

KONINKLIJKE PHILIPS ELECTRONICS NV
Form 6-K
February 08, 2002

2002 - 2

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.
20549

FORM 6-K

REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16 of the
Securities Exchange Act of 1934

For the period commencing October 16, 2001 through February 7, 2002

KONINKLIJKE PHILIPS ELECTRONICS N.V.

(Name of registrant)

Breitner Center, Amstelplein 2, 1096 BC Amsterdam, The Netherlands

(Address of principal executive offices)

Name and address of person authorized to receive notices
and communications from the Securities and Exchange Commission:

Andrew D. Soussloff, Esq.
Sullivan & Cromwell
125 Broad Street
New York, New York 10004

This report comprises a copy of the press release entitled "Report on the Performance of the Philips Group", dated February 7, 2002.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf, by the undersigned, thereunto duly authorized at Amsterdam, on the 7th day of February, 2002.

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KONINKLIJKE PHILIPS ELECTRONICS N.V.

/s/ G.J. Kleisterlee

G.J. KLEISTERLEE
(President,
Chairman of the Board of Management)

/s/ J.H.M. Hommen

J.H.M. HOMMEN
(Executive Vice-President,
Member of the Board of Management
and Chief Financial Officer)

4TH QUARTERLY REPORT
FEBRUARY 7, 2002

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

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.

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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.

"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) |

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| | |
|--|-------|
| 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

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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.

| | 4th quarter | |
|--|-------------|-------|
| | 2001 | 2000 |
| Results relating to unconsolidated companies: | | |
| o income excluding amortization of goodwill and other intangibles, and special items | (6) | 133 |
| o special items | (45) | 1 |
| o 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.

SALES AND INCOME FROM OPERATIONS PER SECTOR

Sales in the LIGHTING sector totaled EUR 1,350 million, 4% down on last year. The decline is mainly caused by the transfer of Batteries to Consumer Electronics, which had a negative effect of 4%, partly offset by a positive effect of 2% resulting from consolidation changes. Additionally, weaker currencies had a negative effect of 2%. Prices declined 3% on average, while volumes increased by 3%. Sales in Lamps in North and Latin America continued to suffer from weaker economies in these regions, while sales in Asia Pacific were strong. Sales in Automotive & Special Lighting continued to perform well.

Income from operations came to EUR 183 million, compared to EUR 176 million last year. Income in the fourth quarter included a gain of EUR 44 million on the sale and lease back of properties in the U.S. and the Netherlands. Slower growth in high-end products, and a stronger Polish currency, has put pressure on margins.

Sales in CONSUMER ELECTRONICS totaled EUR 3,248 million, a decrease of 19% over the same quarter in the previous year. Currency movements had a negative effect of 2% on nominal sales. Average prices decreased 12%, while sales volume was 5% lower. Income from operations totaled a loss of EUR 7 million (a profit of EUR 32 million excluding special items) compared to a profit of EUR 103 million last year.

Sales at MAINSTREAM CE were 6% lower than in the same quarter of the year before, predominantly impacted by declines in Latin America (16%), Asia Pacific (6%) and North America (5%). On the positive side, sales in Europe ended 2%

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higher while monitor sales to OEM customers increased by 16%. Price erosion in Q4 was 10%, down from 12% in the third quarter.

Income from operations of Mainstream CE amounted to a loss of EUR 37 million, reflecting the economic slowdown, particularly North America, and the affects of the economic instability in Argentina.

Sales in CONSUMER COMMUNICATIONS ended 58% lower than in the fourth quarter of 2000, as a result of our changed strategy for mobile phones.

Income at CONSUMER COMMUNICATIONS turned from a loss of EUR 33 million in 2000 into a profit of EUR 10 million. Primarily due to the downsizing of the GSM operations, operational losses were reduced, and were more than offset by an insurance benefit. Sales of DIGITAL NETWORKS decreased 49%, due to a lower activity level of set-top boxes as part of the refocus strategy.

Income from operations at Digital Networks ended the quarter at a loss of EUR 46 million, compared to a loss of EUR 31 million last year. Income in 2001 included special charges of EUR 28 million for restructuring and related inventory write-downs.

