

PHILIPS

Philips Medical Systems in Asia PMS Analyst Day, 9 June 2004

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CEO Sales & Service Region APAC
CEO Philips Medical Systems China

Agenda

- APAC Region overview
 - Regional characteristics
 - Business overview
 - Growth ambition
 - Key initiatives
- Country specifics
 - PMS China
 - PMS Japan
 - Rest of Asia-Pacific
- Conclusions



Regional Characteristics (1 of 2)

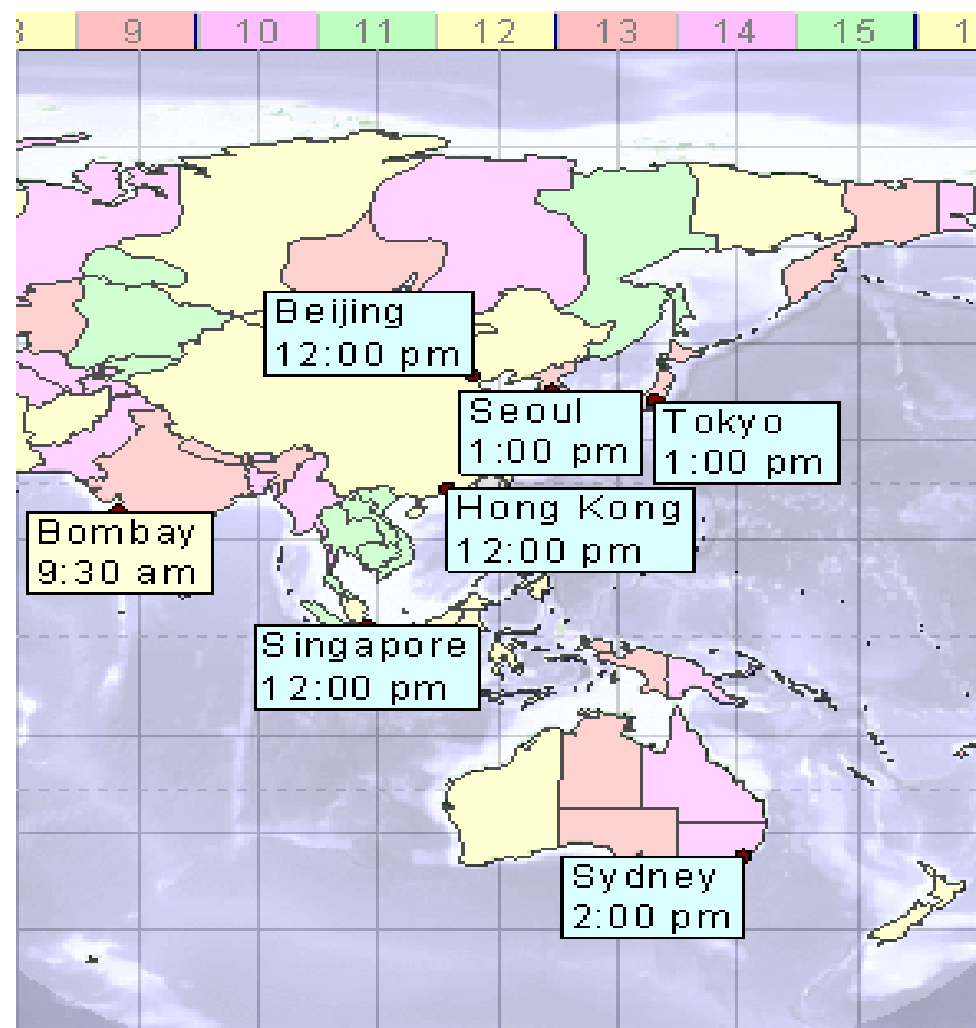
- Not one single region but 6 different sub-regions:
 - ASEAN, Australasia, Greater China, India, Japan; Korea
- Significant differences: language, culture, business environment
- One size will NOT fit all

Philips Medical is organised accordingly:

- 1 Regional Office in Hong Kong
- 6 Sales & Service Districts (SSD):
 - ASEAN (Singapore), Australasia (Sydney), Greater China (Beijing), India (Mumbai), Japan (Tokyo) and Korea (Seoul)
- About 2000 employees, growing with 500 in 2004

Regional Characteristics (2 of 2)

