

# PHILIPS

## Progress Report

Medical Systems

# 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



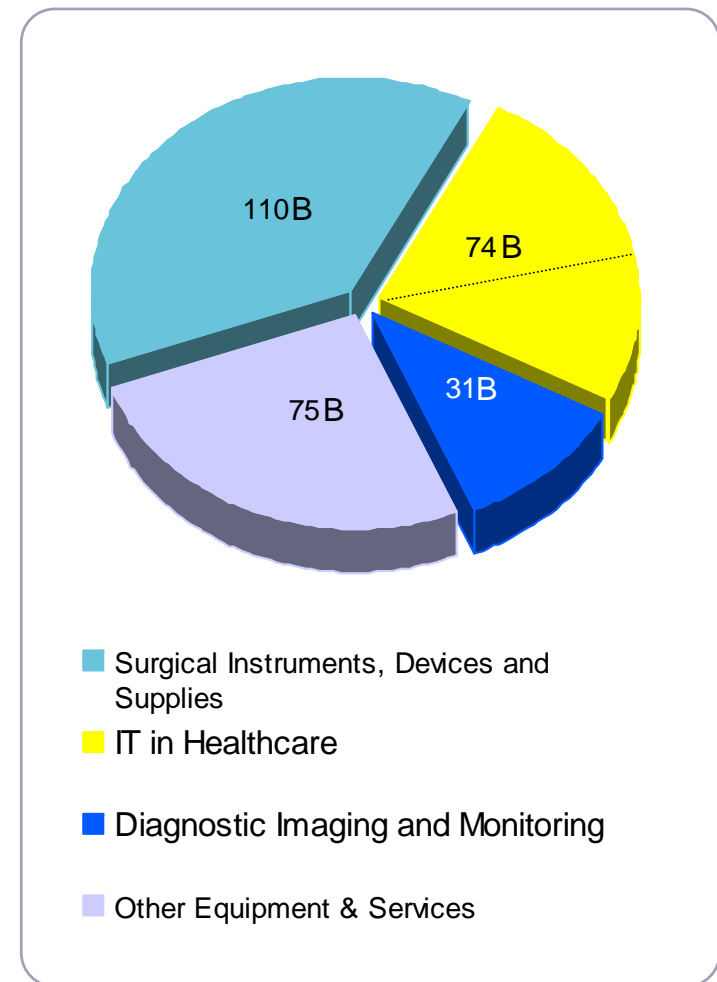
## The Medical Systems & Device Market

### Main categories

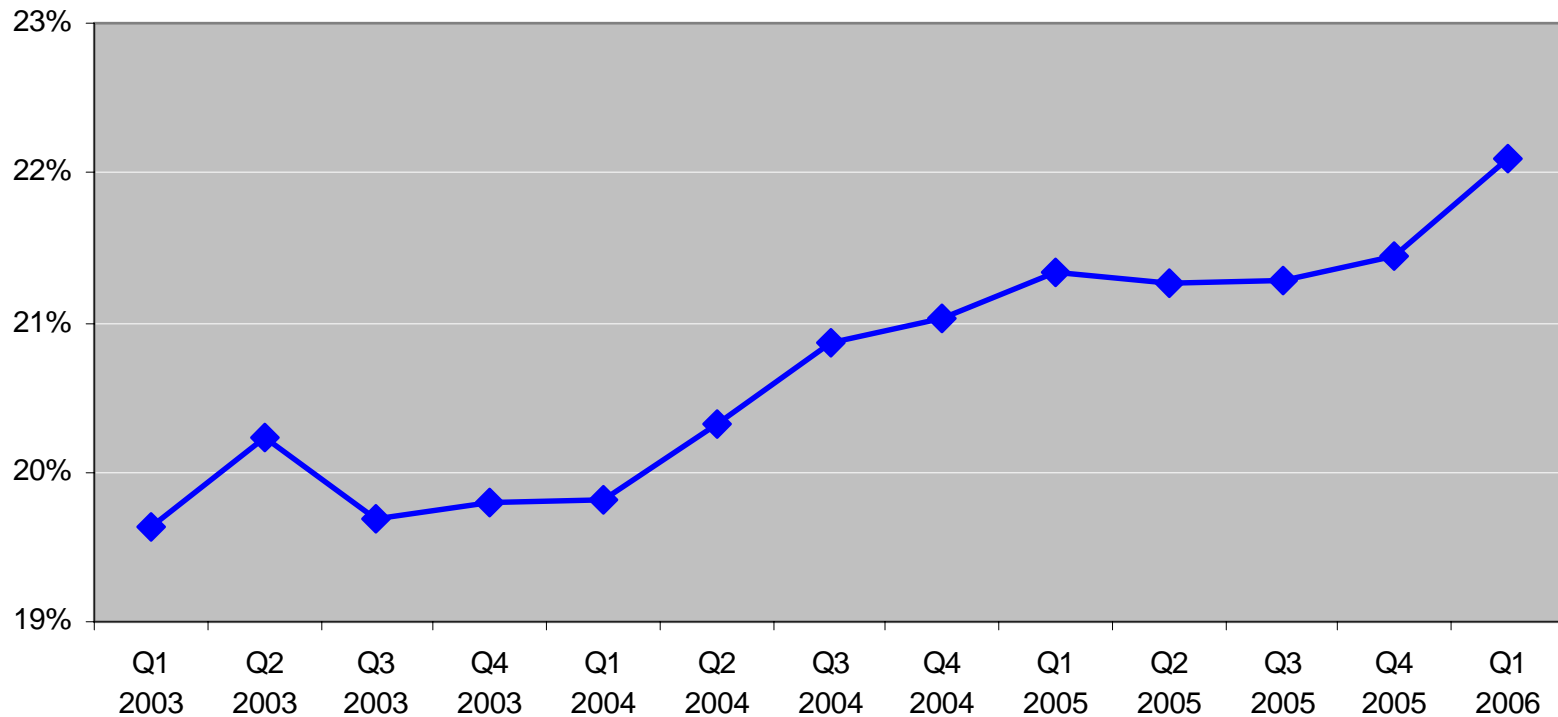
Medical equipment, services, devices and supplies \$ 290 billion worldwide, 2005

- Long term growth Imaging and monitoring 4-5%
- IT in Healthcare 7%
- Price erosion 2-3%

Philips focuses on a \$ 61 bln market



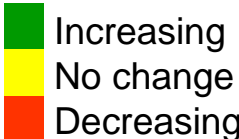
## Overall Market Share gain across geographies 2003 -2005, world, equipment orders, quarterly MAT



