

PHILIPS

The changes to Components

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Agenda

- Rationale for the changes at Components
- A closer look at Mobile Display Systems (MDS)

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Starting points for Components in 2000

The starting points in 2000 were:

- Large Displays in JV's with LG
- Healthy, fairly self-contained, Key Module Businesses (Optical Storage, Mobile Displays)
- Develop from Components supplier to become a **Systems Solutions** provider

Changes in the Business Environment

- Severe market issues in the PC and Mobile Phone markets
- Limited financial room for new initiatives

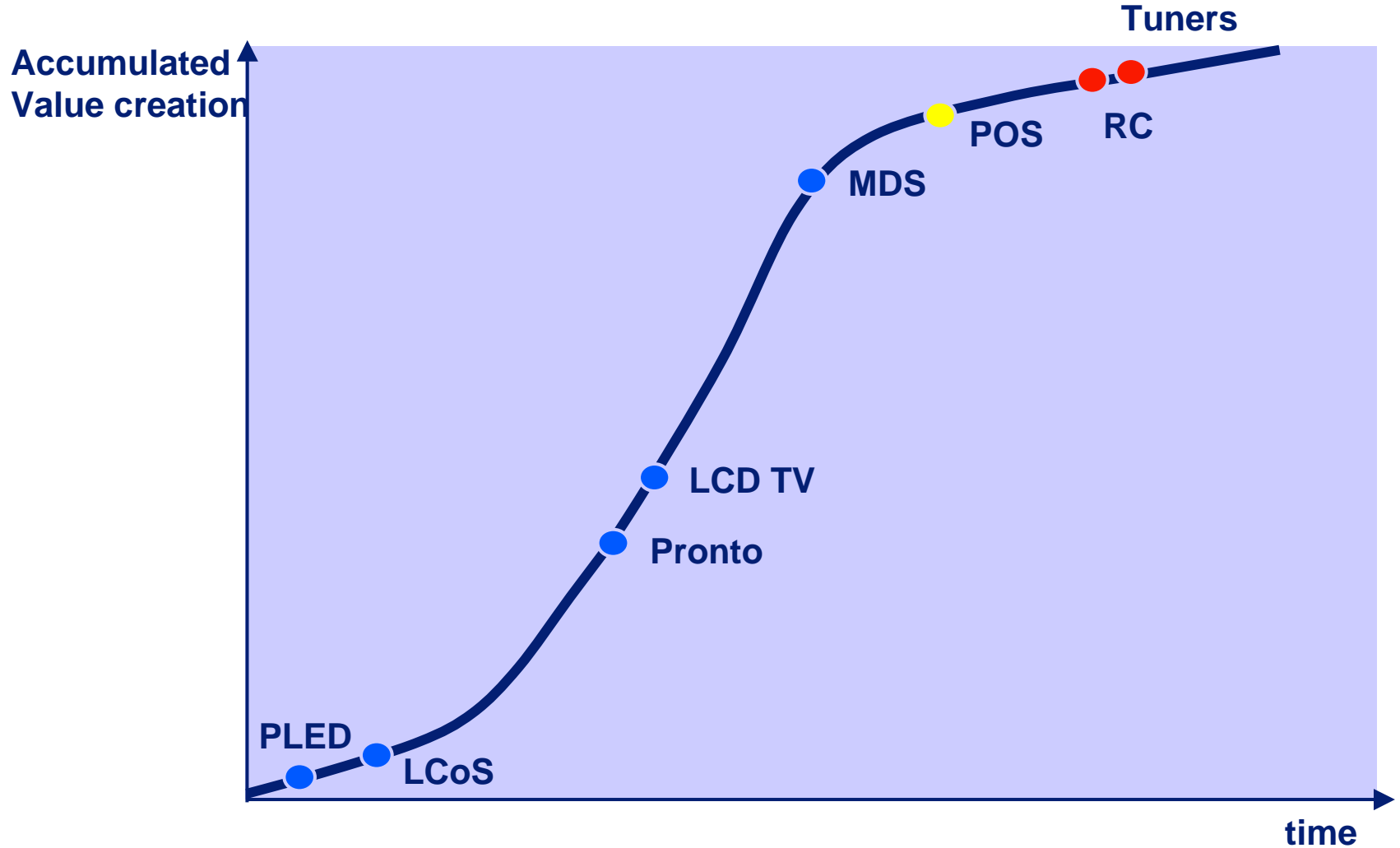
Issues with the Systems Solutions Concept

- “Smiling Curve” even more explicit for digital than for analog products
- Cross PD alignment of R&D resources, priorities, roadmaps and customer alignment
- Location of PD Headquarters in Sunnyvale more challenging than anticipated
- Financial underperformance, particularly in Optical Storage

