



# Royal Philips Electronics

Q4

Quarterly report

January 22, 2007

#### *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, restructuring cost and 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, political and military developments in countries where Philips operates, Philips' ability to secure short-term profitability and invest in long-term growth, and industry consolidation.

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-US GAAP information*

In presenting and discussing the Philips Group's financial position, operating results and cash flows, management uses certain non-US GAAP financial measures. These non-US GAAP financial measures should not be viewed in isolation as alternatives to the equivalent US GAAP measure(s) and should be used in conjunction with the most directly comparable US GAAP measure(s). A discussion of the non-US 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.

#### *Use of fair value measurements*

In presenting the Philips Group's financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that are deemed to be reliable. Users are cautioned that these values are subject to changes over time and are only valid at the balance sheet date. When a readily determinable market value does not exist, fair values are estimated using valuation models. The models that are used are appropriate for their purpose. They require management to make significant assumptions with respect to future developments which are inherently uncertain and may therefore deviate from actual developments. In certain cases, independent valuations are obtained to support management's determination of fair values.

All amounts in millions of euros unless otherwise stated; data included are unaudited. Financial reporting is in accordance with US GAAP unless otherwise stated. Figures have been restated for the sale of the Semiconductors and MDS businesses now shown under 'discontinued operations'.

Philips reports strong Q4 with net income of EUR 680 million; proposes to increase dividend to EUR 0.60 per share

- Fourth-quarter sales up 2% comparably to EUR 8,128 million, bringing full-year sales to EUR 26,976 million, comparably up 6% on 2005.
- Fourth-quarter net income increased to EUR 680 million from EUR 332 million in Q4 2005, bringing full-year net income to EUR 5,383 million, compared with EUR 2,868 million in 2005
- Philips announced and/or completed seven strategically aligned acquisitions in 2006 that will add to further growth
- Continuation of the share repurchase program brings total cash returned to shareholders in 2006 to over EUR 3.3 billion
- Proposal to increase the dividend for 2006 significantly to EUR 0.60 from EUR 0.44 in 2005

#### **Gerard Kleisterlee, Philips' President and CEO of Royal Philips Electronics:**

“Strong results in the fourth quarter rounded out what was a busy and successful year for Philips. A combination of strategically aligned acquisitions and the divestment of cyclical components businesses – not least the sale of a majority stake in Semiconductors – have made us a less volatile, more brand-driven company.

I'm very pleased to see that our 2006 performance validates the key strategic decisions we have made. In the fourth quarter alone, our Medical Systems division brought in EUR 311 million in EBIT, which amounts to a margin of 15%. Our Consumer Electronics division was able to post a full-year EBIT

# PHILIPS

margin of 3.9%, amid tough market conditions. This again demonstrates the robustness of our CE business model.

In a landmark transaction, we sold a majority stake in our Semiconductors division in September, which made our earnings less volatile. This transaction completed efforts to transform Philips into a stable company built around our brand, with leading market positions in virtually all areas in which it is active.

2006 also saw the redistribution of over EUR 3.3 billion to shareholders by way of our ongoing share repurchase program and dividends. We intend to buy back a further EUR 1.6 billion of shares in 2007, in line with our earlier commitment.

As we close the book on 2006, it's clear that we are entering a new period in the Company's history. I am confident we will be able to continue to deliver sustainable growth and improved profitability in our key business areas of healthcare, lifestyle and technology.

Organic growth is strong and consistent where it matters most, i.e. in our high-margin activities, driven by innovation and an ever-stronger brand. Growth is further fuelled by the seven acquisitions we have announced which, as far as completed, are all performing at or above the level expected. At the same time we have practically completed the divestment of cyclical components activities.

Heading into 2007, we will continue to deliver on our promise to achieve sustainable value creation by strengthening our existing base of operations, making acquisitions where value creation is possible and returning capital to shareholders. At the same time, we will deepen and extend our commitment to our "sense and simplicity" brand promise. I am deeply convinced that our company is well positioned for an excellent future."

## Net income

in millions of euros unless otherwise stated	Q4 2005	Q4 2006
Sales	8,191	<b>8,128</b>
EBIT	795	<b>665</b>
as a % of sales	9.7	<b>8.2</b>
Financial income and expenses	23	<b>(102)</b>
Income taxes	(485)	<b>(48)</b>
Results unconsolidated companies	(46)	<b>30</b>
Minority interests	12	<b>6</b>
Income from continuing operations	299	<b>551</b>
Discontinued operations	33	<b>129</b>
Net income	332	<b>680</b>
Per common share (in euros) – basic*	0.27	<b>0.60</b>

\* Calculation of net income per common share in euros is based on weighted in-the-quarter average number of common shares

## Sales by sector

in millions of euros unless otherwise stated	Q4		% change	
	2005	2006	nominal	comparable
Medical Systems	2,029	<b>2,068</b>	2	7
DAP	787	<b>963</b>	22	13
CE	3,469	<b>3,262</b>	(6)	(4)
Lighting	1,346	<b>1,455</b>	8	7
Other Activities	560	<b>380</b>	(32)	(2)
Philips Group	8,191	<b>8,128</b>	(1)	2

## Sales by region

in millions of euros unless otherwise stated	Q4		% change	
	2005	2006	nominal	comparable
Europe/Africa	3,823	<b>3,948</b>	3	5
North America	2,286	<b>2,326</b>	2	6
Latin America	581	<b>548</b>	(6)	1
Asia Pacific	1,501	<b>1,306</b>	(13)	(10)
Philips Group	8,191	<b>8,128</b>	(1)	2

## Highlights in the quarter

### Net income

- Net income from continuing operations amounted to EUR 551 million, compared to EUR 299 million in Q4 2005.
- Income of EUR 129 million was reported under discontinued operations following further review of estimates made in the calculation of the gain on the Semiconductors transaction, the preliminary result of which was recorded in Q3.
- Earnings before interest and tax (EBIT) of EUR 665 million included a EUR 42 million gain on the sale of Philips Sound Solutions, as well as EUR 65 million in charges related to the acquisition of Intermagnetics. In Q4 2005, EBIT included a gain of EUR 170 million related to the release of a postretirement medical benefits provision, as well as a EUR 76 million result on real estate.
- Financial income and expenses included a non-cash impairment charge of EUR 77 million on the value of the investment in TPO Display Corp.
- Income taxes reflected the impact of a reduction (from 29.6% to 25.5%) in the Dutch corporate tax rate on the net deferred tax position. Q4 2005 included a EUR 240 million tax charge related to the intra-group transfer of shares in TSMC.
- Results relating to unconsolidated companies included a EUR 76 million gain on the sale of Philips' stake in FEI.

### Sales by sector

- Comparable sales for the Group increased by 2% compared to Q4 2005 after adjustment for the effect of currency movements and consolidation changes. Strong comparable growth delivered by all high-margin divisions was partially offset by lower sales at Consumer Electronics, where the focus remains on margin generation.
- Comparable sales at Medical Systems rose by 7%, driven by almost all businesses, notably Healthcare Informatics and Customer Services. DAP's comparable sales grew by an exceptional 13%, led by increases in Domestic Appliances and Oral Healthcare. Continued comparable sales growth in Connected Displays and Peripherals & Accessories was offset by sales declines in the other Consumer Electronics businesses. At Lighting, comparable sales were higher in almost all businesses, led by Lumileds.

### Sales by region

- Comparable sales growth was led by North America, driven by double-digit growth at DAP and Medical Systems. In Europe/Africa, DAP and Lighting supported the 5% comparable growth. In both Latin America and Asia, comparable sales growth at DAP and Lighting was tempered by lower sales at CE.

## EBIT

in millions of euros unless otherwise stated	Q4	Q4
	2005	2006
Medical Systems	267	<b>311</b>
DAP	167	<b>164</b>
CE	234	<b>259</b>
Lighting	157	<b>141</b>
Other Activities	24	<b>3</b>
Unallocated	(54)	<b>(213)</b>
Philips Group	795	<b>665</b>
as a % of sales	9.7	<b>8.2</b>

## EBITA

in millions of euros unless otherwise stated	Q4	Q4
	2005	2006
Medical Systems	292	<b>373</b>
DAP	168	<b>171</b>
CE	234	<b>259</b>
Lighting	164	<b>149</b>
Other Activities	24	<b>2</b>
Unallocated	(53)	<b>(212)</b>
Philips Group	829	<b>742</b>
as a % of sales	10.1	<b>9.1</b>

## Earnings before interest and tax (EBIT)

- The EBIT of Medical Systems included acquisition-related and integration charges of EUR 65 million for Intermagnetics. Q4 2005 included a charge of EUR 46 million for MedQuist customer accommodation payments. Improvement was visible in most businesses, notably Computed Tomography, Nuclear Medicine and Customer Services.
- Despite higher advertising and promotion expenses and an EUR 8 million charge related to the Avent acquisition, DAP's EBIT in the quarter enabled the division, excluding Consumer Healthcare Solutions, to reach an annual EBIT margin of 16%, again achieving its mid-term target of 15-16%.
- Consumer Electronics achieved an EBIT margin of 7.9%, compared to 6.7% in Q4 2005, taking its full-year margin to 3.9% of sales. Almost all businesses showed improved margins compared to Q4 2005.
- At Lighting, EBIT declined due to a slower ramp-up and inventory adjustment in backlighting solutions, restructuring charges of EUR 13 million and an EUR 8 million charge triggered by the acquisition of the remaining 3.5% stake in Lumileds.
- The EBIT of Other Activities included a gain of EUR 42 million on the sale of Philips Sound Solutions as well as additional investments in the Healthcare and Lifestyle Incubators. EBIT in Q4 2005 included a EUR 76 million result on real estate and a EUR 42 million gain on the sale of the Philips Pension Competence Center.
- Due to the seasonality of spend, the EBIT of Unallocated included brand campaign investments of EUR 88 million, compared to EUR 54 million in Q4 2005. Q4 2005 EBIT included a EUR 116 million gain on the adjustment of a provision for postretirement medical benefits.

