

# **PHILIPS**

## **Annual Results 2002**

**February 11, 2003**

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

## **'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 future 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.**

**Gerard Kleisterlee**

**Jan Hommen**

**Gerard Kleisterlee**

# Performance of the Philips Group

*EUR million*

	2002	2001	2000
Sales	31,820	32,339	37,862
Income (loss) from operations	420	(1,395)	4,258
Net income (loss)	(3,206)	(2,475)	9,662
Cash flow from operations	2,228	1,248	2,996
Net capital expenditures	(940)	(2,156)	(3,132)
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Inventories as % of sales	11.1	13.3	13.9
Net debt to group equity	27 : 73	26 : 74	11 : 89
Employees	170,087	188,643	219,429

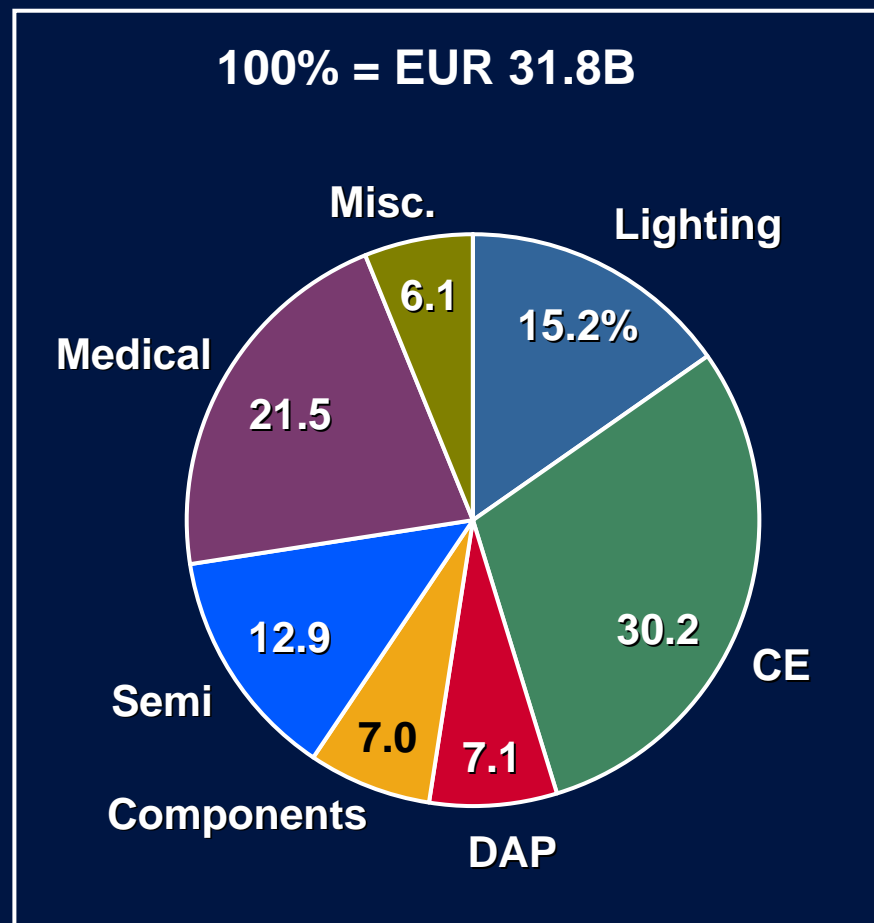
## **Product Divisions in 2002**

- **Record results in DAP - delivering innovative marketing and product leadership**
- **Consumer Electronics, strong Q4 performance in Europe and the turn-around in North America on-track – intensifying our customer and market focus**
- **Medical Systems integration on-track – well positioned for growth with new product introductions**
- **Lighting maintained strong margins and gained in market share**
- **Dissolved Components – repositioning the businesses**
- **Focus on turning-around Semiconductors**

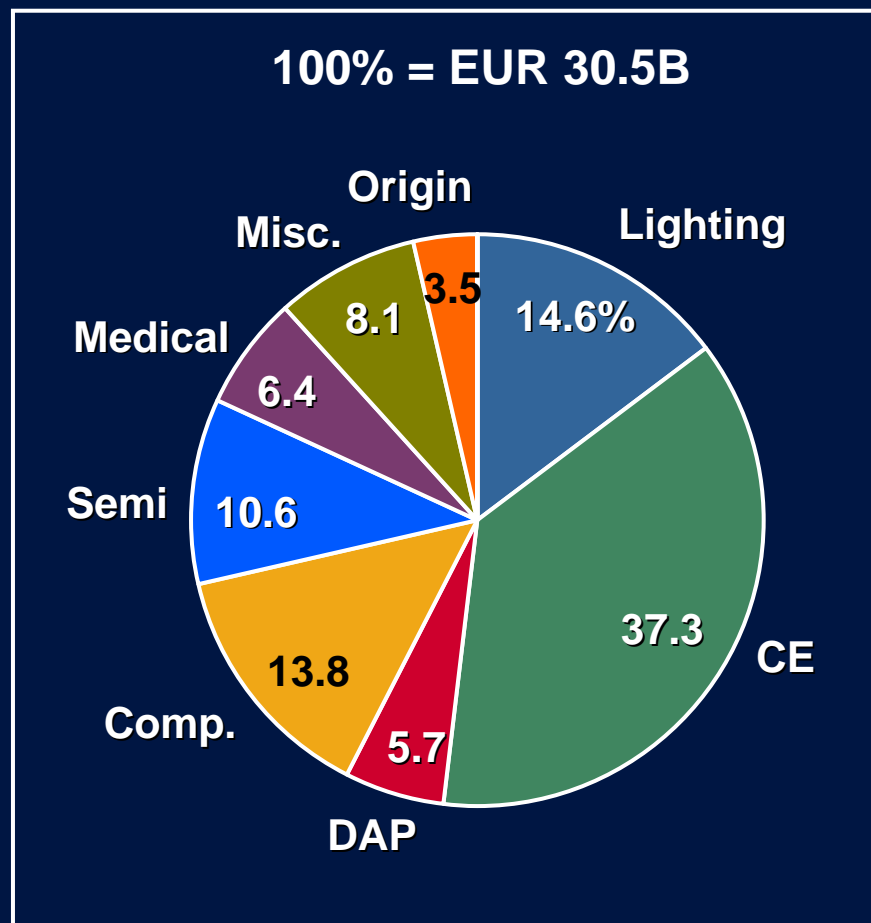
## Philips today – a more focused company