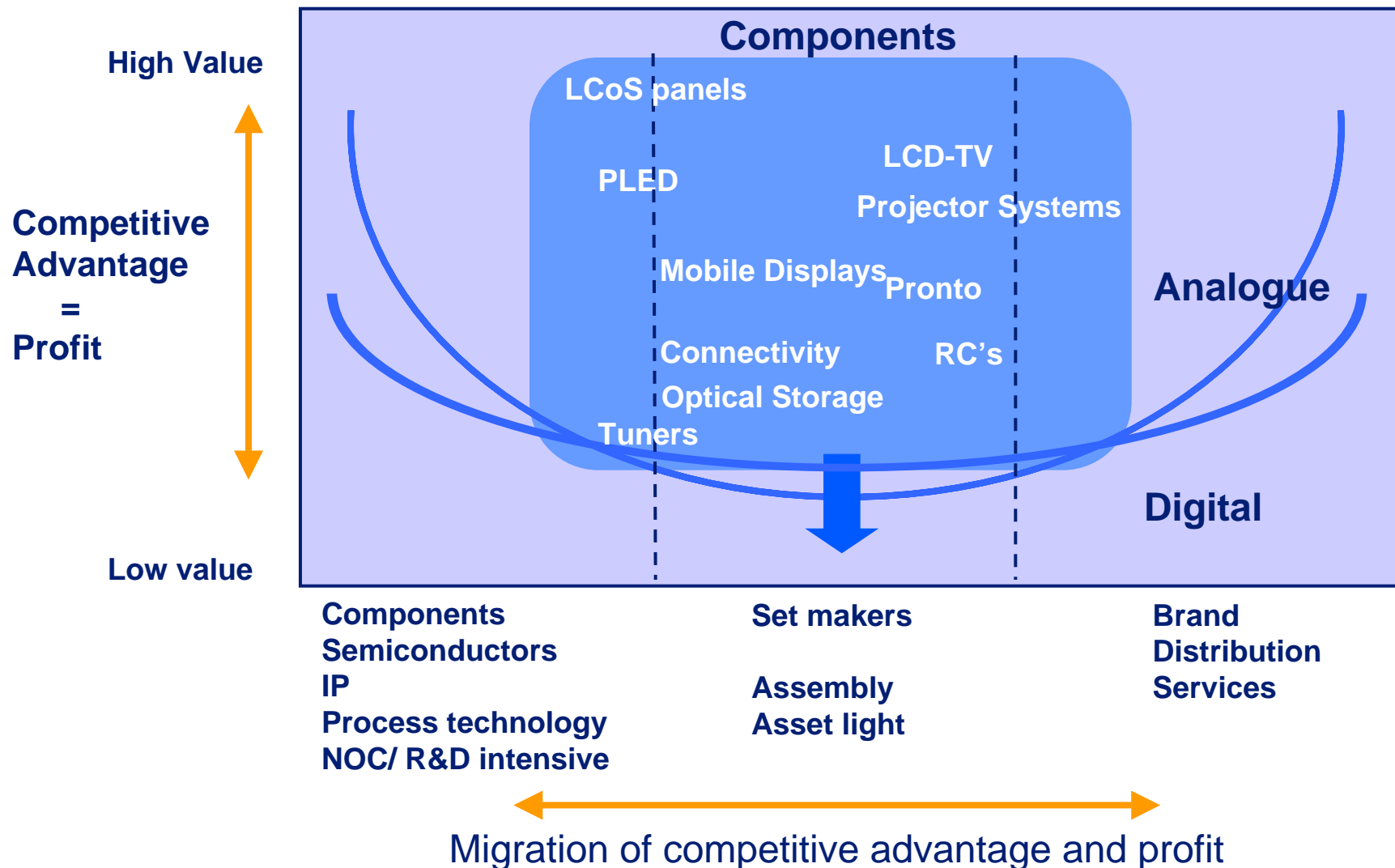
Summary of Decisions taken in October

- Discontinuation of the PD Components
- Restructuring of Optical Storage (POS)
- Restructuring/reorganisation charge of approx 175 M Euro
- Sell some businesses
- Re-allocate remaining businesses

