Report on the performance of the Philips Group

– all amounts in millions of euros unless otherwise stated
– the data included in this report are unaudited
– financial reporting according to US GAAP

Philips reports net profit of EUR 124 million in third quarter

Q3 Quarterly report
October 14, 2003

- Nominal sales decline by 4% mainly due to weaker currencies – comparable sales up 6%
- A loss of EUR 126 million for income from operations – this includes EUR 152 million for restructuring and other charges in Semiconductors
- Medical Systems income from operations of EUR 138 million
- Unconsolidated companies contributed EUR 239 million to net income – this includes EUR 68 million for a dilution gain related to Atos Origin

The third quarter 2003

In the third quarter of 2003, Philips recorded a net profit of EUR 124 million (a profit of EUR 0.10 per share) versus a loss of EUR 330 million (a loss of EUR 0.25 per share) in the same period last year.

Nominal sales decreased by 4% over the same period last year, being impacted by the weakening of the US dollar and related currencies (7%) and the downward effect from various divestments in 2002 (3%). Comparable sales increased by 6%, reversing the downward trend. Income from operations was a loss of EUR 126 million versus a profit of EUR 135 million last year. Income from operations included EUR 197 million for restructuring and other charges, of which EUR 152 million was at Semiconductors, EUR 28 million at Consumer Electronics and EUR 12 million charges at Miscellaneous. Pension costs were EUR 84 million higher compared to Q3 2002. Income from operations of last year included EUR 120 million for gains on the sale of businesses.

The overhead cost reduction program delivered EUR 379 million to-date. Integration savings at Medical Systems are in line with the EUR 350 million targeted savings by year-end 2003. The cost reduction programs are on-track to achieving the targeted EUR 1 billion in savings by 2004.

Cash flow from operating activities was an inflow of EUR 376 million. At 13.4%, inventories as a percentage of sales came to another record low for a third quarter, compared to 14.1% last year. During the quarter the net debt position decreased by EUR 201 million to EUR 5.2 billion.

Gerard Kleisterlee,
Philips' President and CEO:

"We see that our change programs are having a positive impact on our performance. Sales on a comparable basis were up 6%, with the strongest showing from Semiconductors and Medical Systems. We're also on-track to achieving EUR 1 billion in cost savings. DAP and Lighting continued their solid performance, while Medical Systems made the greatest contribution to income from operations, thanks to improving margins and lower costs. The planned restructuring charges in Semiconductors are now complete and we expect this business to be profitable in the fourth quarter, supported by strengthening sales of Nexperia platform chips. Fundamental changes in the industry structure in consumer electronics are leading us to review our business models and to target an additional EUR 400 million in annual costs savings by the end of 2005.

We continue to focus on the factors we control: developing new products, lowering our debt, optimizing our supply chain management, improving our working capital, and – last but not least – serving our customers well."

Philips Group

Net income

in millions of euros unless otherwise stated

	Q3 2002	Q3 2003
Sales	7,313	**6,989**
Income (loss) from operations	135	**(126)**
in % of sales	1.8	**(1.8)**
Financial income and expenses	(449)	**(24)**
Income taxes	(5)	**54**
Results unconsolidated companies	(4)	**239**
Minority interests	(7)	**(3)**
Cumulative effect of change in accounting principle	-	**(16)**
Net income (loss)	(330)	**124**
Per common share – basic	(0.25)	**0.10**
– diluted	(0.25)	**0.10**

Special items affecting net income

in millions of euros

	Q3 2002	Q3 2003
Affecting income from operations:	60	**(197)**
Affecting financial income and exp.:	(339)	**68**
Income taxes related to special items:	(9)	**49**
Affecting results uncons. companies:	(15)	**54**
Special items affecting net income	(303)	**(26)**

Sales by sector

in millions of euros unless otherwise stated

	Q3 2002	Q3 2003	% change nominal	% change comparable
Lighting	1,130	**1,088**	(4)	2
Cons. Electronics	2,232	**2,208**	(1)	6
DAP	519	**466**	(10)	(3)
Semiconductors	1,186	**1,252**	6	14
Medical Systems	1,540	**1,413**	(8)	9
Miscellaneous	706	**562**	(20)	(6)
Philips group	7,313	**6,989**	(4)	6

Highlights in the quarter

Net income

- Net income in Q3 of 2003 was a profit of EUR 124 million, mainly the result of a strong contribution from unconsolidated companies of EUR 239 million.
- Income from operations in Q3 was a loss of EUR 126 million, predominantly due to restructuring and other charges of EUR 152 million at Semiconductors. Pension costs were EUR 84 million higher than last year. Income from operations for Q3 2002 included EUR 120 million for gains on the sale of businesses.
- Income taxes were calculated using an estimated effective tax rate of 25% on pre-tax income, excluding non-taxable gains.
- A charge of EUR 16 million, representing the cumulative effect of a change in accounting principle, was related to SFAS 143 Accounting for Asset Retirement Obligations.

Special items affecting net income

(For a definition of special items, see Annual Report 2002 Management Report page 35)

- Special charges affecting income from operations were primarily related to restructurings and other charges in Semiconductors, Consumer Electronics and Miscellaneous.
- Financial income and expenses included gains resulting from selling securities of EUR 68 million.
- Results from unconsolidated companies included a dilution gain of EUR 68 million related to Atos Origin and a dilution loss of EUR 15 million at TSMC.

Group sales

- Sales in Q3 2003 were 4% lower than in Q3 of the previous year. Weaker currencies had a downward effect of 7%, while an additional 3% downward effect came from various divestments in 2002.
- On a comparable basis, sales increased 6% versus a decrease of 1% in Q2. The strongest increases were realized at Semiconductors (14% including Mobile Display Systems), Medical Systems (9%) and CE (6%).
- Sales on a comparable basis posted the strongest growth in Asia Pacific, increasing 20% over last year.

Income (loss) from operations by sector

in millions of euros unless otherwise stated

	Q3 2002	Q3 2003
Lighting	141	**124**
Consumer Electronics	8	**(32)**
DAP	79	**82**
Semiconductors	(53)	**(191)**
Medical Systems	(11)	**138**
Miscellaneous	38	**(107)**
Unallocated	(67)	**(140)**
Income (loss) from operations	135	**(126)**
in % of sales	1.8	**(1.8)**

Financial income and expenses

in millions of euros

	Q3 2002	Q3 2003
Financial income and expenses	(449)	**(24)**
Impairment charges included in Financial income and expenses	(339)	**-**
Gain on sale of securities included in Financial income and expenses	-	**68**

Results unconsolidated companies

in millions of euros

	Q3 2002	Q3 2003
SSMC	(13)	**3**
LG.Philips LCD	28	**131**
LG.Philips Displays	(3)	**(16)**
Dilution gains (losses)	-	**53**
Others	(16)	**68**
Total	(4)	**239**

IFO

- Medical Systems showed strong growth in profitability driven by higher comparable sales, better margins and lower costs.
- Despite 2% comparable sales growth, last year's income from operations of Lighting could not be repeated in 2003 mostly due to unfavorable currency effects and lower gross margins.
- The profitability of Domestic Appliances and Personal Care (DAP) increased due to strong margin management as well as delayed advertising and promotion costs.
- Lower income from operations at Semiconductors and Consumer Electronics was mainly due to restructuring and other charges.
- Income from operations in Q3 2002 for Miscellaneous included EUR 120 million for gains on the sale of businesses.

