

PHILIPS

Royal Philips Electronics Fourth Quarter 2006

Pierre-Jean Sivignon
Executive Vice President & Chief Financial Officer

Forward Looking Statements

Forward Looking Statements

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items (including, but not limited to, cost savings) in particular the outlook paragraph in this report. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, levels of consumer and business spending in major economies, changes in consumer tastes and preferences, changes in law, the performance of the financial markets, pension costs, the levels of marketing and promotional expenditures by Philips and its competitors, raw materials and employee costs, changes in exchange and interest rates (in particular, changes in the euro and the US dollar can materially affect results), changes in tax rates and future business combinations, acquisitions or dispositions and the rate of technological changes. Statements regarding market share, including as to Philips' competitive position, contained in this document are based on outside sources such as specialized research institutes, industry and dealer panels in combination with management estimates. Where information is not yet available to Philips, those statements may also be based on estimates and projections prepared by outside sources or management. Rankings are based on sales unless otherwise stated.

Use of non-GAAP Information

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

Agenda

Highlights

Performance

Looking ahead

Management Agenda

Highlights

- 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.

Agenda

Highlights

Performance

Looking ahead

Management Agenda

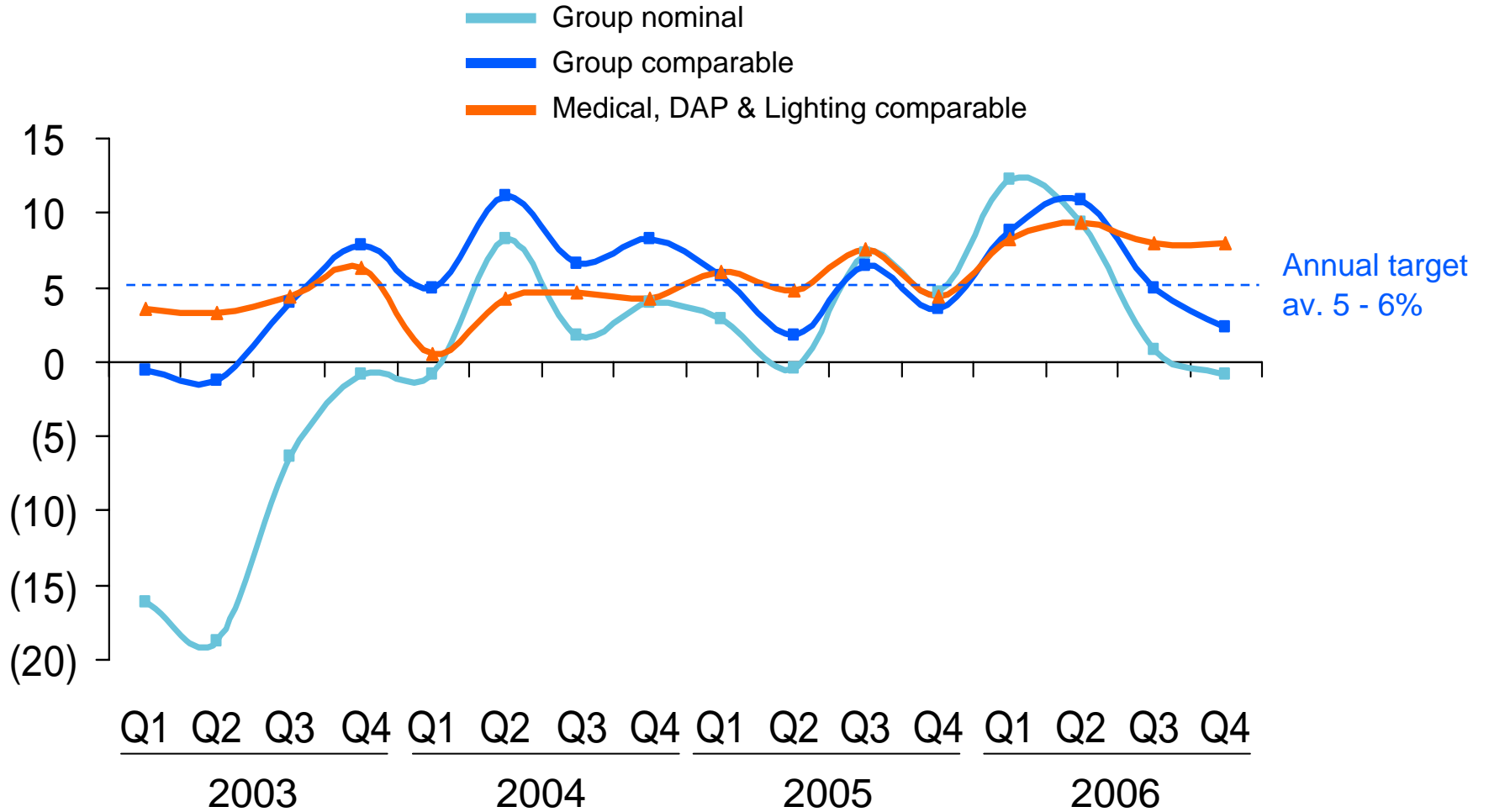
Summary - 4Q06

EUR million

	4Q05	4Q06
Sales	8,191	8,128
EBIT	795	665
Result relating to UCCs	(46)	30
Net income from continuing operations	299	551
Discontinued operations	33	129
Net Income	332	680
Net cash provided by operating activities	1460	740
<hr/>		
Net debt : Group equity ratio	(5):105	(10):110

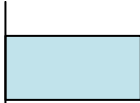









Quarterly sales growth y-o-y

%











Sales to thirds by sector – 4Q06

EUR million

	4Q05		4Q06		% nom	% comp
Medical Systems	 2,029		 2,068		2	7
DAP	 787		 963		22	13
CE	 3,469		 3,262		(6)	(4)
Lighting	 1,346		 1,455		8	7
Other Activities	 560		 380		(32)	(2)
<hr style="border-top: 1px dashed black;"/>						
Group sales	8,191		8,128		(1)	2

Sales to thirds by region – 4Q06

EUR million

	<u>4Q05</u>	<u>4Q06</u>	<u>% nom</u>	<u>% comp</u>
Europe / Africa	 3,823	 3,948	3	5
North America	 2,286	 2,326	2	6
Latin America	 581	 548	(6)	1
Asia Pacific	 1,501	 1,306	(13)	(10)
<hr style="border-top: 1px dashed black;"/>				
Group sales	8,191	8,128	(1)	2

EBIT by sector – 4Q06

EUR million

	4Q05	4Q06
Medical Systems	267 [*]	311 [*]
DAP	167	164
CE (<i>including Licenses</i>)	234	259
Lighting	157	141
Other Activities	24	3
Unallocated	(54) ^{**}	(213)
<hr/>		
Philips Group	795	665
as % of sales	9.7	8.2

* Medical includes -EUR 46 m. in 4Q05 related to MedQuist and - EUR 65 m. in 4Q06 related to Intermagnetics

** Including EUR 116 m. provision release

Major publicly quoted investments – end 4Q06

	number shares rounded in millions	% ownership	Market value end Dec 06 in EUR m.
TSMC	4,188 ¹	16.4	6,587
LG.Philips LCD	118	32.9	2,673
TPV	263	13.8	126
JDS Uniphase	5	2.7	62
Total			9,448

¹ including 122 million shares classified as trading securities, representing a market value of EUR 192 million

