

PHILIPS

Consumer Electronics Analyst Meeting

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PHILIPS

Outline of the presentations

Gottfried Dutiné

Executive Vice President Royal Philips Electronics

President and CEO Philips Consumer Electronics

Outline of the presentations



- Achievements so far
Gottfried Dutiné
- Changing industry dynamics
Rudy Provoost
- Building a sustainable,
profitable business
Frans van Houten
- Execution in the market
Rudy Provoost
- Conclusions
Gottfried Dutiné

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Achievements so far

Gottfried Dutiné

Executive Vice President Royal Philips Electronics

President and CEO Philips Consumer Electronics

Achievements so far



- Profile Philips Consumer Electronics
- One Philips
- Creating value in Consumer Electronics

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Philips Consumer Electronics



#1 in Europe and #3 in the world in a wide range of products

- TV products
Flat and CRT TV
- Video products
HTiB, DVD, DVD+RW, VCR, TV-VCR,
- Audio products
Audio Systems, Portable Products
- Computer monitors
LCD/CRT based
- Consumer communications
Mobile phones, Cordless digital phones
- Set top boxes
- Accessories
Headphones, Recordable media

Key facts



- Every second we sell more than 5 CE products to consumers worldwide
- Every minute more than 20 TV's, 5 DVD players, 4 Audio home systems, 7 monitors, 10 phones, 3 portable CD players and 25 headphones are sold
- Over 820 million people consider Philips for their next TV purchase each year
- Philips Pixel Plus Flat TV models named European LCD and Plasma TVs of the Year 2003-2004 by the European Imaging and Sound Association (EISA)
- Distribution via leading outlets such as Best Buy, Carrefour, Circuit City, Wal-Mart, Dixons, Media Markt and Darty

Key financials 2002/2003

	2001	2002
Sales	11,052	9,600
% nominal (decrease) increase	(15)	(13)
Income (loss) from operations*	(649)	230
As % of sales	(5.9)	2.4
Net operating capital (NOC)	672	28
Number of employees	31,525	20,080

Source: Royal Philips Electronics, annual report 2002

Amounts in million euros

* incl. Amortization of goodwill

	Q3 2002	Q3 2003
Sales	2,232	2,208
% nominal (decrease) increase	(10)	(1)
% comparable** (decrease) increase	(6)	6
Income (loss) from operations	8	(32)
As % of sales	0.4	(1.4)
Net operating capital (NOC)	600	150
Number of employees	27,250	19,893

Source: Royal Philips Electronics, Q3 report, 2003

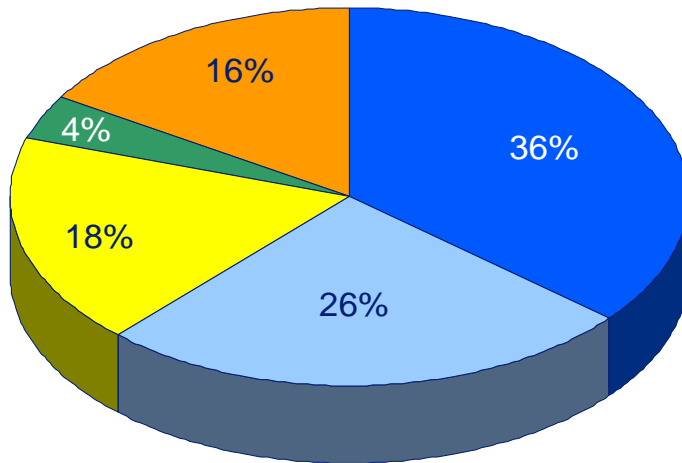
Amounts in million euros

** Adjusted for exchange rates

Revenue per product and region

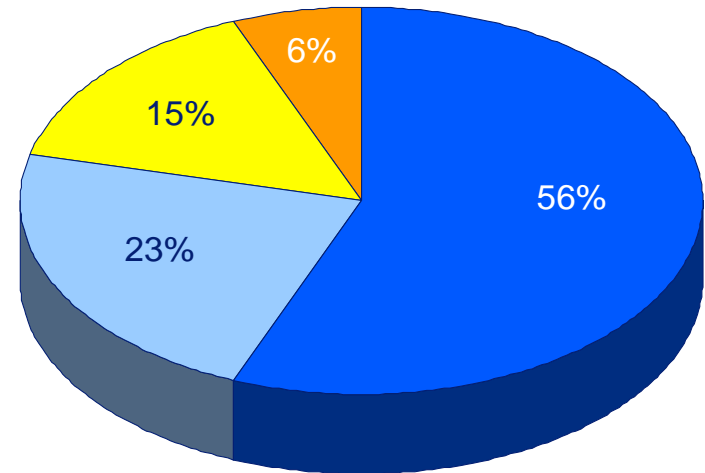
Sales 2002: 9.6 billion €

Sales per business segment*



- TV
- AV Entertainment
- Monitors
- GSM
- Others

Sales per region*



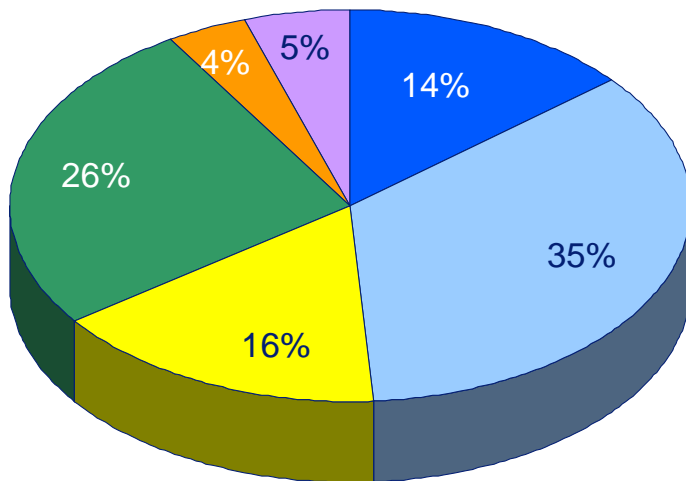
- Europe
- North America
- APMEA
- Latin America

* Percentages based on sales to thirds, restated for 2003 structure

Employees per function and region

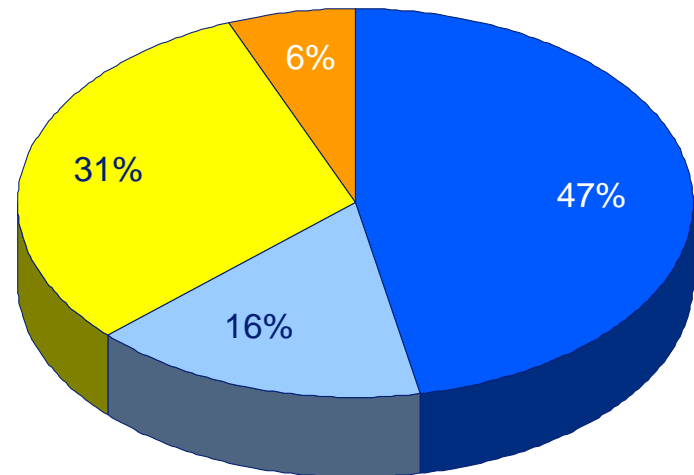
Total employees Q3 2003: 19,893

Headcount per function*



- Development
- Commercial
- Direct Industrial
- G&A
- Indirect industrial
- Temporary