## Financial income and expenses

in millions of euros	Q4 2005	Q4 2006
Interest expenses (net)	(42 )	<b>(3 )</b>
TPV option fair value adjustment	48	<b>(48 )</b>
TPO fair value adjustment	-	<b>(77 )</b>
Other	17	<b>26</b>
<b>Total</b>	<b>23</b>	<b>(102 )</b>

## Results unconsolidated companies

in millions of euros	Q4 2005	Q4 2006
LG.Philips LCD		
– Operational results	101	<b>(41 )</b>
– Sale of shares	211	-
TSMC	115	-
FEI	(1 )	<b>76</b>
Other	(472 )	<b>(5 )</b>
<b>Total</b>	<b>(46 )</b>	<b>30</b>

## Financial income and expenses

- Net interest expense was EUR 39 million lower than in Q4 2005 due to a higher average cash position during the quarter, mainly as a result of proceeds received from the sale of 80.1% of the Semiconductors business.
- A EUR 77 million non-cash impairment charge to adjust the value of the investment in TPO Display Corp was recognized in the quarter. A fair-value adjustment on the TPV bond option resulted in a loss of EUR 48 million, compared to a gain of the same amount in Q4 2005.

## Results relating to unconsolidated companies

- LG.Philips LCD's operational result decreased by EUR 142 million year-over-year as a result of continued difficult market conditions.
- A gain of EUR 76 million was recognized on the sale of Philips' entire shareholding in FEI Company.
- In Q4 2005 a charge of EUR 458 million was recognized for LG.Philips Displays.

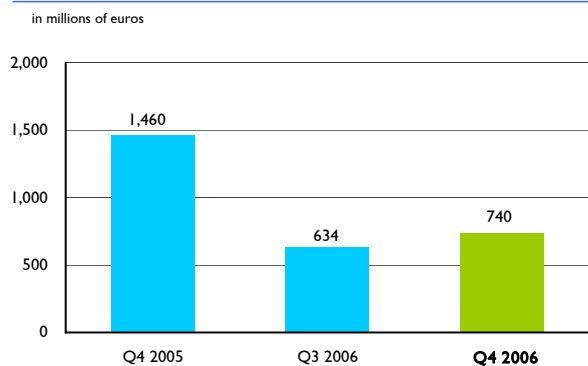
## Cash balance

in millions of euros	Q4	Q4
	2005	2006
Beginning balance	4,344	7,272
Net cash from operating activities	1,460	740
Gross capital expenditures	(206)	(119)
Acquisitions/divestments	(178)	(768)
Other cash from investing activities	124	12
Changes in debt/other	(549)	(1,401)
Cash provided by discontinued operations	298	287
Ending balance	5,293	6,023

## Cash balance

- The cash balance decreased by EUR 1,249 million during the quarter, compared to an increase of EUR 949 million in Q4 2005.
- The main cash outflows were EUR 1,519 million for the ongoing share repurchase program and EUR 993 million for the acquisition of Intermagnetics.
- Q4 2005 included EUR 615 million proceeds from the sale of a further stake in LG.Philips LCD and a EUR 788 million cash outflow for the acquisition of the majority of Lumileds.

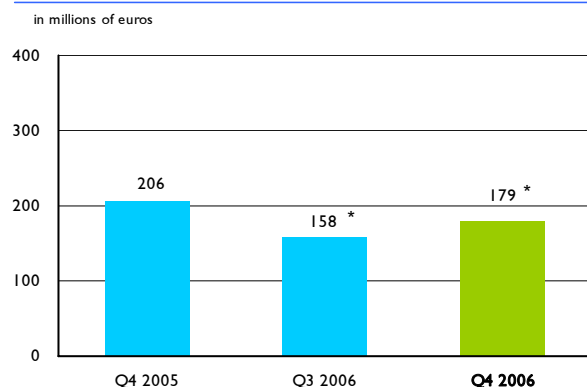
## Cash flows from operating activities



## Cash flows from operating activities

- Cash flows from operating activities declined compared to Q4 2005, primarily due to a number of positive reclassifications which were made from continuing to discontinued operations following further review of the Q3 2006 transaction to sell a majority stake in the Semiconductors division.

## Gross capital expenditures

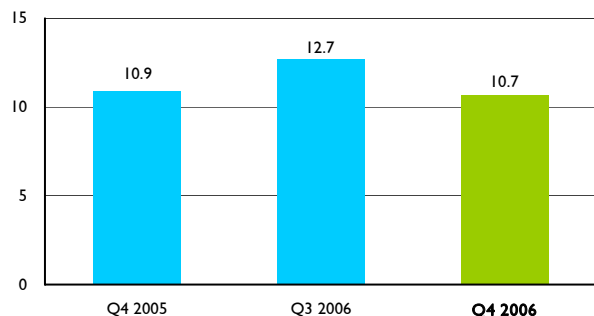


\* Reclassification of gross capital expenditures between Q3 and Q4 2006 related to timing difference in the finalization of the sale of the Semiconductors business.

## Gross capital expenditures

- Gross capital expenditures were below the level of Q4 2005 as additional investments at Lighting were more than offset by lower expenditure in the other divisions.

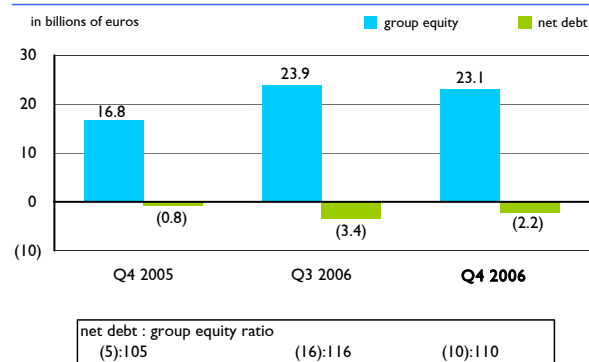
## Inventories as a % of sales



## Inventories

- Inventories as a percentage of sales decreased to 10.7%, compared to 10.9% in Q4 2005. Tight inventory and supply chain management at Consumer Electronics, Medical Systems and Lighting drove the improvement.

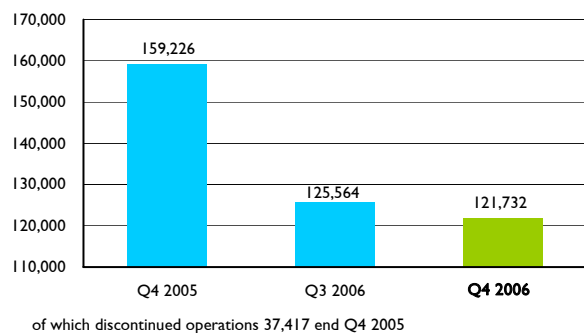
## Net debt and group equity



## Net debt and group equity

- The net cash position of EUR 3.4 billion reported at the end of Q3 2006 declined to EUR 2.2 billion, primarily due to the acquisition of Intermagnetics and the share repurchase program.
- Group equity decreased by EUR 0.8 billion compared to the previous quarter. Increases in equity attributable to net income and unrealized gains on the value of available-for-sale securities (primarily TSMC) were more than offset by the ongoing share buy-back program and the implementation of FAS 158 rules relating to pension accounting.

## Number of employees (FTEs)



## Employment

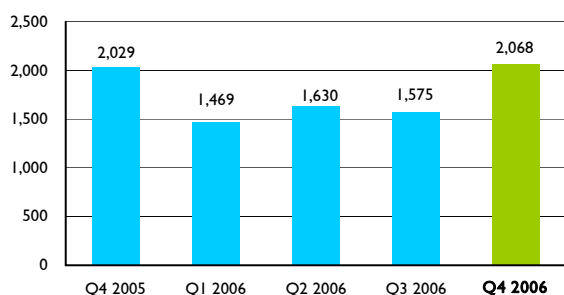
- During the quarter the number of employees declined by 3,832 due to the normal seasonal reduction in temporary employees and several divestments within Other Activities. These reductions were partly offset by the consolidation of Intermagnetics in Medical Systems.
- Q4 2005 included 37,417 employees in businesses classed as 'discontinued operations', primarily the Semiconductors division.

