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Sustaining profitable growth
Business focus and update

Scott McGregor
President and Chief Executive Officer

Philips Semiconductors
Financial Analysts Day 2004

What we mean by sustaining profitable growth

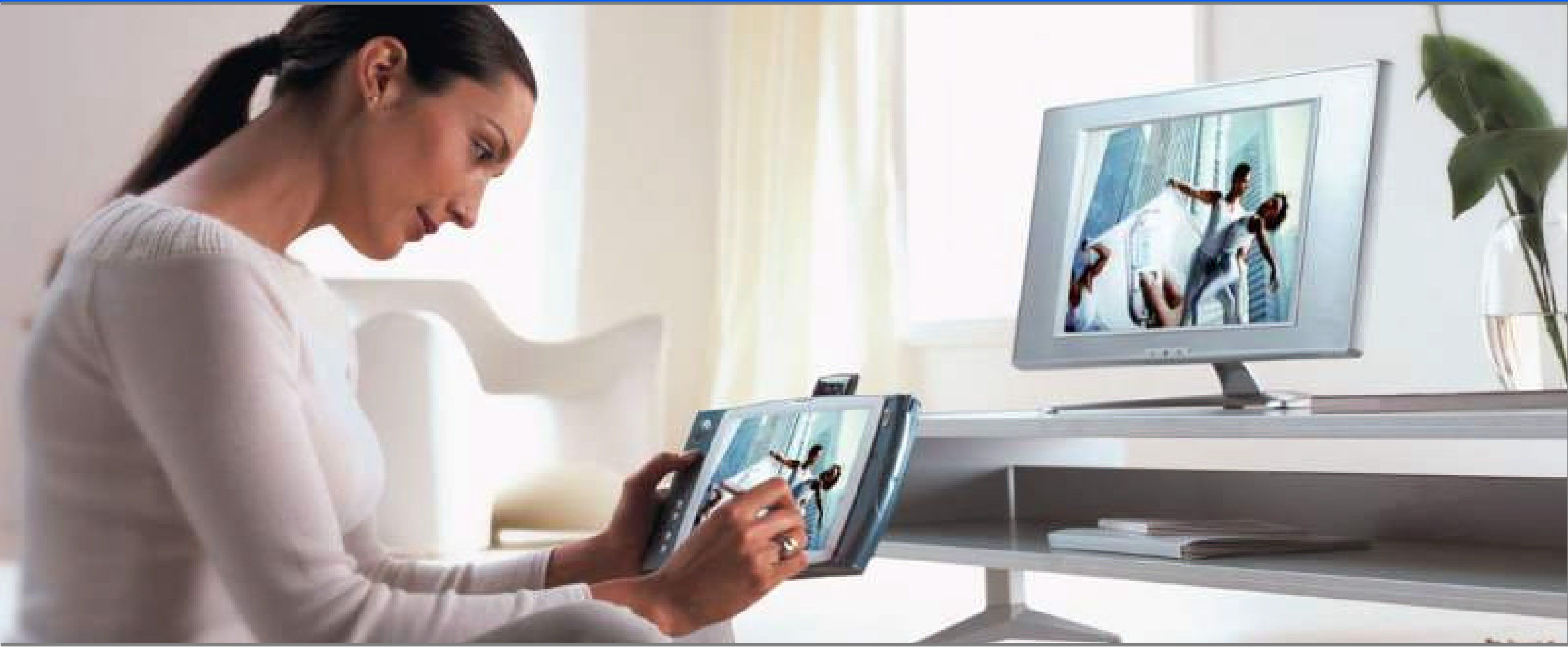
Sustaining profitable growth

- Focus on the Connected Consumer
- 2004 Progress report
- Sustaining growth: key strategic initiatives
  - Nexperia
  - Capital efficient manufacturing
  - Technology leadership
- Market outlook
- Summary

Major changes in the consumer market place

Multiple functions per device

- Cell phone + camera + FM radio
- TV + internet browser
- Audio broadcast + MP3



Major changes in the consumer market place

From stand alone to interconnected devices

- Wireless LAN
- NFC, Bluetooth

Major changes in the consumer market place

From broadcast to webcast

- Internet enabled devices

This leads to the
Connected Consumer

The end-user and the applications he / she wants to use for entertainment, communication and information access and processing only experiencing the benefits of technology without the hassle

Our vision

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

- We make solutions for the Connected Consumer that are Designed around you, Easy to experience and Advanced
- We deliver on our recently launched Philips brand promise "sense and simplicity"

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sense and simplicity

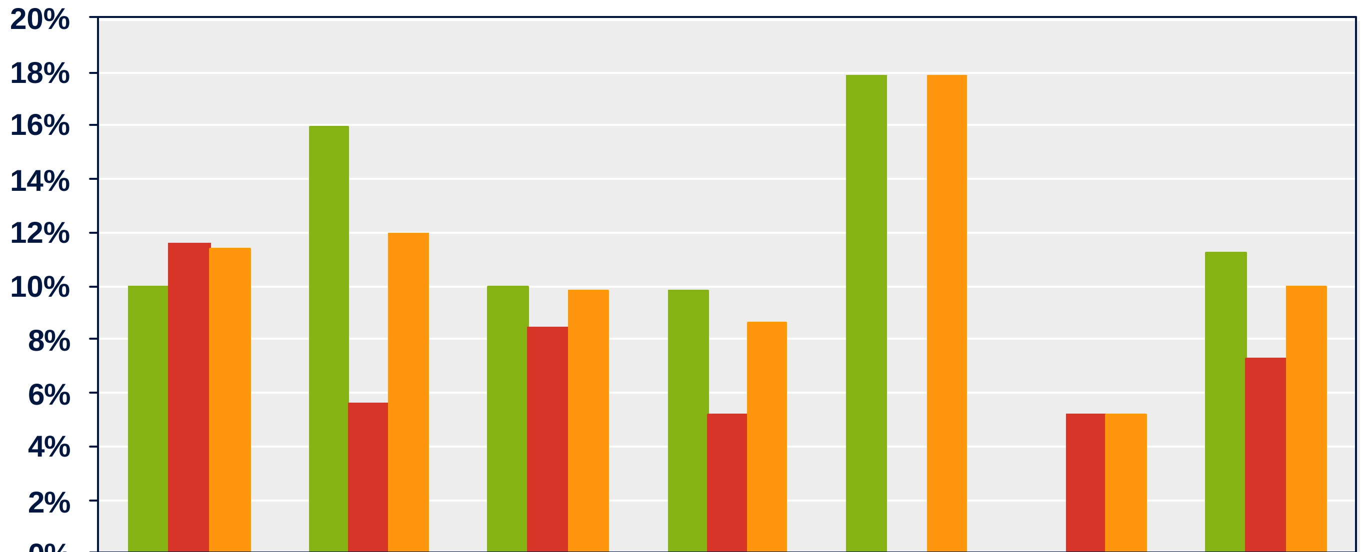
Connected Consumer is now

The Connected Consumer in market terms

Communication	Consumer	Automotive	Computing	Identification
				
• Mobile handsets • LAN/PAN • Traditional telecom	• TV & STB • Home AV • Portable CE • Games • Home gateway	• Car Infotainment • Car Networking	• Displays • Handheld • PC • PC Peripherals	• Chip cards • Memory cards • RFID • Other ID

Connected Consumer segment outgrows total semiconductors market

Market growth by segment CAGR 2003 - 2007 (%), US$ based



	Auto	Comms	Comp	Cons	ID	Other	TOTAL
Connected Consumer	10.0%	15.9%	10.0%	9.8%	17.8%		11.2%
Other applications	11.6%	5.6%	8.4%	5.2%		5.2%	7.3%
Total Market	11.4%	11.9%	9.8%	8.6%	17.8%	5.2%	10.0%

