

## 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



*'Safe Harbor' Statement under the Private Securities Litigation Reform Act of 1995*

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). 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'.

### **Philips reports full year net income of EUR 695 million. Fourth quarter net income of EUR 598 million.**

- Nominal sales growth of 1% in Q4 – comparable sales up 10% driven by Semiconductors, Consumer Electronics and Medical Systems
- Semiconductors profitable in Q4: income from operations EUR 166 million
- Unconsolidated companies contributed EUR 183 million to net income in Q4
- Cost reduction programs surpassed target of EUR 1 billion savings
- Strong cash flow from operations of EUR 1,673 million in Q4
- Net debt : group equity ratio 18 : 82

### **The fourth quarter 2003**

Philips recorded a net income of EUR 598 million (a profit of EUR 0.46 per share) versus a loss of EUR 1,530 million (a loss of EUR 1.20 per share) in the same period last year. Nominal sales increased by 1% over the same period last year, being impacted by the weakening of the US dollar and related currencies (8%) and various divestments that were carried out in 2002 (1%). Comparable sales increased by 10%, predominantly driven by stronger sales at Semiconductors, Consumer Electronics and Medical Systems.

Income from operations was a profit of EUR 608 million, an improvement compared to Q4 2002 of EUR 561 million, despite higher pension cost of EUR 66 million. Focus on cost control and operational efficiencies, coupled with increased sales and the benefits of earlier restructuring programs, resulted in improved profit margins in almost all divisions. Income from operations included a non-cash impairment charge of EUR 139 million relating to the MedQuist business at Medical Systems.

Over the last two years overhead cost reductions achieved savings of EUR 425 million to date and Medical Systems delivered savings of EUR 342 million. Including savings in R&D and other projects, the overall cost reduction program surpassed the target of EUR 1 billion savings by the end of 2003.

Cash flow from operating activities in Q4 was an inflow of EUR 1,673 million.

Inventories as a percentage of sales were 11.0% compared to 11.1% last year, and were at another record low for the fourth quarter. During the quarter, the net debt position decreased by EUR 2.4 billion to EUR 2.8 billion, due to a strong cash flow from operations and the sale of securities.

**Gerard Kleisterlee,**  
Philips' President and CEO:

“Through strict financial discipline and pursuit of our management agenda we’ve been able to be profitable in 2003 – both in terms of income from operations and net income. In the fourth quarter, all divisions were making positive contributions to income together with a continued strong performance from unconsolidated companies. We’ve done this by following through on the commitments we made – cutting over EUR 1 billion from our cost structure, restoring profitability to our Semiconductors business, breaking even in Consumer Electronics in the US by the fourth quarter, continuing to move toward achieving 14% EBITA in 2004 in Medical Systems, and by making Philips a more truly market-driven company.

Now, our task is to maintain this momentum while steadily improving our earnings as we move through 2004.”

## Net income

in millions of euros unless otherwise stated

	Q4 2002	Q4 2003
Sales	8,923	9,017
Income from operations	47	608
in % of sales	0.5	6.7
Financial income and expenses	(153 )	(58 )
Income taxes	(28 )	(98 )
Results unconsolidated companies	(1,391 )	183
Minority interests	(5 )	(39 )
Cumulative effect of change in accounting principle	-	2
Net income (loss)	(1,530 )	598
Per common share – basic	(1.20 )	0.46
– diluted	(1.20 )	0.46

## Special items affecting net income

in millions of euros

	Q4 2002	Q4 2003
Affecting income from operations:	(254 )	(119 )
Affecting financial income and exp.:	(80 )	-
Income taxes related to special items:	148	22
Affecting results uncons. companies:	(1,402 )	(113 )
Special items affecting net income	(1,588 )	(210 )

## Sales by sector

in millions of euros unless otherwise stated

	Q4 2002	Q4 2003	% change	
			nominal	comparable
Lighting	1,295	1,243	(4 )	3
Cons. Electronics	2,953	3,057	4	11
DAP	776	751	(3 )	4
Semiconductors	1,345	1,496	11	24
Medical Systems	1,883	1,802	(4 )	9
Miscellaneous	671	668	0	2
Philips group	8,923	9,017	1	10

## Highlights in the quarter

### Net income

- Net income in Q4 of 2003 was a profit of EUR 598 million, an increase of EUR 2.1 billion compared to last year.
- Income from operations was EUR 608 million, predominantly due to profits at Semiconductors, improved results at CE and solid income from operations at Lighting and DAP. Pension costs were EUR 66 million higher than last year.
- Income taxes were impacted favorably by an improved performance in certain fiscal jurisdictions, among these a reversal of a EUR 149 million tax allowance related to NavTech.

### Special items affecting net income

(For a definition of special items, see Annual Report 2003 Financial Statements and Analysis page 6)

- Special charges affecting income from operations primarily related to an impairment charge of EUR 139 million for MedQuist – a document management services business at Medical Systems.
- Results from unconsolidated companies included:
  1. A gain of EUR 695 million on the sale of 100 million American Depository Shares in TSMC;
  2. Charges for impairment of assets, goodwill and restructuring at LG.Philips Displays amounting to EUR 393 million, and goodwill impairment at Philips for its investment in LG.Philips Displays of EUR 411 million.

### Group sales

- Group sales were 1% higher than last year on a nominal basis. Weaker currencies had a downward effect of 8%, while a 1% downward effect came from various divestments in 2002.
- On a comparable basis, sales increased 10% versus 6% in Q3. All sectors contributed positively to this development. As in Q3, the strongest increases were realized at Semiconductors, Consumer Electronics and Medical Systems.

## Income (loss) from operations by sector

in millions of euros unless otherwise stated		
	Q4 2002	Q4 2003
Lighting	183	161
Consumer Electronics	122	249
DAP	183	160
Semiconductors	(304)	166
Medical Systems	239	70
Miscellaneous	(281)	(39)
Unallocated	(95)	(159)
Income (loss) from operations	47	608
in % of sales	0.5	6.7

## Financial income and expenses

in millions of euros		
	Q4 2002	Q4 2003
Interest expenses (net)	(73)	(58)
Impairment of securities	(80)	-
Total	(153)	(58)

## Results unconsolidated companies

in millions of euros		
	Q4 2002	Q4 2003
SSMC	(15)	9
L.G.Philips LCD	(23)	199
L.G.Philips Displays	(388)	(762)
Others	(965)	737
Total	(1,391)	183

## Income from operations

- After 10 quarters of losses, Semiconductors was profitable in Q4, supported by increased sales, improved margins, lower R&D spending, and the benefits of earlier restructuring programs.
- Consumer Electronics largely benefited from increased margins and the inclusion of EUR 38 million to income from operations for past use licenses. Income from operations in North America was a profit of EUR 1 million.
- Income from operations in Medical Systems included a non-cash impairment charge of EUR 139 million related to MedQuist and an incidental charge of EUR 35 million related to the alignment of inventory valuations across the Medical Systems' businesses.
- In the Miscellaneous sector, a turnaround in the Optical Storage business, a reversal of EUR 50 million for a provision on a put option related to NavTech, and lower special items compared to last year contributed to improved profitability.

