

# PHILIPS

## Winning with China

*An Integrated View of Philips China Strategy*

David Chang, CEO Philips China

Amsterdam, June 9, 2004

# Agenda

- The growing China
- Philips - A leading multinational company in China
- A winning strategy



# The well-known China

- 9.6 million square kilometers
- 1.3 billion of population
- 5000 year history
- 30 provinces
- 50 ethnic groups
- 6<sup>th</sup> largest economy, per capita GDP US\$1,000 in 2003
- 4<sup>th</sup> largest trader, largest importer in Asia
- 4<sup>th</sup> in the world by gross volume of the manufacturing sector

# But, China is not “One” China



# People enjoy the same thing but in different way



# Co-existence of high-tech and intensive labor



# A flavor of modernization

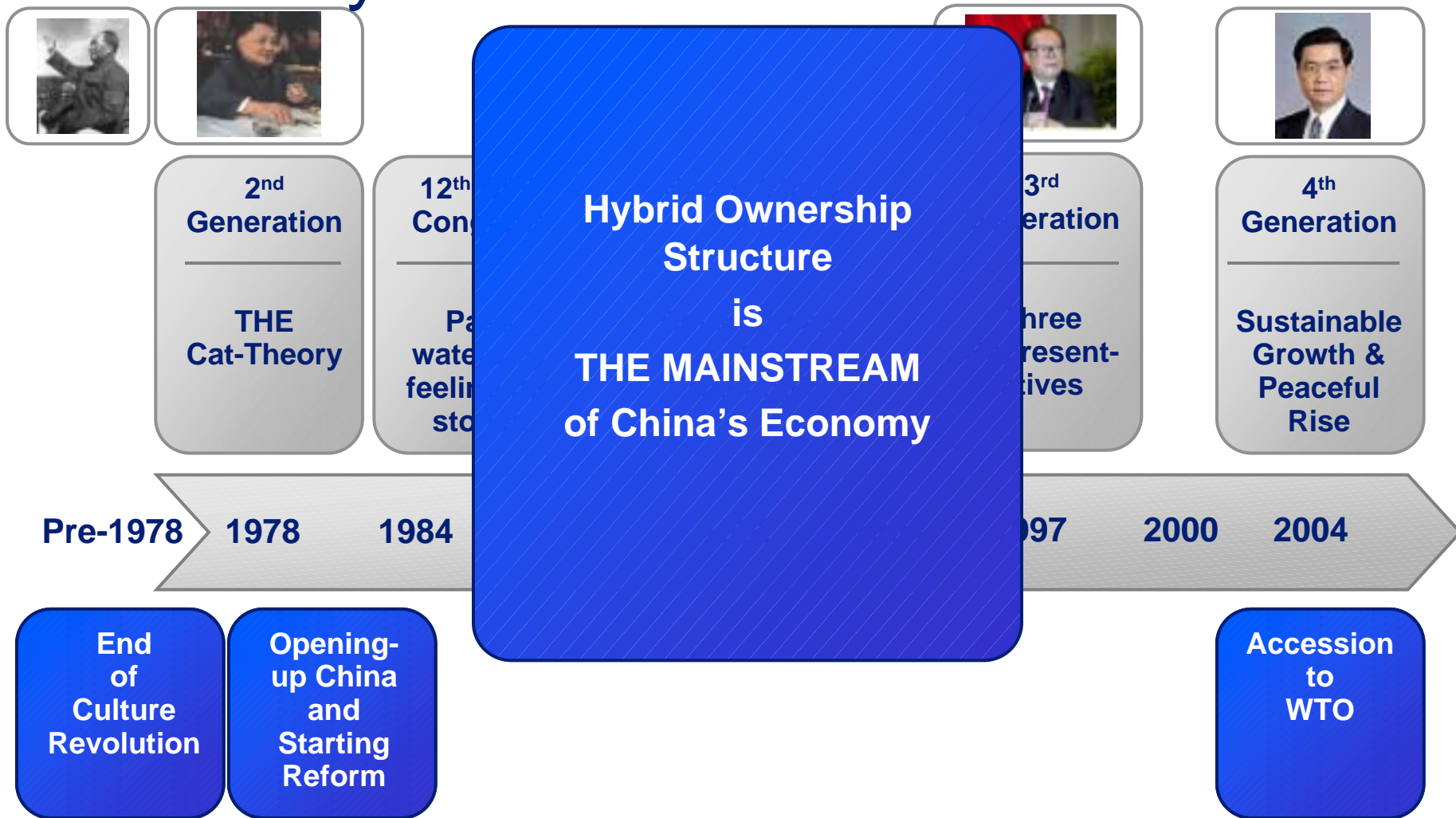


# The special characteristics of China

- A unique way of economic development
- Strong government orchestration
- Non-homogeneous market
- ...
- No one-fit-for-all solution

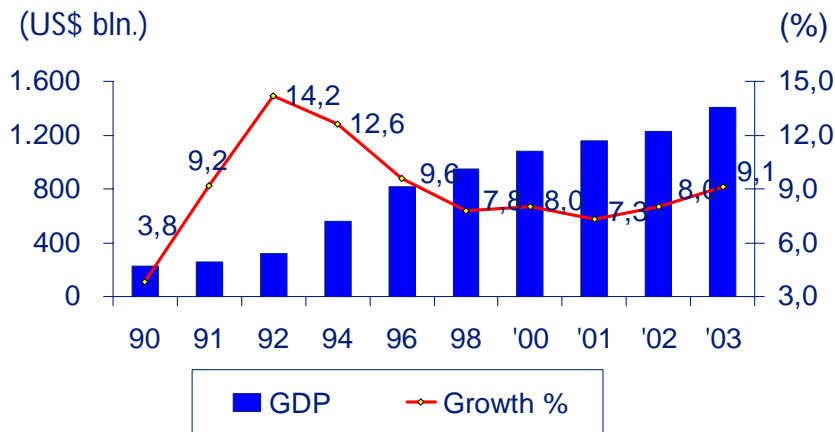


# 25-year evolution towards market economy

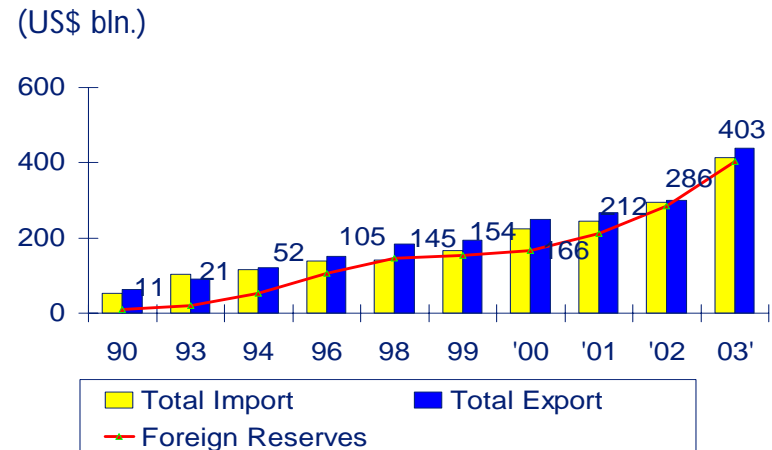


# A fast and healthy growth

## A. GDP growth



## B. International Trade and Foreign Reserves



**Growth of first quarter of 2004 was over 9%**

- Now 6<sup>th</sup> largest economy in the world
- Recent Central Government's move emphasizes a healthier and sustainable growth

**A healthy international trade balance helps reducing trade conflict**

- Q1 2004, trade deficit USD8.4 bln, import growth rate 8% higher than export
- Strong Forex reserves (second to Japan)

