



Royal Philips Electronics Third Quarter 2001

October 16th, 2001

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Agenda

Third Quarter Results 2001

- **Key Points**

- **Performance**

- **Targets**

Key points

Third Quarter 2001

- On July 17, 2001 we forecasted pre-tax charges of Euro 250m - Euro 300m in the second half of this year, the results for the quarter include:

	<u>Euro m</u>
•CE	54
•DAP	3
•Components	6
•Semiconductors	20
•Medical	8
•Miscellaneous	<u>31</u>
	<u><u>122</u></u>

- Other additional charges in the quarter amounted to Euro 60m which is explained further on

Key points

Third Quarter 2001

€ million

- On August 1, 2001 we forecasted pre-tax charges in 2001 of approximately Euro 250m relating to the acquisition of Agilent Technologies Healthcare Solutions Group. The results in the quarter include Euro 113m

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Key points

Third Quarter 2001

- Results of unconsolidated companies was a loss of Euro 350 including:
 - Euro 125m of charges included in which is Euro 60m non-cash book loss related to the issuance by TSMC of new stock based compensation
 - Amortization of goodwill and other intangibles Euro 116m

Key points

Third Quarter 2001

Net income including/excluding charges

	<u>Including charges</u>	<u>Charges</u>	<u>Excluding charges</u>
IFO - excl. goodwill	-364	295	-69
- goodwill	-152		-152
IFO	<u>-516</u>	<u>295</u>	<u>-221</u>
Financial income and expenses	-90		-90
Income before taxes	<u>-606</u>	<u>295</u>	<u>-311</u>
Income taxes	152	-74	78
	<u>-454</u>	<u>221</u>	<u>-233</u>
Results unconsolidated companies			
- excluding goodwill	-234	125	-109
- goodwill	-116		-116
	<u>-804</u>	<u>346</u>	<u>-458</u>
Minority interest	5		5
Net income	<u><u>-799</u></u>	<u><u>346</u></u>	<u><u>-453</u></u>

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Key points

Third Quarter 2001

IFO including/excluding charges

	<u>Including charges</u>	<u>Charges</u>			<u>Excluding charges</u>
		<u>Restr.</u>	<u>Acquis.</u>	<u>Other</u>	
Lighting	103				103
CE - Mainstream	-103	-49		-11	-43
- Consumer Communications	-2	-5			3
- Digital Networks	-59			-10	-49
- Licences	119				119
DAP	67	-3			70
Components	-119	-6		-5	-108
Semiconductors	-291	-20		-20	-251
Medical Systems	-88	-8	-113	-8	41
Miscellaneous	-110	-31			-79
Unallocated	-33			-6	-27
	<u>-516</u>	<u>-122</u>	<u>-113</u>	<u>-60</u>	<u>-221</u>

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Key points

Third Quarter 2001

- The world-wide economic slowdown and inventory corrections continue to affect Semiconductors, Components and Consumer Electronics with, so far, minimal impact in Medical Systems, DAP and Lighting
- We continue to focus on our cash flow to ensure that our balance sheet remains strong
 - Inventories have been reduced at a time of year when they normally increase (even when excluding the net deconsolidations)
 - CAPEX plans continue to be squeezed to get to a level of Euro 2.1b from the original figure of Euro 3.5b

Key points

Third Quarter 2001

Personnel (rounded)

	<u>3Q01</u>	<u>9m01</u>
At the beginning of the period	212.400	219.400
Less deconsolidation net	-16.900	-17.800
Net reductions	<u>-4.000</u>	<u>-10.100</u>
As at September 30, 2001	<u><u>191.500</u></u>	<u><u>191.500</u></u>

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Key points

Third Quarter 2001

€ million

Expected charges in 4Q01

Acquisition related

Agilent HSG

75

Marconi

350

425

Restructuring and related

Consumer Electronics

30 - 35

Semiconductors

90 - 100

Components

60 - 70

Miscellaneous

10 - 25

Unallocated

10 - 20

200-250

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Topline Growth

SALES	3rd Quarter		Jan - Sept	
	2000	2001	2000	2001
Nominal growth	21	-23	23	-14
. Consolidation changes	0	-3	2	-2
. Currency changes	10	-2	9	1
Comparable growth	11	-18	12	-13
. Price erosion	-5	-10	-5	-8
. Volume growth	16	-8	17	-5

