



# Royal Philips Electronics Second Quarter 2001

*July 17th, 2001*

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# Agenda

## Second Quarter Results 2001

- **Key Points**

- **Performance**

- **Targets**

# Key points

## Second Quarter 2001

- On April 17, 2001 we forecasted pre-tax charges of Euro 350m and the results for the quarter include:

	<u>Euro m</u>
•Digital Networks	125
•Components	153
•Other	<u>60</u>
	<u><u>338</u></u>

# Key points

## Second Quarter 2001

- On June 15, 2001 we forecasted a pre-tax restructuring charge of Euro 90m in the quarter for Semiconductors and this charge has been taken. In addition there was a Euro 17m charge for inventory obsolescence
- On June 26, 2001 we forecasted a pre-tax restructuring charge of Euro 300m in the quarter for PCC and the charge actually taken was Euro 241m. In addition there was a charge of Euro 28m, mainly inventory obsolescence

# Key points

## Second Quarter 2001

### *IFO including/excluding charges*

	<u>Including charges</u>	<u>Charges</u>		<u>Excluding charges</u>
		<u>Restructuring</u>	<u>Other</u>	
Lighting	135	-19		154
CE - Mainstream	-71	-7	-4	-60
- Consumer Communicatation	-311	-241	-28	-42
- Digital Networkds	-184		-125	-59
- Licences	68			68
DAP	71		4	67
Components	-332	-86	-67	-179
Semiconductors	-255	-90	-17	-148
Medical Systems	42		-16	58
Miscellaneous	123	-5	197*	-69
Unallocated	-31		-13	-18
	-745	-448	-69	-228

\* Includes gain on sale of FEI shares of Euro 185m

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# Key points

## Second Quarter 2001

- The world-wide economic slowdown and inventory corrections are affecting Semiconductors, Components and Consumer Electronics with hardly any impact in Medical Systems, DAP and Lighting
- The headcount in the quarter has been reduced by 4600, excluding consolidations and deconsolidations, which is predominantly in Components
- CAPEX plans have been further reduced to Euro 2.1b from the original figure of Euro 3.5b

# Key points

## Second Quarter 2001

- Inventories in the quarter have been reduced by Euro 90m, in spite of an increasing effect of Euro 100m due to currency effects, and will be further reduced in the second half of the year
- A gain of Euro 197m on the partial sale of FEI shares and the sale of Marantz has been included in Miscellaneous
- Results of unconsolidated companies was a loss of Euro 155m due primarily to LG.Philips LCD and TSMC. The results include a non-cash net charge relating to an impairment write-off by TSMC of Euro 40m and a cash gain of Euro 20m relating to the sale of our share of a JV in batteries

# Key points

## Second Quarter 2001

€ million

### Expected charges 2H01

CE	80 - 100
Components	50 - 70
Semiconductors	100
Miscellaneous	<u>20</u> - <u>30</u>
	<u><u>250</u></u> - <u><u>300</u></u>

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# Key points

## Second Quarter 2001

### *Personnel*

As at April 1, 2001	219,400
Less deconsolidation net	-2,400
Net reductions	-4,600
	<hr/>
As at June 30, 2001	<u>212,400</u>

During the second half of the year we expect, apart from further reductions:

•Deconsolidation of Display Components	-23,000
•Consolidations in Medical	+10,000

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## Second Quarter Results 2001

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# Topline Growth

	2nd Quarter		Half Year	
	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>2001</u>
Nominal growth	25	-16	24	-9
. Consolidation changes	1	-1	2	0
. Currency changes	9	2	9	2
Comparable growth	15	-17	13	-11
. Price erosion	-6	-8	-6	-7
. Volume growth	21	-9	19	-4