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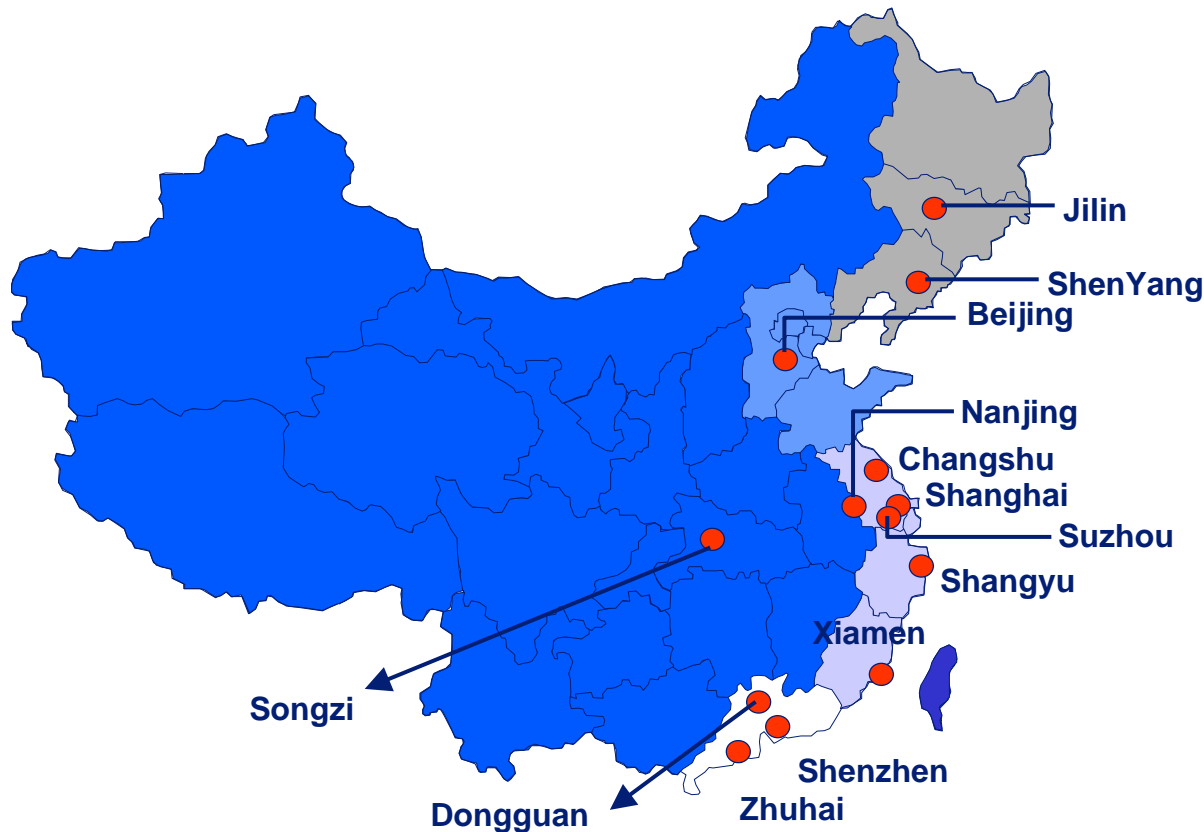
This is where we came from . . .



This is where we are now...



# Philips currently holds 35 legal entities in China, mainly focused on the East...



**North Region**

- 2 WOFEs and 5 JVs

**East Region**

- 8 WOFEs and 14 JVs

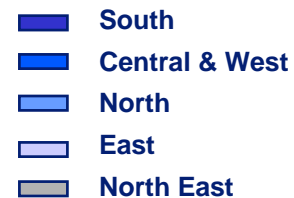
**Central & West Region**

- 1 WOFE

**South Region**

- 4 WOFE and 1 JV

1st JV established in 1985  
Total 20 JVs and 15 WOFEs



# 13 Research & Technology Centers Established

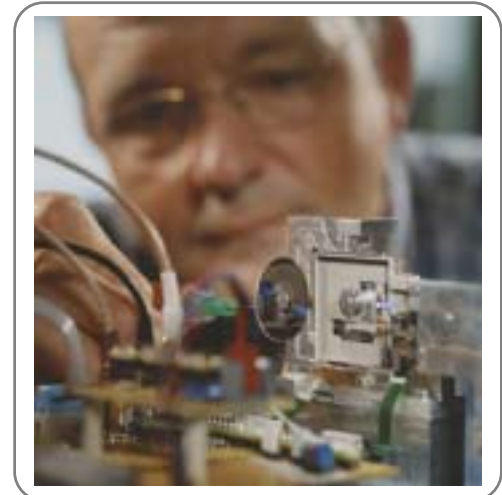
2 Technology R&D centers for global and China market

- Philips Corporate Research East Asia
  - DTV, Optical storage, Connectivity
- Medical Development Center
  - New calligraphic system

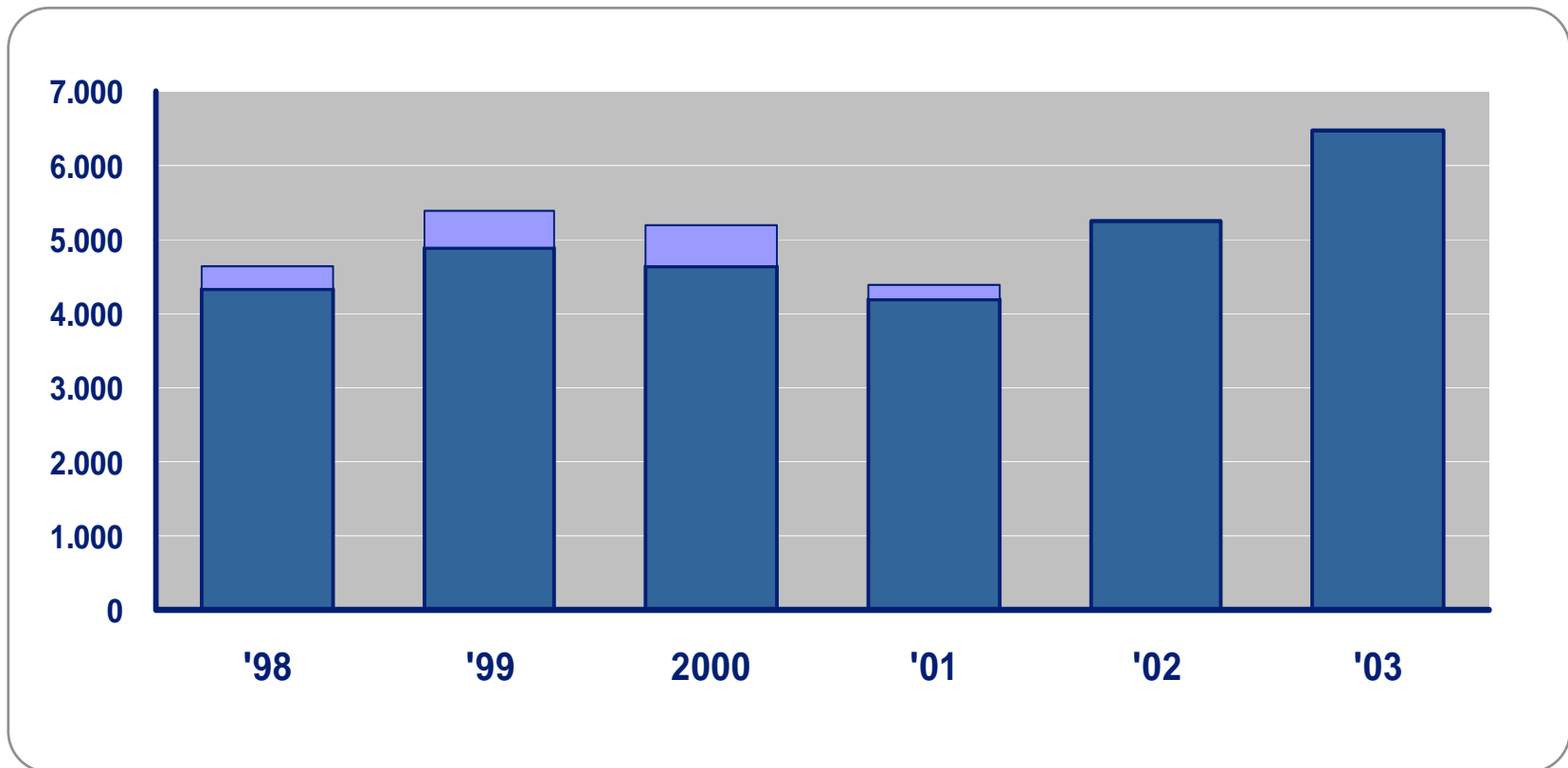
11 R&D centers for product and process development for China or regional markets

