Royal Philips Electronics

Q2 Quarterly report
July 17, 2006

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, the risk of a downturn in the semiconductor market, 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.

Report on the performance of the Philips Group

- all amounts in millions of euros unless otherwise stated; data included are unaudited
- financial reporting according to US GAAP unless otherwise stated
- restated for the sale of the MDS business

Philips reports strong second quarter: sales up 10% year-on-year; net income of EUR 301 million

EBIT for the quarter increased to EUR 367 million

Sales increased strongly in the second quarter to EUR 7,601 million, 10% above Q2 2005. Adjusted for the effects of currency movements and consolidation changes, comparable sales increased by 11%, driven by strong growth in all operating divisions.

EBIT amounted to EUR 367 million, compared to EUR 158 million in the same period of last year. Medical Systems, Lighting and DAP all delivered strong increases in profitability, as did Semiconductors, benefiting from its business renewal program. In difficult market conditions, the EBIT of Consumer Electronics held up. Brand campaign costs were EUR 47 million lower than in Q2 2005 due to an amended seasonal spend pattern.

Financial income and expenses resulted in income of EUR 127 million, compared to an expense of EUR 57 million in Q2 2005. The improvement is due to the recognition of a TSMC cash dividend of EUR 223 million, net of tax.

Unconsolidated companies recorded a loss of EUR 105 million, EUR 85 million of which was attributable to LG.Philips LCD, compared to a profit of EUR 822 million in Q2 2005. Last year's figure included a gain of EUR 753 million on the sale of NAVTEQ shares, as well as income of EUR 67 million from TSMC.

Net income of EUR 301 million (EUR 0.26 per share) compared to EUR 983 million (EUR 0.78 per share) in the corresponding period of 2005. Excluding last year's non-taxable gain of EUR 753 million attributable to the sale of shares in NAVTEQ, net income grew over 30% in the quarter.

Cash inflow from operating activities increased to EUR 300 million, compared to EUR 52 million in Q2 2005, due to lower additional working capital requirements. Inventories as a percentage of sales amounted to 12.2%, a decrease of 1.2 percentage points compared to Q2 2005.

PHILIPS

Gerard Kleisterlee,
Philips' President and CEO:

"We had an excellent second quarter to round off a good first half year. Our transformation into a market-driven healthcare, lifestyle and technology company starts to show its merits, with strong profit contributions from Medical Systems, Lighting and DAP. Our CE business model is showing its robustness in difficult conditions for the industry and Semiconductors is delivering the expected benefits of its business renewal program. We continued to expand our presence in the growing healthcare market, announcing our intention to acquire Intermagnetics General Corporation and Avent Holdings, while disposing of more non-core activities during the quarter. Going forward, our increasingly focused business scope will serve as an asset.

Continuing our consistent focus on shareholder value, we are pleased to announce the launch of a further EUR 1.5 billion share repurchase program, to start in the third quarter."

Philips Group

Net income

in millions of euros unless otherwise stated	Q2 2005	Q2 2006
Sales	6,927	7,601
EBIT	158	367
as a % of sales	2.3	4.8
Financial income and expenses	(57)	127
Income taxes	83	(98)
Results unconsolidated companies	822	(105)
Minority interests	(12)	(19)
Income from continuing operations	994	272
Discontinued operations	(11)	29
Net income	983	301
Per common share – basic	0.78	0.26

Sales by sector

in millions of euros unless otherwise stated

	Q2 2005	Q2 2006	% change nominal	% change comparable
Medical Systems	1,498	1,630	9	9
DAP	461	572	24	13
CE	2,259	2,484	10	17
Lighting	1,116	1,296	16	9
Semiconductors	1,088	1,221	12	12
Other Activities	505	398	(21)	(10)
Philips Group	6,927	7,601	10	11

Sales per region

in millions of euros unless otherwise stated

	Q2 2005	Q2 2006	% change nominal	% change comparable
Europe/Africa	2,757	3,085	12	16
North America	1,817	1,956	8	7
Latin America	461	552	20	16
Asia Pacific	1,892	2,008	6	6
Philips Group	6,927	7,601	10	11

