



Royal Philips Electronics First Quarter 2001

April 17th, 2001

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Agenda

First Quarter Results 2001

- **Key Points**

- **Performance**

- **Targets**

Key points

First Quarter 2001

- **Problems at Components and Consumer Electronics being addressed including a headcount reduction of over 6000 people. Further details will be published during 2Q01.**
- **CAPEX plans being reduced from Euro 3.5b to less than Euro 2.5b and continually under review**

Key points

First Quarter 2001

- **Results in Components and Consumer Electronics impacted by the slowdown in the PC and Mobile Phone industries as well as the US market.**
- **Lighting, Medical Systems and Domestic Appliances & Personal Care continue to perform well. Medical Systems includes a one-off charge of Euro 20m for acquisition related matters**

Key points

First Quarter 2001

- **Miscellaneous includes Euro 70m gain on the sale of Philips Professional Broadcast group and Euro 37m one-off charges**
- **Our inventories are currently approximately 1.1% of MAT sales higher than one year ago. Actions for reductions are in place**
- **Visibility remains restricted**

Key points

First Quarter 2001

- All loans to NavTech, that were fully provided for, have been converted to equity taking our stake to 80%. Consequently the results have been consolidated in Miscellaneous with effect from 1st January 2001 to the extent of an operating loss of Euro 15m and a one-time charge of Euro 16m. NavTech is currently preparing for an IPO
- Results of unconsolidated companies significantly lower

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Topline Growth

SALES

	1st Quarter	
	2000	2001
Nominal growth (Euro)	22	-1
. Consolidation changes	2	0
. Currency changes	9	3
Comparable growth	11	-4
. Price erosion	-5	-6
. Volume growth	16	2

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Performance:

Net Debt/Group Equity

in € billion

Net debt



Group equity

Ratio

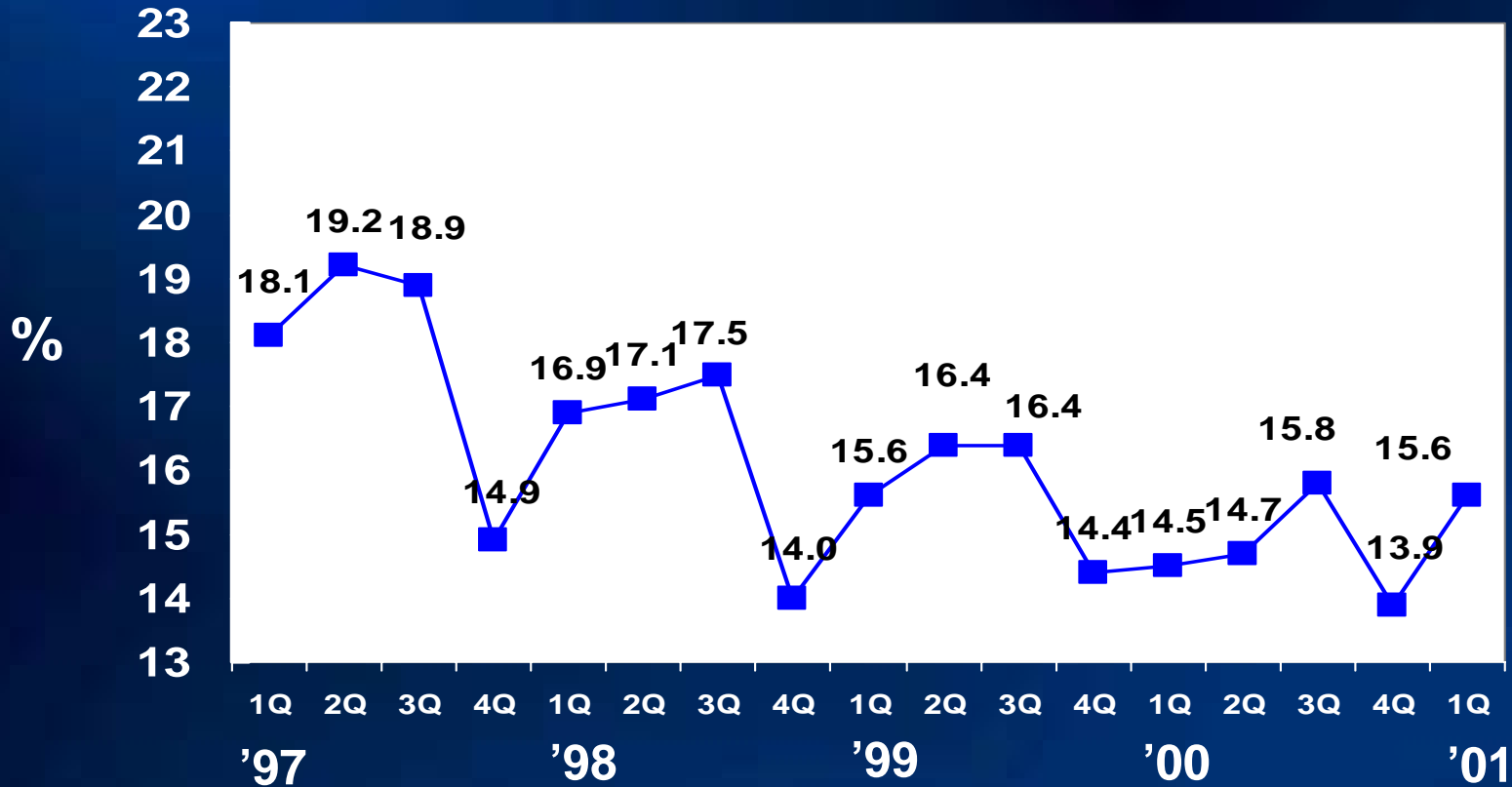
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Performance: *Inventory Levels* *% of MAT Sales*



