Philips Medical Systems
From Integration to Profitable Growth

Jouko Karvinen
President and Chief Executive Officer
Philips Medical Systems

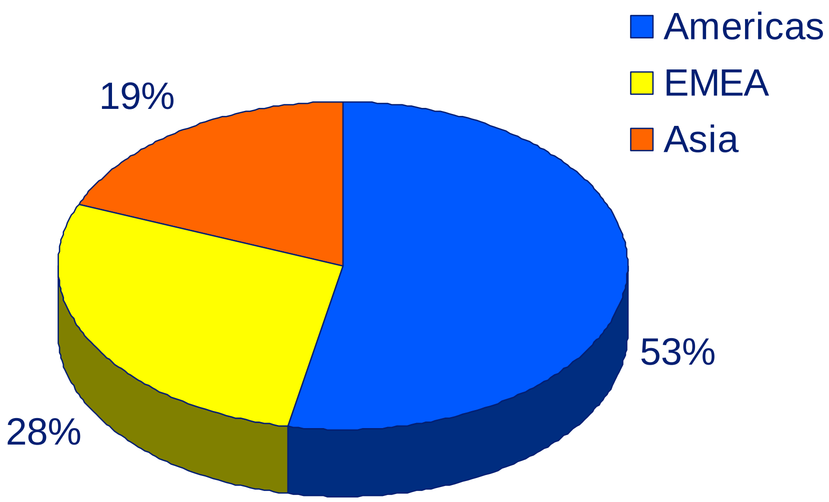
Agenda

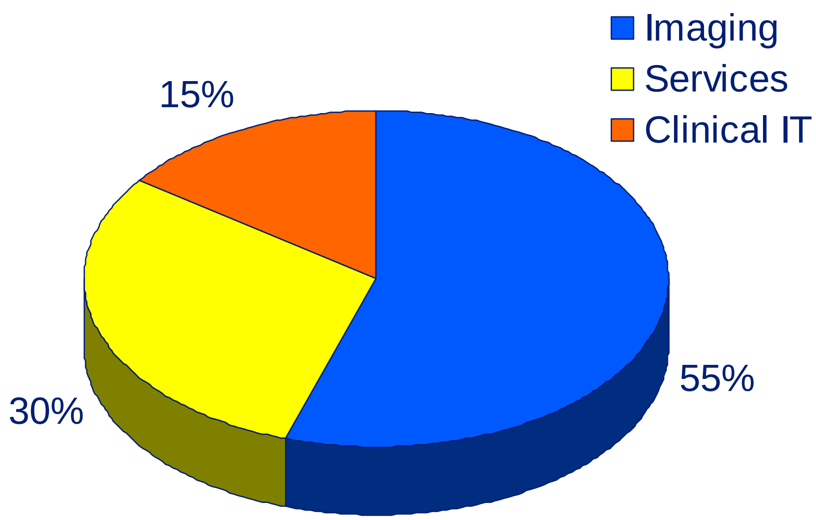
- Introduction
- Integration Update
- Market Developments
- Product and Technology portfolio
- Customer relations
- Services and IT expansion
- Financial Targets
- Summary

What we told you last year

- Technology is at the heart of meeting growing healthcare demands.
- We have positioned ourselves as a leading provider of medical technology and service
- Technology innovation and passion set us apart “Clinical excellence without compromise”
- € 8 Bln in sales and 14% EBITA in 2004

Portfolio Overview





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Integration Update: Major projects

- Moving Agilent’s HSG to Philips IT systems
- Integration of the Ultrasound businesses
- Sales Force integration
- Marconi

