

PHILIPS

Royal Philips Electronics

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Executive Vice President & Chief Financial Officer

PHILIPS

sense and simplicity

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 measures 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.

Agenda

Highlights

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Looking ahead

Agenda 2006

Highlights (I)

- Sales increased strongly in the second quarter to EUR 7,601 m., 10% above Q2 2005. Adjusted for the effects of currency movements and consolidation changes, comparable sales increased by 11%, driven by strong growth in all operating divisions.
- EBIT amounted to EUR 367 m. compared to EUR 158 m. in the same period of last year. Medical Systems, Lighting and DAP all delivered strong increases in profitability as did Semiconductors, benefiting from its business renewal program. In difficult market conditions, the EBIT of Consumer Electronics held up well. Brand campaign costs were EUR 47 m. lower than in Q2 2005 due to an amended seasonal spend pattern.
- Financial income and expenses resulted in income of EUR 127 m., compared to an expense of EUR 57 m. in Q2 2005. The improvement is due to the recognition of a TSMC cash dividend of EUR 223 m., net of tax.

Highlights (II)

- Unconsolidated companies recorded a loss of EUR 105 m., EUR 85 m. of which was attributable to LG.Philips LCD, compared to a profit of EUR 822 m. in Q2 2005. Last year's figure included a gain of EUR 753 m. on the sale of NAVTEQ shares, as well as income of EUR 67 m. from TSMC.
- Net income of EUR 301 m., compared to EUR 983 million in the corresponding period of 2005. Excluding last year's non-taxable gain of EUR 753 million attributable to the sale of shares in NAVTEQ, net income grew over 30% in the quarter .
- Cash inflow from operating activities increased to EUR 300 m. compared to EUR 52 m. in Q2 2005, due to lower additional working capital requirements. Inventories as a percentage of sales amounted to 12.2%, a decrease of 1.2 percentage points compared to Q2 2005.

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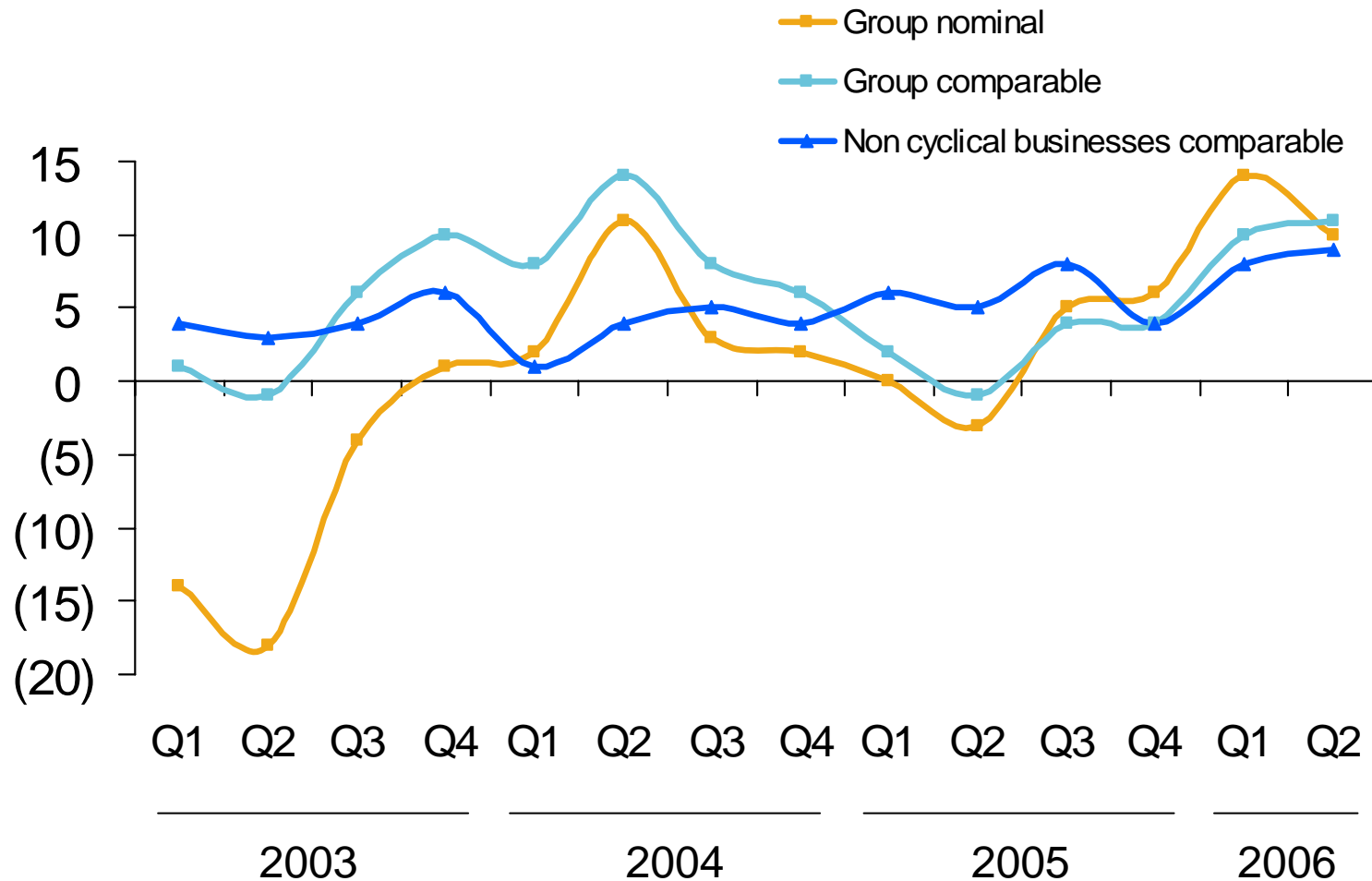
Summary - 2Q06