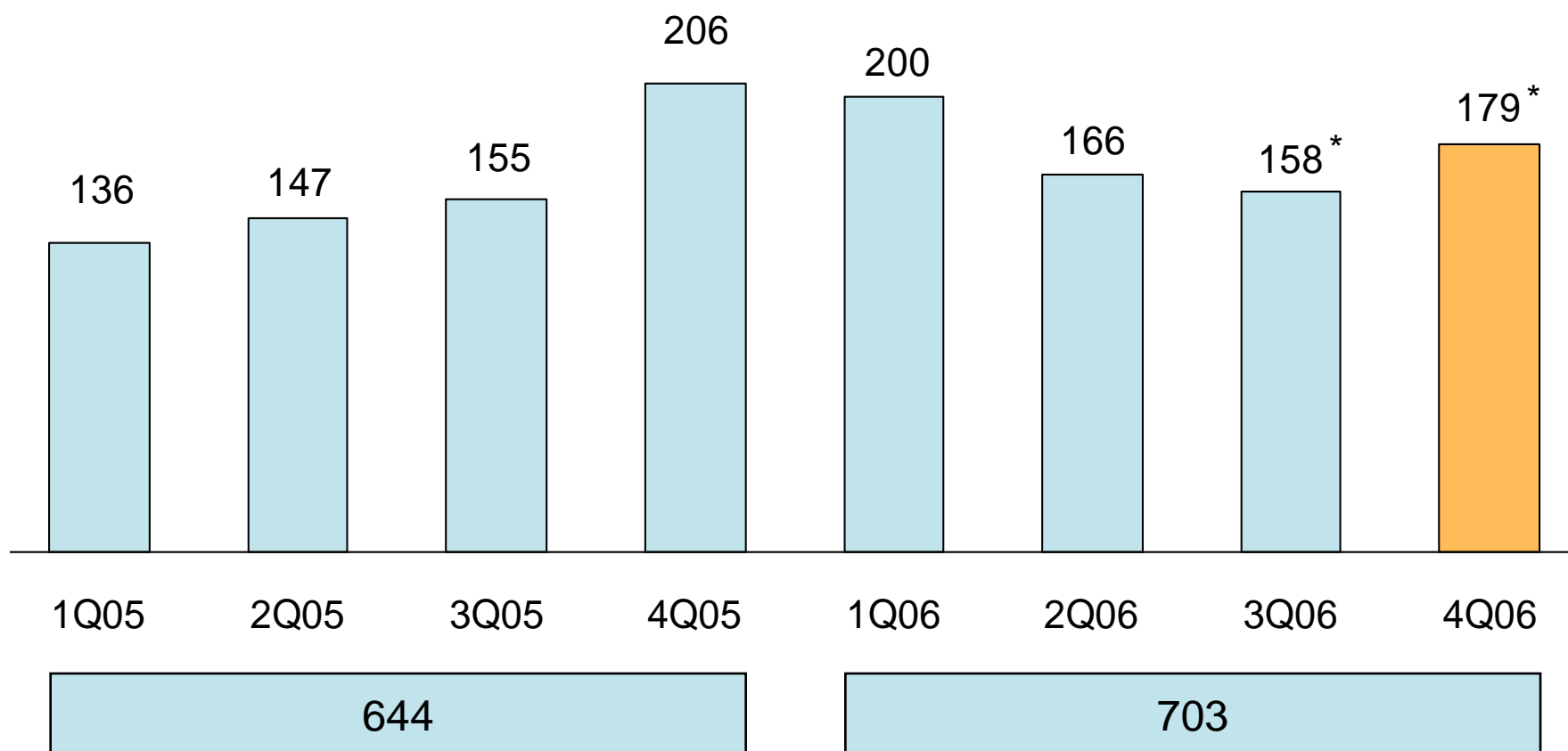
Cash Flow from continuing operations – 4Q06

EUR million

	4Q05	4Q06
Net income	332	680
Income/loss discontinued operations	(33)	(129)
Depreciation / amortization / impairments	651	250
Net gain on sale of assets	(378)	(181)
Income from UCCs	(168)	100
Decrease in WC/other current assets	1,036	(255)
Other	20	275
<i>CF from operations</i>	1,460	740
Gross capital investments	(206)	(119)
Acquisitions/divestments/other	(54)	(756)
<i>CF before financing activities</i>	1,200	(135)

