

# **PHILIPS**

## **Progress Report**

**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 (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



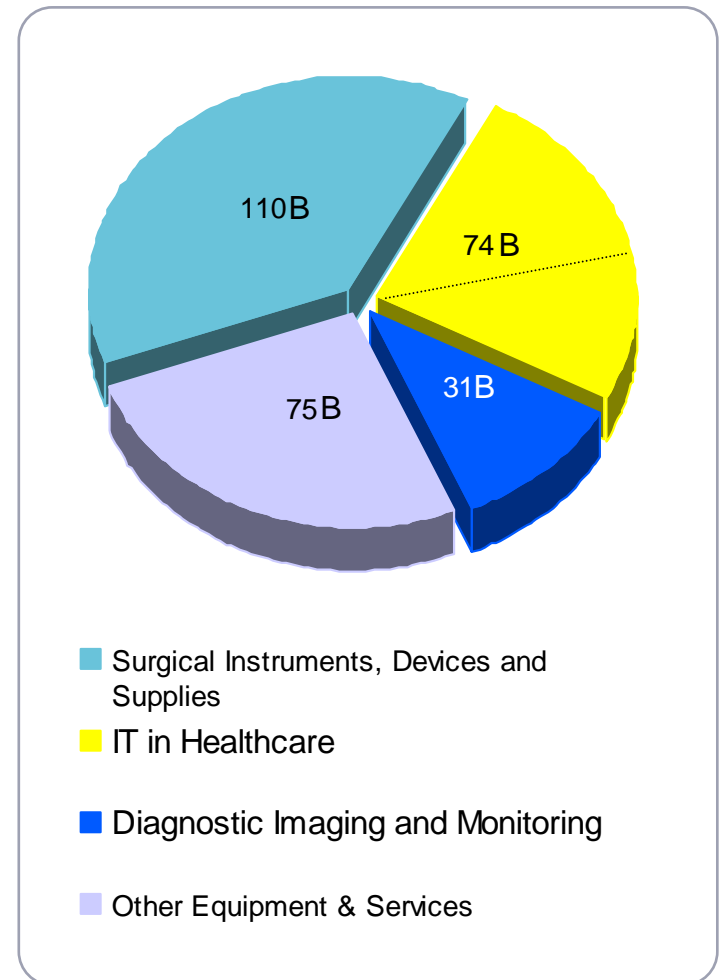
# The Medical Systems & Device Market

## Main categories

Medical equipment, services, devices and supplies \$ 290 billion worldwide, 2005

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

Philips focuses on a \$ 61 bln market



# Philips Medical Systems

**Imaging  
Systems**

**EUR 2.4 bln**

Nuclear Medicine  
CT  
MR  
PET  
X-Ray

**Customer  
Services**