EUR million

	2Q05	2Q06
Sales	6,927	7,601
EBIT	158	367
Result relating to UCCs	822	(105)
Net Income	983	301
Net cash provided by (used for) operating activities	52	300
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Net debt : Group equity ratio	8:92	9:91

Quarterly sales growth y-o-y













%



Non cyclical business = Medical Systems + Lighting + DAP

Sales to thirds by sector – 2Q06

EUR million

	<u>2Q05</u>	<u>2Q06</u>	<u>% nom</u>	<u>% comp</u>
Medical Systems	 1,498	 1,630	9	9
DAP	 461	 572	24	13
CE	 2,259	 2,484	10	17
Lighting	 1,116	 1,296	16	9
Semiconductors	 1,088	 1,221	12	12
Other Activities	 505	 398	(21)	(10)

Group sales

6,927

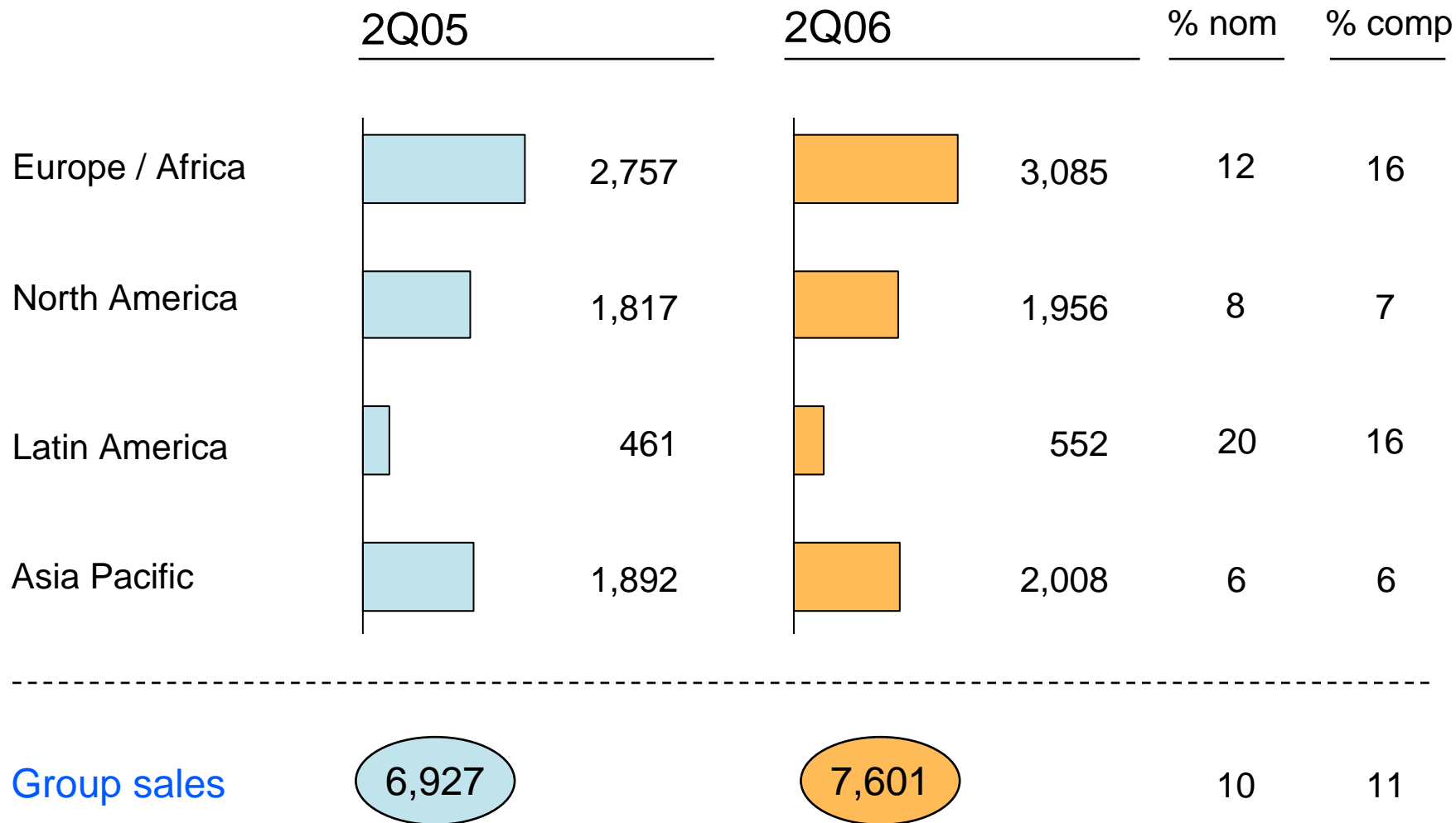