## Key data

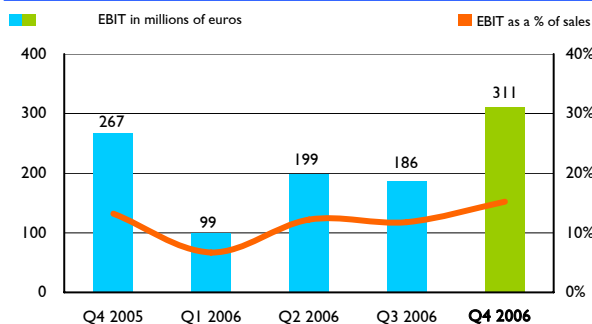
in millions of euros unless otherwise stated	Q4 2005	Q4 2006
Sales	2,029	<b>2,068</b>
Sales growth		
% nominal	13	<b>2</b>
% comparable	8	<b>7</b>
EBITA	292	<b>373</b>
as a % of sales	14.4	<b>18.0</b>
EBIT	267	<b>311</b>
as a % of sales	13.2	<b>15.0</b>
Net operating capital (NOC)	3,400	<b>4,332</b>
Number of employees (FTEs)	30,978	<b>32,843</b>

## Sales

in millions of euros



## EBIT



## Business highlights

- Philips completed its EUR 1 billion acquisition of Intermagnetics General Corporation – a leading manufacturer of superconducting magnets and radio-frequency coils for magnetic resonance imaging systems.
- At the 92<sup>nd</sup> annual meeting of the Radiological Society of North America, Philips introduced the BrightView SPECT system – a compact nuclear medicine camera that is also scalable to accommodate overweight patients.
- In the 2006 IMV ServiceTrak™ survey, customers ranked Philips number 1 in overall service performance in Patient Monitoring Systems for the 8<sup>th</sup> year in a row, and number 1 in Ultrasound All Systems for the 14<sup>th</sup> year in a row.

## Financial performance

- Equipment order intake for the full year increased by 6% on a currency-comparable basis compared to 2005. Net underlying order intake for the quarter was practically flat due to some adjustments to the existing order book.
- Comparable sales grew 7% year-on-year, driven by double-digit growth in Healthcare Informatics and Customer Services. Sales of i-Site/PACS grew by almost 50% on a comparable basis.
- EBIT included EUR 65 million acquisition-related and integration charges following the acquisition of Intermagnetics. Excluding these charges and Q4 2005's MedQuist accommodation payment, EBIT improved, primarily in Computed Tomography, Nuclear Medicine and Customer Services.
- Net operating capital and employee numbers increased due to the consolidation of Intermagnetics and Witt Biomedical.

## Looking ahead

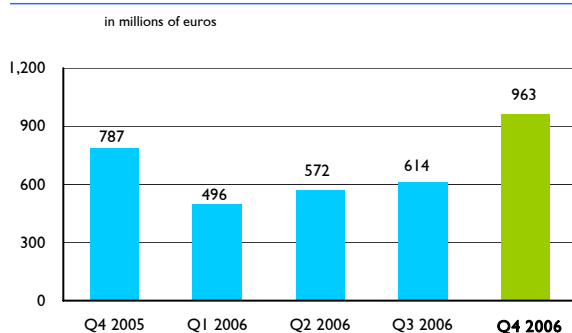
- The North American sales organization will be realigned to tighten customer focus and simplify sales processes; we expect this to result in a minor charge in Q1 2007, but to have an overall positive impact on full-year earnings.
- Q1 2007 will include approximately EUR 25 million of Intermagnetics-related acquisition and integration charges.
- Driven by ongoing improvement actions, we expect the division to achieve 14-15% EBITA for the year 2007.

# Domestic Appliances and Personal Care

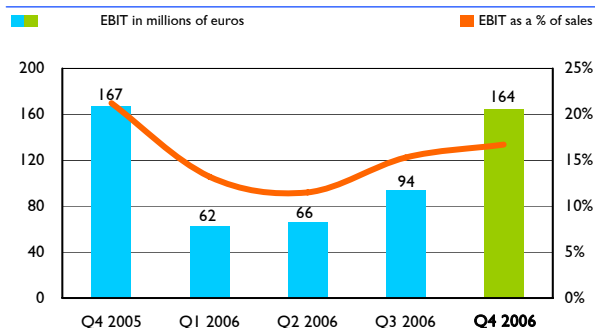
## Key data

in millions of euros unless otherwise stated	Q4 2005	Q4 2006
Sales	787	<b>963</b>
Sales growth		
% nominal	6	<b>22</b>
% comparable	3	<b>13</b>
EBITA	168	<b>171</b>
as a % of sales	21.3	<b>17.8</b>
EBIT	167	<b>164</b>
as a % of sales	21.2	<b>17.0</b>
Net operating capital (NOC)	370	<b>1,758</b>
Number of employees (FTEs)	8,203	<b>10,953</b>

## Sales



## EBIT



## Business highlights

- In France, Philips launched its new Wake-up Light, with a roll-out in selected European countries planned for 2007. This medically-proven lamp prepares the body to wake up by emitting increasing light, which reduces the production of melatonin, the sleep-inducing hormone.
- Following a successful trial year in 2006, Philips Shavers increased its 2007 sponsorship commitment to the WilliamsF1 Team to include on-car branding.
- In December, Philips signed a deal to provide floor care products to Dixons Store Group International – the first ever pan-European product listing by Dixons and a deal bringing Philips into the UK and Nordic floor care markets.

## Financial performance

- Sales grew by 13% on a comparable basis compared to Q4 2005; the increase was visible across all businesses but was particularly strong in Oral Healthcare and Domestic Appliances. Consumer Healthcare Solutions reported sales of EUR 38 million, most of which was attributable to Lifeline Systems. Double-digit sales growth was visible in all regions, most notably North America and the key emerging markets of Russia, China and India.
- EUR 164 million in-the-quarter EBIT brought the full-year EBIT margin, excluding CHS, to 16% of sales, again enabling the division to reach its mid-term profitability target.
- EBIT in the quarter included further investments in CHS (EUR 8 million), charges related to the acquisition of Avent (EUR 8 million) and a significantly higher level of advertising spend, to help DAP sustain its high growth level.
- The increase in net operating capital and personnel numbers was attributable to the acquisitions of Lifeline and Avent.
- Despite the strong sales growth, DAP continued to operate with negative working capital in the fourth quarter.

## Looking ahead

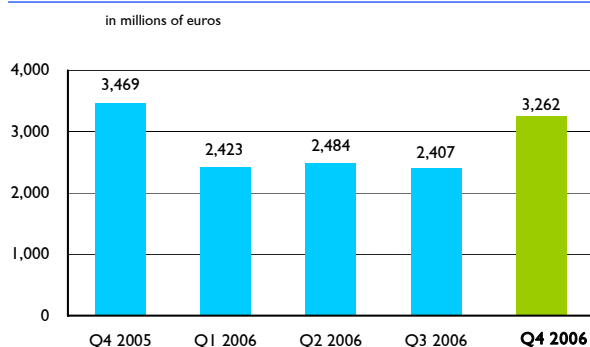
- DAP plans to introduce a series of innovative products, in particular in shaving and coffee-making, which will help it achieve its 2007 EBITA target of approximately 15%.

# Consumer Electronics

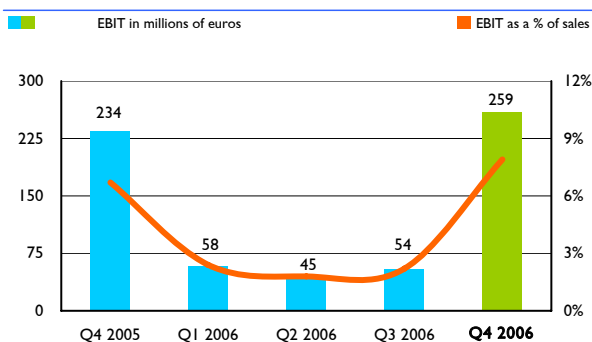
## Key data

in millions of euros unless otherwise stated	Q4	Q4
	2005	2006
Sales	3,469	<b>3,262</b>
Sales growth		
% nominal	4	<b>(6)</b>
% comparable	6	<b>(4)</b>
EBITA	234	<b>259</b>
as a % of sales	6.7	<b>7.9</b>
EBIT	234	<b>259</b>
as a % of sales	6.7	<b>7.9</b>
Net operating capital (NOC)	(296)	<b>(228)</b>
Number of employees (FTEs)	15,537	<b>14,486</b>

## Sales



## EBIT



## Business highlights

- Philips sold its one millionth Ambilight FlatTV. Introduced by Philips in 2004, Ambilight creates a halo around the TV screen that changes color and intensity and transforms viewing by making the screen seem bigger.
- Philips was named a global supplier of in-room entertainment televisions to the Accor Group of hotels, one of the largest hotel chains in the world, providing a dedicated range of hotel FlatTVs for up to 480,000 rooms.
- At the Consumer Electronics Show in Las Vegas, Philips won 18 Innovation Awards and the Best of Innovation Award for the DECT Cordless Phone/Answering Machine. The SIM-card copier lets users copy their mobile phonebook to their home phone – a true example of “sense and simplicity”.