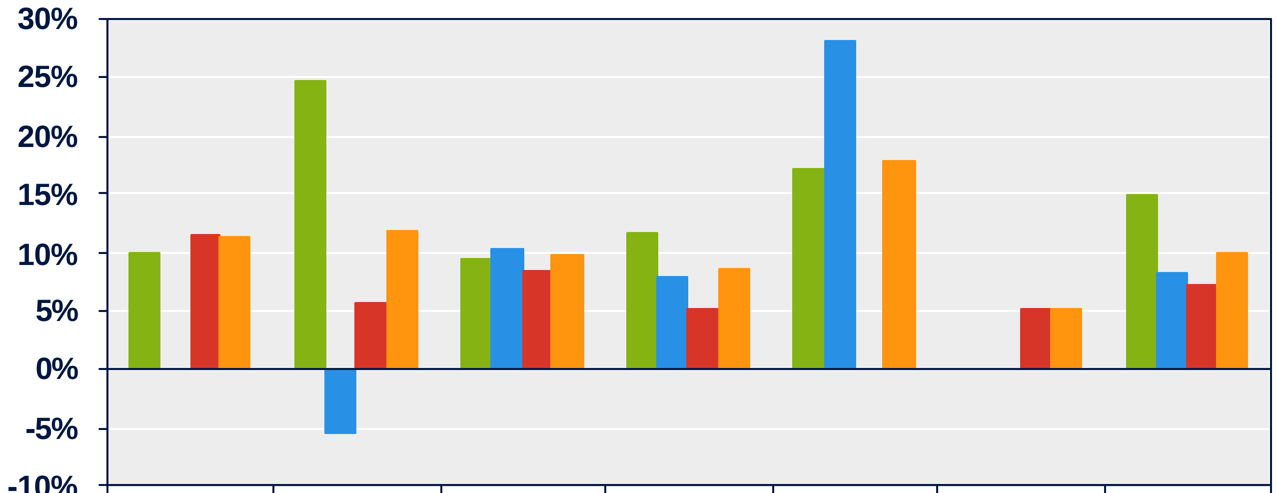
Source: PS Market Intelligence

Philips Semiconductors
A leading Connected Consumer company

- Top-10 supplier with revenues of around 5.2 B € in 2003 (incl. MDS)
- Focus on semiconductor solutions for Connected Consumer applications
- 36,000 employees
- More than 6000 engineers of which more than 1200 are software engineers
- Global organization, sales force delivering to 60 countries, and 20 manufacturing sites

We serve the fastest growing segments in Connected Consumer

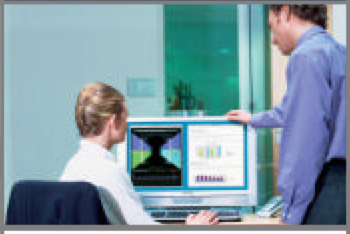
Market growth by segment CAGR 2003 - 2007 (%), US$ based



	Auto	Comms	Comp	Cons	ID	Other	TOTAL
Conn. Cons. - served	10.0%	24.8%	9.4%	11.7%	17.1%		14.9%
Conn. Cons. - not served		-5.4%	10.3%	7.9%	28.1%		8.2%
Other applications	11.6%	5.6%	8.4%	5.2%		5.2%	7.3%
Total Market	11.4%	11.9%	9.8%	8.6%	17.8%	5.2%	10.0%

Source: PS Market Intelligence

Strong customer base

Communication	Consumer	Automotive	Computing	Identification
				
NOKIA SAMSUNG ELECTRONICS SIEMENS mobile Sony Ericsson LG.PHILIPS Displays MOTOROLA Cellon Vtech hp invent ALCATEL BIRD	PHILIPS LG Electronics Inc. SONY SAMSUNG ELECTRONICS TCL National/Panasonic Matsushita Electric LG.PHILIPS Displays	SIEMENS VDO Automotive DELPHI Driving Tomorrow's Technology BOSCH Visteon	PHILIPS hp invent BenQ Enjoyment Matters intel	GEMPLUS SIEMENS mobile SAMSUNG ELECTRONICS NOKIA

Distributors and EMS

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Communications

- 1 out of 7 GSM phones contains a Philips baseband chip
- 1 out of 3 3G phones contains a Philips RF chip
- Customers such as TCL & Alcatel Mobile Phones have chosen Nexperia EDGE System Solutions
- NFC to be integrated in mobile handsets of Nokia and Samsung

ALCATEL | TCL
SAMSUNG ELECTRONICS | NOKIA

Digital cordless #1

Speaker systems #1

Display modules #2

Sources: Gartner, Display search, PS Market Intelligence

Consumer

- Nexperia home in Philips Ambilight TV and DVD recorder combination
- Samsung selects our SACD solution
- Nexperia selected by BenQ, Changhong, Skyworth, Argus Electronics, Syber and Xingqiu for DVD recording
- Leading ISVs and integrators into Nexperia Home partner program
- UHAPI gains momentum

CHANGHONG	BenQ Enjoyment Matters
SAMSUNG ELECTRONICS	PHILIPS

TV #1

Consumer DVD recorders #2

Digital audio #2

Source: PS Market Intelligence

Automotive

- Two thirds of all new cars have a Philips chip inside
- Of the cars produced in 2003
  - 1 out of 3 worldwide includes Philips car radio chipsets
  - 4 out of 5 in Europe include Philips CAN network devices
  - 1 out of 2 in Europe includes Philips RF Access & Immobilization

SIEMENS VDO Automotive | Visteon | BOSCH | DELPHI Driving Tomorrow's Technology

Car networking #1

Car radio #1

Car access & Immobilization #1

Sources: Gartner, Strategy analytics, PS market intelligence

Computing

- We have 40% market share in Display Drivers
- Philips is lead partner to Intel for PCI Express solutions
- We are gaining market share in drivers for LCD panels

PC video add-on cards #1

CRT monitor drivers #2

Source: PS Market Intelligence

Identification

- Philips and Visa showcase potential of contactless payment and connectivity
- Cities worldwide now basing public transport infrastructures on MIFARE, e.g. 70 cities in China
- MIFARE has an estimated market share of 75 to 80%
- 1 Billion RF tags have been shipped worldwide
- By 2009, half of all handsets will have NFC built into them

