

PHILIPS

Business Renewal at Philips Semiconductors an overview of our journey

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CEO, Philips Semiconductors

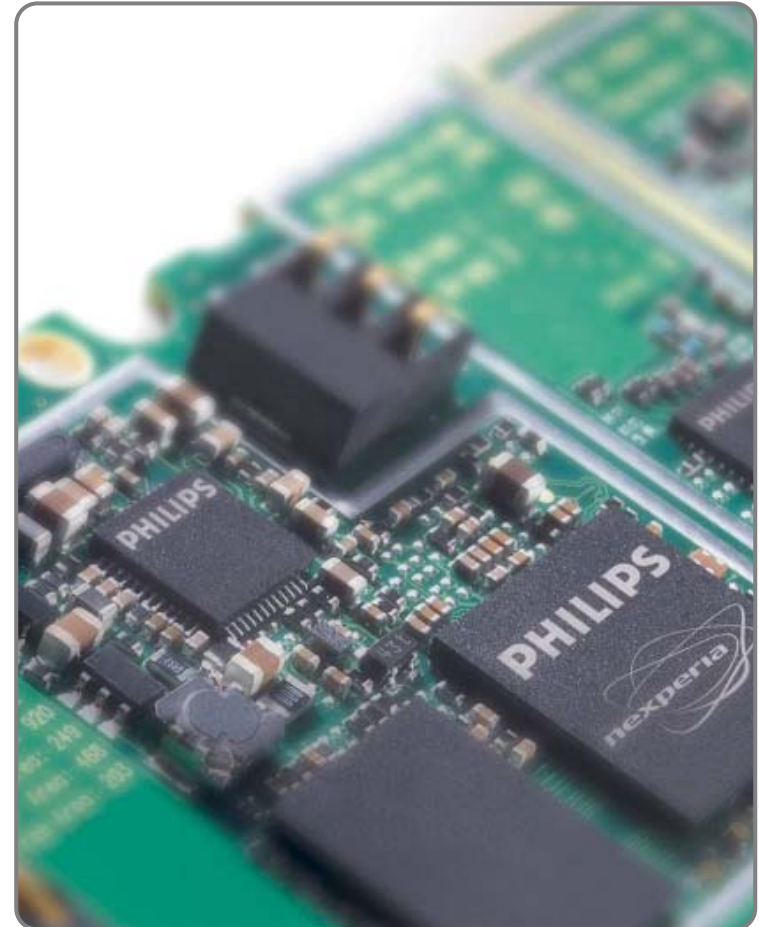
September 15, 2005

Agenda

- Philips Semiconductors: current performance
- Business Renewal: building the new Philips Semiconductors
 - Ambition
 - Roadmap
 - Progress report
- Portfolio focus going forward
- Market and business outlook
- Summary


Philips Semiconductors

- Division of Royal Philips Electronics
 - Top-10 supplier, Sales €4.7 Bln, IFO of €429 Mln in 2004
 - Technology component of Healthcare Lifestyle and Technology Strategy of the Philips Group
 - Global organization with sales force in 60 countries
 - Manufacturing in Europe, US and Asia
 - Assembly & Test in Asia
- Silicon systems and semiconductors for Connected Consumer, Automotive and MultiMarket Semiconductors