LICENSE income in the fourth quarter amounted to EUR 66 million, EUR 18 million higher than last year.

Sales in the DAP sector totaled EUR 775 million, virtually unchanged from the year before. Sales volume increased by 2%, partly offset by 1% price erosion. Sales in Oral Care increased strongly, while sales in Home Environment Care were affected by weak demand in Asia and Latin America.

Income from operations increased from EUR 125 million in 2000 to EUR 143 million this year. The strong performance came from the positive contribution of Oral Care, ongoing product rationalizations and strict cost control. The successful integration of Optiva into the Oral Healthcare business has already resulted in a profitable contribution, even after the deduction of goodwill amortization charges, and the Sonicare toothbrush is now established as the U.S. market leader for premium power toothbrushes.

Sales in the COMPONENTS sector totaled EUR 575 million, a decrease of 54% over the last quarter of 2000. Half of the decrease is attributable to the deconsolidation of Display Components. In addition, weaker currencies had a downward effect of 3%. Price erosion (10%) was down from 13% in the third quarter. Sales volume in the quarter fell 14%. Although Mobile Display Systems and Optical Storage showed lower sales compared with last year, they both showed sequential growth, despite the continued difficult IT and telecommunications markets.

Income from operations came to a loss of EUR 139 million compared to a profit of EUR 75 million last year. The fourth quarter included restructuring charges of EUR 22 million, EUR 14 million for charges related to the disentanglement costs of Display Components and a gain of EUR 41 million for the release of a provision related to a previous divestment.

Income from operations, excluding special items, amounted to a loss of EUR 144 million, mainly due to the decline in sales, as a result of the market conditions impacting Optical Storage and Mobile Display Systems.

Sales in the SEMICONDUCTORS sector came to EUR 940 million, a decrease of 44% over the same period a year earlier, whilst sales grew 5% sequentially, with improvement particularly in consumer systems and mobile communications. Price erosion of 12% was down from 14% in the third quarter. Sales volume decreased

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32% over the same quarter last year. The sales downturn was in line with the worldwide fall in semiconductor markets.

Income from operations amounted to a loss of EUR 292 million, compared to a profit of EUR 408 million last year. Restructuring and related charges for the intended closure of a fab in France, amounted to EUR 65 million. Income was strongly influenced by price erosion, and factory utilization considerably below break-even level.

Sales in the MEDICAL SYSTEMS sector totaled EUR 1,916 million, 86% up from the year earlier. The main part of the increase (75%) is attributable to the new acquisitions ADAC, Agilent's Healthcare Solutions Group (HSG) and Marconi's medical business. Weaker currencies had a negative effect of 2%. Volume growth was 17%, while prices decreased 4% on average. The increase in sales was particularly strong in Magnetic Resonance, reflecting the success of a new product range in a well developing market, and in Customer Support. Order intake in the fourth quarter was 27% ahead of the year earlier. North America and Asia Pacific attributed predominantly to the sector's growth.

Income from operations came to a loss of EUR 154 million. Income included special charges of EUR 292 million, mostly for acquisition-related charges of Agilent HSG and Marconi's medical business. The special charges related to the latter included EUR 55 million for the write-off of in-process R&D. Last year's income included a write-off for in-process R&D of EUR 44 million, resulting from the acquisition of ADAC Laboratories.

After recent acquisitions, amortization of goodwill and other intangibles increased to EUR 135 million, compared to EUR 89 million last year. Income from operations, excluding special charges and amortization of goodwill and other intangibles, improved with EUR 59 million to EUR 218 million, mainly driven by the strong performance in Magnetic Resonance and the contribution of the new acquisitions.

Sales in the MISCELLANEOUS sector totaled EUR 458 million, a decrease of 47% over the year before, including the significant negative effect of various deconsolidations (18%). Income came to a loss of EUR 138 million and included EUR 74 million for special items, mainly related to restructuring at ETG, Assembleon and Research. Income of last year amounted to a loss of EUR 70 million, including special charges of EUR 23 million.

Income from operations excluding special items was a loss of EUR 64 million, mainly due to losses at Philips Enabling Technologies Group (ETG) and Assembleon, as a result of the poor semiconductors equipment market.

