

PHILIPS

Royal Philips Electronics Second Quarter 2002

July 16, 2002

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

These presentations and discussions/document contain 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. 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, the levels of marketing and promotional expenditures by Philips and its competitors, raw materials and employee costs, changes in future exchange and interest rates, changes in tax rates and future business combinations, acquisitions or dispositions and the rate of technical 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.

Agenda

- **Highlights**

- **Performance**

- **Targets**

Highlights

- **Impairment charge of EUR 1561m almost entirely related to Vivendi Universal**
- **Positive cash flow in the quarter before financing activities of EUR 371m**
- **Maintained a strong balance sheet with Debt/Equity ratio of 30:70 in spite of some large charges to our Equity account**
- **Sales growth of 4% which is the first year-over-year growth since the fourth quarter of 2000**
- **9.6% sequential growth in Semiconductors with book-to-bill of 1.0**

Highlights

- **Approx. EUR 125m negative impact in the IFO compared to 2Q01 in relation to pension costs**
- **The lower US Dollar against the Euro has impacted our Balance Sheet and Cash Flow**
- **Overhead cost reduction actions delivered EUR 132m savings in the first half year**
- **Significant improvement in the results of unconsolidated companies with a profit of EUR 185m in the quarter excluding special items of EUR 93m, of which EUR 56m was for restructuring charges in the LG.Philips Display joint venture**

Agenda

- **Highlights**

- **Performance**

- **Targets**

Acquisition and Restructuring charges 2Q02

EUR million

	Announced on April 16, 2002	Actual
Lighting	-20	-14
CE		1
DAP	-10	-7
Components		1
Semiconductors		
Medical Systems	-25	-34
Miscellaneous	-20	-11
Unallocated		
<i>TOTAL charges in IFO</i>	-75	-64

