Philips Semiconductors …

Managing the downturn, Ready for the Upswing

Scott McGregor
President and
Chief Executive Officer

Agenda for today

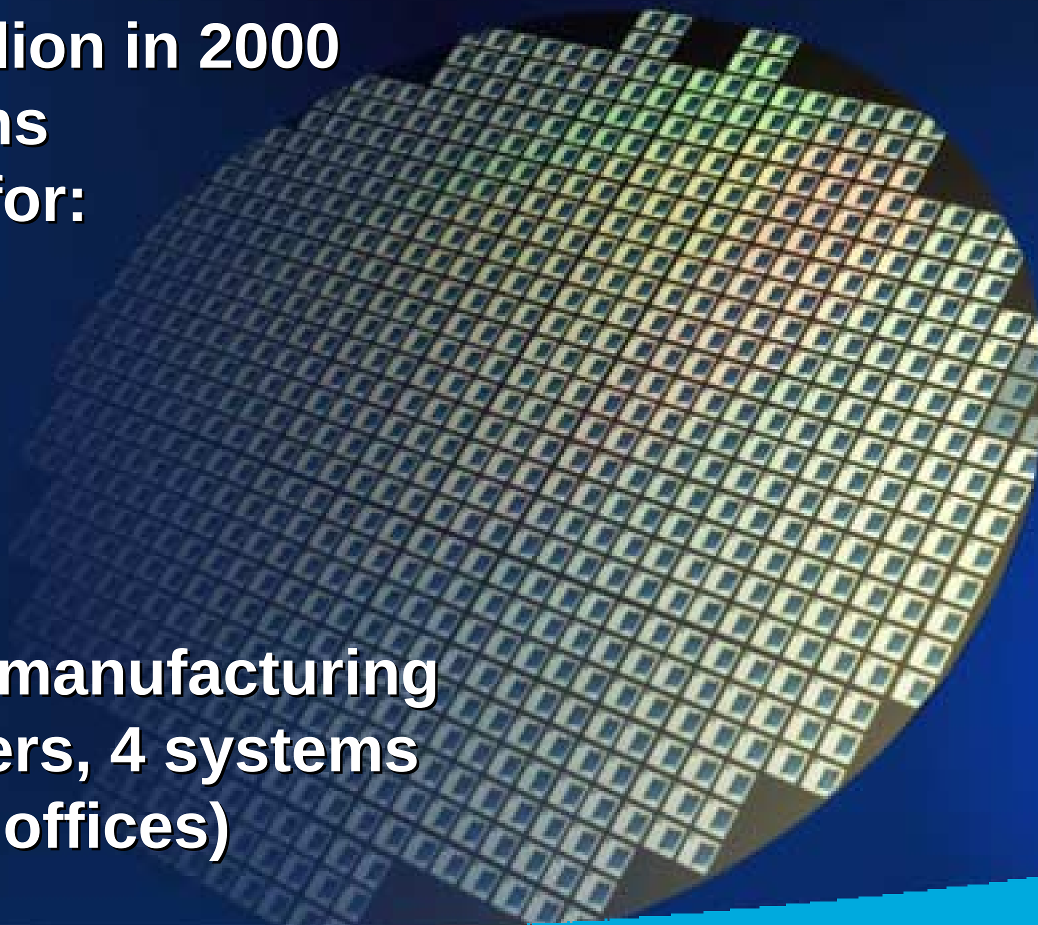
- Managing the downturn, ready for the upswing
  - Scott McGregor, President and CEO, Philips Semiconductors
- Focus on wireless connectivity
  - Phil Pollok, Senior Vice President, Philips Semiconductors
- Focus on mobile communications
  - Thierry Laurent, Executive Vice President
    Philips Semiconductors
- Focus on Identification
  - Karsten Ottenberg, Senior Vice Presid
    Philips Semiconductors
- Summary and round-up

