

PHILIPS

Delivering on our business commitments

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President and Chief Executive Officer

Semiconductor Division



Delivering on our business commitments

- Semiconductors overview
- Business Focus
- Key strategic initiatives
- Summary

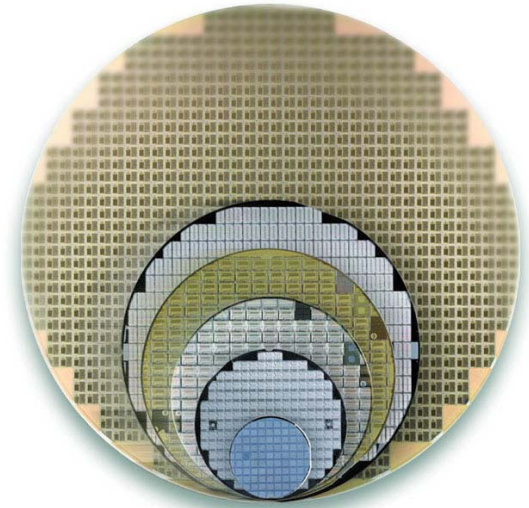
Our vision

A world where everyone can always connect to information, entertainment and services



Leading silicon solution company

- Top-10 supplier with revenues of 4.6 billion Euro in 2002
- Focus on semiconductor solutions for Connected Consumer applications
- We serve the consumer, communications, automotive and computing markets
- 31,500 employees
- The addition of Mobile Display Systems and Professional Speaker Systems adds 3,500 employees and 1 billion Euro revenues
- Global organization
Sales force delivering to 60 countries, 19 manufacturing sites including MDS and assembly and test



Global manufacturing infrastructure



IC Capacity

- 1.7 million wafers per year (8 inch equivalent) after closure of San Antonio and Albuquerque
 - 20% BiCMOS, 25% Bipolar, 55% CMOS
- 165 billion pins assembly capacity


Discretes

- 1.2 million wafers per year (6 inch equivalent)
- 45 billion pieces assembly capacity

Partnerships


- TSMC, Amkor & ASE

Strong customer base


Communications	Consumer	Computing Automotive	Distributors	EMS
        	        	       	  	   

Strong Products Create Leading Positions


CONSUMER

	TV	#1				
	Media access (tuners/decoders)	#1				
	DVD recording	#1				
	Digital audio		#2			

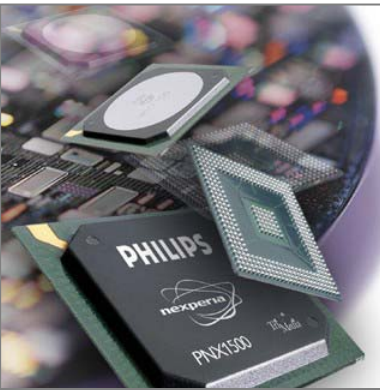
COMMUNICATIONS

	Cordless	#1				
	Bluetooth		#2			
	RF Identification	#1				
	Wireless connectivity		#2			
	Mobile handsets				#4	

COMPUTING

	CRT monitor drivers	#1				
	Display drivers (small panels)		#2			
	PC Add-on cards		#2			

Drivers for future growth



DVD+RW



Digital TV



Display system solutions



Connectivity



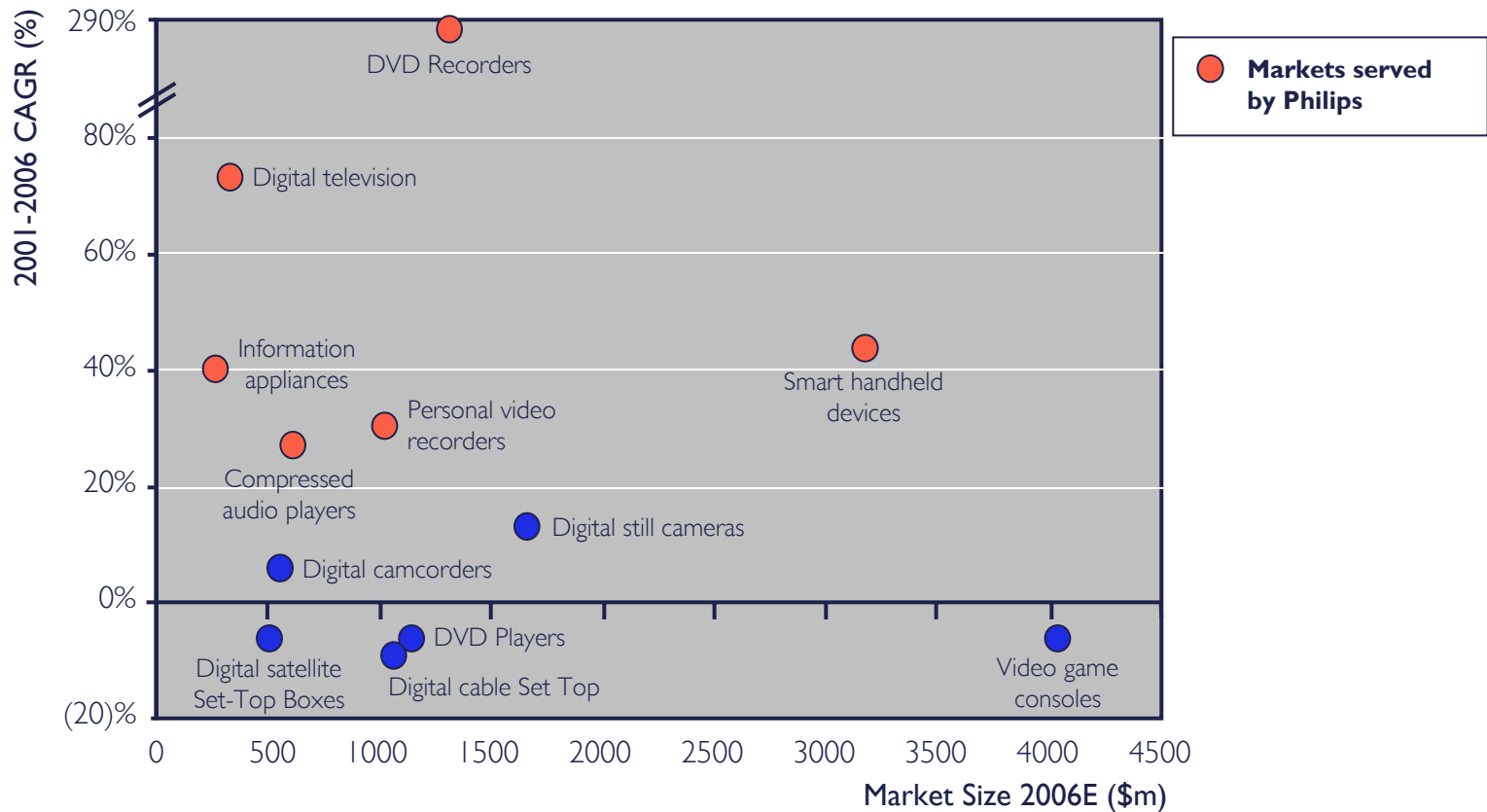
Identification



Cellular system solutions

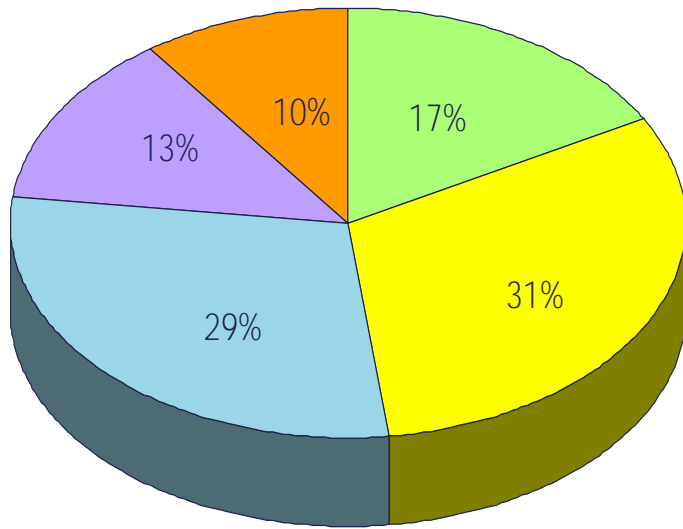


Connected consumer applications provide high growth opportunities



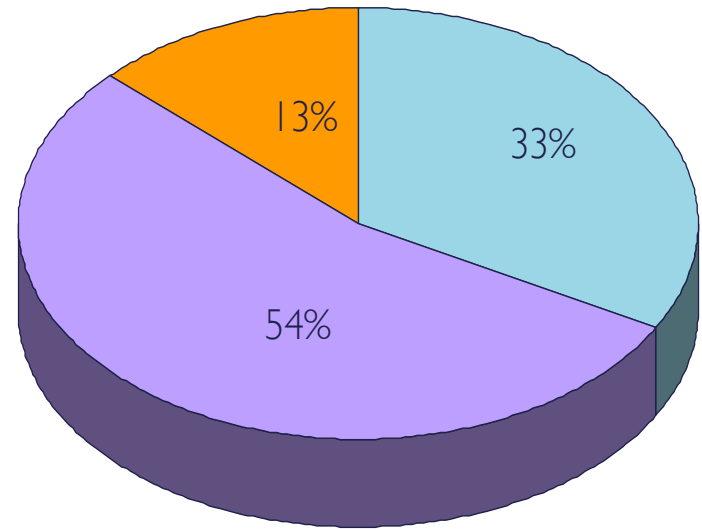
Balanced Sales by Market Segment and Region (excl. MDS)