Strong customer base 65% of total sales to key customers





Mobile and Personal



TechFaithWireless




NOKIA

BIRD
宁波波导股份有限公司


Arima
Communication




SIEMENS
mobile

Cellon

vtech



Home




SHARP


PHILIPS

DELL

BenQ


AOC TPV






Panasonic


SONY




ASUS





Automotive / ID




NOKIA





SIEMENS VDO
AUTOMOTIVE





SIEMENS
mobile


DELPHI
Driving Tomorrow's Technology






Distributors and EMS


















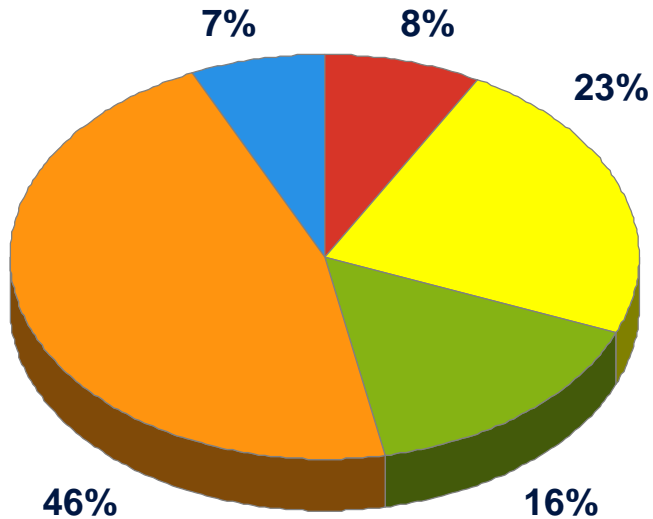


Leveraging our strengths in entertainment applications

Sales by market segment

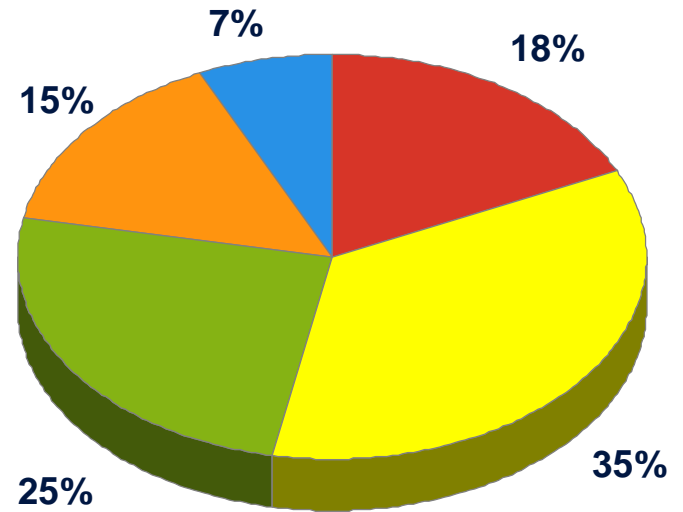
Market by segment H1 2005

