

# Annual Results 2001

*February 7, 2002*

*Let's make things better.*



**PHILIPS**

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

These presentations and discussions/document contain certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, levels of consumer and business spending in major economies, changes in consumer tastes and preferences, the levels of marketing and promotional expenditures by Philips and its competitors, raw materials and employee costs, changes in future exchange and interest rates, changes in tax rates and future business combinations, acquisitions or dispositions and the rate of technical changes. Market share estimates contained in this report are based on outside sources such as specialized research institutes, industry and dealer panels, etc. in combination with management estimates.

# Annual Results 2001

*February 7, 2002*

*Let's make things better.*



**PHILIPS**

# Performance of the Philips Group

EUR million

	2001	2000	1999
<b>Sales</b>	<b>32,339</b>	<b>37,862</b>	<b>31,459</b>
• % nominal growth	-15	20	3
<b>Income (loss) from operations</b>	<b>-1,371</b>	<b>4,281</b>	<b>1,751</b>
• as a % of sales	-4.2	11.3	5.6
• as a % of net operating capital (RONA)	-9.1	35.7	17.5
<b>Net (loss) income</b>	<b>-2,604</b>	<b>9,602</b>	<b>1,799</b>
<b>Excluding special items: Income (loss) from operations</b>	<b>-136</b>	<b>3,211</b>	<b>1,736</b>
<b>Net (loss) income</b>	<b>-908</b>	<b>2,831</b>	<b>1,614</b>

***Jan Hommen***

***Gerard Kleisterlee***

# Highlights

- **Net loss of EUR 1,141m for the quarter after special items**
- **Net loss of EUR 2,604m for the year after special items**
- **Actions taken to deal with poor market situation**
- **Maintained a strong balance sheet**
- **Focused M&A activity**
- **Total Return to shareholders**
- **Maintained dividend payment**
- **Prepared for the future**

# Net Income 2001 Analysis – 4Q01

EUR Million

<b>Net income as published</b>	<b>-1,141</b>
<b>IFO special items</b>	
– <i>Acquisition related charges incl. IPR&amp;D</i>	-236
– <i>Restructuring charges and impairment</i>	-289
– <i>Sale of participations</i>	28
– <i>Tax effect on these items</i>	<u>109</u>
	-388
<b>Financial income and expenses special items</b>	
– <i>Impairment Vivendi / Great Nordic</i>	-526
<b>Unconsolidated companies special items</b>	
– <i>TSMC's equity transactions</i>	0
– <i>Sale of shares and participations</i>	0
– <i>Restructuring charges and impairment</i>	<u>-45</u>
	-45
<b>Net income excl. special items</b>	<b>-182</b>

# IFO per PD – 4Q01

EUR million

	IFO as published	Acquisition related charges	Restructuring and impairment	Gains	IFO without special items
Lighting	183		1		182
CE	-7		-39		32
DAP	143		-2		145
Components	-139	-14	-22	41	-144
Semiconductors	-292		-65		-227
Medical Systems	-154	-222	-70		138
Miscellaneous	-138		-61	-13	-64
Unallocated	-38		-31		-7
<b>TOTAL</b>	<b>-442</b>	<b>-236</b>	<b>-289</b>	<b>28</b>	<b>55</b>

# Statements made at 3Q01 Results

EUR million

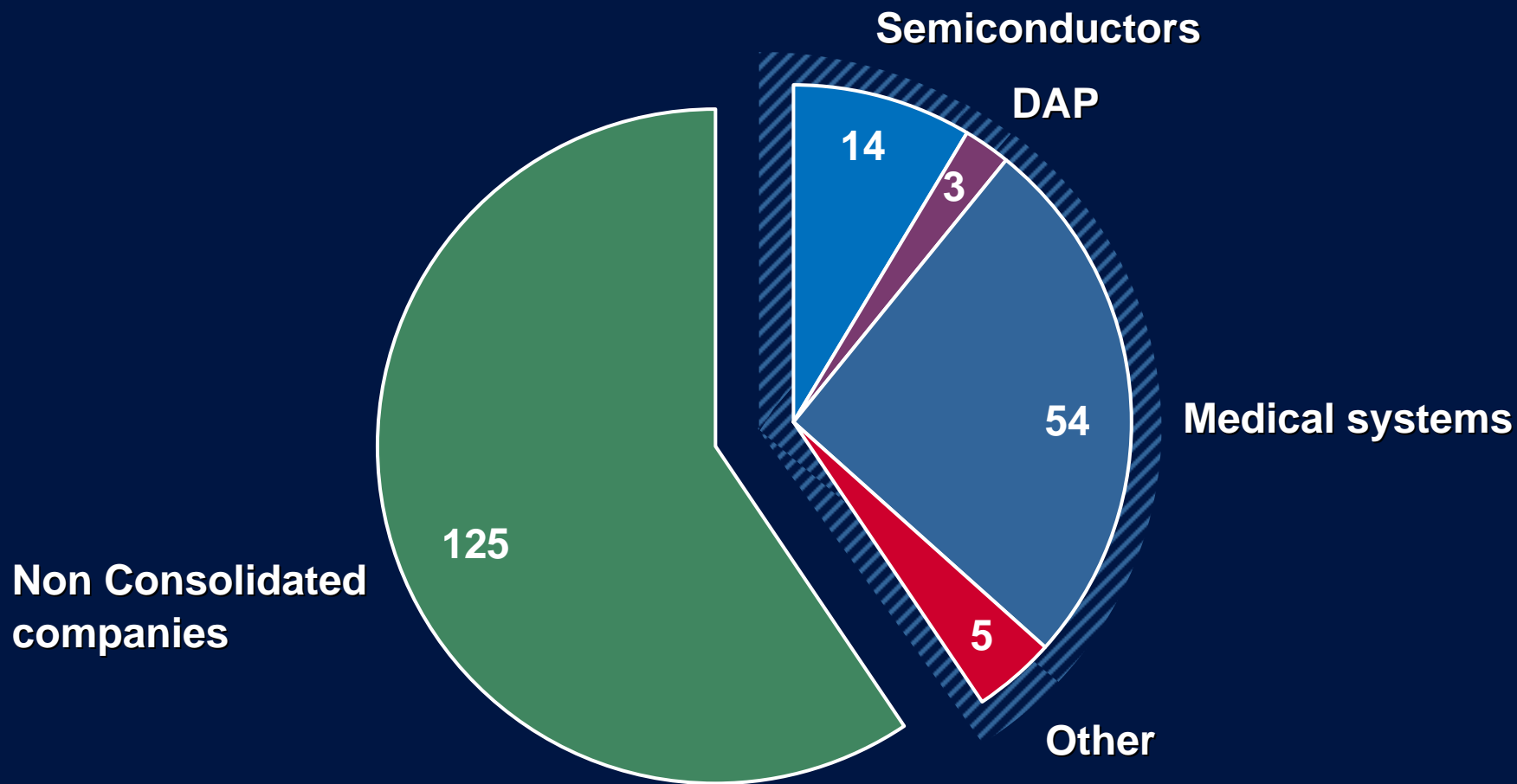
4Q01	Announced	Outcome
Net income excl. special items	-200 / -250	-182
IFO excl. special items	Break-even	55
Acquisition related charges Marconi / Agilent	425 → 350 <sup>1)</sup>	292
Charges for restructurings and cost reductions	200 – 250	278
Impairment charge securities	Possible	526
Cash flow from operations	Positive	1,687

1) December 5th reduced to 350

# Amortization of ongoing Goodwill – 4Q01

 Operating income

Total = 201



# Highlights

- Net loss of EUR 1,141m for the quarter after special items
- Net loss of EUR 2,604m for the year after special items
- Actions taken to deal with poor market situation
- Maintained a strong balance sheet
- Focused M&A activity
- Total Return to shareholders
- Maintained dividend payment
- Prepared for the future