Sales by Customer Type



■ Automotive ■ Communications ■ Consumer
■ Computer ■ Industrial

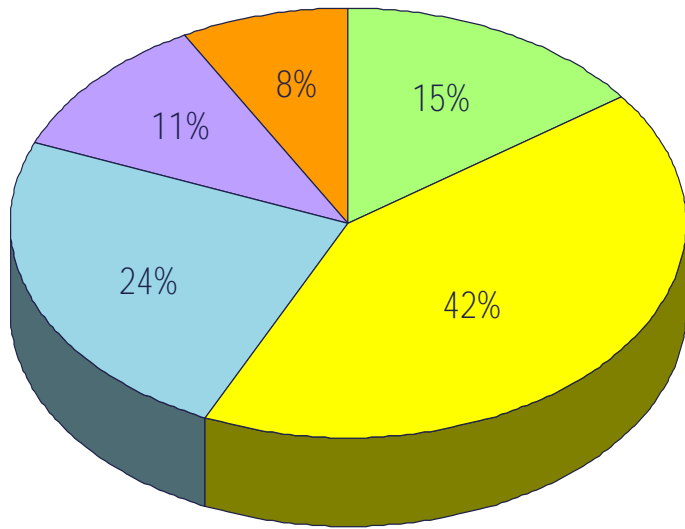
Sales by Region



■ Europe ■ Asia Pacific ■ North America

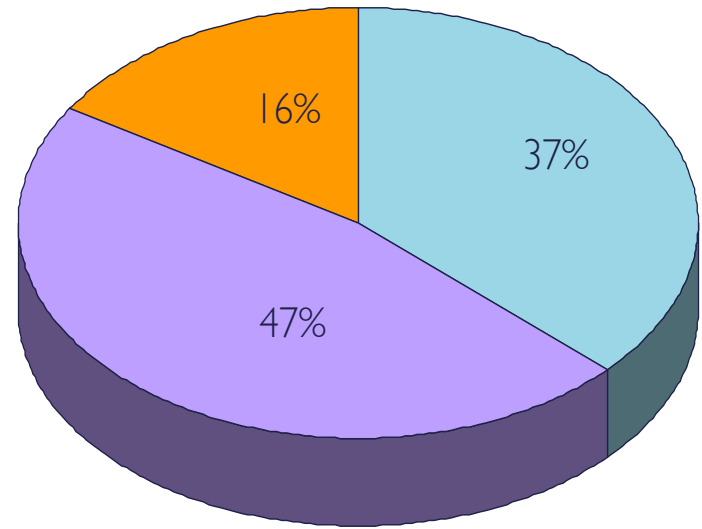
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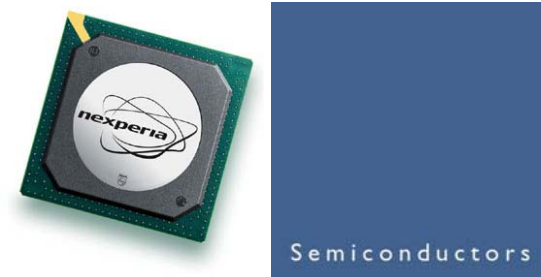
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Differentiating technology



- Leadership in Systems and Platforms
 - Leveraging Philips' core competencies in R&D and CE heritage
 - Nexperia: The Solution for Video and Mobile applications
 - Shipping now in GSM handsets, digital televisions and DVD recorders
 - Rich IP portfolio with fully integrated re-use concept
- Excellence in RF
 - RF is crucial for wireless applications
 - QUBiC4 low cost, high performance RF
- And now, best-in-class CMOS
 - 120 nm now, 90 nm first full lots now, 65 nm first silicon in Q4 2003
 - Ramp-up of 300 mm wafers pilot line in Crolles on target
 - 0.18 μm non-volatile EE/Flash for encryption technology in smart cards

Delivering on our business commitments

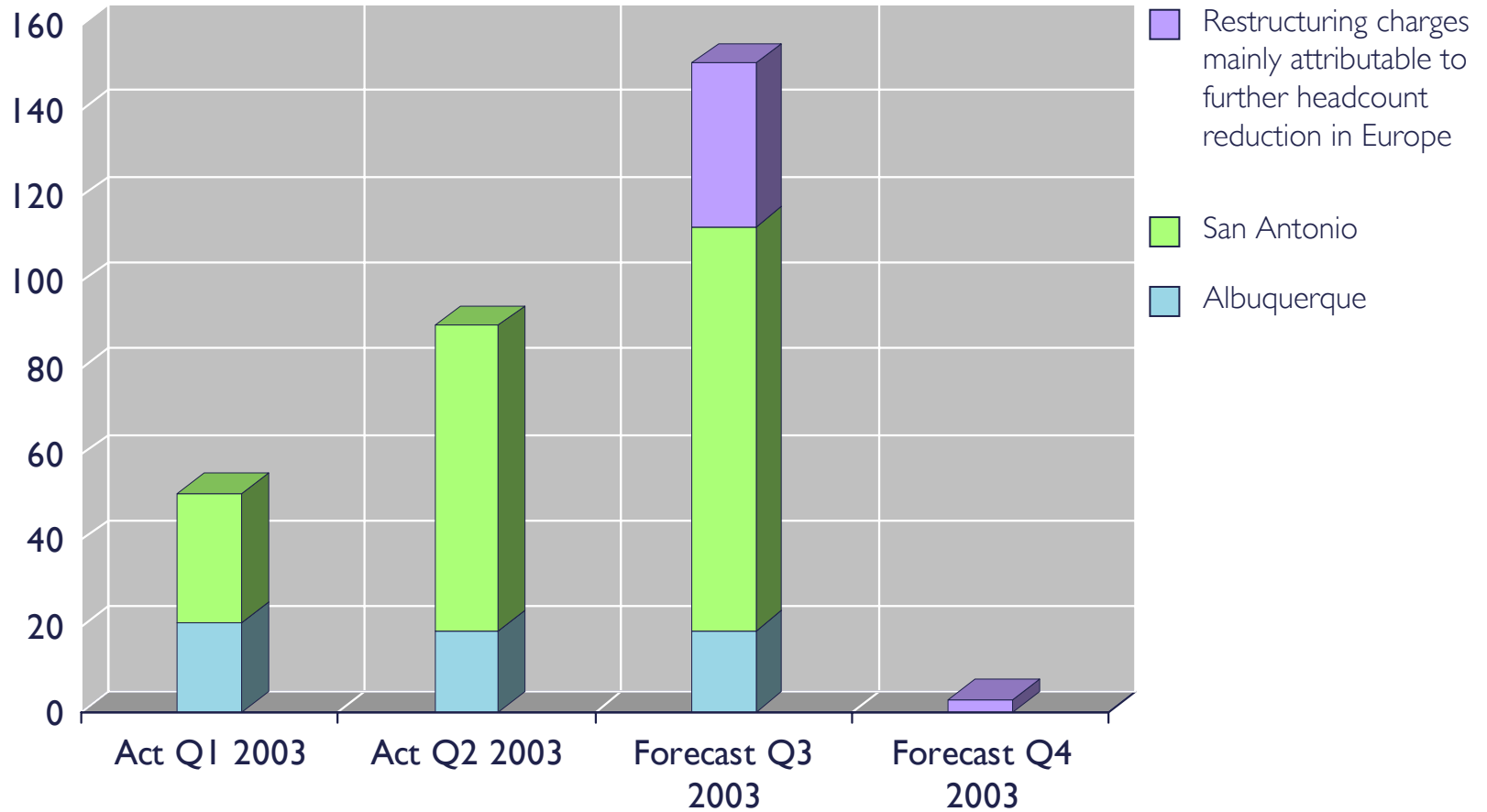
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Action plan for business recovery