Financial income and expenses

- Financial income and expenses in 2003 included gains on the sale of ASML shares and JDS Uniphase shares of EUR 68 million, while last year they included a EUR 339 million impairment charge for Vivendi Universal.

Results relating to unconsolidated companies

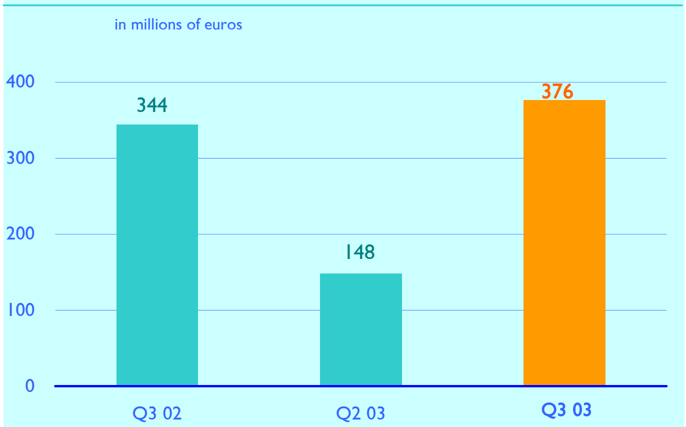
- Results from LG.Philips LCD almost doubled compared to Q2 2003, driven by increased sales and scale efficiencies.
- LG.Philips Displays was impacted by poor market conditions and continued to be loss making. The business is working on programs to achieve faster than planned cost leadership in this declining market. These plans may lead to both asset and goodwill impairments in Q4 2003. Philips and its partner have each guaranteed USD 200 million of indebtedness for a limited period of time.
- The value of Philip's equity in Atos Origin increased due to the mandatory conversion in stock of Atos Origin's convertible bonds. Consequently there was a non-cash dilution gain of EUR 68 million.
- A dilution loss of EUR 15 million at TSMC was included.

Cash balance

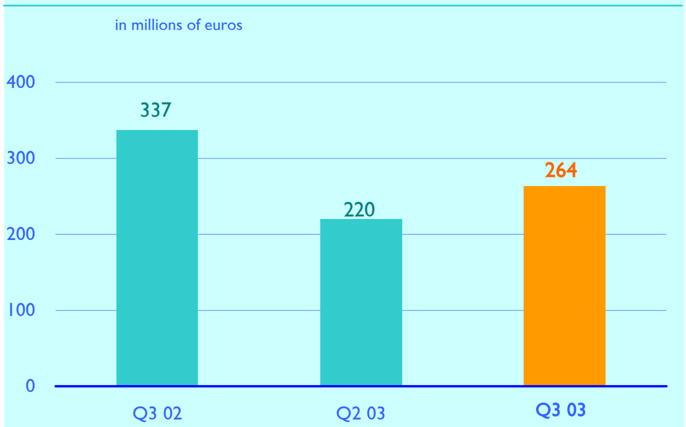
in millions of euros

	Q3 2002	Q3 2003
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

Cash flows from operating activities



Gross capital expenditures



Cash balance

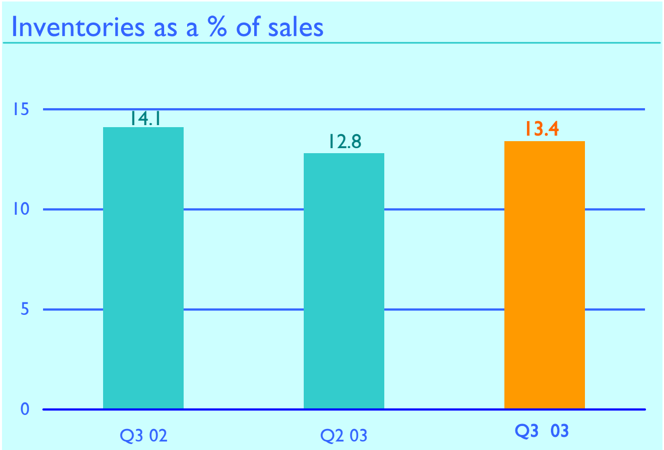
- Cash outflow in Q3 2003 for acquisitions included an investment for Semiconductors in Crolles 2 of EUR 36 million and an investment of EUR 47 million for an increased shareholding in a participation in China.
- Sale of securities contributed to a cash inflow of EUR 197 million.
- Changes in debt were primarily due to a one-year early redemption of a EUR 1 billion floating rate note.

Cash flows from operating activities

- Net cash from operating activities was generated by a reduction in working capital, in particular at Semiconductors and Consumer Electronics.

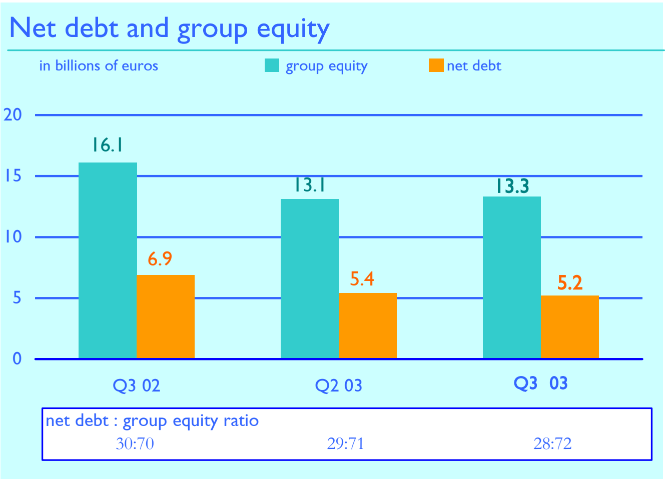
Gross capital expenditures

- Gross capital expenditures in Q3 2003 were EUR 73 million below last year, primarily due to lower investments within Semiconductors.
- Gross capital expenditures were EUR 92 million for Semiconductors, EUR 36 million for Lighting and EUR 33 million for DAP.
- In Q3 2003, EUR 17 million was spent on the High Tech Campus in Eindhoven.
- In addition to gross capital expenditures, investments in software and systems amounted to EUR 17 million, being EUR 11 million lower than in Q3 of last year.



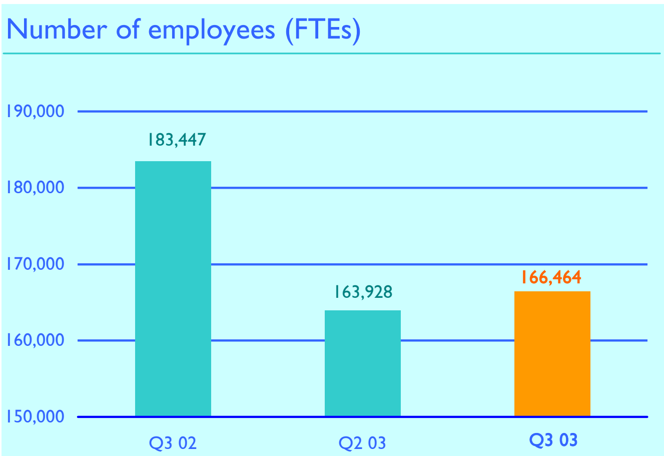
Inventories

- Inventories as a percentage of sales was 13.4%, which is another record low for a third quarter.
- Compared to Q3 2002 improvements were recorded in particular in Consumer Electronics.
- Undiminished focus on supply chain and working capital management.



