FINAL TRANSCRIPT

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PRESENTATION

Operator

Welcome to the Royal Philips Electronics second quarter results call on Monday, July 17, 2006. For the introduction by Mr. Pierre-Jean Sivignon all participants will be in a listen-only mode. After the presentation there will be an opportunity to ask questions. [OPERATOR INSTRUCTIONS]. Please note that this call will be recorded and is available by webcast on the website of Royal Philips Electronics. I will now hand the conference over to Mr. Pierre-Jean Sivignon. Please go ahead, sir.

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Good morning. Ladies and gentlemen let me first welcome you to this conference call for the second quarter results of 2006 for Royal Philips Electronics. I will make a few introductory remarks and then open up the call to your questions.

This quarter has again been one in which we have seen more evidence of sales growth and increasing profitability. Let me be more specific. The comparable growth for the company was an excellent 11% with all main divisions contributing towards this figure. In fact, the lowest for any division was 9% growth. Overall growth, in Q1, was 10%. These growth levels support our average annual target of 5 to 6%.

The EBIT margin in the quarter was 4.8% compared to 2.3% in 2005. This improvement helps us move to the higher levels of margins that we have been forecasting. Please remember that the fourth quarter is always our biggest.

In Medical Systems, the comparable growth was 9% which supports our annual target of 6% and it looks like 2006 will be higher than 6%. The 2% growth in equipment order intake gives us a growth of 10% for the first half year. In addition, the order intake for medical IT was excellent. The margin in the quarter recovered from the relatively lower levels of Q4 and Q1, due to higher sales than expected particularly in CT, ongoing efficiency actions and a EUR10 million release from provisions. We continue to expect the actual and percentage margin in the second half of the year to be higher than 2005 on a comparable basis.

In DAP, the excellent quarter has given us a 13% comparable growth which supports our target of 7%. This very strong growth came in all product groups and was mainly focused in Europe and China. The underlying development of the margin was strong. We continue to work towards taking cost out of this division, to liberate funds for investment in innovation and marketing.

The growth rate in Consumer Electronics was very high at 17%, which reflects the continuing move to flat screen television as well as our growth in peripherals and accessories. The margin, in the quarter, was 1.8% with only a marginal positive on the products. During the quarter the market was over-supplied in anticipation of the World Cup demand. Consequently, prices were forced downwards to clear inventories in the channels. We however kept tight control over production and inventory and even managed to reduce our own inventory during the quarter.

Inventory of the Philips' products in the channels, at the end of the quarter, were at an acceptable level however inventories of competitors and retailers remain too high. The situation will have a negative influence in the third quarter.

The Lighting sales growth was 9% driven by UHP, Automotive, Special Lighting and Lumileds and this supports our annual target of 6% revenue growth. The comparable sales growth of Lumileds was 22% above an already high second quarter last year. The Lighting margin was good and we continue to take cost out of this division.

The Semiconductor sales showed a comparable growth of 12% and the sequential growth was in line with our expectations. The margin was 9.8% which tells us that the business renewal program is continuing to produce benefits. Today I have no further update to our press release of June 21 concerning the future of the Semiconductor division other than to say that all action do remain on track.

In Other Activities, we have announced the disposal of some businesses during the quarter and we are making progress with others. I expect that we will make further announcements soon. The EBIT in the quarter was in line with our expectations.

In Unallocated, the brand expenses were less than what we originally told you however the Q4 costs will be higher, leaving the annual amount unchanged.

The net debt in the quarter increased from EUR1.3 billion to EUR2 billion. This was mainly due to paying the dividend of EUR523 million, acquisition of EUR230 million and EUR118 million for buying our shares to cover the stock options program. Consequently, besides that, it was a good quarter for cash flow.

We have, once again, looked at our immediate cash availability and needs and have come to the decision to announce a further share buyback program of EUR1.5 billion.

The inventory percentage of 12.2% is 1.2 percentage points lower than one year ago and we consider this an excellent performance and you remember that the Q2 last year was when we did have a bit of a problem and you can see that this year we are actually down. There are still one or two areas where the inventory to sales ratio can be improved, which we are working on.

The results from non-consolidated companies reflects the lower results of LG Philips LCD which were anticipated.

There are some items that you must take into account when forecasting the results for the coming quarters and the main ones are: - we expect the sales growth in the second half of the year to be slightly lower than in the first half due to the particular strong second half of 2005. - In Q3 2005, the CE results included the EUR136 million gain on the TPV transactions and nothing of this nature will be in Q3 2006. - Also in CE we expect Q3 margins to remain under more pressure than is normal as we saw in Q2. - In Medical, we are making the assumption that the Intermagnetics transaction will close in the fourth quarter which will create charges in that particular quarter of approximately EUR85 million. - In other activities in Q3, we will have some higher cost for R&D. - Due to change spending pattern of the brand campaign we expect Q4 to be approximately 70% of the annual investment. - The TSMC stock dividend will be included in financial income and expense in Q3 to the extent of approximately EUR90 million. - The fourth quarter of 2005 included EUR187 million release of a post-retirement provisions for medical benefits and this will not be repeated.

