
PHILIPS

Royal Philips Electronics
First Quarter 2002

April 16, 2002

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Agenda

Highlights

Performance

Targets

Highlights

- US GAAP accounting principles applied, mainly affecting the treatment of goodwill
- Improvements in Semiconductors and Components
- Approx. EUR 150m negative impact in the IFO compared to 1Q01 in relation to pension costs
- Maintained a strong balance sheet with Debt/Equity ratio of 28:72
- Cost reduction actions starting to deliver results – approx. EUR 130m annualized savings excluding Medical Systems
- Improvement in the results of unconsolidated companies with a profit of EUR 72m in the quarter excluding special items and goodwill relating to Atos Origin
- Areas of difficulty are continuing to be addressed

Agenda

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Performance

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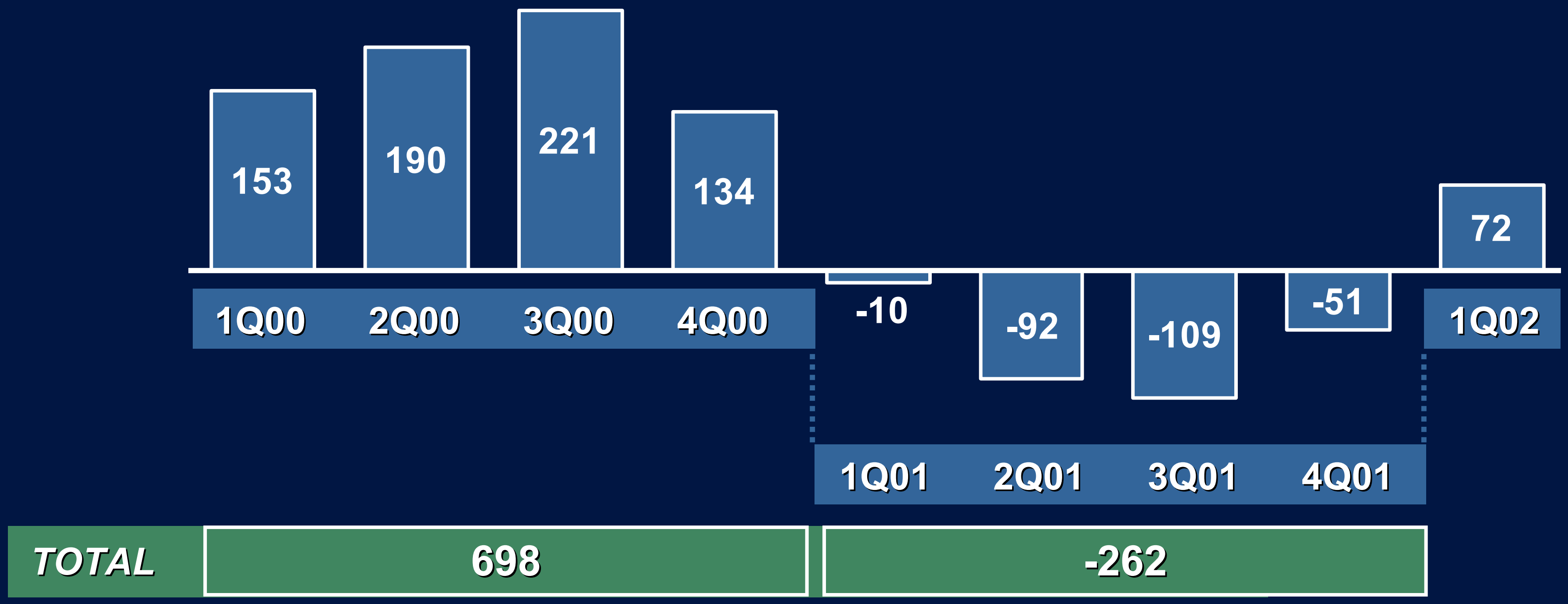
IFO per PD – 1Q02
EUR million

	IFO as published	Acquisition related charges	Restructuring and other charges	Other	IFO without special items
Lighting	152		1		151
CE	45		-7		52
DAP	65		-2		67
Components	19		-14	80	-47
Semiconductors	-103				-103
Medical Systems	27	-22			49
Miscellaneous	-49		-1	23	-71
Unallocated	-83				-83
TOTAL	73	-22	-23	103	15

