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

- Americas: 53%
- EMEA: 19%
- Asia: 28%

- Imaging: 55%
- Services: 30%
- Clinical IT: 15%
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Integration Update: Major projects

- Moving Agilent’s HSG to Philips IT systems
- Integration of the Ultrasound businesses
- Sales Force integration
- Marconи
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
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
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
Here is what customers think about sales force integration

Customer video clip
Edward Hospital
Chicago, IL
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 ....
Focus on cost take out
Payers had the power
Focus on treatment
IT focus on admin
Single product purchases
Best technology wins

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

We are changing with our customers
The Healthcare Market

Next 10 years ....
- Focus on safety, quality, clinical
- Consumer has the power
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- Solution purchases
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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

Philips Medical Quarterly Market Share Change North-America

Source Nema data

Held global market share throughout integration
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Market Leading Technology for 2003 and Beyond

- First FDA approved 16 slice CT whole body scan in 21 seconds
- 3D X-ray Digital Direct Angio prevents crippling brain damage
- Revolution in Ultrasound brings Live Cardiac 3D, not just 4D
- First FDA approved home defib for consumers to save lives
- Nuclear Medicine brings Molecular Images of Heart Infarcts, molecular imaging moves us from diagnosis to prevention
- Intellivue with portal tech. brings patient data anywhere anytime
- Leading Edge MR Innovation that protects earlier investments
- Service portfolio moves customers from fixing to asset management
- 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 4D 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

“Healing is a delicate balance of eliminating clots and preserving blood flow.”

Dr. Gary Roubin, Lenox Hill Hospital

“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, Kantonsspital
Winterthur, CH
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

“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

Perfusion and Apomate images indicating large infarct (Apoptosis)
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
Philips Home Defibrillator – Delivering the Power to Save a Life

CNBC clip on Heartstart
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
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
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
Helping customers save money through Asset Management

Award winning, full function paperless Equipment Management Solution

Operates in a wired and wireless environment, providing anywhere anytime 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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• 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