Let me now open the call for your questions.

QUESTIONS AND ANSWERS

Operator

Thank you, sir. [OPERATOR INSTRUCTIONS]. The first question comes from Mr. Nav Sheera from Lehman Brothers. Please state your question, sir.

Nav Sheera - *Lehman Brothers - Analyst*

Thank you very much. Good morning gentlemen. I just wanted to ask, start off with, with regard to Medical Systems. It's obvious that you've done quite a lot of things right in terms of improving the margins. But also in the press release you say that you've been working on structural improvements and operating efficiencies. Am I right in assuming these are still ongoing which would imply that there is still upside to the [inaudible] over percentage margin for Medical going forward?

And I just have a follow-up on Semi's after this. Thank you.

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Yes. I think you can say that. We had guided you -- well you know the story. We had had three softer quarters. You were expecting some rebound. We had guided you on the rebound in the second half and we've actually said that, like-for-like the second half Medical margin of '06 should be better than the one of '05. We confirmed that today.

And this second quarter is indeed starting to benefit from these operating improvements. One of them being the control of selling expenses, as you'll remember we have had higher selling expenses in Q4 and in particular in Q1, in particular, to address the very strong growth of activity in some parts of the world. So I would say, yes, your assumption is correct.

Nav Sheera - *Lehman Brothers - Analyst*

Thank you then. The second thing is on Semi's. Do you see any pockets of weakness, inventory build-up, oversupply, not necessarily in the own business by end of supply chain, especially in the [CPMs] contract equipment manufacturers? Anything which might allude to you that there could be something with regard to either a temporary slow down on inventory build during the process of the next couple of [technical difficulty]?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Yes. Well, I think the answer is no. I get first -- let me say two things. We, as you know, and I mentioned at every quarter, the visibility we have on that business continues to be extremely shortsighted. I mean, as I have explained a couple of times, we pretty much have six weeks, maybe at best seven weeks of visibility. That's nothing changed. That's the kind of situation we've been in the previous quarters. So that's one.

The second thing is the Philips inventory is down. I think you saw our performance on the overall inventory of Philips and our Semiconductor inventory is actually participating to this improvement.

And the third thing, which is your question beyond the Philips' inventory, what do we know of Semiconductor inventory in the channels? I did check on that actually over the course of last week and what I understand is that these levels of inventory are actually quite reasonable. So, I'm not hearing that there is surplus inventory in the channels beyond the strict inventory of Philips.

Nav Sheera - *Lehman Brothers - Analyst*

Thank you very much.

Operator

Thank you. The next question comes from Mr. Nicolas Gaudois from Deutsche Bank. Please state your question, sir.

Nicolas Gaudois - *Deutsche Bank - Analyst*

Yes. Hi there. The first question will be for Consumer Electronics and I've got a follow-up on Medical.

In Consumer Electronics, could you basically help us clarify some of your underlying margins dynamics, in particular, whether in fact the decline in LCD panel prices should result in you benefiting from better pricing conditions going forward? And, if so, when new or renegotiated prices will kick in?

And also whether you could see some marginal help from renegotiating your EMS contract terms or diversifying your EMS base as of November when the contract with Jabil expires?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Okay, Nicolas, I think the point there is, as you know, yes I think there has been and there might be some, while the surplus inventory is being taken care of, there might be some leverage for us to negotiate better price and we'll certainly use it. But, as you know, the nature of our model is precisely to keep us a little bit away from those constraints and basically act very much as a path through between the suppliers and the end customer. So there will be some opportunity but I don't think that changes very much the nature of the guidance as well as the nature of the model. So I think that's the answer for the prices of panels.

As far as EMS is concerned, which is your second question, we will renegotiate as normal when the Jabil contract expires in November. So that's pretty much as much as I can tell you at this particular point on this specific question.

Nicolas Gaudois - *Deutsche Bank - Analyst*

So with that in mind, Pierre-Jean, would you confirm that the 4 to 4.5% aforementioned target for CE could be changing this year?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Well, I think -- I would say at this particular point, we might be slightly shy. I say, Nicolas, slightly shy of 4%. But slightly shy, I'm not sending you any -- I think the 4 to 4.5% is still very much our target, given that second quarter and the fact that there is a little bit inventory, not in all channels but as I said in my introduction speech, with third parties. And you'll see that the industry was indeed struggling a bit. But I think our model there clearly one more time is showing that that's the right angle and our competitors will have to eliminate their inventory. So slightly shy Nicolas, but still shooting for the 4, maybe slightly shy.

Nicolas Gaudois - *Deutsche Bank - Analyst*

Okay, great, and a follow-up on Medical. Obviously when stripping out this EUR10 million provision, again a pretty good trend underlying. Did the mix change noticeably year-over-year and q-over-q in terms of services versus equipment revenues, and was this part of the reason why we saw,

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Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

No, no, no. I think that would be no. And I think that's -- and by the way, that's a positive answer to it. No major swing, actually, when we -- if you look at the details -- at the great details, you will see that, if anything, the service business grew at a slower pace than revenue from equipment sales, which obviously is where we want to be in a way for the future.

