

PHILIPS

Progress Report

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CEO of Medical Systems

Forward Looking Statements

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

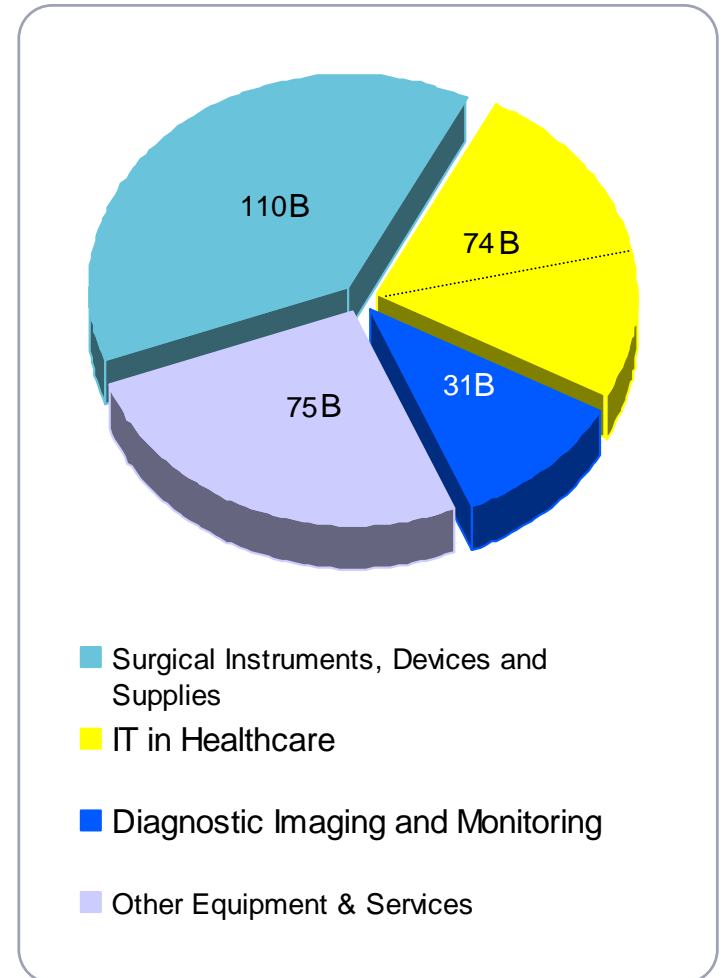


The Medical Systems & Device Market

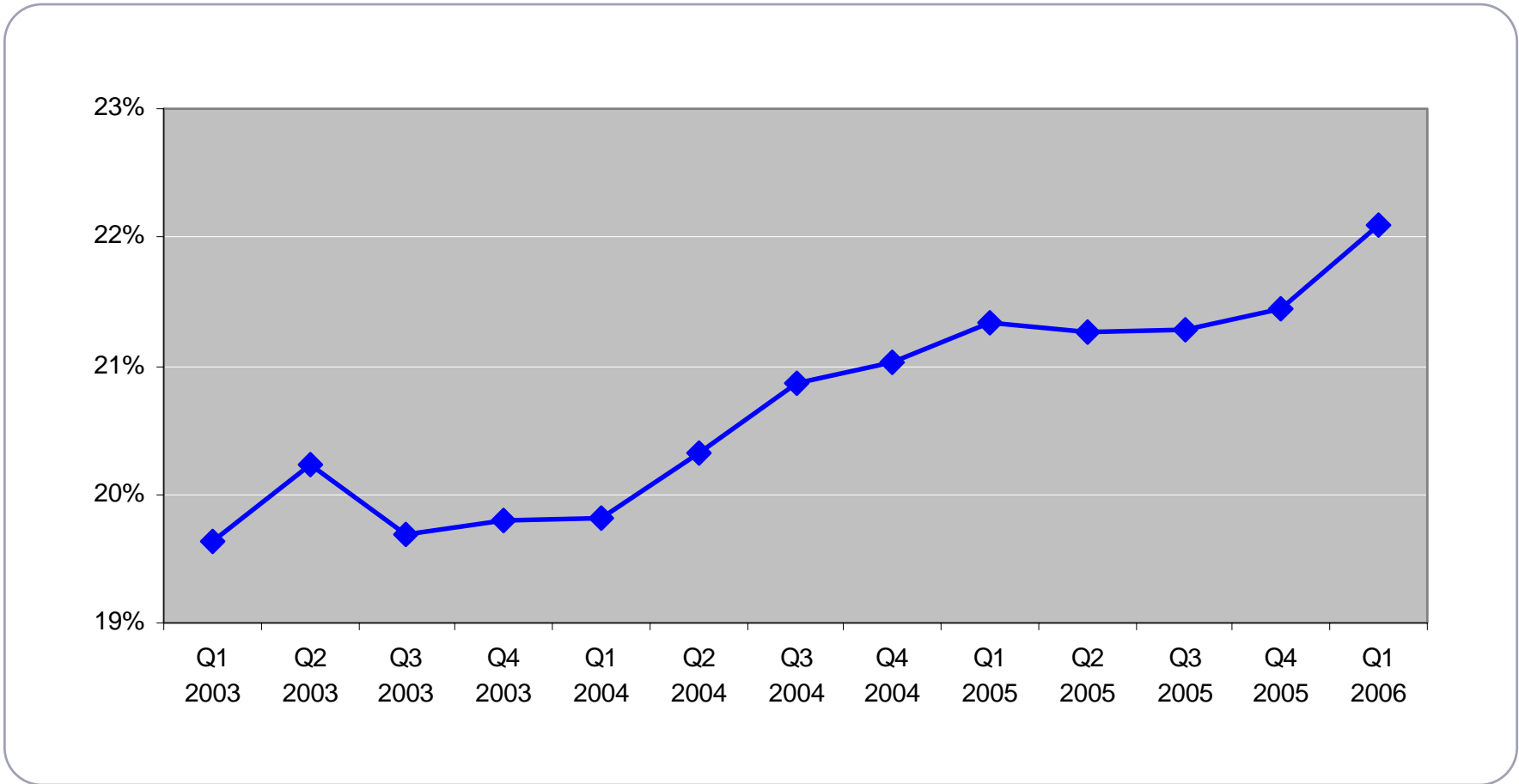
Main categories

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%




Overall Market Share gain across geographies 2003 -2005, world, equipment orders, quarterly MAT



Market Share Trends in more detail

	2003-2005	Q1 2006
North America	Increasing	Increasing
EMEA	No change	Increasing
Asia Pacific	Increasing	Increasing
MR	Increasing	No change
CT	Increasing	Increasing
X-Ray	Increasing	Increasing
Ultrasound	Increasing	Increasing
Nuclear Medicine	No change	Increasing
Healthcare IT	Increasing	Increasing
Cardiac & Monitoring	Increasing	Increasing



