

PHILIPS

Progress Report

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Philips Medical Systems

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 measures 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.

Progress Report

Growth and Margin Expansion

Where do we go from here



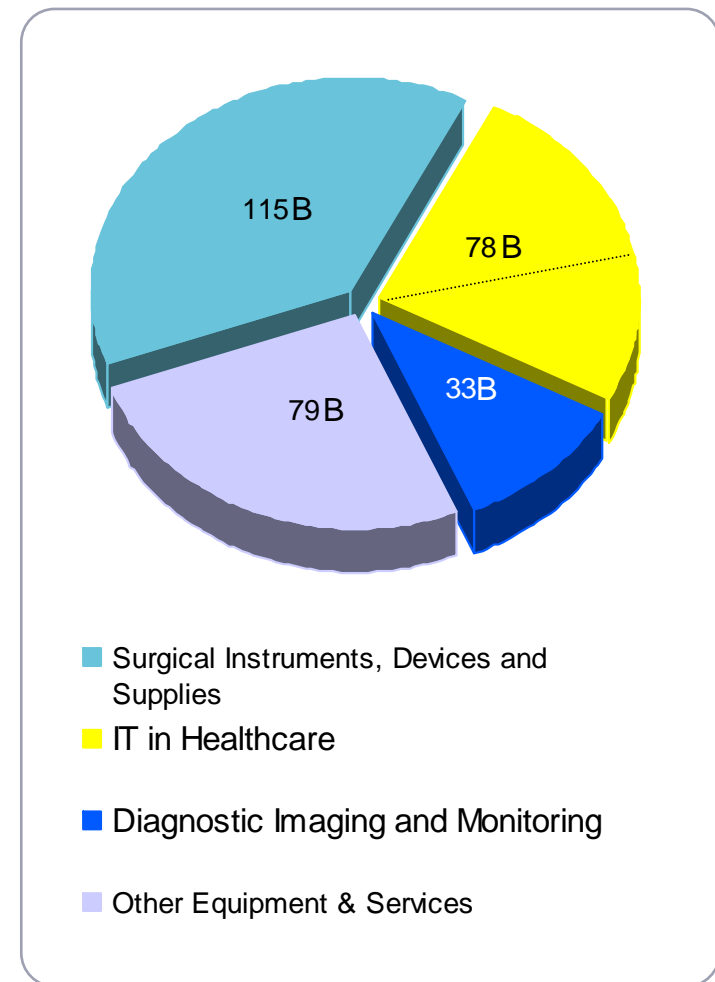
The Medical Systems & Device Market

Main categories

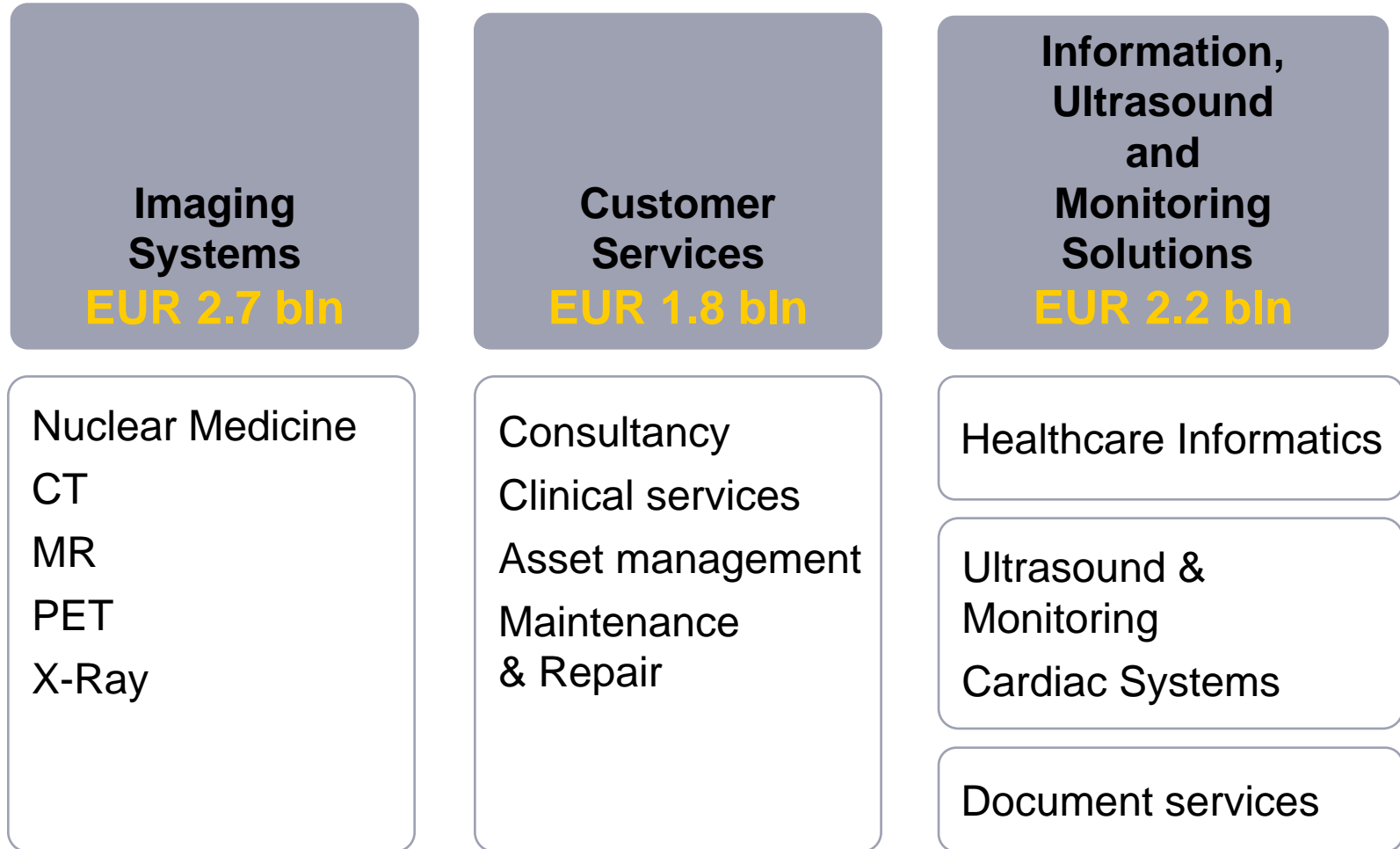
Medical equipment, services, devices and supplies > \$ 300 billion worldwide, 2005

- Long term growth Imaging and monitoring 4-5%
- IT in Healthcare 7%
- Price erosion 2-3%

