

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.

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PHILIPS

Performance of the Philips Group

EUR million

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

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

Net income as published	-1,141
IFO special items	
– <i>Acquisition related charges incl. IPR&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
Financial income and expenses special items	
– <i>Impairment Vivendi / Great Nordic</i>	-526
Unconsolidated companies special items	
– <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
Net income excl. special items	-182

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
TOTAL	-442	-236	-289	28	55

Statements made at 3Q01 Results

EUR million

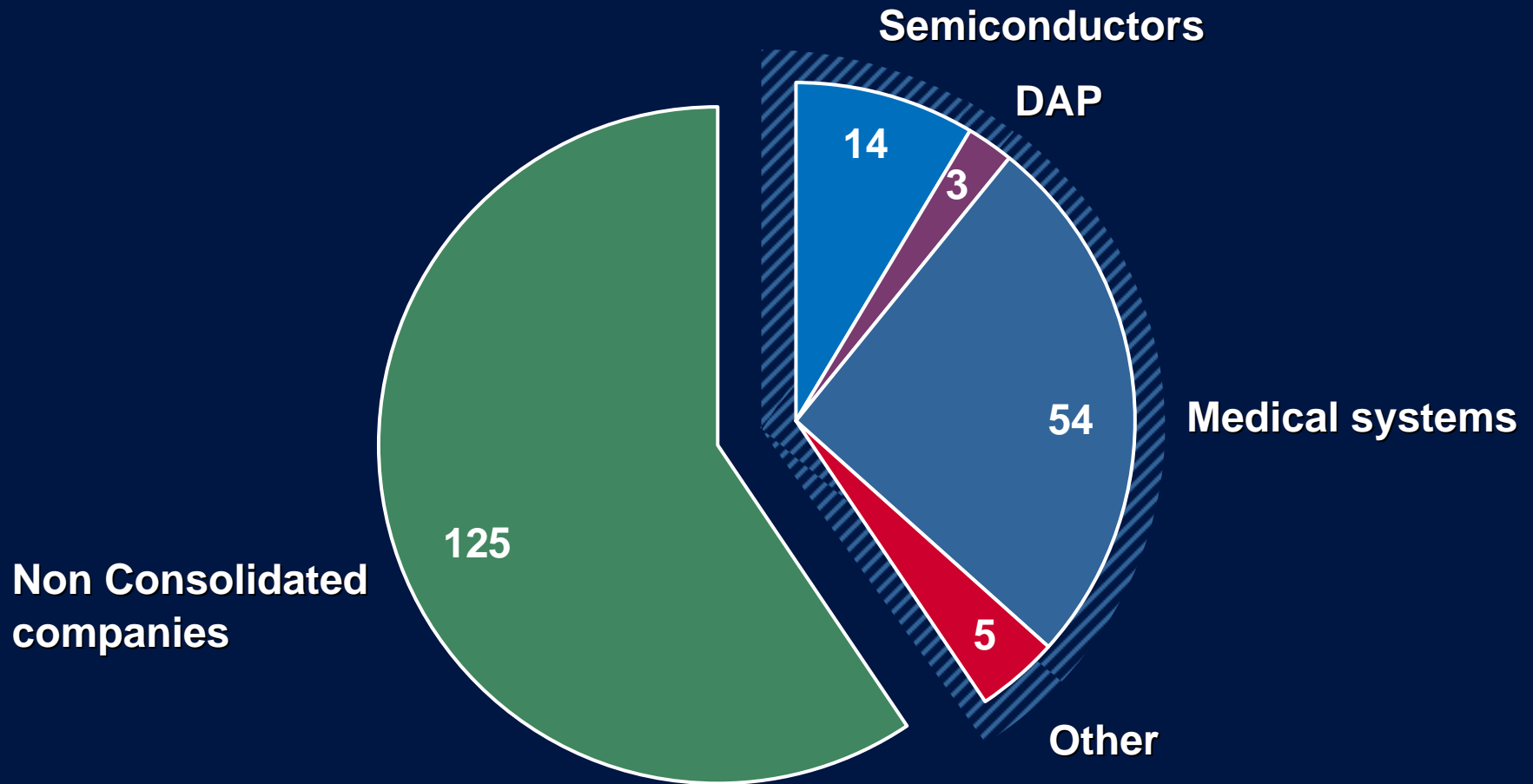
4Q01	Announced	Outcome
Net income excl. special items	-200 / -250	-182
IFO excl. special items	Break-even	55
Acquisition related charges Marconi / Agilent	425 → 350 ¹⁾	292
Charges for restructurings and cost reductions	200 – 250	278
Impairment charge securities	Possible	526
Cash flow from operations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

1) December 5th reduced to 350

Amortization of ongoing Goodwill – 4Q01

 Operating income

Total = 201



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Net Income 2001 Analysis – 2001

EUR million

Net income as published	-2,604
IFO special items	
– <i>Acquisition related charges incl. IPR&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
Financial income and expenses special items	
– <i>Impairment Vivendi / Great Nordic</i>	-526
Unconsolidated companies special items	
– <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
Net income excl. special items	-908