■ Increasing
■ No change
■ Decreasing

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

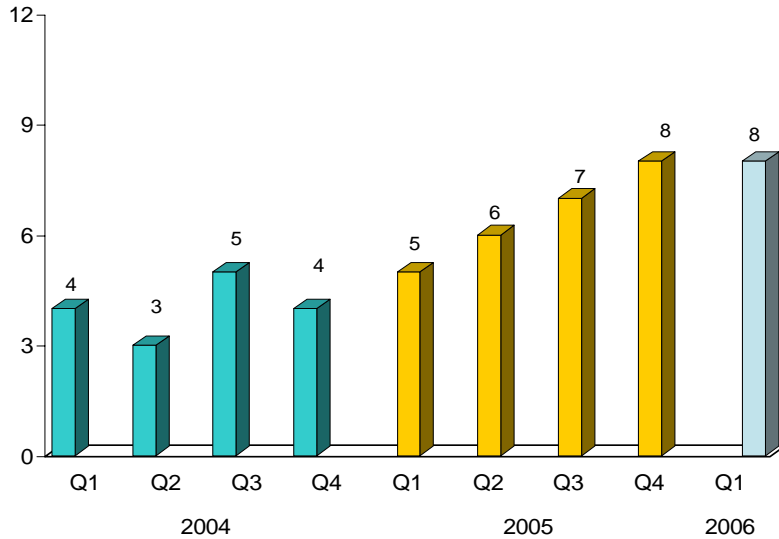
Healthcare Informatics

Ultrasound &
Monitoring
Cardiac Systems

Document services

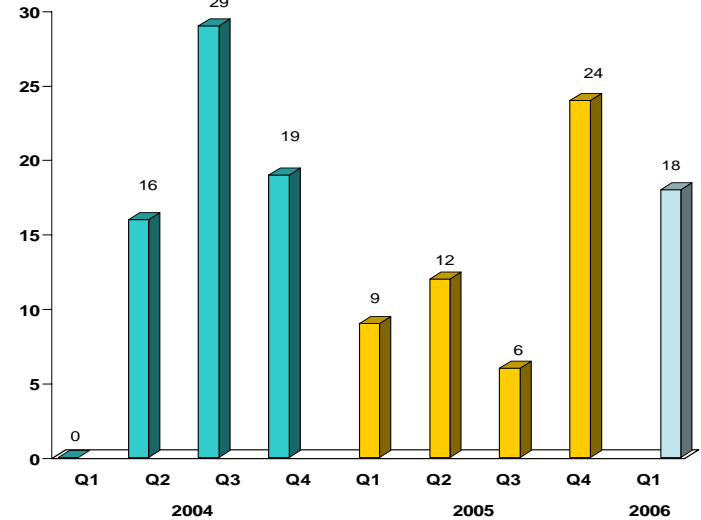
Sales growth continues

Quarterly comparable sales growth %

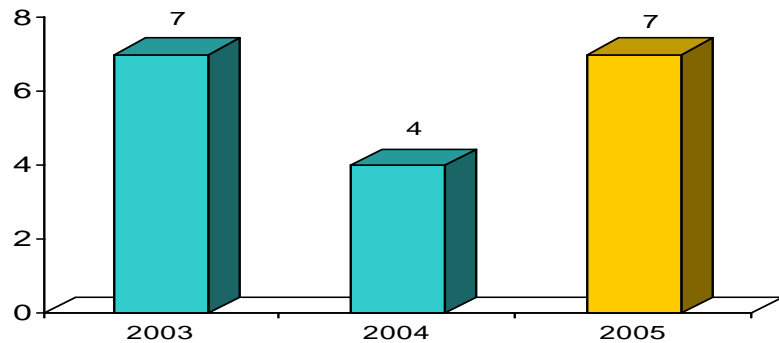


As do equipment orders

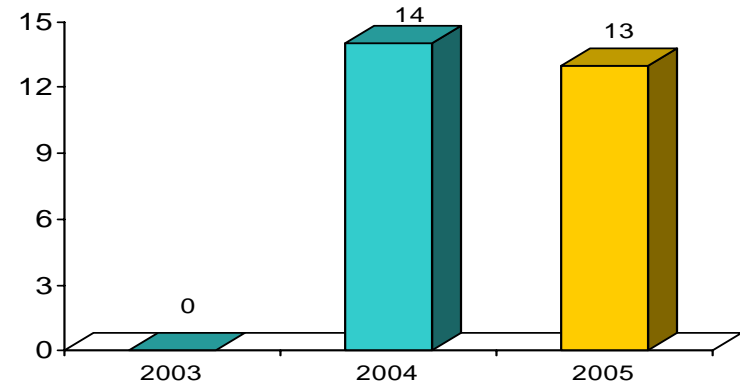
Quarterly currency comparable orders growth %



Full Year comparable sales growth %

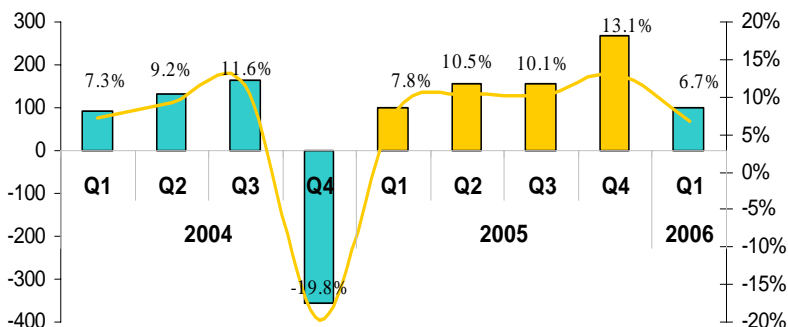


Full Year currency comparable orders growth %

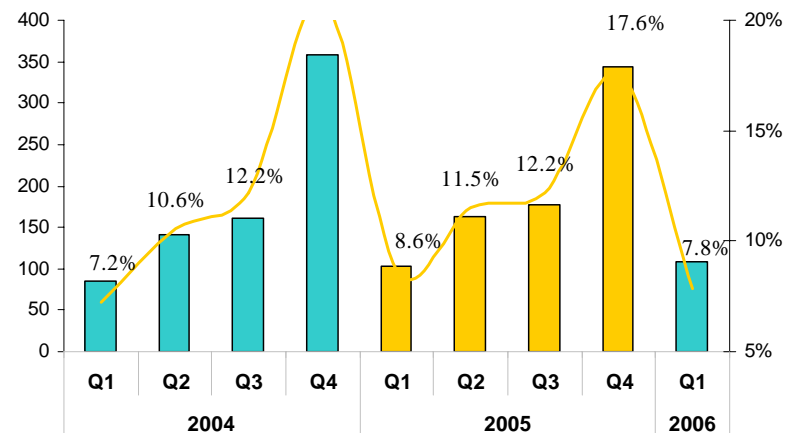


EBIT (in millions of euros)