WW TAM



Source: WSTS H1 2005

PS sales, H1 2005



Source: Philips based on H1 2005 sales

Automotive

Communication

Consumer

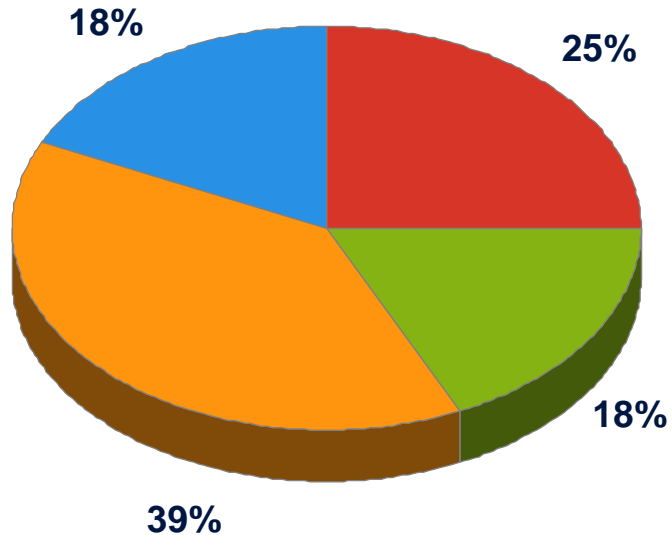
Computing

Industrial

Over 60% sales in Asia Strong presence in Greater China

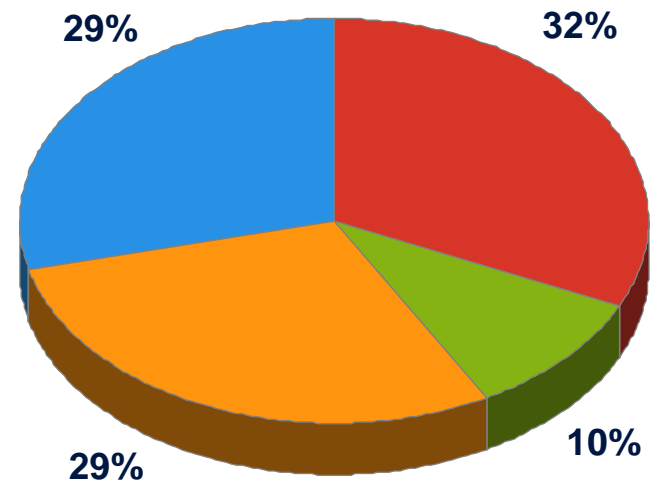
Sales by region

**Market by region H1 2005
WW TAM**



source: WSTS, Philips

PS sales, H1 2005



Source: Philips based on H1 2005 sales

Europe

N. America

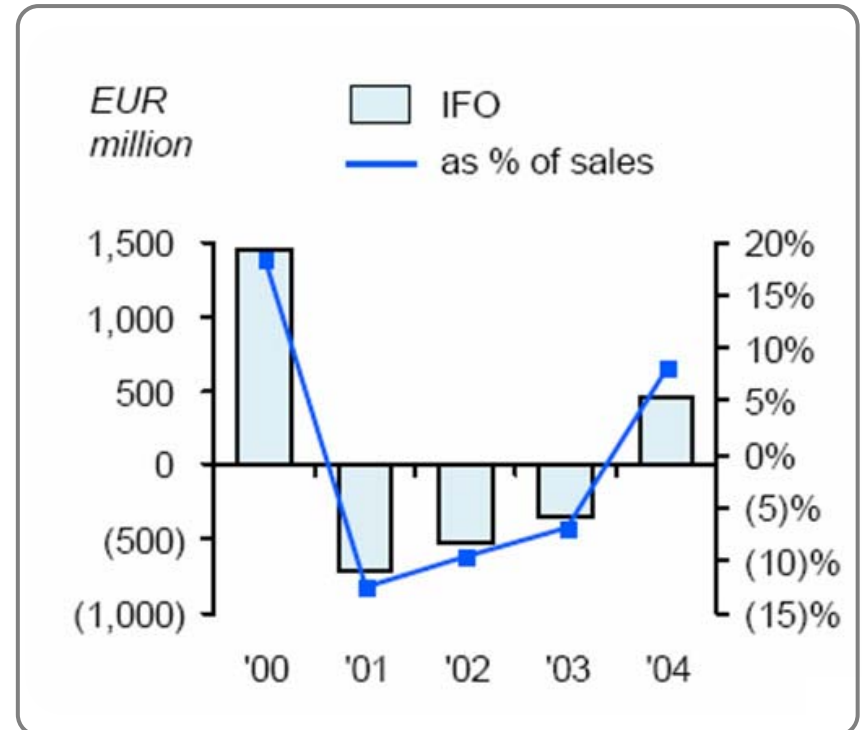
Greater China

Rest of Asia

Performance summary

Financial improvements made

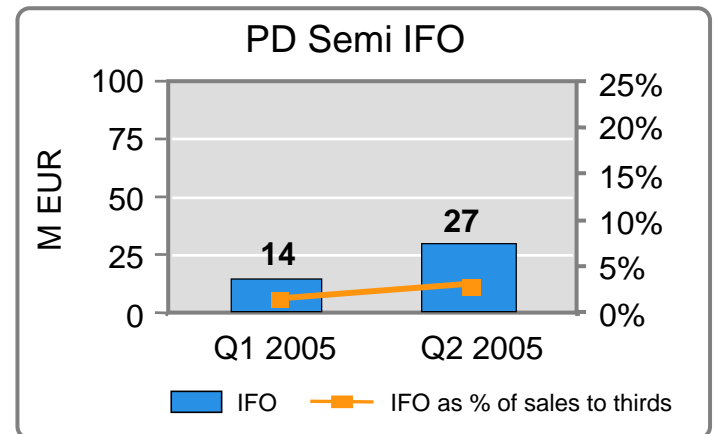