Source: various, Philips

# 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

# Agenda

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



## Performance Update

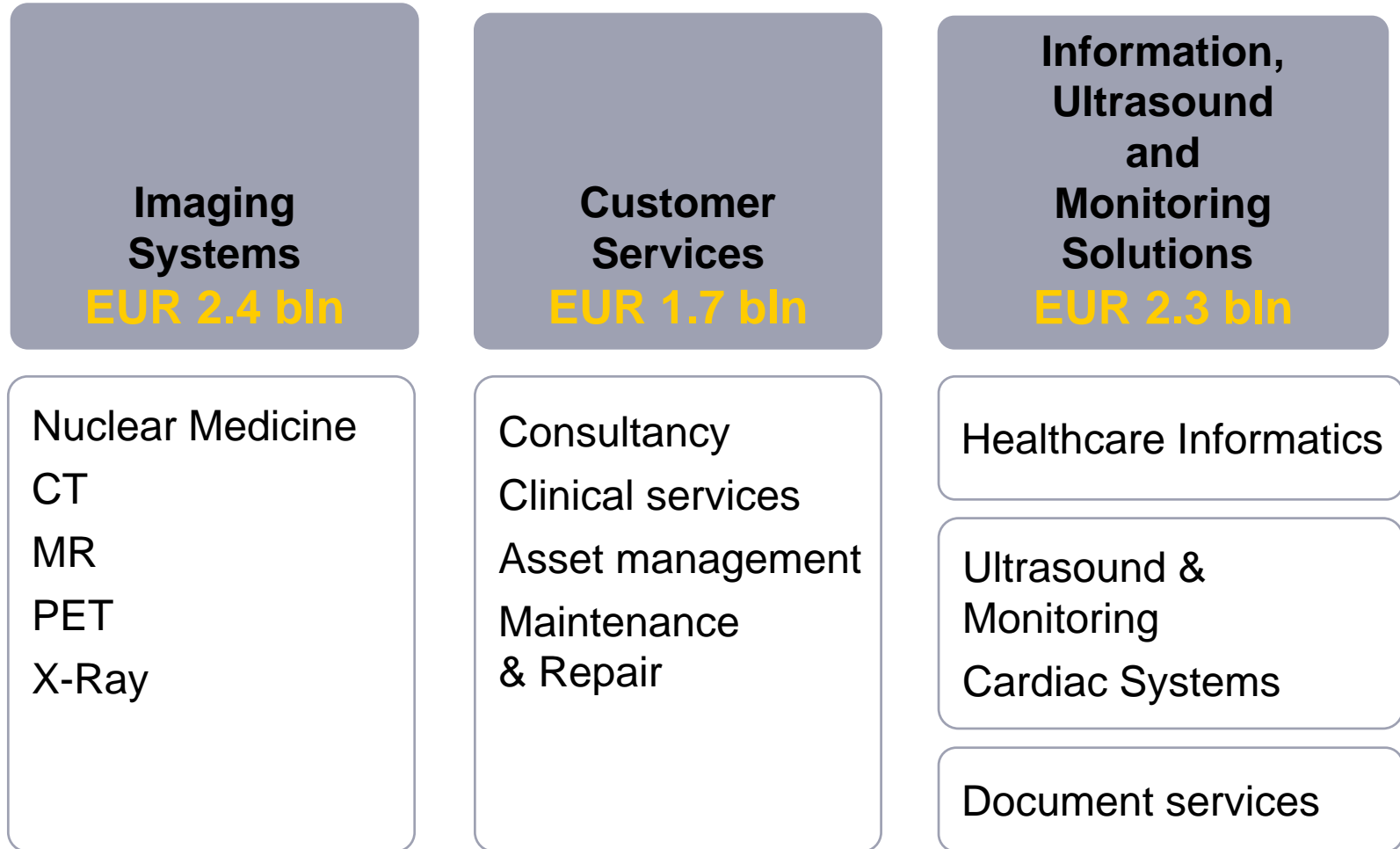
### June 2005 we said

- 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

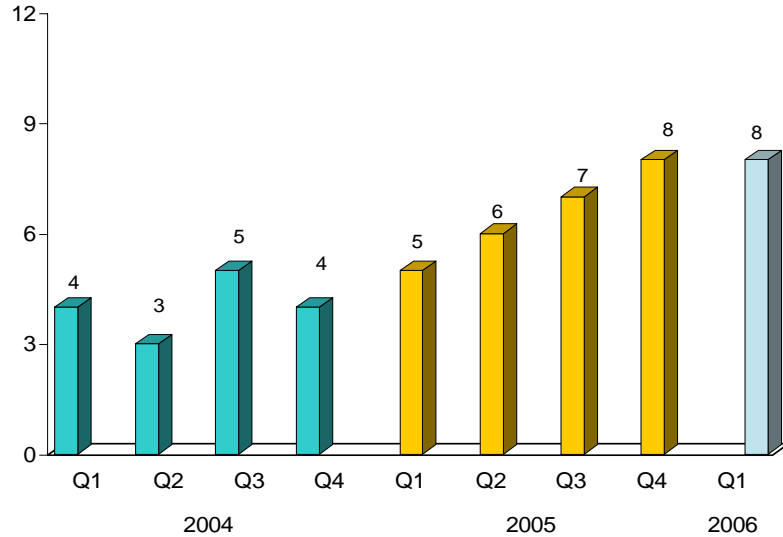
- Two years of market shares gains
- Return to margin improvements
  - accelerate operational improvements
  - accelerate low cost sourcing
  - drive service penetration & scope
- Next step expansion is also a path
  - acquired Stentor and Witt with clear growth synergies
  - focus on improving care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

