

# PHILIPS



**Paul Smit**  
**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. 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, changes in tax rates and future business combinations, acquisitions or dispositions and the rate of technological changes, political and military developments in countries where Philips operates and industry consolidation. Statements regarding market share, if any, 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-US GAAP financial measures. These non-US GAAP financial measures should not be viewed in isolation as alternatives to the equivalent US GAAP measure(s) and should be used in conjunction with the most directly comparable US GAAP measure(s). A discussion of the non-US 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.

## *Use of fair value measurements*

In presenting the Philips Group's financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that are deemed to be reliable. Readers are cautioned that these values are subject to changes over time and are only valid at the balance sheet date. When a readily determinable market value does not exist, fair values are estimated using valuation models which we believe are appropriate for their purpose. They require management to make significant assumptions with respect to future developments which are inherently uncertain and may therefore deviate from actual developments. In certain cases, independent valuations are obtained to support management's determination of fair values.

# Agenda

- Performance Update
- Value Creation Strategy



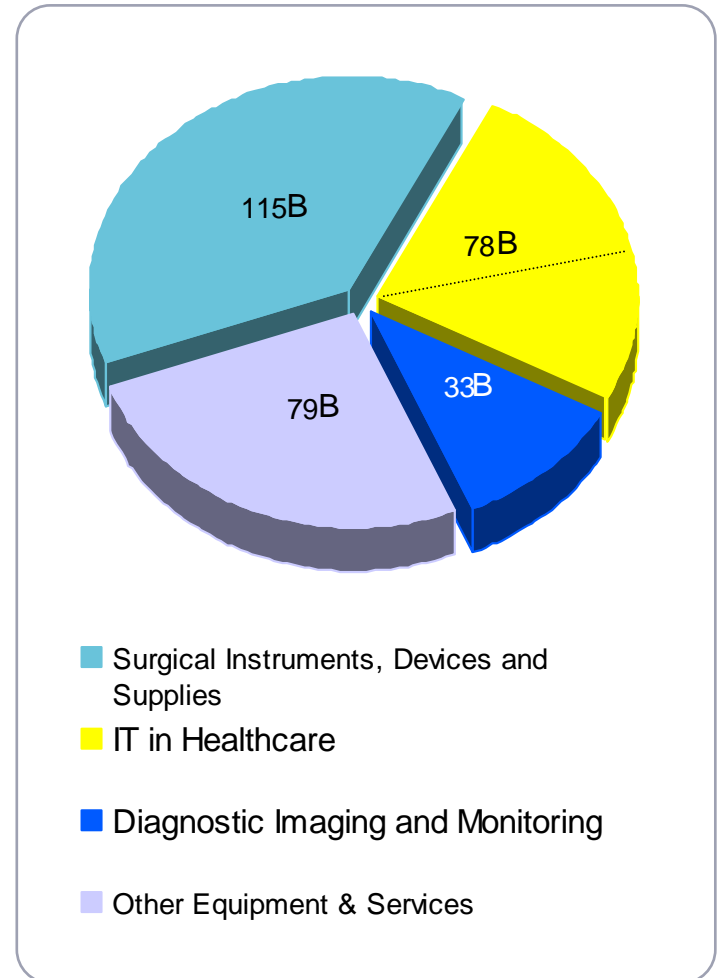
# The Medical Systems & Device Market

## Main categories

Medical equipment, services, devices and supplies > \$ 300 billion worldwide, 2006

- 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: our businesses in 2006

**Imaging  
Systems**  
**€2.7B**

Nuclear Medicine  
CT  
MR  
PET  
X-Ray

**Customer  
Services**  
**€1.8B**

Consultancy  
Clinical services  
Asset management  
Maintenance  
& Repair

**Information,  
Ultrasound  
and  
Monitoring  
Solutions**  
**€2.2B**

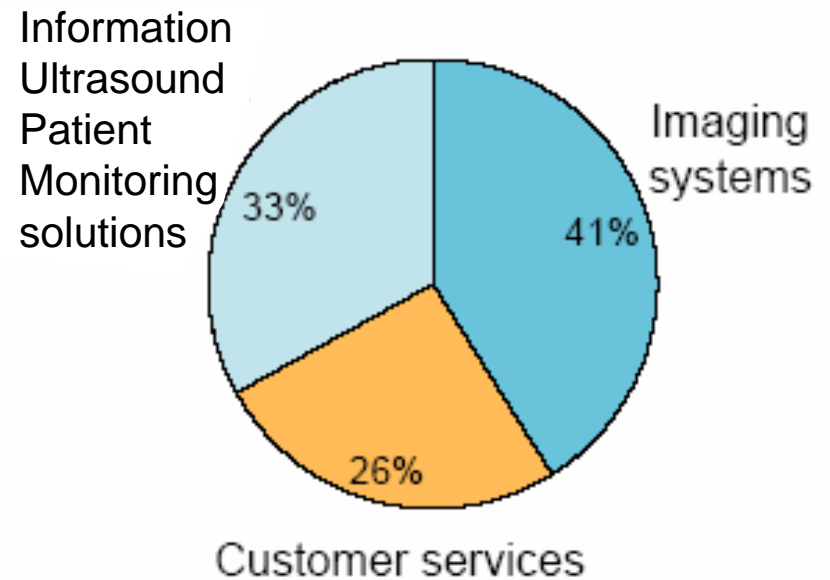
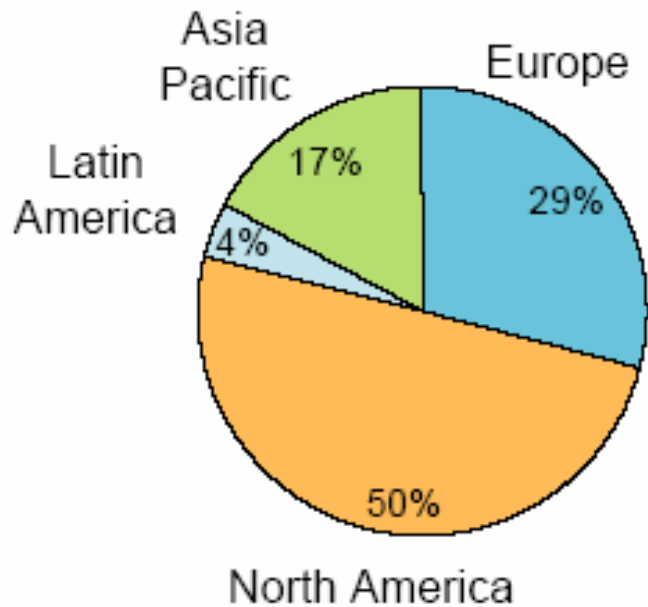
Healthcare Informatics