LG.Philips Displays	-50	-56

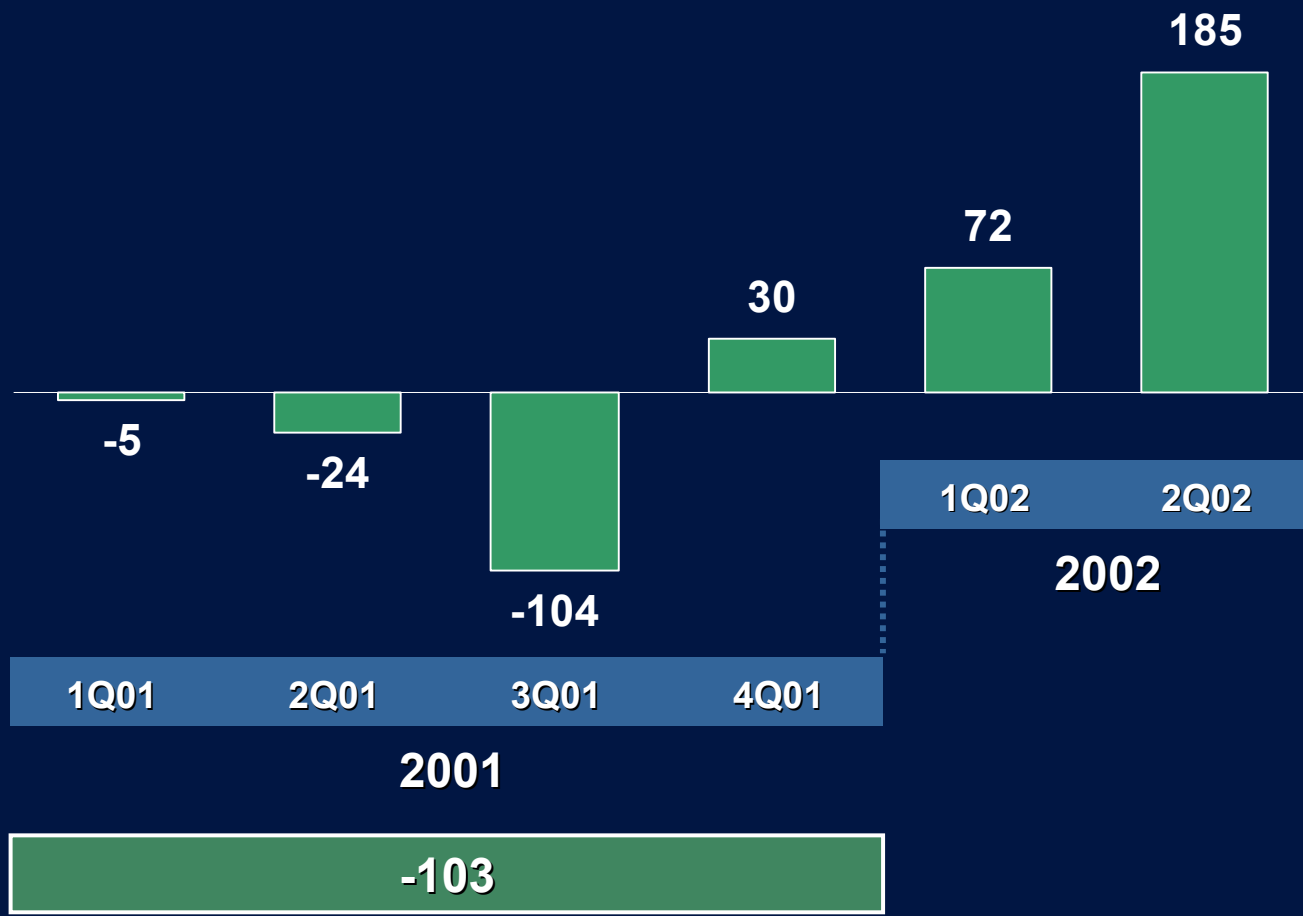
IFO per PD – 2Q02

EUR million

	IFO as published	Acquisition related charges	Restructuring and other charges	Other	IFO without special items
Lighting	126		-14		140
CE	31		1		30
DAP	74		-7		81
Components	-55		1		-56
Semiconductors	-64			7	-71
Medical Systems	54	-37	3		88
Miscellaneous	84		-11	157	-62
Unallocated	-85				-85
TOTAL	165	-37	-27	164	65

Non-consolidated companies

EUR million



Note: These numbers are excluding special items and amortization of goodwill. 2001 figures are restated acc. US GAAP

Capital Investments

EUR million

(Purchase of intangible and tangible fixed assets less disposal of tangible fixed assets)



Cash flow

	2Q02	2Q01
Cash flow from Operating activities	496	-250
Cash flow investing activities	-125	-118
<i>TOTAL</i>	371	-368

Inventories

as % of MAT sales



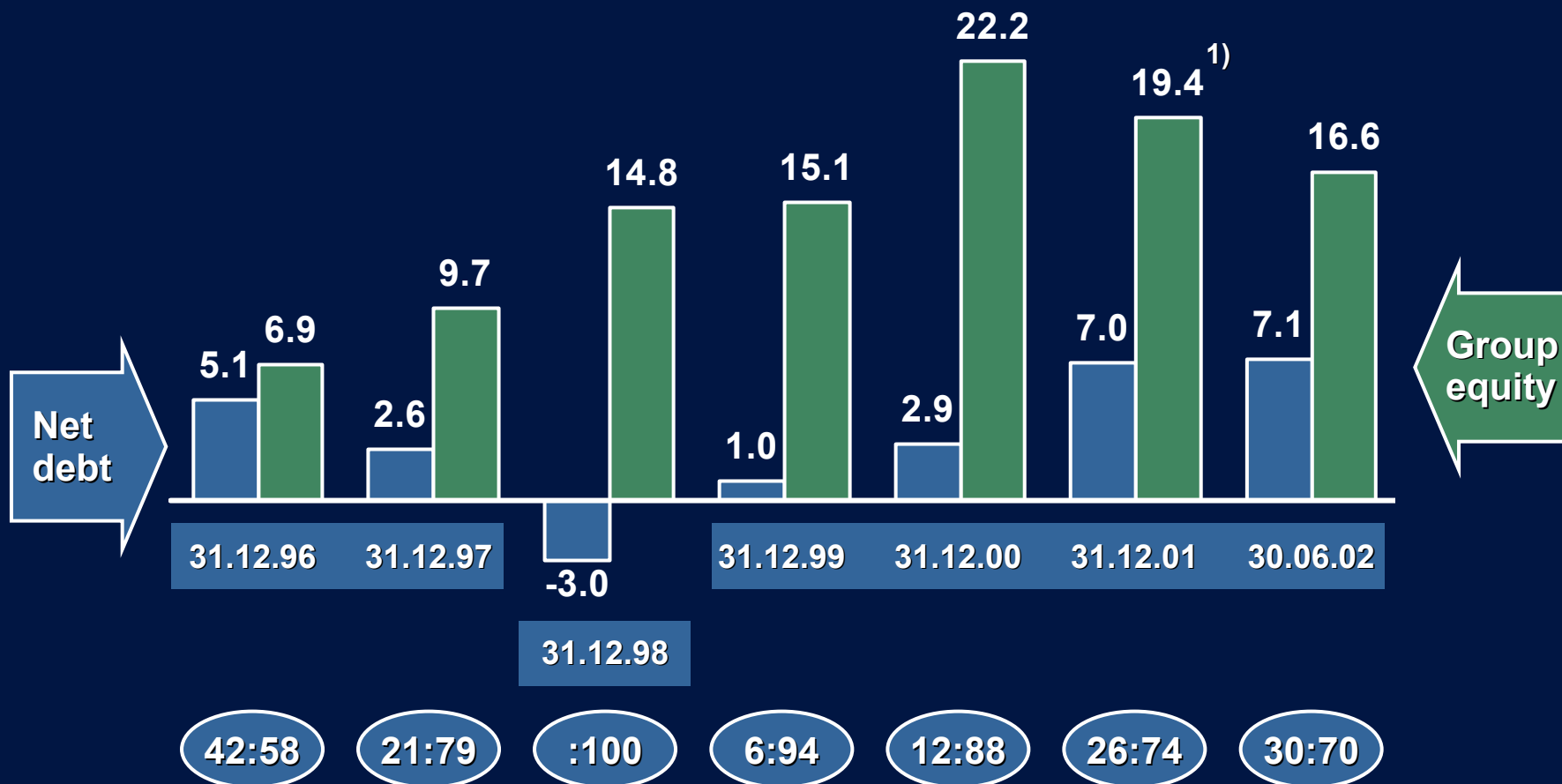
1 – Corrected for acquisitions and disposals