VISA

SAMSUNG ELECTRONICS

NOKIA

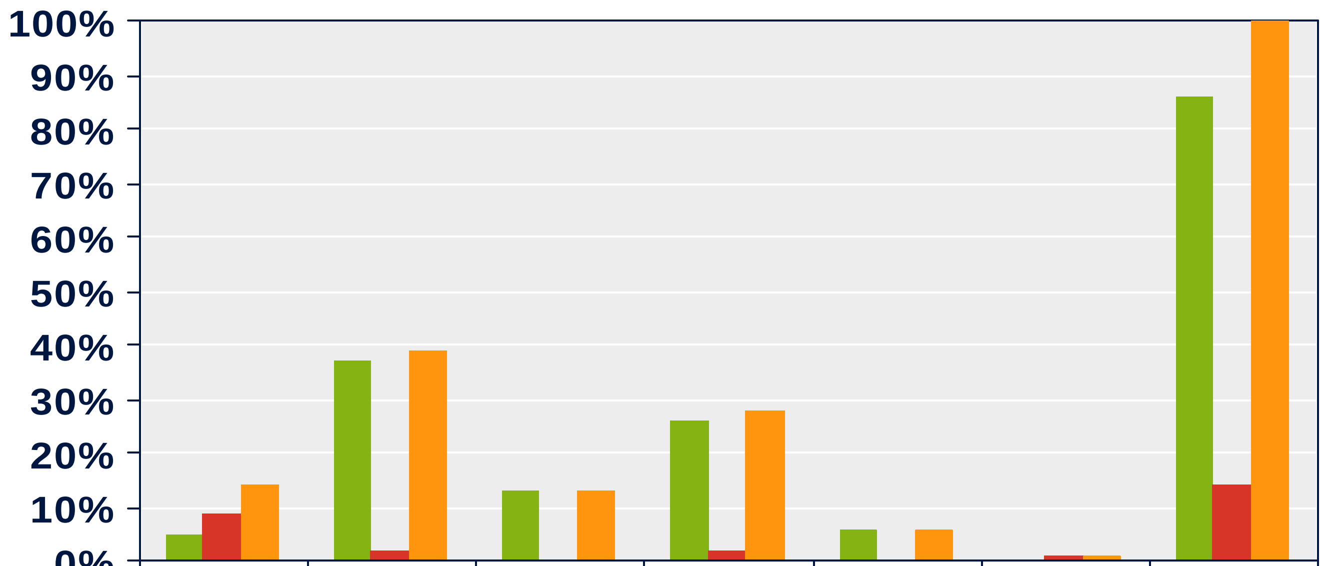
RF identification #1

Smart Card ICs #3

Source: Gartner, IMS research, ABI research, PS Market Intelligence

Focus of sales is on Connected Consumer

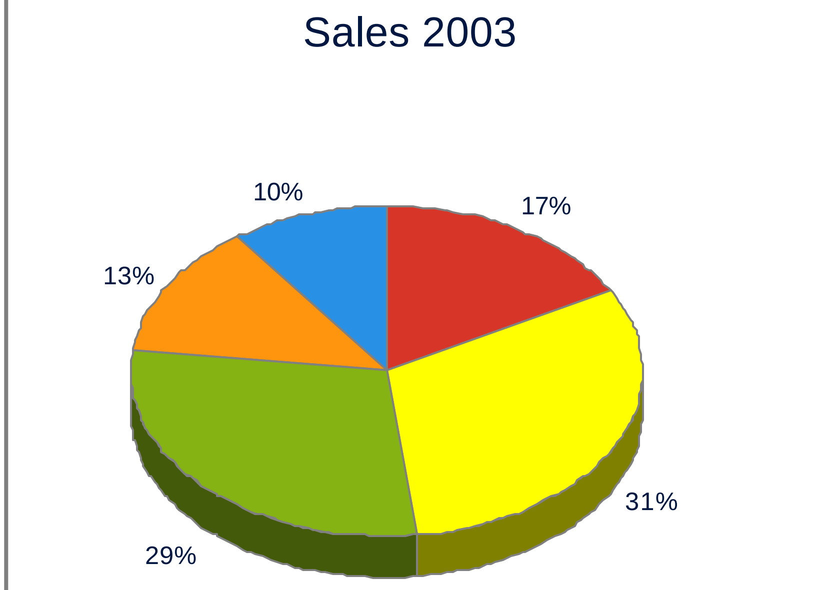
Percentage of sales per segment



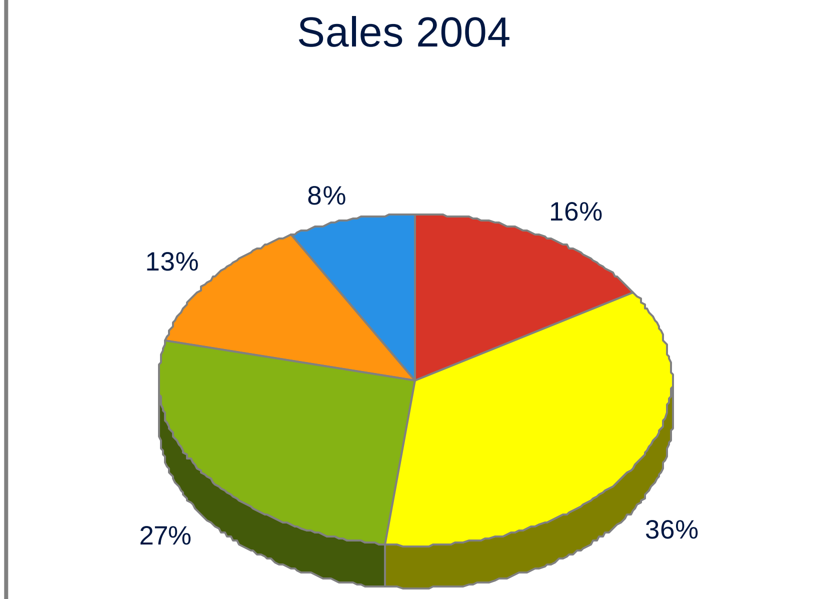
	Auto	Comms	Comp	Cons	ID	Other	TOTAL
Connected Consumer	5%	37%	13%	26%	6%	0%	86%
Other applications	9%	2%	0%	2%	0%	1%	14%
Total sales	14%	39%	13%	28%	6%	1%	100%

