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Building a sustainable, profitable business

Frans van Houten
Senior Vice President Royal Philips Electronics
CEO Business Groups Philips Consumer Electronics

Building a sustainable, profitable business

- Ambition
- Lean, focused organisation
- Portfolio lifecycle management
- Operational excellence
- Differentiating products
- Winning business models

Our Ambition

In a world where people enjoy great entertainment experiences & services whenever and wherever they want, we will ensure technology and category leadership as foundation for income from two sources:

- Licences
- Products and Services

By focusing our resources, it is our ambition to deliver top line growth in more attractive lifestyle segments and target at least:

2% + 2 – 2.5% IFO, at minimal NOC

Realising our ambition

Changing environment	5 Key intiatives	
• Converging industries • Content revolution • Globalisation • Increasing retail power • Intensified competition • Shorter lifecycles • Commoditisation • New growth markets • Increasing Partnerships • Phased lifecycles	Lean, focused organisation Portfolio lifecycle mgmt Operational Excellence Differentiated products Winning business models	Sustainable profitable business

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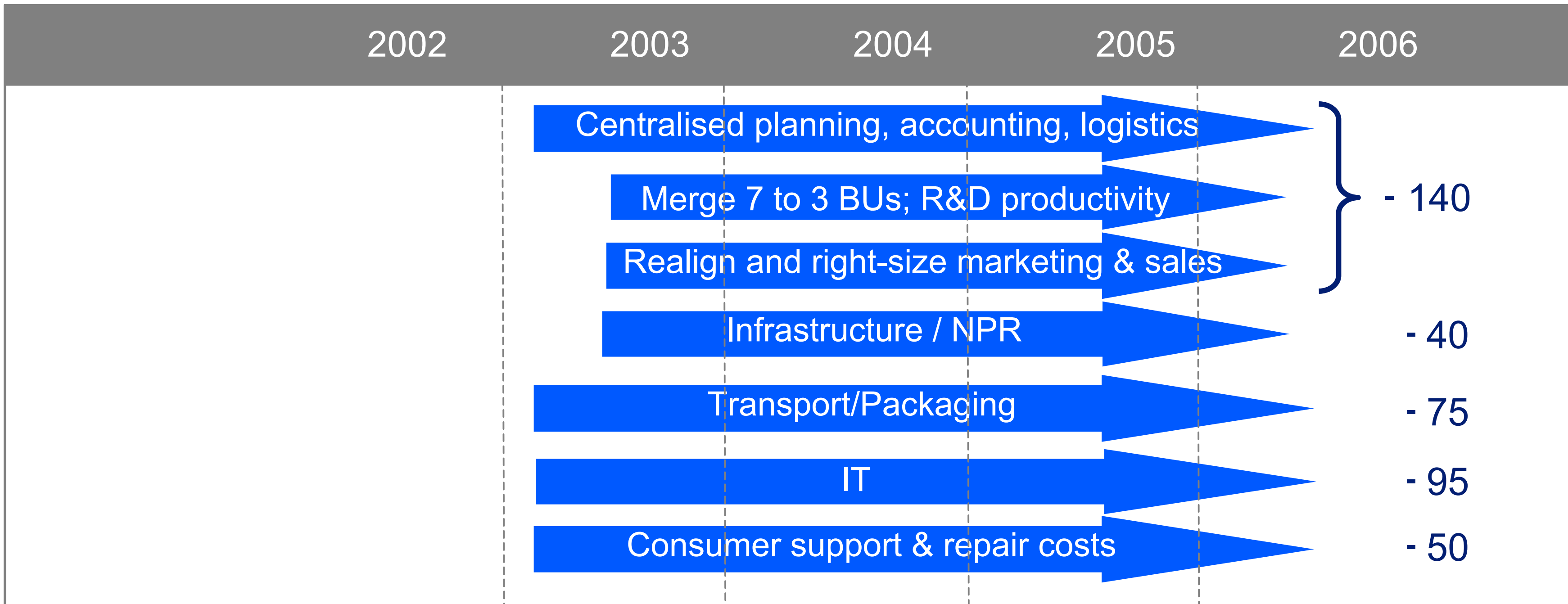
Create a lean, focused organisation

2003 Organisation	2005 Organisation
De-centralised business planning, logistics and accounting	Centralised business planning, logistics and accounting
7 Business Units; 21 Creation Teams	3 Business Units; 12 Creation Teams
Each team individual R&D approach	Aligned R&D roadmaps
Distinct regional marketing programs	Coherent global marketing approaches
Undifferentiated business models	Business model adapted to life-cycle
USA: focus on improving retail position	USA: lean organisation; executing global programs to drive business
In house infrastructure	Outsourced, shared service centres
Large own consumer service organisation	Outsourced consumer service organisation

Resulting in a reduction of 400 million € by end of 2005, realizing 14.4 % non-manufacturing CoO

Programming of the 400 mln € saving



	2002	2003	Savings 2004	Savings 2005	Cumulative
			150	250	400
Non-mfg CoO % (*)	21.0				14.4

(*) CoO % per end of year; excluding restructuring charges

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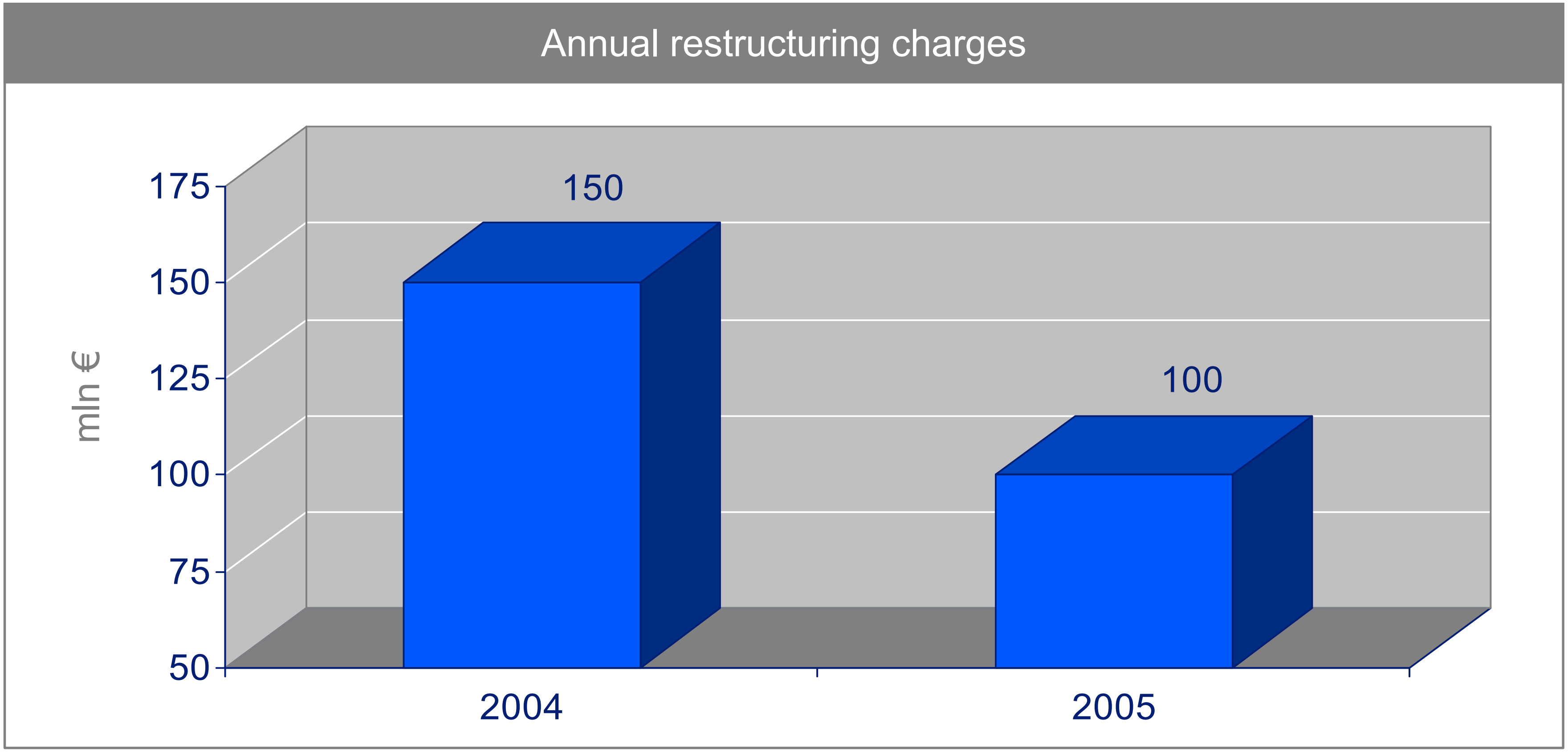
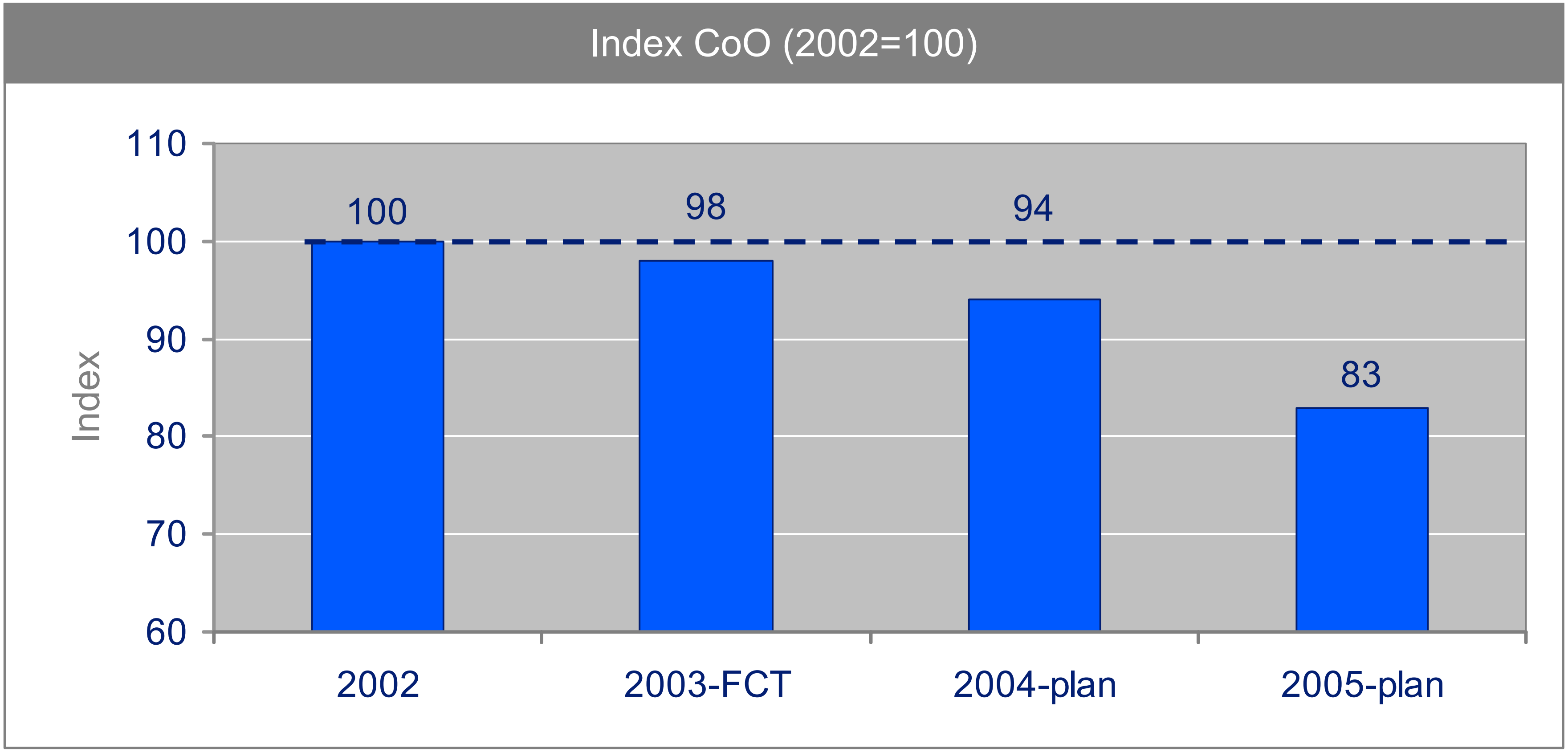
Creating a lean, focused organisation requires restructuring charges