- Meeting local product requirements is crucial
- High business growth rates (e.g. China)
- From New Zealand to Pakistan: 6 time zones
- Australia = size of North America, 20 million inhabitants

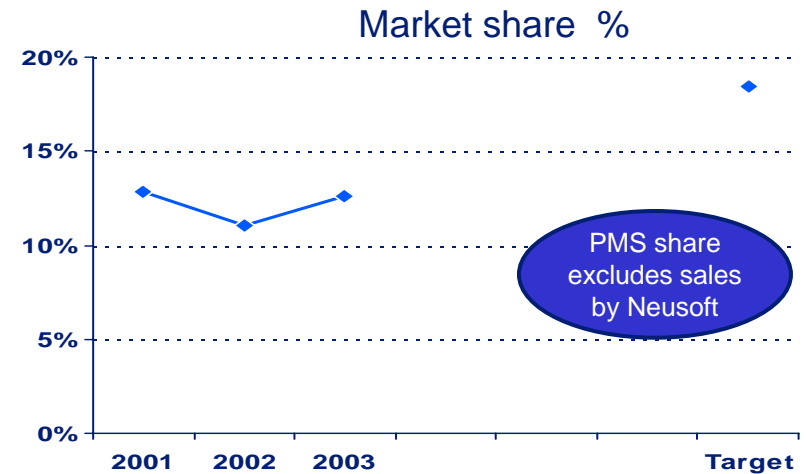
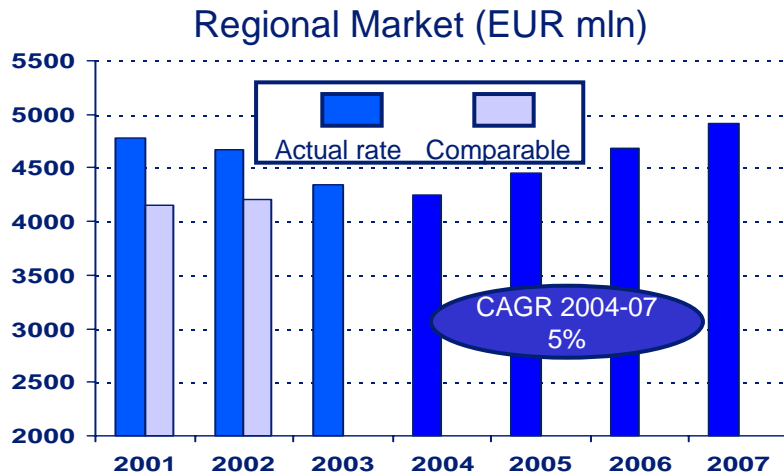


APAC Business overview

- Asia Pacific (APAC) is a priority growth market for Philips Medical Systems (PMS)
- PMS has grown strongly in APAC in recent past:
 - 2003 vs 2002: double digit
- Future Philips-Neusoft JV: key growth platform
- PMS plans to accelerate growth in APAC at 22% CAGR from 2003 to reach € 1.3 B in about 4-5 years

Comp. Currency	YTD May 2004 vs YTD May 2003
Order Intake	113%
Sales to Thirds	106%