Source: Philips

Balanced sales by market segment
Excluding MDS



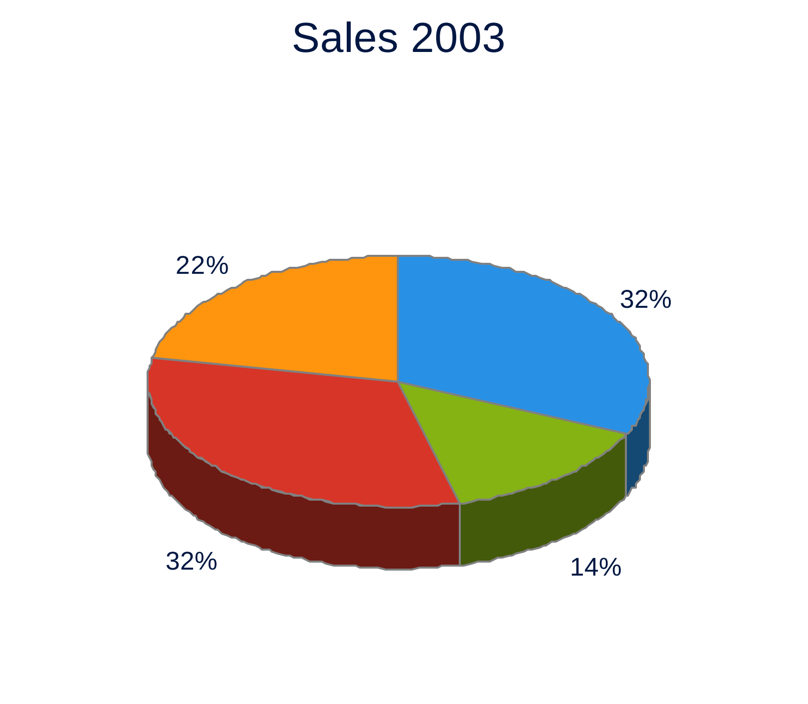
Source: Philips based on H1 2003 sales



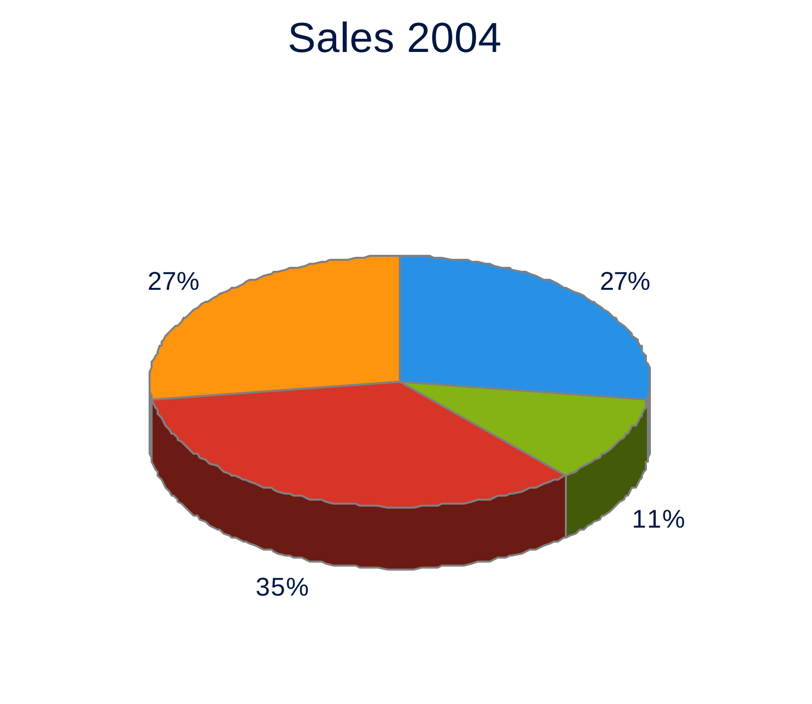
Source: Philips based on H1 2004 sales

Automotive | Communication | Consumer | Computing | Industrial

Balanced sales by region
Excluding MDS



Source: Philips based on H1 2003 sales



Source: Philips based on H1 2004 sales

Europe | N. America | Greater China | Rest of Asia

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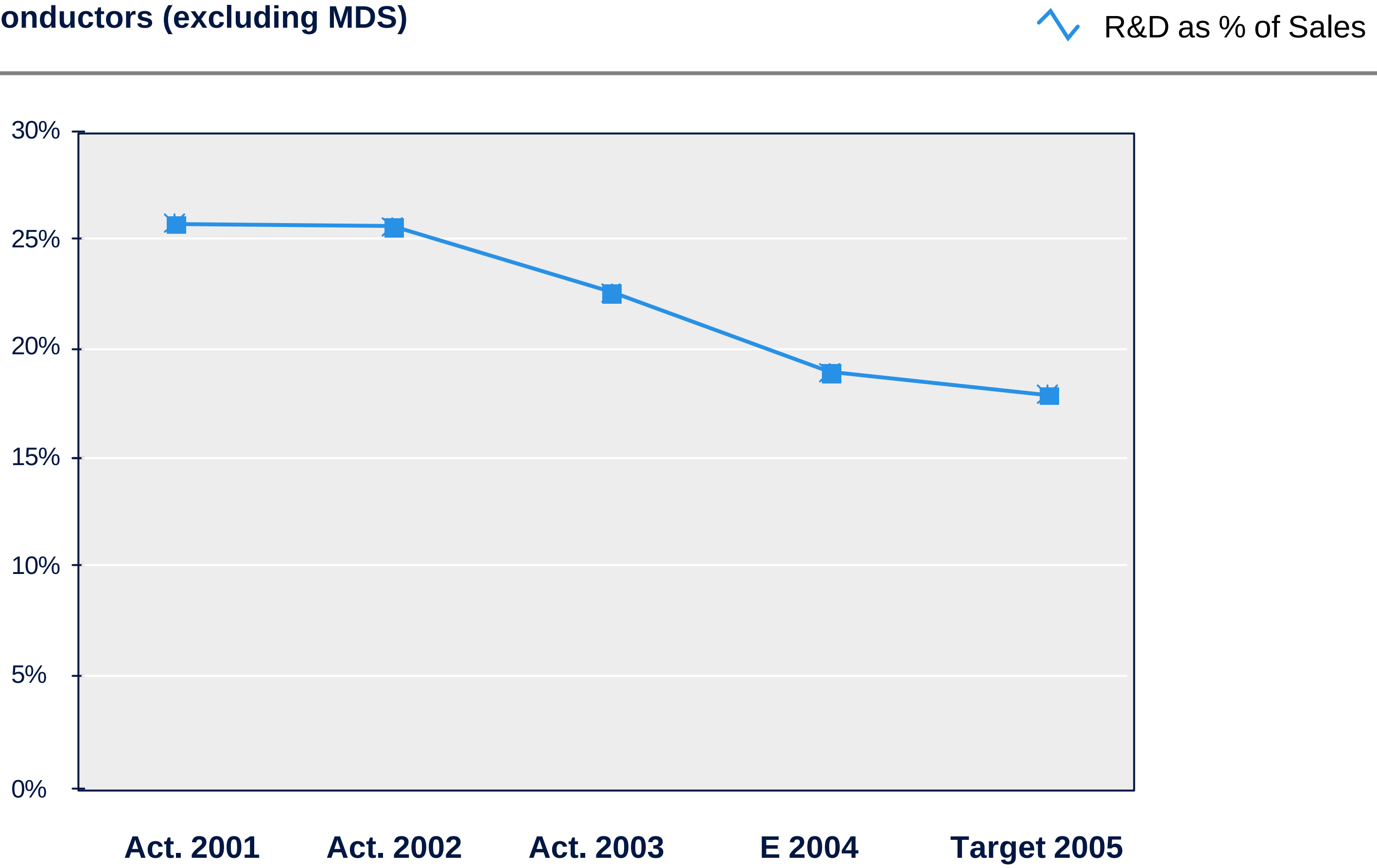
Focus
Reduced R&D spending

R&D - Semiconductors (excluding MDS)