Philips focuses on a \$ 64 bln market

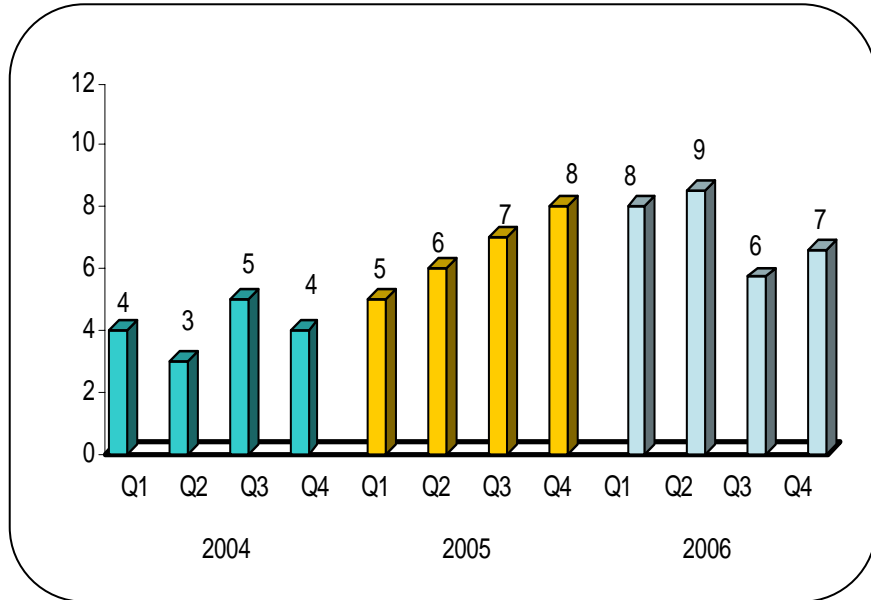


Philips Medical Systems



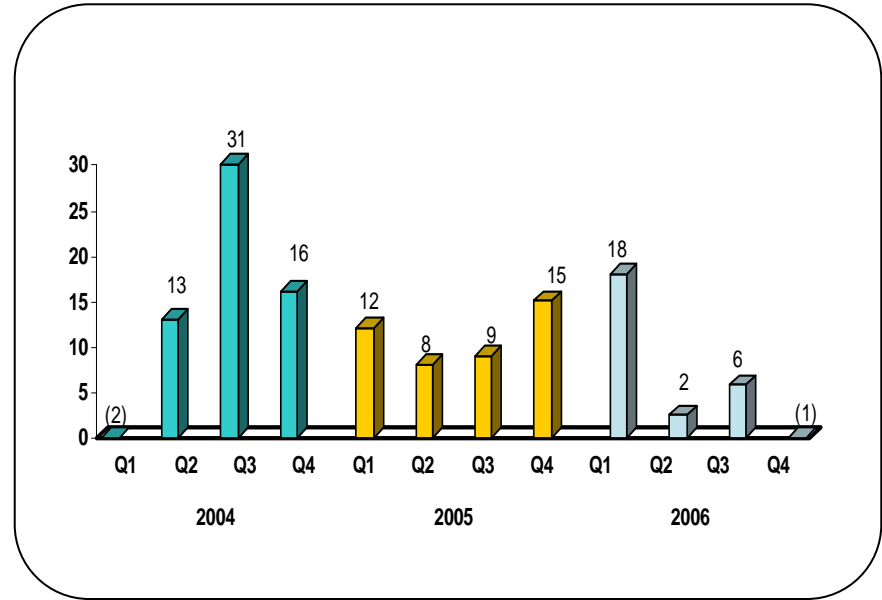
Sales growth

Quarterly comparable sales growth %

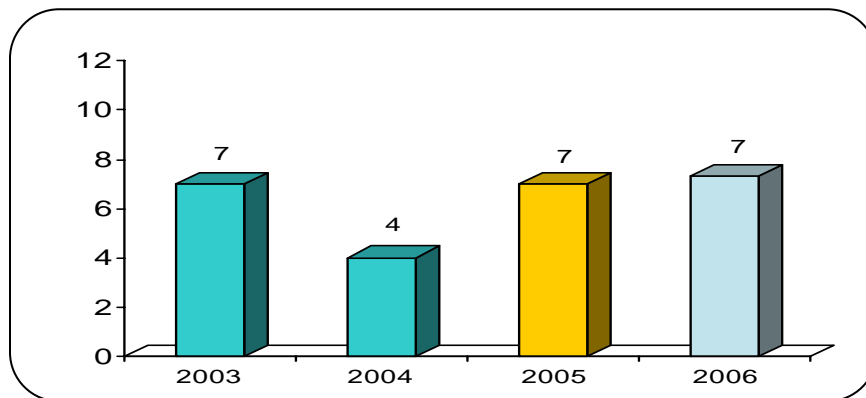