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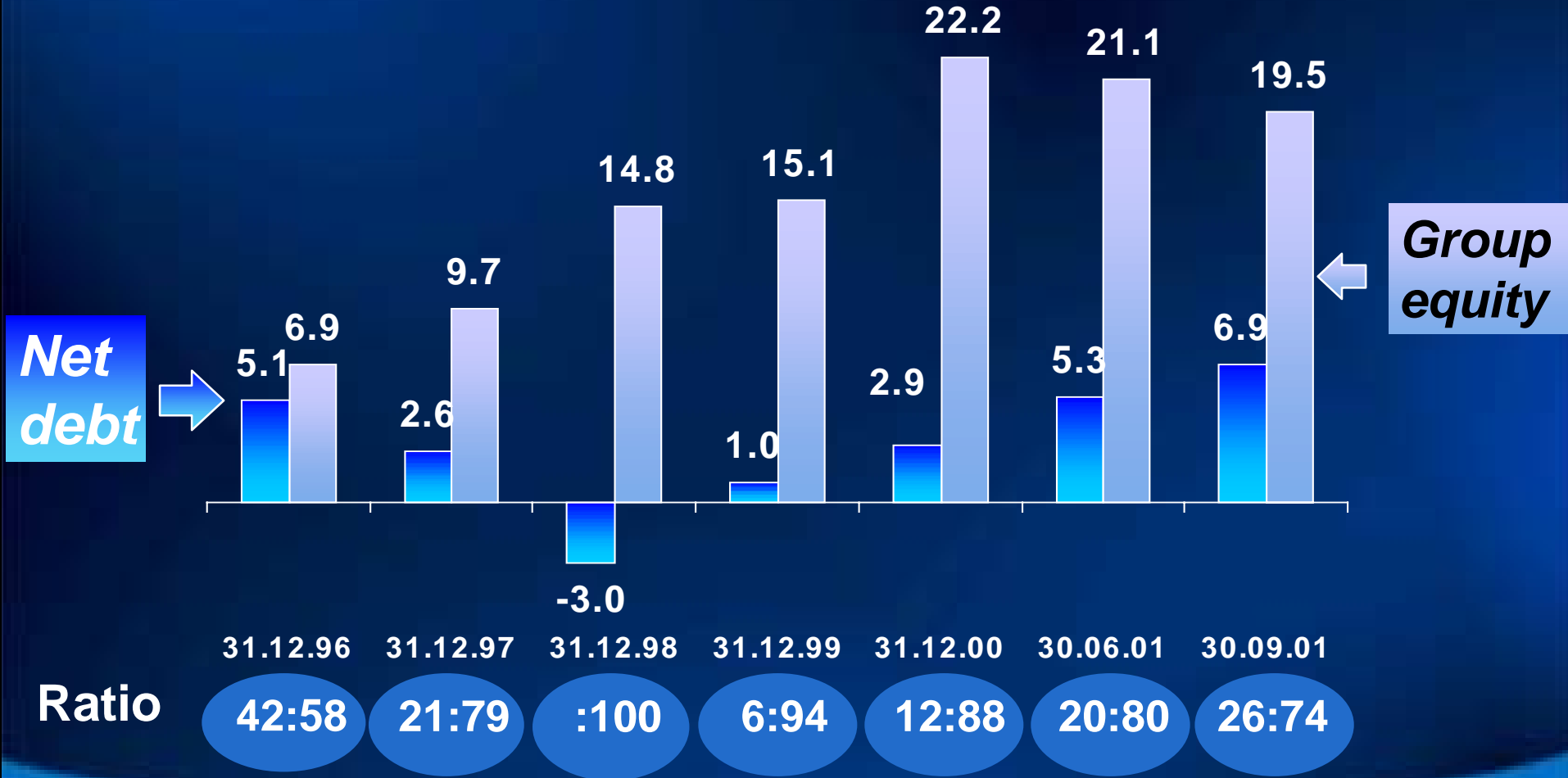