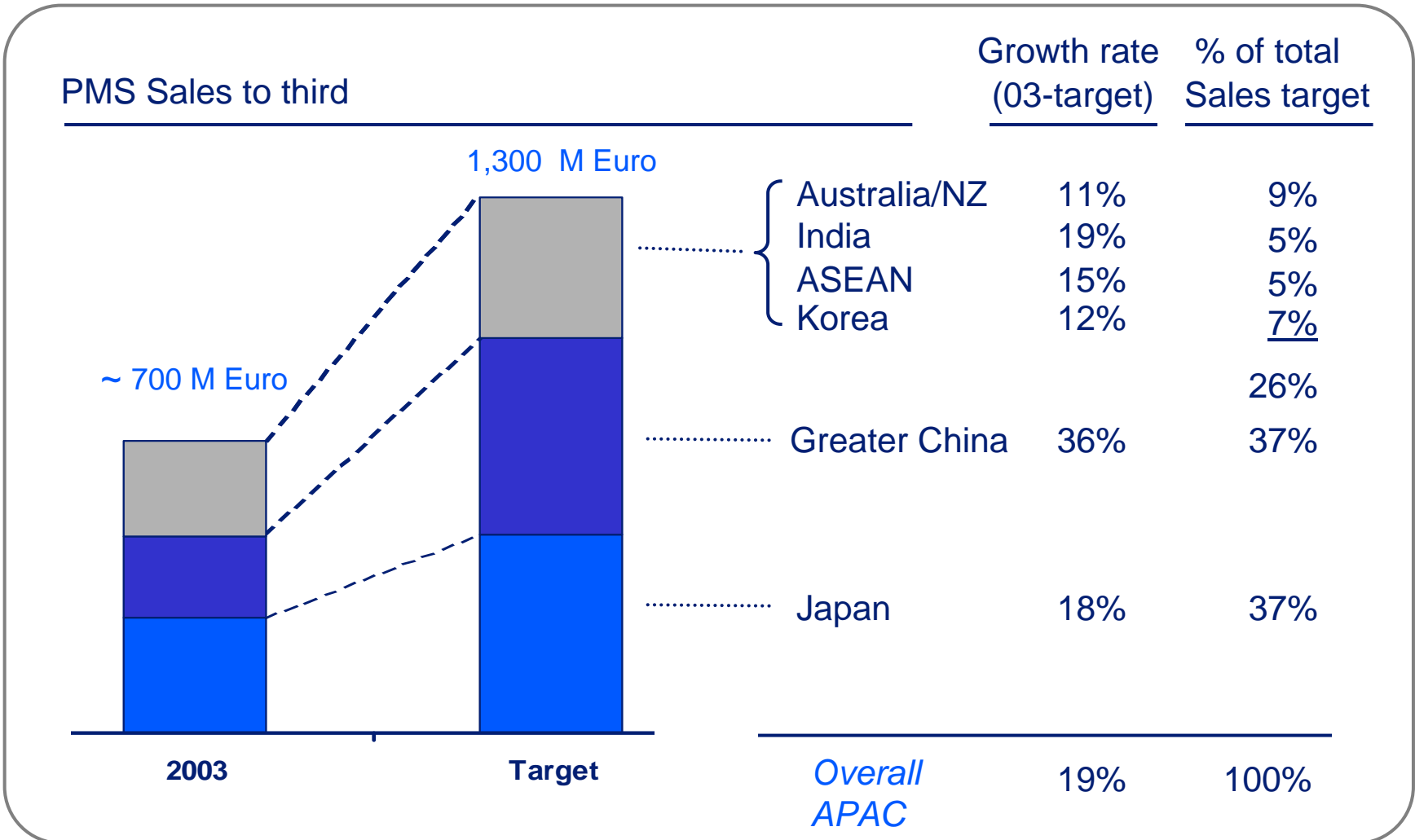
PMS Asia Pacific – Equipment Market and Share Development



- Comparable market growth 2001-03 2%
 - Japan Stagnant, 6% growth in rest of AP
 - Nominal market declined -5% CAGR (currency)
- Outlook till 2007: +5% CAGR, led by a strong growth in PET, Medical IT, Cardiac Resuscitation and CT
- Continued strong growth in China

- Philips
 - 2001-03: in 2003, regained loss of 2002
 - 2003-target: organic growth in Japan plus growth in China and Rest of APAC (joint venture fuelled) (+6% points)
- Japanese medical companies continue to show deteriorating position in Japan

PMS APAC Ambition: Grow to € 1.3 B



Key initiatives

China

- Philips-Neusoft JV:
 - global R&D / manufacturing centre
 - local sourcing China
 - value segment
- Commercial sales and after sales support expansion
- Customer financing

