PHILIPS

Consumer Electronics

Gottfried Dutiné
Executive Vice President and
Member of the Board of Management

Agenda

- Philips Consumer Electronics: Position and Strategy
- Key Business Drivers
- Financials
- Conclusions

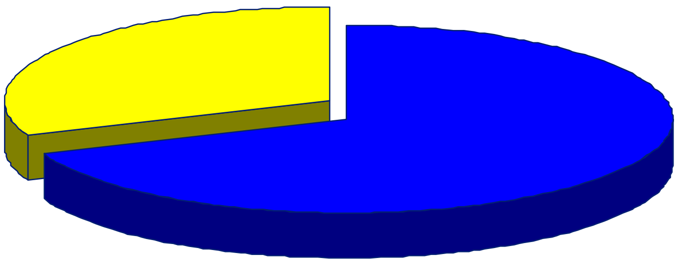
PHILIPS

Agenda

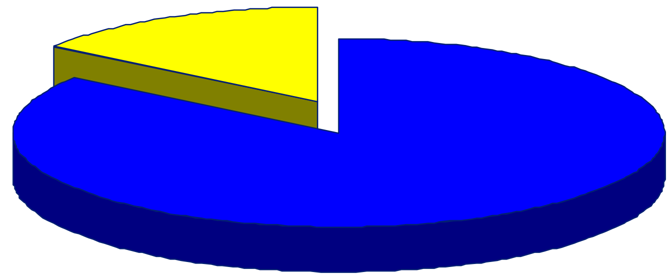
- Philips Consumer Electronics: Position and Strategy
- Key Business Drivers
- Financials
- Conclusions

