

PHILIPS

Royal Philips Electronics Third Quarter 2002

October 15, 2002

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Agenda

- **Highlights**

- **Performance**

Highlights

- **For the second quarter in succession there has been comparable sales growth of 2%**
- **Positive cash flow in the quarter before financing activities of EUR 265m**
- **Maintained a Debt / Equity ratio of 30:70 in spite of some large charges to our Equity account**
- **Net debt reduced to EUR 6.9m**
- **Record low inventories for the fifth consecutive time**
- **Lower results of our consolidated companies mainly in LG.Philips LCD**
- **Overhead cost reduction actions delivered EUR 176m savings in the first nine months of the year with much more in the pipeline**

Agenda

- **Highlights**

- **Performance**

Acquisition and Restructuring charges 3Q02

EUR million

	Announced on July 16, 2002	Actual
Lighting	-5	-2
CE	-45 ¹⁾	2
DAP		
Components		
Semiconductors		
Medical Systems	-40	-94
Miscellaneous		18
Unallocated		
TOTAL CHARGES IN IFO	-90	-76

1) – Will appear in 4Q02

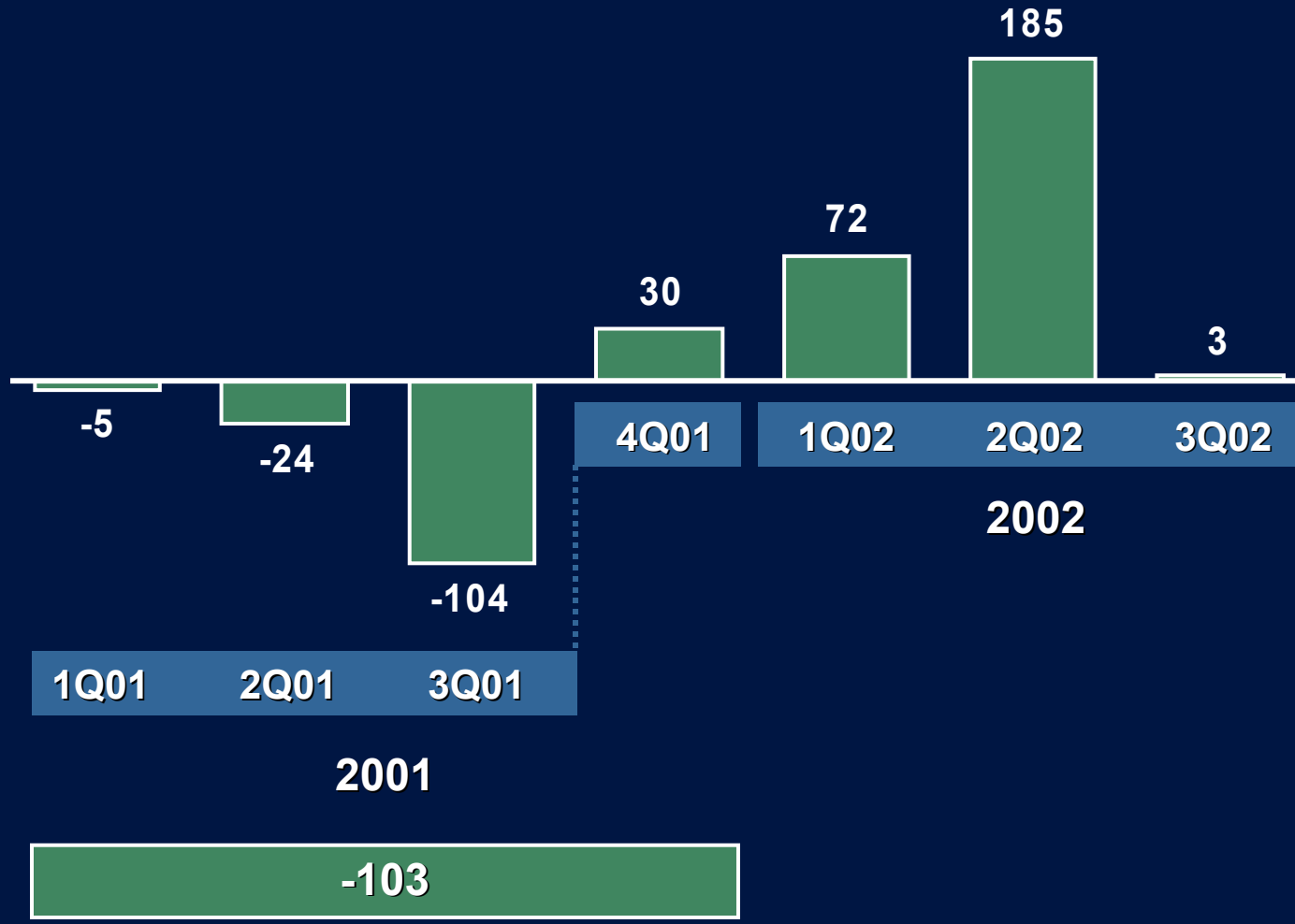
IFO per PD – 3Q02

EUR million

	IFO as published	Acquisition related charges	Restructuring and other charges	Other	IFO without special items
Lighting	141		-2		143
CE	24		2		22
DAP	79				79
Components	-67				-67
Semiconductors	-58			7	-65
Medical Systems	-11	-48	-46	3	80
Miscellaneous	94		18	126	-50
Unallocated	-67				-67
TOTAL	135	-48	-28	136	75