The service margin low improved a bit, which I think is what you want to hear as well. And the revenue mix, all in, beside the fact that on the equipment side CT was particularly strong, strong to the point that we disclosed it in the press release. I would say, no, the underlying improvement was actually the actions that we started back in Q4. And you remember we discussed at length with you and they are starting to show some results. There is no real major swing in the mix beside that. So it's kind of a normal quarter in Medical beside the work which has been done on the margin.

Nicolas Gaudois - *Deutsche Bank - Analyst*

Okay. Great. Thank you.

Operator

Thank you. The next question comes from Mr. Simon Schafer from Goldman Sachs. Please state your question, sir.

Simon Schafer - *Goldman Sachs - Analyst*

Good morning. Revisiting some of the comments that you made at your Semiconductor Analyst Day last year, you guided for some operating profitability between 5 and 15%. And you also gave some cost saving targets of around EUR250 million, I believe, by the end of this year. Could you give us an update how much of those cost savings you have achieved to date and what the target is going forward?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Well, I think -- I think as far as the guidance on the Semiconductor is concerned, as we know, we normally don't give guidance for the margin. We've guided you on the sequential growth. High-single-digit, sequentially, I think you got that in the press release.

As far as the business renewal program is concerned, the numbers we gave to you, in particular for depreciation where we talked about -- and there I think we guided you precisely, with a drop of about EUR100 million for the year. I think in terms of reduction, I think that is very much confirmed. I don't want -- I think anything we might have told you, including those particular comments, I think all of that is on target.

And, as far as the overall guidance, which was if you remember, a three year guidance as part of business renewal plan which was actually ending by the end of '07. And there we had guided you on the EUR450 million for that period of time, we absolutely confirm that for '07. I think the precise one we gave was on depreciation and I just renewed the guidance with a view just now.

Simon Schafer - *Goldman Sachs - Analyst*

Great. Thank you. And then on the order intake in the Medical business, were there any trends that you may want to note on regional? Is there any trend toward order intake on the emerging market region or is this more concentrated on the developed world?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

No. Actually, I think you, to give you an idea, and I think we've disclosed that, our revenue was 17% in Asia in the second quarter. So it -- but I would say it's not a surprise any more, that trend has been there -- or that mix I should say more than a trend, because now it's a mix more than a trend. Has been there almost since the third quarter of 2005.

And in terms of incoming order, I think now that pattern is established and confirmed. So, no I don't really have to -- that was probably the piece of news Q3 last year. I think today now it's part of our revenue mix in terms of geographic.

Simon Schafer - *Goldman Sachs - Analyst*

Great. Thanks very much.

Operator

Thank you. The next question comes from Mr. Janardan Menon from Dresdner. Please state your question, sir.

Janardan Menon - *Dresdner Kleinwort Wasserstein - Analyst*

Yes. Hi. Just to go back to an answer you gave to an earlier question. You're saying that your services revenue in Medical grew faster than equipment, is that -- did I hear that right?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

No, no, no. I didn't say that. I said the equipment sales, given the -- as you saw that Medical is up 9% for the revenue like-for-like. And the point I was making to a question is -- I think, Nicolas Gaudois was asking me, is your margin going up as a result of a change of revenue mix? And my specific answer was -- and I was talking sales, I said, no. In this particular quarter our revenue coming from equipment sales grew slightly faster than the service revenue. So that was the answer in terms of revenue mix. And the one thing I added was the service margin -- percentage margin did slightly improve over the quarter. Those were the facts.

Janardan Menon - *Dresdner Kleinwort Wasserstein - Analyst*

Sure, thanks. And, in your Semiconductor order intake, you've said that orders came from Europe, primarily a 5% order growth in Europe. Does that mean that it wasn't wireless related but more sort of consumer automotive, can we make a call like that?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Yes. Actually -- right now -- of course as you know it changes every particular quarter, the strength, right now, definitely automotive, RFID, including as well identification. And I think, in this particular quarter, I think Home was doing better as well.

Janardan Menon - *Dresdner Kleinwort Wasserstein - Analyst*

Just a last clarification on Consumer if I may. Which is, how much visibility do you really have on what could be your margin in Q3, which is you are guiding at a weaker margin which presumably implies a loss in mainstream consumer electronics into Q3. But is it a sort of a slippery slope which is that if LCD panel pricing continues to fall very rapidly, is there some chance that, despite your model being fairly robust, you could end up with a larger than expected loss like you did for instance in Q3 of 2004 in a similar situation?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

No. I think we trust our model. As you know, because you just implied, Q3 is always the weakest of the three quarters at Consumer Electronics. The fourth quarter being the strongest. But your question, do we trust our model, yes.

To the earlier question from one of your peers, in terms of guidance for the year, because I hate to guide a view on Q3, we've not done it and I won't do it this time because I think we normally don't guide you on the quarter margin [per-se], our guidance is a year-end guidance. And, to the question, do you stick to your 4 to 4.5%, my answer is a little bit shy of 4%. I think the answer to Q3 is almost included in that answer for -- in the year.

Janardan Menon - *Dresdner Kleinwort Wasserstein - Analyst*

Okay. Thank you very much.