Equipment Order growth

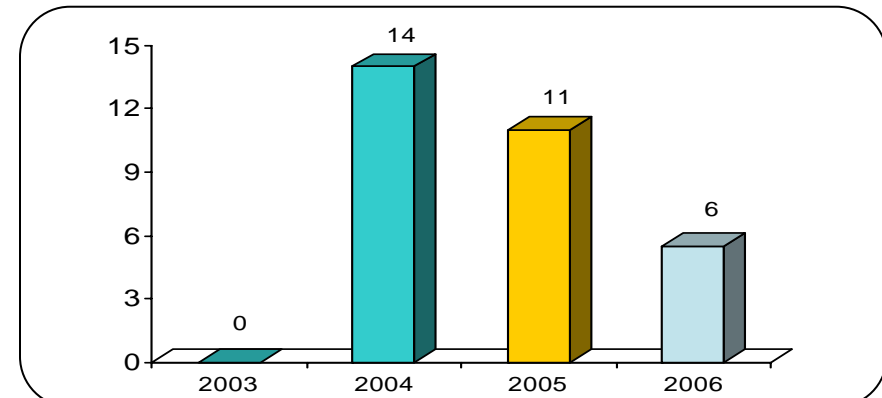
Quarterly currency adjusted orders growth %



Full Year comparable sales growth %



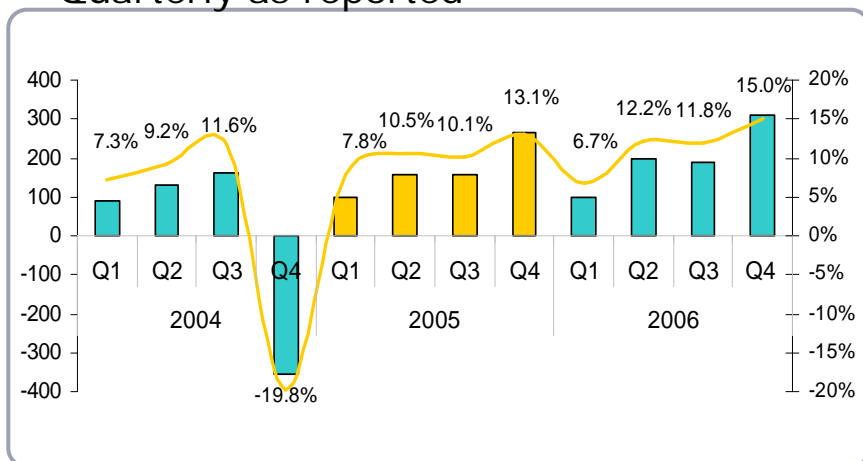
Full Year currency adjusted orders growth %