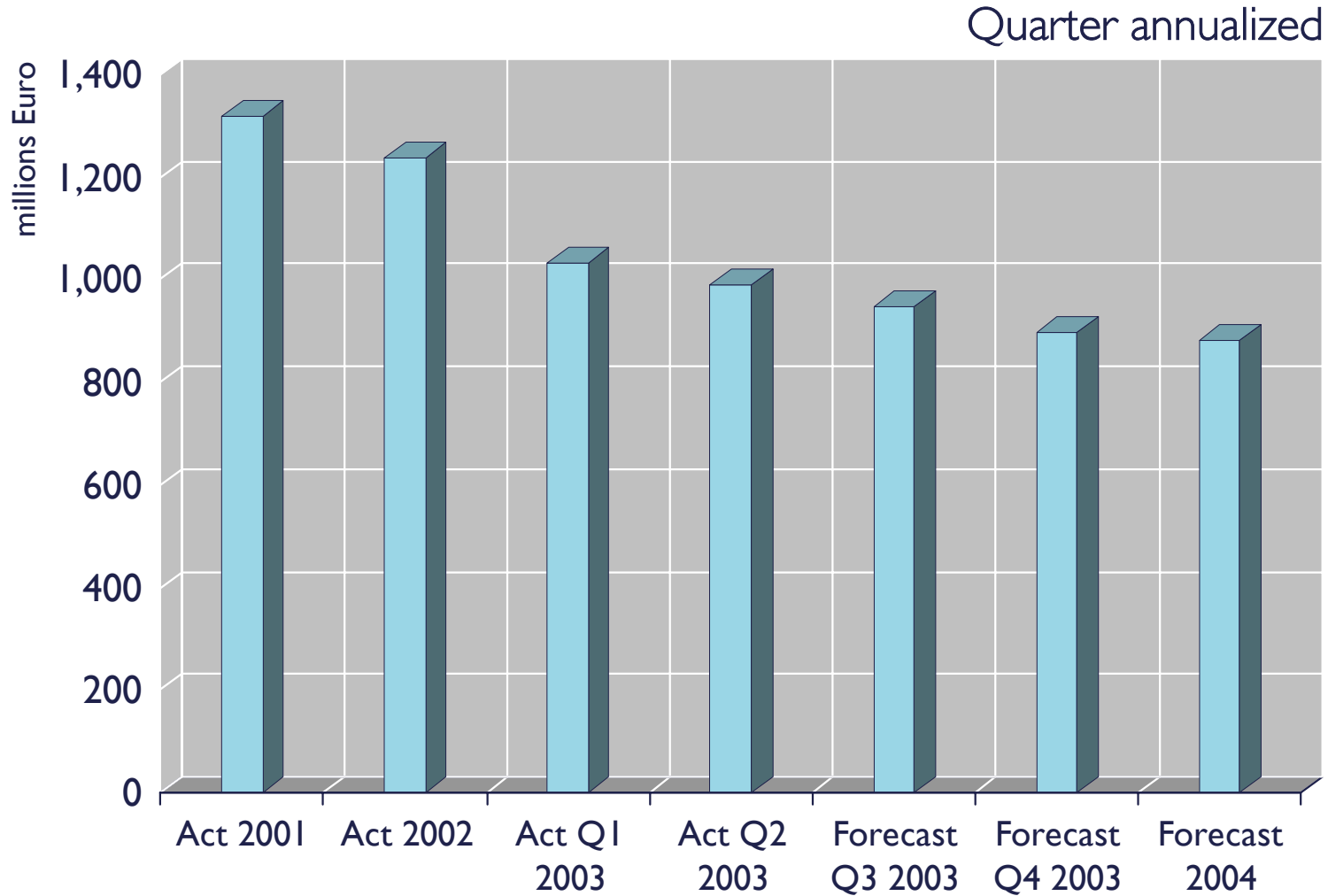
In March we announced five key initiatives to deliver profitability by Q4:

- Sharpened **focus** on connected consumer applications with objective of 240 m R&D spending rate by Q403
- Reduction in **CMOS capacity** by 20%
- **Simplification** through consolidation of smaller sites
- **Process improvements** through better supply chain management and improved IT systems
- **Design wins** resulting in increased revenues in second-half 2003

Restructuring

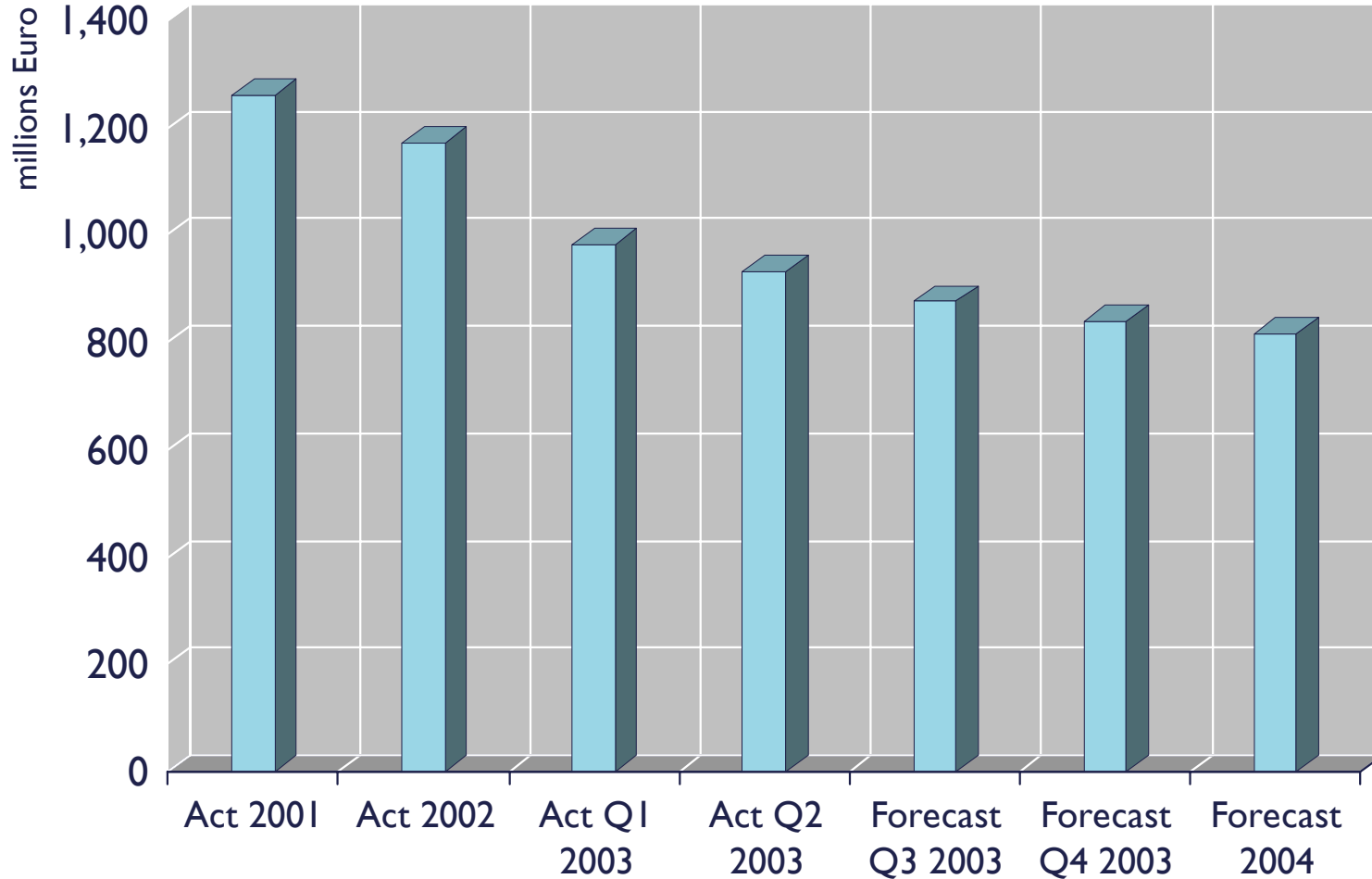


Focus: reduce R&D spend



Focus: reduce R&D spend (excl. MDS)

