

# PHILIPS

Winning customers,  
winning products, winning vision

**Scott McGregor**

President and Chief Executive Officer  
Semiconductor Division

# Agenda for today

- Winning customers, winning products, winning vision
  - Scott McGregor, President and CEO
- Winning strategy - Consumer
  - Leon Husson, Executive Vice President
- Winning strategy - Communications
  - Mario Rivas, Executive Vice President
- Winning strategy – MultiMarket Semiconductors
  - Indro Mukerjee, Executive Vice President
- Summary and round-up



# Winning customers, winning products, winning vision



Customers  
Technology  
Products  
Manufacturing  
Managing the downturn

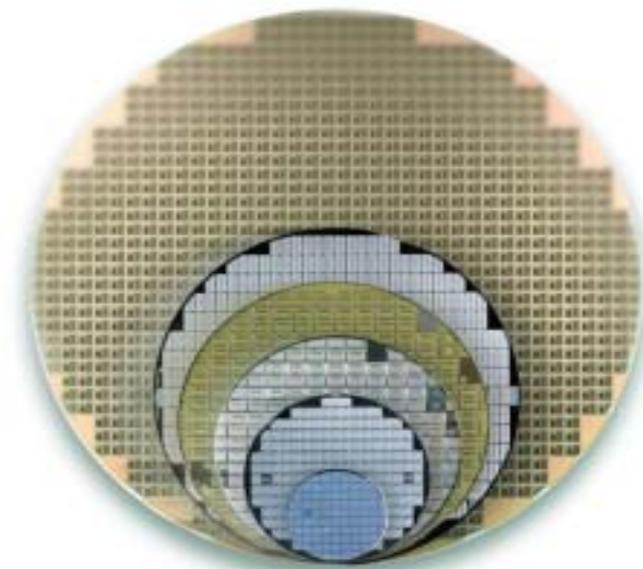


Customers  
China  
Manufacturing  
Nexperia  
Growth opportunities



# Leading silicon solution company

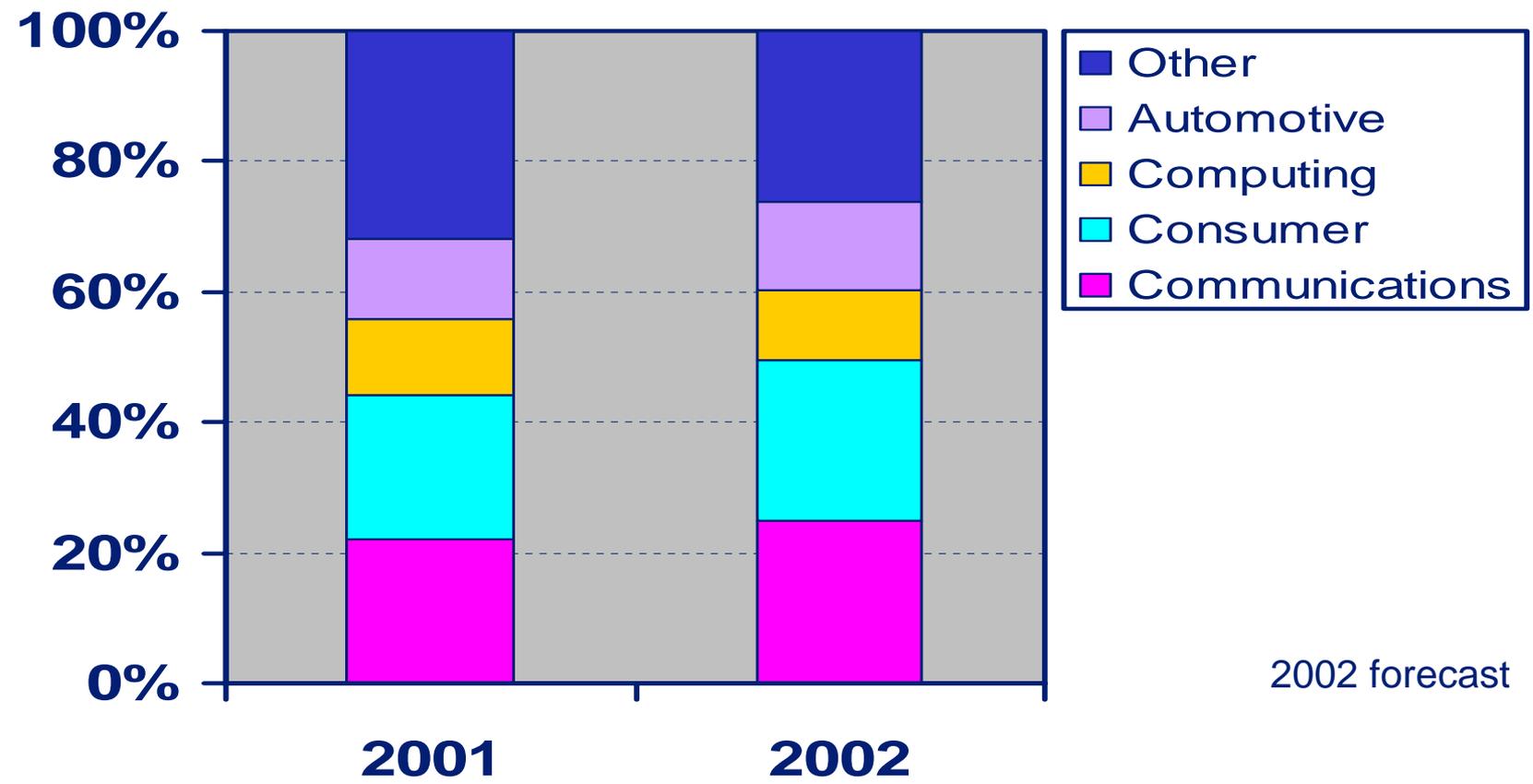
- Top-10 supplier with revenues of \$4.4 billion in 2001
- Focus on silicon systems and multimarket semiconductors for: Communications, Consumer, Automotive, Computing
- 32,500 employees
- Global organization  
(18 manufacturing centers, 30 design centers, 4 systems labs and over 100 sales offices)
- 50 years' experience in semiconductors