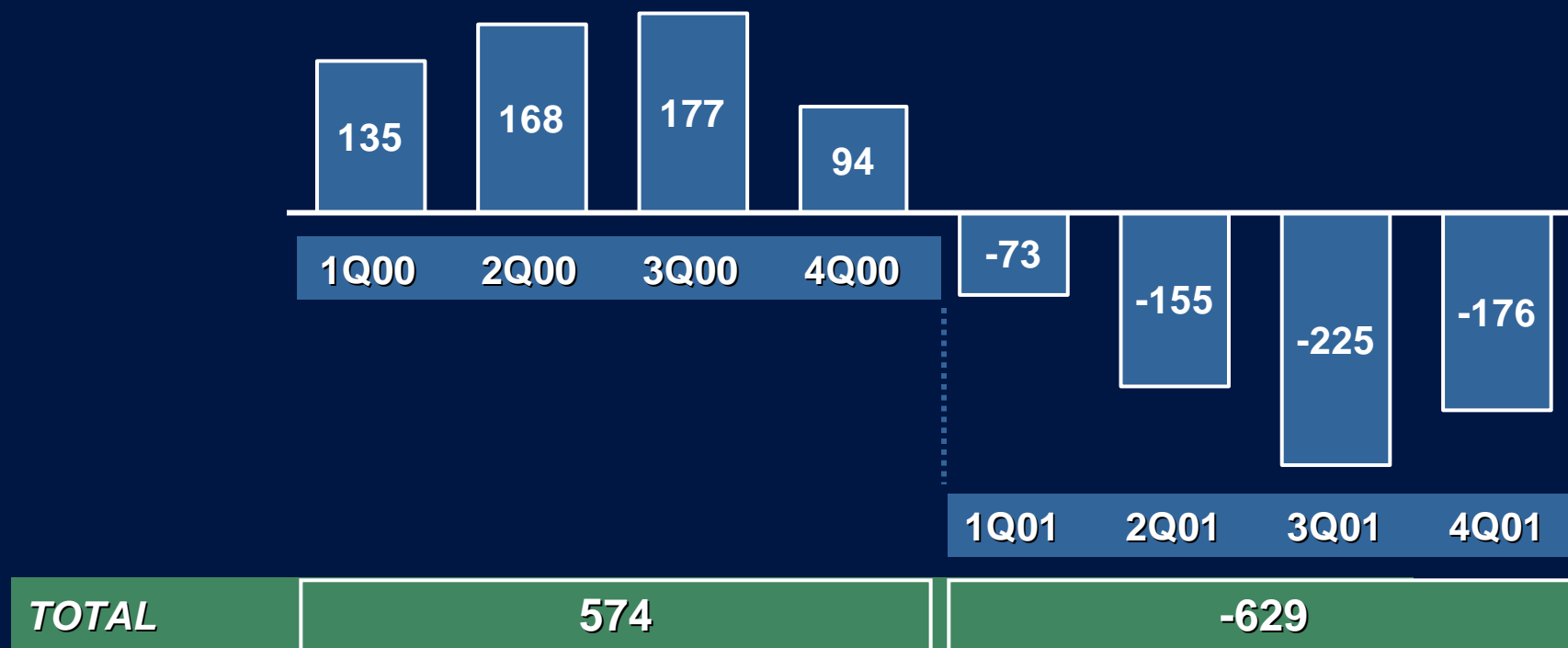
IFO per PD – 2001

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
TOTAL	-1,371	-437	-1,093	295	-136

Non-consolidated companies

EUR million



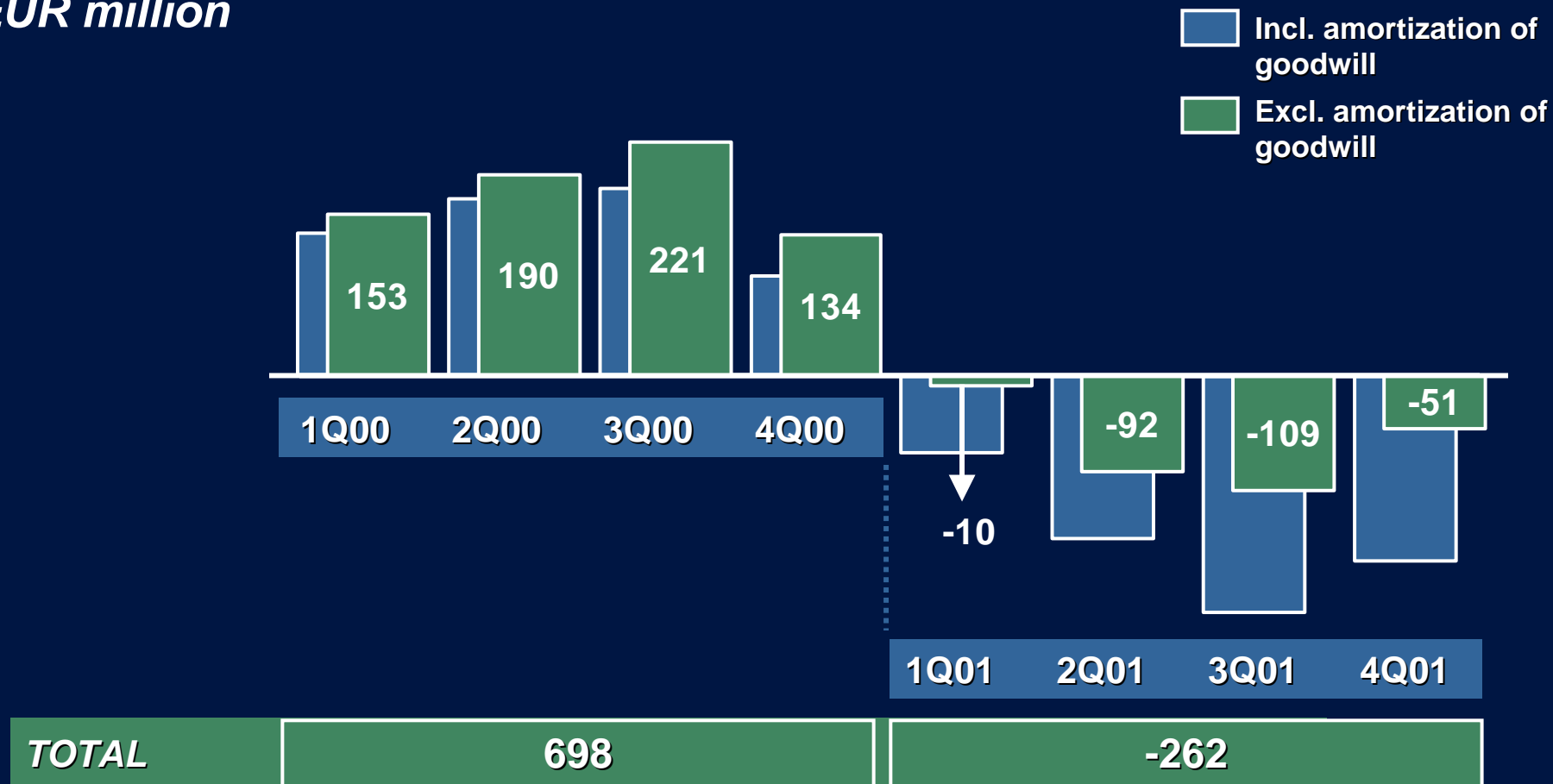
2Q00 - EUR 2595m gain on sale of ASML shares, Euro 189m re. TSMC and EUR 121m on the sale of Beltone shares