# Net Income 2001 Analysis – 2001

EUR million

<b>Net income as published</b>	<b>-2,604</b>
<b>IFO special items</b>	
– <i>Acquisition related charges incl. IPR&amp;D</i>	-437
– <i>Restructuring charges and impairment</i>	-1,093
– <i>Sale of participations</i>	295
– <i>Tax effect on these items</i>	<u>313</u>
	-922
<b>Financial income and expenses special items</b>	
– <i>Impairment Vivendi / Great Nordic</i>	-526
<b>Unconsolidated companies special items</b>	
– <i>TSMC's equity transactions</i>	-60
– <i>Sale of shares and participations</i>	20
– <i>Restructuring charges and impairment</i>	<u>-208</u>
	-248
<b>Net income excl. special items</b>	<b>-908</b>

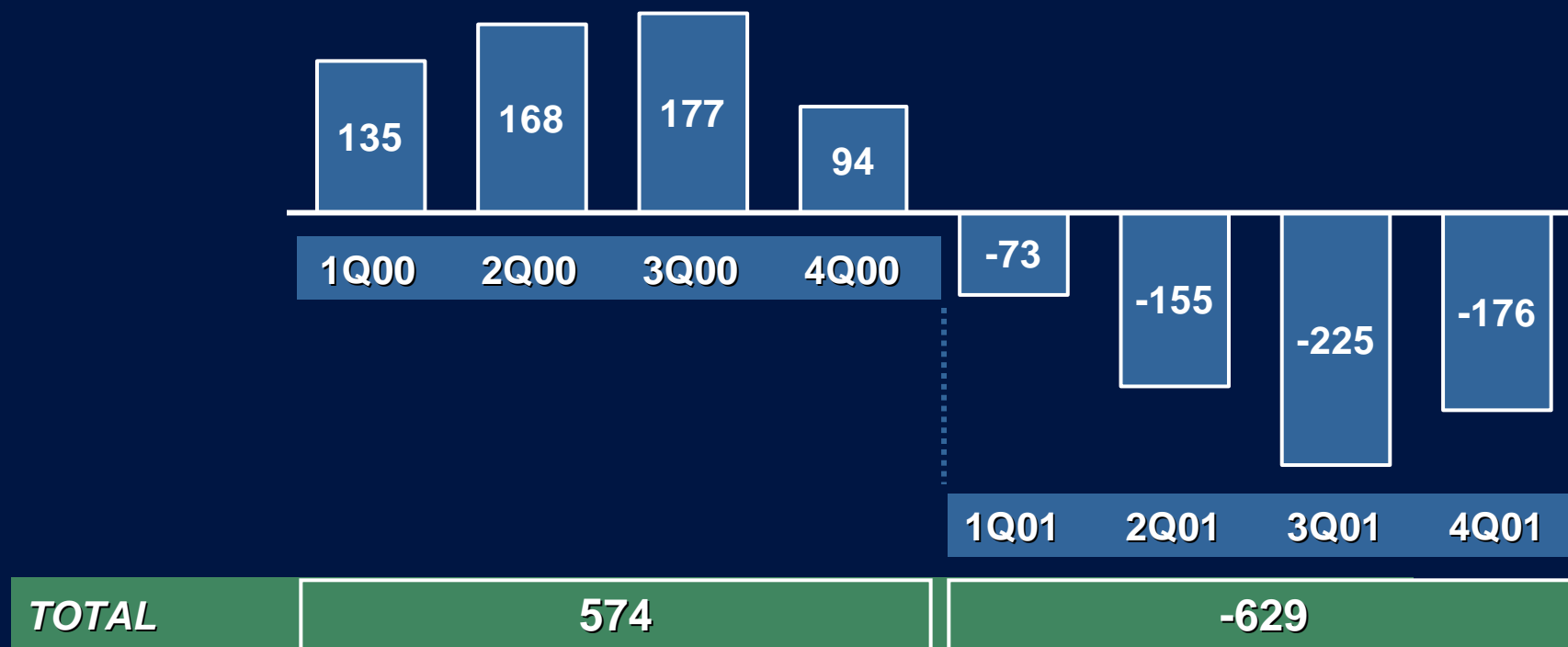
# IFO per PD – 2001

EUR million

	IFO as published	Acquisition related charges	Restructuring and impairment	Gains	IFO without special items
Lighting	623		-18		641
CE	-649		-503		-146
DAP	334		-4		338
Components	-667	-42	-156	41	-510
Semiconductors	-607		-204		-403
Medical Systems	-199	-379	-75		255
Miscellaneous	-104	-16	-96	254	-246
Unallocated	-102		-37		-65
<b>TOTAL</b>	<b>-1,371</b>	<b>-437</b>	<b>-1,093</b>	<b>295</b>	<b>-136</b>

# Non-consolidated companies

EUR million



2Q00 - EUR 2595m gain on sale of ASML shares, Euro 189m re.

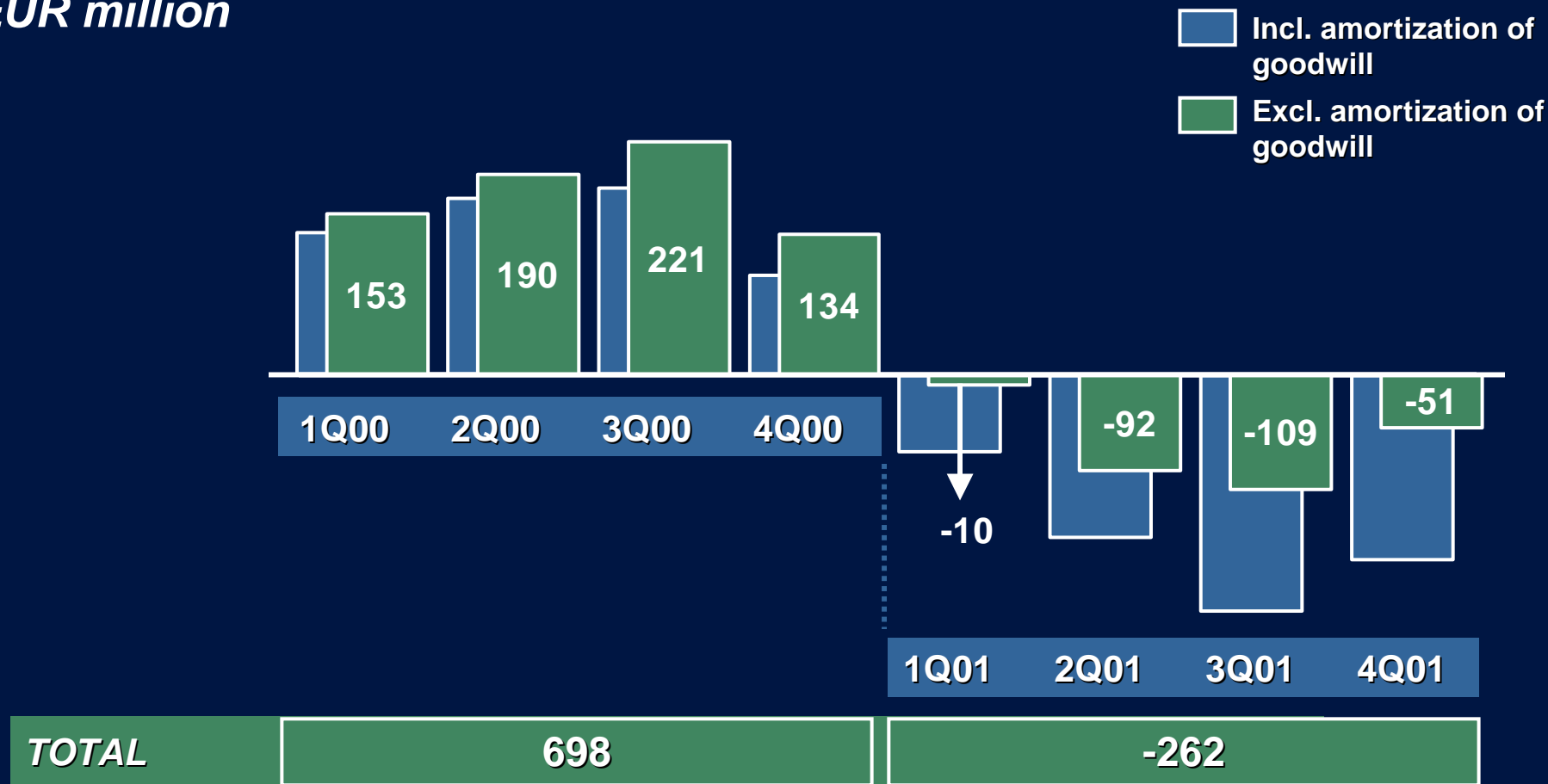
TSMC and EUR 121m on the sale of Beltone shares

3Q00 - EUR 491m re. TSMC

Excluding charges: 3Q01 - EUR 60m re. TSMC and EUR 65m re. LG Philips Display

# Non-consolidated companies

EUR million



2Q00 - EUR 2595m gain on sale of ASML shares, Euro 189m re.