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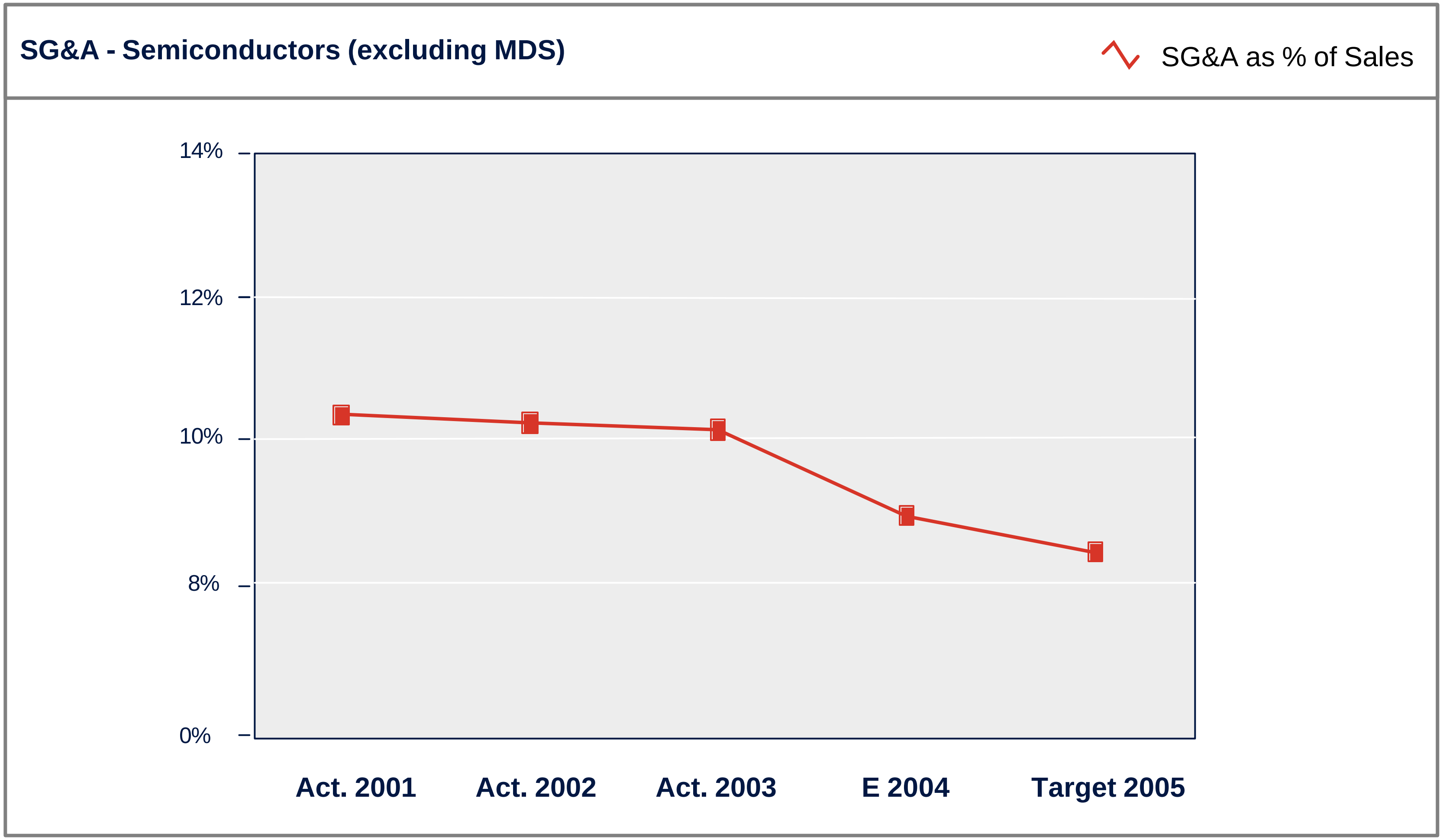
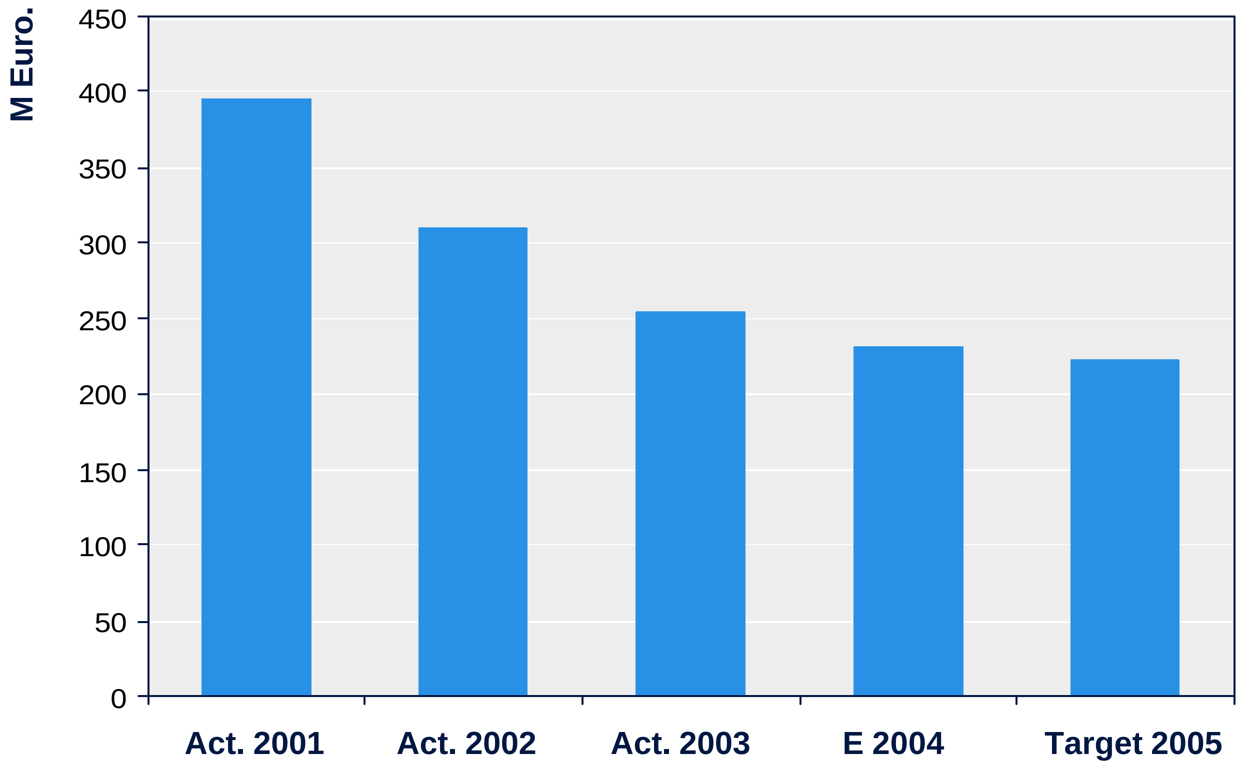
Focus
Reduced SG&A costs



Process improvements
Reduced IT spending

IT Spending - Semiconductors (excluding MDS)



Process improvement

Customer intimacy update

- Increase business from key customers – currently from 64% to 70% of sales by end-2005
- Partner with leading customers, content and service providers
- Enhance quality of Key Account Management
- Improve Customer Loyalty Index & Vendor Rating
- Deployment of Customer Business Plan for top customers

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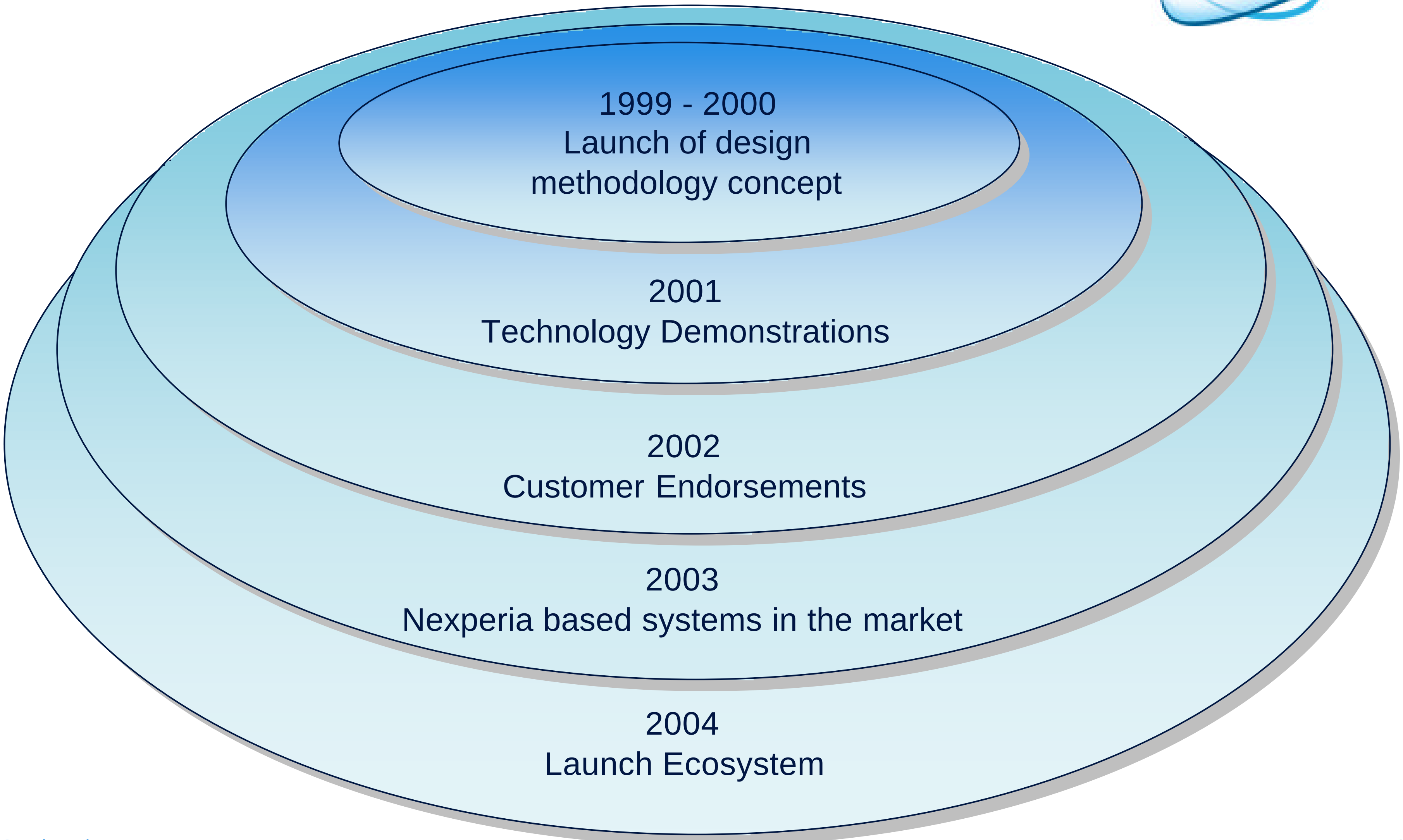
Nexperia™

