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Consumer Electronics
&
Digitalisation

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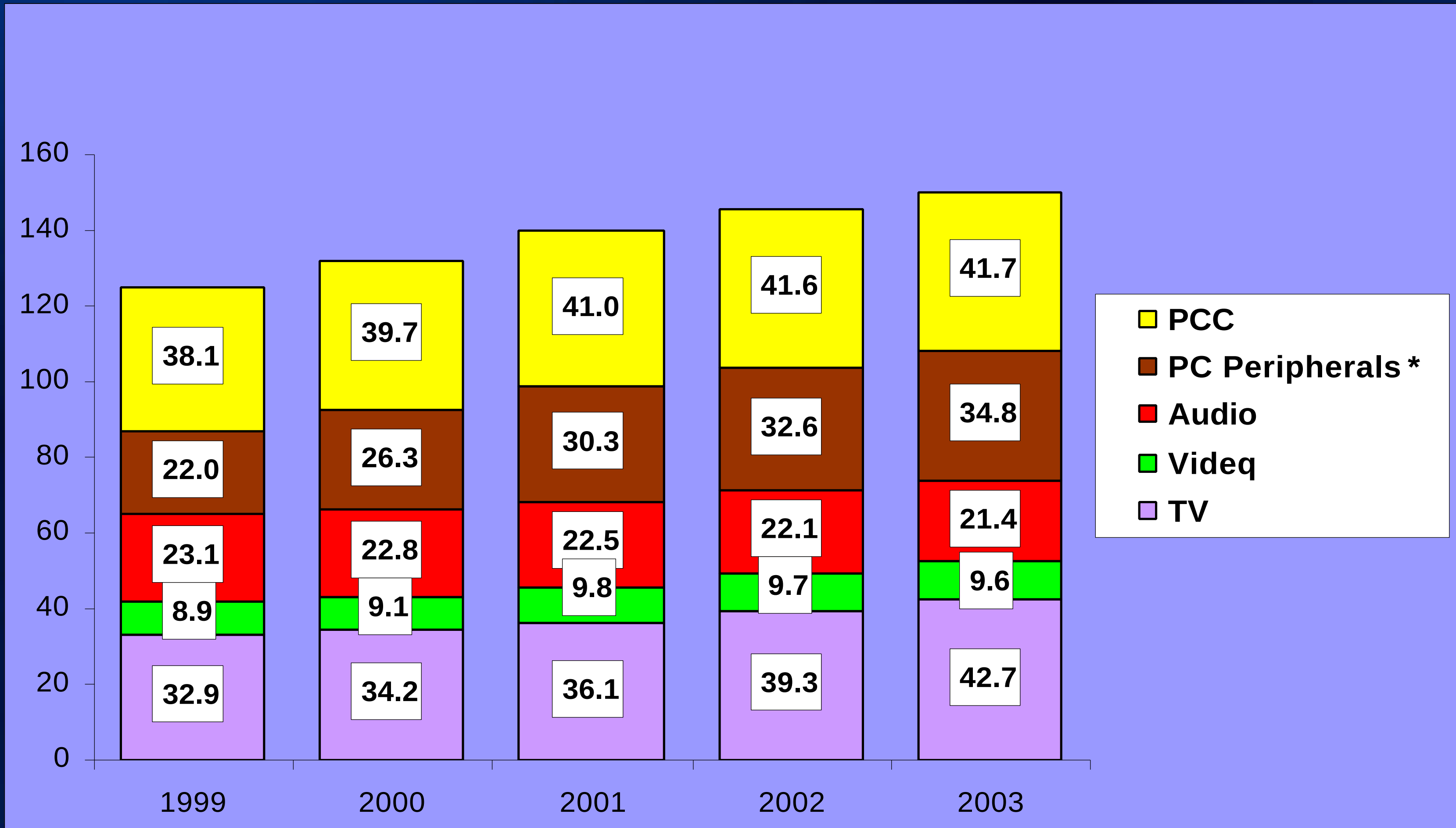
Content