- Lighting / CE/ Semiconductor/ Engineering support

A R&D campus in Shanghai area will be established



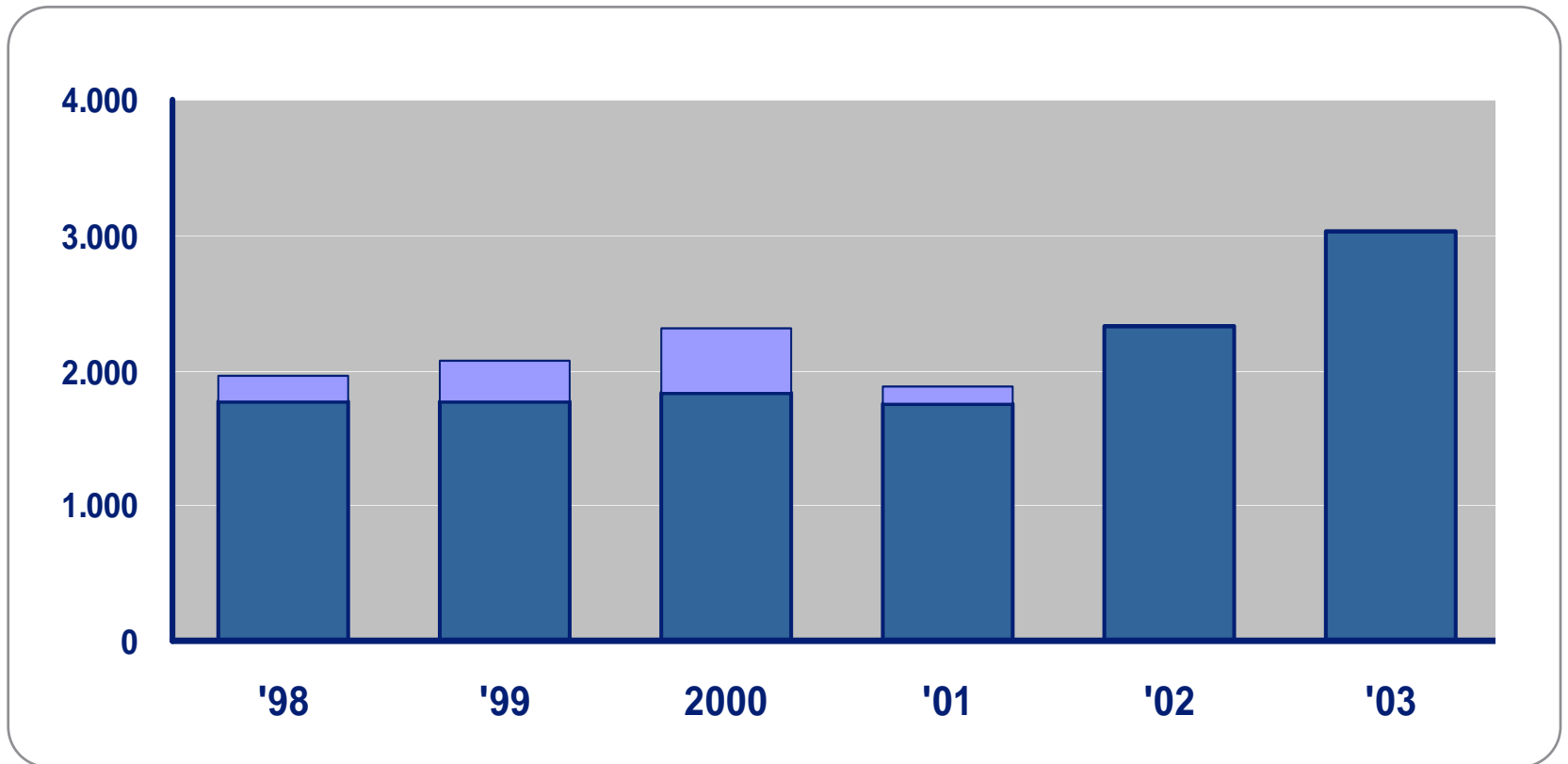
# Total activities(China/HK) in constant dollar terms using 1999 as base - *EUR million*



Use Dec. activity rate, including activity of LG Philips Display



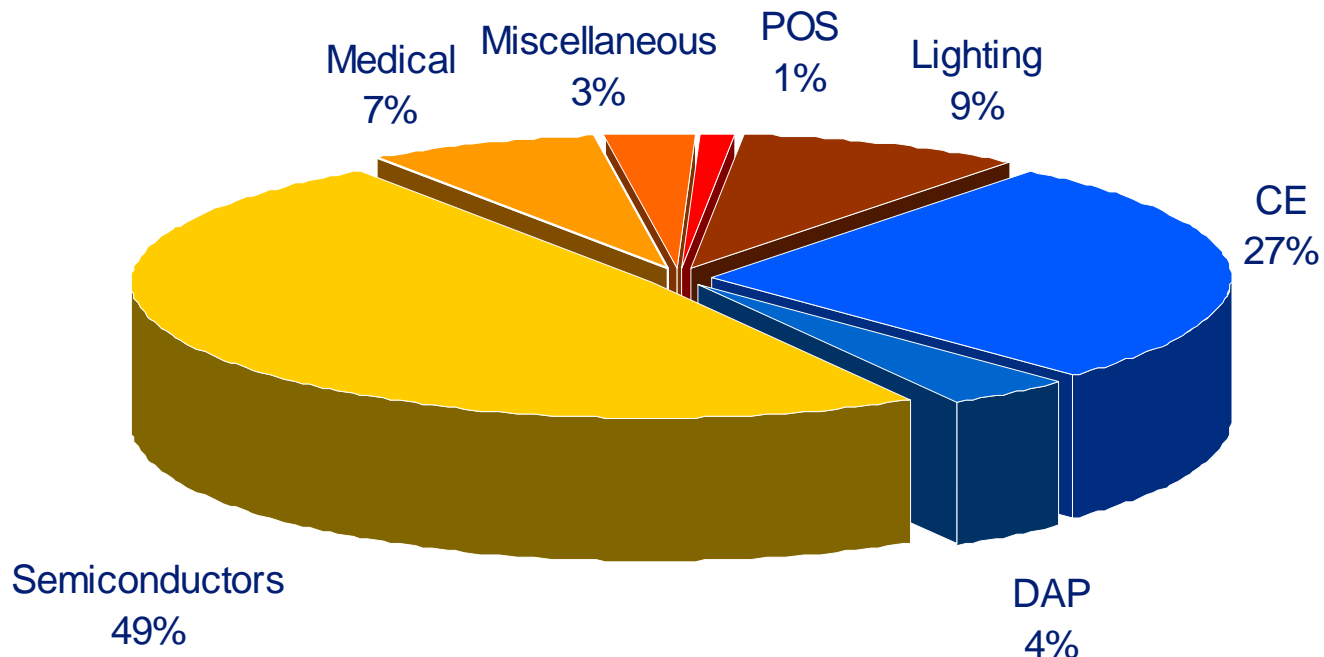
# Sales to thirds in China /HK in constant dollar terms using 1999 as base - *EUR million*



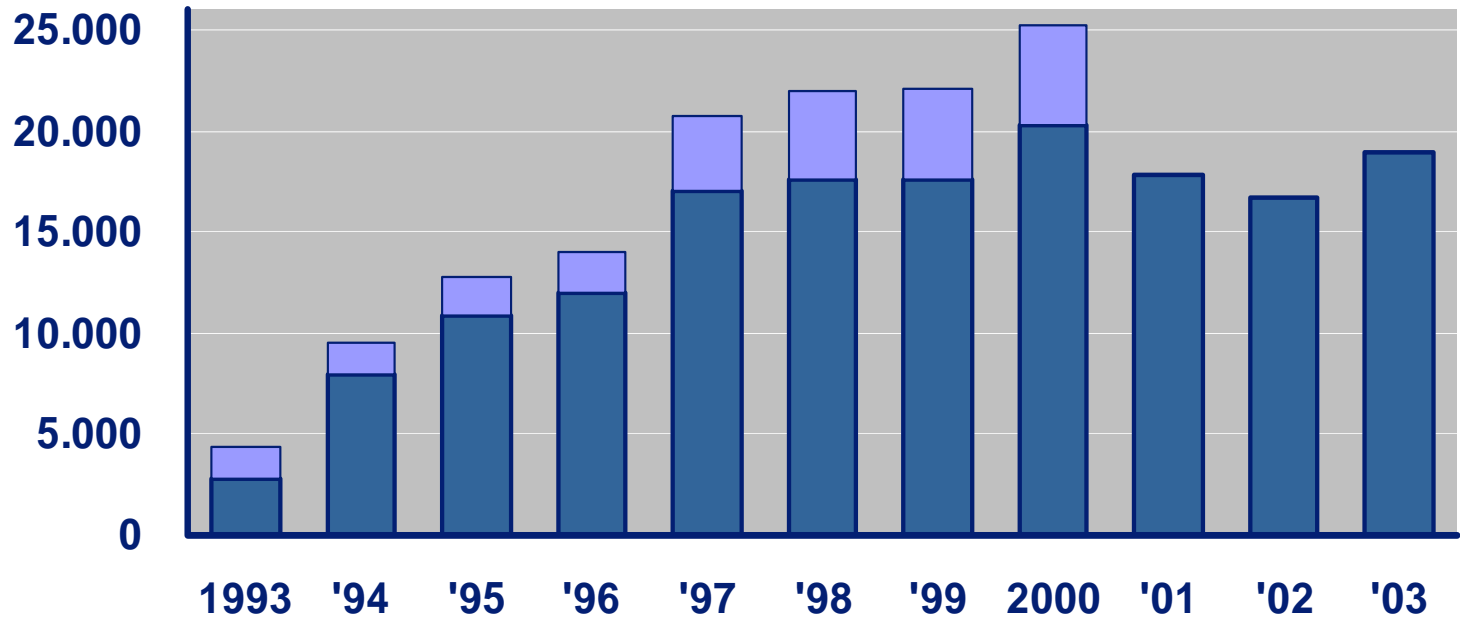
Use Dec. activity rate, including activity of LG Philips Display and some businesses that have been disentangled