## Financial income and expenses

- Interest expenses (net) were EUR 15 million lower than last year, mainly due to the reduction in outstanding net debt.

## Results relating to unconsolidated companies

- Unconsolidated companies contributed EUR 183 million to net income, largely impacted by:
  1. Significant higher results from L.G.Philips LCD, driven by strong demand, higher capacity, superior process performance, and a better panel mix.
  2. The sale of TSMC shares (leading to a reduction in Philips' shareholding from 21.5% to 19.1%), resulting in a gain of EUR 695 million.
  3. EUR 804 million of special charges, relating to restructuring and impairments (both goodwill and assets) for L.G.Philips Displays.

## Cash balance

in millions of euros

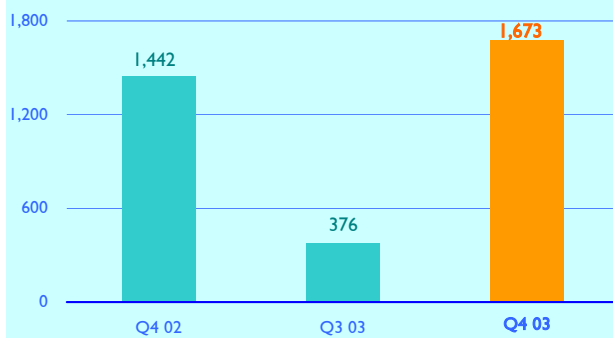
	Q4 2002	Q4 2003
Beginning balance	822	883
Net cash from operating activities	1,442	1,673
Gross capital expenditures	(379)	(319)
Acquisitions/divestments	393	827
Other cash from investing activities	129	114
Dividend paid	-	-
Changes in debt/other	(549)	(106)
Ending balance	1,858	3,072

## Cash balance

- Sale of TSMC shares contributed to a cash inflow of EUR 908 million.
- Part of the available cash will be used to redeem EUR 1.2 billion in bonds which mature in 2004.

## Cash flows from operating activities

in millions of euros

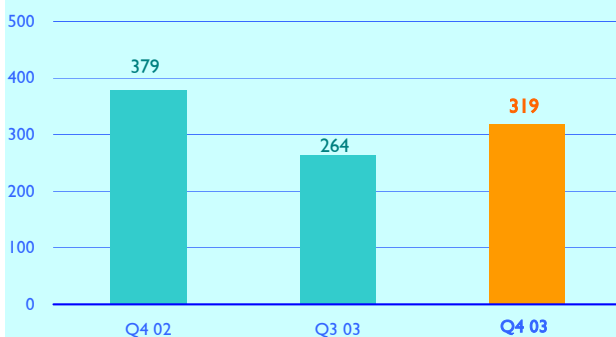


## Cash flows from operating activities

- Compared to Q4 2002, the improvement in cash flows from operating activities was predominantly due to strong cash generation at Medical Systems.

## Gross capital expenditures

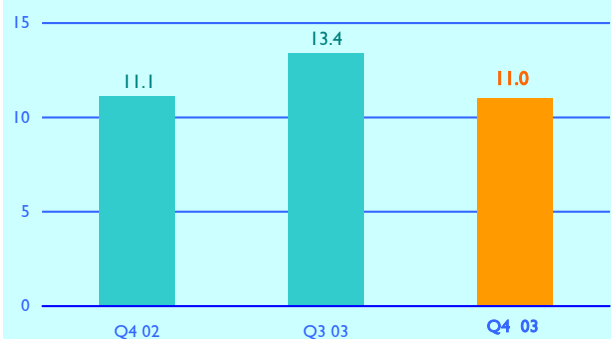
in millions of euros



## Gross capital expenditures

- Gross capital expenditures in Q4 2003 were EUR 60 million lower than last year, primarily due to lower expenditures in Semiconductors. In Q4 2003, EUR 33 million was invested in Crolles2 – a joint semiconductors operation of Philips, Motorola and STMicroelectronics.
- Gross capital expenditures were EUR 86 million for Semiconductors, EUR 62 million for Lighting and EUR 41 million for Medical Systems.
- In addition to gross capital expenditures, investments in software and IT systems amounted to EUR 28 million, or EUR 13 million lower than in Q4 of last year.

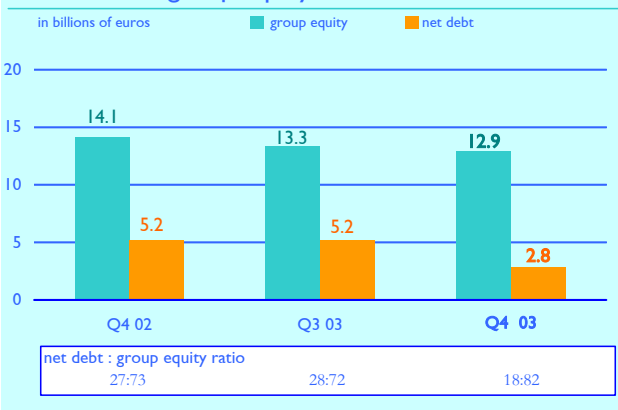
### Inventories as a % of sales



### Inventories

- For the fourth year in a row, Philips succeeded in reducing inventories as a percentage of sales to an all-time low of 11.0%.
- All businesses maintain their undiminished focus on optimizing the supply chain and managing working capital.

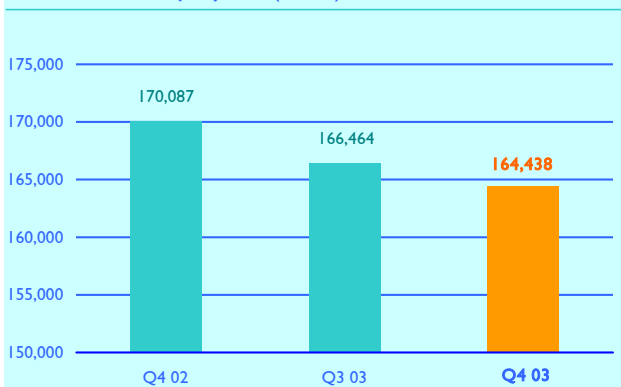
### Net debt and group equity



### Net debt and group equity

- In Q4 net debt decreased by EUR 2.4 billion to a level of EUR 2.8 billion. A large part of the debt is US dollar denominated or swapped into US dollars, which benefited from the decline of the US dollar.
- Group equity decreased by EUR 0.4 billion. A positive net income of EUR 598 million and an increase of EUR 137 million in the value of securities available for sale was more than offset by unfavourable translation effects of EUR 1,165 million, which were mainly attributable to the decline of the USD against the EUR.
- Net debt : group equity ended at 18 : 82.

### Number of employees (FTEs)



### Employment

- During Q4, the number of employees decreased by 2,026. Of this number, 263 were due to divestments. There was a general reduction in most businesses while there was a noticeable increase in employees at Optical Storage.
- A decrease in the number of permanent employees was partly offset by an increase in temporary employees.