- Market
- Next steps
- Digital Migration
- Interconnectivity
- Conclusions

Market Value in Bln Euro by Main Product Category



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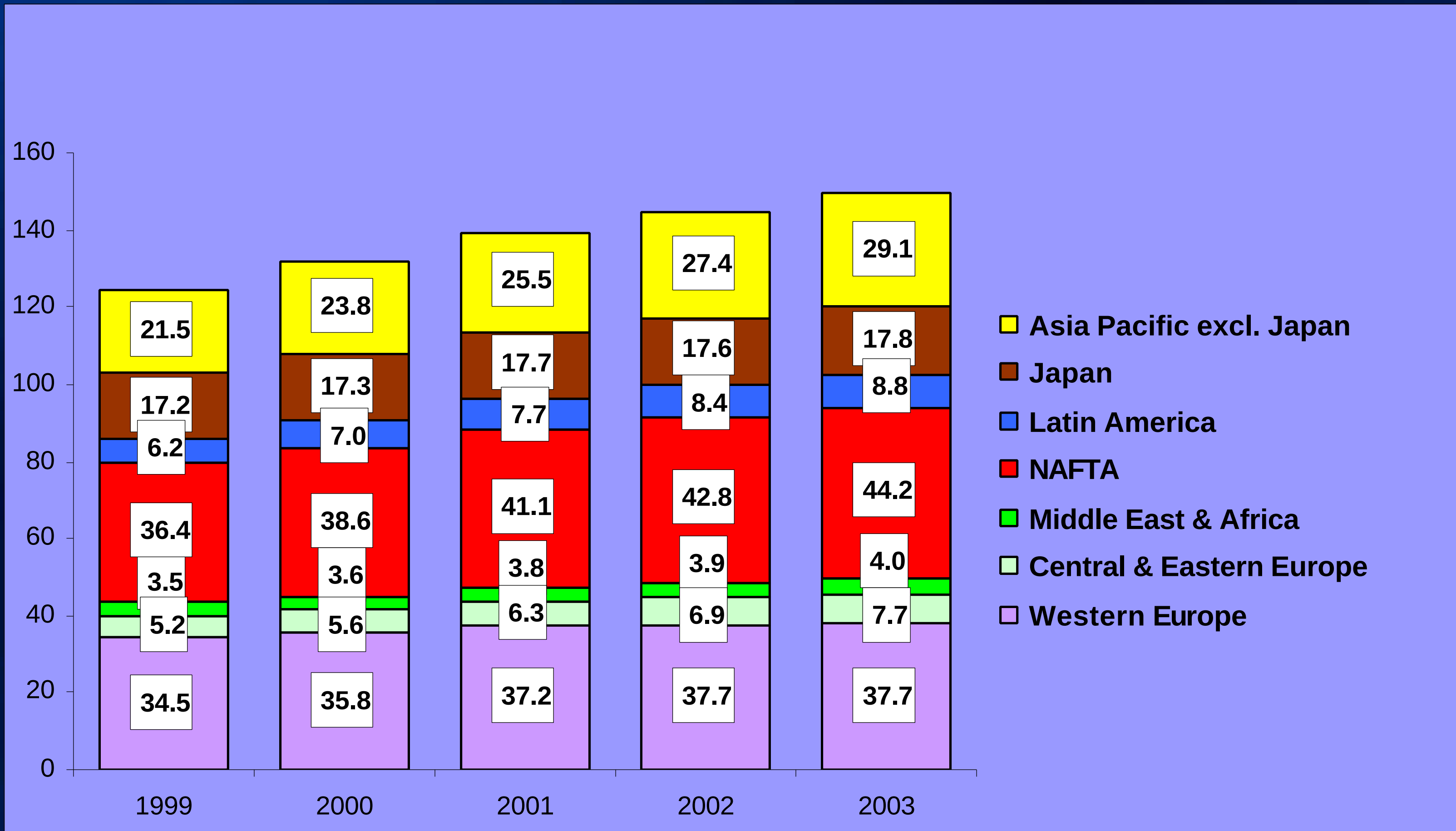
Market Value in Bln Euro by Region



