Progress Report

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CEO of Medical Systems
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

**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.
Agenda

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

Sources: MedTech Insight, PMS internal analysis
Overall Market Share gain across geographies 2003 -2005, world, equipment orders, quarterly MAT

Source: various, Philips
### Market Share Trends in more detail

<table>
<thead>
<tr>
<th>Region/Product</th>
<th>2003-2005</th>
<th>Q1 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>Increasing</td>
<td></td>
</tr>
<tr>
<td>EMEA</td>
<td>No change</td>
<td></td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>Increasing</td>
<td></td>
</tr>
<tr>
<td>MR</td>
<td>Increasing</td>
<td></td>
</tr>
<tr>
<td>CT</td>
<td>Increasing</td>
<td></td>
</tr>
<tr>
<td>X-Ray</td>
<td>Increasing</td>
<td></td>
</tr>
<tr>
<td>Ultrasound</td>
<td>Increasing</td>
<td></td>
</tr>
<tr>
<td>Nuclear Medicine</td>
<td>No change</td>
<td></td>
</tr>
<tr>
<td>Healthcare IT</td>
<td>Increasing</td>
<td></td>
</tr>
<tr>
<td>Cardiac &amp; Monitoring</td>
<td>Increasing</td>
<td></td>
</tr>
</tbody>
</table>

*Q1 '06 based on a comparison to Q1 '05*
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Performance Update

June 2005 we said

• Eleven consecutive quarters of margin improvement
• Will continue on this path beyond 14.4 % EBITA of 2004
  – significant & quantified opportunities still ahead
• Next step expansion is also a path
  – growth opportunities mapped, discussions ongoing
  – focus on improving care cycle, build on existing strengths and differentiate
• Value creation driven, not just top line – our time table

May 2006 we say

• Two years of market shares gains
• Return to margin improvements
  – accelerate operational improvements
  – accelerate low cost sourcing
  – drive service penetration & scope
• Next step expansion is also a path
  – acquired Stentor and Witt with clear growth synergies
  – focus on improving care cycle, build on existing strengths, and differentiate
• Value creation driven, not just top line continues to be our agenda
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 comparable orders growth %

Full Year comparable sales growth %

Full Year currency comparable orders growth %
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.

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

- 2003: 150
- 2004: 135
- 2005: 110
- Target: 100

Increase of Research FTE (indexed)

- 2002: 100
- 2003: 140
- 2004: 166
- 2005: 222
- Target: 230

Supplier Owned Inventory (%)

- 2003: 12
- 2004: 39
- 2005: 49
- Target: 60

New Product Shipments

- 2002: 40%
- 2003: 45%
- 2004: 58%
- 2005: 63%
- Target: 70%
Margin expansion

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

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Action</th>
</tr>
</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>
</tr>
<tr>
<td>Channel Productivity</td>
<td>Single Global Sales and Service Organization Optimize Direct/Indirect Channel Split</td>
</tr>
<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>
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</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
Service growth driven by contract penetration

 indexed

 Contract Penetration end 2003
 100

 Contract Penetration end 2004
 107

 Contract Penetration end 2005
 122

 Equipment & Services sales growth (currency adjusted)

 Strong year on year improvement in contract penetration rate
Emergency Ultrasound in Pre-Hospital Markets

Emergency Ultrasound on Next Generation Advanced Life Support brings better remote care and transports key data to hospital.
PMS Sourcing from low-cost Countries is Increasing....
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Meet Gerard Donovan....

... and his 150 medical staff...
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 GEMINI TF with TruFlight PET technology

Perfect for every body.

- True benefits of time of flight technology
  - 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

- Boosts the sensitivity demanded by low count-rate MI applications
  (e.g. dynamic studies and more specific PET agents)

The new standard in speed, comfort, clarity and flexibility
Minimally Invasive procedures have taken the lead in treating obstructed heart arteries

Source: American Heart Association, Statistical update, 2006
Expanding in Healthcare IT
Full Enterprise IT portfolio

Imaging Modalities & Monitoring
Clinical Specialty Solutions
Enterprise Solutions

Guaranteeing a consistent Experience
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Focus on the Care Cycle – space to grow

$180 billion market

Information & Decision support

- Operating room Monitoring Imaging
- Intensive Care unit Monitoring
- Pre-Hospital/Ambulance Monitoring
- Step down facility Monitoring
- Home Monitoring

$90 billion market

$10 billion market
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
Molecular Diagnostics – Improvements across Care Cycles

- Therapy Monitoring
- Patient Stratification for Personalized Treatment
- Early Diagnosis Rapid Results
- Predisposition Testing & Screening
- Monitoring for Relapse
- Management of Chronic Disease
Priorities

Maximize Value Creation

Expand the business

Strengthen current portfolio

Secure previous investments

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