# Philips Medical Systems

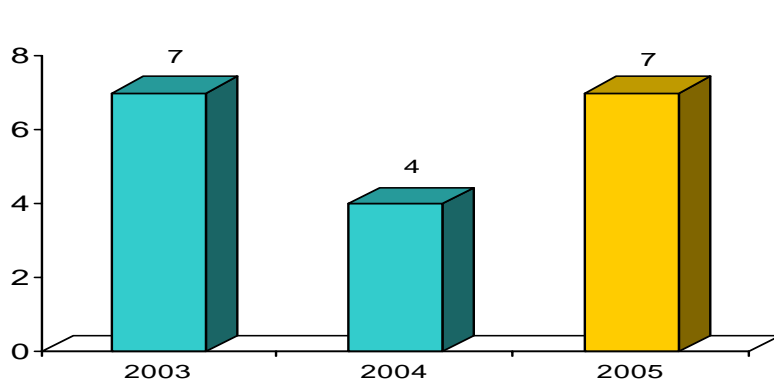


## Sales growth continues

Quarterly comparable sales growth %

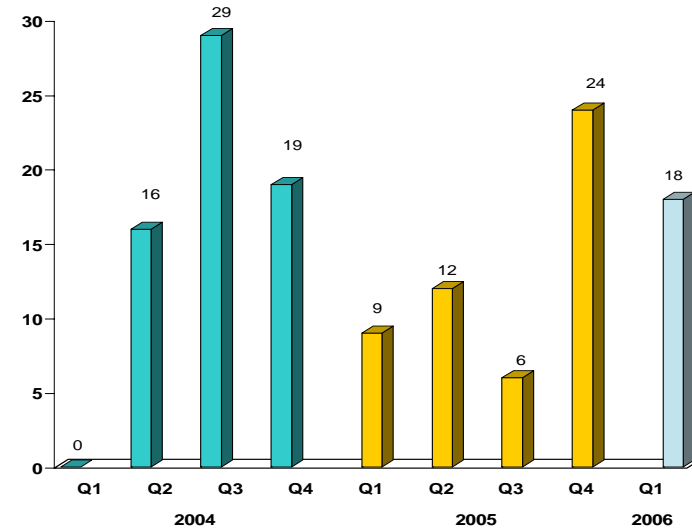


Full Year comparable sales growth %

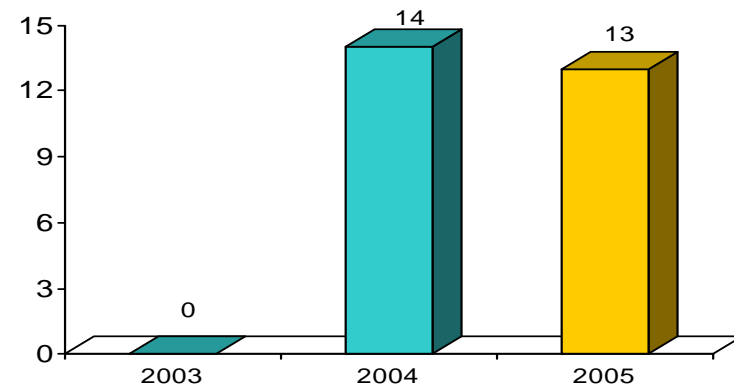


## As do equipment orders

Quarterly currency comparable orders growth %

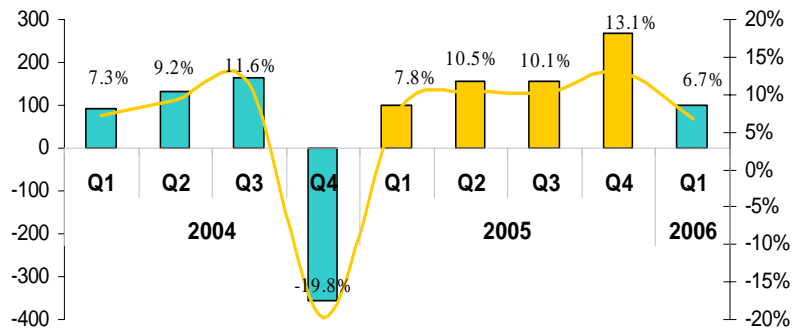


Full Year currency comparable orders growth %

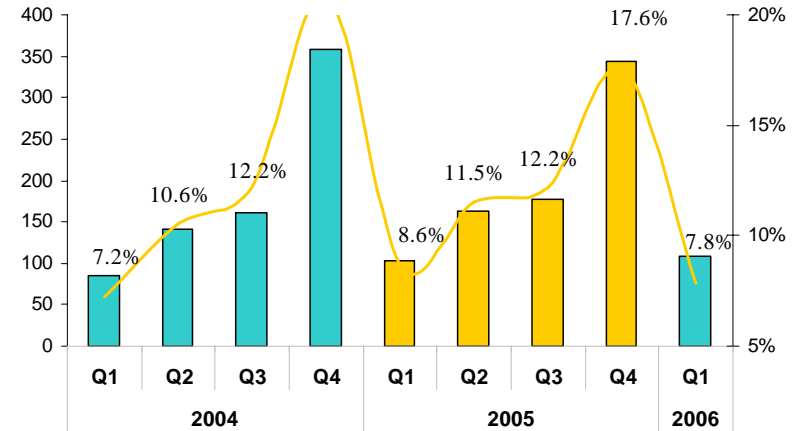


## EBIT (in millions of euros)

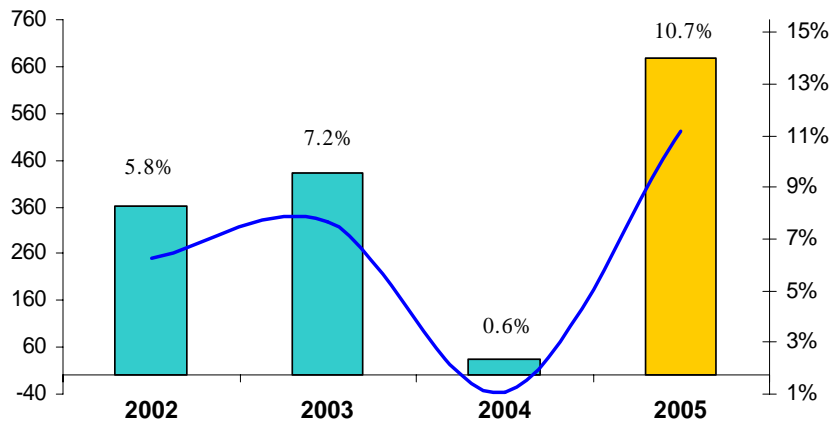
### Quarterly as reported



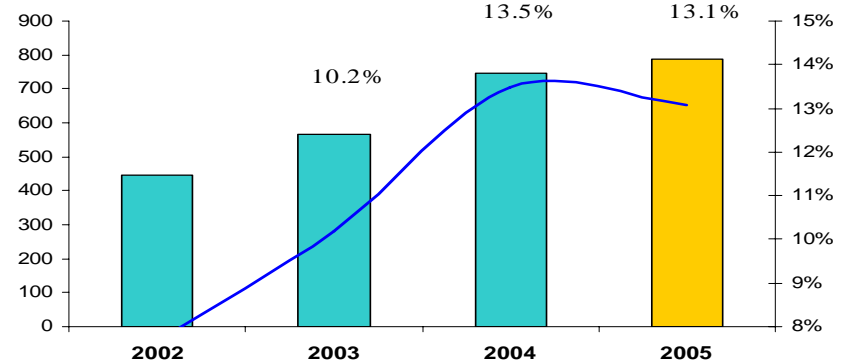
### Quarterly adjusted



### Full Year as reported



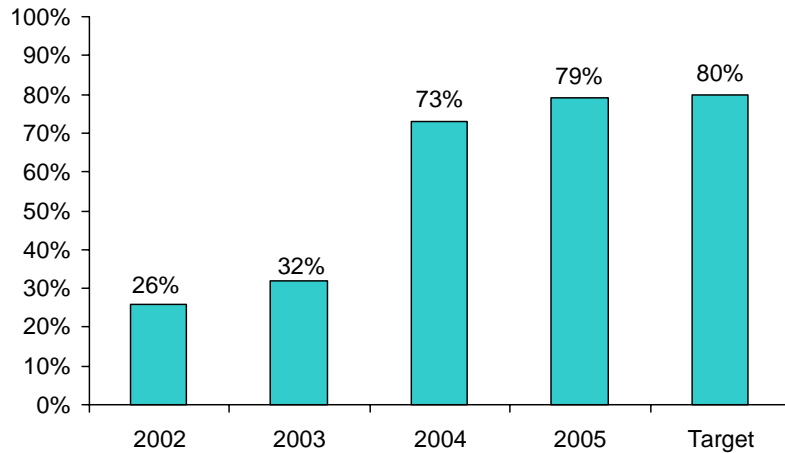
### Full Year adjusted



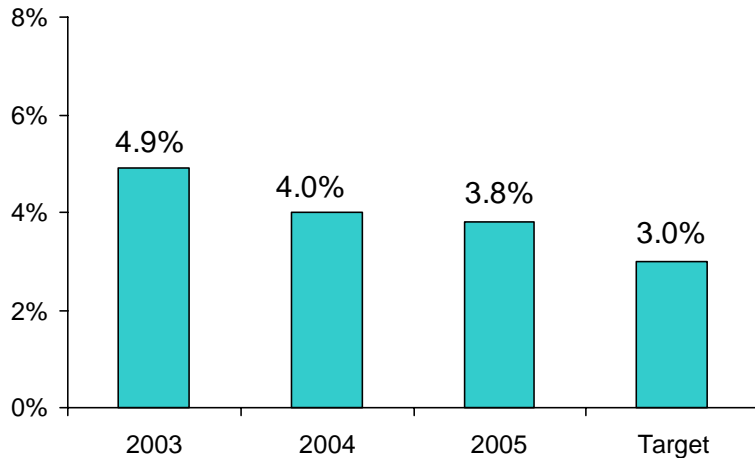
Quarterly adjustments: Excludes MedQuist, Volumetrics settlement Q4 04 EUR 133 m, Stentor impact 2005: Q3 EUR 11 m, Q4 EUR 10 m, 2006: purch. acc. Q1 EUR 3 m.  
 Full year adjustments: Excludes MedQuist, 2003 special items (See annual report), 2004 Volumetrics settlement EUR 133 m, 2005 Stentor impact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

# A Faster, More Efficient Supply Chain

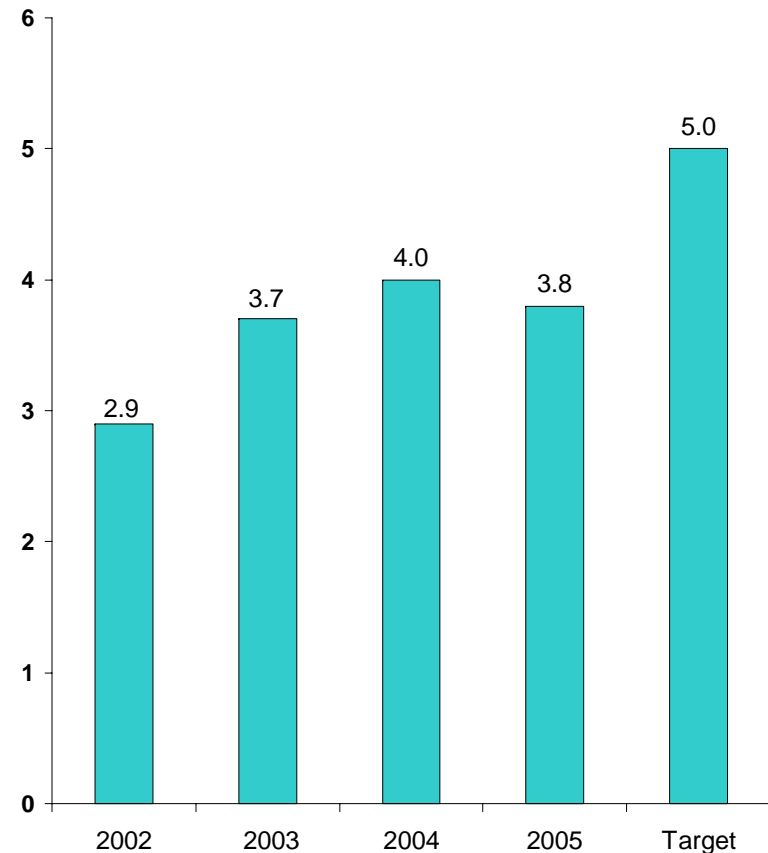
Equipment Direct Deliveries as % Sales (world)



IT spending as % of sales



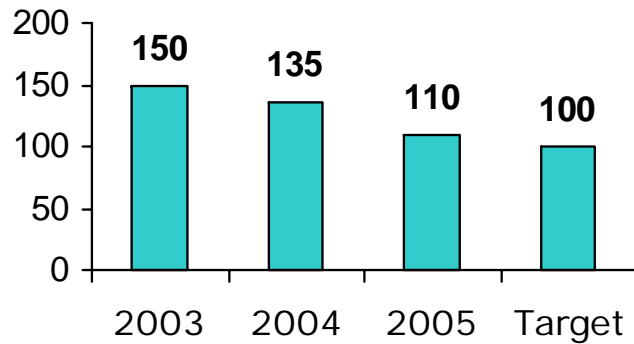
Net Capital Turnover



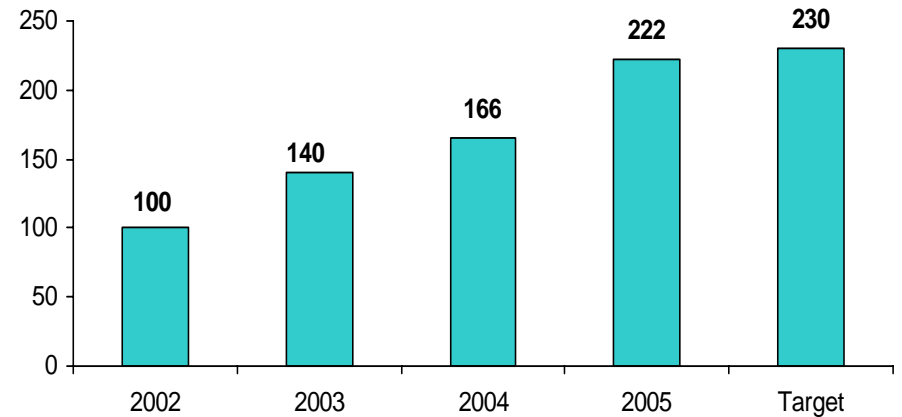
Net Capital = Capital excluding Goodwill

# Accelerate Innovation & Integrate Supply Base

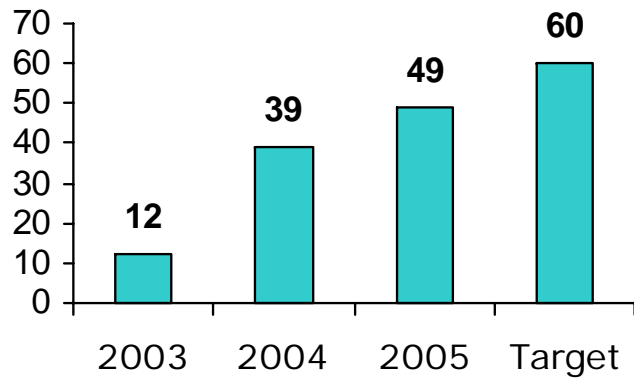
No. of Suppliers (80 % of BOM spend)