Making the Connected Consumer happen

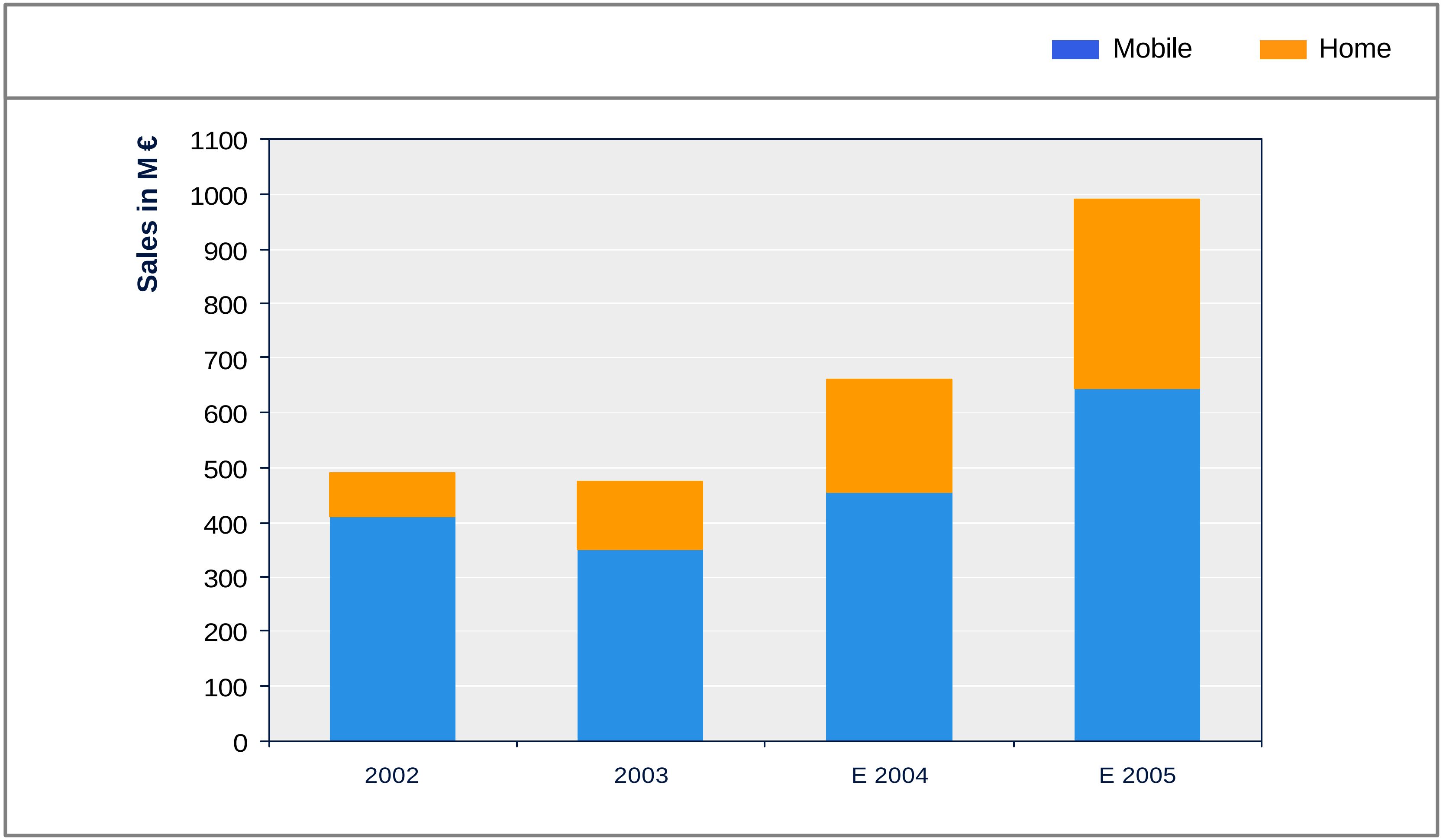
- Nexperia enables
  - Endless combinations of functions
  - Fast time-to-market
  - “Living room” prices
- Nexperia Home for Connected Home / Digital Home applications including
  - Digital television, home entertainment hubs
  - Media servers, DVD recorders
  - PVRs, wireless displays and media adapters
- Nexperia Mobile for mobile multimedia handsets, wireless PDAs and other portable wireless devices

The Nexperia journey



Nexperia sales

CAGR 2002 to 2005 26.4 %



Source: PS market Intelligence

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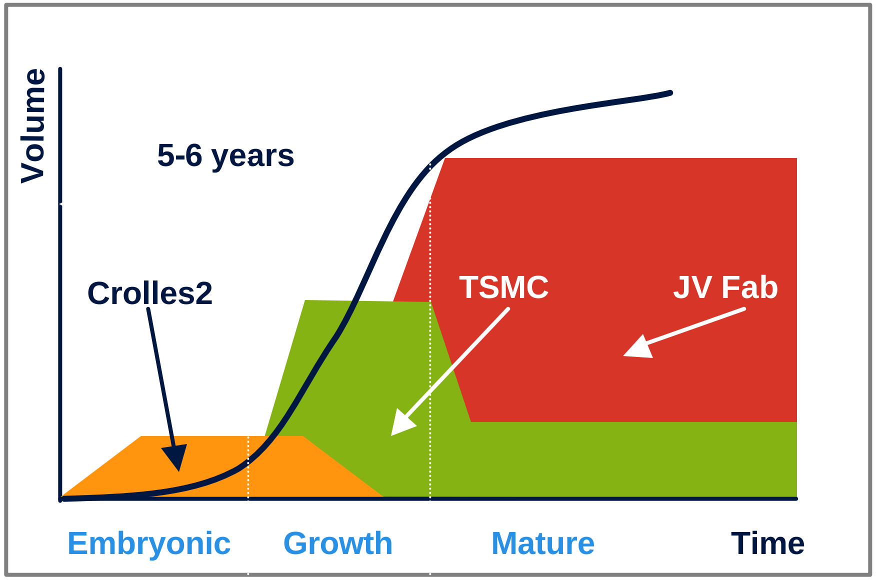
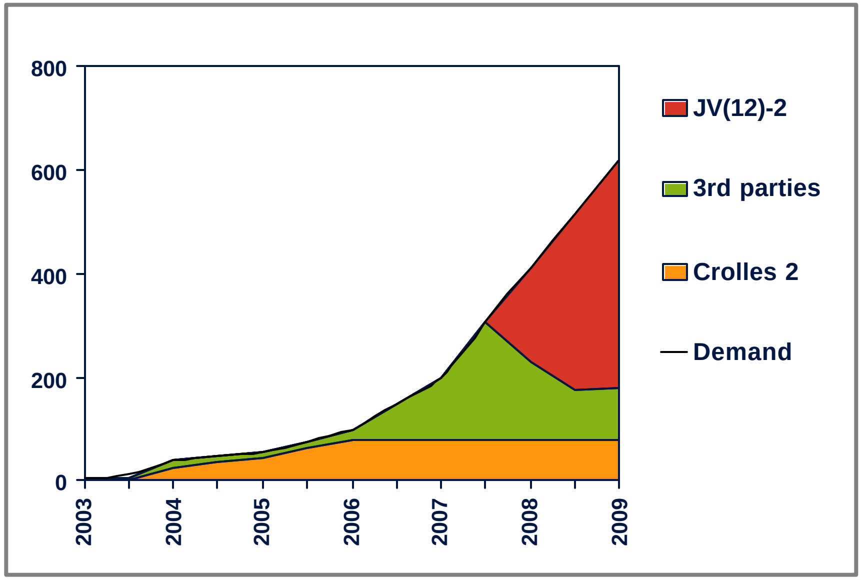
Capital efficient manufacturing
Turning theory into practice

