PCE Mainstream
From Analogue to Digital

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Topics

- Current Status
- What is digital CE
- Our digital portfolio
- Analogue portfolio

Current Sales Volumes

CTV	> 13 mln units
Monitors	> 11 mln units
Audio	> 23 mln units
DVD	> 3.5 mln units
VCR/TV-VCR	> 8 mln units
Total	> 60 mln units

Current Strongholds

1. Displays:

• CTV	#2
• Monitors	#2
• TV-VCR Combi	#1

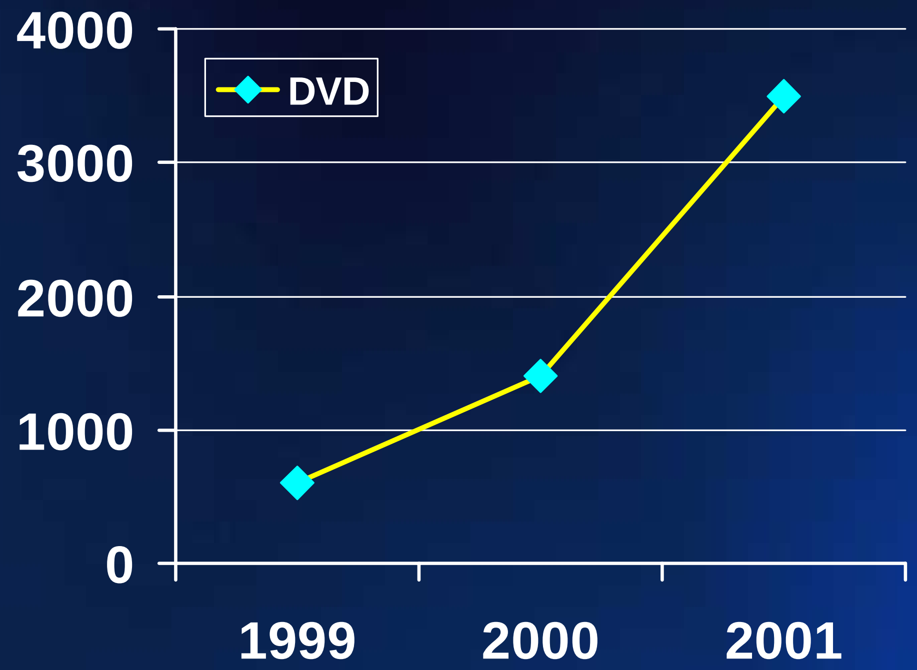
2. A/V Storage:

• CDRCR	#1
• CD-R	#1
• DVD	#2
• VCR	#2

Excluding Japan

DVD Status

- 1999 600 K
- 2000 1.4 mln.
- 2001 >3.5 mln.



Philips Q1 2001:
Overtook Matsushita & Pioneer becoming #2

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Let's make things better.

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What is digital CE ?

- **Industry:** All devices converting digital input signals into consumer understandable information e.g.
  - internet connected
  - digital storage/play back/recording
  - digital imaging
  - digital TV (STB, iDTV)

- **Consumers:** no uniform answer, most cited:
  - “I do not know”, “High quality CE products”
  - “Internet related products”, “PC related products”
  - “Multifunctional/convergence products”
  - “Future proof CE products”, “Expensive CE products”