Philips Consumer Electronics (PCE)* within Royal Philips Electronics

Sales

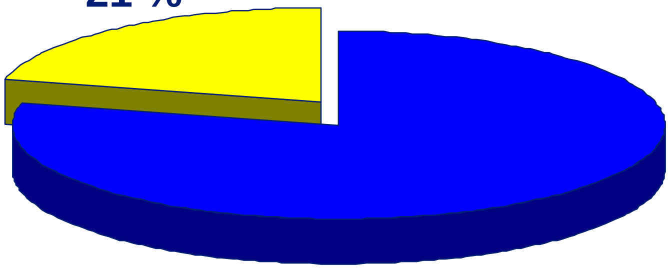


Employees

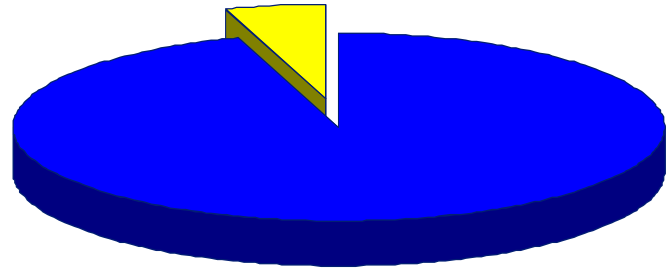


2001

Operational CF

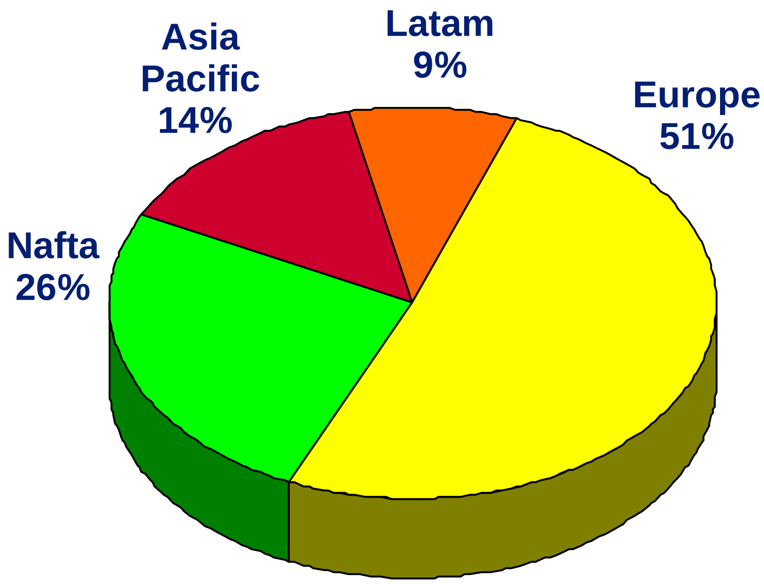


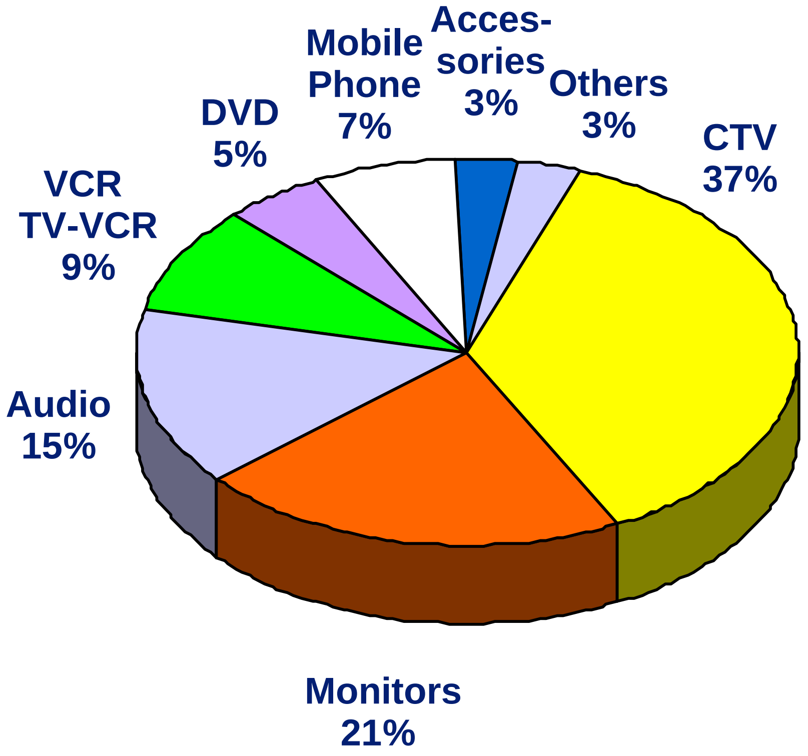
NOC



*** PCE incl. PCMS**

2001 PCE* Revenue Portfolio





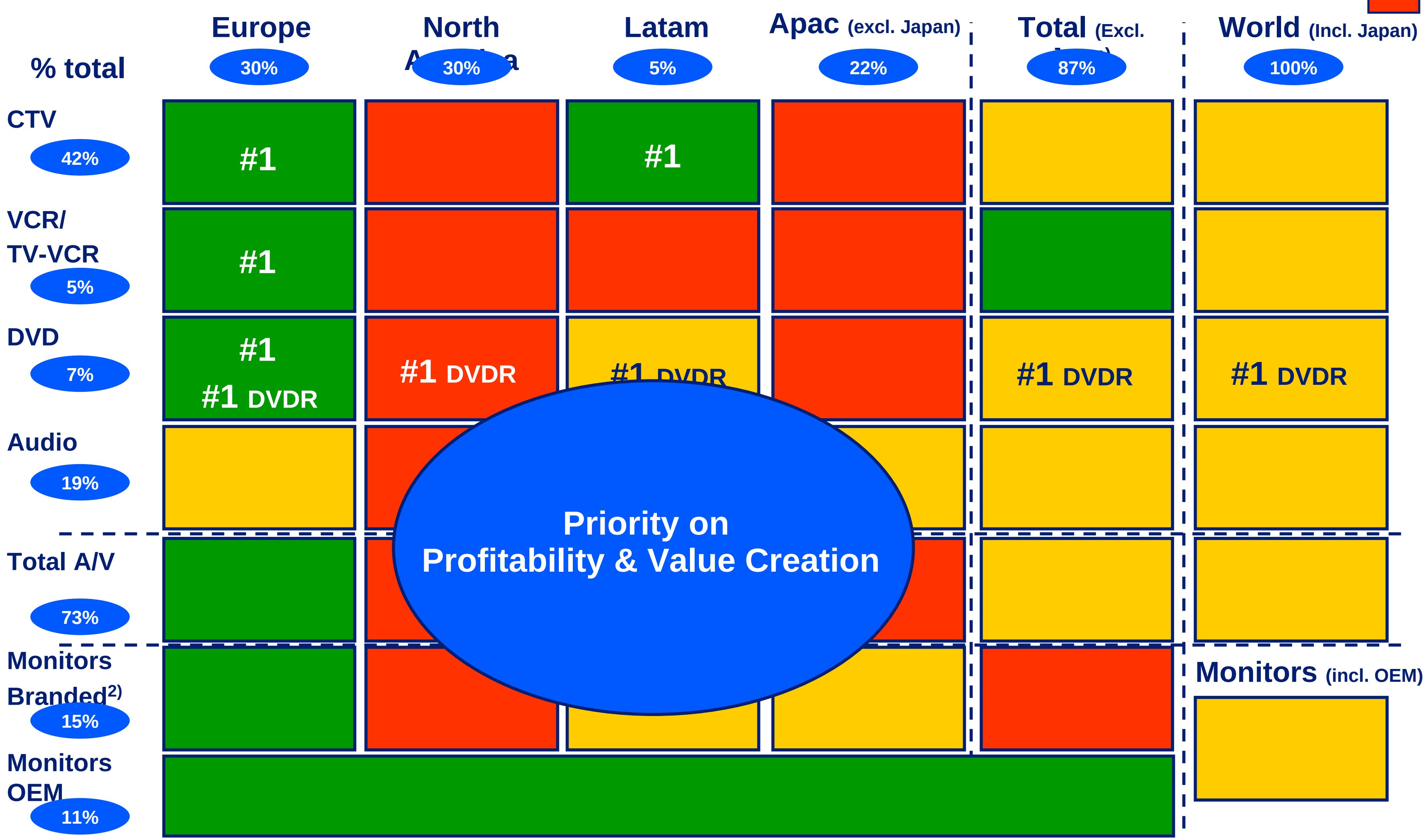
Total sales: Euro 10.1 Bln

*** PCE incl. PCMS**

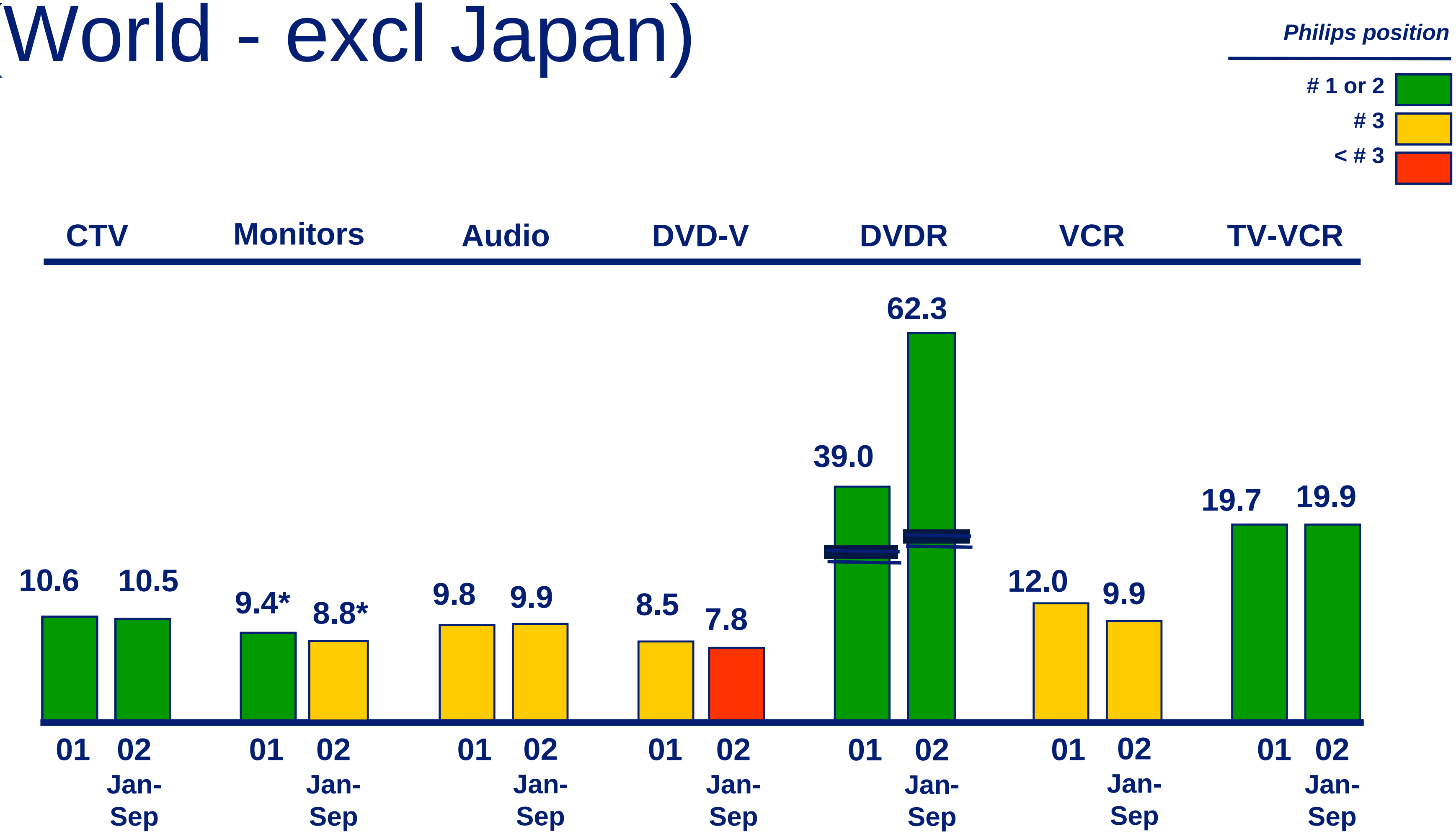
Philips position

1 or 2
3
< # 3

Market Position YTD Sept. 2002



Value Market Share '01-'02 YTD Sept. (World - excl Japan)



* Monitors World share defined as: Total sales / Total market incl. OEM

Sources : GfK, Intelect, AC Nielsen, G9, ZYK, Trade Int., Electros, Afardo.

Philips Consumer Electronics - Ambition

- Be **'the' brand** people think of first when they imagine the **most rewarding** digital entertainment, communication and information **experiences** possible
- Be **category leader** (No.1) in: **digital displays, optical storage, wireless connectivity**
- Be **Top 2 player** with value market shares (MS) >10% in all covered markets
- Be a **premium brand** with brand index >100 in every product-market combination
- **Achieve the corporate objectives** (RONA >30%, positive CF, positive EPR)