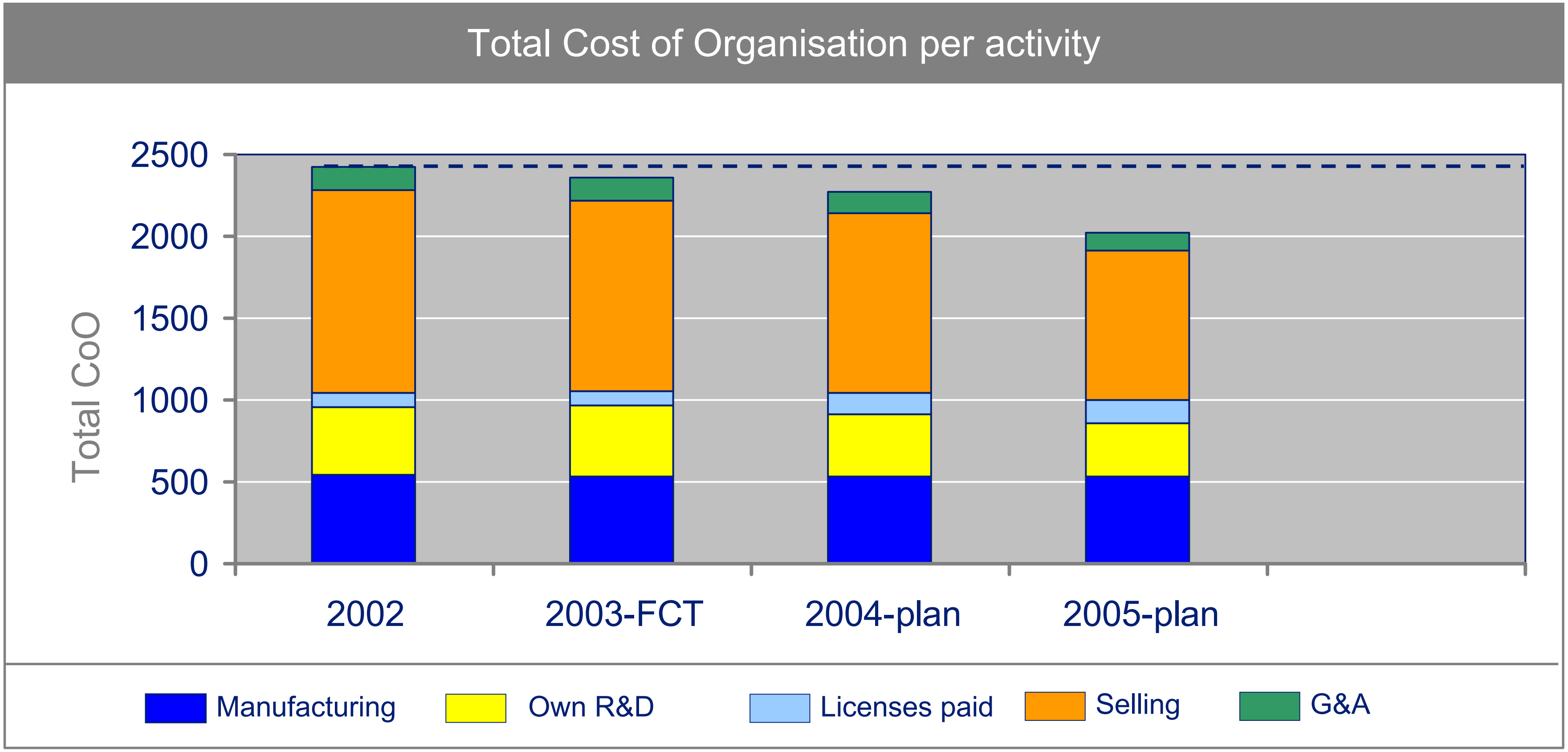


Resulting in required breakthrough in cost structure



Manufacturing & non-manufacturing CoO; excluding restructuring charges

Reduction is mainly in non-manufacturing costs



Manufacturing & non-manufacturing CoO; excluding restructuring charges

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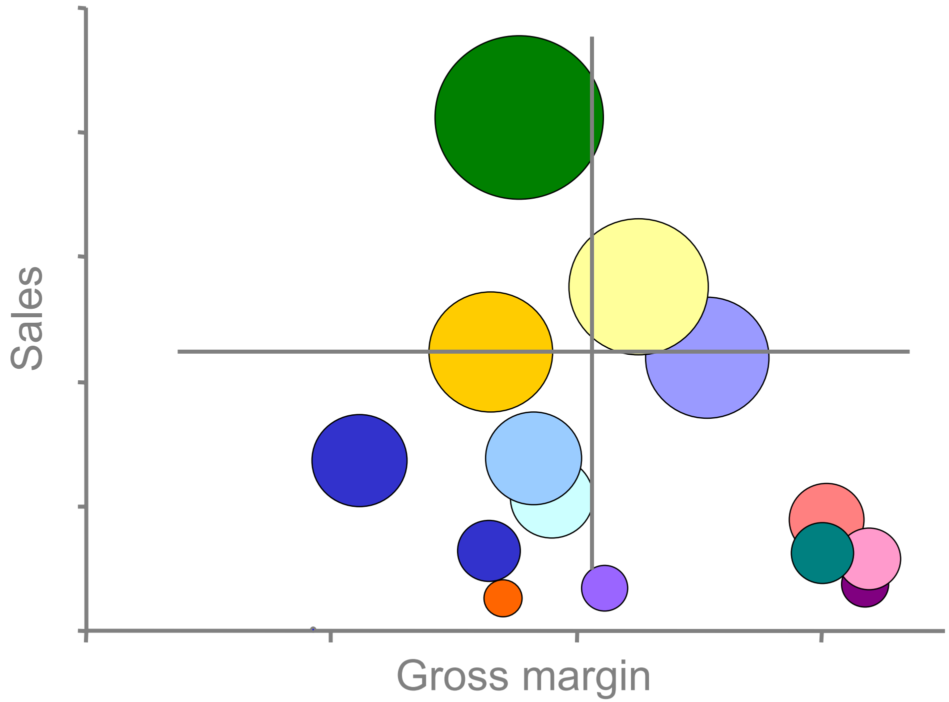
Our current portfolio does not yet reflect clear choices

Current portfolio (2002)



Creating clarity in our portfolio

- Identify immediate, critical opportunities that must be seized now
- Manage cash cows for optimal returns
- Apply clear criteria: strive for scale growth/leadership or high margin niches
- Address and de-risk vulnerable activities
- Identify longer-term opportunities and create IPR positions