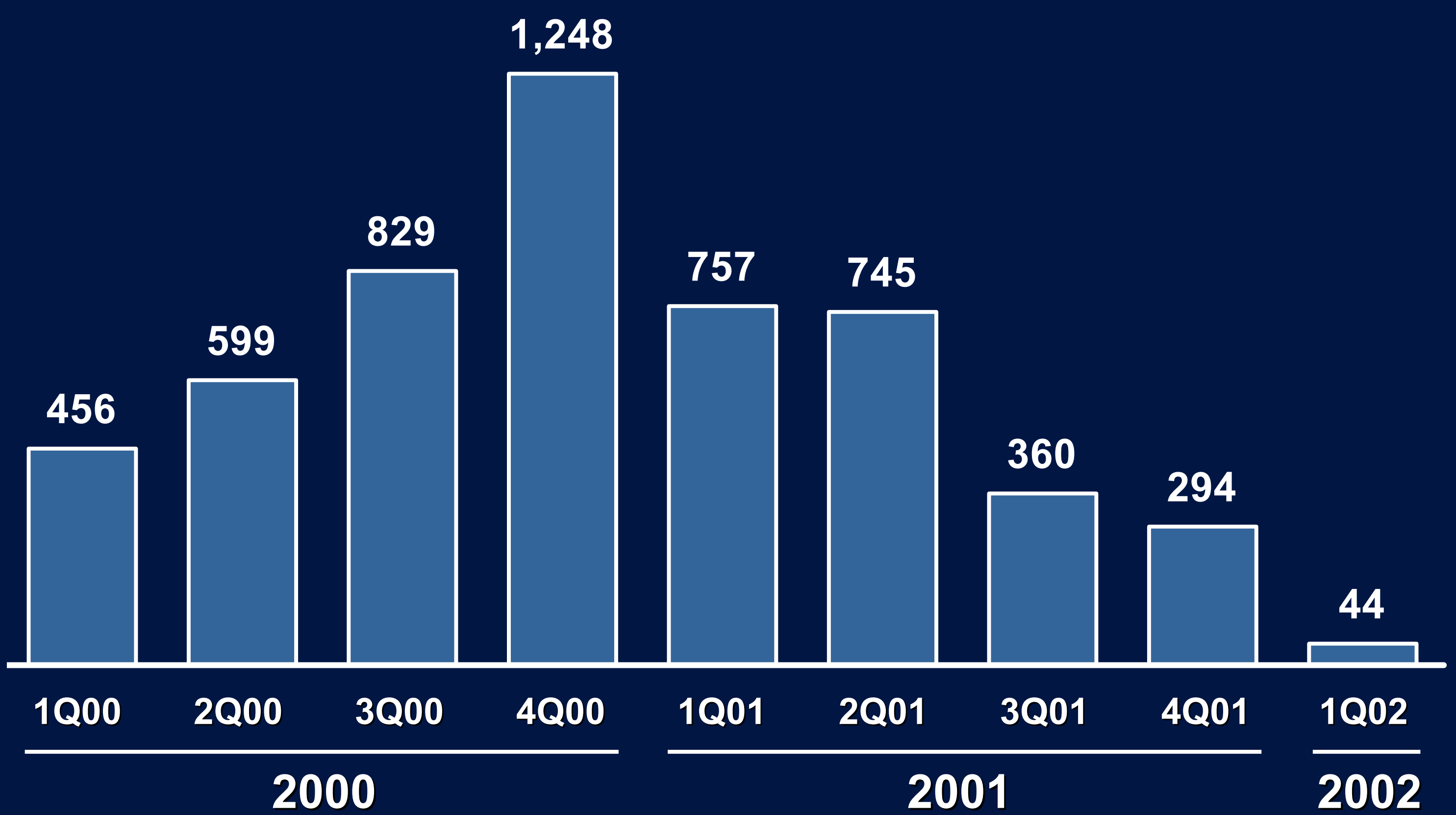
Non-consolidated companies
EUR million



1Q00 – 4Q01 – Excludes amortization of goodwill
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
1Q02 – Excludes Euro 91m restructuring for LG Philips Display and Euro 24m goodwill relating to Atos Origin

Capital Investments
EUR million

(Purchase of intangible and tangible fixed assets less disposal of tangible fixed assets)