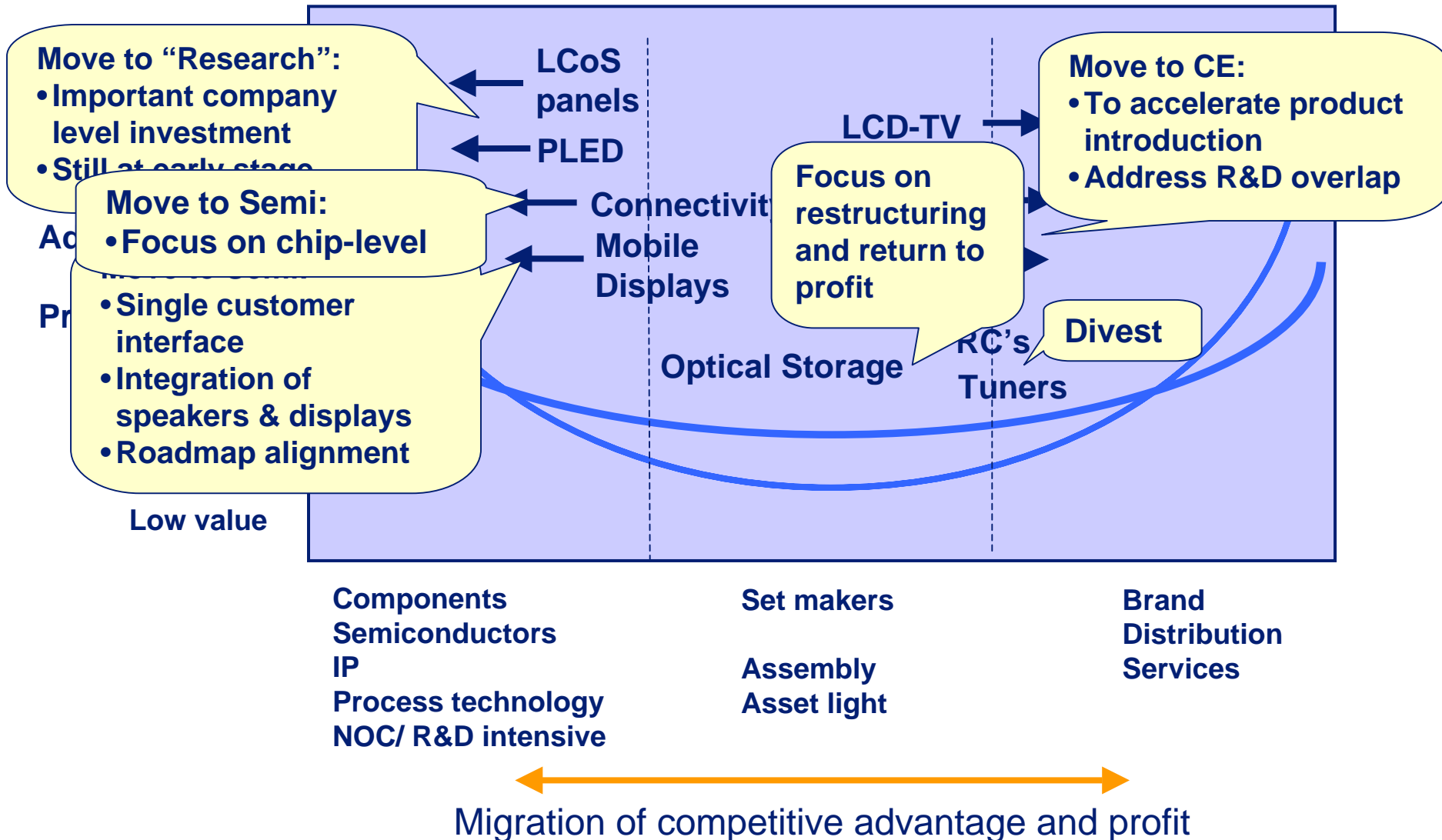
The positions on the maturity curve



Components and the “smiling curve”



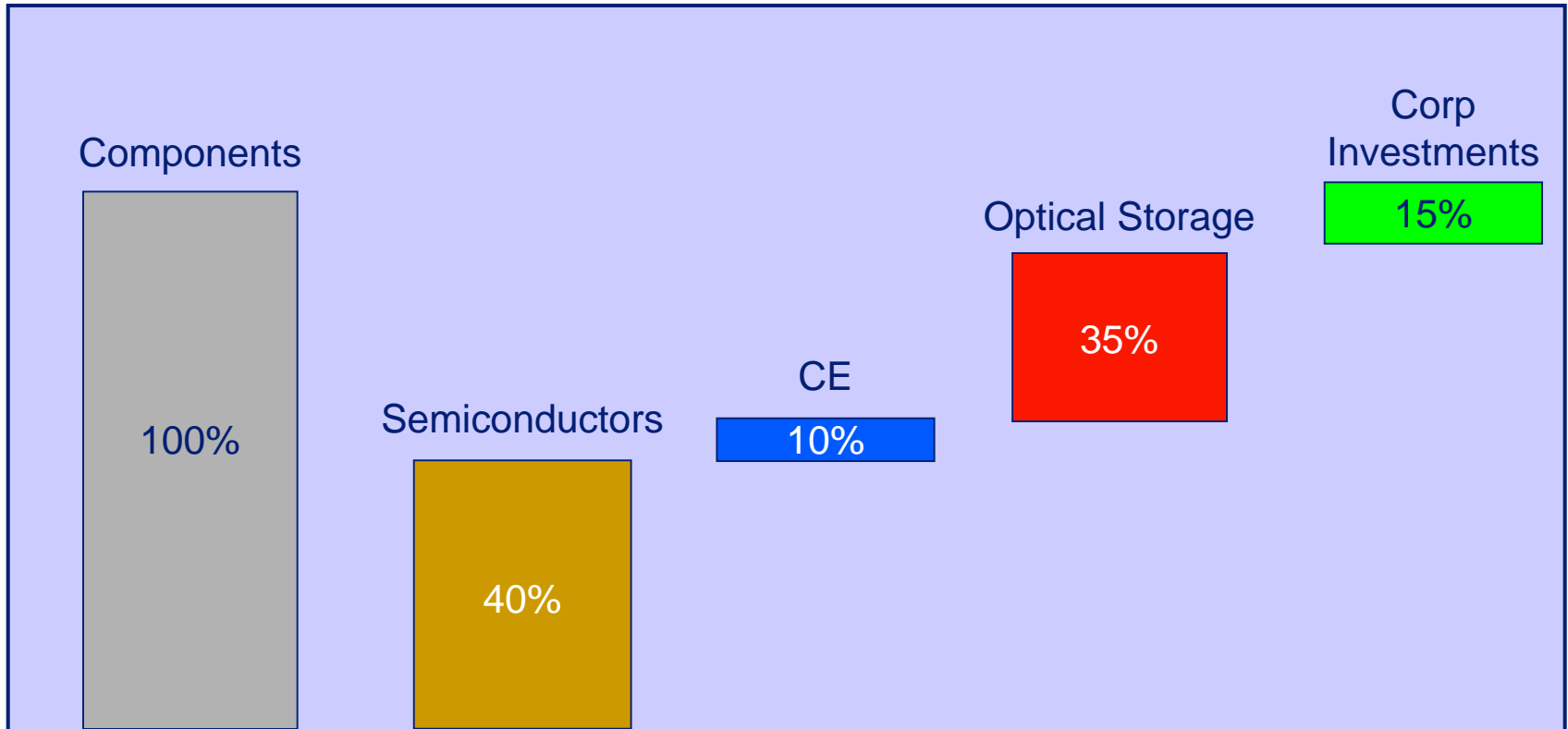
Components and the “smiling curve”