Quarter annualized



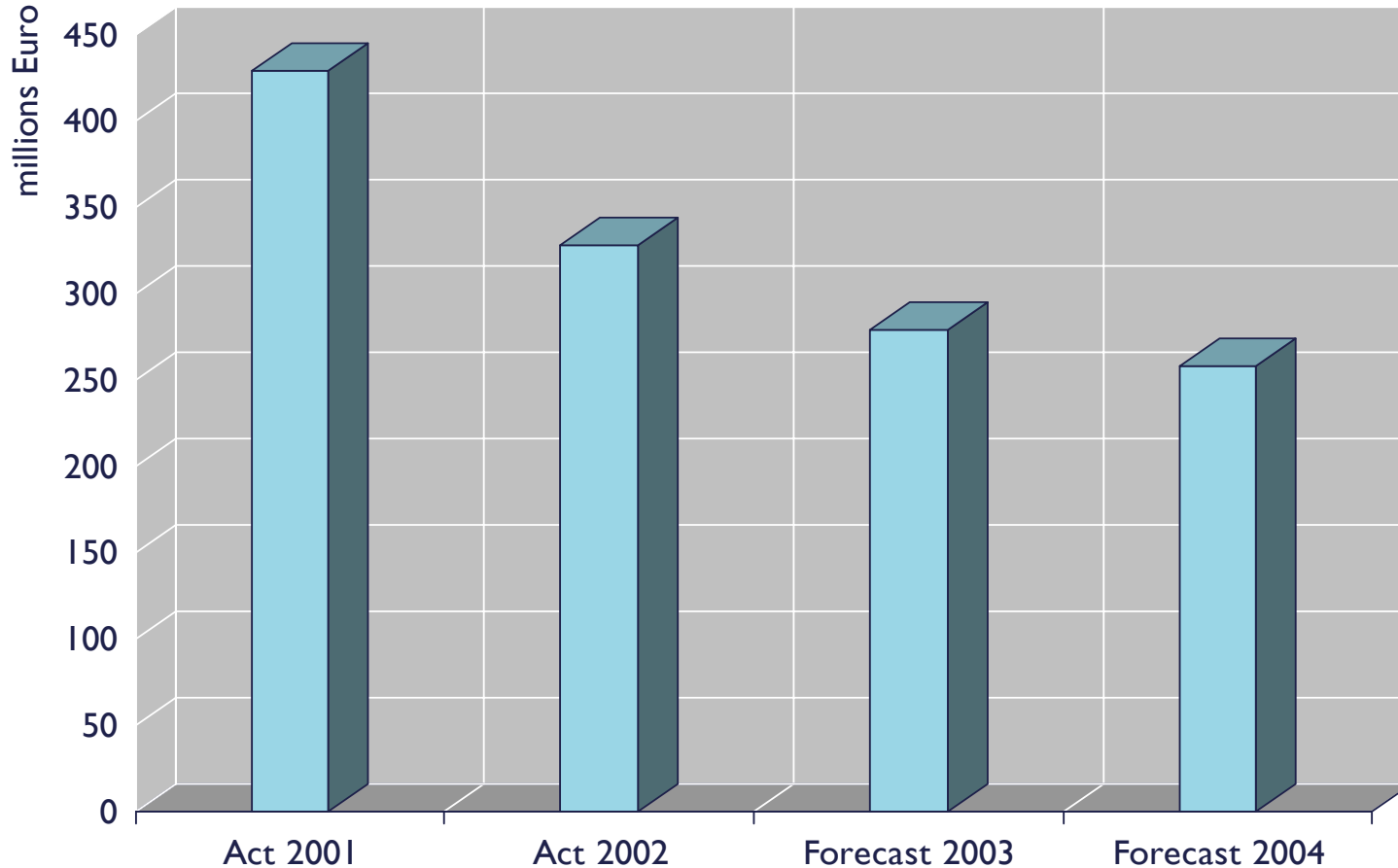
Simplification: reduced sites and improved processes

We have simplified our organization:

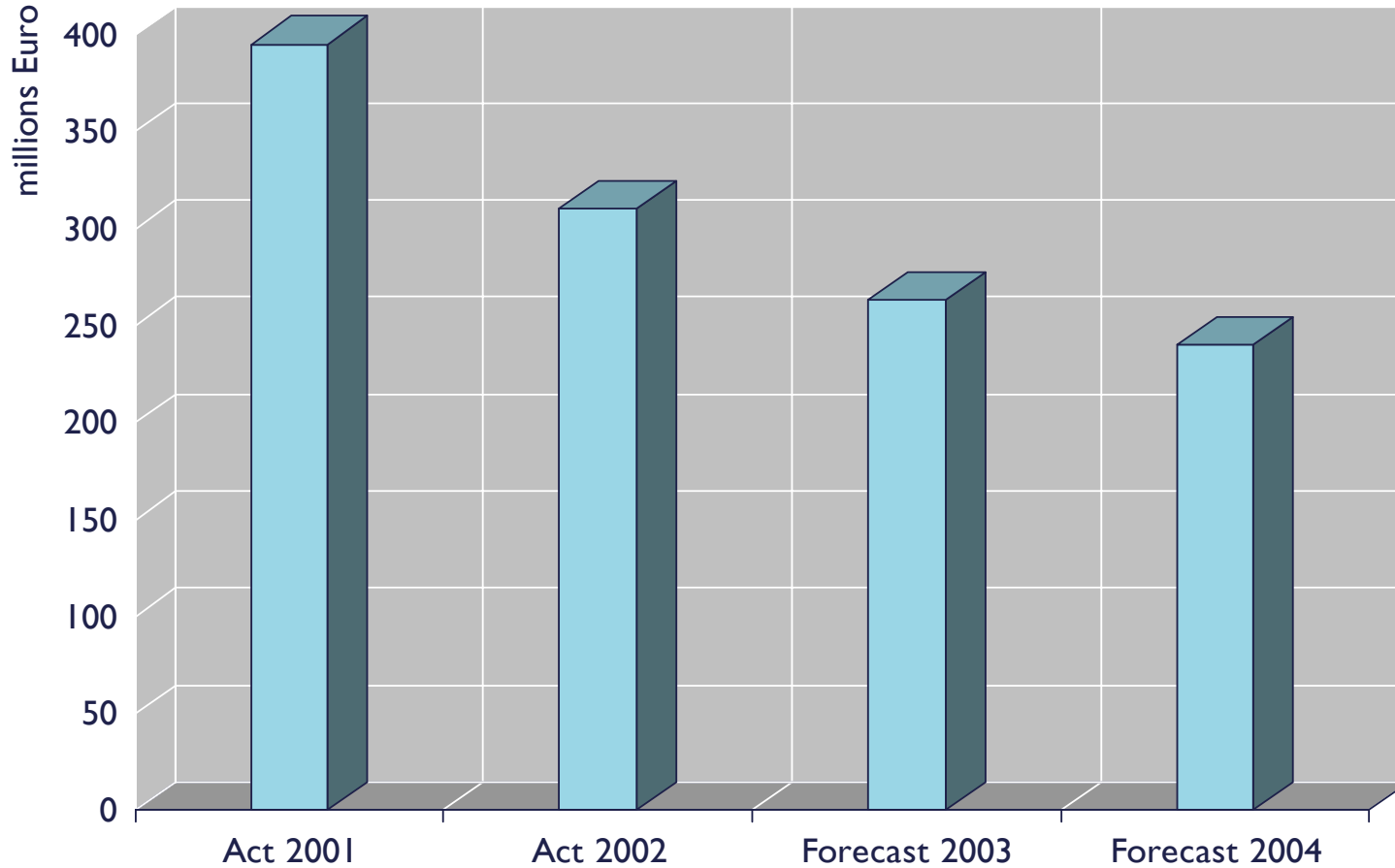
- During 2003 we have reduced the number of manufacturing sites from 22 to 19
- We have reduced the number of Technology Centers from 23 to 8
- We have further standardized processes in SCM and through ERP

This has led to reduced R&D spending and IT costs

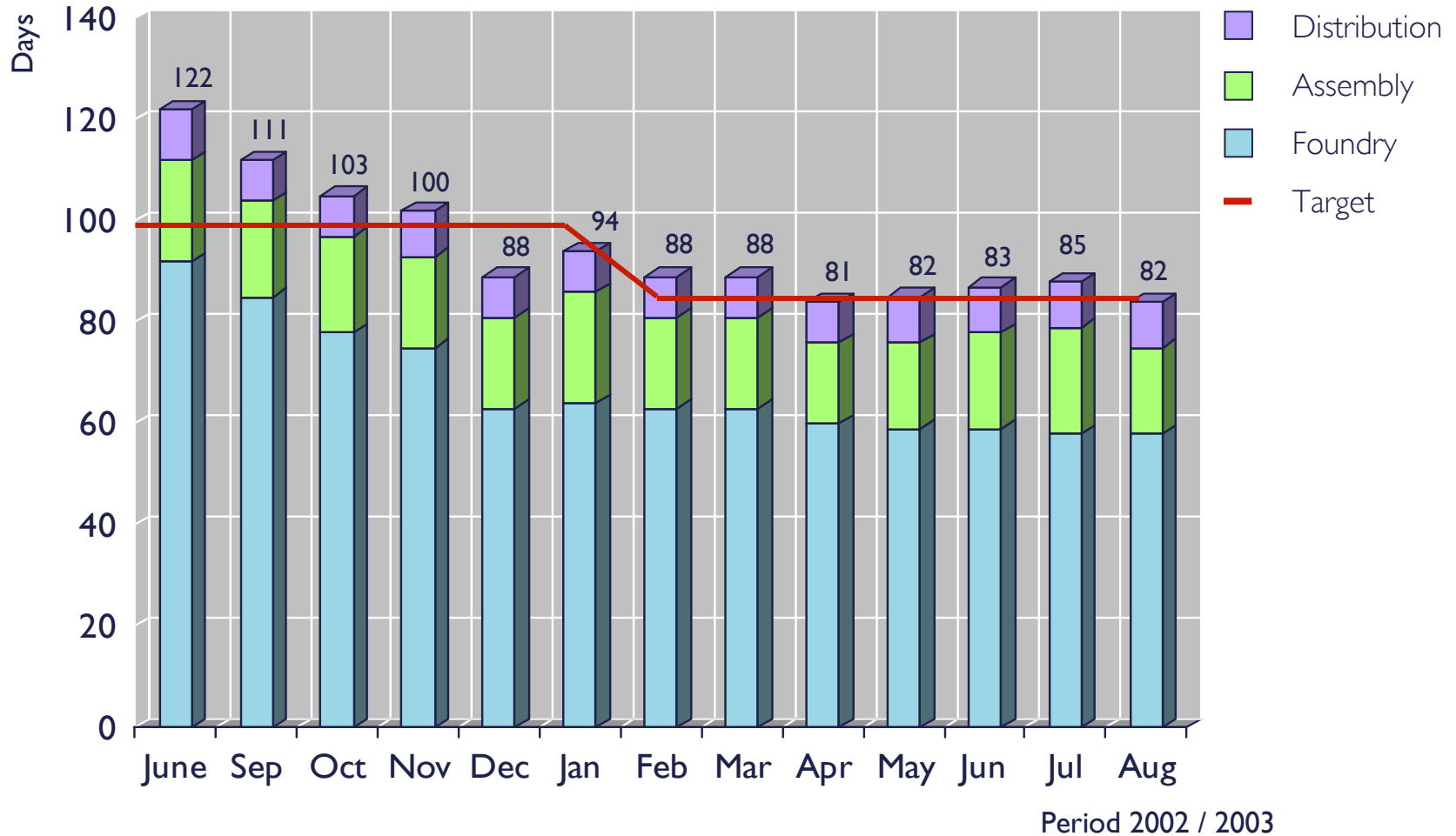
Process improvements: reduced IT spending