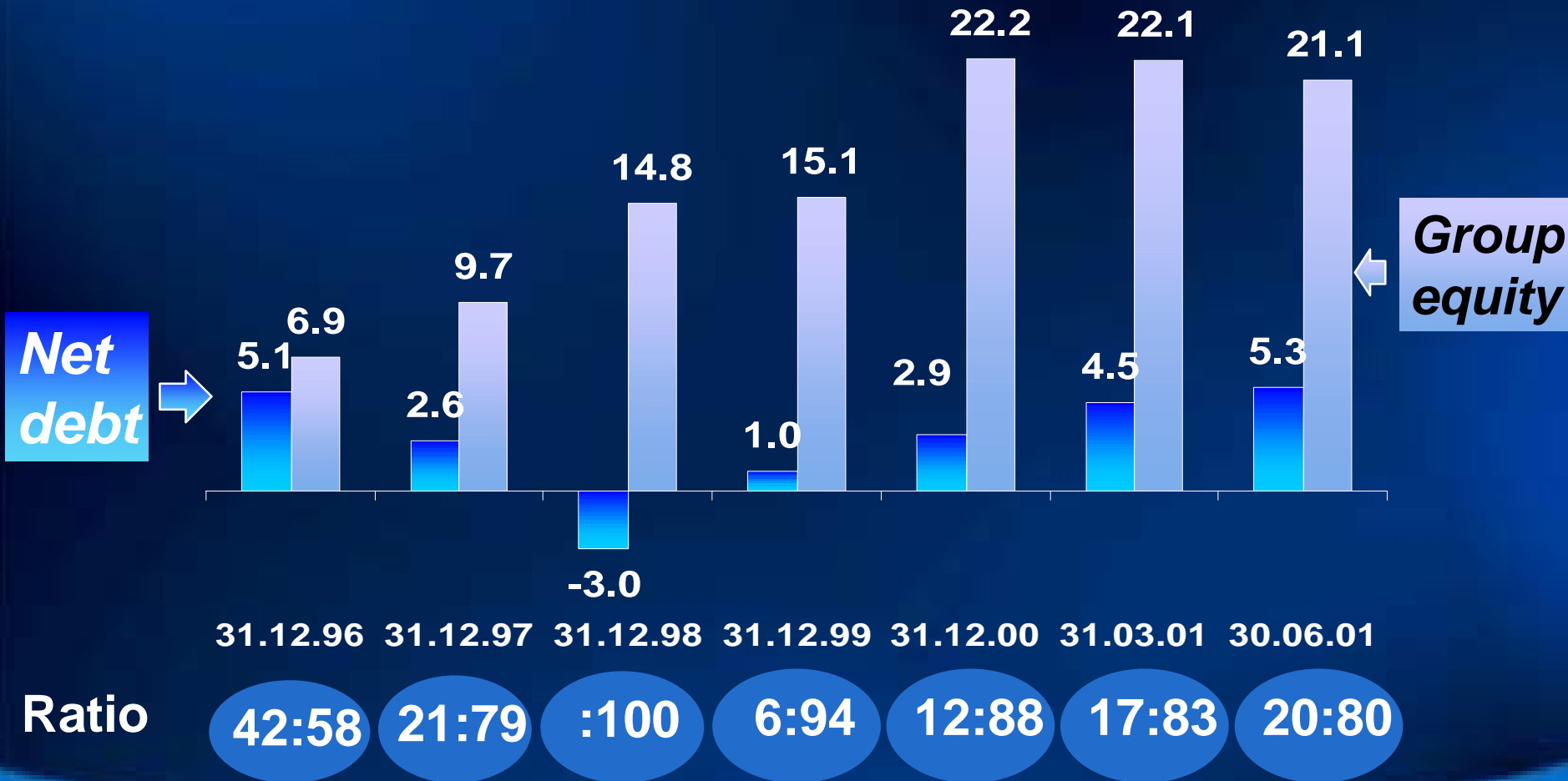
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# Performance:

## Net Debt/Group Equity in € billion

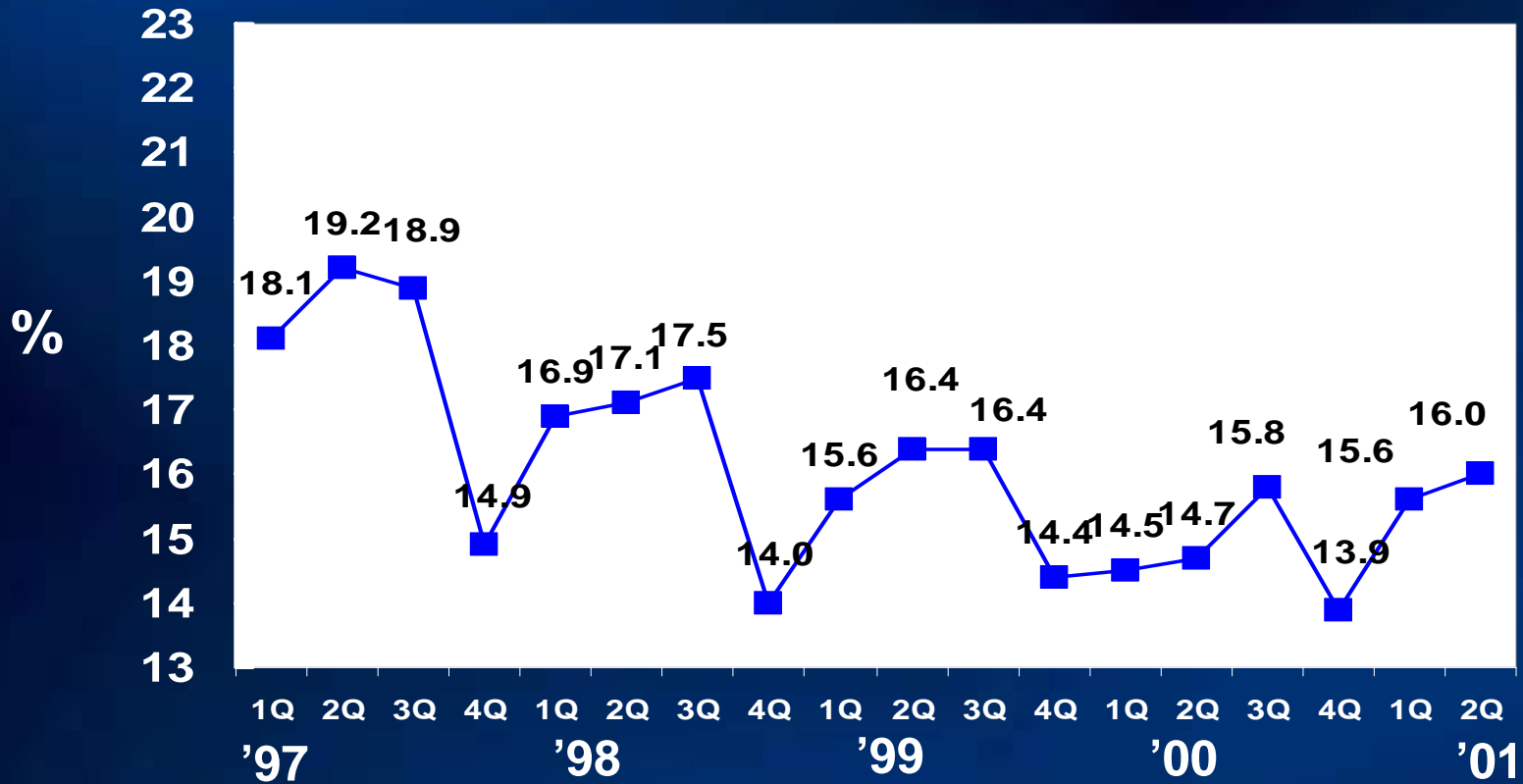


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# Performance: *Inventory Levels* *% of MAT Sales*



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# Cash Flow

	2Q01	2Q00
Cash flow from Operating activities	-250	308
Cash flow from Investing activities	<u>-118</u>	<u>1868*</u>
	<u><u>-368</u></u>	<u><u>2176</u></u>

*\* Including sale of ASML shares of Euro 2.7b*

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# 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