Japan

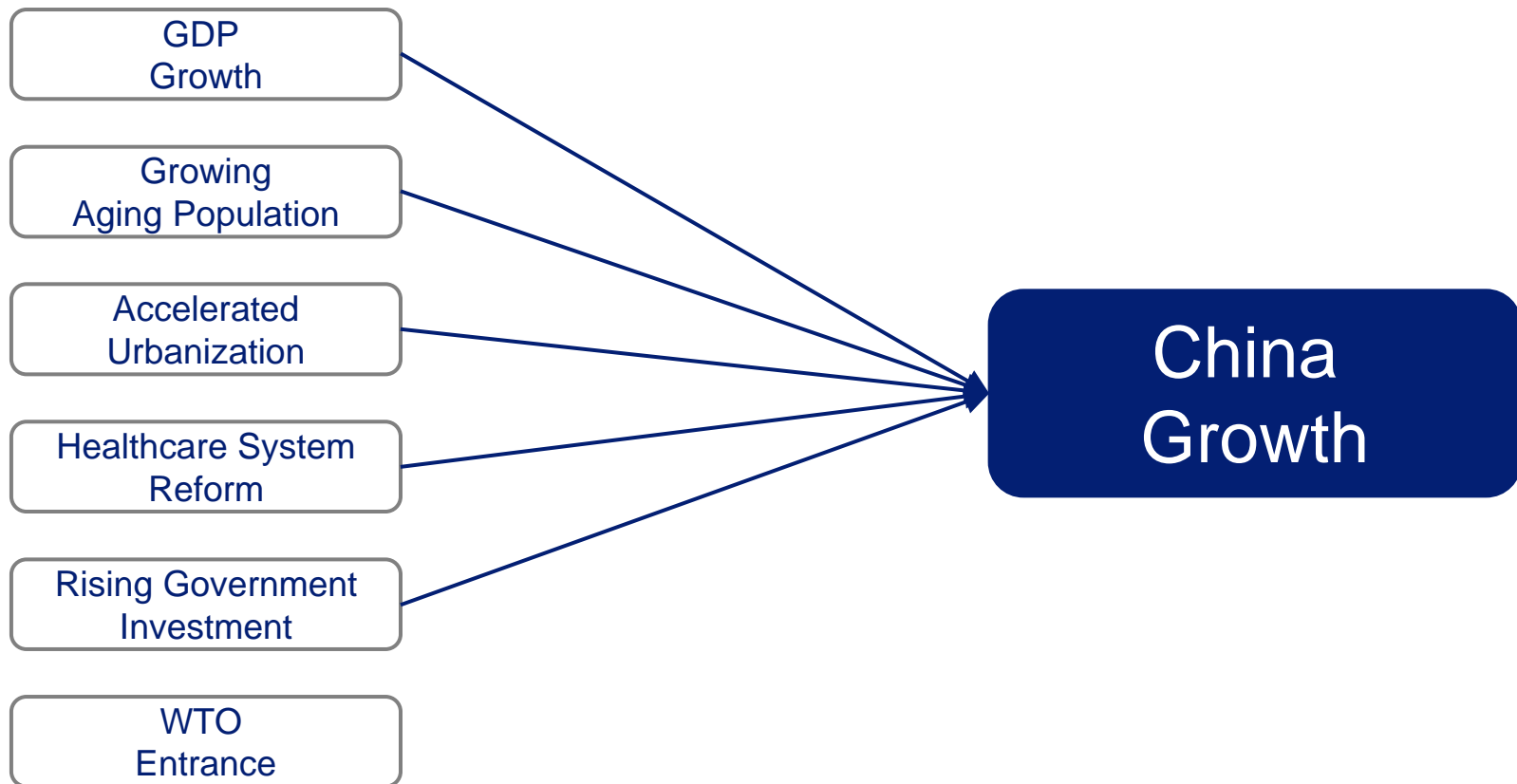
- Improvements in go-to-market
 - Direct sales: account management + additional sales reps
 - Dealer management
- Expand service business
- Target growth in Ultrasound, Cardiac Monitoring Systems, CT, Nuclear Medicine and Medical IT

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Set of demand drivers is fueling growth in China

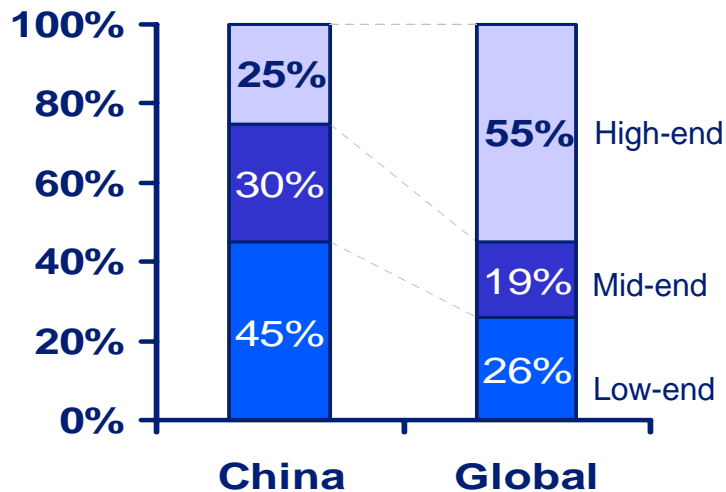


(1) Source: Literature search

Compared to other markets, China has a much bigger value market segment and a underdeveloped service market