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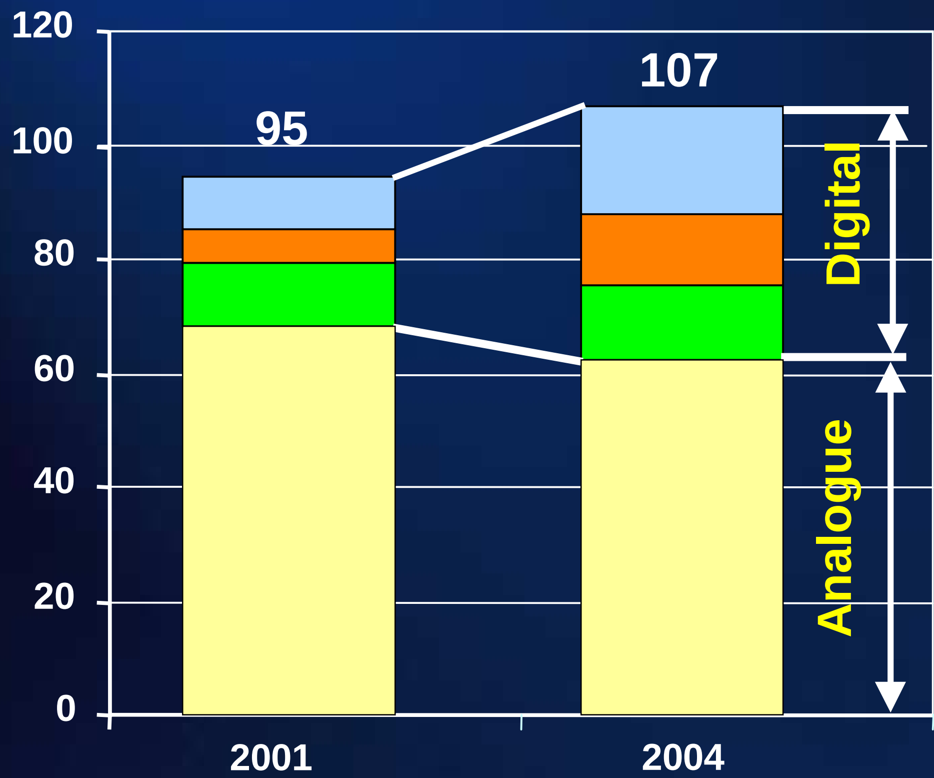
"Digital" vs. Analogue Served CE markets World in € bln



Excluding STB

Annual growth rates
Digital Displays 24%
DVD Function 30%
CD Function 6%
Analogue MCE -3%

'Digital' Displays:
integr. digital TV,
LCD TV,
Plasma TV,
PTV (dig. prepared)
LCD monitors

DVD Function:
DVD Player,
DVD Recorder,
AHS with DVD,
DVD Audio receiver,
TV-DVD Combi,
VCR-DVD Combi,
DVD-HDD Combi,
DVDR-HDD Combi

CD Function:
CD Player, CD Portable, RCR with CD,
AHS with CD,
CD-Recorder,
8cm & 12cm MP3 CD
SACD separate
SACD function

Analogue MCE:
All other non-digital MCE categories

Philips “Digital” Portfolio vs. “Digital” World Markets

Source:
Philips Consumer
Market Intelligence

Our portfolio strategy

- **Analogue Portfolio:**
  - Focus on profitability
- **Digital Portfolio:**
  - Focus on digital displays & AV playback and recording
  - Focus on profitable growth opportunities

Build up digital portfolio

- From market point of view:
  - more focus on youth
  - more focus on portable
  - more focus on design
  - market oriented Product Creation Process
  - support premium brand: Upmarket products
  - digital application focus: displays & storage
  - USPs:
    - Best picture
    - Best sound
    - Ease of use
    - Compatibility