## Financial performance

- Sales of EUR 3,262 million were, on a comparable basis, 4% below Q4 2005. Growth in Connected Displays and Peripherals & Accessories was offset by declines in Mobile Phones and Home Networks.
- As a result of CE’s focus on margin management, the division posted EBIT of 7.9%, compared to 6.7% in Q4 2005, helping it realize an annual EBIT margin of 3.9% of sales. Almost all businesses recorded EBIT margin improvements compared to Q4 2005.
- Inventories remained under tight control at 7.4% of sales, compared to 7.5% in 2005.

## Looking ahead

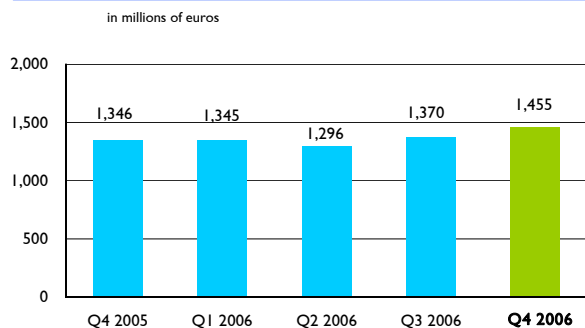
- Q1 is expected to be a challenging quarter due to continuing pressure on margins as supply of FlatTVs outstrips market demand.
- The transfer of Philips’ remaining Mobile Phones activities to China Electronics Corporation (CEC), originally planned to be completed in Q4 2006, is still subject to finalization.
- Helped by the introduction of a new range of Ambilight televisions, the division expects to achieve an EBITA of approximately 3% in 2007.

# Lighting

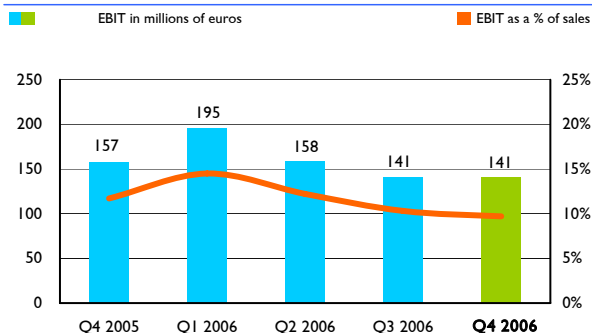
## Key data

in millions of euros unless otherwise stated	Q4	Q4
	2005	2006
Sales	1,346	<b>1,455</b>
Sales growth		
% nominal	6	<b>8</b>
% comparable	1	<b>7</b>
EBITA	164	<b>149</b>
as a % of sales	12.2	<b>10.2</b>
EBIT	157	<b>141</b>
as a % of sales	11.7	<b>9.7</b>
Net operating capital (NOC)	2,491	<b>2,527</b>
Number of employees (FTEs)	45,649	<b>47,739</b>

## Sales



## EBIT



## Business highlights

- Philips agreed to acquire Partners in Lighting International, the European leader in the home luminaire market. With this deal, Philips will foster a shift to LED-based home lighting.
- In December, Philips organized an energy-efficiency forum in Brussels to back European Union energy-conservation initiatives and draw attention to the energy-saving potential of lighting technologies.
- Philips acquired the remaining 3.5% stake in Lumileds – the world leader in high-power light-emitting diodes (LEDs).
- In Bangkok, at an event attended by 100,000 people, the Princess of Thailand opened the Inner Ring Road Bridge, which is illuminated with Philips' solid-state lighting.

## Financial performance

- Sales amounted to EUR 1,455 million, 7% above Q4 2005 on a comparable basis, mainly attributable to Luminaires and Lamps, which grew 15% and 7% respectively.
- Geographically, all regions posted positive comparable growth rates, most notably the double-digit growth in emerging markets such as Russia, China and India.
- EBIT declined due to an inventory write-down caused by a lower-than-expected ramp-up in backlighting solutions, restructuring charges of EUR 13 million and a EUR 8 million charge triggered by the acquisition of the final 3.5% stake in Lumileds.

## Looking ahead

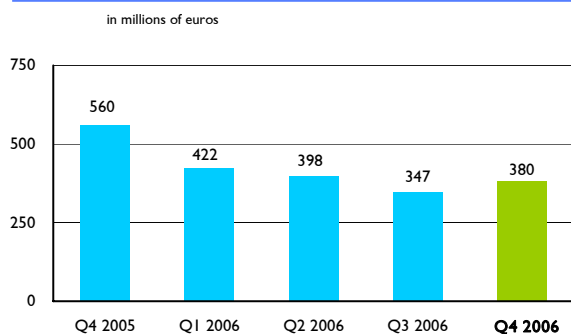
- The division is expected to consolidate Partners in Lighting International in Q1, further strengthening its LED/solid-state lighting strategy.
- Further optimization of the industrial footprint will result in restructuring charges of approximately EUR 15 million in Q1 2007.
- The launch of innovative products and focus on emerging markets in 2007 will support the division in achieving an EBITA of around 12% for the year.

## Other Activities

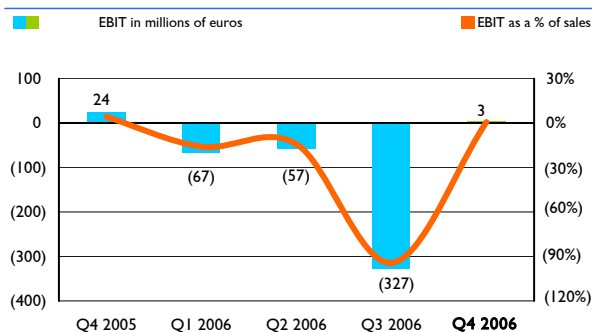
### Key data

in millions of euros unless otherwise stated	Q4 2005	Q4 2006
Sales	560	<b>380</b>
Sales growth		
% nominal	(18)	<b>(32)</b>
% comparable	(16)	<b>(2)</b>
Total EBITA	24	<b>2</b>
as a % of sales	4.3	<b>0.5</b>
EBIT Corporate Technologies	(45)	<b>(65)</b>
EBIT Corp. Investments and others	69	<b>68</b>
Total EBIT	24	<b>3</b>
as a % of sales	4.3	<b>0.8</b>
Net operating capital (NOC)	272	<b>21</b>
Number of employees (FTEs)	19,050	<b>13,347</b>

### Sales



### EBIT



### Business highlights

- In October, Philips opened two new research facilities – CareLab and ShopLab – to research healthcare technologies for the home and retail lighting technologies.
- In December, Philips’ Technology Incubator group made its first spin-out: Philips’ Polymer Vision Ltd – focusing on the rollable display market – became a stand-alone company through a EUR 21 million investment by Technology Capital.
- In November, the US-based Design Management Institute – an international organization promoting design as part of business strategy – named Philips Design one of two “Design Management Teams of the Year”.
- Philips Design and Rivers Run Red, the virtual-world design agency, have agreed to establish a Philips Design presence within the imaginary on-line community known as Second Life®. Philips intends to use this presence to obtain feedback on innovative concepts and gain a deeper understanding of virtual environments like Second Life®, which was launched in 2003 and has more than 1.5 million members.

### Financial performance

- Corporate Technologies’ results included additional investments in innovation via the Healthcare, Lifestyle and Technology Incubators.
- Corporate Investments reported an improved EBIT, including a EUR 42 million gain on the sale of Philips Sound Solutions. EBIT in Q4 2005 included a EUR 76 million result on real estate and a EUR 42 million gain on the sale of the Philips Pension Competence Center.

### Looking ahead

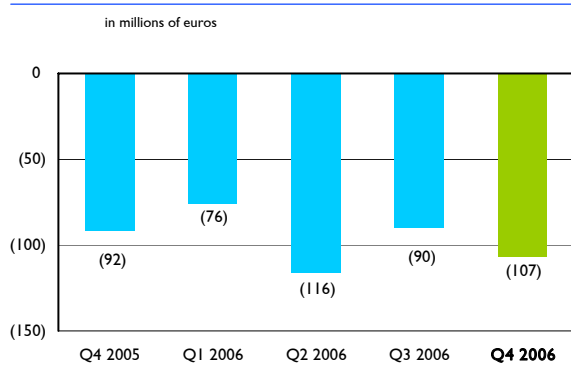
- Corporate Investments expects to complete the wind-down of its portfolio in the first half of 2007.
- Philips will continue to focus on driving innovation and emerging businesses through investments in the Incubators.
- In 2007, this reporting sector will be transformed into the ‘Innovation & Emerging Businesses’ sector, which will help drive Philips’ future growth. The negative EUR 80 million expected annual result given in previous guidance will be disproportionately skewed to earlier quarters of the year.