Highlights in the quarter

Net income

- Net income amounted to EUR 301 million (EUR 0.26 per share), compared to EUR 983 million (EUR 0.78 per share) in the same period last year. The EUR 209 million increase in EBIT and the recognition of TSMC cash dividends of EUR 223 million only partly offset the EUR 927 million lower results from unconsolidated companies.
- Q2 2005 included a EUR 753 million gain on the sale of shares in NAVTEQ and a EUR 109 million gain relating to a final agreement on prior-years tax settlements.
- A gain of EUR 29 million was reported under discontinued operations on closure of the MDS transaction.

Sales by sector

- Nominal sales for the Group grew by 10% compared to Q2 2005. Adjusted for the 1% downward effect of currency and consolidation changes, comparable growth was 11%. All divisions posted year-on-year growth except Other Activities.
- Medical Systems posted 9% year-on-year comparable growth driven by the majority of its businesses. DAP grew in all businesses, reporting 13% year-on-year comparable growth. At CE, growth was driven by strong flat display sales in Connected Displays. At Lighting, comparable growth was evident across the division, notably at Automotive, Special Lighting & UHP and Lighting Electronics. Semiconductors' 12% comparable growth was led by Automotive & Identification. Other Activities' comparable sales decline was mainly due to Optical Storage.

Sales by region

- In Europe/Africa, comparable sales increased in all main divisions. In North America, Semiconductors, Lighting and DAP were the main drivers of the growth. Consumer Electronics led the sales increase in Latin America. In Asia Pacific, growth was most marked at Medical Systems, DAP and Lighting.

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EBIT

in millions of euros unless otherwise stated	Q2 2005	Q2 2006
Medical Systems	157	199
DAP	44	66
CE	62	45
Lighting	120	158
Semiconductors	27	120
Other Activities	(60)	(57)
Unallocated	(192)	(164)
Philips Group	158	367
as a % of sales	2.3	4.8

Earnings before interest and tax (EBIT)

- Earnings before interest and tax were EUR 367 million, compared to EUR 158 million in Q2 2005, the improvement being led by Medical Systems, Lighting and Semiconductors.
- Medical Systems' EBIT improved thanks to higher sales, particularly in Computed Tomography, Nuclear Medicine and X-ray, coupled with improved operational performance.
- At DAP, EBIT improved in all main businesses, driven by sales growth and increased margins.
- At CE, the impact of additional price pressure driven by market oversupply in flat displays was largely cushioned by the division's business model, limiting the EBIT decline to EUR 17 million.
- At Lighting, EBIT improved by EUR 38 million year-over-year, thanks to Lumileds and increased sales across all other businesses.
- Semiconductors' earnings improved strongly, on the back of higher sales in all businesses, increased capacity utilization and lower costs as a result of its business renewal program.
- Other Activities' EBIT was in line with Q2 2005 as improvements in Corporate Investments were offset by lower earnings in Corporate Technologies.
- EBIT of Unallocated improved, primarily as a result of a EUR 47 million lower spend on the brand campaign. This reduction was caused by an amended seasonal spend pattern compared to 2005.

Financial income and expenses

in millions of euros	Q2 2005	Q2 **2006**
Interest expenses (net)	(57)	**(67)**
Other	-	**194**
Total	(57)	**127**

Financial income and expenses

- Other financial income and expenses included a cash dividend from TSMC of EUR 223 million, net of tax, and a fair-value loss of EUR 32 million on the revaluation of the option on the TPV convertible bond, offsetting gains recorded in Q1 2006.

Results unconsolidated companies

in millions of euros	Q2 2005	Q2 **2006**
TSMC	67	**-**
LG.Philips LCD	10	**(85)**
NAVTEQ: gain on sale of shares	753	**-**
Others	(8)	**(20)**
Total	822	**(105)**

Results relating to unconsolidated companies

- Results relating to unconsolidated companies decreased by EUR 927 million compared to Q2 2005, which was positively impacted by the EUR 753 million gain on the sale of shares in NAVTEQ. The remainder of the decrease was attributable to the change in accounting treatment of TSMC (result of EUR 67 million in Q2 2005) and the EUR 95 million lower income from LG.Philips LCD.