# Lighting

## Lighting: key data

in millions of euros unless otherwise stated

	Q4 2002	Q4 2003
Sales	1,295	1,243
Sales growth		
% (decrease), nominal	(4)	(4)
% increase, comparable	3	3
Income from operations	183	161
in % of sales	14.1	13.0
Special items included in IFO	1	(4)
in % of sales	0.1	(0.3)
Net operating capital (NOC)	1,723	1,521
Number of employees (FTEs)	46,870	43,800

## Business highlights

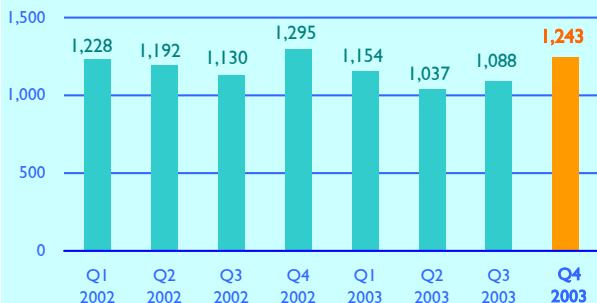
- Long-term contract for UHP in projection television was signed with Samsung.
- Luminaires awarded contracts to equip 29 sports facilities for the Olympic Games in Athens.
- US President honors CTO of Lumileds for his pioneer work in the development of LED Technology.

## Financial performance

- Market share gained in a soft market.
- Comparable sales increased by 3%. Automotive & Special Lighting as well as Lighting Electronics saw a double-digit sales expansion. Sales of Lamps were stable.
- Surplus production lines were phased out, amounting to a write-off of EUR 24 million in equipment (predominantly in Lamps).
- Strong working capital and asset utilization management were the main contributors behind generating excellent cash flow.
- The strong underlying profitability was driven by a continuous improvement in all business areas.

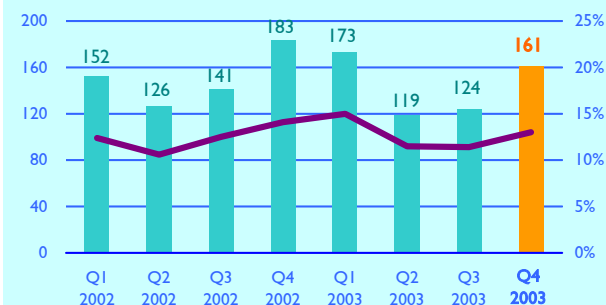
## Lighting sales

in millions of euros



## Lighting income from operations (IFO)

IFO in millions of euros (blue bars) and IFO as a % of sales (red line)



## Looking ahead

- Expanding capacity for innovative products (UHP, Xenon).
- Ongoing improvements to streamline manufacturing processes.
- Optimizing supply chain management, improving asset utilization and continuing strict cost control.

# Consumer Electronics

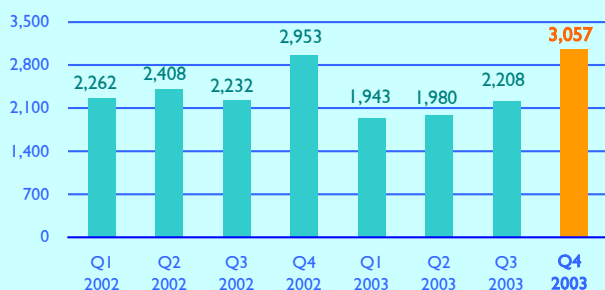
## Consumer Electronics: key data

in millions of euros unless otherwise stated

	Q4 2002	Q4 2003
Sales	2,953	3,057
Sales growth		
% (decrease) increase, nominal	(6)	4
% increase, comparable	0	11
Income from operations	122	249
in % of sales	4.1	8.1
Special items included in IFO	(14)	(8)
in % of sales	(0.5)	(0.3)
Net operating capital (NOC)	46	(82)
Number of employees (FTEs)	21,018	19,111

## Consumer Electronics sales

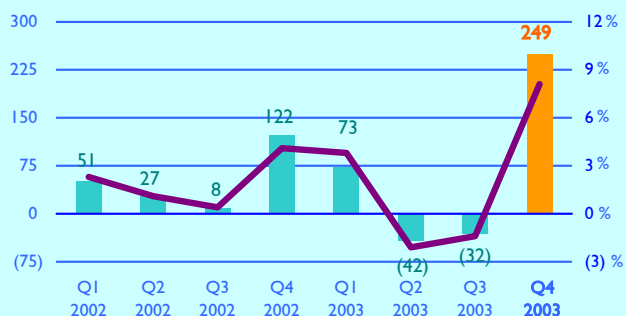
in millions of euros



## Consumer Electronics income (loss) from operations (IFO)

IFO in millions of euros

IFO as a % of sales



## Business highlights

- Accelerated shift from CRT to LCD; sales of LCD screens and monitors tempered by shortage of panels.
- Philips and Yahoo sign deal during Consumer Electronics Show (CES) in Las Vegas to cooperate on content for Streamium TV.
- Consumer Electronics awarded with 21 innovation awards at CES, of which Keyring was awarded 'Best of Innovations'.
- Philips to introduce Ambilight TV and Streamium TV concept.

## Financial performance

- CE sales (excluding Licenses) amounted to EUR 2,944 million, reflecting a comparable growth of 9%, mainly driven by improved sales of Monitors and GSM in Asia Pacific (42%). Strong sales for Flat, Slim and Wide TV, GSM and Set-top Boxes.
  - Income from operations in CE improved, driven by better margins, due to strong demand for innovative products (mainly LCD TV). Income from operations of GSM was once again profitable and improved by EUR 25 million compared to Q4 2002.
  - Income from operations included an insurance benefit of EUR 10 million related to Set-top Boxes.
  - A profit of EUR 1 million in North America (including an EUR 4 million restructuring charge) compared to a loss of EUR 23 million in Q4 2002.
  - Sales of Licenses amounted to EUR 113 million, resulting in an income from operations of EUR 97 million, which included EUR 38 million for past use licenses.
  - Net operating capital was negative – an all-time low.
- ## Looking ahead
- Business renewal project on-track.
  - Restructuring charges for 2004 are expected to be EUR 150 million of which approximately EUR 15 million are expected to occur in Q1.

# Domestic Appliances and Personal Care

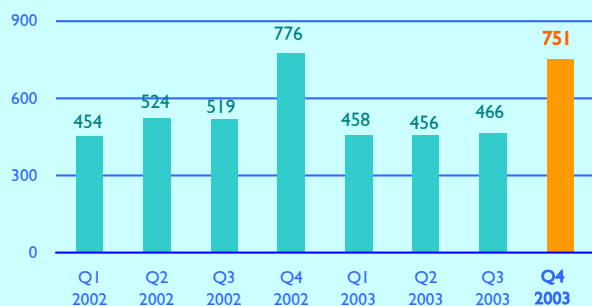
## DAP: key data

in millions of euros unless otherwise stated

	Q4 2002	Q4 2003
Sales	776	751
Sales growth		
% increase (decrease), nominal	0	(3)
% increase, comparable	9	4
Income from operations	183	160
in % of sales	23.6	21.3
Special items included in IFO	(3)	0
in % of sales	(0.4)	0
Net operating capital (NOC)	529	464
Number of employees (FTEs)	8,766	8,180