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Cash Flow

	1Q01	1Q00
Cash flow from Operating activities	-349	405
Cash flow from investing activities	<u>-835</u>	<u>130</u>
	<u><u>-1184</u></u>	<u><u>535</u></u>

Results relating to unconsolidated companies

€ million



* Excludes one-off gains

4Q99 - Euro 92m relating to conversion of TSMC Eurobonds into equity

2Q00 - Euro 2595m gain on sale of ASML shares, Euro 189 re TSMC and Euro 121m on the sale of Beltone shares to GN Great Nordic

3Q00 - Euro 491 relating to TSMC

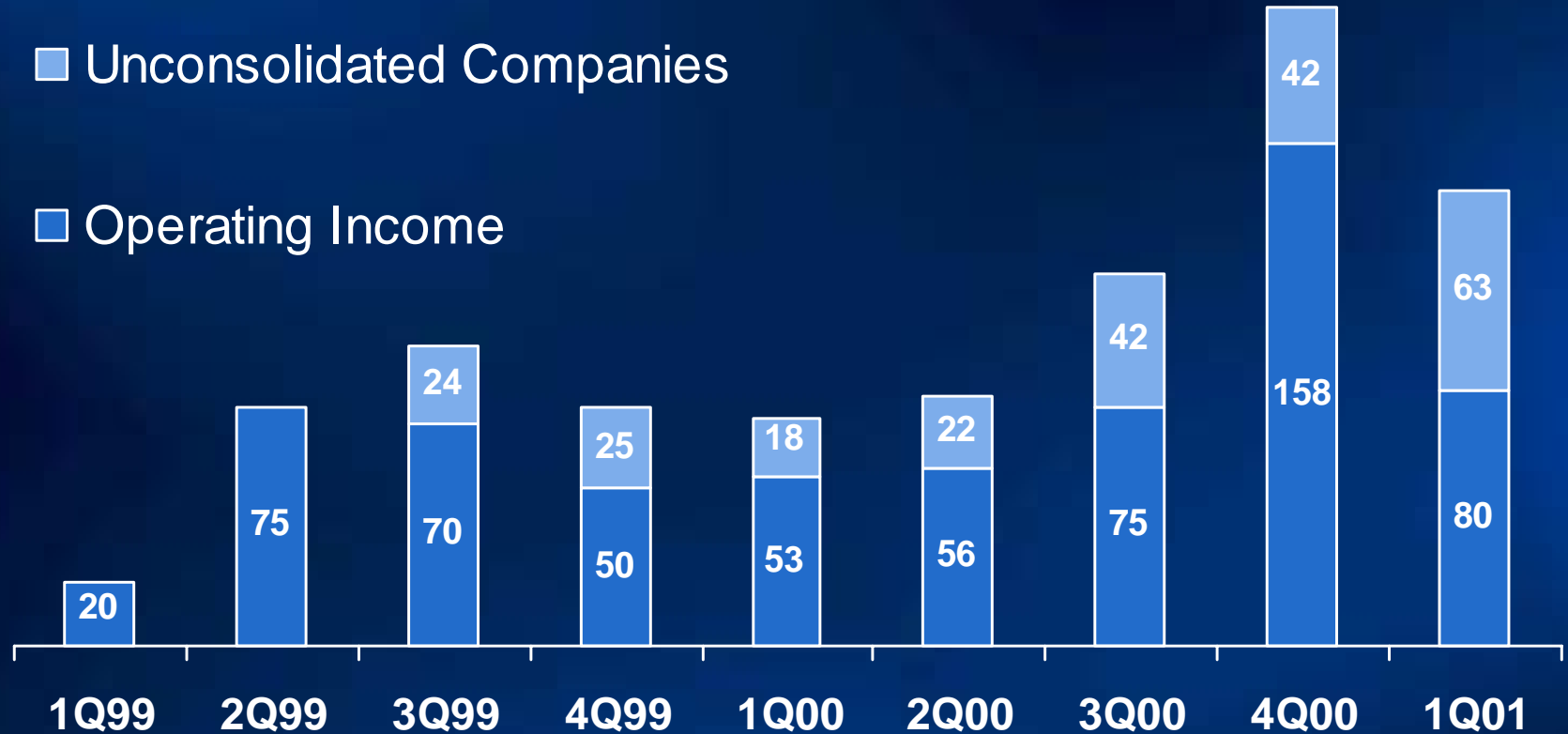
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Goodwill Amortization in IFO and Unconsolidated Companies