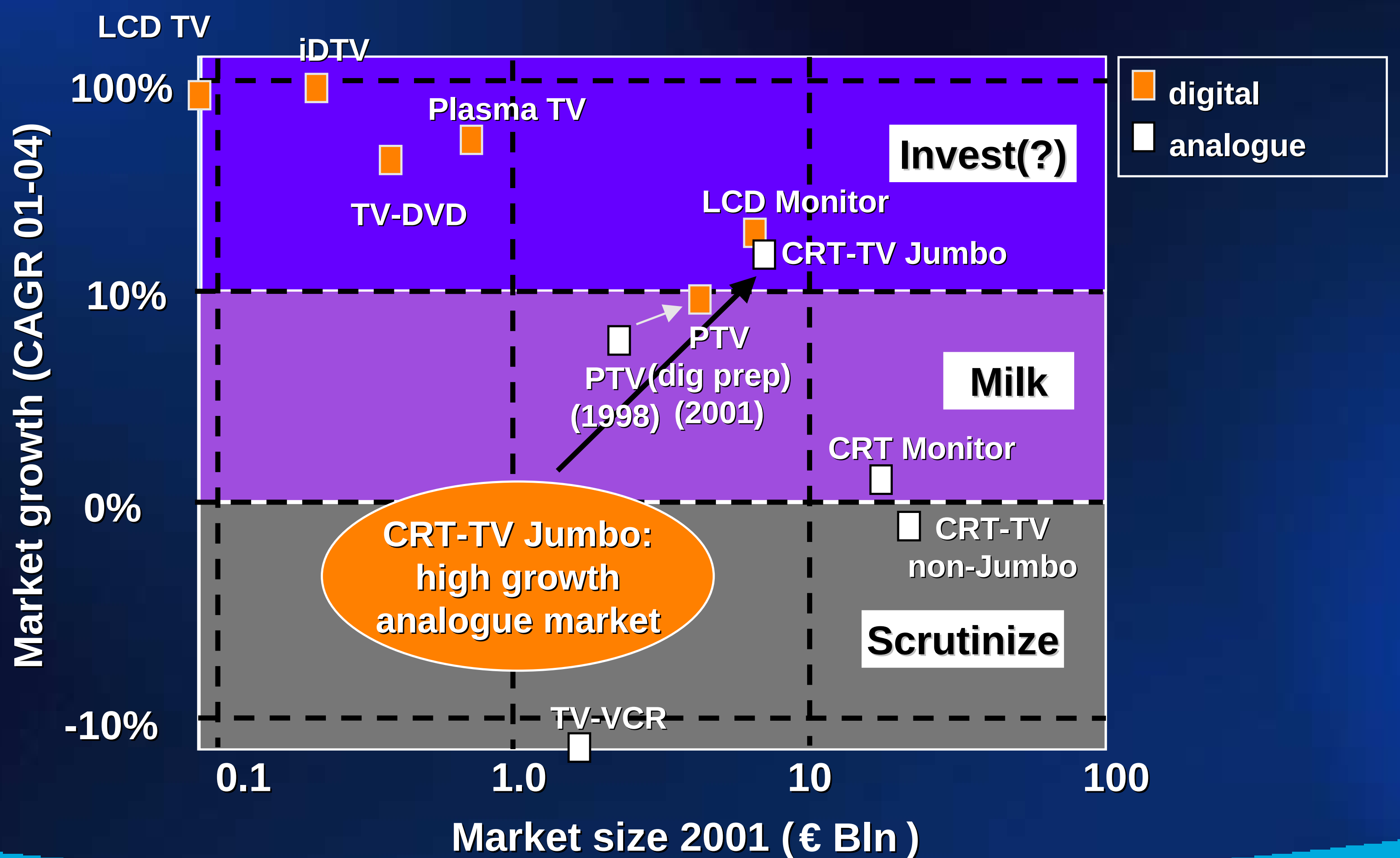
Build up digital portfolio

- From industry point of view:
  - Based on own strongholds
  - Market led

    (external market research, focus groups, world tours, dealer tours, listening)
  - Consistent product/consumer segmentation
  - Consistent design

    (across product lines and within the consumer segments)
  - Free up resources from analogue

Our Growth Opportunities- Displays



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Upgrade range TV

	Basics	Classics	Selectives	Innovators
Quality				
Emotive				
Perfor-mance				
Value for Money				

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Digital Television
The next digital consumer experience

- Digital Terrestrial TV is a certainty as governments prepare analogue switch-off

- Services planned worldwide
- Offers the three fundamental benefits of digital content:

BETTER **EASIER** **MORE**

Digital TV The CE Story So Far

- 1998 - launch of DTTV in UK
- Philips first to launch products including STBs and integrated digital TVs

- UK experience has given us invaluable insight:
  - consumers want choice
  - they want widescreen
  - they want integrated solutions

CE Digital TV Product Focus Integrated TVs

- Builds on proven TV leadership
  - widescreen heritage
  - picture and sound quality
  - ease-of-use
  - product design
  - leverages the Philips TV brand

- Focus on business creation in terrestrial, horizontal market
  - ‘normal’ CE product business
  - retail distribution
  - existing trade relationships

Digital TV Roadmap

- Modular solutions for Pay-TV
- Enhanced broadcast services and richer content
- Eventual integration of broadcast, Internet and HD storage