Net debt and group equity

- In Q3, net debt was reduced by EUR 201 million to EUR 5.2 billion due to a positive cash flow before financing.
- Group equity increased EUR 191 million in Q3, to EUR 13.3 billion at quarter's end mainly due to positive net income and translation effects.
- Net debt : group equity ended at 28:72.



Employment

- During Q3 the total number of employees increased by 2,536. An increase in temporary employees was partly offset by a reduction in permanent employees.

Lighting

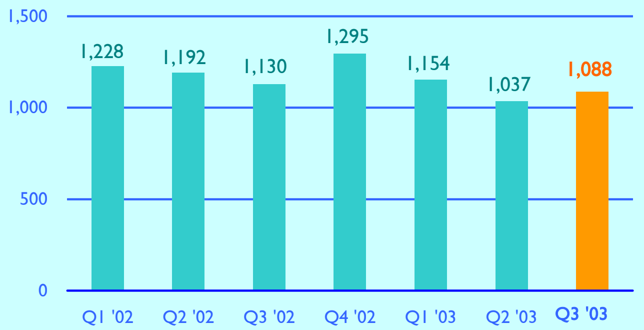
Lighting: key data

in millions of euros unless otherwise stated

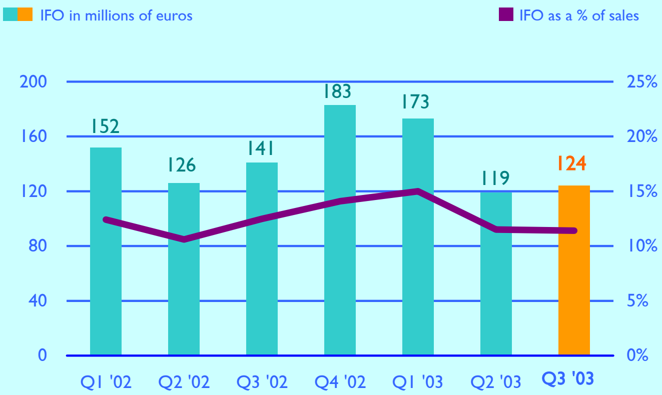
	Q3 2002	Q3 2003
Sales	1,130	**1,088**
Sales growth		
% (decrease), nominal	(3)	**(4)**
% increase, comparable	1	**2**
Income from operations	141	**124**
in % of sales	12.5	**11.4**
Special items included in IFO	(2)	**(1)**
in % of sales	(0.2)	**(0.1)**
Net operating capital (NOC)	1,869	**1,750**
Number of employees (FTEs)	47,776	**44,081**

Lighting sales

in millions of euros



Lighting income from operations (IFO)



Business highlights

- Establishment of Asia Pacific Lighting Electronics business center for ballasts in Xiamen, China.
- Launch of 2-in-1 Nightlight: a dual LED technology, using 98% less energy than a 40W incandescent lamp and giving just the right amount of light to see by at night. As a soft white light, it is 75% more energy efficient.

Financial performance

- Market share gained in a flat market.
- Comparable sales increased by 2%. Automotive & Special Lighting as well as Lighting Electronics increased, while Luminaires faced a 2% decrease. Sales of Lamps were solid, in spite of industry pressure.
- Profitability decreased from 12.5% last year to 11.4%, and was virtually on the same level as in Q2 (11.5%). The decrease compared to last year was mainly due to currency effects and lower gross margins.

Looking ahead

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

Consumer Electronics

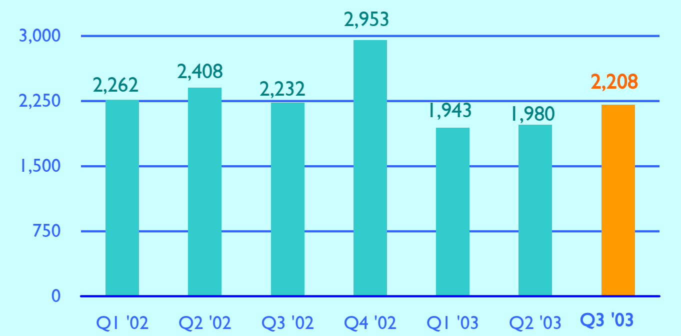
Consumer Electronics: key data

in millions of euros unless otherwise stated

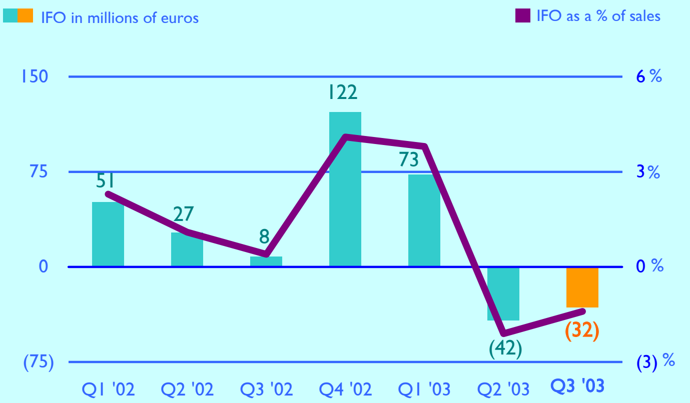
	Q3 2002	Q3 2003
Sales	2,232	**2,208**
Sales growth		
% (decrease), nominal	(10)	**(1)**
% (decrease) increase, comparable	(6)	**6**
Income (loss) from operations	8	**(32)**
in % of sales	0.4	**(1.4)**
Special items included in IFO	2	**(28)**
in % of sales	0.1	**(1.3)**
Net operating capital (NOC)	600	**150**
Number of employees (FTEs)	27,250	**19,893**

Consumer Electronics sales

in millions of euros



Consumer Electronics income (loss) from operations (IFO)



Business highlights

- CE launched its Connected Planet vision at IFA, outlining its view and go to market strategy of a range of broadband connected products, which was enthusiastically received by both consumers and press.
- The 30-inch LCD and the 42-inch plasma TVs were distinguished with EISA awards – the 30-inch LCD TV was also designated a Green Flagship product, outperforming its key competitors.
- Emotive Micro-Range wins product design award at Materialica 2003.

Financial performance

- CE sales (excluding Licenses) amounted to EUR 2,147 million. Comparable growth of 6% compared to Q3 2002 was particularly driven by a 28% growth of sales in Asia Pacific. Lower sales in Audio Video Entertainment were more than compensated by increased sales of Television, GSM, Set-top Boxes and Monitors.
- Income from operations was impacted by a charge of EUR 28 million for restructuring at a TV factory in France.
- A loss of EUR 23 million in North America (including EUR 15 million for sales and brand support) compared to a loss of EUR 35 million in Q2 2003.
- Sales of Licenses amounted to EUR 61 million, resulting in an income from operations of EUR 43 million, or approximately the same as last year.

Looking ahead

- CE embarked on a Business Renewal program with the objective to realign its businesses, simplify the organization and streamline global processes. The program aims to reduce annual operating costs by EUR 400 million by the end of 2005, securing CE's competitive position and future profitability.
- North America expected to be close to break-even in Q4.
- Additional income of approximately EUR 35 million expected for past use licenses in Q4.
- Restructuring charges of approximately EUR 15 million expected in Q4.