Gross capital expenditures

EUR million

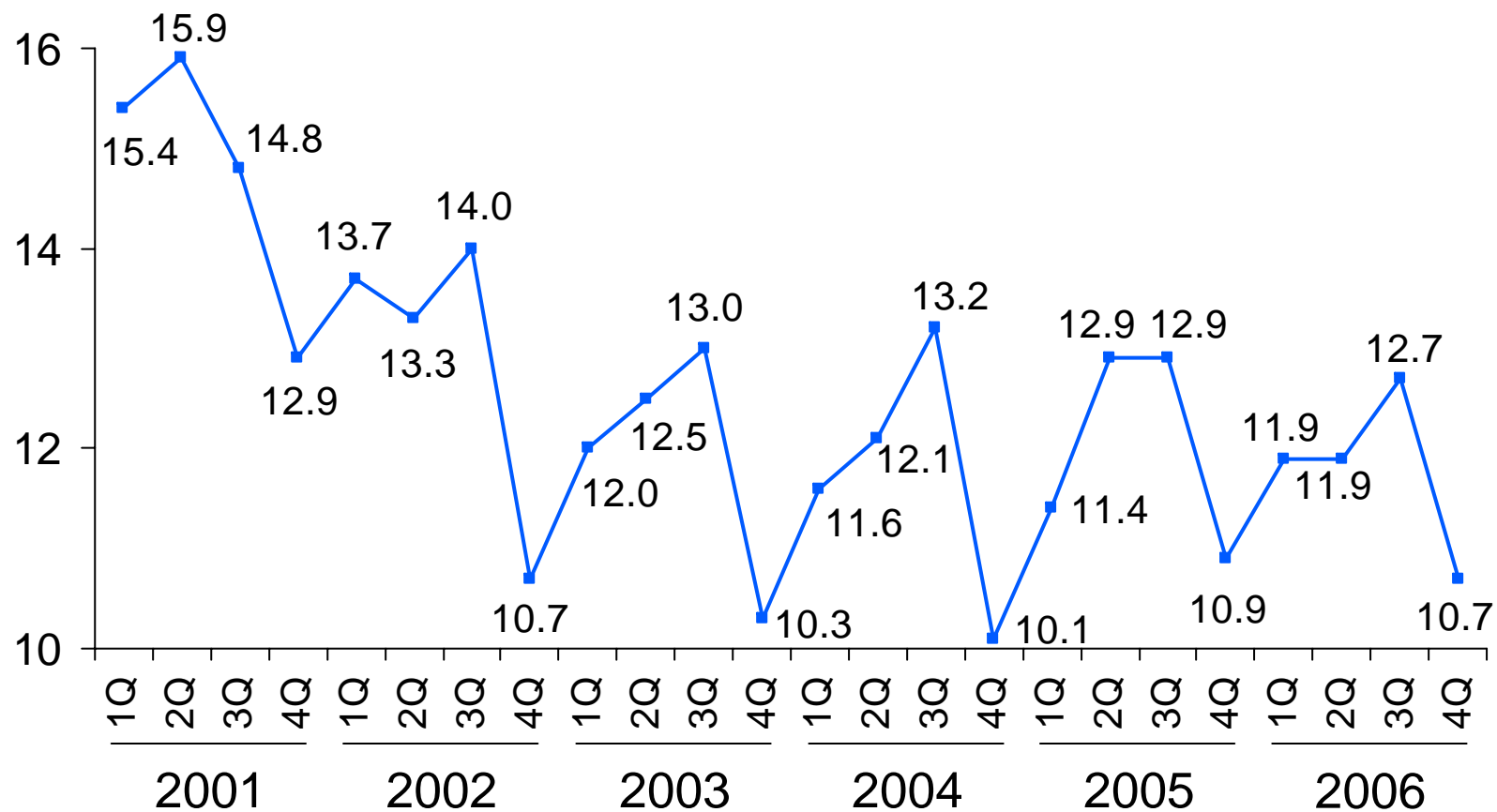


* Reclassification of gross capital expenditures between Q3 and Q4 2006 related to timing difference in the finalization of the sale of the Semiconductors business

