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
Agenda

• Philips Consumer Electronics: Position and Strategy

• Key Business Drivers

• Financials

• Conclusions
Philips Consumer Electronics (PCE)* within Royal Philips Electronics

- **Sales**: PCE 31%
- **Operational CF**: PCE 21%
- **Employees**: PCE 15%
- **NOC**: PCE 5%

* PCE incl. PCMS
2001 PCE* Revenue Portfolio

Total sales: Euro 10.1 Bln

* PCE incl. PCMS
Market Position YTD Sept. 2002

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</thead>
<tbody>
<tr>
<td>CTV</td>
<td>#1</td>
<td>#1</td>
<td>#1</td>
<td>#1 DVDR</td>
<td>#1 DVDR</td>
<td>World (incl. Japan)</td>
</tr>
<tr>
<td>VCR/TV-VCR</td>
<td>#1</td>
<td>#1</td>
<td>#1 DVDR</td>
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<td>Total A/V</td>
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<td>#1 DVDR</td>
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<td>Monitors Branded 2)</td>
<td>#1</td>
<td>#1</td>
<td>#1 DVDR</td>
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<tr>
<td>Monitors OEM</td>
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<td>#1</td>
<td>#1 DVDR</td>
<td>#1 DVDR</td>
<td>#1 DVDR</td>
<td>#1 DVDR</td>
</tr>
</tbody>
</table>

Priority on Profitability & Value Creation

Philips position

- #1 or 2
- #3
- < #3

World (incl. Japan)

Monitors (incl. OEM)
# PHILIPS

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

<table>
<thead>
<tr>
<th>CTV</th>
<th>Monitors</th>
<th>Audio</th>
<th>DVD-V</th>
<th>DVDR</th>
<th>VCR</th>
<th>TV-VCR</th>
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<tbody>
<tr>
<td>Jan-Sep</td>
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<td>Jan-Sep</td>
<td>Jan-Sep</td>
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<tr>
<td>01</td>
<td>10.6</td>
<td>9.4*</td>
<td>9.8</td>
<td>8.5</td>
<td>12.0</td>
<td>19.7</td>
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<tr>
<td>02</td>
<td>10.5</td>
<td>8.8*</td>
<td>9.9</td>
<td>7.8</td>
<td>9.9</td>
<td>19.9</td>
</tr>
</tbody>
</table>

* 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
Key Business Drivers for creating Shareholder Value

* EPR = EVA
Customer Pull Generation -
Our Business Logic

Philips brand foundation

Business creation
Seamless integration of product, consumer and trade marketing

Vision

Brand promise

Enhancing quality of daily life:
Meaningful innovations
Intuitive solutions
Inspiring design

Deep consumer insights
Target segments

Consumer & technology know-how

Display
- Flat, slim, wide
- Picture quality
- Design

Storage
- Compatibility
- Convenience
- Convergence

Connectivity
- Broadband
- Wireless
- Interactive

Home entertainment
(Home domain)

Personal expression
(Personal domain)

Productivity
(Business & Consumer)

Target segments
Customer Pull Generation - Focus area: Products

Philips brand foundation
Seamless integration of product, consumer and trade marketing

Global Portfolio Leadership

- Display
  - Flat, slim, wide
  - Picture quality
  - Design
- Storage
  - Compatibility
  - Convenience
  - Convergence
- Connectivity
  - Broadband
  - Wireless
  - Interactive

Vision

Brand promise
Enhancing quality of daily life:
Meaningful innovations
Intuitive solutions
Inspiring design

Target segments
- Home entertainment (Home domain)
- Personal expression (Personal domain)
- Productivity (Business & Consumer)

Deep consumer insights
Target segments
Global Portfolio Leadership
Displays: Flat, Slim, Wide

<table>
<thead>
<tr>
<th>CRT</th>
<th>LCD TV-Monitor</th>
<th>PTV</th>
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<tr>
<td><img src="image1.png" alt="Image" /></td>
<td><img src="image2.png" alt="Image" /></td>
<td><img src="image3.png" alt="Image" /></td>
</tr>
<tr>
<td>EISA</td>
<td>Pixel Plus X, LightFrame X</td>
<td>LCOS PTV Range 2003</td>
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</tbody>
</table>

FLAT TV™
Range 2003

Front Projector
Global Portfolio Leadership  
Storage: Optical playback & recording, multiformat, Portable Infotainment

<table>
<thead>
<tr>
<th>DVD+RW</th>
<th>HDD jukebox AV applications</th>
<th>Fashion DSC products</th>
<th>8 cm CD/DVD applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>DVD-SACD</td>
<td>Micro lifestyle design</td>
<td>HTiB applications</td>
<td>Portable MP3 player</td>
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<tr>
<td>DVD slim design</td>
<td>HD – DVD and Blue Ray disc applications</td>
<td></td>
<td></td>
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</table>
Global Portfolio Leadership
Connectivity: wireless – AV streaming