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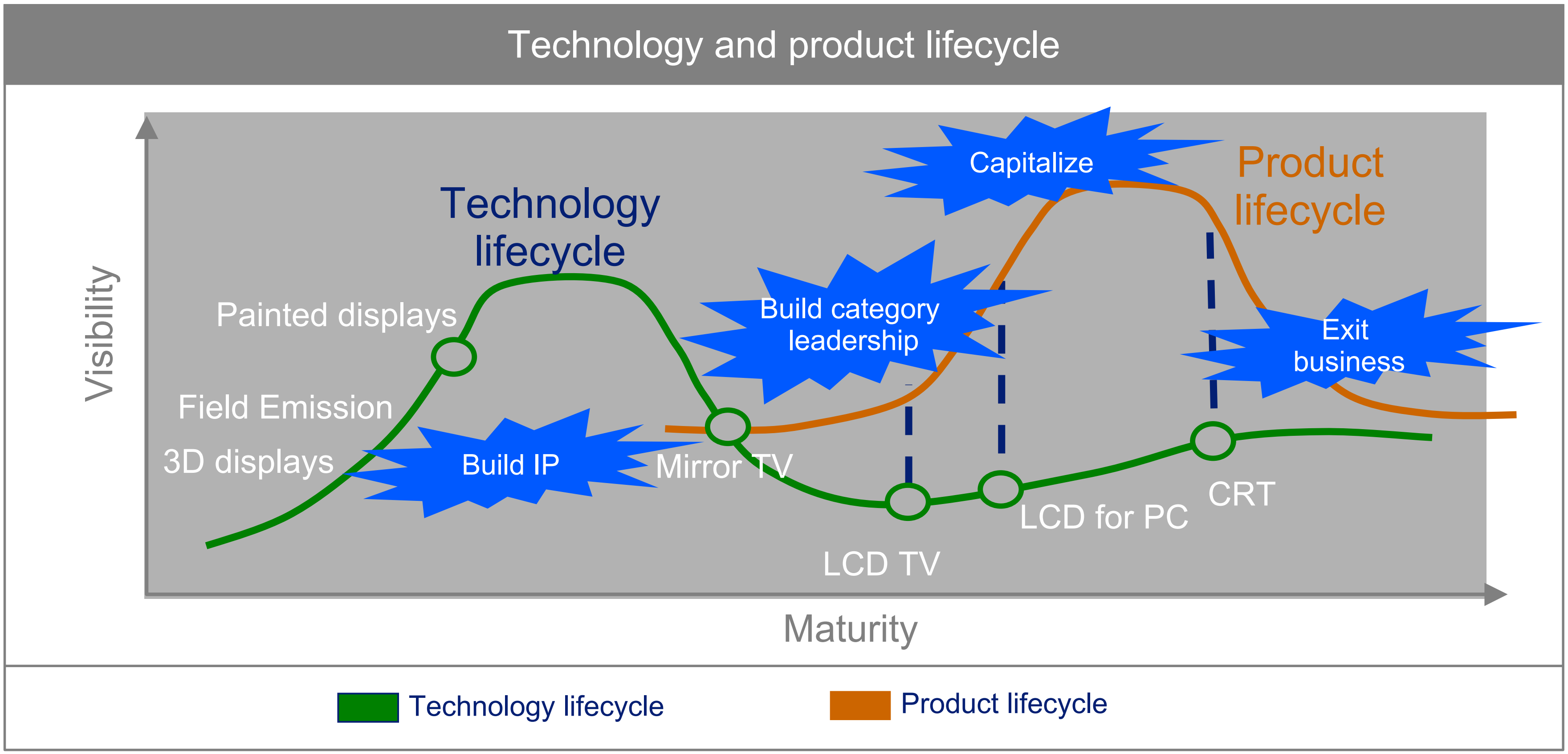
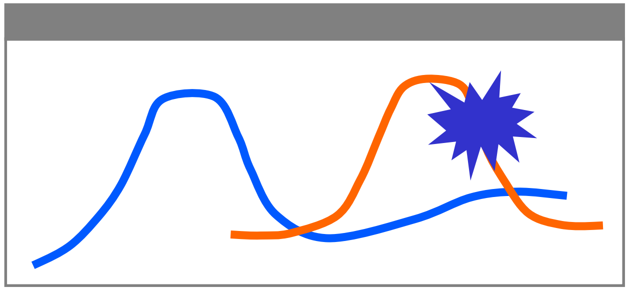
Manage IP and market positions by integrated lifecycle management



Milk and de-risk mature businesses



Mature businesses	Programs
• CRT-Monitors • CRT-TV • Entry level TV • Traditional AV • Projectors	• Right sizing & de-verticalise through ODM & OEM Partnerships (scale) • Extend move to China • Diversity reduction • Extend direct shipment models

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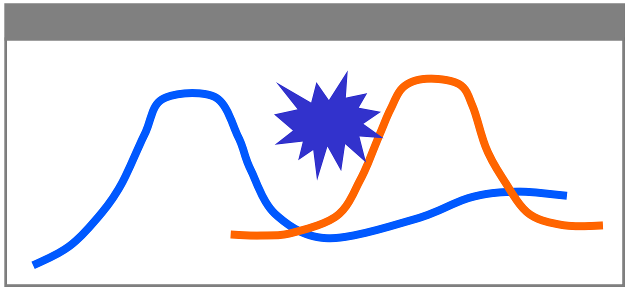
Invest to grow in scale in major growth opportunities



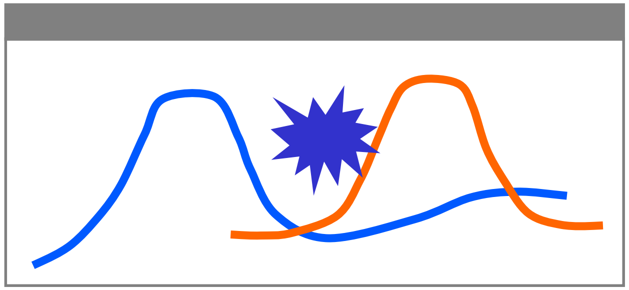
Invest to grow in scale

- Large FlatTV / Flat display
- Entertainment hubs
  - DVD-Recorder
  - Set-top Boxes
  - Home theatre

Programs

- Speed in cost down and renewal through market focused business models and scale alliances
- Create differentiated products through solutions beyond the box, viewing & sound quality and inspiring designs
- Focus our marketing efforts here

Pursue opportunities in higher margin niches



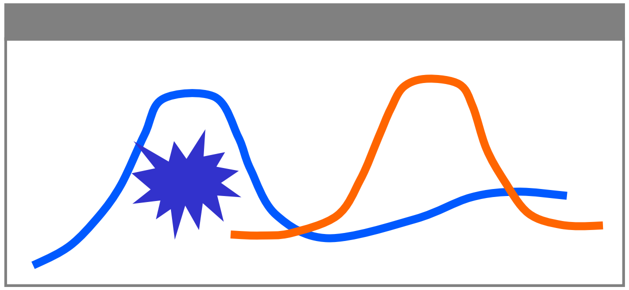
Niches with potential for strength

- Mobile infotainment
  - Personal infotainment
- Home Control/Pronto
- Accessories
- Digital Services tie-ups

Programs

- Decrease time-to-market
- Miniaturisation, integration and fashion to drive 'Wearability'
- Marketing and content partnerships for target marketing (events, viral, club Philips…)
- Make our standards win to gain IPR income

Longer term opportunities



Opportunities

- New display technologies
- Connected Planet initiative
  - Services & applications beyond the box
  - Networked applications
  - Quality of service in wireless & broadband

Programs

- IPR generation in display, storage, AV processing, connectivity and user interface
- Innovate in functionality
- Consumer insight building
- Establish standards to design in IPR
- Expeditionary marketing programmes
- Telco cooperation