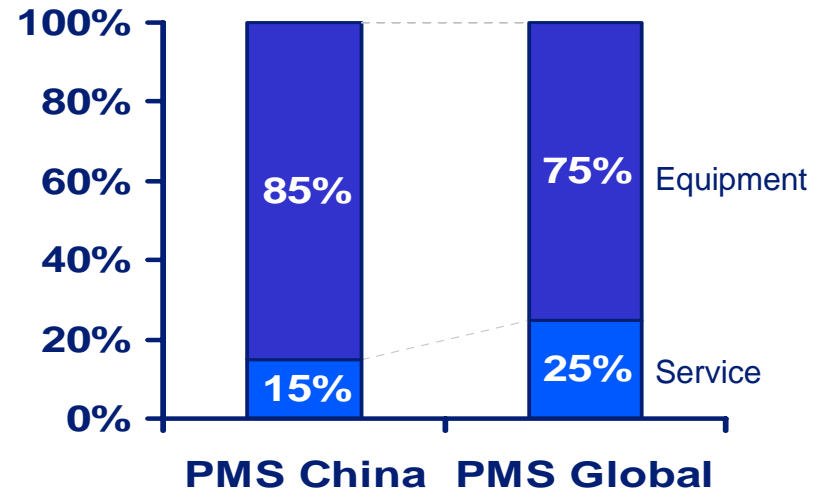
Mid-low end products constitute 75% China market

System Equipment ⁽¹⁾ Market Segmentation 2002



Service revenue is low because hospitals spent most of their limited capital on equipment

PMS Revenue Breakdown⁽²⁾ -2002



(1) System equipment: CT, MR, X-ray

(2) No market data on service revenues available, therefore, PMS used as a proxy

Source: PMS Marketing, Working Group analysis

Philips Neusoft JV in Shenyang, Liaoning province

- JV scope: Manufacturing and R&D, university and government relations
- Product scope CT, MR, X-Ray and Ultrasound: economy and mid-end (value)
- First JV products out for Philips: end September 2004 (CT and X-Ray)
- Feeder factory for two separate sales channels: Neusoft Digital Medical and Philips
- 2004: 100% production for China, 2007: 50% China and 50% export
- 2004: 500 staff, 2007: about 1200 staff