See our
Digital Consumer
demos next door
Throughout
the day

Contents

Contents

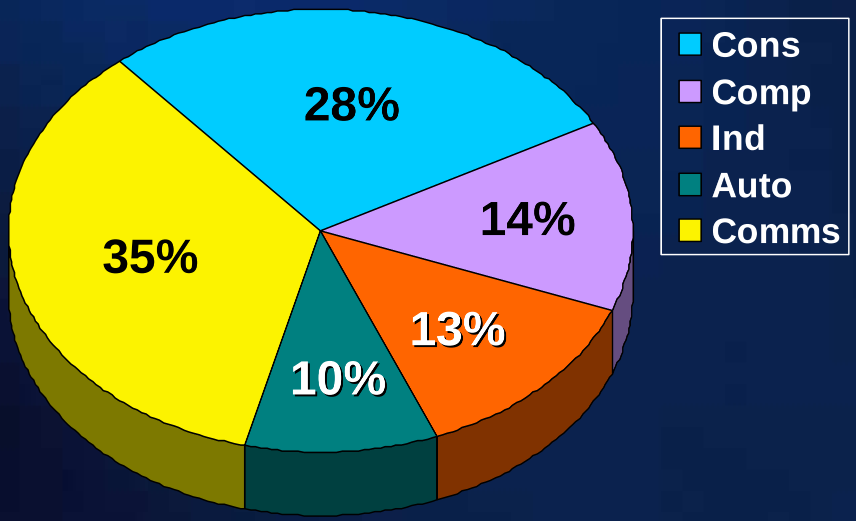
Major semiconductor company



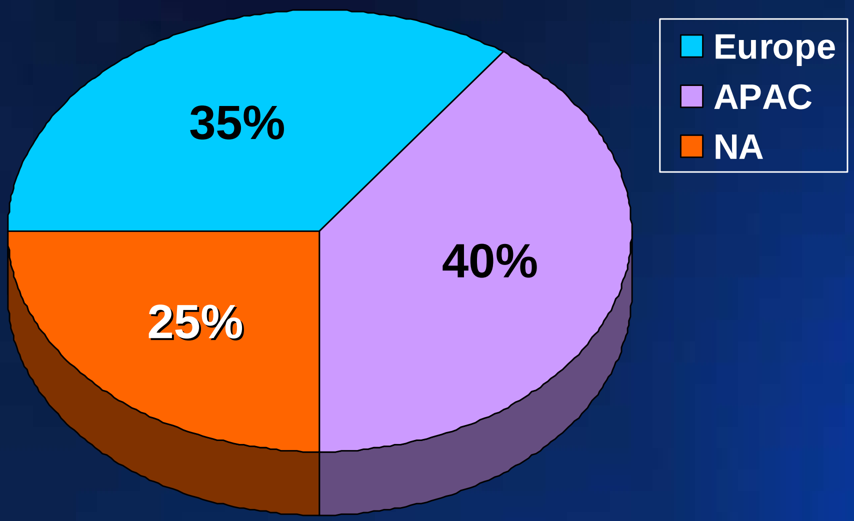
- Revenues of US $6.3 billion in 2000
- Focus on silicon systems and standard products for:
  - Communications
  - Consumer
  - Automotive
  - Computing
  - Industrial
- 33,000 employees
- Global organization (18 manufacturing centers, 30 design centers, 4 systems labs and over 100 sales offices)

Balanced sales by market segment and region

Sales by customer type



Sales by region



Source: Philips based on 2000 sales

A changing customer base - from 1994 ...

Communications	Consumer	Computing Automotive Industrial	Distributors	EMS GMS
NOKIA	PHILIPS	BOSCH	ARROW	
	SAMSUNG ELECTRONICS	IBM		
	SONY	Lucent Technologies Bell Labs Innovations		
	Thomson	Visteon		

… to 2001

Communications	Consumer	Computing Automotive Industrial	Distributors	EMS GMS
ERICSSON	PHILIPS	GM	ARROW	FLEXTRONICS
NOKIA	SAMSUNG ELECTRONICS	PHILIPS	AVNET electronics marketing	SCI Systems, Inc.
SAMSUNG ELECTRONICS	SONY	SIEMENS	WPI	
		Visteon		

Great products create leading positions

Communication	Mobile handsets Cordless Wireless connectivity
Consumer	TV Tuners Digital Audio Digital STB
Automotive	In-vehicle networking In-car radio Car access & immobilizers
Computing	CRT monitor drivers Display drivers PC Add-on cards
Industrial	Identification Standard products RF discretes, CATV