Resulting in a focus starting from our strengths

Home

Flat displays

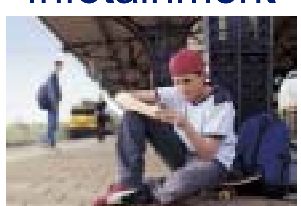
Entertainment hubs

Capitalise on our strengths in the home and our brand position

Exploit high margin niches and reach younger consumers

Create scale in displays

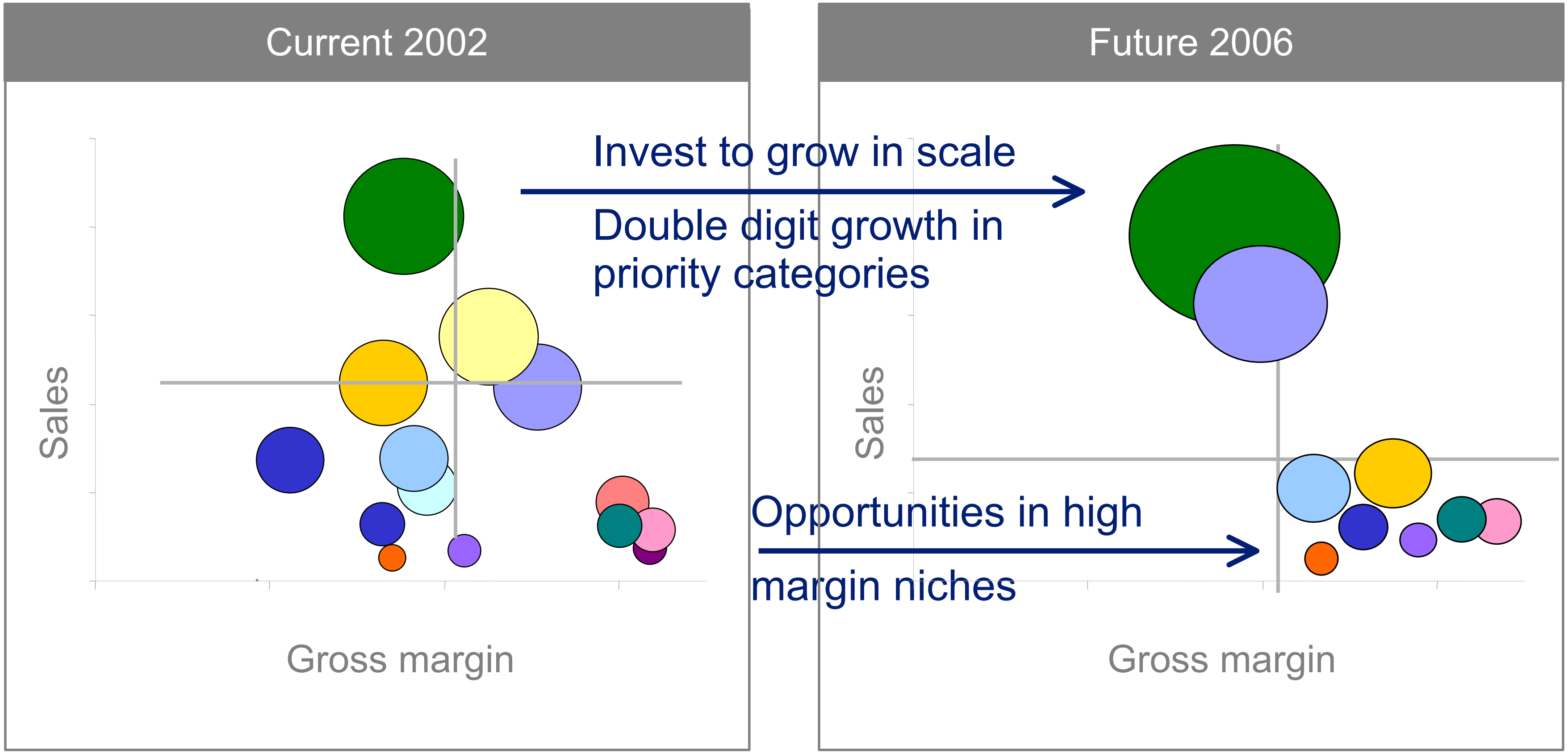
Mobile Infotainment



Productivity

Flat displays

Leading to a clearer portfolio



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Metrics for success

Portfolio role		2002		2003 YTD		2006	
		World[1] Position	Share	World[1] Position	Share	World[1] Position	Share
Scale	Large Flat TV	5	8.9%	4	9.1%	≥ 2	≥ 20%
	Entertainment hubs[2]	4	7.1%	3	8.3%	≥ 2	≥ 15%
	Total Display[3]	2	8.8%	2	8.8%	≥ 2	≥ 15%
Margin Opportunity	Mobile Infotainment[4]	4	6.8%	4	6.9%	≥ 2	≥ 10%
Mature businesses	VCR[5]	2	13.3%	2	13.0%	2	≥ 10%

Source Philips CE Market Flash Report, YTD July 2003

[1] World excluding Japan in value unless otherwise stated

[2] Entertainment hub is HTiB,STB, DVD+RW and MM PC

[3] Total display is TV and monitors (branded and OEM) in volume

[4] Portable infotainment is MP3-CD, Solid state audio, portable HDD Europe and US

[5] Market Forecast MFR 2002 + estimation 2003

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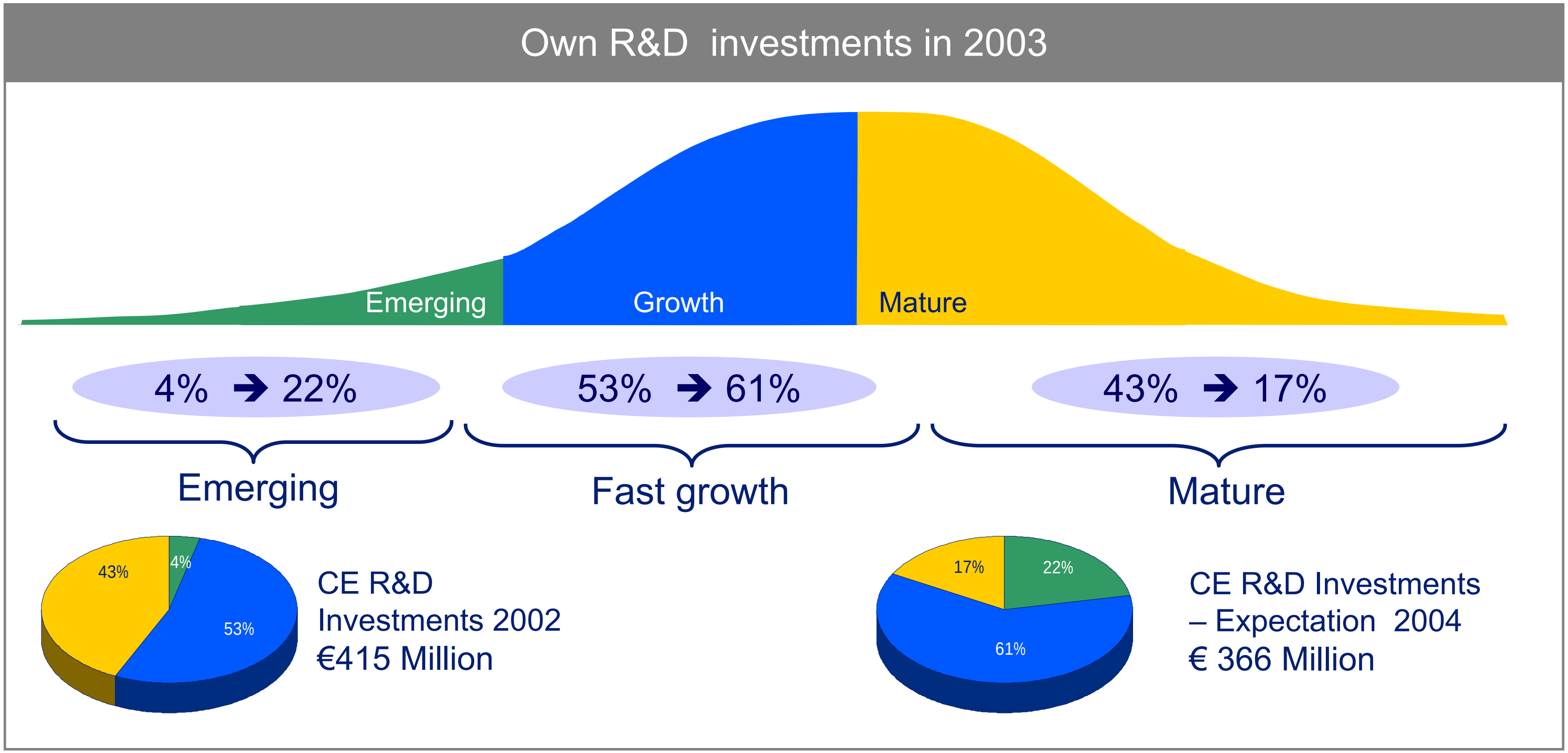
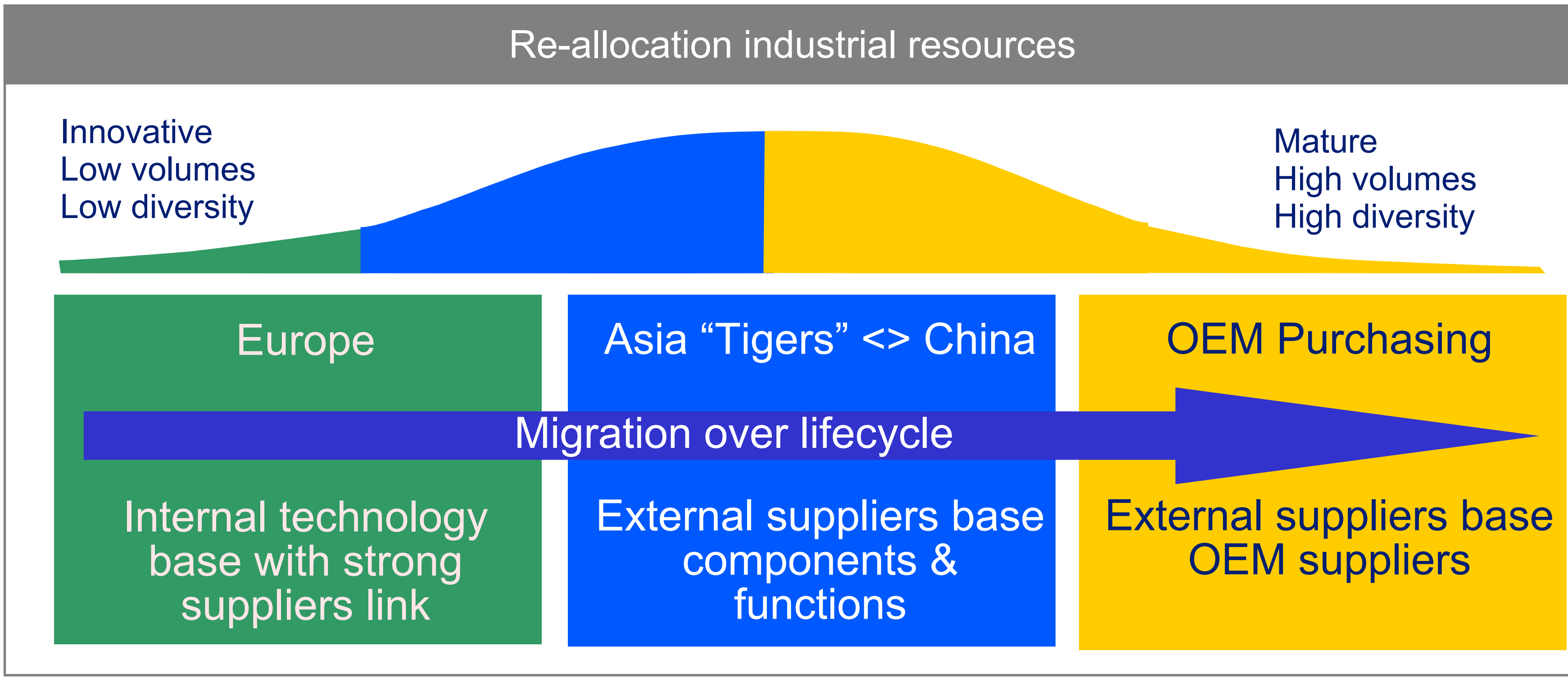
Principles of operational excellence