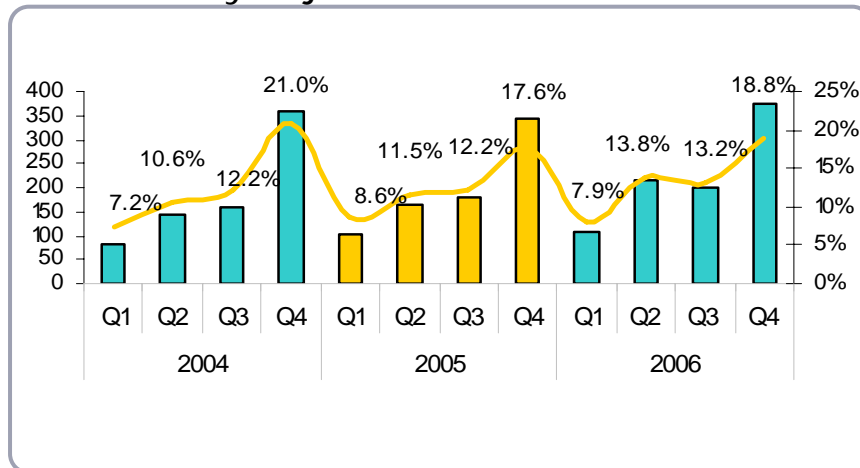
Quarterly adjustment: Belfast order in Q4 2005
 Full year adjustment: Belfast order in 2005

EBIT (in millions of euros)

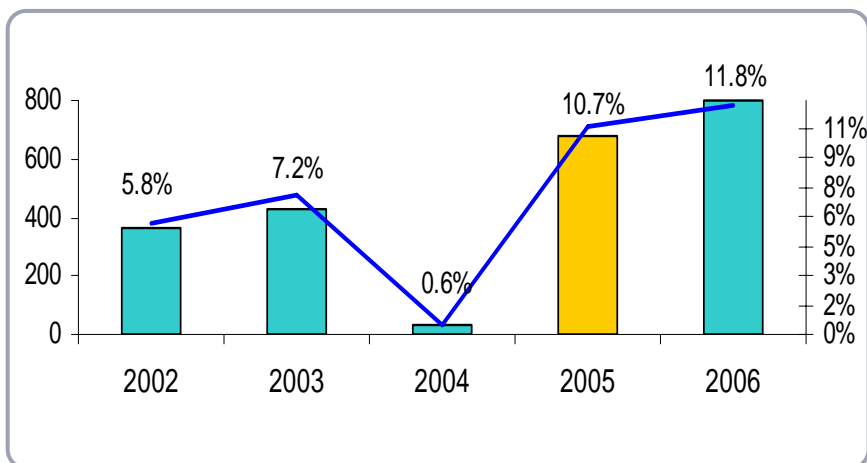
Quarterly as reported



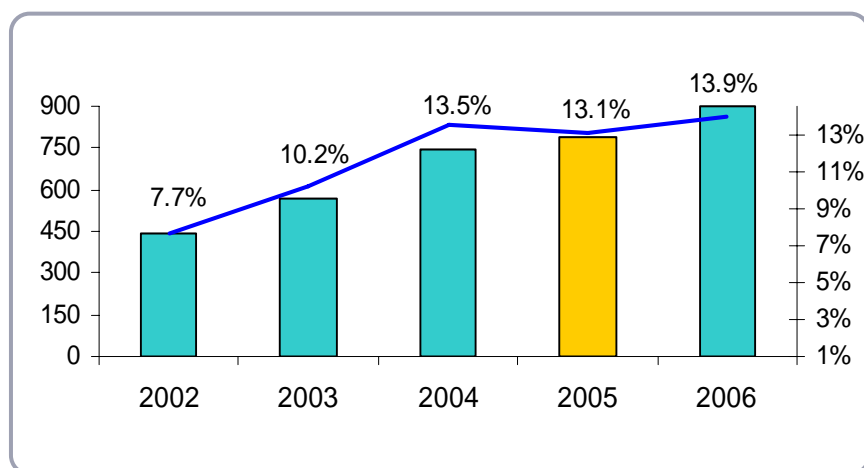
Quarterly adjusted



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; 2006 excludes Stentor and IPC purch. acc. Q1 EUR 4 m., Q2 9 m., Q3 9 m., Q4 2 m. and IGC purch. acc. and related restructuring cost EUR 65 m.