- R&D and pilot fab in Crolles2-Alliance
- Start of own (JV) fab delayed 4-5 years until enough wafer load
- TSMC 2nd sourcing available
- New JV for 300mm will be needed by 2007 / 2008 (Market conditions will dictate the exact timing)

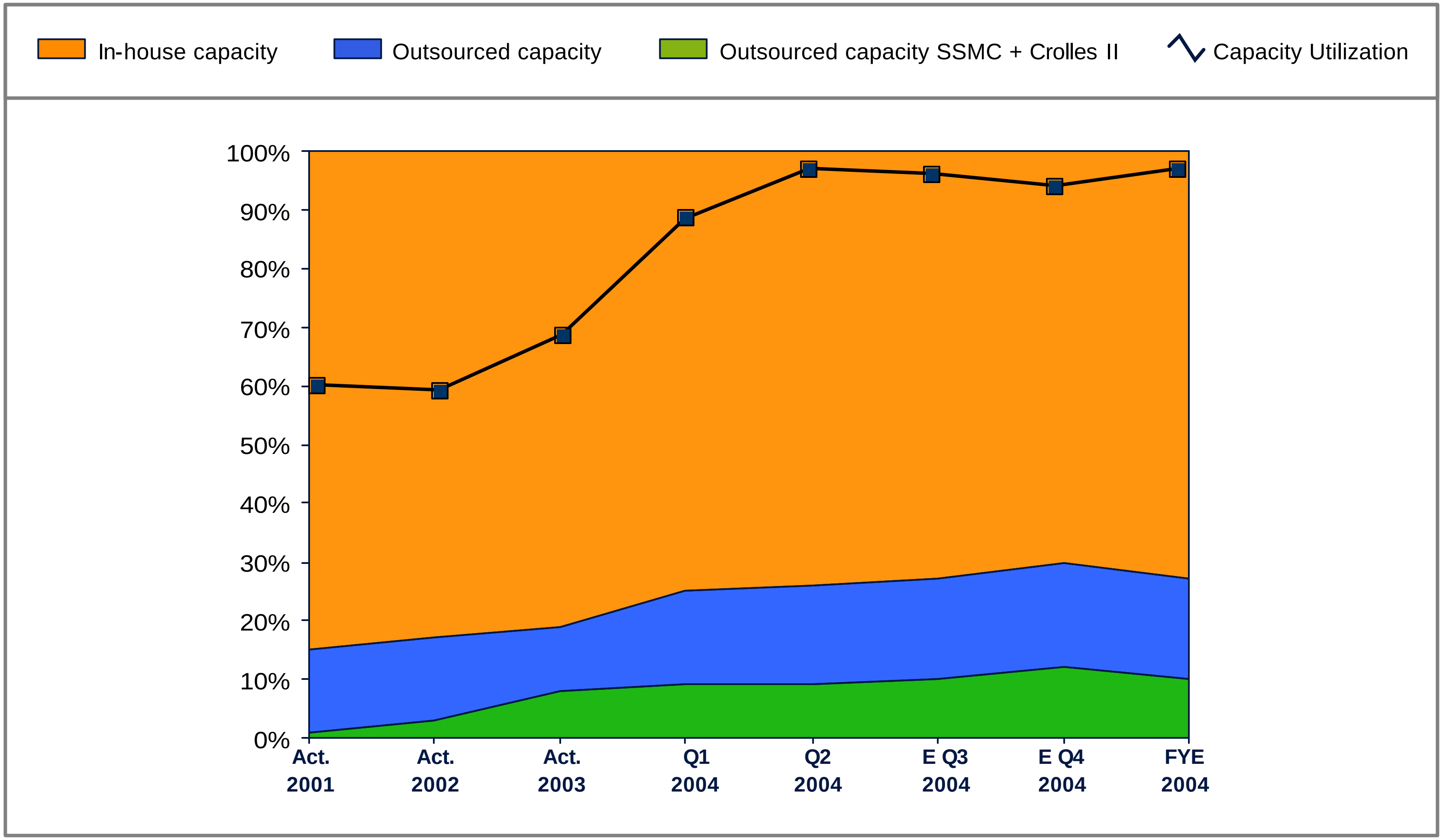
Model (2003)



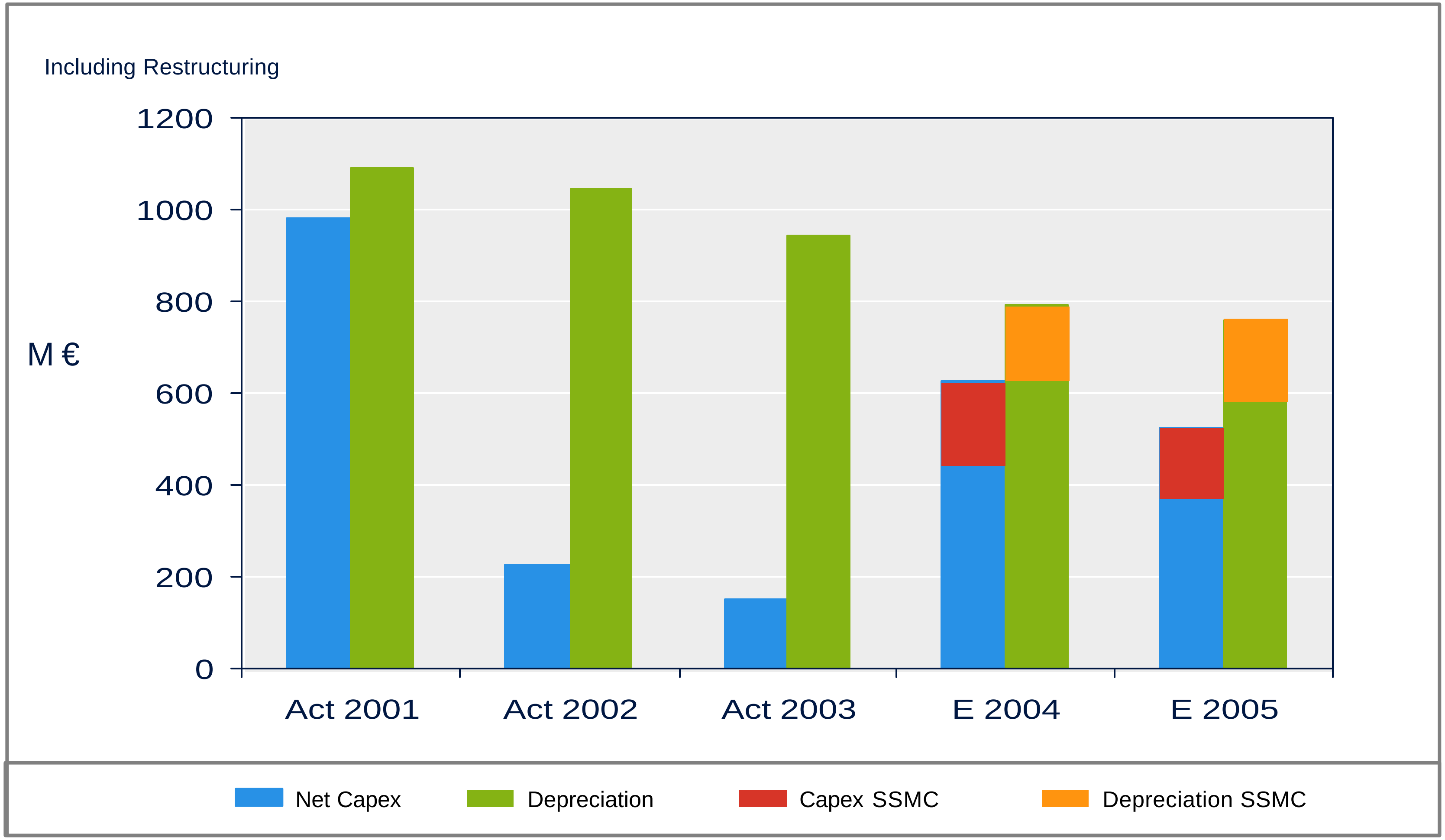
Load forecast (2004)