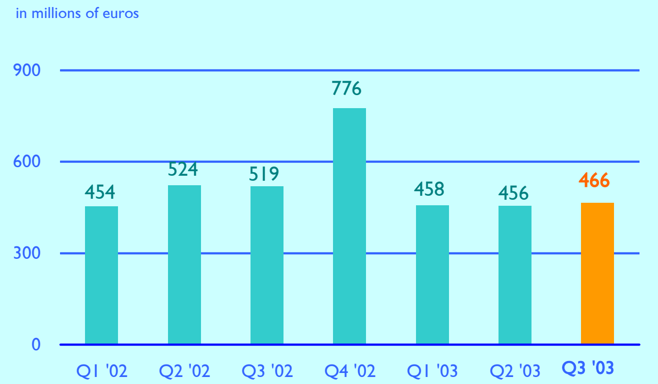
Domestic Appliances and Personal Care

DAP: key data

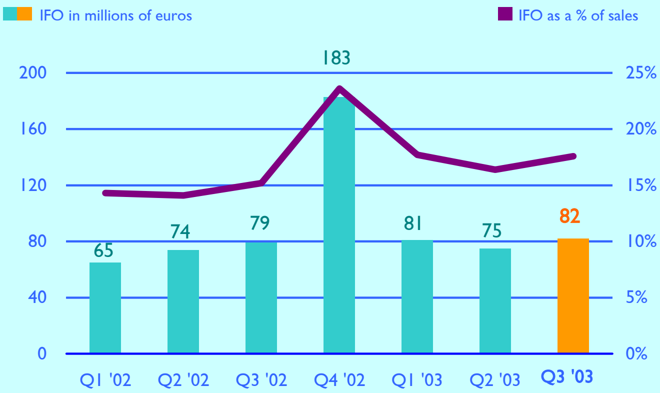
in millions of euros unless otherwise stated

	Q3 2002	Q3 2003
Sales	519	466
Sales growth		
% increase (decrease), nominal	6	(10)
% increase (decrease), comparable	12	(3)
Income from operations	79	82
in % of sales	15.2	17.6
Special items included in IFO	-	-
in % of sales	-	-
Net operating capital (NOC)	682	627
Number of employees (FTEs)	9,652	8,735

DAP sales



DAP income from operations (IFO)



Business highlights

- Success of the new sonic toothbrush 'Elite' contributed to a strong performance in the Oral Healthcare business (Sonicare) with a comparable sales growth of 31% over Q3 2002.
- Successful 'Break Away and Excite Day' where some 9,000 DAP employees interacted with over 9,000 consumers about their views for the development of exciting new products, allowing DAP to gain better consumer insights.

Financial performance

- Lower nominal sales compared to last year, mainly due to weaker currencies. On a comparable basis, increase in sales of Oral Healthcare could not compensate weak demand in other businesses, primarily in Western Europe.
- Despite lower sales, record income from operations for Q3. Profitability margin up to 17.6% due to strong margin management and delayed advertising and promotion costs.
- Ongoing cost control and purchasing efficiencies contributed to strong financial performance.

Looking ahead

- Weakness in markets across all regions except China, where there is a noticeable post-SARS recovery.
- Higher than normal marketing investments have been planned for Q4 to further enhance brand visibility during the Christmas season.
- Ongoing focus on innovation, purchasing efficiencies, cost savings and efficient utilization of capital.

Semiconductors

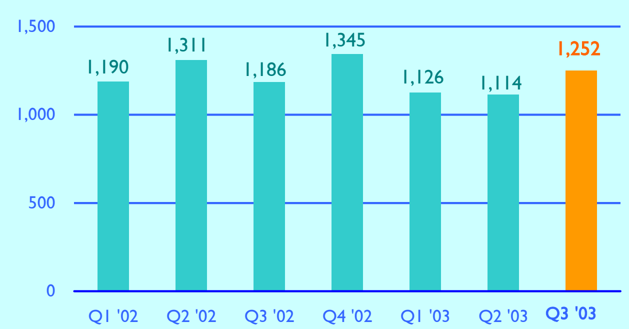
Semiconductors: key data

in millions of euros unless otherwise stated

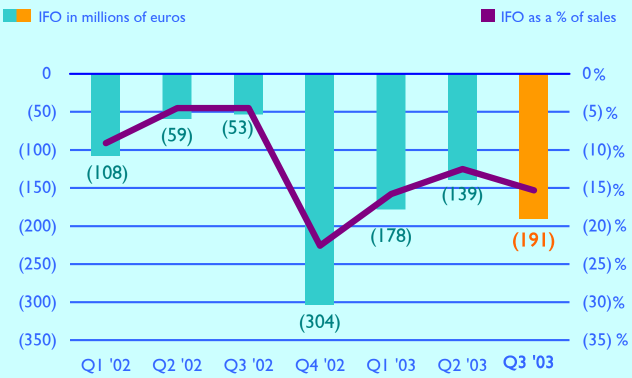
	Q3 2002	Q3 2003
Sales	1,186	**1,252**
Segment revenues	1,306	**1,293**
Segment revenues growth		
% increase (decrease), nominal	14	**(1)**
% increase, comparable	22	**7**
Income (loss) from operations	(53)	**(191)**
In % of segment revenues	(4.1)	**(14.8)**
in % of sales	(4.5)	**(15.3)**
Special items included in IFO	7	**(152)**
In % of segment revenues	0.5	**(11.8)**
in % of sales	0.6	**(12.1)**
Net operating capital (NOC)	4,279	**2,899**
Number of employees (FTEs)	35,128	**33,843**

Semiconductors sales

in millions of euros



Semiconductors income (loss) from operations (IFO)



Business highlights

- Fully integrated System-on-Chip solution unveiled for hybrid LCD and digital TVs.
- Philips and Pixelworks to deliver low-cost reference design for rapidly growing LCD television market.
- RFID Chip Technology provided to the Vienna Technical Museum in Austria to create an interactive digital adventure.
- High-performance 802.11a/g and 802.11g chipsets announced to serve the market for WiFi applications.

Financial performance

- Sequential revenues (excluding MDS) increased by 9% in USD terms, predominantly driven by increases in Communications (13%) and Consumer (19%) businesses. Sequential revenue growth of MDS was 18% in USD terms.
- Book-to-bill ratio at quarter's end of 1.16 (excluding MDS) versus 1.06 at Q2 2003.
- Special items included restructuring and other charges of EUR 115 million for Albuquerque and San Antonio, and EUR 42 million for factories in Europe.
- Income was negatively impacted by EUR 6 million due to the power failure in North America and by EUR 11 million for obsolescence costs.
- Utilization rate continued to rise to 69% in Q3 versus 66% in Q2 2003.

Looking ahead

- Expectation to be profitable in Q4 reconfirmed.
- In Q4 sequential revenue growth (in USD terms, excluding MDS) approximately at the same level as Q3.
- R&D cost reductions continue according to plan through a sharpened focus on spending.
- Continued design wins for Nexperia particularly in the area of DVD+RW; 28% of DVD recorders sold in 2003 will be based on Nexperia.