Moving Agilent HSG to the Philips IT Systems

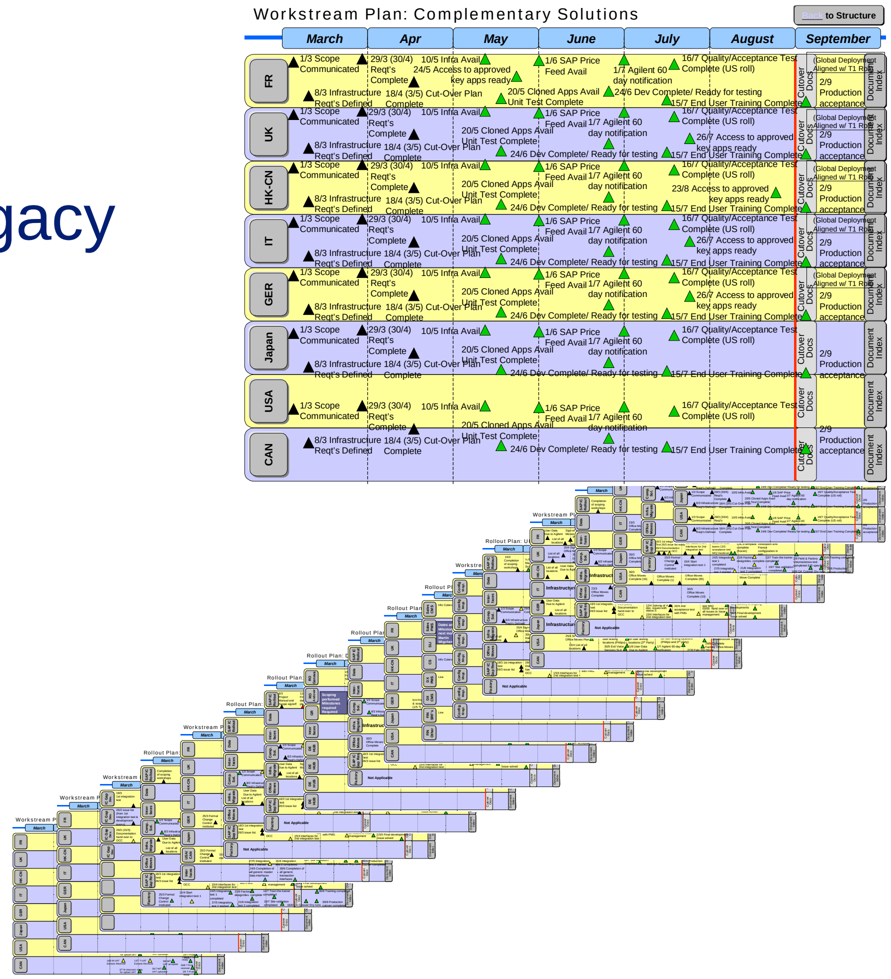
Tasks:

- Move HSG from Agilent's legacy IT systems to a Philips ERP platform

Dimensions of complexity:

- > 190 offices, >3,500 users in 40 countries,> 940 legacy applications
- 100,000 service contracts
- Data structure challenges

AND Run the Business



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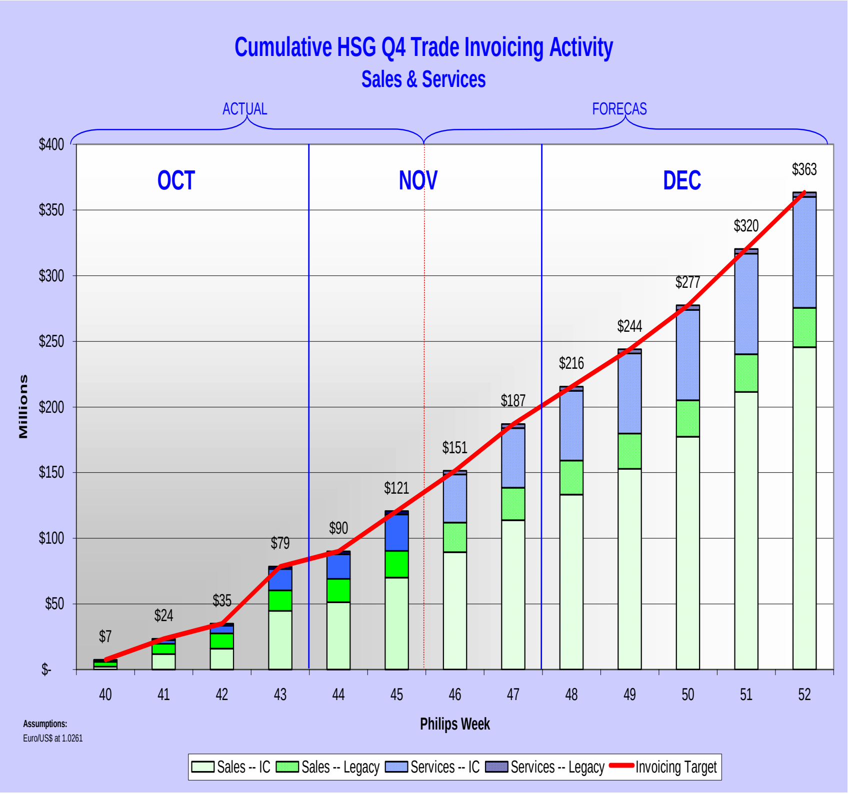
Moving Agilent HSG to the Philips IT Systems (2)