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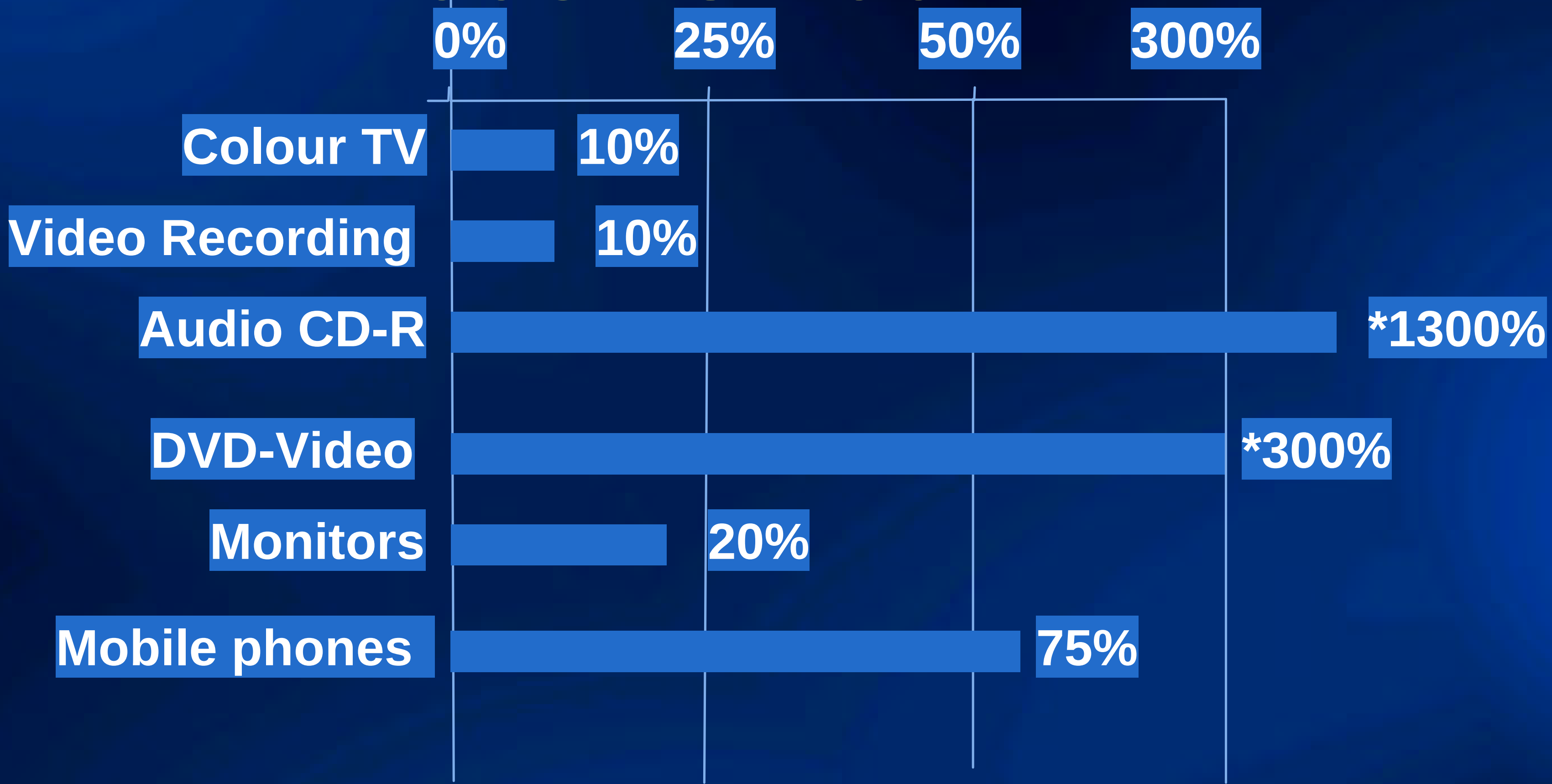
Volume Growth Philips 1998 vs 1997



* Audio CD-R 1999 vs 1998 400% estimate

* DVD - Video 1999 vs 1998 300% estimate

Price "Erosion":

1. - Learning curve effect
   - over / under capacity

2. How to cope:
   - product concept (modular)
   - technology progress (IC shrink)
   - efficiency / productivity

3. Value proposition:
   - feature build up

1998 market share per region in value

	1997	1998	97-'98
Western Europe	**14,7%**	**16,2%**	**1,5%**
Eastern Europe	**9,0%**	**11,1%**	**2,1%**
North America (Nafta)	**9,5%**	**10,6%**	**1,1%**
Asia Pacific	**5,4%**	**5,6%**	**0,2%**
Latam	**13,8%**	**12,6%**	**-1,2%**
World	**8,6%**	**9,6%**	**1,0%**
Excluding OEM		Excl. PCC/PCP	

June 1997

- Reduce number of manufacturing sites
- Shrink supplier base
- Reduce number of chassis
- Concentrate regional marketing
- RONA mainstream 24%

June 1999
DONE!