TSMC and EUR 121m on the sale of Beltone shares

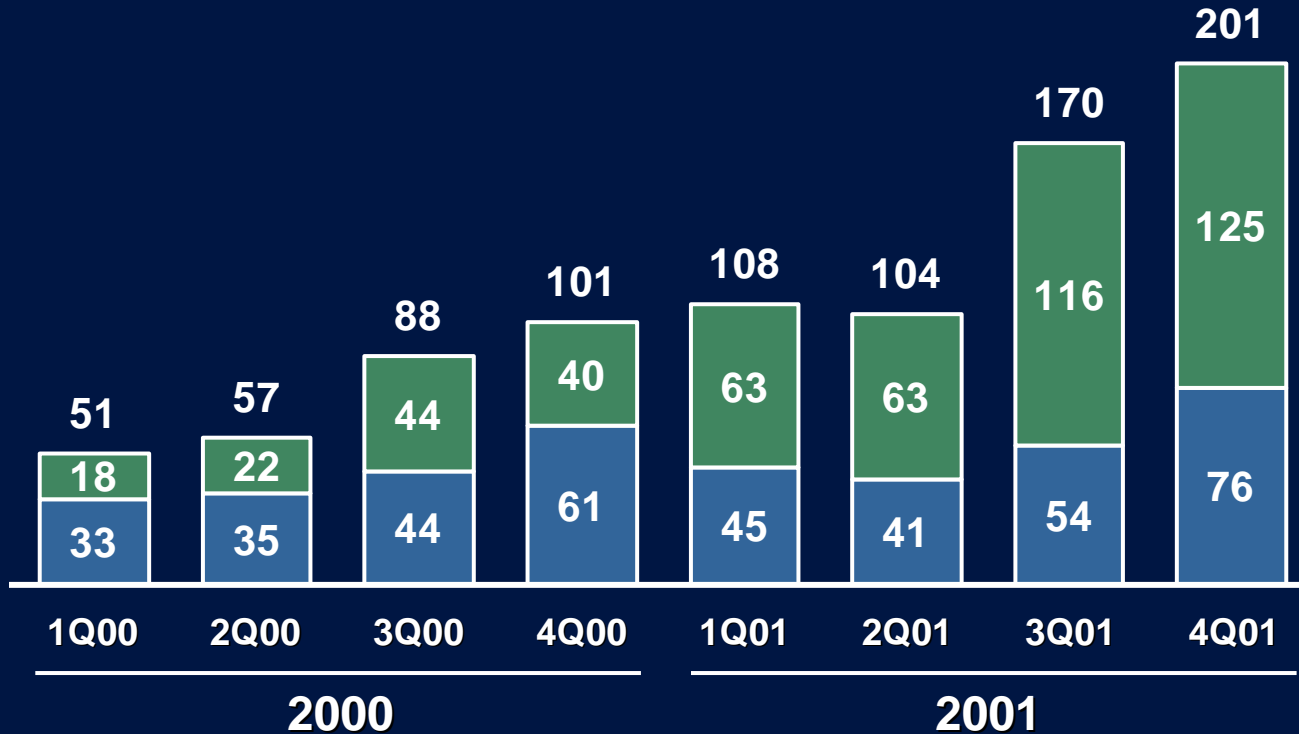
3Q00 - EUR 491m re. TSMC

Excluding charges: 3Q01 - EUR 60m re. TSMC and EUR 65m re. LG Philips Display

# Amortization of goodwill

EUR million

- Amortization in IFO
- Amortization in Unconsolidated companies

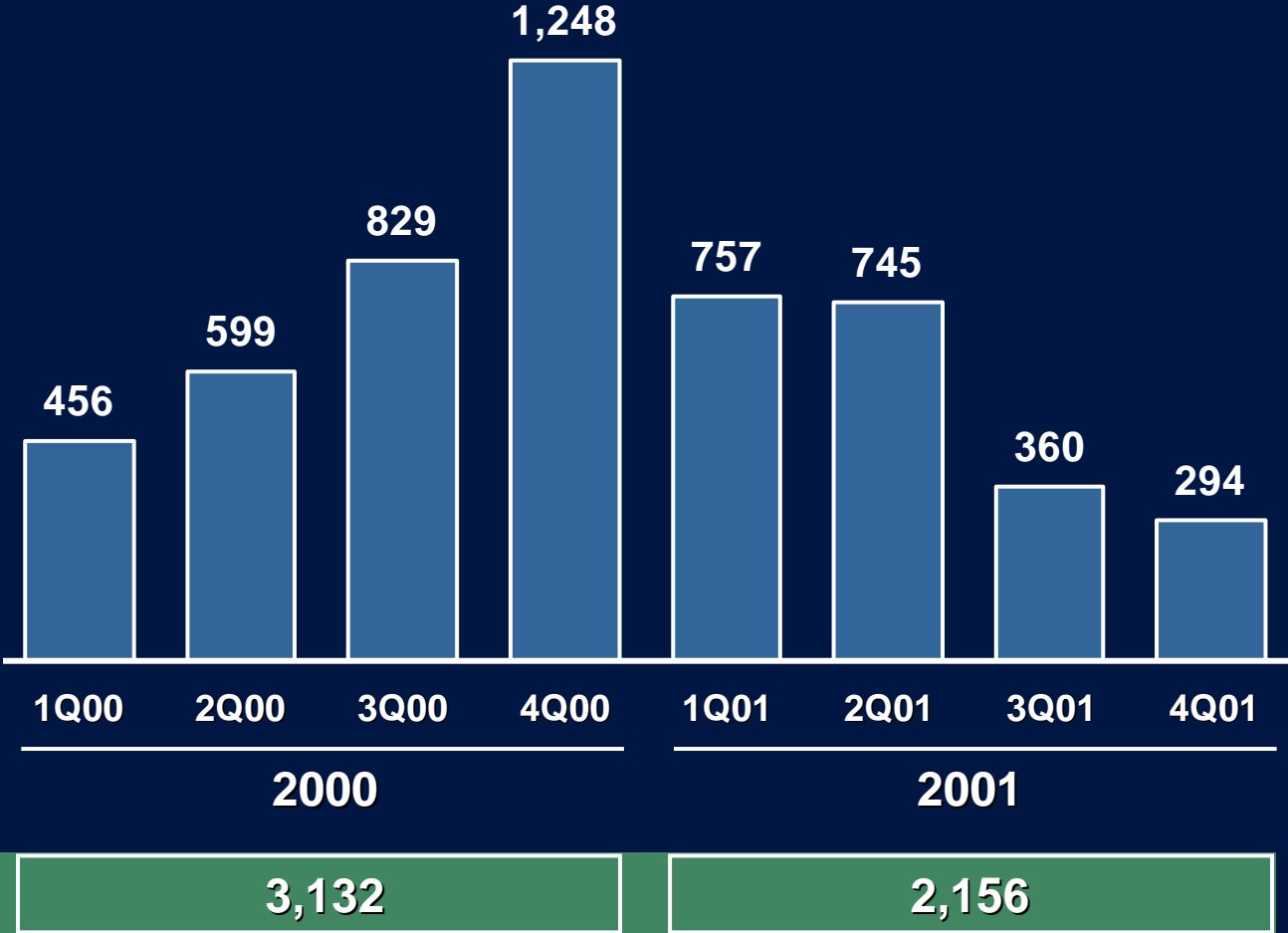


# Highlights

- Net loss of EUR 1,141m for the quarter after special items
- Net loss of EUR 2,604m for the year after special items
- Actions taken to deal with poor market situation
- Maintained a strong balance sheet
- Focused M&A activity
- Total Return to shareholders
- Maintained dividend payment
- Prepared for the future