DTV in the United States An outline view

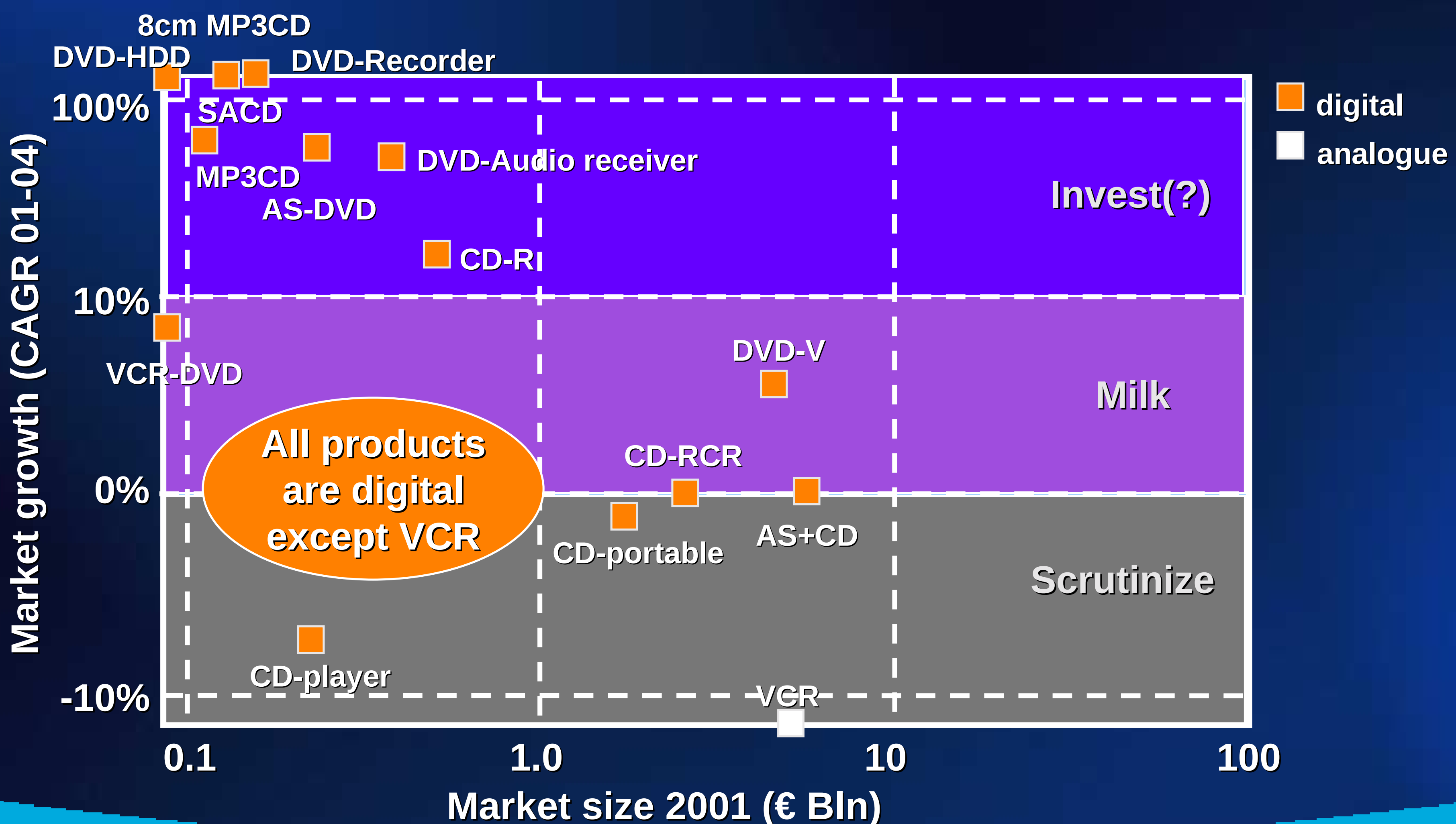
- More complex proposition
- Cable in 70% of homes
- Satellite growing
- Digital migration via cable and satellite

- Analogue switch-off under political discussion

DTV in the United States Our initial approach

- Introduce digital-ready (HD) sets
  - 4:3 still dominant
  - 16:9 growth fuelled by DVD
- Careful consideration now being given to next steps
  - Integrated DTVs possible, but dependent on standards clarity and viable mass market opportunities
  - terrestrial-v-cable-v-satellite(?)
  - free-to-air-v-proprietary systems (?)