Sales per sector, as % of total

2002



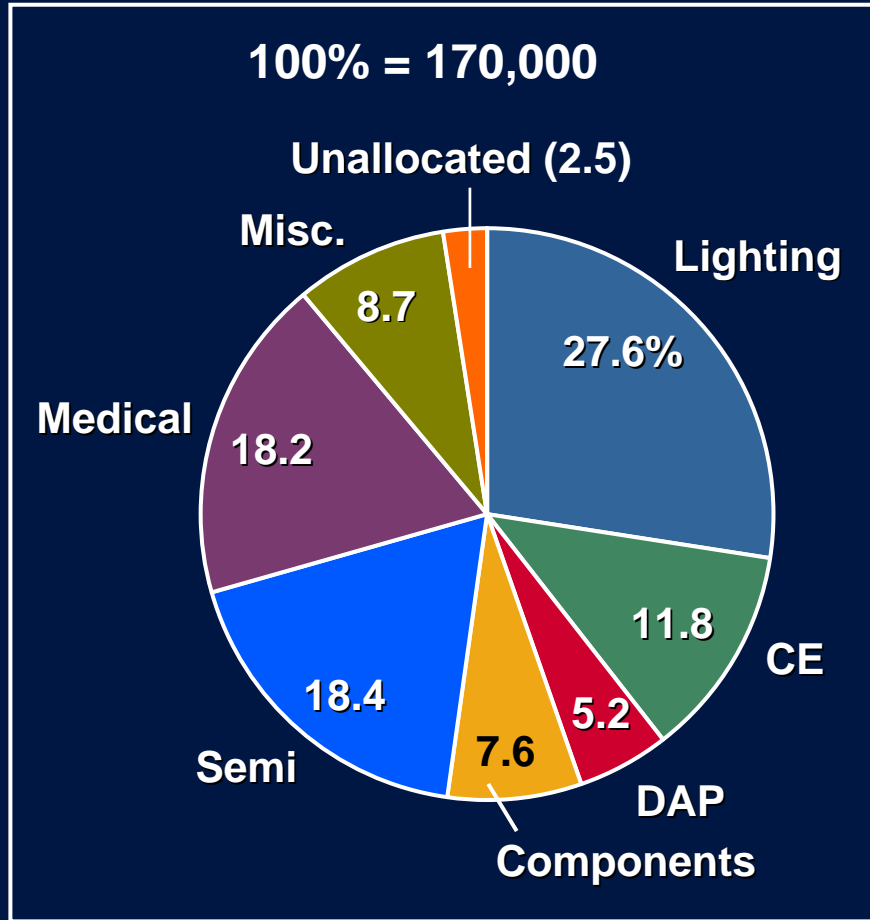
1998



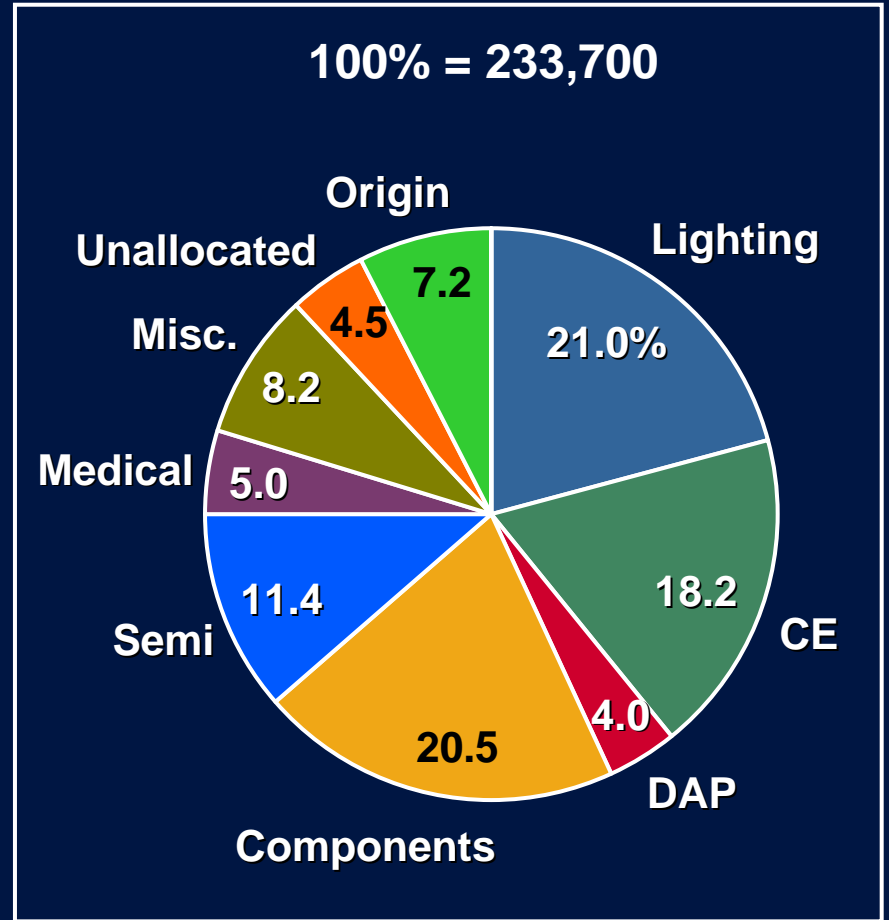
# Philips today – a more focused company

Employment per sector, as % of total

**2002**



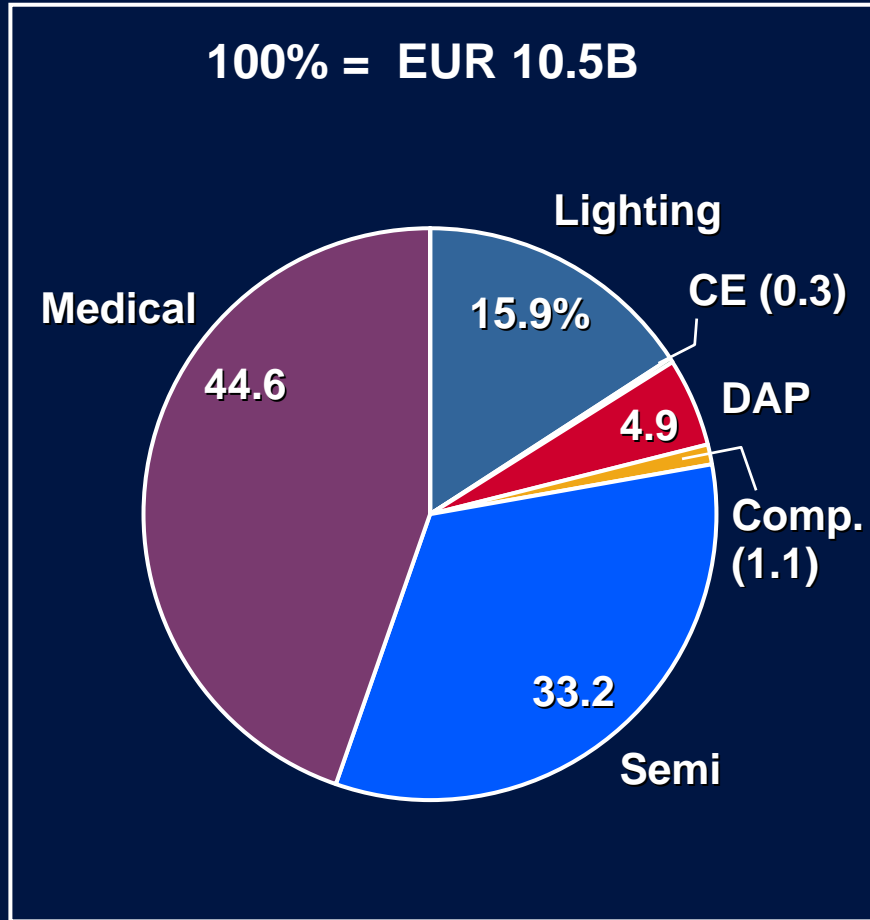
**1998**



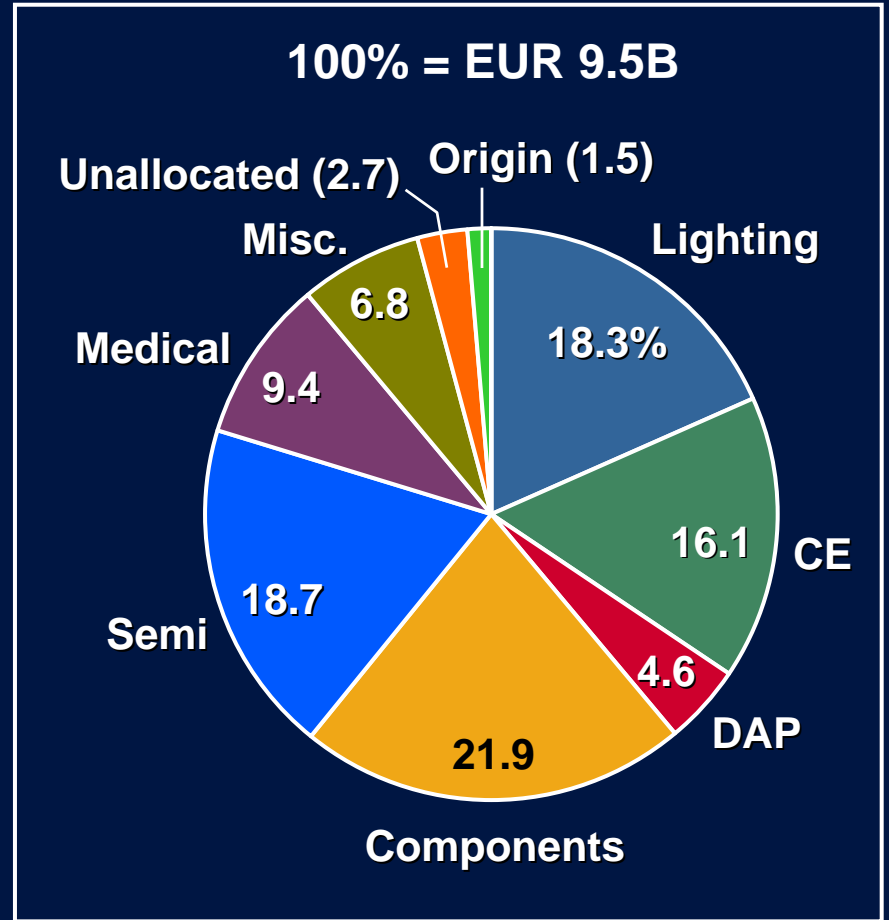
# Philips today – a more focused company

Net operating capital per sector, as % of total

**2002**



**1998**



# Overview 2002

- **Simplified the organization**
- **Drove down costs**
- **Improved the quality and cycle time of our operational processes**
- **Lowered inventory levels**
- **Reduced our debt**



**Gerard Kleisterlee**

**Jan Hommen**

**Gerard Kleisterlee**

# Agenda

- **2002 Results and Cash Flow**
- **Balance Sheet Strength**
- **Key Financial Management Actions**

# Agenda

- **2002 Results and Cash Flow**
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# Profit & Loss - 4Q02

*EUR million*

	P&L as published	Special items & impairment	P&L excl. special items & impairment
IFO	47	(254)	301
Financial Income & Expenses	(153)	(80)	(73)
Tax	(28)	148	(176)
Unconsolidated companies	(1,391)	(1,402)	11
<b>NET INCOME 4Q02</b>	<b>(1,530)</b>	<b>(1,588)</b>	<b>58</b>
<b>NET INCOME 4Q01</b>	<b>(1,062)</b>	<b>(959)</b>	<b>(103)<sup>1)</sup></b>

