

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

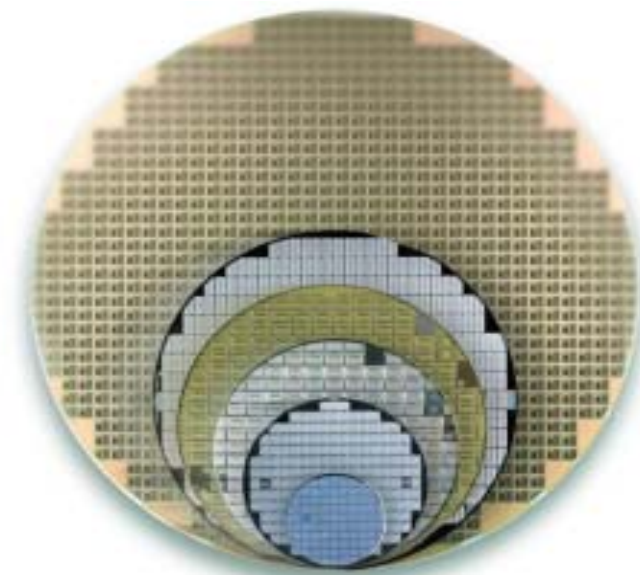


Customers
China
Manufacturing
Nexperia
Growth opportunities





































Leading silicon solution company

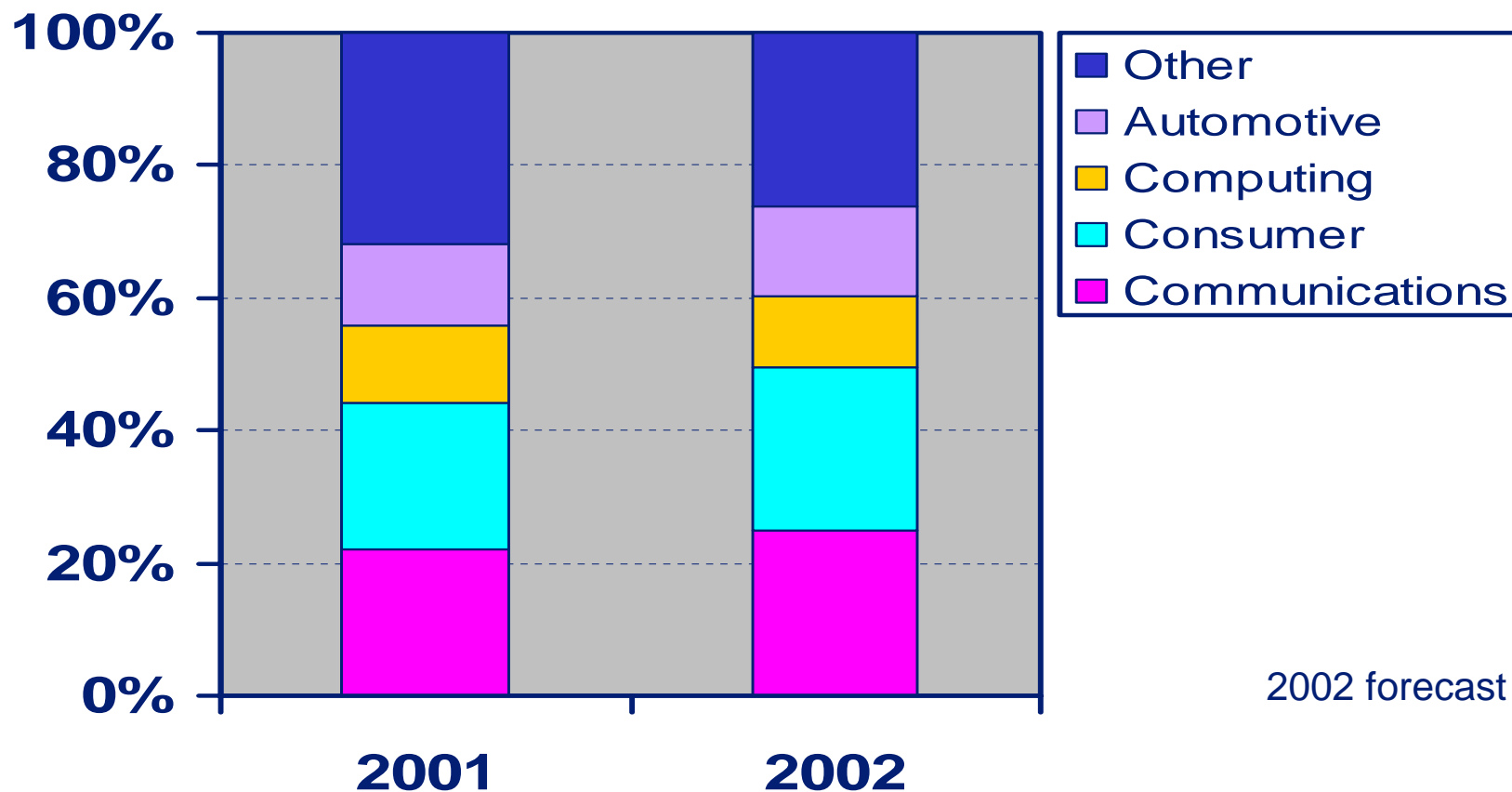
- Top-10 supplier with revenues of \$4.4 billion in 2001
- Focus on silicon systems and multimarket semiconductors for: Communications, Consumer, Automotive, Computing
- 32,500 employees
- Global organization
(18 manufacturing centers, 30 design centers, 4 systems labs and over 100 sales offices)
- 50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