Summary of Restructuring

(as % of sales 2002)

Post-Restructuring



Moving forward: Financial Performance Improvement

- For POS: within 2 quarters from substantial losses to break even
- For the sum of the former Components businesses the target is:
 - black figures for 2003
 - possibly break-even including the technology investments (LCoS, PLED)

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Market Outlook 2002

- Telecommunications' gloomy outlook still prevails - investments in 3G infrastructure still not picking up
- Market outlook for 2002 around 400mpcs
- Q4 will be traditionally major launching season: This year for first color phone rollouts outside Japan

Subscriber growth and replacement rates

	2002	2003	2004	2005	2006
Worldwide subscribers	1075	1250	1410	1565	1715
Subscriber growth	21%	16%	13%	11%	10%
New subscribers	190	175	160	155	150
Replacement rates	25%	25%	26%	27%	27%
Corresponding market size (mpcs)	411	444	485	536	573

Source: MRT Cellular Team, October 2002 forecast

**Crucial assumption
is replacement rate
1% = 10mpcs**

Technology drivers

Monochrome: MSTN:

- Low cost
- End users with no interest for functions/services/applications

CSTN

- Color for color: “color is cool”
- Price advantage compared to TFT/LTPS
- Gaming (limited)
- Still pictures

A-Si TFT:

- Advanced gaming
- Moving pictures/videoclips

LTPS:

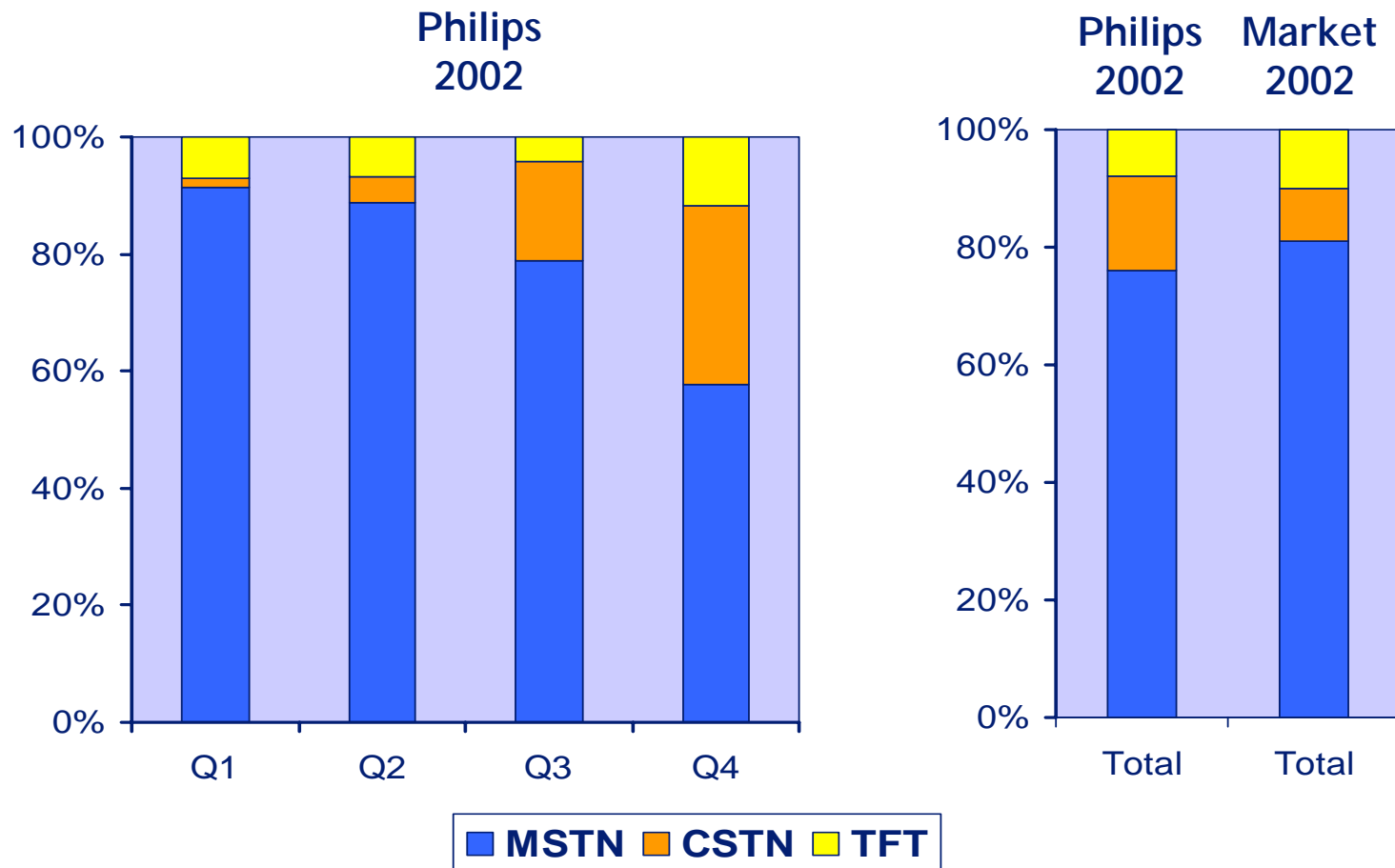
- Advanced gaming
- Moving pictures/videoclips
- Smaller displays with higher resolutions, f.e QVGA 2” display