** Restated to exclude Semiconductors

Inventories

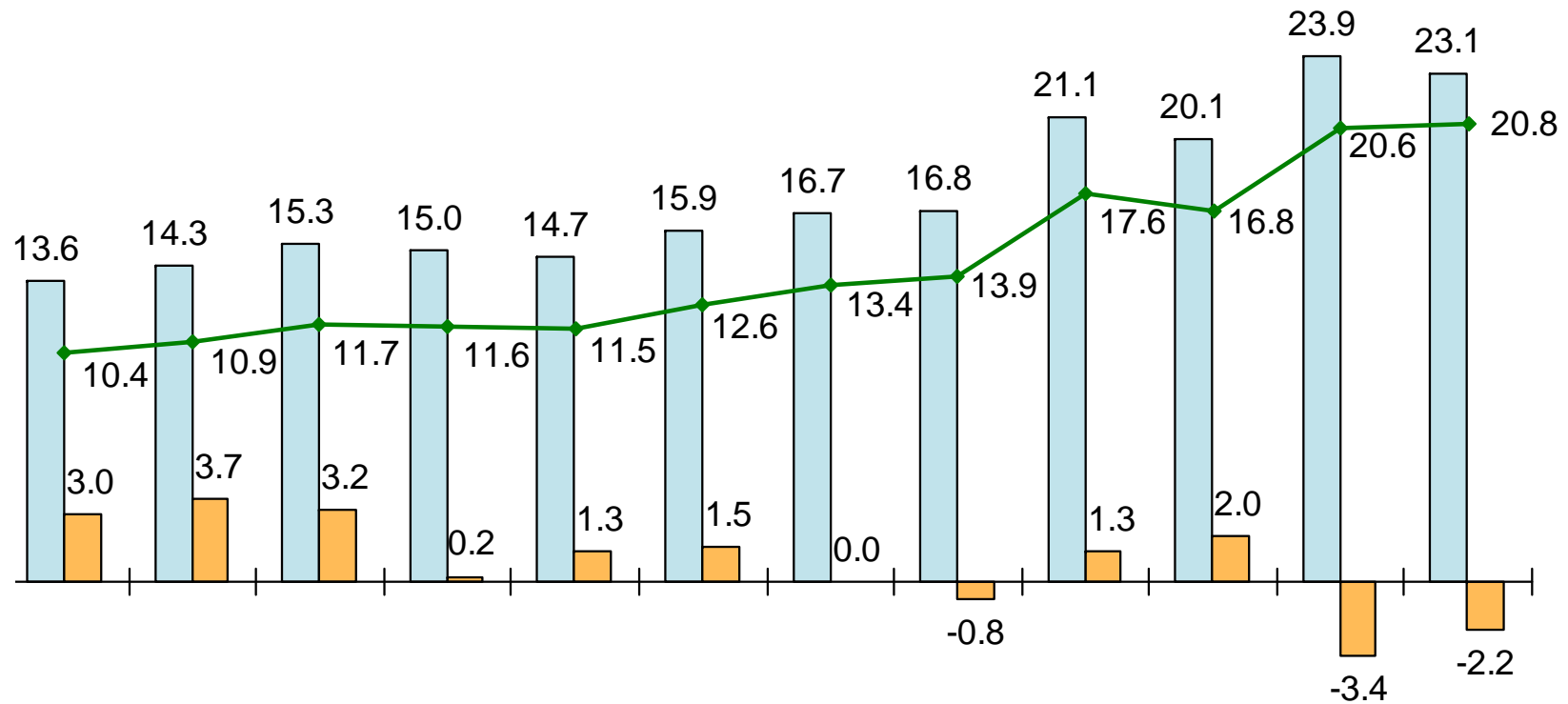
as % of MAT sales



Net debt : group equity ratio

EUR billion