**EUR 1.7 bln**

Consultancy  
Clinical services  
Asset management  
Maintenance  
& Repair

**Information,  
Ultrasound  
and  
Monitoring  
Solutions**

**EUR 2.3 bln**

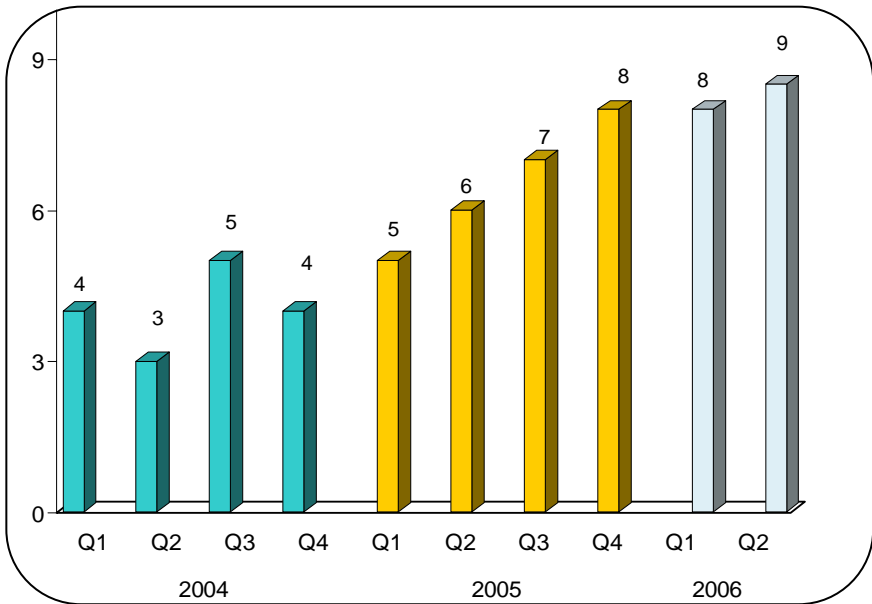
Healthcare Informatics

Ultrasound &  
Monitoring  
Cardiac Systems

Document services

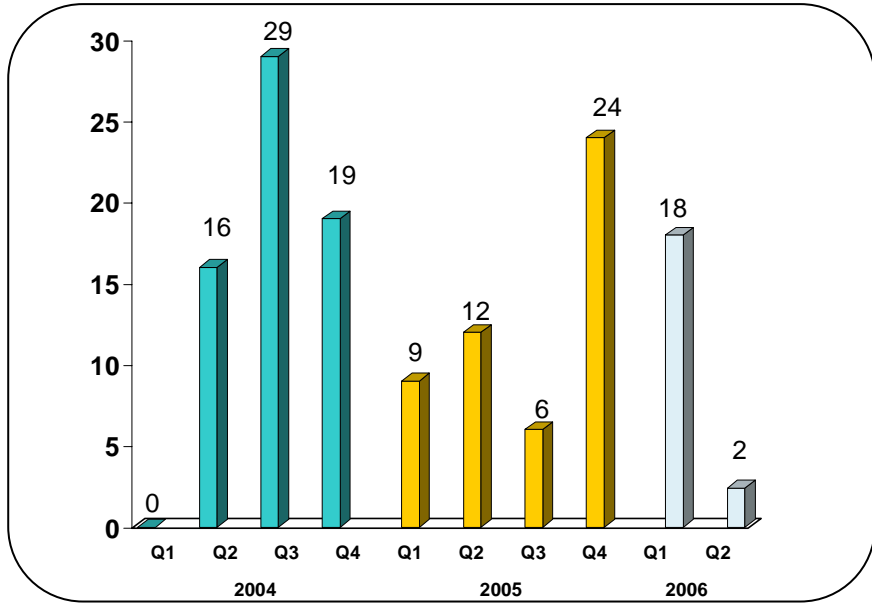
## Sales growth continues

Quarterly comparable sales growth %

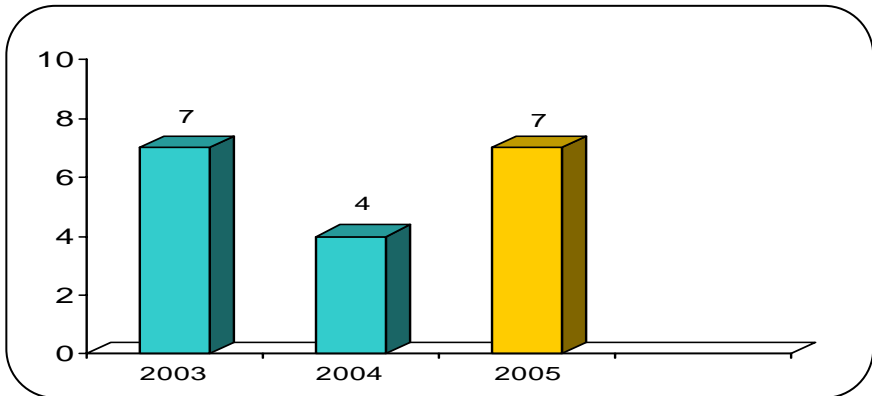


## As do equipment orders

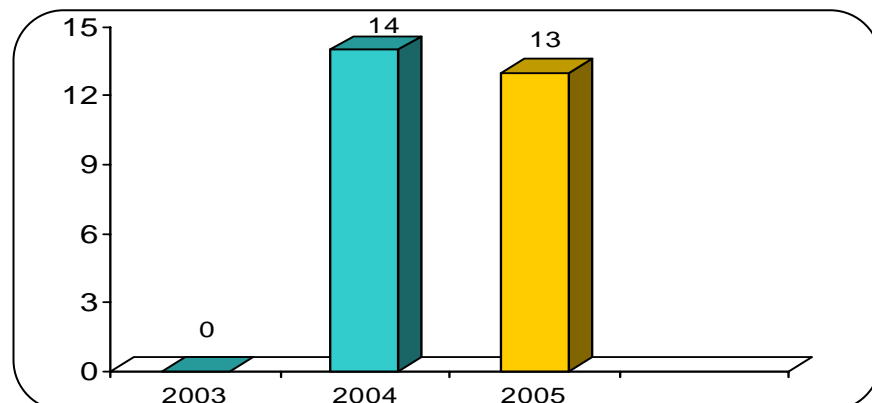
Quarterly currency adjusted orders growth %