Full year adjustments: Excludes MedQuist, 2003 special items (See annual report), 2004 Volumetrics settlement EUR 133 m, 2005 Stentor impact EUR 21 m, 2006 Stentor and IPC purch. acc. impact EUR 23 m. IGC purch. acc. and related restructuring cost EUR 66 m.

Margin expansion

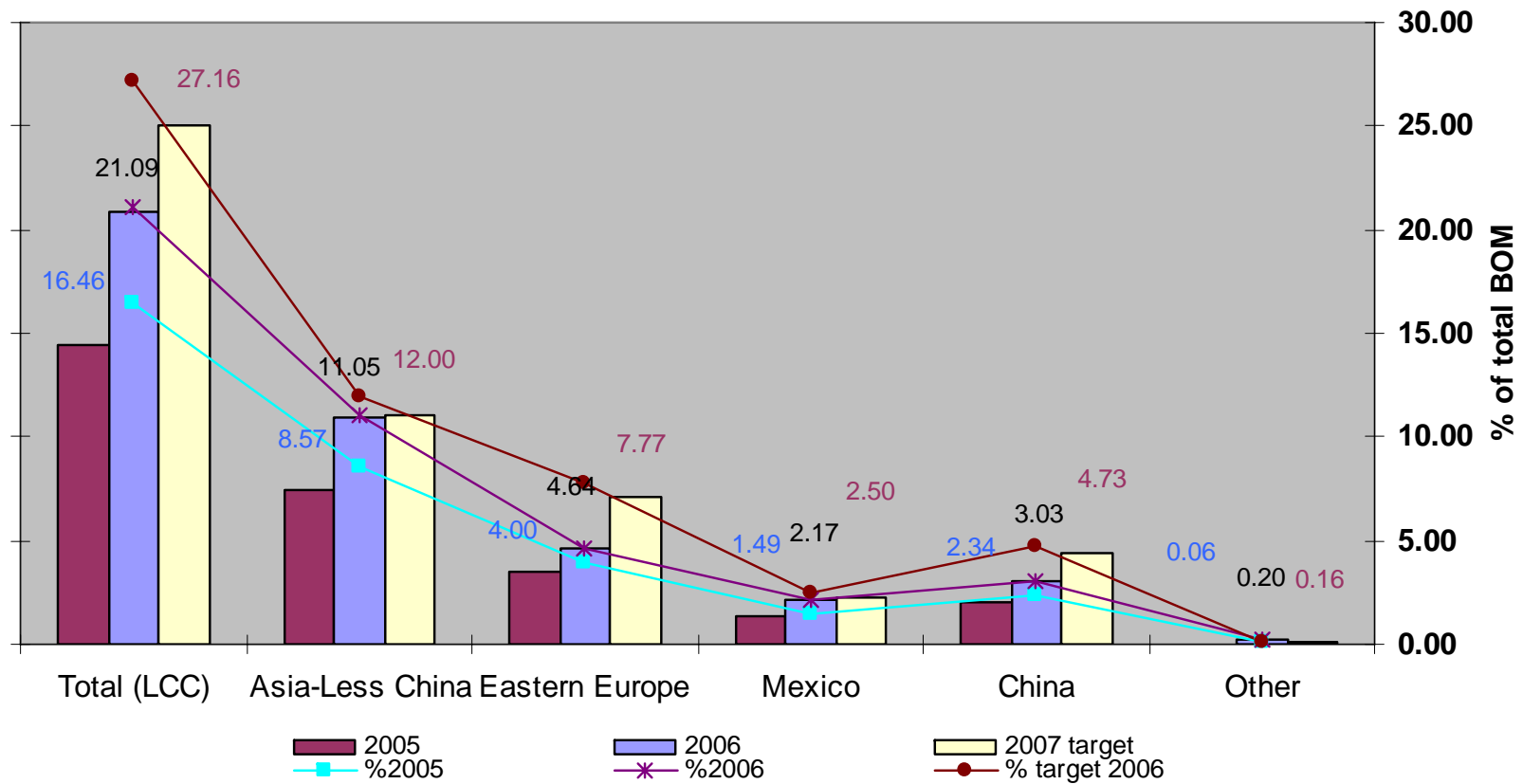
In addition to continued improvements

- supply management, supply chain and IT, high innovation rate etc. -

Opportunity	Action
Emerging Market Growth	Accelerate Philips – Neusoft JV Add local for local acquisitions
Product Service Mix	Continue to Drive Contract Penetration Service Scope Increase