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Performance:

Net Debt/Group Equity

in € billion

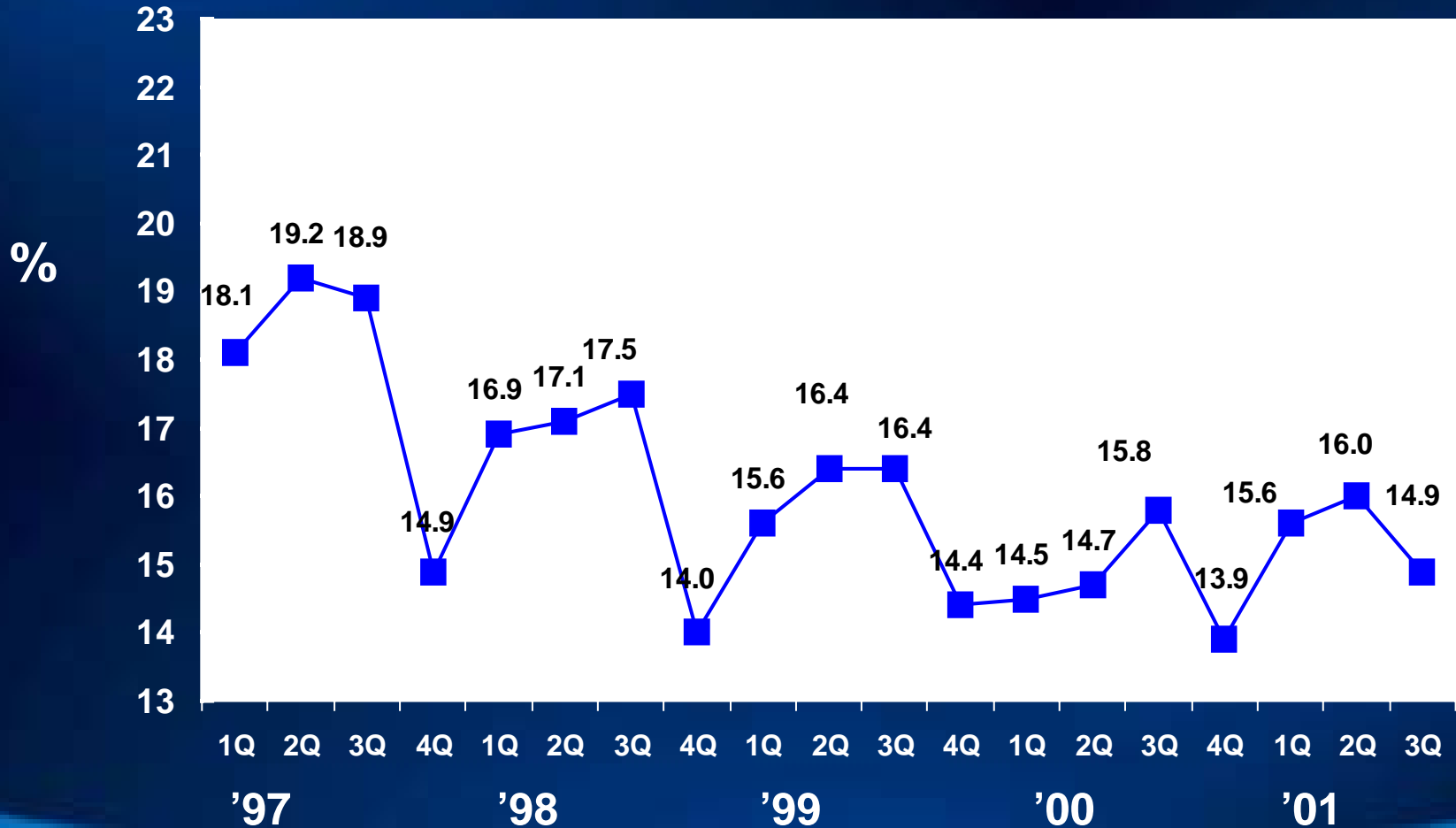


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Performance: *Inventory Levels* *% of MAT Sales*