# Sales to thirds in China / Hong Kong per sector

*as % of total in 2003*



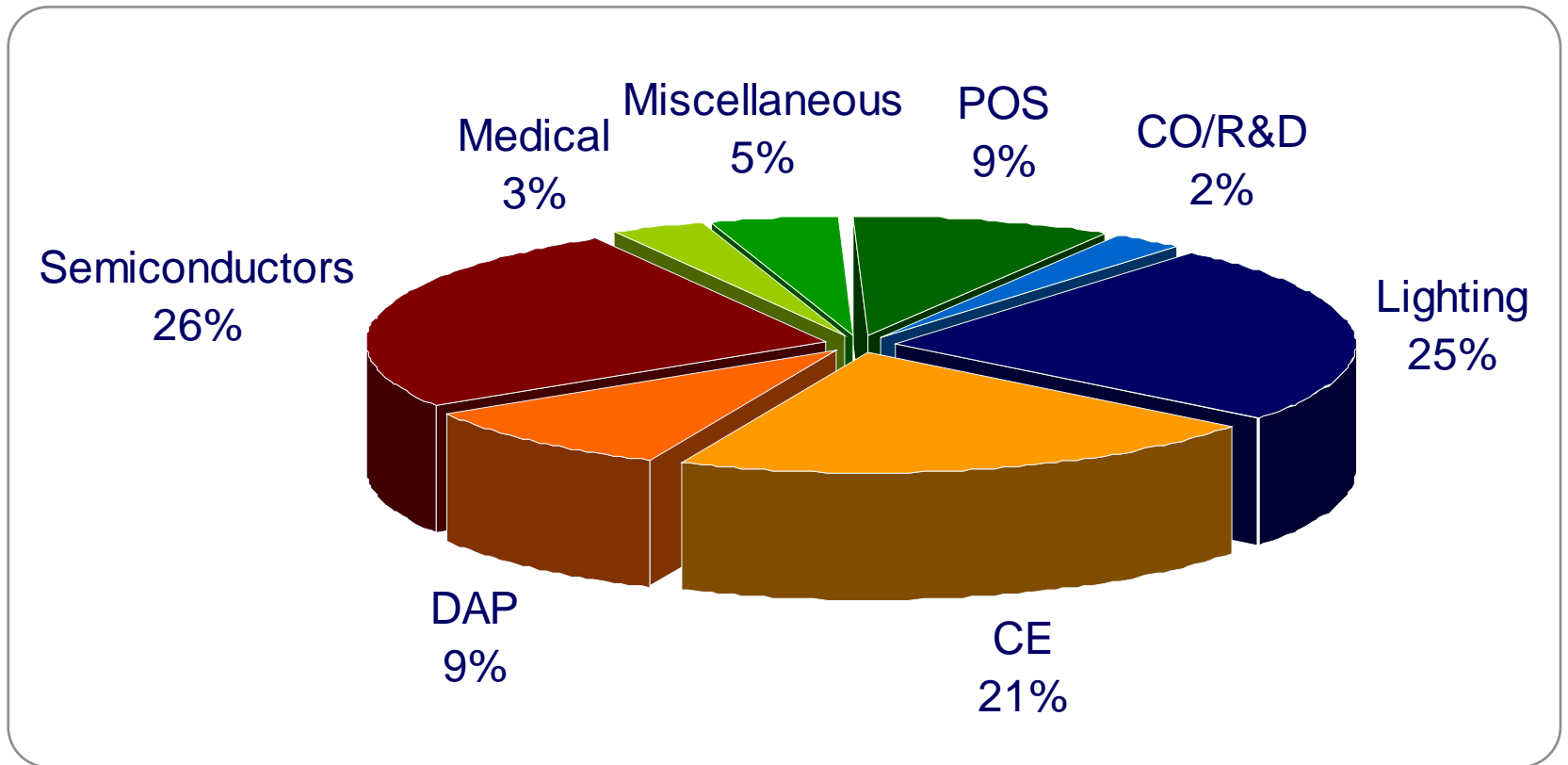
# Employees China / Hong Kong FTE



Include employees from Huafei

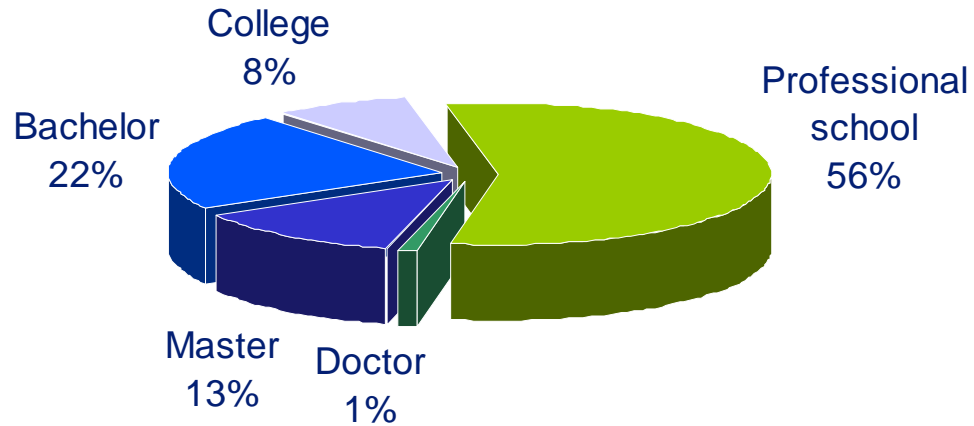
# Employees in China / Hong Kong per sector