1) Includes goodwill amortization charges of EUR 51M in IFO and EUR 70M in UCC's

# Group Sales

*EUR million unless otherwise stated*

	4Q02	4Q01
Philips group sales	8,923	9,262
<hr/>		
% change from the previous year:		
Nominal change	(4)	(16)
• Consolidation change	(2)	2
• Currency effects	(7)	(2)
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Comparable change	5	(16)
• Prices	(7)	(9)
• Volume	12	(7)

# IFO per Sector – 4Q02

*EUR million*

	IFO as published	Special items			IFO excl. Special items
		Acquisition related charges	Restructuring and impairment	Gains / other	
Lighting	183		2	(1)	182
CE	130		(96)	80	146
DAP	183			(3)	186
Components	(226)		(156)	4	(74)
Semiconductors	(312)	(8)	(169)	5	(140)
Medical Systems	239	23		(2)	218
Miscellaneous	(55)		(16)	82	(121)
Unallocated	(95)			1	(96)
<b>TOTAL 4Q02</b>	<b>47</b>	<b>15</b>	<b>(435)</b>	<b>166</b>	<b>301</b>
<b>TOTAL 4Q01</b>	<b>(458)</b>	<b>(236)</b>	<b>(289)</b>	<b>28</b>	<b>39<sup>1)</sup></b>

1) Includes EUR 51M goodwill amortization charges

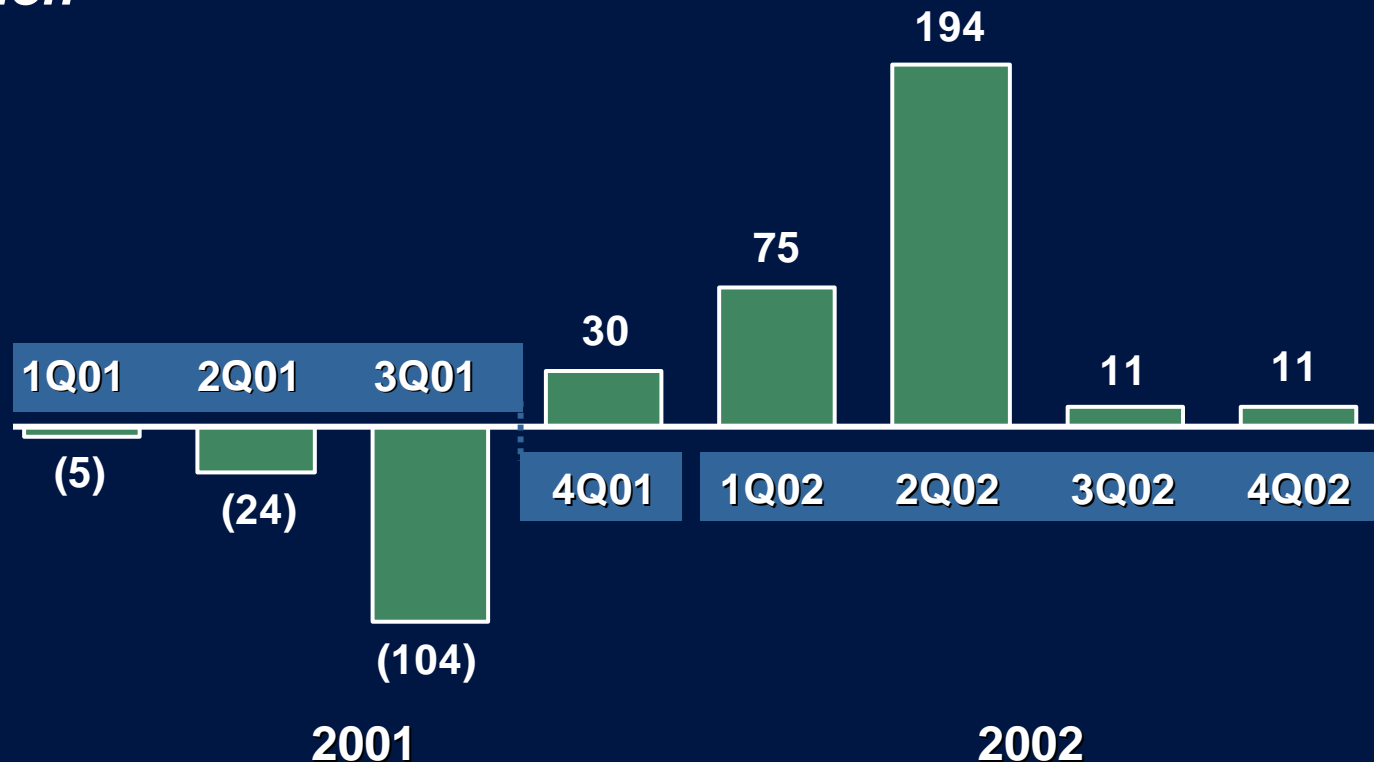
# Cash Flow – 4Q02

*EUR million*

	4Q02	4Q01
Net Income before impairment	(170)	(515)
Depreciation / Amortization	664	721
Net gain on sale of investments	(172)	(56)
Changes in Working Capital	1,165	1,709
Other	(45)	(172)
<b>CF FROM OPERATIONS</b>	<b>1,442</b>	<b>1,687</b>
Net CAPEX	(360)	(294)
Acquisitions/Divestments/Other	503	(1,288)
<b>CF BEFORE FINANCING ACTIVITIES</b>	<b>1,585</b>	<b>105</b>

# Non-consolidated companies (excl. special items)

*EUR million*



**ANNUAL TOTAL**

**(103)**

**291**

**INCL. SPECIALS**

**(608)**

**(1,346)**

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

# Active management of currency exposure

## Impact on

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### Sales

- Negative effect of 7% in 4Q02

### IFO

- Philips' policy is to hedge significant transaction exposure. On balance the divisions have more sales than costs in US dollar or related currencies.

### Group Equity

- Due to translation differences of the equity in our foreign subsidiaries a negative impact of EUR 369m was recorded in 4Q02.

### Net Debt

- Currency movements reduced the Net Debt in 4Q02 due to USD nominated bonds as well as Euro nominated bonds that are swapped into USD to hedge inter-company loans.

### Net Debt / Group Equity

- Consequently, our D/E – ratio is not materially affected by currency fluctuations.

# Profit & Loss – Full Year 2002

*EUR million*

	P&L as published	Special items & impairment	P&L excl. special items & impairment <sup>1)</sup>
IFO	420	(40)	460
Financial Income & Expenses	(2,227)	(1,888)	(339)
Tax	(27)	127	(154)
Unconsolidated companies	(1,346)	(1,613)	267
<b>NET INCOME 2002</b>	<b>(3,206)</b>	<b>(3,414)</b>	<b>208</b>
<b>NET INCOME 2001</b>	<b>(2,475)</b>	<b>(1,696)</b>	<b>(779)</b>

1) Includes goodwill amortization charges in 2002 of EUR 24M in UCC's and in 2001 of EUR 180M in IFO and EUR 257M in UCC's