Operator

Thank you. The next question comes from Mr. Jonathan Crossfield from Merrill Lynch. Please state your question, sir.

Jonathan Crossfield - *Merrill Lynch - Analyst*

Yes. Good morning. My first question would be on medical orders, the growth of 2%. You've had a number of quarters and high-single-digits and then teens growth rates. Is there anything going on there in terms of the wider markets or is it specific areas of the business, I know Nuclear Medicine was down and MR was up?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

No, actually, I -- it's a good question. I looked at it to prepare for this call and I actually looked at the quarterly incoming orders growth year-on-year, per quarter, during the last two years. Actually the last two years and a half. And I was checking because we've had so many quarters above 10% and actually, if you look at the history, we had actually two quarters with single digits, I think in the course of the last two years or two years and a half. So, is there anything to conclude from that 2%? No, because it follows an extremely stronger quarter one. And if you remember a pretty strong Q4 last year. So that's for the percentage, so don't read anything.

Now, as far as by modality, there is no trend there either because, if you look at it, one modality can be pretty strong for one particular quarter and another modality will be slightly weaker the following quarter. If I want to give you a little bit more, I will tell you that as far as Q2 is concerned, MR -- I mean let me give you one piece of information, MR was strong in terms of equipment orders in the second quarter of '06. That may be one piece of information in the modality mix in terms of incoming orders on that second quarter.

Jonathan Crossfield - *Merrill Lynch - Analyst*

Okay. Thank you very much. And then, just as a quick follow-up on the buyback. Is there any particular reason for announcing this now? Is it simply the cancellation of the shares? And does this affect or does this -- is there any change to the target gearing that you have for Philips in the medium-term?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

No, well, it's two separate questions, right, and let's read them separately. Why announcing it now? Well, actually, if you look at last year and mid August, we announced a share buyback. We said it would be on the period of 18 months. Actually, we completed it, if you remember, in the course of -- first quarter of '06. And we've told you as well that we would cancel those shares, which I think was a very important announcement. We got the shareholder meetings to vote for that cancellation. We've actually executed that cancellation and we completed that cancellation literally a couple of days ago. So, to come to your question, the reason why we announce it now is because it's basically on the day almost following the completion of the cancellation of the previous EUR1.5 billion program.

Now, to your -- so that's your answer to timing.

Your second question was, excuse me, was on?

Jonathan Crossfield - *Merrill Lynch - Analyst*

It was just -- is there any change -- I think in the past you've said that Philips could bear up to about EUR5 billion of debt, is there any change to that?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Well, I think what we said was that we are guiding our share -- I would say our discipline in terms of balance sheet and gearing towards an A rating. I think we've completed that A rating in the first quarter with a second institution, we already had it with the first one. And we said that there was no change there in terms of objective. And we said as well that we would re-discuss those issues post-Semiconductor move but, for the time being, I think absolutely nothing changed.

Jonathan Crossfield - *Merrill Lynch - Analyst*

That's great. Thank you very much.

Operator

The next question comes from Mr. Simon Smith of Citigroup. Please state your question, sir.

Simon Smith - *Citigroup - Analyst*

Hi, yes. I had a few, hopefully quite quick questions. The first one was, in terms of what you were saying to look out for, for the second half of the year, did you say that within Medical that -- included in the fourth quarter of last year a provision that was released due to -- I wasn't quite sure if you could just give some clarity as to quite what that was?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

No, no, no. You talk about second quarter not second half aren't you? I just want to make sure I understand you.

Simon Smith - *Citigroup - Analyst*

No, no. Second half. I thought, in the things to look out for that was in Medical, the final point you'd mentioned was something to do with Medical?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Oh, okay.

Simon Smith - *Citigroup - Analyst*

Provision that had been released. Is that right, or --?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

No, no, no. Let me be totally precise. On the second quarter I did mention that in the books of the second quarter because there is a strong improvement to the margin of Medical, and I said that includes a release of EUR10 million. So that's a release of provision in Q2 of this year.

Now, to the second half of this year, I did mention as well that in the course of the fourth quarter, we would have a one-off, a purchase accounting impact on the back of the Intermagnetics acquisition at the tune of EUR85 million. So that's -- those are the specifics.

Simon Smith - *Citigroup - Analyst*

Sorry, I must have misheard you.

And, the other was, in terms of DAP, you've obviously given us that guidance as to the Intermagnetics impact. But in terms of Avent, is there some sort of guidance as to the impact there of purchase accounting?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

I think, as far as Avent's purchase accounting is concerned, basically, on that particular one, it should be in the course of -- the closing is expected in the second -- sorry, in the third quarter and it's going to be minimal. I would say, if you want numbers, probably EUR5 million equally spread between Q3 and Q4. That's for Avent.

Just before we -- to be totally thorough, and maybe that's what you were alluding to, last year we had a one-off in the fourth quarter of 2005 on MedQuist, if you remember. We took a one-off provision for litigation in Q4 and we certainly don't plan to repeat that this year.