# Outstanding customer base

Communications	Consumer	Computing Automotive	Distributors	EMS
        	        	         	  	  

# Market segmentation



2002 forecast



- Our brand for application specific System on Chip and software solutions for all markets we address
- Nexperia system solutions are built on a unique architecture and make use of our extensive IP library - enabling efficient and cost effective designs
- Brand values: flexibility, fast time-to-market, innovation and future-proof

# Differentiating technology

- Leadership Nexperia platform
  - Solutions for Video and Mobile applications
  - Shipping now in every DVD+RW player and in GSM system solutions
- Continuing excellence in RF & Analog
  - QUBiC4 low cost, high performance RF
  - 0.18  $\mu\text{m}$  non-volatile EE/Flash and encryption technology for smart cards
- And now, best-in-class CMOS
  - 120 nm now, 90 nm by end-2002, 65 nm first silicon in 2003
  - 300 mm pilot line in 2003



# Great products create leading positions

**Communication**

- Cordless #1 with > 21% share
- Bluetooth #1 with >21% share
- Wireless connectivity #2 with >11% share
- Mobile handsets #4 with >10% share



**Consumer**

- TV #1 with >35% share
- Media access (tuners / decoders) #1 with >60% share
- DVD recorder #1 with >35% share
- Digital audio #2 with >18% share



**Automotive**

- In-vehicle networking #1 with >50% share
- In-car radio #1 with >30% share
- Car access & immobilizers #1 with >60% share
- Car DSP #1 with >60% share



**Computing**

- CRT monitor drivers #1 with >30% share
- Display drivers (small panels) #2 with >25% share
- PC Add-on cards #2 with >30% share