Ultrasound  
Patient Monitoring  
Cardiac Systems

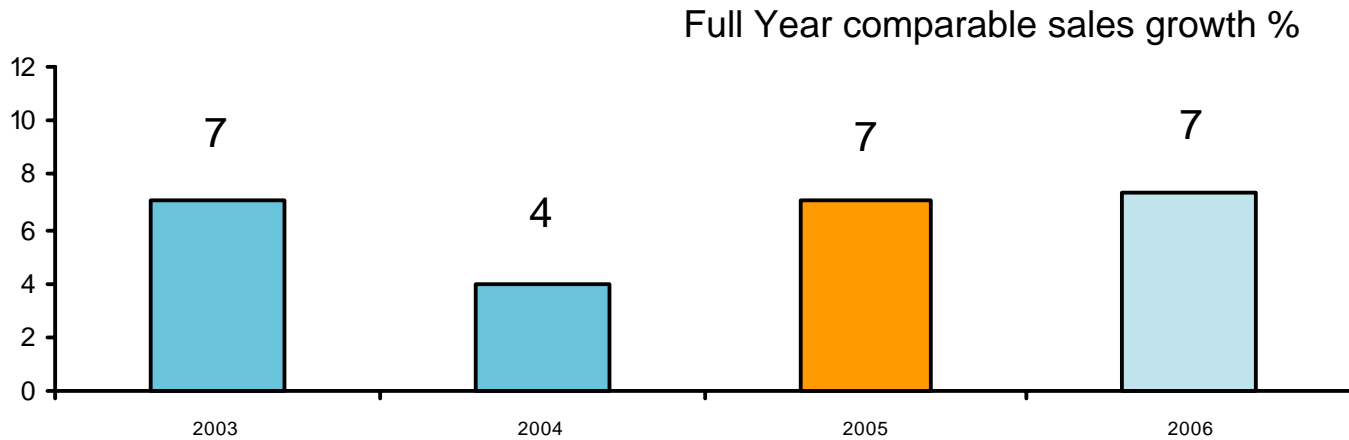
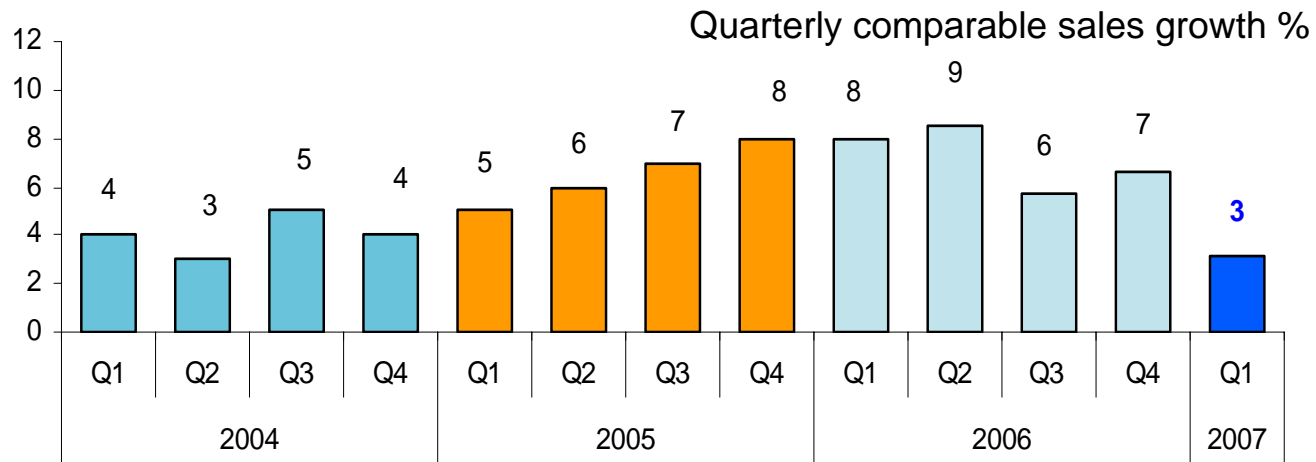
Document services