Headcount per region*



- Europe
- APMEA
- North America
- Latin America

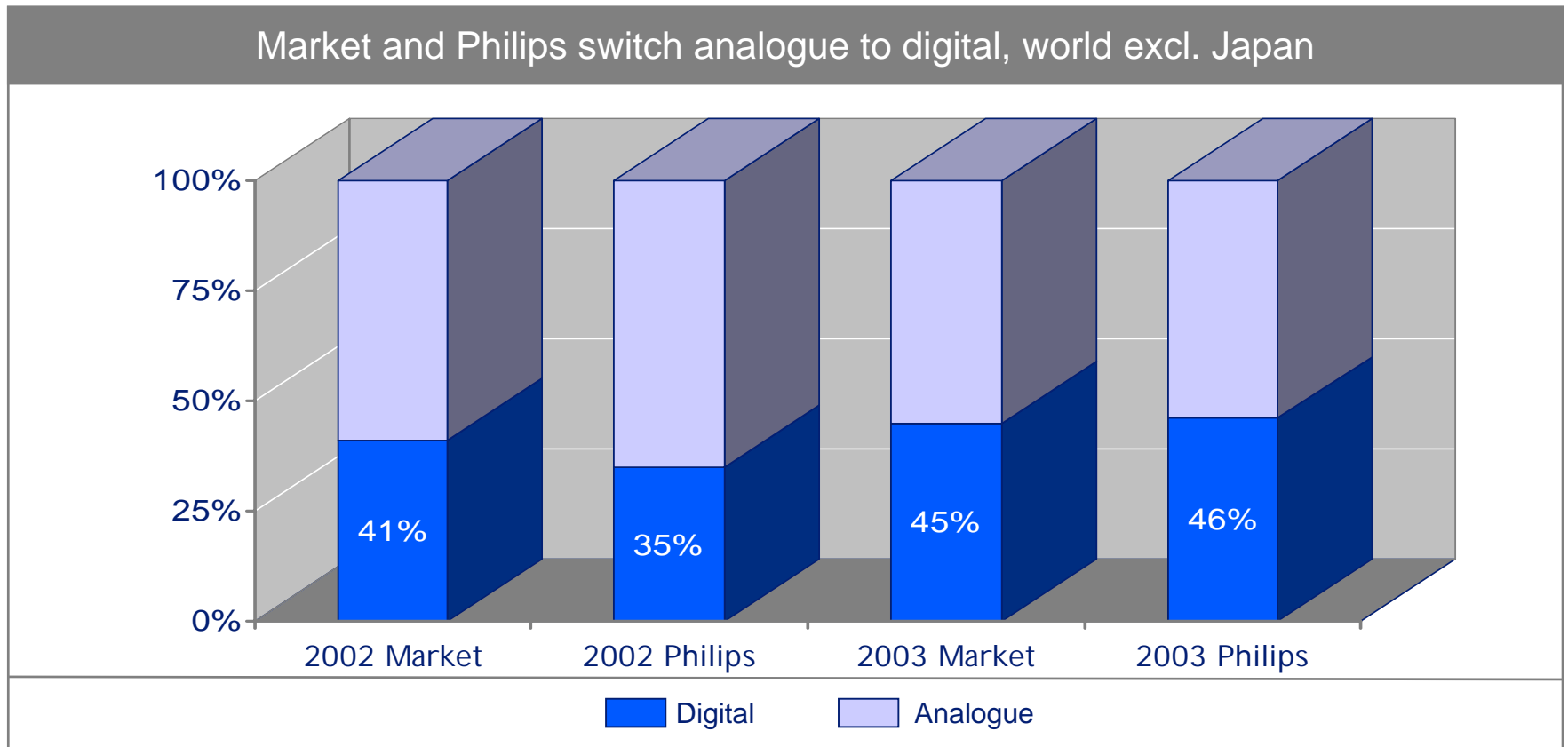
Achievements per region

Global market share growth 2002 10.5% to 2003 YTD 10.8%

- Europe
 - Continued prominence in Western and Central Europe
 - Making inroads in developing and emerging markets
- North America
 - Repositioned brand and established credibility with leading retailers
 - Expanded placements significantly
 - Major progress with Wal mart, DirecTV and other key channel partners
- APMEA
 - Regained growth momentum in Monitors, GSM and TV
- Latin America
 - Derisked business model implemented
 - Continued leadership in Brasil

**Good basis for our commitment
to lead in the digital future**

PCE quickly switches to digital



Source: Philips CE Market Flash report (GfK, Intellect), forecast for served markets, market share 2002 – YTD 2003

Achievements so far

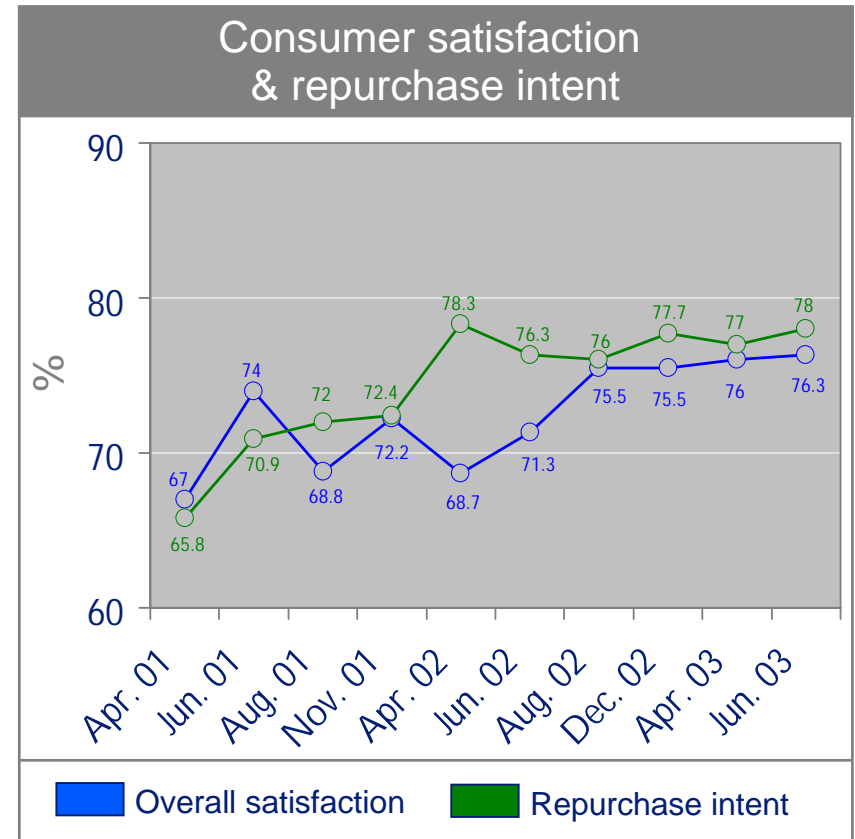


- Profile Philips
Consumer Electronics
- One Philips
 - One culture
 - One brand
 - One company
- Creating value in
Consumer Electronics