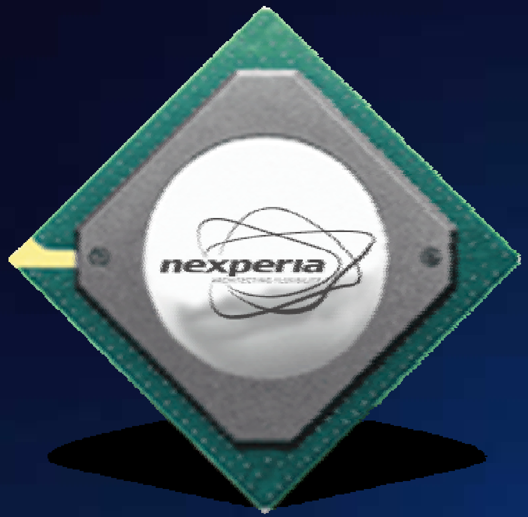
#2 with >20% s

#4 with 5% sha

#1 with >70% share

These represent >75% of our sales

Differentiating technology



- First in Platforms (Nexperia)
  - Delivers flexibility
  - Reduces time-to-market
- Efficient IP based design (Sea of IP)
  - Reuse of hardware and software (CoReUse / MoReUse)
  - HDLi for IP generation and delivery
- Rapid prototyping for first-time right design
- CMOS18 with embedded Flash
- CMOS12 now prototyping
- QuBIC4 low cost, high performance RF

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)
- 30 billion pieces assembly capacity

Partnerships

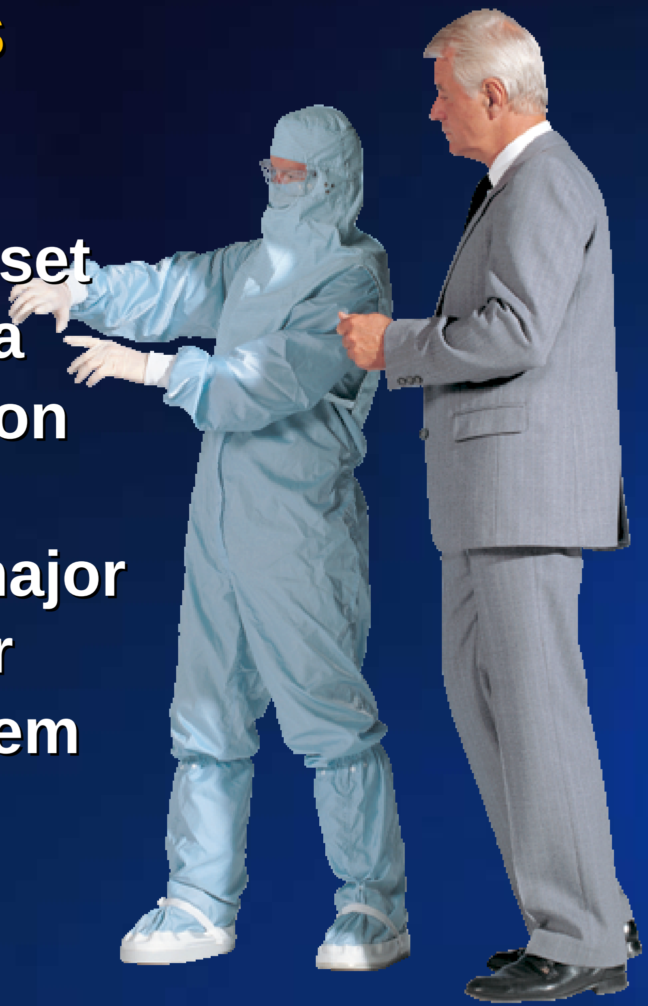
- TSMC & Amkor

Contents

Customer strategy: work with winners

- Focus on Partnership
  - Partner across the value chain
  - Align technology roadmaps; access to Philips Research
  - Jointly develop total systems solutions
- Partner in growth markets
  - Grow sales to top 20 customers from 50 to 60% by 2005
  - Grow sales through Distributors and EMS from 25 to 30% by 2005

Customer strategy: work closely with our partners



Some of many examples:

- Deep collaboration with major handset makers, such as Ericsson and Nokia
- A complete mobile telephone solution for DBTel (China) and CEC (China)
- A complete digital TV solution for major Digital Consumer Electronics player
- DSP in digital car infotainment system for Visteon
- Identification products Visa, Shell, Beijing City Transport

Product strategy: supporting businesses to winning positions

Market growth above 35%	Below top 2 →	Top 2
Market growth between industry average and 35%	Market share < 15 % →	Market share > 15 %
Market growth below industry average	IFO < 20% →	IFO > 20%