# Major items in Net Income Swing 2001 vs. 2002

*EUR million*

**NET INCOME 2002**

**(3,206)**

More special items

-1,718

Less pension credits

-541

Less goodwill amortization

+413

Cost savings realized per Medical & TOP

+430

Tax effect on above items

-147

**(1,476)**

Various improvements including the benefits of earlier restructurings

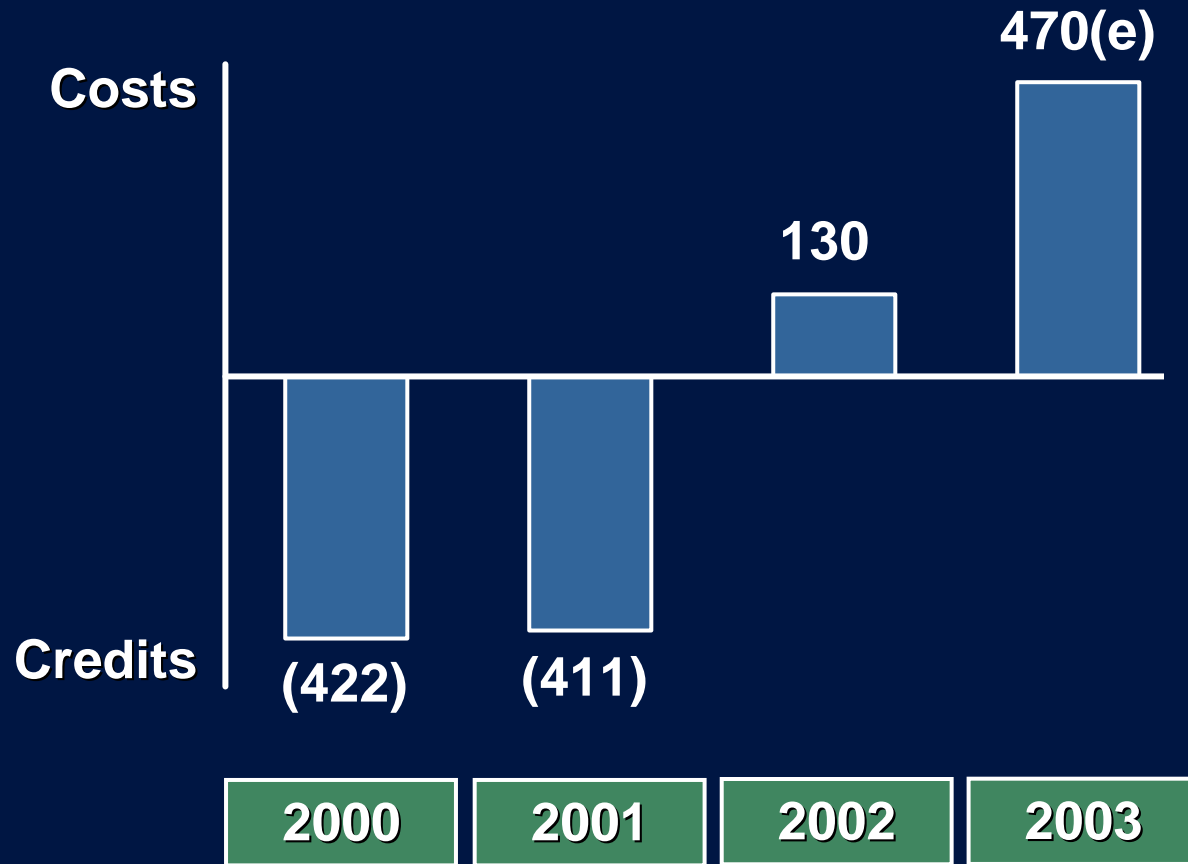
**745**

**NET INCOME 2001**

**(2,475)**

# Pension costs / (credits)

*EUR million*



# IFO per Sector - 2002

*EUR million*

	IFO as published	Special items			IFO excl. Special items
		Acquisition related charges	Restructuring and impairment	Gains / other	
Lighting	602		(13)	(1)	616
CE	230		(100)	80	250
DAP	401		(9)	(3)	413
Components	(329)		(169)	84	(244)
Semiconductors	(537)	(12)	(169)	19	(375)
Medical Systems	309	(84)	(43)	1	435
Miscellaneous	74		(10)	388	(304)
Unallocated	(330)			1	(331)
<b>TOTAL 2002</b>	<b>420</b>	<b>(96)</b>	<b>(513)</b>	<b>569</b>	<b>460</b>
<b>TOTAL 2001</b>	<b>(1,395)</b>	<b>(437)</b>	<b>(1,093)</b>	<b>295</b>	<b>(160)<sup>1)</sup></b>

1) Includes EUR 180M goodwill amortization charges

# Cash Flow – Full Year 2002

*EUR million*

	2002	2001
Net Income before impairment	54	(1,830)
Depreciation / Amortization	2,184	2,671
Net gain on sale of investments	(643)	(337)
Changes in Working Capital	815	752
Other	(182)	(8)
<b>CF FROM OPERATIONS</b>	<b>2,228</b>	<b>1,248</b>
Net CAPEX	(940)	(2,156)
Acquisitions/Divestments/Other	692	(2,408)
<b>CF BEFORE FINANCING ACTIVITIES</b>	<b>1,980</b>	<b>(3,316)</b>

# Impairments / Gains

*EUR million*

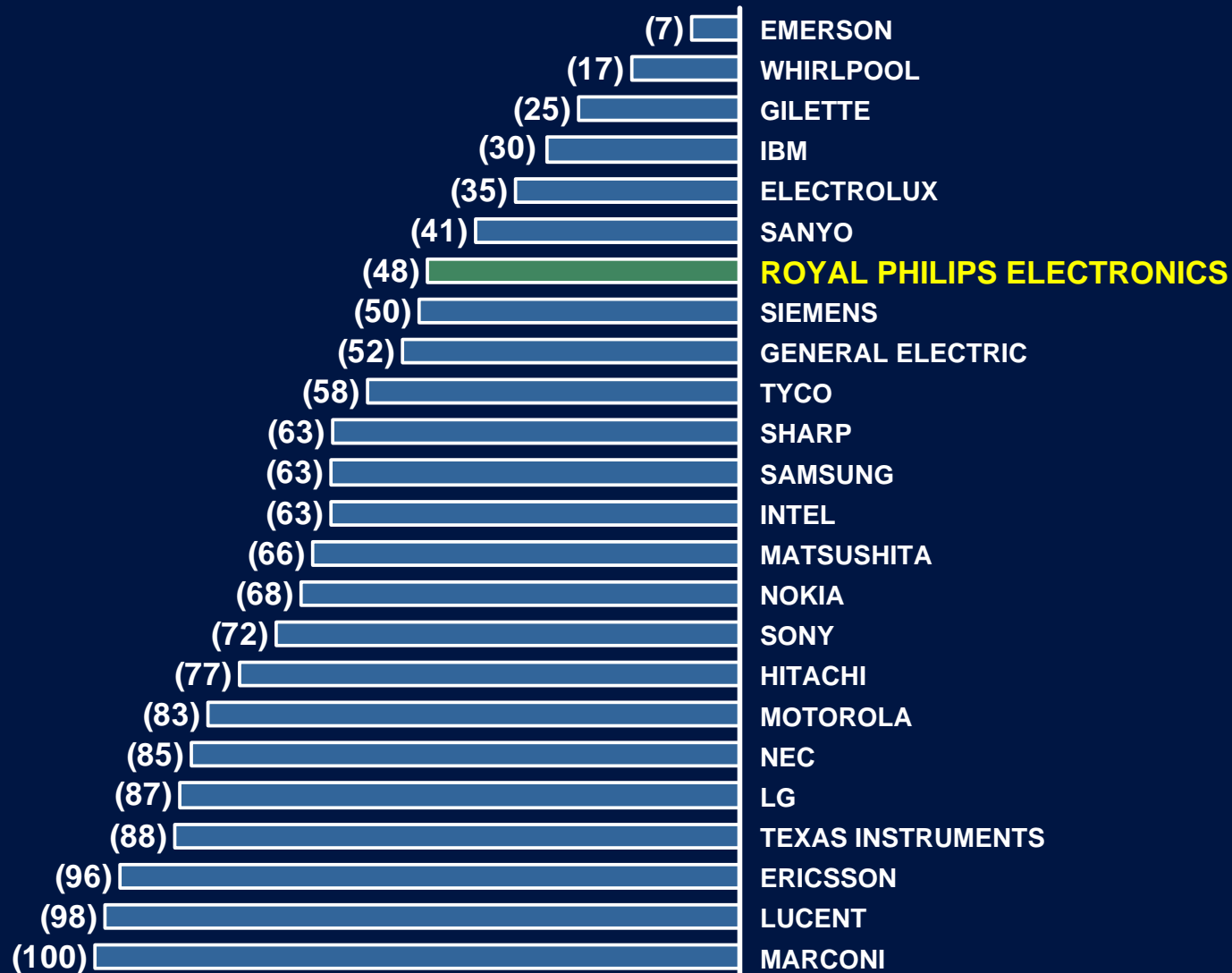
	2002	2001	2000
<b>Other non current fin. assets</b>			
• ASML	67		2,595
• JDSU	(73)		1,207
• Great Nordic	(27)	(86)	
• Vivendi Universal	(1,855)	(440)	1,115
<b>UCC's</b>			
• Atos Origin	(921)		1,072
• LG.Philips Displays JV	(275)		
• FEI		185	
• Other	(109)	(119)	
<b>TOTAL</b>	<b>(3,193)</b>	<b>(460)</b>	<b>5,989</b>
<b>CASH IMPACT</b>	<b>72</b>	<b>200</b>	<b>3,982</b>

# Employment Reduction *Personnel*

	<b>2002</b>
At the beginning of the period	188,643
Consolidation	254
Deconsolidation	(9,768)
Net reductions	(9,042)
<b>AS AT DECEMBER 31, 2002</b>	<b>170,087</b>