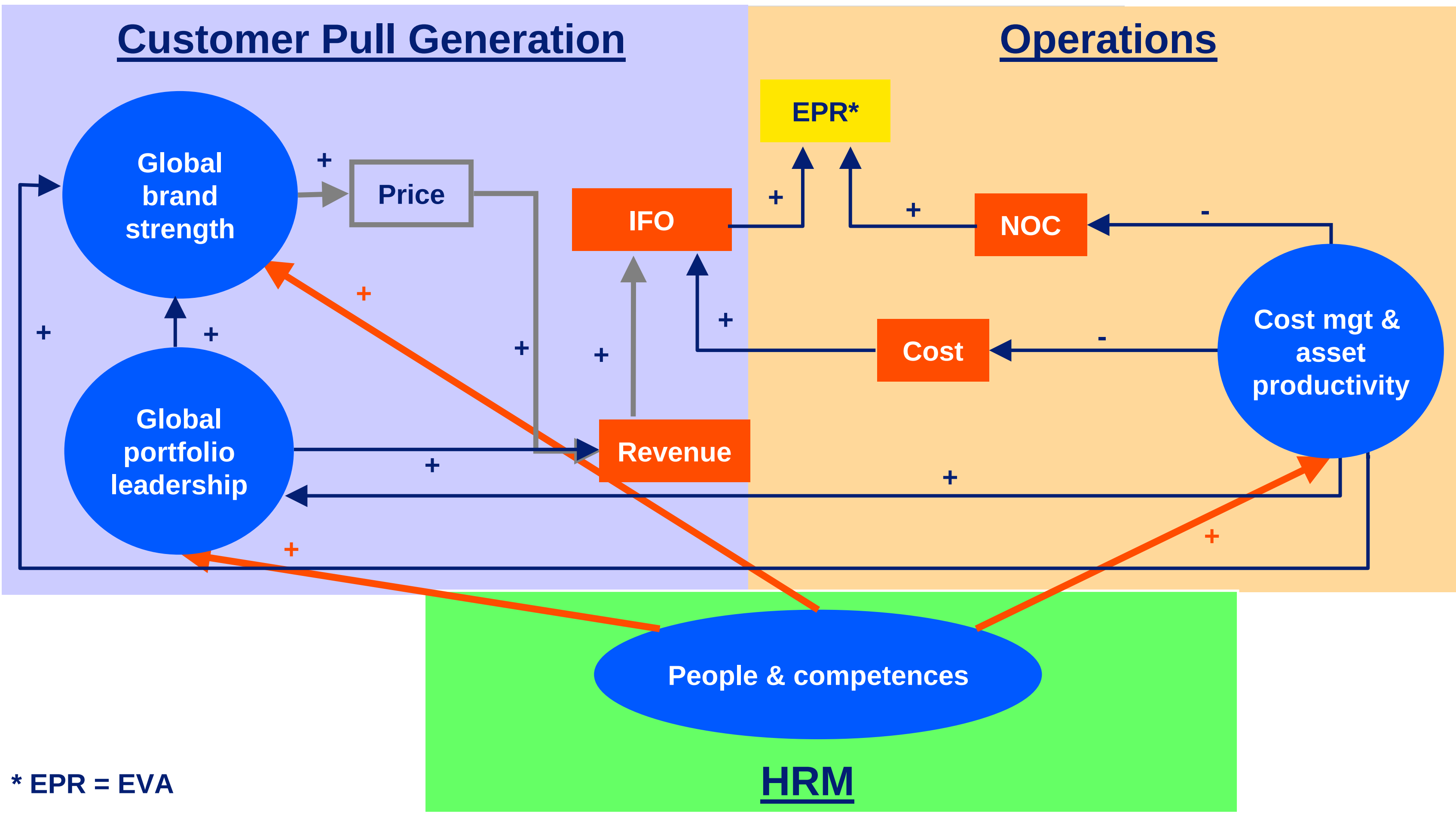
Philips Consumer Electronics - Strategy Highlights

- Transform into **marketing-oriented** organisation built on **speed**
- Maximise **Customer Pull** through
  - **Global brand strength**
  - **Global portfolio leadership**
- Become **Best in Class in cost management & asset productivity**
- Drive passion to win & personal **commitment to excellence**

Agenda

- Philips Consumer Electronics: Position and Strategy
- Key Business Drivers
- Financials
- Conclusions

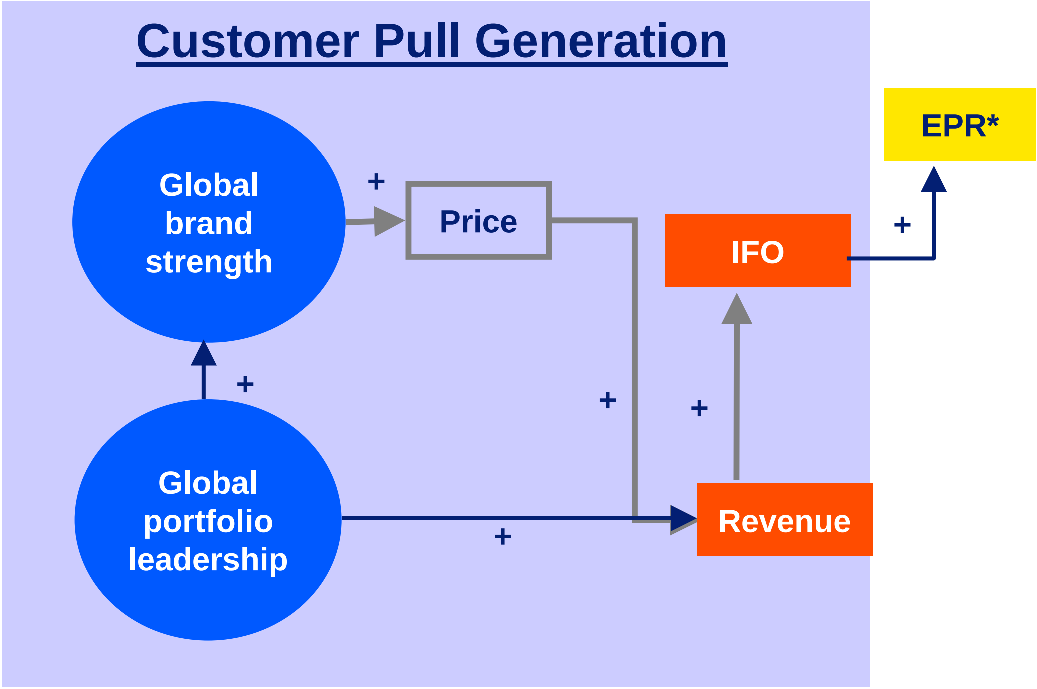
Key Business Drivers for creating Shareholder Value