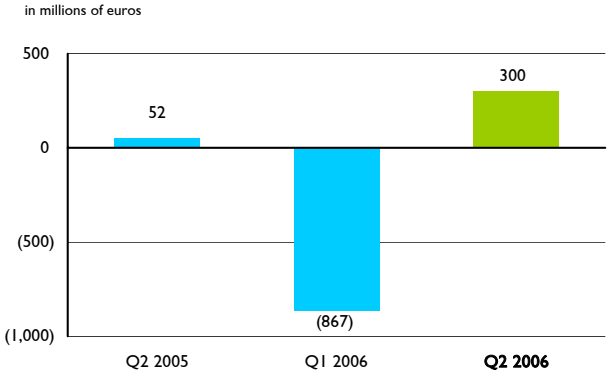
Cash balance

in millions of euros	Q2 2005	Q2 2006
Beginning balance	3,210	3,389
Net cash from operating activities	52	300
Gross capital expenditures	(219)	(255)
Acquisitions/divestments	920	(183)
Other cash from investing activities	(11)	(80)
Dividend paid	(504)	(523)
Changes in debt/other	(426)	(103)
Cash provided by discontinued operations	(17)	(7)
Ending balance	3,005	2,538

Cash balance

- The cash balance decreased by EUR 851 million in Q2 2006, compared to a decrease of EUR 205 million in Q2 2005; the latter included EUR 932 million proceeds from the sale of NAVTEQ shares.
- The main cash outflows in the quarter were EUR 523 million for dividend payments, EUR 118 million for share repurchases related to employee stock options and EUR 105 million for the purchase of Witt Biomedical Inc.

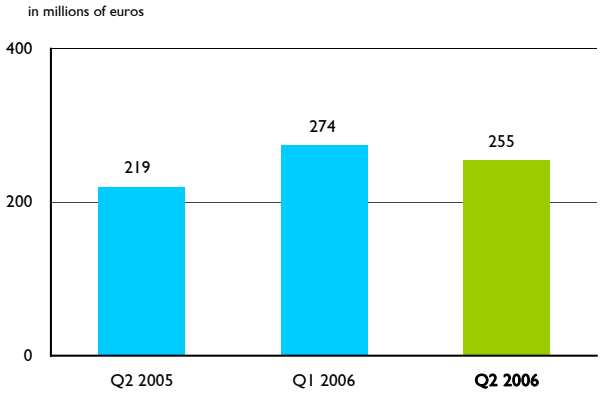
Cash flows from operating activities



Cash flows from operating activities

- Cash flows from operating activities improved by EUR 248 million compared to Q2 2005, driven by lower additional requirements for working capital.
- The improvements in working capital centered on Consumer Electronics (mainly accounts receivable and inventories), DAP and Medical Systems.

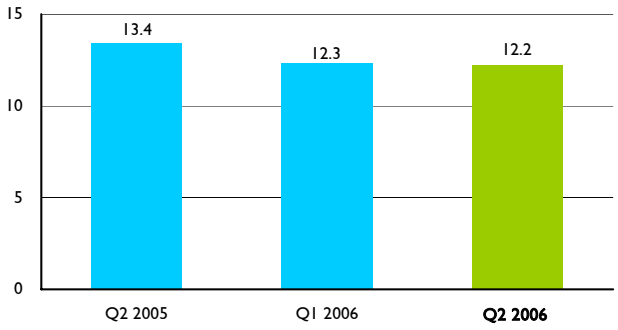
Gross capital expenditures



Gross capital expenditures

- Gross capital expenditures were EUR 36 million higher than in Q2 2005, in line with expectations. The additional expenditure was evident in most divisions, notably further investments in Lamps and Lumileds within the Lighting division.