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

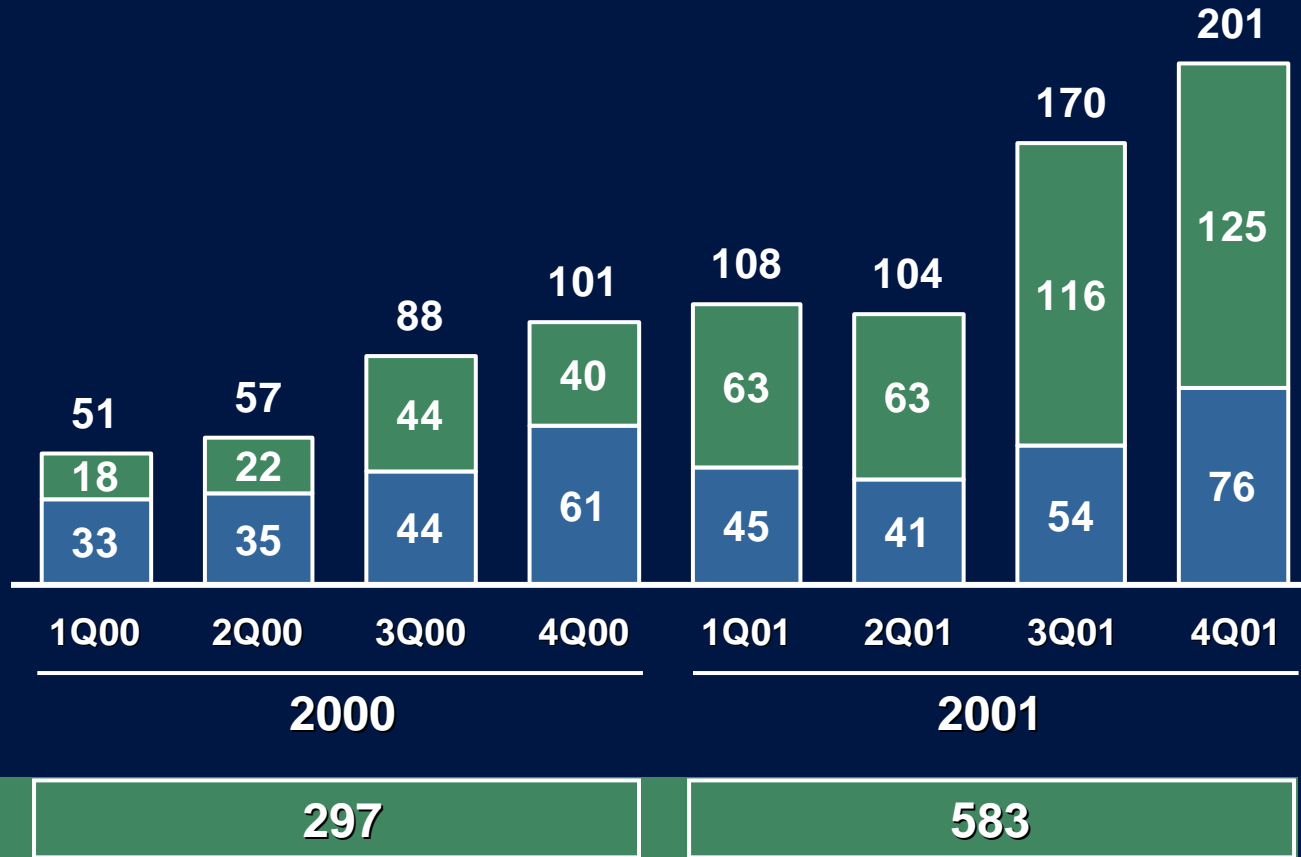
3Q00 - EUR 491m re. TSMC

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Amortization of goodwill

EUR million

- Amortization in IFO
- Amortization in Unconsolidated companies

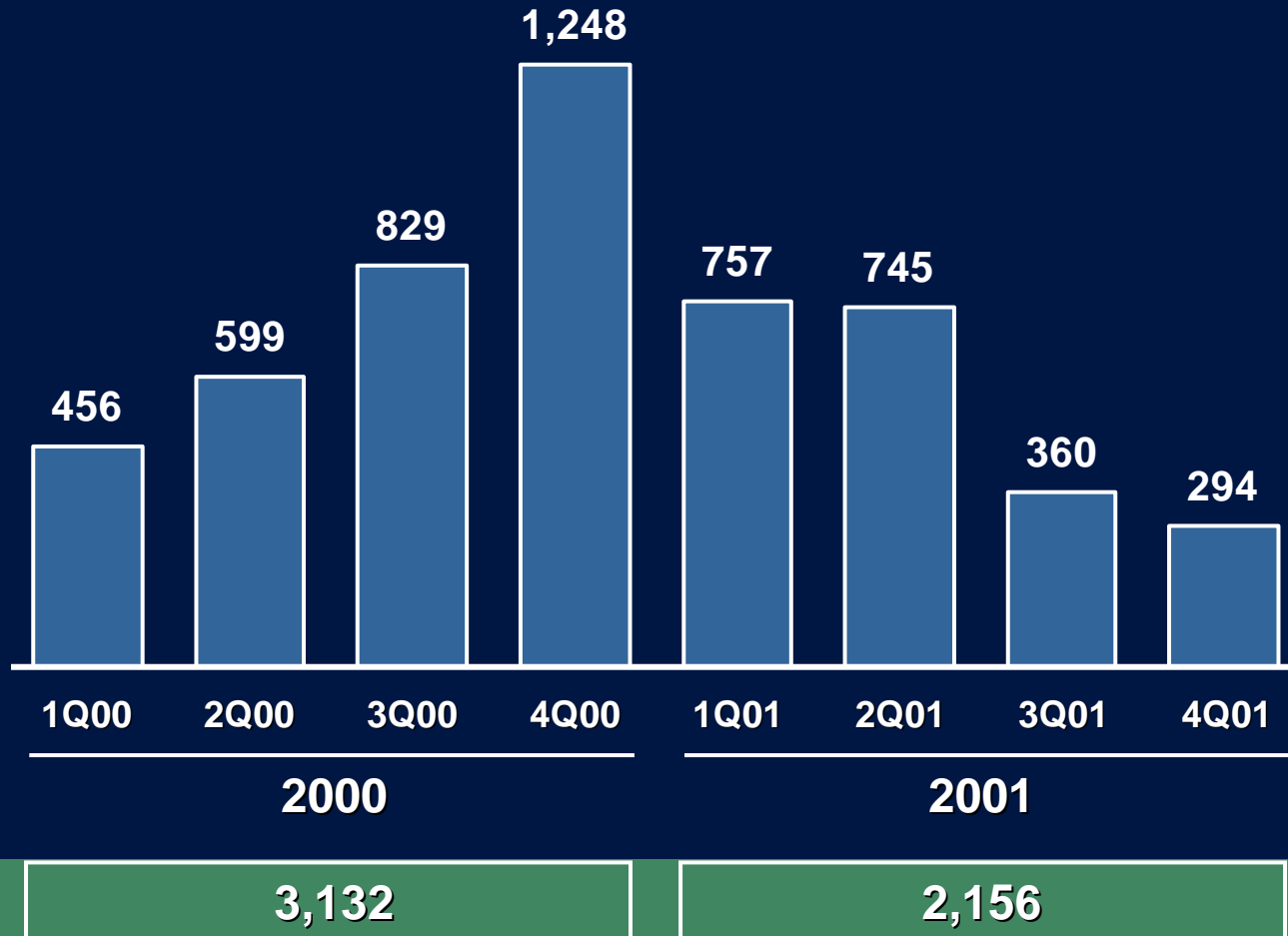


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Capital Investments

EUR million