## DAP sales

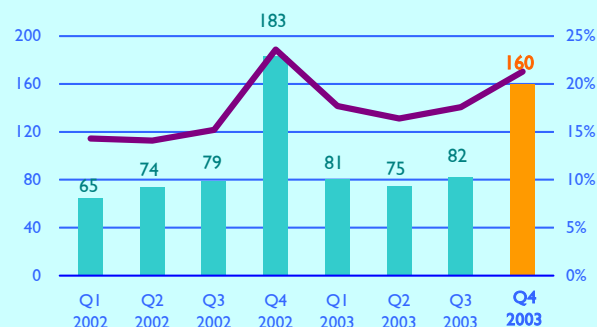
in millions of euros



## DAP income from operations (IFO)

IFO in millions of euros

IFO as a % of sales



## Business highlights

- Philips' Senseo captures 70% of the total coffeemaker market in the Netherlands, 40% of the market in Germany and wins the EFFIE 2003 bronze award – a recognition of the year's most effective advertising campaigns in Europe.
- The Essence fryer, which offers close to 100% odorless frying, was very well received by consumers.
- Intellicare, a steam system iron with electronic intelligence to deliver the best results consistently, was successfully launched in the market.

## Financial performance

- Nominal sales were 3% lower compared to last year. Weaker currencies had an unfavorable impact of EUR 60 million on sales.
- Comparable sales growth of 4% could be traced to an increase in sales in all businesses – in particular Oral Healthcare and Food & Beverage.
- Increased investment in marketing.
- Cost control and purchasing efficiencies buffered the impact of lower nominal sales on profitability.

## Looking ahead

- Increased competitive pressure, especially in the Shaving business in North America.
- Weakness in certain regional markets.
- Introduction in the Netherlands in Q2 2004 of a new concept in ironing – Perfective, a partnership between Philips and Unilever.
- Focus on innovation, new product introductions, and more efficient purchasing.

# Semiconductors

## Semiconductors: key data

in millions of euros unless otherwise stated

	Q4 2002	Q4 2003
Sales	1,345	1,496
Segment revenues	1,435	1,538
Segment revenues growth		
% increase, nominal	11	7
% increase, comparable	20	20
Income (loss) from operations	(304)	166
In % of segment revenues	(21.2)	10.8
in % of sales	(22.6)	11.1
Special items included in IFO	(171)	23
In % of segment revenues	(11.9)	1.5
in % of sales	(12.7)	1.5
Net operating capital (NOC)	3,814	2,676
Number of employees (FTEs)	34,225	33,177

## Business highlights

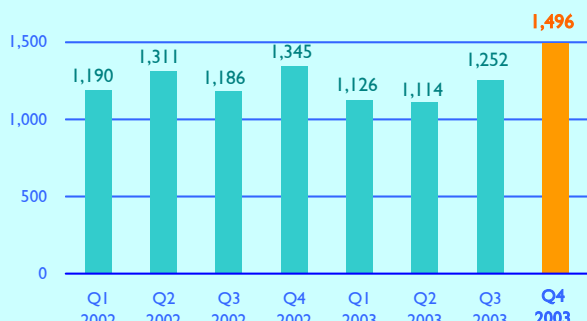
- Philips and Jilin Sino-Microelectronics Co. Ltd. (JSMC) announced the establishment of a joint venture to develop, design and manufacture bipolar power products.
- Trans Link Systems (TLS) announced it will be using the Philips MIFARE® contactless smart card interface platform.
- Launch of the Nexperia™ PNx7200, a single-chip MPEG-2 codec for DVD recording applications, and the lowest system-cost solution on the market today.

## Financial performance

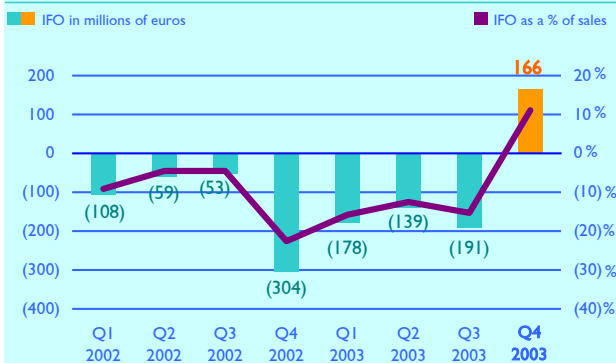
- Sequential revenues, excluding Mobile Display Systems (MDS), increased by 22% in USD terms, driven by growth in Communication and Consumer businesses. Sequential revenue of MDS increased 29% in USD terms.
- The book-to-bill ratio at quarter's end continued to improve to 1.18 (excluding MDS) at Q4 versus 1.16 at Q3 2003.
- Semiconductors was profitable in Q4, supported by increased sales, lower R&D spending and the benefits of earlier restructuring programs.
- A special gain of EUR 21 million relating to the sale of the San Antonio facility in October was realized.
- A fire at a factory in Caen, France had a negative impact on income from operations of EUR 10 million.
- Utilization rates increased further to 84% in Q4 from 69% in Q3 and 66% in Q2.

## Semiconductors sales

in millions of euros



## Semiconductors income (loss) from operations (IFO)



## Looking ahead

- Single-digit sequential decrease in segment revenues expected in Q1 2004 (in USD terms, excluding MDS).
- Ongoing costs associated with limited production capacity following the fire in Caen.
- Continuing design wins expected for Nexperia™.

# Medical Systems

## Medical Systems: key data

in millions of euros unless otherwise stated

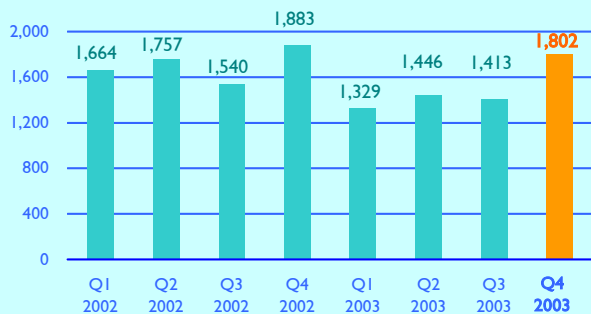
	Q4 2002	Q4 2003
Sales	1,883	1,802
Sales growth		
% (decrease), nominal	(2)	(4)
% increase, comparable	3	9
Income from operations	239	70
in % of sales	12.7	3.9
Special items included in IFO	21	(138)
in % of sales	1.1	(7.7)
Net operating capital (NOC)	4,849	3,671
Number of employees (FTEs)	31,027	30,611

## Business highlights

- Alliance formed with Epic to provide enterprise-wide software, medical imaging and monitoring IT solutions.
- Ambient Experience – a future view of patient care – introduced at the Radiological Society of North America.
- 4 Frost & Sullivan awards were won, including the Market Engineering award for “Medical Imaging Company of the Year” and “Medical Imaging Technology of the Year”.
- Announcement of Chinese joint venture with Neusoft for the manufacture of economy- to mid-range medical products.