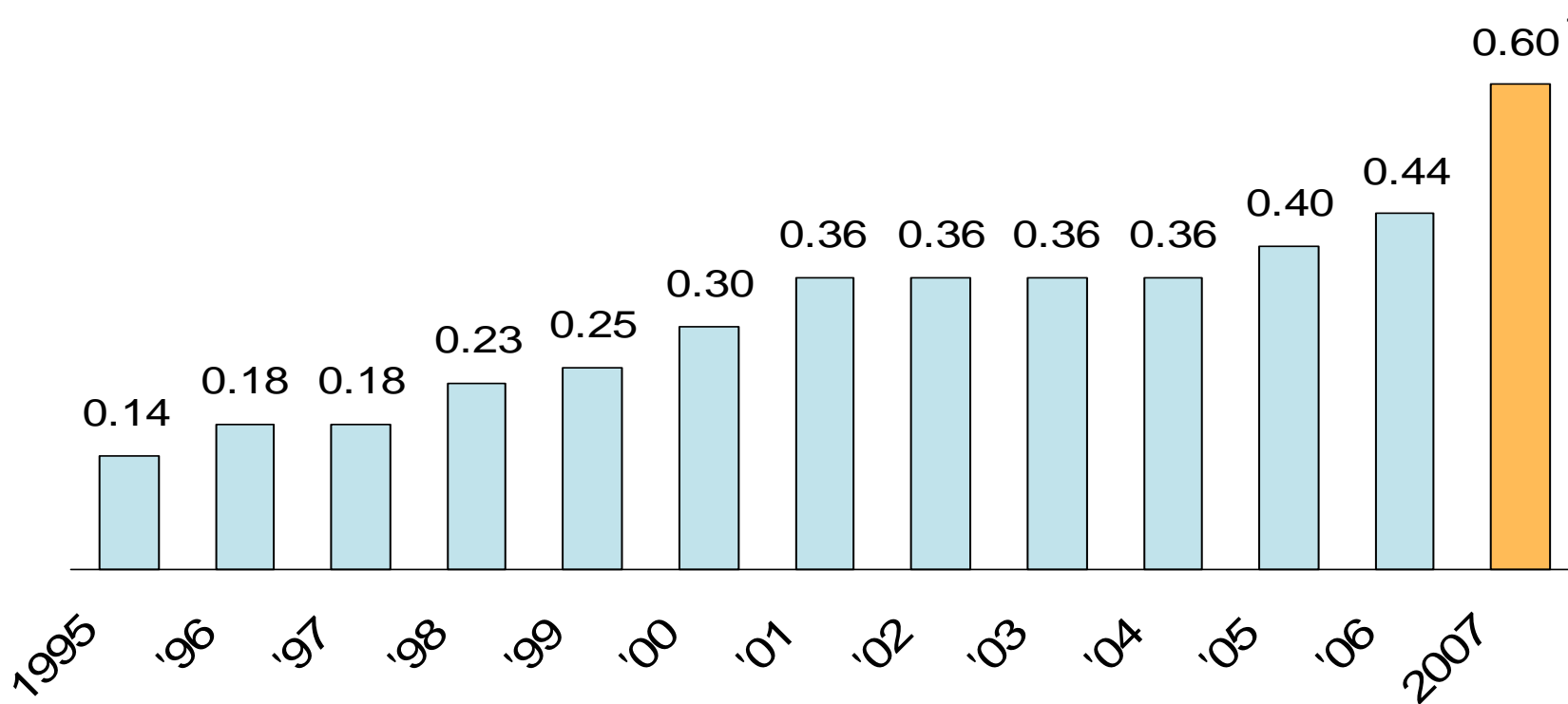
- Group equity (in billion EUR)
- Net debt (in billion EUR)
- Shareholders' equity per share (in EUR)



