

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, 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, 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, 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.

Progress Report

Growth and Margin Expansion

Where do we go from here



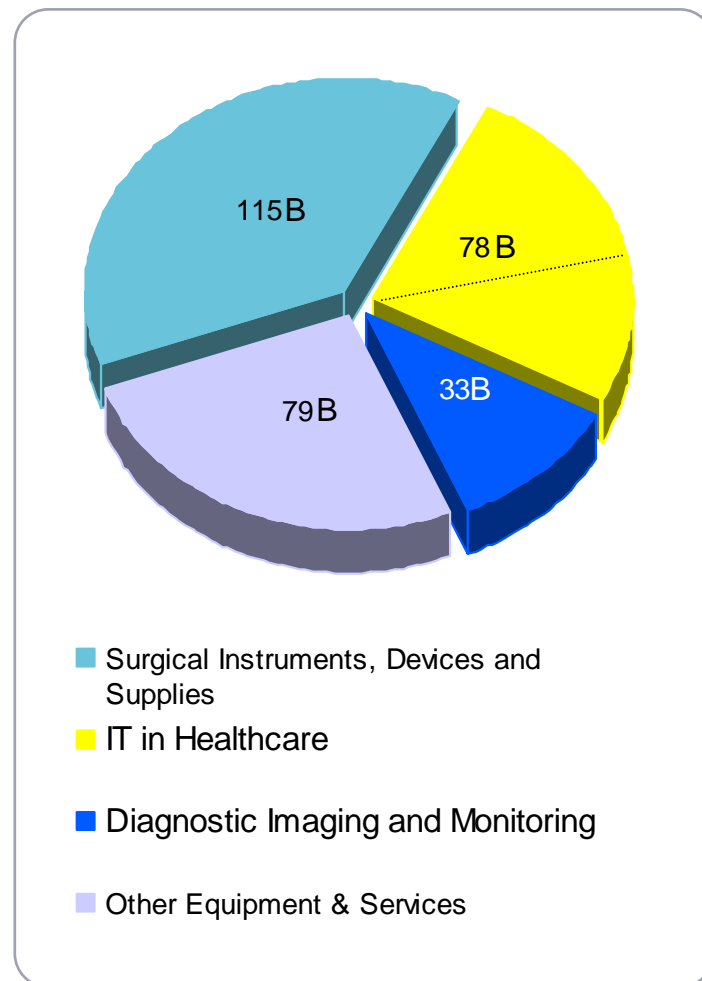
The Medical Systems & Device Market

Main categories

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

**Imaging
Systems**

EUR 2.7 bln

Nuclear Medicine
CT
MR
PET
X-Ray

**Customer
Services**

EUR 1.8 bln

Consultancy
Clinical services