7,601

10

11

Sales to thirds by region – 2Q06

EUR million



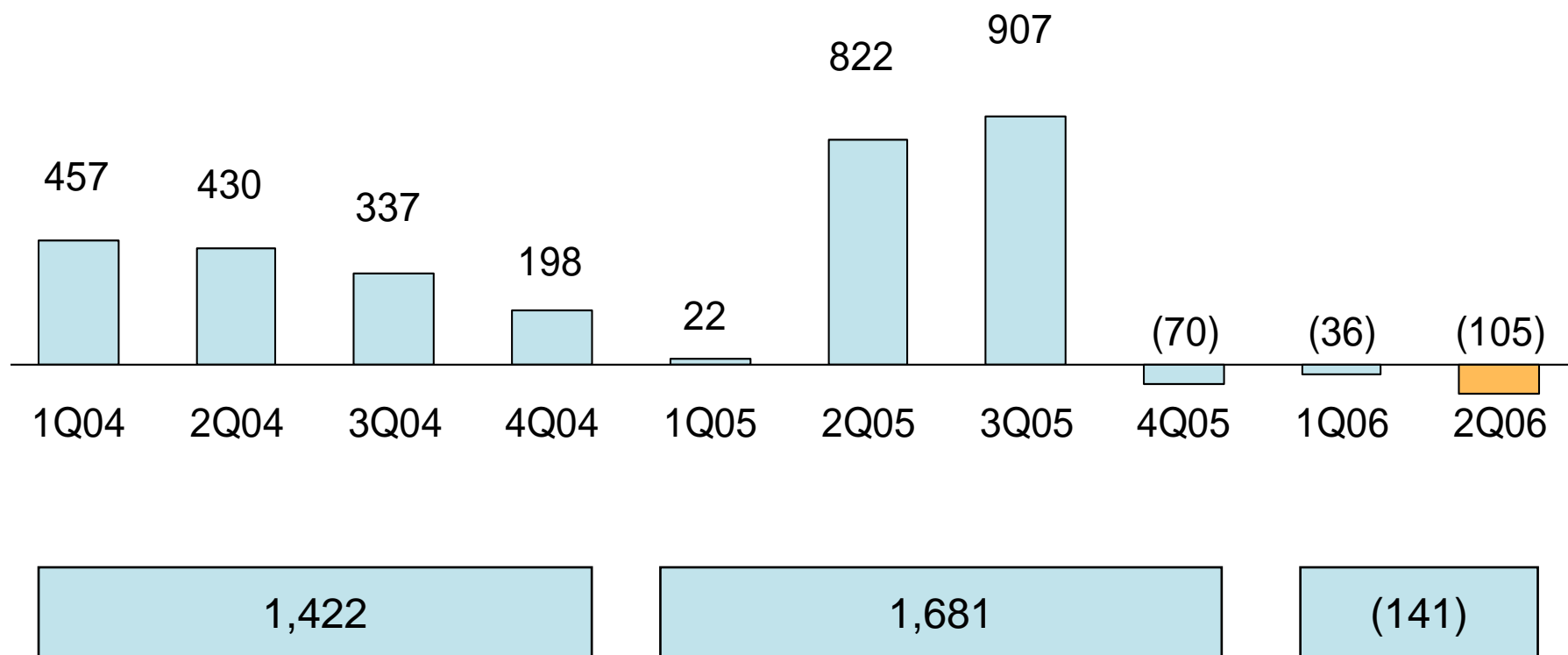
EBIT by sector – 2Q06

EUR million

	2Q05	2Q06
Medical Systems	157	199
DAP	44	66
CE (<i>including Licenses</i>)	62	45
Lighting	120	158
Semiconductors	27	120
Other Activities	(60)	(57)
Unallocated	(192)	(164)
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Philips Group	158	367
as % of sales	2.3	4.8

Results unconsolidated companies

EUR million



Major publicly quoted investments – end 2Q06

	number shares rounded in millions	% ownership	Market value end 2Q06 in EUR m.
TSMC *	4,066	16.4	5,794
LG.Philips LCD	118	32.9	3,430
TPV	263	13.8	195
FEI	8	25.1	152
JDS Uniphase	39	2.7	79
Total			9,650