# Capital Investments

EUR million



# Cash flow

	4Q01	2001
Cash flow from Operating activities	1,687	1,248
Cash flow investing activities	-270	-928
<b><i>Subtotal</i></b>	<b>1,417</b>	<b>320</b>
Acquisitions	-1,312	-3,636
<b><i>TOTAL</i></b>	<b>105</b>	<b>-3,316</b>

# Inventories

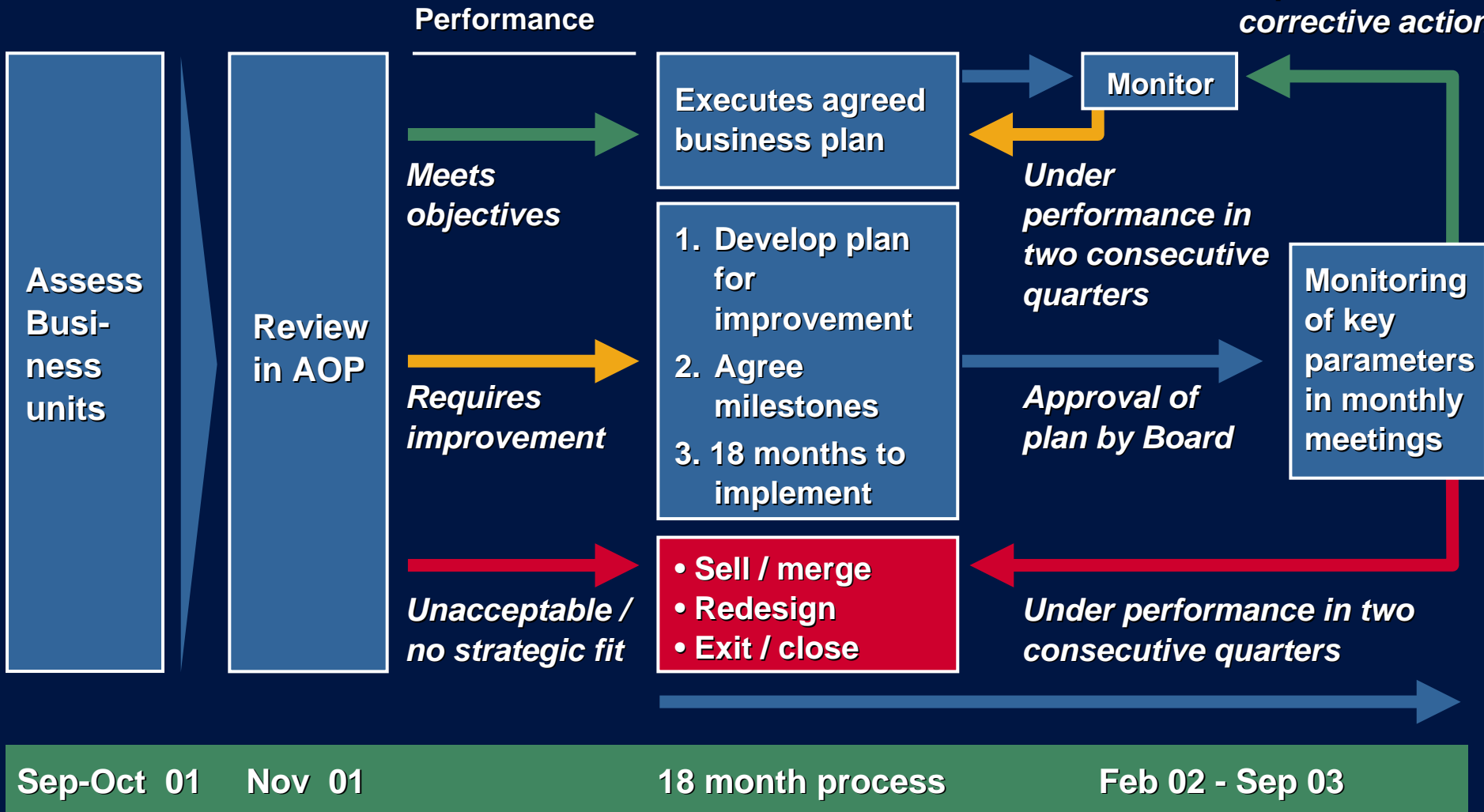
as % of MAT sales



1) Corrected for acquisitions and disposals

# Identification of Low Growth / Low Margin businesses

*Successful improvement or corrective action*



# Employment Reduction *Personnel*

	4Q01	2001
At the beginning of the period	191,500	219,400
Consolidation	6,500	15,500
Deconsolidation	-900	-27,700
Net reductions	-8,500	-18,600
<b><i>AS AT DECEMBER 31, 2001</i></b>	<b>188,600</b>	<b>188,600</b>

# Employment Reduction - 2001

## Divisional

	Net consolidation	Real change	Total change
Lighting	1,800	-1,000	800
Consumer Electronics	-900	-6,200	-7,100
DAP		-700	-700
Components	-23,300	-5,200	-28,500
Semiconductors	1,400	-4,100	-2,700
Medical Systems	11,000	700	11,700
Miscellaneous	-2,100	-1,300	-3,400
Unallocated	-100	-800	-900
<b>TOTAL</b>	<b>12,200</b>	<b>-18,600</b>	<b>-30,800</b>

# Employment Reduction - 2001

## Geographical

	Net consolidation	Real change	Total change
Europe	-10,000	-6,900	-16,900
USA and Canada	5,900	-2,700	3,200
Latin America	-1,800	-1,900	-3,700
Asia Pacific	-6,100	-7,000	-13,100
Africa	-200	-100	-300
<b>WORLD</b>	<b>12,200</b>	<b>-18,600</b>	<b>-30,800</b>

# Cost Reduction Program

*EUR million*

**Overhead reduction program**

**300**

**Medical systems integration  
cost savings <sup>1)</sup>**

**350+**

**Other savings programs**

**300 - 400**

1) Announced on December 5<sup>th</sup>, 2001

# Highlights

- Net loss of EUR 1,141m for the quarter after special items
- Net loss of EUR 2,604m for the year after special items
- Actions taken to deal with poor market situation
- Maintained a strong balance sheet
- Focused M&A activity
- Total Return to shareholders
- Maintained dividend payment
- Prepared for the future