TOTAL	3,132	2,156

Cash flow

	1Q02	1Q01
Cash flow from Operating activities	-54	-349
Cash flow investing activities	-187	-835
TOTAL	-241	-1184

Inventories
as % of MAT sales

1) Corrected for acquisitions and disposals

Head Count Reduction
Personnel

	1Q02
At the beginning of the period	188,643
Consolidation	170
Deconsolidation	-388
Net reductions	-2,335
AS AT MARCH 31, 2002	186,090

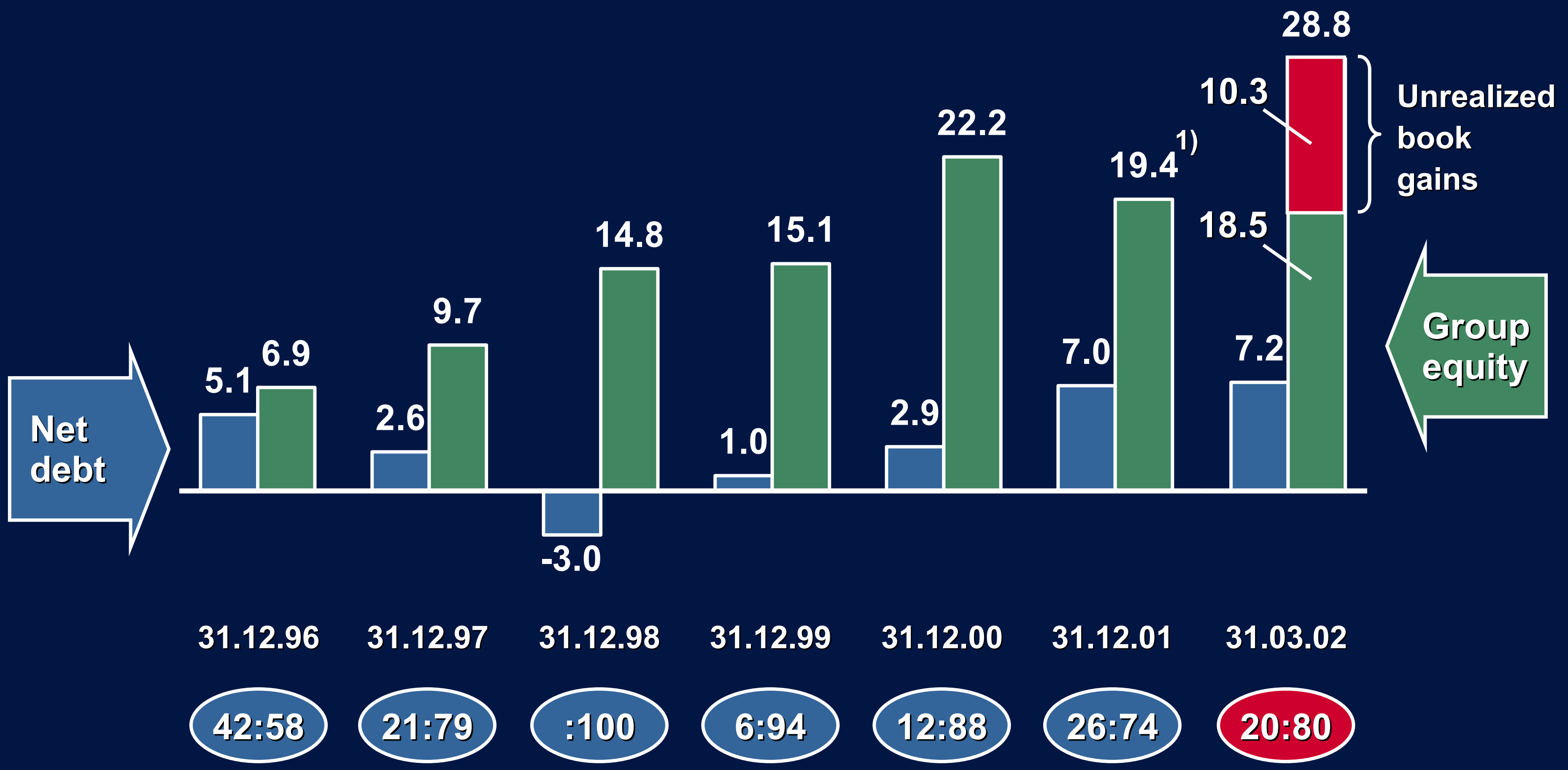
Debt/Equity ratio

EUR billion

1) Restated according to US GAAP

Debt/Equity ratio

EUR billion



1) Restated according to US GAAP

Lighting

- Sales were 5% lower than 1Q01 of which 3% is due to no longer having a battery activity
- Weaknesses in Latin America and in Luminaires
- Improvement in sales mix compared to 4Q01
- IFO margin increased by 2.1% over 4Q01 to 12.3% due to focused cost management as well as normal seasonal effect
- Strong cash flow
- EUR 20m restructuring expected in 2Q02

Consumer Electronics
Mainstream

- **Lower sales levels in NAFTA and Asia with Europe and LATAM at the same level as one year ago**

- **The price erosion was 9% compared to 11% for 4Q01 with a level of 20% in Monitors**

- **The losses in the US appear to be bottoming out with improvements expected in the coming quarters. Improvements are also occurring in e.g. placements, processes and asset management**

Consumer Electronics
Mainstream

- The activities outside the US were profitable in the quarter
- A further headcount reduction of 1200 in the quarter
- Significant reductions in the net operating capital

Domestic Appliances & Personal Care

- Record results for a first quarter with a margin of 14.8% compared to 12.7% for 1Q01 excluding special items due to:
  - Innovative and high margin products including growth in Oral Care
  - Strict cost control measures
  - Impact of product range rationalization

Domestic Appliances & Personal Care

- Sales growth of 3% despite a weak market in Latin America
- New product launches continue to be successful
- 2Q02 will include some special items and start up costs for new innovations in shaving of approximately EUR 10m

Components
General

- EUR 40m gain for sale of Glass activities related to CRT
- EUR 40m currency translation gain related to closure of an activity in Japan
- EUR 14m restructuring charge relating to Optical Storage
- Comparable sales decline was 11% however an improving trend was seen during the quarter
- The negative results of EUR 47m, after adjusting for above items, reflect a too low level of activity for our reduced cost base. Also the full benefit of previous cost reduction actions has yet to be fully realized