Full Year comparable sales growth %

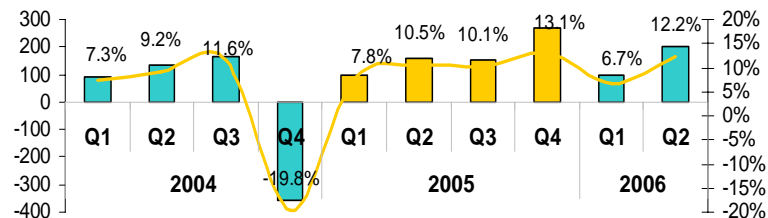


Full Year currency adjusted orders growth %

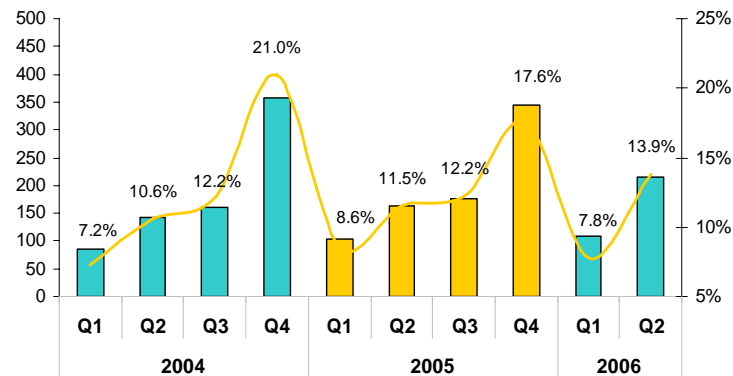


## EBIT (in millions of euros)

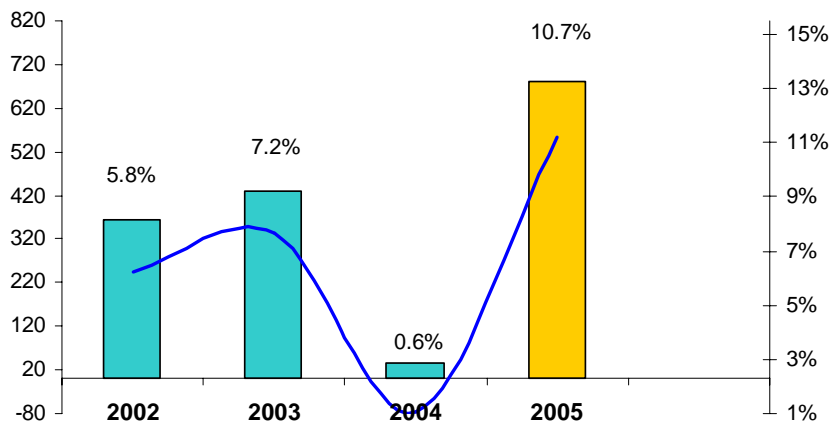
### Quarterly as reported



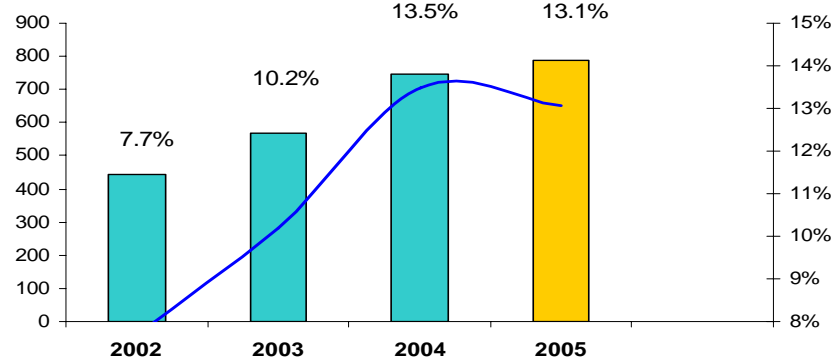
### Quarterly adjusted



### Full Year as reported



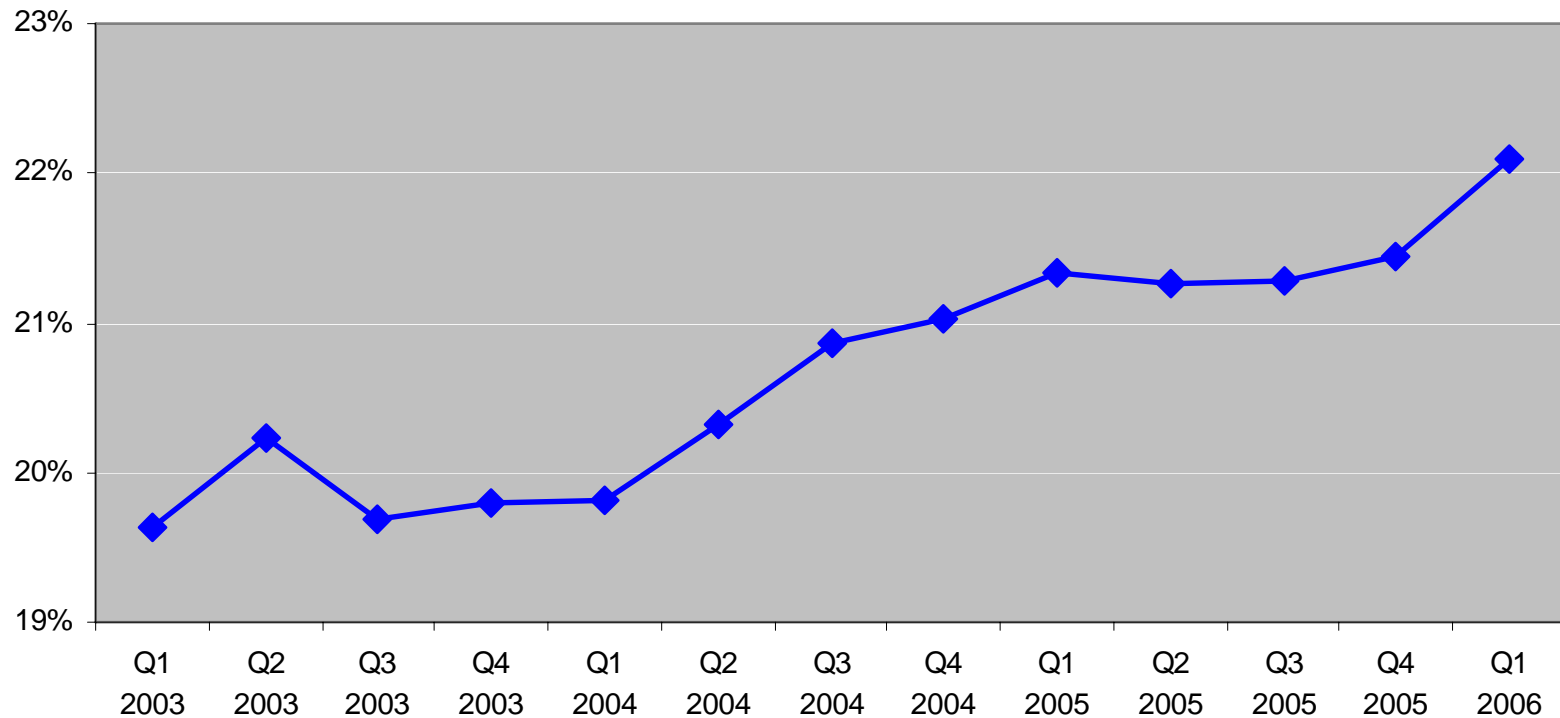
### Full Year adjusted



Quarterly adjustments: Excludes MedQuist, Volumetrics settlement Q4 04 EUR 133 m, Stentor impact 2005: Q3 EUR 11 m, Q4 EUR 10 m, 2006: purch. acc. Q1 EUR 3 m., Q2 EUR 11 m.

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

# Overall Market Share gain across geographies 2003 -2005, world, equipment orders, quarterly MAT



# Margin expansion

In addition to continued improvements, i.e. supply management, supply chain and IT, high innovation rate etc. we will

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



# Agenda

Where do we go from here



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

### Stentor History:

- Founded in 1998
- Based in Brisbane, CA, US
- 160 Employees
- #1 ranking in KLAS last three years in a row
- #2 in NA order intake in 2005
- Growth doubled after acquisition
- Unique Service Delivery Model
- Over 500 customers



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

### PHILIPS

- Leading supplier of Cath Lab equipment, healthcare information technology and related healthcare services
- Global sales, service and delivery organization