Product strategy: strategic focus

Digital CE

- Digital TV
- STB-PVR
- Optical Storage

Product strategy: strategic focus

RF & Connectivity

- Bluetooth
- 802.11
- Zigbee
- USB
- Last mile access

Bluetooth™

USB

UNIVERSAL SERIAL BUS

Product strategy: strategic focus

Digital Displays

- Display Drivers for mobile and large displays
- Scalers
- Display processing

Product strategy: strategic focus

Cellular Terminals

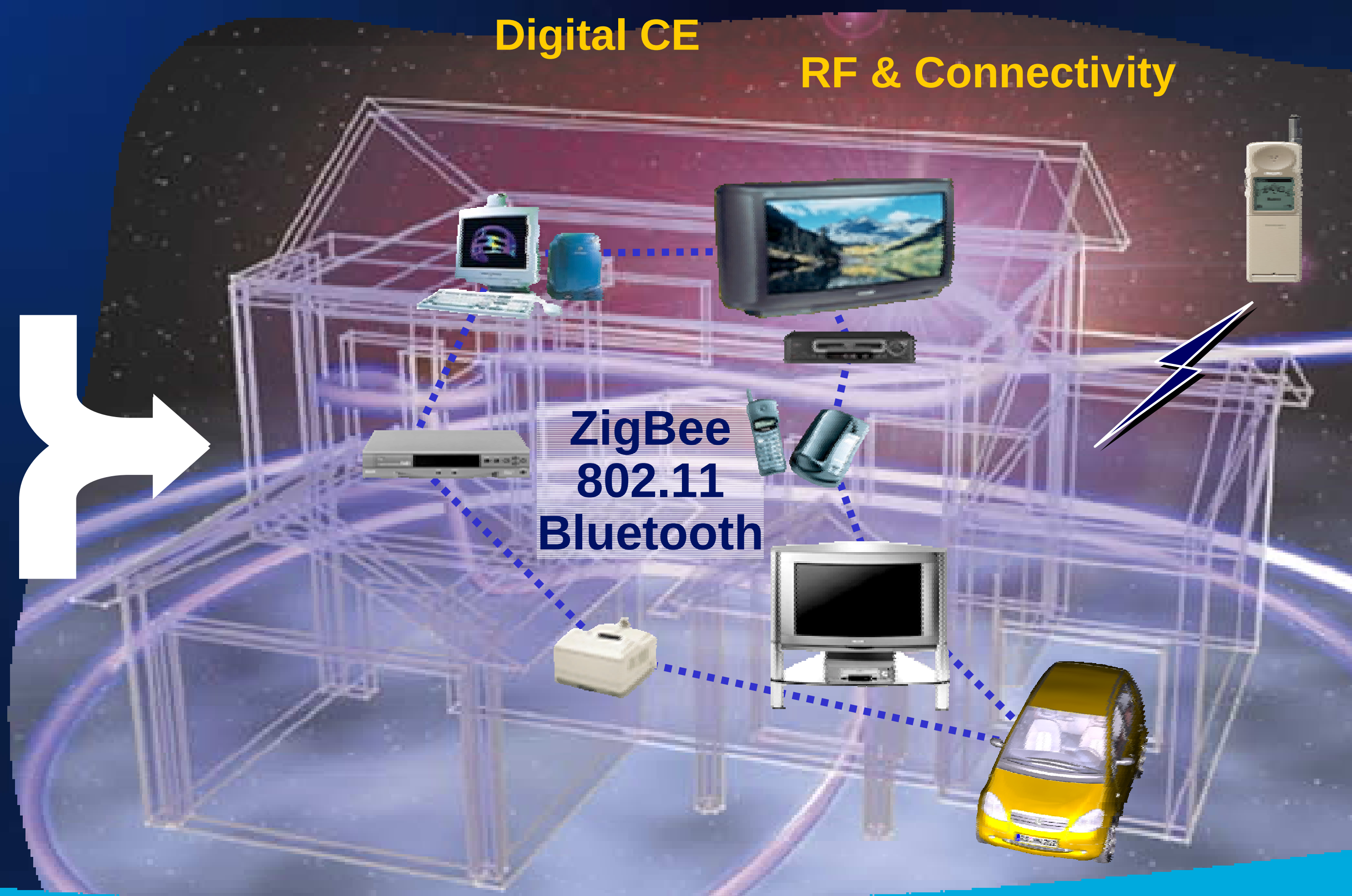
- 2 / $2^1/_2$G
- 3G / UMTS
- System Solutions