- Focus own R&D on differentiation and new growth opportunities
- De-verticalisation and sourcing mature business
- Leverage scale partnerships
- Diversity reduction
- Quality and sustainability
- First class NOC management
- Flexible, accommodating supply chain management

Own R&D resources are reallocated to the challenges in emerging and growth phases



Further de-verticalisation and sourcing of mature businesses



Resulting in:

- 25 key partnership suppliers
- Sourcing from thirds growing from 70% to 80%

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PCE realises scale advantages through partnerships with industry leaders

Example Alliances	Benefit
LG Philips LCD (LPL)	Joint venture, market leader in LCD panels
LG Philips Display (LPD)	Joint Venture, largest scale supplier CRT
Jabil	EMS
TCL, Telra	Display OEM partnership
Funai	AV entertainment partnership
Cellon	ODM partnership

Resulting in scale advantages

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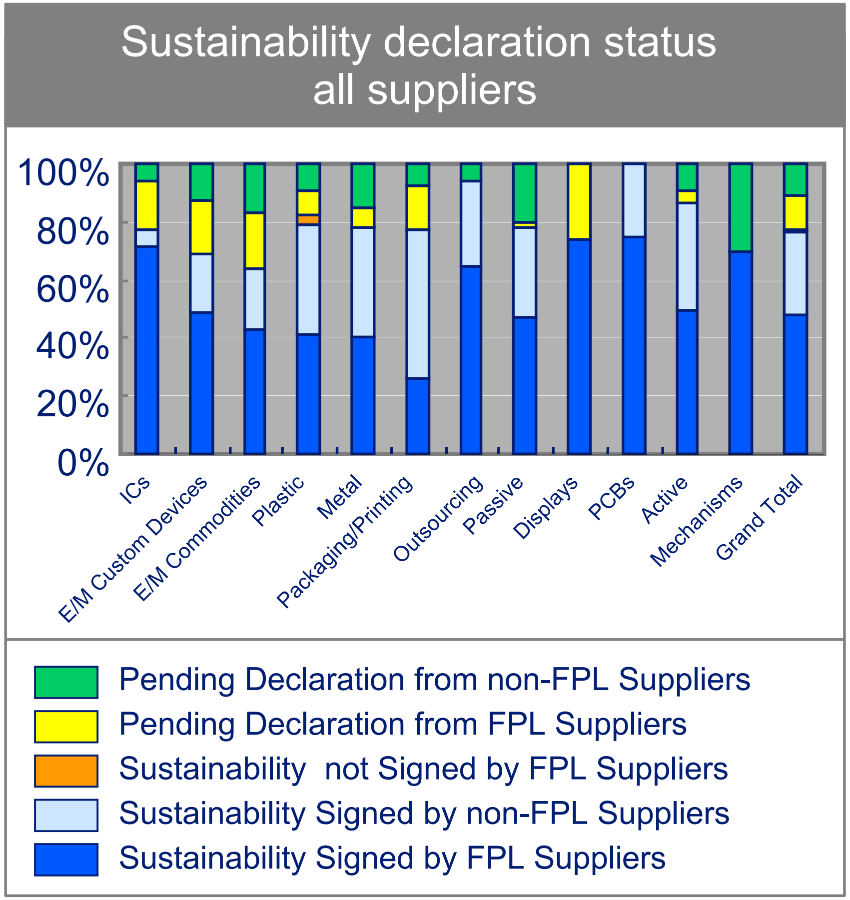
Our approach towards sustainability

PCE recognizes the need to perform, financially, but also on environmental quality, and social equity

Dow Jones named Philips market leader in sustainability, 22 September 2003

Leading in ‘green’ products



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Shared approaches to meet consumer needs

- Delivering on consumer insights
- Unique differentiators, based on our competencies
  - Display
  - Storage
  - Connectivity
  - Audio/video processing
  - Design
- Provide experiences/solutions not boxes
  - Home Entertainment
  - Personal Expression
  - Productivity

A coherent approach, based on consumer insights

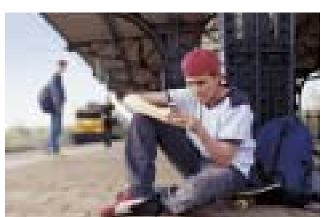
Home Entertainment

“I want Entertainment at my terms”

“I want to be ME, with my friends”

“I seek one partner for improved productivity at lowest TCO”

Mobile infotainment



Productivity

… to create differentiators

Mobile Infotainment

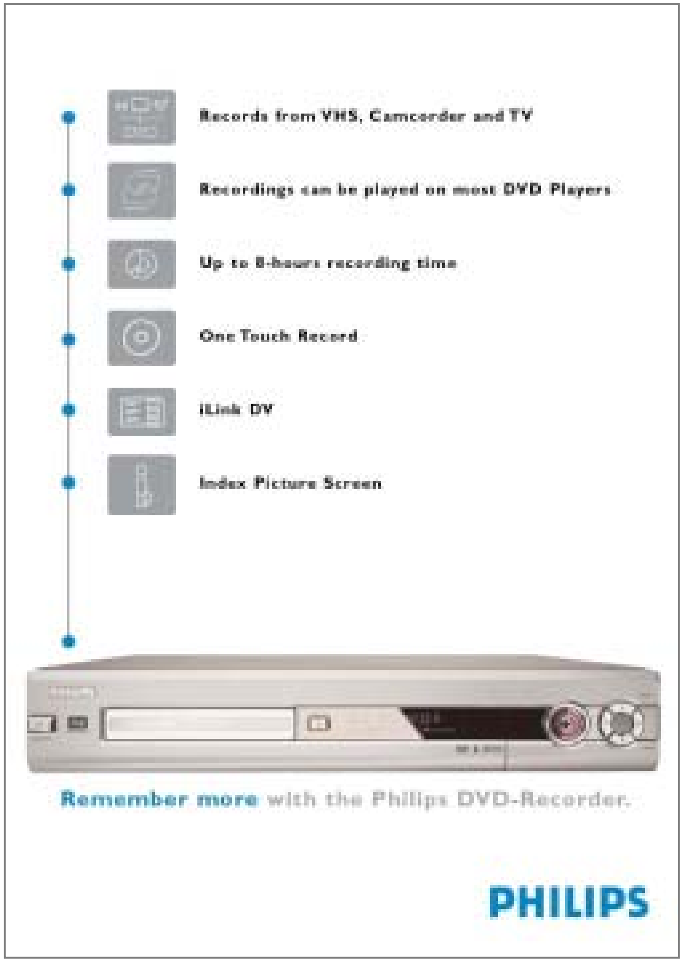
- Best ease-of-use to capture, organize and access ‘content’ anywhere
- Most immersive experience, touching more senses
- Connects easiest with everything your friends have
- Fashionable designs to radiate your personality
- Fun and pride of ownership

… to create differentiators

Mobile Infotainment

Entertainment hubs

- Ease of experience
  - Setting up
  - Intuitive user interface
- Leading in A/V applications
  - Better viewing quality
  - Sound quality
- Inspiring design
- Thinnest form factor
- Network enabled