# Unallocated

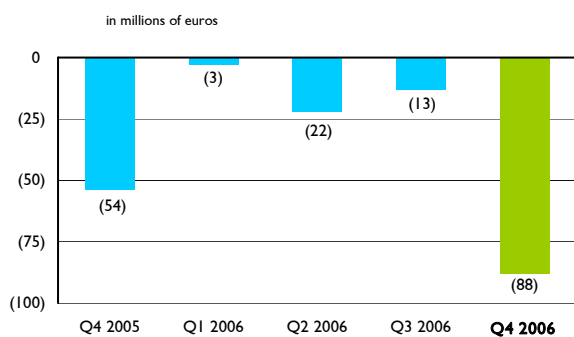
## Key data

in millions of euros unless otherwise stated	Q4 2005	Q4 2006
Corporate and regional overheads	(92)	(107)
Global brand campaign	(54)	(88)
Pensions/postretirement benefit costs	92	(18)
Total EBIT	(54)	(213)
Total EBITA	(53)	(212)
Number of employees (FTEs)	2,392	2,346

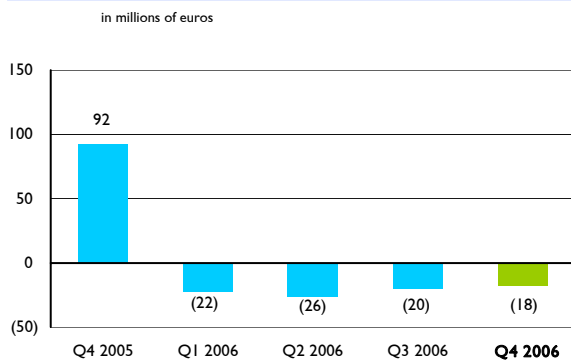
## EBIT Corporate and regional overheads



## EBIT Global brand campaign



## EBIT Pensions/postretirement benefit costs



## Business highlights

- Philips was rated top climber in corporate sustainability reporting among the 'Leading 50' companies in an overview published by SustainAbility in partnership with the United Nations Environment Programme and Standard & Poor's.
- Philips won the Henri Sijthoff Prize for best 2005 annual report among companies on the Amsterdam Stock Exchange.
- At the Investor Relations Continental Europe Awards, Philips won the prize for 'Best Corporate Governance & Disclosure Policy'.
- In 2006, Philips spent EUR 1.9 billion on suppliers via e-auctions, exceeding its 2006 target of conducting at least 10% of its spending through e-auctions.

## Financial performance

- The EBIT loss of Corporate and Regional Overheads was EUR 15 million higher than in 2005, almost entirely due to implementation costs for Sarbanes-Oxley compliance, which totaled EUR 26 million for the full year.
- Investments in the global brand campaign increased by EUR 34 million compared to Q4 2005, though the full-year spend was EUR 12 million below the 2005 level.
- Pension and postretirement benefit costs were in line with expectations. A EUR 116 million release of a FAS 106 provision was recorded in Q4 2005.

## Looking ahead

- In 2007, pension costs for continuing operations are expected to decline by approximately EUR 50 million compared to 2006.
- Expenditures on the brand campaign are expected to be slightly below the level of 2006, with the majority of the spend in the second and fourth quarters of the year.
- Simplification of country management structures, the earlier transfer of staff to NXP and removal of a regional management layer will lead to a reduction in corporate and regional costs of EUR 75 million on a run-rate basis by the end of 2007.

# Highlights full-year 2006

## The year 2006

- Net income amounted to EUR 5,383 million, compared to EUR 2,868 million in 2005. This included the EUR 4,283 million net gain on the sale of the Semiconductors division, whereas 2005 included a total gain of EUR 1,778 million on the sale of several financial holdings.
- Sales in 2006 amounted to EUR 26,976 million, representing 6% comparable growth compared to 2005. Growth was mainly driven by Medical Systems, DAP and Lighting.
- EBIT amounted to EUR 1,183 million in 2006, compared to EUR 1,472 million in 2005.
- Results relating to unconsolidated companies showed a loss of EUR 157 million, compared to a EUR 1,754 million profit in 2005, which resulted from the sale of shares in TSMC, LG.Philips LCD and NAVTEQ. Income from discontinued operations of EUR 4,464 million included both Semiconductors' 2006 operational result and the gain on the sale.

## Net income

in millions of euros unless otherwise stated	January-December	
	2005	2006
Sales	25,775	<b>26,976</b>
EBIT	1,472	<b>1,183</b>
as a % of sales	5.7	<b>4.4</b>
Financial income and expenses	108	<b>34</b>
Income taxes	(506 )	<b>(137 )</b>
Results unconsolidated companies	1,754	<b>(157 )</b>
Minority interests	3	<b>(4 )</b>
Income from continuing operations	2,831	<b>919</b>
Discontinued operations	37	<b>4,464</b>
Net income	2,868	<b>5,383</b>
Per common share (in euros) – basic	2.29	<b>4.58</b>

## Management summary

- 2006 was a year of decisive action and change for the Philips Group. The Semiconductors division was sold and seven strategic acquisitions were announced. Net income, including the EUR 4.3 billion gain on the sale of Semiconductors, showed a profit of EUR 5,383 million.
- Comparable sales growth increased to 6%, with strong growth in all main operating divisions, led by DAP and Lighting with 11% and 8% respectively. Medical Systems (7%) and CE (5%) also showed solid growth, while Corporate Investments declined by 10%.
- EBIT decreased by EUR 289 million, mainly as a result of lower income in Other Activities (impacted by a EUR 265 million asbestos-related charge) and Unallocated (due to the release of a EUR 170 million postretirement benefits provision in 2005). EBIT at Medical Systems, DAP and Lighting increased compared to 2005, as did EBIT at CE when excluding the 2005 gain on the TPV transaction.
- The negative result from unconsolidated companies was mainly due to the loss incurred by LG.Philips LCD; the 2005 result included gains on the sale of shares in TSMC, LG.Philips LCD and NAVTEQ, as well as a charge of EUR 458 million for LG.Philips Displays.
- Cash flows from operating activities decreased from EUR 1,141 million in 2005 to EUR 360 million in 2006, mainly due to higher pension contributions in the United Kingdom and United States.
- Further investments were made in the global brand campaign and innovation. Philips also cancelled 173 million shares, of which over 100 million were repurchased in 2006, thereby returning EUR 3.3 billion to shareholders including the annual dividend.

### Proposed dividend to shareholders

Philips' present dividend policy is based on an average annual pay-out ratio of 25-35% of continuing net income. Philips will explain a revised dividend policy at the 2007 General Meeting of Shareholders, which raises this average annual pay-out ratio to 40-50% of continuing net income. Consistent with this revised dividend distribution policy, the Company will submit a proposal to the General Meeting of Shareholders to declare a dividend of EUR 0.60 per common share (approximately EUR 630 million), an increase for the third consecutive year. In 2006 a dividend of EUR 0.44 per common share was paid (EUR 523 million).

### Outlook

A strong performance in the last quarter of 2006 enabled us to meet our objectives for both profitability and sales growth, reinforcing our confidence that we will realize our targets – annual average top-line growth of 5-6% and EBITA of at least 7.5% – in 2007.

In the coming year, we look forward to introducing a number of exciting new products that will further support our growth ambitions.

We will continue the reallocation of capital by reducing our financial holdings, pursuing value-creating acquisitions consistent with our strategic direction and returning cash to shareholders.

We will also continue our drive to simplify Philips, reducing the cost of our organization while stepping up our efforts to improve talent management.

With rigorous execution of these plans, we expect 2007 to be a good year of continued growth and increased profitability.

Amsterdam, January 22, 2007

*Board of Management*

## Consolidated statements of income

all amounts in millions of euros unless otherwise stated  
restated for the sale of the Semiconductors business

	4 <sup>th</sup> quarter		January to December	
	2005	2006	2005	2006
Sales	8,191	8,128	25,775	26,976
Cost of sales	(5,721)	(5,435)	(17,834)	(18,681)
Gross margin	2,470	2,693	7,941	8,295
Selling expenses	(1,309)	(1,417)	(4,455)	(4,669)
General and administrative expenses	(162)	(266)	(829)	(1,009)
Research and development expenses	(414)	(461)	(1,602)	(1,668)
Other business income (expense)	210	116	417	234
Income from operations	795	665	1,472	1,183
Financial income and expenses	23	(102)	108	34
Income before taxes	818	563	1,580	1,217
Income tax expense	(485)	(48)	(506)	(137)
Income after taxes	333	515	1,074	1,080
Results relating to unconsolidated companies, including a year-to-date net dilution gain of EUR 14 million (loss of EUR 165 million in the 4 <sup>th</sup> quarter of 2005)	(46)	30	1,754	(157)
Minority interests	12	6	3	(4)
Income from continuing operations	299	551	2,831	919
Discontinued operations	33	129	37	4,464
<b>Net income</b>	332	680	2,868	5,383
Weighted average number of common shares outstanding (after deduction of treasury stock) during the period (in thousands):				
• basic	1,222,944	1,135,336	1,249,956	1,174,925
• diluted	1,227,333	1,144,642	1,253,184	1,182,745
Net income per common share in euros*:				
• basic	0.27	0.60	2.29	4.58
• diluted	0.27	0.59	2.29	4.55
<b>Ratios</b>				
Gross margin as a % of sales	30.2	33.1	30.8	30.7
Selling expenses as a % of sales	(16.0)	(17.4)	(17.3)	(17.3)
G&A expenses as a % of sales	(2.0)	(3.3)	(3.2)	(3.7)
R&D expenses as a % of sales	(5.1)	(5.7)	(6.2)	(6.2)
EBIT <sup>1</sup> or Income from operations as a % of sales	795 9.7	665 8.2	1,472 5.7	1,183 4.4
EBITA as a % of sales	829 10.1	742 9.1	1,577 6.1	1,382 5.1

\* Calculation of net income per common share in euros is based on weighted in-the-quarter and weighted year-to-date average number of common shares respectively.

