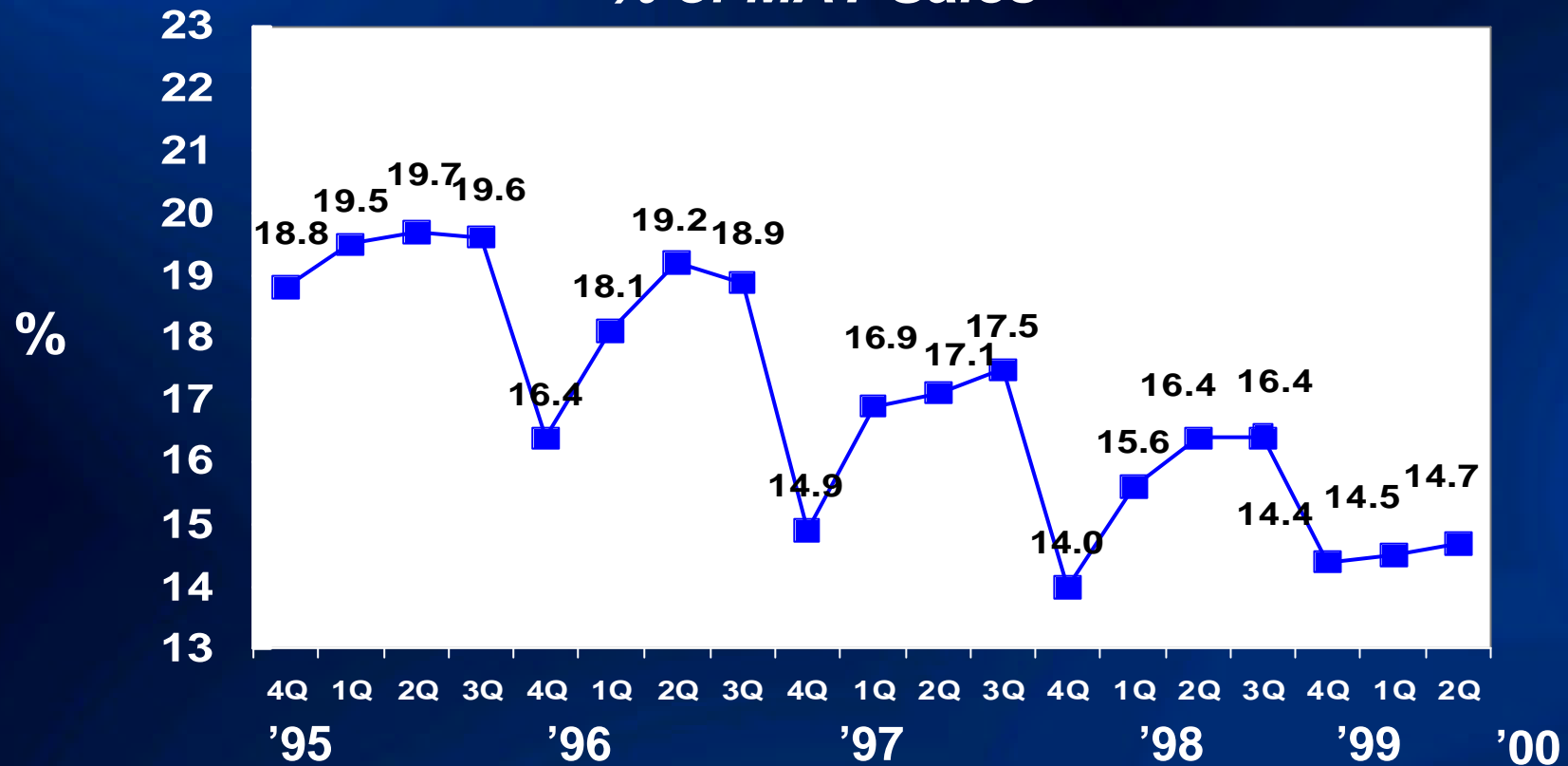


Let's make things better.



PHILIPS

Performance: Inventory Levels % of MAT Sales



Note : Figures for 4Q96, 1Q97, 2Q97 and 3Q97 corrected for Grundig,
1Q98, 2Q98, 3Q98 and 4Q98 corrected for PolyGram
3Q99, 4Q99 corrected for VLSI.
1Q00 reduced by 0.7 due to change in method of inventory valuation

Let's make things better.