* EPR = EVA

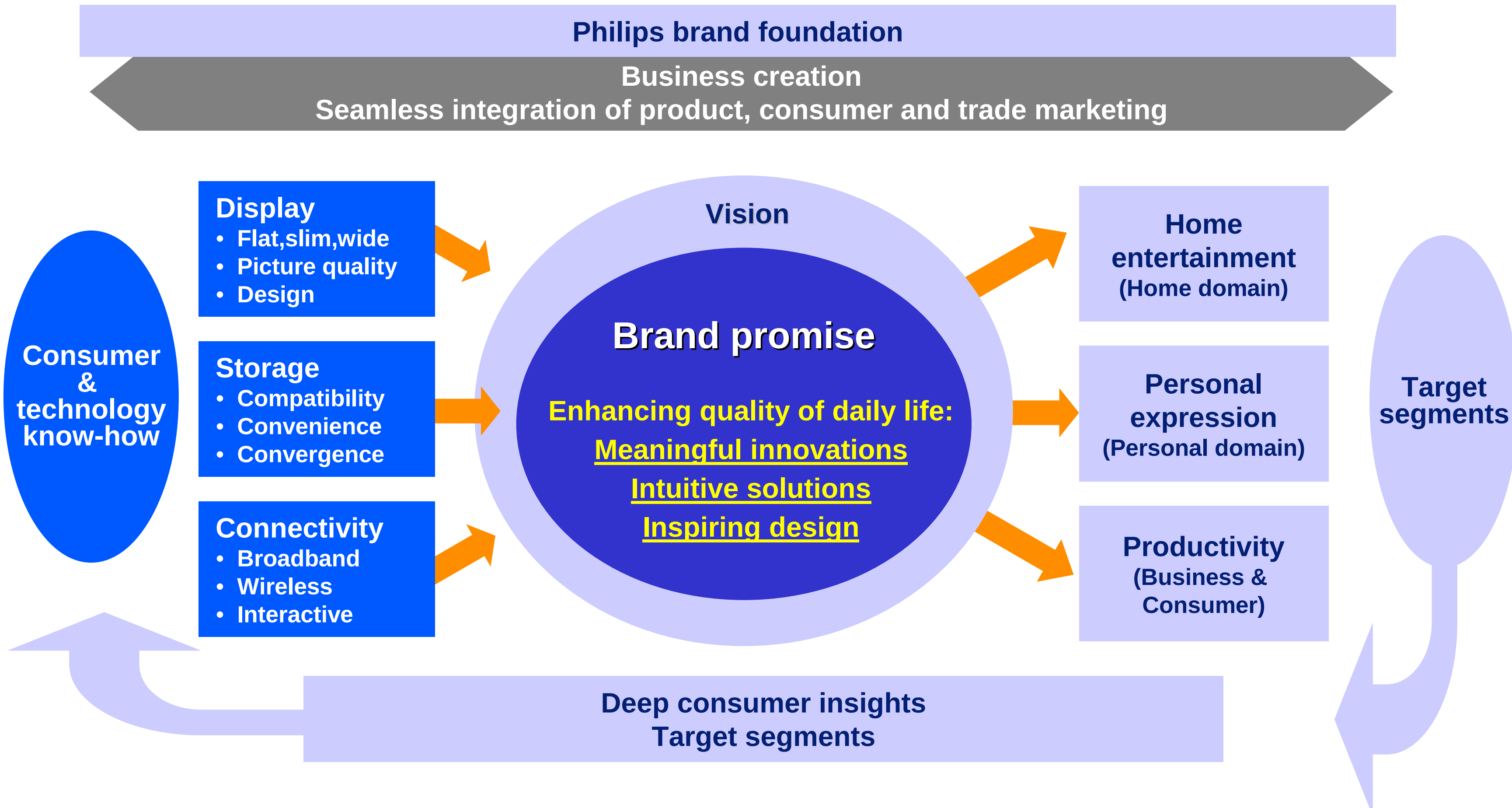
PHILIPS

Key Business Drivers for creating Shareholder Value

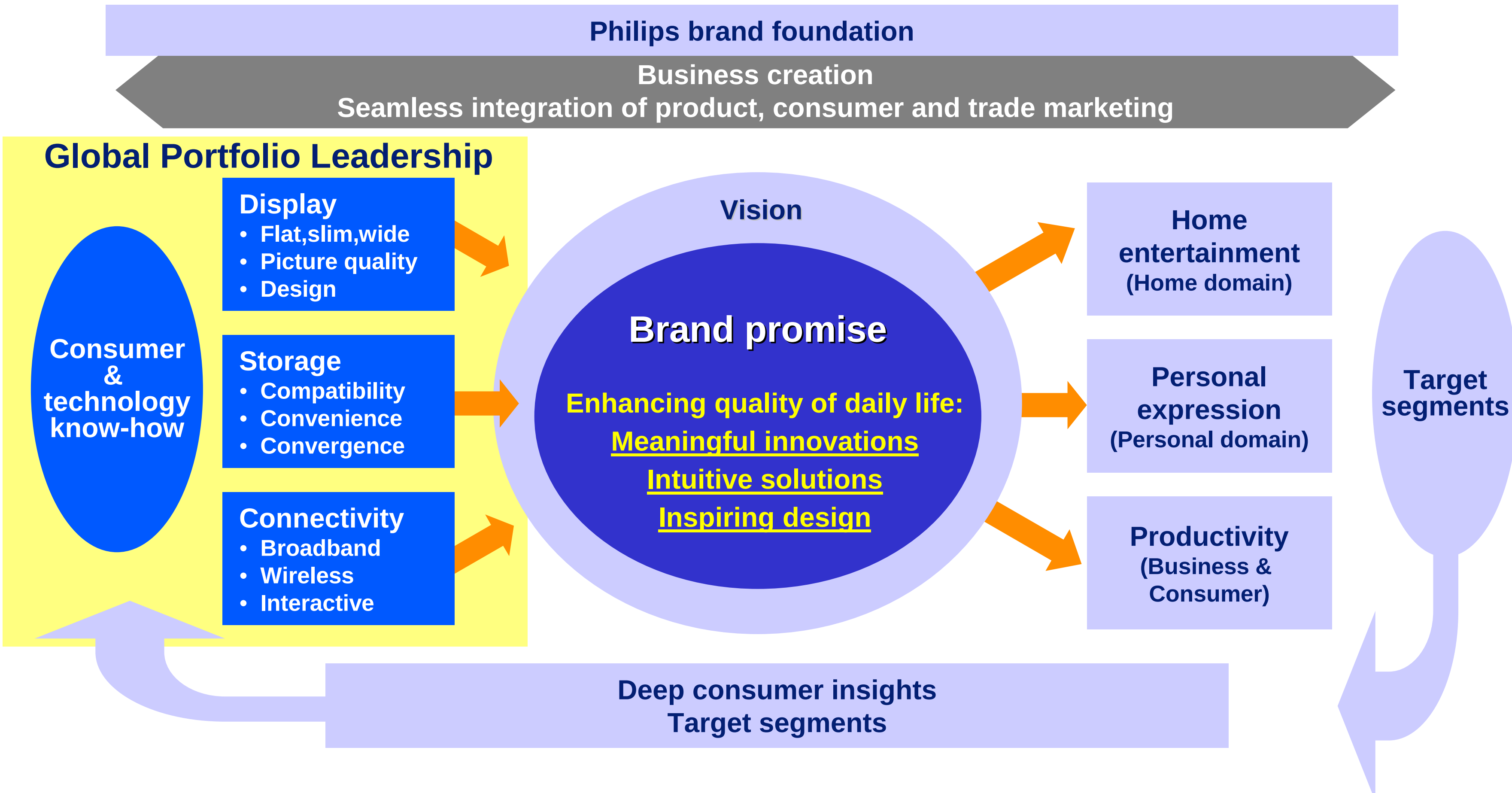


* EPR = EVA

Customer Pull Generation - Our Business Logic

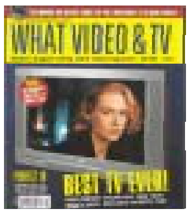


Customer Pull Generation - Focus area: Products



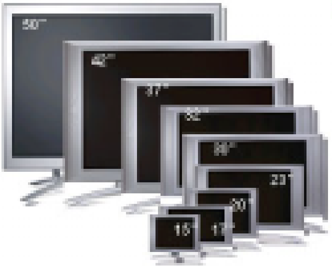
Global Portfolio Leadership Displays: Flat, Slim, Wide