Product strategy: the connected home

Internet

Enhanced and linked content

Digital subscriber services (cable, satellite)



Technology strategy

Build on Nexperia platforms

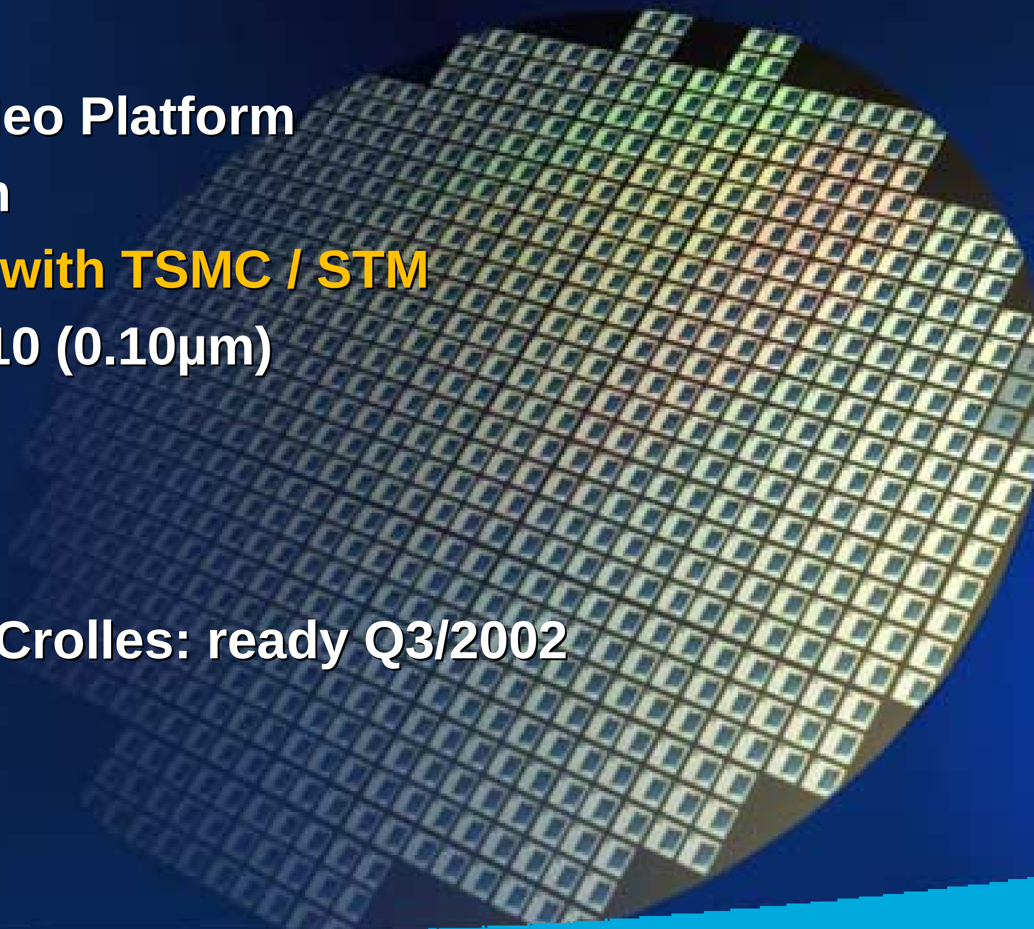
- High performance Digital Video Platform
- Low Power Portable Platform

Leverage process partnership with TSMC / STM

- Joint development of CMOS10 (0.10µm)
  - TSMC compatible rules, performance and timing
  - CMOS10 end 2002
- 300mm R&D and pilot fab in Crolles: ready Q3/2002