# Philips Medical Systems: our businesses in 2006

2006



# Sales Growth

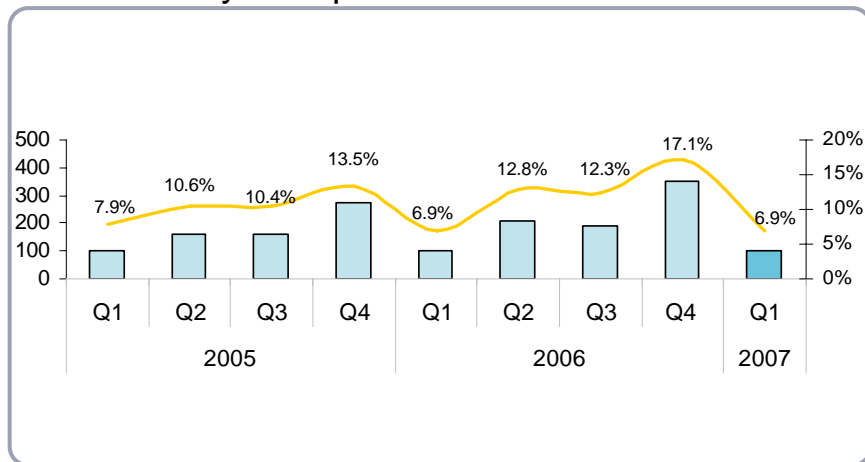


Quarterly adjustment: Belfast order in Q4 2005

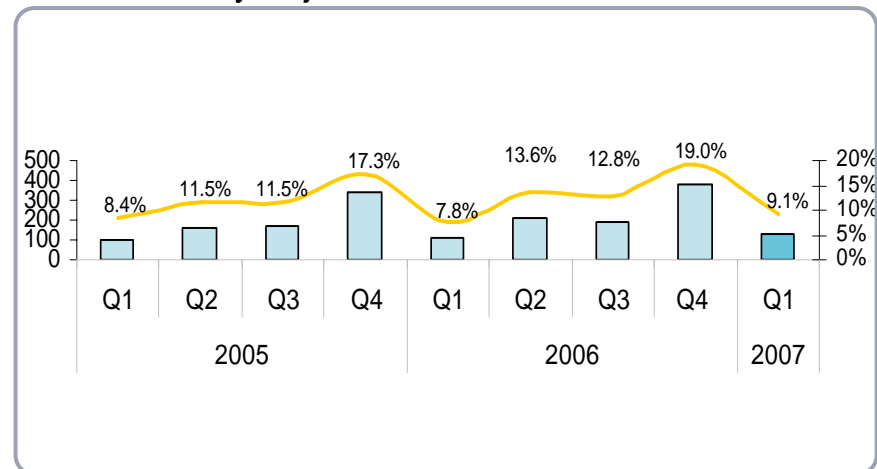
Full year adjustment: Belfast order in 2005

# EBITA (in millions of euros)

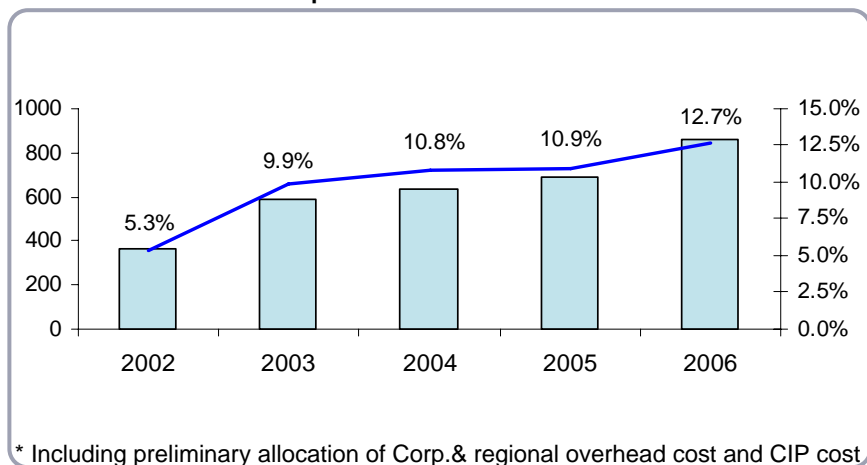
Quarterly as reported



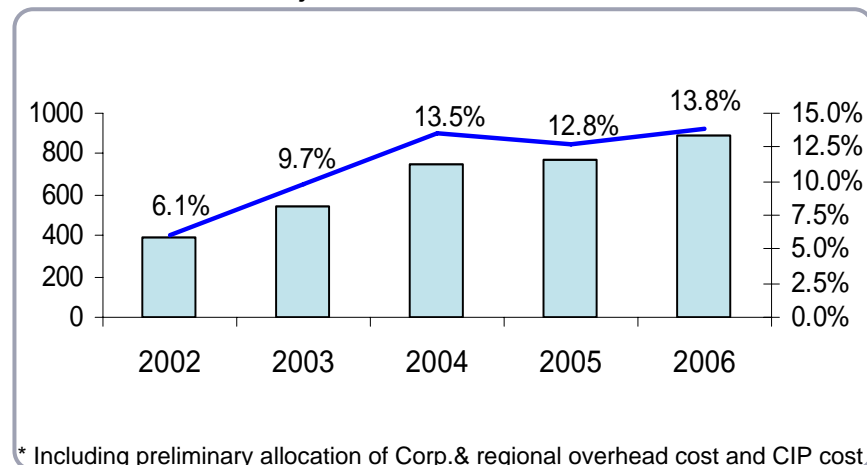
Quarterly adjusted



Full Year as reported



Full Year adjusted



Quarterly adjustments: Excludes MedQuist, 2006 excludes Intermagnetics-related acquisition and integration charges of EUR 31 m.

Full year adjustments: Excludes MedQuist, Excludes reported special items for 2002 and 2003 corrected for amortization, respectively EUR 107 m and EUR 8 m, 2004 Volumetrics settlement EUR 133 m and for 2006 Intermagnetics-related acquisition and integration charges of EUR 31 m.