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Cash Flow

	<u>3Q01</u>	<u>3Q00</u>
Cash flow from Operating activities	160	305
Cash flow from Investing activities	<u>-2029*</u>	<u>-1121</u>
	<u><u>-1869</u></u>	<u><u>-816</u></u>

** Including acquisition of Agilent Healthcare of Euro 1.8b*

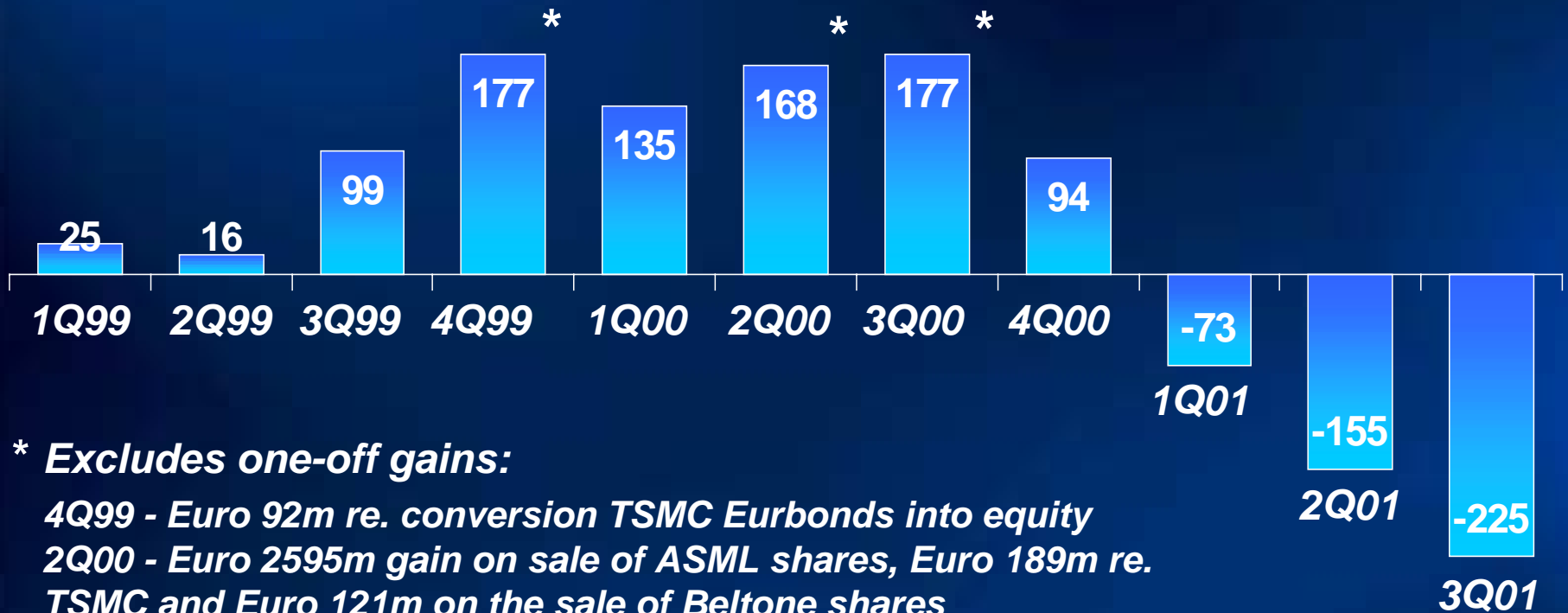
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Results relating to unconsolidated companies

€ million



* Excludes one-off gains:

4Q99 - Euro 92m re. conversion TSMC Eurbonds into equity

2Q00 - Euro 2595m gain on sale of ASML shares, Euro 189m re.