Asset management
Maintenance
& Repair

**Information,
Ultrasound
and
Monitoring
Solutions**

EUR 2.2 bln

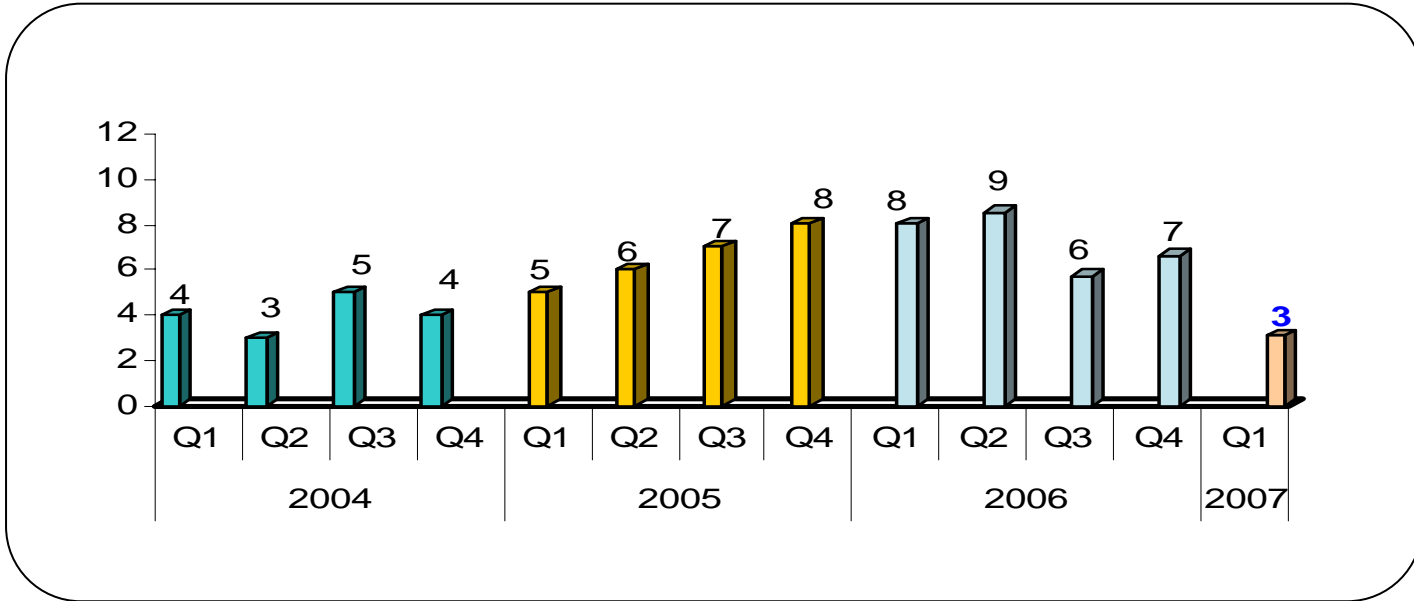
Healthcare Informatics

Ultrasound &
Monitoring
Cardiac Systems

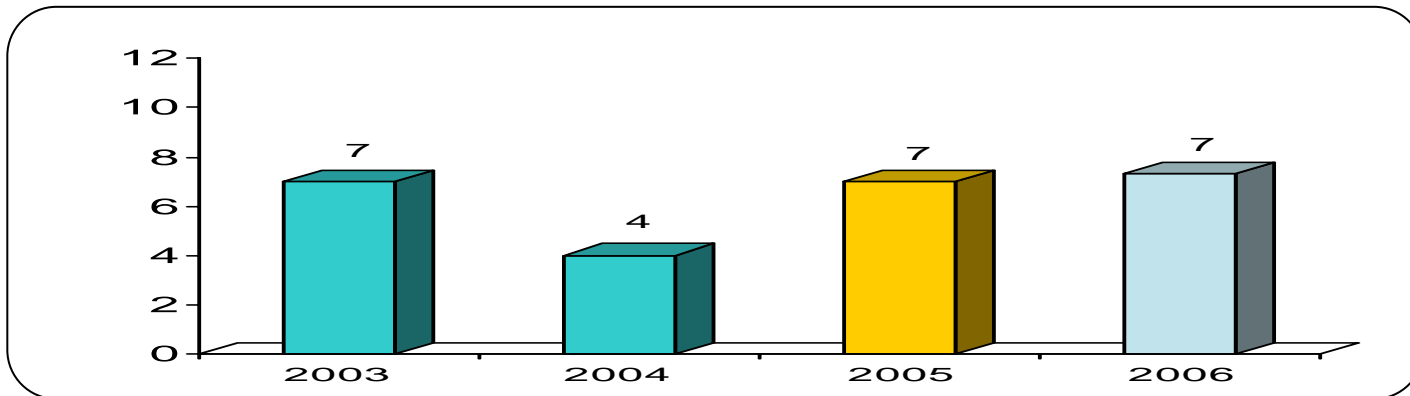
Document services

Sales growth

Quarterly comparable sales growth %



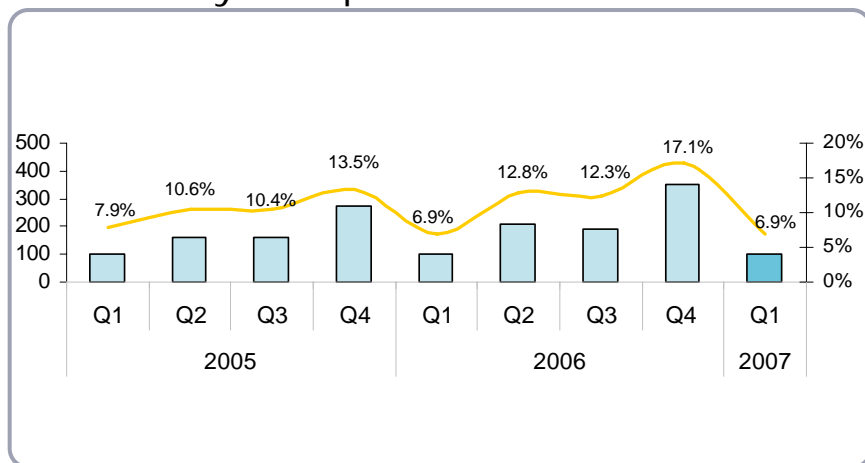
Full Year comparable sales growth %



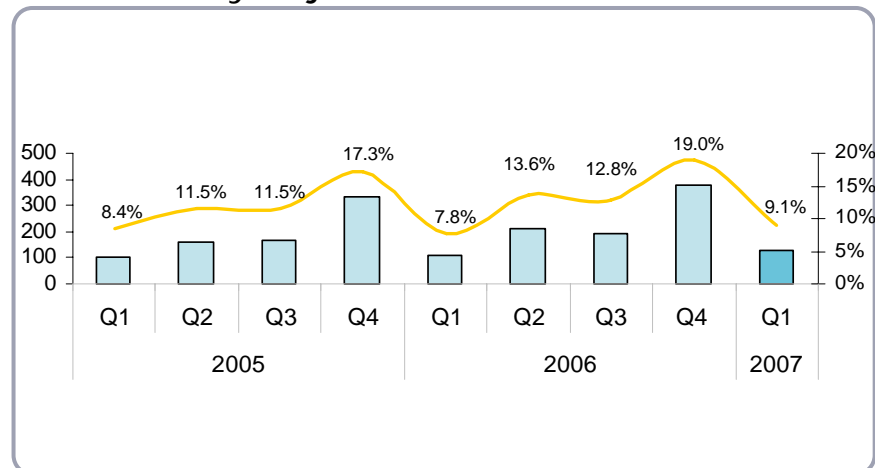
Quarterly adjustment: Belfast order in Q4 2005
 Full year adjustment: Belfast order in 2005

EBITA (in millions of euros)