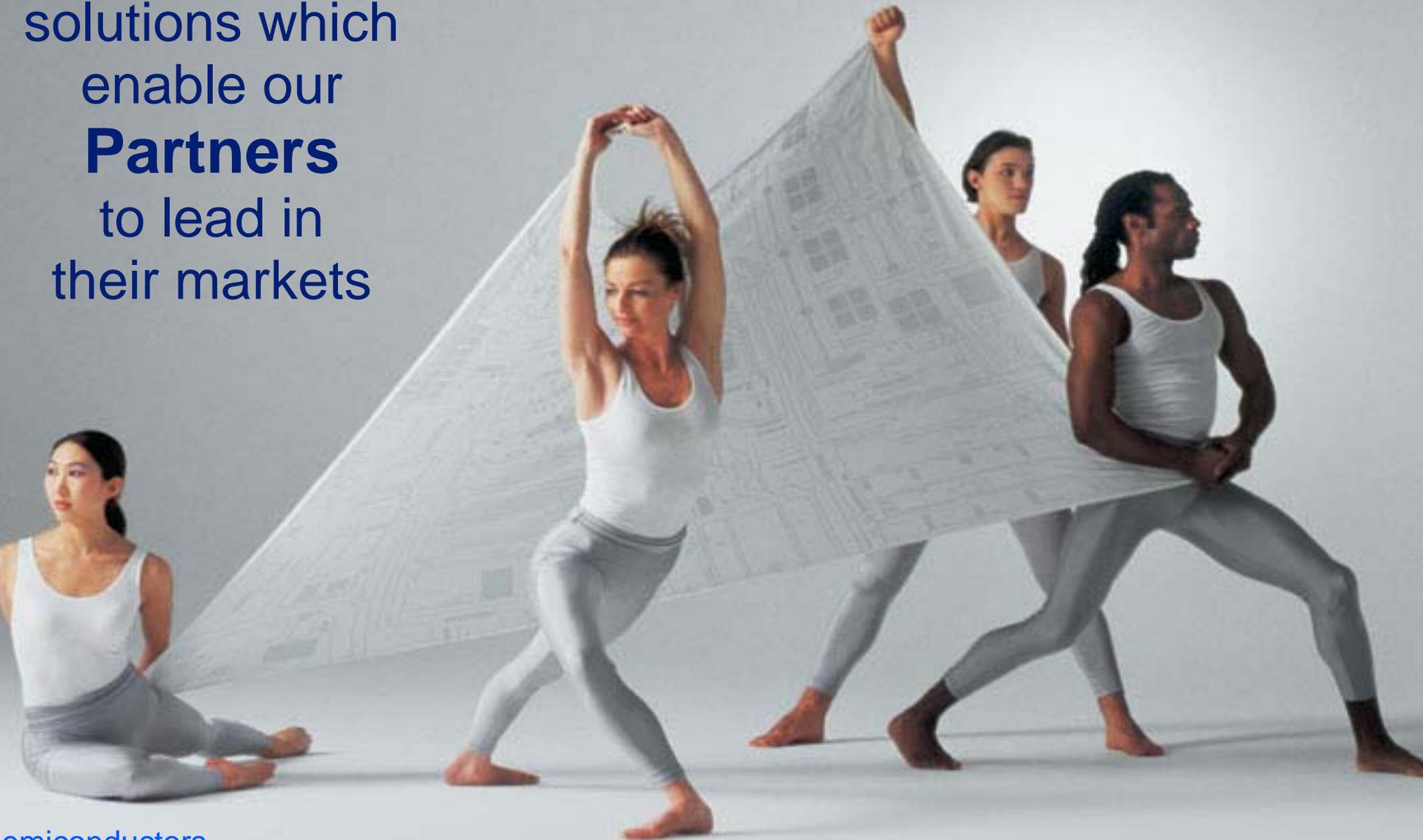
**Other**

- RF discrettes, CATV #1 with >70% share
- Identification #2 with >20% share
- MultiMarket Semiconductors #4 with >4% share



# Great products + great technologies

Create system solutions which enable our **Partners** to lead in their markets



# Global manufacturing, assembly and test



# Global manufacturing infrastructure

## IC Capacity

- 2 million wafers per year (8 inch equivalent)
  - 20% BiCMOS, 25% Bipolar, 55% CMOS
- 170 billion pins assembly capacity

## Discretes

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

## Partnerships

- TSMC & Amkor

# Environmental leadership

- All manufacturing sites have ISO14001
- We were the first semiconductor company to publish full details on the chemical substances in its products. Now the data are available on internet
- We are introducing a sustainability program now, publishing the first annual report in 2003

# Environmental vision

- Building on our successes so far, our 2005 targets for environmental program:
  - Seven Green Flagship products per annum
  - Recycle 70% of waste\*
  - Reduce energy consumption by 20% \*
  - Reduce water consumption by 20% \*
  - Reduce category 1 emissions to zero
  - Mandatory eco-design procedures for all products and processes