One culture

- Delight Consumers
- Deliver on Commitments
- Develop People
- Depend on each other

Example delight consumers:



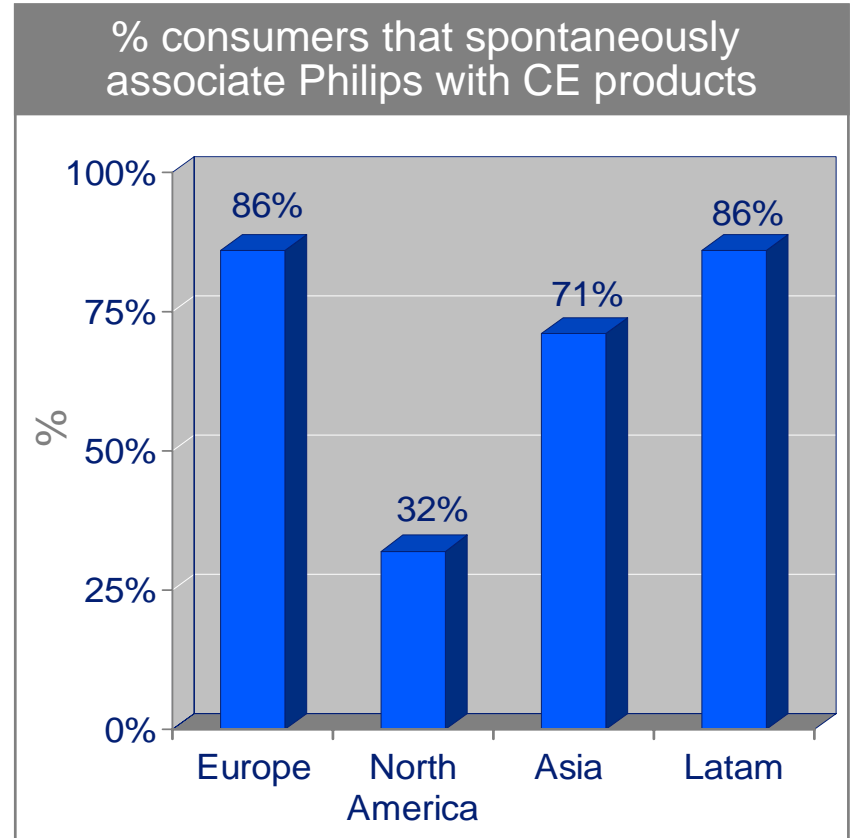
Source: Philips Euroservice, customer satisfaction measurement, May/June 2003

Consumer Electronics increases consumer satisfaction and repurchase intention

One brand

- Improving the quality of peoples lives by bringing meaningful technological innovations to the market at the right time

Example brand contribution CE:



Source: BEAT- study July 2002

Philips is mostly known for its Consumer Electronics products

One company

- A shared vision to be the innovation leader in Healthcare, Lifestyle and enabling Technology

Examples of shared vision:

Interdivisional cooperation

- Strong relationship with Semiconductors and display J.V.s
- Consumer knowledge commercial platform for strengthening technology pillars
- Expertise in picture quality helps Medical Systems

Consumer Electronics naturally interacts
with all parts of Philips

Achievements so far



- Profile Philips
Consumer Electronics
- One Philips
- Creating value in
Consumer Electronics
 - Licences
 - Products and Services

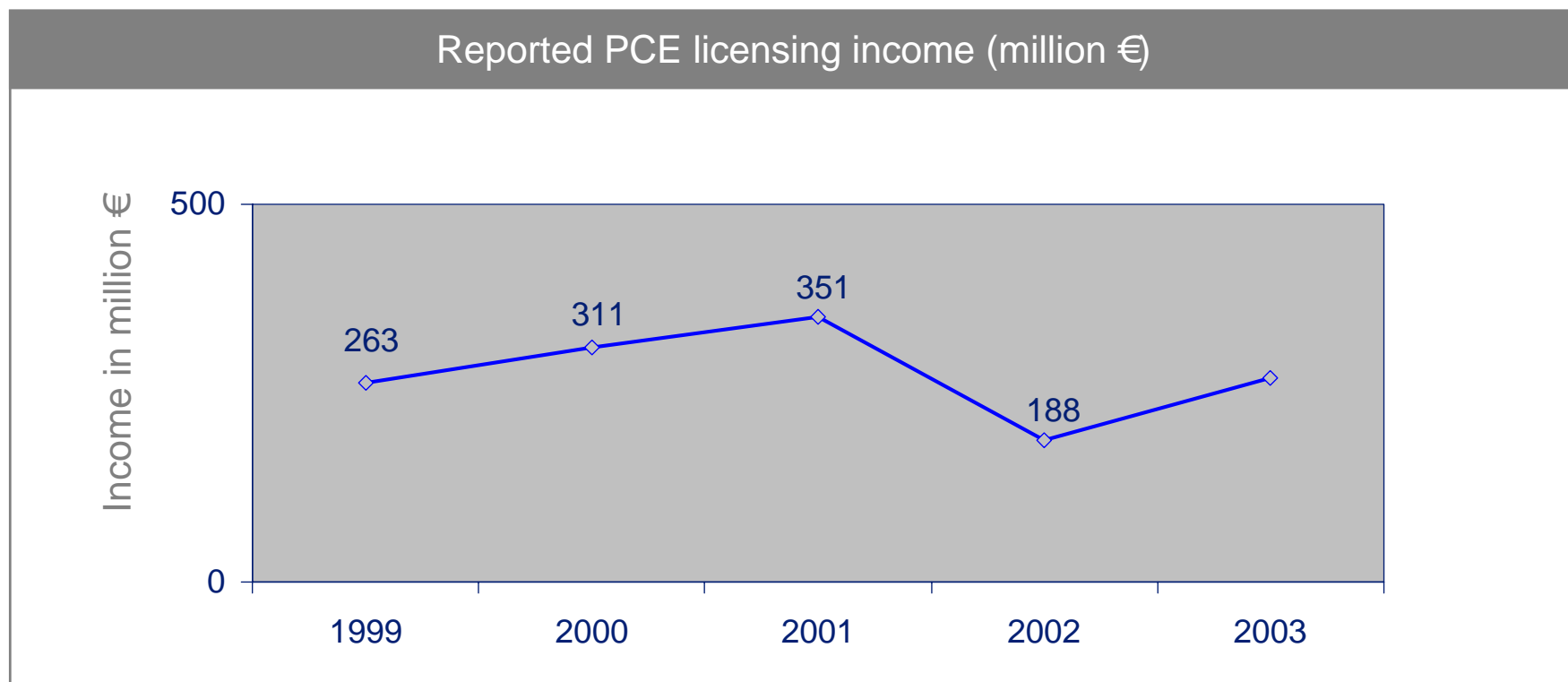
Our Ambition

The combination of technology and product leadership provides a foundation for income from two sources:

- Licences target $\geq 2\%$ IFO
- Products and Services target 2 – 2.5% IFO

In products and services it is our ambition to deliver top line growth in more attractive lifestyle segments

CE licensing income from operations (IFO)