- KLAS #1 in cardiology PACS domain (mid 2005)
- Top rankings in MD Buyline and Frost & Sullivan reports



### WITT

- Leading company in hemodynamic monitoring and reporting systems
- KLAS # 1 in 2005
- Global market share of 20% in the hemodynamic market and 40% in the USA market
- More than 900 facilities worldwide (~1000 units) use Witt Series IV® solutions
- Top rankings in MD Buyline



## IGC – Acquisition announced

Philips' sole supplier of magnets for MR systems

- 3 divisions:
  - MR magnets: largest independent developer of MR magnets
  - Medical Devices: MR-related products
    - RF Coils, CAD systems, functional MRI, patient monitors for MR-environments
  - Super Power – R&D on superconducting infrastructure power grid
- Approximately 1100 employees, headquartered in Latham, NY and large sites in Orlando, Gainesville, Pewaukee (other small sites)
- Sales of \$ 313 mln at 11.5% EBIT margin in 2005



# Innovation drives profitable growth

New Philips PET-CT  
with unique **time of flight** technology

- True benefits
  - 20% better spatial and contrast resolution
  - Detects previously obscured tumors
  - Almost doubles patient throughput
- Creates a new benchmark in consistent image quality for **large patients**



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

# 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

# Conclusions

In the past four years we have

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

For the coming few years we have

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