\* baseline year is 2001

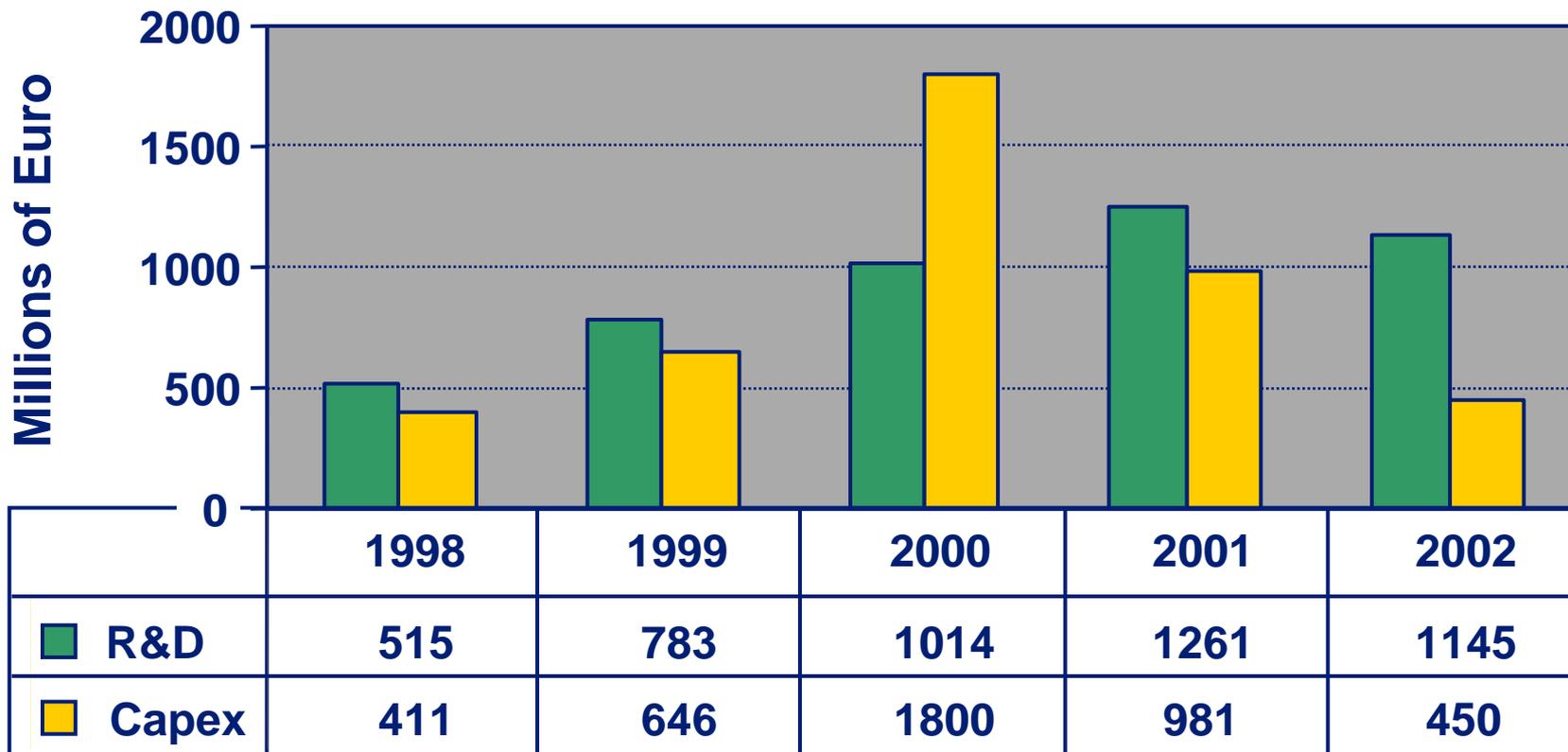
# Managing the Business



# Managing the downturn

- Ongoing cost reductions
- Shortening the supply chain
- Efficiency and effectiveness in R&D
- Reducing inventory
- Improved planning
- Lowering our break-even point

# Investing for future revenues





Strategic direction	Business enablers	Results (BBS)	Year 2002 initiatives
<p><b>Vision</b></p> <p>World where everyone can connect to information, entertainment and services</p>	<p><b>Leadership</b></p> <ul style="list-style-type: none"> <li>* Develop a market-driven and continuous improvement mindset</li> <li>* Nurture an open two-way communication with our employees and other stakeholders</li> </ul>	<p><b>Financials</b></p> <ul style="list-style-type: none"> <li>* Financial value (compared to benchmark companies)</li> <li>* Sales at key customers</li> </ul>	<p><b>Top "must do" actions</b></p> <ul style="list-style-type: none"> <li>* Improve customer intimacy and ranking with key customers</li> <li>* Realize more design wins (including ASICs and Nexperia)</li> <li>* Reverse our market share loss</li> </ul>
<p><b>Mission</b></p> <p>Be the leading provider of semiconductor-based solutions for selected consumer and communications applications</p>	<p><b>People</b></p> <ul style="list-style-type: none"> <li>* Recruit, develop and retain a diverse and talented team of people</li> </ul>	<p><b>Customers</b></p> <ul style="list-style-type: none"> <li>* Market share</li> <li>* Design wins</li> <li>* Customer ranking and</li> <li>* Press coverage</li> </ul>	<ul style="list-style-type: none"> <li>* Return to operating profitability</li> <li>* Focus on our advanced silicon processes (0.18 μm and below)</li> <li>* Increase presence and begin executing on strategy for presence in China</li> </ul>
<p><b>Strategy</b></p> <p>Partner with leading customers, content and service providers in Consumer and communications markets, plus selected parts of the Automotive and Computing markets</p>	<p><b>Policy &amp; strategy</b></p> <ul style="list-style-type: none"> <li>* Actively tune the portfolio to outgrow competition</li> <li>* Increase our presence in China</li> </ul>	<p><b>Processes</b></p> <ul style="list-style-type: none"> <li>* Streamline processes</li> <li>* Reduce inventory</li> <li>* Efficient / supply chain mgt.</li> <li>* Reduced lead time</li> <li>* Flexibility to changes in demand</li> </ul>	
<p><b>Develop "Living Technology"</b></p> <p>Develop customer solutions based on Nexperia platforms that combine semiconductors, software and services</p>	<p><b>Partnerships &amp; customer relations</b></p> <ul style="list-style-type: none"> <li>* Clearly prioritize customer relations</li> <li>* Strengthen relationships with upstream customers</li> <li>* Enhance external communication</li> </ul>		
<p><b>Develop a balanced portfolio</b></p> <p>Develop emerging, mature and market semiconductors</p>	<p><b>New product / system creation</b></p> <ul style="list-style-type: none"> <li>* Unlock the value potential of our software capability in silicon</li> <li>* Create new business opportunities consistent with our mission</li> </ul> <p><b>Order fulfilment / supply chain mgt.</b></p> <ul style="list-style-type: none"> <li>* Achieve breakthroughs in supply chain performance</li> </ul>	<p><b>Competence</b></p> <p>(People, partnerships, technology, improvement)</p> <ul style="list-style-type: none"> <li>* Employee satisfaction &amp; motivation</li> <li>* Size and quality of talent pool</li> <li>* PBE score</li> <li>* Patents</li> </ul>	