## Consolidated balance sheets

all amounts in millions of euros unless otherwise stated  
restated for the sale of the Semiconductors business

	December 31, 2005	December 31, 2006
Current assets:		
Cash and cash equivalents	5,293	6,023
Securities	-	192
Receivables	4,638	4,773
Current assets of discontinued operations	1,462	-
Inventories	2,797	2,880
Other current assets	894	1,295
<b>Total current assets</b>	<b>15,084</b>	<b>15,163</b>
Non-current assets:		
Investments in unconsolidated companies	5,399	3,922
Other non-current financial assets	673	7,112
Non-current receivables	213	214
Non-current assets of discontinued operations	2,511	-
Other non-current assets	3,231	3,453
Property, plant and equipment	3,019	3,099
Intangible assets excluding goodwill	1,240	1,915
Goodwill	2,535	3,820
<b>Total assets</b>	<b>33,905</b>	<b>38,698</b>
Current liabilities:		
Accounts and notes payable	3,457	3,450
Current liabilities of discontinued operations	1,044	-
Accrued liabilities	3,281	3,336
Short-term provisions	807	991
Other current liabilities	657	605
Short-term debt	1,167	863
<b>Total current liabilities</b>	<b>10,413</b>	<b>9,245</b>
Non-current liabilities:		
Long-term debt	3,320	3,006
Long-term provisions	1,903	2,535
Non-current liabilities of discontinued operations	341	-
Other non-current liabilities	1,103	784
<b>Total liabilities</b>	<b>17,080</b>	<b>15,570</b>
Minority interests	159	131
Stockholders' equity	16,666	22,997
<b>Total liabilities and equity</b>	<b>33,905</b>	<b>38,698</b>
Number of common shares outstanding (after deduction of treasury stock) at the end of period (in thousands)	1,201,358	1,106,909
<b>Ratios</b>		
Stockholders' equity per common share in euros	13.87	20.78
Inventories as a % of sales	10.9	10.7
Net debt : group equity	(5):105	(10):110
Net operating capital	5,679	8,724
Employees at end of period of which discontinued operations 37,417 end December 2005	159,226	121,732

## Consolidated statements of cash flows \*

all amounts in millions of euros  
restated for the sale of the Semiconductors business

	4 <sup>th</sup> quarter		January to December	
	2005	2006	2005	2006
<i>Cash flows from operating activities:</i>				
Net income	332	680	2,868	5,383
(Income) loss discontinued operations	(33)	(129)	(37)	(4,464)
Adjustments to reconcile income to net cash provided by operating activities:				
Depreciation and amortization	224	250	740	834
Impairment of equity method investments	427	-	427	8
Net gain on sale of assets	(378)	(181)	(2,102)	(289)
Unconsolidated companies (net of dividends received)	(168)	100	(324)	232
Minority interests (net of dividends paid)	4	(6)	15	4
(Increase) decrease in working capital/other current assets	1,038	(539)	(119)	(1,466)
(Increase) decrease in non-current receivables/other assets	83	91	(250)	(209)
Increase (decrease) in provisions	(85)	193	(108)	298
Other items	16	281	31	11
<b>Net cash provided by (used for) operating activities</b>	<b>1,460</b>	<b>740</b>	<b>1,141</b>	<b>342</b>
<i>Cash flows from investing activities:</i>				
Purchase of intangible assets	(26)	(33)	(74)	(101)
Capital expenditures on property, plant and equipment	(206)	(119)	(644)	(703)
Proceeds from disposals of property, plant and equipment	162	45	212	107
Cash from (to) derivatives	(12)	-	(46)	62
Proceeds from sale (purchase) of other non-current financial assets	(5)	(13)	612	(3)
Proceeds from sale (purchase) of businesses	(173)	(755)	1,627	(2,173)
<b>Net cash provided by (used for) investing activities</b>	<b>(260)</b>	<b>(875)</b>	<b>1,687</b>	<b>(2,811)</b>
<i>Cash flows from financing activities:</i>				
Increase (decrease) in debt	108	67	(324)	(437)
Treasury stock transactions	(725)	(1,553)	(1,761)	(2,755)
Dividends paid	-	-	(504)	(523)
<b>Net cash provided by (used for) financing activities</b>	<b>(617)</b>	<b>(1,486)</b>	<b>(2,589)</b>	<b>(3,715)</b>
<b>Net cash provided by (used for) continuing operations</b>	<b>583</b>	<b>(1,621)</b>	<b>239</b>	<b>(6,184)</b>
<i>Cash flows from discontinued operations:</i>				
Net cash provided by (used for) operating activities	428	320	948	512
Net cash provided by (used for) investing activities	(130)	(33)	(402)	6,599
Net cash provided by (used for) financing activities	-	-	-	-
<b>Net cash provided by (used for) discontinued operations</b>	<b>298</b>	<b>287</b>	<b>546</b>	<b>7,111</b>
<b>Net cash provided by (used for) continuing and discontinued operations</b>	<b>881</b>	<b>(1,334)</b>	<b>785</b>	<b>927</b>
Effect of change in exchange rates on cash positions	68	85	159	(197)
Cash and cash equivalents at beginning of period	4,344	7,272	4,349	5,293
<b>Cash and cash equivalents at end of period</b>	<b>5,293</b>	<b>6,023</b>	<b>5,293</b>	<b>6,023</b>

\*For a number of reasons, principally the effects of translation differences, certain items in the statements of cash flows do not correspond to the differences between the balance sheet amounts for the respective items.

Ratio	2005	2006	2005	2006
Cash flows before financing activities	1,200	(135)	2,828	(2,469)

Note: includes a reclassification between Other items and Cash from (to) derivatives of EUR 10 million, EUR 121 million and EUR 44 million in the first, second and third quarters of 2006 respectively.

## Consolidated statement of changes in stockholders' equity

all amounts in millions of euros

	January to December 2006											
			Accumulated other comprehensive income (loss)					Treasury shares at cost				
	Common stock	Capital in excess of par value	Retained earnings	Currency translation differences	Unrealized gain (loss) on available- for-sale securities	Additional minimum pension liability	Pensions (FAS 158)	Changes in fair value of cash flow hedges	Total	To hedge share-based compen- sation plans	To cover capital reduction program	Total stock- holders' equity
Balance as of December 31, 2005	263	82	21,710	(1,886)	(10)	(545)		(29)	(2,470)	(1,333)	(1,586)	16,666
Net income			5,383									5,383
Net current period change				(376)	4,389	214		57	4,284			4,284
Reclassifications into income				388	(98)			(20)	270			270
Total comprehensive income, net of tax			5,383	12	4,291	214		37	4,554			9,937
Reduction authorized share capital	(35)		(4,332)								4,367	-
Dividend paid			(523)									(523)
Purchase of treasury stock										(118)	(2,781)	(2,899)
Re-issuance of treasury stock		(204)	(153)							528		171
Share-based compensation plans		122										122
Implementation of FAS 158						331	(808)		(477)			(477)
<b>Balance as of December 31, 2006</b>	<b>228</b>	<b>-</b>	<b>22,085</b>	<b>(1,874)</b>	<b>4,281</b>	<b>-</b>	<b>(808)</b>	<b>8</b>	<b>1,607</b>	<b>(923)</b>	<b>-</b>	<b>22,997</b>

## Sectors

all amounts in millions of euros unless otherwise stated  
restated for the sale of the Semiconductors business

### Sales and income from operations

	4 <sup>th</sup> quarter					
	2005			2006		
	Sales	Income from operations amount	as a % of sales	Sales	Income from operations amount	as a % of sales
Medical Systems	2,029	267	13.2	2,068	311	15.0
DAP	787	167	21.2	963	164	17.0
Consumer Electronics	3,469	234	6.7	3,262	259	7.9
Lighting	1,346	157	11.7	1,455	141	9.7
Other Activities	560	24	4.3	380	3	0.8
Unallocated	-	(54)		-	(213)	
<b>Total</b>	<b>8,191</b>	<b>795</b>	<b>9.7</b>	<b>8,128</b>	<b>665</b>	<b>8.2</b>