* Excluding TSMC stock dividend of 122 m. shares

Cash Flow – 2Q06

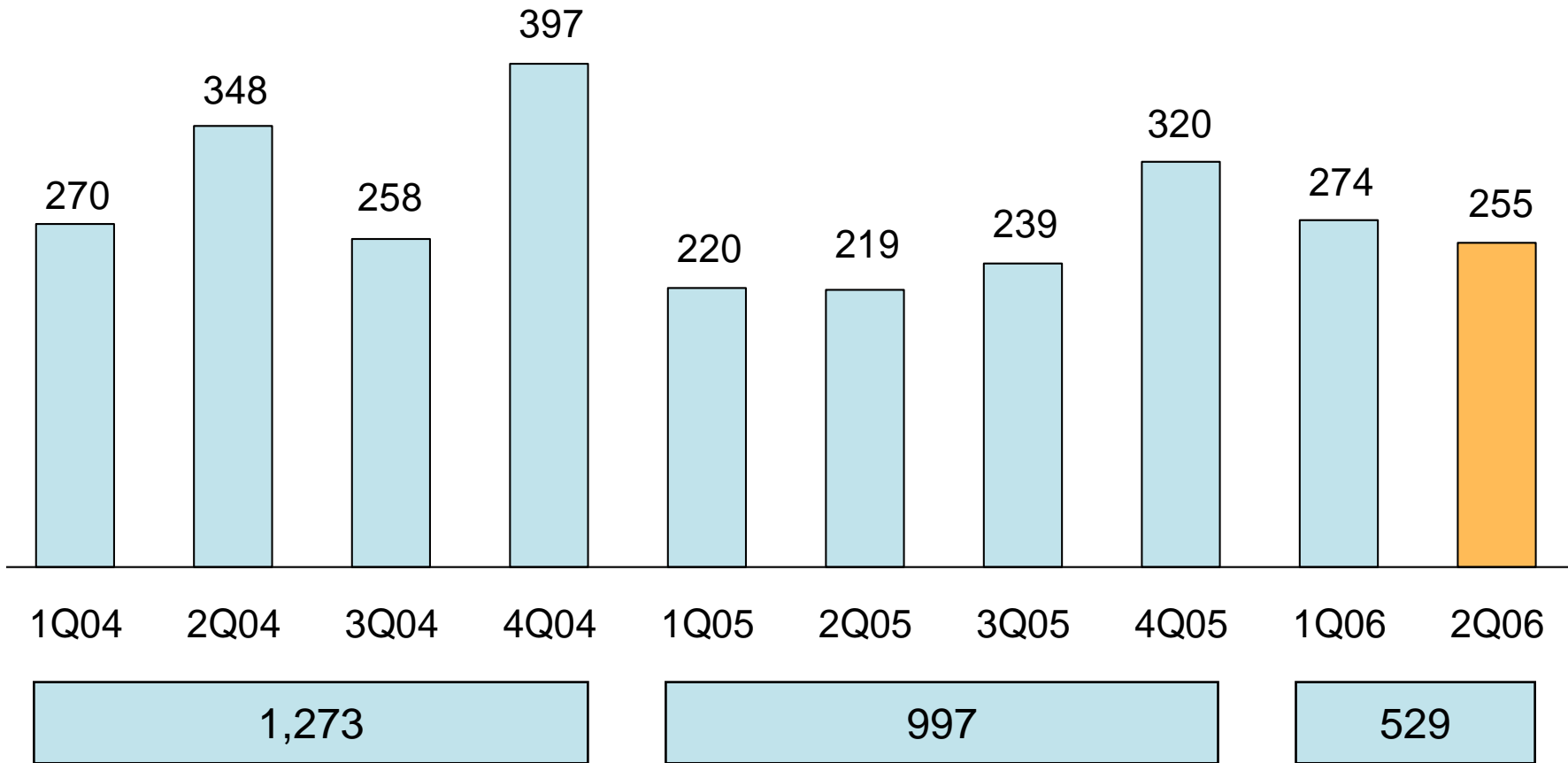
EUR million

	2Q05	2Q06
Net income	983	301
Income/loss discontinued operations	11	(29)
Depreciation / amortization / impairments	372	325
Net gain on sale of assets	(760)	(32)
Income from UCCs	(69)	100
Decrease in WC/other current assets	(489)	(175)
Other	4	(190)
<i>CF from operations</i>	52	300
Gross capital investments	(219)	(255)
Acquisitions/divestments/other	909	(263)
<i>CF before financing activities</i> *	742	(218)

