

PHILIPS

Philips Medical Systems Progress report

Paul Smit

**CA Chevreux, March 16, 2006
Paris**

Forward Looking Statements

Forward Looking Statements

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items (including, but not limited to, cost savings) in particular the outlook paragraph in this report. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, levels of consumer and business spending in major economies, changes in consumer tastes and preferences, changes in law, the performance of the financial markets, pension costs, the levels of marketing and promotional expenditures by Philips and its competitors, raw materials and employee costs, changes in exchange and interest rates (in particular, changes in the euro and the US dollar can materially affect results), changes in tax rates and future business combinations, acquisitions or dispositions and the rate of technological changes. Statements regarding market share, including as to Philips' competitive position, contained in this document are based on outside sources such as specialized research institutes, industry and dealer panels in combination with management estimates. Where information is not yet available to Philips, those statements may also be based on estimates and projections prepared by outside sources or management. Rankings are based on sales unless otherwise stated.

Use of non-GAAP Information

In presenting and discussing the Philips Group's financial position, operating results and cash flows, management uses certain non-GAAP financial measures. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent GAAP measure and should be used in conjunction with the most directly comparable US GAAP measure(s). A discussion of the non-GAAP measures included in this document and a reconciliation of such measures to the most directly comparable US GAAP measure(s) are contained in this document.

Our Mission in Healthcare

To improve people's lives
with advanced technology
that is easy to experience
and designed around you

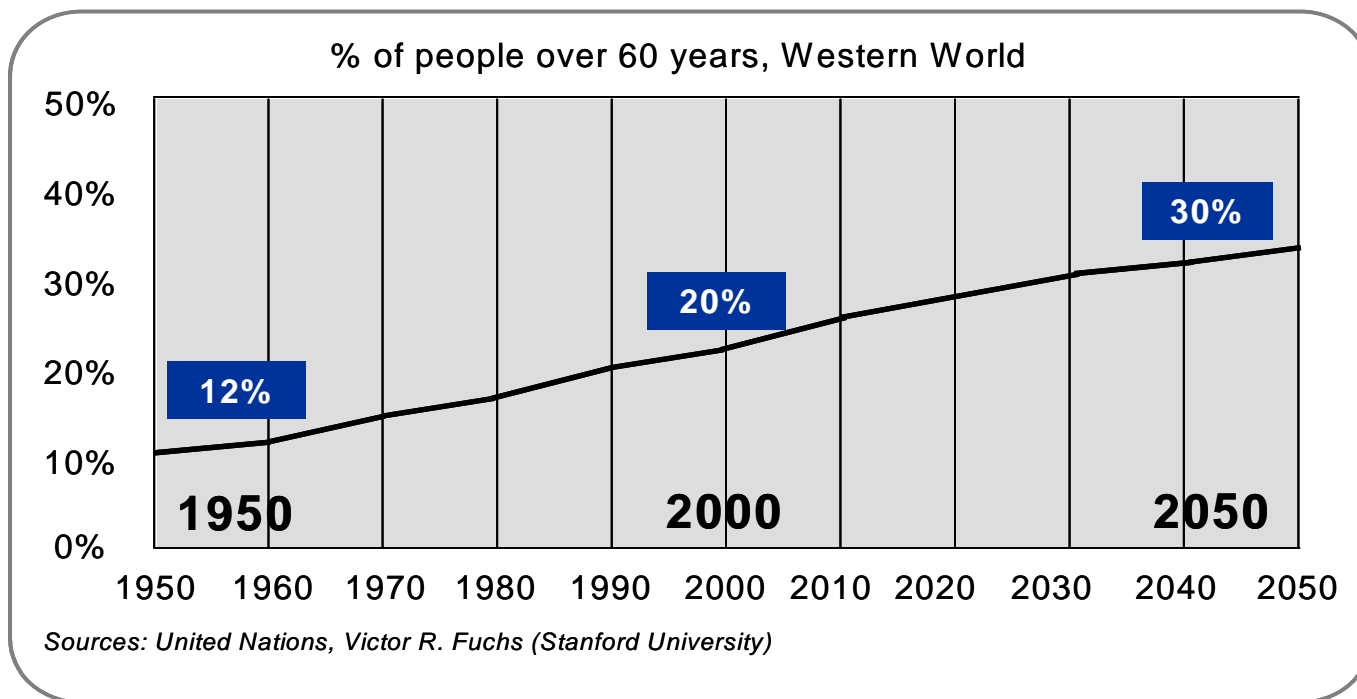


Philips Medical Systems

- Improvement – Metric of Success
- Where do we go from here
- Secure, Strengthen, Expand

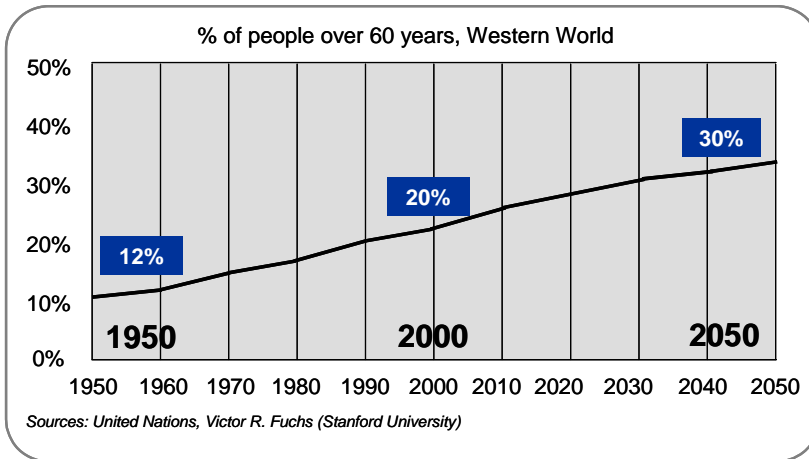


Demographics and economic developments add to long term growth

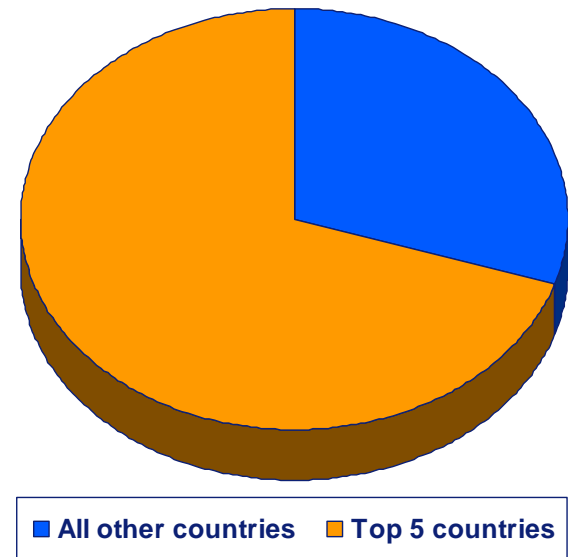


As national economies develop,
healthcare investments follow...

Demographics and economic developments add to long term growth



Share of Medical Expenditure



As national economies develop,
healthcare investments follow...

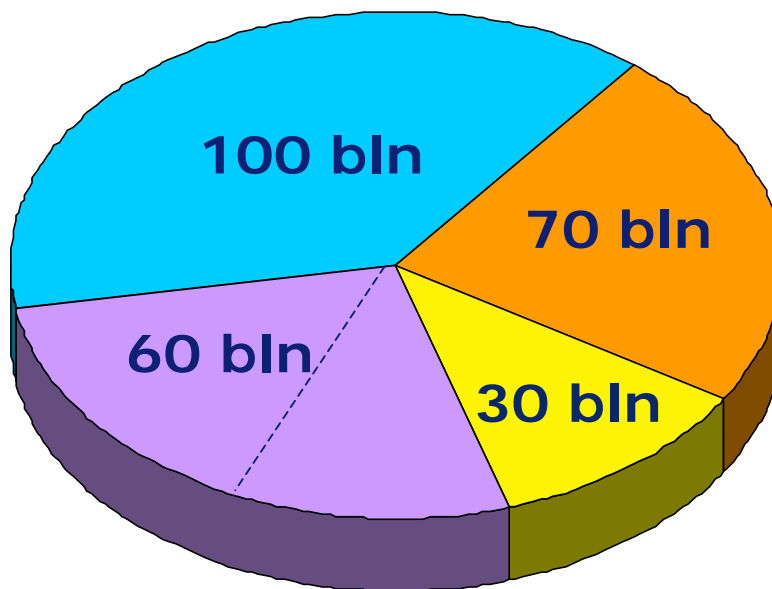
Source: Medistat

The Medical Systems & Device Market

Main categories

Medical equipment, services, devices and supplies \$ 260 billion worldwide, 2004

- Surgical instruments, devices and supplies
- IT in Healthcare
- Diagnostic imaging and monitoring
- Other equipment & services