Income from operations in UNALLOCATED was a loss of EUR 38 million, compared to a loss of EUR 10 million last year. Special charges of EUR 31 million for restructuring and discontinuation of projects caused the variance.

CASH FLOWS AND FINANCING

Philips achieved a strong positive operating cash flow of EUR 1,687 million. Our cash conversion cycle program, and improved supply chain management led to significant reductions of inventories. Inventories at the end of 2001 amounted to 13.3% of sales (12.5% adjusted for new (de)consolidations), compared to 13.9% a year earlier.

CASH USED FOR INVESTING ACTIVITIES in this quarter was EUR 1,582 million, compared to EUR 3,281 million last year. The positive deviation was partly due to lower capital expenditure. Net capital expenditures amounted to EUR 294 million compared with EUR 1,248 million last year. The cash outflow, related to

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the acquisition of Marconi's medical business and the final installment for Agilent's HSG, amounted to EUR 1,319 million. Last year's cash outflow of EUR 1.8 billion included the expenditures for the acquisitions of ADAC, TSMC preferred shares, LG.Philips LCD preferred shares, and the settlement of hedging cost related to Seagram.

CASH FLOW FROM FINANCING ACTIVITIES was a positive EUR 83 million in the fourth quarter, compared with EUR 650 million cash inflow last year. The deviation was due to the better cash flow before financing, eliminating the need for additional borrowing.

The NET DEBT TO GROUP EQUITY ratio stood at 27:73 at the end of December, compared with 26:74 at the end of September.

At the end of December, the NUMBER OF EMPLOYEES was 188,643, a decrease of 2,902 over the position as per the end of September 2001. Changes in consolidations had an upward effect of 5,557 on balance, and were mainly related to the acquisition of Marconi's medical business. On a comparable basis headcount was reduced by 8,459 persons. The reduction was broadly implemented across all sectors and all regions.

THE FULL YEAR 2001

- o Sales in 2001 decreased by 15% to EUR 32,339 million, in line with slowdown of world economies and downturn in mobile phones and IT related industries.
- o Net income was a loss of EUR 2,604 million; excluding special items a loss of EUR 908 million
- o Positive cash flow from operating activities: EUR 1,248 million and a debt/equity ratio 27:73
- o Unconsolidated companies: loss of EUR 754 million, mainly caused by losses in the LG.Philips LCD and LG.Philips Displays joint ventures and lower income at TSMC
- o Changes in business portfolio: reduced capital exposure to mobile phone, VCR and display components markets and increased presence in medical systems market
- o Further rationalization of manufacturing and cost base

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.

Semiconductors, Consumer Electronics and Components as well as some of our major unconsolidated companies, including Taiwan Semiconductor Manufacturing Company (TSMC), LG.Philips LCD and LG.Philips Displays, were severely impacted by the decline. This had led Philips and LG Electronics to decide in principle to increase the share capital of LG.Philips Displays by USD 250 million. This is expected to take place in the first quarter of 2002.

Domestic Appliances and Personal Care (DAP), Lighting, and Medical Systems, operating in less cyclical markets, continued their solid performances. DAP, and Medical Systems (before acquisition-related charges), recorded their best ever year.

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Philips managed the downturn by further lowering its cost base and reducing capacity, and by outsourcing or shifting production to partners. Several uneconomical semiconductor and component facilities were closed, or are in the process of being closed, a joint venture was entered into with LG Electronics in the field of Cathode Ray Tubes (CRTs), and the decision was taken to outsource the manufacturing and certain development activities of mobile telephones and video recorders. Digital Networks refocused its strategy and limited its platform diversity.

Income included special items mainly related to:

- o restructuring and asset impairment (EUR 1,093 million)
- o acquisition related charges (EUR 437 million)
- o gains on sales of participations (EUR 295 million)
- o impairment of security investments (EUR 526 million)

Reduction of the Company's overcapacity was the main reason for the restructuring, while recent acquisitions caused in-process R&D write-offs and integration costs at Medical Systems.

Staffing levels were reduced by 18,600 in 2001, excluding portfolio changes. This was mostly related to announced reductions at Components, Semiconductors and Consumer Electronics, including Consumer Communications, as well as general costs reduction initiatives across the company.