TSMC and Euro 121m on the sale of Beltone shares

3Q00 - Euro 491m re. TSMC

Excluding charges:

3Q01 - Euro 60m re. TSMC and Euro 65m re. LG Philips Display

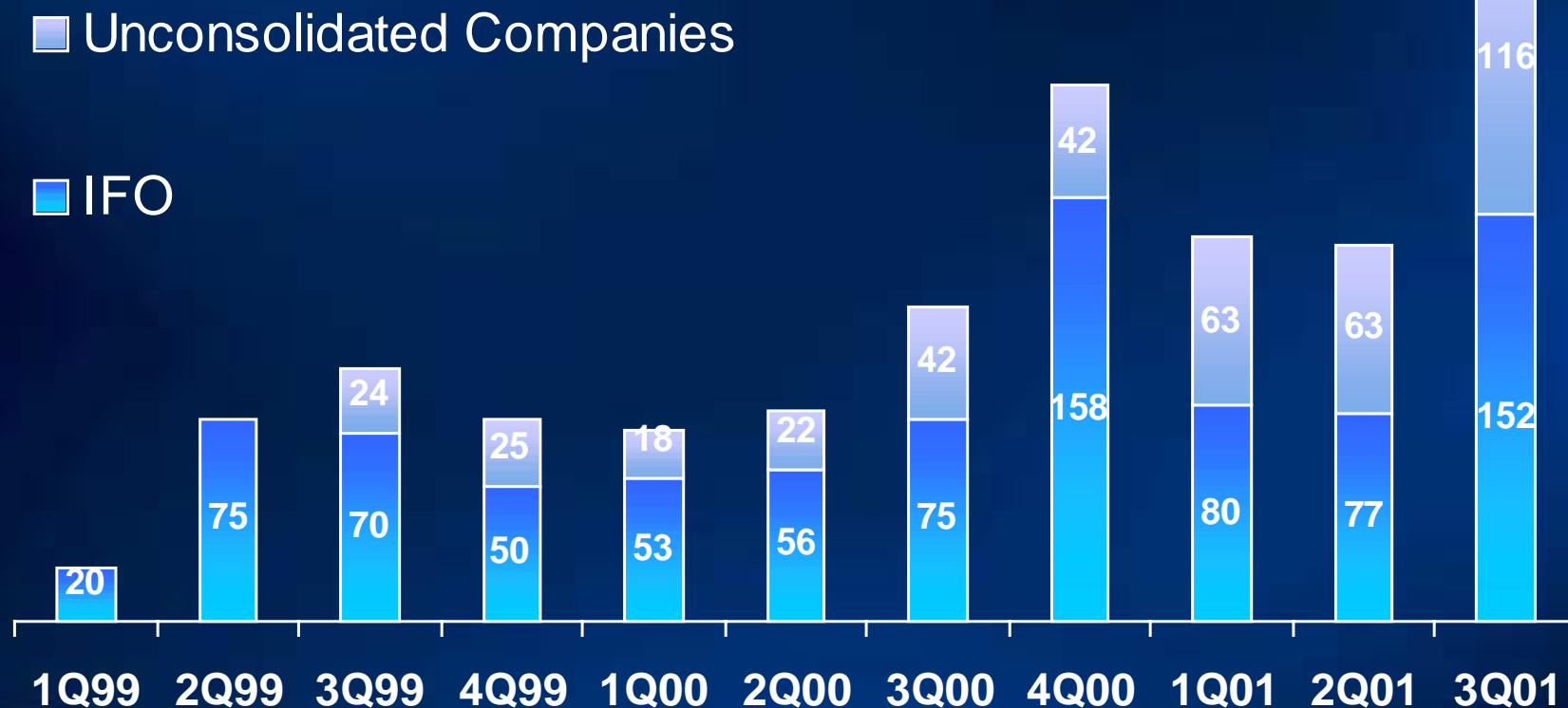
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Goodwill Amortization in IFO and Unconsolidated Companies