# Debt/Equity ratio

EUR billion



# Financial assets

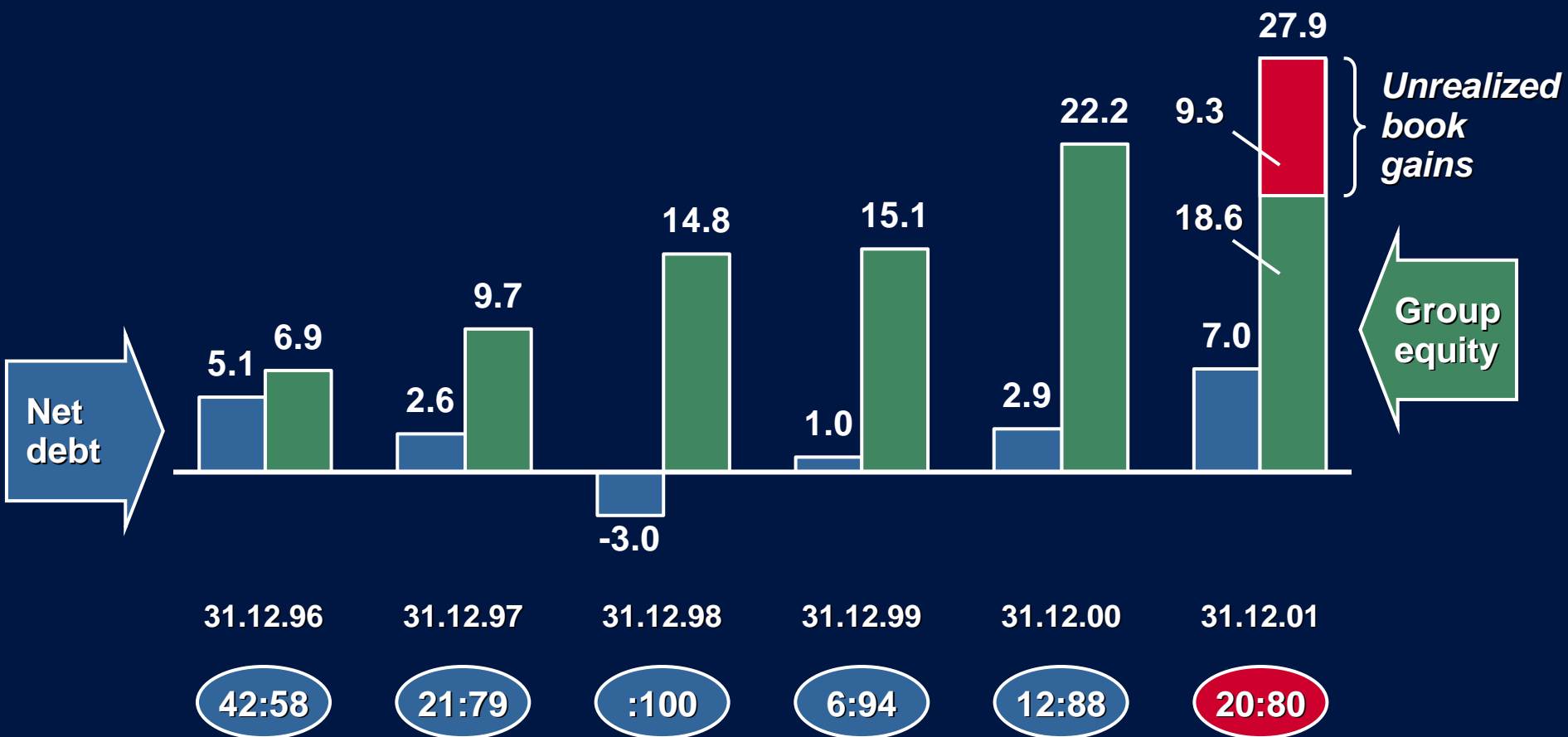
EUR million, as per end 2001

	Market value	Book Value	Unrealized book gains
<b>Unconsolidated interests</b>			
– FEI	287	86	201
– TSMC <sup>1)</sup>	10,401	2,019	8,382
– Atos Origin	1,568	1,388	180
<b>Securities</b>			
– JDS Uniphase	102	77	25
– ASM Lithography	586	50	536
<b>Other non-curr. Fin. Assets</b>			
– GN Great Nordic	46	46	–
– Vivendi	2,353	2,353	–
<b>TOTAL</b>	<b>15,343</b>	<b>6,019</b>	<b>9,324</b>

1) Excluding preference shares

# Debt/Equity ratio

EUR billion



# Highlights

- Net loss of EUR 1,141m for the quarter after special items
- Net loss of EUR 2,604m for the year after special items
- Actions taken to deal with poor market situation
- Maintained a strong balance sheet
- Focused M&A activity
- Total Return to shareholders
- Maintained dividend payment
- Prepared for the future

# Focused M&A Activity

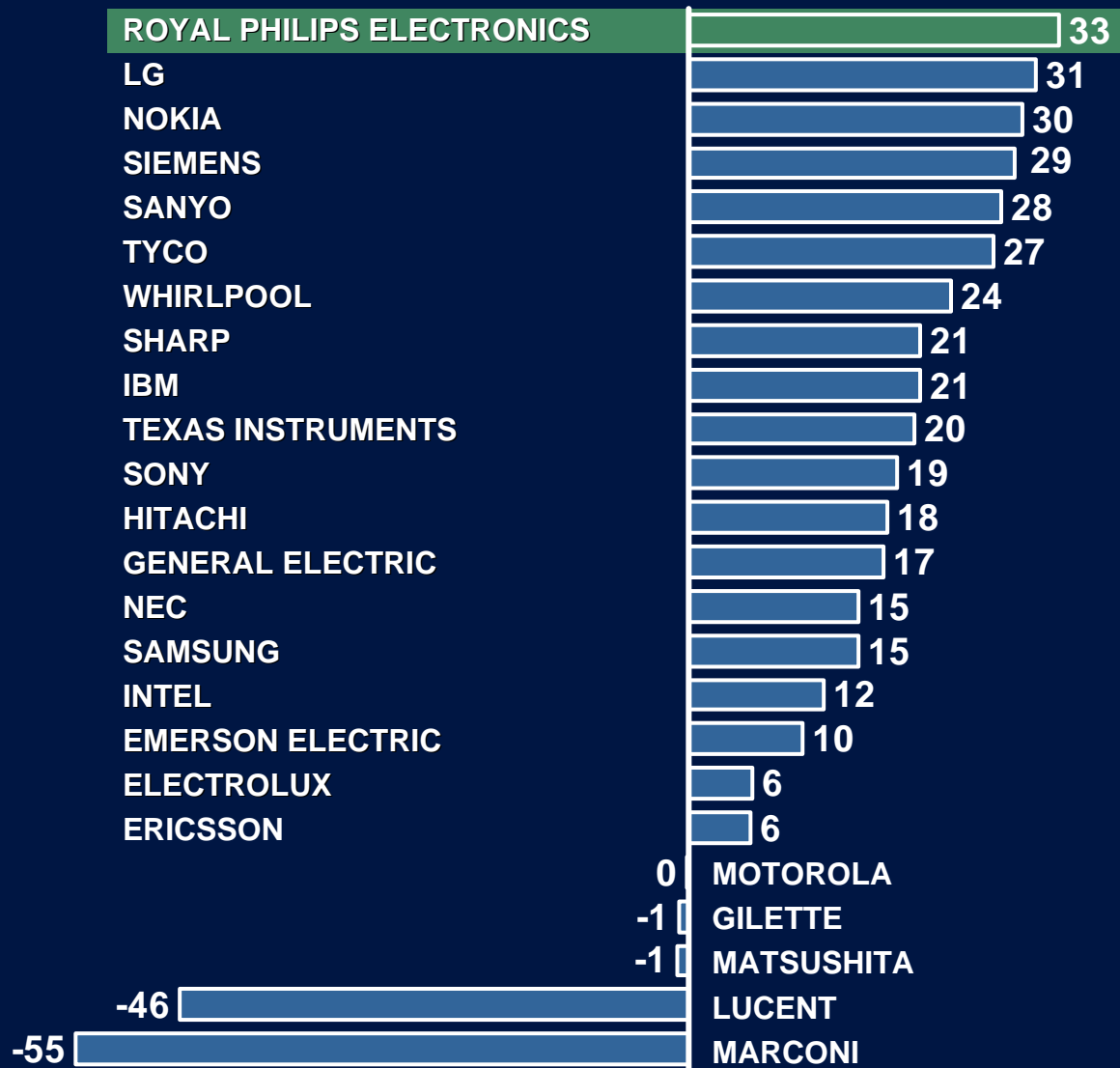
- **Building the worlds # 2 Medical Company**
  - Agilent's Healthcare Services Group (USD 1.7b)
  - Marconis Medical Business (USD 1.1b)
- **Mature businesses**
  - Placing CRT activity into J/V with LG
- **Problem solving**
  - Transferring mobile handset manufacturing to China Electric Corporation
- **Cleaning the portfolio**
  - Corporate Investments – low growth / low return
  - Divestments

# Highlights

- Net loss of EUR 1,141m for the quarter after special items
- Net loss of EUR 2,604m for the year after special items
- Actions taken to deal with poor market situation
- Maintained a strong balance sheet
- Focused M&A activity
- Total Return to shareholders
- Maintained dividend payment
- Prepared for the future