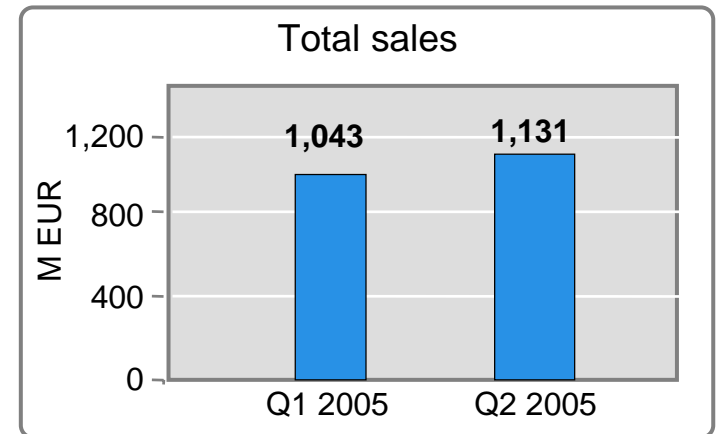
- Financial performance consistently improved over the last 4 years
- Profitable 7 quarters in a row
- Net Operating Capital usage improved strongly over the last 3 years



2005 Financial performance

Profitable but not at the required level

- Realized our Q2 sales forecast – growth in mid-single digits on Q1 (in €)
- Profitable in Q1 and Q2
- Slight improvement in capacity usage to 77% in Q2
- Increasing Nexperia sales



Agenda

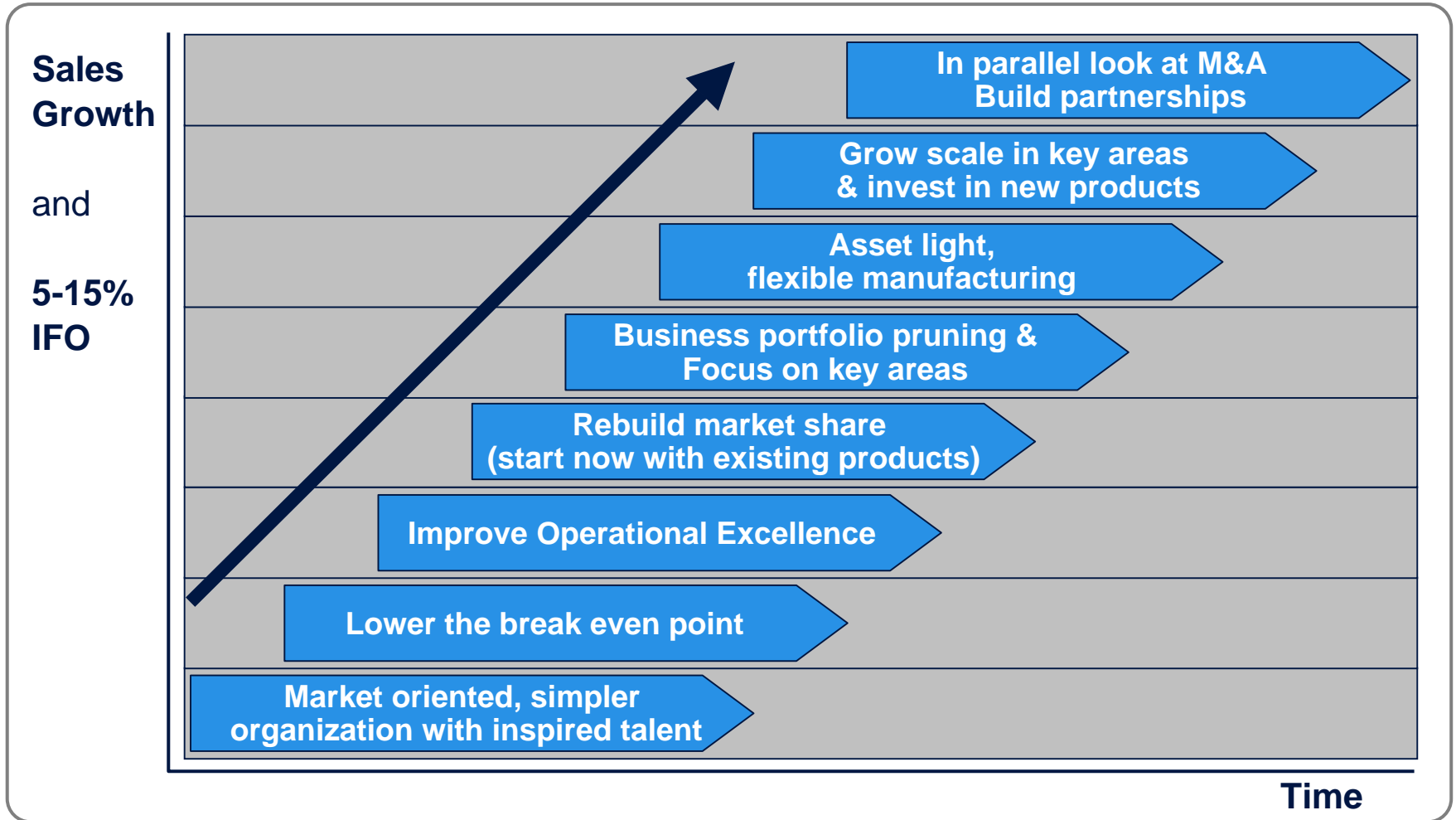
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We have clear ambitions to accelerate our improvements