* Proceeds from the sale of NAVTEQ shares amounted to EUR 932 m. in 2Q05

Gross capital expenditures

EUR million



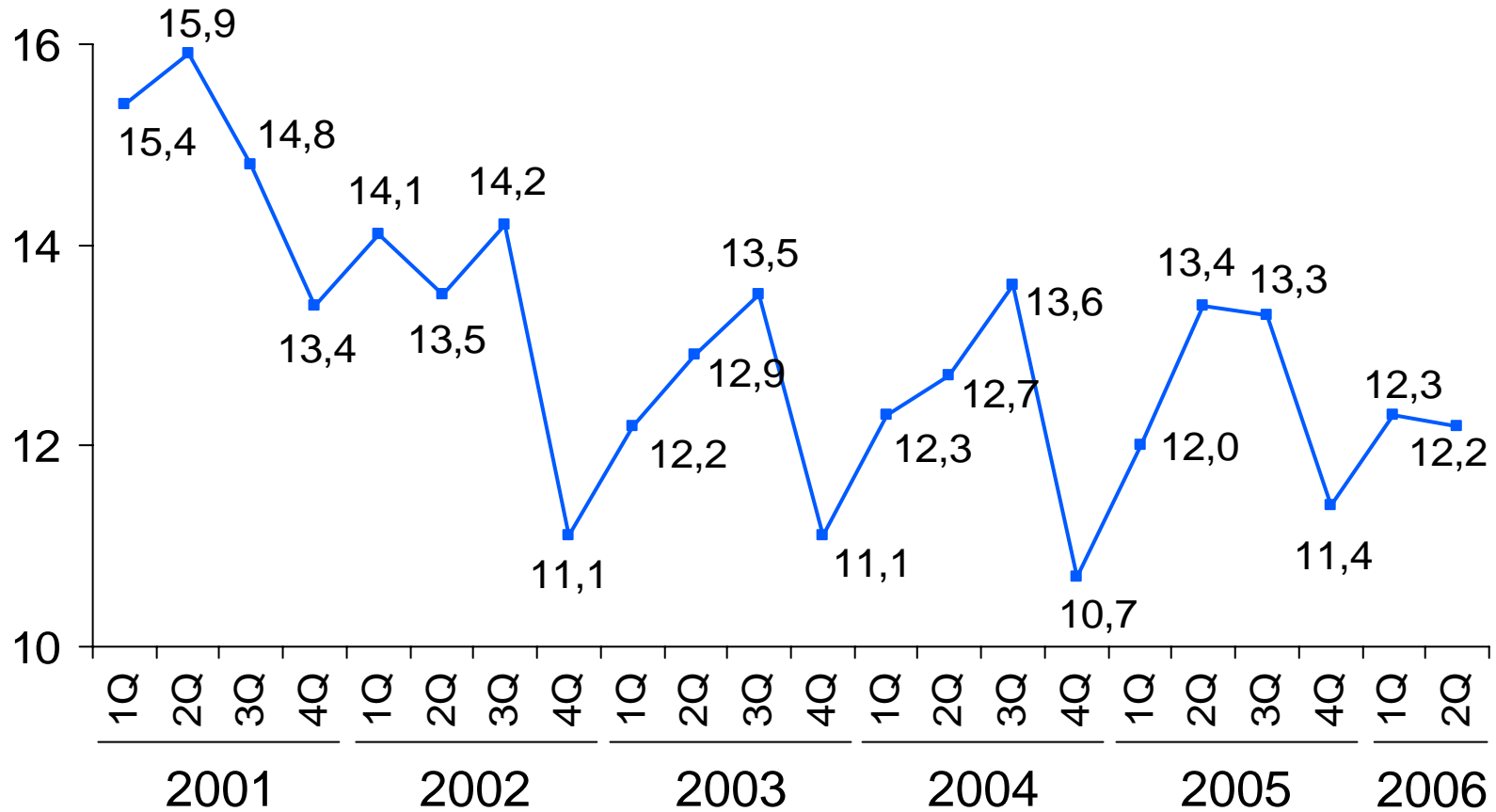
Gross capital expenditures by sector – 2Q06

EUR million

	2Q05	2Q06
Medical Systems	14	18
DAP	19	18
CE	15	14
Lighting	43	71
Semiconductors	85	87
Other Activities	43	48
Unallocated	0	(1)
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Group gross capex	219	255

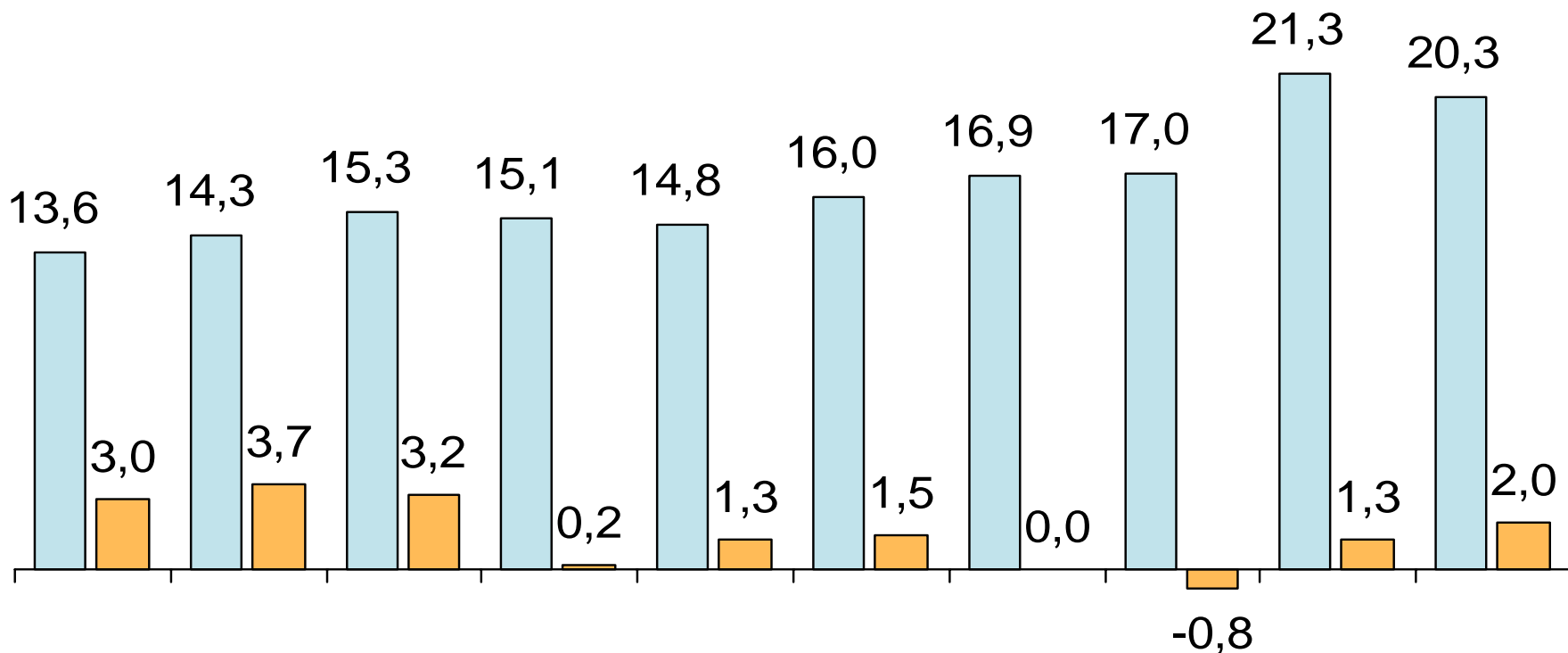
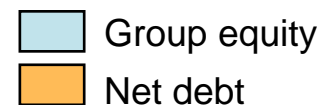
Inventories