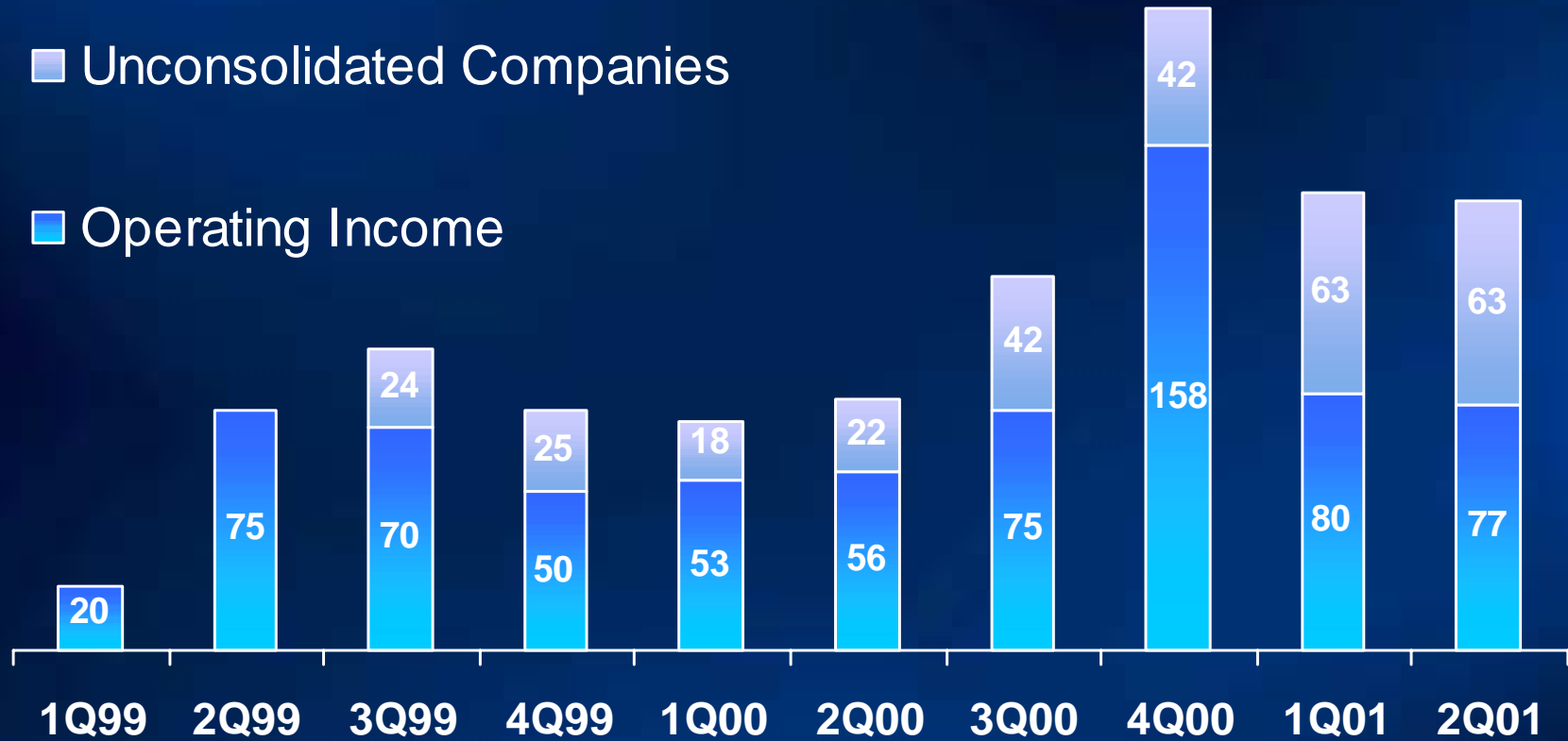
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# Goodwill Amortization in IFO and Unconsolidated Companies