Source: Royal Philips Electronics annual reports 2000, 2001, 2002

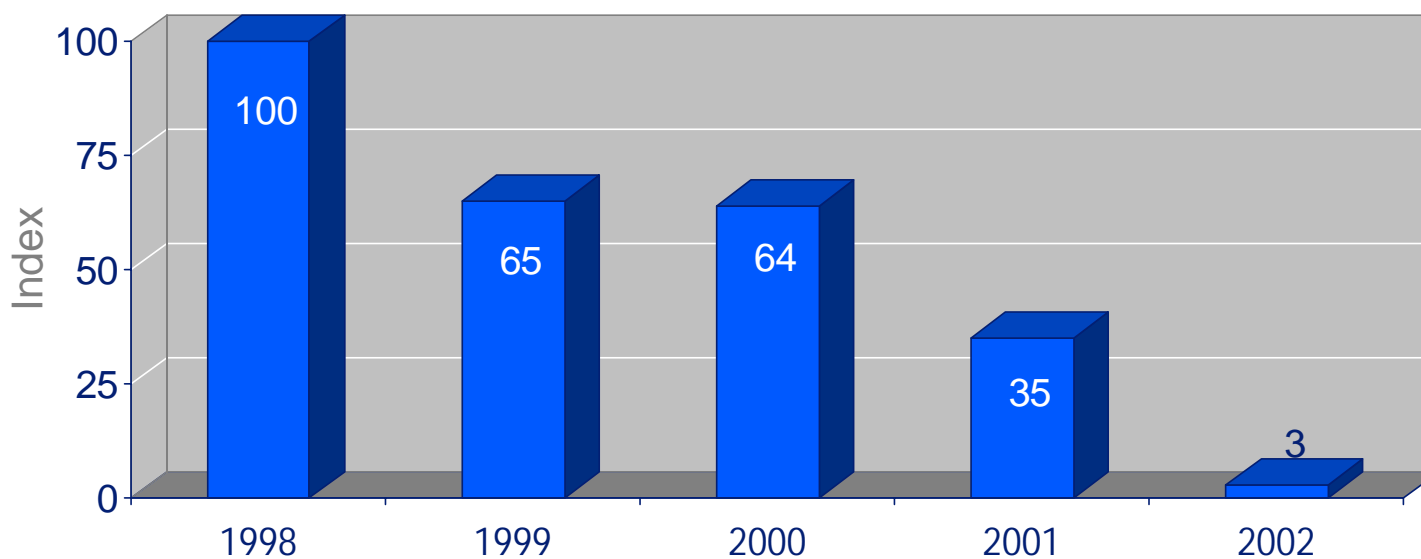
Operational excellence is a pre-requisite to realise 2 – 2.5 % income from operations

- Supply Chain Management
 - Inventory management
 - # of Components and Suppliers
 - Cash Conversion Cycle
- Asset management
 - Factory reduction
 - Outsourcing
- Productivity
 - Sales per employee