*as % of total in 2003*

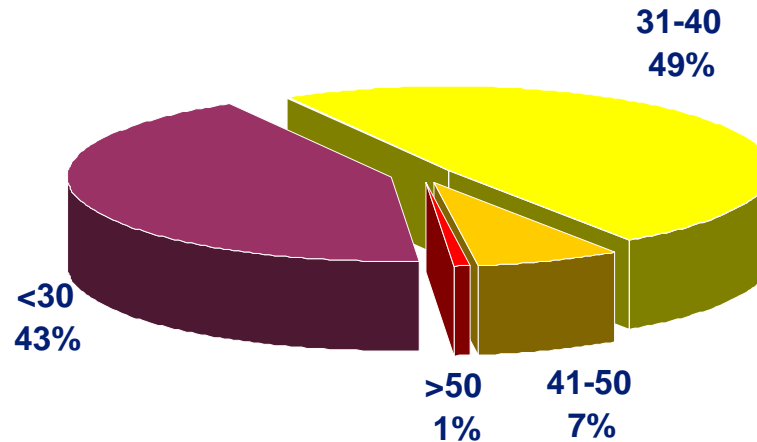


# Characteristics of Employees

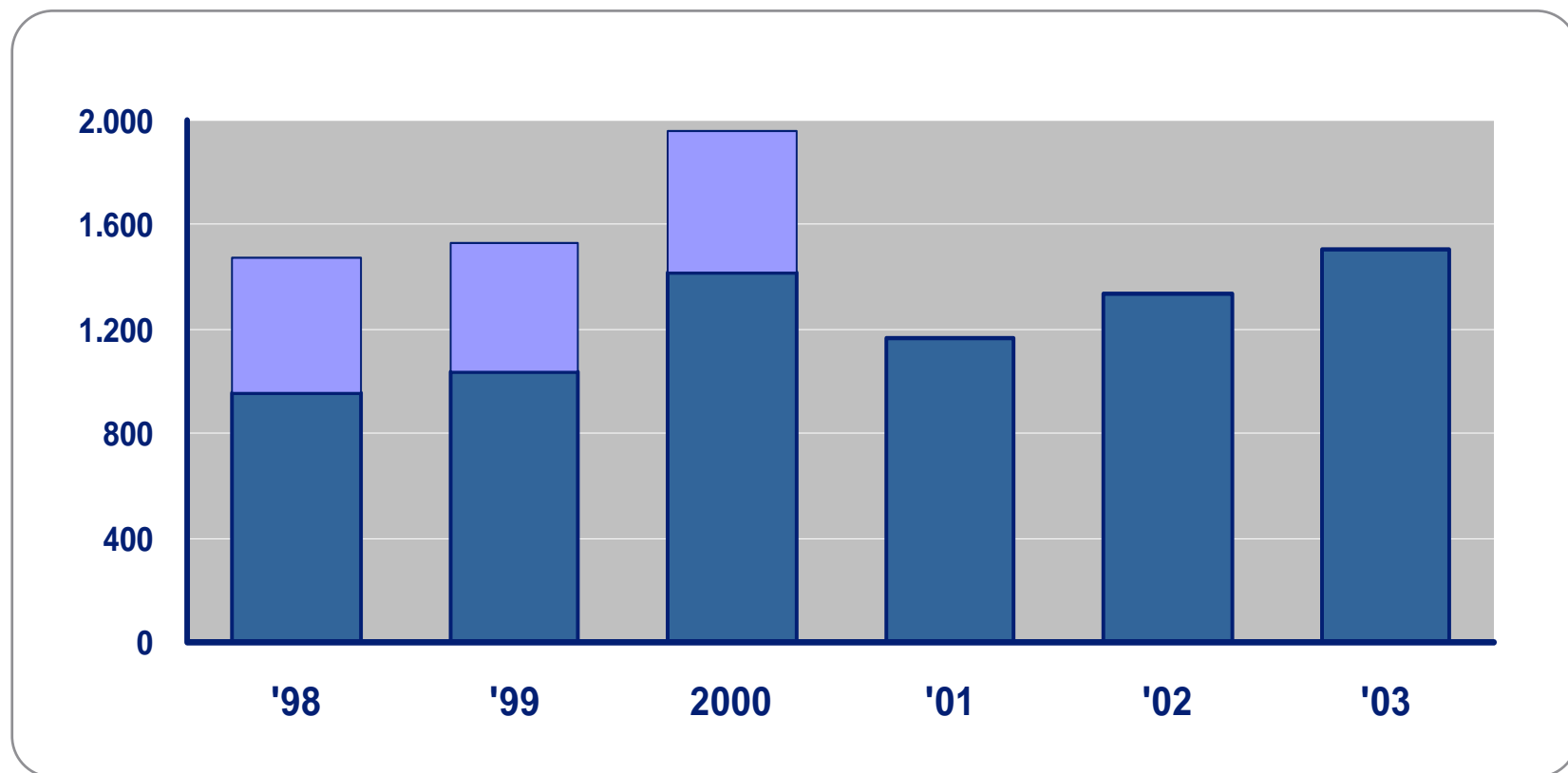
## Education



## Age



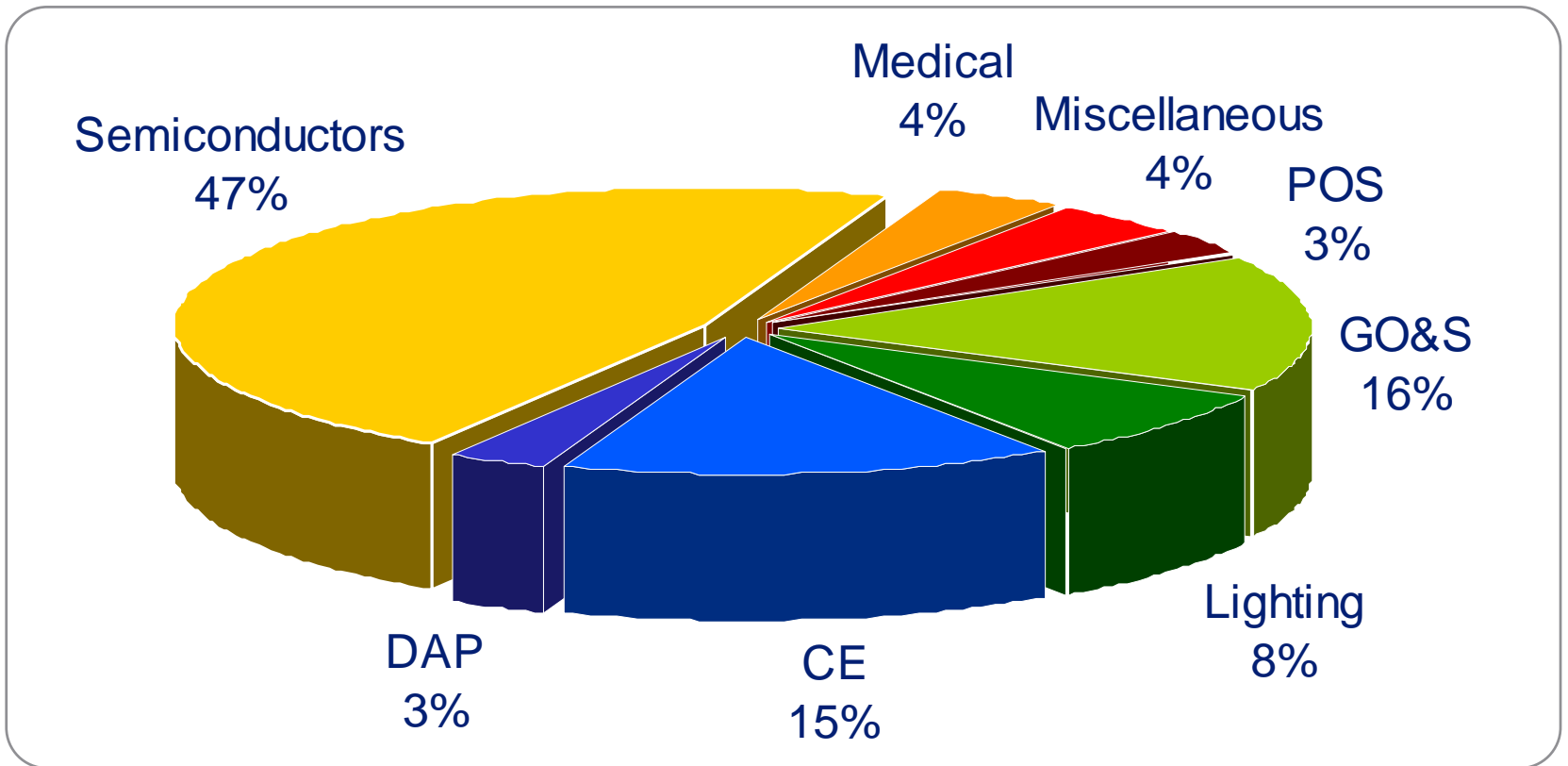
# Total gross assets in China/HK in constant dollar terms using 1999 as base - *EUR million*



Use balance sheet rates, include assets of Huafei '98-'00

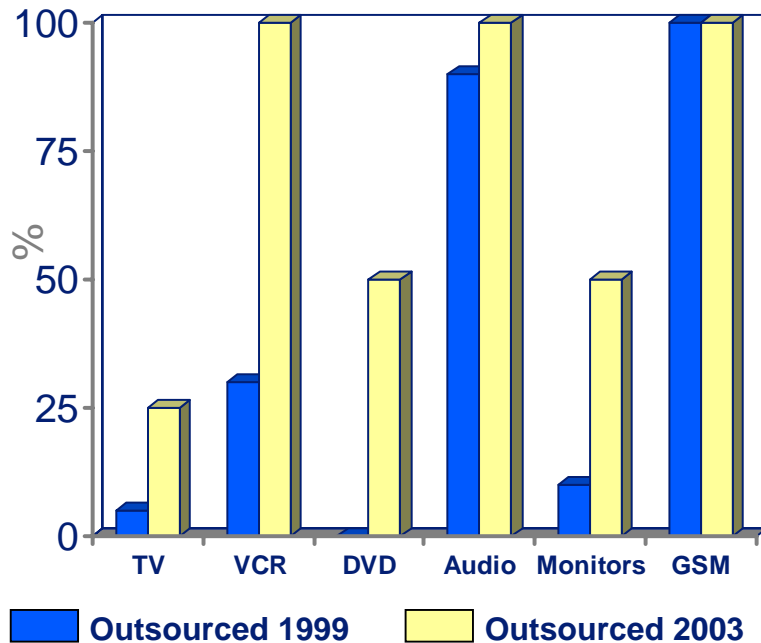
# Total assets in China / Hong Kong per sector