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

Ratio 18:82 21:79 17:83 1:99 8:92 8:92 0:100 (5):105 6:94 9:91 (16):116 (10):110

Dividend paid *amounts in EUR*



1 – Proposal subject to approval in the General Shareholders Meeting on March 29th, 2007

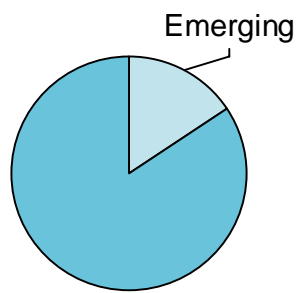
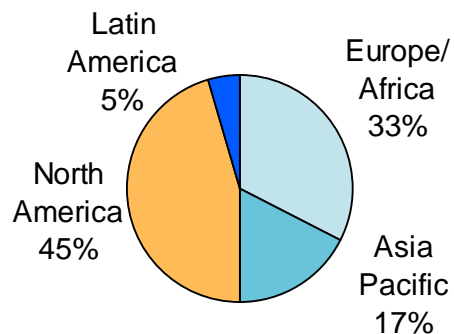
Medical Systems

EUR million unless otherwise stated

Key figures

	4Q05	3Q06	4Q06
Sales	2,029	1,575	2,068
% sales growth comp.	8	6	7
EBIT	267	186	311
EBIT as % of sales	13.2	11.8	15.0
EBITA	292	213	373
EBITA as % of sales	14.4	13.5	18.0
NOC	3,400	3,330	4,332
Employees (FTEs)	30,978	31,524	32,843

Sales per region 4Q06 Emerging markets



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.
- 7% comparable sales growth driven by double-digit growth in Healthcare informatics and Customer Services. Comparable sales of iSite/PACS grew by almost 50%.
- EBIT included EUR 65 m acquisition-related and integration charges following the acquisition of Intermagnetics. Excluding these charges and 4Q05 MedQuist accommodation payment, EBIT improved, primarily in CT, Nucl.Medicine and Customer Serv.
- NOC and employee numbers increased due to consolidation of Intermagnetics and Witt.