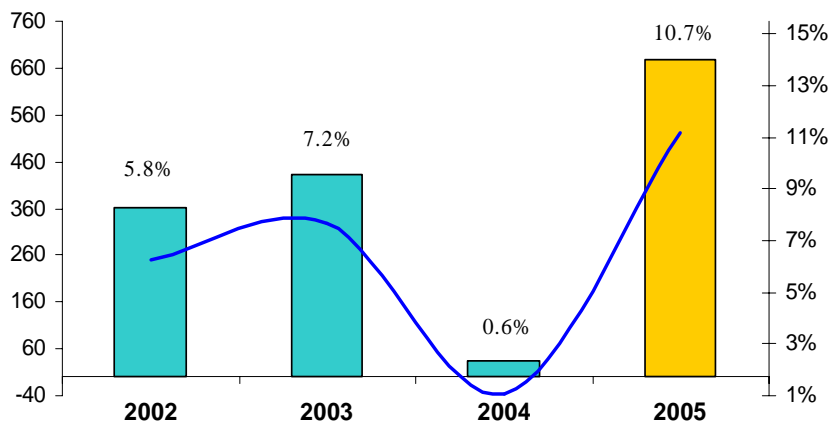
Quarterly as reported



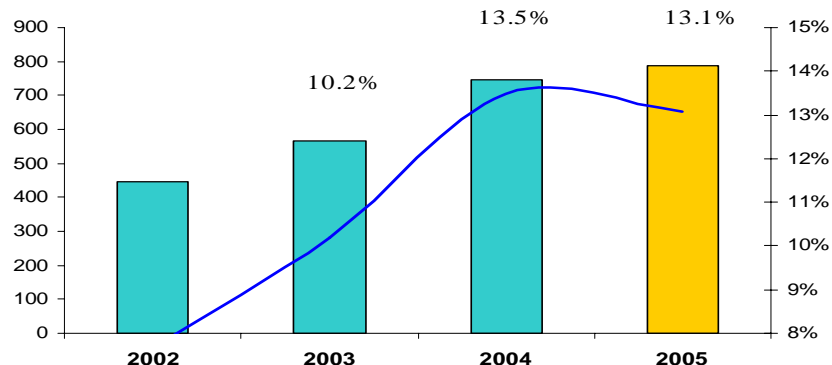
Quarterly adjusted



Full Year as reported



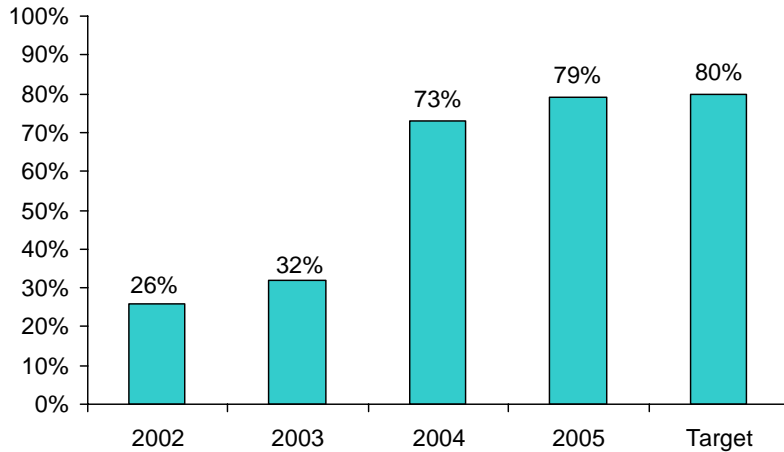
Full Year adjusted



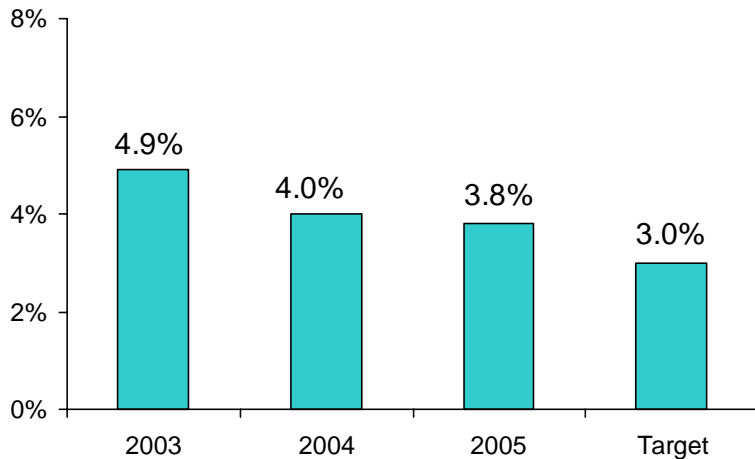
Quarterly adjustments: Excludes MedQuist, Volumetrics settlement Q4 04 EUR 133 m, Stentor impact 2005: Q3 EUR 11 m, Q4 EUR 10 m, 2006: purch. acc. Q1 EUR 3 m.
 Full year adjustments: Excludes MedQuist, 2003 special items (See annual report), 2004 Volumetrics settlement EUR 133 m, 2005 Stentor impact EUR 21 m.

A Faster, More Efficient Supply Chain

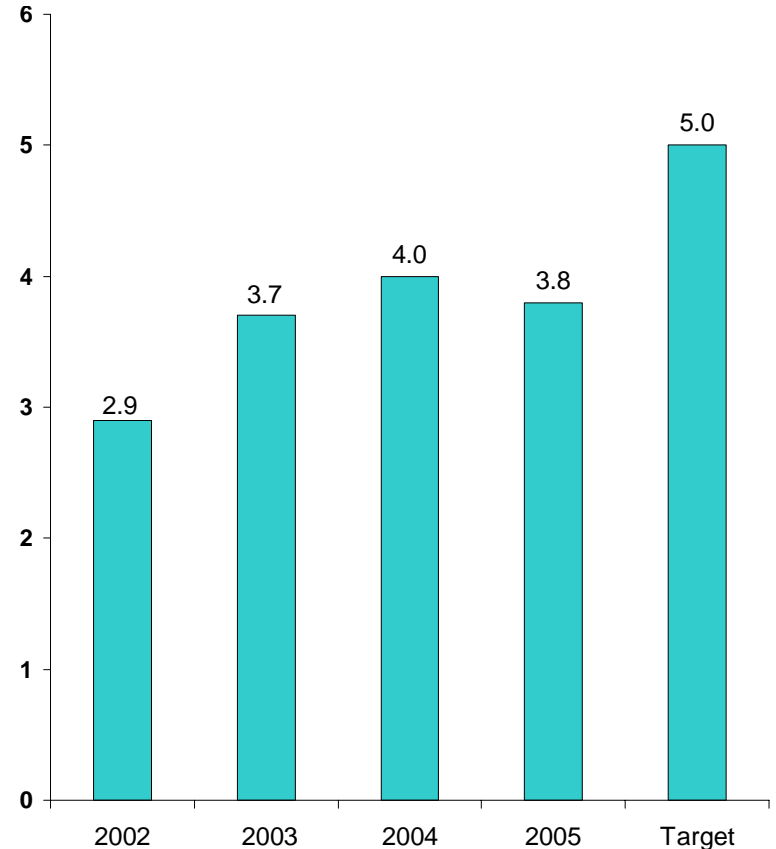
Equipment Direct Deliveries as % Sales (world)