Next steps……

Ambitions per region

1	Asia Pacific (with particular focus on China, India, while Korea & Japan have low priority)	Invest
2	NAFTA	Build brand
3	Western Europe	Lead
4	Eastern Europe	Increase
5	Latam	Protect
6	Middle East & Africa	Be Present

Continued investment in the Brand in US

- US $100 million branding campaign in North America in 1999
- Purchase consideration of Philips brand tripled
- Over one in four consumers consider Philips
- Increased commitment to sponsorships and alliances:
  - Turner/Time-Warner : Philips Arena, broad marketing cooperation

Philips Arena

- **State of the art sports and entertainment facility in Atlanta carrying Philips brand and products; At CNN Center, adjacent to convention center**
- **10,000-square-foot '**Philips Experience'
- **Estimated 12 million visitors per year**

Investing in the Consumer

- Meeting consumer needs
- Technology to provide consumer applications
- Less than 12 months innovation cycle
- Extensive consumer research
- Product concept testing
- Consumer service centers

Systematic New Product Development

- State of the art product concept, development, optimization and forecasting.
- Vantis International, the premier concept modeling company.
- Engage consumer input early in new product development process.
- Market penetration and revenue predictions based multi-country consumer research.

Philips Multiple Concept Screening "Demand Scan"

- 110 new product concept ideas developed.
- 68 concepts were selected, with consumer input
- 5500 respondents in US, Germany and Hong Kong.
- Key measures:
  - purchase intent
  - need fulfillment
  - price
  - value
  - uniqueness
  - likes and dislikes
  - believability
- 10 new products ideas selected

Early Product Concept Screening -- Examples

Pia

Smart Surfer Plus

Clear Winners

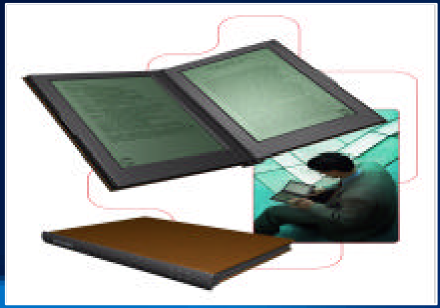
Product with strong mass consumer appeal

Time Warp

E-Pad

Changes Needed

Strong consumer interest, but at least one consumer acceptance problem.



Pocket Library

Net Vision

Serious Changes Needed

Multiple Consumer Acceptance Problems

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Digital Migration

- Philips applying digital competencies in traditional analogue CE areas:
  - Audio ⇨ CD, CD-recordable, SACD
  - TV ⇨ satellite, cable, and terrestrial
  - Video ⇨ VCD, SVCD, DVD, D-VHS, DVR
- Opening up new market opportunities
  - desktop imaging (PC cameras, V-mail)
  - information distribution (DTV, CleverCast)
- "Gateway" products (e-mail, fax)

For 60 years the TV offered you...

Television

Now, by adding one box, you get...