€ million



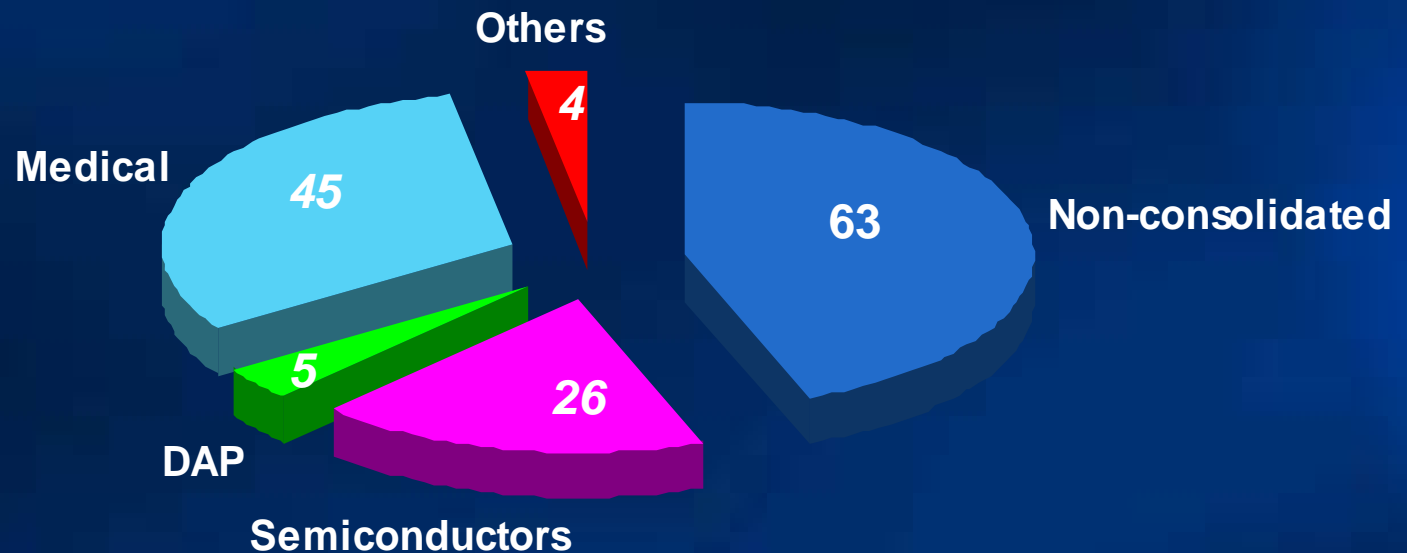
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Goodwill Amortization 1st Quarter 2001

€ million



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Lighting

- **6% sales growth with a good performance in Western Europe and Asia**
- **Gaining market share**
- **Underlying improvement programs continue**
- **Maintained strong IFO margins**

Consumer Electronics

MAINSTREAM

- **11% lower sales in the US market compared to 1Q00. Inventory in the channels remains high which will have an impact in 2Q01**
- **9% higher sales in Europe compared to 1Q00 however lower purchase prices of components still to come**
- **Declining VCR sales offset by 125% increase in DVD volumes where the results are on an improving trend. Investments in DVD + RW continue with product launch in the fourth quarter. A growing number of industry players are supporting this standard.**