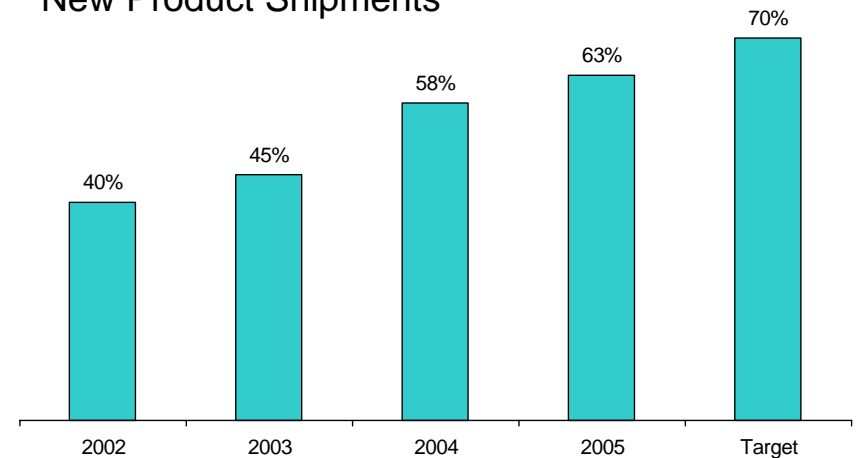
Increase of Research FTE (indexed)



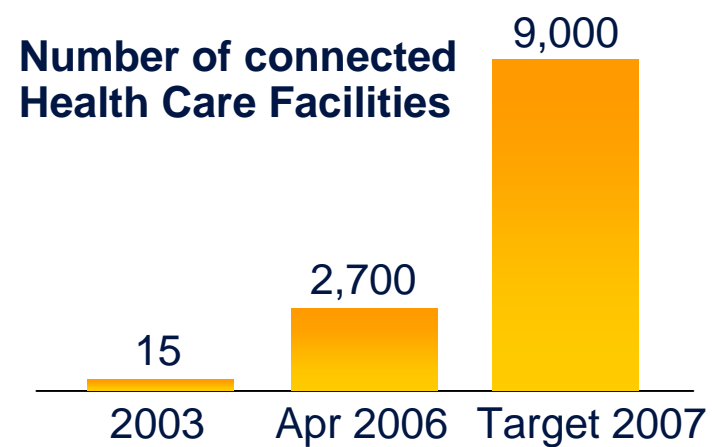
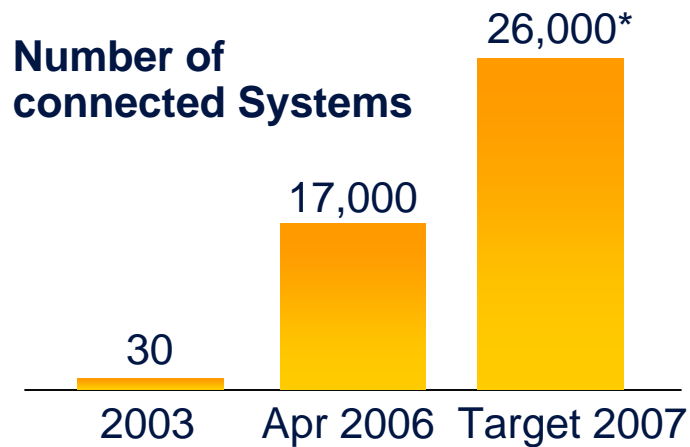
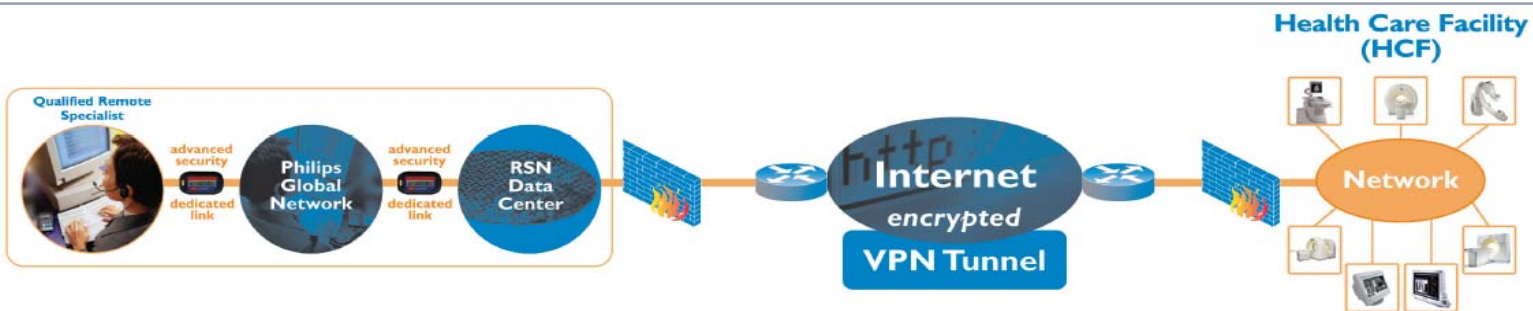
Supplier Owned Inventory (%)



New Product Shipments

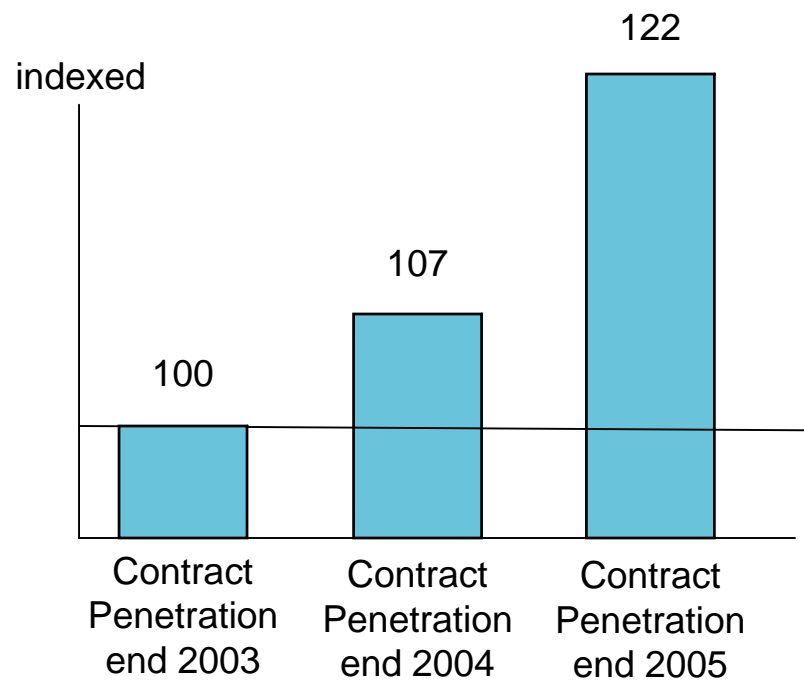


# Rapid expansion of Remote Services Network

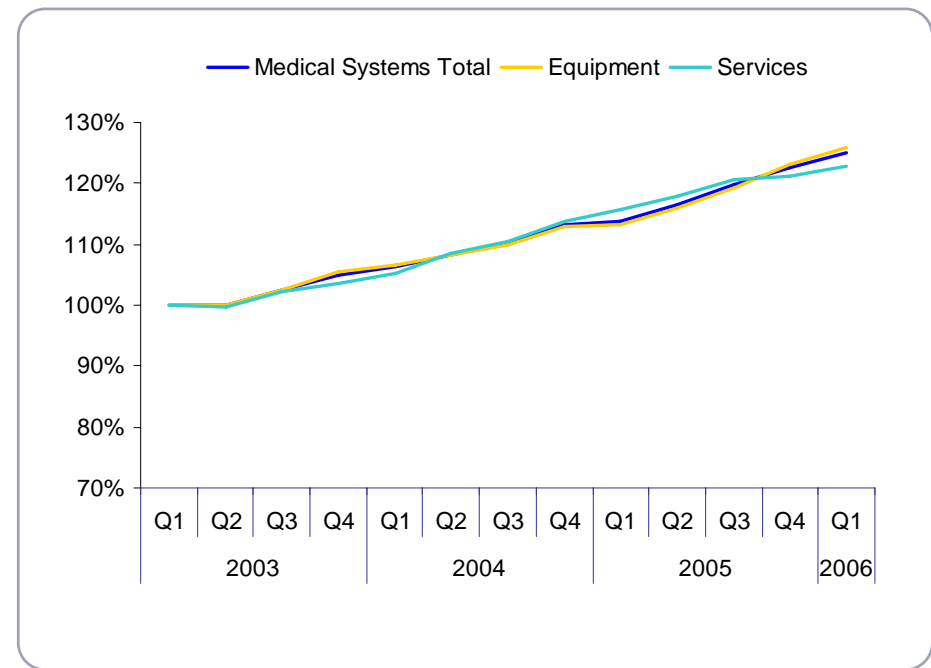


Penetration beginning to show significant positive EBIT impact

# Service growth driven by contract penetration



Equipment & Services sales growth (currency adjusted)