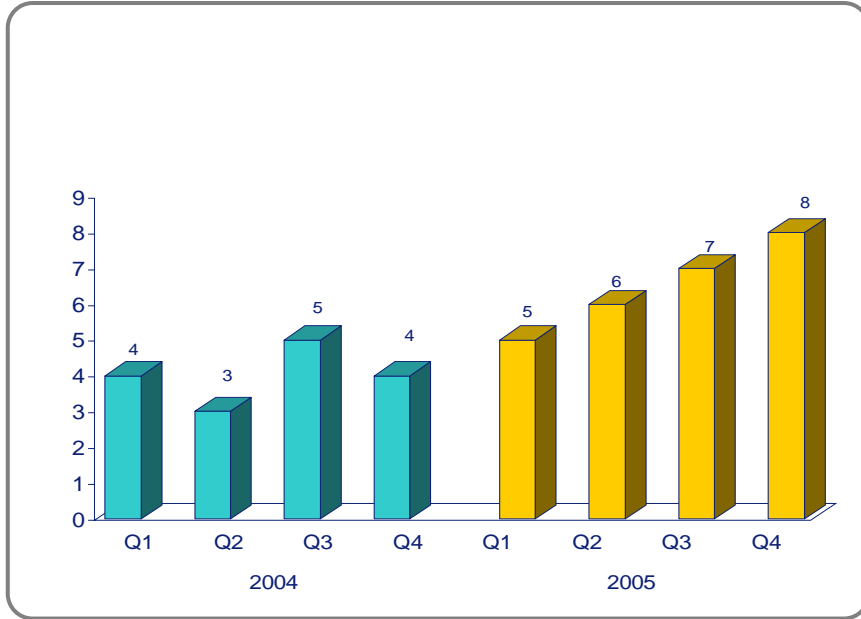
Sources: Medistat, PMS internal analysis

Business by Segment 2005



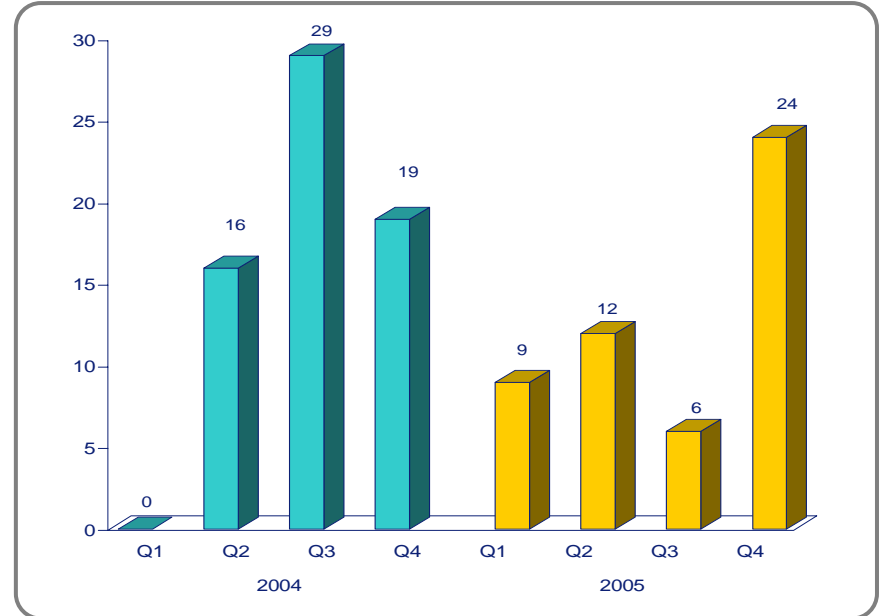
Sales growth continues

Quarterly comparable sales growth %

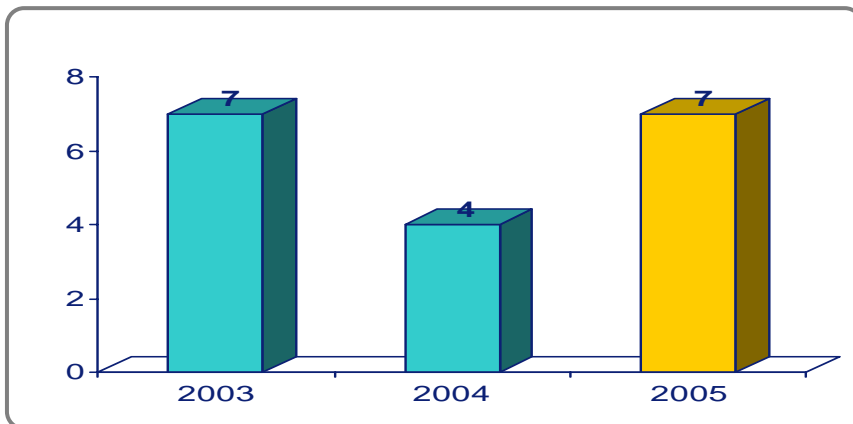


As do equipment orders

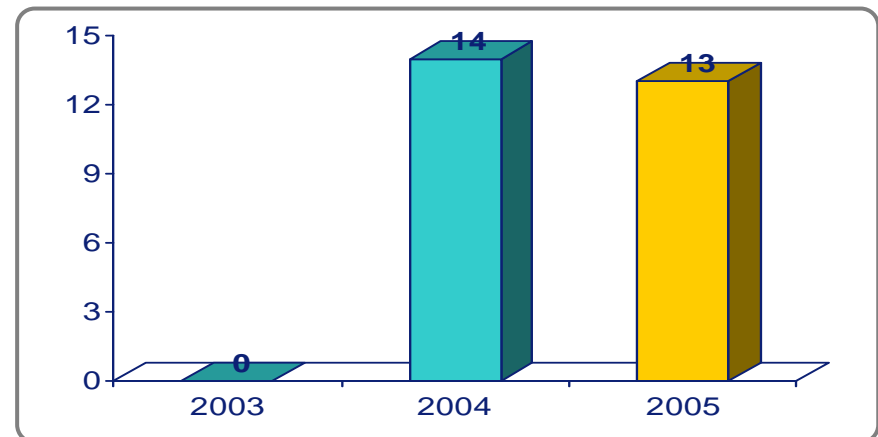
Quarterly currency comparable orders growth %



Full Year comparable sales growth %

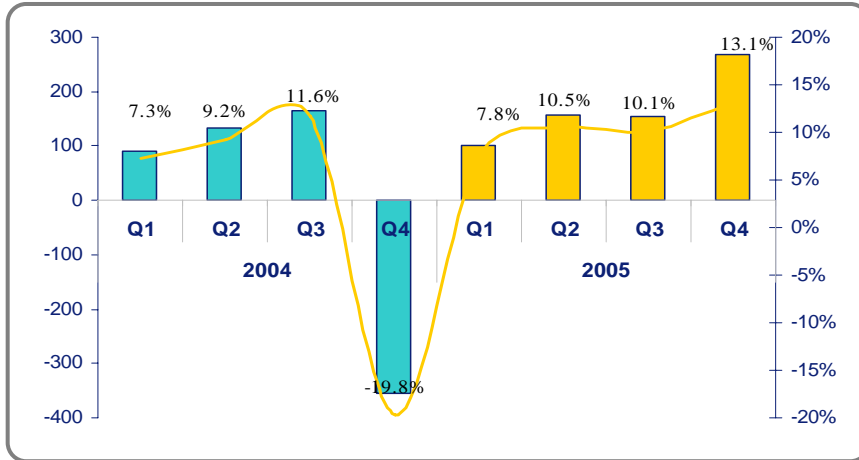


Full Year currency comparable orders growth %

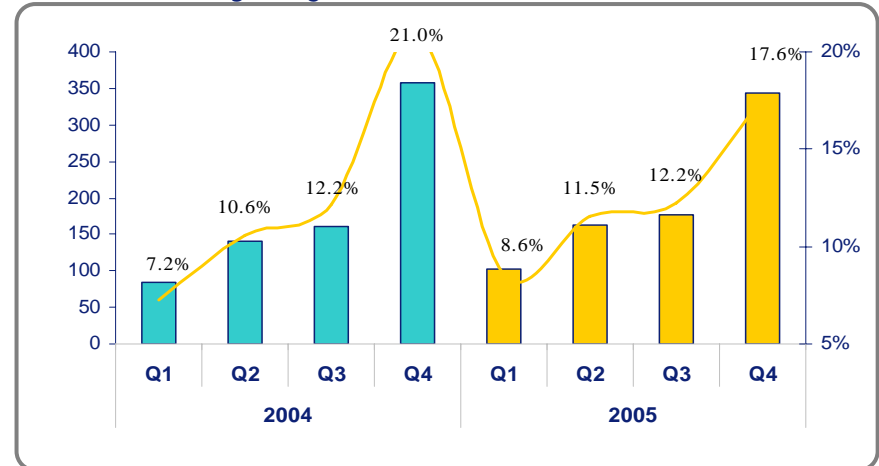


EBIT (M EUR)