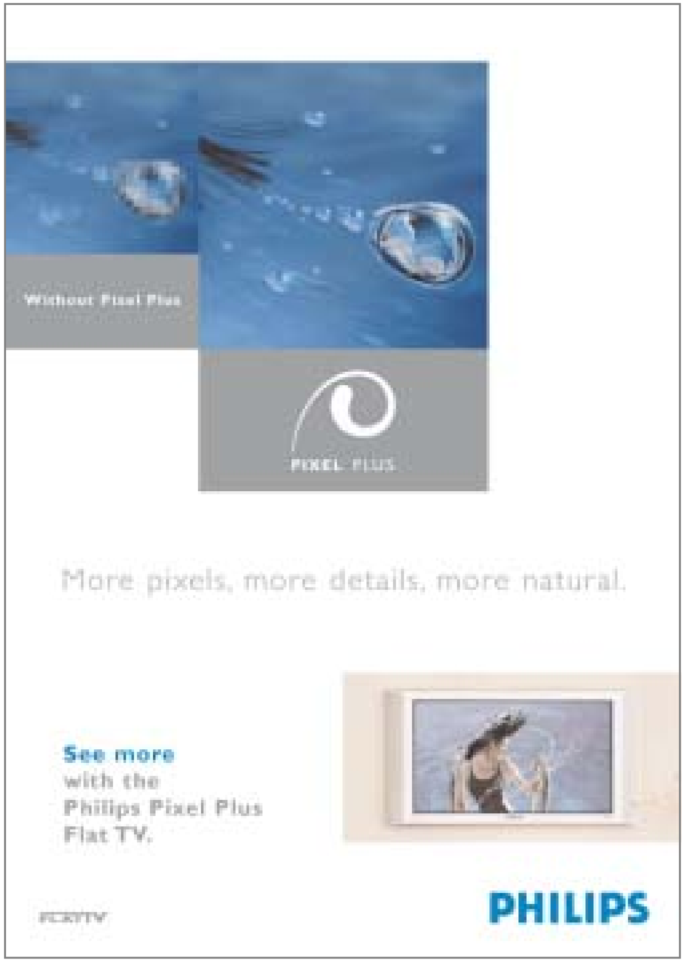
… to create differentiators

Mobile Infotainment

Entertainment hubs

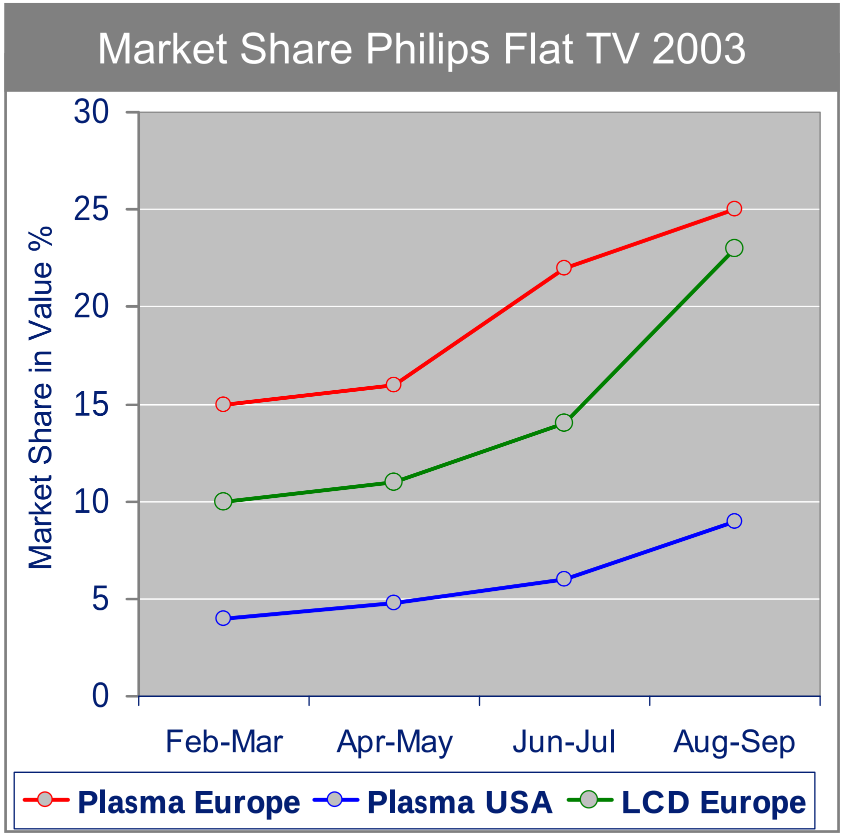
Flat TV

- True immersive viewing experience through best picture and sound quality
- Inspiring designs to fit your taste
- Flexibility to be used wherever you want
- Suited for all content sources



Driving successes in Flat TV

- # 4 World-wide
- # 1 in Europe
- Eisa awards for LCD-TV and Plasma TV
- Pixel plus setting new standards for picture quality
- Strong share growth in Flat TV



Source: Philips CE Market Flash report (GfK, Intellect)

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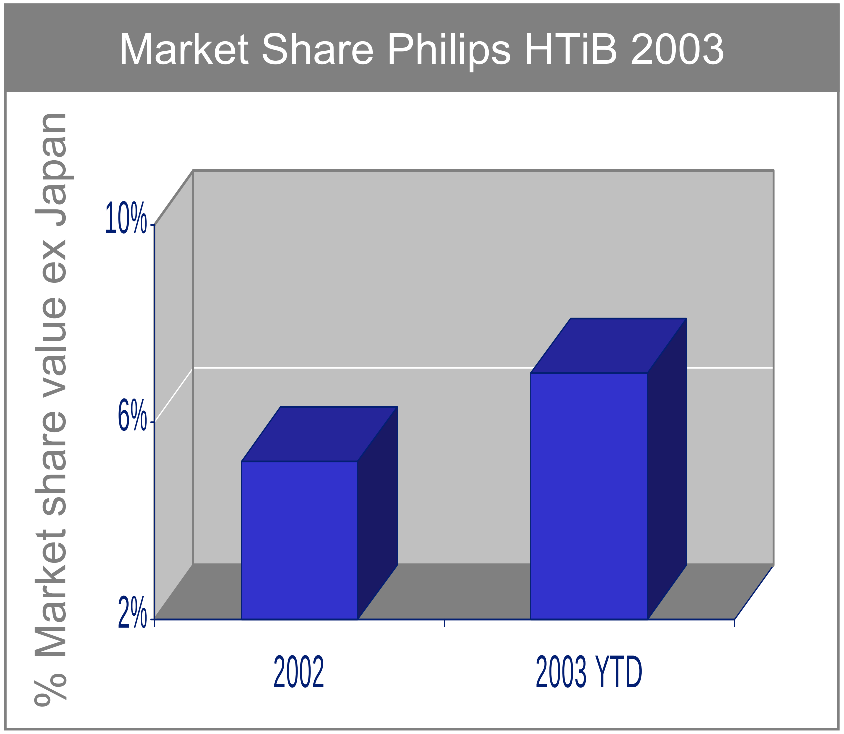
… entertainment hubs …

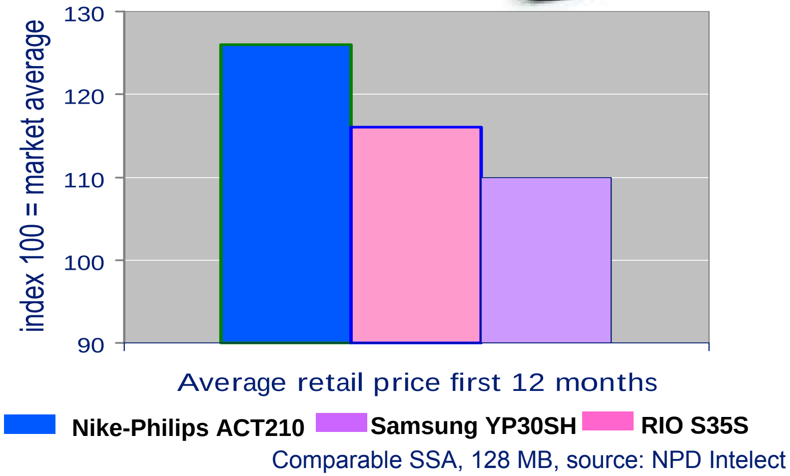
- #1 world-wide in DvD-recorder
- Strong share growth in Home Theatres, Set Top Boxes
- Thinnest DVD player
- Set Top Boxes multi-room solution chosen by DirecTV
- Winner of 16 FNAC 5-star awards in 2003



Source: Philips CE Market Flash report 2003, based on GfK

… and mobile infotainment

- Philips-Nike PSA range commands meaningful price premiums
- The Key rings provoke spontaneous purchases, outside of the “natural” cycle. Thus, they are an incremental business opportunity
- Leader in head-phone sets, remote controls, portable audio
- GSM 5xx range (optimized for multimedia) selected by Vodafone, Orange



Our comprehensive productivity approach

- Creating scale in display applications
- Participating in high value niches e.g.
- # 1 in Hotel TV
- Equal # 2 in branded monitors
- Equal # 2 in OEM supply of monitors to leading PC manufacturers
- Innovating in connected displays for in-store applications

Leveraging marketing alliances

- Philips - Nike
- Philips – MTV APAC
- Philips – Ikea
- Philips - Capellini

Anticipating the longer term future

- Convergence
- Products enable seamless experiences
  - Wirelessly integrated in home and personal networks
  - Going hand-in hand with (content) services
- Freedom to enjoy anything, anywhere, anytime – instantly and intuitively
- Open standards

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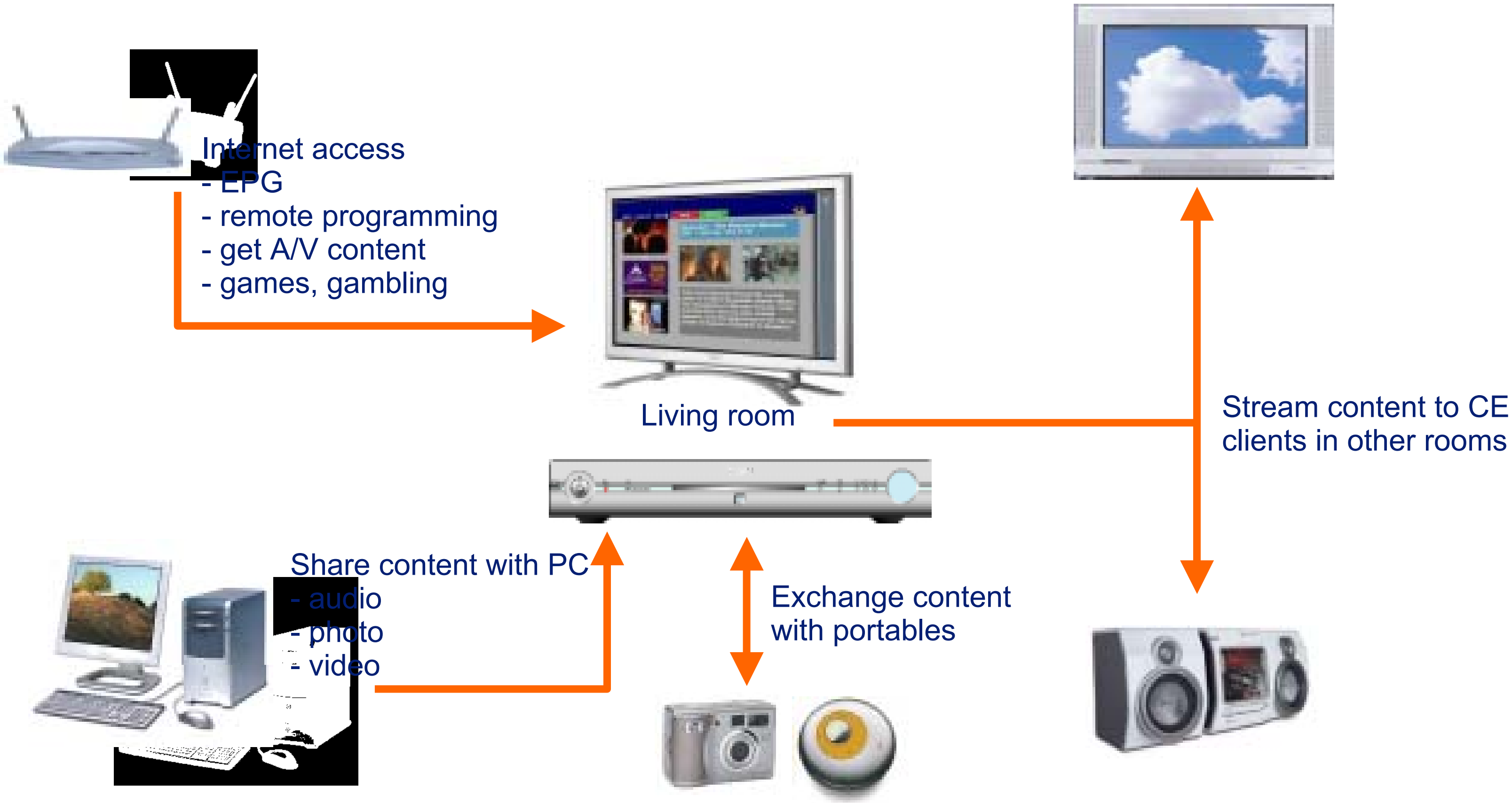
Entertainment hubs will deliver wireless content distribution throughout the home