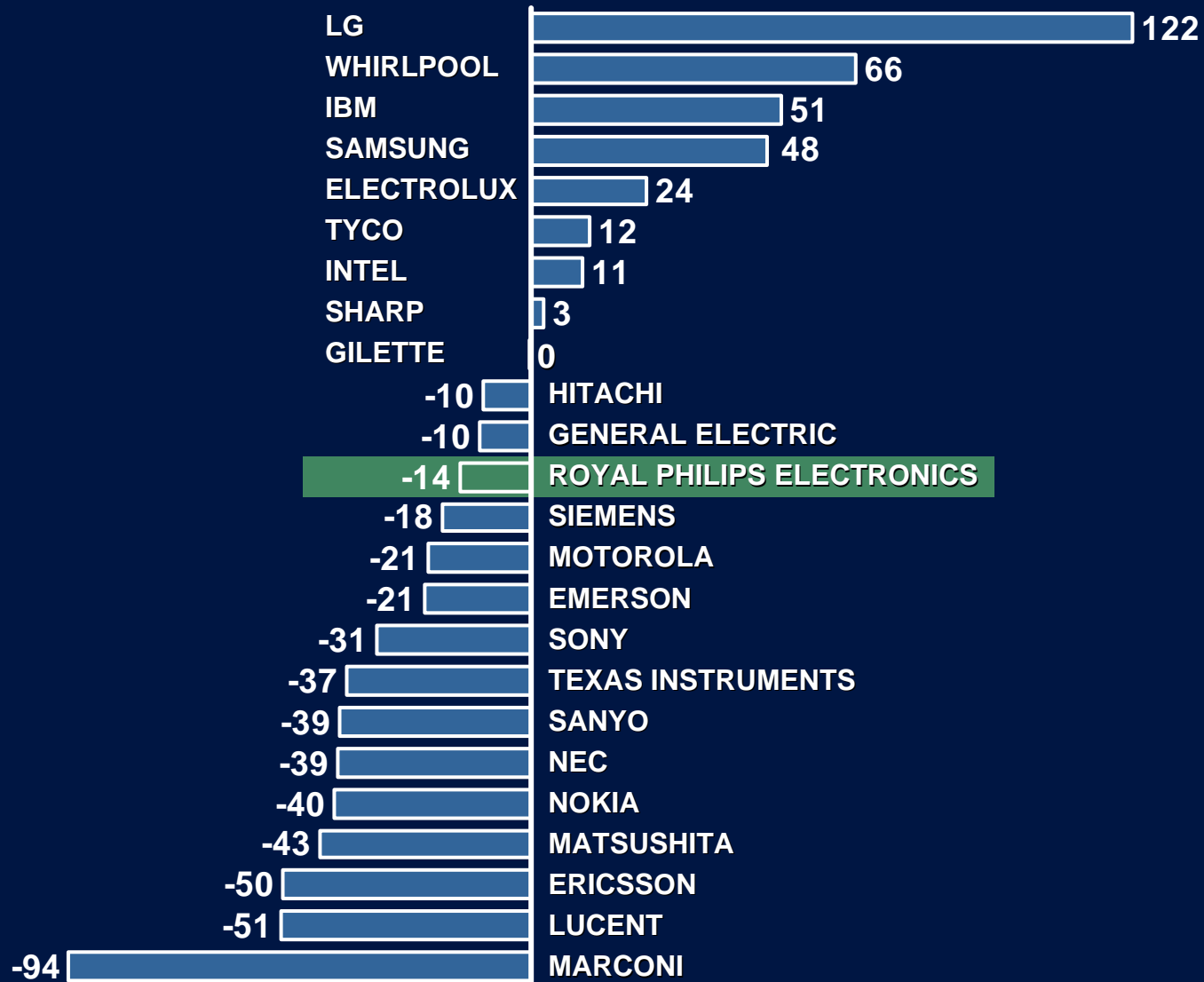
# Total Return to Shareholders – 3 Year

CAGR Jan 99' – Dec '01 - %



# Total Return to Shareholders – 1 Year

CAGR Jan 01' – Dec '01 - %

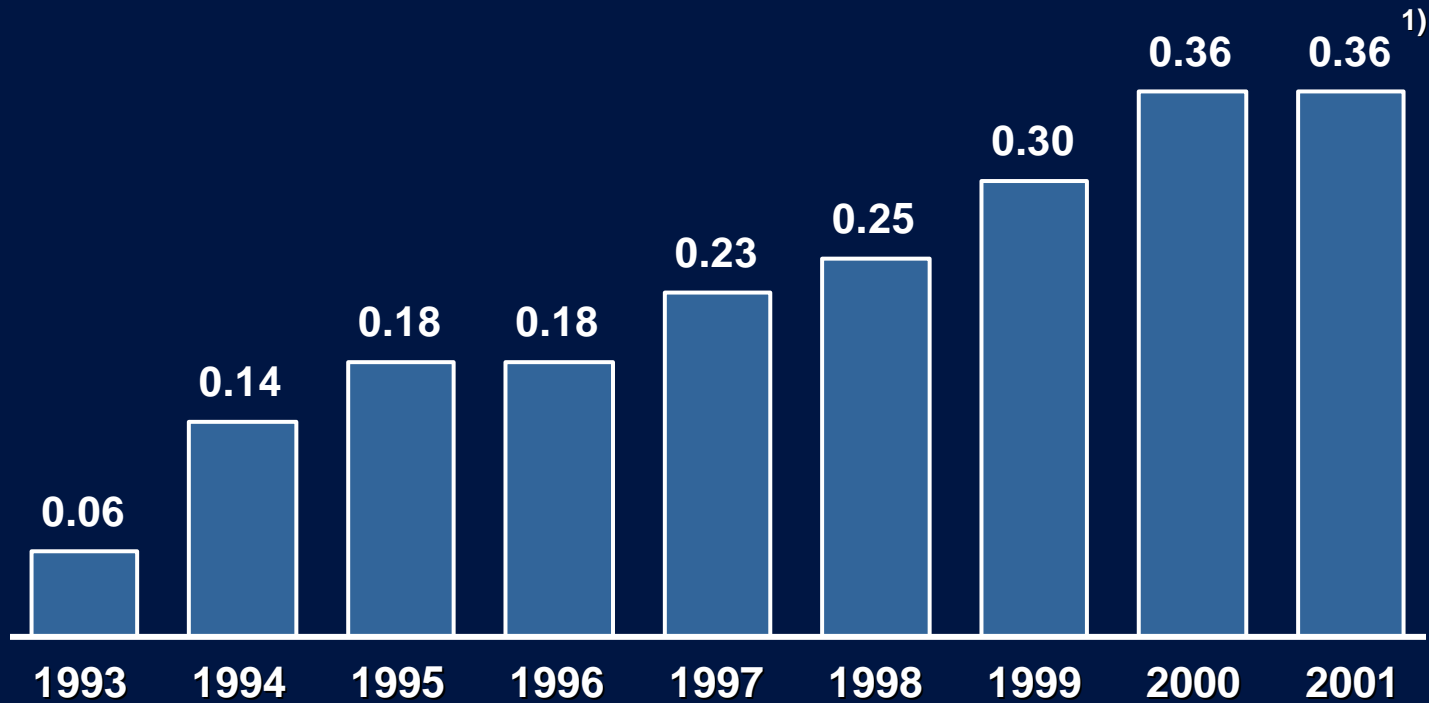


# Highlights

- Net loss of EUR 1,141m for the quarter after special items
- Net loss of EUR 2,604m for the year after special items
- Actions taken to deal with poor market situation
- Maintained a strong balance sheet
- Focused M&A activity
- Total Return to shareholders
- Maintained dividend payment
- Prepared for the future

# Dividends per share

EUR



1) Proposed

# Highlights

- Net loss of EUR 1,141m for the quarter after special items
- Net loss of EUR 2,604m for the year after special items
- Actions taken to deal with poor market situation
- Maintained a strong balance sheet
- Focused M&A activity
- Total Return to shareholders
- Maintained dividend payment
- Prepared for the future

# Prepared for the future

- **Fundamentally changing the way we work**
- **Lower cost structure**
- **Cash conversion cycle**
- **Resolving problem areas**
- **Strong balance sheet and financial flexibility**

***Jan Hommen***

***Gerard Kleisterlee***

# 2001 Actions

## Consumer Electronics

- Overall CE profitability and focus
  - USA *In progress*
  - PCC ✓
  - Digital Networks *In progress*
  - Speech ✓
  - Specialty Products ✓
- Focused portfolio on digital products
- Deverticalization
- Personnel reduction 6,200

# 2001 Actions

Consumer Electronics

Semiconductors

- Closure of lines in Albuquerque and Caen
- Maintained investment levels in R&D
- Focused portfolio on digital products
- Personnel reduction 4,100

# 2001 Actions

Consumer Electronics

Semiconductors

Components

- Finalized the CRT JV with LG
- Focused portfolio on digital products
- Personnel reduction 5,200

# 2001 Actions

## Medical

- Record year before extraordinary items
- Finalized acquisitions
- Begun integration process
- Identified at least EUR 350m in savings