Non-consolidated companies

EUR million

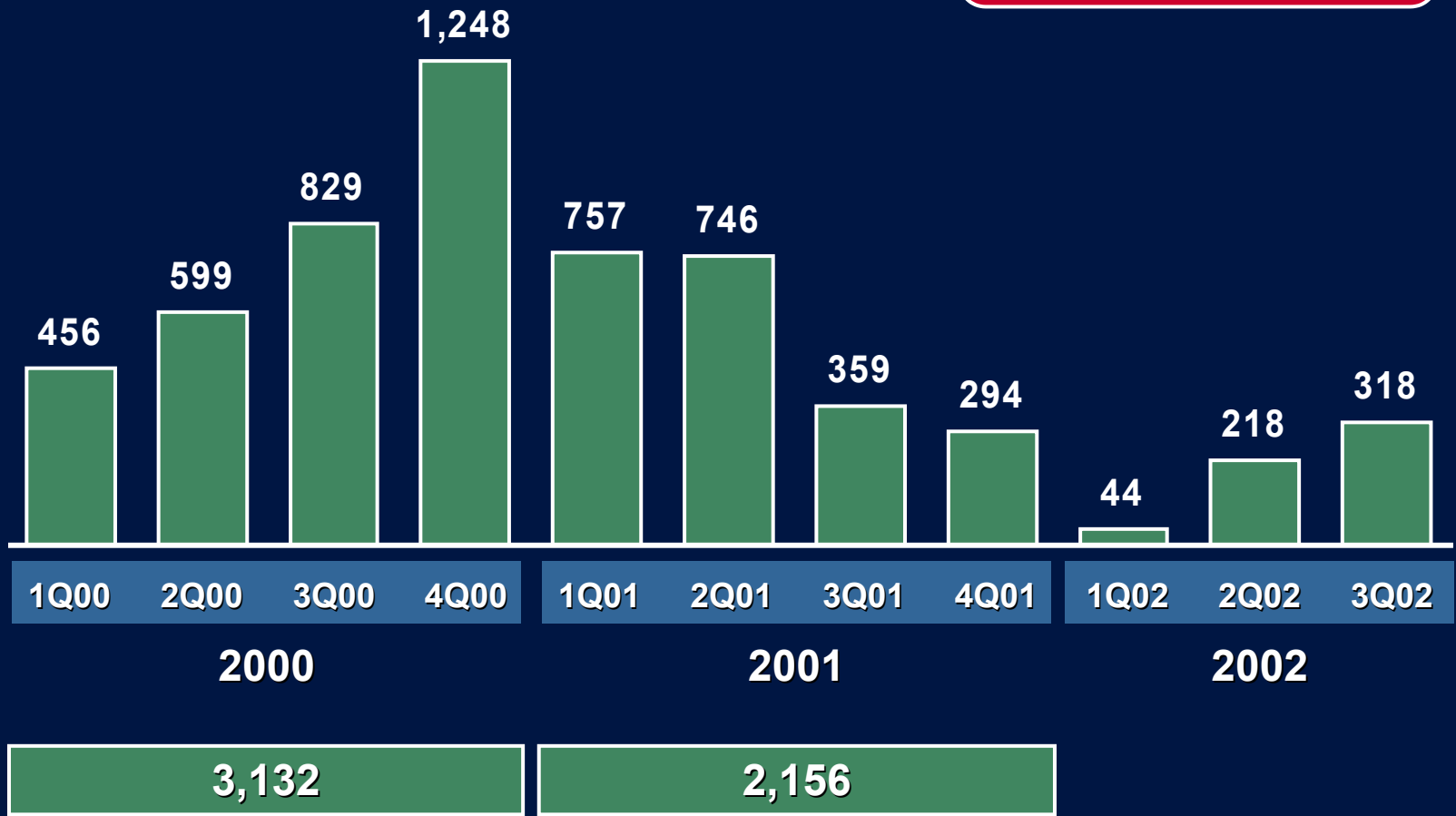


Note: These numbers are excluding special items and amortization of goodwill.
 2001 figures are restated acc. US GAAP

Capital Investments

EUR million

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



Cash flow

	3Q02	3Q01
Cash flow from Operating activities	344	160
Cash flow investing activities	-79	2,029 ¹⁾
<i>TOTAL</i>	265	-1,869