- Project plan
  12 months
  - One month over time
  - With more than double the resources planned
- Migration Cost € 100 Mln
- Annual savings € 85 Mln
  - Savings in 2002 € 22 Mln
- On weekly path now to recover revenues



ATL & Agilent HSG Ultrasound Integration

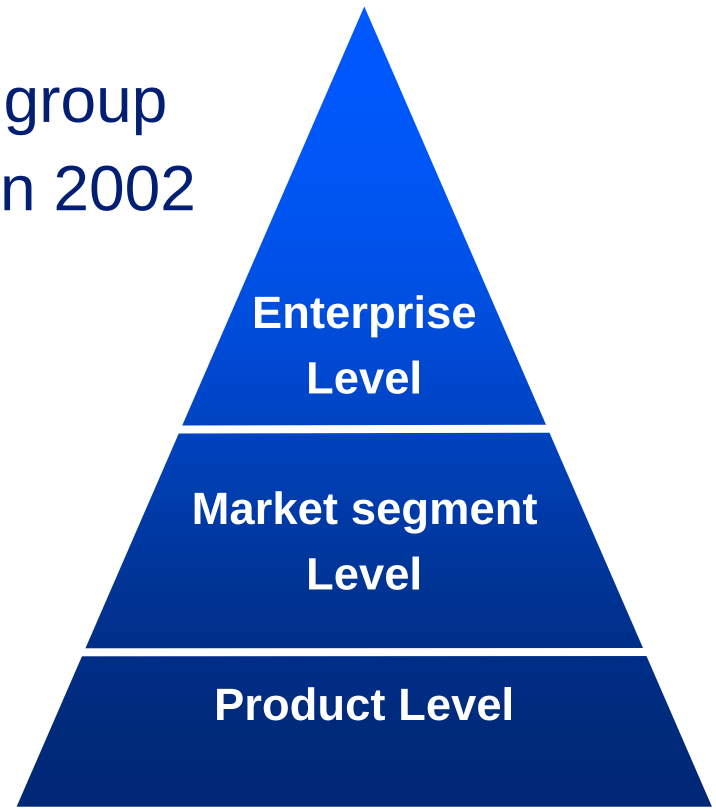
- Integration challenges
  - 2 separate sales forces with a history of fierce competition
  - competing product platforms
- Long acquisition time caused initial market share loss and time-to-market gap
- Turning the corner now
- Annual savings € 33 Mln
  - € 15 Mln in 2002

Agilent Technologies
Healthcare Solutions Group

Sales Force Integration

- Match the customer’s buying process:
  - one point of contact without loss of expert support
  - build multilevel relationships
- Expansion of the Enterprise Sales group
- Annual saving €129 mln, €70 mln in 2002

Time / Sales Force	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003
Philips Medical								
Marconi MR &CT								
ATL Ultrasound								
HSG Ultrasound								
HSG Monitoring								
ADAC Nuclear M.								