Simon Smith - *Citigroup - Analyst*

No, absolutely. Thank you. And then just, in terms of Semiconductors. Obviously you've said that there's nothing to add in terms of negotiations and where you stand there. But you'd always said that you would have that business as a separate legal entity in the third quarter. Would it be safe to say that, as of now, those separate accounts for that business have been established and so any negotiations will be set on definite numbers from your side?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Yes, well, the answer is yes but I want to bring a caveat. We've always said that the two processes, one which was a negotiation, the second one which was a legal carve out, were two separate projects. And you don't have to wait until you have a completed carve out to actually engage in negotiations. So the answer is, the deadline for the third quarter -- for the legal separation absolutely is confirmed. Have we -- are we negotiating in the meantime on what I would call final numbers? Yes, but please, the two things have been distinct for a while.

Simon Smith - *Citigroup - Analyst*

Thank you very much.

Operator

Thank you. The next question comes from Mr. Thomas Brenier from Soci t G n rale. Please state your question, sir.

Thomas Brenier - *Societe Generale - Analyst*

Yes, good morning. I'd like to have a clarification on the contribution from acquisitions in the Medical Systems Division. Because if I look at your data the nominal sales growth is exactly the same as the comparable sales growth? So I'd like to understand what kind of contribution we had from Stentor and also very small from -- with Biomedical during this quarter because this is -- it looks like there's nothing from there?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Okay. Well, let's start with Witt, I think Witt is slightly shy of EUR10 million, right? And if you look at Witt, at the revenue of Witt, you'll see that there is actually already some growth there compared to the year. So that's on the back of Q2 which is the first quarter where we have Witt on board.

And, as far as Stentor is concerned. You have to realize that the business model there is totally different from the one we had before with our own license business. Before we were selling licenses one-off, when we were selling our PACS license product. On Stentor we don't sell any more up front. What we sell is a paper use every time the radiologist is actually using the system. We have a threshold which is guaranteed and we have commitment then from the radiologist that he will use the product for a certain number of years.

So I would say that to compare the revenue of Stentor in terms of revenue accretion so early in the game is not really fair because it's a completely different business model. That being said, Stentor has actually contributed still to the revenue of the second quarter at the tune of EUR16 million.

But, again, I'm giving you the number because you asked for it. But the reality of it is, in the meantime we have -- we are filling in the pipeline with very good incoming orders for their PACS products. With more and more radiologists which are committing to this product for actually the next few years. Because people are signing with us just not for license but now they are committed to us with a minimum level of purchase on the years to come because that's the model of Stentor.

Thomas Brenier - *Societe Generale - Analyst*

And you think you could be in a position to give us a very general idea of what could be the revenues for the full year?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

For Stentor? I could -- yes I think I could give you something in the region for the year. I would say EUR70 to EUR80 million.

Thomas Brenier - *Societe Generale - Analyst*

Okay.

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

But, again, please do not compare that to -- again, it's on a -- it's not sale of licenses, I can only repeat myself. It's actually only paper use. So it's -- in reality with almost an income stream which is guaranteed and, of course, with an increasing impact, the more we sign in. So, as far as Stentor is concerned, what is really interesting is more the incoming orders and the contracts signed for PACS contract with key hospitals rather than revenue. But anyway, you want revenue, I'm giving you revenue.

Thomas Brenier - *Societe Generale - Analyst*

That's very helpful, thank you. I've got a very detailed question on the Semiconductors division. I've noticed that the number of employees has increased by something like 4% sequentially and it has been quite stable over the past few quarters. So I was just wondering if there was anything that you wanted to comment on, on that? Anything linked to the separation of the business maybe?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

No. I think it's -- as you know it's an industry where you pretty much adjust your workforce to your need -- I would say it's just an expression of the very strong activity. You saw that our utilization rate stands at 88% which is extremely high and I wouldn't read much more. It's just -- I would say the headcount illustration of the current level of activity.

Thomas Brenier - *Societe Generale - Analyst*

Thank you very much.

Operator

Thank you. The next question comes from Mr. Luc Mouzon from BNP Paribas. Please state your question, sir.

Luc Mouzon - *Exane BNP Paribas - Analyst*

Yes, hi. Good morning. Luc Mouzon from Exane BNP Paribas. Just, Pierre-Jean, to come on the -- on the beginning of the call you say that you're on the good way to deliver on the upper range of your guidance. Were you talking about the 6% organic growth rate or were you talking about the 7 to 10% of EBIT margin for the Group?

And my follow-up is about CapEx trend. Could you update on the CapEx trend as we've seen in the second quarter remain a bit strong? And what part of these CapEx are Semiconductor related? Thank you.

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Okay. I think on my guidance at the beginning of the call I was referring to the revenue guidance where we said 5 to 6%, right? You've seen a couple of strong quarters, so I'm saying the 6% is -- I think we will exceed the 6% on the complete year. Even though, as you know, the second half of last year was of stronger quality in terms of revenue growth than the first half of last year. But -- so the guidance there was related to revenue.

As far as EBIT margin is concerned, the objective of being at the cruising level of 7 by the end of the year -- we confirm that. I'm not saying more. Clearly, a solid first half but our guidance on earning -- on EBIT margin, no, we're not changing that.