IT spending as % of sales



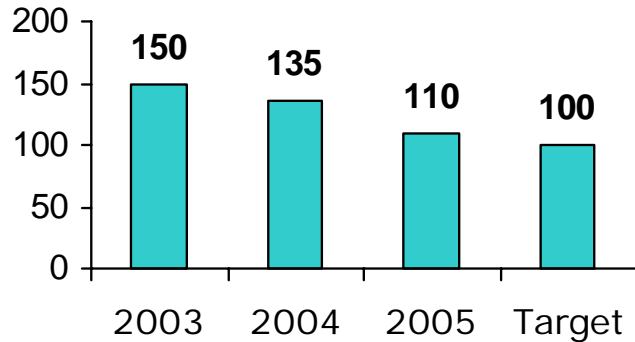
Net Capital Turnover



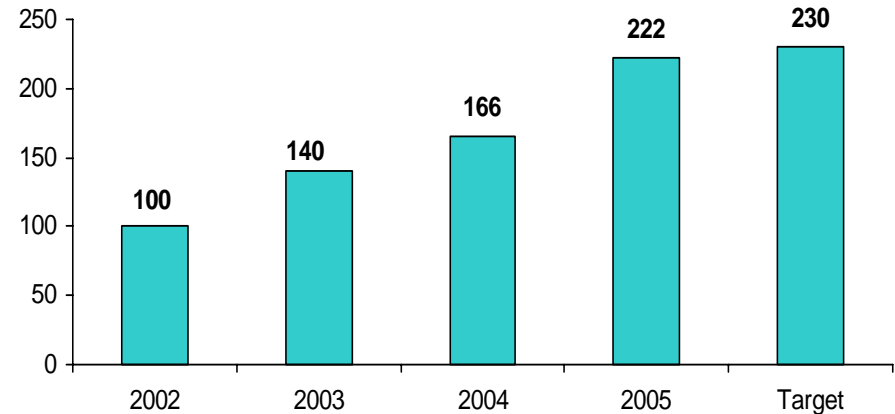
Net Capital = Capital excluding Goodwill

Accelerate Innovation & Integrate Supply Base

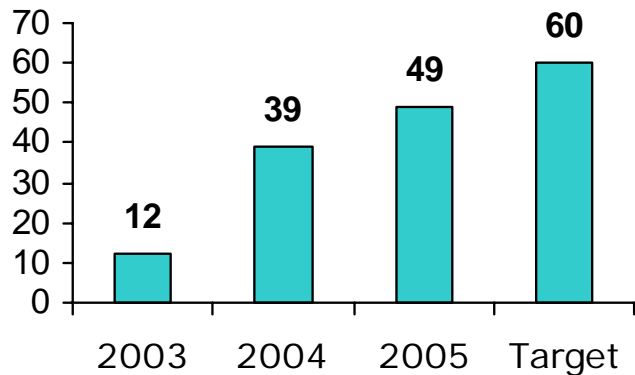
No. of Suppliers (80 % of BOM spend)



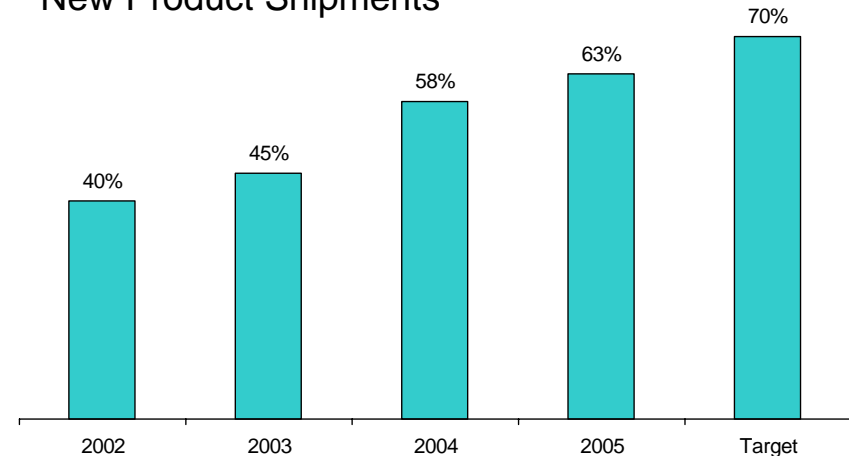
Increase of Research FTE (indexed)



Supplier Owned Inventory (%)