risk profile reduced

Structural reduction in NOC as % sales

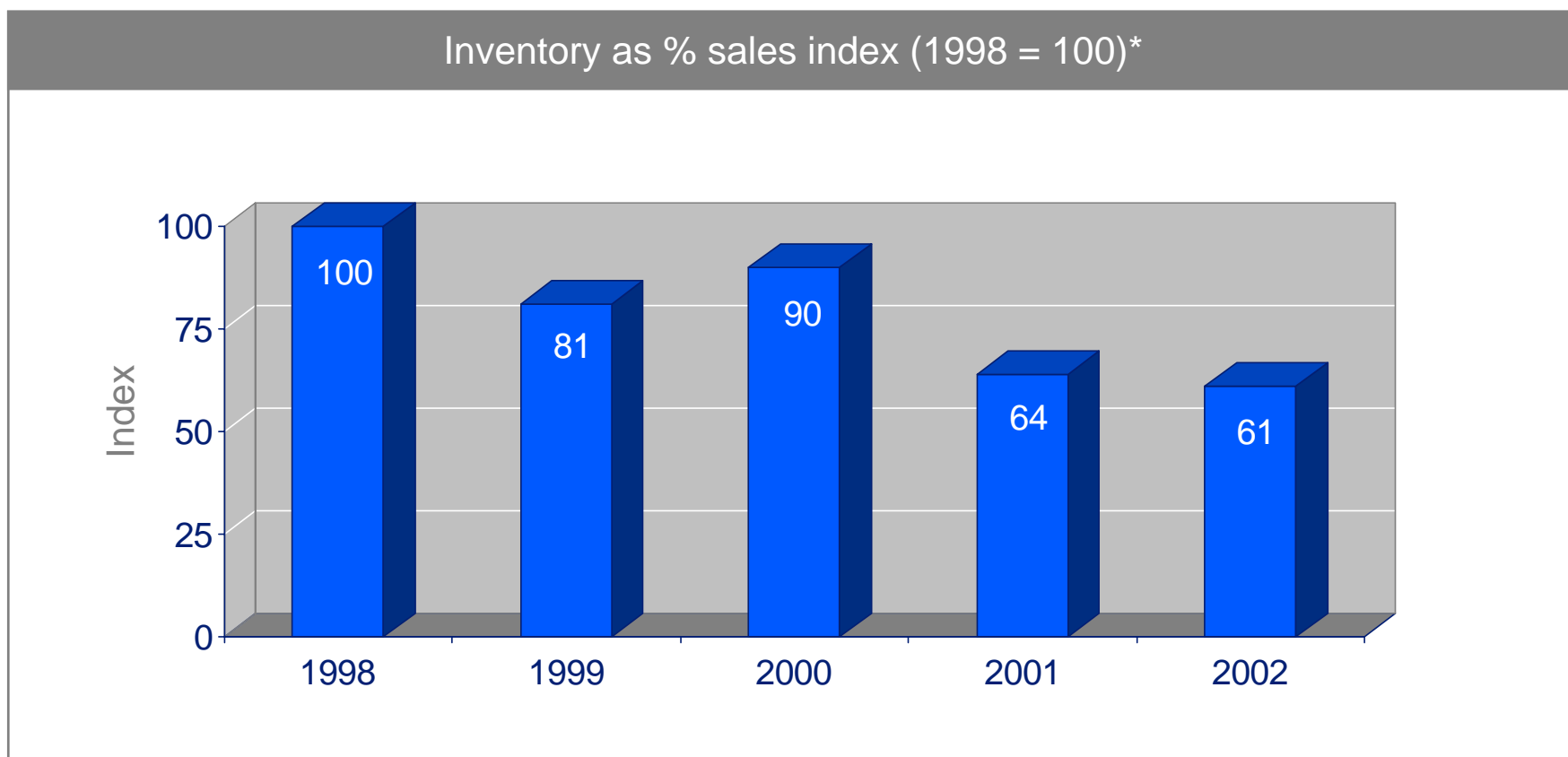
NOC as % sales index (1998 = 100)*



2001 and 2002 figures restated for 2003 structure

* Based on year end NOC