- Inventories under control

Components

Mobile Display Systems

- Sales showed a positive development through the quarter with demand from major customers and an increasing market share
- The IFO, although negative, showed a positive trend through the quarter
- Volume shipments of color screens are expected to commence in the third quarter

Components

Optical Storage

- Sales showed a positive development through the quarter including the first supplies to the X-box
- Continuing efforts to improve the product portfolio
- Improved results compared to the fourth quarter on similar levels of sales
- Agreement with BenQ Corporation to lead the “speed race” in optical storage

Semiconductors

- Revenues increased sequentially by 6.5% mainly in the areas of consumer products and multi-market products and there was an increasing trend during the quarter
- Price erosion was approximately 9% and compares with 12% in 4Q01
- Fab utilization rate increased to close to 50% during the quarter and took into account a further small reduction of inventories
- Book-to-bill in the quarter was 1.3

Semiconductors

- CAPEX was very low at EUR 47m and the full year is still expected to be around EUR 550m
- Apart from the sequential growth in revenues the sequential improvement in the results included:
  - EUR 13m elimination of goodwill
  - EUR 11m insurance claim
  - Impact of continuing cost reductions

Medical Systems

- The comparable sales growth in the quarter was 10% with a strong performance in MR and X-ray
- The results were negatively influenced by:
  - EUR 22m acquisition related charges
  - EUR 14m related to the devaluation of the Peso in Argentina
  - EUR 12m material related costs
  - The results no longer include amortization of goodwill of EUR 54m per quarter but still include EUR 29m for amortization of other intangibles

Medical Systems

- The cost reduction actions will start to take effect in the second half of the year because:
  - Headcount reductions are predominantly for European based employees
  - Reduction of charges by Agilent for mainly IT costs are not planned to take effect until the fourth quarter
- Acquisition related charges for 2Q02 will be approximately EUR 25m with an additional approx. EUR 50m in the second half of the year
- The EBITA for 2004 is expected to be 14% which is partly based on reduced costs by EUR 350m which are expected to be realized by the end of 2003

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Highlights

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- 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


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