Process improvements: reduced IT spending (excl. MDS)



Process improvements: stacked lead time



Design wins: announcements this year

	Semiconductors				
					

We have achieved some major new design wins with important customers

Current industry market conditions

Recent forecasts

- Market growth 2002: +1%
- Market growth 2003:
 - Uncertainty in 1st half due to Iraq war and SARS
 - We expect 2003 average industry growth to be around 9-10%
 - In Q3 book-to-bill ratios have strengthened especially in the area of cellular handsets and consumer





Short-term business outlook

- In July, we indicated that Semiconductors sequential growth in Q3 would be about the same as Q2, i.e. 3%
- We now expect sequential growth for the third quarter to be a few percent higher than previous guidance
- For Q4, the order book is starting to build up well
- We expect to show a profit in Q4



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 - Manufacturing
 - Multimarket
 - Nexperia
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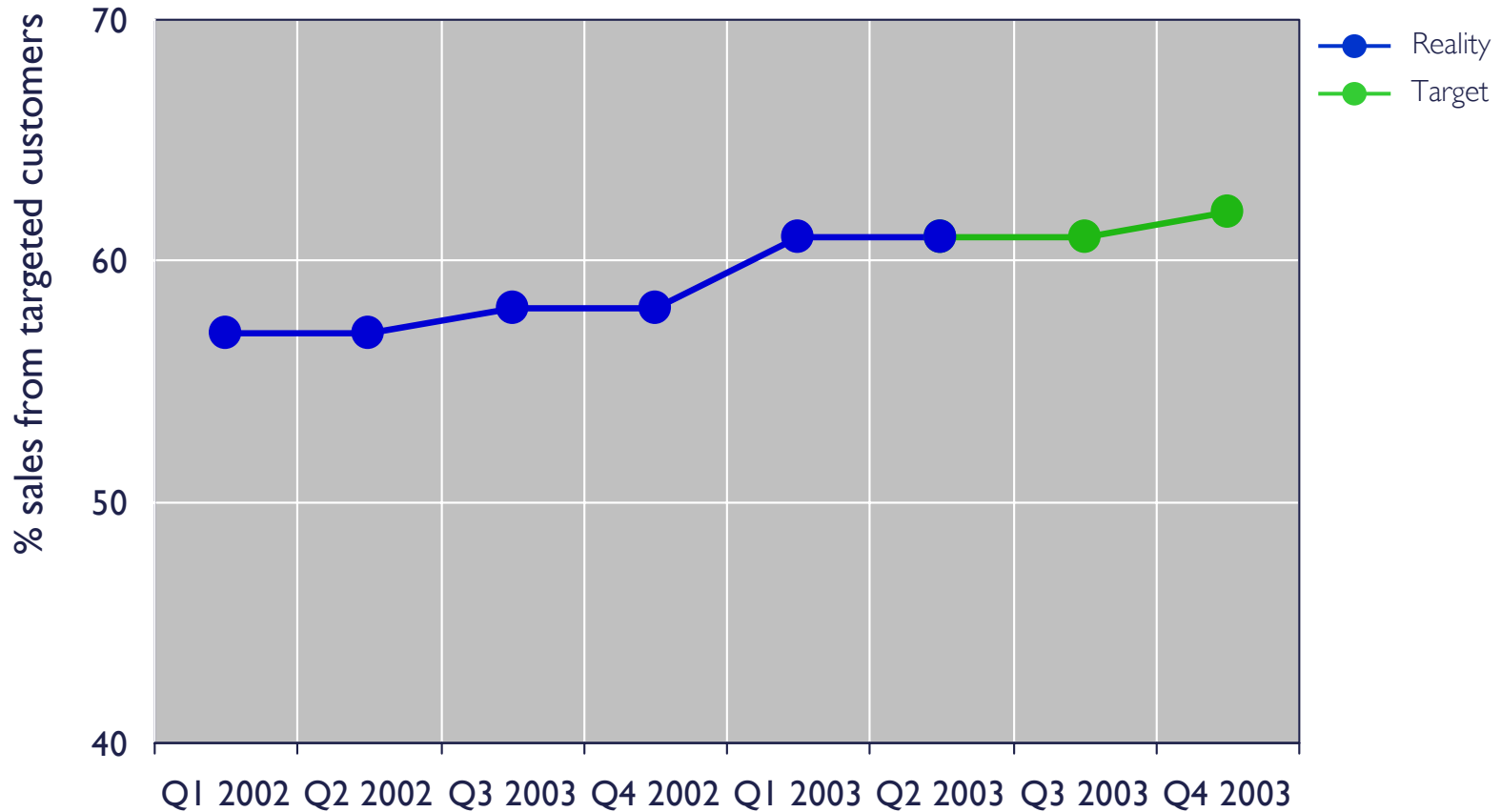
Strategic direction	Business enablers	Results (BBS)	Year 2003 initiatives
<p>Vision A world where everyone can always connect to information, entertainment and services</p> <p>Mission To be the leading provider of semiconductor-based solutions for connected consumer applications</p> <p>Strategy</p> <ul style="list-style-type: none"> - Partner with leading customers, content and service providers - Develop customer solutions based on Nexperia that combine semiconductors, software and services - Manage a balanced portfolio spanning emerging, mature and multi-market products 	<p>Leadership</p> <ul style="list-style-type: none"> - Develop a market driven and continuous improvement mindset - Nurture an open two-way communication with our employees and stakeholders <p>People</p> <ul style="list-style-type: none"> - Recruit, develop and retain a diverse and talented team of people <p>Values</p> <ul style="list-style-type: none"> - Delight customers - Deliver on commitments - Develop people - Depend on each other <p>Partnerships & resources</p> <ul style="list-style-type: none"> - Set clear 	<p>Financials</p> <ul style="list-style-type: none"> - Financial value - Sales at key customers <p>Customers</p> <ul style="list-style-type: none"> - Market share - Design wins - Customer ranking and loyalty - Press coverage <p>Processes</p> <ul style="list-style-type: none"> - Marketing process - Design process - Production process <p>Human Resources</p> <ul style="list-style-type: none"> - Talent pool <p>Sustainability (environment, society, people)</p>	<p>Top "must do" actions Deliver operating profitability by growing sales and market share, and by lowering costs</p> <p>Grow sales & market share</p> <ul style="list-style-type: none"> - Improve customer intimacy - Increase share of business from key customers - Increase design wins in target markets <p>Lower costs</p> <ul style="list-style-type: none"> - Realize agreed cost levels - Use advanced silicon processes - Achieve breakthroughs in lead time reduction
			