Consumer Electronics

MAINSTREAM

- Sales and results in Monitors on plan in spite of the slowdown in the PC industry
- Results in the second half of the year are currently expected to improve due to:
 - Improved placements in major US retail outlets
 - surplus inventories in the channels predominantly resolved
 - improving margin and mix management

Consumer Electronics

DIGITAL NETWORKS

- Set-top box sales in quantities down by 26% compared to 1Q00 due mainly to slower than expected sales development of internet and personal TV products in the USA, economic downturn in Turkey and lagging sales in Poland.
- US market remains difficult

Consumer Electronics

DIGITAL NETWORKS

- **Set-top box price erosion approximately 12%**
- **Negative impact of Euro 8m due to investments in software**
- **We have started developments to create more standardization in the platforms for set-top boxes**
- **Cost reductions and portfolio scrutiny will create a charge in the second quarter**

Philips Consumer Communications

- Increasing volumes and profitability in Asia
- Western European sales less than 50% of 1Q00 with no improvement expected in the second quarter
- Losses include Euro 74m for measures to reduce inventories including an amount for obsolescence
- We expect continuing actions by all market players to reduce inventories in 2Q01

Philips Consumer Communications

- **Mainly due to non-renewal of temporary contracts in several countries, workforce already reduced by 1300 people**
- **The employees of our European production facility will be on temporary leave during a significant part of 2Q01**
- **We are continuing to review our options for this business and this process will be concluded and communicated in 2Q01**

Domestic Appliances & Personal Care

- 15% nominal growth predominantly due to the Optiva acquisition
- Sales of Optiva (acquired 4Q00) ahead of plan and expected to have a positive IFO for the year after goodwill
- Continuing high margins
- Product range rationalization continues
- Strongly positive cash flow

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Components

DISPLAY COMPONENTS

Low level of profitability due to:

- Seasonally low quarter
- 10% lower volume than 1Q00 in monitor tubes due to the slow down in the PC industry. This has also led to 15% price erosion compared to 4Q00
- 15% lower volume than 1Q00 in TV tubes, China and US

Components

DISPLAY COMPONENTS

- Inventories will be aligned with demand leading to lower production in 2Q01
- 2Q01 will include a charge of Euro 60m for disentanglement costs preparing to put this business into the JV with LG Electronics.

Components

MOBILE DISPLAYS

- 30% reduction in volumes compared to 4Q00 which led to 10% additional price erosion compared to 4Q00
- Headcount reduction of 1300 persons compared to Q3 2000 at subcontractors
- CAPEX plans (small color LCD) reduced by 40%
- Visibility limited

Components

OPTICAL STORAGE

- Volumes in 1Q01 in CD-Rewritable were 35% lower than in 3Q00, due to slowdown in PC industry. This also led to a price erosion of 9% compared to 4Q00
- Headcount reduction of 1600 persons compared to 3Q00
- CAPEX plans (CD-RW) reduced by 30%
- Visibility limited

Semiconductors

- Revenues are 11% higher than 1Q00 however 18% lower than 4Q00 mainly due to communications, networking, computing and set-top box products. Identification revenues expected to double this year
- Price erosion has increased to 6% and is expected to further increase
- Operating results include Euro 25m resulting from insurance claims

Semiconductors

- Inventories, our own and those in the channels, are expected to be reduced in the second quarter and will have a negative impact on the results.
- Visibility remains limited
- CAPEX plans further reduced to Euro 1.3b and continually under review

Medical Systems

- The results include a loss of Euro 20m for ADAC due to mainly purchase accounting for inventories and goodwill. A minimum of breakeven is expected for ADAC for the rest of the year after goodwill
- Order intake 21% higher on a comparable basis, mainly in Europe and Asia. Good increase in MR leading to market share gains.
- Comparable sales growth of 6%

Medical Systems

- **MedQuist's IFO was a small positive amount after goodwill**
- **Completion of the acquisition of the Agilent Healthcare business expected during the summer**
- **Strongly positive cashflow**

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New Group Targets

1996-2000

- Double digit growth in Earnings per Share



Medium Term

- Sales growth above 10% on average per annum



- Income from Operations from 7.7% to 10% of sales



- 15% growth in Earnings per Share on average per annum

- RONA above 24%



- RONA above 30%

- Positive cash flow



- Positive cash flow

