



Royal Philips Electronics

Report on the Performance of the Philips Group

- all amounts in millions of euros unless otherwise stated
- the quarterly data included in this report are unaudited
- accounting principles applied are unchanged compared to the year 2000

4th

Quarterly report

February 7, 2002

PHILIPS REPORTS LOSS OF EUR 1,141 MILLION IN THE FOURTH QUARTER OF 2001, INCLUDING SPECIAL ITEMS OF NEGATIVE EUR 959 MILLION – FULL YEAR LOSS EUR 2,604 MILLION, INCLUDING SPECIAL ITEMS OF NEGATIVE EUR 1,696 MILLION. Positive fourth quarter income from operations before special items and strong cash flow – income included impairment loss of EUR 526 million on security investments

Net income of Royal Philips Electronics in the fourth quarter amounted to a loss of EUR 1,141 million (a loss of EUR 0.90 per share) compared to a profit of EUR 2,792 million (EUR 2.16 per share) in the corresponding period of 2000. Income was negatively impacted by after-tax special items of EUR 959 million, which included a non-cash impairment charge of EUR 526 million related to Vivendi Universal and Great Nordic shares.

Excluding special items, net income in the fourth quarter of 2001 came to a loss of EUR 182 million (a loss of EUR 0.14 per share) compared to a profit of EUR 664 million (EUR 0.51 per share) in the corresponding quarter of last year.

The fourth quarter of 2000 included special items resulting in a gain of EUR 2,128 million, EUR 1,115 million of which mainly came from the exchange of Seagram shares into Vivendi Universal shares, and a one-time gain of EUR 1,072 million resulting from the merger of Origin with Atos.

Income from operations, excluding special items, was a positive amount of EUR 55 million. Philips achieved a strong positive operating cash flow of EUR 1,687 million.

After the record year 2000, the Company's performance for the full year 2001 was strongly impacted by the worldwide economic downturn in the IT and telecommunications markets, resulting in a negative net income of 2,604 million (a loss of EUR 2.04 per share), compared to a profit of EUR 9,602 million (EUR 7.31 per share) in 2000. Excluding special items, net income for 2001 was a loss of EUR 908 million, versus a profit of EUR 2,831 million in 2000.



PHILIPS

“Given the economic downturn, especially in the ICT industries, 2001 was a tough year for Philips,” said Gerard Kleisterlee, Philips’ President and CEO. “At the same time this has helped to create the momentum for far reaching change and decisive action. PCC was solved, CE in the U.S. has been put on the right track and Digital Networks has been focused. Capacity in Components and Semiconductors has been right-sized, as has the company generally, and whilst this has meant many tough decisions, I am encouraged to see that the results of our cost reduction efforts and restructuring programs started to bear fruit in the fourth quarter with the positive IFO, excluding special items, and strong cash performance. Throughout 2001 we demonstrated good management of working capital, and have therefore maintained a strong balance sheet. As such, we have laid the foundation and created the building blocks to refuel growth by focusing Philips’ resources on innovation for the digital connected world.”

Comparison outlook as announced versus actuals

amounts in millions of euros		announced	actual
Q4	Net income		(1,141)
Q4	Net income excl. special items	(200)-(250)	(182)
Q4	IFO excluding special items	break-even	55
Q4	Special charges Marconi/Agilent	(350)	(292)
Q4	Charges for restructurings and cost reductions	(200)-(250)	(278)
Q4	Impairment charge securities	possible	(526)
Q4	Cash flow from operations	positive	1,687
Full Year	Net income		(2,604)
Full Year	Net income excl. special items		(908)
Full Year	Net income before special charges	(600)-(650)	(597)
Full Year	Net capital expenditures	(2,100)	(2,156)

The fourth quarter

Special items in the quarter impacted net income negatively to an amount of EUR 959 million

In the fourth quarter, income from operations (negative EUR 442 million) included special items amounting to a negative EUR 497 million, related to restructuring and impairment charges, and in-process R&D write-offs and acquisition related costs at Medical Systems.