	January to December					
	2005			2006		
	Sales	Income from operations amount	as a % of sales	Sales	Income from operations amount	as a % of sales
Medical Systems	6,343	679	10.7	6,742	795	11.8
DAP	2,194	358	16.3	2,645	386	14.6
Consumer Electronics	10,422	506	4.9	10,576	416	3.9
Lighting	4,775	556	11.6	5,466	635	11.6
Other Activities	2,041	(156)	(7.6)	1,547	(448)	(29.0)
Unallocated	-	(471)		-	(601)	
<b>Total</b>	<b>25,775</b>	<b>1,472</b>	<b>5.7</b>	<b>26,976</b>	<b>1,183</b>	<b>4.4</b>

## Sectors and main countries

all amounts in millions of euros  
restated for the sale of the Semiconductors business

### Sales and total assets

	<b>Sales</b>		<b>Total assets</b>	
	January to December		December 31,	
	2005	2006	2005	2006
Medical Systems	6,343	6,742	5,511	6,386
DAP	2,194	2,645	896	2,413
Consumer Electronics	10,422	10,576	2,665	2,543
Lighting	4,775	5,466	3,643	3,720
Other Activities	2,041	1,547	6,950	5,277
Unallocated	-	-	10,267	18,359
<b>Total</b>	25,775	26,976	29,932	38,698
Discontinued operations			3,973	-
<b>Total</b>			33,905	38,698

### Sales and long-lived assets

	<b>Sales</b>		<b>Long-lived assets*</b>	
	January to December		December 31,	
	2005	2006	2005	2006
Netherlands	1,036	1,088	1,110	1,132
United States	7,133	7,447	3,997	5,376
Germany	1,916	1,985	276	296
France	1,680	1,626	129	107
United Kingdom	1,126	1,186	76	792
China	1,816	1,740	204	176
Other countries	11,068	11,904	1,002	955
<b>Total</b>	25,775	26,976	6,794	8,834

\* Includes property, plant and equipment and intangible assets

## Pension costs

all amounts in millions of euros unless otherwise stated  
restated for the sale of the Semiconductors business

### Net periodic pension costs of defined-benefit plans

	4 <sup>th</sup> quarter 2006		January-December 2006	
	Netherlands	Other	Netherlands	Other
Service cost	39	26	198	129
Interest cost on the projected benefit obligation	128	106	531	411
Expected return on plan assets	(199)	(98)	(808)	(390)
Amortization of unrecognized transition obligation	-	-	-	1
Net actuarial (gain) loss recognized	(19)	19	(49)	84
Amortization of prior service cost	(11)	6	(56)	25
Settlement loss	8	2	8	2
Curtailment loss (gain)	(21)	(1)	(21)	(1)
Other	5	23	5	23
<b>Net periodic cost (income)</b>	<b>(70)</b>	<b>83</b>	<b>(192)</b>	<b>284</b>
<i>of which included in discontinued operations</i>	-	-	(12)	29

The net periodic pension costs in the fourth quarter of 2006 amounted to EUR 32 million, of which EUR 13 million related to defined-benefit (DB) plans (the Netherlands income of EUR 70 million, other countries cost of EUR 83 million) and EUR 19 million related to defined-contribution (DC) plans (the Netherlands cost of EUR 2 million, other countries cost of EUR 17 million). Full-year cost for DC is EUR 91 million, of which EUR 10 million included in discontinued operations. Full-year cost for DB is EUR 92 million of which EUR 17 million included in discontinued operations.

### Net periodic costs of postretirement benefits other than pensions

	4 <sup>th</sup> quarter 2006		January-December 2006	
	Netherlands	Other	Netherlands	Other
Service cost	-	1	-	4
Interest cost on the accumulated postretirement benefit	-	7	-	26
Amortization of unrecognized transition obligation	-	1	-	5
Net actuarial loss recognized	-	1	-	4
Curtailment gain	-	-	-	-
<b>Net periodic cost (income)</b>	<b>-</b>	<b>10</b>	<b>-</b>	<b>39</b>
<i>of which included in discontinued operations</i>	-	-	-	-

## Consolidated statements of income in accordance with IFRS

all amounts in millions of euros unless otherwise stated  
restituted for the sale of the Semiconductors business

	4 <sup>th</sup> quarter		January to December	
	2005	2006	2005	2006
Sales	8,191	<b>8,128</b>	25,775	<b>26,976</b>
Cost of sales	(5,737)	<b>(5,396)</b>	(17,869)	<b>(18,696)</b>
Gross margin	2,454	<b>2,732</b>	7,906	<b>8,280</b>
Selling expenses	(1,313)	<b>(1,444)</b>	(4,445)	<b>(4,693)</b>
General and administrative expenses	(139)	<b>(354)</b>	(912)	<b>(1,213)</b>
Research and development expenses	(385)	<b>(437)</b>	(1,544)	<b>(1,612)</b>
Other business income (expense)	223	<b>113</b>	414	<b>204</b>
Income from operations	840	<b>610</b>	1,419	<b>966</b>
Financial income and expenses	28	<b>(101)</b>	113	<b>35</b>
Income before taxes	868	<b>509</b>	1,532	<b>1,001</b>
Income tax expense	(496)	<b>(107)</b>	(481)	<b>(146)</b>
Income after taxes	372	<b>402</b>	1,051	<b>855</b>
Results relating to unconsolidated companies, including a year-to-date net dilution gain of EUR 13 million (loss of EUR 24 million in the 4 <sup>th</sup> quarter of 2005)	341	<b>27</b>	2,279	<b>(166)</b>
Minority interests	12	<b>5</b>	2	<b>(4)</b>
Income from continuing operations	725	<b>434</b>	3,332	<b>685</b>
Discontinued operations	(72)	<b>128</b>	42	<b>3,948</b>
<b>Net income</b>	<b>653</b>	<b>562</b>	<b>3,374</b>	<b>4,633</b>
Weighted average number of common shares outstanding (after deduction of treasury stock) during the period (in thousands)				
• basic	1,222,944	<b>1,135,336</b>	1,249,956	<b>1,174,925</b>
• diluted	1,227,333	<b>1,144,832</b>	1,253,330	<b>1,183,529</b>
Net income per common share in euros*:				
• basic	0.53	<b>0.50</b>	2.70	<b>3.94</b>
• diluted	0.53	<b>0.49</b>	2.70	<b>3.91</b>
<b>Ratios</b>				
Gross margin as a % of sales	30.0	<b>33.6</b>	30.7	<b>30.7</b>
Selling expenses as a % of sales	(16.0)	<b>(17.8)</b>	(17.2)	<b>(17.4)</b>
G&A expenses as a % of sales	(1.7)	<b>(4.4)</b>	(3.5)	<b>(4.5)</b>
R&D expenses as a % of sales	(4.7)	<b>(5.4)</b>	(6.0)	<b>(6.0)</b>
EBIT <sup>†</sup> or Income from operations as a % of sales	840 10.3	<b>610 7.5</b>	1,419 5.5	<b>966 3.6</b>
EBITA as a % of sales	891 10.9	<b>667 8.2</b>	1,632 6.3	<b>1,179 4.4</b>

\* Calculation of net income per common share in euros is based on weighted in-the-quarter and weighted year-to-date average number of common shares respectively.

## Consolidated balance sheets in accordance with IFRS

all amounts in millions of euros unless otherwise stated  
restated for the sale of the Semiconductors business

	December 31, 2005	December 31, 2006
<b>Current assets:</b>		
Cash and cash equivalents	5,293	6,023
Securities	-	192
Receivables	4,638	4,773
Current assets of discontinued operations	1,462	-
Inventories	2,797	2,880
Other current assets	412	585
<b>Total current assets</b>	<b>14,602</b>	<b>14,453</b>
<b>Non-current assets:</b>		
Investments in unconsolidated companies	5,221	3,817
Other non-current financial assets	673	7,112
Non-current receivables	213	206
Non-current assets of discontinued operations	3,542	-
Other non-current assets	126	390
Deferred tax assets	2,105	1,397
Property, plant and equipment	3,038	3,117
Intangible assets excluding goodwill	1,952	2,660
Goodwill	2,174	3,500
<b>Total assets</b>	<b>33,646</b>	<b>36,652</b>
<b>Current liabilities:</b>		
Accounts and notes payable	3,457	3,450
Current liabilities of discontinued operations	1,044	-
Accrued liabilities	3,243	3,319
Short-term provisions	780	755
Other current liabilities	658	605
Short-term debt	1,168	871
<b>Total current liabilities</b>	<b>10,350</b>	<b>9,000</b>
<b>Non-current liabilities:</b>		
Long-term debt	3,339	3,007
Long-term provisions	1,664	1,800
Non-current liabilities discontinued operations	535	-
Deferred tax liabilities	-	141
Other non-current liabilities	1,086	595
<b>Total liabilities</b>	<b>16,974</b>	<b>14,543</b>
Minority interests *	353	135
Stockholders' equity	16,319	21,974
<b>Total liabilities and equity</b>	<b>33,646</b>	<b>36,652</b>
Number of common shares outstanding (after deduction of treasury stock) at the end of period (in thousands)	1,201,358	1,106,909
<b>Ratios</b>		
Stockholders' equity per common share in euros	13.58	19.85
Inventories as a % of sales	10.9	10.7
Net debt : group equity	(5):105	(11):111
Employees at end of period of which discontinued operations 37,417 end December 2005	159,226	121,732