*as % of total in 2003*

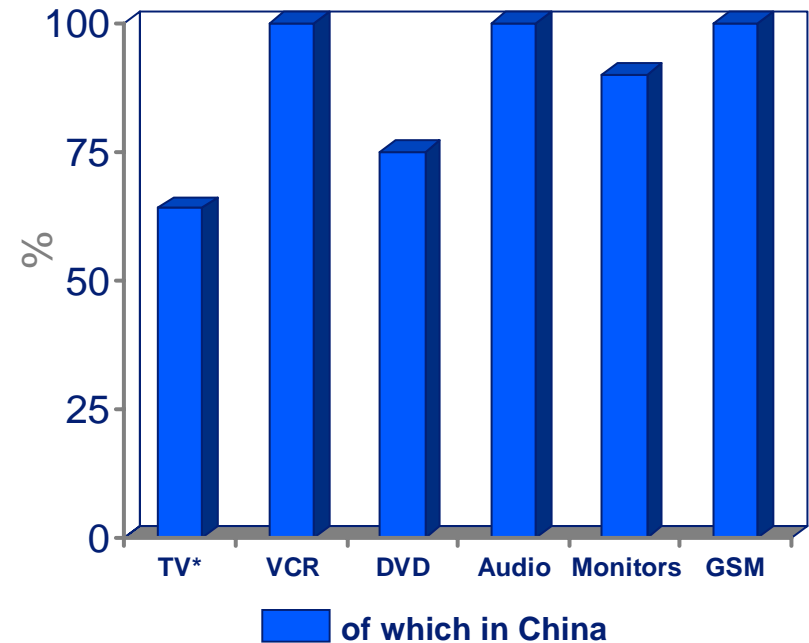


# China – the major outsourcing place for Philips

Percentage outsourced production



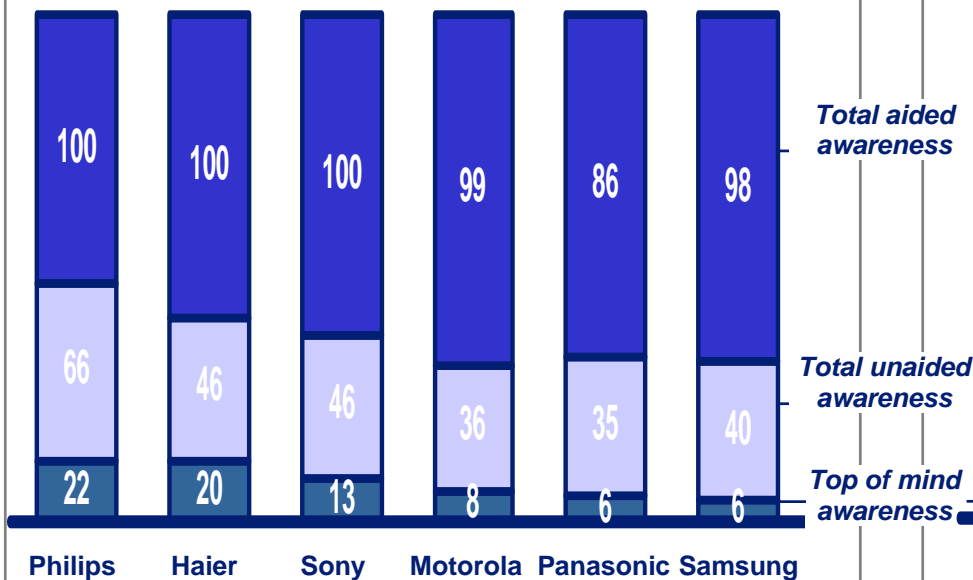
Outsourced production to China 2003 as % of total outsourced per segment



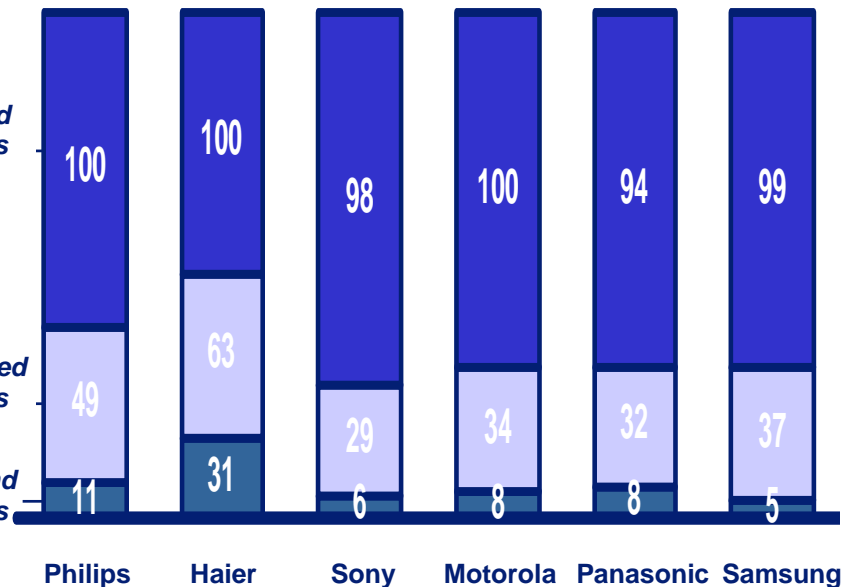


# Philips has extremely high brand awareness

*Tier 1 cities in China*



*Tier 2 cities in China*



# Leading market positions in China in 2003

**Lighting # 1**

**DAP # 1**

**MDS # 1**

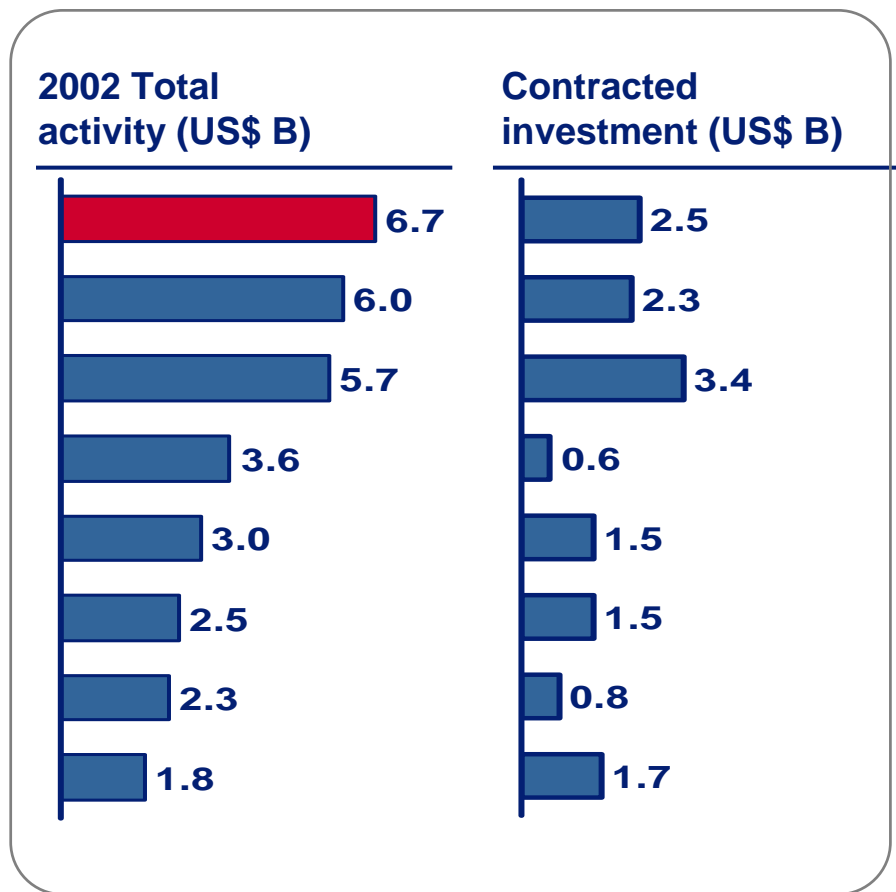
**LCD Monitors in top 2**

**Medical Systems in top 3**

**Semiconductors # 3**

# A milestone in 2002: Largest FIC in China

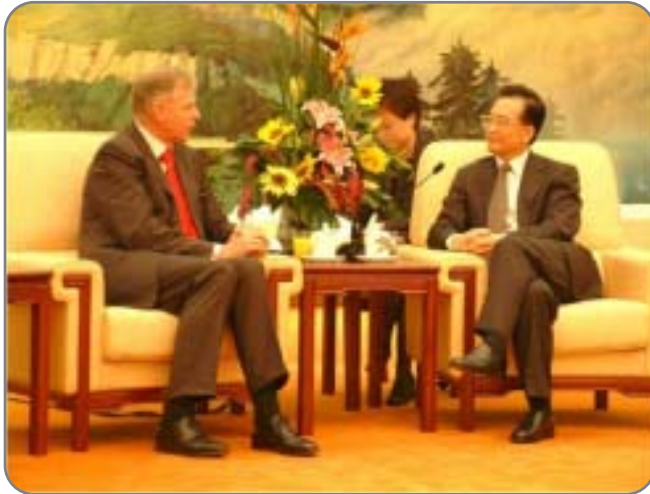
	# of JVs / WOFEs*	Headcount
<b>Philips</b>	<b>32</b>	<b>18,000</b>
Samsung	24	38,000
Motorola	10	13,000
Siemens	40	21,000
IBM	9	3,000
GE	30	8,000
Matsushita	42	30,000
Nokia	8	5,500