Head Count Reduction *Personnel*

	2Q02	1H02
At the beginning of the period	186,090	188,643
Consolidation		170
Deconsolidation	-734	-1,122
Net reductions	-1,715	-4,050
<i>AS AT JUNE 30, 2002</i>	183,641	183,641

Debt/Equity ratio

EUR billion



1 – Restated according to US GAAP

Debt/Equity ratio

EUR billion



1 – Restated according to US GAAP

Lighting

- Sales were 6% lower than 2Q01 of which 1% is due to no longer having a battery activity. Generally markets have been soft
- Weaknesses in the Americas and in Luminaires
- IFO margin of 11.7% excluding special items and in a seasonally low quarter mainly due to focused cost and asset management
- Reducing inventory as a % of sales with increasing delivery reliability
- Strong cash flow
- Limited amounts for restructuring in Q3 and Q4

Consumer Electronics

Mainstream

- **The division was profitable in the quarter with a profit of Euro 13m compared to a loss of EUR 7m in 1Q02**
- **Strong sales growth in TV and DVD Video, which offset lower sales in VCR and Monitors**
- **Price erosion was 7.6%, compared to 9% in 1Q02, with a high level in OEM Monitors**
- **Performance in US improved considerably, due to the action program that has been implemented**

Consumer Electronics

Mainstream

- **Significant improvement in cash flow compared to 1Q02 and 2Q01**
- **There has been a further reduction in the Net Operating Capital and the inventory has been reduced to 8.5% of the Moving Annual Total Sales**
- **We continue to work towards better costs, margin and asset management**

Domestic Appliances & Personal Care

- **Record results for the second quarter with a margin of 15.5% compared to 14.6% for 2Q01 excluding special items due to:**
 - **Innovative and high margin products including growth in Oral Care**
 - **Strict cost control measures**
 - **Impact of product range rationalization**
- **Net operating capital further reduced, partly due to currency movements**

Domestic Appliances & Personal Care

- **Comparable sales growth of 2% despite a weak market in Latin America**
- **Recent product launches continue to be successful**
- **New product introductions in the second half of the year in all the main product categories**

Components

- **Sequential increase in sales of 4% primarily due to Mobile Display Systems, partly resulting from initial shipments of colour screens. We expect volume shipments in the third quarter**
- **Optical storage has been negatively impacted by the slowdown in PC's , particularly desktops**
- **Continuing upfront investments in new product areas, e.g. Connectivity and LCOS**
- **Inventories under control**

Semiconductors

- Revenues increased sequentially by 9.6% in EUR and 10.5% in USD mainly in the areas of Communication, amongst others Display Drivers, and Identification with a small improvement in the Automotive segment
- Price erosion was approximately 11% and compares with 9% in 1Q02
- Fab utilization rate increased to 60% during the quarter
- Book-to-bill in the quarter was 1.0

Semiconductors

- **CAPEX was low at EUR 61m and the full year is expected to be between EUR 450 and EUR 500m**
- **The operating loss of EUR 64m includes an amount of EUR 20m for an unhedged currency position**
- **Continuing efforts to reduce costs**
- **Inventories in EURO were lower due to the impact of lower USD**

Medical Systems

- **The comparable sales growth in the quarter was 8% with a strong performance in X-Ray, CT/MR and Nuclear Medicine**
- **Order intake above plan**
- **IFO excluding special items increased to EUR 88m from EUR 49m in 1Q02 . 3Q02 is expected to show a further increase to be followed by the normally seasonally high fourth quarter**
- **Acquisition related charges for the coming two quarters are expected to average EURO 40m per quarter**
- **The quarterly IFO includes an amount of EUR 27m for the amortization of intangibles other than goodwill**

Medical Systems

- **Integration process on track**
- **Sales in 2004 expected to exceed EURO 8b which was previously indicated**
- **The EBITA for 2004 expected to be 14% which is partly based on reduced costs by EURO 350m which are expected to be realized by the end of 2003**

Agenda

- Highlights
- Performance
- Targets

Targets

- **Sales growth above 10% average per annum**
- **Income from operations 10% of sales**
- **15% growth in earnings per share on average per annum**
- **Rona above 30%**
- **Positive cash flow**