Philips Semiconductors
2003 one page strategy

Customer intimacy

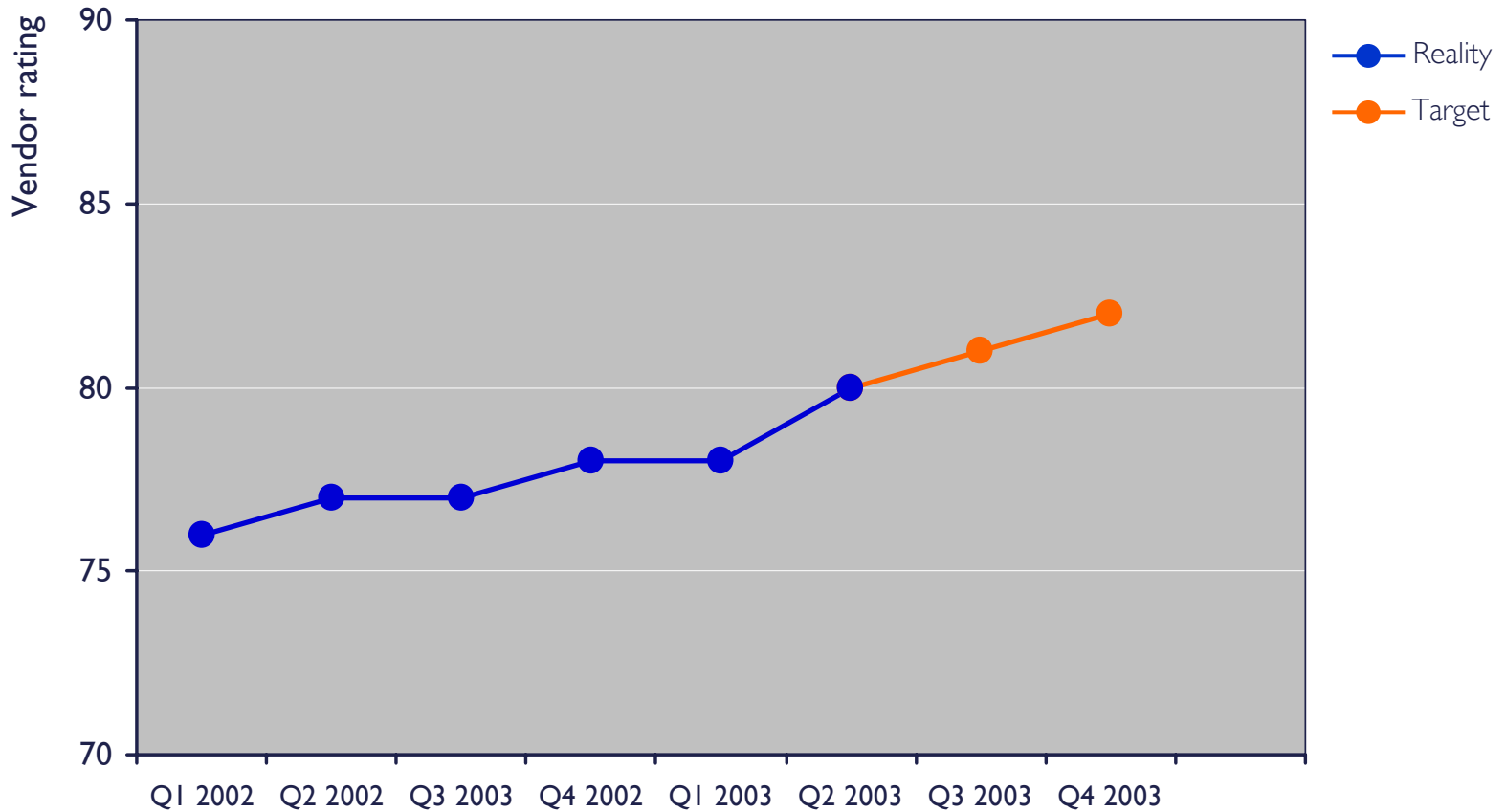
- Increase business from key customers from 55% to 70% of sales in 2005
- Partner with leading customers, content and service providers
- Enhance quality of Key Account Management
- Improve Customer Loyalty Index & Vendor Rating
- Establish Customer Business Plan for top customers

Increase share of business from key customers



Customer intimacy

Vendor rating

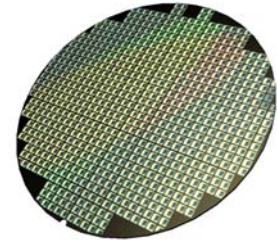


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Manufacturing strategy

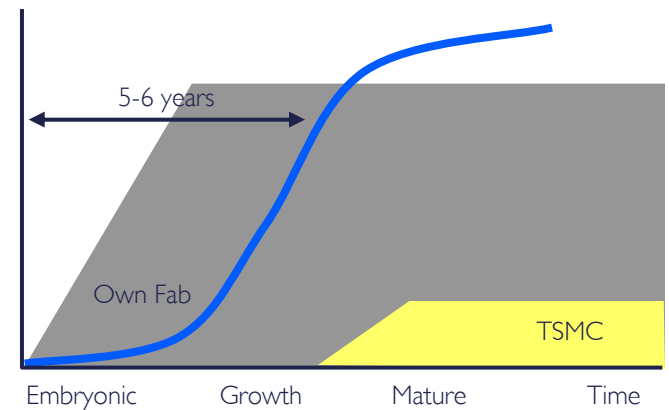
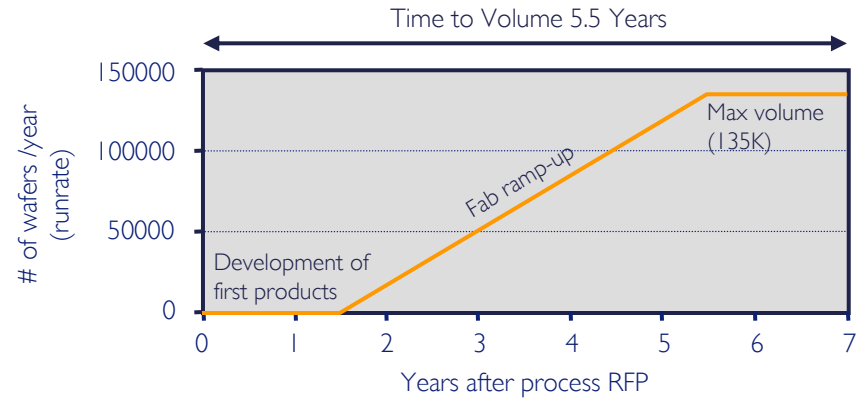
Our capital efficient manufacturing strategy



- For CMOS we will only increase capacity as a JV or by outsourcing
- We are partnering with TSMC, UMC, Amkor and others
- Over the next five years we will increase outsourcing including 50% of advanced processes
- With our Crolles2 partnership we will increase the 120nm production over time

Reduced CAPEX, lower-risk manufacturing

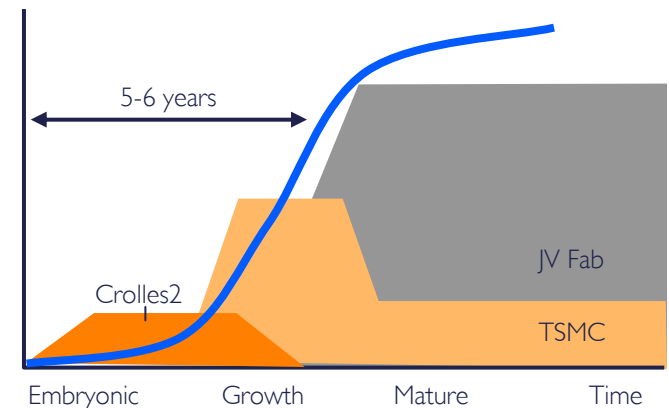
- We have analyzed the factors that determine our time-to-peak volume for manufacturing
- With these values time-to-volume is 5.5 years
- With our traditional manufacturing model this would lead to four years of overcapacity in a new fab