The market value of our investments in publicly quoted companies exceeded book value by EUR 8,838 million, as of December 31, 2001.

Despite the losses, Philips was able to generate positive cash flow from operating activities of EUR 1,248 billion. Net capital expenditures were scaled back by one third to EUR 2,156 million. The increase in the debt position was the result of acquisitions by Philips Medical Systems. These acquisitions will provide Philips with the number 2 position in medical equipment supply, and are expected to generate significant income and cash flow.

DISTRIBUTION TO SHAREHOLDERS

A proposal will be made to the General Meeting of Shareholders to make a distribution to shareholders of EUR 0.36 per common share to be charged to the other reserves (compared with a EUR 0.36 dividend per common share paid in 2001, reflecting the 2000 profit distribution).

ANNUAL REPORT 2001

More details on the performance of the Philips Group on the year 2001 can be found in the Annual Report 2001 of Royal Philips Electronics, and at www.philips.com

OUTLOOK

Economic conditions around the world continue to point to a limited growth environment. Improvement in results in 2002 will come mainly from cost reductions, efficiency improvements and restructuring programs, many of which were already initiated in 2001, as well as ongoing portfolio management.

As a consequence of weakness in the stock markets, we anticipate a significant

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reduction of pension credits in our results throughout 2002.

The severe declines of the IT and telecommunication markets, which were so damaging in 2001, have now stopped, and excess inventories, both at customers and in the industry, have mostly disappeared. In general, we do not see markets strengthening, therefore we maintain a cautious stand on costs, capital spending, working capital and employment in 2002.

The Company has been streamlined and focused during the downturn and is in a good position to be an early beneficiary of any upturn in its markets.

Amsterdam, February 7, 2002

BOARD OF MANAGEMENT

For further information, please contact:

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Related photos for the media: www.presslink.nl/philips

ROYAL PHILIPS ELECTRONICS OF THE NETHERLANDS IS ONE OF THE WORLD'S BIGGEST ELECTRONICS COMPANIES AND EUROPE'S LARGEST, WITH SALES OF EUR 32.3 BILLION IN 2001. IT IS A GLOBAL LEADER IN COLOR TELEVISION SETS, LIGHTING, ELECTRIC SHAVERS, MEDICAL DIAGNOSTIC IMAGING AND PATIENT MONITORING, AND ONE-CHIP TV PRODUCTS. ITS 189,000 EMPLOYEES IN MORE THAN 60 COUNTRIES ARE ACTIVE IN THE AREAS OF LIGHTING, CONSUMER ELECTRONICS, DOMESTIC APPLIANCES, COMPONENTS, SEMICONDUCTORS, AND MEDICAL SYSTEMS. PHILIPS IS QUOTED ON THE NYSE (SYMBOL: PHG), LONDON, FRANKFURT, AMSTERDAM AND OTHER STOCK EXCHANGES. NEWS FROM PHILIPS IS LOCATED AT WWW.NEWS.PHILIPS.COM

'SAFE HARBOR' STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 THIS DOCUMENT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS WITH RESPECT TO THE FINANCIAL CONDITION, RESULTS OF OPERATIONS AND BUSINESS OF PHILIPS AND CERTAIN OF THE PLANS AND OBJECTIVES OF PHILIPS WITH RESPECT TO THESE ITEMS.

BY THEIR NATURE, FORWARD-LOOKING STATEMENTS INVOLVE RISK AND UNCERTAINTY BECAUSE THEY RELATE TO EVENTS AND DEPEND ON CIRCUMSTANCES THAT WILL OCCUR IN THE FUTURE. THERE ARE A NUMBER OF FACTORS THAT COULD CAUSE ACTUAL RESULTS AND DEVELOPMENTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED BY THESE FORWARD-LOOKING STATEMENTS. THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO, LEVELS OF CONSUMER AND BUSINESS SPENDING IN MAJOR ECONOMIES, CHANGES IN CONSUMER TASTES AND PREFERENCES, THE LEVELS OF MARKETING AND PROMOTIONAL EXPENDITURES BY PHILIPS AND ITS COMPETITORS, RAW MATERIALS AND EMPLOYEE COSTS, CHANGES IN FUTURE EXCHANGE AND INTEREST RATES (IN PARTICULAR, CHANGES IN THE EURO AND THE US DOLLAR CAN MATERIALLY AFFECT RESULTS), CHANGES IN TAX RATES AND FUTURE BUSINESS COMBINATIONS, ACQUISITIONS OR DISPOSITIONS AND THE RATE OF TECHNICAL CHANGES. MARKET SHARE ESTIMATES CONTAINED IN THIS REPORT ARE BASED ON OUTSIDE SOURCES SUCH AS SPECIALIZED RESEARCH INSTITUTES, INDUSTRY AND DEALER PANELS, ETC. IN COMBINATION WITH MANAGEMENT ESTIMATES.