Here is what customers think about sales force integration

Customer video clip
Edward Hospital
Chigago, IL

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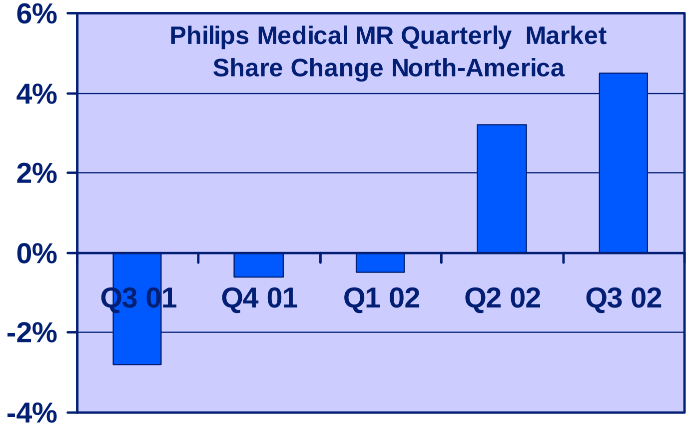
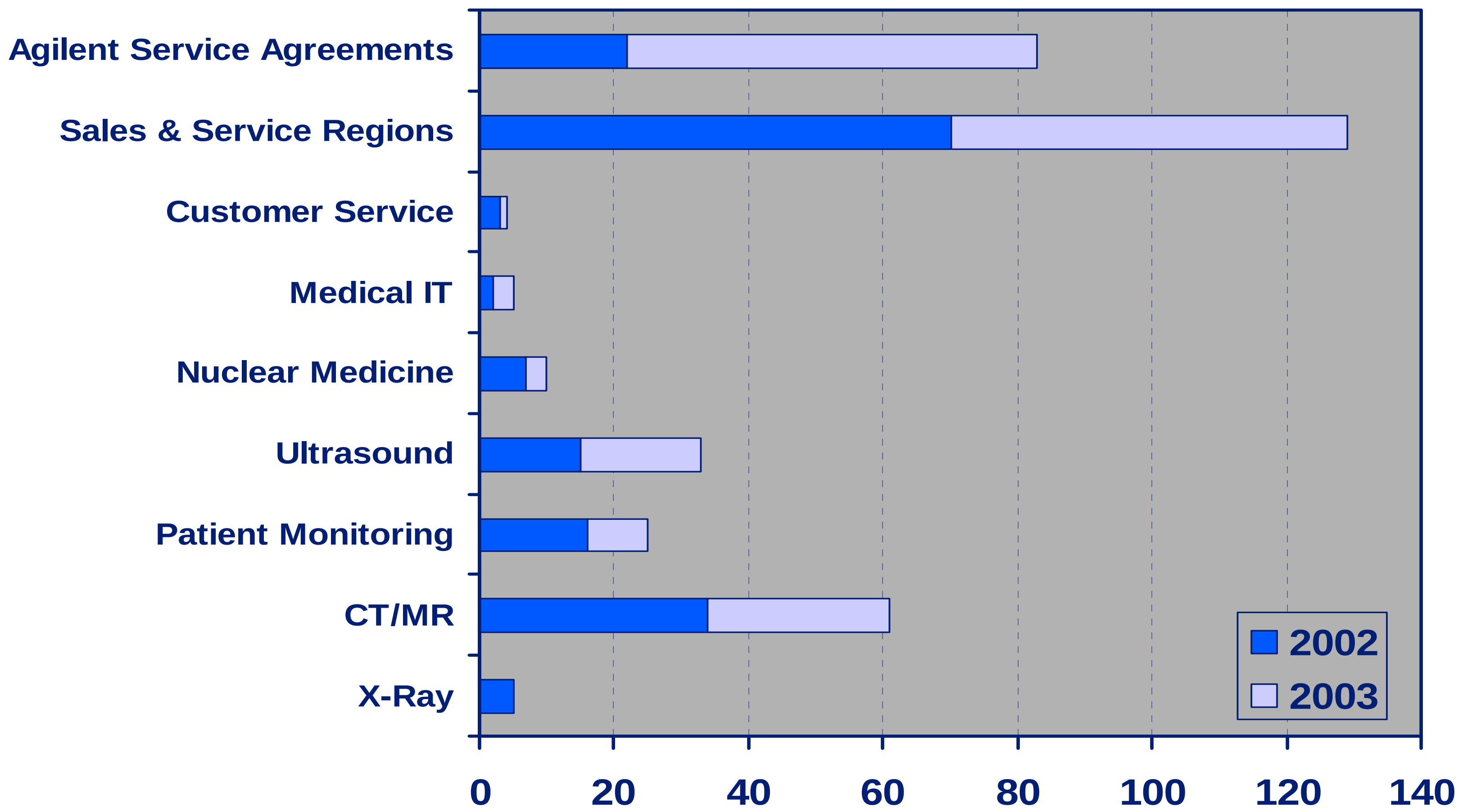
Marconi Integration