Cash flow

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

Inventories

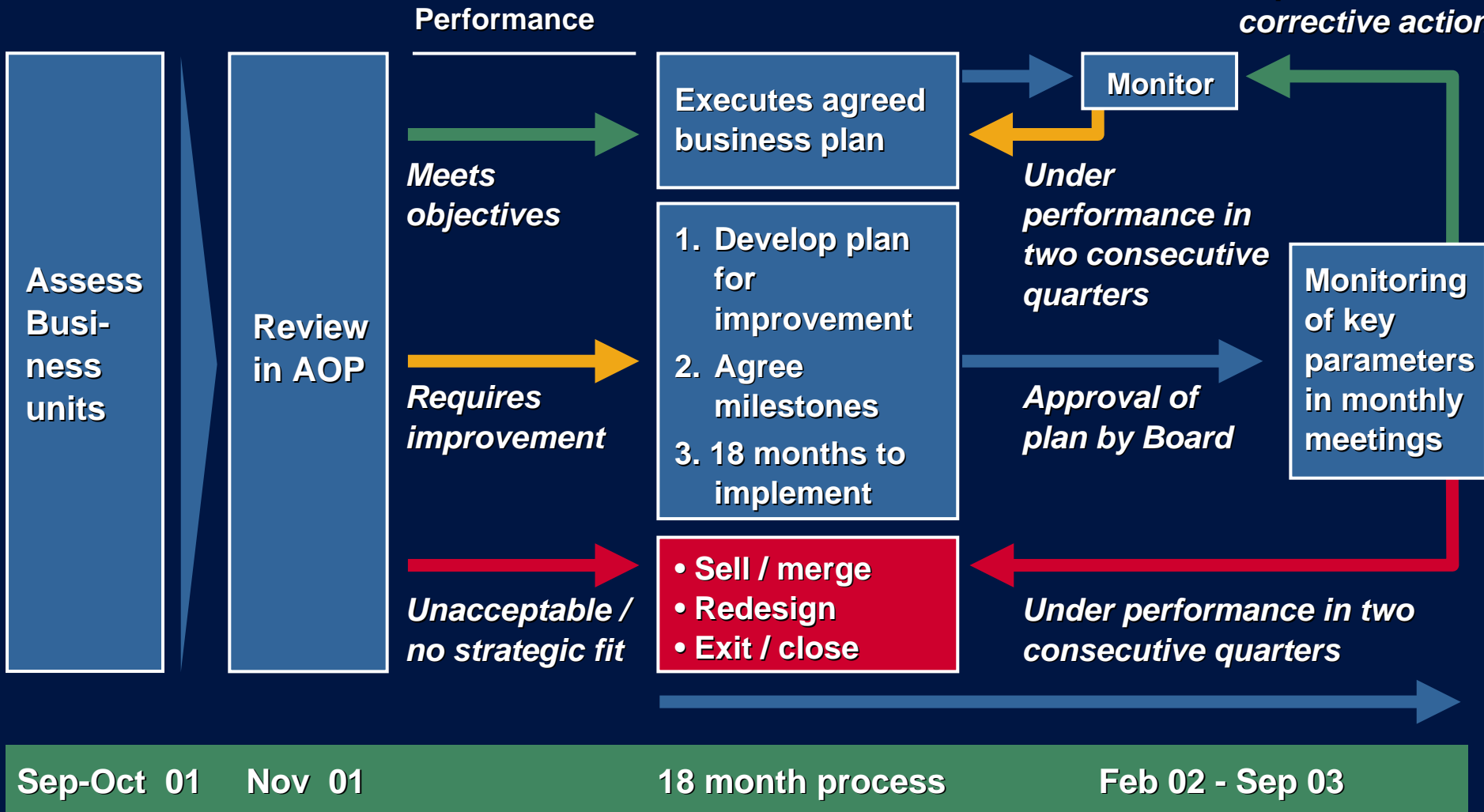
as % of MAT sales



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
<i>AS AT DECEMBER 31, 2001</i>	188,600	188,600

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
TOTAL	12,200	-18,600	-30,800

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
WORLD	12,200	-18,600	-30,800