PHILIPS

Cash Flow

	2Q00	1H00	2Q99	1H99
* Operating activities	308	713	95	166
* Cash flow from investing activities	<u>1868</u> ¹⁾	<u>1998</u>	<u>-1475</u> ²⁾	<u>-1262</u>
	<u>2176</u>	<u>2711</u>	<u>-1380</u>	<u>-1096</u>

1) Includes sale of ASML shares for Euro 2710m

2) Includes purchase of VLSI, VCS and 10% of Origin totalling Euro 1101m

Let's make things better.



PHILIPS

Results relating to unconsolidated companies in million EUR



* Excludes one-off gains

Let's make things better.



PHILIPS

Lighting

- Continuing performance improvement via the **B**usiness **E**xcellence through **S**peed and **T**eamwork program
- Innovation
- Benefits from past restructurings
- Richer product mix including Automotive
- Developments in Asia Pacific are encouraging
- Market growth remains limited with increased competition
- Strong cash flow

Let's make things better.



PHILIPS

Consumer Electronics

MAINSTREAM CE

- Current performance is not yet at the desired level, however improvements are taking place resulting from the recent organizational changes which led to better bottom line accountability
- Higher component prices more than compensated by improved revenue management
- Nominal growth of 17% in the quarter compared to 8% for 1Q00
- Higher R&D for DVD+RW
- Negative effects on growth due to shortages in the component industry

Let's make things better.



PHILIPS

Consumer Electronics

DIGITAL NETWORKS

- Continuing investments for the US market
- High R&D costs for future growth in:
 - Set-top boxes
 - MPEG 4
 - Conditional access systems
- Set-top box 2Q00 vs 2Q99 growth 54% with higher growth expected in the second half of the year
- Flexibility in organization and structure

Let's make things better.



PHILIPS

Consumer Electronics

SPECIALTY PRODUCTS

- 21% nominal growth led to an improved performance
- Continuing investments in Speech

Let's make things better.



PHILIPS

Philips Consumer Communications

- 2Q00 GSM unit sales increased by 64% compared to 2Q99
- Sales impacted by a shortage of components with Q2 volumes being only slightly ahead of Q1
- Profitable for the quarter
- 3 new products launched in the second quarter as planned
- 4 new products will be launched in Q3/Q4

Let's make things better.



PHILIPS

Domestic Appliances & Personal Care

- Nominal growth of 16% which is higher than the historical trend line due to
 - Male shaving
 - Food & Beverage
 - US Market
 - Recovery in some developing markets
- Lower overheads due to cost reduction program
- Innovation and product pruning
- High RONA
- Strong cash flow

Let's make things better.



PHILIPS

Components

DISPLAY COMPONENTS

- Strong performance in Europe, Brazil and China
- Continuing actions to move production to low cost areas
- Increase in CAPEX

FLAT PANEL DISPLAYS

- Strong performance in Mobile Displays but hampered by a shortage of semiconductors

Let's make things better.



PHILIPS

Components

OPTICAL STORAGE

- Strong growth of sales and IFO based mainly on data CD rewritable
- Strong performance in DVD and Audio CD-RW

THIRD QUARTER

- Restructuring charge expected in Q3 of approx. Euro 60m, more than offset by a gain on the sale of the Discrete and Ferrite Ceramics business lines.

Let's make things better.



PHILIPS

Semiconductors

- Order intake continues to be very strong
- Nominal growth 2Q00 vs 2Q99 was 57%, which is 30% on a comparable basis
- Price erosion 2Q00 vs 2Q99 was 2% and is on a declining trend
- Operating margin for the quarter increased to 19.9% including the goodwill charge for VLSI
- Constrained by the limits of the existing capacity, which is being raised as rapidly as possible
- CAPEX for 2000 Euro 2.0b including share of the investment in the joint venture with TSMC in Singapore

Let's make things better.



PHILIPS

Medical Systems

- **Nominal growth of 13% which is higher than in the past**
- **Overheads reduced based on actions being taken including the benefits of past restructurings**
- **Strong cash flow**
- **MedQuist to be consolidated from July 1st**

Let's make things better.



PHILIPS

Origin

- Restructuring costs included of Euro 8m
- The market continues to be slow
- Significant contracts signed in 2Q00 which will become effective in 4Q00/1Q01
- Business mix being redirected to more value added services, particularly in E-business
- Q3 will be, as normal, a seasonally low period

Objective

To increase our growth whilst maintaining:

- Positive cash flow
- Double digit earnings growth per share
- RONA of 24%

Let's make things better.



PHILIPS

Agenda

Second Quarter's Results 2000

- Highlights
- Growth
- Performance
- **Management Agenda**

Let's make things better.



PHILIPS

Management Agenda

- Profitable growth
- Reduction of overhead costs
- BEST program
- Leadership
- IT/e-Commerce

Let's make things better.



PHILIPS