CRT



FLAT TV™

Range 2003



PTV

LCOS PTV Range 2003

LCD TV-Monitor

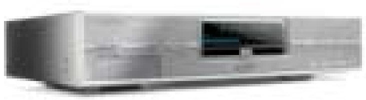
Pixel Plus X
LightFrame X

Front Projector

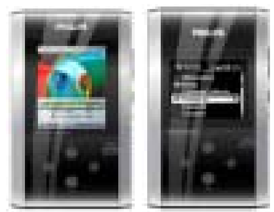
Global Portfolio Leadership

Storage: Optical playback & recording, multiformat, Portable Infotainment

DVD+RW



HDD jukebox AV applications



Fashion DSC products

8 cm CD/DVD applications

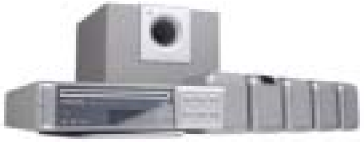
DVD-SACD

DVD slim design

Micro lifestyle design

HD – DVD and Blue Ray disc applications

HTiB applications



Portable MP3 player

PHILIPS

Global Portfolio Leadership
Connectivity: wireless – AV streaming

Dig. TV to TV link

I - Pronto

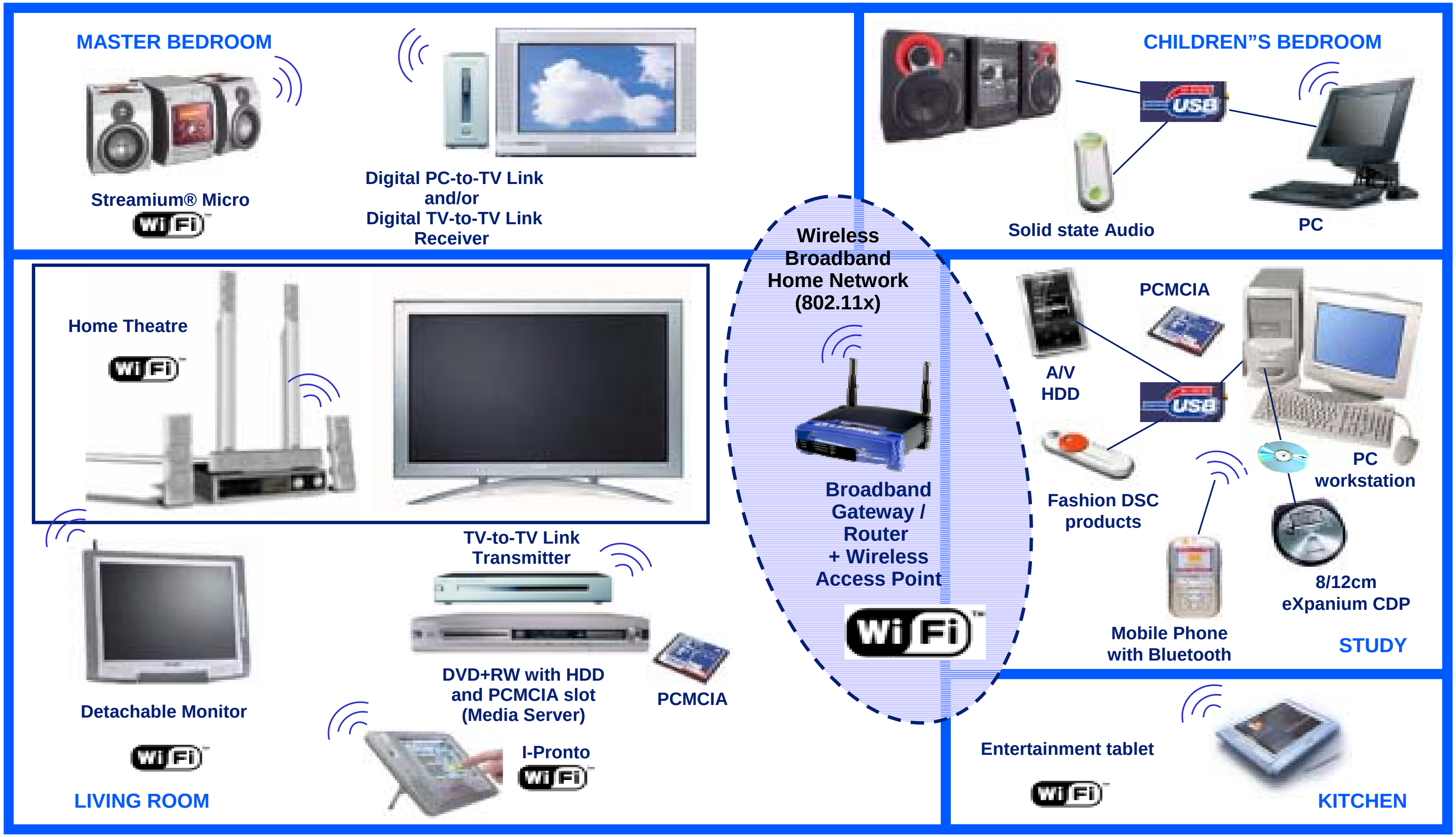
Detachable monitor

Stream*i*um

IP enabled product range

Entertainment tablet

Philips Connected Home Entertainment in 2003

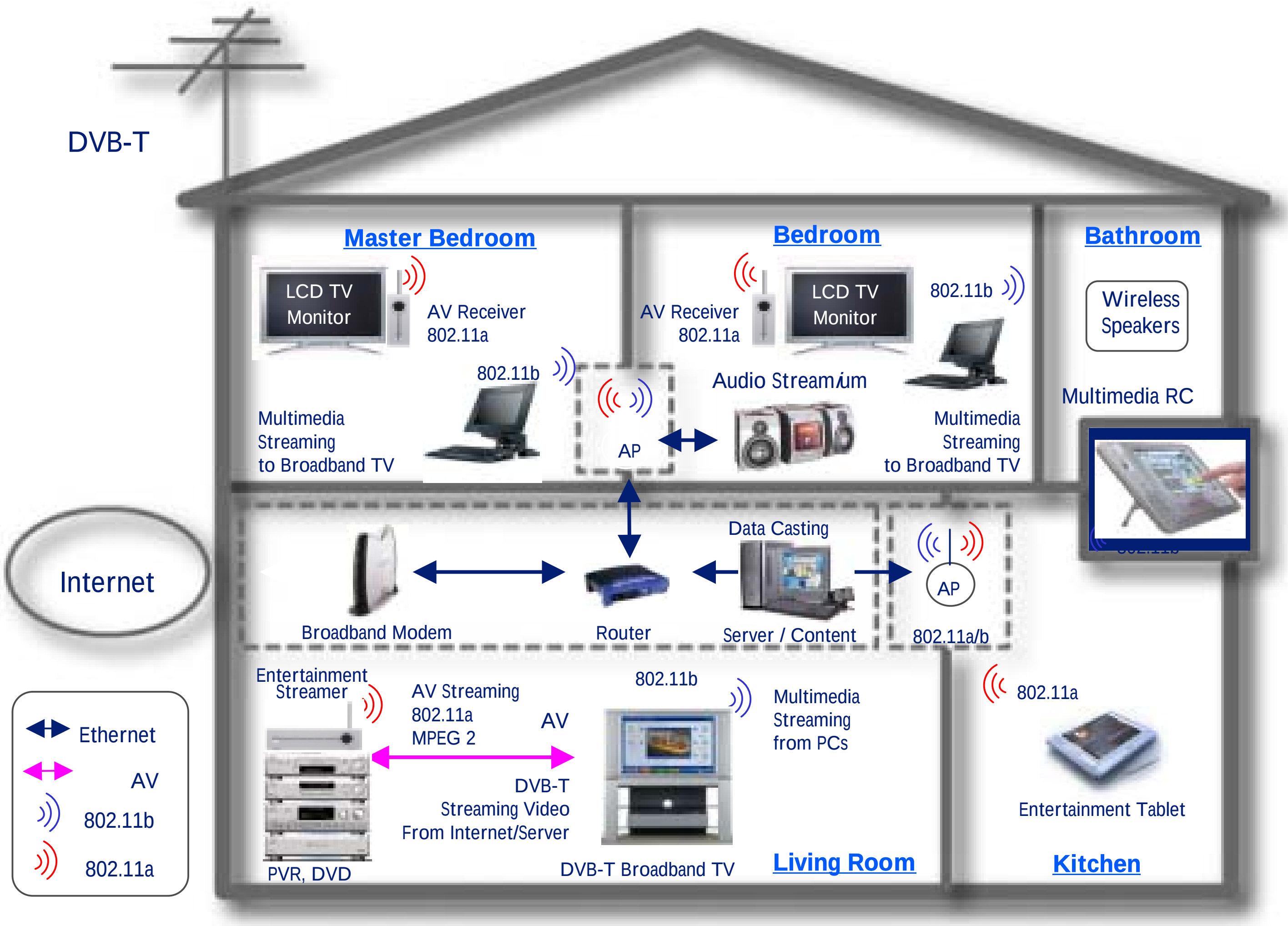


Philips Connected Home Entertainment in 2003

Consumer benefits of Philips Connected Home solution:

- Access & Enjoy your favorite content from any source anywhere in the house
- Unlock Internet and PC content in a friendly and relaxed CE manner
- Make accessing content a more personalized and rewarding experience
- CE user interface/installation/convenience
- Incremental build up of network/no need to waste past investments

Connected Home: Live test in Singapore



Global portfolio leadership …whilst enhancing environmental performance of our products

- Eco design of all products on all environmental attributes

  Green Flagships outperforming competition in 5 green focal areas

Energy

Weight

Recyclability

Packaging

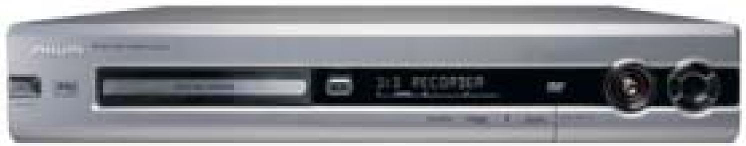
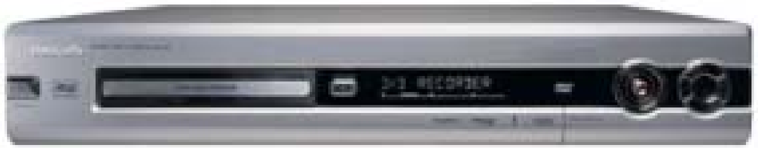
Hazardous Substances