- Rapid integration of sales force and products
- One-off costs significantly above plan
  - e.g. HCP divestment
  - Reported in Q3 2002
- Significant market share growth
  - in CT in the US and Europe
  - 200 16 slice orders
- Yearly savings of € 61 mln
  - realized in 2002: € 34 mln



Source: NEMA

On track for the € 350 Mln Savings



The Integration Efforts largely behind us

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The Healthcare Market

Last 10 years ….	**Next 10 years ….**
Focus on cost take out	Focus on safety, quality, clinical
Payers had the power	Consumer has the power
Focus on treatment	Early diagnosis and prevention
IT focus on admin	IT on clinical and privacy
Single product purchases	Solution purchases
Best technology wins	Technology+application+relationship

We are changing with our customers

The Healthcare Market

Next 10 years ….

Focus on safety, quality, clinical

Consumer has the power

Early diagnosis and prevention

IT on clinical and privacy

Solution purchases

Technology+application+relationship

Implications …

Better & faster modalities

More consumer spending

Genomics & Molecular Imaging

Secure Physician Solutions

Interoperable modalities, IT & services

Research partnerships to improve care

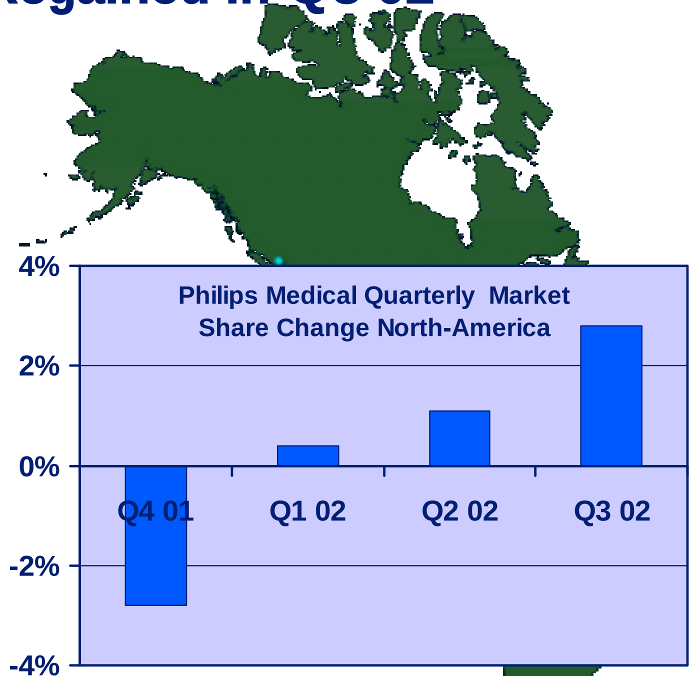
We are changing with our customers

Market Positions 2001 & YTD 2002

North America:
Lost ground in Q4 2001 – early 2002
Regained in Q3 02

EMEA:
strengthened our # 1 position

Asia Pacific:
Maintained share



Source Nema data

Held global market share throughout integration

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Market Leading Technology for 2003 and Beyond

Vequion User Experience SW

Unites Philips Medical Offering

From fixing to asset management

protects earlier investments

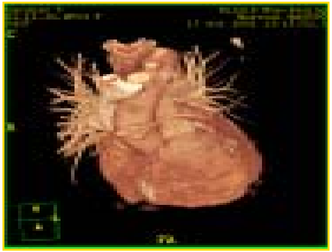
Patient data anywhere anytime

From diagnosis to prevention

Molecular Images of Heart Infarcts

For consumers to save lives

Live Cardiac 3D, not just 4 D



prevents crippling brain damage

whole body scan in 21 seconds

Breakthrough in Computed Tomography

Whole Body scan for Trauma patients in 21 seconds

„There‚s no more compromise. I can get the highest speed and best image quality all the time.‰

Jonas Rydberg, M.D.,
Indiana University

3 Dimensional X-Ray images help prevent crippling brain damages

Blood clot or hemorrhage?