**Philips Semiconductors one page strategy**

Strategic direction	Business enablers	Results (BBS)	Year 2002 initiatives
<p><b>Vision</b></p> <p>A world where everyone can</p>	<p><b>Leadership</b></p> <p>* Develop a market-driven and</p>	<p><b>Financials</b></p> <p>* Financial value (compared to</p>	<p><b>Top "must do" actions</b></p> <p>* Improve customer intimacy and</p>
<p><b>Vision</b></p>			
<p>A world where <u>everyone</u> can always <u>connect</u> to <u>information, entertainment and services</u></p>			
	<p>consistent with our mission  <i>Order fulfilment / supply chain mgt.</i>                      * Achieve breakthroughs in supply chain performance</p>		

Strategic direction	Business enablers	Results (BBS)	Year 2002 initiatives
<p><b>Vision</b></p> <p>World where everyone can</p>	<p><b>Leadership</b></p> <p>* Develop a market-driven and</p>	<p><b>Financials</b></p> <p>* Financial value (compared to</p>	<p><b>Top "must do" actions</b></p> <p>* Improve customer intimacy and</p>

# Mission

To be the leading provider of semiconductor-based solutions for connected consumer and communications applications

consistent with our mission  
*Order fulfilment / supply chain mgt.*  
 \* Achieve breakthroughs in supply chain performance

Strategic direction	Business enablers	Results (BBS)	Year 2002 initiatives
<p><b>Vision</b></p> <p>World where everyone can                      always connect                      entertainment a</p>	<p><b>Leadership</b></p> <p>* Develop a market-driven and</p>	<p><b>Financials</b></p> <p>* Financial value (compared to</p>	<p><b>Top "must do" actions</b></p> <p>* Improve customer intimacy and</p>
<p><b>Strategy</b></p>			
<p><u>Partner with leading customers, content and service providers in the Consumer and Communications markets, plus related parts of the Automotive and Computing markets</u></p>			
	<p>consistent with our mission                      Order fulfilment / supply chain mgt.                      * Achieve breakthroughs in supply chain performance</p>		

Strategic direction	Business enablers	Results (BBS)	Year 2002 initiatives
<p><b>Vision</b></p> <p>World where everyone can</p>	<p><b>Leadership</b></p> <p>* Develop a market-driven and</p>	<p><b>Financials</b></p> <p>* Financial value (compared to</p>	<p><b>Top "must do" actions</b></p> <p>* Improve customer intimacy and</p>

# Strategy

Develop "Living Technology" customer solutions based on Nexperia platforms that combine semiconductors, software and services

consistent with our mission  
*Order fulfilment / supply chain mgt.*  
 \* Achieve breakthroughs in supply chain performance

Strategic direction	Business enablers	Results (BBS)	Year 2002 initiatives
<p><b>Vision</b></p> <p>World where everyone can</p>	<p><b>Leadership</b></p> <p>* Develop a market-driven and</p>	<p><b>Financials</b></p> <p>* Financial value (compared to</p>	<p><b>Top "must do" actions</b></p> <p>* Improve customer intimacy and</p>
<h1 style="font-size: 48px; margin: 0;">Strategy</h1>			
<p style="font-size: 24px; margin: 0;"><u>Manage</u> a balanced portfolio spanning <u>emerging</u>, <u>mature</u> and <u>multimarket</u> <u>semiconductors</u></p>			
	<p>consistent with our mission</p> <p><i>Order fulfilment / supply chain mgt.</i></p> <p>* Achieve breakthroughs in supply chain performance</p>		

Strategic direction	Business enablers	Results (BBS)	Year 2002 initiatives
<p><b>Vision</b></p> <p>World where everyone can</p>	<p><b>Leadership</b></p> <p>* Develop a market-driven and</p>	<p><b>Financials</b></p> <p>* Financial value (compared to</p>	<p><b>Top "must do" actions</b></p> <p>* Improve customer intimacy and</p>
<p><b>Business enablers</b></p>			
<p><b>Leadership</b></p> <p><b>People</b></p> <p><b>Policy and strategy</b></p> <p><b>Partnerships &amp; resources</b></p> <p><b>Processes</b></p>			
	<p>consistent with our mission</p> <p><i>Order fulfilment / supply chain mgt.</i></p> <p>* Achieve breakthroughs in supply chain performance</p>		