Our JV partner: Neusoft Digital Medical

Products



Neusoft Digital Medical Shenyang Campus



Neusoft Digital Medical



NDM location

Beijing ● ● Shenyang

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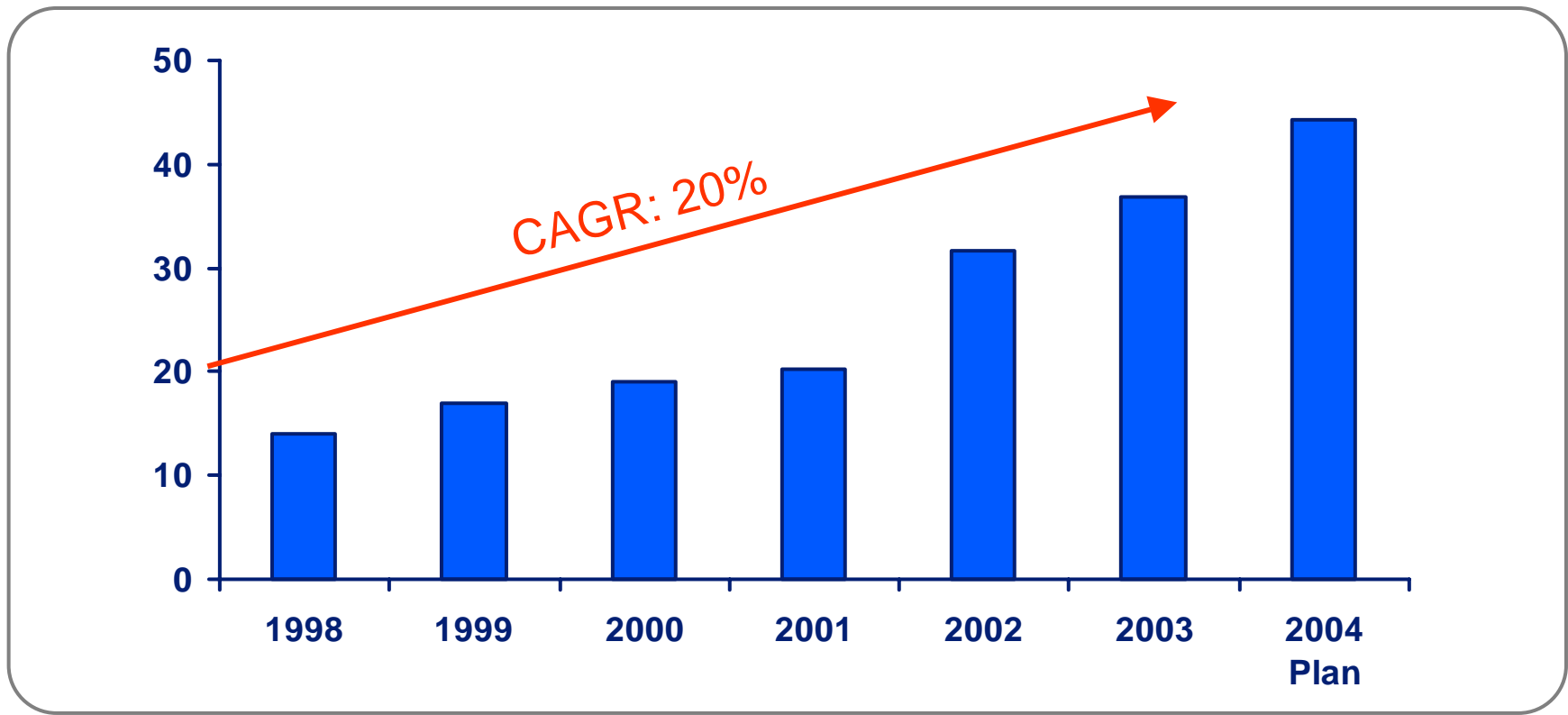


Japan business status as per today

- **World's second largest market, slow growing**
 - Equipment: 1%; Services: 2%
 - Large Japanese players: 40% share
 - Philips & other key foreign players: 34% market share
 - Several Japanese niche players
- **Philips position:**
 - ~ 10% market share (2003)
 - achieved rapid growth at ~ 20% CAGR from 1998 to 2003
 - both organic growth and acquisitions
- **Several market changes underway:**
 - Hospitals investing more in medical IT
 - Specialist hospitals forming
 - New service business models arising
 - Channel structures changing
- **Industry consolidation likely to happen in near future:**
 - Many Japanese players under severe pressure to sustain competitiveness compared to global players

PMS Japan has grown via acquisitions and from core product lines

(Revenues, ¥B)