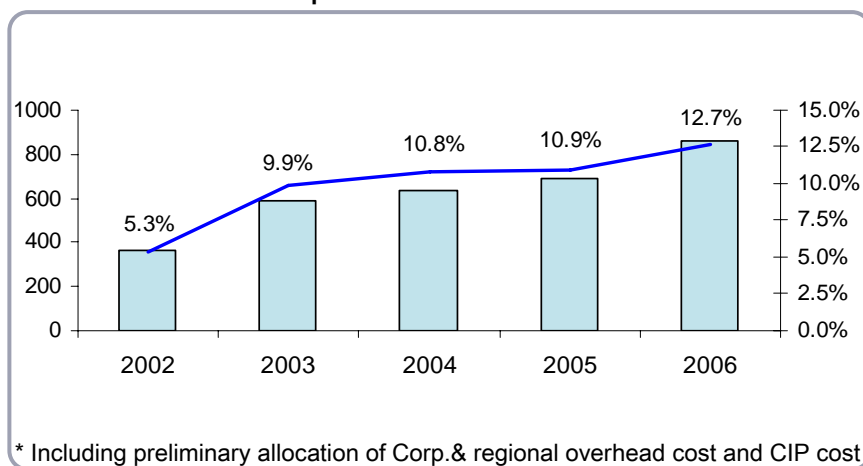
Quarterly as reported



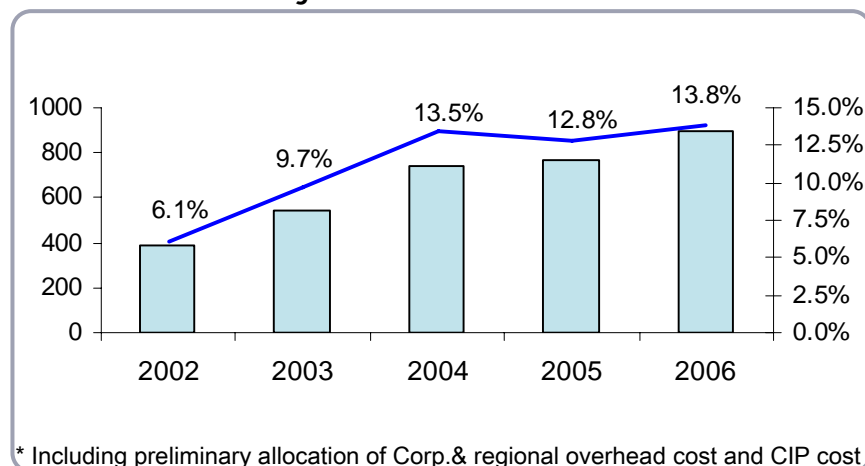
Quarterly adjusted



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.

Growth

- Market dynamics:
 - USA: softer
 - Other mature markets: no major change
 - Emerging markets: 5-15% growth

- Philips growth:
 - Equipment and Healthcare Informatics:
 - market share gain in the USA and Japan through innovation and improved market coverage
 - Maintaining positions in Europe
 - Emerging markets: growth from more mid range products and better coverage
 - Customer service: continuous growth through higher contract penetration

Margin expansion

In addition to continued improvements

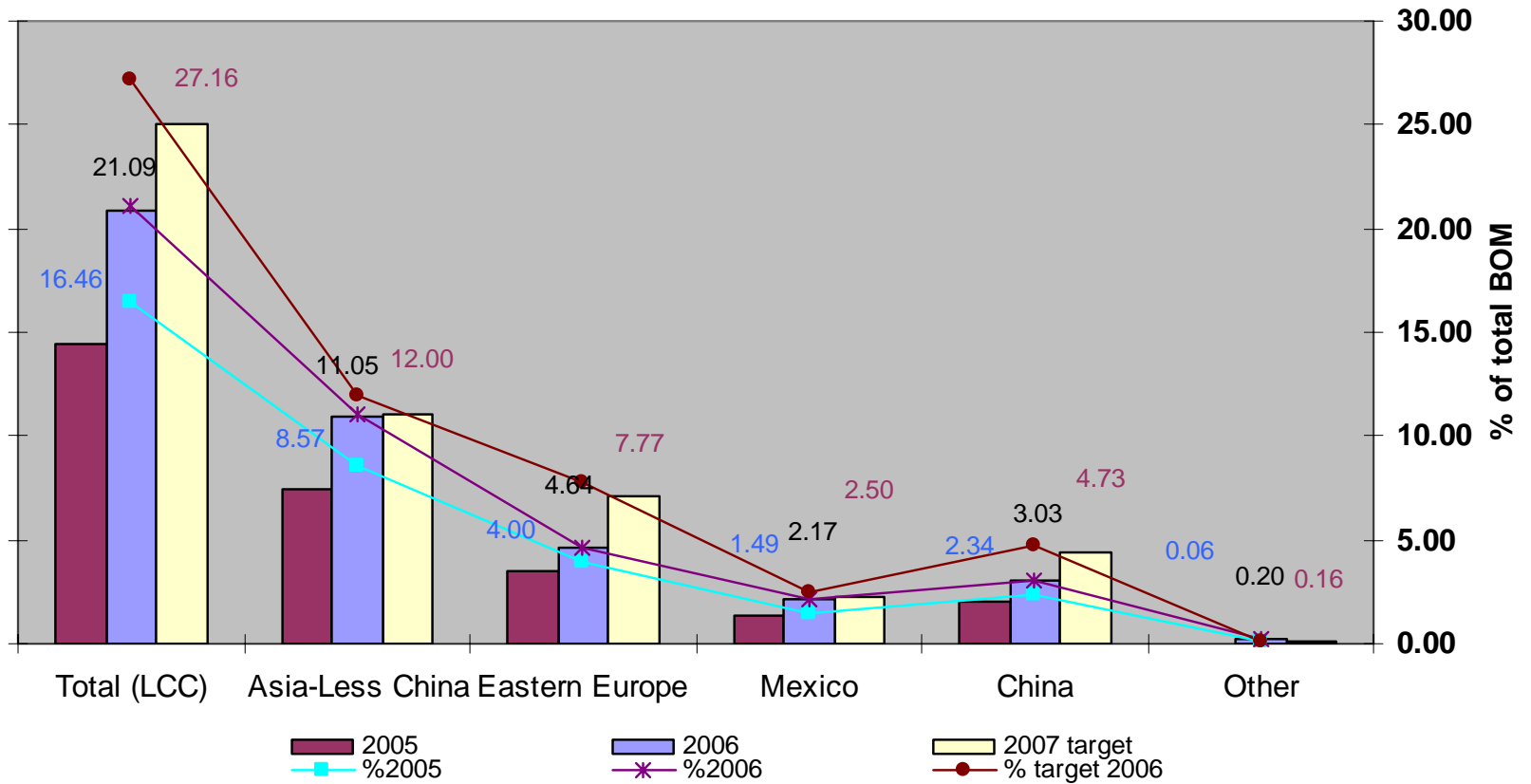
- supply management, supply chain and IT, high innovation rate etc. -