- Be preferred supplier to our key customers
- Lead in selected market segments & increase market share
- Outperform average of representative peer basket in the industry
- Reduce volatility: managing the business to bring and maintain IFO within target 5-15% range
- Attract and retain best talent

Our roadmap to realize our ambitions

Supported by action plan with clear targets



Action plan & targets

Roadmap

Performance measures

completion

Market oriented,
simpler organization
with inspired talent

Platform for growth

- Removal clusters, Merge from 7 to 4 BUs
- 4 core processes to get to excellence
- Highway to the market to serve customers

done

Lower the break even
point

Cost reduction of € 250 mln

- R&D effectiveness € 50 mln
- SG&A cost reduction of € 75 mln
- Manufacturing cost reduction: € 125 mln

Run
rate
end
2006

Improve Operational
Excellence

Yield improvement

Time-to-Market

Zero defect Program

Resulting in reduction cost of non-quality by € 50 mln and
higher customer ratings

2006/
2007

Action plan & targets

Roadmap

Performance measures

completion

<p>Rebuild market share (start now with existing products)</p>	<p>Address non-performing businesses and focus on key areas:</p> <ul style="list-style-type: none"> • Stopped CMOS imaging, Non core ASIC activities, Stand-alone scalars, Small display drivers (TFT) • Right sized DVD recording • Moved MDS to 'Other Philips activities' 	<p>2005</p>
<p>Business portfolio pruning & focus on key areas</p>	<p>Assertive Sales Plan in key strength areas Rebuild presence in key fashion markets</p>	<p>2006 2007</p>
	<p>Resulting in</p> <ul style="list-style-type: none"> • Freeing up resources to invest in key focus areas • A positive IFO effect & changed sales mix 	<p>2007</p>