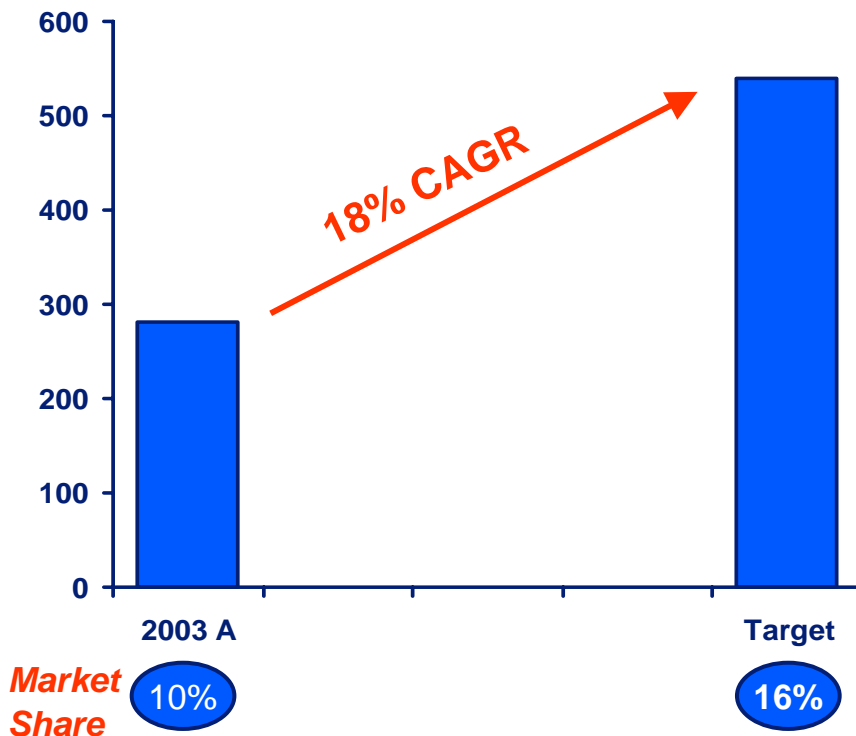
1 – MIT + CMS

Note: Exchange rate: 2001; €1 = ¥109.17, 2002; €1 = ¥117.84, 2003; €1 = ¥130.63, 2004-; €1 = ¥129.85

Source: PMSJ

Organic growth plan projects 18% CAGR to reach a share target of 16%

Sales to Thirds, (Value, €M)



Key Actions

- Improvements in go-to-market
 - Account management
 - Sales reps
 - Dealer management
- Expand Service Business
- Target Growth in Ultrasound, Cardiac Monitoring Systems, CT, Nuclear Medicine and Medical IT

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Rest of Asia Pacific (1 of 2)

ASEAN (Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam):

- ASEAN market estimated: ~€165 M in 2003, projected to grow at ~3.5% CAGR
- Incidental Government-to-Government Aid projects create spikes
- Market is consolidated and dominated by Multi-nationals. Philips so far particularly strong in high end segments
- PMS has shown strong growth, driven by organic growth and acquisitions, 26% CAGR from 1999-2003
- Grow sales to target level with 15% CAGR
- Four key growth drivers identified:
 - Strengthen the go-to-market approach
 - Leverage Philips-Neusoft JV to enter value segment of ASEAN markets
 - Expand service/after-sales support
 - Explore financing schemes, either through in-house or third party financing

Rest of Asia Pacific (2 of 2)

Australasia:

- Grow sales to target level with 11% CAGR.
- Key focus to maximize efficiency of Sales & Service operations in a market that is large in geography, small in value and with demanding customers

India:

- Grow sales to target level with 19% CAGR.
- Key focus to increase Sales & Service coverage in preparation for Philips-Neusoft JV products that better meet India market requirements

Korea:

- Philips plus other key foreign companies account for ~70 % of the total market
- PMS plans to grow at 12% CAGR to target level by:
 - Extend geographic sales coverage and improve dealer management structures
 - Launch value products leveraging Philips-Neusoft JV

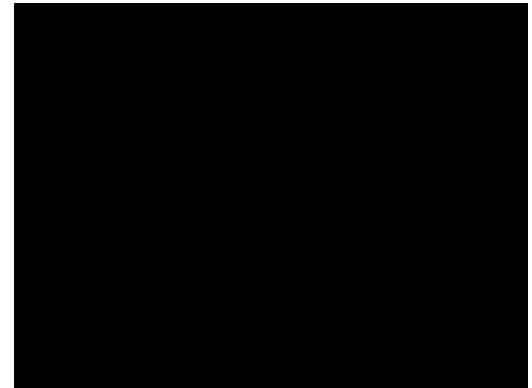
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Achievements so far:

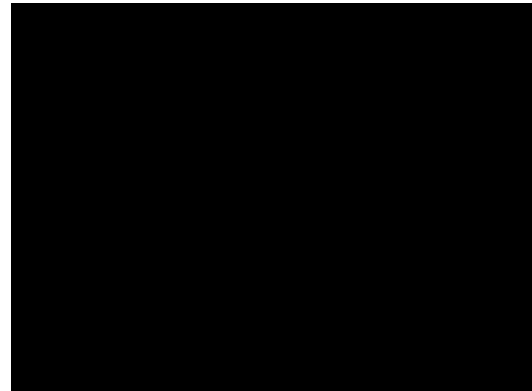
- Many customer that choose Philips.
- Integration finished, created ONE Philips Medical Systems in Asia
- Double digit overall growth in recent years, with growth in all existing and acquired businesses
- Improved financials
- Strong growth in Japan: ~20% CAGR (98-03)
- Philips-Neusoft JV in China as future growth platform established

Our ambition:

- Continue winning
- Double our business volume in next 4-5 years



Dr. Yu Wei Feng
Chief of Anesthesia Department



Dr. Shu Xian Hong
Director of Echo Lab