Build on leadership in RF

- QuBIC4 with SiGe option

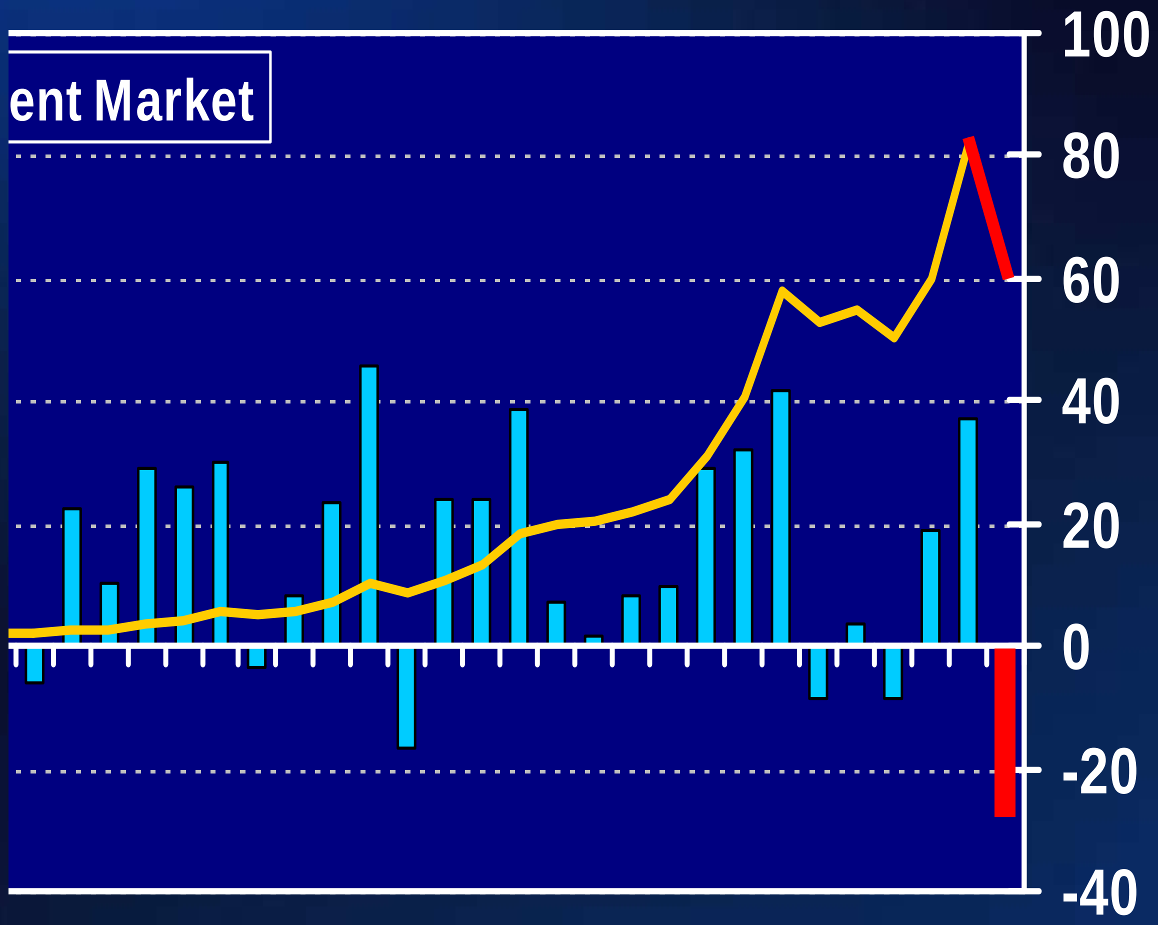


Manufacturing Strategy

- Advanced standard CMOS (0.18µm and beyond) in JV's and Foundries
- Own fabs for value added process options
  - Embedded Memories
  - Analog
  - Cost-effective RF process (QuBIC)
- Low-cost fabs for commodity processes & discretes
- Flexibility by outsourcing 15 - 25% of total