Medical Systems

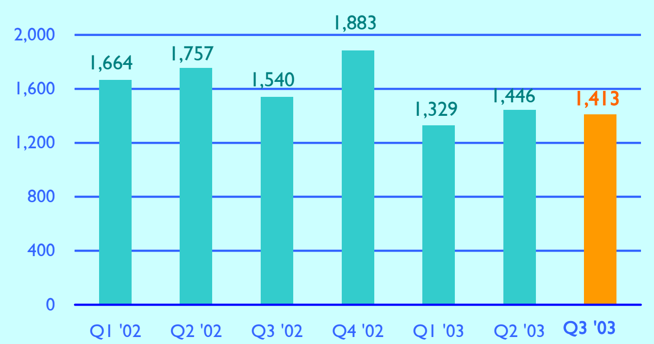
Medical Systems: key data

in millions of euros unless otherwise stated

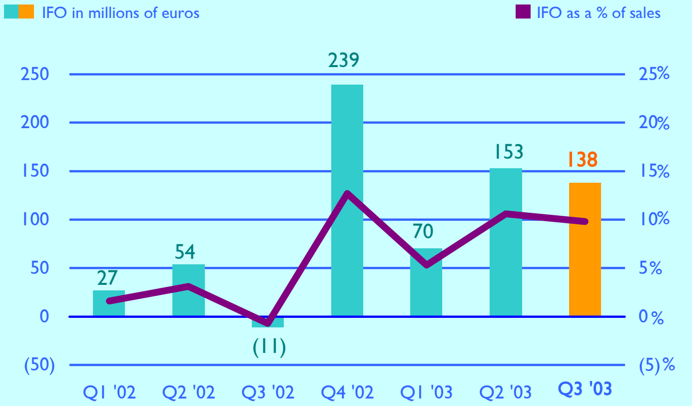
	Q3 2002	Q3 2003
Sales	1,540	**1,413**
Sales growth		
% increase (decrease), nominal	34	**(8)**
% increase, comparable	2	**9**
Income (loss) from operations	(11)	**138**
in % of sales	(0.7)	**9.8**
Special items included in IFO	(91)	**(4)**
in % of sales	(5.9)	**(0.3)**
Net operating capital (NOC)	5,105	**4,607**
Number of employees (FTEs)	32,036	**30,826**

Medical Systems sales

in millions of euros



Medical Systems income (loss) from operations (IFO)



Business highlights

- A 6-year, multimillion dollar partnership with Wisconsin Heart Hospital will provide highly-integrated, customized solutions for cardiovascular care.
- Strategic initiatives in Molecular Imaging including Washington University, University of Bordeaux, University of California in San Francisco, and participation in CellPoint.
- University of Nottingham research agreement to develop an ultra high-field 7.0T whole body Magnetic Resonance system for degenerative neurological diseases.
- Number one position in 23 of 25 categories in IMV's annual medical technology survey for patient monitoring products and services.

Financial performance

- Comparable sales grew 9%, mainly driven by strong performance in Cardiac and Monitoring Systems (Patient Monitoring), Medical IT and Customer Services.
- Income from operations exceeded Q3 2002 due to a better product mix and lower costs of organization.

Looking ahead

- Continued cautious outlook due to macroeconomic weakness and lower public spending – in particular in some European countries.
- Increasing competition and more price pressure in Medical industry.
- Strong continued focus on innovation, productivity and cost control.
- Integration program to achieve EUR 350 million savings at the end of 2003 on-track.

Miscellaneous

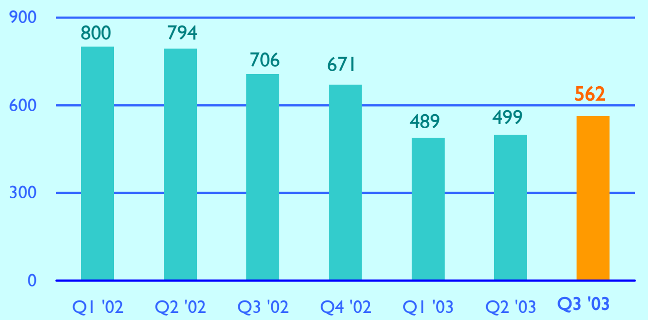
Miscellaneous: key data

in millions of euros unless otherwise stated

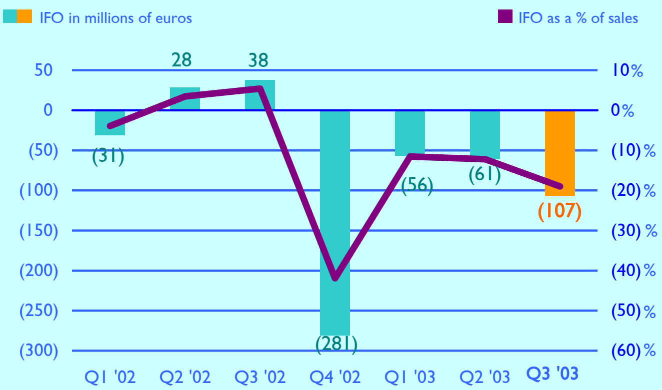
	Q3 2002	Q3 2003
Sales	706	562
Sales growth		
% (decrease), nominal	(17)	(20)
% increase (decrease), comparable	2	(6)
IFO Corporate Technology	(78)	(79)
IFO Corp. Investments and others	116	(28)
Income (loss) from operations	38	(107)
in % of sales	5.4	(19.0)
Special items included in IFO	144	(12)
in % of sales	20.4	(2.1)
Net operating capital (NOC)	112	4
Number of employees (FTEs)	27,108	26,490

Miscellaneous sales

in millions of euros



Miscellaneous income (loss) from operations (IFO)



Business highlights

- Philips to invest EUR 20 million in production site in Böblingen (Germany) for new Television technology (Liquid Crystal on Silicon).

Financial performance

- Nominal sales decrease was primarily due to the divestment of Communication, Security and Imaging and lower sales at Enabling Technologies Group and Assembléon.
- Although recent industry announcements indicated a recovery in the semiconductors industry, order intake and sales for Assembléon and Enabling Technologies Group have not picked up yet. The lower sales levels resulted in income from operations of a loss of EUR 35 million for Corporate Investment activities. This result included restructuring and other charges of EUR 12 million.
- General Research and various development projects on new technologies impacted income from operations negatively by EUR 79 million.
- Performance of Optical Storage continued to improve.
- Sequentially, income from operations was EUR 46 million lower. Q3 included restructuring and other charges of EUR 12 million against gains in Q2 of EUR 15 million from the disposal of some real estate.

Looking ahead

- Additional activities in the Corporate Investment portfolio to be divested given suitable market conditions.

Unallocated

Unallocated: key data

in millions of euros unless otherwise stated

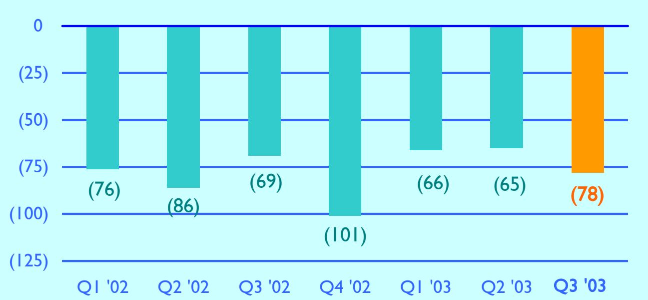
	Q3 2002	Q3 2003
Corporate and regional overheads	(69)	**(78)**
Pensions	2	**(62)**
Income (loss) from operations	(67)	**(140)**
Number of employees (FTEs)	4,497	**2,596**

Business highlights

- Philips Annual Report 2002 placed eighth in the E.com ranking of global top 200 annual reports.
- Dow Jones named Philips market leader for sustainability in the cyclical goods and services market.
- Philips India won the MIS Asia Innovation Award 2003.