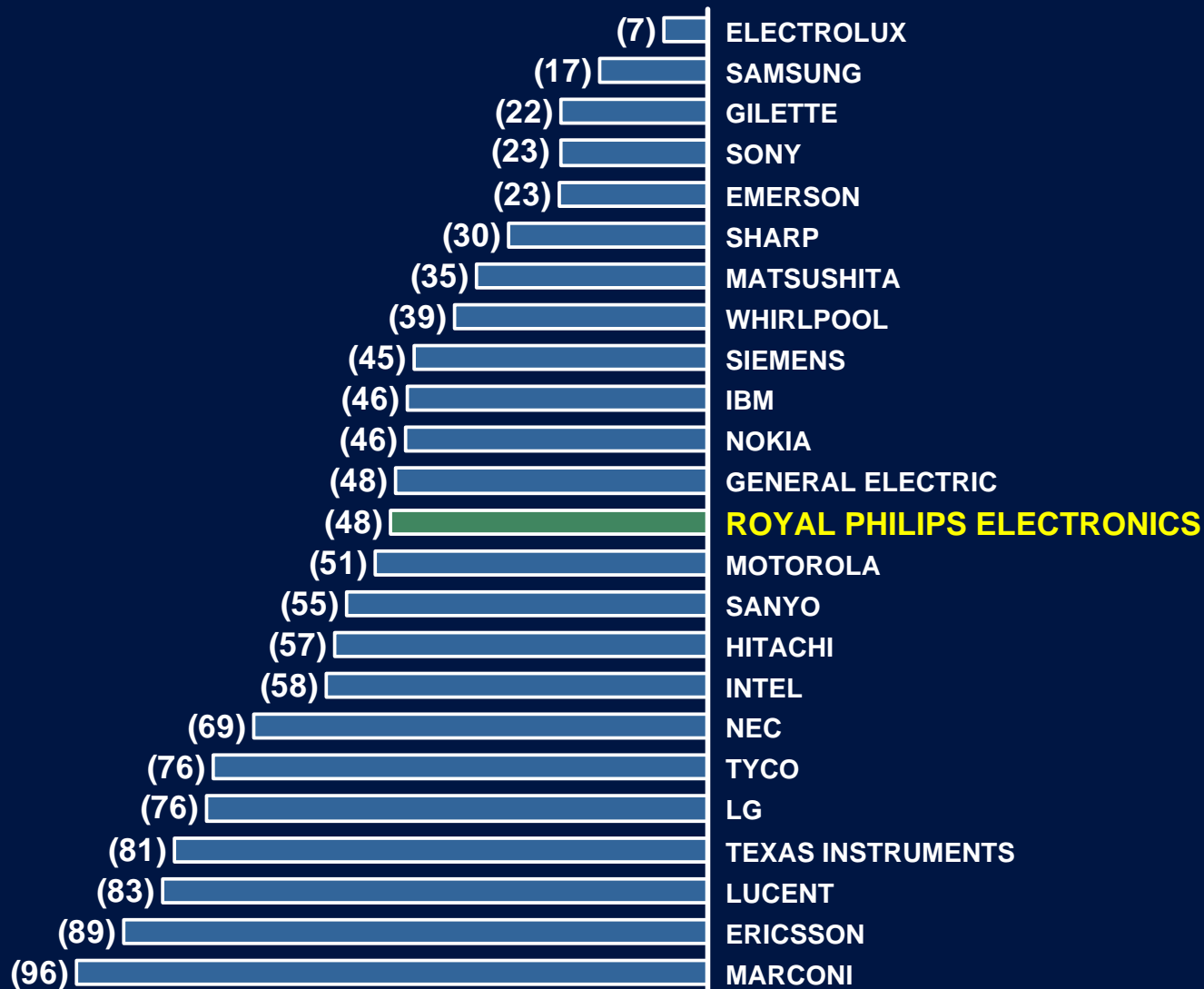
# Total Return to Shareholders – 3 Year

CAGR Jan 00' – Dec '02 - %



# Total Return to Shareholders – 1 Year

*CAGR Jan '02 – Dec '02 - %*



# Agenda

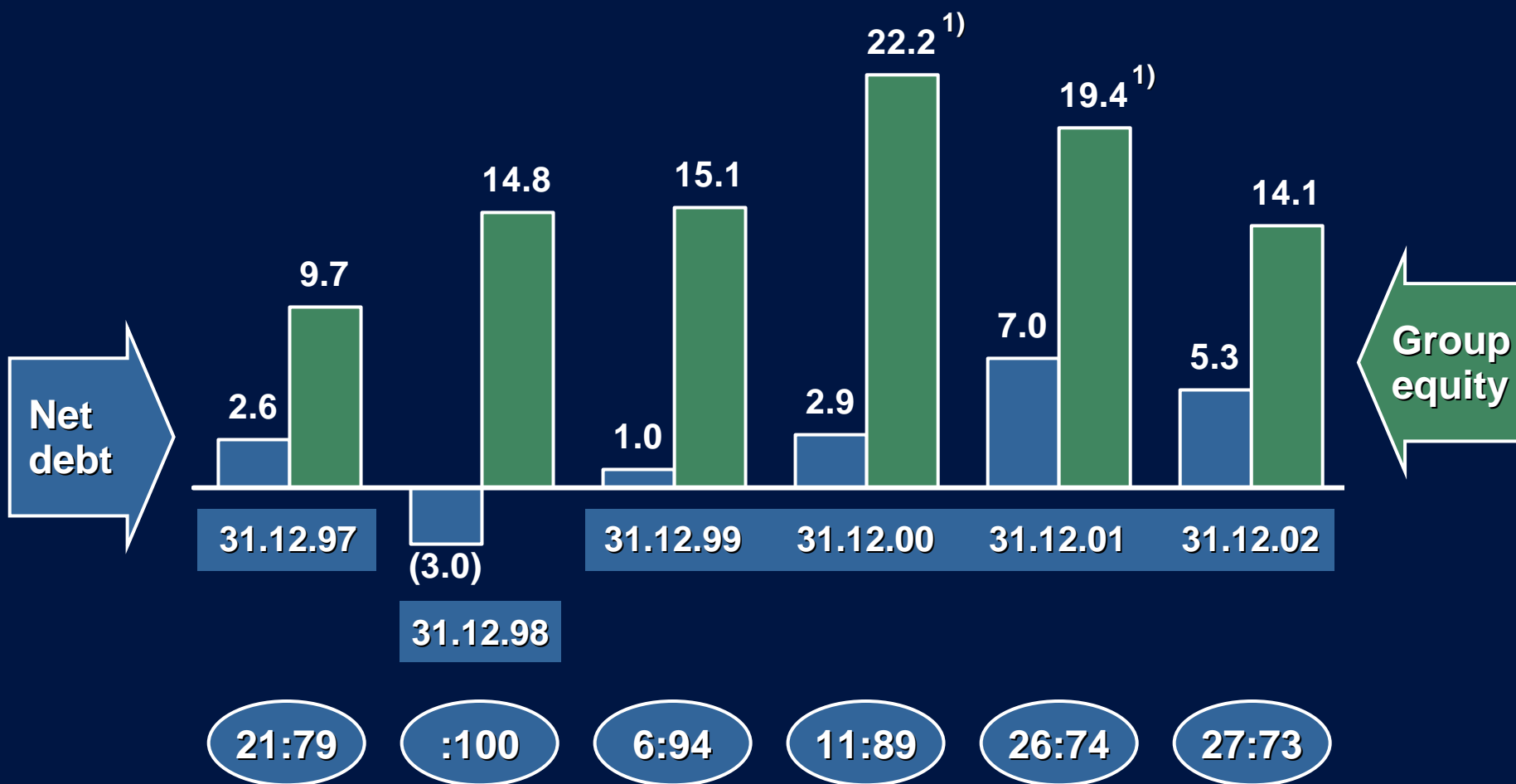
- 2002 Results and Cash Flow

- **Balance Sheet Strength**

- Key Financial Management Actions

# Debt/Equity ratio

EUR billion



1) Restated according to US GAAP

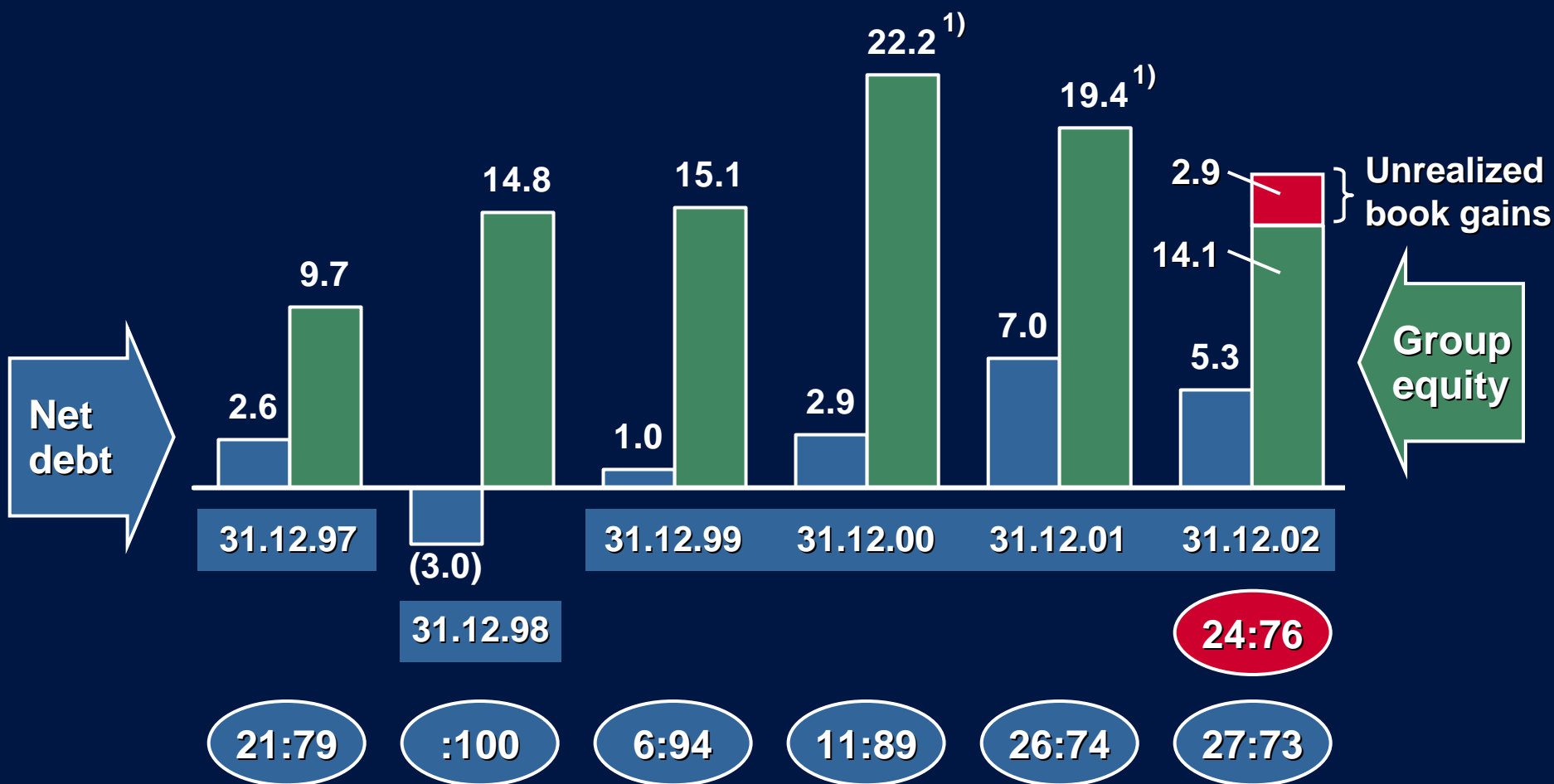
# Financial Assets

*Market Value in EUR million (as of 31 Dec, 2002)*

	Market value	Book value	Unrealized gains
Vivendi Universal	589	589	
TSMC	4,738	1,854	2,884
ASML	217	217	
FEI	118	80	38
JDS Uniphase	117	117	
Great Nordic	19	19	
Atos Origin	495	495	
<b>TOTAL</b>	<b>6,293</b>	<b>3,371</b>	<b>2,922</b>

# Debt/Equity ratio

EUR billion



1) Restated according to US GAAP

# Agenda

- 2002 Results and Cash Flow

- Balance Sheet Strength

- **Key Financial Management Actions**

# Key Financial Management Actions

- **Sale of Assets**
- **Working Capital Management**
- **Capital Expenditures**
- **Cost Reductions**

## **Sale of Assets**

- **The divestment of 16 businesses has been announced, with a potential cash inflow of EUR 809M of which EUR 720M was realized in 2002**
- **Plant, property and equipment have been sold with proceeds of EUR 60M in 4Q02 and EUR 370M for the whole year**