- Green supply chain management

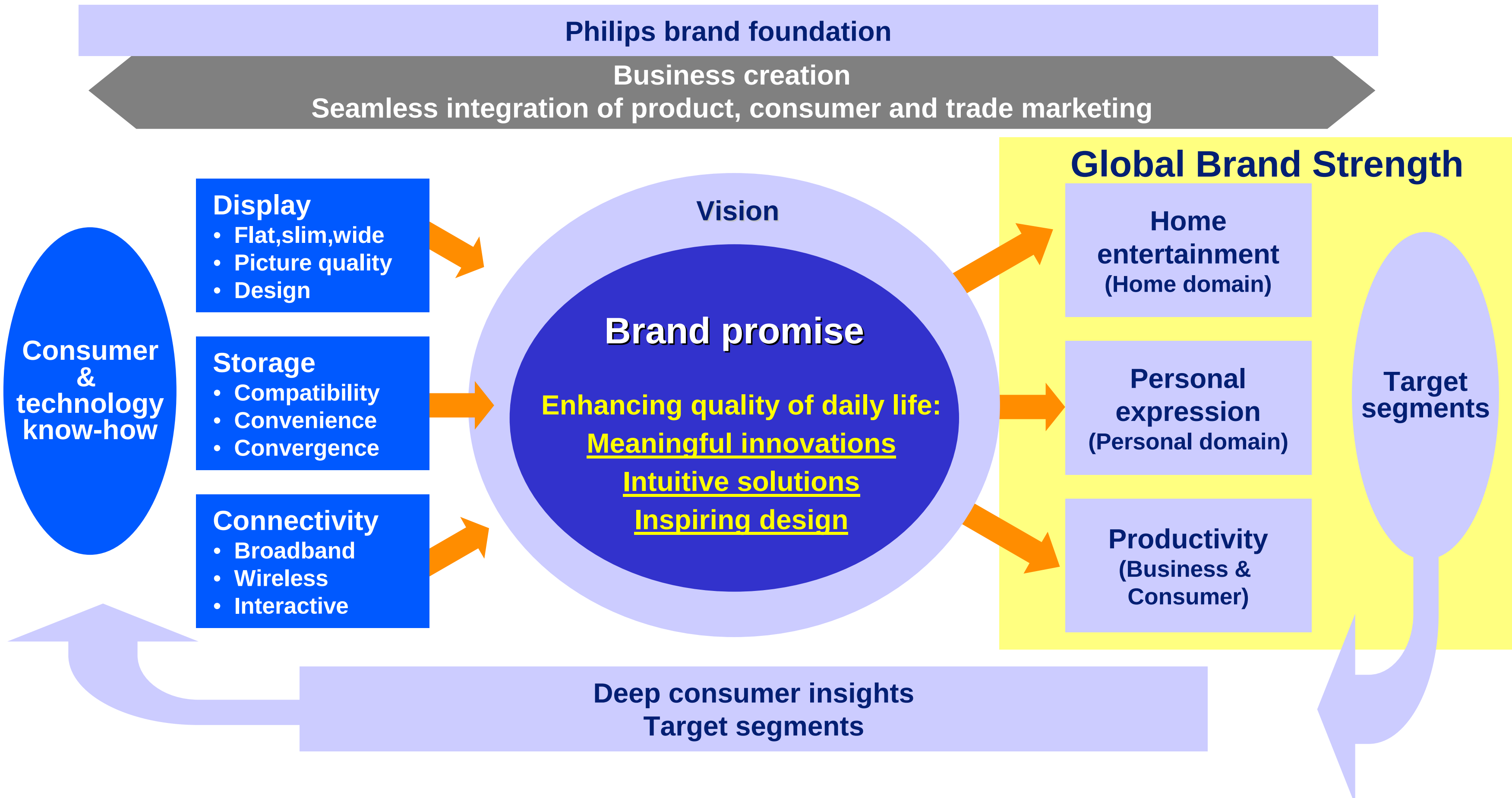
Digital Architecture Platform

nexperia

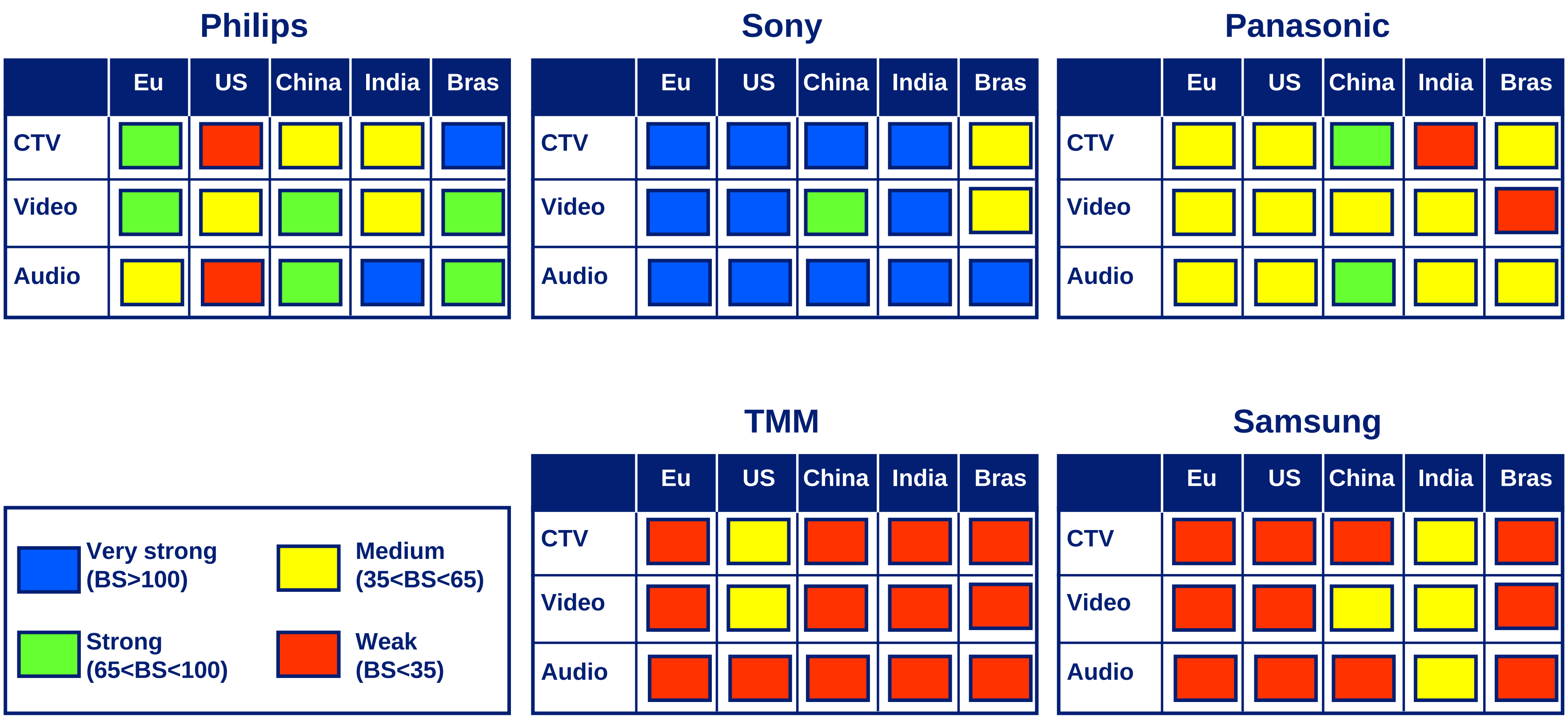
Key Product categories

DVD - Recorder	Upmarket CTV
  	   

Customer Pull Generation - Focus area: Brand



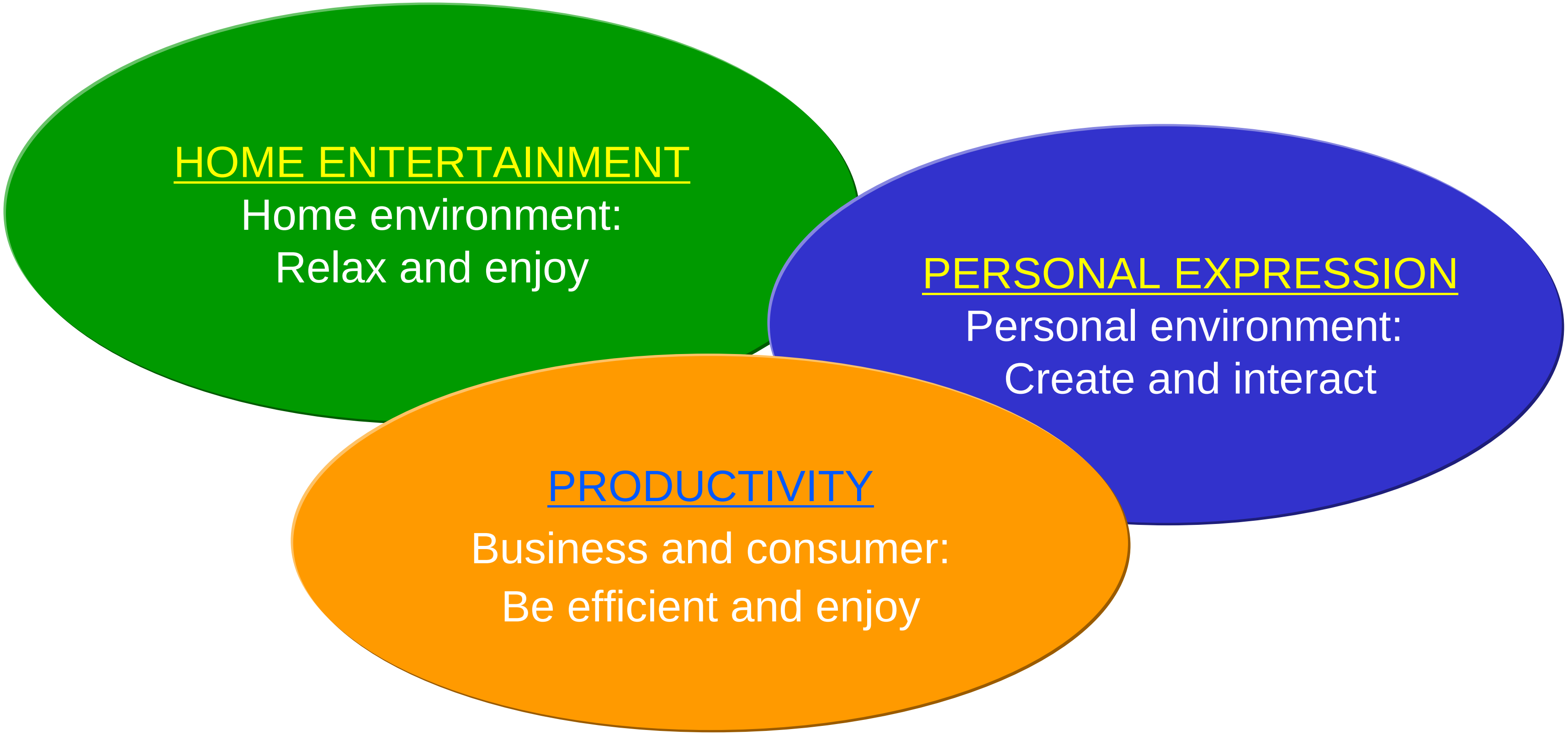
Benchmark Brand Strength *