Cost Reduction Program

EUR million

Overhead reduction program

300

**Medical systems integration
cost savings ¹⁾**

350+

Other savings programs

300 - 400

1) Announced on December 5th, 2001

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Debt/Equity ratio

EUR billion



Financial assets

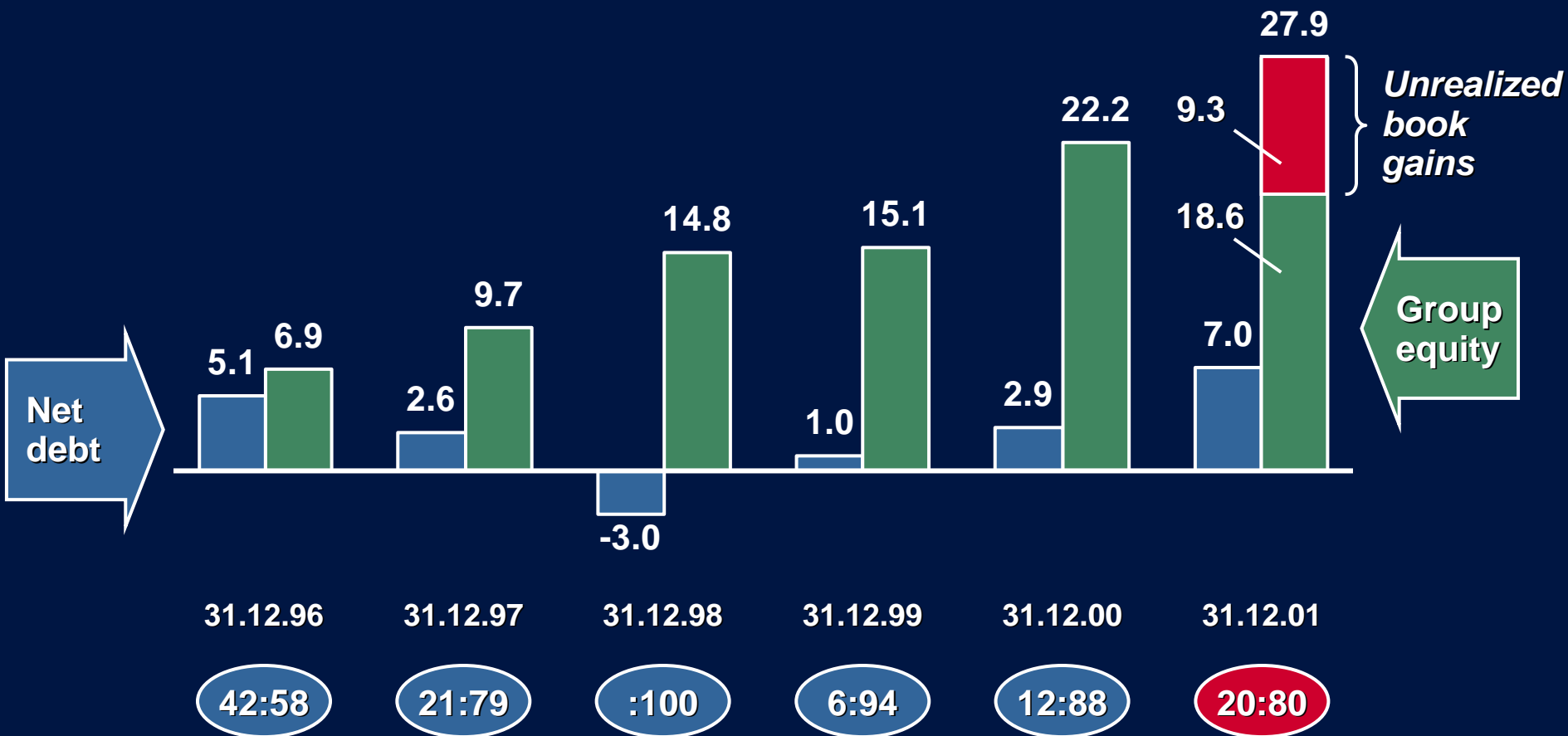
EUR million, as per end 2001

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

1) Excluding preference shares

Debt/Equity ratio

EUR billion



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Focused M&A Activity

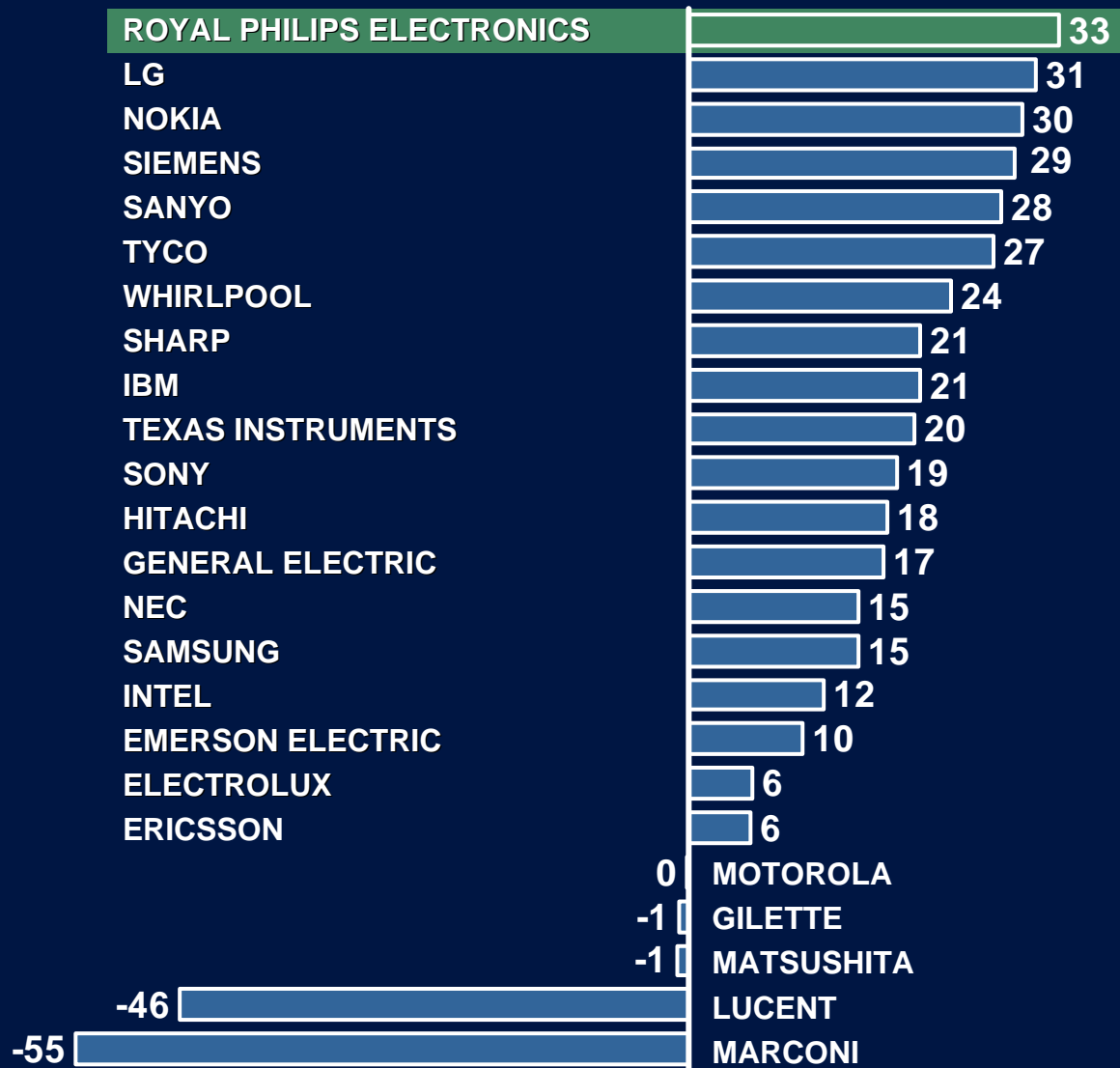
- **Building the worlds # 2 Medical Company**
 - Agilent's Healthcare Services Group (USD 1.7b)
 - Marconis Medical Business (USD 1.1b)
- **Mature businesses**
 - Placing CRT activity into J/V with LG
- **Problem solving**
 - Transferring mobile handset manufacturing to China Electric Corporation
- **Cleaning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