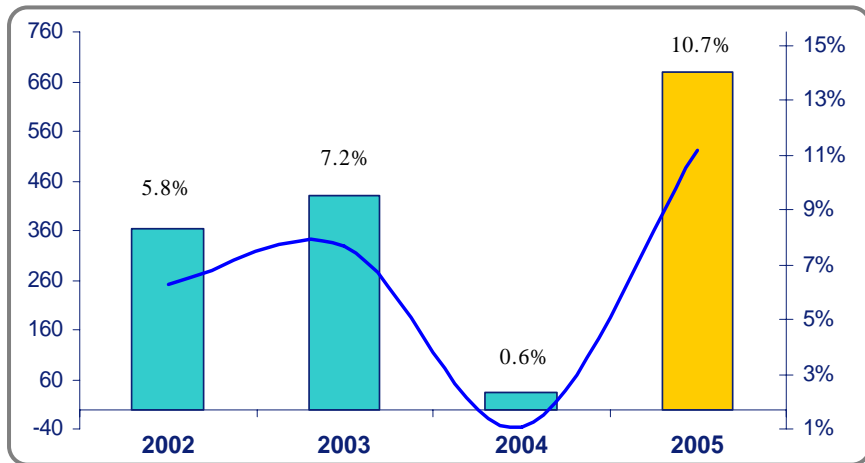
Quarterly as reported



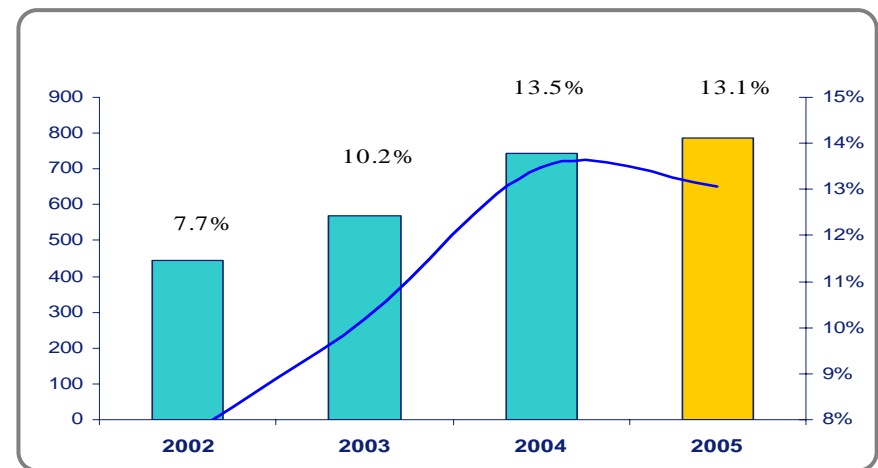
Quarterly adjusted



Full Year as reported



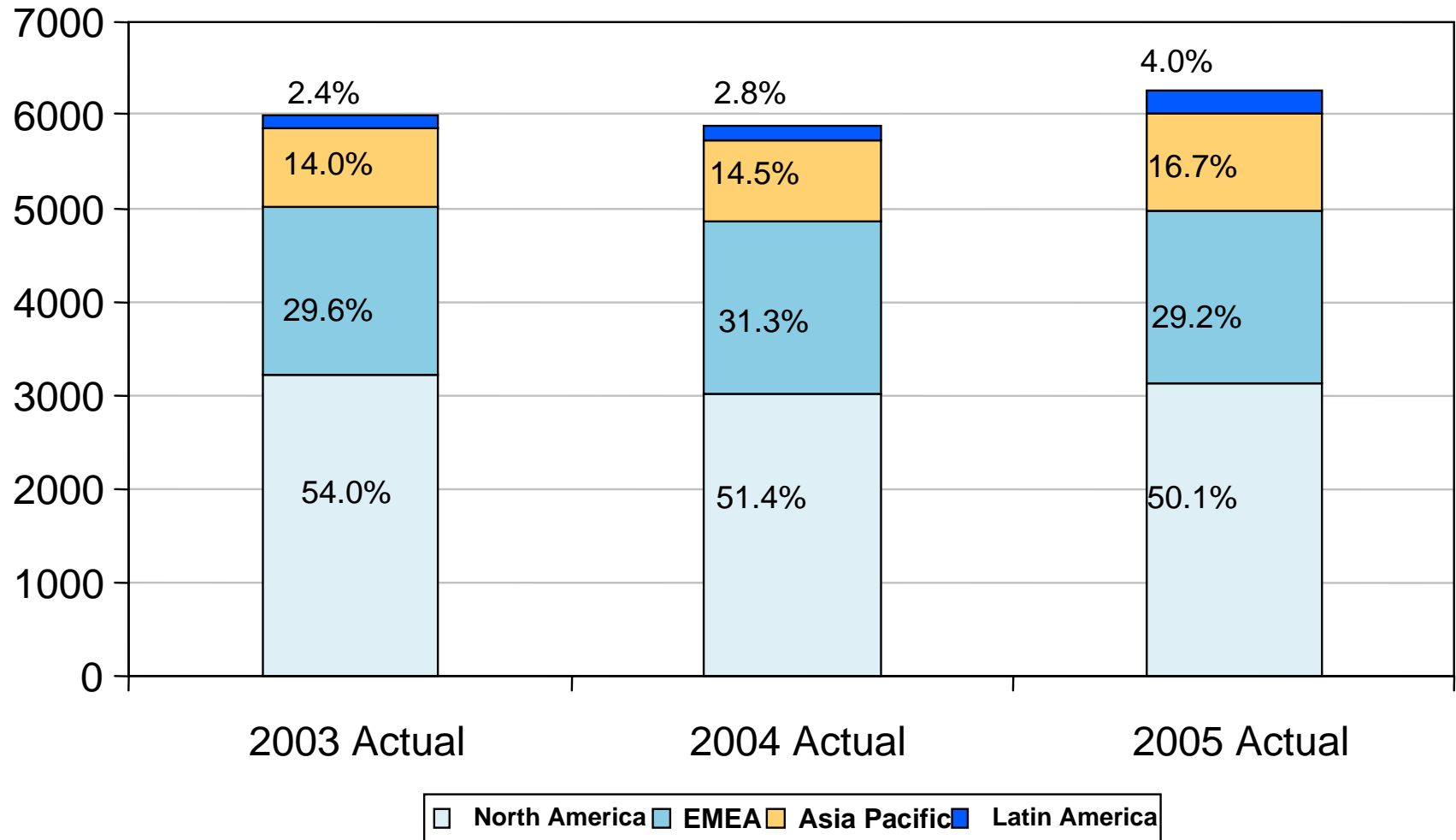
Full Year adjusted



Quarterly adjustments: Excludes MedQuist, Volumetrics settlement Q4 04 EUR 133 m, Stentor impact 2005: Q3 EUR 11 m, Q4 EUR 10 m

Full year adjustments: Excludes MedQuist, 2003 special items (See annual report), 2004 Volumetrics settlement EUR 133 m, 2005 Stentor impact EUR 21 m

Regional sales to thirds mix – Emerging markets



Market-in Benefits

Customer

- Simple One Philips experience for customers
- Top solutions for customer, and patients
- More innovative power from across business units

Business

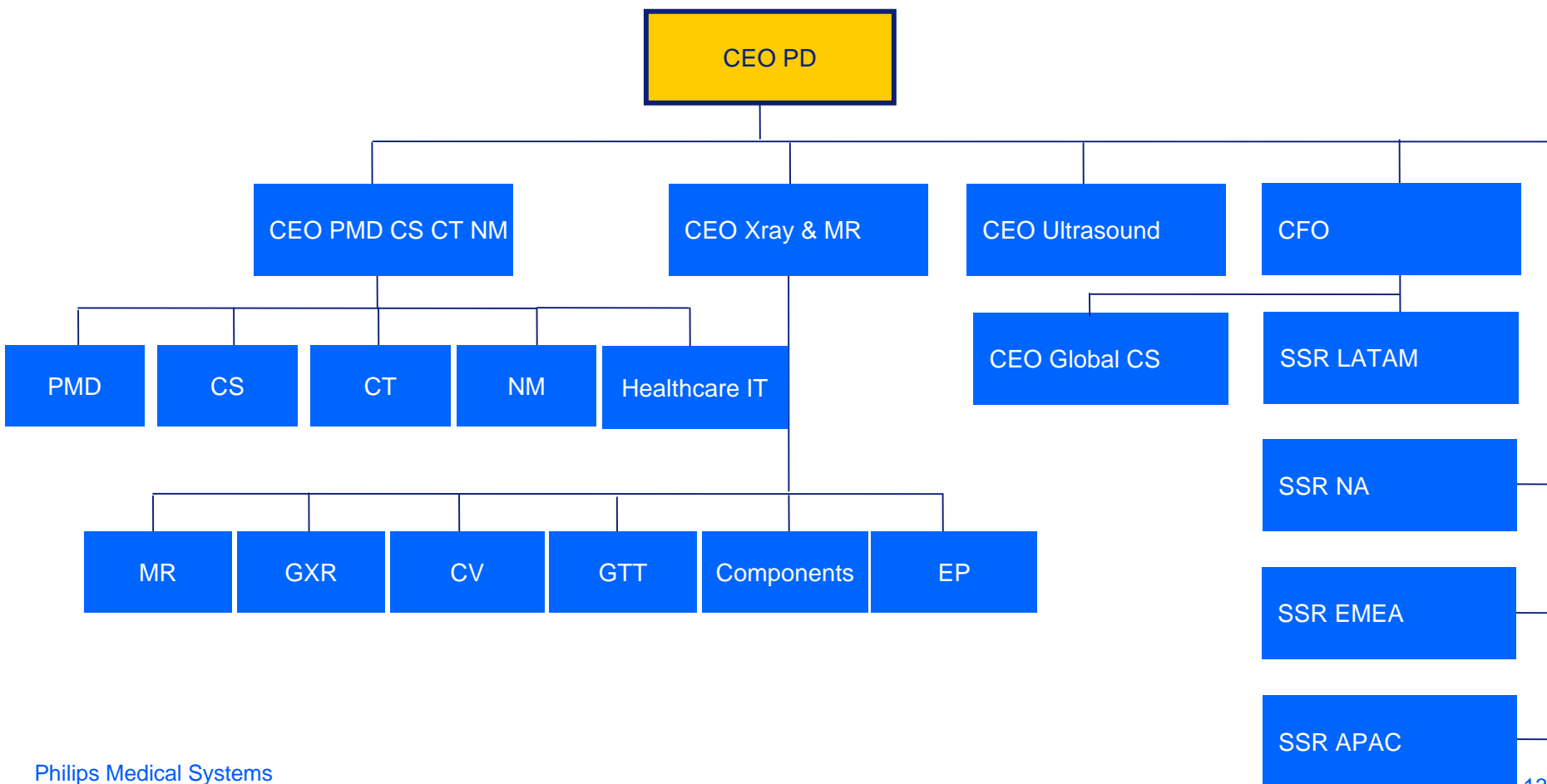
- Growth and cost-effectiveness of shared resources
- Global operation in 'fast transaction' mode
- Synergy selling of combined businesses