## Our new technology Introductions in 2006 and 2007

*Some highlights include...*

### Cardiology



EP Navigator



Integrated cath lab



IU33  
2007 vision

### Radiology



Essenta RAD,  
compact radiography system



MX 6000 Dual  
CT scanner

### Acute Care



SureSigns VM, targeting  
Emerging Markets and  
low-acuity settings



Enhanced Clinical  
Decision Support  
applications

### Healthcare Informatics



Xcelera R2.1  
cardiovascular  
workstation

### Oncology



GEMINI TF, industry's  
first Time of Flight  
PET/CT

### Women's Health



Avalon FM 20 & FM  
30 fetal monitors

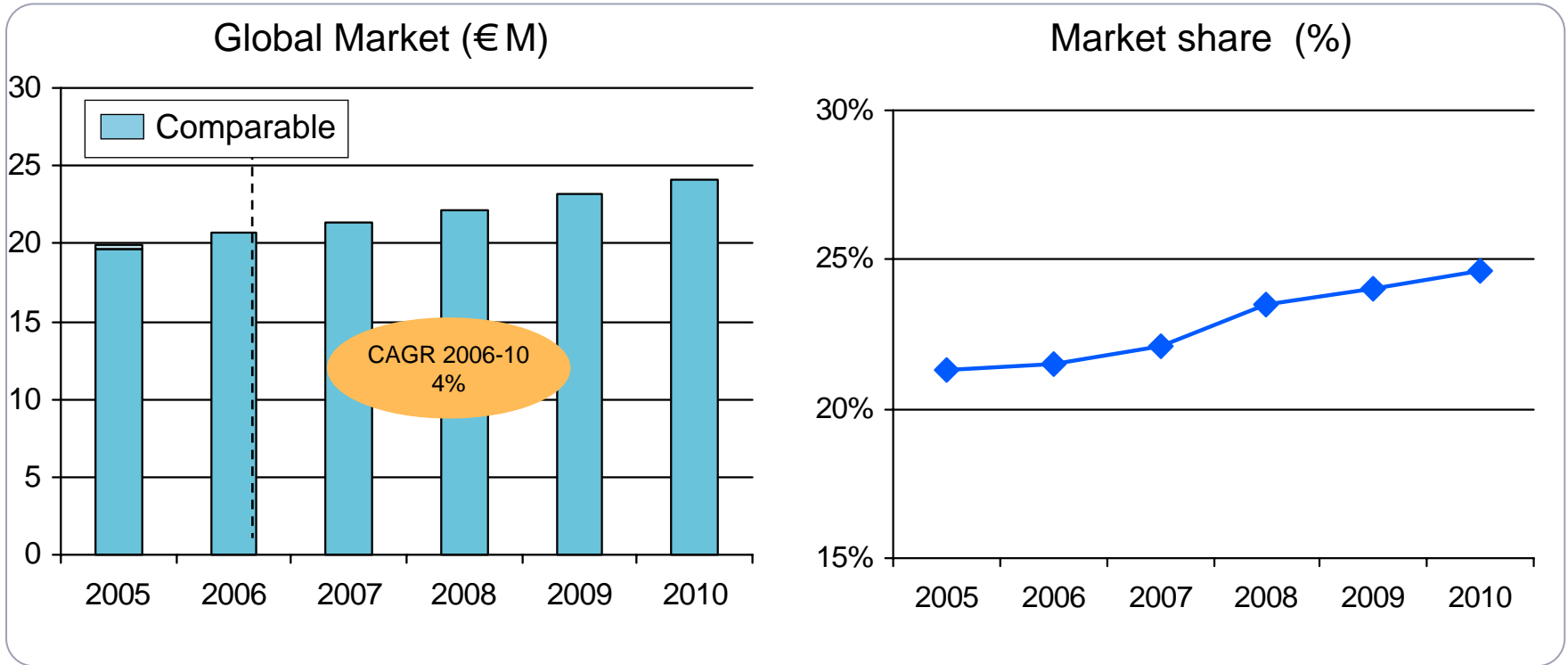
### Neurology



MRXO, world's first  
combined MR, X-Ray  
and CT machine  
installed in Japan

Providing customers with better care solutions

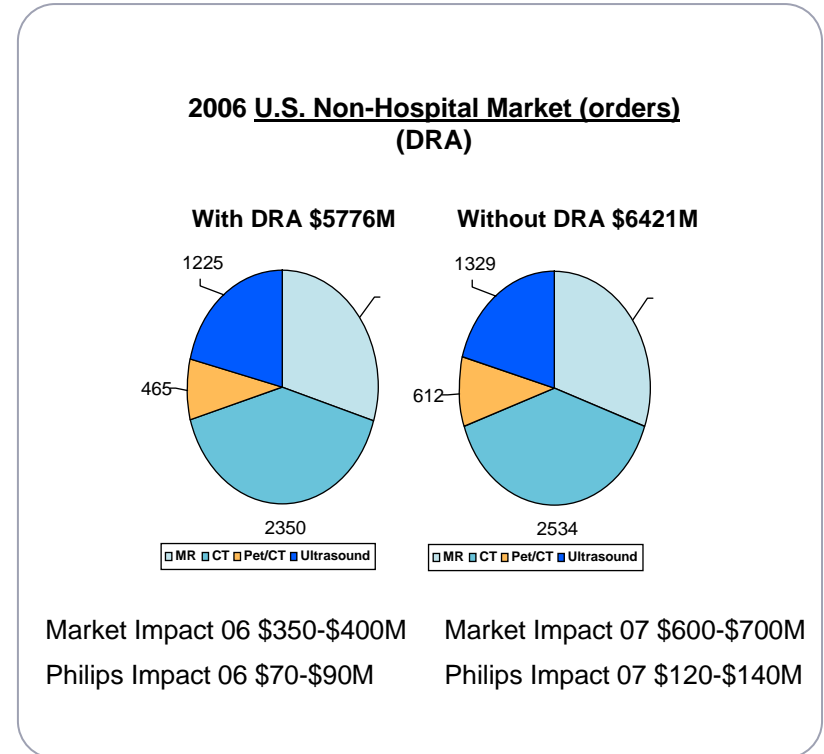
# Market and Share Development



# Reimbursement Trends in the US

## *Deficit Reduction Act of 2005*

- DRA targeted at reimbursements for imaging procedures in the non hospital segment (36% of the U.S. market)
- High-end imaging procedure reimbursements under extreme pressure
  - Percentage of procedures effected by modality
    - CT: 49%
    - MR: 19%
    - US: 10%
    - PET: 25%
- Additionally targets concurrent exam reimbursement (multiple procedures occurring during one patient visit) to be reduced by 25% in 2006 and an additional 25% in 2007