To your question on CapEx. I think basically, net CapEx, I had guided you on -- I think,1.1 billion for the year. We might be slightly north of that. Slightly north of that for the year. And, as far as Semi is concerned for the year, probably around 400 -- a little bit north of 400 million for the year.

Luc Mouzon - *Exane BNP Paribas - Analyst*

Okay. Thank you very much.

Operator

[OPERATOR INSTRUCTIONS]. The next question comes from Mr. Jonathan Dutton from UBS. Please state your question, sir.

Jonathan Dutton - *UBS - Analyst*

I just wanted to get a bit more detail on the iSite platform, what your plans are for rolling it out in other areas outside of the US?

And a second follow-up question. In terms of the revenue contribution from the acquisitions you've made in the past 18 months, Witt and Stentor, what sort of top line and margin impact should we model for 2007 from these acquisitions?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Okay. iSite currently going full speed in the US. I think we said in the press release that we have scored some actually quite significant wins in the first half and in particular in the second quarter. So there I would say the trend of the last two quarters, as far as the US market -- as far as the North American market is concerned, is definitely confirmed.

We are spending quite a bit of money upfront right now to deploy that product in Europe. So we certainly have an agenda to start selling iSite in Europe. It's not, today, showing in our numbers. I couldn't tell you exactly which particular quarter we will launch in Europe but certainly soon to come. We are absolutely dedicated at launching that particular product in some scale in Europe.

To your question on the revenue accretion and potentially impact of margin of both Witt and Stentor. In the previous question I think I guided you on the revenue. I mentioned 70 to 80 million for Stentor. On Witt, which as you know only started being consolidated in the second quarter of '06, there I would say a guidance at the tune of probably, I would say, 45 to 50 million, around those numbers.

And, if you compare those numbers to the year before, as much as you can because you would have to reconstruct that for complete year, for Witt you will see clear growth. And for Stentor, as I said, very difficult to compare to the year before given that we have completely changed the business model there.

As far as earnings are concerned, I think we've guided you on the Informatics -- Healthcare Informatics guidance. We said that we would start being positive, there was some contribution in the later part of '07. I think that's a guidance we gave to you on Stentor. And, more generally speaking, in Healthcare Informatics I confirm that guidance. As far as the guidance of Witt is concerned, I think it's -- Witt will start being accretive immediately but, as far as Witt is concerned, you will agree with me that it's not very large at this particular point of time but we will keep you posted on the progress of Witt.

Jonathan Dutton - *UBS - Analyst*

Okay. Thanks very much.

Operator

The next question comes from Mr. Francois Meunier from Cazenove. Please state your question, sir.

Francois Meunier - *Cazenove - Analyst*

Hello. Good morning. It's Francois at Cazenove. Just a quick question about DAP. What are the current margin targets because, if I remember, last quarter, it was for 15 to 16. Is it going to be less than 15 this year because of Advent?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

No, no, no. Actually, in the case of DAP, what we've done, we've actually split Health and Wellness as you saw where we basically now disclose the new territories and I think we updated you, if you remember at the medical conference saying that we were kind of creating a separate line to isolate what we would like to call Homecare which has a stronger service content and which is really dedicated to taking care of people at home. That is essentially today Lifeline and more to come. On the rest of DAP, no, I think the guidance is still very much a 15 to 16%.

Francois Meunier - *Cazenove - Analyst*

Okay. And can you please give us the amount of license income in Consumer Electronics just for the quarter because it's a number you usually disclose?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

I think it's in the text. In a moment of weakness we fully disclosed it but I will tell it to you again. I think it's 45 million. Okay?

Operator

The next question comes from Mr. Niels de Zwart from Rabo Security. Please state your question, sir.

Niels de Zwart - *Rabo Security - Analyst*

Good morning. I've basically got two questions. One on CE and one short follow-up on Medical. On CE, of course, you mentioned that margin pressure is of course also being daring in Q3. Still you're convinced, on the strength of your business model. Do you feel that you have to take extra steps to maintain your longer term margin between 4 and 4.5% given the fact that basically as price erosion is a bit stronger than you would expect it, the margin you lose on that is hard to regain?

My follow-up is on Medical. Just to be clear, could you give us the actual comparison base? Basically the EBIT number you are using as a comparison base for the second half EBIT? The Q2 and the Q3 number -- or the Q3 and the Q4 number?

Those are my questions.

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

On Consumer Electronics, the first part of your question, are we continuing to work on the model? Yes. I think the deployment of the model, I would say, is probably complete in North America. We are still -- we still have some improvement planned, in particular, in Europe but I would say the recipe -- the business model is fully proven and is largely in place in North America. So, can we still create value there? Yes.

Now, to your question, will there be additional pricing pressure in the second half and will our business model resist? Yes, actually, we've -- you've seen that on the second quarter, under pressure, it certainly held up.

Will there be continued pressure in Q3? I did mention that some competitors might have inventory still to clean up. I said, as far as Philips is concerned, our inventory was down, so not too worried there.