as % of MAT sales



Net debt : group equity ratio

EUR billion



1Q04 2Q04 3Q04 4Q04 1Q05 2Q05 3Q05 4Q05 1Q06 2Q06

Ratio 18:82 21:79 17:83 1:99 8:92 8:92 0:100 (5):105 6:94 9:91

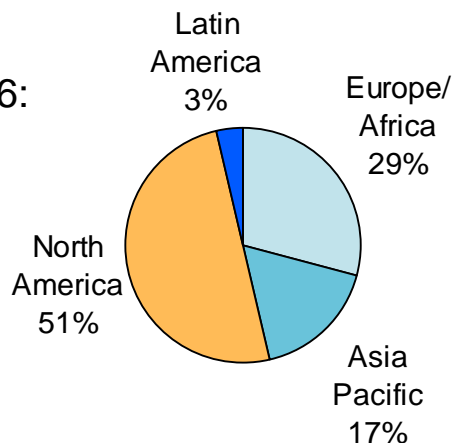
Medical Systems

EUR million unless otherwise stated

Key figures

	2Q05	1Q06	2Q06
Sales	1,498	1,469	1,630
% sales growth comp.	6	8	9
EBIT	157	99	199
EBIT as % of sales	10.5	6.7	12.2
NOC	3,287	3,362	3,387
Employees (FTEs)	30,965	30,696	31,261

Sales per region in 2Q06:



Financial performance

- Order intake for equipment grew by 2% compared to 2Q05. Growth in MR partially offset by declines in Nuclear Medicine and Monitoring Systems
- Comparable sales up 9% driven mainly by CT, Nuclear Medicine and X-ray.
- Witt Biomedical fully consolidated as of April 2006 posting a EUR 4 m. loss, including EUR 6 m. purchase-accounting-related costs
- EBIT margin increased 1.7% compared to 2Q05 due to structural improvements in operating efficiencies, unusual strong CT sales and reduction provisions of approx EUR 10 m.

Looking ahead

- High-single-digit sales growth expected in 2006
- PMS expects EBIT margin in 2nd half of the year will show an improvement compared to 2005
- For planning purposes, we assume that completion of IMGIC acquisition as well as EUR 85 m. purchase-accounting and one-time acquisition-related charges take place in 4Q06

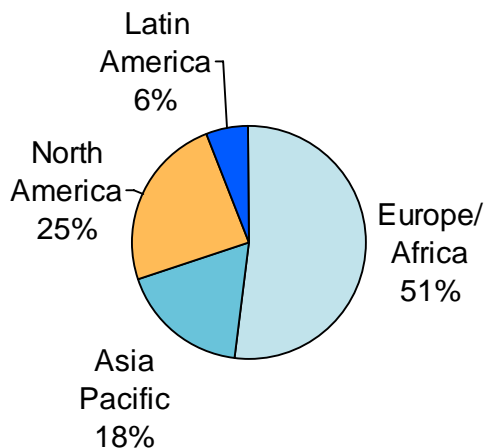
DAP

EUR million unless otherwise stated

Key figures

	2Q05	1Q06	2Q06
Sales	461	496	572
% sales growth comp.	1	10	13
EBIT	44	62	66
EBIT as % of sales	9.5	12.5	11.5
NOC	511	1,126	1,071
Employees (FTEs)	8,510	9,384	9,515

Sales per region in 2Q06:



Financial performance

- Comparable sales up 13% with improvements visible across all businesses. On regional basis, strong growth in Central/Eastern Europe, China and Western Europe
- EBIT improvement by EUR 22 m. was visible in all businesses except Health & Wellness, which continued to invest in business development. EBITA improved by EUR 26 m. compared to Q2 2006.
- The new Consumer Healthcare Solutions (CHS) business posted sales of EUR 40 m., the majority of which was attributable to Lifeline Systems. CHS posted a EUR 1 m. loss, due to investments in innovation and amortization charges of EUR 6 m.
- Increase in NOC and employees is attributable to the acquisition of Lifeline in Q1.

Looking ahead

- The acquisition of Avent Holdings will be completed in Q3 2006

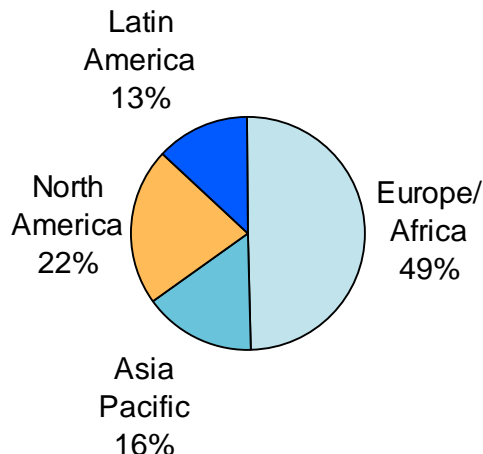
Consumer Electronics

EUR million unless otherwise stated

Key figures

	2Q05	1Q06	2Q06
Sales	2,259	2,423	2,484
% sales growth comp.	(2)	16	17
EBIT	62	58	45
EBIT as % of sales	2.7	2.4	1.8
NOC	232	78	5
Employees (FTEs)	16,746	14,932	14,677

