



Transcript of Speech from Philips Press Conference at Consumer Electronics Show

*Delivered by Andrea Ragnetti, CEO, Philips
Las Vegas, NV
January 6, 2008*

Ladies and Gentlemen - good afternoon. For many of you, I am a new face – and my name is Andrea Ragnetti. And there's plenty more that's new at Philips – notably the Consumer Lifestyle sector, which launched just a few days ago on January 1, and of which I'm the new CEO.

The much bigger business unit that we now call a sector, combines two former product divisions of Philips: Consumer Electronics, Domestic Appliances and Personal Care. That's the division I used to be responsible for. The new Consumer Lifestyle sector generates almost \$20 billion (U.S.) of revenue, accounting for nearly half of Group annual sales.

So what's different apart from the name? I'm not the first to notice that in the Consumer Electronics industry, there's traditionally been too much focus on the electronics and not enough focus on consumers. Our answer is total attention on what tomorrow's consumers want and need. And that means breaking down some of the barriers that have for too long limited the CE industry.

So this is another step on our journey to becoming a wholly market-driven company. This is a journey that has been of great personal importance to me ever since I joined Philips five years ago as its chief marketing officer. That's a role I've just handed over a week ago, so I can focus entirely on the Consumer Lifestyle sector.

Over the last few years, adopting a market-driven approach has been central to reinventing the whole company. Of course, Philips has reinvented itself many times since its foundation in 1891. But through every change, the spirit of the company has remained intact. Because we stay true to our mission of improving the quality of people's lives through timely introduction of meaningful innovations.

Today we invite you to see where the next step on this journey is taking us. Step back five years -- this industry sometimes seemed more about technology for technology's sake. Consumers – their passions, their desires, their lifestyles – didn't always occupy the center ground. Consumers simply had no need for new devices that were just an incremental evolution of the old ones. The net result: the CE industry began to lose relevance.

So Philips listened. We got deeply engaged with consumers, men and women all over the world... and felt compelled to make some big changes. The first stage in our evolutionary thinking was to put Sense and Simplicity at the heart of everything we do.

Next, we understand today's consumers focus less on products, on objects and more on lifestyle experiences. Experiences delivering simple emotional fulfillment. Experiences adding a sense of wellness and pleasure. So we focus on the experience itself.

As you came in to this session there was a video playing. Something quite different. Not just the movie – which is a radical piece especially commissioned from the director Wong Kar Wai – but the product it features.

It's called the Aurea and is a perfect example of our philosophy. We like to refer to it as the reinvention of television. We launched this TV last summer in Europe and the initial market reaction, despite the very unconventional launch plan, is extremely positive. So its design language has been integrated into exciting new FlatTV lines for the US market.

Philips has created a truly immersive viewing experience, seducing the senses. What consumers, perhaps we should call them “enjoyers” rather than consumers is that the Aurea experience is like stepping through a window into a different world, becoming immersed in scenes that radiate an aura of light and color beyond the TV frame.

So, Aurea is a fantastic product from a technology point of view, but in a world where technology is pretty much 100% effective all the time, design comes to the forefront. What used to be a CE device is today more a signature piece of furniture that helps define you and your personal style. You'll notice Aurea's visual and design language has moved away from a ‘masculine technology box’ to a smoother, more feminine approach that integrates better into the home environment. Consumers have shared with us their desire for products with a simpler and softer, more sophisticated design. Something that touches the heart as well as the head. Something that successfully blends the masculine and feminine, that makes a sophisticated statement about their lifestyle aspirations.

What our designers are doing is redefining the relationship between people and objects. Philips is taking once-familiar objects and giving them a new sense of intimacy so we can engage with them more fully, more emotionally. Today we take that concept one step further by launching something new. It's not a familiar CE product with a list of features. True to the spirit of our new Consumer Lifestyle sector, it's a whole new design identity across the range. We call it Design Collection. It is minimalist, emotional and recognizable.

But don't take my word for it: See and decide for yourselves. Let's watch a short video that profiles the collection (*video plays*).

I hope you found that elegant. I hope you'll agree Philips has created a whole new look. Something that is both emotional in feel and minimalist in design – a look that's very European and that can be a conversation point in any home. The feel of the Design Collection is sleek yet fresh; simple but not simplistic. Stewart Muller, the head of our TV business here in North America, will take you through the details in just a moment.

Now, I want to spend some time on the most important change in our approach to the CE market. I've said that our Consumer Lifestyle focus puts consumers, all consumers, men and women, firmly at the center of our business – and you'll have noticed the more feminine lines of our Design Collection.

There's an obvious reason for this: women play an influential role in many buying decisions involving lifestyle products. The Consumer Electronics Association estimates that here in the United States, women will make 40 percent of the consumer electronics purchases in a \$200 billion marketplace. What's more, partners, mothers, daughters and ‘significant others’ influence a further

21 percent of purchases. That brings the total to well over half. That's a figure I'm quite familiar with from my previous job running the domestic appliances and personal care business at Philips. There, we found that when it comes to buying that most masculine of products – an electric shaver – women call the shots.