# 2001 Actions

Medical

DAP

- Record earnings
- Successful integration of OPTIVA / SONICARE
  - #1 position in US
- Focused product portfolio

# 2001 Actions

Medical

DAP

Lighting

- Increased market share across the portfolio
- Completed several “add-on” acquisitions
- Margins under pressure

# Our Direction, focus on growth in digital markets

## Technology pillars

- Display
- Connectivity
- Storage
- Digital Video

# Our Direction, focus on growth in digital markets

Technology pillars

Application areas

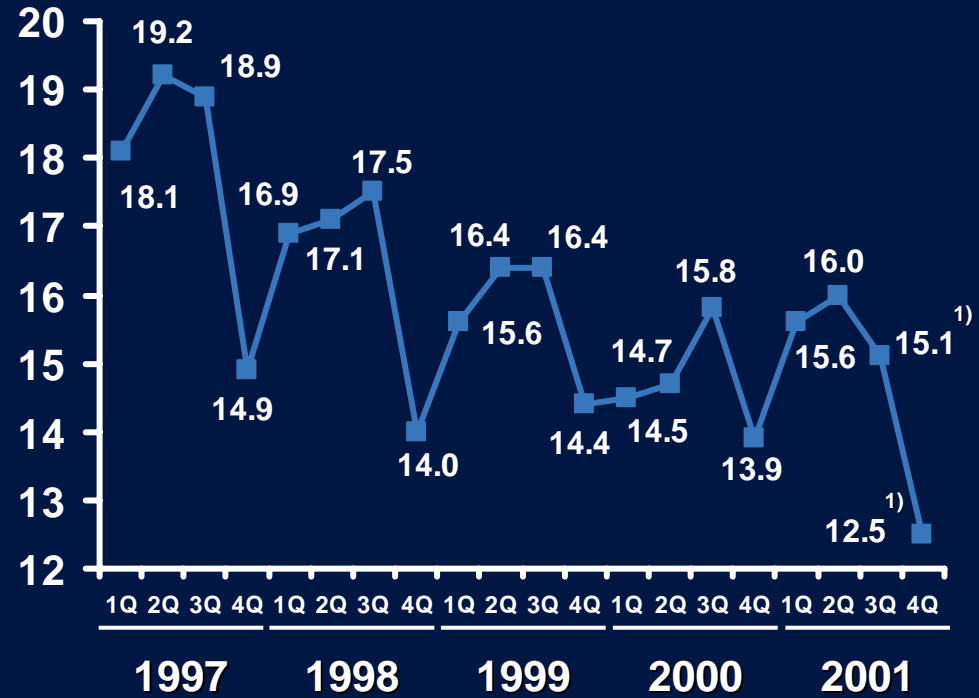
- Communication
- Entertainment
- Healthcare

# Framework

- **Strong balance sheet**
- **Building a more effective organization**
- **Portfolio management**
- **Product and technology momentum**

# Strong balance sheet

## Inventories

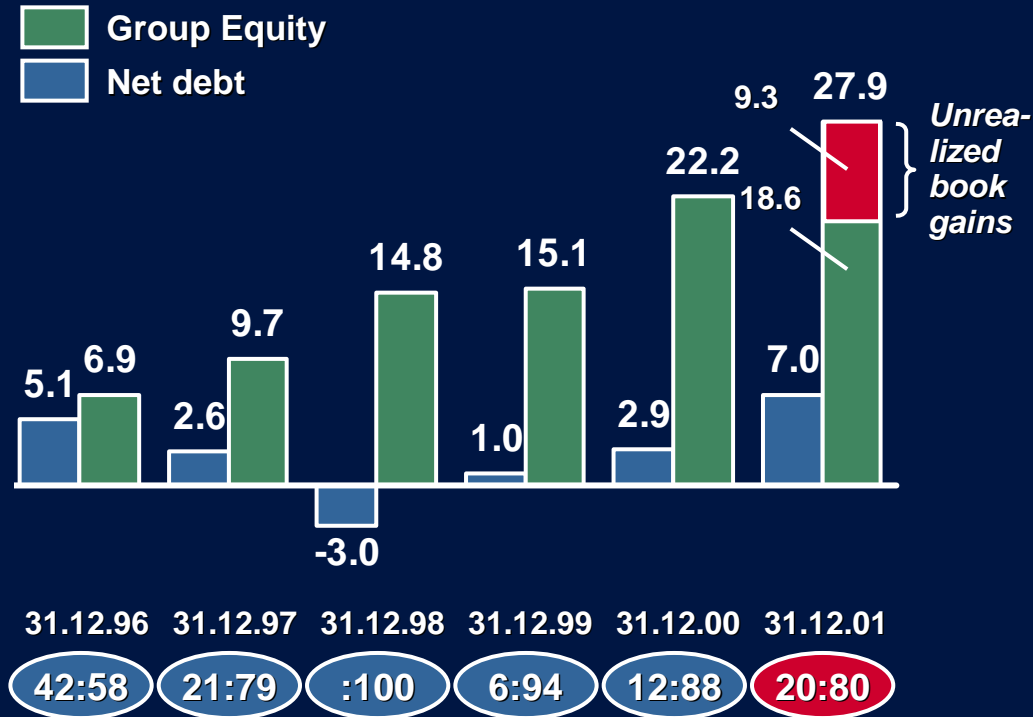


1) Corrected for acquisitions and disposals

# Strong balance sheet

Inventories

Debt / equity ratio



# Building a more effective organization

## Philips way

- One culture
- One brand
- One company

# Building a more effective organization

Philips way

Shared services

- **Transaction processes**
  - HR, Finance, IT, Purchasing, Sales
- **Overhead reduction program**
  - Projected savings of EUR 300m

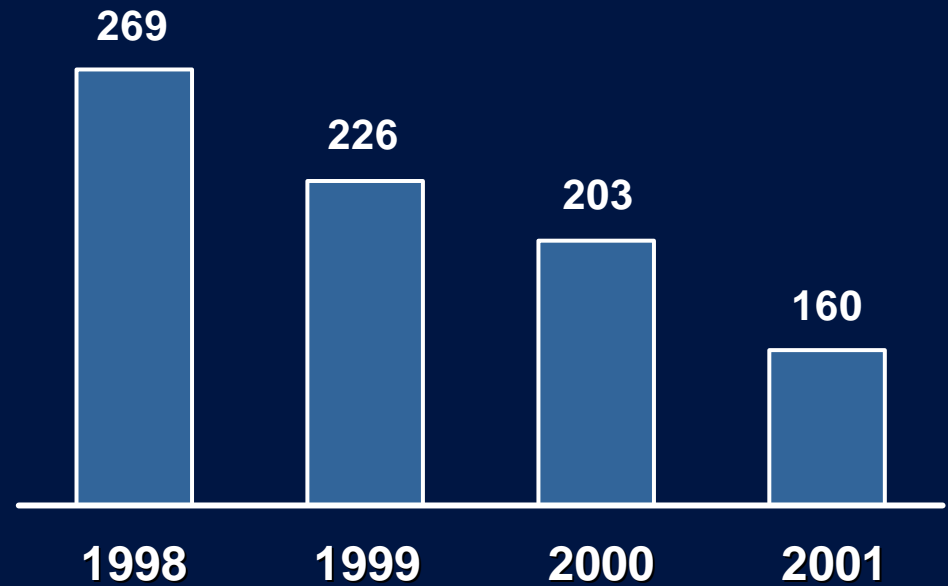
# Building a more effective organization