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STATEMENTS OF INCOME

all amounts in millions of euros unless otherwise stated

CONSOLIDATED STATEMENTS OF INCOME

| | 4th quarter | | January to Dec | |
|--|----------------|--------------|----------------|----------------|
| | 2001 | 2000 | 2001 | 2000 |
| Sales | 9,262 | 11,007 | 32,339 | 32,339 |
| Income (loss) from operations, before amortization goodwill and other intangibles arising from acquisitions | (274) | 2,112 | (894) | (894) |
| Amortization goodwill and other intangibles | (168) | (163) | (477) | (477) |
| Income (loss) from operations | (442) | 1,949 | (1,371) | (1,371) |
| Financial income and expenses: | | | | |
| -interest | (135) | (48) | (391) | (391) |
| -other | (532) | 950 | (524) | (524) |
| Income (loss) before taxes | (1,109) | 2,851 | (2,286) | (2,286) |
| Income taxes | 126 | (130) | 421 | 421 |
| Income (loss) after taxes | (983) | 2,721 | (1,865) | (1,865) |
| Results relating to unconsolidated companies: | | | | |
| -income before amortization goodwill and other intangibles | (51) | 134 | (387) | (387) |
| -amortization goodwill and other intangibles | (125) | (40) | (367) | (367) |
| | (176) | 94 | (754) | (754) |
| Minority interests | 18 | (23) | 15 | 15 |
| NET INCOME (LOSS) | (1,141) | 2,792 | (2,604) | (2,604) |
| INCOME (LOSS) FROM OPERATIONS | | | | |
| as a % of sales | (4.8) | 17.7 | (4.2) | (4.2) |
| as a % of net operating capital (RONA) | | | (9.1) | (9.1) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (IN THOUSANDS): (after deduction of treasury stock) | | | | |
| o basic | | | 1,278,077 | 1,311,000 |
| o diluted | | | 1,286,544 | 1,320,000 |
| NET EARNINGS PER COMMON SHARE IN EUROS: | | | | |
| o basic | (0.90) | 2.16 | (2.04) | (2.04) |
| o diluted | (0.90) | 2.15 | (2.04) | (2.04) |

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BALANCE SHEETS AND ADDITIONAL RATIOS

all amounts in millions of euros unless otherwise stated

----- CONSOLIDATED BALANCE SHEETS

| | 2001 Dec. 31, ----- | 2000 Dec. 31, ----- |
|--|---------------------------|---------------------------|
| Cash and cash equivalents | 890 | 1,089 |
| Securities | 130 | 111 |
| Receivables | 6,154 | 6,806 |
| Inventories | 4,290 | 5,279 |
| Unconsolidated companies | 5,632 | 5,328 |
| Other non-current financial assets | 2,789 | 3,747 |
| Non-current receivables | 3,582 | 2,713 |
| Property, plant and equipment | 7,718 | 9,041 |
| Intangible assets - net | 7,269 | 4,427 |
| ----- | ----- | ----- |
| TOTAL ASSETS | 38,454 | 38,541 |
| | | |
| Accounts payable and other liabilities | 8,193 | 8,818 |
| Debt | 7,866 | 4,027 |
| Provisions | 3,740 | 3,491 |
| Minority interests | 202 | 469 |
| Stockholders' equity | 18,453 | 21,736 |
| ----- | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | 38,454 | 38,541 |