Unallocated: Corporate and Regional Overheads income (loss) from operations (IFO)

in millions of euros



Financial performance

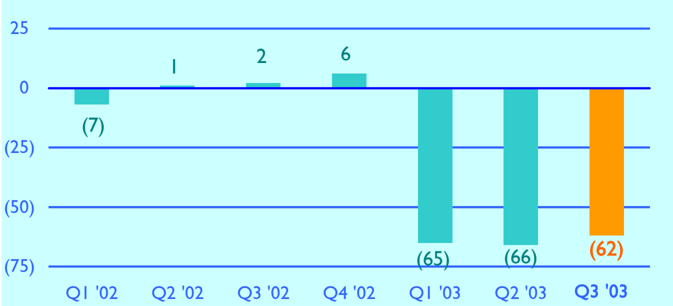
- Compared to Q3 2002, corporate and regional overheads were EUR 4 million lower. This trend in Q3 was more than offset by incidental results.
- Unallocated pension costs compared to previous year increased by EUR 64 million.

Looking ahead

- Ongoing focus on cost control.

Unallocated: Pensions income (loss) from operations (IFO)

in millions of euros



Joint ventures LG.Philips LCD and LG.Philips Displays

LG.Philips LCD joint venture (100%)

in millions of euros unless otherwise stated

	Q3 2002	Q3 2003
Sales	693	**1,270**
Sales growth		
% increase, nominal	29	**83**
Income from operations	86	**295**
in % of sales	12.4	**23.2**
Net income (100%)	56	**262**
Net income (Philips share = 50%)	28	**131**
Net operating capital (NOC)	2,791	**3,020**
Number of employees (FTEs)	5,727	**7,010**

LG.Philips LCD joint venture (100%)

- LG.Philips LCD sustained its number one position with over 22% market share and achieved an industry record of shipping two million large-size panels in September.
- Market for LCD panels has been increasing throughout the quarter. Despite industry wide capacity increases, demand outpaces supply.
- Sequential sales were up 33% largely driven by increased shipments and higher prices. Average panel prices improved 15% (from USD 225 to USD 260) during the quarter.
- Net income almost doubled compared to previous quarter, mainly driven by higher sales and scale efficiencies.

LG.Philips Displays joint venture (100%)

in millions of euros unless otherwise stated

	Q3 2002	Q3 2003
Sales	1,073	**861**
Sales growth		
% increase (decrease), nominal	12	**(20)**
Income from operations	29	**9**
in % of sales	2.7	**1.0**
Net income (loss) (100%)	46	**(32)**
Net income (loss) (Philips share = 50%)	23	**(16)**
Net operating capital (NOC)	3,267	**2,356**
Number of employees (FTEs)	32,097	**27,636**

LG.Philips Displays joint venture (100%)

- Overall CRT market continued to be hampered by declining global demand and overcapacity in the industry.
- Sales deteriorated by 10% in USD terms, and were strongly impacted by adverse market conditions, especially in Europe and the Americas.
- Despite lower sales, income from operations margin was just above break-even, largely driven by cost savings and efficiency measures.
- Restructuring charges for scaling down of activities and head count reduction at a number of sites amounted to EUR 15 million.
- Substantial reductions in inventories and working capital have been achieved compared to last year.

Highlights in the 1st nine months

Net income

in millions of euros unless otherwise stated

	January-Sept. 2002	January-Sept. 2003
Sales	22,897	**20,020**
Income (loss) from operations	373	**(120)**
in % of sales	1.6	**(0.6)**
Financial income and expenses	(2,074)	**(186)**
Income taxes	1	**113**
Results related to unconsolidated companies	45	**323**
Minority interests	(21)	**(17)**
Cumulative effect of change in accounting principle	-	**(16)**
Net income (loss)	(1,676)	**97**
Per common share – basic	(1.31)	**0.08**
– diluted	(1.31)	**0.08**

Special items affecting net income

in millions of euros

	January-Sept. 2002	January-Sept. 2003
Affecting income from operations:	214	**(312)**
Affecting financial income and exp.:	(1,808)	**146**
Income taxes related to special items:	(21)	**78**
Affecting results uncons. companies:	(211)	**33**
Special items affecting net income	(1,826)	**(55)**

Group net income

Net income

- Nominal sales were 13% lower than in same period last year. Weaker currencies and various divestments carried out in 2002 had a downward effect of 15%. On a comparable basis, sales were 2% up versus last year.

- Despite strongly improved results at Medical Systems, income from operations was lower, mainly due to restructuring and other charges at Semiconductors and at Consumer Electronics and an increase of EUR 247 million in pension costs. In 2002, income from operations also included higher gains from the sale of businesses.

- Net income was EUR 97 million. The net loss in 2002 was primarily due to impairment charges.

Special items affecting net income

- Special items affecting income from operations were mainly related to restructuring and other charges at Semiconductors (EUR 302 million) and at CE (EUR 23 million).

- Financial income and expenses included EUR 146 million for gains on the sale of securities.

Other information and outlook

Other information

On September 22, 2003, Atos Origin announced that it agreed to buy Schlumberger Sema in Q1 2004 through cash and new shares. Consequently, Philips' stake would decrease from 44.7% to 32% and a dilution gain of approximately EUR 120 million is expected to be reported in Q1 2004.

On October 8, 2003, Philips announced the possible offering of TSMC shares. Subject to all necessary regulatory approvals, Philips is considering an offering of up to 500 million common shares, which when converted equate to 100 million American depositary shares. Philips plans to use the proceeds to reduce the level of net debt on the company's balance sheet and for general corporate purposes.

In Q3, Philips issued a letter of credit following the earlier announced verdict with respect to a claim of Volumetrics Inc. This verdict is in the amount of EUR 319 million plus interest and has been appealed by Philips.

Outlook

We expect Semiconductors to be profitable in the fourth quarter, with improving book-to-bill ratios. Here we continue to focus our R&D spending and to build on Nexperia design wins. In DAP and Lighting, we are responding to softness in the markets by capitalizing on innovations and boosting the efficiencies of our operations. Our outlook for Medical Systems is cautious due to economic uncertainties and lower public spending – above all in Europe. Here, we continue to target innovation, productivity and cost control. Price erosion and ongoing competition from existing brands and new market entrants continue to shape the CE market. Our recently announced business renewal program will help strengthen our competitive position. In CE, we expect to be close to breakeven in North America in the fourth quarter.

The company will continue with its cost reduction initiatives and ongoing asset management programs, while strengthening its balance sheet. Innovation and making Philips a market driven company will continue to be among our top priorities as the key drivers for growth and profitability.