Capacity utilization and outsourcing level



Capital expenditure & depreciation
Excl. Crolles & MDS, incl. SSMC from 2004 onwards



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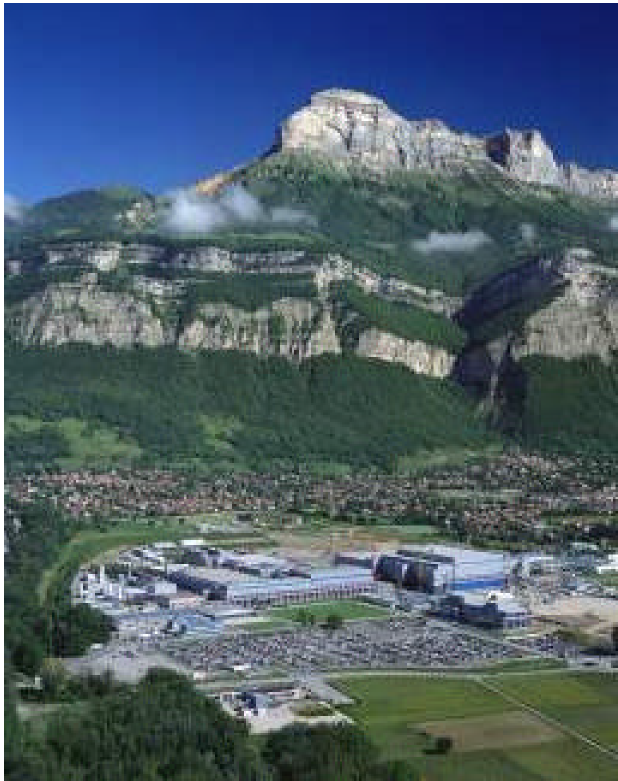
Crolles2: most advanced CMOS technology
Delivering leading-edge processes at an affordable price

- CMOS12 products shipping in volume
- CMOS090
  - Achieved right-first-time 90nm silicon
  - Production in June 2004
- CMOS065
  - Successful test wafers in 65nm
- 45nm process in development with IMEC

Crolles2 Alliance



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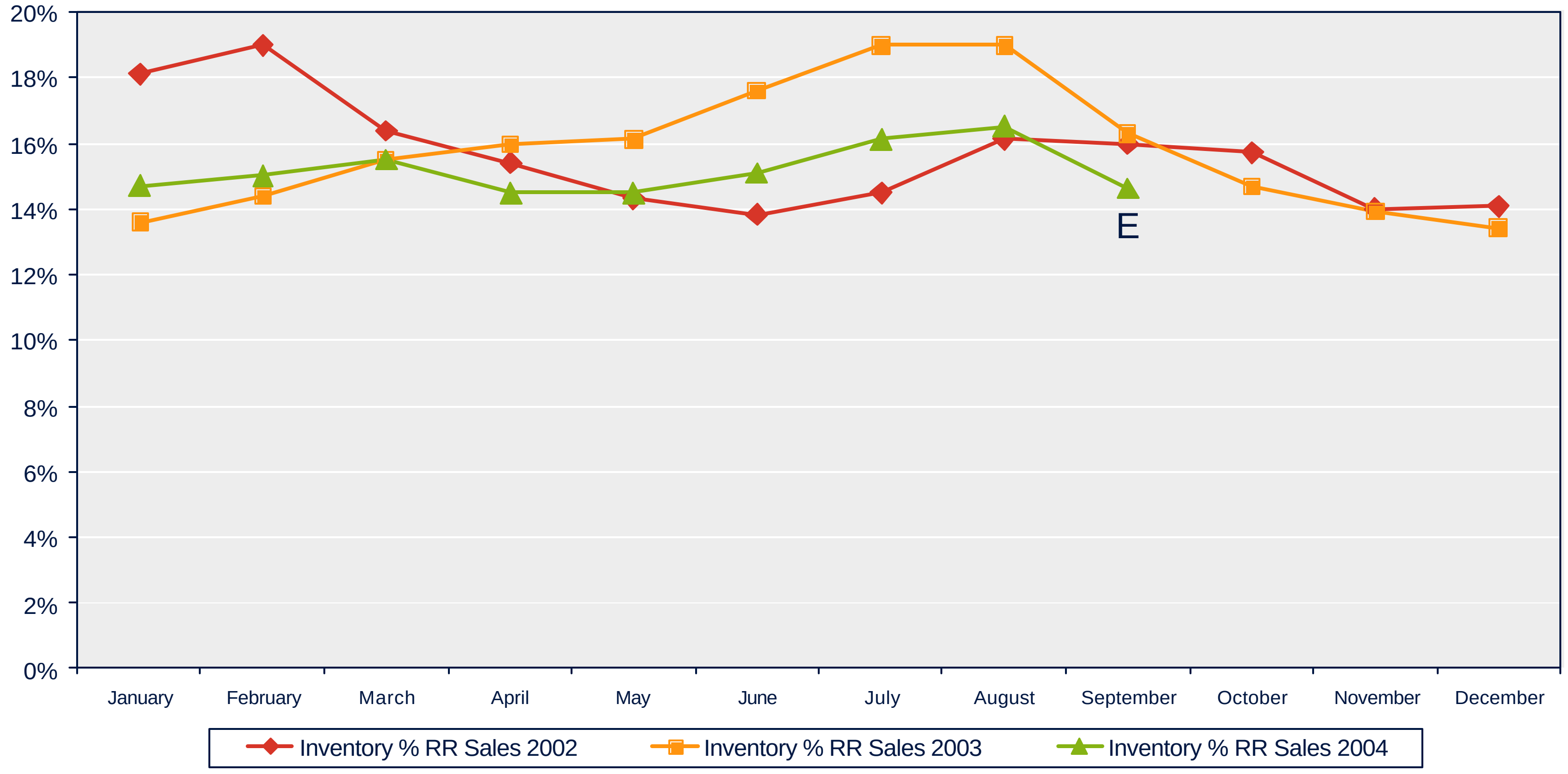
Current semiconductors market condition
Recent forecasts

- Our latest expectation for 2004 is + 26% market growth in US$
- We expect single digit industry growth in 2005

Inventories

PD Semiconductors (excl MDS)



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Summary

- Our focus on the Connected Consumer market gives us the opportunity to outgrow the industry
- Key strategic initiatives underpin our Connected Consumer focus
  - We partner with the industry leading customers
  - Nexperia technology gives us a competitive advantage
- Our capital efficient manufacturing strategy increases financial predictability
- Continued focus on improving business processes pays off

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