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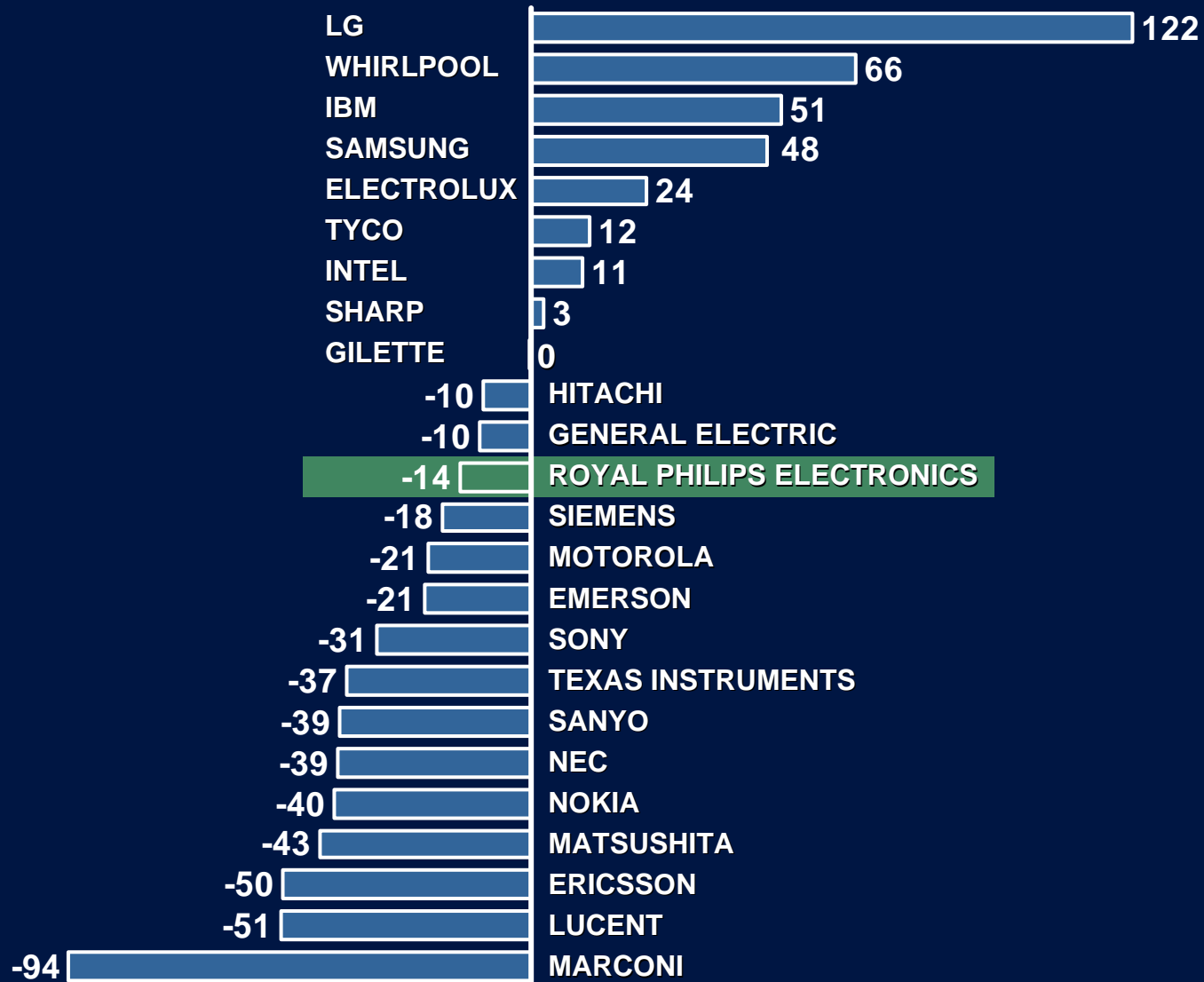
Total Return to Shareholders – 3 Year

CAGR Jan 99' – Dec '01 - %



Total Return to Shareholders – 1 Year

CAGR Jan 01' – Dec '01 - %

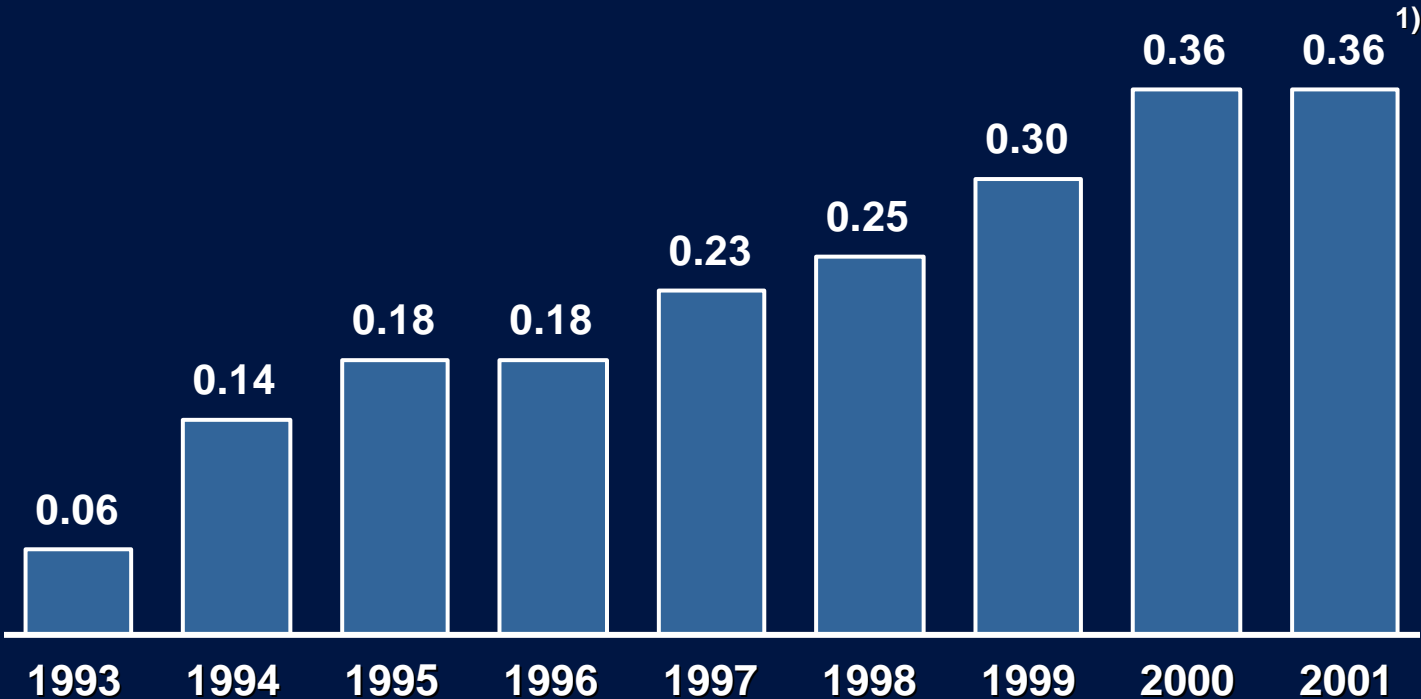


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Dividends per share

EUR



1) Proposed

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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