“The new 3D workstation is incredible!
You and Philips should be congratulated.
Thank you for all your hard work.”
Dr. Jacques E. Dion, Emory University

“Integris Allura with 3D imaging will
rewrite the book on carotid artery imaging.”
Dr. Gary Roubin, Lenox Hill Hospital

Digital X-Ray Improve Quality and Productivity

"Digital X-Ray is about making pictures in the best possible way."
(Prof. Dr. B. B. Wein,
University Hospital Aachen, Germany)

300% growth in digital Direct Read systems

Instantaneous information
through Intelligent workflow support, and digital distribution

quality of the information
our Digital Image quality and lower dose improve diagnoses

Protecting the Customer's investments in MRI

"Thanks Philips, for your MR Product Philosophy.
For 6 1/2 years our magnet could be upgraded to the latest level of technical developments; this is 6 1/2 years without frustration to run out of clinical relevance".

Dr. Wentz, Kantonspital Winterthur, CH

The New Intera 3.0T
Compact High Field

The New Panorama 0.6T
Wide Open MR

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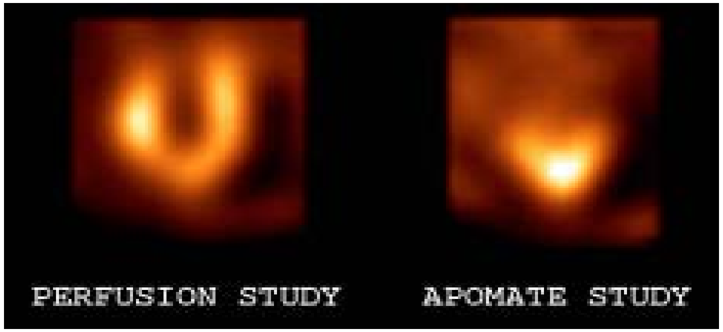
Uniquely detecting acute heart infarction with Nuclear Medicine

Nuclear Medicine is the “Gold’ Standard for detecting blood flow through the heart.
Apomate attaches to dying heart cells showing an infarction in action



Perfusion and Apomate images indicating large infarct (Apoptosis)

“We just love the system and put every patient we can in that room. All the physicians are really pleased with the image quality”

Regions Hospital
St. Paul Minnesota

Philips SkyLight

All patient information at the bedside

- Philips Intellivue: All patient information when you need, where you need it.. At the patient bedside

"Gathering relevant patient information from throughout the hospital is usually frustrating and time consuming for caregivers. Philips Intellivue system provides a convenient portal to more complete patient information at the point
of care." David Paulus, M.D. Dept. of Anesthesiology, University of Florida College of Medicine.

Philips Home Defibrillator – Delivering the Power to Save a Life

„Every American should be within 4 minutes of a defibrillator.‰

American Red Cross

First FDA-cleared defibrillator specifically designed for use in the home

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Philips Home Defibrillator – Delivering the Power to Save a Life

CNBC clip on Heartstart

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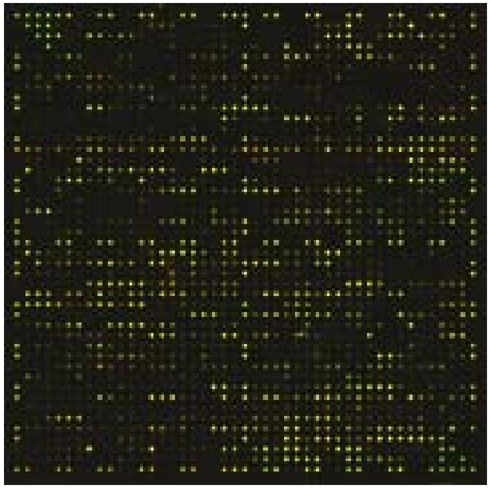
Molecular Imaging:
The road to preventive medicine

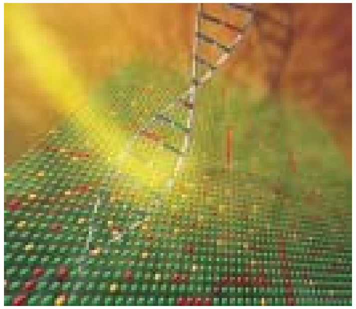
Vision:

- Genomic information becomes the primary basis for day to day treatment decisions in healthcare



Paradigm shift:

- Diagnosis and therapy become based on an individual's genetic and actual condition. All of Imaging will shift to include molecular processes in addition to morphology



Philips Role:

- Philips will be a pioneer in Molecular imaging, exploring new clinical application areas, Including the synergy of Molecular Diagnostics