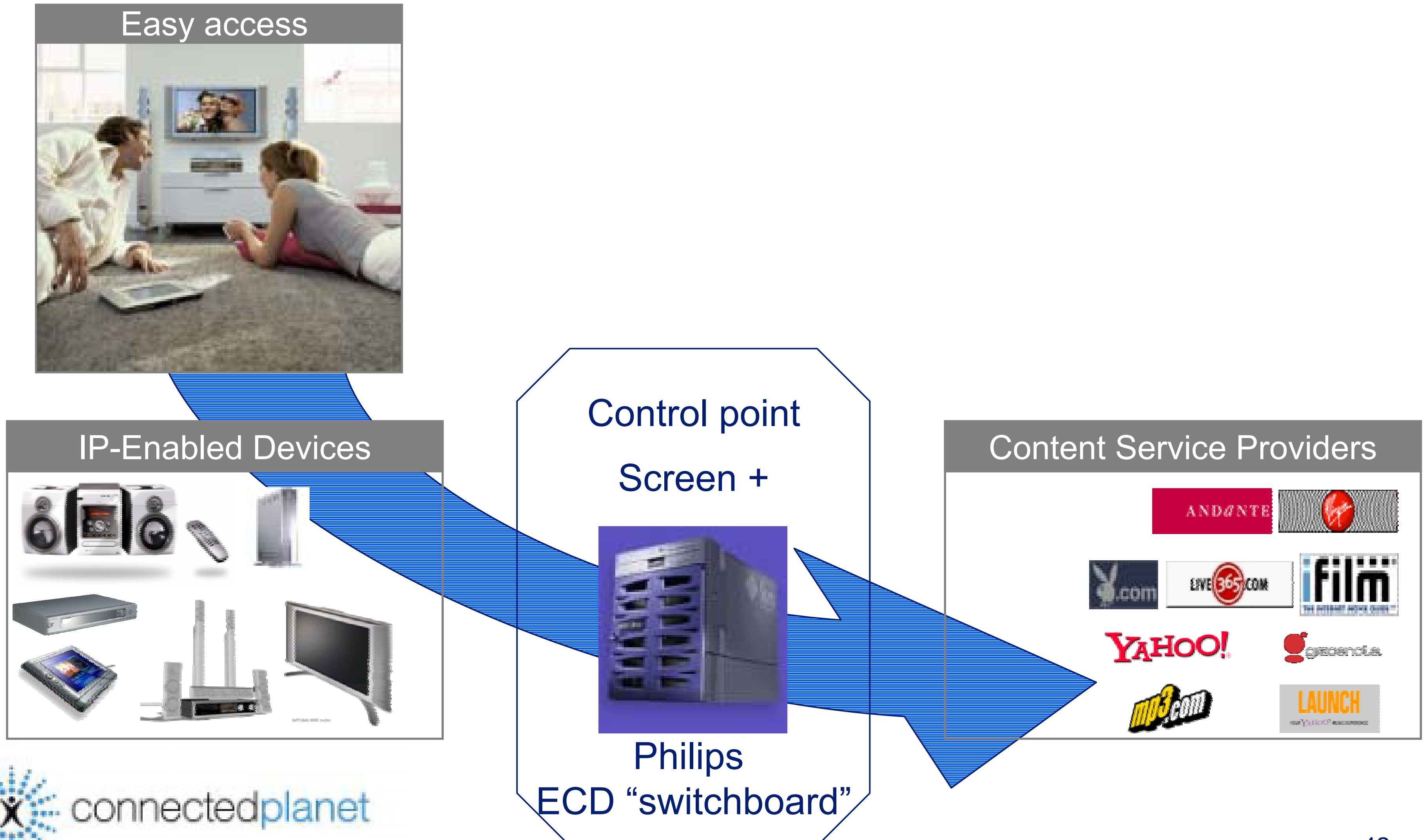
Key insight: consumers want easy access to content and services

Easy access to content and services

Easy and transparent

Content Service Providers

Connected Planet concept will satisfy consumer needs better while creating control point



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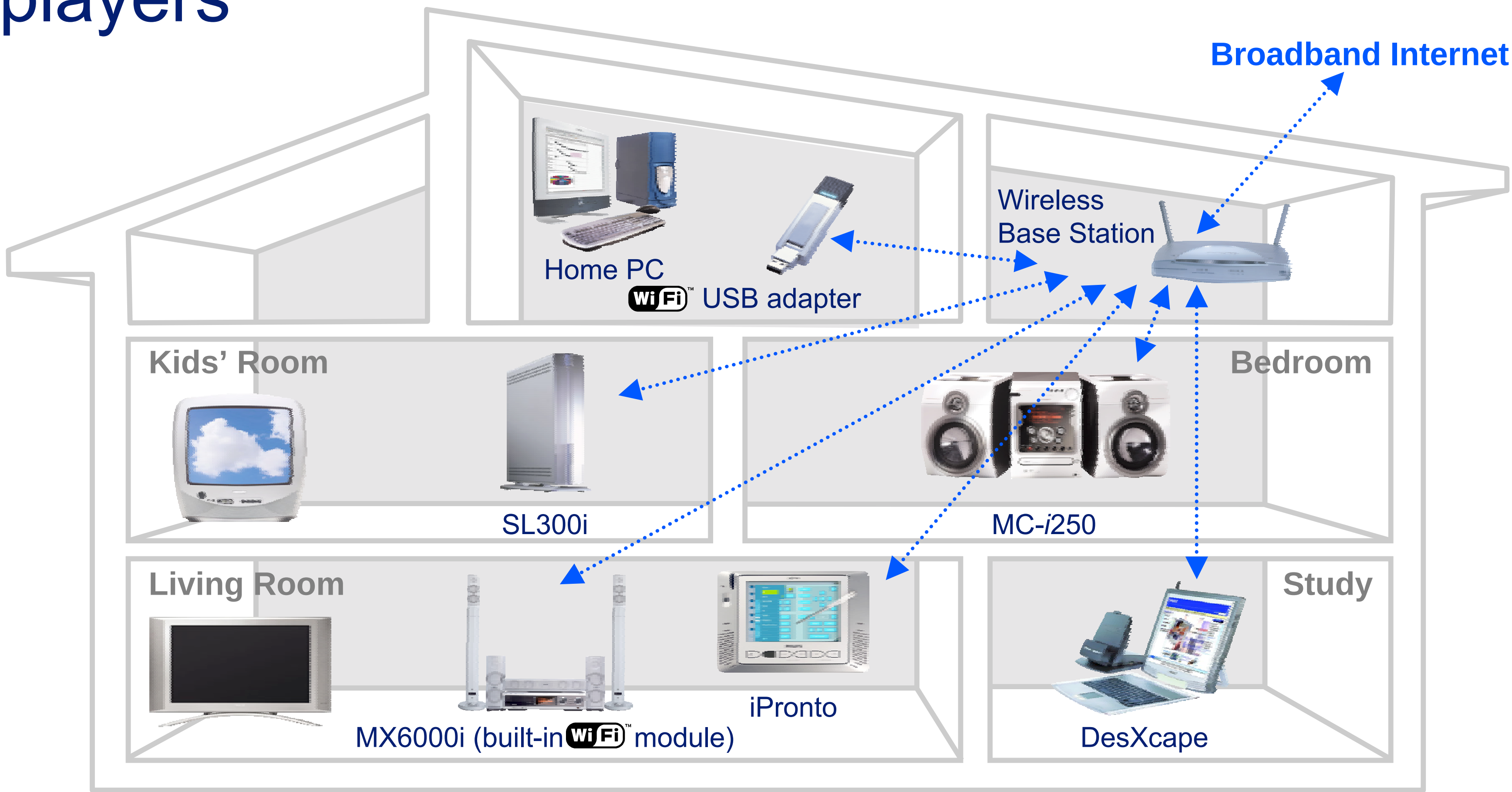
Philips' active role in developing & promoting open, interoperable standards