RATIOS

| | | |
|--|-------|-------|
| Stockholders' equity, per common share in euros | 14.48 | 16.93 |
| Inventories as a % of sales | 13.3 | 13.9 |
| Outstanding trade receivables, in months' sales | 1.5 | 1.5 |
| Net debt : group equity ratio | 27:73 | 12:88 |

NUMBER OF COMMON SHARES

OUTSTANDING AT THE END OF PERIOD

| | | |
|-----------------------|-----------|-----------|
| o shares in thousands | 1,274,172 | 1,283,895 |
|-----------------------|-----------|-----------|

STATEMENTS OF CASH FLOWS

all amounts in millions of euros unless otherwise stated

----- CONSOLIDATED STATEMENTS OF CASH FLOWS *

| | 4th quarter | | January to December |
|--|-------------|-------|---------------------|
| | 2001 | 2000 | 2001 |
| | ----- | ----- | ----- |
| | | | 2000 |
| | | | ----- |

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| | | | | |
|---|---------|---------|---------|---------|
| CASH FLOWS FROM OPERATING | | | | |
| ACTIVITIES: | | | | |
| Net income (loss) | (1,141) | 2,792 | (2,604) | 9,602 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 791 | 697 | 2,797 | 2,320 |
| Net gain on sale of investments | (97) | (2,095) | (378) | (6,384) |
| (Income) loss from unconsolidated companies (net of dividends received) | 100 | (16) | 676 | (1,187) |
| Minority interests (net of dividends paid) | 2 | 23 | (21) | 56 |
| Decrease (increase) in working capital | 1,905 | 586 | 1,080 | (1,069) |
| Increase in non-current receivables | (536) | (392) | (874) | (510) |
| Increase in provisions | 327 | 222 | 287 | 386 |
| Other items | 336 | 161 | 285 | (218) |
| ----- | ----- | ----- | ----- | ----- |
| Net cash provided by operating activities | 1,687 | 1,978 | 1,248 | 2,996 |
| CASH FLOWS FROM INVESTING | | | | |
| ACTIVITIES: | | | | |
| Net capital expenditures | (294) | (1,248) | (2,156) | (3,132) |
| Proceeds (purchase) from the sale of securities | 1 | (424) | (1) | 848 |
| Proceeds (purchase) other non-current financial assets | 5 | (463) | 474 | (497) |
| (Purchase of business) proceeds from sale of business | (1,294) | (1,146) | (2,881) | 377 |
| ----- | ----- | ----- | ----- | ----- |
| Net cash used for investing activities | (1,582) | (3,281) | (4,564) | (2,404) |
| CASH FLOWS BEFORE FINANCING | | | | |
| ACTIVITIES | 105 | (1,303) | (3,316) | 592 |

* For a number of reasons, principally the effects of translation differences and consolidation changes, certain items in the statements of cash flows do not correspond to the differences between the balance sheet amounts for the respective items.

STATEMENTS OF CASH FLOWS (CONTINUED)

all amounts in millions of euros unless otherwise stated

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)*

| | ----- | | ----- | |
|-----------------------------|-------------|---------------------|---------|-------|
| | 4th quarter | January to December | | |
| | 2001 | 2000 | 2001 | 2000 |
| | ----- | ----- | ----- | ----- |
| CASH FLOWS BEFORE FINANCING | | | | |
| ACTIVITIES | 105 | (1,303) | (3,316) | 592 |

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CASH FLOWS FROM FINANCING ACTIVITIES:

| | | | | |
|---|-------|-------|-------|---------|
| Increase in debt | 79 | 689 | 3,953 | 612 |
| Treasury stock transactions | 4 | (39) | (336) | (578) |
| Capital repayment to shareholders | -- | -- | -- | (1,673) |
| Dividends paid | -- | -- | (458) | (399) |
| ----- | ----- | ----- | ----- | ----- |
| Net cash provided by (used for) financing activities | 83 | 650 | 3,159 | (2,038) |

DECREASE IN CASH AND CASH EQUIVALENTS

| | | | | |
|---|-------|-------|-------|-------|
| Effect of changes in exchange rates and consolidations on cash positions | 4 | (53) | (42) | 204 |
| Cash and cash equivalents at beginning of the period | 698 | 1,795 | 1,089 | 2,331 |
| ----- | ----- | ----- | ----- | ----- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 890 | 1,089 | 890 | 1,089 |