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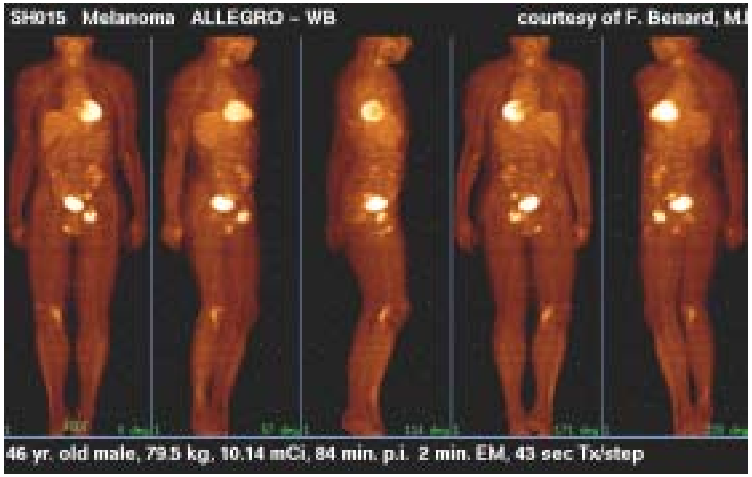
Research Areas

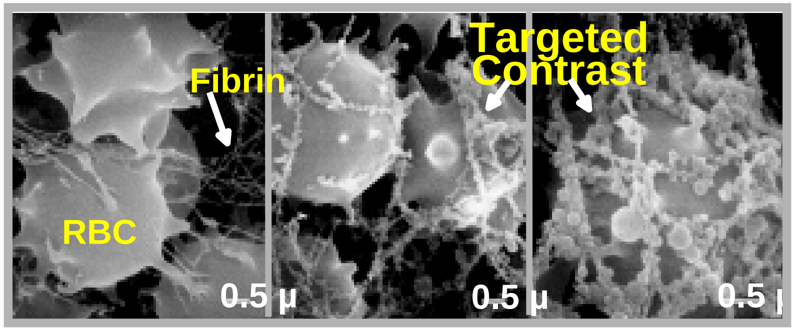
- A broad range of phenomena:
  - Angiogenesis: growing new arteries
  - Antiangiogenesis: inhibiting new arteries (Tumors)
  - Apoptosis: programmed cell death (heart infarction)
  - Atherosclerosis: inflamed arteries (e.g. Heart attack)
  - Stem cells (Cardiology, Oncology): grow new tissue
- Also development of related technology for clinical use:
  - Contrast agents
  - Markers
  - Drug Delivery
  - Stem Cell Delivery



Examples of cooperative Programs

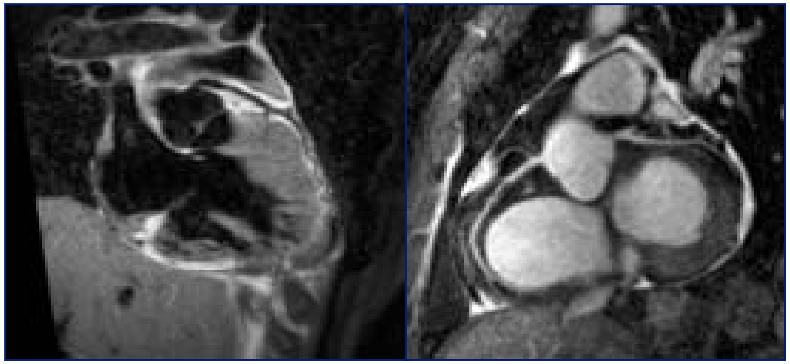
Washington University - St. Louis, MI

- Dr. Sam Wickline, inflammation of the arteries (MR, PET and Utrasound)



- Investment in Kereos, start up on targeted nano particles contrast agents.

- Beth Israel - Boston, MA Dr. Warren Manning: Clinical studies that showed that MR can non invasively diagnose coronary artery disease.