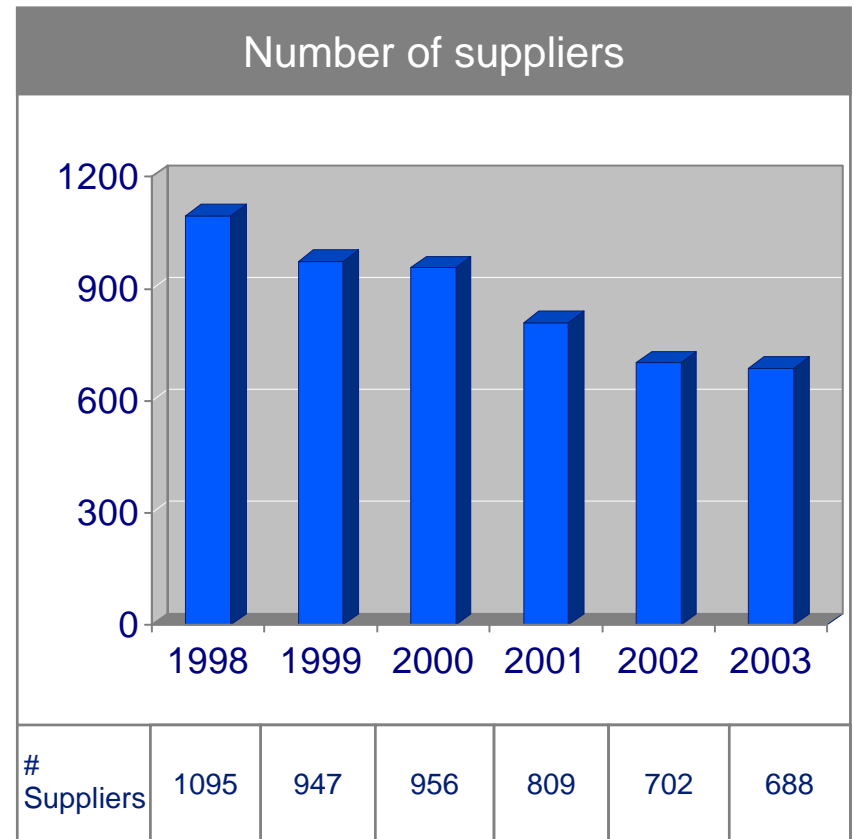
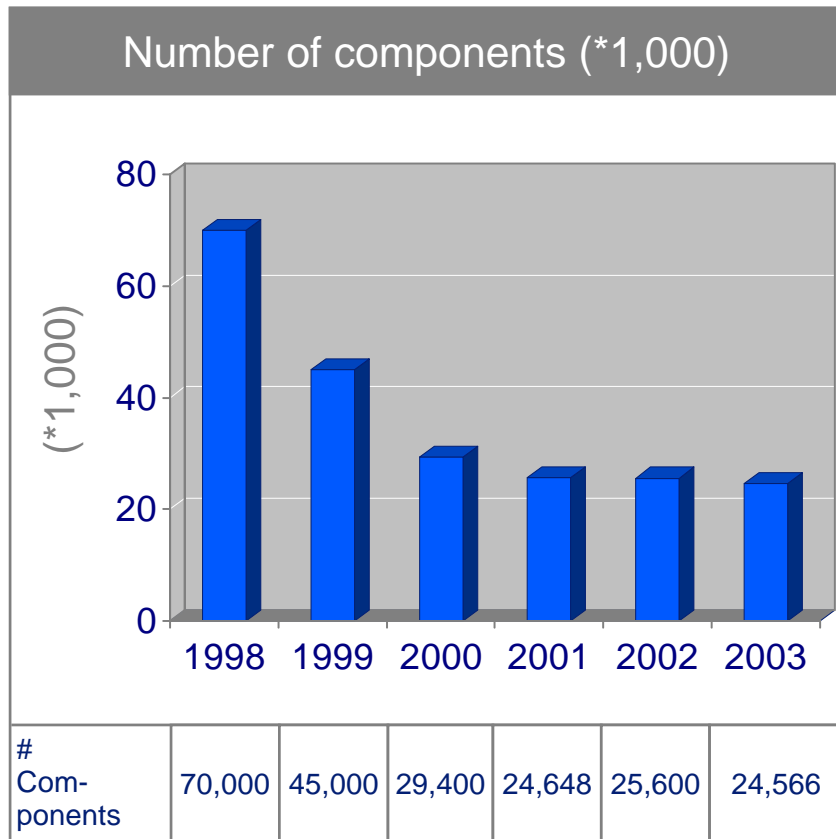
Reduction in inventory levels



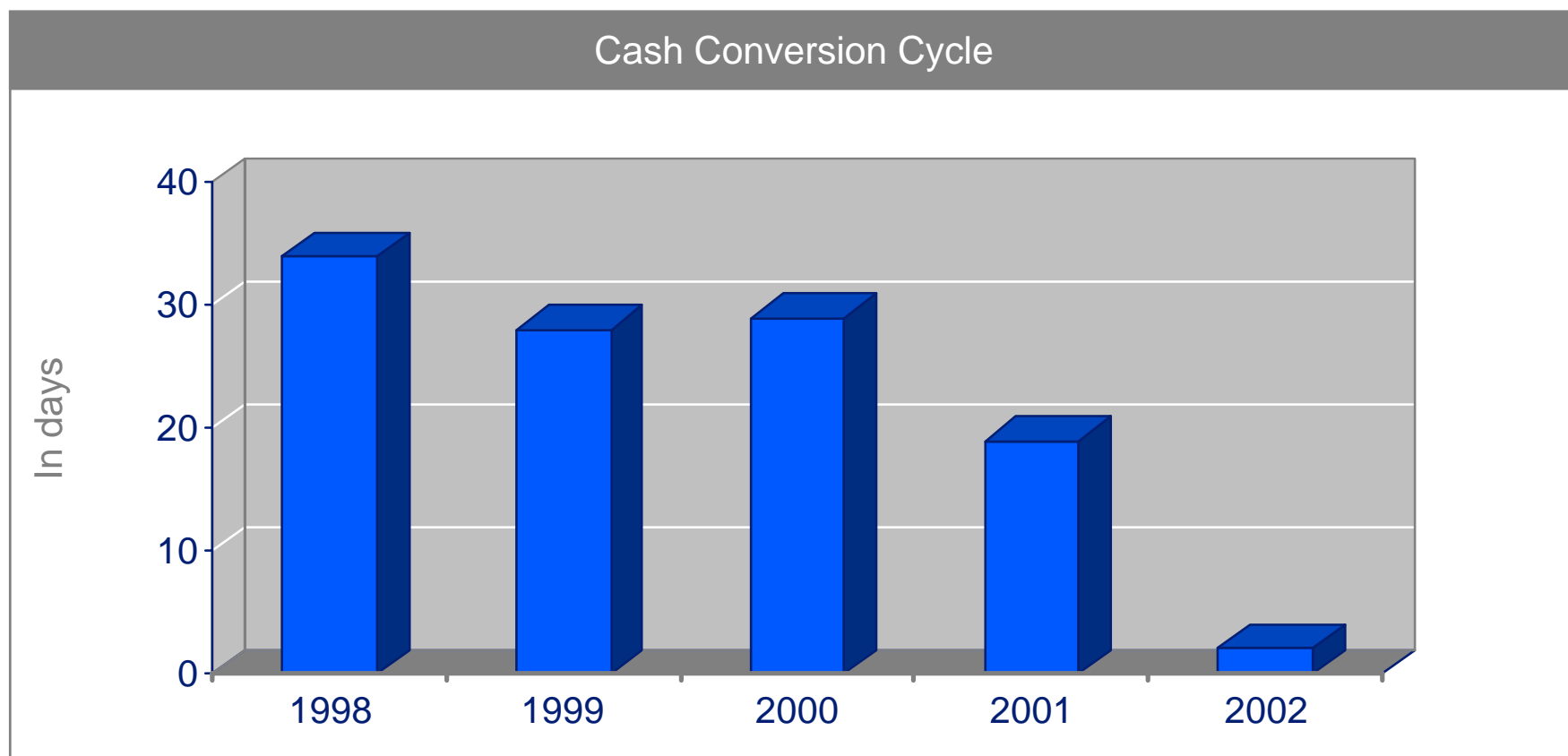
2001 and 2002 figures restated for 2003 structure