Philips way

Shared services

Reducing complexity

## REDUCTION IN FACTORIES



# Building a more effective organization

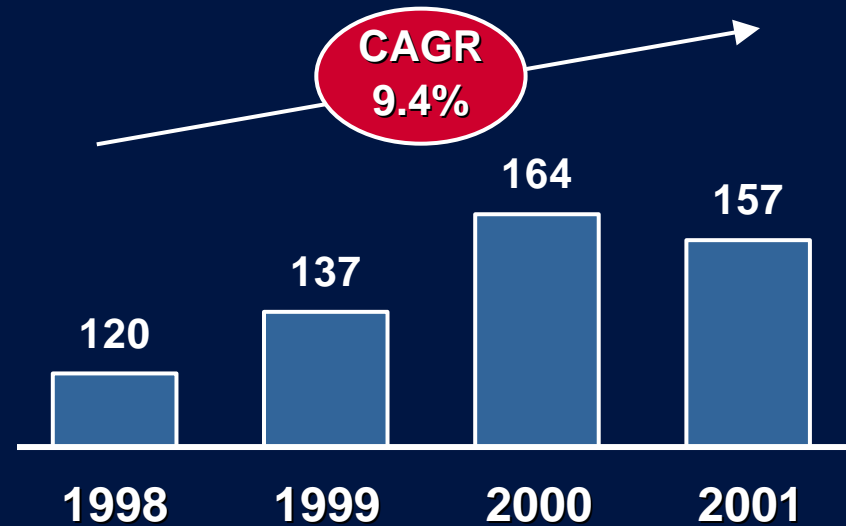
Philips way

Shared services

Reducing complexity

Improving productivity

## SALES PER EMPLOYEE



# Portfolio Management

## Exiting low growth low return businesses

- List of businesses identified, expected value EUR 1b
- Created Corporate Investments group
- Developed and implemented on-going review process

# Portfolio Management

Exiting low growth low return businesses

Acquisitions

- Driven from a corporate perspective to meet the ambition of the High Growth Technology Company
- Focussed on digital technologies
- Criteria: good fit, good management, good track record

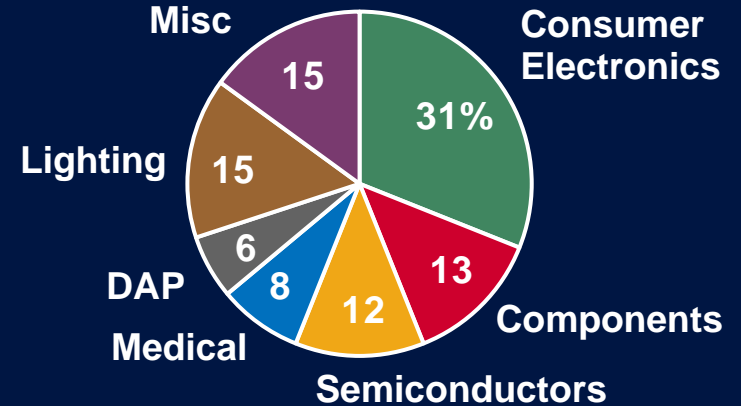
# Portfolio Management

Exiting low growth low return businesses

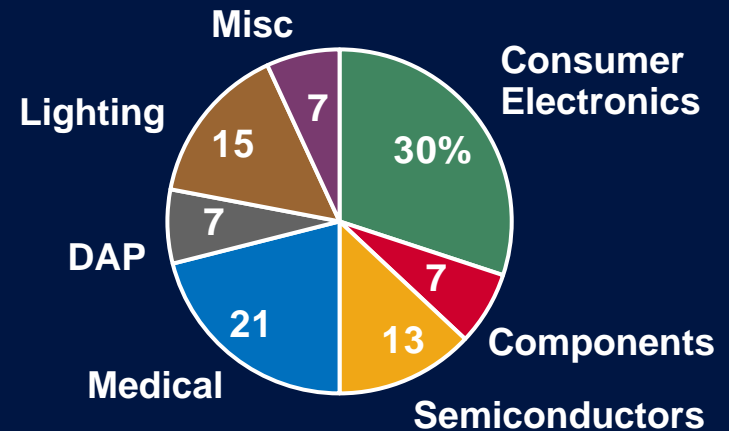
Acquisitions

Continuing to reshape the portfolio for growth

1999 Sales to thirds



Proforma 2001 Sales to thirds



# Portfolio Management

Exiting low growth low return businesses

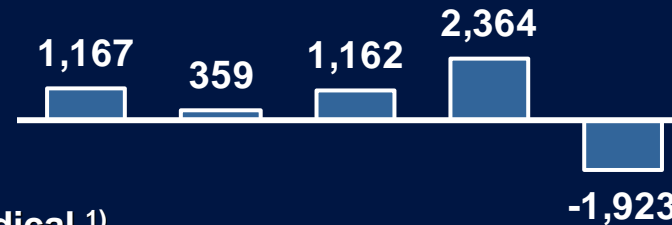
Acquisitions

Continuing to reshape the portfolio for growth

Positioned for growth and solid returns

## INCOME FROM OPERATIONS (*Euro million*)

### Semi, Comp. and CE



*Resume growth after downturn*

### Medical <sup>1)</sup>



*Strong growth by integrating M&A*

### Lighting + DAP



*Stable growth*

1) EBITA excluding special items

# Product and technology momentum

Innovative products

New Technologies

Design Wins

# Product and technology momentum

**Innovative products**

**New Technologies**

**Design Wins**

**Senseo Crema**

# Product and technology momentum

Innovative products

New Technologies

Design Wins

DVD+RW

# Product and technology momentum

**Innovative products**

**New Technologies**

**Design Wins**

**Inverter**

**Solar panel**

**Control  
module**

**Solar Energy**

# Product and technology momentum

Innovative products

New Technologies

Design Wins

Open MRI

# Product and technology momentum

**Innovative products**

**New Technologies**

**Design Wins**

**Nexperia – Digital Video**

# Product and technology momentum

**Innovative products**

**New Technologies**

**Design Wins**

**Pronto**

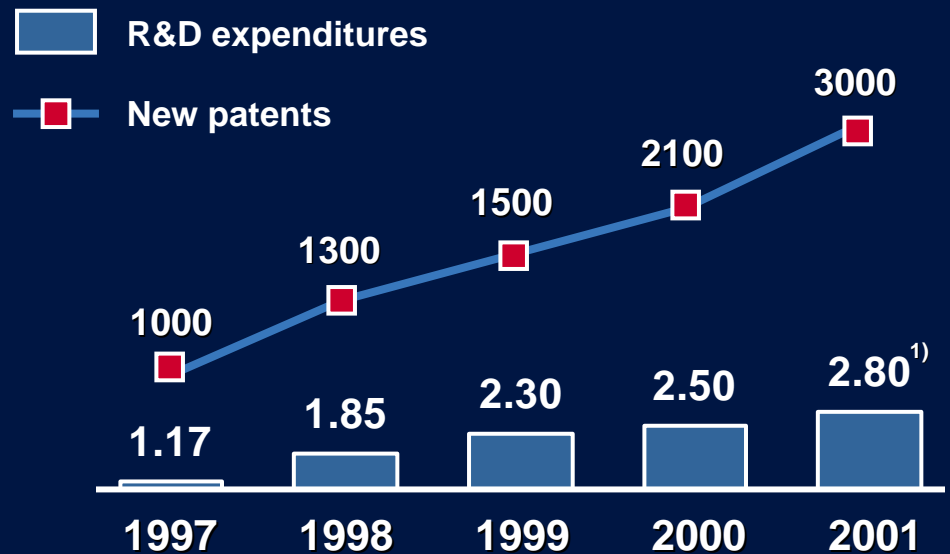
# Product and technology momentum

Innovative products

New Technologies

Design Wins

## RESEARCH & DEVELOPMENT SPENDING EUR billion



1) Adjusted for acquisitions

# Product and technology momentum

Innovative products

New Technologies

Design Wins

6 million 802.11 and 3 million bluetooth chipsets

# Product and technology momentum

Innovative products

New Technologies

Design Wins

Portable defibrillator

# Product and technology momentum

Innovative products

New Technologies

**Design Wins**

Nokia – display

# Product and technology momentum

Innovative products

New Technologies

**Design Wins**

iPAQ – bluetooth module

# Product and technology momentum

Innovative products

New Technologies

**Design Wins**

Dell – DVD+RW

# High Growth Technology Company

**Product and technology momentum**

**Building a  
more effective  
organization**

**Portfolio  
management**

**Strong balance sheet**

# Targets

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

# Moving forward

- **We have a clear vision of our future and how we are going to get there**
- **We are resolving near-term issues**
- **Established the framework**
- **2002; continuing to reshape the business to become a High Growth Technology Company**
- **We are committed to our mid-term targets**
- **We have the financial strength and flexibility to achieve our ambition**

# Annual Results 2001

*February 7, 2002*

*Let's make things better.*



**PHILIPS**