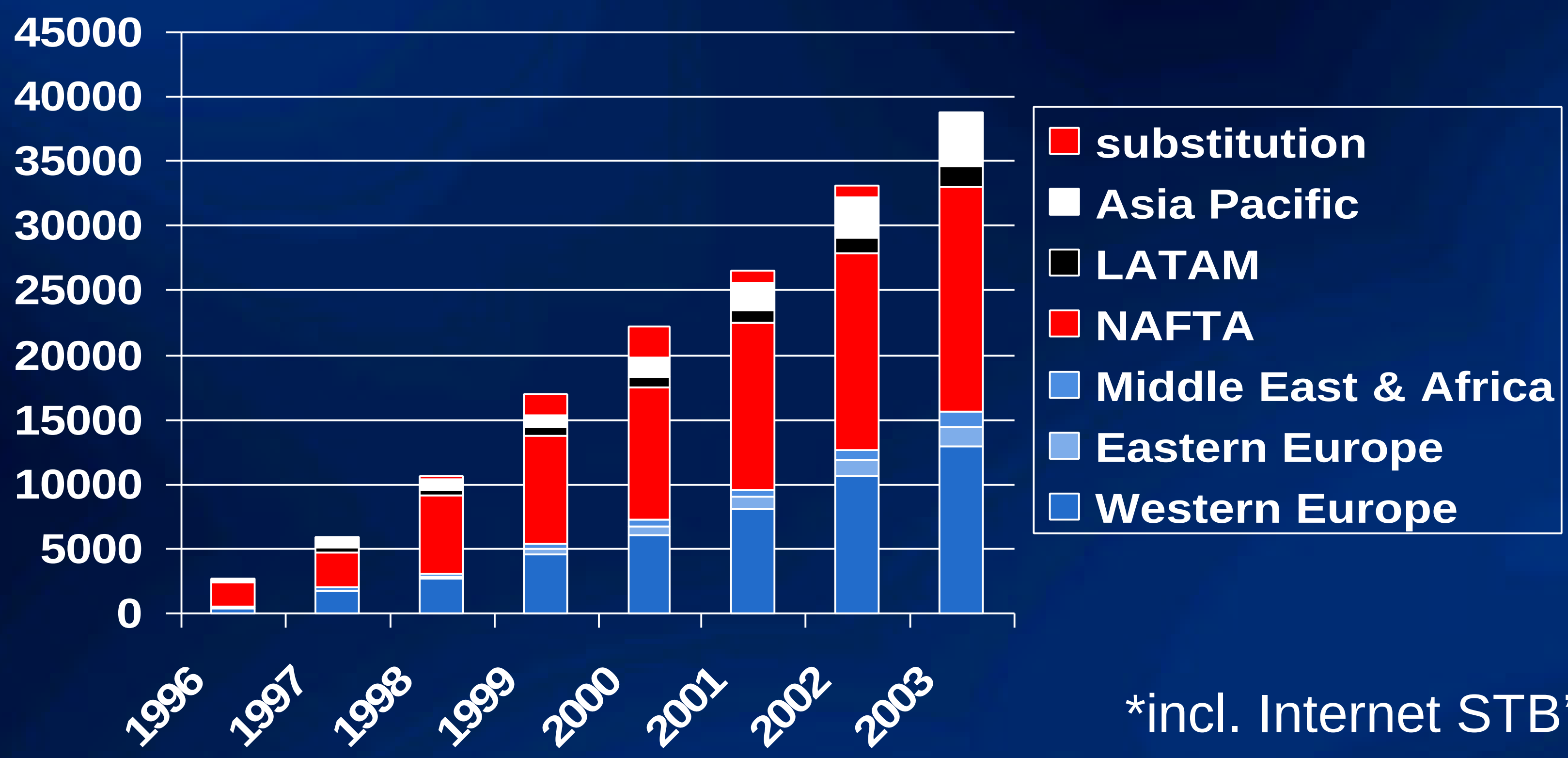
Internet   Shopping   Banking   Games

Personal TV   Home Networking

Digital capability - television

- Philips wants to deliver the digital benefits to the consumer and to be the main player of the market where all digital equipment and services meet.
- Philips can/will provide the total solution
  - Set-top boxes and integrated TVs
  - Components, system architectures and standardisation
  - Broadcast equipment
- Access to alternative value added services

STB market per region (Volume, ’000s)