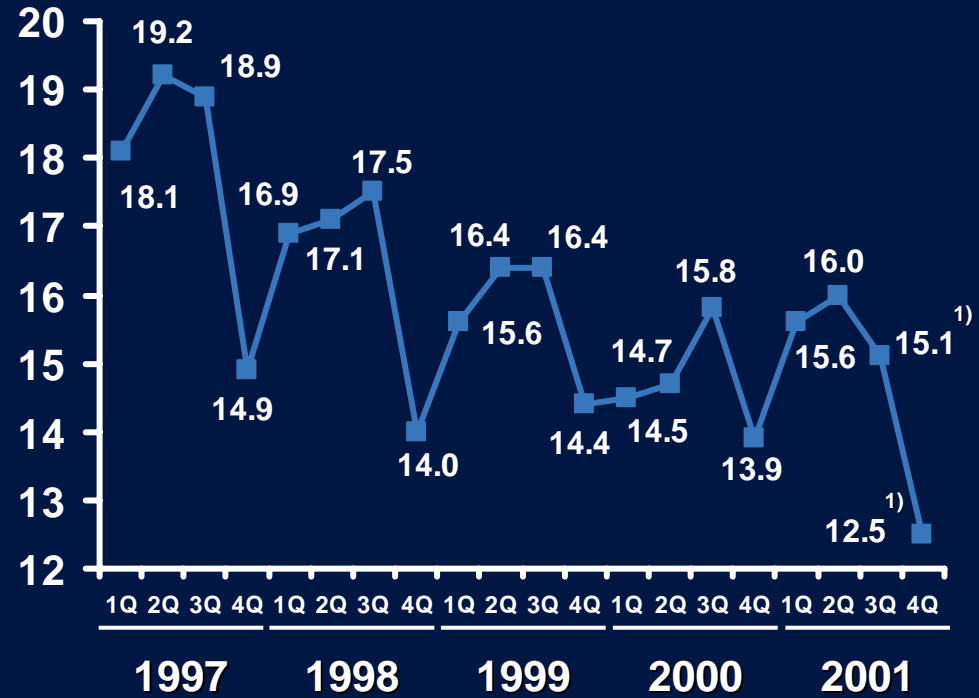
- Communication
- Entertainment
- Healthcare