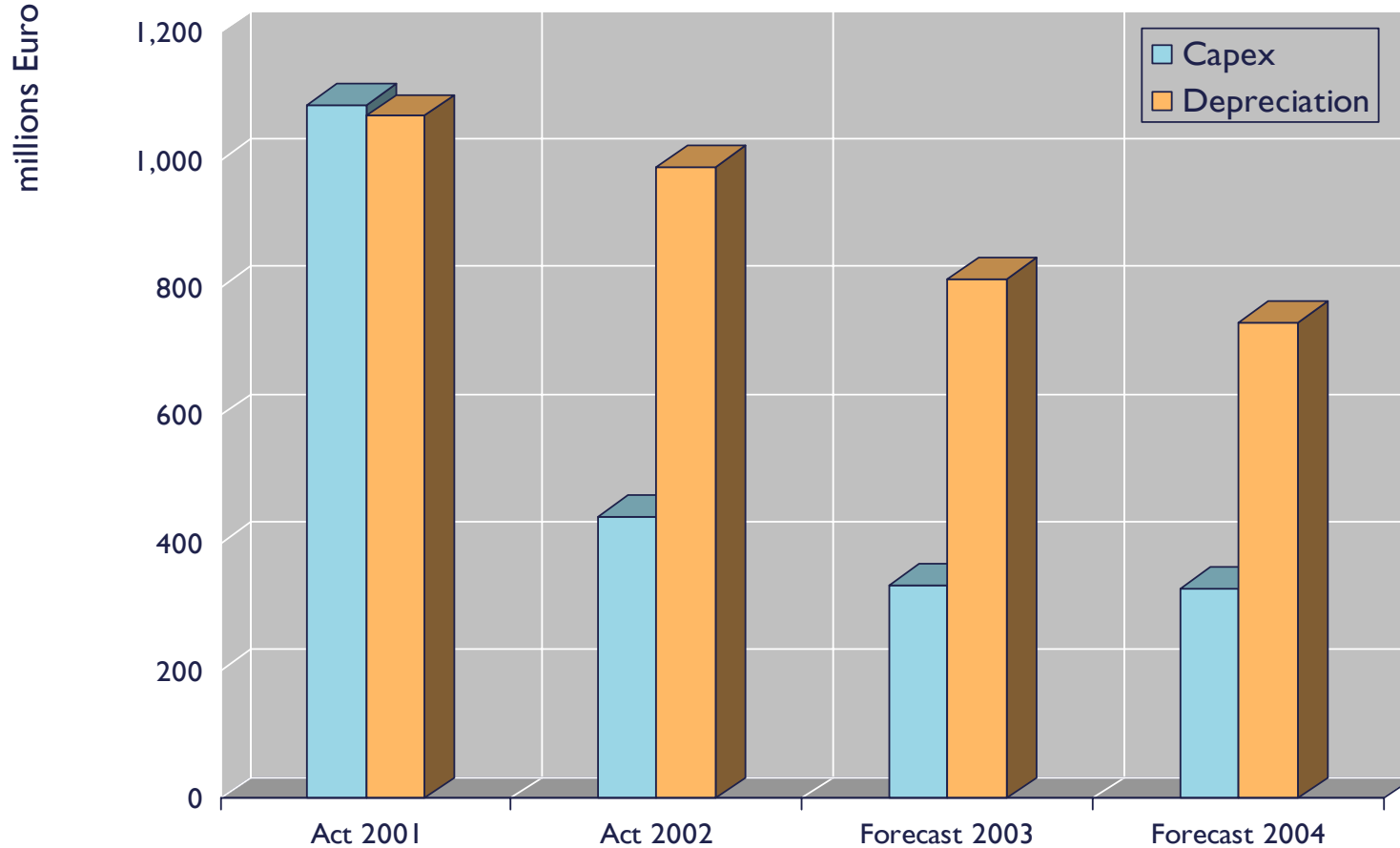
Crolles2-Alliance

Enabling capital efficient manufacturing

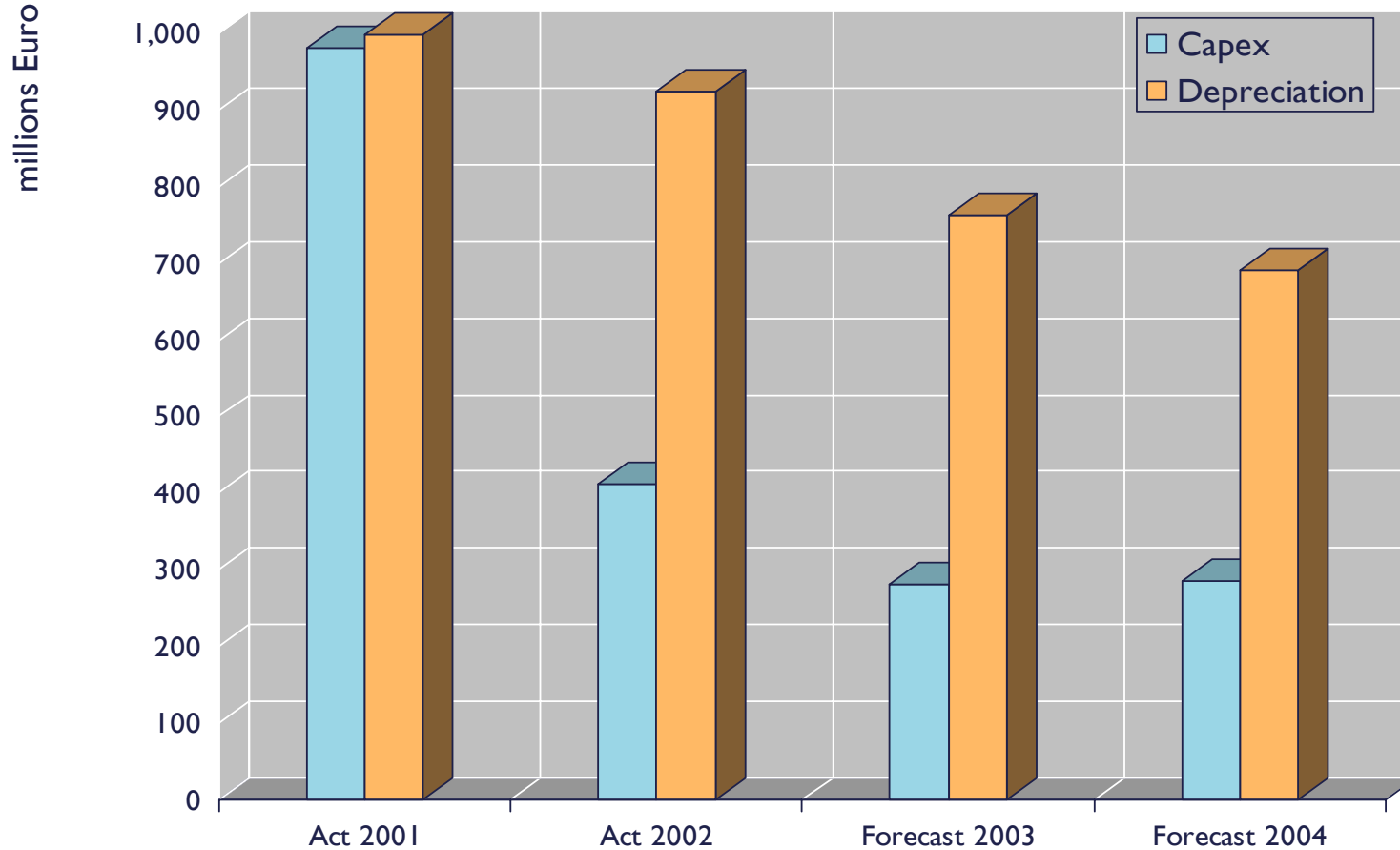
- A new R&D alliance and manufacturing strategy will drastically improve this, thereby reducing costs and lowering financial risks
- The Crolles2 – Alliance: R&D and pilot fab
 - With ST and Motorola
 - Philips investment is \$430M through 2005 (total \$ 1.4 B)
 - Total wafer capacity 2500 wafers per week (300 mm)
 - Agreement with TSMC for process compatibility
- TSMC 2nd sourcing available from the start so that own (JV) fab can be postponed 4-5 years until enough wafer load
- Own (JV) fab can start with load transferred from TSMC



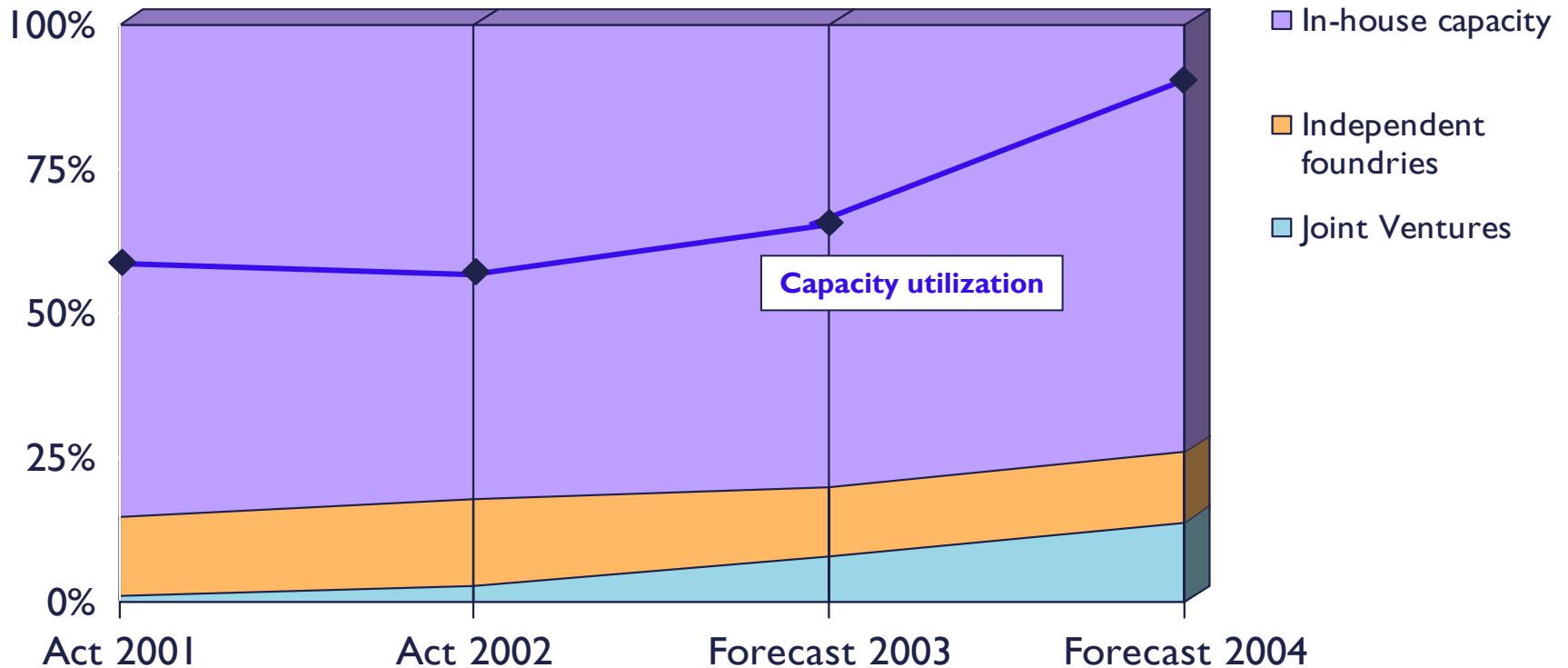
Capital Expenditure and Depreciation



Capital Expenditure and Depreciation (excl. MDS)