## Medical Systems sales

in millions of euros



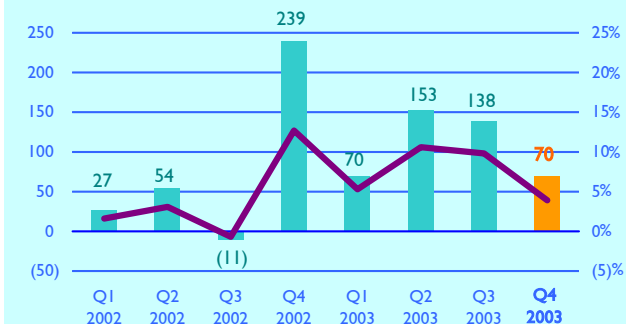
## Financial performance

- Comparable sales grew 9%, mainly driven by Patient Monitoring, Ultrasound, Customer Services and Medical IT. From a regional perspective, Asia Pacific showed the strongest growth.
- A goodwill impairment charge of EUR 139 million related to MedQuist has been included in income from operations.
- A negative valuation adjustment of EUR 35 million relating to the alignment of inventory valuations across the Medical Systems’ businesses impacted income from operations unfavorably.
- Integration program achieved EUR 342 million savings at the end of 2003.

## Medical Systems income (loss) from operations (IFO)

IFO in millions of euros

IFO as a % of sales



## Looking ahead

- Continued strong focus on clinical excellence, innovation, productivity and cost control.
- Increasing competition and more price pressure in the medical industry.

# Miscellaneous

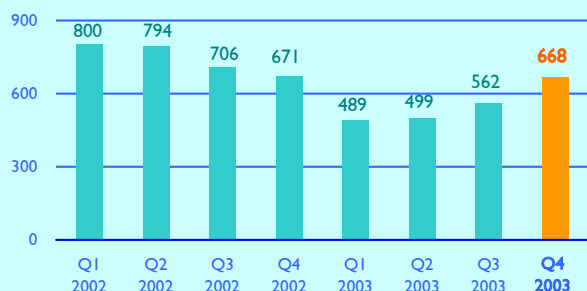
## Miscellaneous: key data

in millions of euros unless otherwise stated

	Q4 2002	Q4 2003
Sales	671	668
Sales growth		
% (decrease), nominal	(26 )	0
% increase, comparable	3	2
IFO Corporate Technology	(70 )	(96 )
IFO Corp. Investments and others	(211 )	57
Income (loss) from operations	(281 )	(39 )
in % of sales	(41.9 )	(5.8 )
Special items included in IFO	(89 )	6
in % of sales	(13.3 )	0.9
Net operating capital (NOC)	(181 )	150
Number of employees (FTEs)	23,866	27,086

## Miscellaneous sales

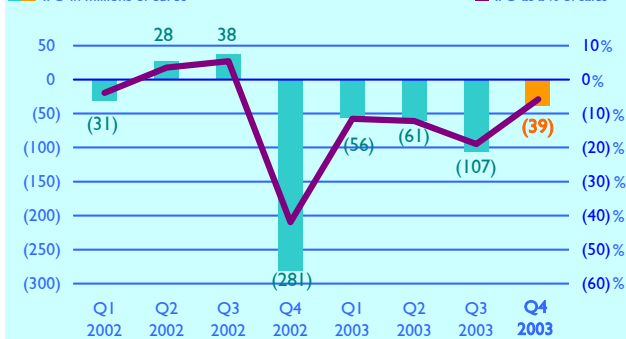
in millions of euros



## Miscellaneous income (loss) from operations (IFO)

IFO in millions of euros

IFO as a % of sales



## Business highlights

- Philips reaches milestone of 100,000 patents.
- Successful introduction of CINEOS microdisplay TV in the United States, based on LCoS technology.
- Introduction of a dual-layer/double-capacity option for the successful DVD+RW recordable optical disc format.
- Several awards won by Philips Sound Solutions for the new range of multimedia applications.

## Financial performance

- Nominal sales were flat, while comparable sales increased by 2%, predominantly due to improved sales at Optical Storage and Navigation Technologies Corporation (NavTech).
- After reporting black figures in Q2 2003, income from operations of Optical Storage continued to increase, resulting in a significant improvement compared to Q4 2002.
- For the seventh consecutive quarter NavTech reported a positive income from operations, which amounted to EUR 11 million in Q4.
- Additionally, income from operations was positively impacted by the release of a EUR 50 million provision for a put option related to the sale of NavTech shares to an investment consortium in 1999.
- Furthermore, incidental items in other businesses had a net favorable impact of EUR 24 million on income from operations. These were offset by lower income from operations at Corporate Technology, mainly due to increased costs for various development projects on new technologies.

## Looking ahead

- First signs of increased capital spending in the high tech sector expected to improve demand for products of equipment makers such as Enabling Technologies Group.
- Further execution of divestment program expected, depending on improved economic/market conditions.

# Unallocated

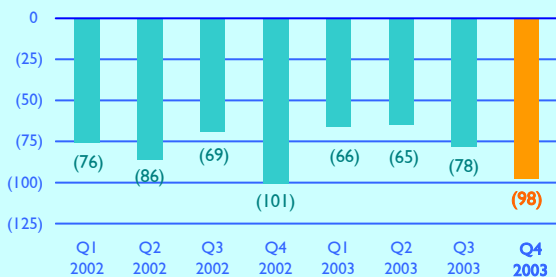
## Unallocated: key data

in millions of euros unless otherwise stated

	Q4 2002	Q4 2003
Corporate and regional overheads	(101)	(98)
Pensions	6	(61)
Income (loss) from operations	(95)	(159)
Number of employees (FTEs)	4,315	2,473

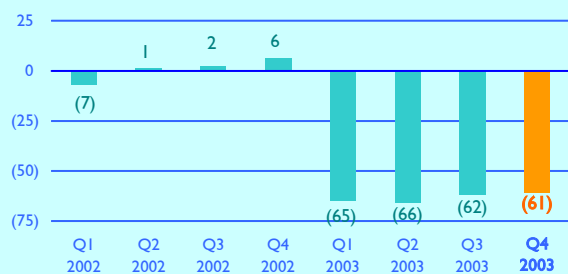
## Unallocated: Corporate and Regional Overheads income (loss) from operations (IFO)

in millions of euros



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

in millions of euros



## Business highlights

- The Financial Times ranked Philips the 32nd most reputable company in 2003 in terms of Corporate Social Responsibility.
- Philips awarded best sustainability report 2003 by Dutch association of investors for sustainable development.

## Financial performance

- Corporate and Regional Overheads were lower than cost levels of the same period last year.
- Pension costs compared to Q4 2002 increased by EUR 67 million.

## Looking ahead

- Compared to Q1 2003, no major cost savings expected in Q1 2004 for Corporate and Regional Overheads.
- In 2004, pension costs for the Philips Group are expected to be approximately EUR 350 million, which will be EUR 92 million lower than in 2003. This will contribute to a reduction of approximately EUR 30 million in pension and other post retirement costs in the sector "Unallocated".

