

Annual Results 2001

February 7, 2002

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PHILIPS

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Highlights

- Performance

- Targets

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

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

Head Count 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

Topline Growth

Sales

- **Nominal growth**
 - Consolidation changes
 - Currency changes
- **Comparable growth**
 - Price erosion
 - Volume growth

	4Q00	4Q01	2000	2001
Nominal growth	15	-16	20	-15
– Consolidation changes	-2	2	0	-1
– Currency changes	10	-2	9	0
Comparable growth	7	-16	11	-14
– Price erosion	-5	-8	-5	-8
– Volume growth	12	-8	16	-6

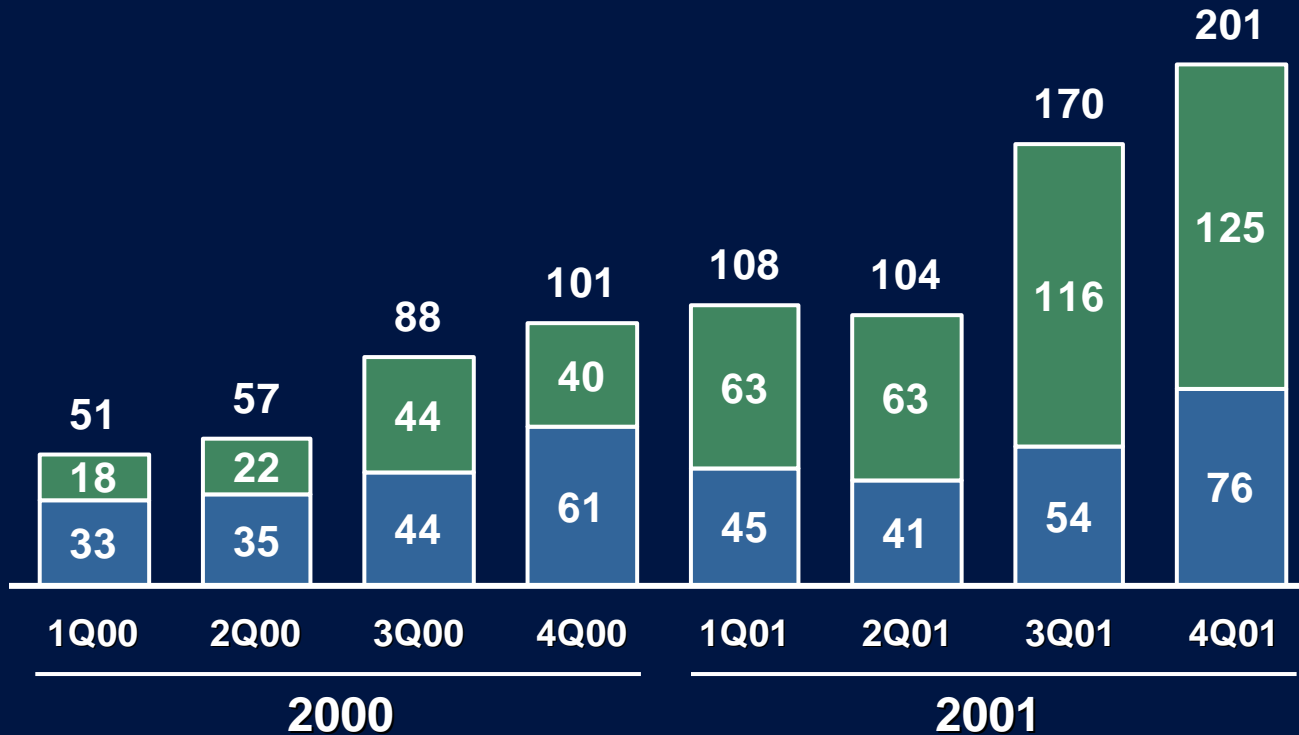
Cash flow

	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

Amortization of goodwill

EUR million

- Amortization in IFO
- Amortization in Unconsolidated companies



TOTAL	297	583
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Lighting

- Sales were 4% lower than 4Q00 due entirely to no longer having a battery activity
- Lower sales in Brazil and Argentina but strong growth in China
- Continuing market share gains driven by innovative products

Lighting

- IFO of €183m includes €44m gain on the sale of buildings leaving €139m (10.2%) compared to €176m (12.4%) in 4Q00. The lower IFO is affected, amongst others, by higher costs in our Polish industrial base due to appreciating currency and higher logistic costs.
- Record low inventories
- Record high cash flow

Consumer Electronics

Mainstream

- **Sales decline compared to 4Q00 of 6% in which Monitors was 15% with an increase of 9% for TV**
- **Sales decline in all regions except Europe where there was a 4% increase compared to 4Q00**
- **Price erosion for the year was 10% of which Monitors was 22%**

Consumer Electronics

Mainstream

- The IFO in the quarter includes charges of €7m
- The loss in the quarter was due to the losses in the USA
- Record low inventories of 7.3% of MAT sales compared to 10.8% for 4Q00
- Positive cash flow

Consumer Electronics

Digital Networks

- **Loss of €46m in 4Q01 includes:**
 - **€28m for restructuring and related charges**
 - **€12m for software investments**
- **Reduced platform diversity program is reducing costs**

Consumer Electronics

Digital Networks

- **Inventories substantially reduced**
- **Positive cash flow in the quarter**
- **STB quantities sold in 4Q01 were 5.9% lower than 3Q01**

Philips Consumer Communications

- The business in Asia, mainly China, continues to be good
- The IFO of €10m includes:
 - Restructuring charge of €4m
 - Insurance claim of €20m
- Low inventories and positive cash flow
- For 2002 onwards we expect a small positive result

Domestic Appliances & Personal Care

- **Record profitability**
- **Successful product launches for Cool Skin II, Sonicare and Senseo Crema with Sara Lee / Douwe Egberts**
- **We experienced sales weakness in some Asian countries as well as Brazil, Argentina and Turkey**

Domestic Appliances & Personal Care

- **IFO increased to 18.3% from 15.9% in 4Q00 due to:**
 - **Innovative and high margin products**
 - **Strict cost control measures**
 - **impact of product range rationalization**
- **Strongly positive cash flow**

Components

- The right-sizing of the organization has taken place
- The IFO loss of €139m includes
 - €22m restructuring and related charges
 - €14m acquisition related charges (divestment)
 - €41 release of provision
- The market for our Optical Storage products remains difficult

Components

- **Seasonal upturn seen for Mobile Displays**
- **Inventories under control**
- **Continuing emphasis on cost reduction and R&D for new digital products**

Semiconductors

- Sales increased sequentially by 5.3% mainly in the areas of communication and consumer
- Price erosion in the quarter was approx. 12%
- Fab utilization rate in the quarter was a little over 40%
- Negative IFO of €292m includes a restructuring charge of €65m and a €25m charge for other one-time items
- Inventory further reduced in the quarter.
- Positive cash flow
- CAPEX for 2002 approx. €550m

Medical Systems

- **The underlying sales growth has been strong, helped by the new MR product range and the HSG products**
- **The order intake remains strong**
- **The published IFO of a loss of €154m in the quarter includes:**
 - **€222m acquisition related charges**
 - **€70m restructuring charges**
 - **€54m ongoing goodwill charges**
 - **€25m impact for the shipment stop at ADAC**

Medical Systems

- The integration program is on schedule
- Strong position cash flow excluding acquisition payment
- Restructuring charges of €100m expected in 1H02

Highlights

- Performance

- Targets

Targets

- **Sales growth above 10% 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**