*) Brand strength (BS) = top 3 consideration + 3 x preference

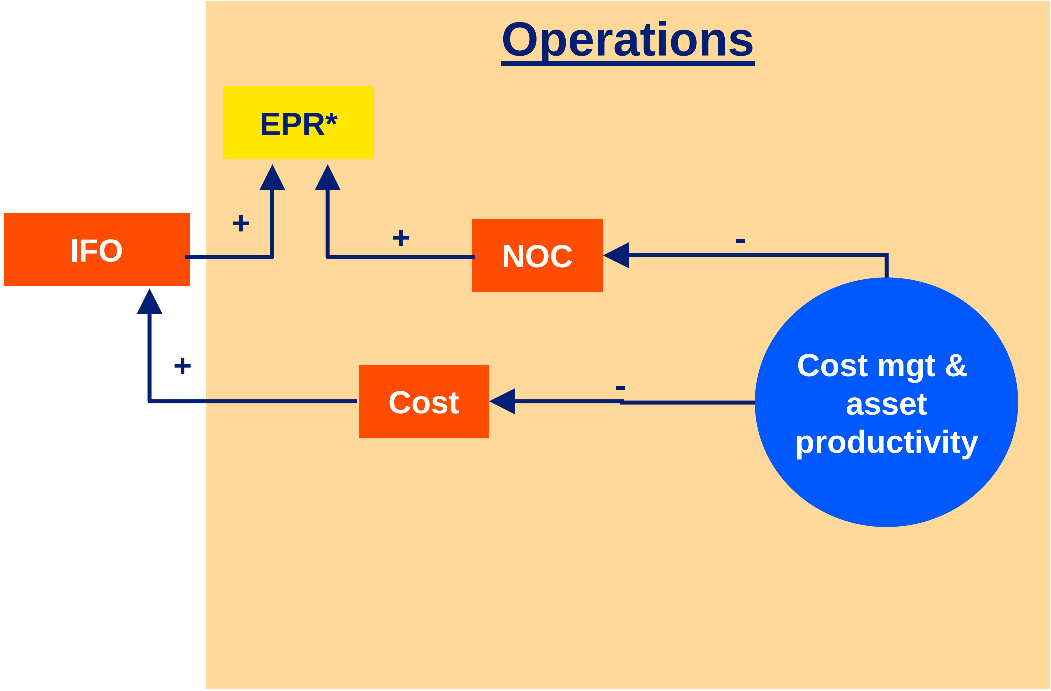
Source: FOCUS/CMI June-July 2002

With a focus on three experience domains



Driving our Business Creation including Go To Market

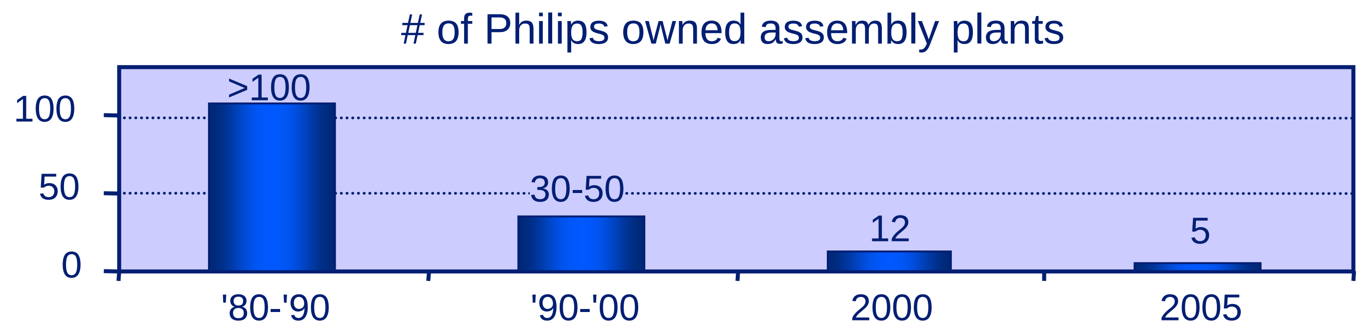
Key Business Drivers for creating Shareholder Value