*incl. Internet STB’s

Source: Philips

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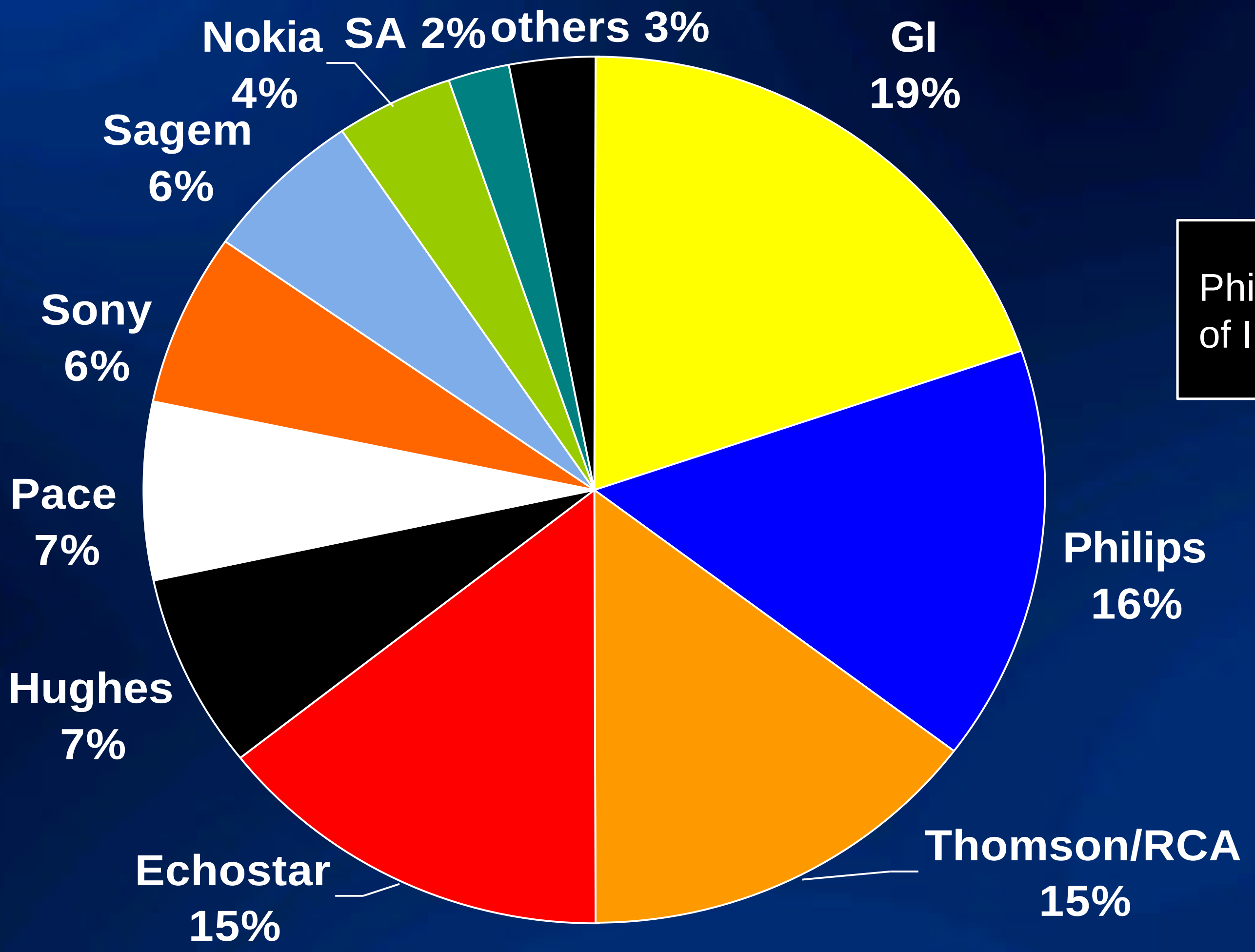
1998 World Market for digital STBs