Here in the United States, we find that more than half our sales of our Norelco shavers go to women buying gifts for men! By contrast, CE appears to be much more of a male-centric business. In the past that was used to justify plenty of sharp angles, chrome control buttons, some painful product manuals – and trails of loose wires. But women are now changing all this. They're more critical consumers who need to see the personal benefits of a product. They want it to make them feel good. Our research shows 98% percent of women consider style to be important when making a purchase – significantly higher than the figure for men. Women have a different attitude toward the product, and the purchasing experience too. Traditional “Big Box” CE stores are places that appeal to many men. But women find them less attractive.

So Philips takes a different approach. In Europe, for example, we sell our Aurea TV at Lanvin stores in Paris and a classy department store like Harrods in the UK. Our Active Crystals memory devices and headphones are available in Swarovski and Macy's stores here in the US. Still, however sophisticated the outlet, there's one thing we never forget: Simplicity. Simplicity is about making things clear, about being surprisingly clever and insightful towards consumer needs. Simplicity is about getting rid of the superfluous and adding the necessary.

Consumers are increasingly frustrated by the multiplication of options and the complexity of choices. But sometimes there's so much choice that it's hard to see where simplicity fits in. Take music downloads for example. The choices are rich and complex, thanks to a sometimes daunting array of download and packaged media options. Wouldn't it just be simpler if someone understood what you liked and offered you all those good choices at affordable prices every month?

That's the inspiration behind our partnership with Rhapsody, the online music service from RealNetworks. I'm really delighted to welcome Matt Rollins, Senior Vice President of RealNetworks, Inc, to join me onstage for a special announcement.

Matt Rollins:

Thank you Andrea. We are thrilled to be partnered with a world class company like Philips. Rhapsody is the leading digital music service with more than 4.5 million songs. With Rhapsody, you can access the world's largest music collection anywhere, anytime you want. Let's take a look at this short video which features an exclusive preview of a new Lenny Kravitz track to be released in April.

Andrea Ragnetti:

Matt, it's been a privilege to have you join me in announcing this special partnership between RealNetworks and Philips.

From today, Rhapsody is available in the US for downloading to Philips portable GoGear devices and Philips Streamium™ home audio products. We will work together to get coverage in other regions in due course. Ladies and Gentlemen, please join me in thanking Matt Rollins for joining us!

Philips Consumer Lifestyle has only been in business for a week. But I hope you will agree that we have already made a start at extending the frontiers of the current CE industry. We are ready to move from our traditional space in the living room into the kitchen, the bathroom, into the street and beyond.

The big advantage that Philips enjoys here is that we bring both the know-how and the product range from our domestic appliances and personal care division, combined with CE knowledge, now integrated into Consumer Lifestyle sector.

And this sector reaches beyond information and entertainment, and into the experience of wellness and pleasure. These are the new territories explored by the Consumer Lifestyle industry - of which Philips is proud to be a forerunner. In pursuit of a healthy lifestyle, consumers are seeking a balance between wellness and pleasure. They don't recognize boundaries and nor should we. So Lifestyle is about whatever makes the mood – and that includes lighting, leisure, and the experience of wellbeing in our homes and beyond.

Now it's time for you to hear the details of products we're launching today. Will you please welcome Stewart Muller, head of Philips' TV business here in North America! And afterwards, I'll come back and join Stewart to answer your questions.

Stewart Muller:

Thank you Andrea, and good afternoon everyone.

As Andrea told you, I am excited to share with you the details of our 2008 product line-up and to explain those features that are still pretty important to you -- the people writing about technology! Before we get to the features, I'd like to briefly explain why it's so important for me – a longtime CE guy – to move into this new and much larger arena we call “Consumer Lifestyle.”

We are now addressing a bigger part of consumers' lives because Lifestyle is about richer experiences and not simply flopping on the couch at the end of a long day and hitting the remote. You'll appreciate this is new territory for us.

Expanding the frontiers of our business to address the lifestyle needs of our customers in a more holistic way just makes perfect sense. So we have some lofty ambitions, but today I'm here to talk primarily about TV – or more precisely, the reinvention of television to which Andrea referred and which we've further developed and customized for 2008.

As you've seen from the video that played at the start of this press conference, Aurea stands in a league all its own by delivering a stunning, truly emotive and immersive experience.

Now let's focus on the iconic TV designs we are launching today. The new “Philips Design Collection” breaks the mold with an award-winning design we believe will WOW even you -- our toughest critics.

You have already seen the Design Collection video. I think you will agree this design is different and we know it will resonate with consumers. In a “sea of sameness” and box like designs on the store

shelf, this design not only stands out – but draws you in. Leading the pack is the Ultimate Dream TV – our 52” set in the 7000 series, a recipient of the CEA Innovations 2008 Design & Engineering Award.