Mobile Display Systems: where do we stand today?

- Q3 02 revenue growth y.o.y of 26%
- Returned to 20 % market share
- 55-60 % of revenue generated in 2002 from projects ramped up in 2002.
- Cost of Organisation reduced by 18% while revenue grew.
 - Successful consolidation of assembly capacity in China
 - Successful ramp of STN panel manufacturing in China and TFT in Japan
- In Q4 2002 about 40% of revenues expected from color displays
- Continued investing in color display capability (CSTN, TFT, PLED)

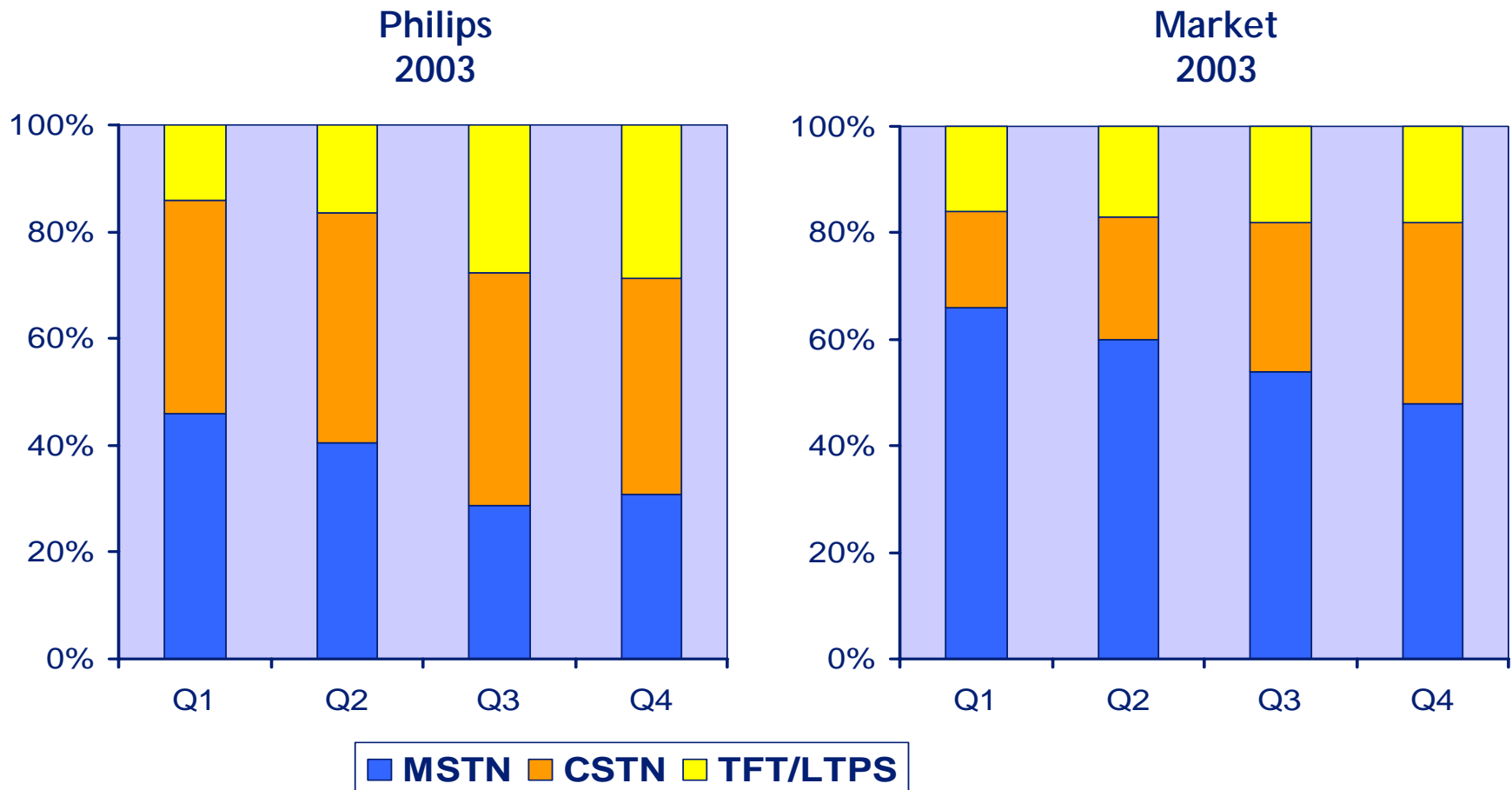
The transition to Color

2002 Sales Revenue Philips versus the market

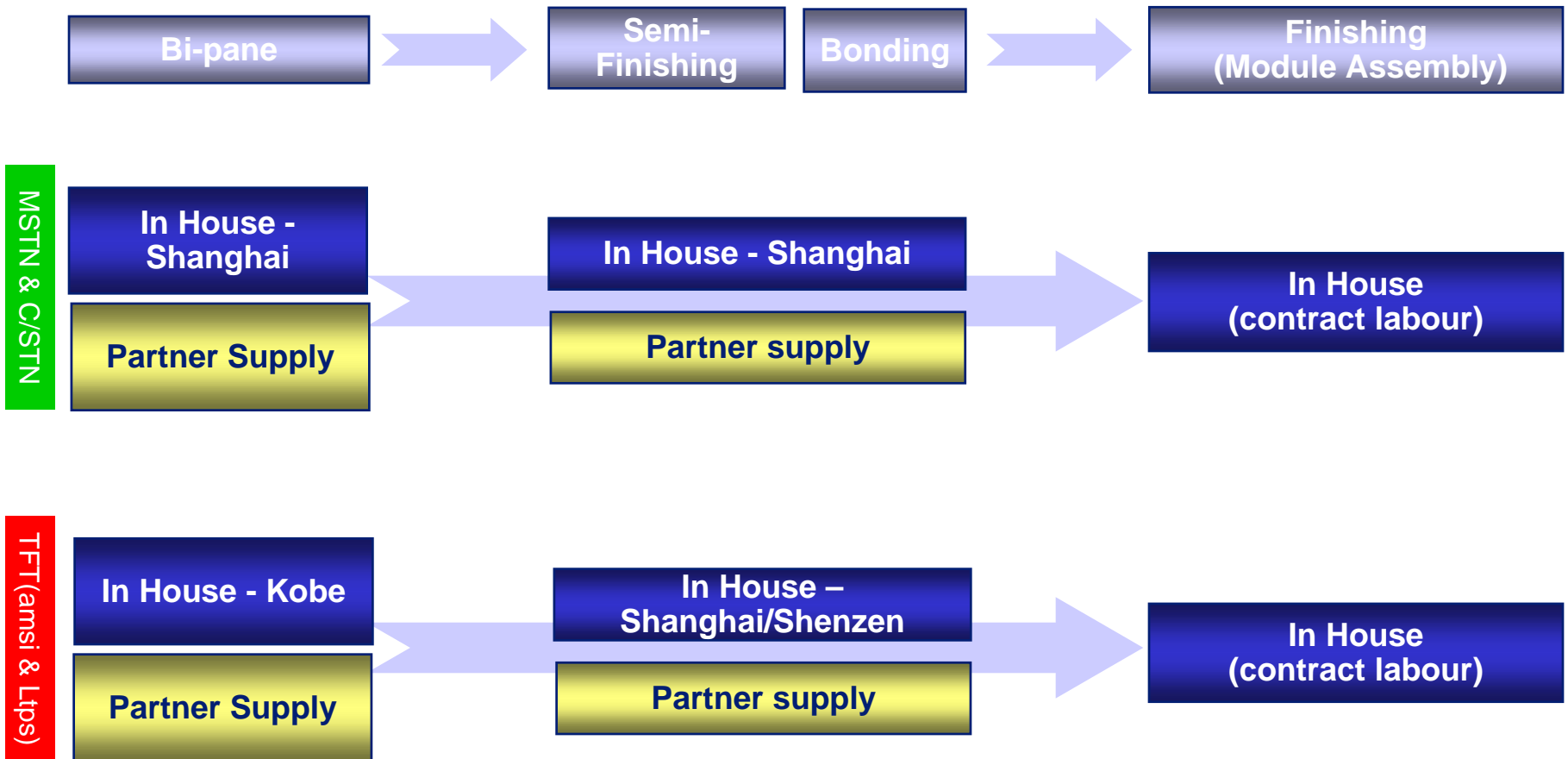


The transition to Color (continued)

2003 Philips versus the market (Revenue Forecast)



Partnerships allow flexibility and limit capital risk.
Asset turns have improved from 2.7 in 2001 to 3.8 in 2002



MDS – What is our competitive edge – what is it built on ?