Channel Productivity	Single Global Sales and Service Organization Optimize Direct/Indirect Channel Split
Imaging optimization	Industrial and functional simplification
Low Cost Sourcing	Accelerate Sourcing from Low Cost Areas



Sourcing from low-cost Countries is Increasing....



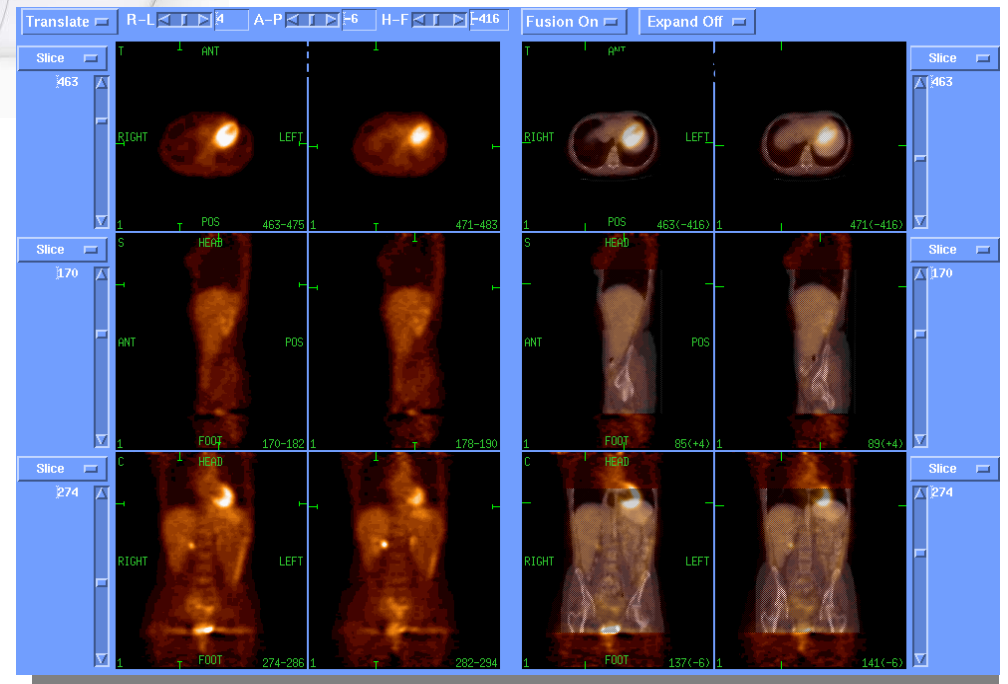
PET-CT: Gold standard for tumor staging and metastasis diagnosis



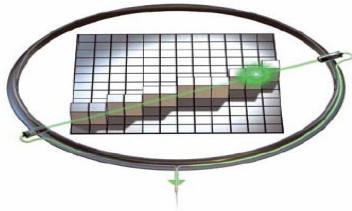
GEMINI TF™

first *PET/CT* scanner with *time-of-flight* technology

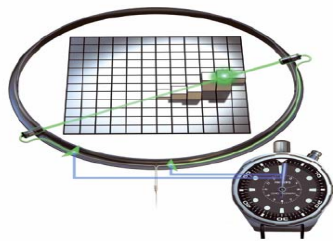
- 20% better spatial and contrast resolution
- Detects previously obscured tumors
- Almost doubles patient throughput