**Strong year on year improvement in contract penetration rate**

# Philips Neusoft JV

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

Product Training in China

Jan 2006

Product Launch in China

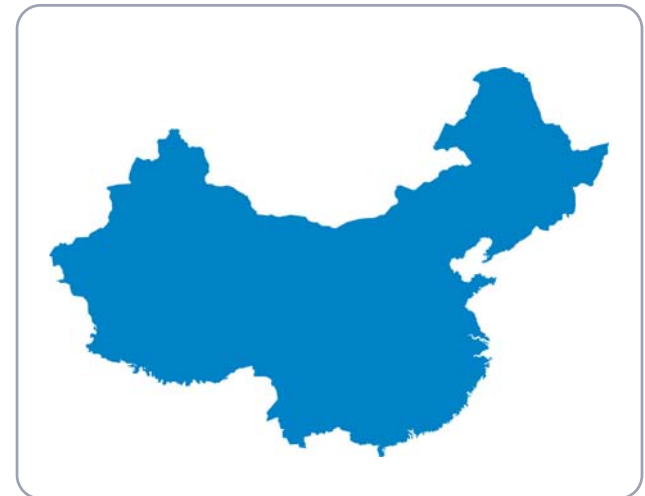
Feb 2006

Product Training in Asia

Mar 2006

Product Launch in Asia

June 2006



# Emergency Ultrasound in Pre-Hospital Markets

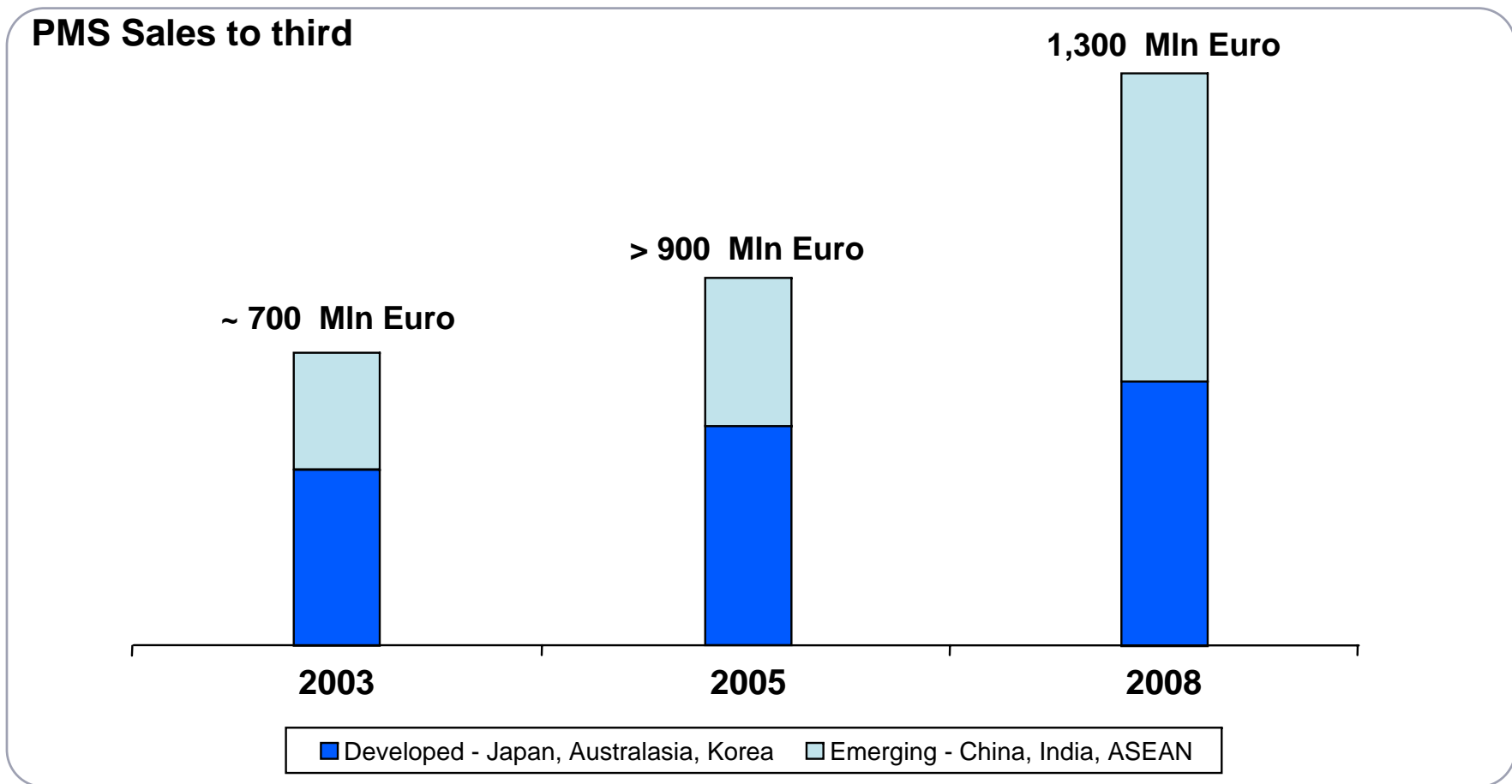
Emergency Ultrasound on Next Generation Advanced Life Support brings better remote care and transports key data to hospital



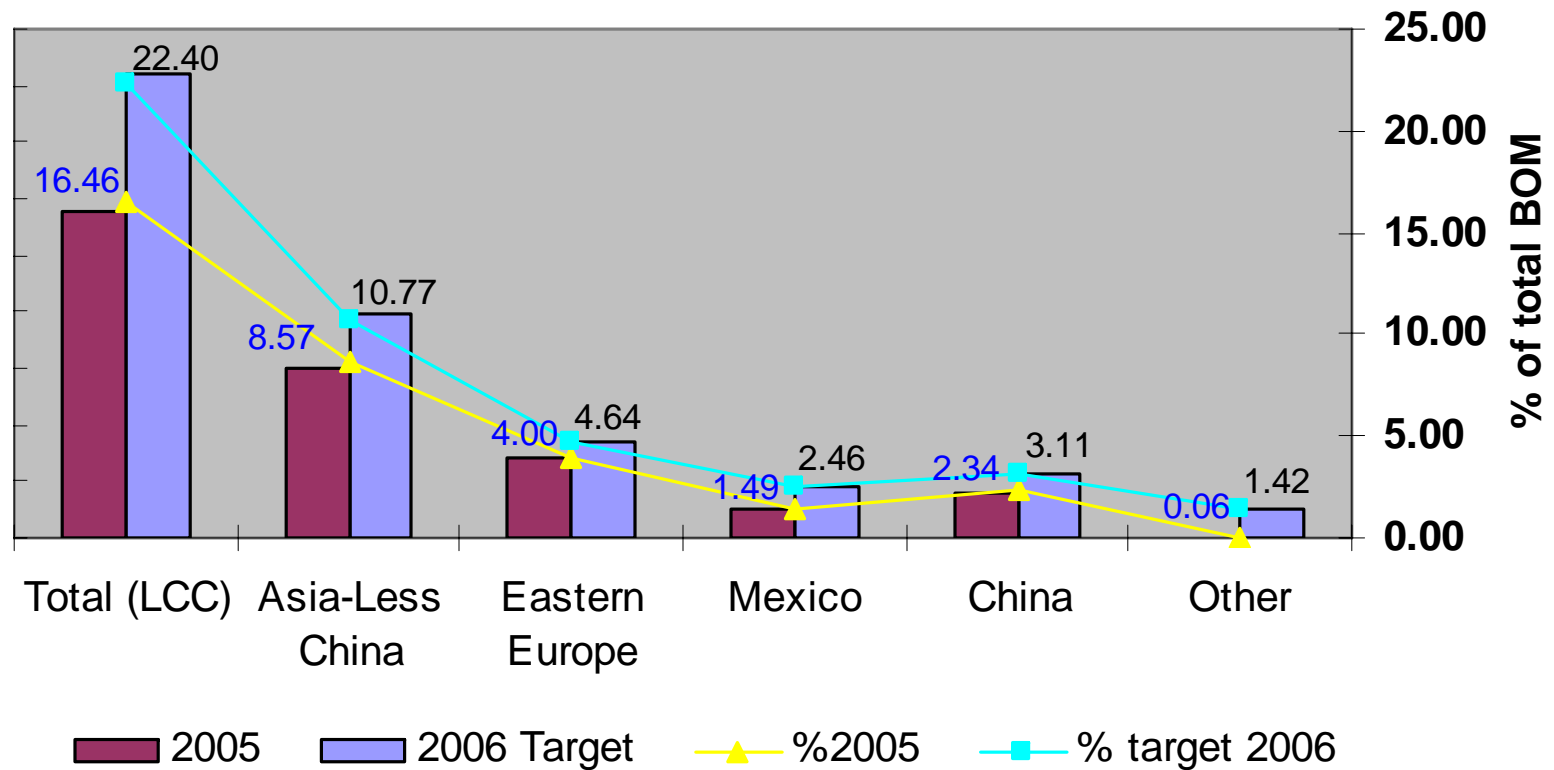
***ALS and Ultrasound  
Imaging on-site***



# On track with Philips Medical Asia Pacific Ambition: Grow to € 1.3 Bln



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



# 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



## 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 approximately 50% per year
- 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