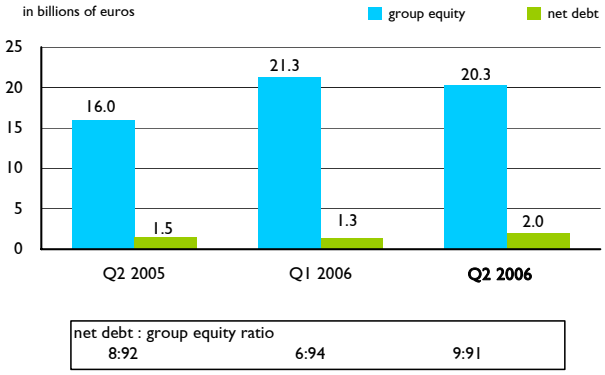
Inventories as a % of sales



Inventories

- Net inventories as a percentage of MAT sales decreased from 13.4% in Q2 2005 to 12.2%. The reduction was visible in DAP, Semiconductors, Medical Systems and CE, where the business model ensured tight inventory management despite market oversupply of flat displays.

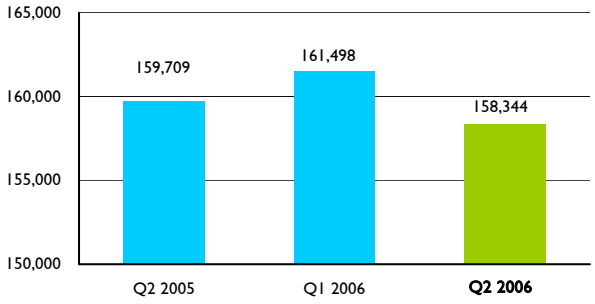
Net debt and group equity



Net debt and group equity

- The net debt to group equity ratio remained in line with Q2 2005 but increased relative to Q1 2006 as a result of the cash outflow for acquisitions and dividends.
- Group equity increased by EUR 4,302 million compared to Q2 2005, primarily due to the change in accounting treatment of TSMC. In the quarter, group equity decreased by EUR 964 million, mainly as a result of a decline in the value of Philips' shareholding in TSMC.

Number of employees (FTEs)



of which discontinued operations 2,278 end Q2 2005, 1,684 end Q1 2006.

Employment

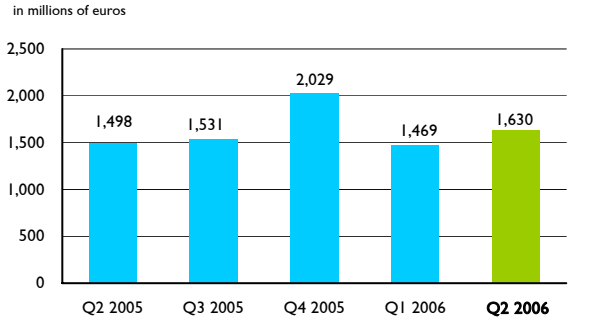
- The number of employees at the end of Q2 2006 was 158,344 compared to 159,709 at the end of Q2 2005. The net decrease compared to Q2 2005 represents the effect of acquisitions, including Lumileds and Lifeline, offset by employee reductions related to the TPV deal as well as the ongoing divestment of businesses within Other Activities. The sequential reduction of 3,154 is mainly due to the divestment of several businesses within Corporate Investments, including MDS.

Medical Systems

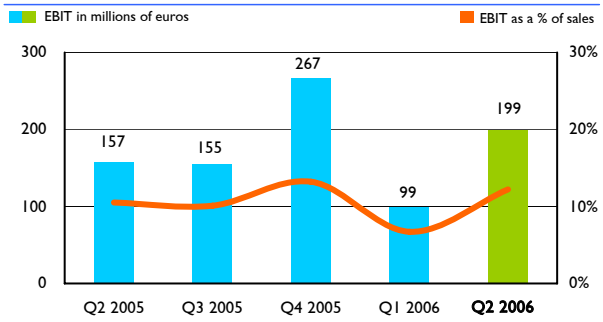
Key data

in millions of euros unless otherwise stated	Q2 2005	Q2 2006
Sales	1,498	**1,630**
Sales growth		
% nominal	5	**9**
% comparable	6	**9**
EBIT	157	**199**
as a % of sales	10.5	**12.2**
Net operating capital (NOC)	3,287	**3,387**
Number of employees (FTEs)	30,965	**31,261**