Our Growth Opportunities- Storage

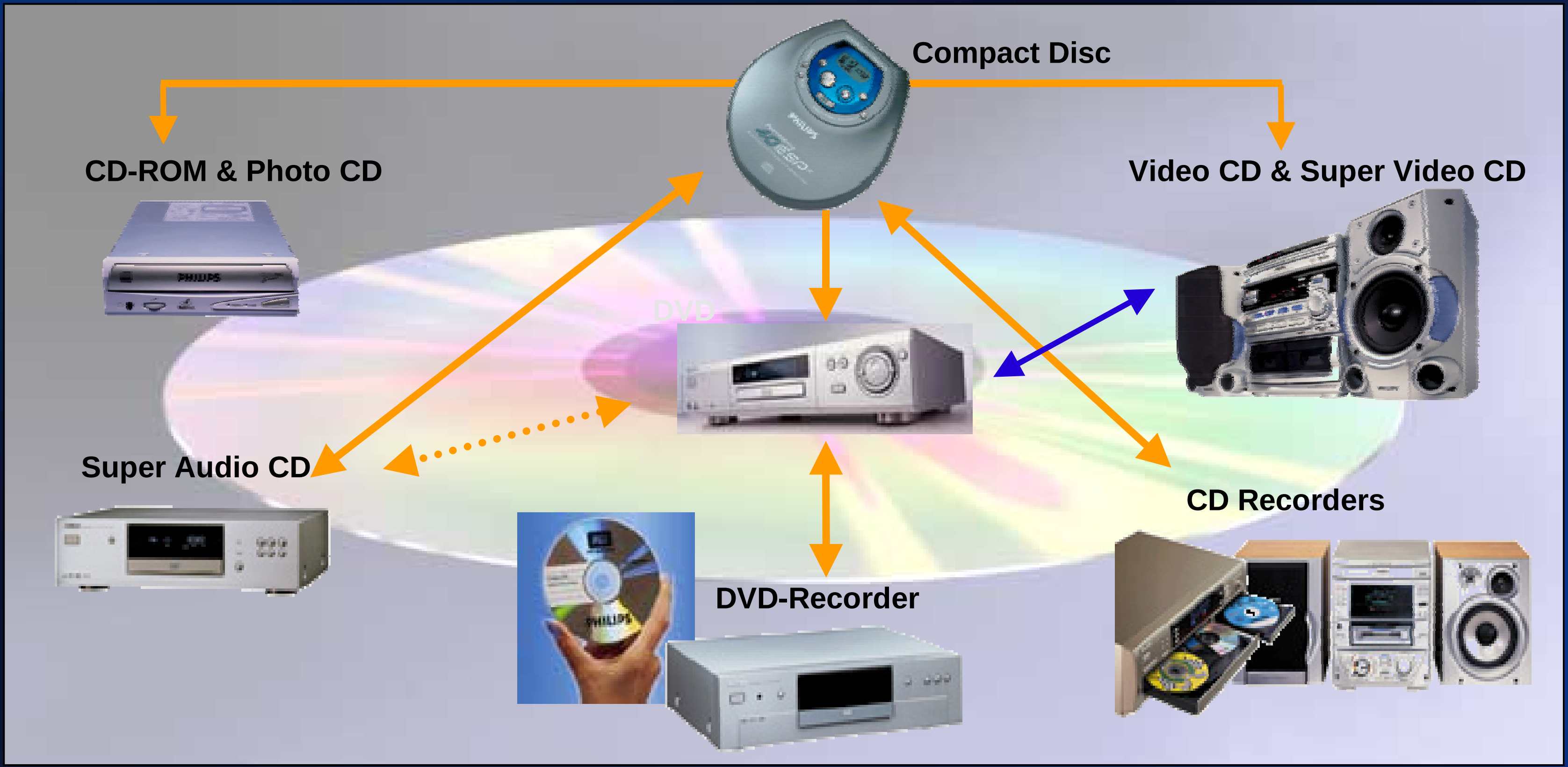


CD/DVD/HDD storage businesses

Key success factors:

- Compatibility
- Consistency
- Partnership

Digital Playback and Recording
Two-Way Compatibility A Key Element



DVD Recorder - Opportunity!

- Market (VCR) > 55 mln units per year
- DVD fastest growth product in MCE history
- Two-way compatible (forward & backward)
- Highest picture and sound quality recording
- Philips launches recorder Q4 2001

DVD Recorder - Opportunity!

it is just adding a
<u>'red' recording button</u>
to successful DVD-
Video format

- Philips DVD Recorder is not a new format.