\*WOFE : Wholly Owned Foreign Enterprises

Note : Philips not include 18 H.K. companies  
 Source : McKinsey, Bain and respective company websites

# Strategic partnership with China leadership



Meeting with Premier Mr Wen Jiabo,  
Beijing, September 24, 2003



Meeting with Vice Premier Mr Huang Ju,  
Beijing, November 25, 2003

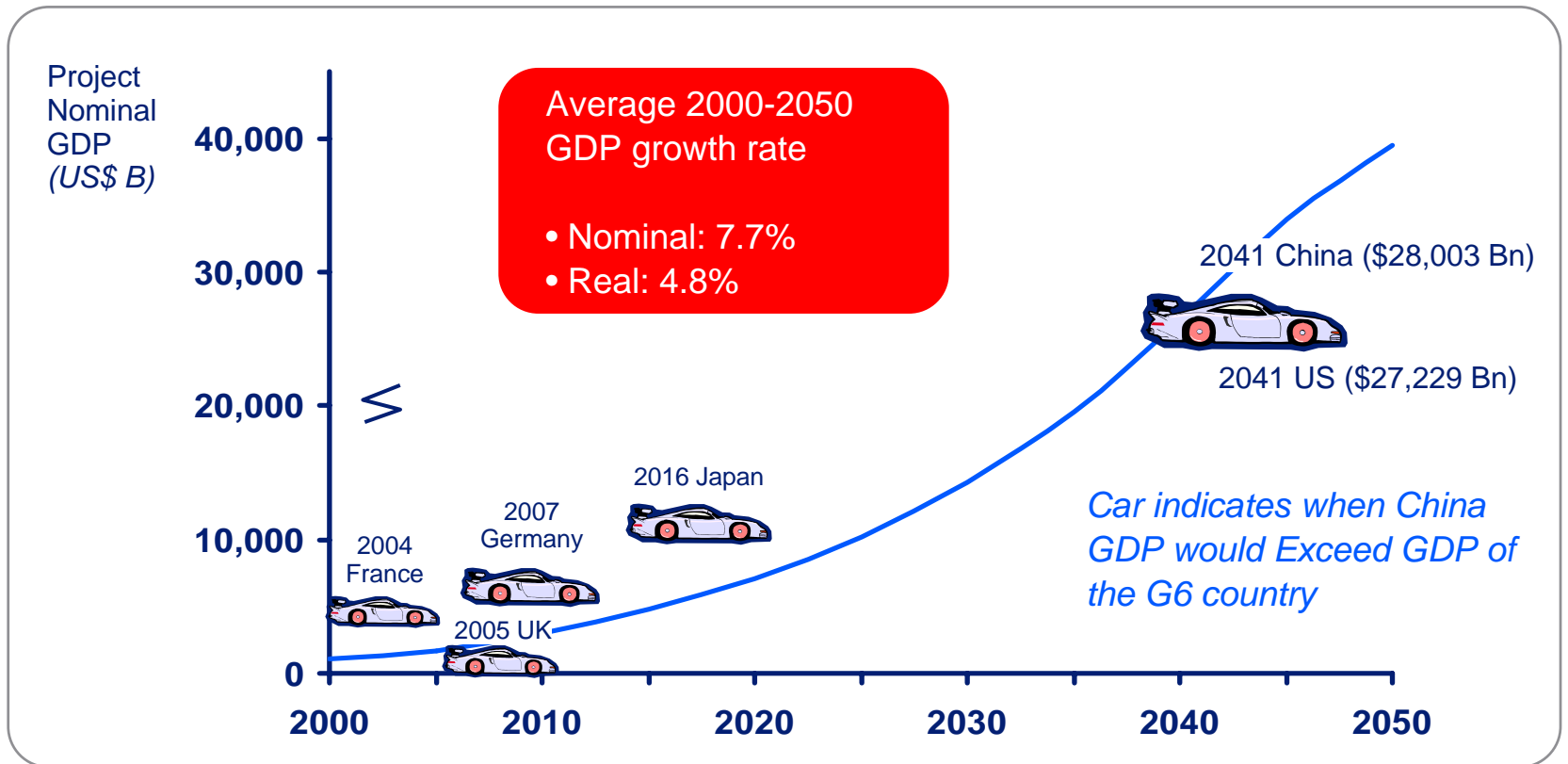
- Firm and closer relationship with new leadership
- Strong commitment to Philips' operations in China
- Strong support to peaceful integration of China into global economic community
- A clear win-win partnership

# Agenda

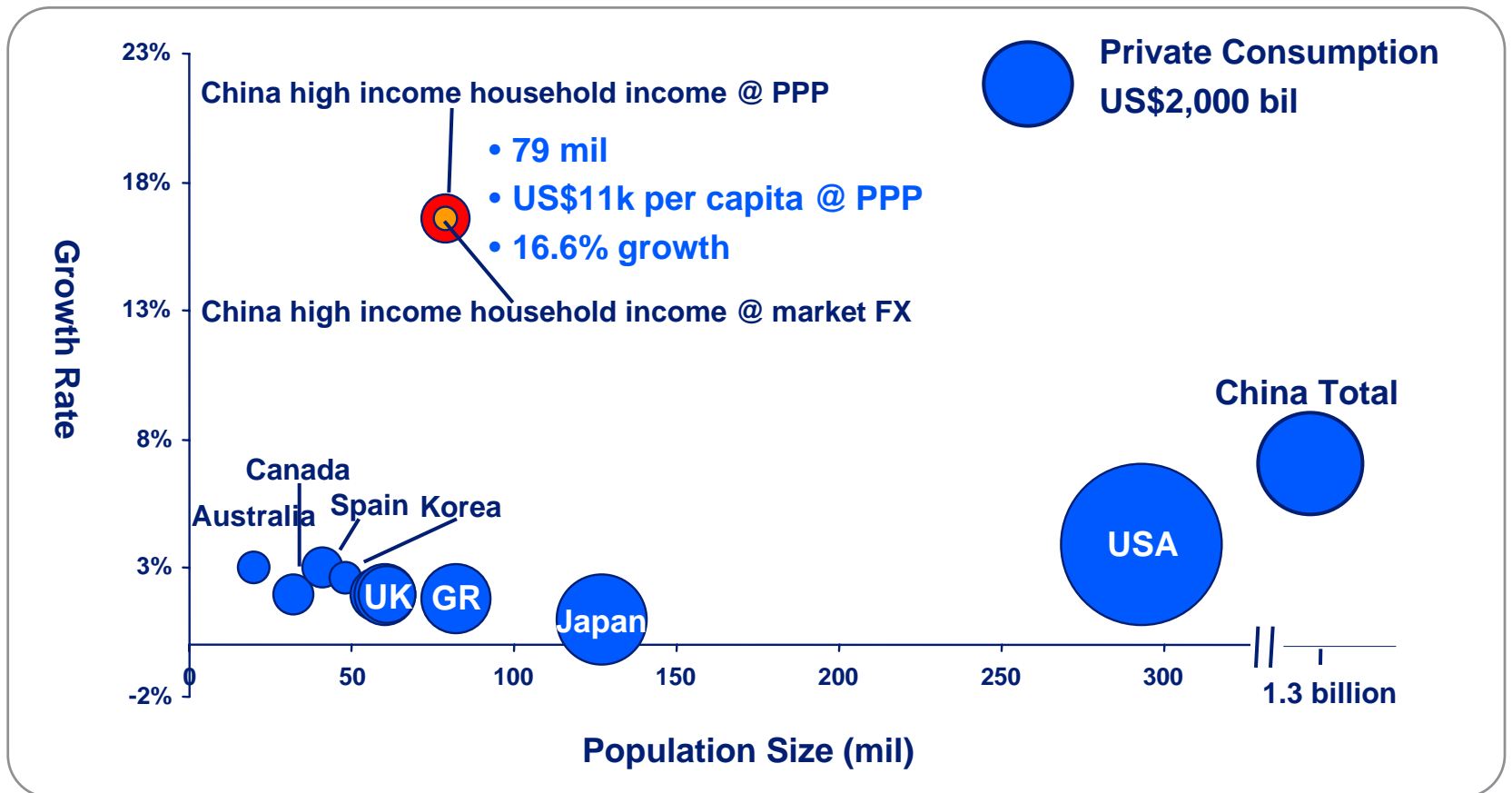
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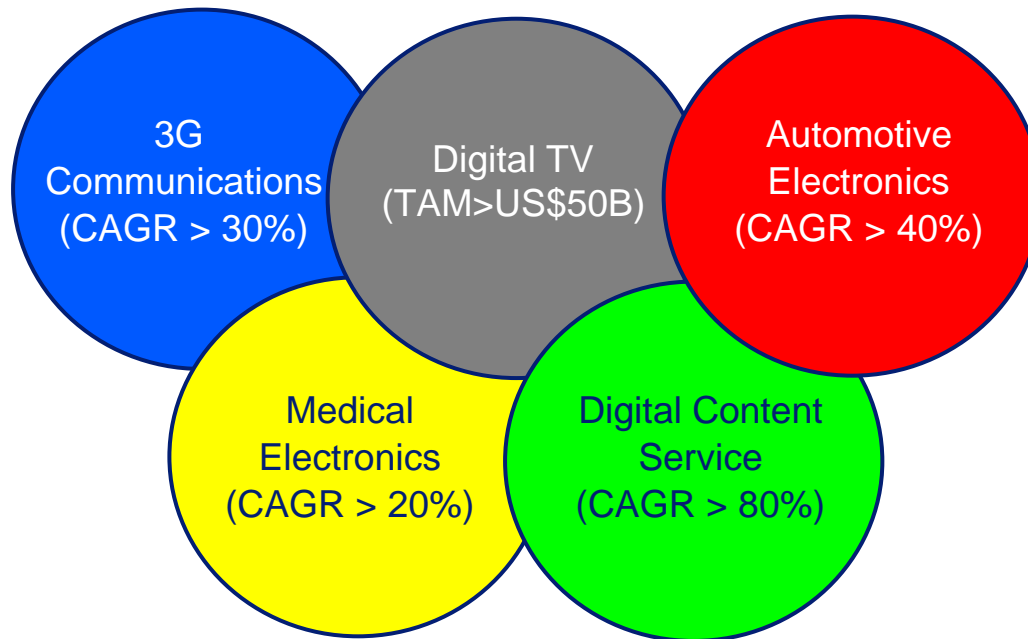
# Long-term opportunity for everyone