€ million



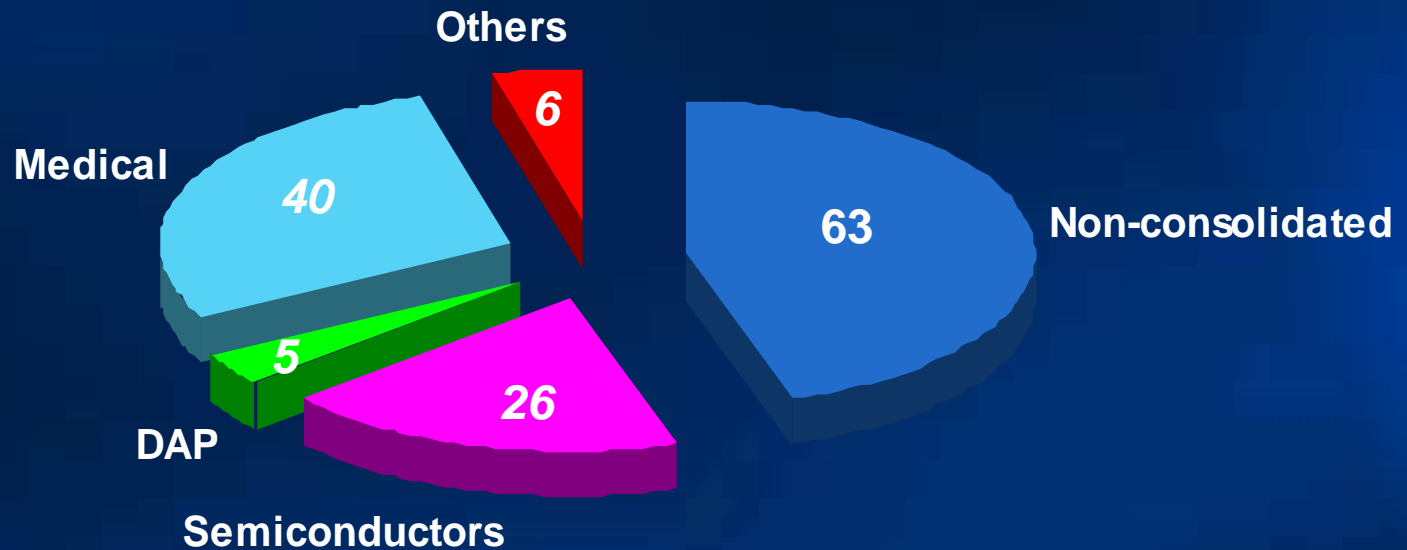
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# Goodwill Amortization 2nd Quarter 2001

€ million



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# Lighting

- 5% sales growth with a good performance in Lamps, Automotive and Special Lighting
- Market share gains, particularly in Lamps in the USA
- The Battery activity has been terminated in Lighting for which there was an operating loss of Euro 10m in the quarter and an additional Euro 10m for restructuring. Other restructuring charges were taken for Euro 9m

# Lighting

- A gain of Euro 20m has been included in the unconsolidated companies for the sale of our share of the Battery JV
- Underlying improvement programs continue
- Cash flow better than 2Q00

# Consumer Electronics

## MAINSTREAM

- Sequential sales decline 2Q01 vs. 1Q01 of 4% which is a 6% decline outside the USA and an increase of 5% in the USA
- Lower sales due mainly to a 14% sequential decline in Monitors and weaker markets in Europe and Latin America
- In spite of weaker markets we have increased our market shares in all product segments
- The IFO loss for the quarter was concentrated in the USA

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# Consumer Electronics

## MAINSTREAM

- Results in the second half of the year are currently expected to improve, apart from the usual effect of seasonality, due to:
  - Improved placements in major US retail outlets
  - Surplus inventories in the channels predominantly resolved
  - Improving margin and mix management

There will be restructuring charges of approx. Euro 50m in the third quarter

# Consumer Electronics

## DIGITAL NETWORKS

- The results include a charge of Euro 125m mainly related to inventories and receivables resulting from the refocusing of the activities in the US
- Sales 16% lower than in the first quarter reflecting difficulties in the US market as well as lower volumes in Europe
- Quantities in the quarter for STB sales were 22% lower than in the first quarter. Quantities are expected to increase in Europe in the second half of the year

# Consumer Electronics

## DIGITAL NETWORKS

- Platform diversity in the USA being limited
- Continuing investments of approx. Euro 12m per quarter in software
- A further charge is expected in the second half of the year of approx. Euro 30m

# Philips Consumer Communications

- The loss in the quarter of Euro 311m includes restructuring charges of Euro 241m and other related charges of Euro 28m. An additional limited amount may be taken in the third quarter
- The business in Asia, mainly China, continues to be good
- The majority ownership of the JV in China is expected to be transferred to CEC in the fourth quarter
- The operational result for the second half of the year is expected to be approx. breakeven
- For 2002 onwards we expect a small positive result