Philips Market share 1998 of Internet STB's was 55%

Source: Philips

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Key customers

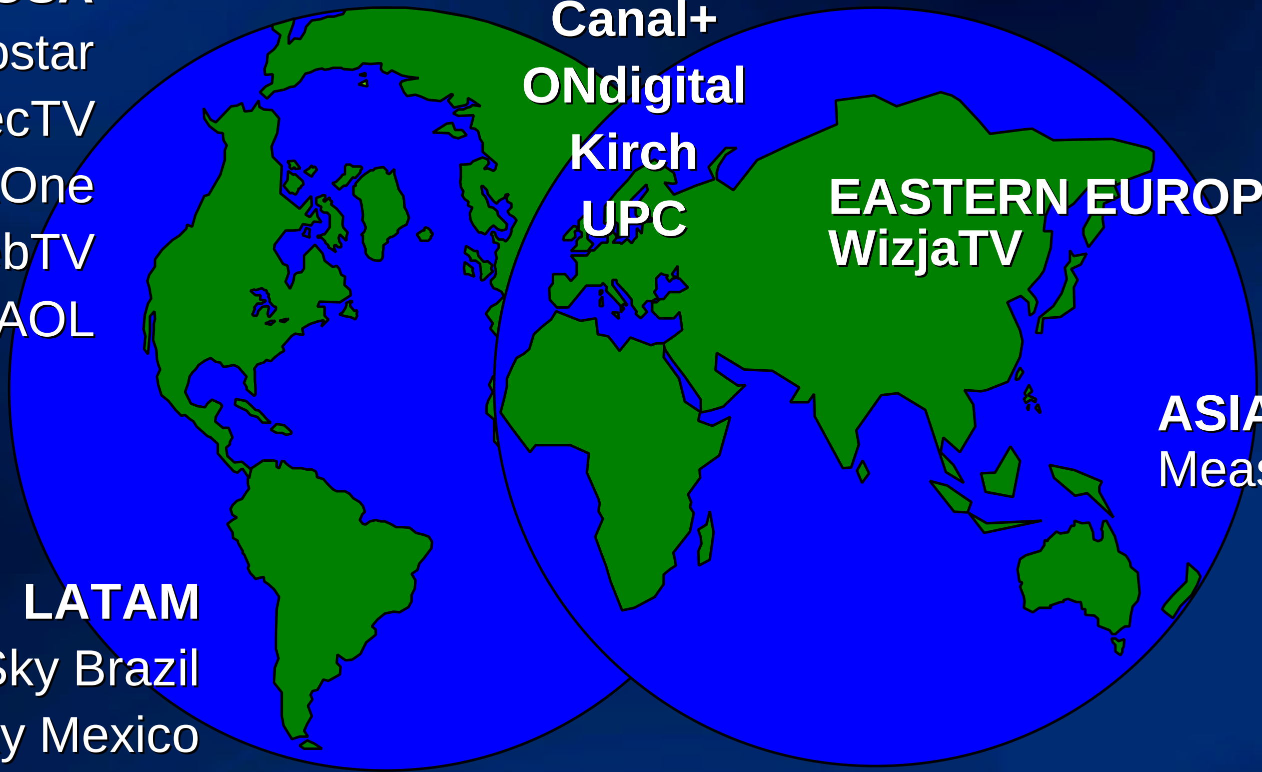
USA
Echostar
DirecTV
MediaOne
WebTV
AOL

EUROPE
Canal+
ONdigital
Kirch
UPC

EASTERN EUROPE
WizjaTV

ASIA PACIFIC
Measat

LATAM
Sky Brazil
Sky Mexico
Sky Columbia
Sky Chile
Sky Argentina



Digital capability - CD Recorder

- high-end, low-end, dual-deck, mini system
- top recording *and* playback performance
- primary CD platform
- replacement market 700 million

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Digital capability - DVD-Video

- Philips amongst leading developers of DVD
- Fast acceptance of format by software and hardware industry, the trade and consumers
- DVD will become the mainstream Video format
- Meets new consumer demands for high quality home cinema sound and picture quality

DVD VIDEO ™

Digital capability - DVD-Video

- Total market '98:
  - over 2m units, 50% in USA
  - 0.25m in Europe (Philips has 30% market share)
- '99 market volume expected between 4 and 5m units
- 25m units sales in 2002 within reach
- 1999 market moving from early adopters to mass market

Near future DVD-Video

- Recordability will boost DVD
- Philips will introduce DVD video recording for PC and CE markets
- 4.7 GB DVD recorder ready for consumer market in 2000

Digital capability - PC Peripherals

- Easy-to-use peripherals
- Peripherals constitute 50% of a PC system
- Bigger than PC market
- Only company active and capable across market:
  - display (monitors, LCD projectors)
  - imaging (PC cameras)
  - storage (CD-RW)
  - connectivity (USB) wired & wireless
  - gaming (game pads)
  - audio (speakers)
- Innovative applications (V-mail)