# Inventories

*as % of MAT sales*



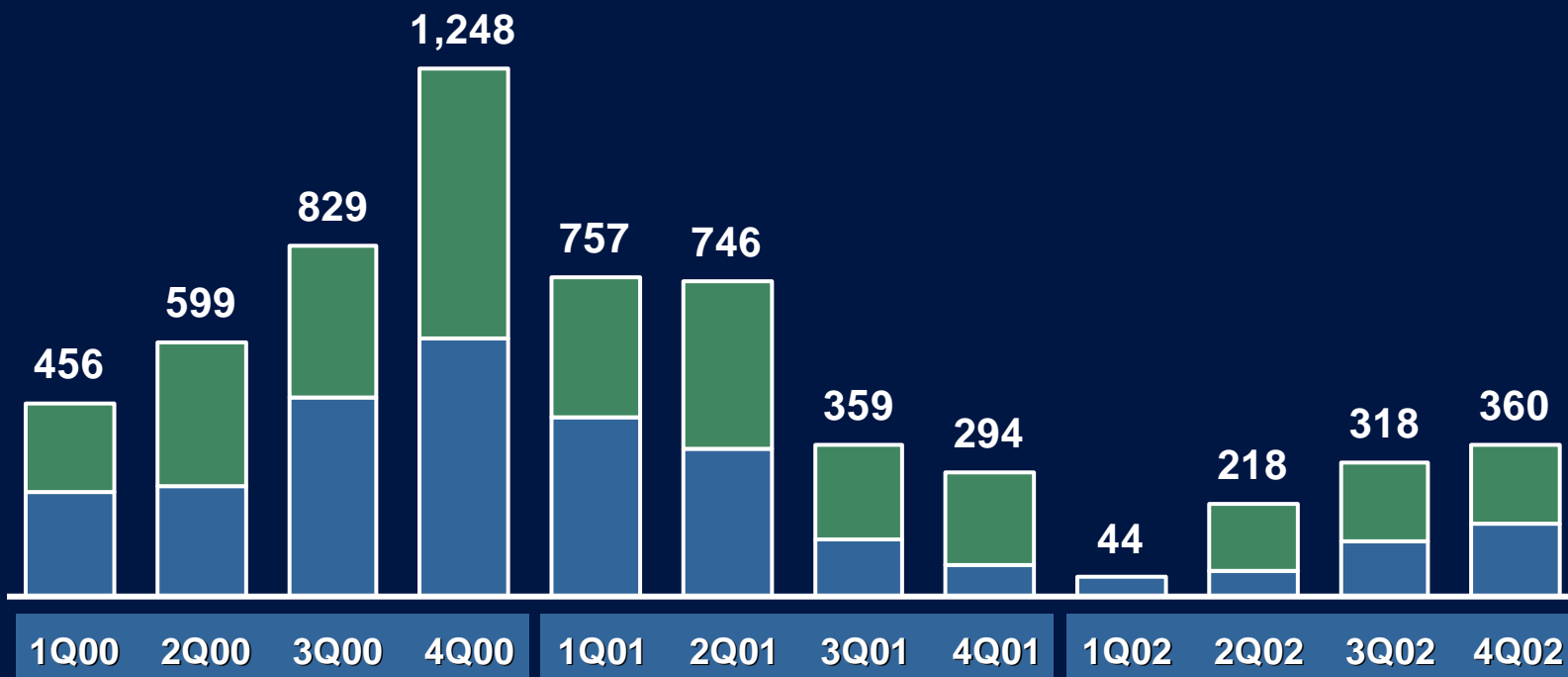
# Capital Investments

*EUR million*



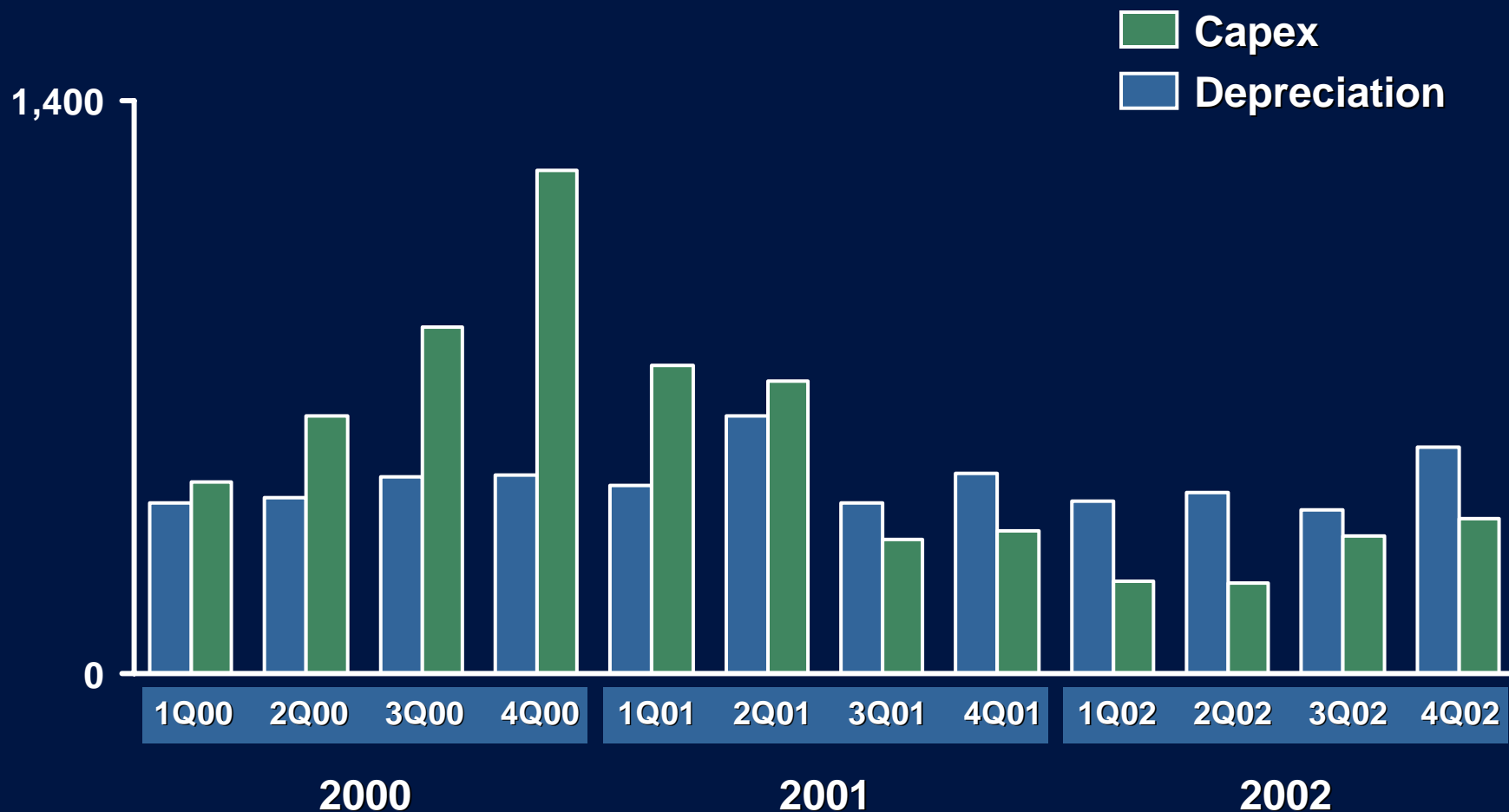
# Capital Investments

*EUR million*



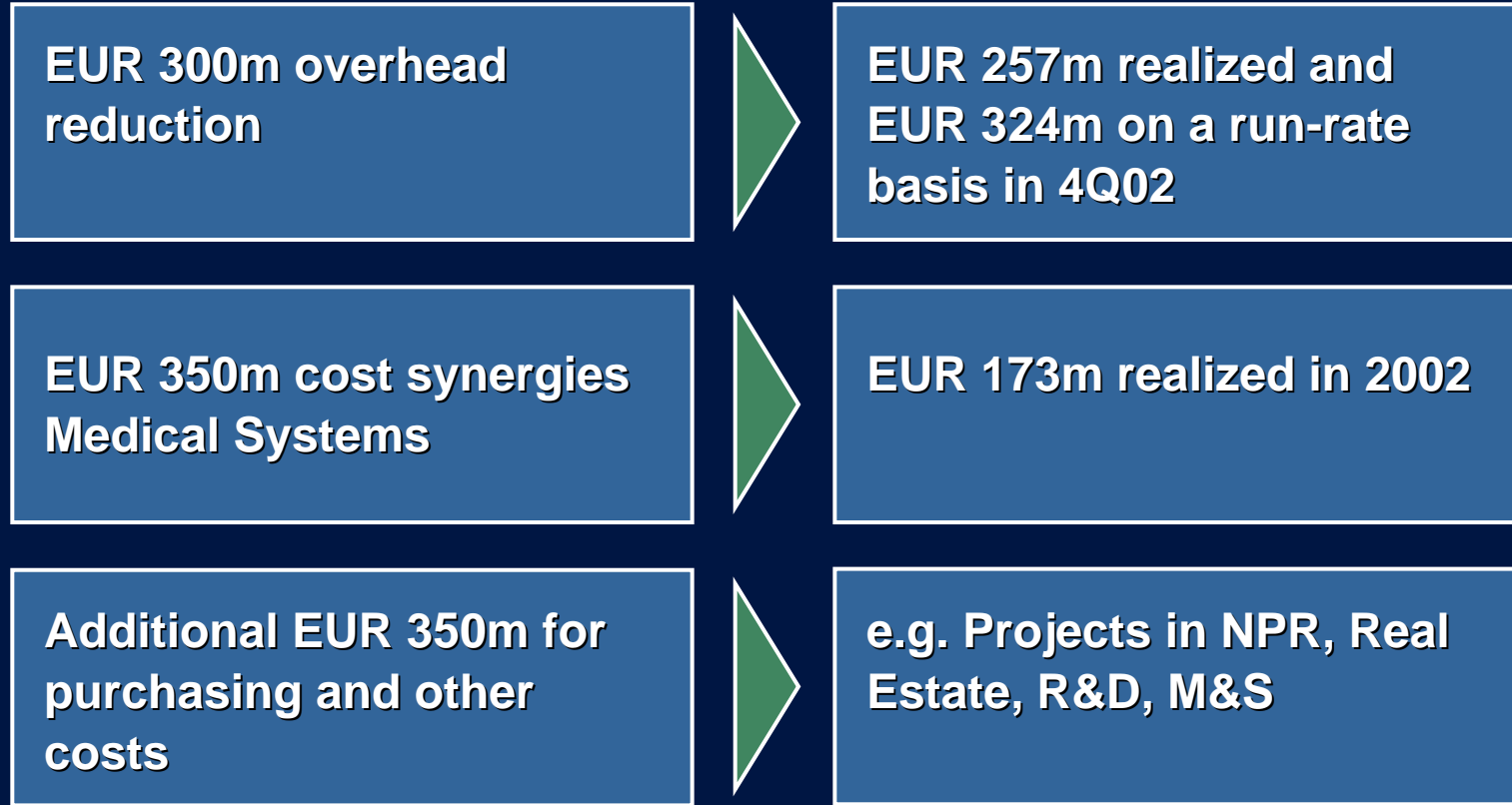
	2000	2001	2002
<b>ANNUAL TOTAL</b>	3,132	2,156	940
<b>SEMI %</b>	51%	46%	44%