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 1Q07 but to have an overall positive impact on full-year earnings.
- Q1 2007 will include approximately EUR 25 m of Intermagnetics-related acquisition and integration charges.
- Driven by ongoing improvement actions, we expect the division to achieve 14-15% EBITA for the year'07

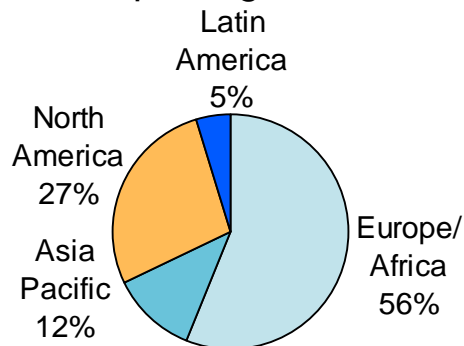
DAP

EUR million unless otherwise stated

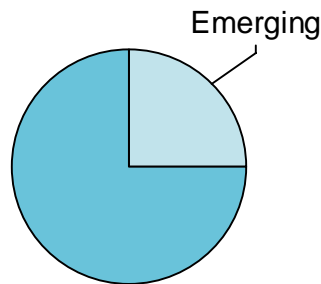
Key figures

	4Q05	3Q06	4Q06
Sales	787	614	963
% sales growth comp.	3	9	13
EBIT	167	94	164
EBIT as % of sales	21.2	15.3	17.0
EBITA	168	106	171
EBITA as % of sales	21.3	17.3	17.8
NOC	370	1,885	1,758
Employees (FTEs)	8,203	11,306	10,953

Sales per region 4Q06



Emerging markets



Financial performance

- Comparable sales up 13%; increase was visible across all businesses, particularly Oral Healthcare and Domestic Appliances. CHS reported sales of EUR 38 m. mostly attributable to Lifeline. Double-digit sales growth was visible in all regions, most notably in North America and the key emerging market of Russia, China and India.
- EUR 164 m. in-the-quarter EBIT brought the full-year EBIT margin, excl 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 m.), charges related to the acquisition of Avent (EUR 8 m.) and a significantly higher level of advertising spend, to help DAP sustain its high growth level.
- The increase in NOC 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 Q4.

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

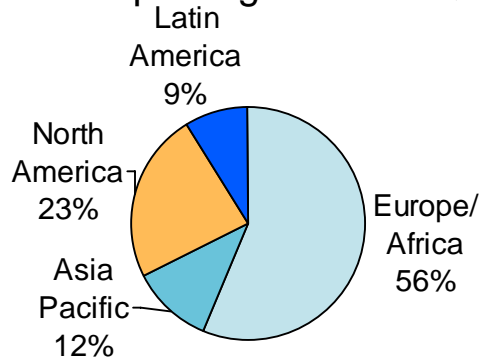
EUR million unless otherwise stated

Key figures

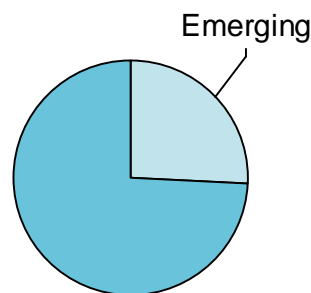
	4Q05	3Q06	4Q06
Sales	3,469	2,407	3,262
% sales growth comp.	6	(1)	(4)
EBIT	234	54	259
EBIT as % of sales	6.7	2.2	7.9
EBITA	234	54	259
EBITA as % of sales	6.7	2.2	7.9
NOC	(296)	192	(228)
Employees (FTEs)	15,537	16,142	14,486

Sales per region

4Q06



Emerging markets



Financial performance

- Comparable sales 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

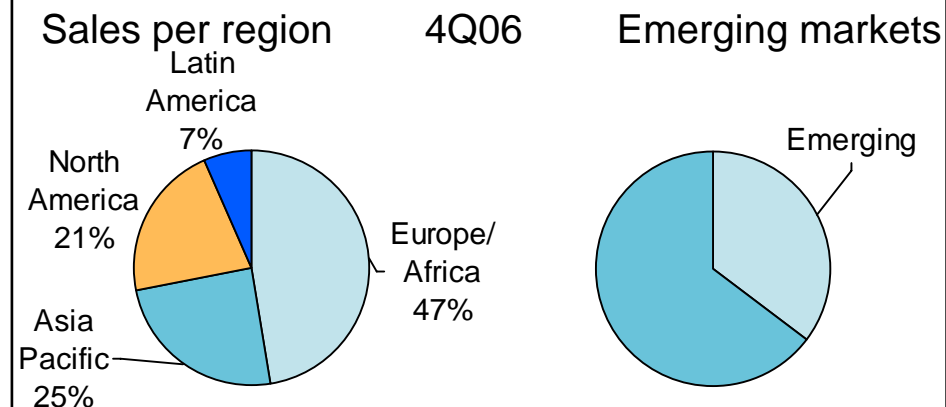
- Q1 is expected to be a challenging quarter due to continuing pressure on margins as supply of Flat TVs outstrips market demand.
- The transfer of Philips' remaining Mobile Phones activities to China Electronics Corporation (CEC), originally planned to be completed in Q4 2006, is still subject to finalization.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