Capacity utilization and outsourcing level



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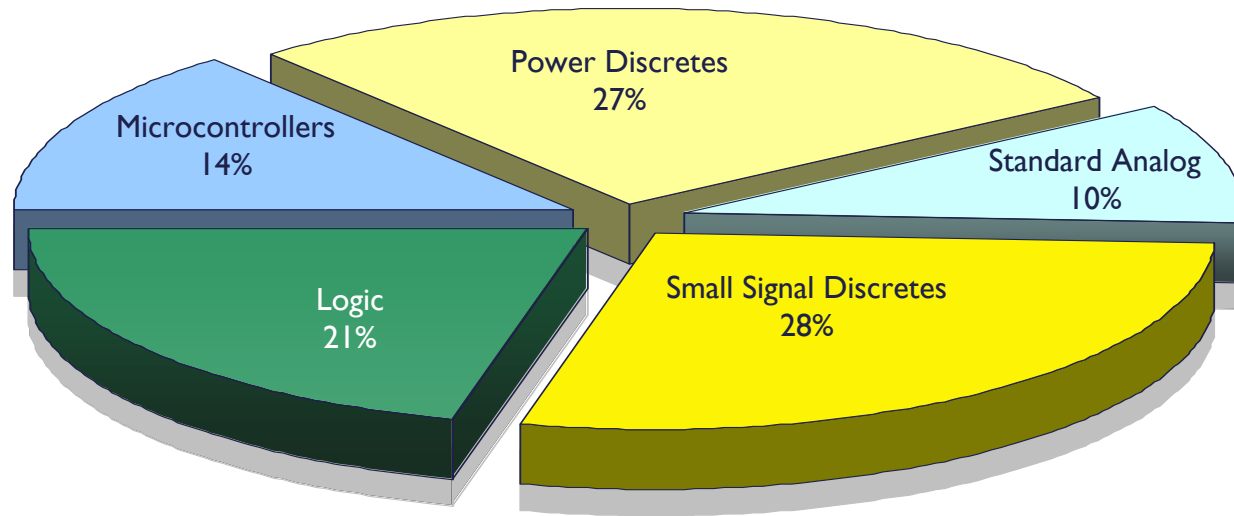
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Philips Multimarket Semiconductors business strategy - grow market share

- Partner for growth – innovation in design-in products
 - System/application orientation
 - Focus on portfolio integration across functions
 - Investments towards all-round power management capabilities
 - Investments in customer specific interface solutions
 - Investments for in-vehicle network automotive solutions
- Partner for share – cost leadership
 - General purpose product orientation
 - Vertical business integration
 - Continued development of our broad portfolio

Driving advancements in MultiMarket product segments

Leading global broad-based MultiMarket Semiconductor supplier



Introducing new low-voltage families & advanced packaging

Leader in 80C51 8-bit architecture Leading industry in low pin count parts for continued miniaturization Strategic focus on 32-bit: First in industry to introduce 32-bit MCU w/ 0.18 μm on-chip Flash

Leadership in TrenchMOS technology (0.25 μm) for low voltage applications. Focus on integrated power management

Focus on customized analog solutions with unique features (e.g cap-free, motor controllers)

Leading the industry in small footprint packages

MultiMarket portfolio going forward

- We will focus on the elements in our MultiMarket portfolio that are strategic (form part of our system solutions), or offer sustained differentiation and profitability
- Our goal is to emerge with stronger positions in fewer areas

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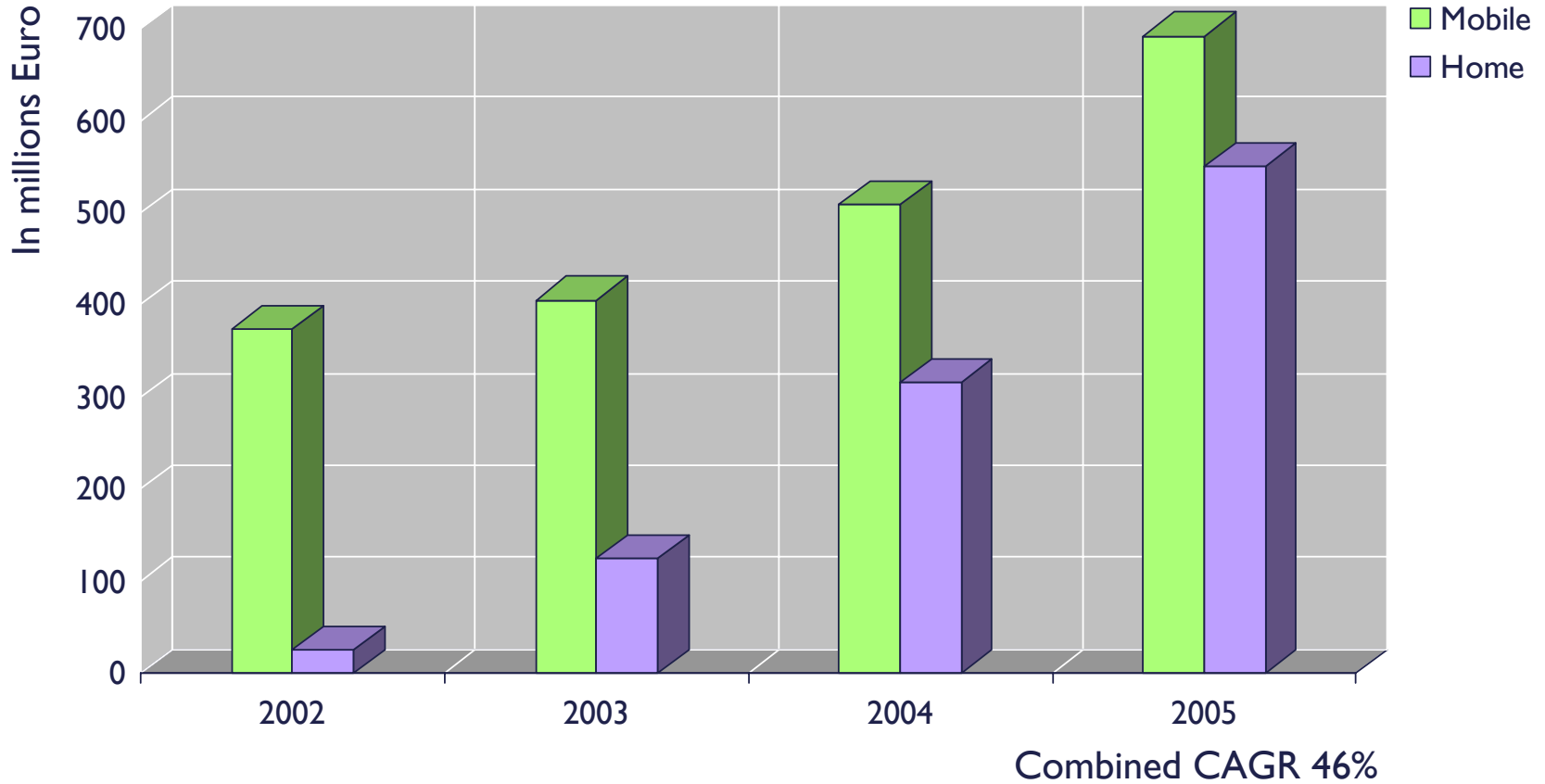
Nexperia™

Nexperia is the result of many years of R&D investments, giving us significant differentiation as the industry moves from products to solutions



- Nexperia builds on comprehensive collective expertise in the Philips Group
- Nexperia is at the heart of all of our future system products across the markets we serve
- We will track Nexperia revenues as a percentage of our total revenues to gauge our progress

Nexperia™ sales forecast





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Conclusions

Philips Semiconductors

- Leads in Connected Consumer applications
- Focuses on customers who are market leaders
- Is making a success of the Nexperia brand
- Leverages a capital efficient manufacturing strategy
- Maintains a balanced business portfolio
- Builds technology leadership through partnerships

We expect to achieve profitability in Q4