New Product Shipments



Margin expansion

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

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

Simplify
your work



Philips Neusoft JV

- **GXR Essenta (20% cost improvement)**

Product Training in China

Jan 2006

Product Launch in China

Feb 2006

Product Training in Asia

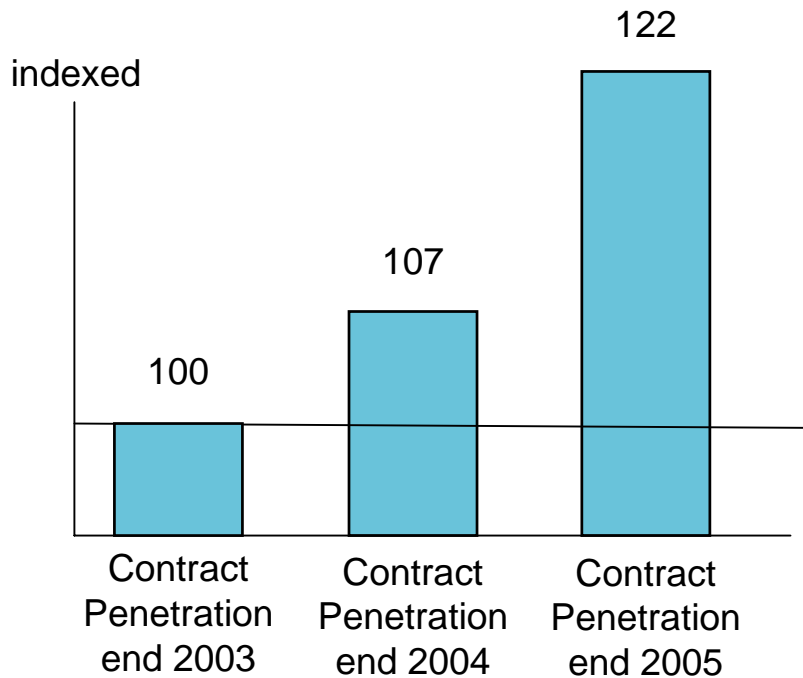
Mar 2006

Product Launch in Asia

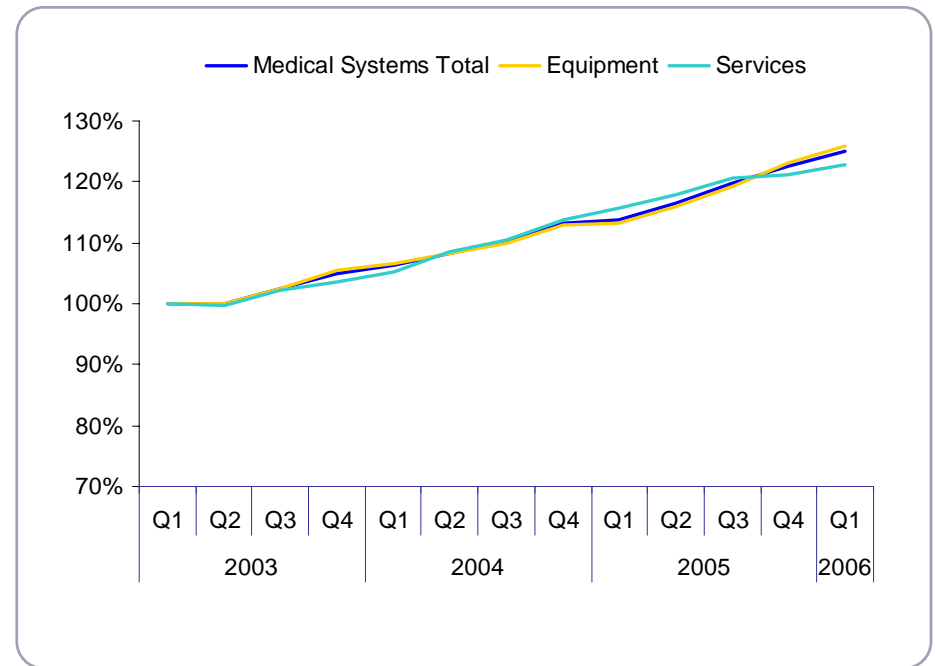
June 2006



Service growth driven by contract penetration



Equipment & Services sales growth (currency adjusted)



Strong year on year improvement in contract penetration rate

Emergency Ultrasound in Pre-Hospital Markets

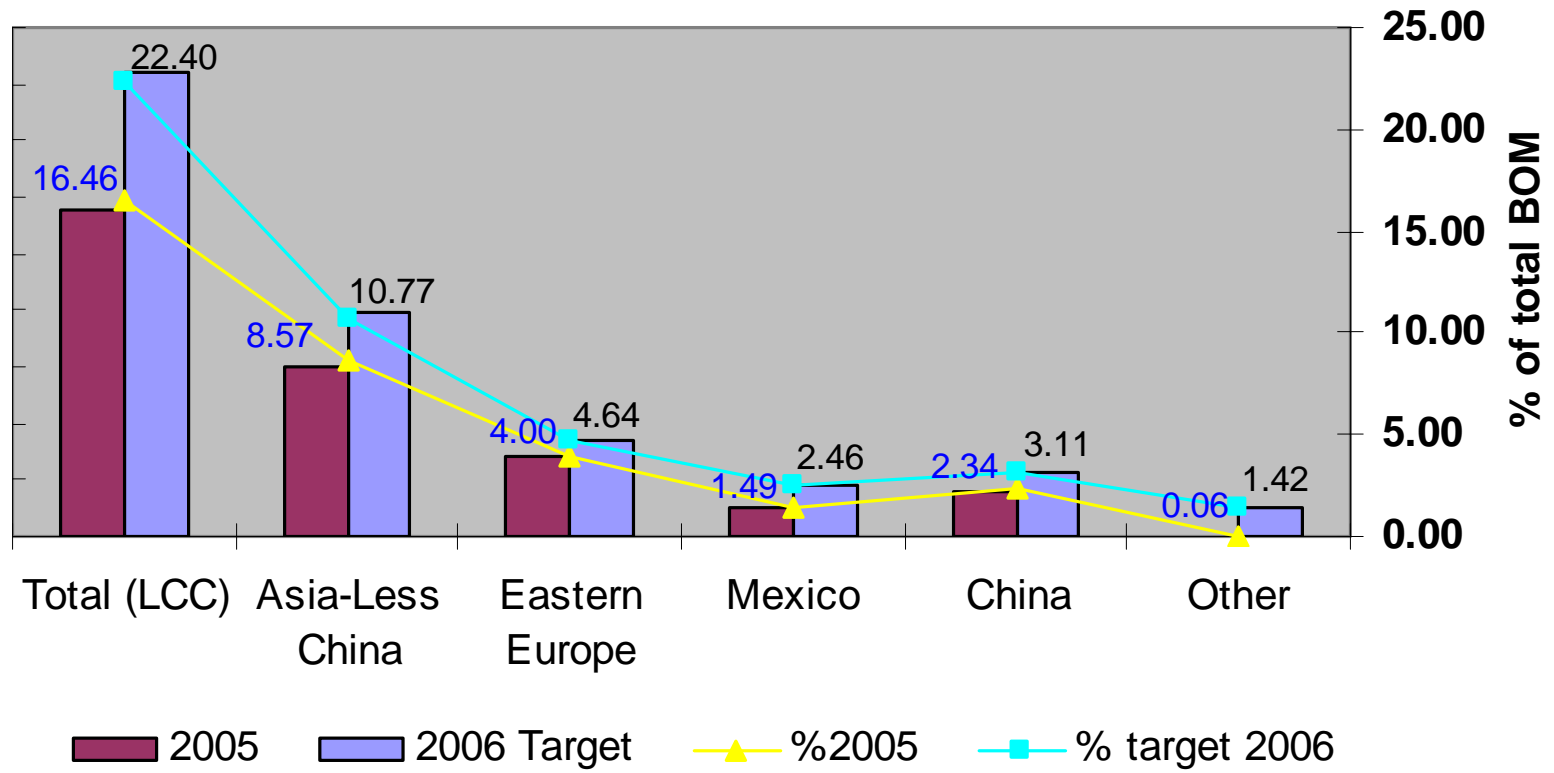
Emergency Ultrasound on Next Generation Advanced Life Support brings better remote care and transports key data to hospital



***ALS and Ultrasound
Imaging on-site***



PMS Sourcing from low-cost Countries is Increasing....