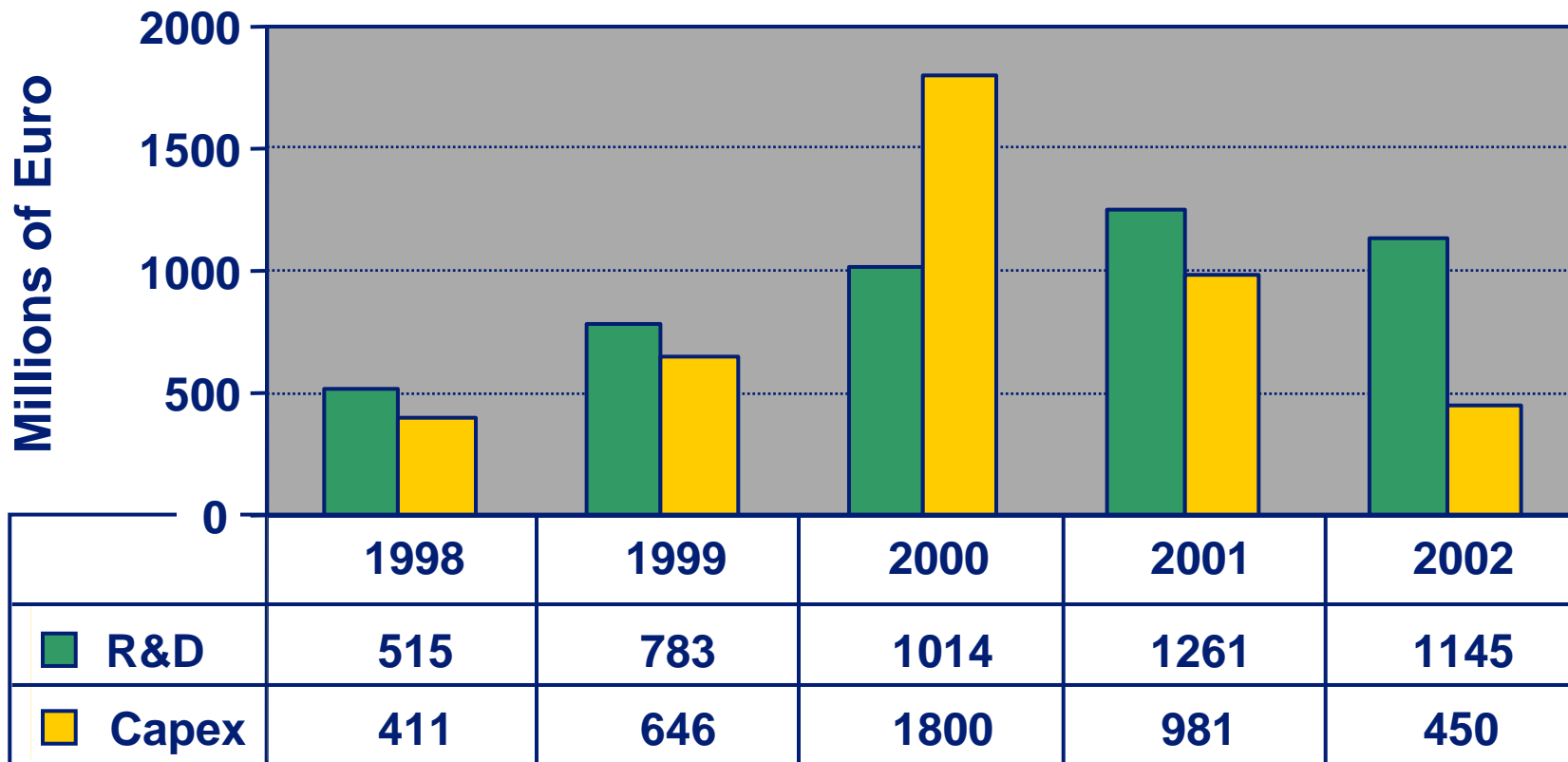
Managing the Business



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

Philips Semiconductors one page strategy

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

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<p>Mission</p>			
<p>To be the <u>leading provider</u> of semiconductor-based <u>solutions</u> for <u>connected consumer and communications</u> applications</p>			
	<p>consistent with our mission</p> <p>Order fulfilment / supply chain mgt.</p> <p>* Achieve breakthroughs in supply chain performance</p>		

Strategic direction	Business enablers	Results (BBS)	Year 2002 initiatives
<p>Vision</p> <p>World where everyone can always connect entertainment a</p>	<p>Leadership</p> <p>* Develop a market-driven and</p>	<p>Financials</p> <p>* Financial value (compared to</p>	<p>Top "must do" actions</p> <p>* Improve customer intimacy and</p>
<h1>Strategy</h1>			
<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>			
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<h1 style="font-size: 2em; margin: 0;">Strategy</h1>			
<p style="font-size: 1.5em; margin: 0;">Develop "Living Technology" <u>customer solutions</u> based on <u>Nexperia platforms</u> that combine <u>semiconductors, software and services</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>		

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<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>		

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<h1>Business enablers</h1> <p>Leadership</p> <p>People</p> <p>Policy and strategy</p> <p>Partnerships & resources</p> <p>Processes</p>			
	<p>consistent with our mission</p> <p><i>Order fulfilment / supply chain mgt.</i></p> <p>* Achieve breakthroughs in supply chain performance</p>		