* Based on year end Inventory

Reduction in components and suppliers

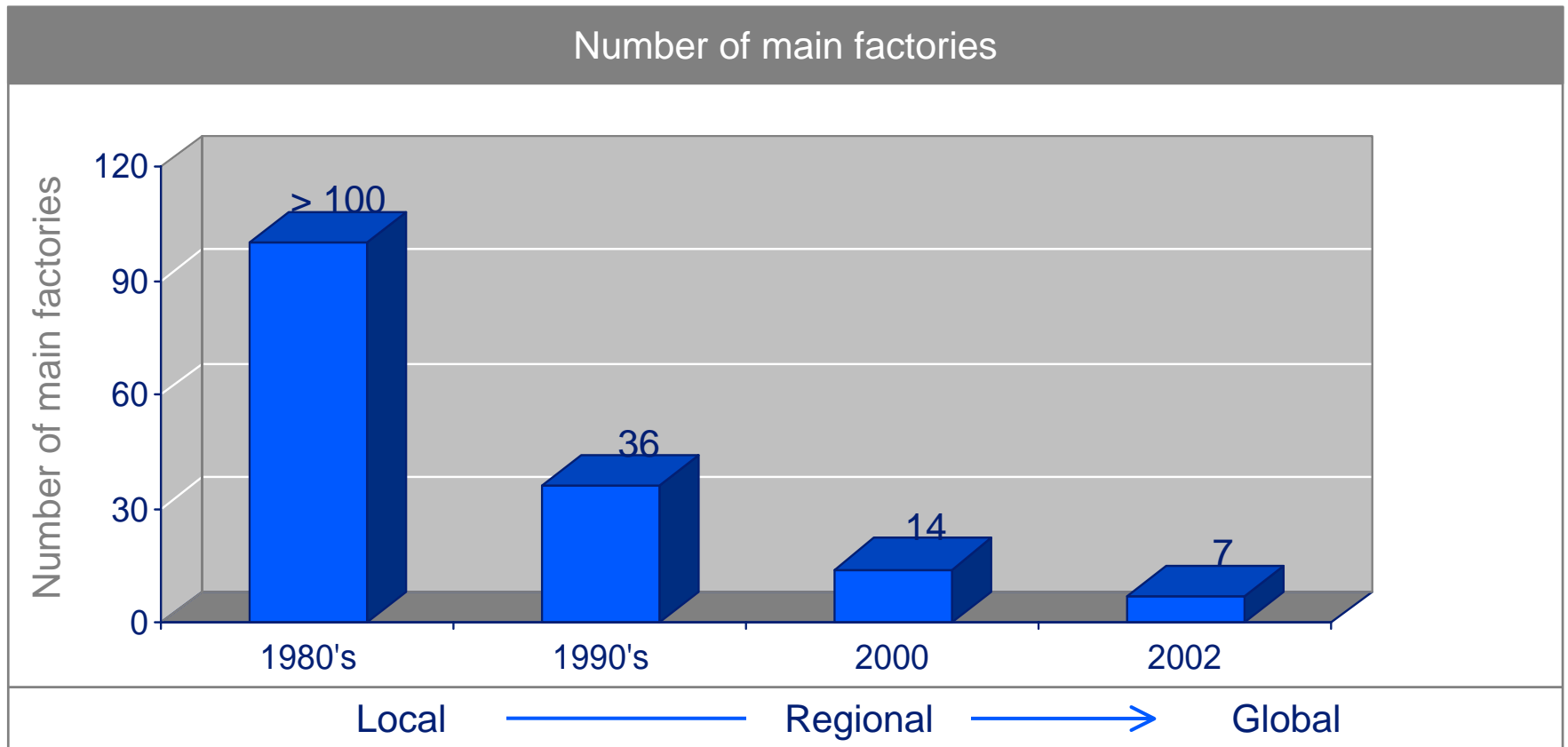


Reduction in the cash conversion cycle

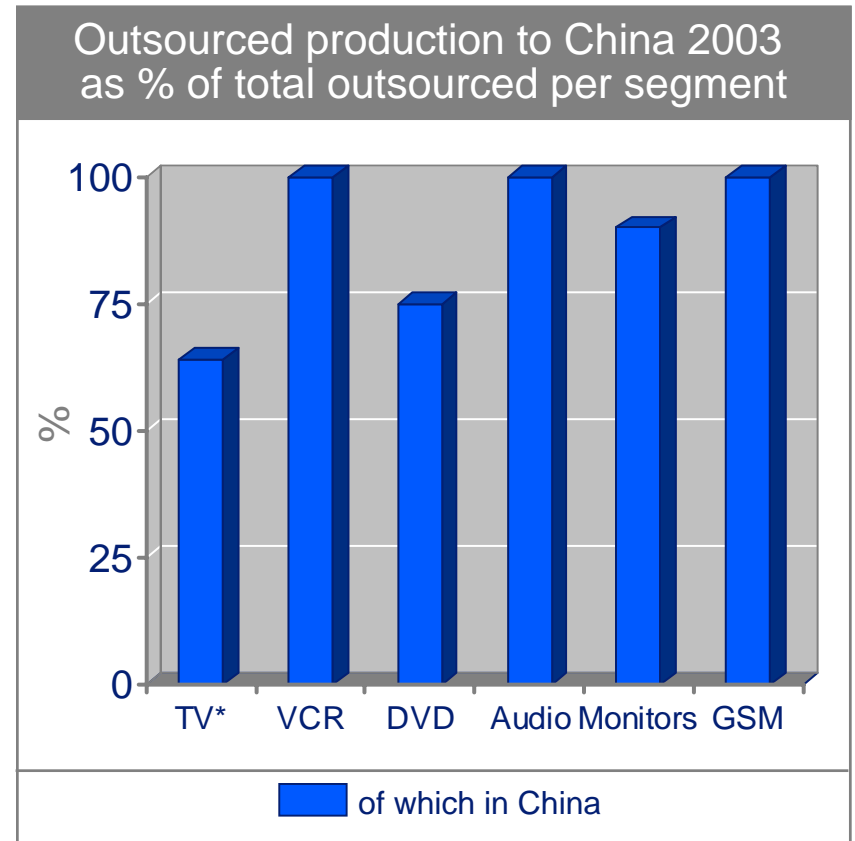
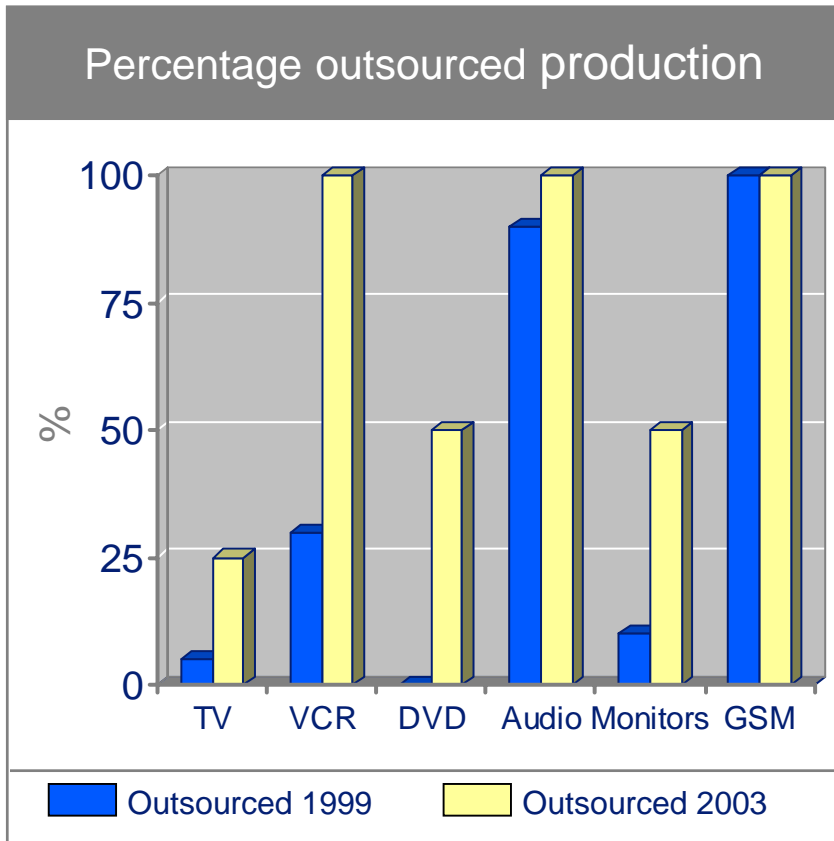