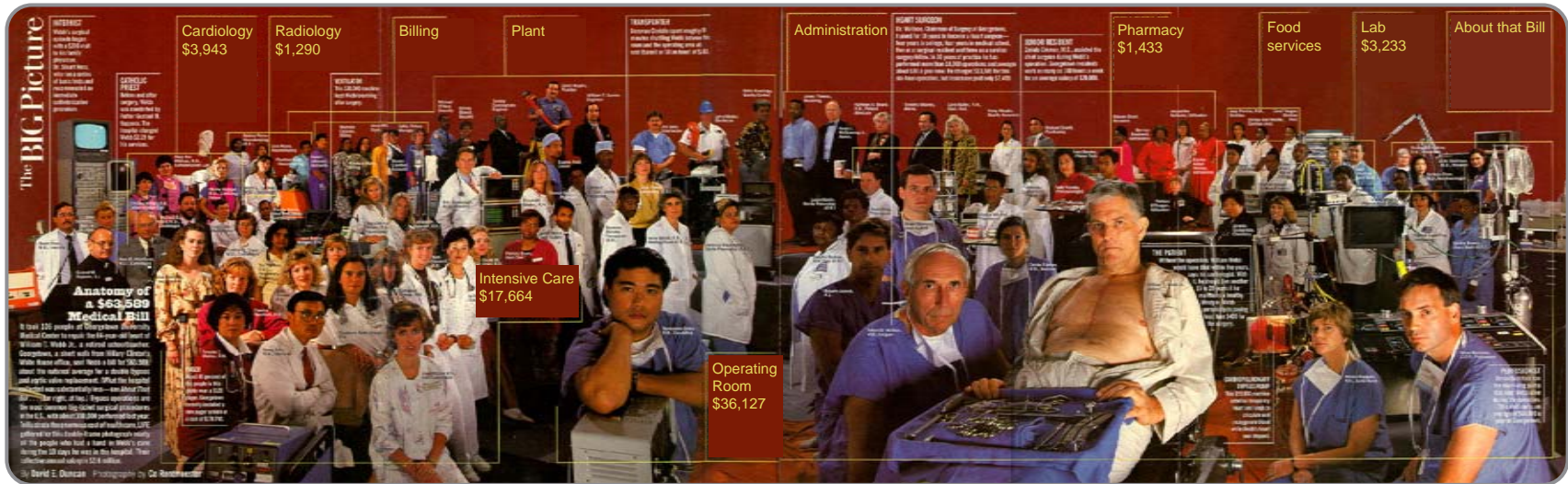


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- *Where do we go from here*
- Care Cycle



Meet Gerard Donovan....

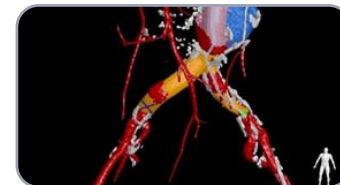


... and his 150 medical staff...

Medical technology continues to transform Healthcare

Imaging and Monitoring

earlier diagnosis saves lives and reduces costs



Minimally invasive procedures

reducing patient trauma and costs



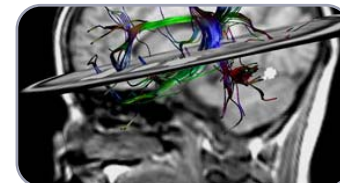
Healthcare IT

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.”

Innovation drives profitable growth

New Philips **GEMINI TF**
with **TruFlight** PET technology

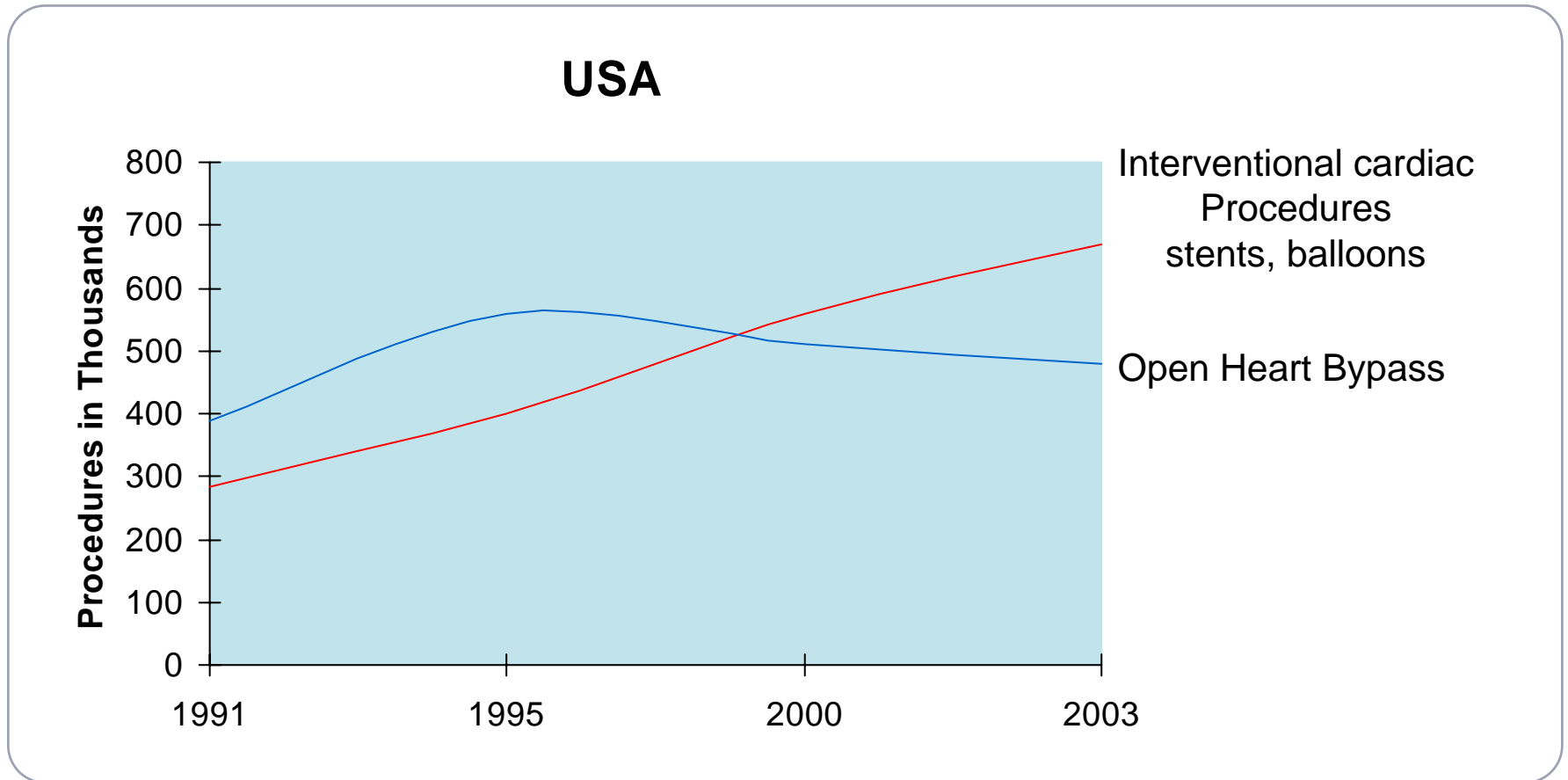
Perfect for every body.