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<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>Vision</p> <p>World where everyone can</p>	<p>Leadership</p> <p>* Develop a market-driven and</p>	<p>Financials</p> <p>* Financial value (compared to</p>	<p>Top "must do" actions</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>Vision</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>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 other stakeholders 	<p>Financials</p> <ul style="list-style-type: none"> * Market share, 7-9% in 2005 * Revenue, 2,000 B\$ in 2005
<p>Mission</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>People</p> <ul style="list-style-type: none"> * Recruit, develop and retain a diverse and talented team of people * Create internal growth 	<p>Processes</p> <ul style="list-style-type: none"> * Customer intimacy * Driving standardization * Design productivity/drive low-cost products
<p>Strategy</p> <p>Grow our China MS from 5% to 7-9% in 2005</p> <p>Partner with leading customers as content and service providers for the Connected Consumer in communications. Low-cost, mass-market opportunities</p>	<p>Policy</p> <ul style="list-style-type: none"> * Actively engage with our technology, manufacturing and service to customers 	<p>Processes</p> <ul style="list-style-type: none"> * Process maturity * Customer intimacy * Driving standardization * Design productivity/drive low-cost products
<p>Engage in Chinese market to generate long-term revenue</p> <p>Strategic areas of focus: mobile handsets, mobile displays, large 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 & IP risks</p>	<p>Processes</p> <p>Demand creation</p> <ul style="list-style-type: none"> * Define a list of key customers and manage these customer relations * Co-develop with upstream customers * Enhance external communication <p>New product / system creation</p> <ul style="list-style-type: none"> * Unlock the value potential of our software capability in silicon * Create new business opportunities consistent with our mission <p>Order fulfilment / supply chain mgt.</p> <ul style="list-style-type: none"> * Achieve breakthroughs in supply chain performance 	<p>Order fulfilment / supply chain mgt.</p> <ul style="list-style-type: none"> * Stacked lead time * Flexibility to changes in demand <p>Competence</p> <p>(People, partnerships, technology, improvement)</p> <ul style="list-style-type: none"> * Employee satisfaction & motivation * Size and quality of talent pool * PBE score * IP management; royalties, licensing

Philips Semiconductors
one page China strategy

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

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

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<p>Strategy</p>		
<p>Engage in Chinese standards efforts to generate long-term business</p>		
<p>Manage financial & IP risks</p>	<p>consistent with our mission <i>Order fulfilment / supply chain mgt.</i> * Achieve breakthroughs in supply chain performance</p>	

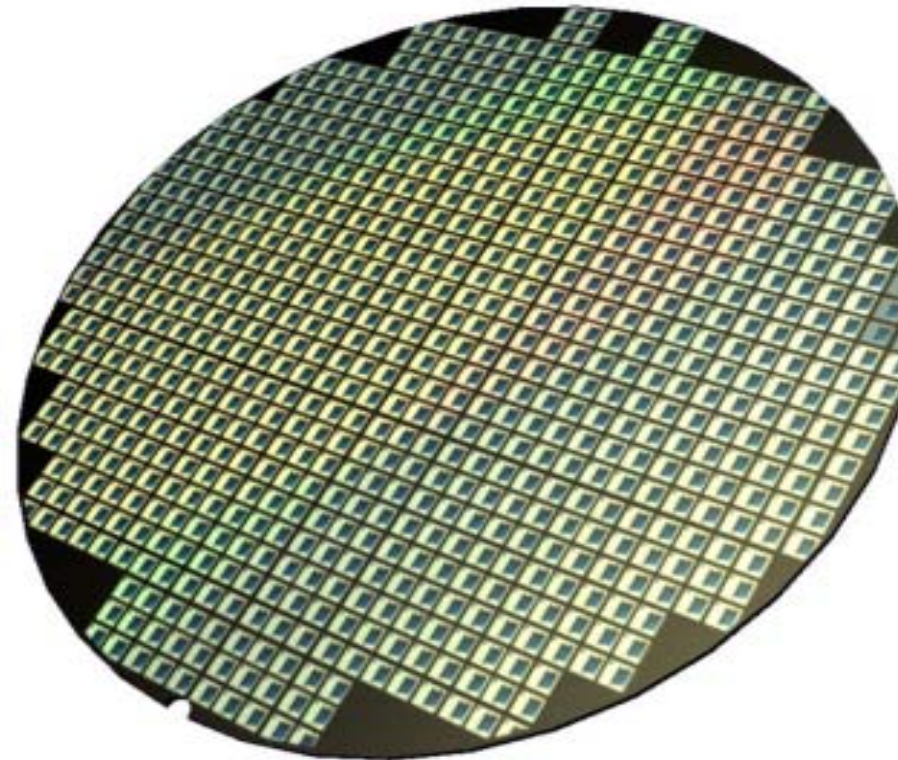
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<p>Year 2002 initiatives</p>		
<p>Grow organization to handle business growth</p>		
<p>be the l micondu nnected d comm ina. We rive to pr</p>	<p>consistent with our mission <i>Order fulfilment / supply chain mgt.</i> * Achieve breakthroughs in supply chain performance</p>	<p>5</p>
<p>Grow our Partner w ntent and the Conr mmunic w-cost, m opportunitie</p>	<p>Manage financial & IP risks</p>	<p>-cost ngt. hand improvement tivation ol censing</p>