Sales



EBIT



Business highlights

- Philips announced plans to acquire Intermagnetics General Corporation for approximately EUR 1 billion. The company is a leading manufacturer of superconducting magnets and radio-frequency coils for magnetic resonance imaging systems.
- In Singapore, Philips opened a EUR 12 million training facility for healthcare professionals and customers – the first of its kind in the region.
- In the US, Philips signed 16 iSite PACS (picture archiving and communication systems) contracts, three of which were with leading healthcare organizations – Philadelphia's Thomas Jefferson University Hospital, Seattle's Group Health Cooperative, and New York's Saint Vincent Catholic Medical Centers, doubling iSite's order intake compared to Q1.

Financial performance

- Currency-comparable order intake for equipment grew by 2% compared to Q2 2005. Growth in Magnetic Resonance was partially offset by declines in Nuclear Medicine and Monitoring Systems. Healthcare Informatics grew strongly thanks to orders for iSite PACS.
- Comparable sales grew 9% compared to Q2 2005, driven by almost all businesses. Double-digit growth was visible in Computed Tomography, Nuclear Medicine (higher sales in PET/CT) and X-ray (FD systems in CV X-ray). All regions contributed to the 9% growth, especially Asia Pacific (19%).
- Witt Biomedical was fully consolidated as of April 2006, posting a loss of EUR 4 million due wholly to EUR 6 million purchase-accounting-related costs.
- EBIT margin increased by 1.7% compared to Q2 2005 as a result of structural improvements in operating efficiencies, unusually strong sales in Computed Tomography and a release of provisions of approximately EUR 10 million.

Looking ahead

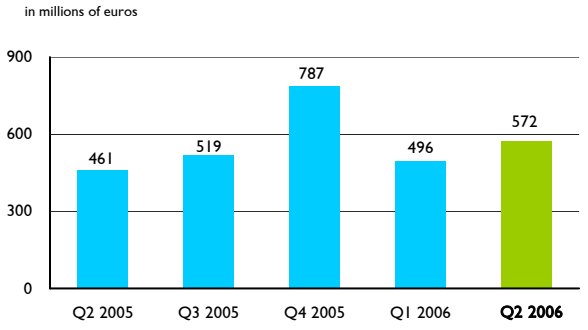
- High-single-digit comparable sales growth is expected in 2006.
- Medical Systems expects that EBIT margin in the second half of the year will show an improvement compared to 2005.
- For planning purposes, we are assuming that completion of the Intermagnetics acquisition will take place in Q4 2006.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

Domestic Appliances and Personal Care

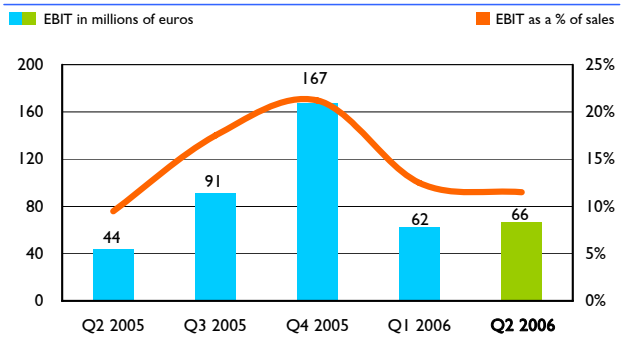
Key data

in millions of euros unless otherwise stated	Q2 2005	Q2 2006
Sales	461	**572**
Sales growth		
% nominal	1	**24**
% comparable	1	**13**
EBIT	44	**66**
as a % of sales	9.5	**11.5**
Net operating capital (NOC)	511	**1,071**
Number of employees (FTEs)	8,510	**9,515**

Sales



EBIT



Consumer Healthcare Solutions

- To further develop its activities in the Consumer Health & Wellness space, Philips announced the set-up of a Consumer Healthcare Solutions business to target, through non-retail channels, the growing market for cost-effective monitoring, treatment and care outside the hospital environment. Retail channels will continue to be served by the Health & Wellness business.