# Capex and Depreciation



Note: Capex and Depreciation refer only to tangible fixed assets

# Cost Reductions



**Over EUR 1b in overall savings achieved by end of 2003**

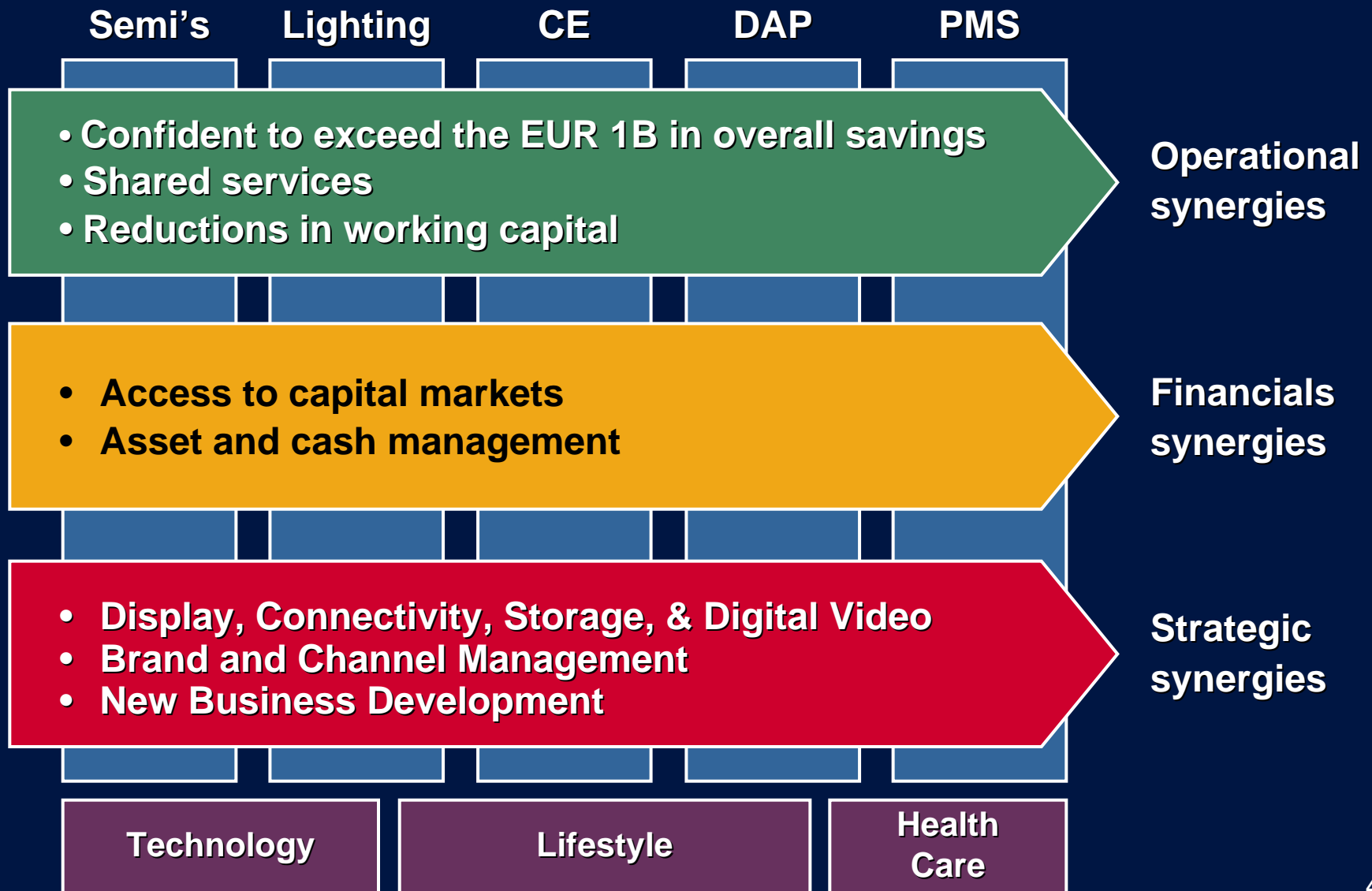


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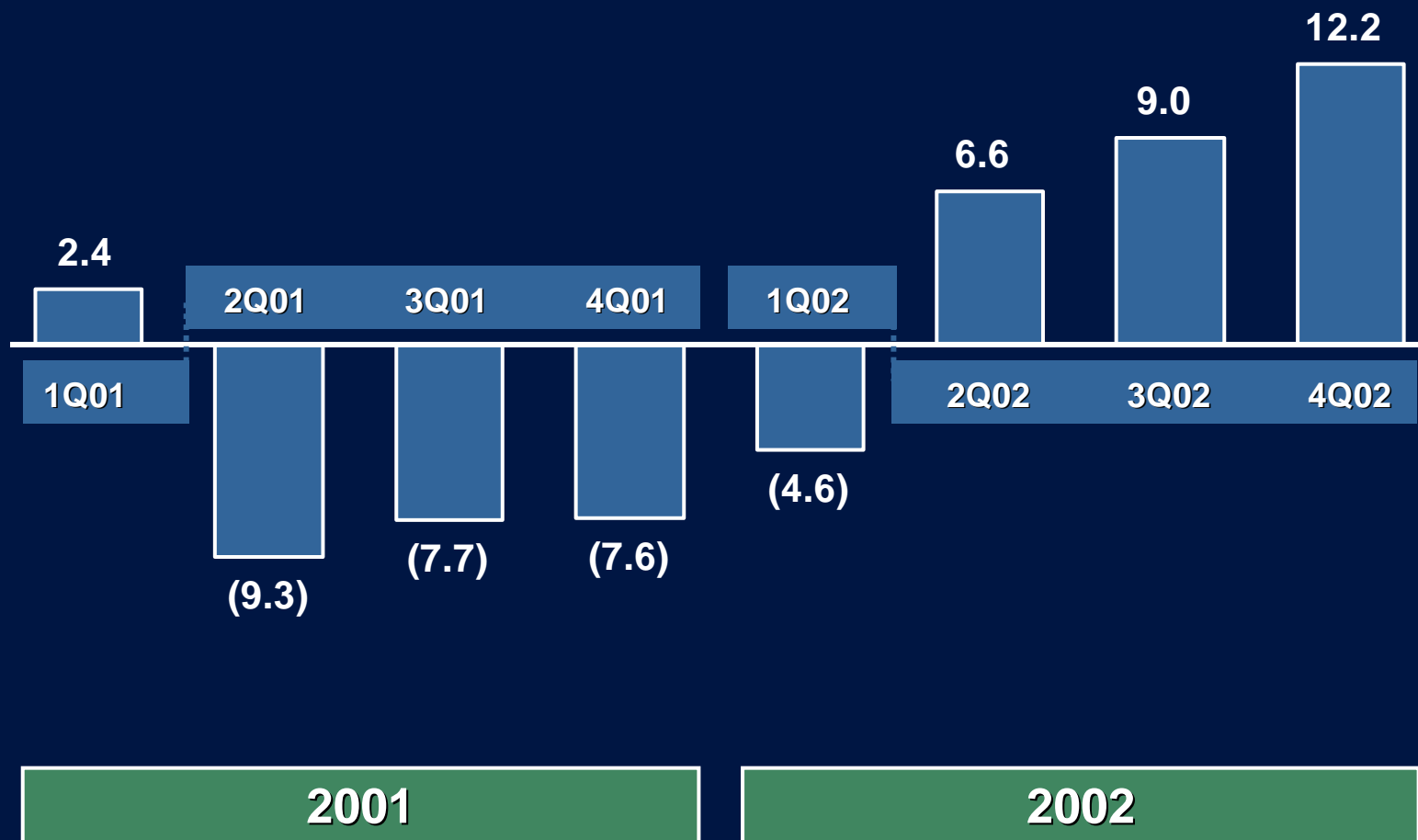
**Gerard Kleisterlee**

# Towards One Philips

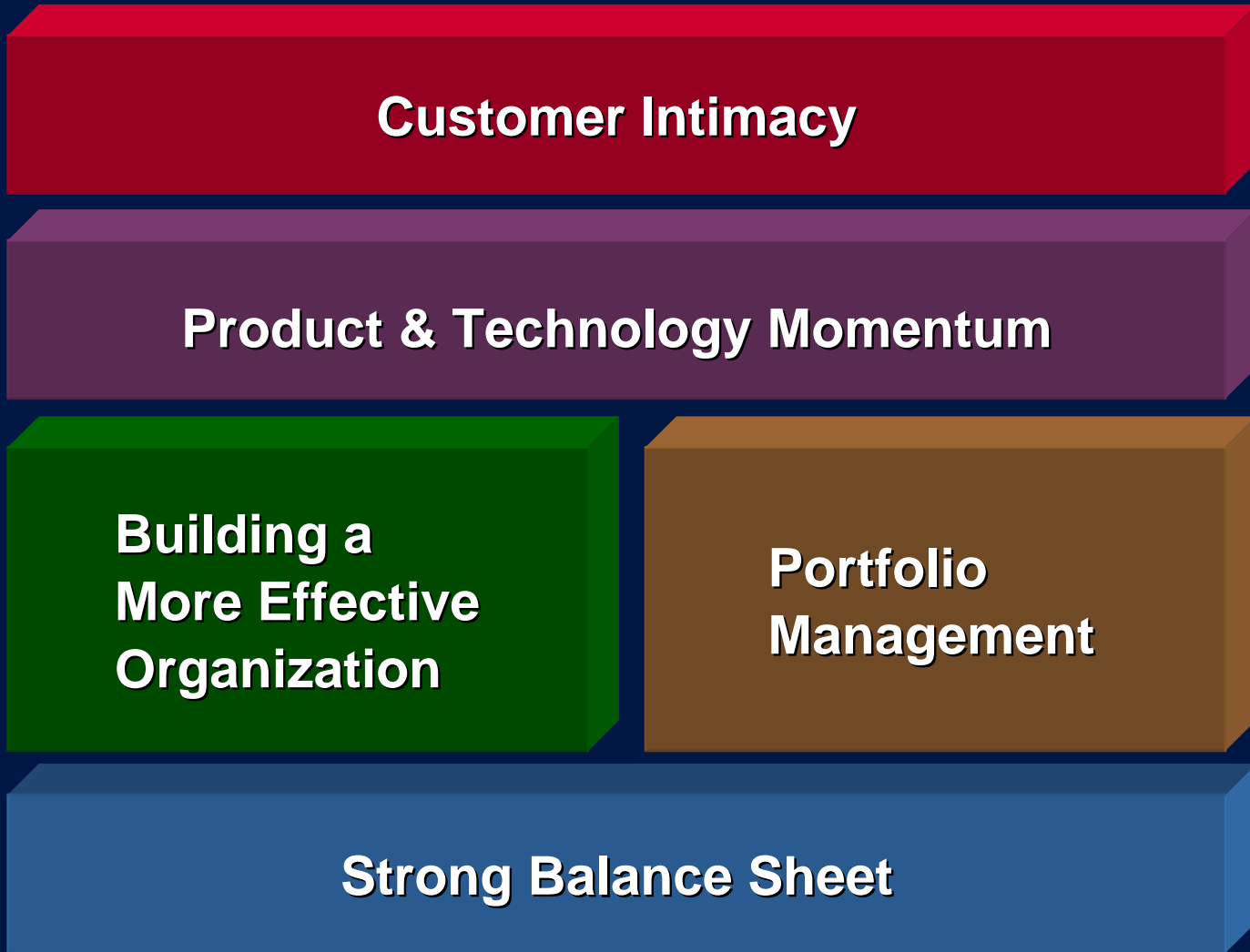


# Quarterly Sales Volume growth 2001 – 2002

In %, year-on-year



# Philips Management Framework



# Customer Intimacy



# Product & Technology Momentum

The first 3D Ultrasound image of the heart



# New Health Care Products for 2003



# New Lifestyle Products for 2003



# New Technology Products for 2003



## **Outlook for 2003**

- **Operational improvements across all divisions**
- **Continued cost reduction initiatives**
- **Best-in-class supply chain management**
- **Negative impact of currency and pension expenses**
- **No short-term economic improvement**

## **Agenda for 2003**

- **Achieve the cost-savings target of EUR 1 billion**
- **Return Semiconductors to profitability**
- **Bring Consumer Electronics in the USA to full profitability from the fourth quarter onward**
- **Move Medical Systems forward to achieve 14% EBITA in 2004**
- **Make Philips a truly market-driven company**

**Towards One Philips**