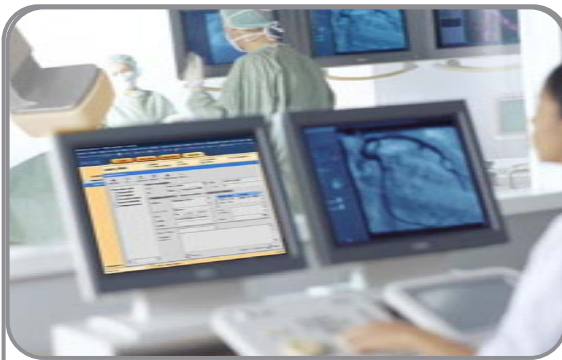


# Agenda

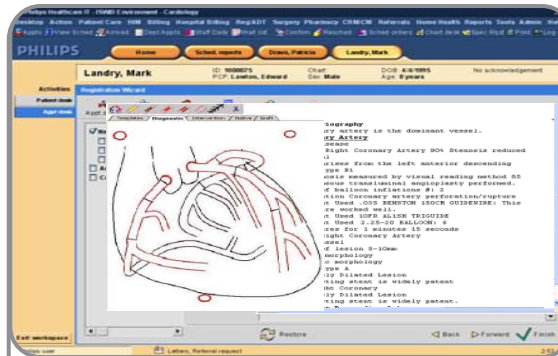
- Market developments
- Performance update
- *Where do we go from here*
- Care Cycle



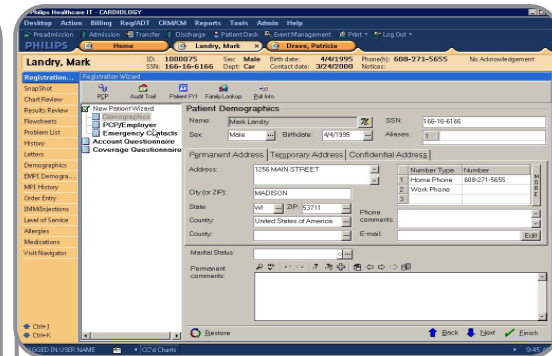
## Expanding in Healthcare IT Full Enterprise IT portfolio



Imaging Modalities &  
Monitoring



Clinical Specialty  
Solutions



Enterprise Solutions

Guaranteeing a consistent Experience

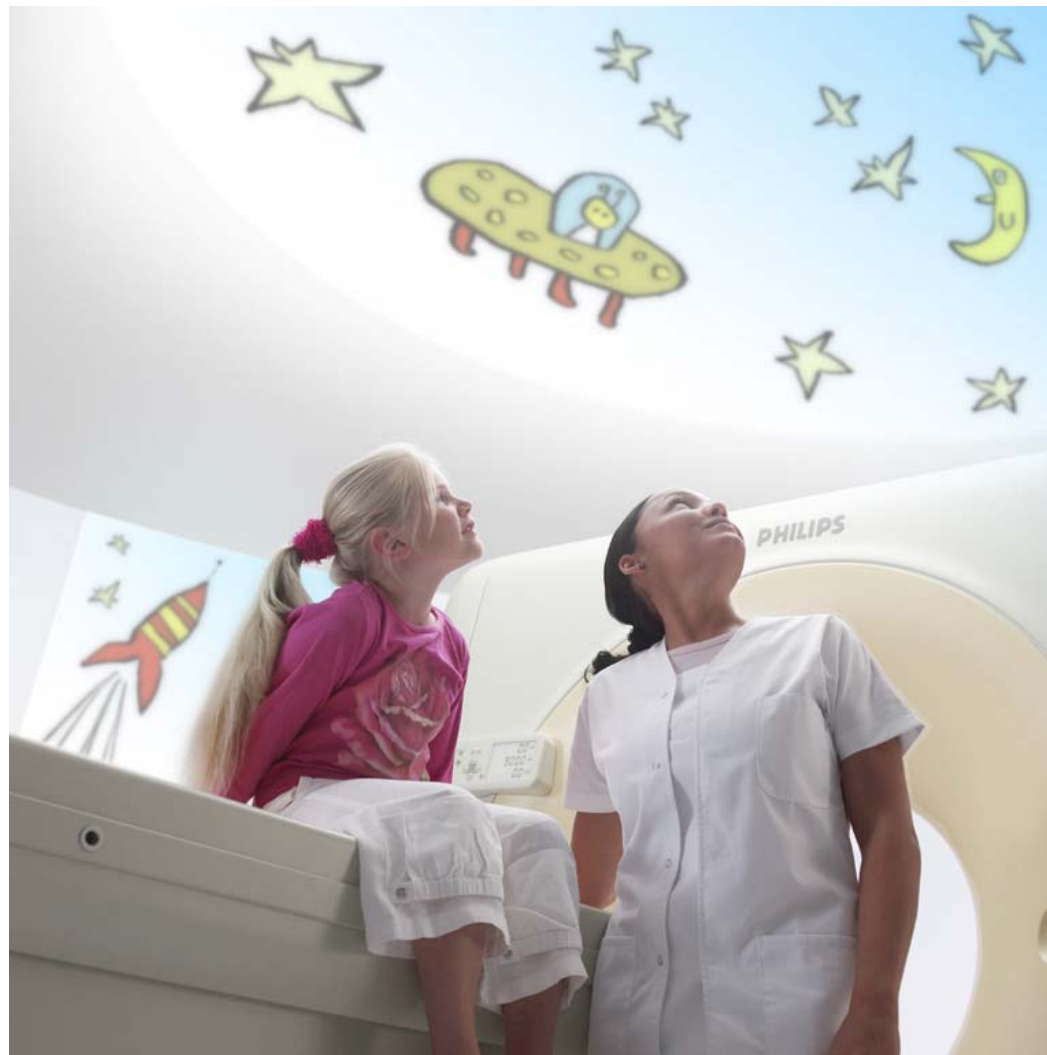


Vequion

No boundaries

**PHILIPS**

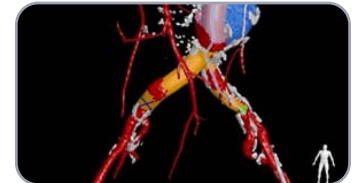
Innovation drives profitable growth



## Medical technology continues to transform Healthcare

### **Imaging and Monitoring**

earlier diagnosis saves lives and reduces costs



### **Minimally invasive procedures**

reducing patient trauma and costs



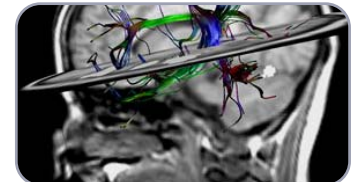
### **Healthcare IT**

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.”

# Innovation drives profitable growth

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

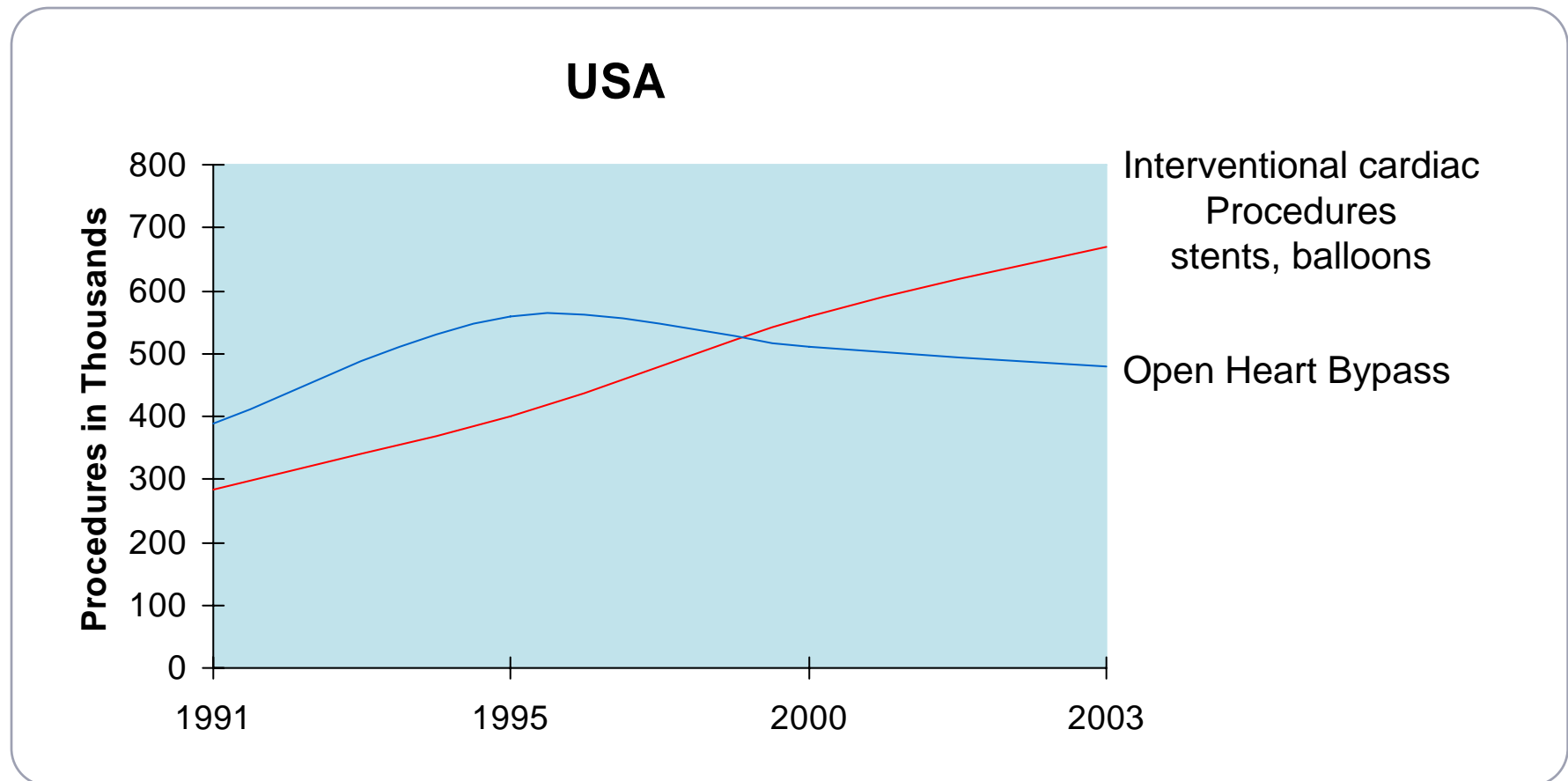
Perfect for every body.