**Congressional action targeted at \$ 3B non-hospital segment to curb the rate of growth and over utilization**

# Margin expansion

Supply Management

Supply Chain

Information Technology

Sales Organization

Industrial Footprint

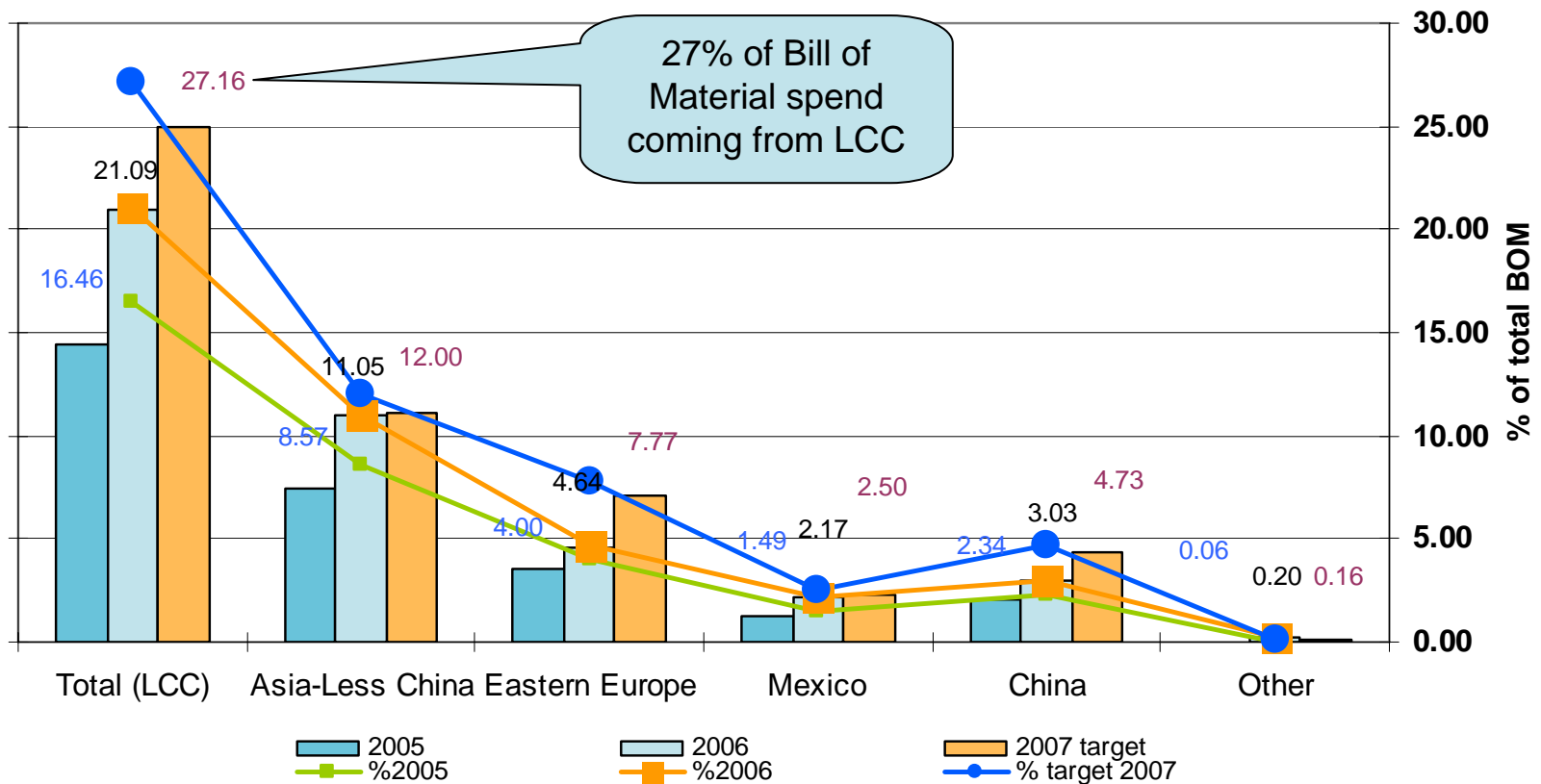
Additional Areas of Opportunity

**Simplify**  
your work



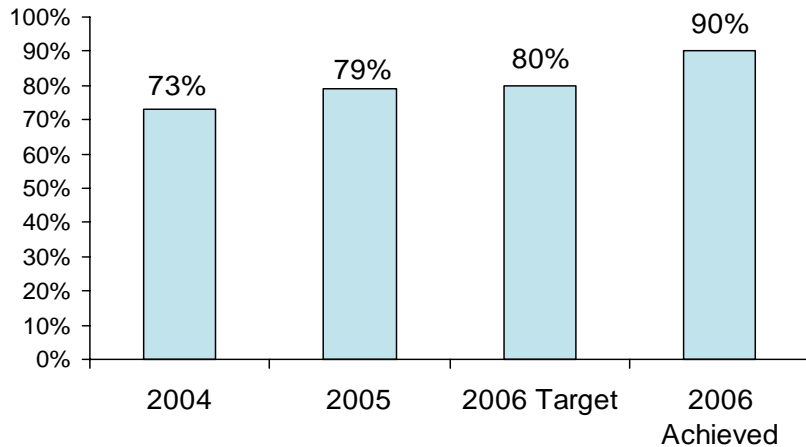
# Supply Management

## Low Cost Country Sourcing

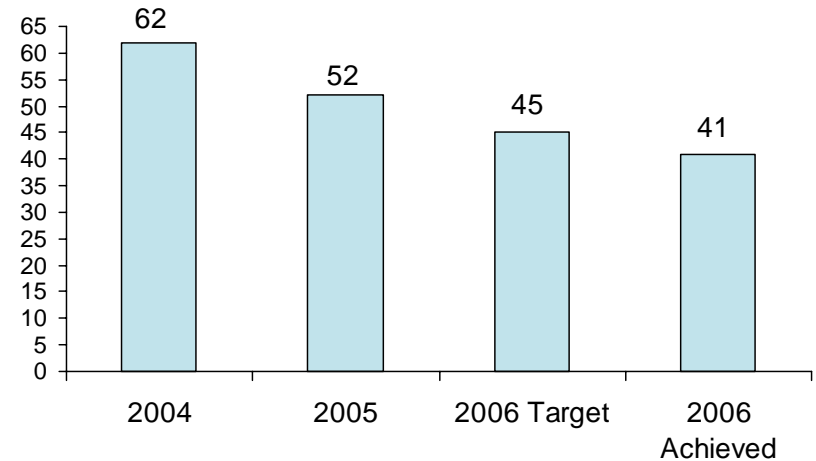


# Supply Chain

Equipment Direct Deliveries as % Sales (world)



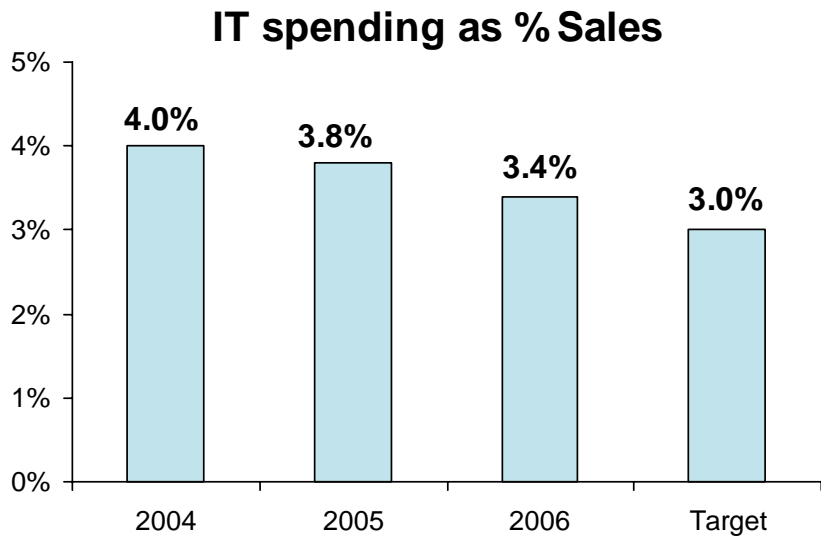
Supply Chain Cycle Time (# of Days)