2001 and 2002 figures restated for 2003 structure

Reduction in the number of main factories

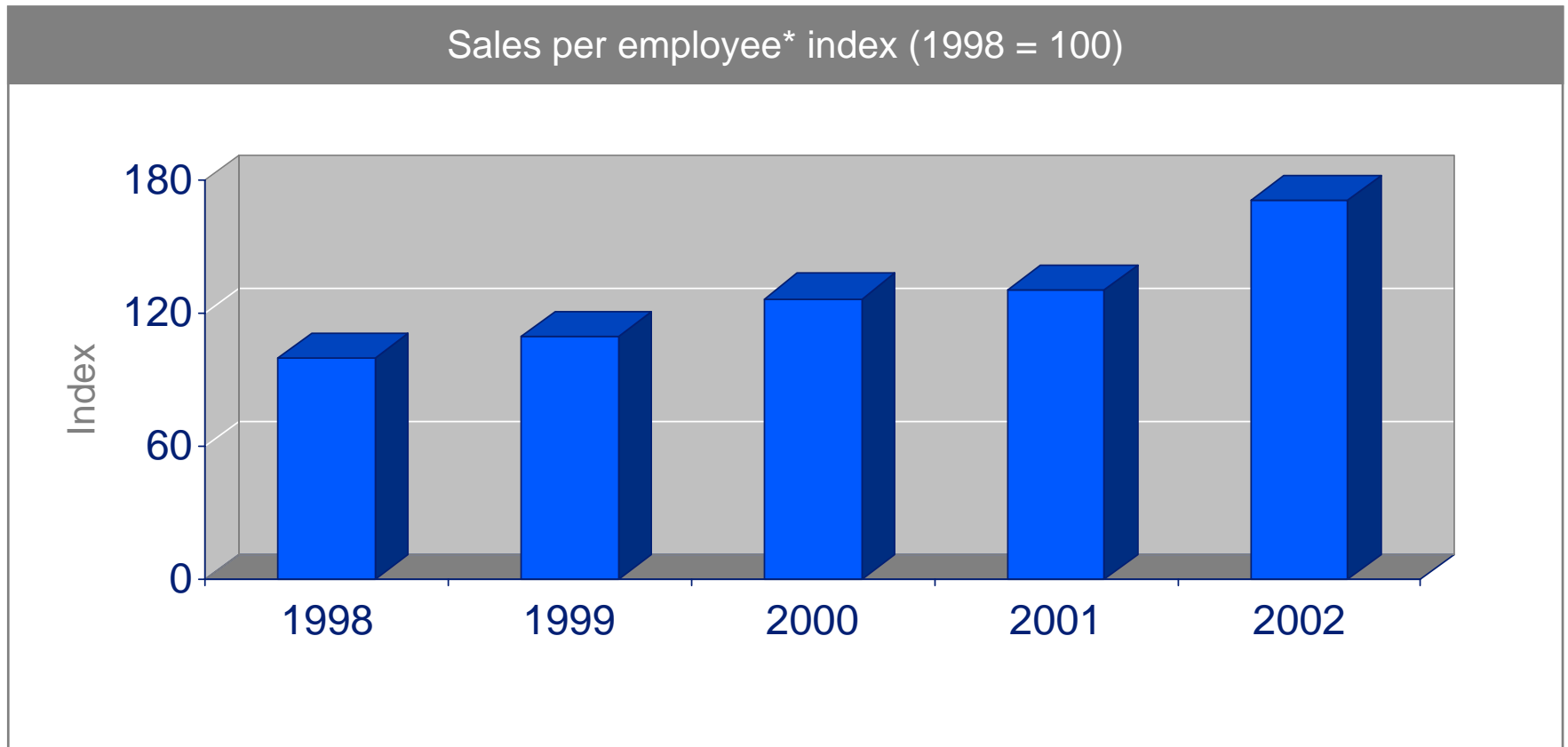


Outsourced production increases, mainly to China



* Increasing China sourcing

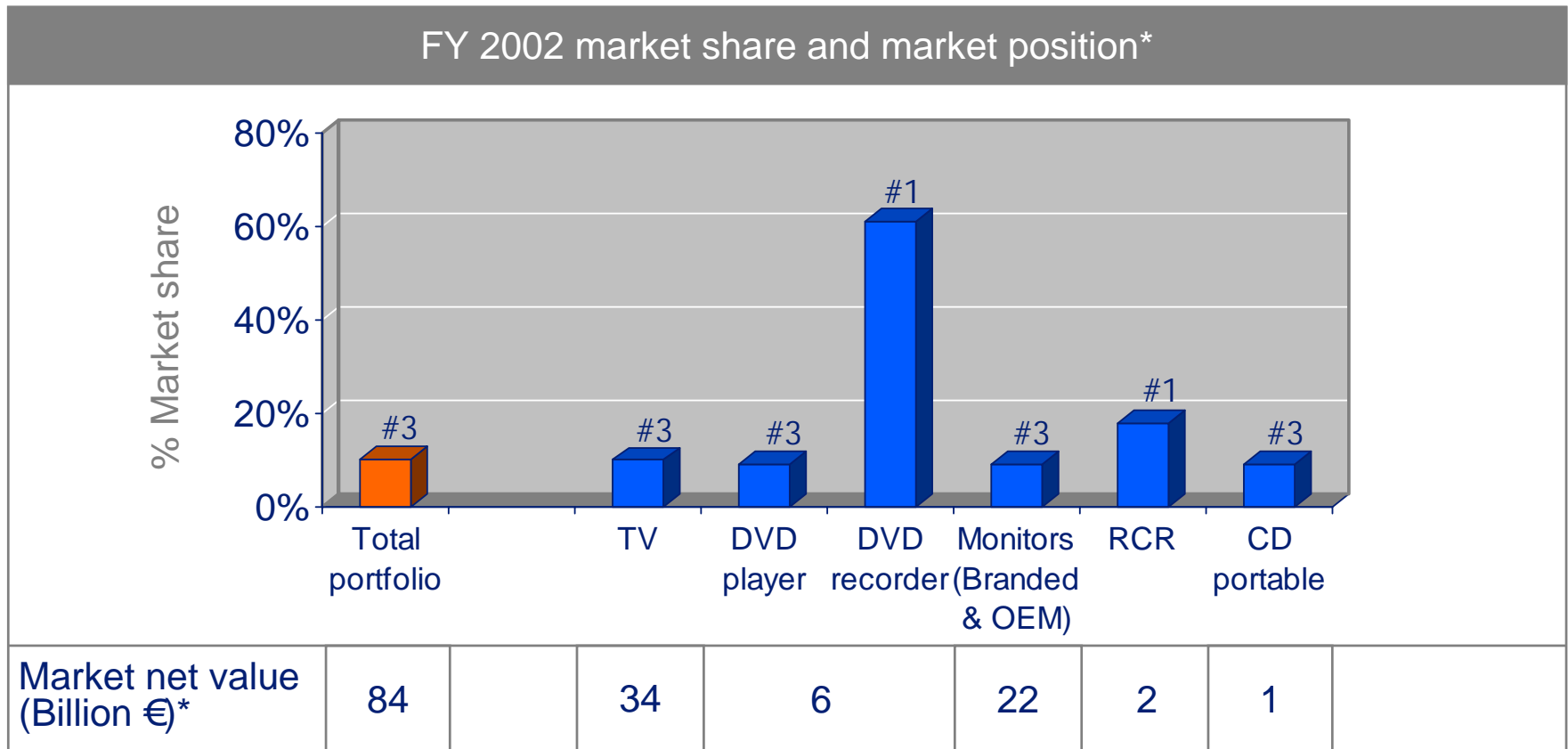
PCE has increased sales per employee



2001 and 2002 figures restated for 2003 structure

* Based on year end number of employees, sales to thirds

PCE has significant share in all A/V Markets

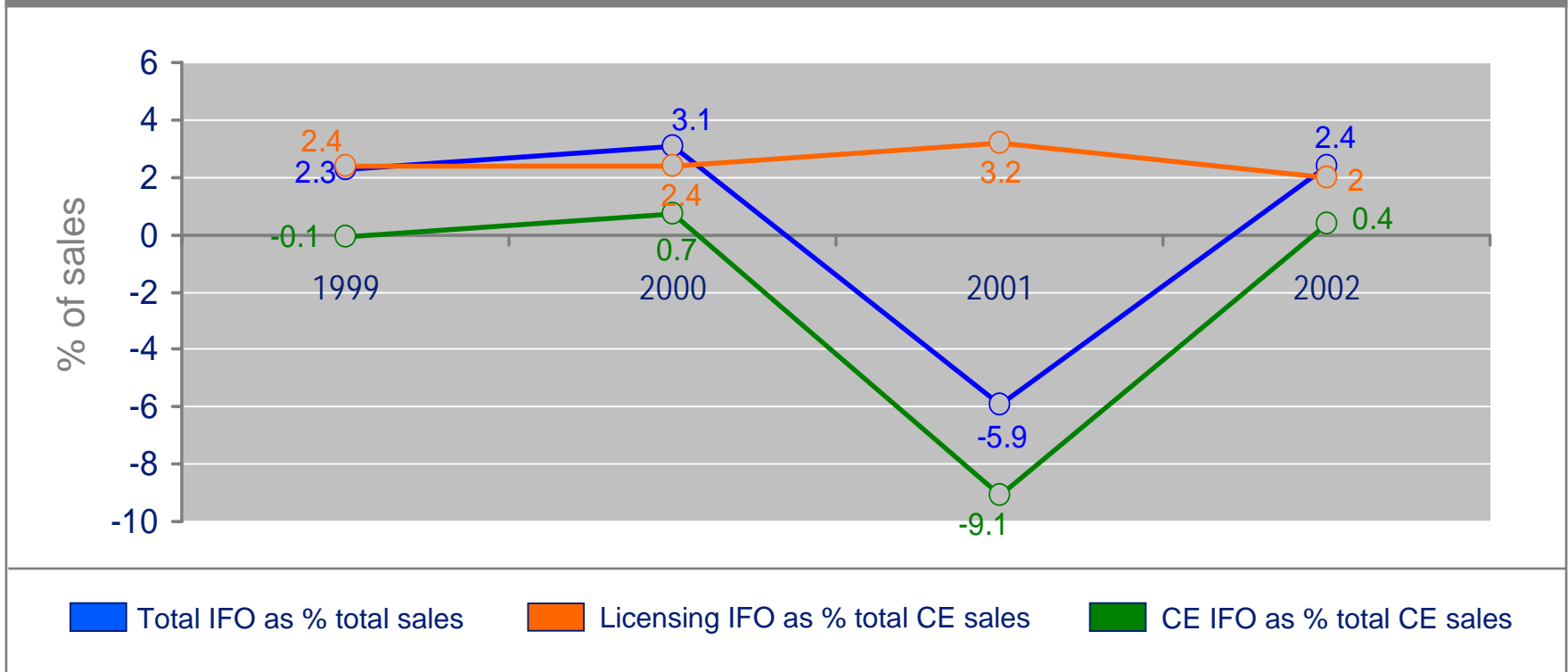


Source: Philips CE Market Flash report 2003, based on Intellect, gfk, zyk, Electros, etc.

* World excluding Japan

Yet profitability is not improving structurally

Reported IFO as % of sales*



Source, Royal Philips Electronics annual report 2002 sales and total IFO, annual reports 2000, 2001, 2002 CE licensing IFO

Achievements so far - summary

- We have significantly derisked our business
- We have reduced the downside risks while ensuring sustained income from licensing
- The past was characterised by a lot of restructuring, now we have caught up - and are even leading versus other, much more integrated “A-brands”
- Our business renewal program anticipates the challenges ahead