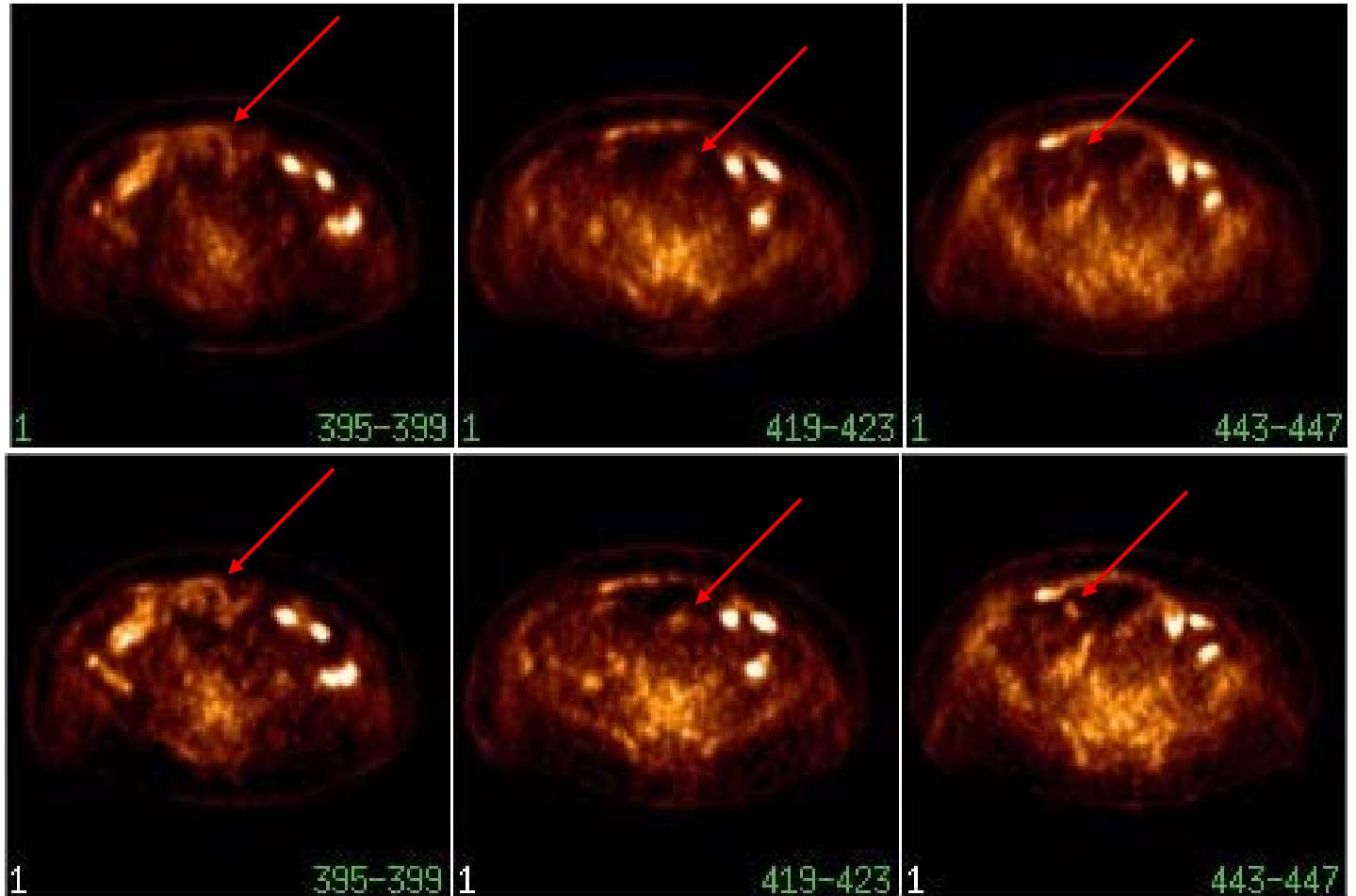
Gemini TF – Unique resolution through time-of-flight Technology



Coincidence and Back-projection



Timing within coincidence window



Data courtesy of J. Karp, University of Pennsylvania

Agenda

Growth and Margin Expansion

Where do we go from here



Portfolio Expansion - Acquisition of Stentor, Inc. #1 Rated PACS vendor

Stentor History:

- Founded in 1998, based in Foster City, CA, US
- Unique Service Delivery Model
- #1 ranking in KLAS last 3 years in a row
- Fully integrated within 5 months
- Orders doubled in 2006 to \$ 260 million, expect ~30% growth in 2007
- Sales grew 25% in 2006, we expect ~65% growth in 2007
- Performance level is well ahead of original plans
- Expansion into Europe taking place
- Growth is combination of excellent Stentor product and Philips' customer relations



Portfolio Expansion - Acquisition of Witt Biomedical #1 rated Hemodynamic company

- Acquired April 27, 2006 and positioned Philips as the #1 global provider of fully integrated Cath Labs
- 2006 order intake grew by 34% and we expect ~70% growth in 2007
- 2006 sales grew by 10% and we expect ~50% growth in 2007
- Performance level is well ahead of original plans
- Philips now ranked as number 1 in Hemodynamic Reporting with no position prior to acquisition