Action plan & targets

Roadmap

Performance measures

completion

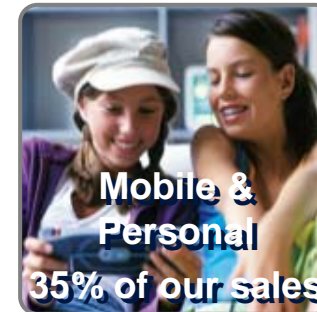
<p>Asset light, flexible manufacturing</p>	<p>Depreciation reduction of € 200 mln</p> <p>Increase outsourcing to well over 30%</p> <p>Investment in 90/65 nm capacity through new JV fab</p> <p>Resulting in lower break-even point and less vulnerability for cycles</p>	<p>2007</p> <p>2008</p> <p>2008</p> <p>2008</p>
<p>Grow scale in key areas & invest in new products</p>	<p>Investment in focus areas e.g. in Automotive, Mobile & Personal, Home and new semiconductors applications</p> <p>Partnerships: leveraging 3rd party competencies</p> <p>Resulting in scale growth / market share gain</p>	<p>2008/ 2009</p>
<p>In parallel look at M&A Build partnerships</p>		

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A more focused, balanced and synergetic portfolio

- Transforming to a more balanced and focused portfolio
 - stopping unrewarding activities
- Focus on 4 key areas:
 - Play upon IP strengths in Connected Consumer
 - Leverage our IP strengths in Automotive
 - Leverage customer relations in cross-selling opportunities for MultiMarket Semiconductors
 - MultiMarket Semiconductors and Automotive stabilize financial performance
- Invest in new semiconductors applications



Mobile & Personal Lead in focus areas

Multimedia enabled Cellular handsets

- Nexperia system solutions for GSM / TD-SCDMA / GPRS/ EDGE & UMTS
- Nexperia system solutions for Ultra Low Cost handset solutions
- Full connectivity suite

Portable consumer entertainment

- Nexperia MP3/PMP platform
- Driving the development of TV-on-Mobile with top handset makers

Multimedia Cordless phones

- Nexperia solutions for Multimedia cordless phones
- Voice over IP
- Videophone capability
- Convergence with cell phone type features



Home

Lead in focus areas

Digital TV

- Highly integrated Nexperia SOC for LCD TV with fast time-to-market
- Fully integrated Nexperia SOC for ATSC and DVB LCD and Plasma TVs

PC TV

- Maintain PC TV system leadership:
SoC integration steps, Multi-channel solutions

STB & Home Media Devices

- Leverage successful Nexperia based turnkey solutions across all STB applications
- Leverage success in Nexperia based IP-STB
- Media adapters



Automotive

Lead in focus areas

Car infotainment

- Focusing investments towards
 - Extended Audio position to Digital Radio and Connectivity
 - Leveraging Nexperia based Infotainment & video

Safety & Comfort

- Growth opportunities in
 - Tire Pressure Monitoring
 - FlexRay & Airbag Networking
 - Gateway controllers & smart transceivers
 - Intelligent Power MOSFETs
 - MR Sensors

Expand strong and profitable part of our portfolio



Identification

Lead in focus areas

Smart cards & passports

- Lead in banking, government, and other highly secure applications

RFID

- Leading in the promising SCM applications linked to the launch of EPC compliant products
- We expect significant uptake of EPC in 2006/7

NFC

- We are leading the adoption of this technology as founder of the NFC forum
- Continue to gain traction in wireless handsets and computing domain



MultiMarket Semiconductors Partnering with Distis, EMS, OEM and ODM

Partnering for growth in system components (40% of MMS sales)

- Innovation in design-in products/system and application orientation
- Focus on: Power Management, Interface Products, Sensors, Microcontrollers, RF Access Systems, Integrated Discretes

Partnering for share in commodity products (60% of MMS sales)

- Cost leadership/general purpose product orientation
- Focus on: Standard Logic, General Application Discretes, Power Discretes, RF Discretes