Amsterdam, October 14, 2003

Board of Management

Consolidated statements of income

all amounts in millions of euros unless otherwise stated

	3rd quarter		January to September	
	2002	**2003**	2002	**2003**
Sales	7,313	**6,989**	22,897	**20,020**
Cost of sales	(5,163)	**(4,894)**	(15,812)	**(13,746)**
Gross margin	2,150	**2,095**	7,085	**6,274**
Selling expenses	(970)	**(1,068)**	(3,559)	**(3,174)**
General and administrative expenses	(347)	**(348)**	(1,068)	**(1,092)**
Research and development expenses	(756)	**(609)**	(2,297)	**(1,892)**
Write-off of acquired in-process R&D	-	**-**	(4)	**-**
Impairment of goodwill	(21)	**-**	(21)	**(9)**
Restructuring and impairment charges	(9)	**(208)**	(59)	**(391)**
	(2,103)	**(2,233)**	(7,008)	**(6,558)**
Other business income (expenses) - net	88	**12**	296	**164**
Income (loss) from operations	135	**(126)**	373	**(120)**
Financial income and expenses:				
– interest	(90)	**(90)**	(299)	**(267)**
– impairment charges	(339)	**-**	(1,875)	**-**
– other	(20)	**66**	100	**81**
	(449)	**(24)**	(2,074)	**(186)**
Income before taxes	(314)	**(150)**	(1,701)	**(306)**
Income taxes	(5)	**54**	1	**113**
Income after taxes	(319)	**(96)**	(1,700)	**(193)**
Results relating to unconsolidated companies:				
– impairment charges	(8)	**(7)**	(45)	**(16)**
– other	4	**246**	90	**339**
Minority interests	(7)	**(3)**	(21)	**(17)**
Income (loss) before cumulative effect of change in accounting principle	(330)	**140**	(1,676)	**113**
Cumulative effect of change in accounting principle	-	**(16)**	-	**(16)**
Net income (loss)	(330)	**124**	(1,676)	**97**
Income from operations				
as a % of sales	1.8	**(1.8)**	1.6	**(0.6)**
as a % of net operating capital (RONA)			3.8	**(1.6)**
Weighted average number of common shares outstanding during the period (in thousands):				
(after deduction of treasury stock)				
• basic			1,274,861	**1,276,791**
• diluted			1,280,106	**1,281,088**
Basic earnings per common share in euros:				
Income (loss) before cumulative effect of change in accounting principle	(0.25)	**0.11**	(1.31)	**0.09**
Net income (loss)	(0.25)	**0.10**	(1.31)	**0.08**
Diluted earnings per common share in euros:				
Income (loss) before cumulative effect of change in accounting principle	(0.25)	**0.11**	(1.31)	**0.09**
Net income (loss)	(0.25)	**0.10**	(1.31)	**0.08**

The Group financial statements have been prepared on a basis consistent with US GAAP, which differs in certain respects from accounting principles as required by Dutch law (Dutch GAAP). Net income determined in accordance with Dutch GAAP amounted to a loss of EUR 446 million in the first nine months of 2003, compared to a loss of EUR 2,208 million in the corresponding period last year. These aggregate amounts result in basic earnings per common share of a loss of EUR 0.35 in January-September 2003 compared to a loss of EUR 1.73 last year. The difference between Dutch GAAP and US GAAP is caused by the fact that goodwill is no longer amortized under US GAAP but instead tested for impairment.

Consolidated balance sheets and additional ratios

all amounts in millions of euros unless otherwise stated

Consolidated balance sheet

	Sept. 30, 2002	December 31, 2002	**Sept. 30, 2003**
Current assets:			
Cash and cash equivalents	822	1,858	**883**
Receivables	5,601	5,068	**5,072**
Inventories	4,535	3,522	**3,870**
Other current assets	783	603	**678**
Total current assets	11,741	11,051	**10,503**
Unconsolidated companies	7,683	6,089	**6,222**
Other non-current financial assets	1,162	1,306	**1,074**
Non-current receivables	138	219	**258**
Other non-current assets	2,913	2,553	**2,639**
Property, plant and equipment	6,645	6,137	**5,198**
Intangible assets excl. goodwill	1,670	1,742	**1,463**
Goodwill	3,351	3,192	**3,047**
Total assets	35,303	32,289	**30,404**
Current liabilities:			
Accounts and notes payable	3,400	3,228	**3,150**
Accrued liabilities	3,608	3,314	**3,495**
Short-term provisions	876	1,276	**939**
Other current liabilities	732	691	**687**
Short-term debt	1,163	617	**1,709**
Total current liabilities	9,779	9,126	**9,980**
Long-term debt	6,567	6,492	**4,414**
Long-term provisions	2,656	1,970	**2,089**
Other non-current liabilities	192	603	**598**
Total liabilities	19,194	18,191	**17,081**
Minority interests	192	179	**167**
Stockholders' equity	15,917	13,919	**13,156**
Total liabilities and stockholders' equity	35,303	32,289	**30,404**
Number of common shares outstanding at the end of period			
• shares in thousands	1,274,976	1,275,978	**1,277,970**
Ratios			
Stockholders' equity,	15,917	13,919	**13,156**
per common share in euros	12.48	10.91	**10.29**
Inventories as a % of sales	14.1	11.1	**13.4**
Net debt : group equity ratio	30:70	27:73	**28:72**

Stockholders' equity determined in accordance with Dutch GAAP amounted to EUR 12,128 million as of September 30, 2003 compared to EUR 13,156 million under US GAAP.
The deviation is caused by the fact that goodwill under Dutch GAAP has to be amortized and charged to income, whereas under US GAAP it is no longer amortized, but instead tested for impairment.

Consolidated statements of cash flows *

all amounts in millions of euros

	3rd quarter		January to September	
	2002	**2003**	2002	**2003**
Cash flows from operating activities:				
Net income (loss)	(330)	**124**	(1,676)	**97**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	497	**488**	1,520	**1,443**
Impairment of equity investments	347	**8**	1,920	**17**
Net gain on sale of assets	(142)	**(95)**	(471)	**(255)**
Loss (income) from unconsolidated companies (net of dividends received)	2	**(236)**	(82)	**(319)**
Minority interests (net of dividends paid)	7	**(4)**	21	**10**
Decrease (increase) in working capital/other current assets	63	**408**	(350)	**(391)**
(Increase) decrease in non-current receivables/other assets	(86)	**(285)**	26	**(227)**
Decrease in provisions	(21)	**(41)**	(117)	**(138)**
Other items	7	**9**	(5)	**82**
Net cash provided by operating activities	344	**376**	786	**319**
Cash flows from investing activities:				
Purchase of intangible assets (software)	(28)	**(17)**	(108)	**(68)**
Capital expenditures on property, plant and equipment	(337)	**(264)**	(782)	**(661)**
Proceeds from disposals of property, plant and equipment	47	**23**	310	**114**
Proceeds from sale (purchase) of other non-current financial assets and derivatives	63	**168**	395	**660**
Proceeds from sale of businesses (purchase of businesses)	176	**(76)**	(206)	**75**
Net cash (used for) provided by investing activities	(79)	**(166)**	(391)	**120**
Cash flows before financing activities	265	**210**	395	**439**

* For a number of reasons, principally the effects of translation differences and consolidation changes, certain items in the statements of cash flows do not correspond to the differences between the balance sheet amounts for the respective items.