- The only system designed from start to be
  - Two-way compatibility (forward and backward)
  - Compatible with CE as well as PC platforms
- Digital Picture & Sound Quality
- It's a DVD disc!
  - Durable recordings
  - Direct Access
  - No cartridge
  - 4.7 Gbyte capacity
- Recording time up to 4 hours

Digital portfolio summary

Build on our key strongholds

Optical Storage:

CD: CD audio playback & recording, CD data playback & recording
CD MP3
CD imaging
CD function (everywhere)

DVD: DVD video playback & recording, DVD data playback & recording
DVD imaging
DVD function (everywhere)
DVD - HDD combi

Displays:

CTV: Integrated digital TV, LCD TV ,LCoS PTV, plasma TV, WS
Monitors: LCD monitors, LCD-TV monitor, LCoS monitor

e-Appliances: Based on our display & digital storage products:
(Internet radio, Rush, MP3CD, Web Monitor, ...)

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Maximise profitability of Analogue

- Reduce/eliminate asset base
- Increase external sourcing
- Reduce diversity
- Minimal development cost
- … manage on cash cow status

Business Model Analogue

- Philips focuses on:
  - Product specification & design
  - Demand generation
  - Supply chain management
  - Brand
- Outsource to partner:
  - product creation
  - demand fulfillment (e.g. China)

Sourcing Ex - China

Business	Location	Qty.	%	trend in China
TV	Suzhou	1.0 m	10 %	increasing
Monitors	Suzhou	3.5 m	40 %	stable
Monitors	Others	1.6 m		
VCR	ODM partner	3.0 m	40 %	increasing
TVCR	ODM partner	0.7 m	40 %	stable
DVD	ODM partner	1.6 m	50 %	increasing
Audio	ODM partner	18.5 m	80 %	stable
PCB	Monitors Audio		100 % 80 %	decreasing stable

Est. total ex. China > 50 % increasing

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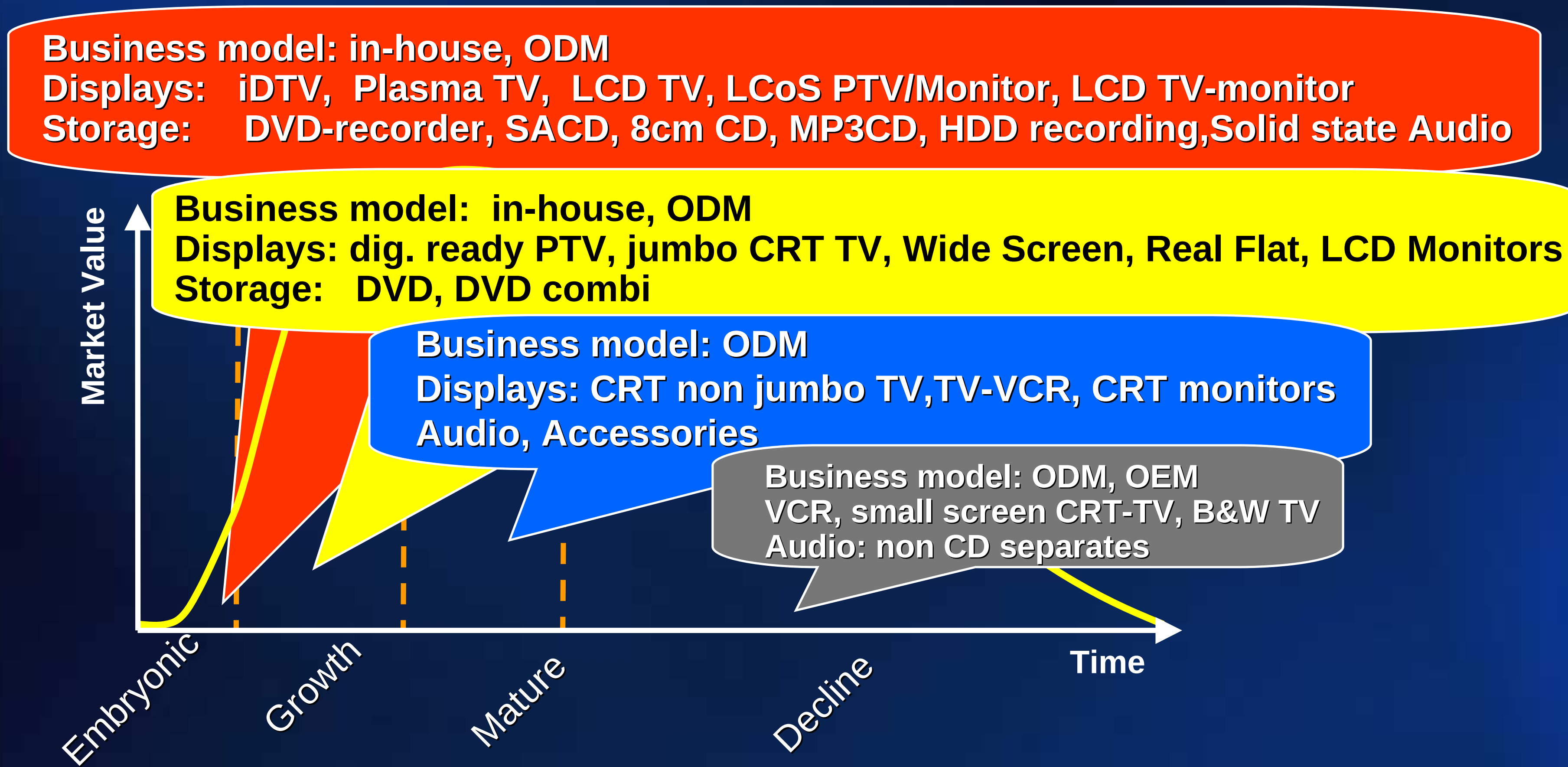
De-verticalisation