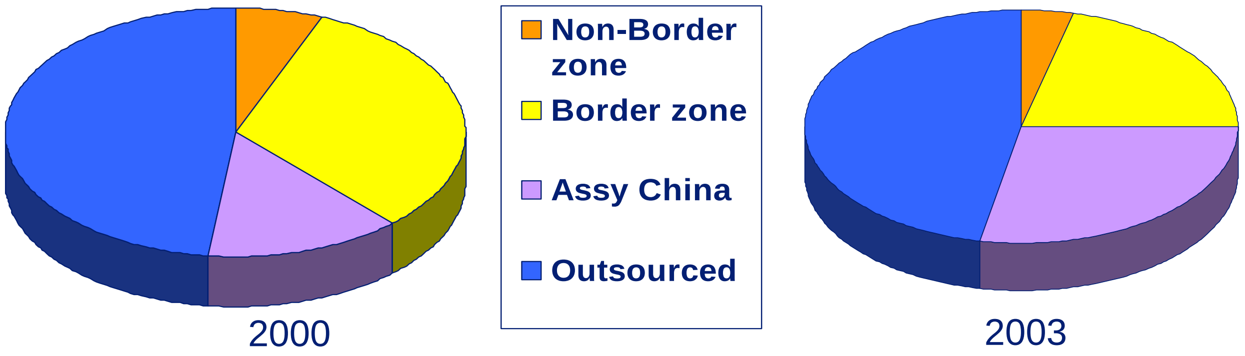


* EPR = EVA

Operational Excellence: Cost Management

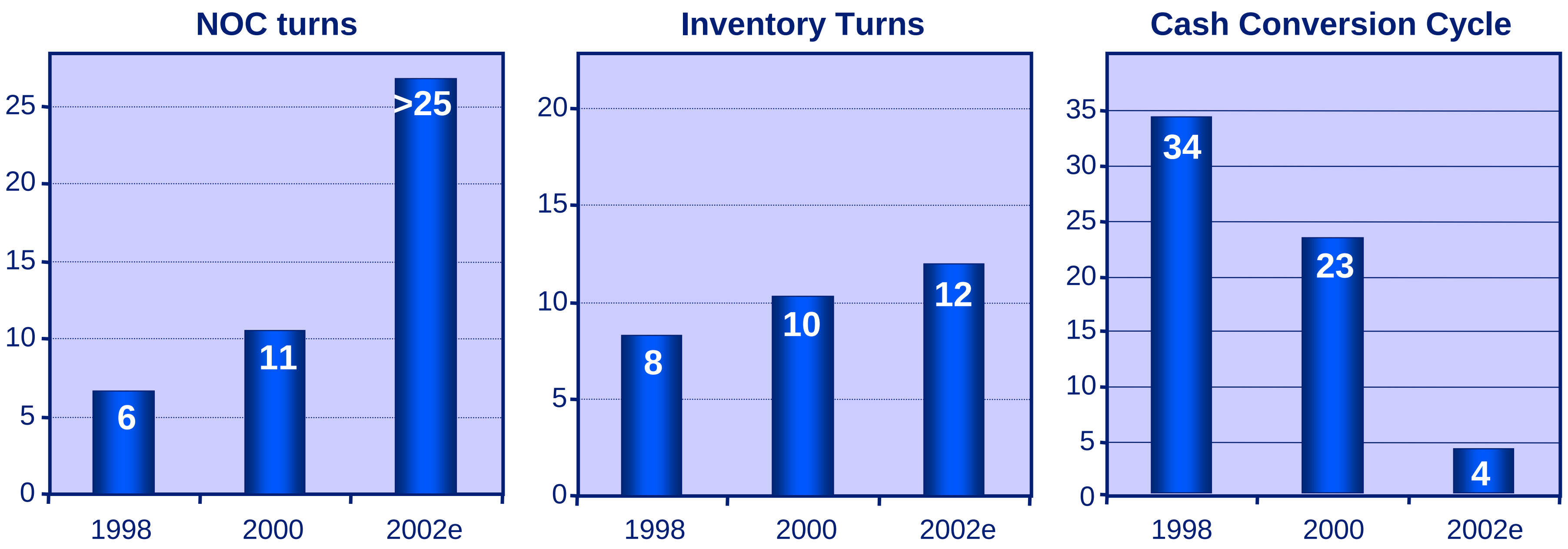
Implementation of industrial blueprint





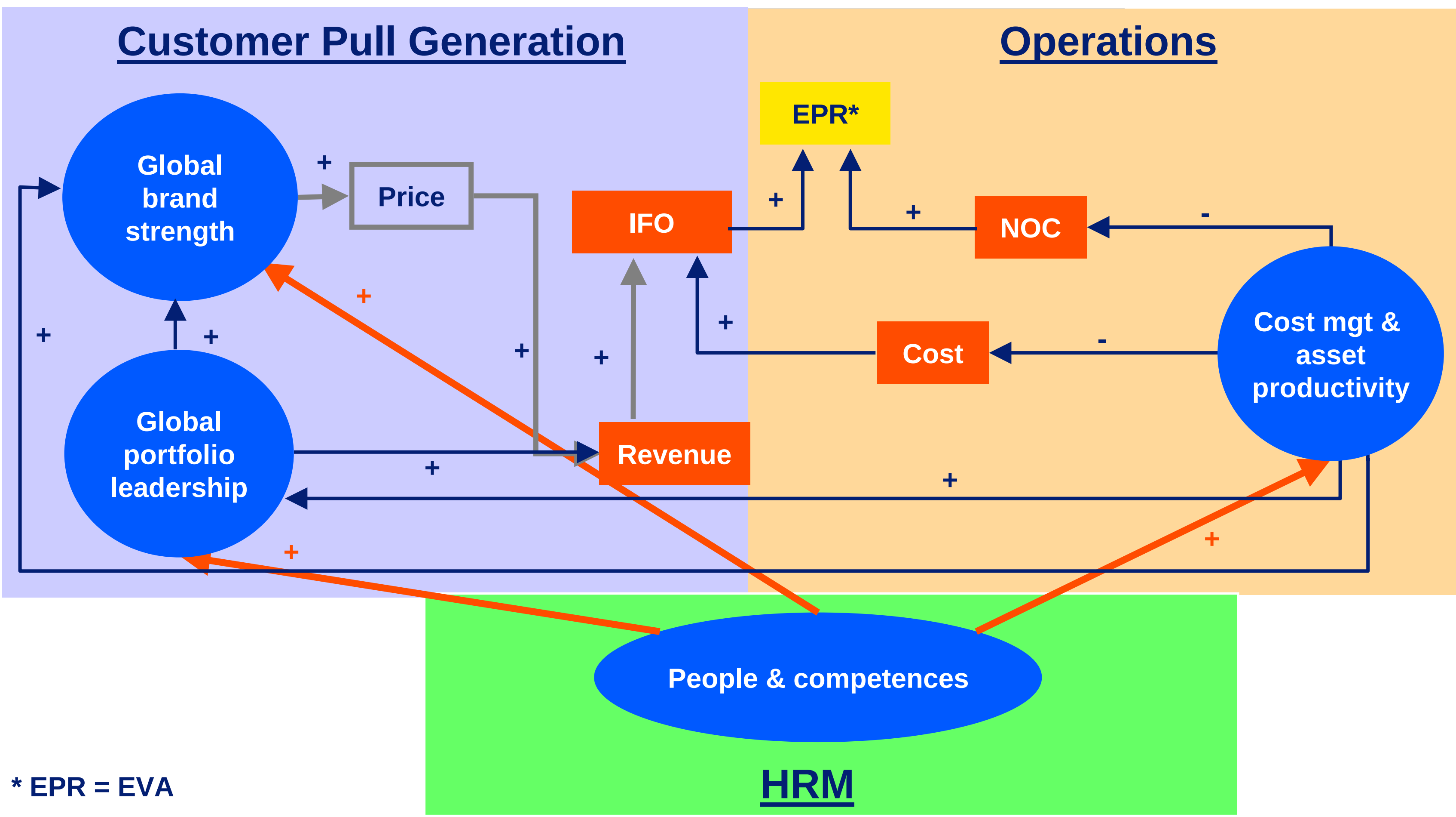
Operational Excellence: Asset Productivity

Continuously increase asset productivity



…working with negative NOC in some businesses will increase

Key Business Drivers for creating Shareholder Value



* EPR = EVA

People & Competences - Key Improvement Programs

- Strengthen **people development programs** in the competence areas:
  - Marketing & sales
  - Product development/design
  - Supply chain management
- Intensify programs for **building leadership competences**
- Focus on **differentiation & rewarding of performance**
- Reinforce **HR systems & programs** like PPM, e-HRM, etc
- Drive **BEST**

Agenda

- Philips Consumer Electronics:
  Position and Strategy
- Key Business Drivers
- Financials
- Conclusions

Summary Financials Consumer Electronics € million

	2001	2001 Sept YTD	2002 Sept YTD
Total Sales	10,071	7,085	6,339
IFO ex special items % of sales	-290 -2.9%	-274 -3.9 %	15 0.2%
IFO incl. Special items % of sales	- 671 -6.7%	- 644 -9.1%	15 0.2%

Summary Financials
Consumer Electronics
€ million

	PCE		North America		Rest	
	2001 Sept YTD	2002 Sept YTD	2001 Sept YTD	2002 Sept YTD	2001 Sept YTD	2002 Sept YTD
Total Sales	7,085	6,339	1,627	1,509	5,458	4,830
IFO ex special items % of sales	-274 -3.9%	15 0.2%	-130 -8.0%	-85 -5.6%	-144 -2.6%	100 2.1%
IFO incl. Special items % of sales	-644 -9.1%	15 0.2%	-130 -8.0%	-97 -6.4%	-514 -9.4%	112 2.3%

Agenda

- Philips Consumer Electronics:
  Position and Strategy

- Key Business Drivers

- Financials

- Conclusions

Achievements so far

Product portfolio

- Growing market shares in our focus areas of digital Display, Storage, Connectivity
- Leader in DVDR
- Leadership recognized by experts:
  Emmy, EISA, IF Design, “Best ever…”

Operational Excellence

- NOC turns >25
- Inventory turns = 12
- Cash conversion cycle = 4

Financials

- € 290 mln IFO improvements YTD September versus 2001 and improvements continue….

PHILIPS

Future Improvement Opportunities

Customer Pull generation:

- Brand strength:
  - Accelerate shift from analogue to digital
  - Focus on experiences
- Portfolio leadership: Achieve/Extend leadership in digital D,S,C
  - Display: Flat, Slim, Wide
  - Storage: win in DVDR
  - Connectivity: win in wireless

Profitability

- USA: towards profits in 2004
- Continuous cost management
- Improve structural profit levels

Top Line Growth

- USA
- China
- Digital displays
- DVDR
- Mobile products
- Internet enabled products

PHILIPS

“By creating and marketing unique experiences, we at Philips will lead the change in the consumer electronics business.

We believe the next few years are going to be an exciting time…

and we are looking forward to meeting the challenge!”

PHILIPS