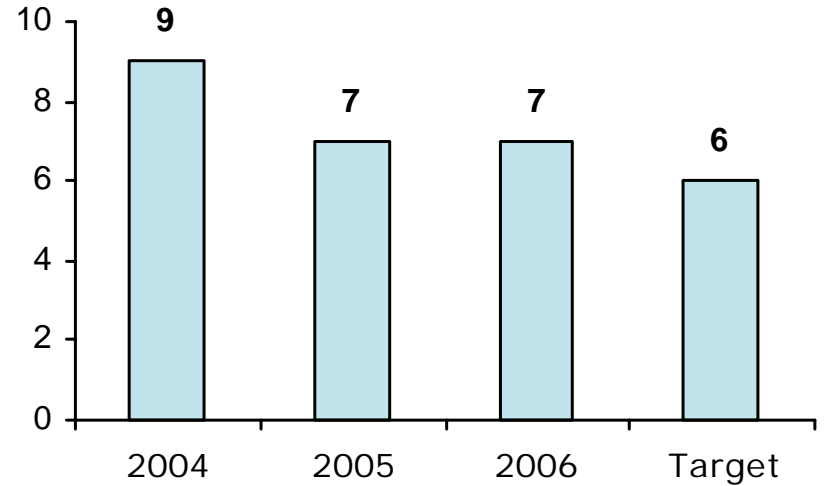
We have raised the bar for 2007 and are in the process of defining new KPIs going forward