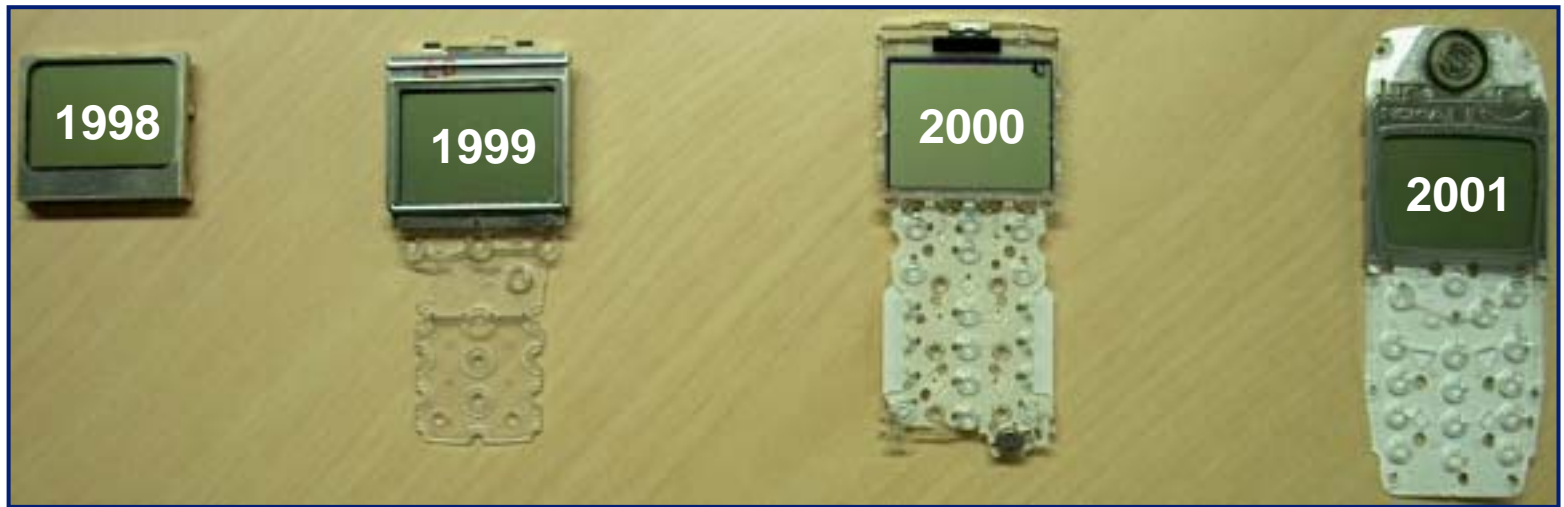
Competitive edge:

- Design and supply of customised, high volume, display modules optimising display performance, size, power consumption at a competitive price, on time.
- Built on
 - Application know-how with leading players in the market
 - Very close relationship with leading customers
 - Leading edge design of display modules (Panel, IC, illumination), used as a platform for more integration (Sound, Camera etc.)

Competitive edge, built on

- 4) Cost Effective Manufacturing (15% to 50% outsourced)
 - In-house assembly in China is state-of the art.
 - First Chinese front-end process for STN
 - A-Si TFT capability for small displays is leading edge
 - Partner relationships support ability for rapid reaction to market volumes (up to 100% quarter to quarter)
- 5) Technology Base
 - Single technology focus (MSTN) led to a very weak position 2 years ago, substantially repaired since that time.
 - Significant IP position in CSTN, AMLCD and PolyLED

Customer Intimacy & Integration



Philips offering

Straight LCD screen module

...
+ keyboard
+ light guide

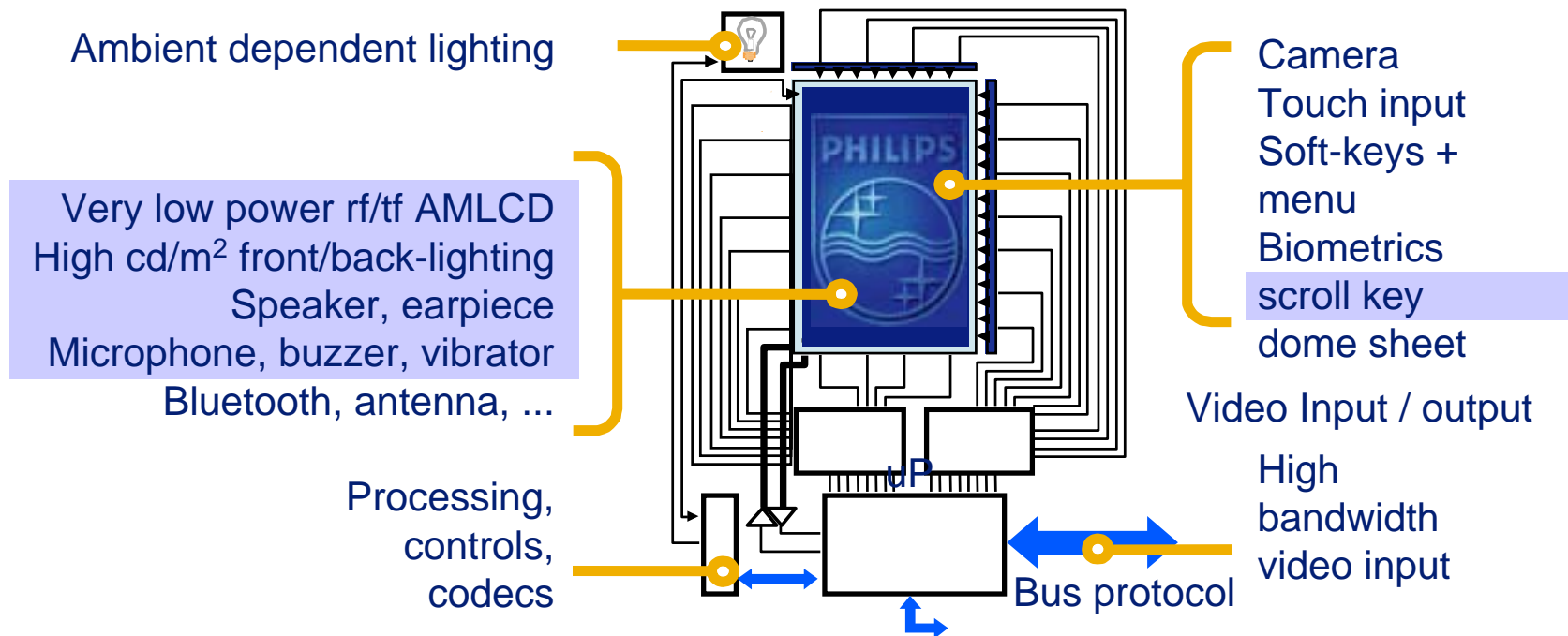
...
+ chip-on-glass
+ dome sheet
+ battery
+ elastomer connect