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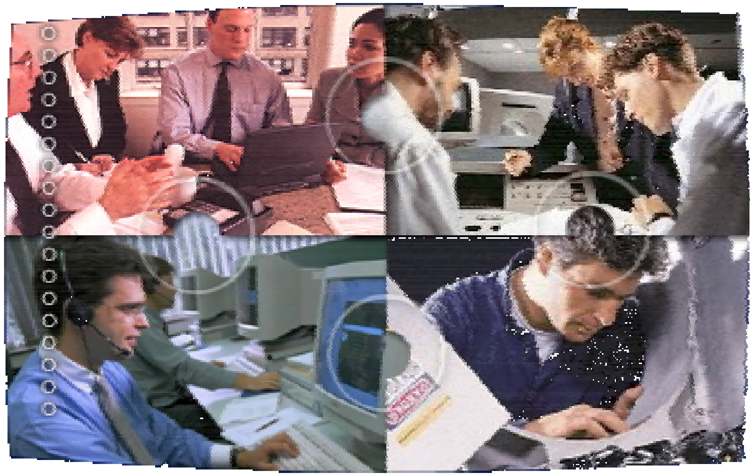
Why we are winning

- # 1 position for 15 out of 26 product categories (MD Buyline)
- Won the Frost & Sullivan award in Customer Service leadership for Multi Vendor Service program
- #1 Customer choice for Picture Archiving (PACS) in the USA (KLAS)
- Ranked # 1 in 2 independent market research surveys



Philips is ranked #1 in Customer Service across the board

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Strengthening the Philips Brand in North America

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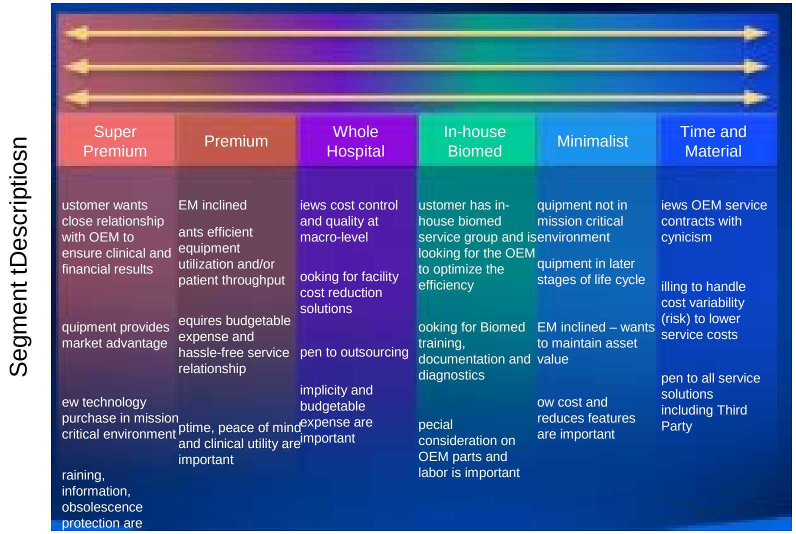
Expansion in Customer Services

- Set up Philips Medical Capital, a JV with RABO bank- De Lage Landen for customer financing
- Acquired the capability and unique toolset to help customers manage their assets better
- Combining best practices to launch a very competitive set of new customer services

Customer Segmentation Continuum



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Helping customers save money through Asset Management

Award winning, full function paperless Equipment Management Solution

Operates in a wired and wireless environment, providing <u>anywhere anytime</u> access.

."has made us more efficient while improving our bottom line."

Director, Clinical Eng,
Montefiore Hospital

Expansion in Medical IT

- Vequion, Philips next generation family of clinical IT solutions
  - Customizable presentation of information in ONE user interface
  - Fluid, no location boundaries
  - Open and standards-based architecture
  - Future-safe
  - Easy migration path for customers
- In discussion with potential partners on a broad suite of Clinical Information Systems centered around one Computerized Patient Record

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Financial Targets

December 5th 2001

- € 8 Bln revenue
  - At US$/€ 1,14
- EBITA 14 % 2004
- € 350 Mln savings
- R&D spent at 11% of Equipment Revenue

November 19th 2002

- € 7.3 Bln revenue
  - At US $/€ 1.01
- EBITA 14 % 2004
- € 350 Mln and beyond
- R&D spent at 11% of Equipment Revenue

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Summary

- Maintained market position during integration
- Integration effort is now largely behind us
- Best-of-Breed product portfolio and pipeline
- Multi-level strategic customer relationships
- We are building for expansion in Customer Services
- Reconfirm
  - 14 % EBITA
  - € 7.3 Bln revenue in 2004 at today’s exchange rates

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