Could our competitors have some clean up? Yes. On the other hand, it's always the same answer to that question, we -- our model is indeed -- what has taken place in Q2 will take place in Q3. Our model will protect us there again. And I can only repeat what I said on the guidance for the year which is slightly shy of 4%. Showing that the model does hold up we still have value being created in a couple of regions where we can still improve it. I think that's as much as I can tell you there.

On Medical, I think the guidance we gave to you there was that we said, and I think the guidance we gave is that, the margin of the second half should be, excluding the one-off which is essentially last year. There was the MedQuist provision and the specific purchase accounting which relates to the various acquisition we've done during the two years. If you exclude that, we did mention that our margin would be up, indeed, in the second half year-on-year. And we did mention as well that along the same criteria or margin for the complete year would be as well up year-on-year.

So I think, off line maybe Alan could go through the various one-offs so that we make sure we don't get confused. I think they are quite clear but, quite prepared to go through them. But that's the guidance we gave to you and we stick to it.

Niels de Zwart - *Rabo Security - Analyst*

Okay that's --

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

And if anything, Q2 is -- Q2 is a bit ahead of the game and of -- certainly the consensus that you had.

Niels de Zwart - *Rabo Security - Analyst*

Yes. And a short follow-up maybe. If I calculate the tax rate and I exclude the TSMC dividend, which I assume are tax free, then the tax rate comes out a bit higher than I have been looking for. Are there are specific reasons for that?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Well, I think TPV might have an impact in terms of potentially deteriorating it a bit but I need to look at that. By the way, TSMC is not completely tax-free. TSMC is a 10% tax rate. So, I don't know, if you run your math by applying 10% to TSMC you might find your number's back. I am struggling a bit to find an answer because I'm not really aware, so if you put TSMC with 10% --

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Niels de Zwart - *Rabo Security - Analyst*

But the 223 million you mentioned in the press release, that was after tax?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Yes. Oh, yes. That 223 --

Niels de Zwart - *Rabo Security - Analyst*

Yes. So that's the number I used. So that should be after tax?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

The TPV adjustment which we took in Q2, if you look at --

Niels de Zwart - *Rabo Security - Analyst*

I have to correct for that as well?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Yes.

Niels de Zwart - *Rabo Security - Analyst*

Okay.

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

That one is not tax efficient.

Niels de Zwart - *Rabo Security - Analyst*

Okay.

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Maybe that is the explanation.

Niels de Zwart - *Rabo Security - Analyst*

Yes. That'll probably be the explanation. Right. Okay. Thank you very much.

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Okay?

Operator

Thank you. The next question comes from Mr. Didier Scemama from ABN AMRO. Please state your question, sir.

Didier Scemama - *ABN AMRO - Analyst*

Yes. Good morning, Pierre-Jean. Just basically one question on Other Activities. I think you indicated earlier this year that the EBIT loss would be similar to that of '05, around 270 million. I think in Q2 you are a bit ahead of that. I mean a bit better basically. So I was wondering if we should expect something a bit lower in terms of losses?

Given the divestments that you indicate in your press release coming into the second half, I was wondering if you could share with us your thought in terms of improvement in terms of the losses in '07?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

No. I think the key thing is that we guided you, if you look at our press release, we guided you as much as we could on Other. I think this year we will still see a little bit of ups and downs in that particular line because of the clear up of that particular portfolio. So I don't see too many positives on Q3 and Q4.

But the important thing Didier is, I absolutely confirm to you that we should be down. I think when we started this, I would say, this accelerated sell-off for the portfolio I did mention that by the end of '06 we would have between zero and five, I would say elements in that portfolio and as close as possible to zero by the end of the year. And, Didier, I think today I confirm that.

You will see -- you've seen that in Q2, you'll see still some little bit of turbulence in Q3 and probably in Q4 with more announcements which mean that, looking forward next year, we should have really a minimal portfolio there and I think that's really what's important for the future.

Didier Scemama - *ABN AMRO - Analyst*

Absolutely. That's very helpful. Actually if I may just have a follow-up on Semiconductors. I don't know exactly how much you can talk about that and I think I tried to ask this question last quarter during the conference call but, in the [wireless space] can you talk about when you're going to start shipping your [Merge Term] solution for 3G?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Well, Didier, the answer is, I don't know. I have to be honest. I can come back to you off line on this. I know you want a precise answer and I will -- if you don't mind, I will give it to you off line. I don't know the precise dates.

Didier Scemama - *ABN AMRO - Analyst*

Okay. That's fine. Thank you very much.

Operator

Thank you. The next question comes from Mr. Matt Gabel from Weiss & Associates. Please state your question, sir.

Matt Gabel - - *Analyst*

Hi. Thanks. I was just wondering if you could give any color on what the bookings environment in the Semiconductor business or Semiconductor sector -- how the booking environment looks right now as we're starting off the third quarter? Thank you.

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Well, I think I touched on that. We don't see a slow down. I think we are in the situation where we were -- if you remember that same conference call a quarter ago, very little visibility. The usual six to seven weeks. So I am in exactly the same situation we were at a quarter ago.