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# Domestic Appliances & Personal Care

- 13% nominal sales growth compared to 2Q00 due to the Optiva acquisition
- Product range rationalization continuing
- Margins are continuing to increase due to a wide range of improvement actions
- Strongly positive cash flow

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# Components

## GENERAL

- The market for our products remains depressed, these being mainly the PC and Mobile Phone markets
- The IFO includes charges of Euro 153m, mainly restructuring
- During the half year personnel levels have been reduced by 4000 with additional reductions of 2000 by outsourced suppliers. Further reductions will be made
- The LG.Philips Display JV commenced on July 2, 2001
- A further charge of Euro 50m to 70m expected in the second half of the year

# Components

## DISPLAY COMPONENTS

- Sales decline of 13% compared to 1Q01 and 29% compared to 2Q00
- Monitor tubes 16% lower than 1Q01 and TV tubes 10% lower
- Virtually all markets are weak
- The IFO includes the cost of temporarily closed production lines and the cost of moving production to cheaper areas

# Components

## DISPLAY COMPONENTS

- Performance also affected by some supply issues
- Our Display Components business was transferred to the 50/50 JV LG. Philips Display with effect from July 2, 2001. This means that we will be deconsolidating 23,000 people, Euro 2b in external sales on an annual basis and Euro 2b in net operating capital

# Components

## MOBILE DISPLAYS

- Sales decline of 19% compared to 1Q01 and 37% compared to 2Q00 due primarily to the downturn in the Mobile Phone industry
- Deliveries of color screens commencing but no build up of real volume expected until next year
- The IFO includes restructuring and related charges of Euro 44m with an additional Euro 15m due to the start-up of color production in Kobe
- Approx. 1000 people being reduced apart from 1300 with subcontractors in the first quarter

# Components

## OPTICAL STORAGE

- Sales decline of 10% compared to 1Q01 and 34% compared to 2Q00 due primarily to the downturn in the PC market. An additional impact is due to the late deployment of a new product (12 X)
- Price erosion of 12% compared to 4Q00
- The IFO includes Euro 51m restructuring charges
- Headcount reduced by 2000 with plans for further reductions
- Visibility remains limited

# Semiconductors

- Sales declined as indicated by 21% compared to 1Q01 and by 22.5% compared to 2Q00
- Price erosion in 1H01 compared to 1H00 was 8% and is expected to further increase
- Fab utilization rate at the end of the quarter was 45%
- Results in line with expectation including charges of Euro 90m for restructuring and Euro 17m for obsolescence

# Semiconductors

- Inventories reduced as expected and further reductions will take place. Consequently Fab utilization rate will reduce to approx. 35% during the third quarter and then we expect it to increase
- Headcount reduction of approx. 3000 expected for the year
- A further restructuring charge expected in the third quarter of approx. Euro 100m
- CAPEX for the year will be approx. Euro 1b of which Euro 0.75b has already been spent. The current plan for 2002 is Euro 0.6b

# Medical Systems

- **Comparable sales increase 2Q01 vs. 2Q00 of 4% with an order intake increase of 13%. The good sales development has been helped by the new MR product range which is gaining market share**
- **The IFO in the quarter includes charges of Euro 16m, mainly for moving the US Head Office, and goodwill of Euro 40m. Excluding these items the IFO would have been 10% of sales**
- **ADAC is in the process of being integrated and this is expected to be completed in the 3rd quarter**

# Medical Systems

- **The acquisition of the Agilent Healthcare business is expected to be completed shortly**
- **The acquisition of the Marconi Medical Systems business is expected to be completed in the fourth quarter**
- **No impact has been seen for the world-wide economic slowdown**

# Agenda

## Second Quarter Results 2001

- Key points
- Performance
- **Targets**

# Group Targets

## 1996-2000

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- Double digit growth in Earnings per Share



## Medium Term

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- 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 30%
- Positive cash flow

- RONA above 24%



- Positive cash flow