- 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



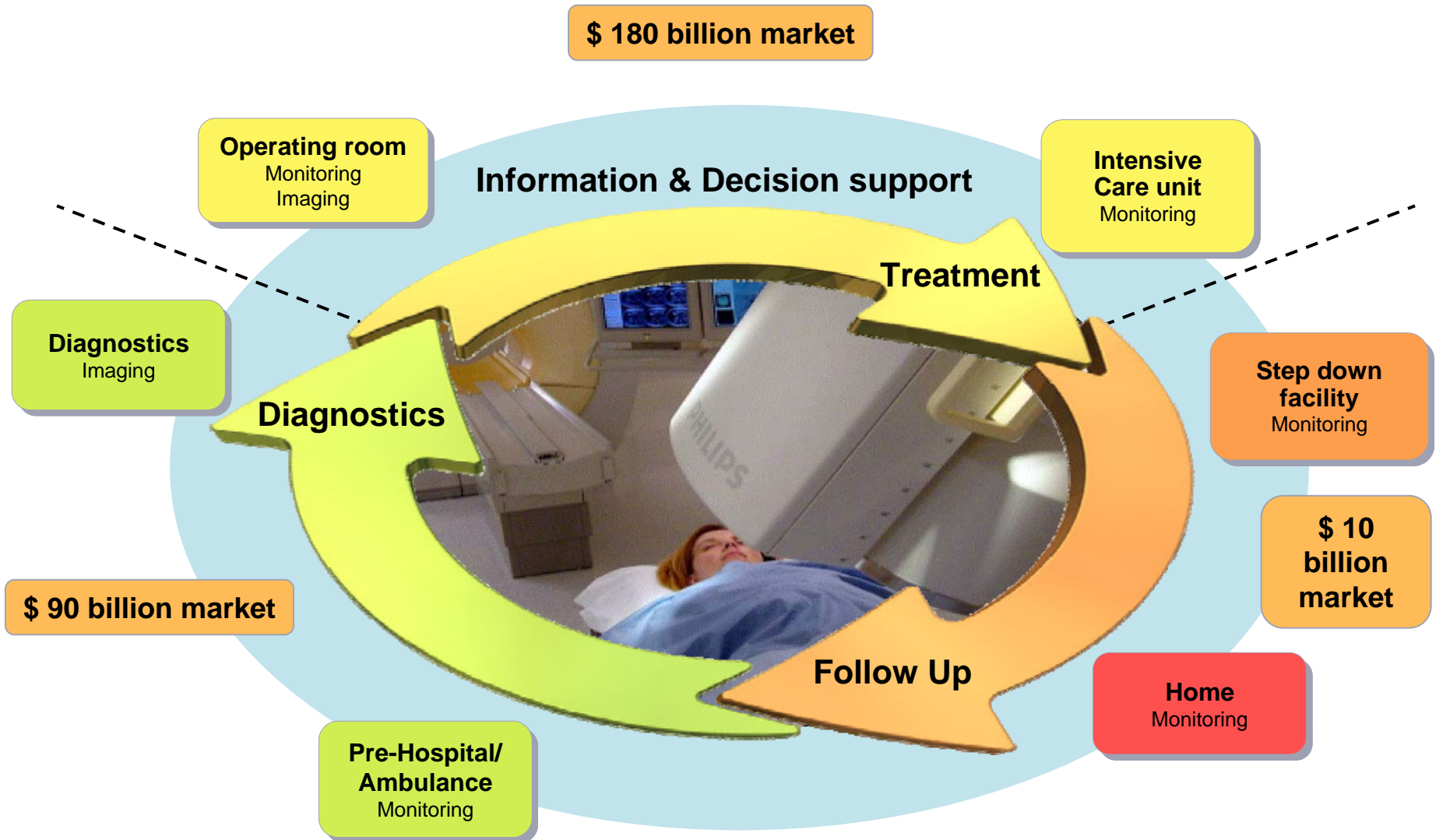
Source: American Heart Association, Statistical update, 2006

# Agenda

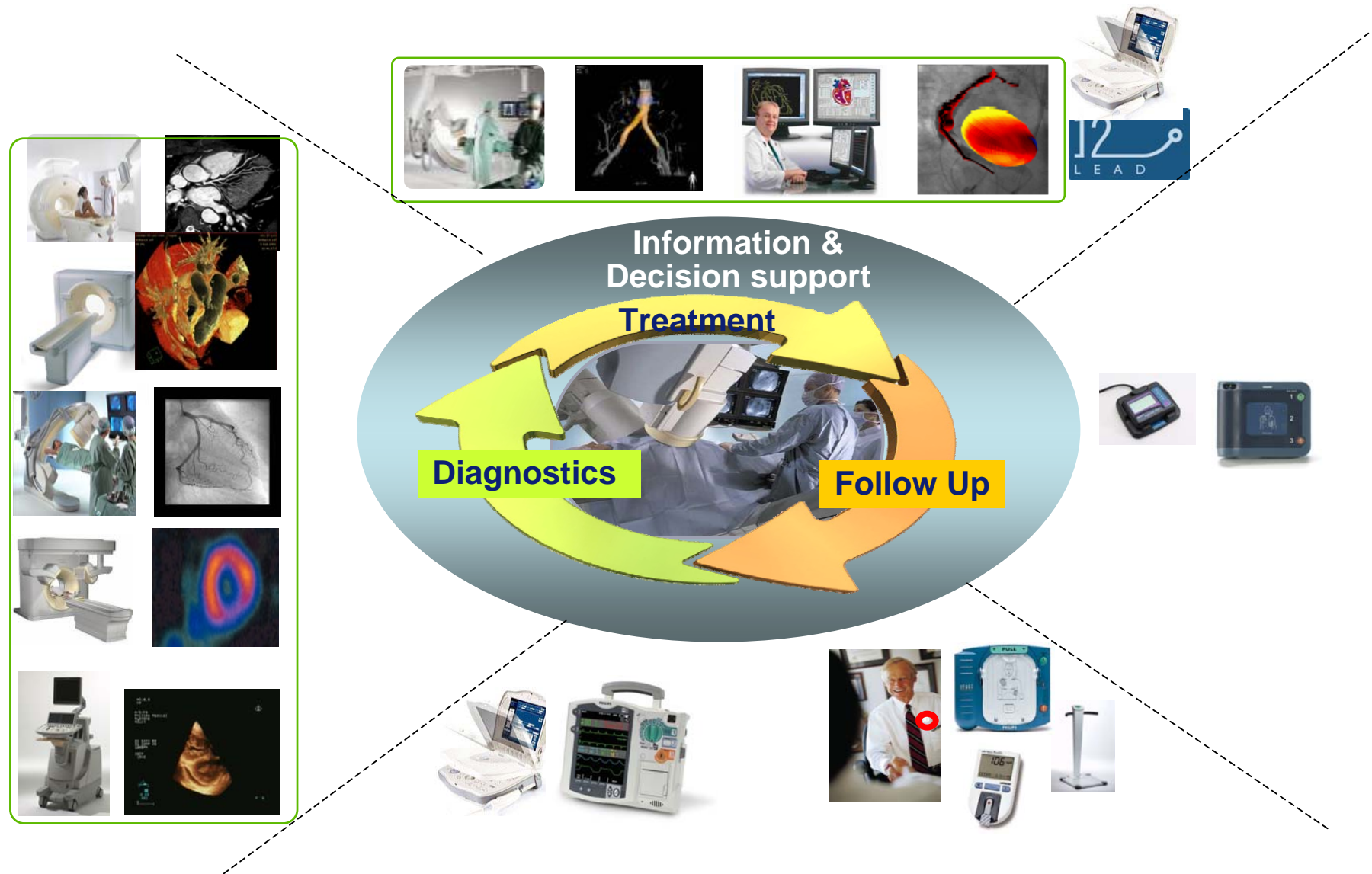
- Market developments
- Performance update
- Where do we go from here
- Care Cycle



# Focus on the Care Cycle – space to grow



## Improving the Cardiac Care Cycle



# Philips Schering Alliance

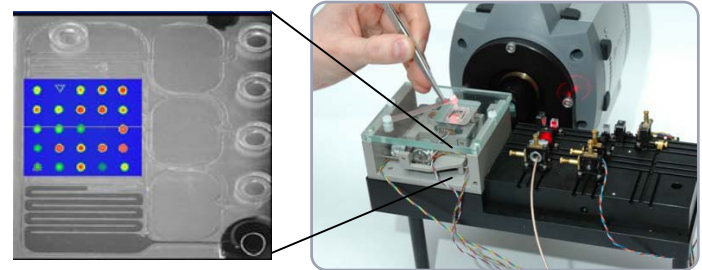
- **Goal**  
To jointly research, develop and commercialize a new technology – *Optical Imaging*
- **Initial focus**  
To develop optical mammography for diagnosing breast cancer
- **1<sup>st</sup> development project**  
Combines Schering's omocinian (SF-64) optical agent with a Philips optical scanner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