...
+ loudspeaker
+ consumer face plate
+ spring connector

A 'Display Module' as per today

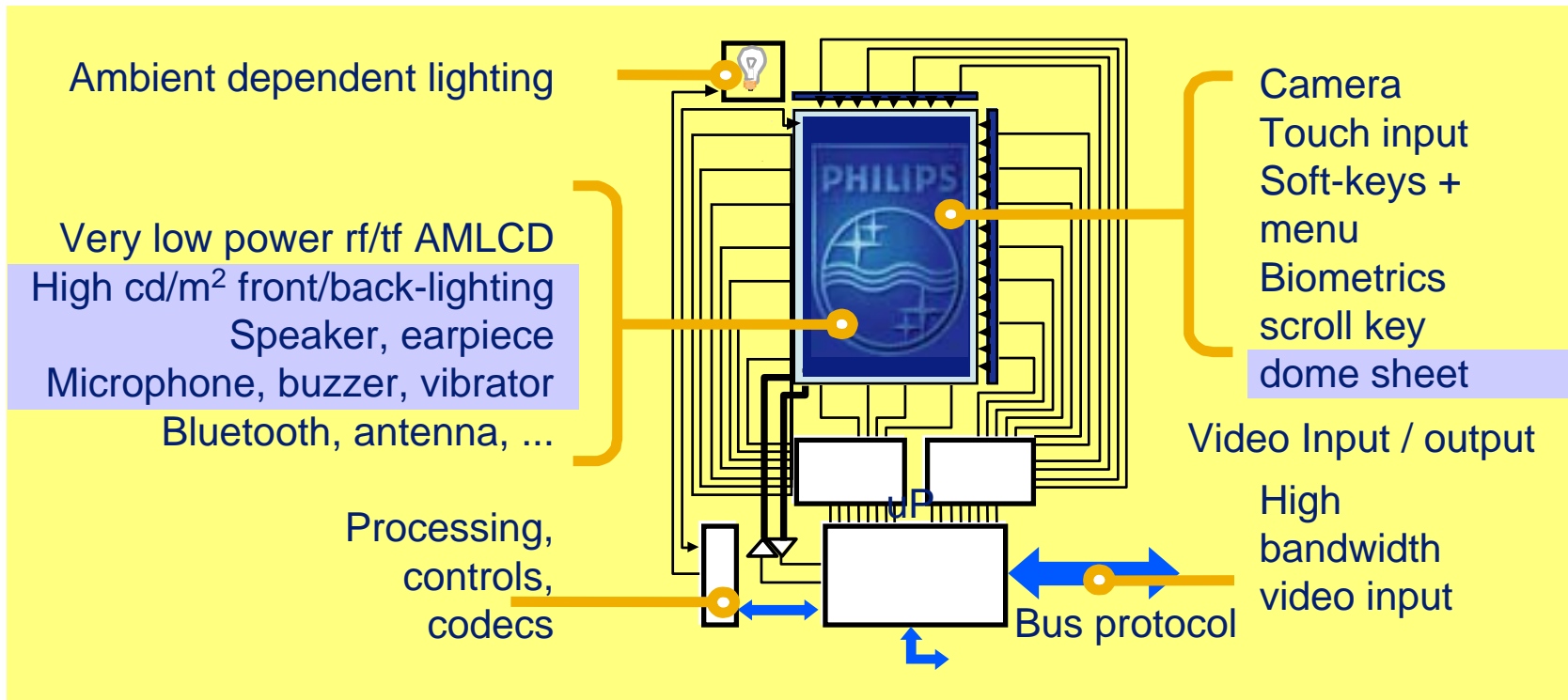


MDS believes that there is a real opportunity to differentiate on the basis of increased functional modularity - The Mobile Window™



in production Q4

MDS believes that there is a real opportunity to differentiate The Mobile Window™



in production Q4

In designs/development 2003

Summary – Mobile Display Systems

- Showing continuous progress in a difficult market – continuous market share gains
- Leading position in many major volume color programs going forward
- Well positioned in the color game: all relevant technologies
- Flexible manufacturing using partners for speed and asset light approach
- Building additional value into the display module when needed by customers
- Margins continue to improve with tight cost control.