Business highlights

- Philips announced it will buy Avent Holdings Ltd. – a baby and infant feeding products company – for GBP 460 million to further build up its health & wellness activities.
- Leading lifestyle magazine *Men's Health* named SmartTouch-XL "Best New Electric Razor" and Bodygroom "Best New Body Tool" as the first trimmer for 'below-the-belt' shaving.
- In France, Philips launched the Wardrobe Care Solution, with a 3-in-1 ironing board, powerful iron, steamer and garment refresher. The product will be rolled out in Europe this fall.
- Philips and Sara Lee launched their Senseo® coffee pod system in Shanghai, the first market introduction in China and Asia Pacific.

Financial performance

- Sales grew 13% on a comparable basis compared with Q2 2005, with the improvement visible across all businesses. On a regional basis, growth was strong in Central/Eastern Europe, China and Western Europe.
- EBIT improved by EUR 22 million compared to Q2 2005; the improvement was visible in all businesses except Health & Wellness, which continued to invest in business development. EBITA improved by EUR 26 million compared to Q2 2005.
- In Q2, the new Consumer Healthcare Solutions (CHS) business posted sales of EUR 40 million, the majority of which were attributable to Lifeline Systems. CHS posted a EUR 1 million loss, due to investments in innovation and amortization charges of EUR 6 million.
- The increase in net operating capital and employee numbers is attributable to the acquisition of Lifeline in Q1.

Looking ahead

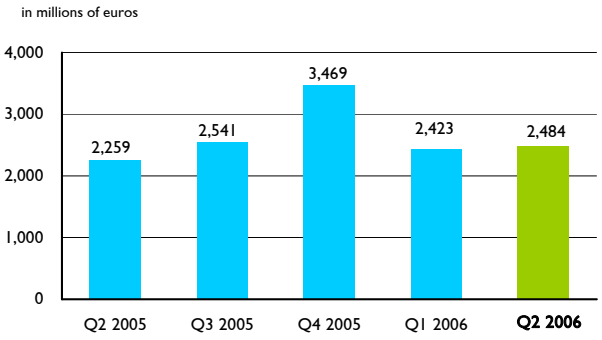
- The acquisition of Avent Holdings will be completed in Q3.

Consumer Electronics

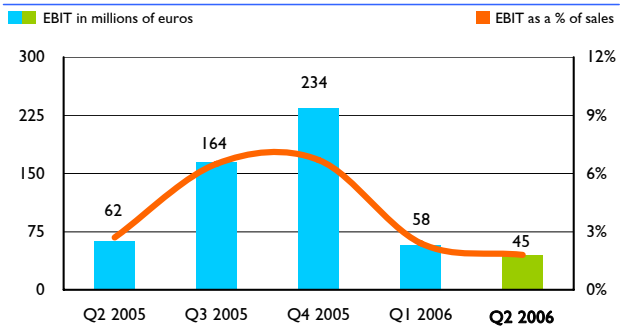
Key data

in millions of euros unless otherwise stated	Q2 2005	Q2 2006
Sales	2,259	**2,484**
Sales growth		
% nominal	(1)	**10**
% comparable	(2)	**17**
EBIT	62	**45**
as a % of sales	2.7	**1.8**
Net operating capital (NOC)	232	**5**
Number of employees (FTEs)	16,746	**14,677**

Sales



EBIT



Business highlights

- Marking the 10th year since Philips introduced flat TVs, its 2006 Ambilight Full Surround Cineos FlatTV launch demonstrates Philips' ongoing leadership in TV innovation.
- Philips acquired Power Sentry – a leading U.S. supplier to the growing and profitable peripherals & accessories market.
- The range of Philips amBX™ PC peripherals, offering ambient light, sound and sensory effects for unrivalled gaming experiences, was named "Editors Choice" at the 2006 Electronic Entertainment Expo in Los Angeles.
- In Europe, Philips launched its new Skype™ and Windows Live Messenger™ voice-over-internet cordless phones.
- Philips launched its Personal Media Center, a portable entertainment device with recording and photo capabilities.