We recognize that different people will want different things, so to address that we will offer this compelling design in three series - each with varying features. The design collection will come in a 7000, 5000 and 3000 series. Let me focus on the 7000 line for the moment. Aside from its incredibly unique design, the new 7000 series boasts another original feat - an invisible speaker system. Yes, I said INVISIBLE – it has not even the smallest perforation holes yet delivers a POWERFUL audio experience that trumps anything else on the market. Philips’ Invisible Sound System integrates a WooX™ subwoofer with two dual-excursion passive radiator drivers – I know that’s a mouthful, but the bottom line is that this new design actually enhances the sound performance. So not only does it look better than what’s out there now – it sounds better! The sound is driven from the back and wraps around the set through the curved bezel.

So not only does ”Invisible Sound” make the TV thinner and more attractive – but it delivers a more immersive sound experience. Don’t worry – we have a special design collection theater in our booth where you can experience the superior sound quality for yourself!

OK, so now that you know it is stunning from the outside – what about the picture it puts out? Inside this impressive design is an HD picture that is second to none. A 1080p panel with 120Hz ClearLCD™ technology improves the gray details and black levels in dark scenes while greatly diminishing motion artifacts. Philips’ 120Hz ClearLCD provides razor-sharp moving images with an ultra-fast motion response time of two milliseconds. Yes – I said 2 milliseconds!

We continue to refine LCD technology by equipping these sets with HD Digital Natural Motion which eliminates the persistent juddering effects that can often appear on LCD screens.

Again – I invite you to get up close and personal with these sets in our booth, seeing is believing after all. As Andrea said – this is not just about a television – the new design collection permeates the entire home theater experience.

Last year I introduced to you Ambisound – a new technology proprietary to Philips. This gives you a ‘surround sound’ experience in a one-bar solution, eliminating the clutter of wires around the room. This product truly represents our brand promise of Sense & Simplicity. Building on the success of the award-winning Ambisound technology, we are expanding the collection with two new home theater systems. With the similar sleek black curved edge look – these systems are sure to be a standout in any home theater. And of course they look even better when mounted under one of our Philips Flat TVs. The new Ambisound home theater system features a full, 5.1 multi-channel ‘surround sound’ experience through a one-piece fully integrated home theater system – once again eliminating those messy wires.

Complementing any décor, this system boasts HDMI connectivity with true 1080p high-definition video upconversion - the future in home theater innovation.

For those who want something truly unique – how about a vertical surround system? The HTS6515 features a 5.1 ‘surround sound’ experience, HDMI digital connectivity, plus an integrated iPod dock so you can easily enjoy YOUR music YOUR way.

Speaking of enjoying music your way – we will introduce a variety of Bluetooth solutions in the audio space to give people the freedom to listen to their music THEIR way. Philips BTM630 frees digital audio tracks from personal music players, cell phones and PCs. Boasting a sleek, wireless design, it also has an integrated iPod dock and can play music from a CD, USB, SD or MMC card. You can use Bluetooth to play music from your cell phone. The best comes when you're using this feature and a call comes in. The player pauses the music, displays the name of the caller, then you can answer using the speakerphone option instead of the phone. When the call is ended the music resumes.

From Bluetooth to my other favorite “Blue” – Blu-ray. Many of you know – I am an electronics fanatic with 21 TVs in my home. I can tell you – the first Blu-ray movie I watched sold me in the first few minutes. The picture performance is truly extraordinary. And with over 500 titles available you can all have a cinema experience at home. This year Philips will release the BDP7200, Philips' first Profile 1.1 compliant Blu-ray Disc player; optimizing the complete HD experience. Blu-ray is the future of experiencing the best in hi-def content.

With more than half of the major studios on board, most notably Warner brothers announcement to commit exclusively to Blu-ray, more titles coming to market every day, Target's commitment to sell only Blu-ray set-top players and of course, Blockbuster - one of US's premier rental outlets - offering only Blu-ray disc – the future is “nothing but Blu” for the consumer.

The final reveal in today's line-up is a bit more personal. Last summer, in partnership with Swarovski – the famous makers of precious crystal objects – Philips introduced Active Crystals. This is a glamorous line of accessories blending high tech with high fashion. As Andrea told us, women want products that complement their personal style. Active Crystals fuses beautiful crystals with functional headphones and USB drives. Building on the success of our first collection, I am proud to show you for the first time – the new colors collection.

First, the USB drives. A gorgeous heart pendant with a delicate lilac crystal and a pad lock design in stunning black crystals. Both look like jewelry, but are also functional 1 gig USB drives.

To glam up the headphone space, we have added lilac and black crystals to the popular in-ear model. I am sure you will agree – these new colors complement the most modern of styles. This collection comes just in time for Valentine's Day so it is sure to be a home run gift for that special someone.

So you can see Philips is going beyond the boundaries of traditional consumer electronics products to deliver a Lifestyle STATEMENT. Thank you so much for your time and attention.