I think what has changed is that maybe in terms of businesses, probably a bit more on the Multi market as well as on the Automotive and RFID and Identification. That's probably more the flavor of the day. But the other thing I want to insist on, because that is a fact, all inventories are down.

And to another question, I can only reiterate that asking a few questions around, the electronic Semiconductor pipeline at -- our customers seems to be okay as well. So no surplus inventory at Philips and, as far as we understand, no surplus inventory either in the pipeline or in the value chain. That's what I can tell you.

Matt Gabel - - *Analyst*

Okay, thank you very much.

Operator

Thank you. We have a follow-up question from Mr. Thomas Brenier from Societe Generale. Please state your question, sir.

Thomas Brenier - *Societe Generale - Analyst*

Good morning again, I just want to have maybe a final comment on the order intake for Medical. You said that this maybe soft of 2% growth was not the trend you were seeing going forward. Should we expect this to be the bottom of the year? Or do you have already visibility on how the [order term] will look for Q3 and maybe Q4?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

No. It's hard to forecast that. As you know, right it's -- if anything -- but what I can say is that that 2%, which again follows two pretty strong quarters, basically shouldn't be taken as a future trend. And I would say that this year we should still see, for the complete year, a level of incoming orders which should be north of the revenue growth.

Thomas Brenier - *Societe Generale - Analyst*

Very helpful. Thank you very much.

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Okay.

Operator

Thank you. The next question comes from Mr. G nther Hollfelder from HVB. Please state your question, sir.

Gunther Hollfelder - *HVB Group - Analyst*

Hi. Thank you. I actually had a question concerning the HDTV penetration, in particular in Europe and also concerning your Set Top Box business. I remember a couple of months ago there where you were in shortages concerning the boxes and everything. What are you seeing right now? Are the boxes well received? Is the penetration progressing? What do you see?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Okay, I think the thing is, in Q2, the technology was a bit light and did not impact the World Cup as much as planned. Essentially because of some delay. But the deployment of the technology will definitely take place in Q3 and you should start seeing the needle move in that third quarter. So, no, nothing particular. A bit like compared to what we had anticipated in Q2 and the deployment to start in Q3 with an impact, of course, on the televisions which are capable of accommodating that particular quality of signal and an impact as well on the business in Set Top Boxes.

Gunther Hollfelder - *HVB Group - Analyst*

Okay. Great. Thank you very much.

Operator

Thank you. The last question comes from Mr. Bernard Vogelzang from The Telegraph. Please state your question, sir.

Bernard Vogelzang - *The Telegraph - Journalist*

Yes. Good morning. Mr. Sivignon, in your introduction, you were talking about taking costs out of the DAP and Lighting. About what kind of actions are we talking here and are they part of the plan to save EUR500 million in costs by the end of 2007?

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

Well, the EUR500 million was a plan which was essentially touching expenses. And I would say essentially goes out of, what I would call, the direct cost. Right?

In DAP, some of the initiatives are indeed included in the 500 million but they go beyond that. They include as well low cost sourcing. They include as well actions which relate to the value chains to producing in the right countries to, keeping the right amount of added value on board so it goes beyond, I would say, the specific initiatives which are included in the 500 million. The 500 million is very much related to expenses and indirect cost. DAP has a plan that goes beyond that. We also have initiative in the direct cost part of the income statement.

Bernard Vogelzang - *The Telegraph - Journalist*

Thanks.

Operator

Thank you, Mr. Sivignon, there are no further questions. Please continue with any further points you wish to raise.

Pierre-Jean Sivignon - *Royal Philips Electronics - Executive VP & CFO*

If there is no further questions I think I just want to reiterate at the end of this Q2, and probably it's a comment which somewhat includes the first quarter. Clearly, firing on all cylinders -- I mean, growth in all product division you saw nothing south of 9%. So, I'm sure you will agree with me, that's a pretty strong quarter in terms of revenue growth.

Good improvement in Medical margins. I know that there was some skepticism there. Clearly, lots of work done and a good improvement at Medical. So we certainly take some pride there.

And, as far as the share buyback, I think, it's a tax-free move, it's basically looking forward at continued discipline in capital allocation and technical use. And I think that's an element as well which we want to emphasize at the end of a 12 month period, during which we invested north of 3.5 billion in acquisition.

One final point, if I may, which I would like to emphasize, because it doesn't necessarily get a lot of press coverage. It's [level] of inventory.

I joined Philips exactly a year ago and I remember that at the end of Q2 we had a bit of an incident on inventory, if you remember -- or inventory at the end of the second quarter of last year we were a little bit in trouble. If you go back to your notes. If you look at the inventory of the second quarter of '06, which is exactly a year later, you can see that we've gained 1.2 percentage points which, if you calculate it in relative terms, is quite significant. And I can tell you that all our product divisions had inventory expressed in percentage terms come down with the exception of one. And that is to say that, even though we've gained 1.2 percentage points, we believe that we still have room to improve on that particular domain.

So, beside that, I wish to thank you for your attention and your time and say goodbye.

Operator

This concludes the Royal Philips Electronics second quarter conference call on Monday, July 17, 2006. Thank you for participating. You may now disconnect.