1) – Includes EUR 2,016m for acquisitions

Inventories

as % of MAT sales



1) – Corrected for acquisitions and disposals

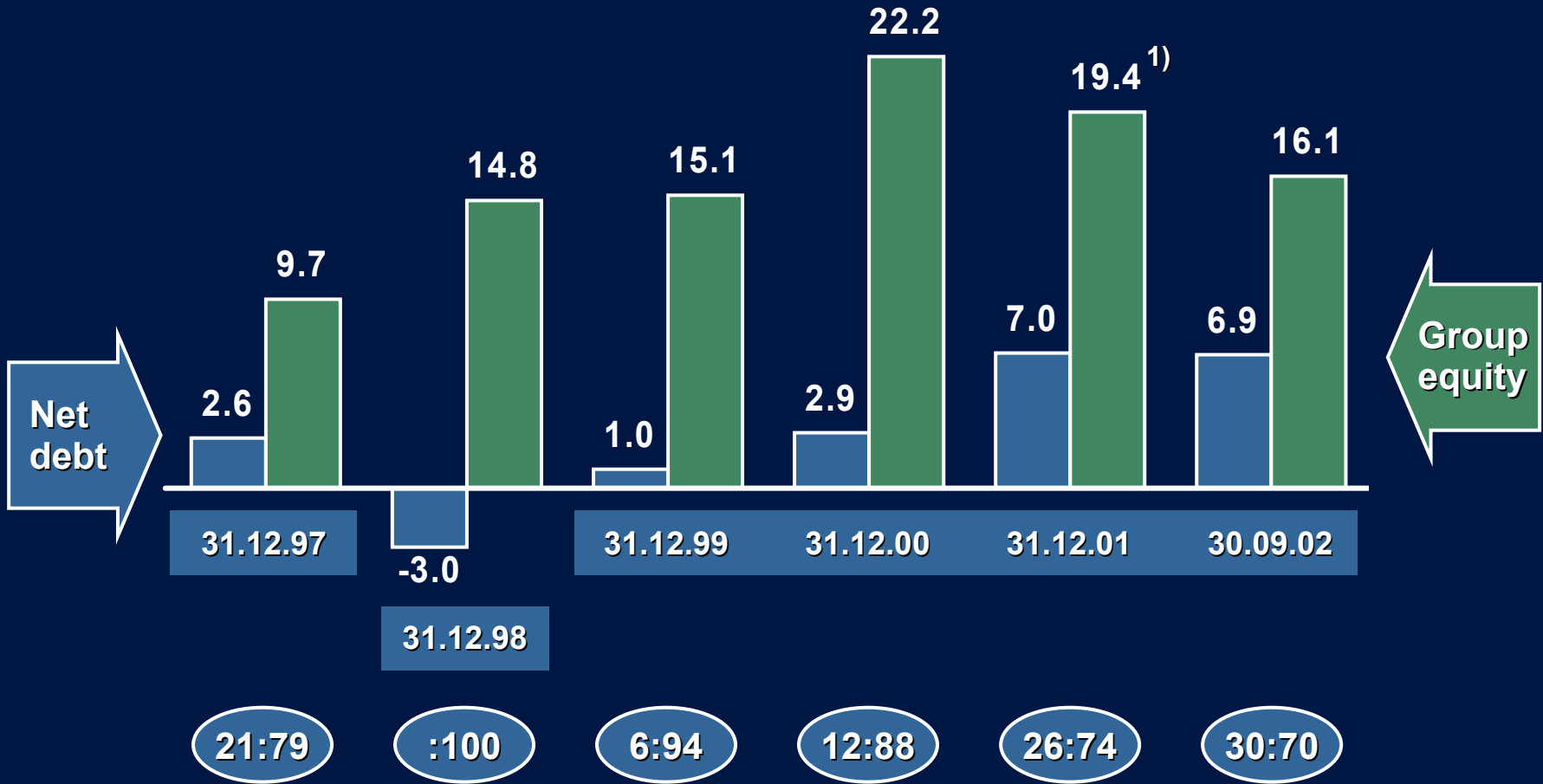
Head Count Reduction *Personnel*

	3Q02	9M02
At the beginning of the period	183,641	188,643
Consolidation		170
Deconsolidation	-1,306	-2,428
Net movements	1,112 ¹⁾	-2,938
AS AT SEPTEMBER 30, 2002	183,447	183,447

1) – Increase of 2,124 temporary employees offset by a reduction of 1,012 permanent employees