Sales per region in 2Q06:



Financial performance

- Comparable sales up 17%. Growth was particularly visible in Connected Displays, driven by accelerated transition from CRT to Flat TV. Peripherals and Accessories also posted significant 19% comparable sales growth. Regionally double-digit growth was evident in Europe and Latin America.
- Against background of oversupply and heavy price pressure in the flat displays market, the division posted EBIT of EUR 45 m., underscoring effectiveness of business model
- NOC of EUR 5 m. was EUR 227 m. lower than in 2Q05, due to tight inventory management and further progress with the outsourcing-driven asset reduction program.

Looking ahead

- Sales growth expected to ease in Q3 as the speed of transition to Flat TV decelerates.
- Margins expected to remain under pressure as competitors and retailers clear pipeline stock

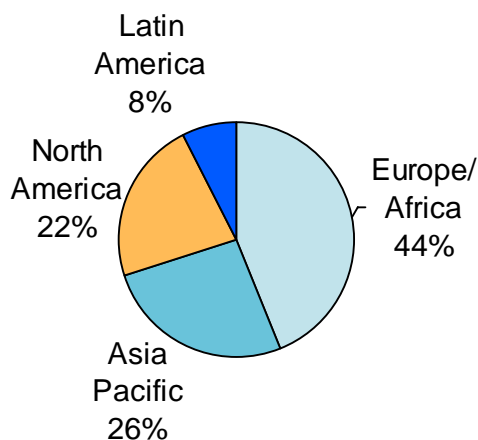
Lighting

EUR million unless otherwise stated

Key figures

	2Q05	1Q06	2Q06
Sales	1,116	1,345	1,296
% sales growth comp.	4	8	9
EBIT	120	195	158
EBIT as % of sales	10.8	14.5	12.2
NOC	1,702	2,665	2,652
Employees (FTEs)	42,977	46,701	46,652

Sales per region in 2Q06:



Financial performance

- 9% comparable growth compared to Q2 2005. Lumileds consolidation boosted nominal sales by a further 7%. Sales particularly buoyant in Asia Pacific, with 13% comparable growth.
- All businesses grew above market average, leading to market share gains. Driven by strong UHP growth, Automotive, Special Lighting & UHP posted 15% sales growth. Lumileds' sales were 22% above the already high 2Q05 level in USD terms, in line with 25% comparable growth target for full year.
- The division recognized an ongoing amortization charge of EUR 8 m. related to acq. of Lumileds
- The EBIT increase was driven by Lumileds and the higher level of sales.

Looking ahead

- Lumileds well on track to meet its targets in terms of growth and profitability
- The division will continue to launch innovative products and to focus on emerging markets.

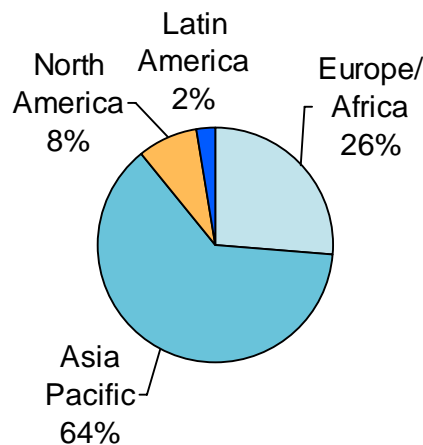
Semiconductors

EUR million unless otherwise stated

Key figures

	2Q05	1Q06	2Q06
Sales	1,088	1,219	1,221
% sales growth comp.	(6)	13	12
EBIT	27	89	120
EBIT as % of sales	2.5	7.3	9.8
NOC	2,629	2,326	2,226
Employees (FTEs)	35,682	35,472	36,996

Sales per region in 2Q06:



Financial performance

- Sequentially, sales increased by 5% in US dollar terms.
- Book-to-bill ratio at 1.07 at the end of 2Q06. Total order book increased by 5%.
- Utilization rate improved to 88% in 2Q06 compared to 77% in 1Q05 and 82% in 1Q06
- EBIT was EUR 120 m., EUR 93 m. above 2Q05. The improvement was attributable to increased sales and cost effectiveness, the latter underpinned by the business renewal program
- The reduction in NOC was driven by ongoing progress of the division's asset-light strategy.
- Following the announcement on our intention to reduce ownership share in Semiconductors, EUR 10 m. has been capitalized in Q2, which will be expensed upon completion of transaction

Looking ahead

- Mid-to-high-single-digit sequential sales growth in US dollar terms is expected in 3Q06

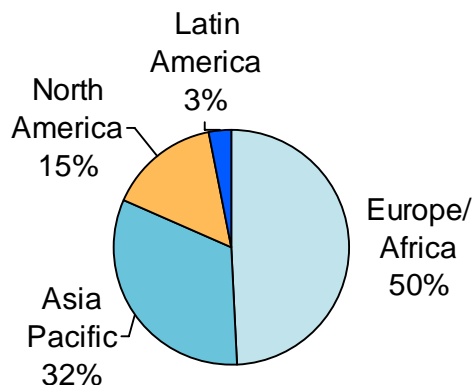
Other Activities

EUR million unless otherwise stated

Key figures

	2Q05	1Q06	2Q06
Sales	505	422	398
% sales growth comp.	3	(16)	(10)
EBIT	(60)	(67)	(57)
EBIT as % of sales	(11.9)	(15.9)	(14.3)
NOC	527	361	290
Employees (FTEs)	20,051	20,158	16,772

Sales per region in 2Q06:



Financial performance

Corporate Technologies

- Excluding the divestments and incidentals in 2Q05, EBIT declined by EUR 3m.