Interconnectivity

- **Philips involved in many digital solutions for the consumer**

AT HOME

AT WORK

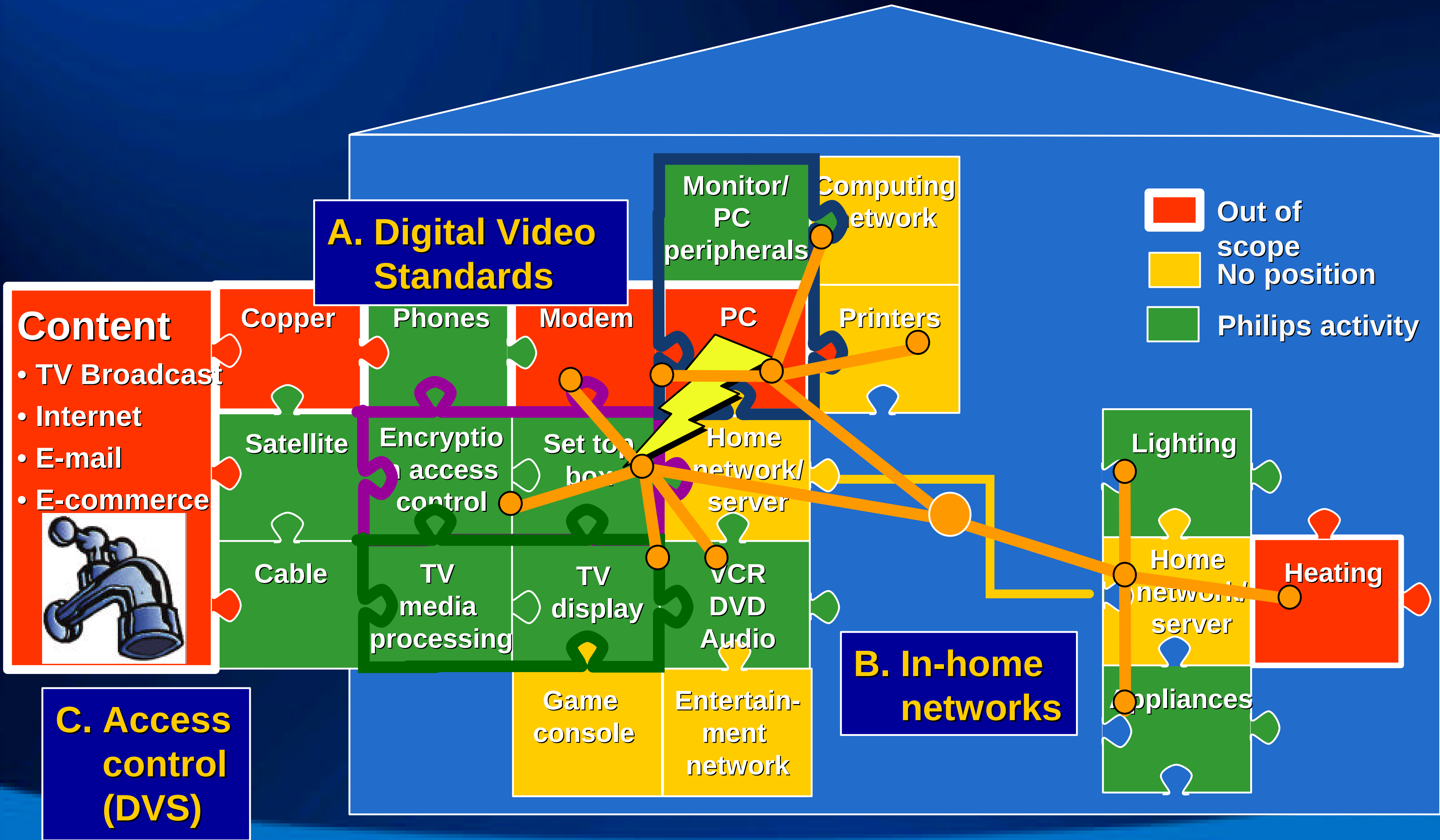
ON THE MOVE

- *Goal now*: **create harmony for electronic devices to be interactively linked to form part of digital home network**

Products offering Interconnectivity

- USB based PC Peripheral products
- IEEE 1394
  - Bridge consumer A/V platform as well as PCs and PC Peripherals
  - Enables two-way ‘hot plug & play’ to process commands and high rate data transfers
  - Supported by industry activities such as HAVi

Battles for Control of the Home



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Conclusions

- Brand equity improving
- STB, we own key control point in the home
- Philips participate in both TV & PC world
- Strong IPR for Video, Audio, Encryption
- HVE - added value & control over technology base