Debt/Equity ratio

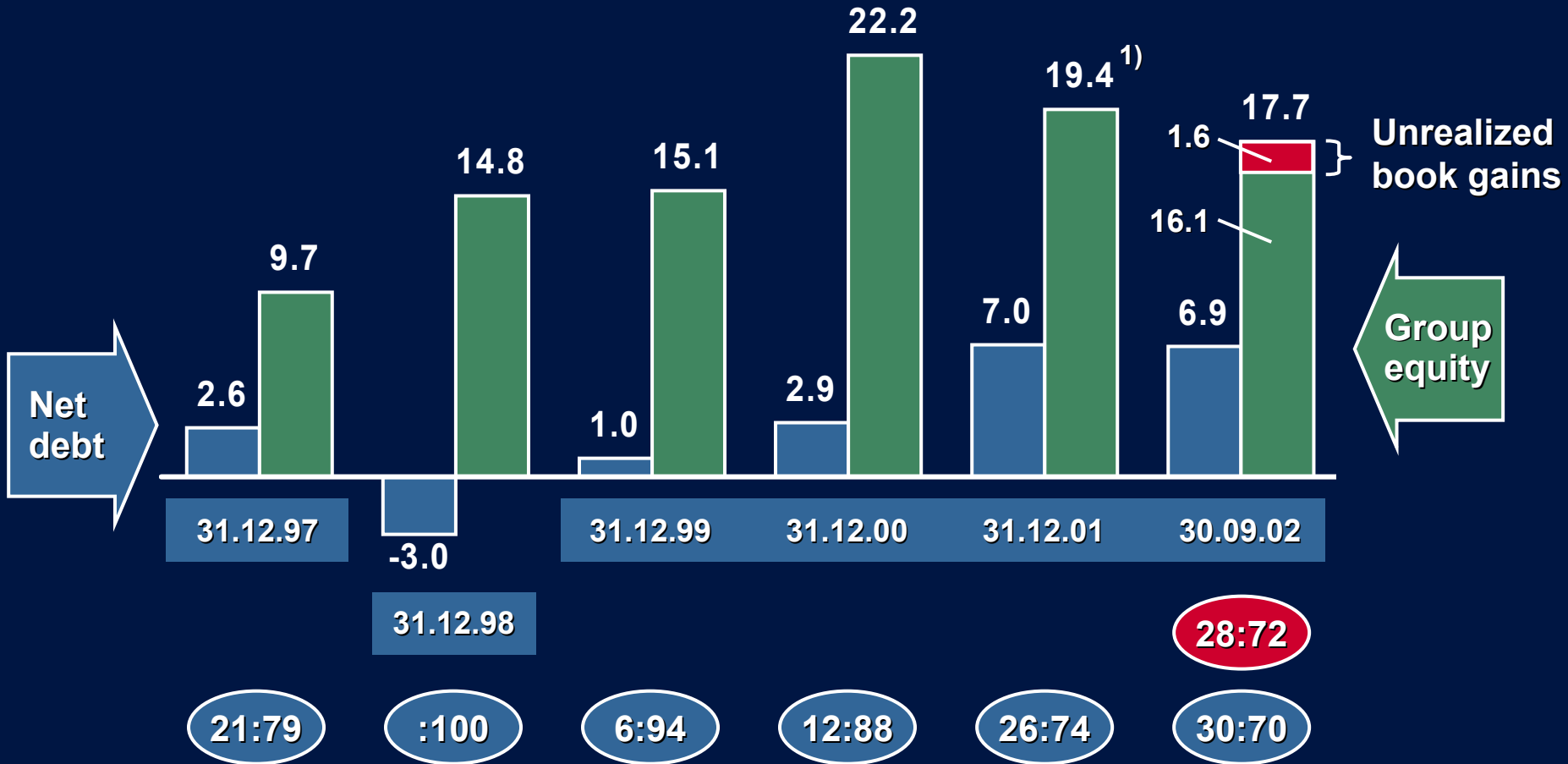
EUR billion



1) – Restated according to US GAAP

Debt/Equity ratio

EUR billion



1) – Restated according to US GAAP

Lighting

- **Sales were 1% higher than 3Q01 in spite of weaknesses in Latin America and in Luminaires**
- **IFO margin of 12.4% in a seasonally low quarter mainly due to focused cost and asset management and an improved product mix**
- **Reducing inventory as a % of sales with increasing delivery reliability**
- **Strong cash flow**
- **4Q02 will include some limited upfront costs associated with the recently announced Home Depot contract**

Consumer Electronics

- **Comparable sales were only 2% below 3Q01**
- **The division was profitable in the quarter with a profit of EUR 9m which reflects the ongoing underlying performance improvement**
- **Strong sales in Europe mainly in TV, especially in September**
- **Price erosion was 12%, compared to 7.6% in 2Q02, with a high level in OEM Monitors**
- **Improving performance in US, due to the program that is being implemented including improved shelf space and significantly improved asset management.**

Consumer Electronics

- **The Net Operating Capital has been significantly reduced and now has a turnover speed of approximately 20**
- **We continue to work towards better cost levels, margin and asset management**

Domestic Appliances & Personal Care

- **Record results for the third quarter with a margin of 15.2% compared to 14.3% for 3Q01 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**

Domestic Appliances & Personal Care

- **Comparable sales growth of 12% despite a weak market in Latin America, due mainly to Sonicare, Senseo and new shaver products**
- **Recent product launches continue to be successful**

Components

- **Sales in Mobile Display Systems has increased due to the commencement of deliveries of colour displays**