# IT

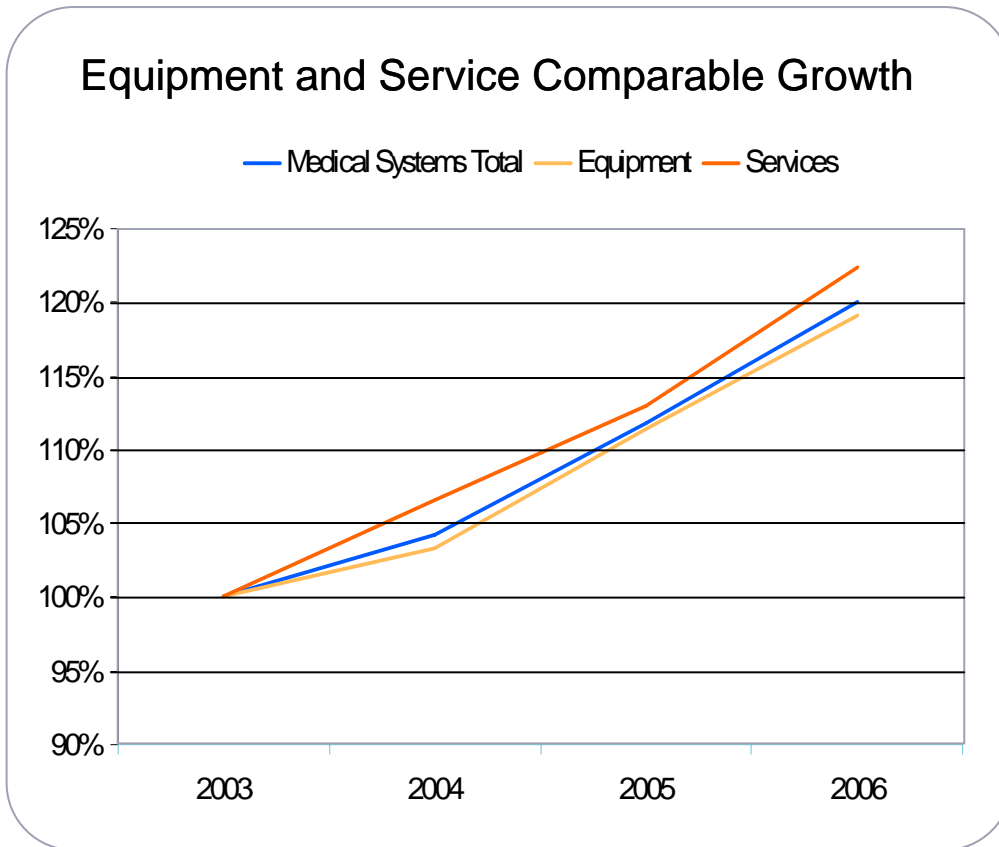
## IT spending as % of sales



## # of Key ERP Systems



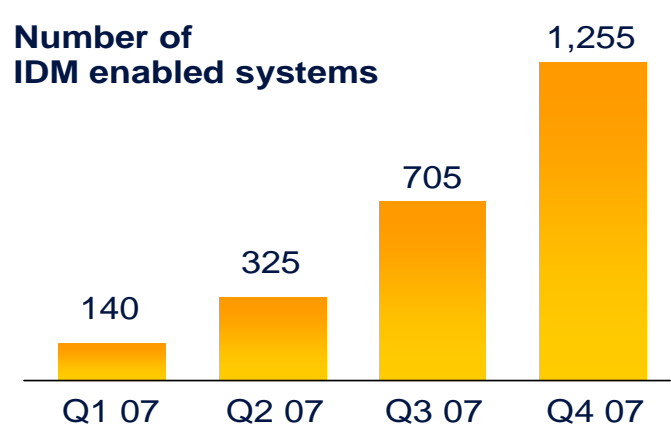
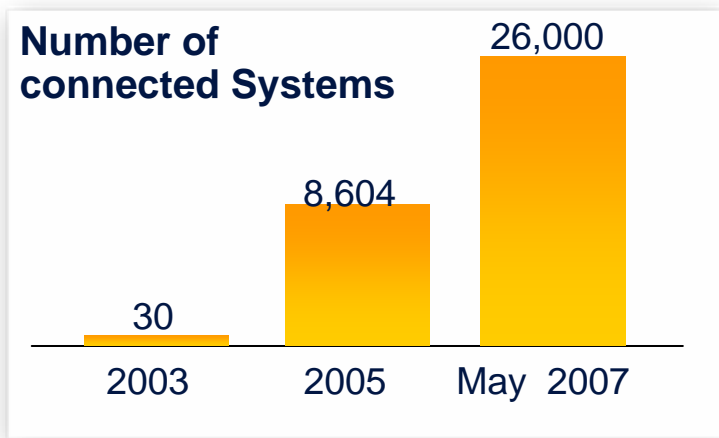
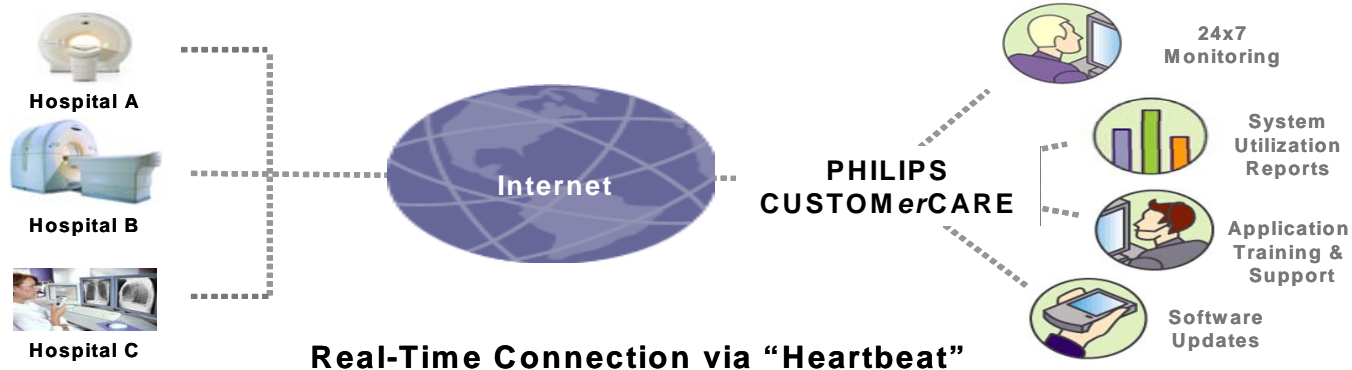
# Customer Service Growth



- Delivering on our growth promise:
  - Service Growth faster than market and equipment
  - Growth rate accelerated in 2006; continues in 2007
  - We achieve this via:
    - ✓ Market leadership in customer loyalty and satisfaction
    - ✓ Business Excellence and Customer Responsiveness
    - ✓ Service Innovation

Accelerating growth to 7- 8% per year

# Remote Services



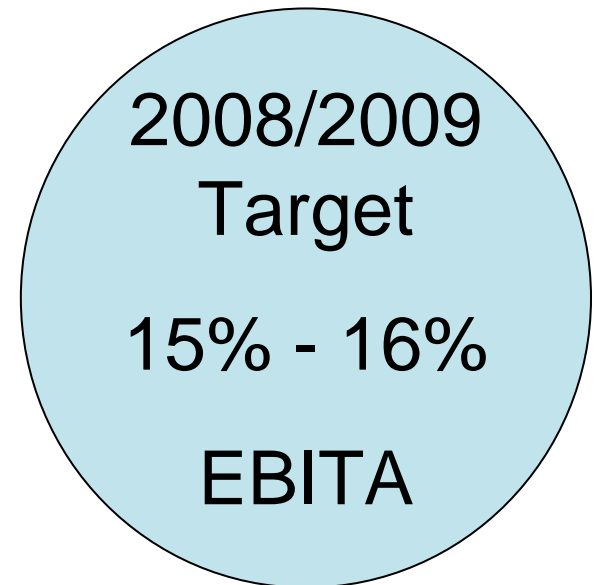
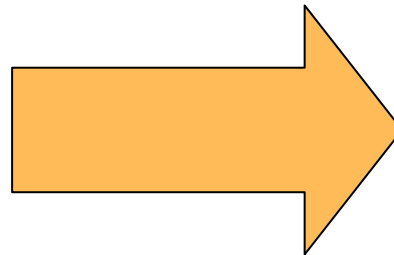
Leveraging remote technologies to transition from reactive to proactive service

# Margin Expansion Conclusions

Margin expansion is underlying goal of several key initiatives in:

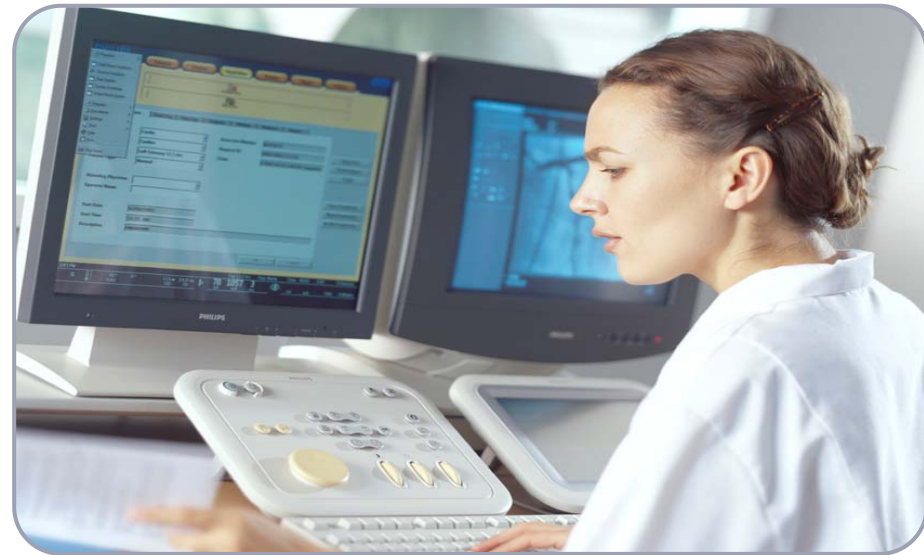
- Supply Management
- IT
- Supply Chain
- Sales Organization
- Industrial Footprint
- and others

...in order to support margin expansion



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

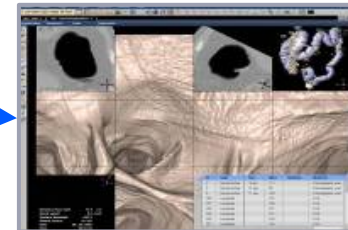
- **Acquired August 5, 2005 - organization was fully integrated within 5 months**
- **2006 i-Site order intake totaled €230 million**
  - **order volume grew 87% over full year 2005 (pre and post acquisition)**
  - **included €28M of new orders in international markets**
- **2006 sales grew by 41 %, we expect 46% sales growth in 2007**
- **Performance level is in line with original plans**
- **Expansion into EMEA and APAC is gaining traction**