Consolidated statements of cash flows (continued) *

all amounts in millions of euros

	3rd quarter		January to September	
	2002	**2003**	2002	**2003**
Cash flows before financing activities	265	**210**	395	**439**
Cash flows from financing activities:				
(Decrease) increase in debt	(125)	**(823)**	96	**(879)**
Treasury stock transactions	11	**12**	(30)	**28**
Dividends paid	-	**-**	(459)	**(460)**
Net cash used for financing activities	(114)	**(811)**	(393)	**(1,311)**
Increase (decrease) in cash and cash equivalents	151	**(601)**	2	**(872)**
Effect of changes in exchange rates on cash positions	(12)	**(9)**	(70)	**(103)**
Cash and cash equivalents at beginning of the period	683	**1,493**	890	**1,858**
Cash and cash equivalents at end of period	822	**883**	822	**883**

* For a number of reasons, principally the effects of translation differences and consolidation changes, certain items in the statements of cash flows do not correspond to the differences between the balance sheet amounts for the respective items.

Consolidated statement of changes in stockholders' equity

all amounts in millions of euros

	January to September 2003								
				Accumulated other comprehensive income (loss)					
	Common stock	Capital in excess of par value	Retained earnings	Translation differences	Available for sale securities	Minimum pension liability	Cash flow hedges	Treasury shares at cost	Total stock-holders' equity
Balance as of January 1, 2003	263	14	16,738	(1,712)	265	(353)	11	(1,307)	13,919
Net income (loss)			97						97
Net current period change				(487)	161	25	(4)		(305)
Reclassifications into income					(147)		5		(142)
Total comprehensive income (loss), net of tax			97	(487)	14	25	1		(350)
Dividends			(462)						(462)
Purchase of treasury stock								(1)	(1)
Re-issuance of treasury stock		10						21	31
Stock options accrual		19							19
Balance as of September 30, 2003	263	43	16,373	(2,199)	279	(328)	12	(1,287)	13,156

Product sectors

all amounts in millions of euros unless otherwise stated

Segment revenues and income from operations

	3rd quarter					
	2002			2003		
	segment revenues	Income (loss) from operations		segment revenues	Income (loss) from operations	
		amount	as % of segment revenues		amount	as % of segment revenues
Lighting	1,136	141	12.4	**1,094**	**124**	**11.3**
Consumer Electronics	2,248	8	0.4	**2,228**	**(32)**	**(1.4)**
DAP	524	79	15.1	**471**	**82**	**17.4**
Semiconductors	1,306	(53)	(4.1)	**1,293**	**(191)**	**(14.8)**
Medical Systems	1,542	(11)	(0.7)	**1,416**	**138**	**9.7**
Miscellaneous	868	38	4.4	**765**	**(107)**	**(14.0)**
Unallocated		(67)			**(140)**	
Total	7,624	135		**7,267**	**(126)**	
Intersegment revenues	(311)			**(278)**		
Sales	7,313			**6,989**		
Income from operations as a % of sales		1.8			**(1.8)**	

Product sectors (continued)

all amounts in millions of euros unless otherwise stated

Segment revenues and income from operations

	January to September					
	2002			**2003**		
	segment revenues	Income (loss) from operations		segment revenues	Income (loss) from operations	
		amount	as % of segment revenues		amount	as % of segment revenues
Lighting	3,571	419	11.7	**3,296**	**416**	**12.6**
Consumer Electronics	6,955	86	1.2	**6,189**	**(1)**	**-**
DAP	1,512	218	14.4	**1,393**	**238**	**17.1**
Semiconductors	4,047	(220)	(5.4)	**3,621**	**(508)**	**(14.0)**
Medical Systems	4,965	70	1.4	**4,198**	**361**	**8.6**
Miscellaneous	2,758	35	1.3	**2,152**	**(224)**	**(10.4)**
Unallocated		(235)			**(402)**	
Total	23,808	373		**20,849**	**(120)**	
Intersegment revenues	(911)			**(829)**		
Sales	22,897			**20,020**		
Income from operations as a % of sales		1.6			**(0.6)**	

Product sectors and main countries

all amounts in millions of euros

Sales and total assets

	Sales (to third parties)		Total assets	
	January to September		Sept. 30,	**Sept. 30,**
	2002	**2003**	2002	**2003**
Lighting	3,550	**3,279**	2,804	**2,605**
Consumer Electronics	6,902	**6,131**	3,257	**2,775**
DAP	1,497	**1,380**	1,124	**1,037**
Semiconductors	3,687	**3,492**	8,028	**6,341**
Medical Systems	4,961	**4,188**	7,301	**6,360**
Miscellaneous	2,300	**1,550**	6,829	**5,673**
Unallocated			5,960	**5,613**
Total	22,897	**20,020**	35,303	**30,404**

Sales and long-lived assets

	Sales (to third parties)		Long-lived assets *	
	January to September		Sept. 30,	**Sept. 30,**
	2002	**2003**	2002	**2003**
Netherlands	1,095	**811**	1,682	**1,616**
United States	6,957	**5,403**	5,969	**4,755**
Germany	1,652	**1,523**	687	**630**
France	1,297	**1,293**	387	**220**
United Kingdom	1,037	**819**	197	**267**
China	1,789	**1,913**	435	**365**
Other countries	9,070	**8,258**	2,309	**1,855**
Total	22,897	**20,020**	11,666	**9,708**

* Includes property, plant and equipment and intangible assets-net.

Philips quarterly statistics

all amounts in millions of euros unless otherwise stated; percentage increases always in relation to the corresponding period of previous year

	2002				2003			
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Sales	7,598	7,986	7,313	8,923	6,499	6,532	6,989	
% increase	(7)	4	2	(4)	(14)	(18)	(4)	
Income (loss) from operations	73	165	135	47	32	(26)	(126)	
as % of sales	1.0	2.1	1.8	0.5	0.5	(0.4)	(1.8)	
% increase	(77)	.	.	.	(56)	.	.	
Net income (loss)	9	(1,355)	(330)	(1,530)	(69)	42	124	
% increase	(90)	.	.	.	.	.	.	
per common share in euros	0.01	(1.07)	(0.25)	(1.20)	(0.05)	0.03	0.10	

	January-March	January-June	January-September	January-December	January-March	January-June	January-September	January-December
Sales	7,598	15,584	22,897	31,820	6,499	13,031	20,020	
% increase	(7)	(2)	(1)	(2)	(14)	(16)	(13)	
Income (loss) from operations	73	238	373	420	32	6	(120)	
as % of sales	1.0	1.5	1.6	1.3	0.5	0.0	(0.6)	
% increase	(77)	.	.	.	(56)	.	.	
as a % of net operating capital (RONA)	2.0	3.4	3.8	3.2	1.2	0.1	(1.6)	
Net income (loss)	9	(1,346)	(1,676)	(3,206)	(69)	(27)	97	
% increase	(90)	.	.	.	.	.	.	
as a % of stockholders' equity (ROE)	0.2	(14.7)	(13.3)	(19.2)	(2.1)	(0.3)	1.0	
per common share in euros	0.01	(1.06)	(1.31)	(2.51)	(0.05)	(0.02)	0.08	

	period ending 2002				period ending 2003			
Inventories as % of sales	14.0	13.4	14.1	11.1	12.1	12.8	13.4	
Net debt : group equity ratio	28:72	30:70	30:70	27:73	30:70	29:71	28:72	
Total employees (in thousands)	186	184	183	170	166	164	166	

Information also available on Internet, address: www.investor.philips.com
Printed in the Netherlands