- 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)



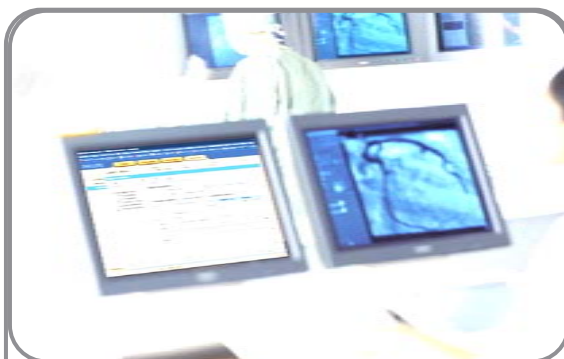
The new standard in speed, comfort, clarity and flexibility

Minimally Invasive procedures have taken the lead in treating obstructed heart arteries

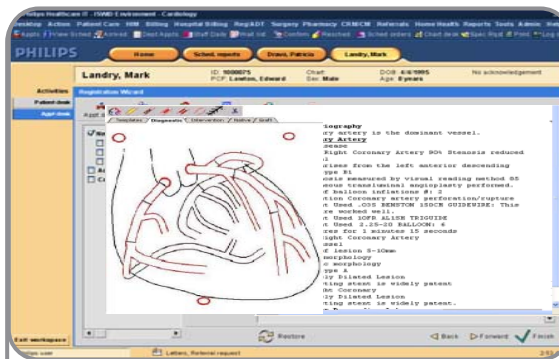


Source: American Heart Association, Statistical update, 2006

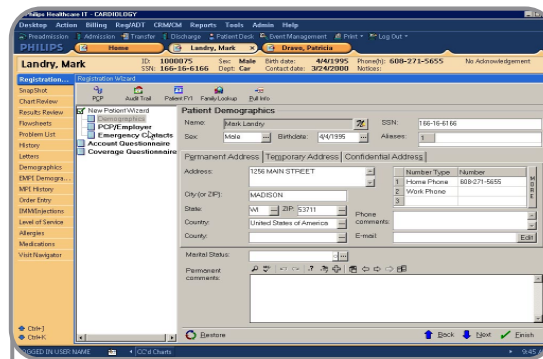
Expanding in Healthcare IT Full Enterprise IT portfolio



Imaging Modalities & Monitoring



Clinical Specialty Solutions



Enterprise Solutions

Guaranteeing a consistent Experience

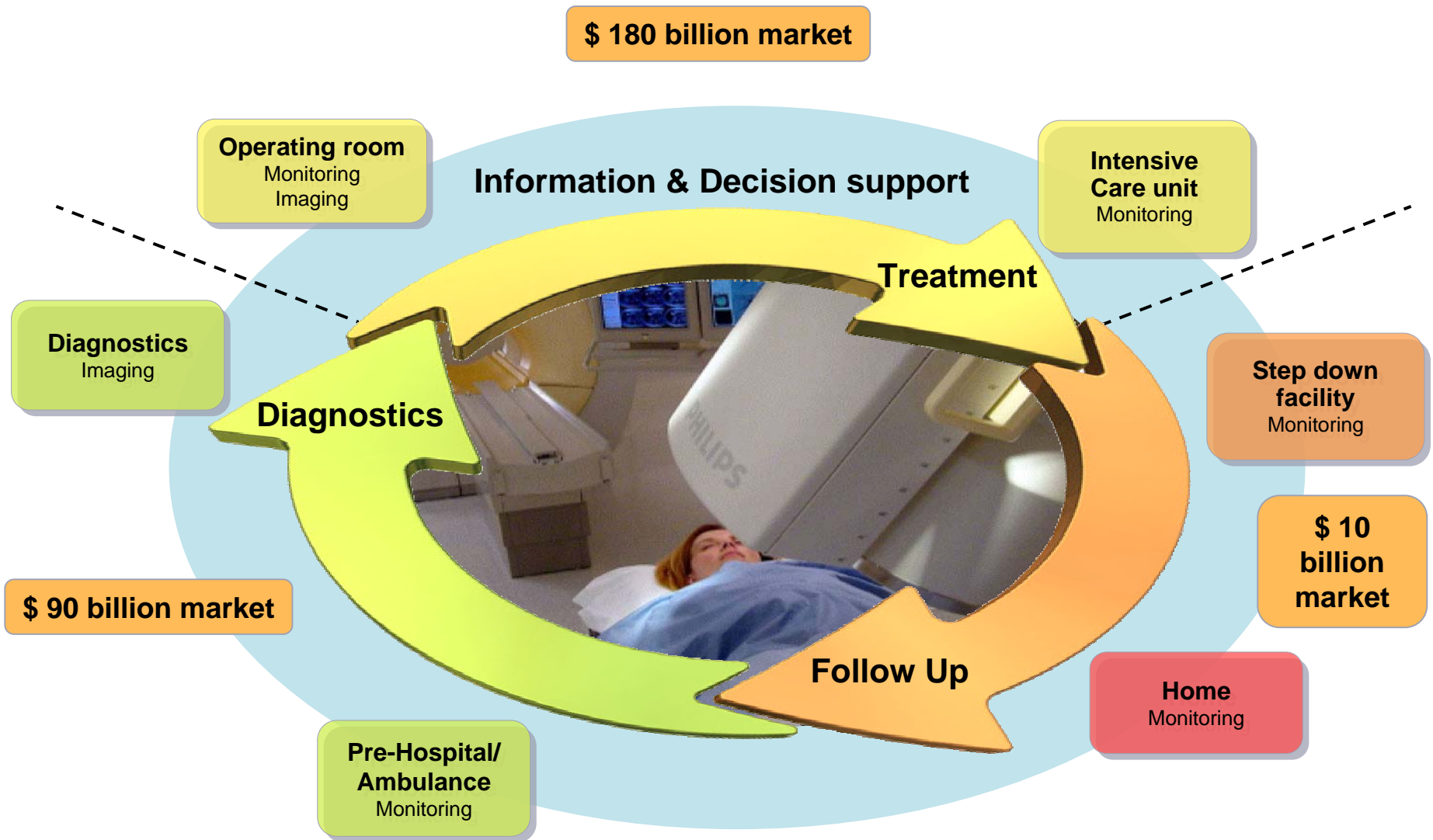


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Focus on the Care Cycle – space to grow