Employee

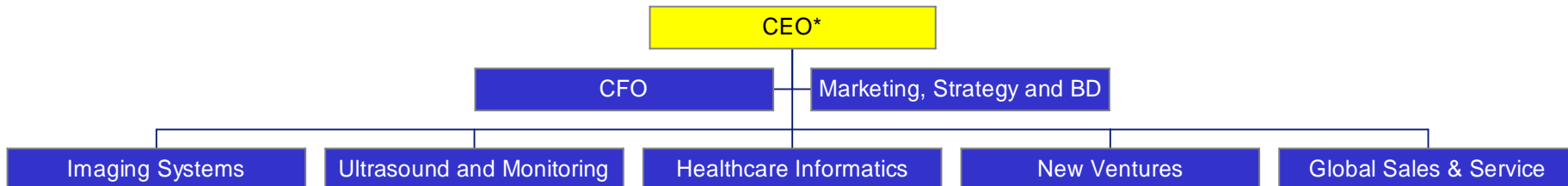
- A better place to work: grow and retain talent
- Increased speed of decision-making



Market-in Simplify structure - past



Market-in Simplify structure - present



Mission

Grow

Margin points
Time-to-market

Accelerate

Margin points
Market position

Differentiate

Competitive
position
Customer
perception

Innovate

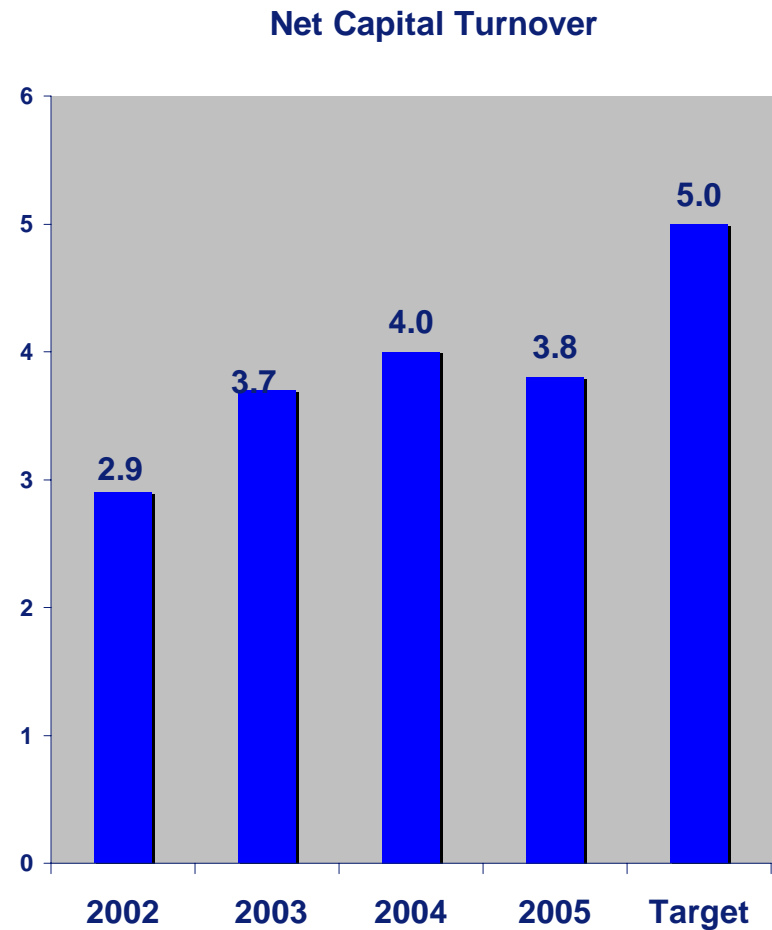
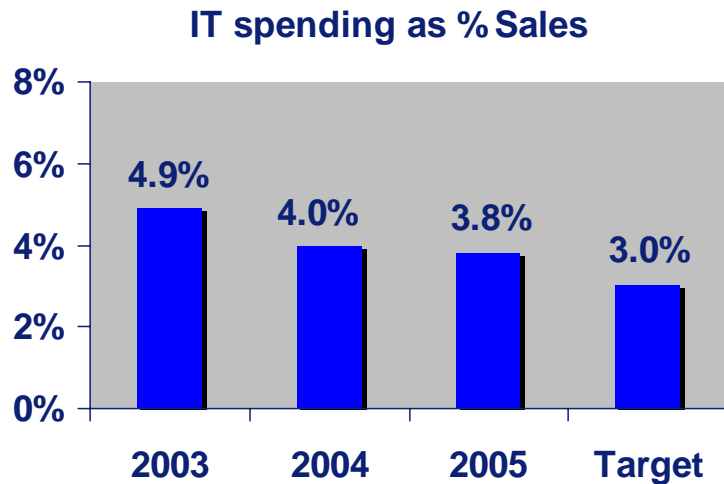
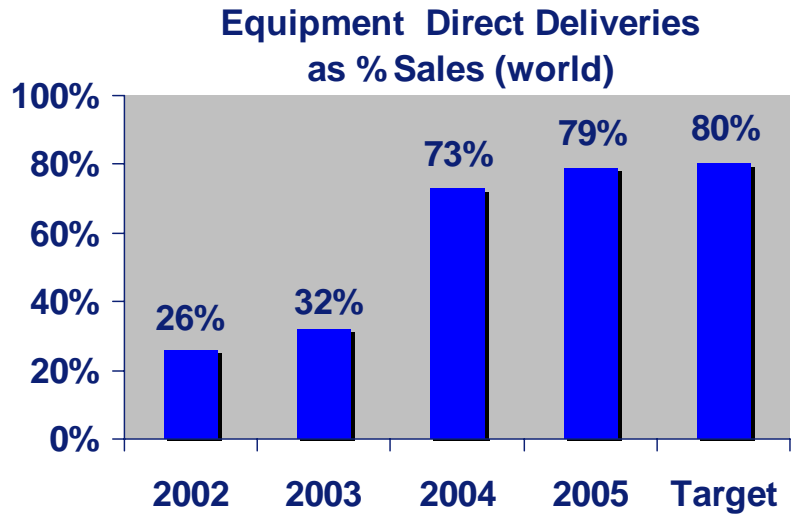
Solution
development
Acquisitions