<table>
<thead>
<tr>
<th>Dig. TV to TV link</th>
<th>I - Pronto</th>
<th>Detachable monitor</th>
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<tr>
<td><img src="image1" alt="Streamium" /></td>
<td><img src="image2" alt="I-Pronto" /></td>
<td><img src="image3" alt="Detachable monitor" /></td>
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**IP enabled product range**
Philips Connected Home Entertainment in 2003

**MASTER BEDROOM**
- Streamium® Micro
- Digital PC-to-TV Link and/or Digital TV-to-TV Link Receiver

**CHILDREN’S BEDROOM**
- Solid state Audio
- PC

**LIVING ROOM**
- Detachable Monitor
- DVD+RW with HDD and PCMCIA slot (Media Server)
- PCMCIA

**HOME THEATRE**
- TV-to-TV Link Transmitter
- i-Pronto

**STUDY**
- Broadband Gateway / Router + Wireless Access Point
- Fashion DSC products
- Mobile Phone with Bluetooth
- 8/12cm eXpanium CDP

**KITCHEN**
- Entertainment tablet

**Wireless Broadband Home Network (802.11x)**
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
PHILIPS

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

- Green supply chain management
**Digital Architecture Platform**

Key Product categories

<table>
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<tr>
<th>DVD - Recorder</th>
<th>Upmarket CTV</th>
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<tr>
<td><img src="image1" alt="DVD Recorder" /></td>
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Customer Pull Generation - Focus area: Brand

Philips brand foundation

Business creation
Seamless integration of product, consumer and trade marketing

Philips brand foundation

Display
- Flat, slim, wide
- Picture quality
- Design

Storage
- Compatibility
- Convenience
- Convergence

Connectivity
- Broadband
- Wireless
- Interactive

Vision

Brand promise
Enhancing quality of daily life:
- Meaningful innovations
- Intuitive solutions
- Inspiring design

Global Brand Strength

Home entertainment
(Home domain)

Personal expression
(Personal domain)

Productivity
(Business & Consumer)

Target segments

Deep consumer insights
Target segments
Benchmark Brand Strength *

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Very strong (BS>100)  Medium (35<BS<65)  Strong (65<BS<100)  Weak (BS<35)

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

Source: FOCUS/CMI June-July 2002
With a focus on three experience domains

**HOME ENTERTAINMENT**
Home environment: Relax and enjoy

**PERSONAL EXPRESSION**
Personal environment: Create and interact

**PRODUCTIVITY**
Business and consumer: Be efficient and enjoy

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

Number of Philips owned assembly plants:
- '80-'90: >100
- '90-'00: 30-50
- 2000: 12
- 2005: 5

Pie charts for 2000 and 2003 showing:
- Outsourced
- Border zone
- Assy China
- Non-Border zone
Operational Excellence: Asset Productivity

Continuously increase asset productivity

...working with negative NOC in some businesses will increase
Key Business Drivers for creating Shareholder Value

Customer Pull Generation

- Global brand strength
- Global portfolio leadership
- Price
- IFO
- Revenue
- NOC
- Cost
- EPR*

Operations

- Cost mgt & asset productivity

People & competences

HRM

* 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

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<th>2001 Total Sales</th>
<th>2001 Sept YTD</th>
<th>2002 Sept YTD</th>
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<tbody>
<tr>
<td>IFO ex special items</td>
<td>-290 -2.9%</td>
<td>-274 -3.9%</td>
<td>15 0.2%</td>
</tr>
<tr>
<td>IFO incl. Special items</td>
<td>- 671 -6.7%</td>
<td>- 644 -9.1%</td>
<td>15 0.2%</td>
</tr>
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</table>
## Summary Financials
### Consumer Electronics

### € million

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<th></th>
<th>PCE</th>
<th>North America</th>
<th>Rest</th>
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<tr>
<td><strong>Total Sales</strong></td>
<td>7,085</td>
<td>6,339</td>
<td>1,627</td>
</tr>
<tr>
<td><strong>IFO ex special items</strong></td>
<td>-274</td>
<td>15</td>
<td>-130</td>
</tr>
<tr>
<td>% of sales</td>
<td>-3.9%</td>
<td>0.2%</td>
<td>-8.0%</td>
</tr>
<tr>
<td><strong>IFO incl. Special items</strong></td>
<td>-644</td>
<td>15</td>
<td>-130</td>
</tr>
<tr>
<td>% of sales</td>
<td>-9.1%</td>
<td>0.2%</td>
<td>-8.0%</td>
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</table>
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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….
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
“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!”