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

Simplify
your work



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



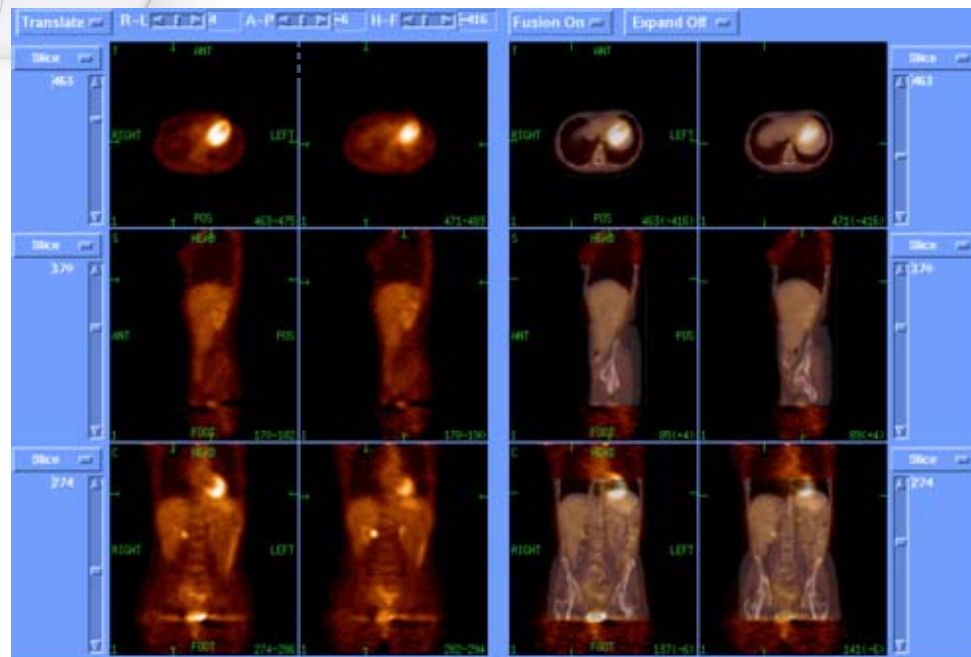
PET-CT: Gold standard for tumor staging and metastasis diagnosis



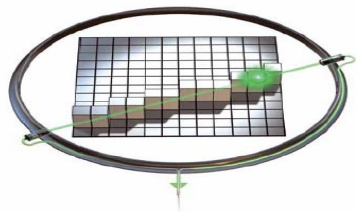
GEMINI TF™

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

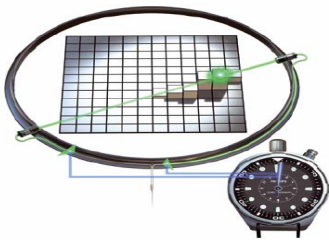
- 20% better spatial and contrast resolution
- Detects previously obscured tumors
- Almost doubles patient throughput