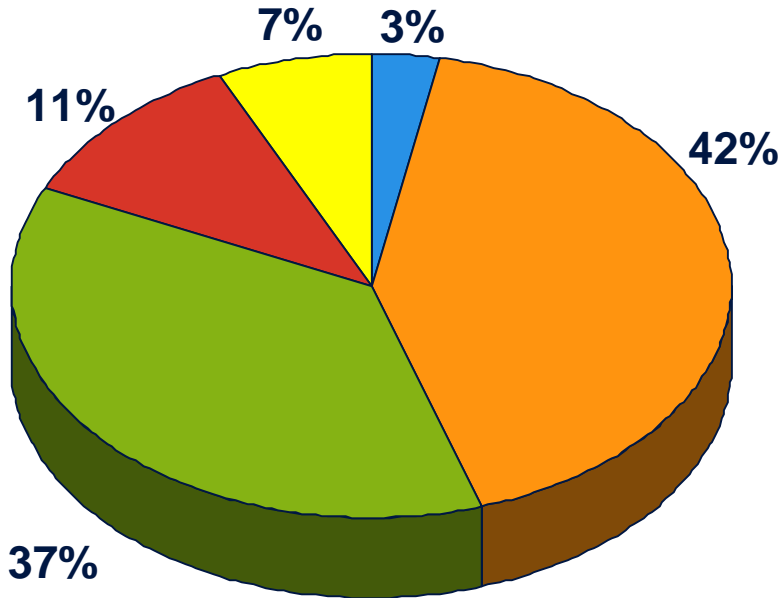
Top player in Standard Products areas



Balanced MultiMarket Semiconductors portfolio

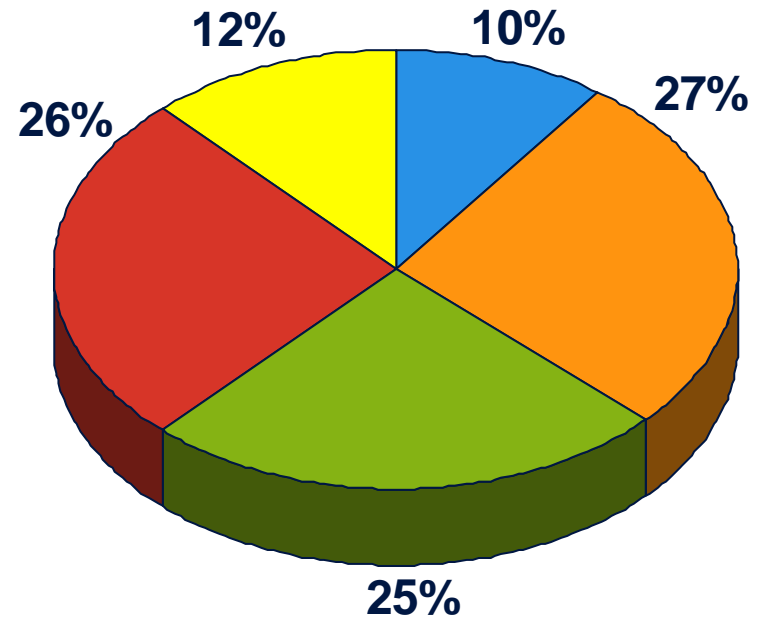
Sales by product area

Market by segment H1 2005
WW TAM



Source: WSTS H1 2005

MMS Sales Split - First half 2005

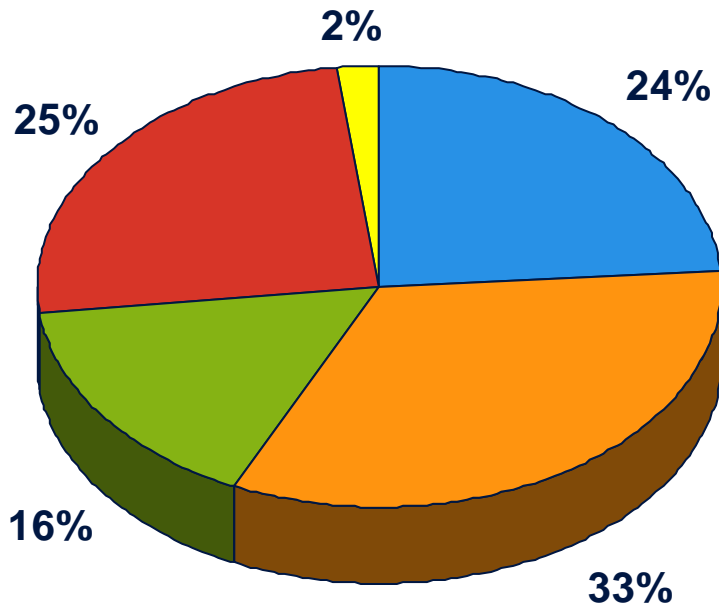


Source: Philips based on H1 2005 sales

- Standard ICs
- Power Products
- General Applications
- Display Drivers
- RF Products