Strategic direction	Business enablers	Results (BBS)	Year 2002 initiatives
<p><b>Vision</b></p> <p>World where everyone can</p>	<p><b>Leadership</b></p> <p>* Develop a market-driven and</p>	<p><b>Financials</b></p> <p>* Financial value (compared to</p>	<p><b>Top "must do" actions</b></p> <p>* Improve customer intimacy and</p>
<h1>Results (BBS)</h1>			
<h2>Financials</h2> <h2>Customers</h2> <h2>Processes</h2> <h2>Competence</h2>			
	<p>consistent with our mission</p> <p><i>Order fulfilment / supply chain mgt.</i></p> <p>* Achieve breakthroughs in supply chain performance</p>		

Strategic direction	Business enablers	Results (BBS)	Year 2002 initiatives
<p><b>Vision</b></p> <p>World where everyone can</p>	<p><b>Leadership</b></p> <p>* Develop a market-driven and</p>	<p><b>Financials</b></p> <p>* Financial value (compared to</p>	<p><b>Top "must do" actions</b></p> <p>* Improve customer intimacy and</p>
<h1>Year 2002 initiatives</h1>			
<h2>Top "must do" actions</h2>			
	<p>consistent with our mission</p> <p><i>Order fulfilment / supply chain mgt.</i></p> <p>* Achieve breakthroughs in supply chain performance</p>		

# Customer intimacy is essential

- Today 55% of our revenue comes from our strategic customers
- By 2005 this needs to grow to 70%
  - Create long term design partnerships with these key players
  - Increase market share at these customers
  - Move many smaller customers to our distributors
- Partner with leading content and service providers
  - Establish standards
  - Examples: Visa, DTV-IA

# China Strategy

Strategic direction	Business enablers	Results (BBS)
<p><b>Vision</b></p> <p>A world where everyone can always connect to information, entertainment and services. Many customers will move their manufacturing operations into China</p>	<p><b>Leadership</b></p> <ul style="list-style-type: none"> <li>* Develop a market-driven and continuous improvement mindset</li> <li>* Nurture an open two-way communication with our employees and other stakeholders</li> </ul>	<p><b>Financials</b></p> <ul style="list-style-type: none"> <li>* Market share, 7-9% in 2005</li> <li>* Revenue, 2,000 B\$ in 2005</li> </ul>
<p><b>Mission</b></p> <p>Be the leading provider of semiconductor-based solutions for connected mass market consumer and communications applications in China. We will contribute to Chinese drive to prosperity</p>	<p><b>People</b></p> <ul style="list-style-type: none"> <li>* Recruit, develop and retain a diverse and talented team of people</li> <li>* Create internal growth</li> </ul>	<p><b>Processes</b></p> <p><i>Process maturity</i></p> <ul style="list-style-type: none"> <li>* Customer intimacy</li> <li>* Driving standardization</li> </ul> <p><i>New product / system creation</i></p> <ul style="list-style-type: none"> <li>* Design productivity/drive low-cost products</li> </ul>
<p><b>Strategy</b></p> <p>Grow our China MS from 5% to 7-9% in 2005</p> <p>Partner with leading customers as content and service providers in the Connected Consumer Communications. Low-cost, mass-market opportunities</p>	<p><b>Policy</b></p> <ul style="list-style-type: none"> <li>* Actively engage in our technology, manufacturing to customers</li> </ul>	<p><i>Order fulfilment / supply chain mgt.</i></p> <ul style="list-style-type: none"> <li>* Stacked lead time</li> <li>* Flexibility to changes in demand</li> </ul>
<p>Engage in Chinese to generate long-term</p> <p>Strategic areas of focus: handsets, mobile displays, color TV, cordless, digital STB, identification, DTV and multimarket semis.</p> <p>Use ASMC for low-cost non-leading edge technologies and standard processes</p> <p>Manage financial &amp; IP risks</p>	<p><b>Processes</b></p> <p><i>Demand creation</i></p> <ul style="list-style-type: none"> <li>* Define a list of key customers and manage these customer relations</li> <li>* Co-develop with upstream customers</li> <li>* Enhance external communication</li> </ul> <p><i>New product / system creation</i></p> <ul style="list-style-type: none"> <li>* Unlock the value potential of our software capability in silicon</li> <li>* Create new business opportunities consistent with our mission</li> </ul> <p><i>Order fulfilment / supply chain mgt.</i></p> <ul style="list-style-type: none"> <li>* Achieve breakthroughs in supply chain performance</li> </ul>	<p><b>Competence</b></p> <p>(People, partnerships, technology, improvement)</p> <ul style="list-style-type: none"> <li>* Employee satisfaction &amp; motivation</li> <li>* Size and quality of talent pool</li> <li>* PBE score</li> <li>* IP management; royalties, licensing</li> </ul>

