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.
Our Mission in Healthcare

**Sense & Simplicity**

We delight customers and consumers by improving their lives with advanced technology that is easy to experience and designed around them.

Philips Medical Systems provides products and services that allow our customers to intently focus on the patient throughout the entire care cycle.
Progress Report

• Market developments

• Performance update

• Where do we go from here

• Care Cycle
Healthcare is the world’s largest service sector


The Americas makes up 56% of the worldwide spend

Healthcare Expenditures will grow from ~9% of worldwide GDP to ~11% in 2015

Source: Medistat

Source: WHO, PMS

Internal Analysis
Medical Technology Has Greatly Improved Healthcare ....

Around 70% of the survival improvement in heart attack mortality is a result of changes in technology.”
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

Sources: MedTech Insight, PMS internal analysis
Agenda

- Market developments
- Performance update
- Where do we go from here
- Care Cycle
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

2005 Revenues
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 %
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

Source: various, Philips
A Faster, More Efficient Supply Chain

Equipment Direct Deliveries as % Sales (world)

IT spending as % of sales

Net Capital Turnover

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

No. of Suppliers (80 % of BOM spend)

Supplier Owned Inventory (%)

New Product Shipments

Increase of Research FTE (indexed)
On track with Philips Medical Asia Pacific
Ambition: Grow to €1.3 Bln

PMS Sales to third

- 2003: ~700 Mln Euro
- 2005: >900 Mln Euro
- 2008: 1,300 Mln Euro

Developed - Japan, Australasia, Korea
Emerging - China, India, ASEAN
In addition to continued improvements, i.e. supply management, supply chain and IT, high innovation rate etc. we will:

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

- GXR Essenta (20% cost improvement)

Product Training in China: Jan 2006
Product Launch in China: Feb 2006
Product Training in Asia: Mar 2006
Product Launch in Asia: June 2006
Rapid expansion of Remote Services Network

Penetration beginning to show significant positive EBIT impact
University of Alabama, Birmingham

Today
- Largest University Health System in Southeastern United States
- Complex includes 5 City Blocks
- 2.1 Million Square Feet
- 13 Major Free Standing Buildings

2010
- 75 City Blocks
- 12 Million Square Feet
- 17 Free Standing Buildings
Agenda

• Market developments

• Performance update

• Where do we go from here

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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
Medical technology continues to transform Healthcare

**Imaging and Monitoring**
earlier diagnosis saves lives and reduces costs

**Minimally invasive procedures**
reducing patient trauma and costs

**Healthcare IT**
Right Information at the right time
enables better treatment and lower costs

**Molecular Medicine**
Preventing disease from happening

“Around 70% of the survival improvement in heart attack mortality is a result of changes in technology.”

Cutler & McClellan, 2001

Sources: Russ Coile, Futurescan 2003, SG-2
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**
Agenda

• Market developments
• Performance update
• Where do we go from here
• Care Cycle
Focus on the Care Cycle – space to grow

Information & Decision support

Operating room
Monitoring
Imaging

Intensive Care unit
Monitoring

Step down facility
Monitoring

Pre-Hospital/ Ambulance
Monitoring

Diagnostics
Imaging

$ 180 billion market

Follow Up

Home Monitoring

$ 90 billion market

Diagnostics

$ 10 billion market
PHILIPS

Improving the Cardiac Care Cycle

Information & Decision support

Treatment

Diagnostics

Follow Up
Philips Schering Alliance

- **Goal**
  To jointly research, develop and commercialize a new technology – *Optical Imaging*

- **Initial focus**
  To develop optical mammography for diagnosing breast cancer

- **1st development project**
  Combines Schering’s omocinian (SF-64) optical agent with a Philips optical scanner

- **Business model**
  Partners will share equally all investments plus all revenue in the alliance

- **Alliance management**
  A dedicated alliance management team in place
Our Strengths in Molecular Diagnostics

**Optical detection**
- Low cost (DVD technology)
- Small size
- High sensitivity – single molecule detection!

**Magnetic biosensor**
- Low cost (magnetic read head technology)
- Integrated Biosensor with small size
- Rapid measurements possible

**Miniaturization & integration**
- Electronics on glass or plastic
- Fluidics without moving mechanical parts
- Enables fully integrated cartridges: near patient testing
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
- 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
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