- **Optical Storage has been negatively impacted by increased price erosion**
- **Continuing upfront investments in new product areas, e.g. Connectivity and LCOS**
- **Inventories under control**

Semiconductors

- Revenues declined sequentially by 11.8% in EUR and approximately 2% in USD due mainly to Discretes, Mobile Communications, Networking and Display Solutions. However the revenues were 15% higher than 3Q01 on a comparable basis
- Price erosion was approximately 14% compared to 11% for 2Q02, primarily related to standard products
- Average Fab utilization in the quarter was 58%
- Book-to-bill was 0.74 reflecting very short order lead times

Semiconductors

- **CAPEX in the quarter was EUR 172m including approximately EUR 100m for the investment in Crolles. The expectation for the year is EUR 400m - 450m**
- **Continuing efforts to reduce costs**
- **A restructuring charge is expected in the fourth quarter of approximately EUR 200m - 225m to reduce our manufacturing capacity and to further streamline the organization**

Medical Systems

- **The comparable sales growth in the quarter was 2% with a further 2% delayed until the fourth quarter**
- **Order intake has shown a growth of 6% on a comparable basis**
- **IFO excluding special items was EUR 80m and excluding incidental items it would be EUR 108m**
- **Acquisition related charges for the coming quarter is expected to be EUR 40m**
- **The quarterly IFO includes an amount of EUR 22m for the amortization of intangibles other than goodwill**

Medical Systems

- **Integration process on track with a major milestone being passed on September 2 with the successful transfer to Philips IT systems of the Agilent IT services**
- **Due to systems changes we had delayed invoicing of EUR 38m with an IFO impact of approximately EUR 18m**
- **The EBITA for 2004 expected to be 14% which is partly based on reduced costs by EUR 350m which are expected to be realized by the end of 2003**