The special items are summarized in the table below:

in millions of euros	special items
Lighting	1
Mainstream CE	(7)
Digital Networks	(28)
Consumer Communications	(4)
DAP	(2)
Components	5
Semiconductors	(65)
Medical Systems	(292)
Miscellaneous	(74)
Unallocated	(31)
Total special items included in income from operations	(497)

The positive impact on income tax of the above mentioned charges amounted to EUR 109 million, whilst financial income and expenses were negatively affected by a non-cash impairment charge of EUR 526 million related to Vivendi Universal and Great Nordic shares. Additionally, special after-tax charges of EUR 45 million were included in the results of Unconsolidated companies. As a result, the after-tax negative impact of these special items in net income amounted to EUR 959 million.

Sales in the fourth quarter came to EUR 9,262 million, a 16% decrease on the year before. Changes arising from (de)consolidations had a positive effect of 2%, driven by the new consolidations in Medical Systems. Weaker currencies, particularly in Asia Pacific, had a negative effect of 2%. Price erosion in the fourth quarter was 8%, compared with 5% in the corresponding quarter of last year, and 9% in the third quarter of this year. Sales volume declined by 8%. Sales in Semiconductors, Components and Mainstream Consumer Electronics suffered from the downturn in their markets. Sales of Lighting and DAP remained virtually flat, while sales at Medical Systems increased strongly both organically and as a result of acquisitions.

Income from operations in the fourth quarter was a loss of EUR 442 million (4.8% of sales) compared with a profit of EUR 1,949 million (17.7% of sales) last year.

	4th quarter	
	2001	2000
Income from operations excluding special items	55	947
Special (charges)/gains in income from operations	(497)	1,002
Income from operations	(442)	1,949

Excluding special items, income from operations was positive, mainly driven by solid performance at DAP, Medical Systems and Lighting, offset by losses at Components, Semiconductors, Mainstream Consumer Electronics and Miscellaneous. Last year's fourth quarter included a EUR 1,072 million special gain related to the merger of Atos Origin, various restructuring charges amounting to EUR 26 million, and a special charge of EUR 44 million for in-process R&D write-off, resulting from the acquisition of ADAC Laboratories. Special charges in the fourth quarter 2001 included EUR 55 million for write-off of in-process R&D related to the acquisition of Marconi's medical business. During the fourth quarter, a provision of EUR 35 million was made for risk exposure related to Argentina, spread over a number of divisions.

Financial income and expenses in the fourth quarter amounted to a net expense of EUR 667 million, compared to financial income EUR 902 million last year. The fourth quarter included the fore mentioned impairment charge of EUR 526 million.

Last year, a special gain of EUR 966 million was included related to the exchange of Seagram shares into Vivendi Universal. Excluding these special items, the unfavorable variance is mainly due to higher interest expenses as a result of higher debt.

Philips' *results relating to unconsolidated companies* amounted to a loss of EUR 176 million in the fourth quarter, versus a profit of EUR 94 million last year.

	4 th quarter	
	2001	2000
Results relating to unconsolidated companies:		
• income excluding amortization of goodwill and other intangibles, and special items	(6)	133
• special items	(45)	1
• amortization goodwill and other intangibles	(125)	(40)
Total	(176)	94

Results relating to unconsolidated companies, excluding amortization and special items, was a negative EUR 6 million. Operational profits at TSMC and Atos Origin were offset by losses at LG.Philips LCD Co. and LG.Philips Displays. LG.Philips Displays had a negative impact of EUR 48 million, largely due to price pressure, restructuring charges and to a lesser extent by lower volumes. TSMC, and LG.Philips LCD Co. suffered from the severely depressed IT and telecommunications markets.

Amortization of goodwill and other intangibles amounted to EUR 125 million compared to EUR 40 million in the fourth quarter of 2000. The increase related to Philips' shareholdings in LG.Philips Displays and Atos Origin.

Net income for the fourth quarter amounted to a loss of EUR 1,141 million (a loss of EUR 0.90 per share) versus a profit of EUR 2,792 million (EUR 2.16 per share) in 2000.