Corporate Investments / Others

- Corporate Investment recorded a loss of EUR 5 m., an improvement compared with 2Q05 as a result of higher EBIT in operational businesses
- The Service Units recorded a EUR 8 m. gain
- Reduction in NOC and employees is attributable to ongoing divestments of non-core activities

Looking ahead

- Corporate Technologies will step-up Incubator-related R&D investments in Q3
- Research cost in Q3 expected to be EUR 10 m. higher than in Q2 due to phasing of expenses
- Divestment related costs of EUR 10 m. are anticipated in Q3 for Corporate Investments
- Due to tariff reductions, the gain in 2Q06 related to Service units will not be repeated in 2H06

Unallocated

EUR million unless otherwise stated

Key figures

	2Q05	1Q06	2Q06
Corporate and regional overheads	(87)	(76)	(116)
Global brand campaign	(69)	(3)	(22)
Pensions/postretirement benefit costs	(36)	(22)	(26)

EBIT	(192)	(101)	(164)
Employees (FTEs)	2,500	2,471	2,471

Financial performance

- Corporate and regional overheads were higher than in Q2 2005, due to compliance with section 404 of the Sarbanes Oxley act and expenses for several seasonal events, including the World Cup.
- The investments in the global brand campaign was EUR 47 m. lower than in 2Q05 due to a changed seasonality pattern.
- Pension and post-retirement benefit costs were lower than in 2Q05, Lower pension cost in The Netherlands (abolition of post-retirement benefit plan) were partly offset by increased cost in North and Latin America.

Looking ahead

- Global brand campaign spend, although at a similar level FY2005, will follow a different seasonal pattern in 2006. About 70% of the annual investment will be spent in Q4.
- Corporate and regional overhead are expected to return to their normal level in Q3.

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Looking ahead information in the 2Q quarterly report on July 17,2006 - I

Medical Systems

- High-single-digit comparable sales growth is expected in 2006 .
- Medical Systems expects that EBIT margin in the second half of the year will show an improvement compared to 2005
- For planning purposes, we are assuming that completion of the Intermagnetics acquisition will take place in Q4 2006. Purchase-accounting and one-time acquisition-related charges of approximately EUR 85 million are anticipated on completion

Domestic Appliances and Personal Care

- The acquisition of Avent Holdings will be completed in Q3

Consumer Electronics

- Sales growth is expected to ease in Q3 as the speed of transition to Flat TV decelerates
- Margins are expected to remain under pressure as competitors and retailers clear their pipeline stock

Lighting

- Lumileds is well on track to meet its targets in terms of growth and profitability
- The division will continue to launch innovative products and to focus on emerging markets

Semiconductors

- Mid-to-high-single-digit sequential sales growth in US dollar terms is expected in Q3 2006

Looking ahead information in the 2Q quarterly report on July 17,2006 – II

Other Activities

- Continuing its innovation program focused on future growth, Corporate Technologies will step-up Incubator-related R&D investments in Q3
- Research costs in Q3 are expected to be approximately EUR 10 million higher than in Q2 due to the phasing of certain project expenses
- Corporate Investments will continue to reduce its business portfolio. Several announcements regarding divestments can be expected in the second half of 2006. Divestment-related costs of EUR 10 million are anticipated in Q3
- Due to tariff reductions, the gain related to the Service Units in Q2 will not be repeated in the second half of the year

Unallocated

- Global brand campaign spend, although at a similar level to 2005 for the full year, will follow a different seasonal pattern in 2006. About 70% of the annual investment will be spent in Q4
- Corporate and regional overhead costs are expected to return to their normative level in Q3

Outlook

- The second quarter further confirmed our solid progress in growing sales and increasing profitability. We expect this growth to continue in the second half of the year, although, given the particularly strong second half of 2005, at a slightly slower pace. Overall, we are well on track to meet our medium-term targets
- During the remainder of 2006, we will continue our business portfolio realignment through the expected acquisition of Intermagnetics and the further divestment of a number of non-core business activities. We will continue our value-creating management of capital, focusing our resources on further acquisitions, innovation, the brand, and on returning cash to shareholders
- The intention to reduce our ownership share in the Semiconductors division to a minority stake in 2006 will allow us to take a further step in implementing our strategy to build a more stable, predictable healthcare, lifestyle and technology company with a strong market focus around the brand promise of “sense and simplicity”

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2006 Management Agenda

- Realize 5-6% top-line growth and attain 7-10% EBIT margin
- Continue to grow Healthcare as part of the portfolio
- Accelerate movement to become a simpler, market oriented organization
- Set up separate legal structure for Semiconductors and create value by pursuing strategic options
- Increase the number of entrepreneurial business leaders with broad based experience
- Exceed € 500M overall cost reduction target (2-3 years)

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