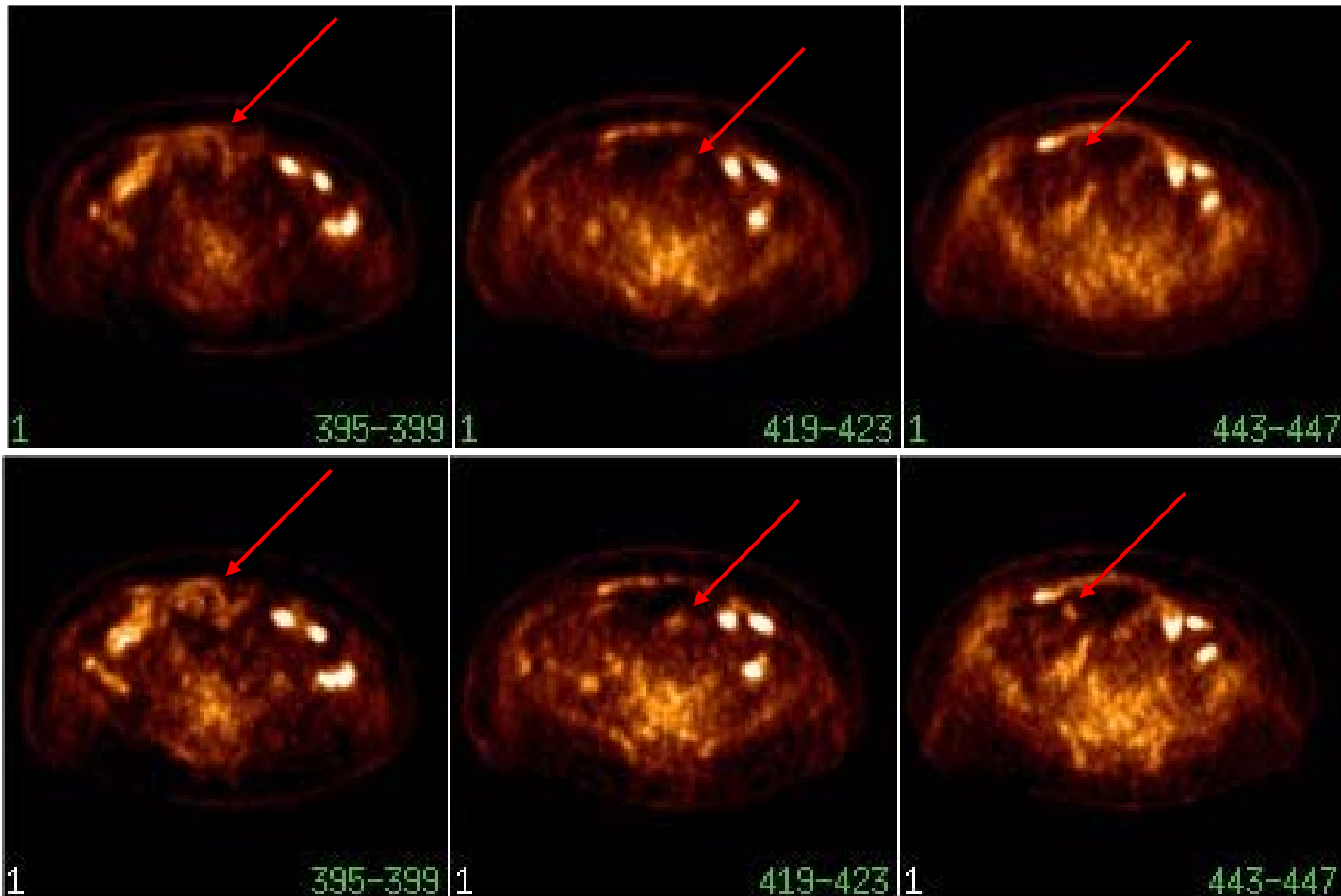
Gemini TF – Unique resolution through time-of-flight Technology



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

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



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%
- 2006 sales grew by 10%
- Performance level is in line with original plans
- Philips now ranked as number 1 in Hemodynamic Reporting with no position prior to acquisition
- Expansion via direct selling into Europe and Asia is underway
- Order intake outside the USA was up 500% Q1 2007 versus Q1 2006



Portfolio Expansion - Acquisition of IGC

#1 in MR magnet technology and coils

- Acquired November 9, 2006
- Approximately 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
- Positioning for future, expands PMS's portfolio with a leading position in MR compatibles patient monitors
- Take advantage of the new magnet technology



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