**Philips Semiconductors  
one page China strategy**

<b>Strategic direction</b>	<b>Business enablers</b>	<b>Results (BBS)</b>
<p><b><i>Vision</i></b> world where everyone can ways con ertainme many cus manufact</p>	<p><b><i>Leadership</i></b> * Develop a market-driven and</p>	<p><b><i>Financials</i></b> * Market share, 7-9% in 2005</p>
<p><b>Vision</b></p>		
<p>Many customers will move their manufacturing operations into China</p>		
<p>Managing edge technologies and standard processes</p>	<p>consistent with our mission <i>Order fulfilment / supply chain mgt.</i></p>	
<p>Manage financial &amp; IP risks</p>	<p>* Achieve breakthroughs in supply chain performance</p>	

<b>Strategic direction</b>	<b>Business enablers</b>	<b>Results (BBS)</b>
<p><b>Vision</b> world where everyone can ways con ertainme many cus manufact</p>	<p><b>Leadership</b> * Develop a market-driven and</p>	<p><b>Financials</b> * Market share, 7-9% in 2005</p>
<p><b>Strategy</b></p>		
<p>Grow our China market share from 5% to 8% in 2005</p>		
<p>Manage financial &amp; IP risks</p>	<p>consistent with our mission <i>Order fulfilment / supply chain mgt.</i> * Achieve breakthroughs in supply chain performance</p>	

<b>Strategic direction</b>	<b>Business enablers</b>	<b>Results (BBS)</b>
<p><b><i>Vision</i></b> world where everyone can ways con ertainme many cus manufact</p>	<p><b><i>Leadership</i></b> * Develop a market-driven and</p>	<p><b><i>Financials</i></b> * Market share, 7-9% in 2005</p>
<p><b>Strategy</b></p>		
<p>Engage in Chinese standards efforts to generate long-term business</p>		
<p>ing edge technologies and standard processes</p>	<p>consistent with our mission <i>Order fulfilment / supply chain mgt.</i></p>	
<p>Manage financial &amp; IP risks</p>	<p>* Achieve breakthroughs in supply chain performance</p>	

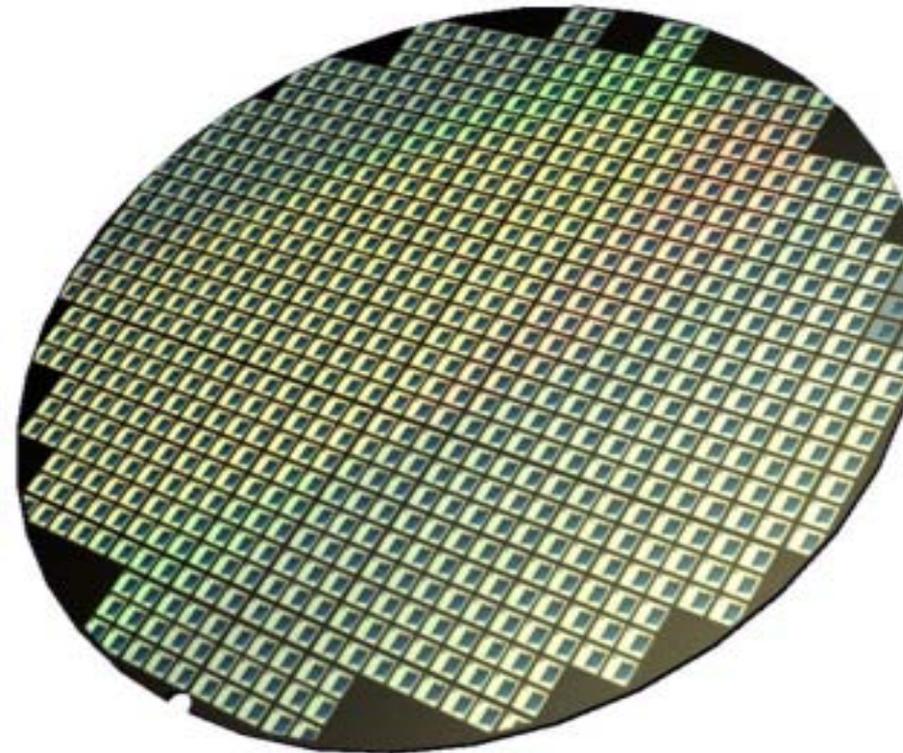
<b>Strategic direction</b>	<b>Business enablers</b>	<b>Results (BBS)</b>
<p><b>Vision</b> world where everyone can ways con ertainm many cus manufact</p>	<p><b>Leadership</b> * Develop a market-driven and</p>	<p><b>Financials</b> * Market share, 7-9% in 2005</p>
<p><b>Year 2002 initiatives</b></p>		
<p>Grow organization to handle business growth</p>		
<p>Managing edge technologies and standard processes</p>	<p>consistent with our mission <i>Order fulfilment / supply chain mgt.</i></p>	
<p>Manage financial &amp; IP risks</p>	<p>* Achieve breakthroughs in supply chain performance</p>	