Interoperable standards	Digital home
Wi Fi™	Digital Home WORKING GROUP
HomePlug 14 Mbps CERTIFIED	FUJITSU, Gateway, hp invent, IBM, intel, KENWOOD, lenovo, Microsoft, NEC NEC CustomTechnica, Ltd., NOKIA, Panasonic, PHILIPS, SAMSUNG, SHARP, SONY, ST, THOMSON
UPnP™ FORUM	DVB _THE STANDARD OF THE DIGITAL WORLD
CE Linux Forum	

Philips' comprehensive portfolio for the Connected Planet sets us apart from commodity players



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The European telco alliances network is instrumental in bringing the concept to life

Telco alliances	
T-Com	BT
kpn	TELECOM ITALIA
Telefónica	belgacom

Media coverage at IFA trade fair

Press coverage	Volume	Favourability
Philips	96	60
Sony	62	55
Samsung	58	56

Source: Carma Media analysis

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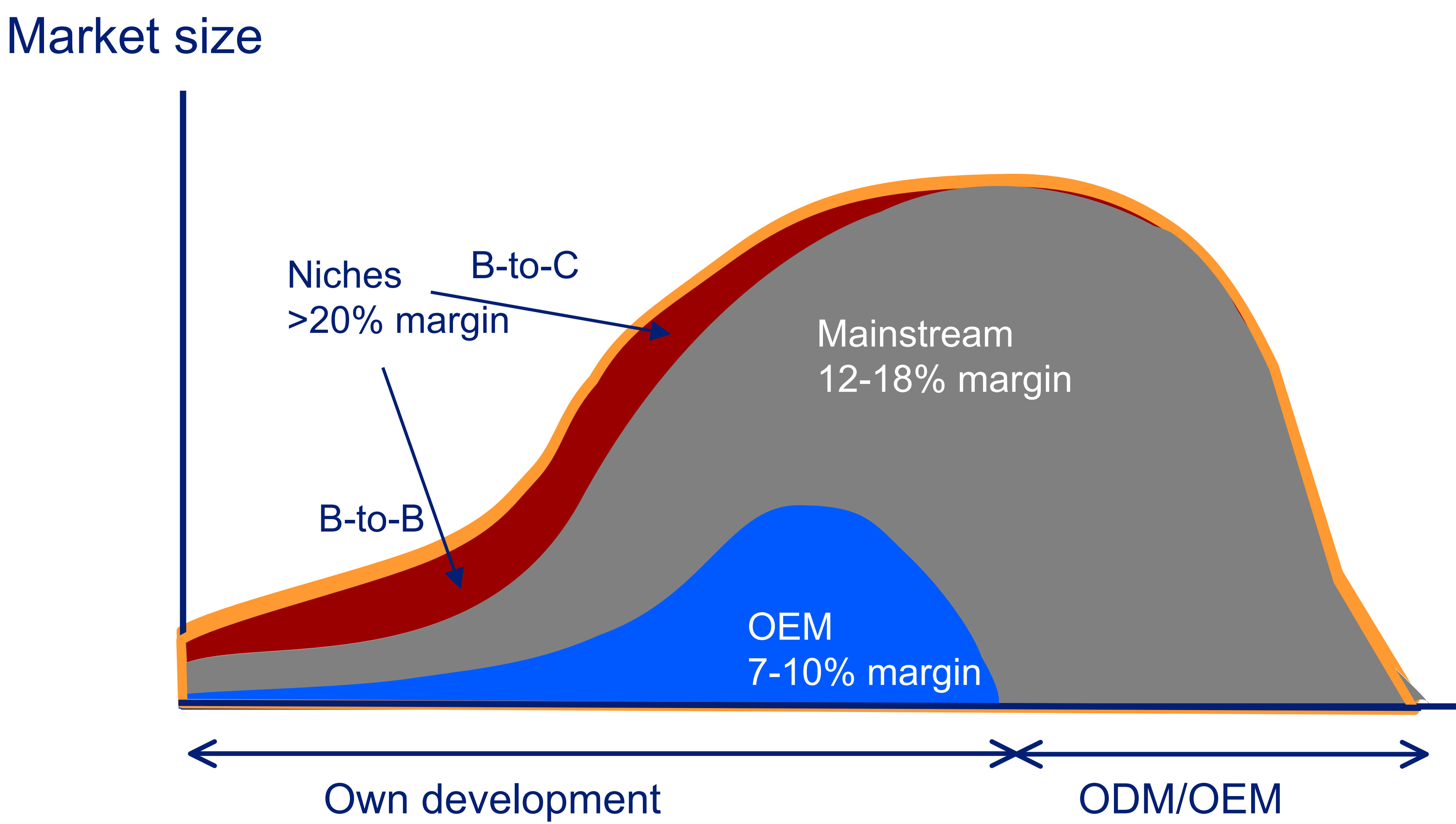
Adapting our business models to ensure a sustainable margin structure

- Increasing retail power
- Competitive price pressure
- Retail margin requirements
- Increasing importance of mass merchandisers and direct sales
- Supply chain effectiveness

Different models along the life-cycle



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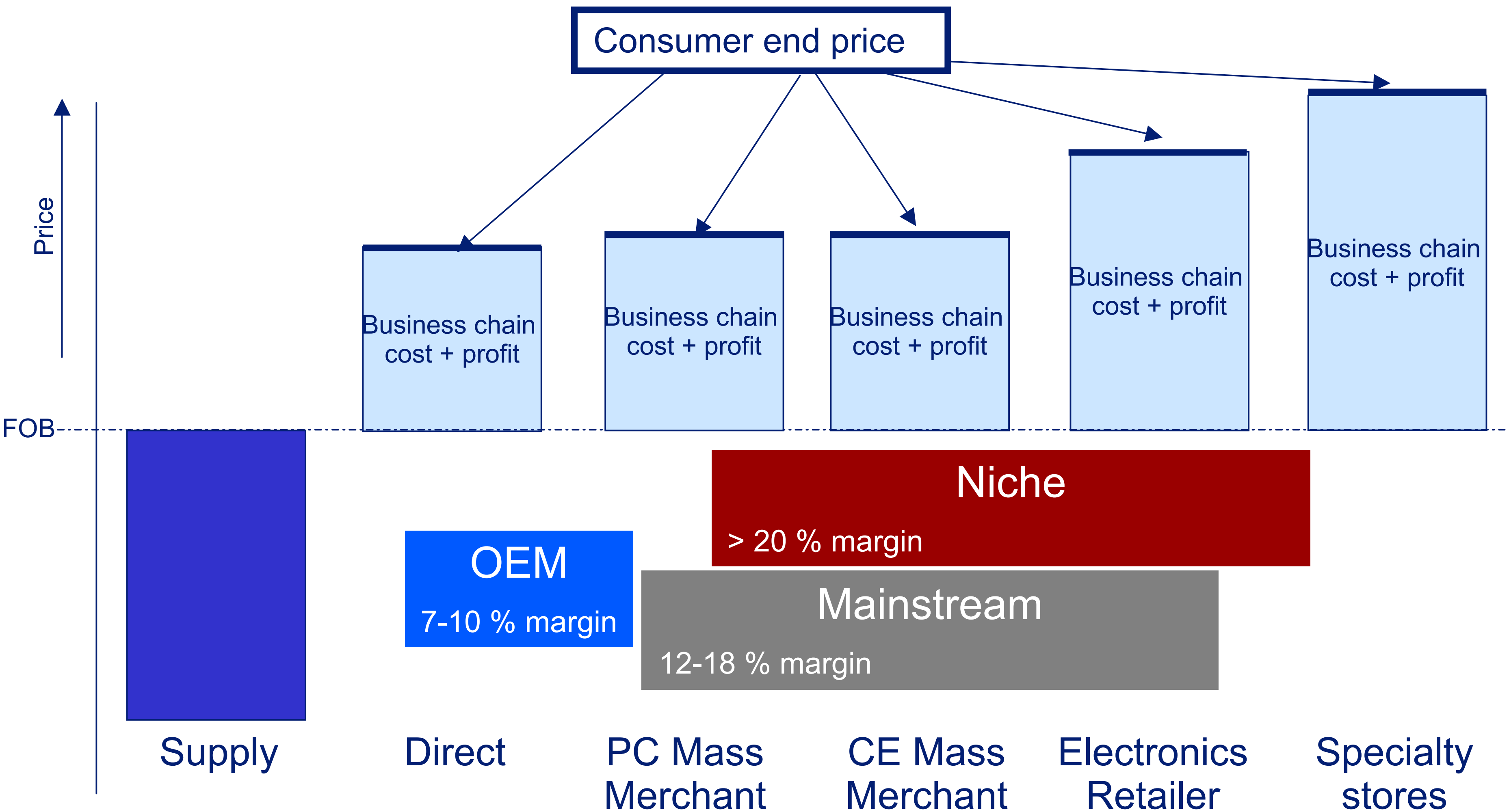
And for different retail circumstances



Business Model to meet our 2005 / 2006 targets

	From 2002	To 2005/2006
Sales	9.6 Bln €	≥ 10 Bln €
Margin	21.4 %	~ 16.5 – 17 %
CoO	21.0 %	14.4 %
Operational IFO	0.4 %	2 – 2.5 %
NOC	0.3 %	< 0.25 %
License income	2.0 %	≥ 2 %
Total IFO	2.4 %	≥ 4 – 4.5 %

Source: Annual report Royal Philips Electronics - 2002

N.B. All as percentage of sales

These plans provide us a solid foundation to face the future and compete successfully !

Changing environment

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