Lighting

EUR million unless otherwise stated

Key figures

	4Q05	3Q06	4Q06
Sales	1,346	1,370	1,455
% sales growth comp.	1	10	7
EBIT	157	141	141
EBIT as % of sales	11.7	10.3	9.7
EBITA	164	149	149
EBITA as % of sales	12.2	10.9	10.2
NOC	2,491	2,697	2,527
Employees (FTEs)	45,649	48,753	47,739



Financial performance

- 7% comparable growth, 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 m and a EUR 8 m charge triggered by the acquisition of the final 3.5% stake in Lumileds

Looking ahead

- The division is expected to consolidate Partners in Lighting Int. 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

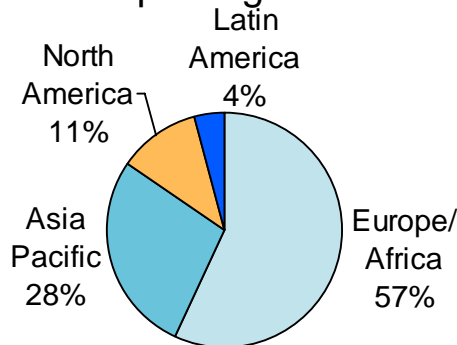
EUR million unless otherwise stated

Key figures

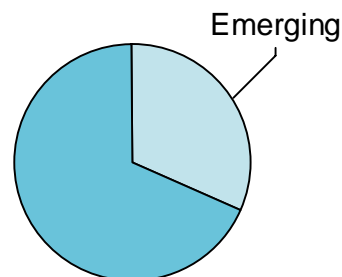
	4Q05	3Q06	4Q06
Sales	560	347	380
% sales growth comp.	(16)	18	(2)
EBIT	24	(327)	3
EBIT as % of sales	4.3	(94.2)	0.8
EBITA	24	(326)	2
EBITA as % of sales	4.3	(93.9)	0.5
NOC	272	(272)	21
Employees (FTEs)	19,050	15,419	13,347

Sales per region

4Q06



Emerging markets



Financial performance

Corporate Technologies

- Corporate Technologies' results included additional investments in innovation via the Healthcare, Lifestyle and Technology Incubators.

Corporate Investments / Others

- Corporate Investments reported an improved EBIT, including a EUR 42 m gain on the sale of Philips Sound Solutions.
- EBIT in Q4 2005 included a EUR 76 m result on real estate and a EUR 42 m 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 m expected annual result given in previous guidance will be disproportionately skewed to earlier quarters of the year.

Unallocated

EUR million unless otherwise stated

Key figures

	4Q05	3Q06	4Q06
Corporate and regional overheads	(92)	(90)	(107)
Global brand campaign	(54)	(13)	(88)
Pensions/postretirement benefit costs	92	(20)	(18)

EBIT	(54)	(123)	(213)
EBITA	(53)	(125)	(212)
Employees (FTEs)	2,392	2,420	2,346

Financial performance

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

Agenda

Highlights

Performance

Looking ahead

Management Agenda

Looking ahead information in the 4Q quarterly report on January 22, 2007 - I

Medical Systems

- 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

- 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

- Q1 is expected to be a challenging quarter due to continuing pressure on margins as supply of Flat TVs 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

- 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.

Looking ahead information in the 4Q quarterly report on January 22, 2007 - II

Other Activities

- 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

- 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.

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.

Agenda

Highlights

Performance

Looking ahead

Management Agenda

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)

2007 Management Agenda

- Maintain annual average sales growth of 5-6% and achieve 7.5% EBITA
- Continue to redeploy capital in a disciplined way through value creating acquisitions, share buy back and dividends
- Drive a culture of superior customer experience by delivering on the brand promise and implement the Net Promoter Score measure in the company.
- Be an exiting place to work and bring employee engagement to high performance benchmark level within 2-3 years.

PHILIPS

sense and simplicity