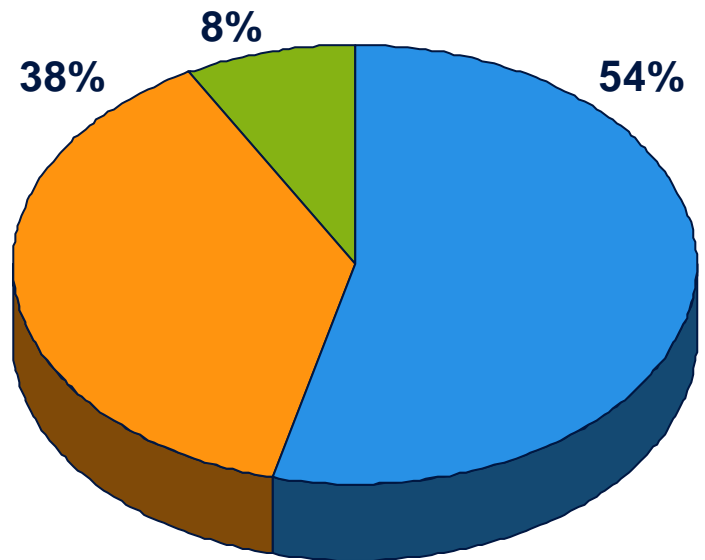
Multimarket Semiconductors sales

Sales by segment



Source: Philips based on H1 2005 sales

Sales by channel



Source: Philips based on H1 2005 sales

- Automotive
- Communications
- Computing
- Consumer
- Identification

- OEM
- EMS
- Distribution

Investing in new semiconductors applications Leveraging the Philips Group capabilities

Solid State Lighting

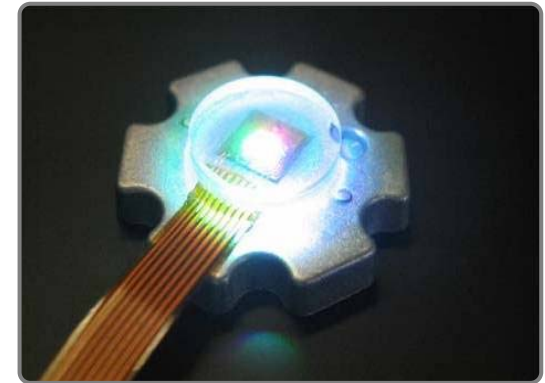
- Two first Philips LED System-in-Package products in development for market launch in Q1 and Q3 2006
- Collaboration with Lighting / Lumileds

Personal Health and Wellness

- Personalized health care and wellness semiconductor markets are expected to grow rapidly as of 2008
- Incubation launch Q4/2005

MEMS

- Growth opportunities in sensor and actuator applications
 - E.g. in automotive, communications and personal health care
- Leveraging our application & SiP know how and installed fab capacity



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Market and business outlook

- For 2005 and 2006 a mid single digit industry growth (in US\$) is expected, while for 2007 a double digit growth is foreseen
- 2005 Q3 sequential sales growth in US\$ is approximately 5%
- Current orderbook is indicating a sequential mid single digit sales growth in US\$ for Q4 2005
- Nexperia sales are expected to be 19% of total sales in 2005

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Summary

- We have had clear financial improvements over the last 4 years
- We focus on 4 key areas
- We have a clear roadmap to improve our business and to reduce volatility
- IFO margins planned to go up by 5% irrespective of market improvements

Our roadmap to realize our ambitions
Supported by action plan with clear targets