## Joint ventures LG.Philips LCD and LG.Philips Displays

### LG.Philips LCD joint venture (100%)

in millions of euros unless otherwise stated		
	Q4 2002	Q4 2003
Sales	727	1,544
Sales growth		
% increase, nominal	20	112
Income (loss) from operations	(57 )	410
in % of sales	(7.8 )	26.6
Net income (loss) (100%)	(46 )	398
Net income (loss) (Philips share = 50%)	(23 )	199
Net operating capital (NOC)	2,776	2,842
Number of employees (FTEs)	5,879	7,455

### LG.Philips LCD joint venture (100%)

- The growth trend in the LCD market continued throughout the fourth quarter, and LG.Philips LCD maintained its leading position in the market. Two million large panels produced and shipped per month, and 10 million panels shipped in the first 11 months were major milestones during the quarter.
- Sales more than doubled compared to last year fuelled by capacity of two additional production lines. Sequential sales improved by 22%, benefiting from both seasonality effects and strong demand.
- Average large panel prices increased by 7% in USD from the previous quarter, while shipments grew by more than 15%.
- Income from operations improved by a further 3 percentage points compared to previous quarter. Superior factory yields, better product mix and improvements in both prices and shipments contributed to the increasing profitability.

### LG.Philips Displays joint venture (100%)

in millions of euros unless otherwise stated		
	Q4 2002	Q4 2003
Sales	1,208	932
Sales growth		
% increase (decrease), nominal	2	(23 )
Income (loss) from operations	(204 )	(703 )
in % of sales	(16.9 )	(75.4 )
Net income (loss) (100%)	(242 )	(703 )
Net income (loss) (Philips share = 50%)	(121 )	(351 )
Net operating capital (NOC)	2,805	1,469
Number of employees (FTEs)	30,330	26,888

### LG.Philips Displays joint venture (100%)

- The CRT market did not show a significant rebound in the fourth quarter, despite the high season. There remains overcapacity in the industry.
- Sales weakened by 23% compared to last year, and by 10% in USD terms, highlighting the impact of a deteriorating USD on sales.
- LG.Philips Displays reacted to structural overcapacity in the industry by adopting further restructuring plans. The joint venture consequently impaired a number of factories. This resulted in charges in the quarter amounting to EUR 786 million (Philips share was EUR 393 million).
- Cash flow continued to be positive, and further improvements in working capital were visible.

# Highlights full year 2003

## The year 2003

- Net income of EUR 695 million, helped by a strong contribution from unconsolidated companies
- Comparable sales growth of 4%, reversing the trend of the previous 2 years
- Cost reduction programs surpass target of EUR 1 billion savings
- DAP and Lighting continue solid performance; significant improvement at Medical Systems
- Semiconductors profitable in the 4<sup>th</sup> quarter after significant restructuring
- Positive cash flow from operating activities of EUR 2.0 billion; net debt reduced to EUR 2.8 billion

## Net income

in millions of euros	2002	2003
Sales	31,820	<b>29,037</b>
Income from operations	420	<b>488</b>
in % of sales	1.3	<b>1.7</b>
Financial income and expenses	(2,227 )	<b>(244 )</b>
Income taxes	(27 )	<b>15</b>
Results unconsolidated companies	(1,346 )	<b>506</b>
Minority interests	(26 )	<b>(56 )</b>
Cumulative effect of change in accounting principle	-	<b>(14 )</b>
Net income (loss)	(3,206 )	<b>695</b>
Per common share - basic	(2.51 )	<b>0.54</b>
- diluted	(2.51 )	<b>0.54</b>

## Special items affecting income

in millions of euros	2002	2003
Special items:		
affecting income from operations	(40 )	<b>(431 )</b>
affecting financial income and expenses	(1,888 )	<b>146</b>
income taxes related to special items	127	<b>100</b>
affecting results relating to unconsolidated companies	(1,613 )	<b>(80 )</b>
Total special items	(3,414 )	<b>(265 )</b>

## Summary

(For more details see Annual Report 2003 of Royal Philips Electronics or [www.philips.com](http://www.philips.com).)

Led by the United States, the markets in 2003 have shown a clear sign of recovery. The revival was more modest in Europe. Due to the weaker US dollar, the improving market trends are not reflected in nominal sales. More importantly, comparable sales increased by 4%, reversing the downward trend of the previous two years.

During the economic downturn of the last years, we focused on cost and asset management and on improving our fundamental business processes. As a result, we see better operating margins in all our sectors (except Miscellaneous). On top of that, the performance in the second half of the year shows that income is growing, in line with comparable sales growth.

Net income improved to EUR 695 million, helped by the absence of impairment charges on financial assets. Income from operations improved by EUR 68 million although it was negatively impacted by a lower level of sold businesses and real estate (EUR 445 million) and an increase in pension costs (EUR 312 million).

Income from unconsolidated companies amounted to EUR 506 million, led by a strong contribution from the LCD joint venture with LG Electronics. Positive one-time results from our shareholding in Atos Origin (EUR 68 million) and the sale of TSMC shares (EUR 695 million) were offset by impairment and restructuring charges related to the LG.Philips Displays joint venture (EUR 828 million).

Philips generated EUR 1,992 million positive cash flow from operating activities in 2003. Net capital expenditures of EUR 856 million were in line with 2002, both years being half the 2001 level. The net debt to group equity ratio was further improved to 18:82, compared with 27:73 at the end of 2002.

### Subsequent events

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On September 22, 2003, Atos Origin announced that it had signed an agreement to acquire the core IT services activities of Schlumberger Sema from Schlumberger. The transaction has been approved by Atos Origin's shareholders meeting in January 2004. As consideration for the purchase, Atos Origin will deliver 19.3 million shares to Schlumberger together with EUR 400 million in cash. The transaction, based on the volume-weighted average price of Atos Origin shares for the 20 days preceding September 19, 2003 (EUR 45.90), values the purchase consideration at EUR 1,287 million. As a result, Philips' shareholding will be further diluted from 44.7% to 31.8%, resulting in an expected non-cash and non-operating dilution gain of approximately EUR 120 million (based on Atos Origin's September 2003 equity position), to be recorded in Philips' results for the first quarter of 2004.

On January 30, 2004 the Company reached an agreement in principle with the trade unions in the Netherlands that will result in reduced pension obligations and a lower risk profile for the Company's pension exposure. The agreement still needs to be ratified by the unions' members. In view of these remaining uncertainties the final impact of the agreement on the pension obligations and future pension costs of the Company cannot yet be determined.

### Other information

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A litigation claim by Volumetrics, Inc. is still pending. It's a claim relating to the decision of the Philips Ultrasound business not to collaborate with or acquire Volumetrics. The earlier announced judgement was in the amount of USD 319 million plus interest and has been appealed by Philips. In Q3 2003, Philips issued a letter of credit with respect to this claim.

In accordance with the provisions of the FASB Interpretation 46, the SSMC joint venture will be consolidated as of 2004. The company has assets of EUR 670 million and liabilities of EUR 465 million per the end of 2003.

The consequences of Interpretation 46 for Philips Medical Capital (PMC) are still under review. PMC has assets of EUR 450 million and liabilities of EUR 404 million per the end of 2003.

### Proposed dividend to shareholders

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A proposal will be submitted to the General Meeting of Shareholders to declare a dividend of EUR 0.36 per common share (EUR 461 million). In 2002 a distribution was made of EUR 0.36 per common share.

## Outlook

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Building on the achievements of 2003, we expect to sustain our improvement momentum. We will keep growing our Medical business, as we move toward achieving our 2004 profitability target of 14% EBITA.