Strategic direction	Business enablers	Results (BBS)
<p>Vision world where everyone can ways con ertainm many cus manufact</p>	<p>Leadership * Develop a market-driven and</p>	<p>Financials * Market share, 7-9% in 2005</p>
<h1>Year 2002 initiatives</h1>		
<h2>Develop alternatives for production in China</h2>		
<p>Grow our Partner w entent and the Conr mmunic w-cost, m opportunitie</p>	<p>consistent with our mission <i>Order fulfilment / supply chain mgt.</i> * Achieve breakthroughs in supply chain performance</p>	<p>-cost ngt. hand</p>
<p>Manage financial & IP risks</p>		<p>improvement activation ol censing</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

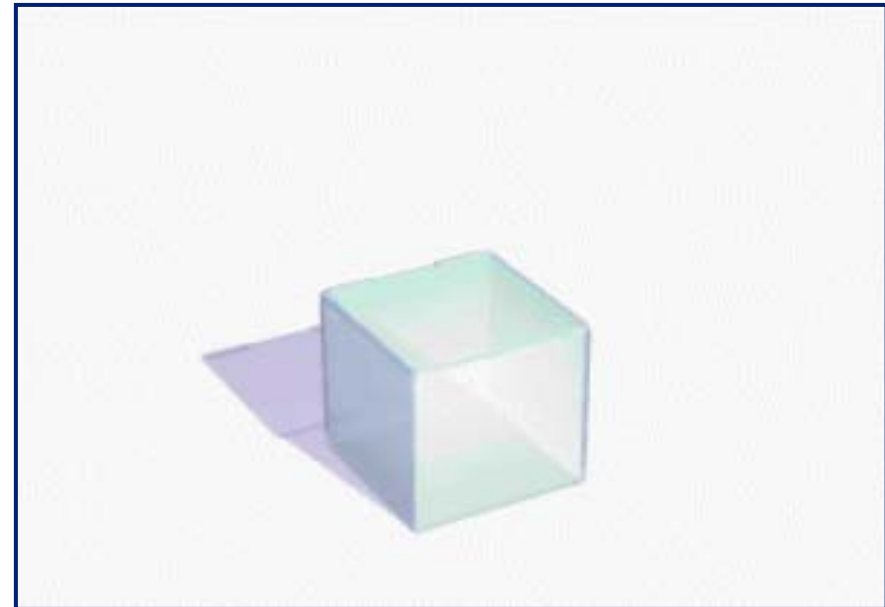
Our key differentiator is the use of platforms
to achieve solutions in Connected
Consumer and Communication applications



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

Connectivity



Communications

Mapping the strategy to our businesses



Consumer



Communications

Identification

Multimarket
Semiconductors

Winning products for growing markets

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





DM

Oberthur Card Systems

PHILIPS

CHANGHONG

National Panasonic Matsushita Electric

WPI 世平興業 WORLD PEACE INDUSTRIAL

FLEXTRONIC

SAMSUNG ELECTRONICS

BOSCH

SOLELECTRON

KONKA

SCI Systems

NOKIA | SONY |

Sony Ericsson

AVNET

homson

ERICSSON

SIEMENS

hp

Cellon

TCL

Viste