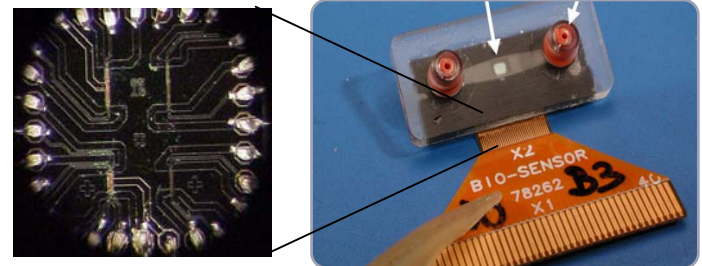
### Optical detection

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



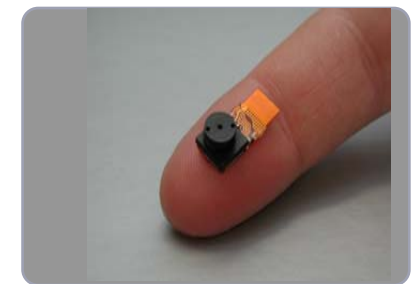
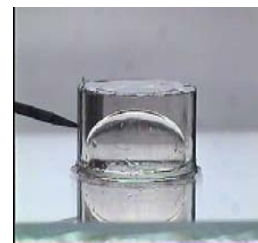
### Magnetic biosensor

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

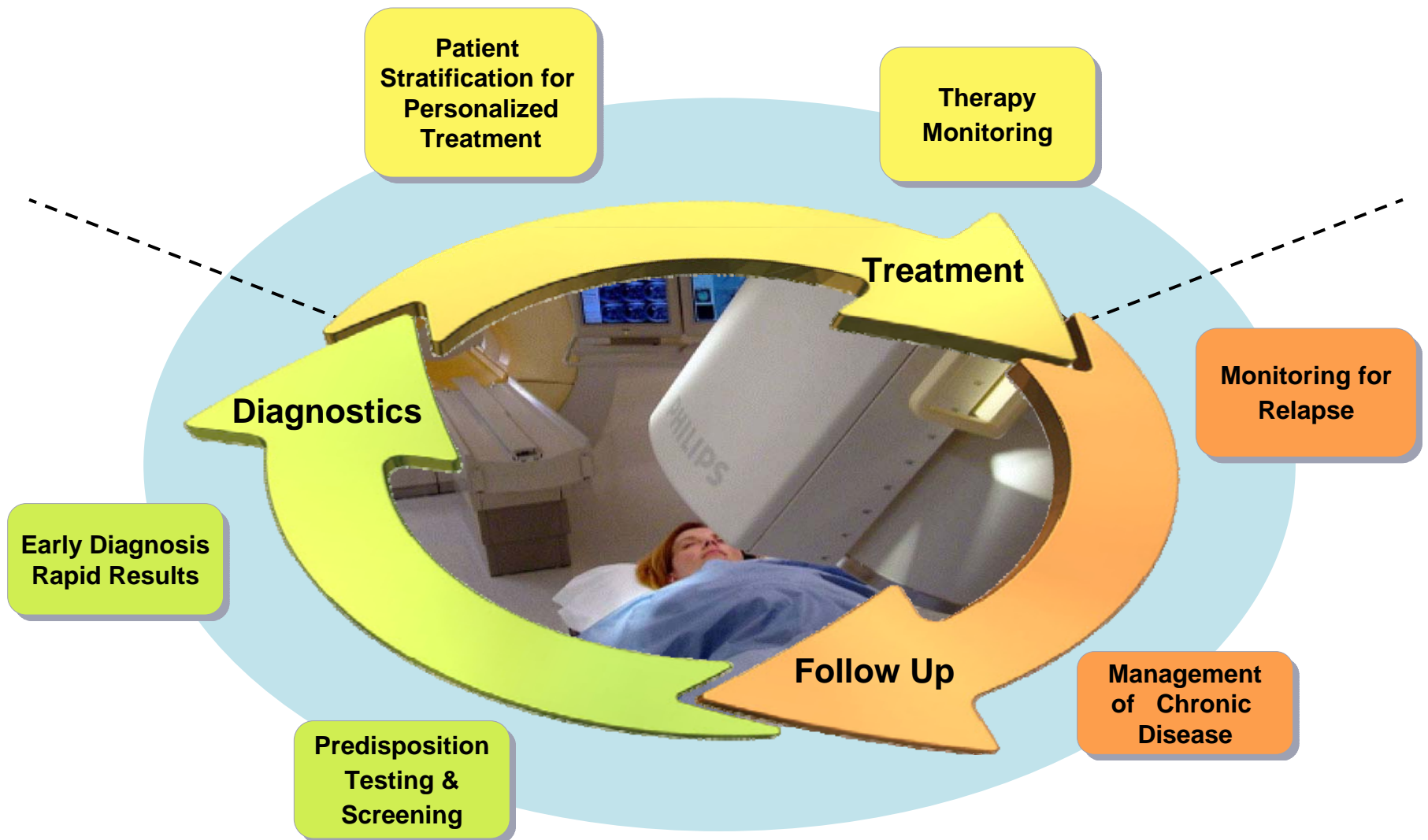


### Miniaturization & integration

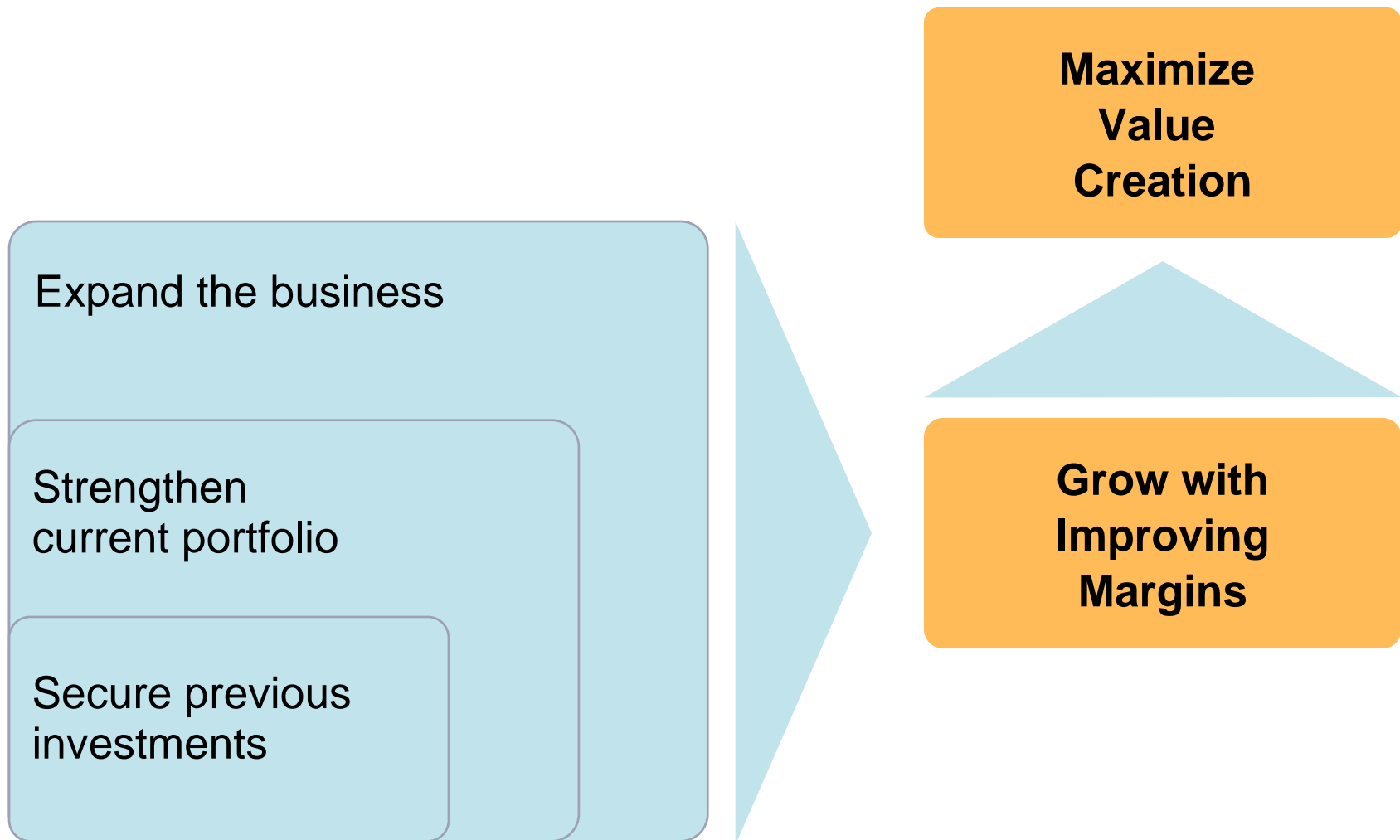
- Electronics on glass or plastic
- Fluidics without moving mechanical parts
- Enables fully integrated cartridges: near patient testing



# Building New Care Cycles – Molecular Healthcare



# 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