Framework

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

Strong balance sheet

Inventories

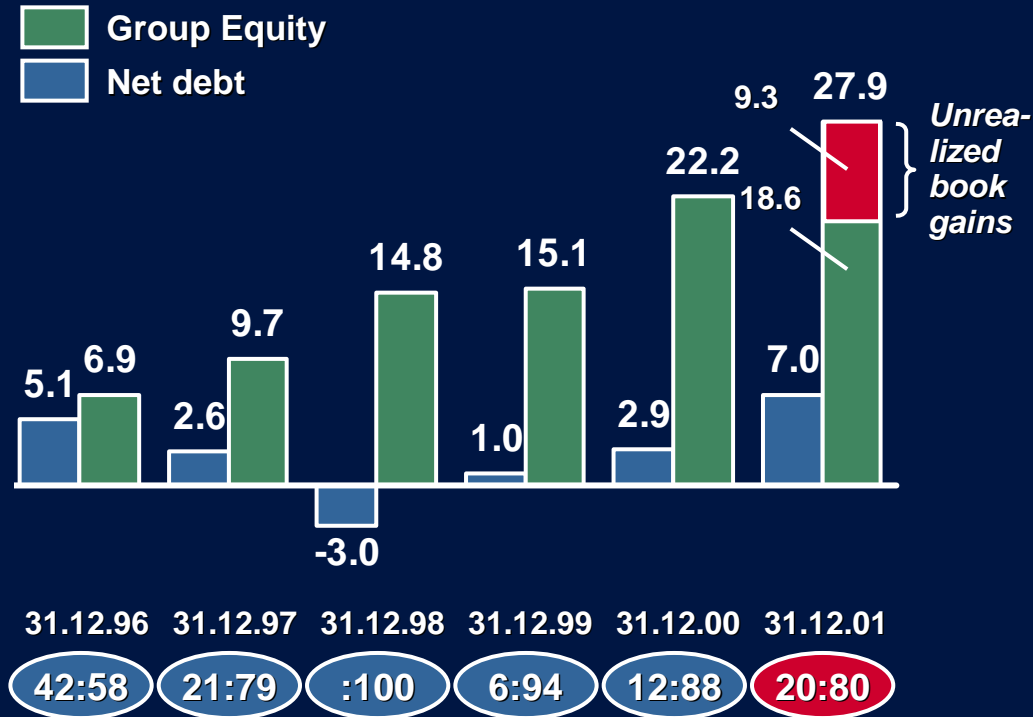


1) Corrected for acquisitions and disposals

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

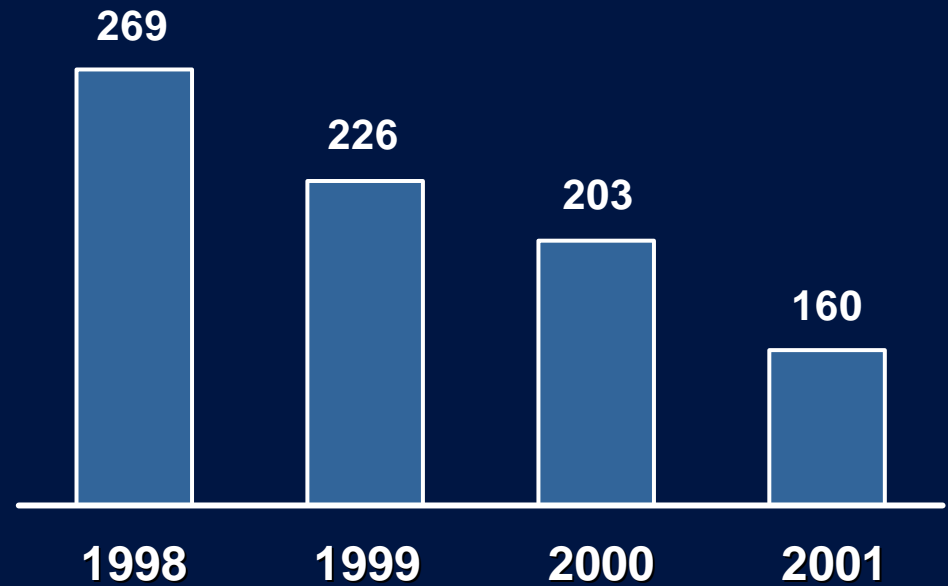
Building a more effective organization

Philips way

Shared services

Reducing complexity

REDUCTION IN FACTORIES



Building a more effective organization

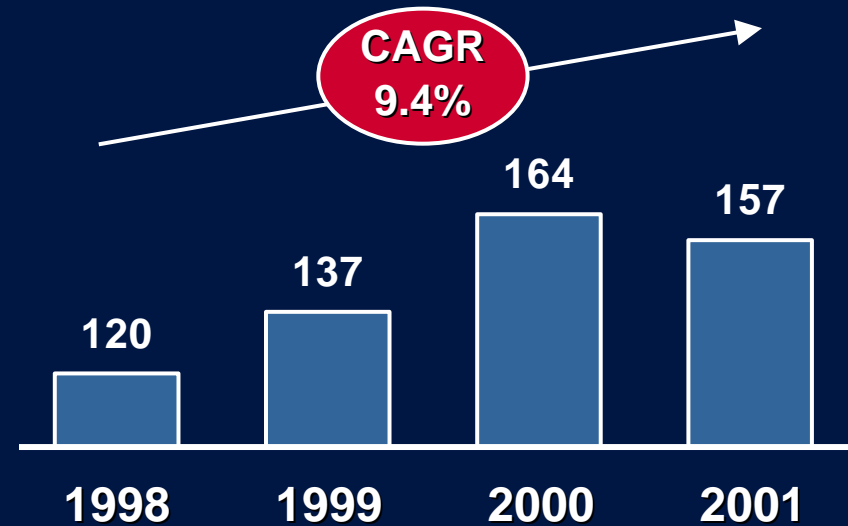
Philips way

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

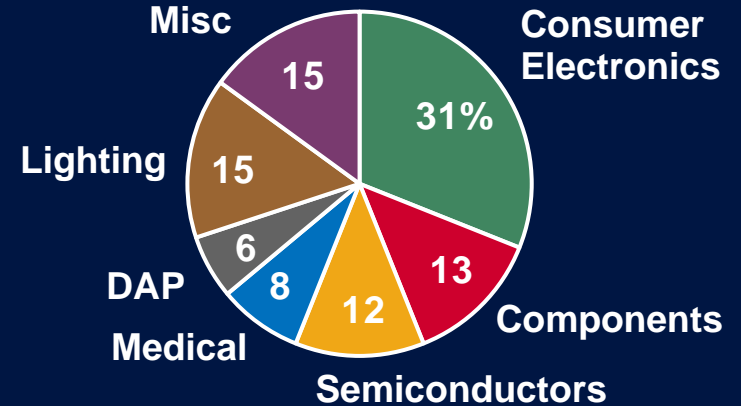
Portfolio Management

Exiting low growth low return businesses

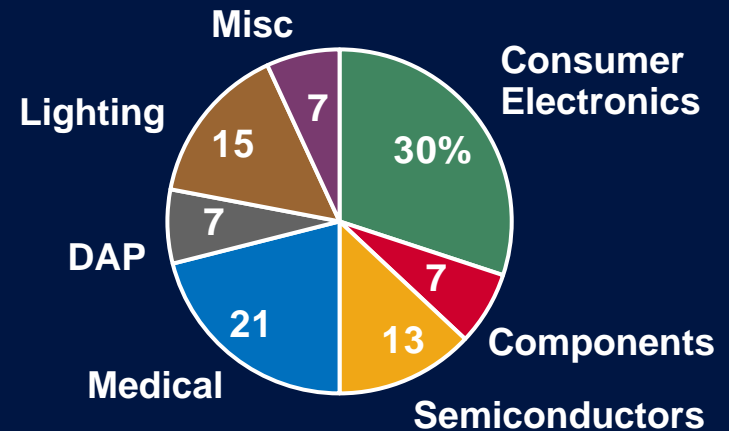
Acquisitions

Continuing to reshape the portfolio for growth

1999 Sales to thirds



Proforma 2001 Sales to thirds



Portfolio Management

Exiting low growth low return businesses

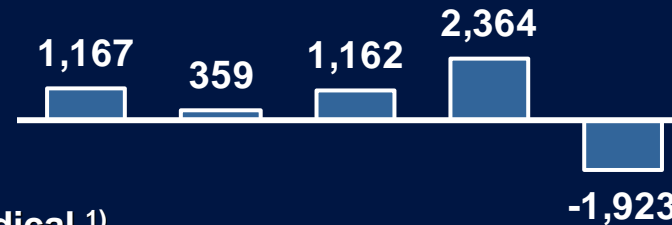
Acquisitions

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 ¹⁾



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

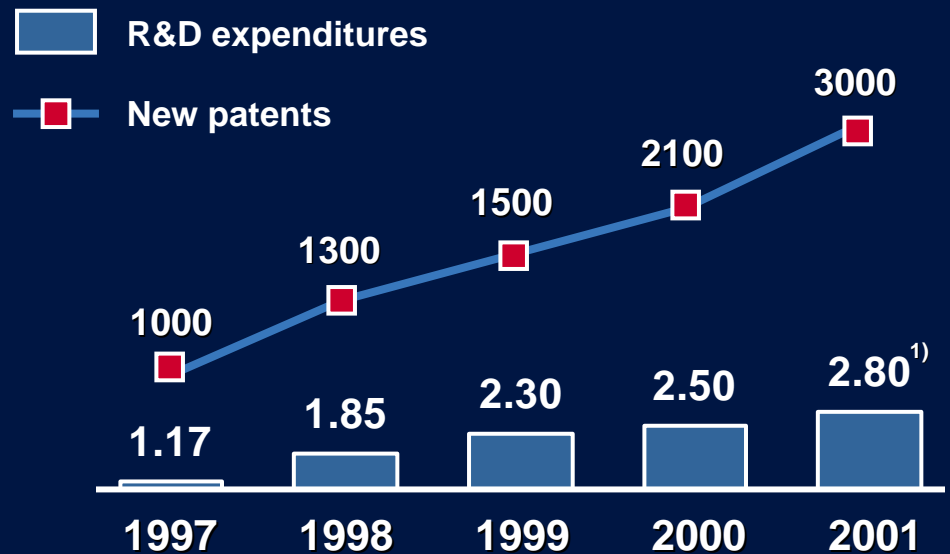
Product and technology momentum

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