\* of which discontinued operations EUR 173 million end of December 2005

## Reconciliation from US GAAP to IFRS

all amounts in millions of euros unless otherwise stated  
restated for the sale of the Semiconductors business

### Reconciliation of net income from US GAAP to IFRS

	4 <sup>th</sup> quarter		January to December	
	2005	2006	2005	2006
Net income as per the consolidated statements of income on a US GAAP basis	332	680	2,868	5,383
Adjustments to IFRS:				
Capitalized product development expenses	75	63	263	271
Amortization of product development assets	(51)	(57)	(197)	(213)
Pensions and other postretirement benefits	23	(128)	(97)	(292)
Provisions	-	65	-	65
Unconsolidated companies	383	(3)	521	(9)
Deferred income tax effects	(12)	(59)	24	(9)
Discontinued operations	(105)	(1)	5	(516)
Other differences in income	8	2	(13)	(47)
<b>Net income in accordance with IFRS</b>	653	562	3,374	4,633

### Reconciliation of stockholders' equity from US GAAP to IFRS

	Dec. 31, 2005	Dec. 31, 2006
Stockholders' equity as per the consolidated balance sheets on a US GAAP basis	16,666	22,997
Adjustments to IFRS:		
Product development expenses	503	535
Pensions and other postretirement benefits	(1,750)	(1,700)
Goodwill amortization (until January 1, 2004)	(321)	(290)
Goodwill capitalization (acquisition-related)	(40)	(30)
Acquisition-related intangibles	294	210
Assets from discontinued operations	664	-
Unconsolidated companies	(178)	(105)
Provisions	-	58
Recognized results on sale-and-leaseback transactions	80	52
Deferred income tax effects	424	232
Other differences in equity	(23)	15
<b>Stockholders' equity in accordance with IFRS</b>	16,319	21,974

## Reconciliation of non-US GAAP performance measures

all amounts in millions of euros unless otherwise stated  
restated for the sale of the Semiconductors business

Certain non-US GAAP financial measures are presented when discussing the Philips Group's performance. In the following tables, a reconciliation to the most directly comparable US GAAP performance measure is made.

### Sales growth composition (in %)

	January to December			
	Comparable growth	Currency effects	Consolidation changes	Nominal growth
<b>2006 versus 2005</b>				
Medical Systems	7.3	(1.1)	0.1	6.3
DAP	11.2	(0.1)	9.4	20.5
Consumer Electronics	5.4	0.1	(4.0)	1.5
Lighting	8.3	(0.3)	6.5	14.5
Other Activities	(6.8)	(0.4)	(17.0)	(24.2)
<b>Philips Group</b>	<b>6.1</b>	<b>(0.3)</b>	<b>(1.1)</b>	<b>4.7</b>

### EBITA and EBIT to income before taxes

	Philips Group	Medical Systems	DAP	Consumer Electronics	Lighting	Other Activities	Unallocated
<b>January to December 2006</b>							
EBITA	1,382	936	412	417	666	(448)	(601)
Eliminate amortization of intangibles	(199)	(141)	(26)	(1)	(31)	-	-
EBIT or Income from operations	1,183	795	386	416	635	(448)	(601)
Eliminate financial income and expenses	34						
Income before taxes	1,217						
<b>January to December 2005</b>							
EBITA	1,577	770	363	506	564	(155)	(471)
Eliminate amortization of intangibles	(105)	(91)	(5)	-	(8)	(1)	-
EBIT or Income from operations	1,472	679	358	506	556	(156)	(471)
Eliminate financial income and expenses	108						
Income before taxes	1,580						

### Composition of net debt and group equity

	Dec. 31, 2005	Dec. 31, 2006
Long-term debt	3,320	3,006
Short-term debt	1,167	863
Total debt	4,487	3,869
Cash and cash equivalents	(5,293)	(6,023)
Net debt (total debt less cash and cash equivalents)	(806)	(2,154)
Minority interests	159	131
Stockholders' equity	16,666	22,997
Group equity	16,825	23,128
Net debt and group equity	16,019	20,974
Net debt divided by net debt and group equity (in %)	(5)	(10)
Group equity divided by net debt and group equity (in %)	105	110

## Reconciliation of non-US GAAP performance measures (continued)

all amounts in millions of euros unless otherwise stated  
restated for the sale of the Semiconductors business

### Net operating capital to total assets

	Philips Group	Medical Systems	DAP	Consumer Electronics	Lighting	Other Activities	Unallocated
<b>December 31, 2006</b>							
Net operating capital (NOC)	8,724	4,332	1,758	(228)	2,527	21	314
Eliminate liabilities comprised in NOC:							
– payables/liabilities	8,175	1,707	575	2,389	989	901	1,614
– intercompany accounts	-	32	25	61	50	(140)	(28)
– provisions <sup>1)</sup>	2,697	241	55	285	146	807	1,163
Include assets not comprised in NOC:							
– investments in unconsolidated companies	3,922	74	-	36	8	3,688	116
– other non-current financial assets	7,112	-	-	-	-	-	7,112
– securities	192	-	-	-	-	-	192
– deferred tax assets	1,853	-	-	-	-	-	1,853
– liquid assets	6,023	-	-	-	-	-	6,023
Total assets	38,698	6,386	2,413	2,543	3,720	5,277	18,359

<sup>1)</sup> provisions on balance sheet EUR 3,526 million excluding deferred tax liabilities of EUR 829 million

### December 31, 2005

Net operating capital (NOC)	5,679	3,400	370	(296)	2,491	272	(558)
Eliminate liabilities comprised in NOC:							
– payables/liabilities	8,498	1,712	456	2,540	956	1,017	1,817
– intercompany accounts	-	34	13	64	42	(100)	(53)
– provisions <sup>2)</sup>	2,385	299	57	335	134	582	978
Include assets not comprised in NOC:							
– investments in unconsolidated companies	5,399	66	-	22	20	5,179	112
– other non-current financial assets	673	-	-	-	-	-	673
– deferred tax assets	2,005	-	-	-	-	-	2,005
– liquid assets	5,293	-	-	-	-	-	5,293
Total assets	29,932	5,511	896	2,665	3,643	6,950	10,267
Discontinued operations	3,973						
Total	33,905						

<sup>2)</sup> provisions on balance sheet EUR 2,710 million excluding deferred tax liabilities of EUR 325 million

### Composition of cash flows before financing activities

	4 <sup>th</sup> quarter		January to December	
	2005	2006	2005	2006
Cash flows from operating activities	1,460	740	1,141	342
Cash flows from investing activities	(260)	(875)	1,687	(2,811)
Cash flows before financing activities	1,200	(135)	2,828	(2,469)

## Philips quarterly statistics

all amounts in millions of euros unless otherwise stated; percentage increases always in relation to the corresponding period of previous year restated for the sale of the Semiconductors business

	2005				2006			
	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter
Sales	5,480	5,839	6,265	8,191	6,155	6,380	6,313	<b>8,128</b>
% increase	3	-	7	5	12	9	1	<b>(1)</b>
EBIT	193	131	353	795	246	247	25	<b>665</b>
as a % of sales	3.5	2.2	5.6	9.7	4.0	3.9	0.4	<b>8.2</b>
Net income	117	983	1,436	332	160	301	4,242	<b>680</b>
per common share in euros *	0.09	0.78	1.15	0.27	0.13	0.25	3.59	<b>0.60</b>
	January- March	January- June	January- September	January- December	January- March	January- June	January- September	January- December
Sales	5,480	11,319	17,584	25,775	6,155	12,535	18,848	<b>26,976</b>
% increase	3	1	3	4	12	11	7	<b>5</b>
EBIT	193	324	677	1,472	246	493	518	<b>1,183</b>
as a % of sales	3.5	2.9	3.9	5.7	4.0	3.9	2.7	<b>4.4</b>
Net income	117	1,100	2,536	2,868	160	461	4,703	<b>5,383</b>
per common share in euros *	0.09	0.87	2.01	2.29	0.13	0.39	3.96	<b>4.58</b>
Continuing net income as a % of stockholders' equity (ROE)	4.2	16.7	23.8	18.1	3.8	4.6	2.7	<b>4.4</b>
	period ending 2005				period ending 2006			
Inventories as a % of sales	11.4	12.9	12.9	10.9	11.9	11.9	12.7	<b>10.7</b>
Net debt : group equity ratio	8:92	8:92	0:100	(5):105	6:94	9:91	(16):116	<b>(10):110</b>
Total employees (in thousands) of which discontinued operations	161	160	161	159	161	158	126	<b>122</b>
	37	38	38	37	37	37	-	<b>-</b>

\* Calculation of net income per common share in euros is based on weighted in-the-quarter and weighted year-to-date average number of common shares respectively

Information also available on Internet, address: [www.investor.philips.com](http://www.investor.philips.com)  
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