<b>Strategic direction</b>	<b>Business enablers</b>	<b>Results (BBS)</b>
<p><b>Vision</b> world where everyone can ways con ertainm many cus manufact</p>	<p><b>Leadership</b> * Develop a market-driven and</p>	<p><b>Financials</b> * Market share, 7-9% in 2005</p>
<p><b>Year 2002 initiatives</b></p>		
<p>Develop alternatives for production in China</p>		
<p>Manage financial &amp; IP risks</p>	<p>consistent with our mission <i>Order fulfilment / supply chain mgt.</i> * Achieve breakthroughs in supply chain performance</p>	

# Manufacturing strategy

Our strategy for manufacturing is 'asset light'

- For CMOS we will only increase capacity as a JV or by outsourcing
- For speciality technologies (e.g. QUBiC, powerMOS) we will continue to invest
- Increase the proportion of outsourcing to >30% (40% for advanced technologies, and 50% for 120 nm and below)



# Crolles - leaders in process technology

- Breakthrough in advanced semiconductor manufacturing
- With Motorola, ST and TSMC we represent a \$20 billion business
- Creating industry's leading-edge processes
- Together we'll invest \$1.4 bn by 2005, of which Philips' share is \$430 m
- Benefits
  - cutting-edge process technology
  - at an affordable price
  - compatibility across all alliance fabs
  - allows load sharing and outsourcing
  - flexibility to invest in new fabs when the volumes are proven



# Technology platforms

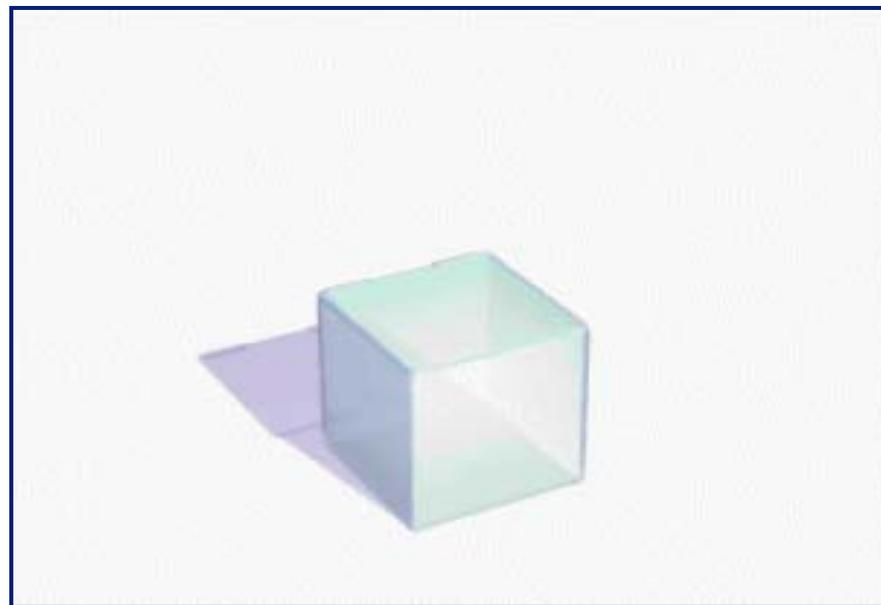
Our key differentiator is the use of platforms  
to achieve solutions in Connected  
Consumer and Communication applications



Shipping millions of Nexperia solutions  
since October 2001

# What is a technology platform?

- Plug and play customisable solution created with intelligent architecture and a library of IP blocks
- Contains software and firmware
- Reconfigurable



# The digital future is Nexperia

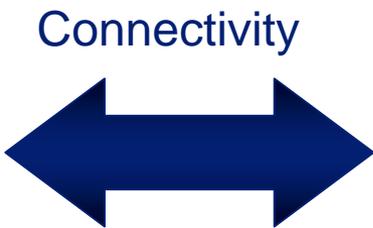
- 3 top global TV makers have hundreds of design engineers working with our Nexperia DVP for 2003 digital TVs
- Samsung and other leading mobile phone makers have selected our Nexperia system solution for 2002/3 phones



# Mapping the strategy to our businesses



Consumer



Communications

# Mapping the strategy to our businesses



Identification

Multimarket  
Semiconductors

# Winning products for growing markets

- DVD+RW
- Digital TV
- Display system solutions
- Connectivity
- Identification
- Cellular system solutions