Contents

Largest downturn in semiconductor industry history



27% drop in industry sales

$55B shrink - more than the combined revenues of the top 3

Philips took quick action to adapt to the changing market

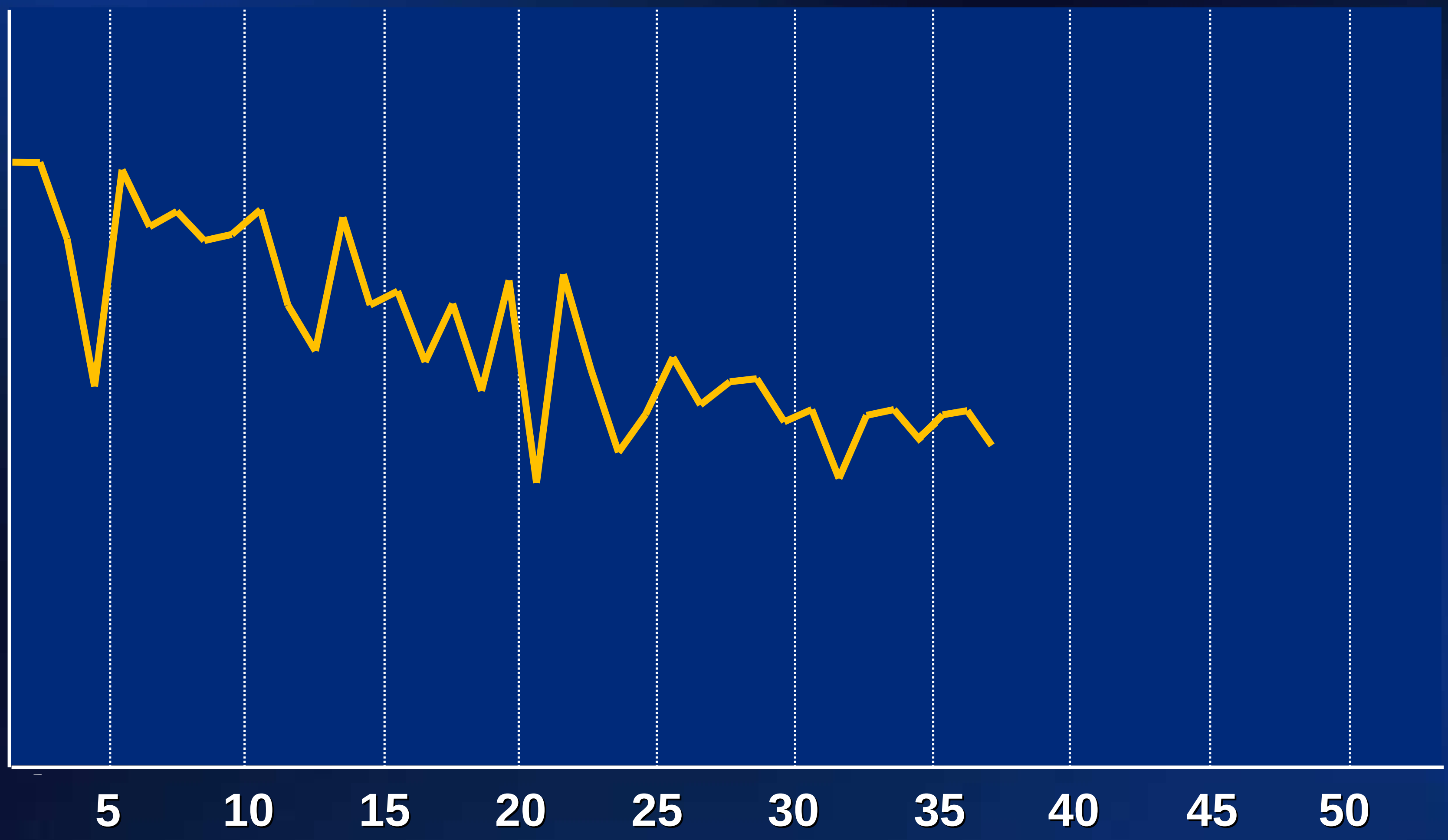
	Q1	Q2	Q3 est.	Q4 est.
CAPEX (M€)	420	350	130	50
Restructuring/ Headcount reduction (M€)	0	90	20	90
Inventories (index 100 in Q1)	100	95	83	79
Headcount (people)	37,160	36,400	34,000	33,000

Philips Semiconductors has rejoined the top 10

	1H 2000 Sales ($B)	1H 2001 Sales ($B)	% change
Philips Semiconductors	2.9 (rank 12)	2.6 (rank 10)	-13
Top ten	50	42	-16
Industry	96	78	-18

Source: IC Insights, August 2001

Weekly Run Rate 2001 - World Wide



Philips - ready for 2002

Industry predictions for 2002	
WSTS	8%
Dataquest	12%
IC Insights	14%
VLSI Research	20%

By Q1 2002 we will have sized our cost base for single digit growth…

…but are prepared for double digit growth...