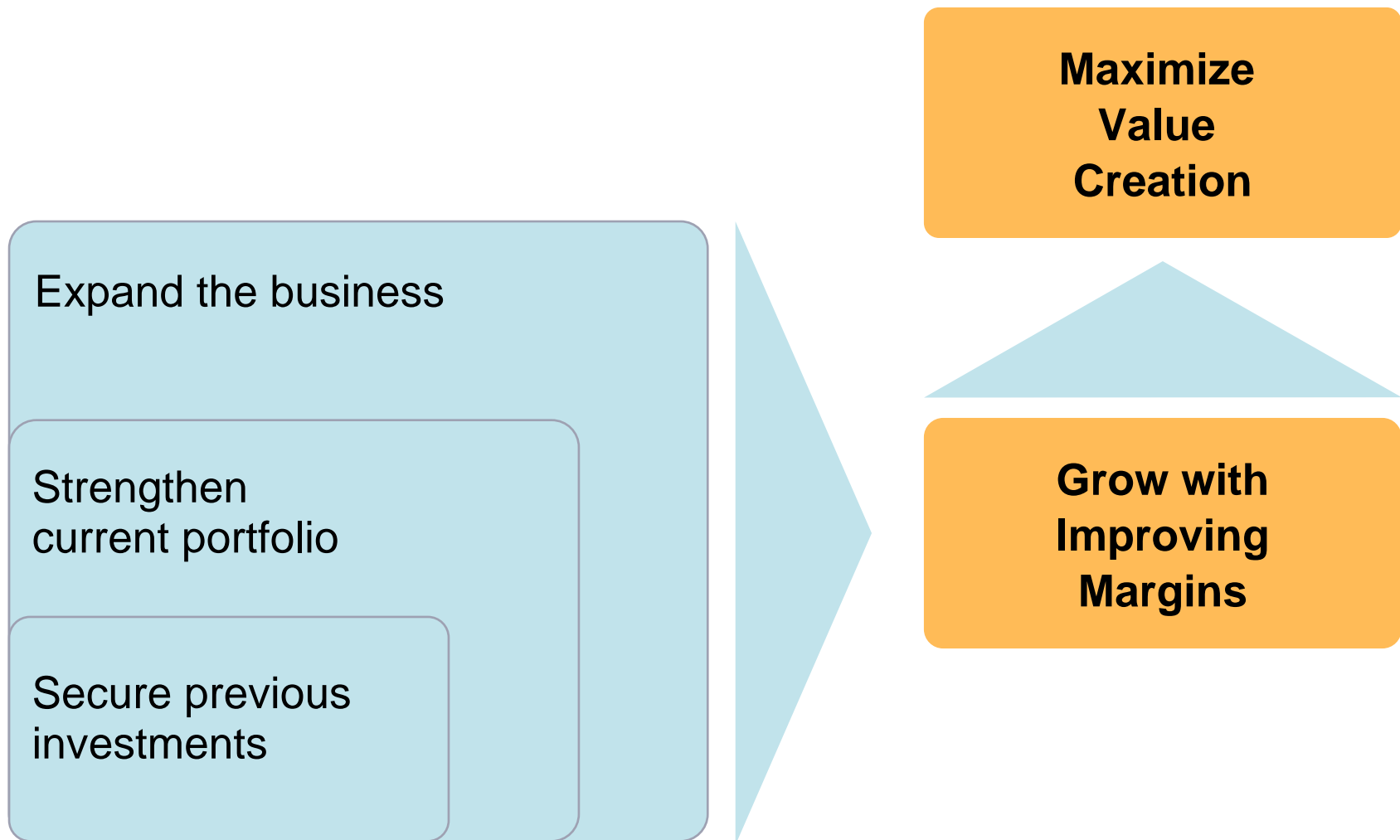


Portfolio Expansion - Acquisition of IGC #1 in MR magnet technology and coils

- Philips' sole supplier of magnets for MR systems
- ~4 points additional growth in Philips' MRI market share within 3 years
- Improved supply chain cost, 3-5 margin points
- Acceleration time-to-market by approx. 20-25%
- Rationalize business footprint of Philips' MR business
- Growing coils & monitoring business using our global reach
- Expands PMS's portfolio with leading position in MR compatibles patient monitors



Priorities



Do it right is more important than do it now

Acquisition Approach

- Growth opportunities
- No or time-limited margin dilution
- Quality of Management
- 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