Focus on Market

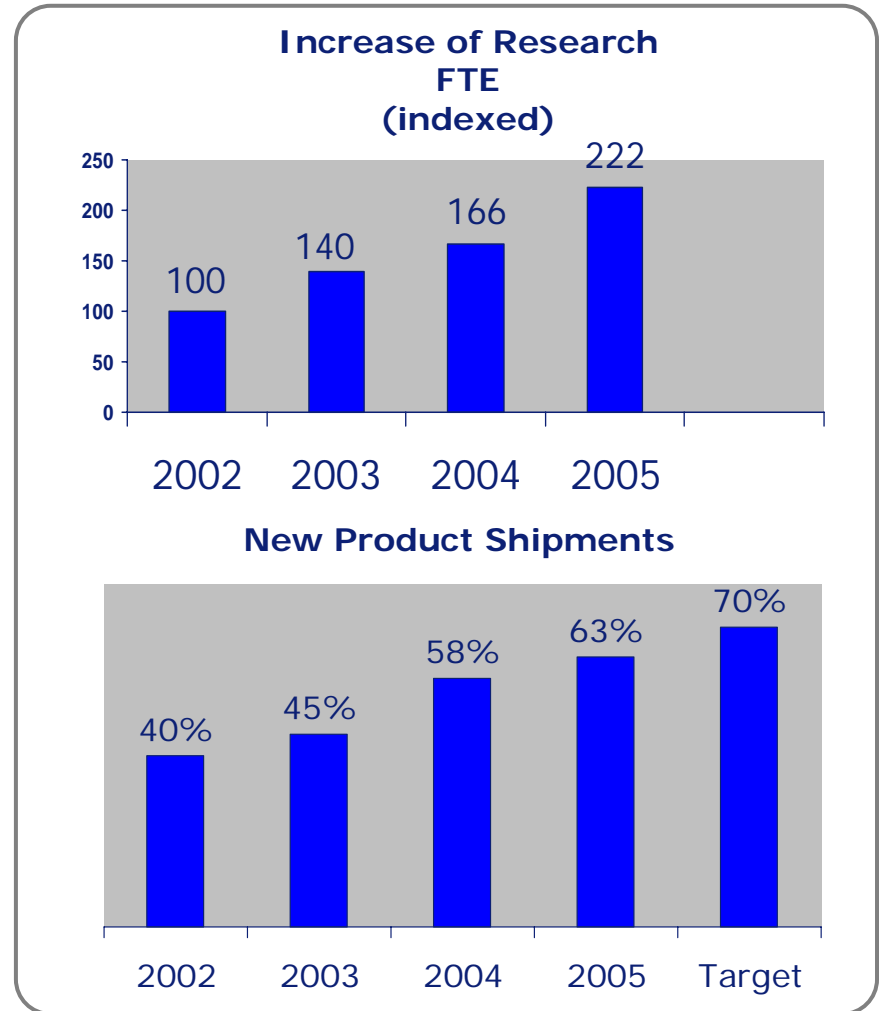
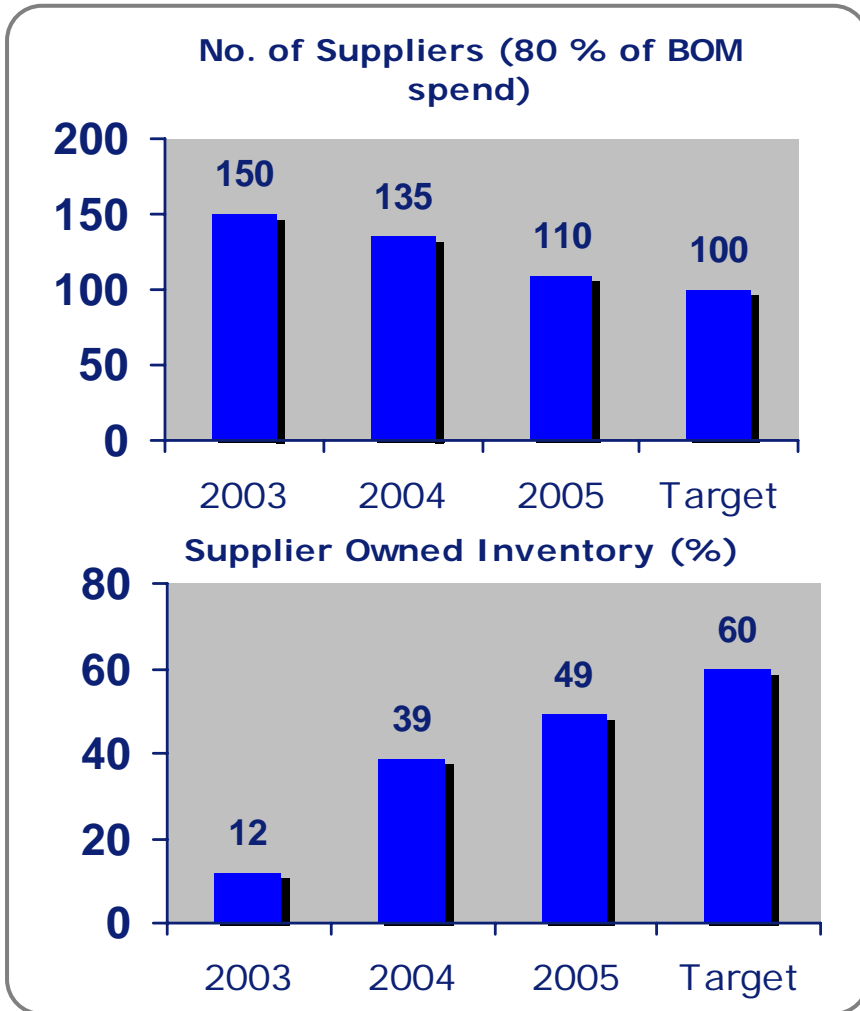
Customer intimacy
Solution Lifecycle
Management

*HR/MD, TQM, Legal and Science (50%) also report to CEO

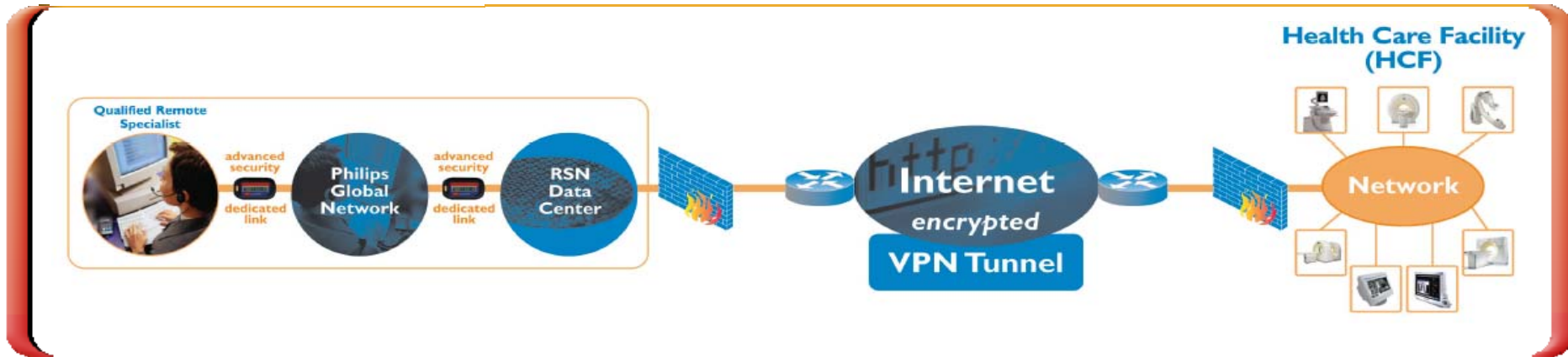
A Faster, More Efficient Supply Chain



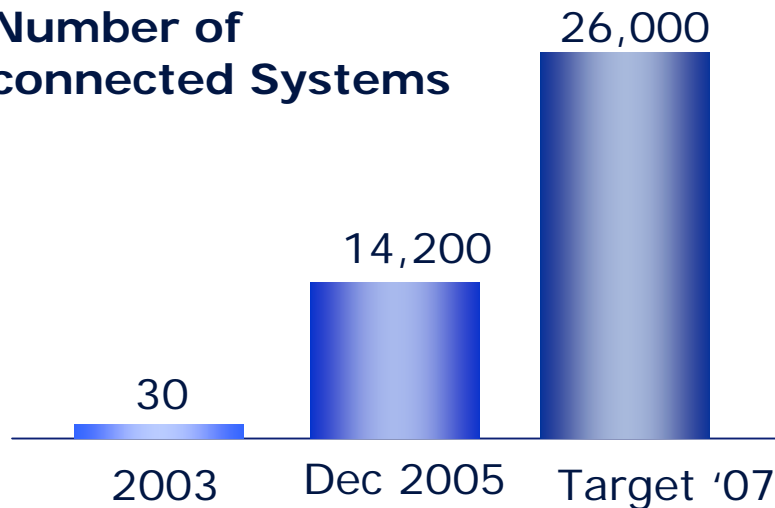
Accelerate Innovation & Integrate Supply Base



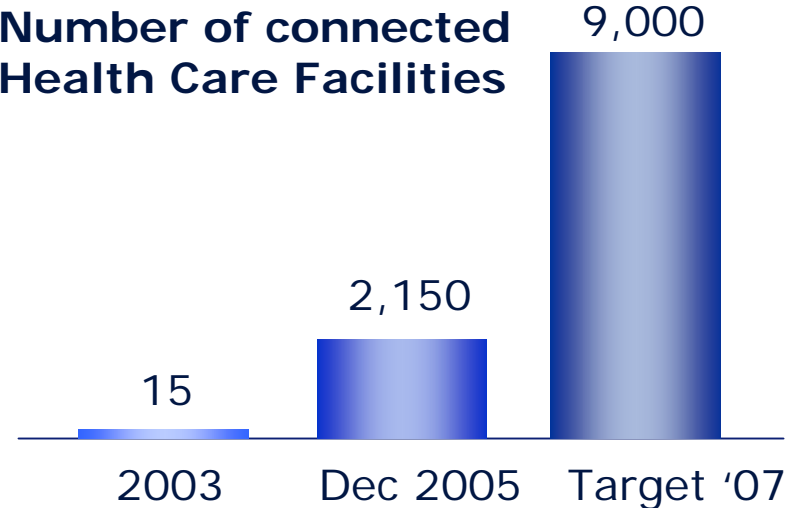
Aggressive Rollout of Remote Services



Number of connected Systems

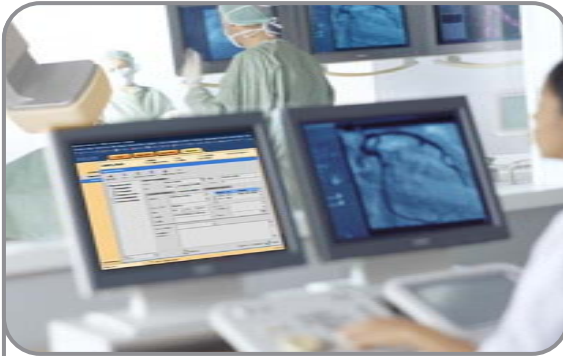


Number of connected Health Care Facilities

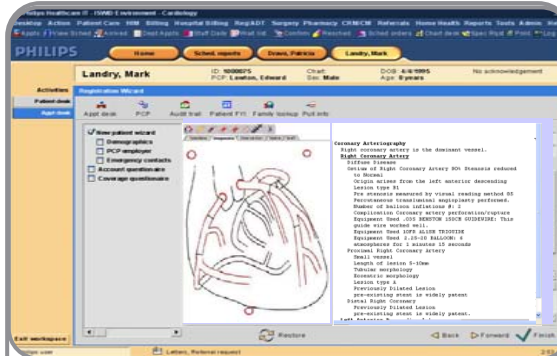


Rollout progress of remote services

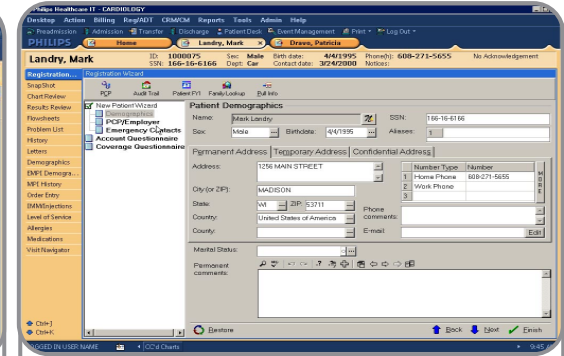
Expanding in Healthcare IT Full Enterprise IT portfolio