€ million



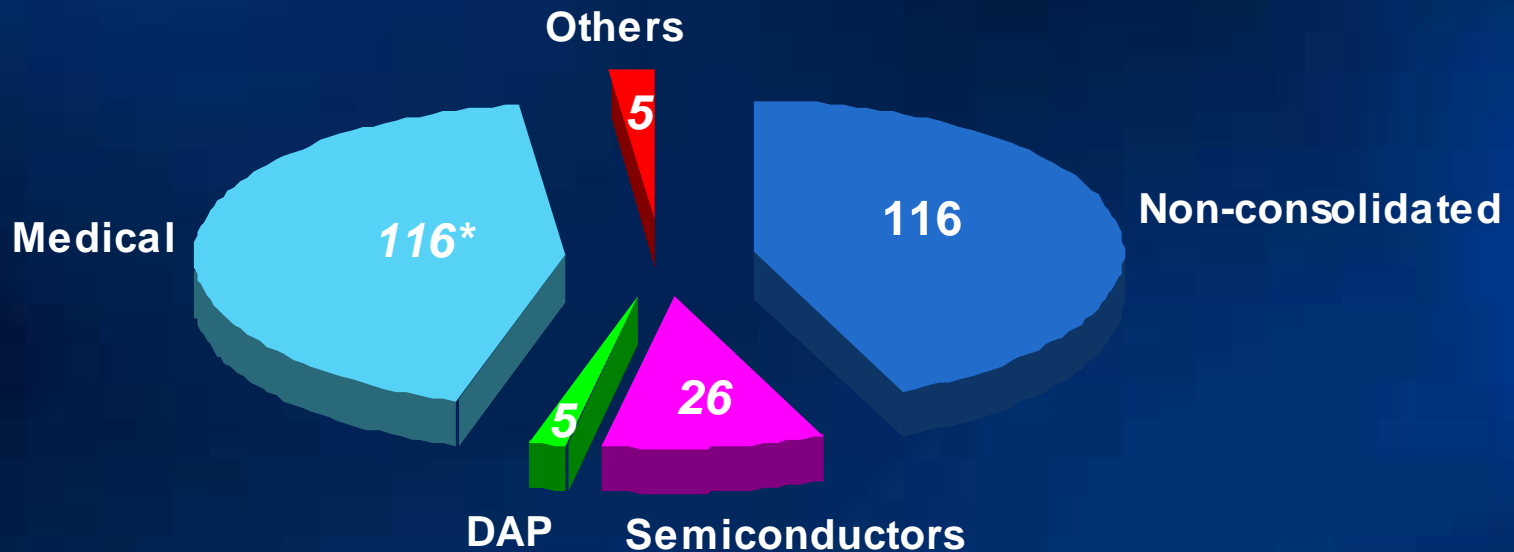
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Goodwill Amortization & Other Intangibles 3rd Quarter 2001

€ 268 million



* Includes for Agilent HSG - Euro 54m in-process R&D
- Euro 11m ongoing goodwill

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Lighting

- Sales were 4% lower than 3Q00 due mainly to:
 - 2% of the 4% is due to no longer having a battery activity
 - Lower sales in Latin America mainly due to the energy crisis in Brazil
 - Lower sales in the USA due to market contraction, particularly in professional applications
- Our market share continues to improve

Lighting

- Margins have weakened due to the lower sales level and higher input prices, including energy
- Price erosion was 4%
- Inventories reduced in the quarter

Consumer Electronics

MAINSTREAM

- Sales decline compared to 3Q00 of 13% of which Monitors was 19%. The significant decline in VCR was not compensated by the increase in DVD
- Sales declines were mainly in NAFTA, Asia and Latin America with a small decline only in Europe
- Price erosion increased to an average of 12% with the steepest increase being in Monitors

Consumer Electronics

MAINSTREAM

- The IFO includes restructuring and related charges in the quarter of Euro 49m and Euro 11m for other charges
- The underlying loss in the quarter was concentrated in the USA
- Inventories reduced from 13.1% of MAT sales to 11.7%