Portfolio Implementation Plan

- Manage & speed up transition analogue - digital

- Invest in digital
  - focus on strongholds: display & storage
  - deliver internet in selected applications

- Scrutinize & milk analogue
  - profitability
  - minimise assets

Conclusions

- Why successful transition to digital?
  – We build on our existing strongholds
- Can we lead in digital?
  – Yes, in displays
  – Yes, in A/V playback and recording
- Ingredients for success?
  – The brand Philips
  – Customer knowledge (consumer, trade and OEM)
  – Market and industry knowledge
  – Product / Technology Knowledge

Our New Digital Stars in TV range

Plasma TV:Home Cinema

Integrated dig. TV

TV-DVD combis

Plasma TV: 36”, 42”
(HDTV,Dig. Natural Motion),

dig.prepared HDTV 55”- 64”

LCD TV: 15”, 20”

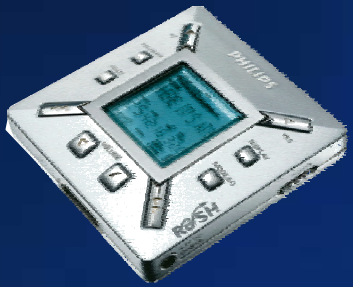
Our Digital Audio/CD Stars

8 cm MP3
CD player

Internet Radio

Expanium MP3CD

Image viewer



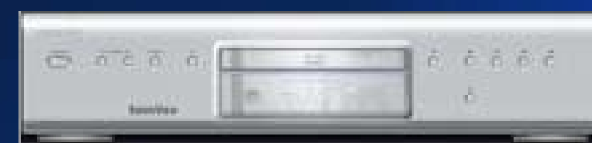
Rush

Our Digital Stars in DVD

SACD/DVD range

High end DVD range

DVD-Recorder



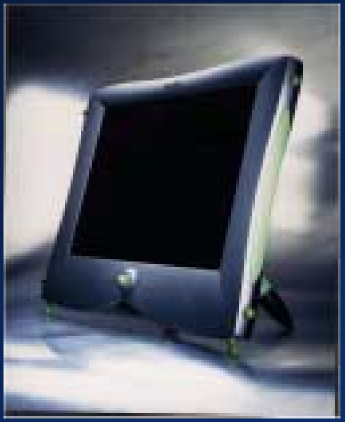
DVD-HDD combi

Our New Digital Stars in Monitors

LCD-TV Monitor

LCD Monitor

Web terminals



Web tablets

Conclusions

- We know the market
- We have the products and the people
- We can profitably manage the transition

Analogue → Digital

- We focus on repeating existing successes