Now that we have achieved break-even in CE in the US in the fourth quarter, one of our top priorities will be to achieve full profitability in this business in 2004, through our CE business renewal program, which aims to trim an additional EUR 400 million off of CE's cost structure by the end of 2005.

With an emerging turnaround in the markets for our semiconductor products, we expect to benefit from additional design wins for our Nexperia solutions, and anticipate a solid performance in this business this year.

We will implement our growth plans for Asia, and in particular China, in the context of our management agenda in 2004, as the Company explores avenues for meeting consumers' demands in these major developing markets.

In Lighting and DAP, we target additional markets for our innovative products while further optimizing our operations.

Measures to make Philips a more truly market-driven company will continue, including a greater focus on the corporate brand.

Further savings on indirect costs will be pursued as part of the One Philips program. During 2004 realizing our management agenda will bring us closer to our financial and strategic objectives.

Amsterdam, February 10, 2004

Board of Management

## Consolidated statements of income

all amounts in millions of euros unless otherwise stated

	4 <sup>th</sup> quarter		January to December	
	2002	2003	2002	2003
Sales	8,923	9,017	31,820	29,037
Cost of sales	(6,044)	(5,945)	(21,722)	(19,558)
<b>Gross margin</b>	2,879	3,072	10,098	9,479
Selling expenses	(1,508)	(1,268)	(5,201)	(4,575)
General and administrative expenses	(336)	(400)	(1,404)	(1,492)
Research and development expenses	(746)	(725)	(3,043)	(2,617)
Write-off of acquired in-process R&D	(8)	-	(12)	-
Impairment of goodwill	2	(139)	(19)	(148)
Restructuring and impairment charges	(425)	(16)	(484)	(407)
	(3,021)	(2,548)	(10,163)	(9,239)
Other business income (expenses) - net	189	84	485	248
<b>Income (loss) from operations</b>	47	608	420	488
Financial income and expenses:				
– interest	(85)	(61)	(384)	(328)
– impairment charges	(80)	-	(1,955)	-
– other	12	3	112	84
	(153)	(58)	(2,227)	(244)
Income before taxes	(106)	550	(1,807)	244
Income taxes	(28)	(98)	(27)	15
Income after taxes	(134)	452	(1,834)	259
Results relating to unconsolidated companies:				
– impairment charges	(1,260)	(756)	(1,305)	(772)
– other	(131)	939	(41)	1,278
Minority interests	(5)	(39)	(26)	(56)
<b>Income (loss) before cumulative effect of change in accounting principle</b>	(1,530)	596	(3,206)	709
Cumulative effect of change in accounting principle	-	2	-	(14)
<b>Net income (loss)</b>	(1,530)	598	(3,206)	695
<b>Income from operations</b>				
as a % of sales	0.5	6.7	1.3	1.7
<b>Weighted average number of common shares outstanding during the period (in thousands):</b>				
(after deduction of treasury stock)				
• basic			1,274,950	1,277,174
• diluted			1,279,002	1,281,227
<b>Basic earnings per common share in euros:</b>				
Income (loss) before cumulative effect of change in accounting principle	(1.20)	0.46	(2.51)	0.55
Net income (loss)	(1.20)	0.46	(2.51)	0.54
<b>Diluted earnings per common share in euros:</b>				
Income (loss) before cumulative effect of change in accounting principle	(1.20)	0.46	(2.51)	0.55
Net income (loss)	(1.20)	0.46	(2.51)	0.54

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 profit of EUR 705 million in 2003, compared to a loss of EUR 3,602 million in 2002. These aggregate amounts result in basic earnings per common share of a profit of EUR 0.55 in 2003 compared to a loss of EUR 2.83 last year. The difference between Dutch GAAP and US GAAP is caused by the fact that goodwill is no longer amortized under US GAAP and income recognition in respect of reversals of security impairments.

## Consolidated balance sheets and additional ratios

all amounts in millions of euros unless otherwise stated

### Consolidated balance sheet

	December 31, 2002	December 31, 2003
Current assets:		
Cash and cash equivalents	1,858	3,072
Receivables	5,068	4,628
Inventories	3,522	3,204
Other current assets	603	599
<b>Total current assets</b>	<b>11,051</b>	<b>11,503</b>
Unconsolidated companies	6,089	4,841
Other non-current financial assets	1,306	1,213
Non-current receivables	219	218
Other non-current assets	2,553	2,581
Property, plant and equipment	6,137	4,879
Intangible assets excl. goodwill	1,742	1,271
Goodwill	3,192	2,494
<b>Total assets</b>	<b>32,289</b>	<b>29,000</b>
Current liabilities:		
Accounts and notes payable	3,228	3,205
Accrued liabilities	3,314	2,754
Short-term provisions	1,276	949
Other current liabilities	691	649
Short-term debt	617	1,684
<b>Total current liabilities</b>	<b>9,126</b>	<b>9,241</b>
Long-term debt	6,492	4,192
Long-term provisions	1,970	1,976
Other non-current liabilities	603	653
<b>Total liabilities</b>	<b>18,191</b>	<b>16,062</b>
Minority interests	179	175
Stockholders' equity	13,919	12,763
<b>Total liabilities and stockholders' equity</b>	<b>32,289</b>	<b>29,000</b>
<b>Number of common shares outstanding at the end of period</b>		
• shares in thousands	1,275,978	1,280,686
<b>Ratios</b>		
Stockholders' equity, per common share in euros	13,919 10.91	12,763 9.97
Inventories as a % of sales	11.1	11.0
Net debt : group equity ratio	27:73	18:82

Stockholders' equity determined in accordance with Dutch GAAP amounted to EUR 12,168 million as of December 31, 2003 compared to EUR 13,407 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

		4 <sup>th</sup> quarter	January to December	
	2002	2003	2002	2003
<b><i>Cash flows from operating activities:</i></b>				
Net income (loss)	(1,530)	598	(3,206)	695
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	664	572	2,184	2,015
Impairment of equity investments	1,340	755	3,260	772
Net gain on sale of assets	(172)	(732)	(643)	(987)
Loss (income) from unconsolidated companies (net of dividends received)	136	(250)	54	(569)
Minority interests (net of dividends paid)	5	39	26	49
Decrease (increase) in working capital/other current assets	1,165	698	815	307
Decrease (increase) in non-current receivables/other assets	60	(16)	86	(243)
(Decrease) in provisions	(219)	(17)	(336)	(155)
Other items	(7)	26	(12)	108
<b>Net cash provided by operating activities</b>	<b>1,442</b>	<b>1,673</b>	<b>2,228</b>	<b>1,992</b>
<b><i>Cash flows from investing activities:</i></b>				
Purchase of intangible assets (software)	(41)	(28)	(149)	(96)
Capital expenditures on property, plant and equipment	(379)	(319)	(1,161)	(980)
Proceeds from disposals of property, plant and equipment	60	106	370	220
Proceeds from sale (purchase) of other non-current financial assets and derivatives	110	36	505	696
Proceeds from sale of businesses (purchase of businesses)	393	827	187	902
<b>Net cash provided by (used for) investing activities</b>	<b>143</b>	<b>622</b>	<b>(248)</b>	<b>742</b>
<b>Cash flows before financing activities</b>	<b>1,585</b>	<b>2,295</b>	<b>1,980</b>	<b>2,734</b>