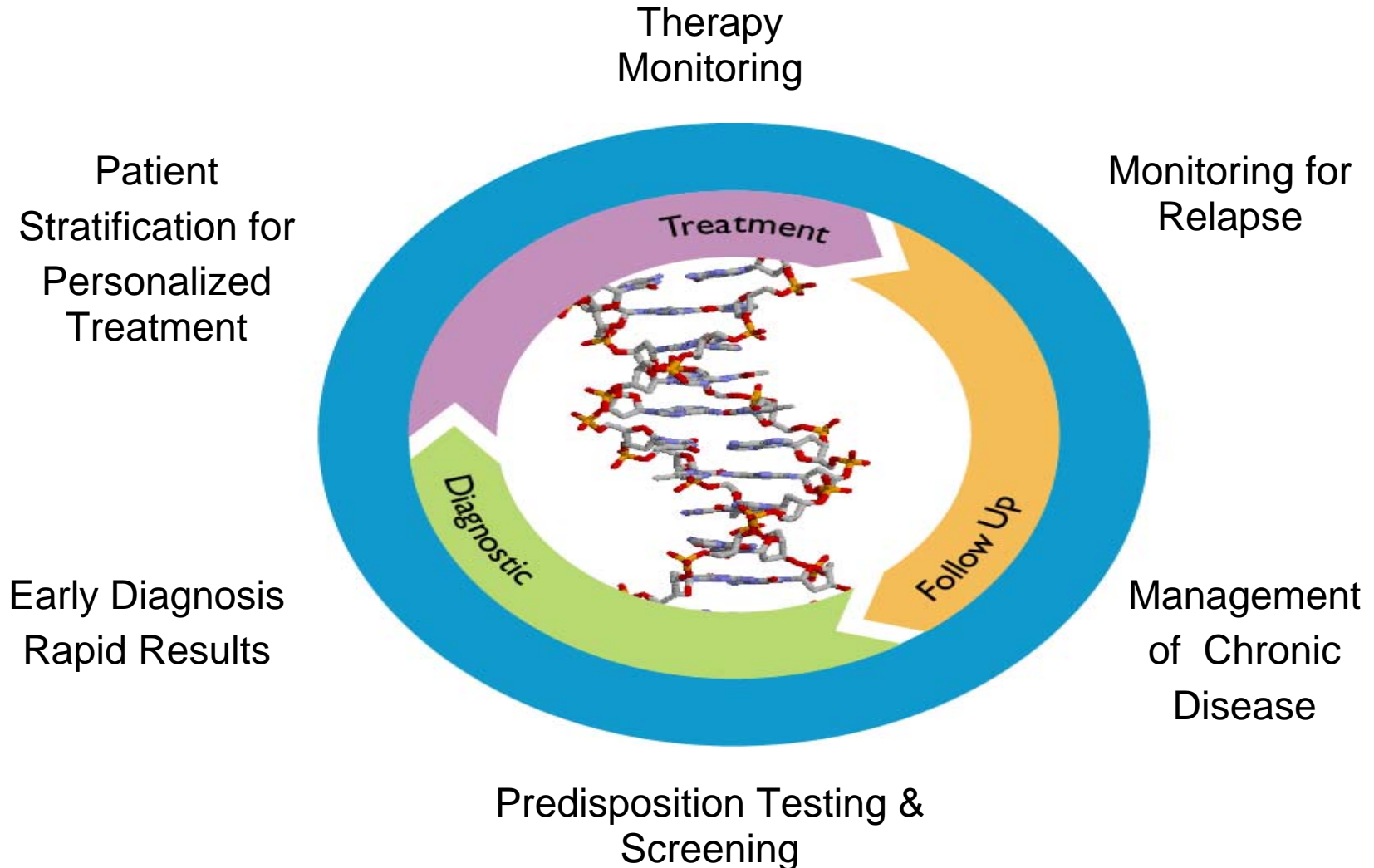


Philips Schering Alliance

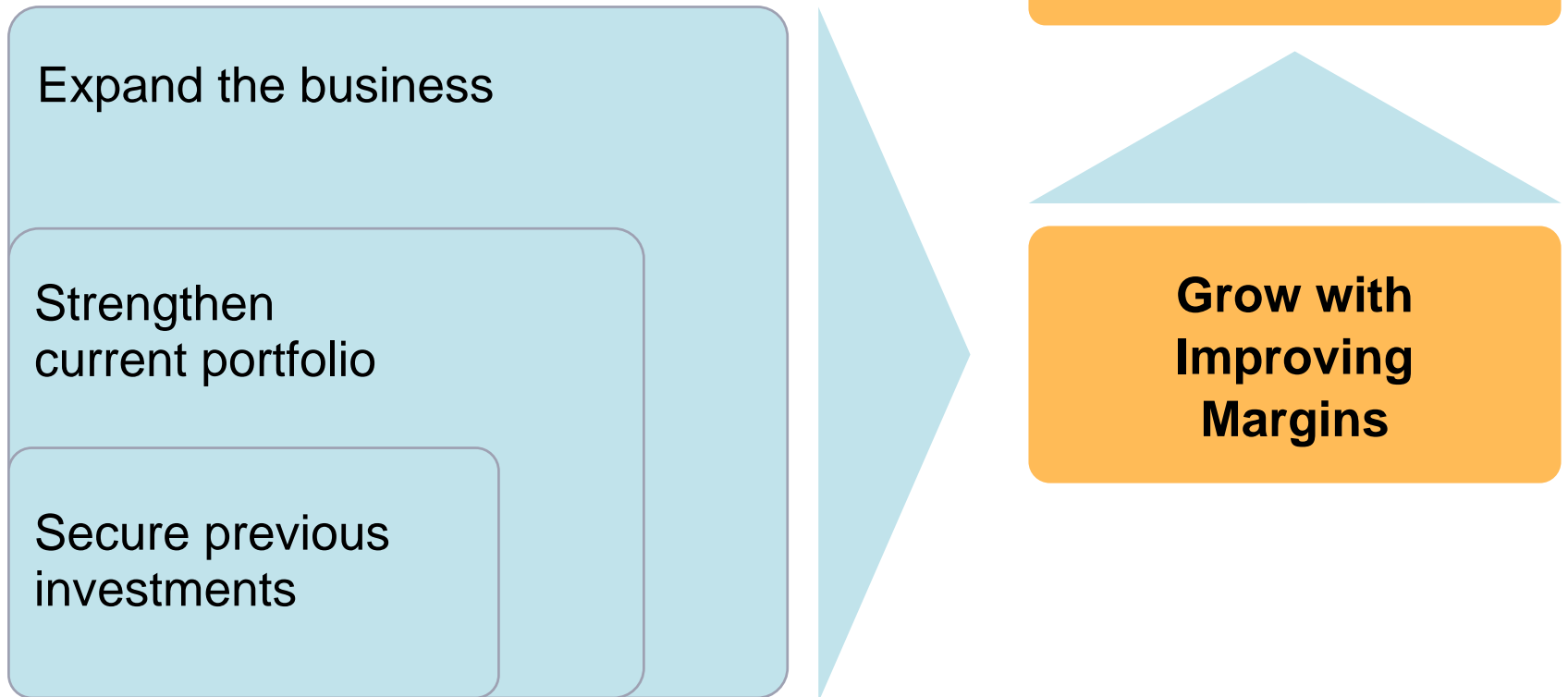
- **Goal**
To jointly research, develop and commercialize a new technology – *Optical Imaging*
- **Initial focus**
To develop optical mammography for diagnosing breast cancer
- **1st development project**
Combines Schering's omocinian (SF-64) optical agent with a Philips optical scanner
- **Business 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



Priorities



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

Value Creation

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