Imaging Modalities & Monitoring



Clinical Specialty Solutions



Enterprise Solutions

Guaranteeing a consistent Experience

Margin Expansion

- Simplification of organization
- New economy products
- Continued improvements in supply management, supply chain and IT
- Continue high innovation rate
- More efficient services delivery model
- Continued investment in Healthcare Informatics

Simplify
your work

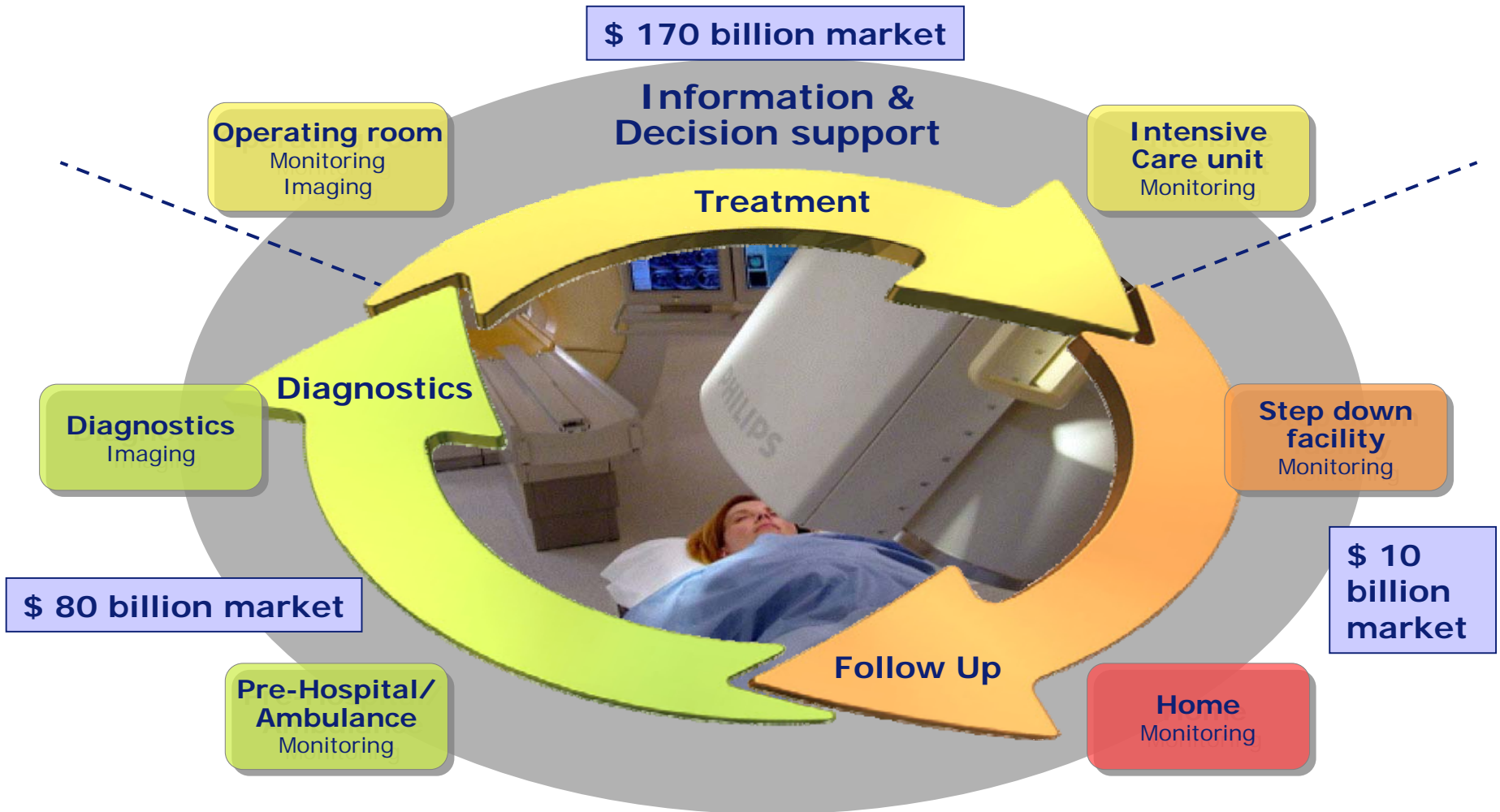


Philips Medical Systems

- Improvement – Metric of Success
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Focus on the Care Cycle – space to grow

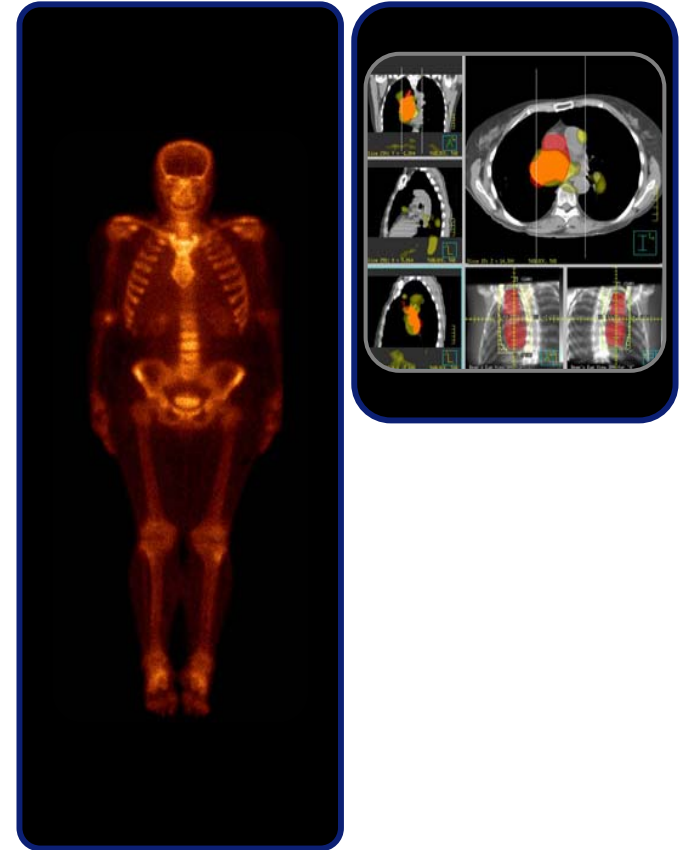


Market size for medical devices and equipment

Innovation drives profitable growth



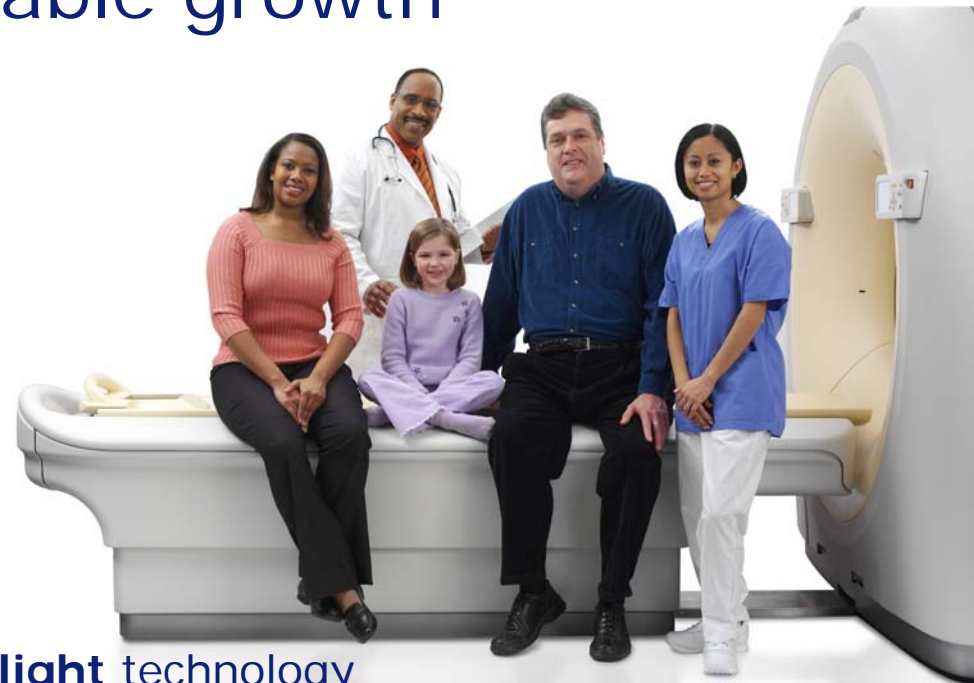
Gemini PET-CT



Innovation drives profitable growth

New Philips **GEMINI TF**
with **TruFlight** PET technology

Perfect for every body.