# High-income urban consumers are prospering



# Philips is participating in the top-5 emerging IT markets in China





# An integrated view of Philips China strategy

**Individual PD growth strategy to deliver the China vision:**

**Medical**

**Lighting**

**DAP**

**Semiconductors**

**CE**

**Licenses**

**Supported by integrated cross-PD functional strategies  
– HR/Talent management, GR/PR, Branding**

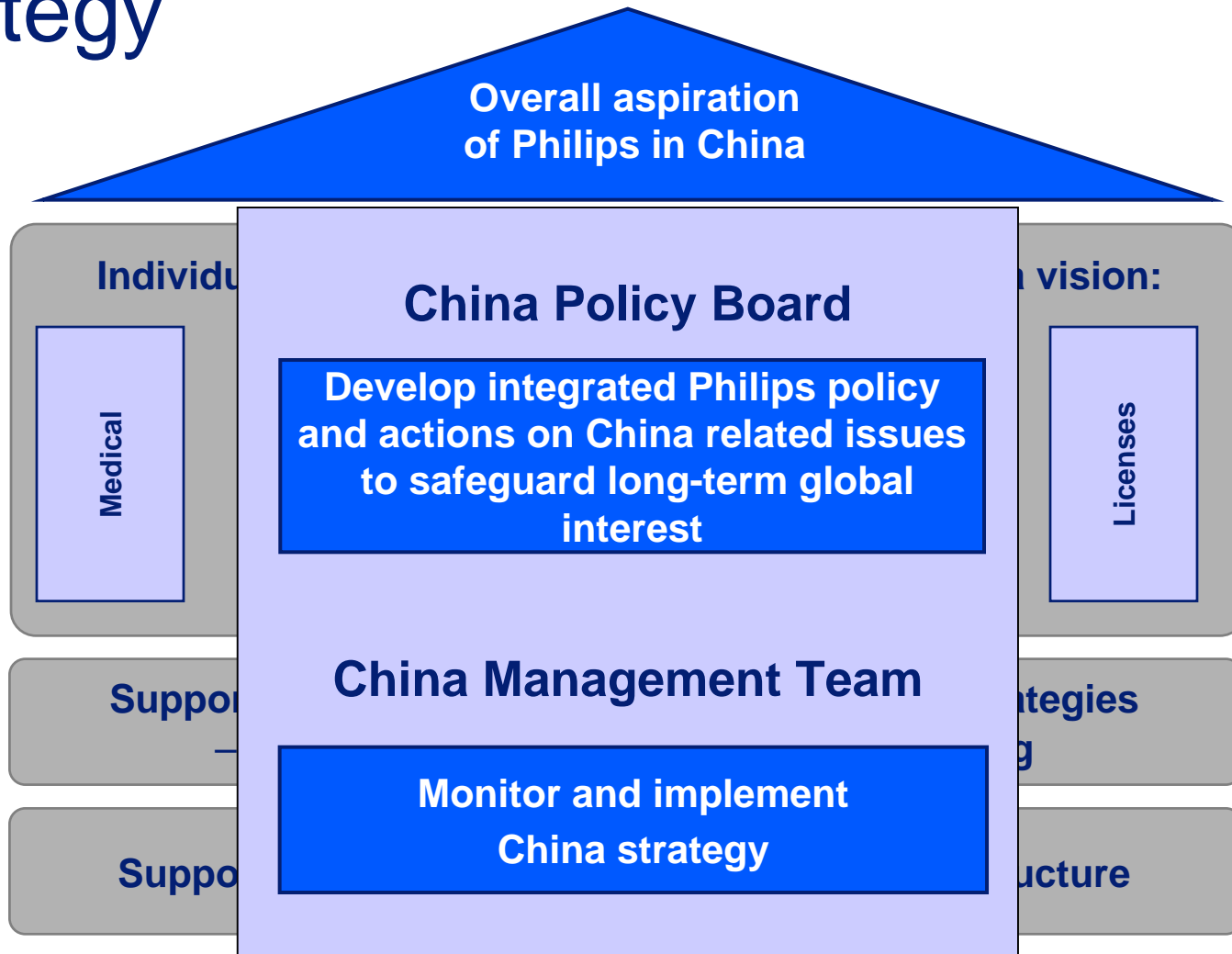
**Supported by effective organization and infrastructure**

# Strategic initiatives

- Step up R&D activities, expand number of technology competence centers
- Increase business management presence
- Continue exploring local partnership
- Further align with government agenda
- Broaden talent base, invest in employer brand
- Widen cross-company marketing initiatives, drive for brand preference

Towards One Philips in China

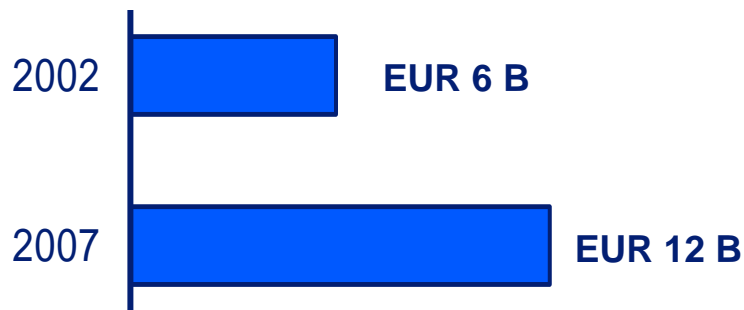
# An integrated view of Philips China strategy



# Medium-term aspiration for Philips in China

**Deliver profitable growth for the Group**

- Double total activities from 2002 to 2007



**Become one of the most admired multinational companies in China**

- To be ranked among TOP 3 most admired foreign companies by Fortune China
- To be ranked as one of the TOP 10 best employers in China by BEA survey<sup>1</sup>
- To become the most preferred electronics brand in China by DDB brand capital measure

<sup>1</sup> Best Employer Asia. The most authoritative HR survey in Asia

# In summary

- China is one of the most important markets in Philips growth strategy
- Philips is well positioned in terms of:
  - Market leadership
  - Strategic partnership with government and other stakeholders
  - Strong brand awareness
  - Competent organization
- Philips has full confidence in this market and will continue to strengthen its presence in China to achieve our goals