Consumer Electronics

DIGITAL NETWORKS

- Sales increased by 15% compared to 2Q01 due to higher sales in STB more than offsetting lower sales in other areas
- Quantities in the quarter for STB sales were 46% higher than 2Q01 due to higher shipments in both USA & Europe
- The results in the quarter include a charge of Euro 10m with a further Euro 20m-25m in 4Q01

Consumer Electronics

DIGITAL NETWORKS

- Continuing investments of approx. Euro 12m per quarter in software
- Continuing move towards the limitation of exposure in the US which includes reduction of platform diversity

Philips Consumer Communications

- 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
- We have been successful in reducing the operating loss to only Euro 2m in the quarter with also a small result in 4Q01 expected
- For 2002 onwards we expect a small positive result

Domestic Appliances & Personal Care

- No increase in sales compared to 3Q00 due to:
 - weakness in Latin America and some Asian countries
 - impact of product range rationalization
- IFO increased from 12.6% in 3Q00 to 13.6% in 3Q01 due to:
 - cost reduction measures
 - impact of product range rationalization
- Strongly positive cash flow

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Components

GENERAL

- The markets for our products remains depressed, these being mainly the PC and Mobile Phone markets
- The IFO includes charges of Euro 11m with a further Euro 60m-70m expected in 4Q01
- During the nine months personnel levels have been reduced by 4000. Further reductions are planned
- Inventories reduced even after allowing for the deconsolidation of Display Components which was effected on July 1, 2001

Components

MOBILE DISPLAYS

- Sales in the quarter declined sequentially by 11% and 43% compared to one year ago
- Price erosion in the nine months was 15%
- Deliveries of color screens has commenced but volumes are very low
- Inventories are under control
- Restructuring in line with planning

Components

OPTICAL STORAGE

- Sales in the quarter declined sequentially by 23% and 55% compared to one year ago
- Poor PC market conditions for the CD R/W and late introduction of the 12X product
- Inventories under control
- Restructuring in line with planning

Semiconductors

- Sales declined by 19% on a sequential basis
- Price erosion in the nine months was 10% but 14% in the quarter
- Fab utilization rate in the quarter was 36% and it is expected to slightly improve in the fourth quarter
- Restructuring and other charges in the quarter were Euro 40m with a further charge in 4Q01 of Euro 90m-100m
- Maintaining market shares

Semiconductors

- Inventories reduction program has been successful with a reduction of Euro 253m in the quarter
- Counteractive measures taken:
 - reduction of headcount by approx. 4000 persons this year
 - CAPEX reduced to Euro 950m for 2001 with a current view for 2002 at Euro 600m or possibly lower
 - Pruning of R&D projects
 - Reduction of all costs
- We anticipate having a positive cash flow in the 4Q01

Medical Systems

- The published IFO of a loss of Euro 88m in the quarter includes:
 - Euro 113m charges related to the acquisition of the Agilent Healthcare business
 - Euro 62m for amortization of ongoing goodwill and other intangibles
 - Euro 16m other one-off items
- Excluding these items the EBITA for the quarter was 9%. Excluding the newly acquired Agilent Healthcare business the EBITA for the other businesses was 11.5%
- A further charge of Euro 75m is expected in 4Q01 in relation to the Agilent Healthcare acquisition

Medical Systems

- We expect to close the acquisition of the Marconi Medical Systems business during October and anticipate charges in the fourth quarter of Euro 350m with a further amount in 2002 for integration to obtain synergies
- The underlying sales growth has been strong, helped by the new MR product range which is gaining market share
- Order intake in the quarter was 16% higher than a year ago

Summary

- Continuation of poor market conditions
- Measures taken to reduce inventories, costs and employment
- Overhead cost reduction of 25%
- We have been managing the balance sheet to keep it strong
- The negative cash flow and increase in net debt was entirely due to the Medical acquisition

Agenda

Second Quarter Results 2001

- Key points
- Performance
- Targets

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 30%
- Positive cash flow

- RONA above 24%



- Positive cash flow