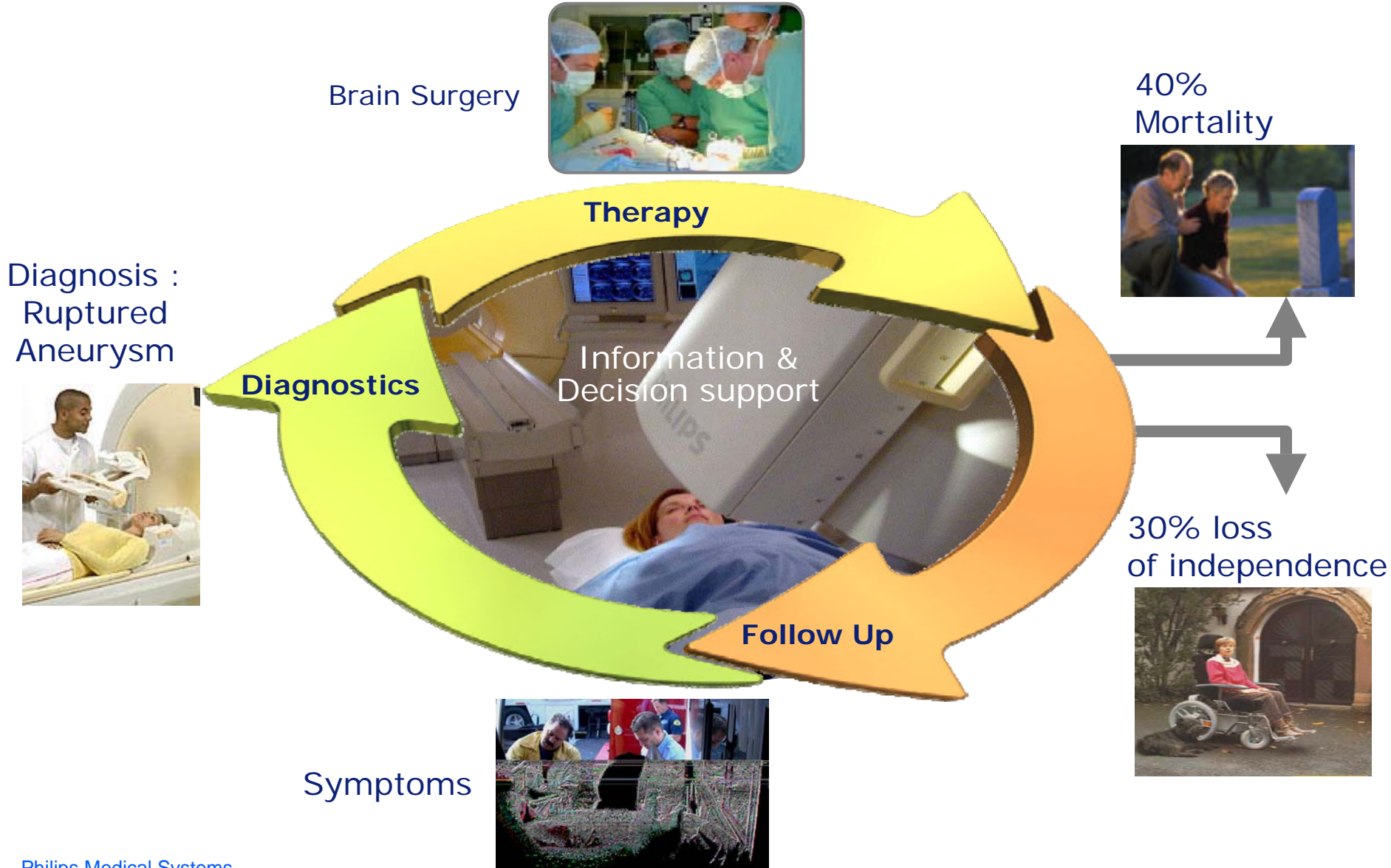
- Extracts the true benefits of **time of flight** technology
 - Improved PET/CT image quality, diagnostic accuracy & patient throughput
- New benchmark for **large patients**
- **Higher sensitivity** for Molecular Imaging

The new standard in speed, comfort, clarity and flexibility.