\* 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

		4 <sup>th</sup> quarter	January to December	
	2002	2003	2002	2003
<b>Cash flows before financing activities</b>	1,585	2,295	1,980	2,734
<i>Cash flows from financing activities:</i>				
(Decrease) in debt	(515)	(65)	(419)	(944)
Treasury stock transactions	11	21	(19)	49
Dividends paid	-	-	(459)	(460)
<b>Net cash used for financing activities</b>	(504)	(44)	(897)	(1,355)
<b>Increase in cash and cash equivalents</b>	1,081	2,251	1,083	1,379
Effect of changes in exchange rates on cash positions	(45)	(62)	(115)	(165)
Cash and cash equivalents at beginning of the period	822	883	890	1,858
<b>Cash and cash equivalents at end of period</b>	1,858	3,072	1,858	3,072

\* 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 December 2003								
	Common stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss)			Treasury shares at cost	Total stock- holders' equity	
				Translation differences	Available for sale securities	Minimum pension liability			Cash flow hedges
Balance as of January 1, 2003	263	14	16,738	(1,712)	265	(353)	11	(1,307)	13,919
Net income (loss)			695						695
Net current period change				(1,680)	297	(9)	7		(1,385)
Reclassifications into income				28	(146)		7		(111)
<b>Total comprehensive income (loss), net of tax</b>			695	(1,652)	151	(9)	14		(801)
Dividends			(463)						(463)
Purchase of treasury stock								(1)	(1)
Re-issuance of treasury stock		12						52	64
Stock options accrual		45							45
Balance as of December 31, 2003	263	71	16,970	(3,364)	416	(362)	25	(1,256)	12,763

## Product sectors

all amounts in millions of euros unless otherwise stated

### Segment revenues and income from operations

	4 <sup>th</sup> 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	1,302	183	14.1	1,252	161	12.9
Consumer Electronics	2,961	122	4.1	3,082	249	8.1
DAP	782	183	23.4	756	160	21.2
Semiconductors	1,435	(304)	(21.2)	1,538	166	10.8
Medical Systems	1,890	239	12.6	1,808	70	3.9
Miscellaneous	820	(281)	(34.3)	889	(39)	(4.4)
Unallocated		(95)			(159)	
Total	9,190	47		9,325	608	
Intersegment revenues	(267)			(308)		
<b>Sales</b>	8,923			9,017		
<b>Income from operations</b>						
as a % of sales		0.5			6.7	

## Product sectors (continued)

all amounts in millions of euros unless otherwise stated

### Segment revenues and income from operations

	January to December					
	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	4,873	602	12.4	4,548	577	12.7
Consumer Electronics	9,916	208	2.1	9,271	248	2.7
DAP	2,294	401	17.5	2,149	398	18.5
Semiconductors	5,482	(524)	(9.6)	5,159	(342)	(6.6)
Medical Systems	6,855	309	4.5	6,006	431	7.2
Miscellaneous	3,578	(246)	(6.9)	3,041	(263)	(8.6)
Unallocated		(330)			(561)	
Total	32,998	420		30,174	488	
Intersegment revenues	(1,178)			(1,137)		
<b>Sales</b>	<b>31,820</b>			<b>29,037</b>		
<b>Income from operations</b>						
as a % of sales		1.3			1.7	

## Product sectors and main countries

all amounts in millions of euros

### Sales and total assets

	<b>Sales (to third parties)</b>		<b>Total assets</b>	
	January to December		Dec. 31,	<b>Dec. 31,</b>
	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>
Lighting	4,845	<b>4,522</b>	2,608	<b>2,341</b>
Consumer Electronics	9,855	<b>9,188</b>	2,609	<b>2,370</b>
DAP	2,273	<b>2,131</b>	961	<b>840</b>
Semiconductors	5,032	<b>4,988</b>	7,394	<b>5,777</b>
Medical Systems	6,844	<b>5,990</b>	6,780	<b>5,420</b>
Miscellaneous	2,971	<b>2,218</b>	5,109	<b>4,526</b>
Unallocated			6,828	<b>7,726</b>
<b>Total</b>	<u>31,820</u>	<u><b>29,037</b></u>	<u>32,289</u>	<u><b>29,000</b></u>

### Sales and long-lived assets

	<b>Sales (to third parties)</b>		<b>Long-lived assets *</b>	
	January to December		Dec. 31,	<b>Dec. 31,</b>
	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>
Netherlands	1,507	<b>1,181</b>	1,596	<b>1,610</b>
United States	9,409	<b>7,532</b>	5,633	<b>3,933</b>
Germany	2,333	<b>2,184</b>	664	<b>619</b>
France	1,893	<b>1,952</b>	426	<b>206</b>
United Kingdom	1,503	<b>1,258</b>	293	<b>240</b>
China	2,510	<b>2,699</b>	378	<b>361</b>
Other countries	12,665	<b>12,231</b>	2,081	<b>1,675</b>
<b>Total</b>	<u>31,820</u>	<u><b>29,037</b></u>	<u>11,071</u>	<u><b>8,644</b></u>

\* 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			
	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter
Sales	7,598	7,986	7,313	8,923	6,499	6,532	6,989	9,017
% increase	(7)	4	2	(4)	(14)	(18)	(4)	1
Income (loss) from operations	73	165	135	47	32	(26)	(126)	608
as % of sales	1.0	2.1	1.8	0.5	0.5	(0.4)	(1.8)	6.7
% increase	(77)	.	.	.	(56)	.	.	.
Net income (loss)	9	(1,355)	(330)	(1,530)	(69)	42	124	598
% increase	(90)	.	.	.	.	.	.	.
per common share in euros	0.01	(1.07)	(0.25)	(1.20)	(0.05)	0.03	0.10	0.46
	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	29,037
% increase	(7)	(2)	(1)	(2)	(14)	(16)	(13)	(9)
Income (loss) from operations	73	238	373	420	32	6	(120)	488
as % of sales	1.0	1.5	1.6	1.3	0.5	0.0	(0.6)	1.7
% increase	(77)	.	.	.	(56)	.	.	16
Net income (loss)	9	(1,346)	(1,676)	(3,206)	(69)	(27)	97	695
% increase	(90)	.	.	.	.	.	.	.
as a % of stockholders' equity (ROE)	0.2	(14.7)	(13.3)	(19.2)	(2.1)	(0.3)	1.0	5.3
per common share in euros	0.01	(1.06)	(1.31)	(2.51)	(0.05)	(0.02)	0.08	0.54
	period ending 2002				period ending 2003			
Inventories as % of sales	14.0	13.4	14.1	11.1	12.1	12.8	13.4	11.0
Net debt : group equity ratio	28:72	30:70	30:70	27:73	30:70	29:71	28:72	18:82
Total employees (in thousands)	186	184	183	170	166	164	166	164

Information also available on Internet, address: [www.investor.philips.com](http://www.investor.philips.com)

Printed in the Netherlands