* For a number of reasons, principally the effects of translation differences and consolidation changes, certain items in the statements of cash flows do not correspond to the differences between the balance sheet amounts for the respective items.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

all amounts in millions of euros unless otherwise stated

----- CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| | ----- January to December 2001 | ----- 2000 |
|---|--------------------------------------|---------------|
| Balance as of beginning of period | 21,736 | 14,757 |
| Change in accounting policy: | | |
| o product/process development costs inventories | -- | (241) |
| o derivatives | -- | 58 |
| Exercise of convertible debentures | -- | 13 |
| Net income (loss) for the year | (2,604) | 9,602 |
| Dividend paid | (458) | (399) |
| Additional paid-in capital stock options | 6 | -- |

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| | | |
|---|--------|---------|
| Treasury stock transactions | (333) | (578) |
| 3 % Share reduction | -- | (1,673) |
| Translation differences and other changes | 106 | 197 |
| ----- | ----- | ----- |
| Balance as of end of period | 18,453 | 21,736 |

PRODUCT SECTORS

all amounts in millions of euros unless otherwise stated

SEGMENT REVENUES AND INCOME FROM OPERATIONS

| | ----- 4th quarter ----- | | | |
|------------------------|-------------------------------|-----------------------------------|----------------------------------|----------|
| | 2001 | | | |
| | segment | income (loss) from operations | | segment |
| | revenues | before amort. goodwill/intang. | after amort. goodwill/intang. | revenues |
| | ----- | ----- | ----- | ----- |
| Lighting | 1,358 | 185 | 183 | 1,413 |
| Consumer Electronics* | 3,268 | (6) | (7) | 4,060 |
| DAP | 782 | 148 | 143 | 784 |
| Components | 650 | (139) | (139) | 1,738 |
| Semiconductors | 1,073 | (265) | (292) | 1,933 |
| Medical Systems | 1,916 | (19) | (154) | 1,045 |
| Origin | -- | -- | -- | -- |
| Miscellaneous | 487 | (141) | (138) | 952 |
| Unallocated | | (37) | (38) | |
| | ----- | ----- | ----- | ----- |
| Total | 9,534 | (274) | (442) | 11,925 |
| Intersegment revenues | (272) | | | (918) |
| | ----- | | | ----- |
| SALES | 9,262 | | | 11,007 |
| | | | | |
| INCOME FROM OPERATIONS | | | | |
| AS A % OF SALES | | | (4.8) | |
| | | | | |
| *of which: | | | | |
| Mainstream CE | 2,703 | (37) | (37) | 2,897 |
| Consumer | | | | |
| Communications | 283 | 10 | 10 | 674 |
| Digital Networks | 204 | (45) | (46) | 388 |
| Licenses | 78 | 66 | 66 | 101 |
| | ----- | ----- | ----- | ----- |
| Consumer Electronics | 3,268 | (6) | (7) | 4,060 |

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PRODUCT SECTORS

all amounts in millions of euros unless otherwise stated

SEGMENT REVENUES AND INCOME FROM OPERATIONS

| | ----- January to December ----- | | | |
|---|---------------------------------------|----------------------------------|----------|---------|
| | 2001 | | | |
| segment | income (loss) from operations | | segment | |
| revenues | before amort. goodwill/intang. | after amort. goodwill/intang. | revenues | go |
| Lighting | 5,122 | 631 | 623 | 5,097 |
| Consumer Electronics* | 11,233 | (648) | (649) | 13,277 |
| DAP | 2,246 | 354 | 334 | 2,130 |
| Components | 3,705 | (666) | (667) | 6,920 |
| Semiconductors | 4,940 | (503) | (607) | 6,812 |
| Medical Systems | 4,836 | 138 | (199) | 3,047 |
| Origin | -- | -- | -- | 1,164 |
| Miscellaneous | 2,154 | (100) | (104) | 3,378 |
| Unallocated | | (100) | (102) | |
| Total | 34,236 | (894) | (1,371) | 41,825 |
| Intersegment revenues | (1,897) | | | (3,963) |
| SALES | 32,339 | | | 37,862 |
| INCOME FROM OPERATIONS AS A % OF SALES | | | (4.2) | |
| *of which: | | | | |
| Mainstream CE Consumer | 8,807 | (250) | (250) | 9,425 |
| Communications | 1,264 | (421) | (421) | 2,229 |
| Digital Networks | 771 | (328) | (329) | 1,213 |
| Licenses | 391 | 351 | 351 | 410 |
| Consumer Electronics | 11,233 | (648) | (649) | 13,277 |