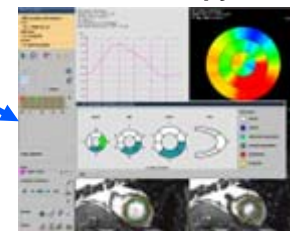
# iSite – the platform for Advanced Clinical Applications across the Care Cycle



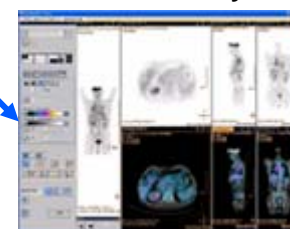
**iSite Advanced Visualization**



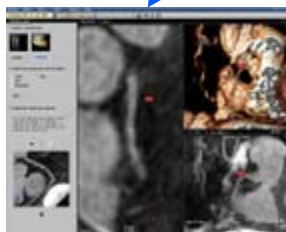
**CT Colonoscopy**



**Cardiac MR Analysis**



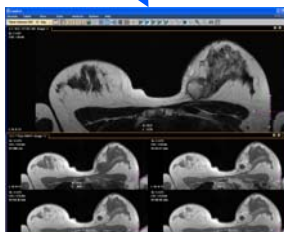
**PET-CT Fusion**



**Coronary MR**



**Vascular MR**



**MR Breast**

# Intermagnetics - finalize integration



## What did we buy?

- The world's largest independent developer of MR magnets, Coils and MR monitors
- Headquartered in Latham, NY, sites in Orlando, Gainesville, FL and Pewaukee, WI, 1100 employees

## Why did we buy?

- Get access to best magnets, coils and MR monitors
- Own the MRI value chain

# Intermagnetics - Integration Update

*Deal Closed November 2006*

What did we say?	What did we do?
Strengthen MRI position	One integrated entity <ul style="list-style-type: none"> <li>- MR systems and Magnets integrated</li> <li>- Integrated Invivo Sales Team</li> <li>- Expanded Philips Patient Monitors with IGC leading MR-monitors</li> </ul>
Rationalize our Supply Chain	Supply Chain and integration <ul style="list-style-type: none"> <li>- Move global MR-Headquarters to Latham</li> <li>- Pre-assembly in Latham NY (NA market)</li> <li>- Discontinue manufacturing Helsinki</li> </ul>
Closer cooperation of R&D teams	R&D <ul style="list-style-type: none"> <li>- World's first rampable 1.5T MR System</li> </ul>
Participate in growing Coils market	Philips becoming leading MR Coil supplier <ul style="list-style-type: none"> <li>- Accelerated launch of new coils</li> </ul>
Accretive towards end of 2007	On track to become accretive

# Agenda

- Performance Update
- **Value Creation Strategy**



“Care Cycles are the best way to transform Healthcare from a zero-sum game to a patient-value driven industry.”

– Porter and Olmstedt, *Redefining Healthcare*, 2006

“Image-guided stents for brain aneurysms allow patients to return to normal lives after only a month vs. a year.”

- *The Lancet*

“CT screening could eliminate 80% of lung cancer deaths in high risk patients.”

- *NEJM*



“X-ray fluoroscopy for opening clogged kidney arteries virtual elimination of a hospital stay. And it saves about \$ 15K per procedure.”

- *Radiology*

“Ultrasound guidance in placing large catheters reduces infections.”

- *British Medical Journal*

Focus on the people in the care cycle, the patients and care providers

Innovate across the care cycle by .....

combining **human insights** and **clinical expertise**

# Care simplified in EP navigator

## Insight

- Electro physiologists are hampered by the need to cobble together complex systems in life and death situations.

## Clinical challenges

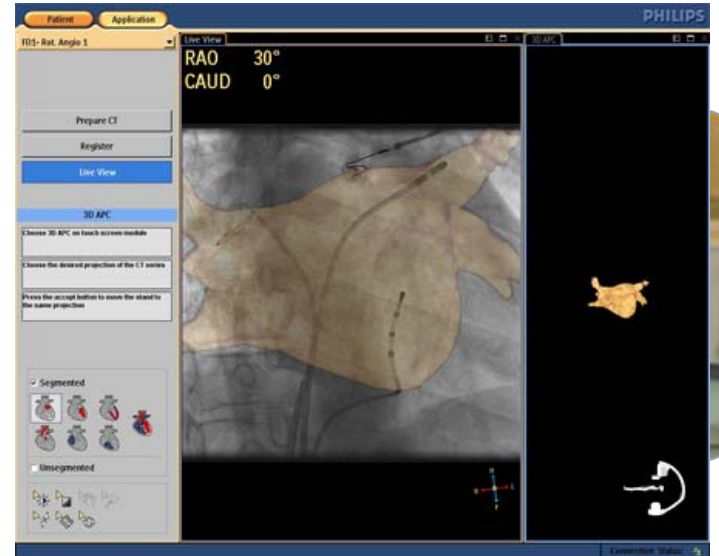
- Successful EP procedures require integration of multiple image and physio data.

## Organization challenges

- EP procedures growing. Lengthy procedures tie up Cath Labs.

## Solution

- Philips has partnered with best-in-class companies to develop holistic approach to EP.
  - Improved environment
  - Integrated data management
  - Enables complex therapies, such as
  - intuitive 3D catheter guidance



e.g., A Cath-CT fusion image can be viewed in the EP exam room. The registered image shows the position of any catheter with respect to detailed 3D cardiac anatomy in real time.



"This is good news for the millions of patients suffering from heart rhythm disease. Atrial fibrillation is a terrible disorder but EP navigator can help to shorten procedure time thereby making effective treatment available to a lot more patients."

-Professor Dr. E. Fleck MD, German Heart Institute Berlin

## Strategic acquisitions and alliances



# Summary: what can you expect from us

- We are a healthcare business that produces strong returns by focusing on the patient and care-provider. Our solutions will help deliver better healthcare at lower cost;
- We will build value by our focus on organic growth and strategic acquisitions and alliances;
- We will leverage the Philips brand and will provide an excellent expression of the Philips brand to the global market place.