Contents

A new ambition for Philips Semiconductors

- We have been a top ten player for a while
- To truly be a cornerstone of Philips Electronics' high technology growth strategy, we need to aim higher
- Over the coming years this will require
  - Excellence in organic growth
  - Leveraging cooperation across the Philips Group
  - Acquisitions

Elements of our growth strategy

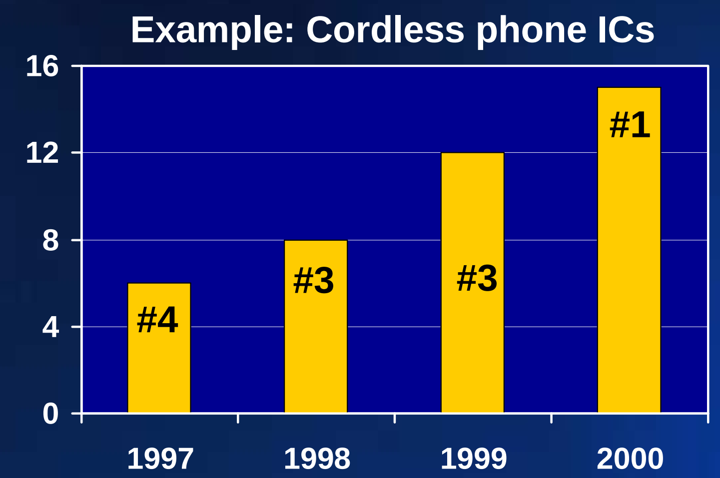
FUTURE:
New opportunities in emerging markets with high growth potential

FOCUS:
Focus on a few growth areas where we have technology and industry expertise

FOUNDATION:
Leverage strong leadership positions and competencies

The foundation of success

• RF discretes, CATV	#1	>70% share
• Tuners	#1	>60% share
• Car access	#1	>60% share
• In-vehicle networks	#1	>50% share
• AD/DA converters	#1	>40% share
• TV chipsets	#1	>35% share
• PC Add-on cards	#2	>30% share
• CRT drivers	#1	>30% share
• STN display drivers	#2	>25% share
• Logic	#2	>21% share
• Digital audio	#2	>18% share
• Cordless phones	#1	>15% share
• Standard products	#4	> 4% share

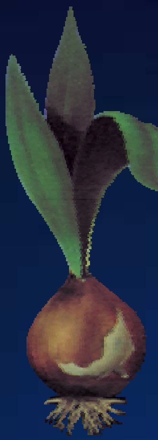


Focus leading to success in mobile communications

- **Total Wireless Communication** #3 — Market grew by 20.0% — Philips grew by 35.3%
  - **Infrastructure** #5 — Market grew by 35.6% — Philips grew by 48.7%
    - **Baseband** #10 — Market grew by 33.0% — Philips grew by 78.4%
    - **RF** #5 — Market grew by 40.9% — Philips grew by 24.2%
  - **Handsets** #3 — Market grew by 20.8% — Philips grew by 34.1%
    - **Baseband** #2 — Market grew by 20.8% — Philips grew by 33.1%
      - **Cordless** #1 — Market grew 22.3% — Philips grew 50.7%
      - **Cellular** #2 — Market grew 22.3% — Philips grew 32.7%
    - **RF** #2 — Market grew by 19.0% — Philips grew by 36.0%

Source: Dataquest Aug 2001

Focus on new opportunities in wireless connectivity



- Standards leadership - driving wireless application development
- Wide portfolio of wireless connectivity expertise
  - First to deliver a commercial Bluetooth-compliant chipset
  - First to ship a million Bluetooth devices
  - First to offer both Bluetooth and ZigBee connectivity solutions
  - First to ship over 6 million 802.11 radio chips
  - The power behind over half of all 802.11 modules
- Integration with full systems - including consumer and mobile communications

Focus on Digital Consumer

- Offering solutions for mid - high end
- Current focus on analog to digital transition for TV
  - offering solution for digital reception which runs MHP
- First to deliver architecture and working platform for advanced set top box and DTV solution

Creating a new image in digital display solutions

Strong position in market

Partners with LG.Philips LCD

- #2 STN drivers
- #1 in CRT display (esp. TV)

Targeting new digital technologies

- TFT Driver, LCD Scaler and small-panel color STN

Future new growth markets

- Continue successful Emerging Businesses methodology
- **seed:** polymer electronics, new ideas: ultra wideband, MEMS, integrated discretes
- **weed:** mass storage, SW modems
- **harvest:** identification, networking, wireless connectivity

Summary

- Strong past performance has established solid foundation
- Strategies for customers, products, technology and manufacturing to support growth ambition
- Managing the downturn, Ready for the Upswing

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break