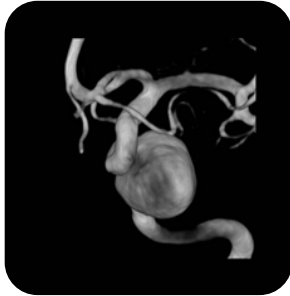
Innovation drives profitable growth



Current Care Cycle - stroke



New Care Cycle - stroke



Diagnosis :
Ruptured
Aneurysm

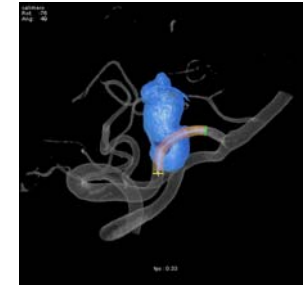


Diagnostics

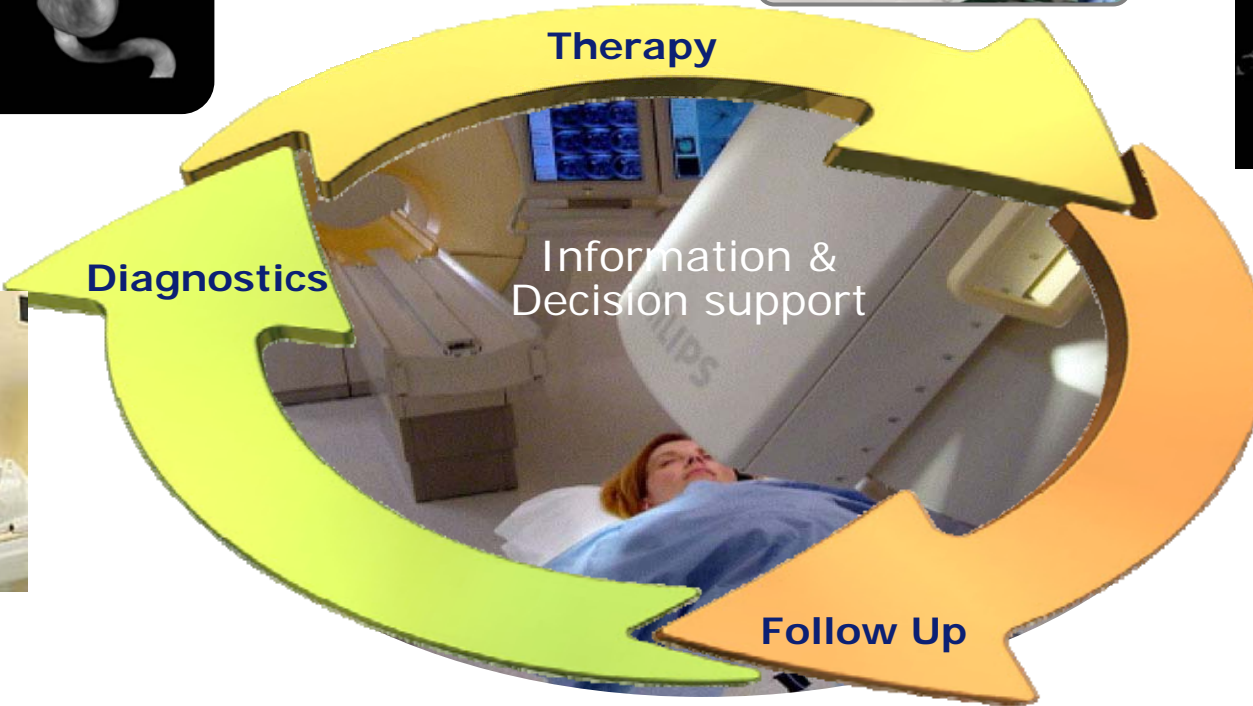
Minimally
Invasive
procedure



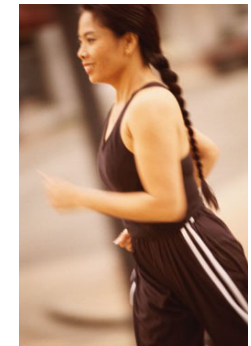
Therapy



Information &
Decision support



Symptoms

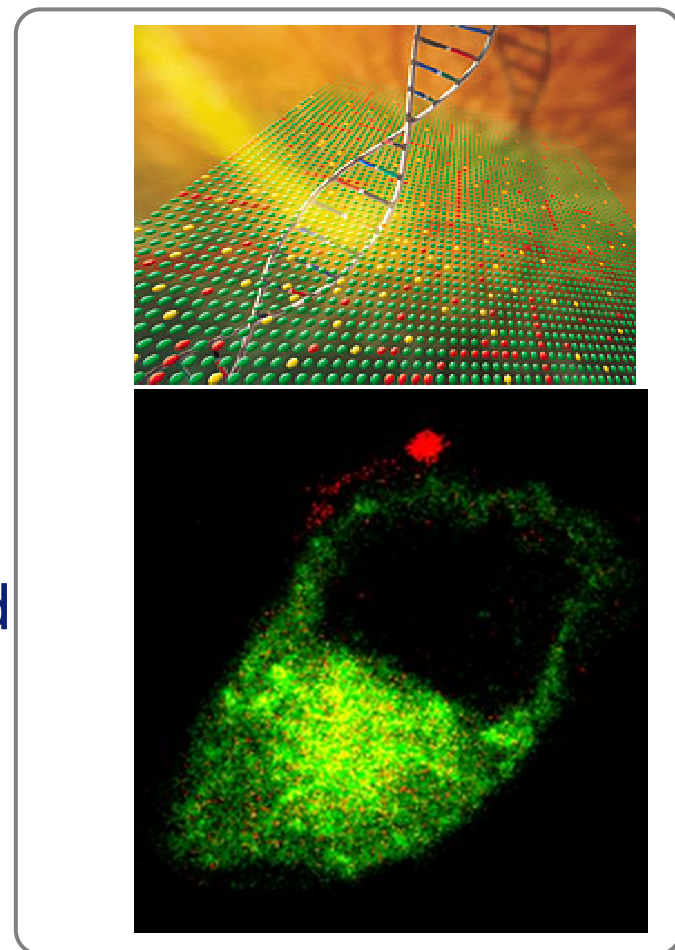


Focus on Care Cycle - Molecular Medicine

Building the new Medical Paradigm

Your own biochemistry becomes the basis for diagnosis and treatment

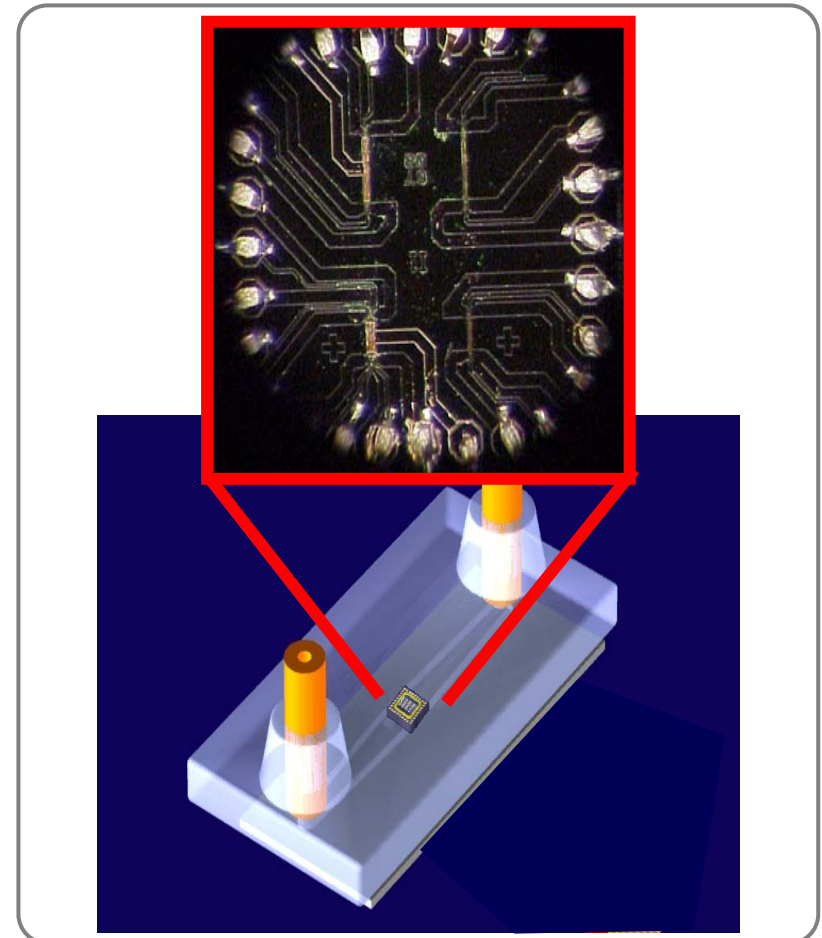
Molecular Medicine to detect and treat disease early



...Breakthrough in Biochips for molecular biomarkers

Building on Philips competences

- Sensitive and compact magnetic detection techniques
- Magnetic nanoparticles as detection probes for bio-molecules
- Semiconductor technology
- Order of magnitude more sensitive than current technologies

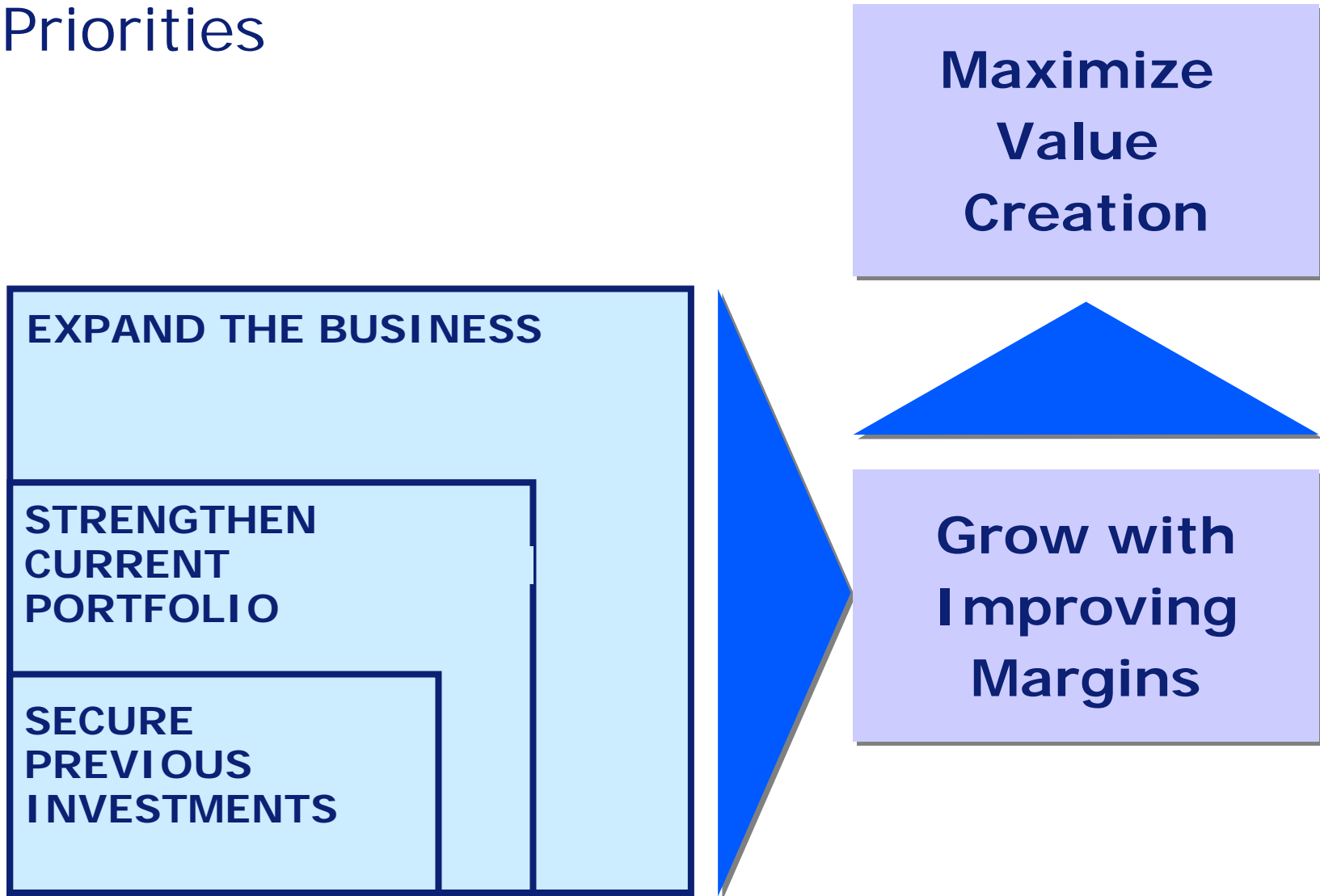


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Priorities



Do it right is more important than do it now Acquisition Approach

- Growth opportunities
- No or time-limited margin dilution
- Clear commercial, clinical, and technology synergies
- Complementary position
- Strong market position
- Integration strategy part of acquisition decision
- Walk-away price set at discussion start
- A good alliance is an alternative to acquisition

Value Creation

Witt Biomedical Transaction

- Acquired Witt Biomedical (Melbourne, Florida)
 - #1 in hemodynamic monitoring and clinical reporting in the USA, KLAS, 2005
 - leading position in the hemodynamic market: 38% in the US and 20% globally
 - shared vision of offering innovative, integrated Cath Lab solutions for the global market
 - builds on Philips' leading position in cardiovascular x-ray
- Acquisition price
 - US\$ 165 (approximately EUR 140) million
 - sourcing: cash on hand
- Anticipated closing Q2 2006
 - conditions to closing: receipt of required government approvals and other customary conditions
 - as fully consolidated business unit within Philips Medical Systems

Conclusions

In the past three years we have built

- a strong team
- a track record of improvement
- a track record of innovation

For the coming few years we have

- many quantified improvement opportunities
- a few additional margin points to gain
- identified priorities for further expansion

We have a clear set of game rules as we determine our own path