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all amounts in millions of euros unless otherwise stated; percentage i
con

| | 2000 | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-----|
| | 1ST QUARTER | 2ND QUARTER | 3RD QUARTER | 4TH QUARTER | 1ST QUARTER | 2ND |
| Sales | 8,329 | 9,155 | 9,371 | 11,007 | 8,208 | |
| % increase | 22 | 25 | 21 | 15 | (1) | |
| Income (loss) from operations before amortization goodwill/ intangibles | 716 | 779 | 1,016 | 2,112 | 412 | |
| as % of sales | 8.6 | 8.5 | 10.8 | 19.2 | 5.0 | |
| % increase | 26 | 98 | 148 | 256 | (42) | |
| Income (loss) from operations as % of sales | 663 | 724 | 945 | 1,949 | 332 | |
| % increase | 8.0 | 7.9 | 10.1 | 17.7 | 4.0 | |
| | 21 | 127 | 168 | 267 | (50) | |
| Net income (loss) | 1,140 | 3,604 | 2,066 | 2,792 | 106 | |
| % increase | 143 | 1,230 | 455 | 306 | (91) | |
| per common share in euros | 0.86 | 2.71 | 1.58 | 2.16 | 0.08 | |

| | JANUARY- MARCH | JANUARY- JUNE | JANUARY- SEPTEMBER | JANUARY- DECEMBER | JANUARY- MARCH | JANUARY- JUN |
|---|-------------------|------------------|-----------------------|----------------------|-------------------|-----------------|
| Sales | 8,329 | 17,484 | 26,855 | 37,862 | 8,208 | 15,89 |
| % increase | 22 | 24 | 23 | 20 | (1) | (|
| Income (loss) from operations before amortization goodwill/ intangibles | 716 | 1,495 | 2,511 | 4,623 | 412 | (25 |
| as % of sales | 8.6 | 8.6 | 9.4 | 12.2 | 5.0 | (1. |
| % increase | 26 | 55 | 83 | 135 | (42) | - |
| Income (loss) from operations as % of sales | 663 | 1,387 | 2,332 | 4,281 | 332 | (41 |
| % increase | 8.0 | 7.9 | 8.7 | 11.3 | 4.0 | (2. |
| % increase | 21 | 60 | 91 | 144 | (50) | - |
| as a % of net operating capital (RONA) | 25.1 | 25.3 | 27.4 | 35.7 | 11.5 | (6. |
| Net income (loss) | 1,140 | 4,744 | 6,810 | 9,602 | 106 | (66 |
| % increase | 143 | 541 | 512 | 434 | (91) | - |
| as a % of stockholders' equity (ROE) | 31.2 | 62.1 | 56.5 | 53.5 | 2.5 | (7. |
| per common share in euros | 0.86 | 3.57 | 5.15 | 7.31 | 0.08 | (0.5 |

| | PERIOD ENDING 2000 | | | | | |
|---|--------------------|------|------|------|------|-----|
| Inventories as % of sales | 14.5 | 14.7 | 15.8 | 13.9 | 15.6 | 16. |
| Average collection period of trade receivables | | | | | | |

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| | | | | | | |
|--------------------------------|------|-----|------|-------|-------|------|
| in months' sales | 1.6 | 1.6 | 1.6 | 1.5 | 1.6 | 1. |
| Net debt : group equity ratio | 4:96 | * | 8:92 | 12:88 | 17:83 | 20:8 |
| Total employees (in thousands) | 229 | 232 | 239 | 219 | 219 | 21 |

* NOT MEANINGFUL: NET CASH EXCEEDED THE DEBT LEVEL.

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