Philips Medical Systems
Progress report

Paul Smit

CA Chevreux, March 16, 2006
Paris
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
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...

Sources: United Nations, Victor R. Fuchs (Stanford University)
Demographics and economic developments add to long term growth

As national economies develop, healthcare investments follow...

Source: Medistat
Philips Medical Systems
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

Imaging Systems
EUR 3.1 bln
- Nuclear Medicine
- CT
- MR
- PET
- Ultrasound
- X-Ray

Customer Services
EUR 1.7 bln
- Consultancy
- Clinical services
- Asset management
- Maintenance & Repair

Information and Monitoring Solutions
EUR 1.6 bln
- Medical IT
- Patient Monitoring and Cardiac Devices
- Document services
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 adjustments: Excludes MedQuist, Volumetrics settlement Q4 04 EUR 133 m, Stentor impact 2005: Q3 EUR 11 m, Q4 EUR 10 m

Full Year as reported

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

Quarterly adjusted

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
Regional sales to thirds mix – Emerging markets

- **2003 Actual**
  - North America: 29.6%
  - EMEA: 54.0%
  - Asia Pacific: 14.0%
  - Latin America: 2.4%

- **2004 Actual**
  - North America: 31.3%
  - EMEA: 51.4%
  - Asia Pacific: 14.5%
  - Latin America: 2.8%

- **2005 Actual**
  - North America: 29.2%
  - EMEA: 50.1%
  - Asia Pacific: 16.7%
  - Latin America: 4.0%
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

CEO PD

CEO PMD CS CT NM

CEO Xray & MR

CEO Ultrasound

CFO

CEO Global CS

SSR LATAM

SSR NA

SSR EMEA

SSR APAC

PMD

CS

CT

NM

Healthcare IT

MR

GXR

CV

GTT

Components

EP
Market-in
Simplify structure - present

CEO*

CFO
Marketing, Strategy and BD

Imaging Systems
Ultrasound and Monitoring
Healthcare Informatics
New Ventures
Global Sales & Service

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

- **Equipment**:
  - 2002: 26%
  - 2003: 32%
  - 2004: 73%
  - 2005: 79%
  - Target: 80%

- **Direct Deliveries as % Sales (world)**:
  - 2002: 26%
  - 2003: 32%
  - 2004: 73%
  - 2005: 79%
  - Target: 80%

- **IT spending as % Sales**:
  - 2003: 4.9%
  - 2004: 4.0%
  - 2005: 3.8%
  - Target: 3.0%

- **Net Capital Turnover**:
  - 2002: 2.9
  - 2003: 3.7
  - 2004: 4.0
  - 2005: 3.8
  - Target: 5.0

Net Capital = Capital excluding Goodwill
Accelerate Innovation & Integrate Supply Base

**No. of Suppliers (80% of BOM spend)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Target</th>
</tr>
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<td></td>
<td>150</td>
<td>135</td>
<td>110</td>
<td>100</td>
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</table>

**Supplier Owned Inventory (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Target</th>
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<tr>
<td></td>
<td>12</td>
<td>39</td>
<td>49</td>
<td>60</td>
</tr>
</tbody>
</table>

**Increase of Research FTE (indexed)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Target</th>
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<tr>
<td></td>
<td>100</td>
<td>140</td>
<td>166</td>
<td>222</td>
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</table>

**New Product Shipments**

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Target</th>
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<tr>
<td></td>
<td>40%</td>
<td>45%</td>
<td>58%</td>
<td>63%</td>
<td>70%</td>
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</tbody>
</table>
Aggressive Rollout of Remote Services

Number of connected Systems

- 2003: 30
- Dec 2005: 14,200
- Target ‘07: 26,000

Number of connected Health Care Facilities

- 2003: 15
- Dec 2005: 2,150
- Target ‘07: 9,000

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
Philips Medical Systems

- Improvement – Metric of Success
- Where do we go from here
- Secure, Strengthen, Expand
Focus on the Care Cycle – space to grow

$170$ billion market

Operating room
Monitoring
Imaging

Intensive Care unit
Monitoring

$80$ billion market

Diagnostics
Imaging

Step down facility
Monitoring

$10$ billion market

Pre-Hospital/
Ambulance
Monitoring

Home
Monitoring

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

Diagnosis: Ruptured Aneurysm

Brain Surgery

Therapy

Information & Decision support

Follow Up

Symptoms

40% Mortality

30% loss of independence

25Philips Medical Systems
New Care Cycle - stroke

Diagnosis: Ruptured Aneurysm

Minimally Invasive procedure

Information & Decision support

Therapy

Follow Up

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
Philips Medical Systems

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

EXPAND THE BUSINESS

STRENGTHEN CURRENT PORTFOLIO

SECURE PREVIOUS INVESTMENTS

Maximize Value Creation

Grow with Improving Margins
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*