Financial performance

- Sales of EUR 2,484 million were up 10% on Q2 2005 in nominal terms, and 17% on a comparable basis. Growth was particularly visible in Connected Displays, driven by the accelerated transition from CRT to Flat TV. Peripherals and Accessories also posted a significant 19% comparable sales increase. Regionally, double-digit growth was evident in Europe and Latin America.
- Against the background of oversupply and heavy price pressure in the flat displays market, the division posted EBIT of EUR 45 million, underscoring the effectiveness of its business model.
- Net operating capital of EUR 5 million was EUR 227 million lower than Q2 2005 due to tight inventory management and further progress with the division's outsourcing-driven asset reduction program.

Looking ahead

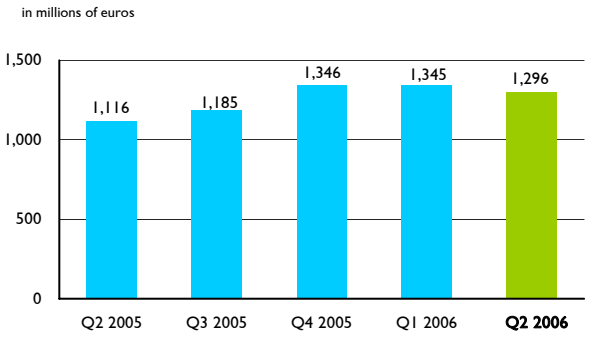
- Sales growth is expected to ease in Q3 as the speed of transition to Flat TV decelerates.
- Margins are expected to remain under pressure as competitors and retailers clear their pipeline stock.

Lighting

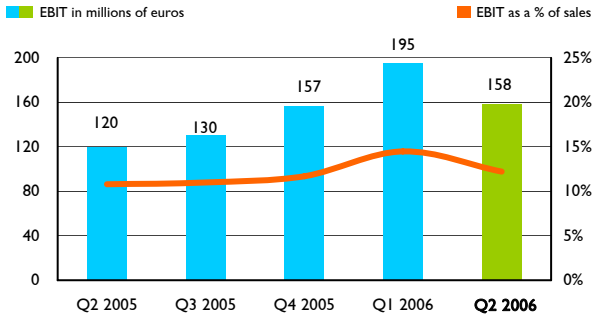
Key data

in millions of euros unless otherwise stated	Q2 2005	Q2 2006
Sales	1,116	**1,296**
Sales growth		
% nominal	3	**16**
% comparable	4	**9**
EBIT	120	**158**
as a % of sales	10.8	**12.2**
Net operating capital (NOC)	1,702	**2,652**
Number of employees (FTEs)	42,977	**46,652**

Sales



EBIT



Business highlights

- Philips entered the emergency lighting market by acquiring The Bodine Company – a U.S.-based lighting manufacturer.
- For the 2006 FIFA World Cup™, Philips lit up the German government Reichstag building in Berlin and provided floodlighting at 8 of the 12 stadiums.
- Philips and German company Novaled set a new lifetime and efficiency record for OLEDs (organic light-emitting diodes), developing a high-brightness white OLED lasting over 20,000 hours and emitting light equal to 1000 candles/m².
- At the Light + Building Fair in Frankfurt, Philips continued to shape the market in solid-state lighting, introducing a range of LED-based luminaires for applications ranging from city beautification and road lighting to shop and office lighting.
- Marking Queen Elizabeth II's 80th birthday, Philips created a permanent lighting installation for the facade of London's Buckingham Palace, which included energy-efficient, compact LUXEON® LEDs lasting 25 years.

Financial performance

- Sales amounted to EUR 1,296 million, representing 9% comparable growth compared to Q2 2005. The Lumileds consolidation boosted nominal sales by a further 7%.
- Sales were particularly buoyant in Asia Pacific, with 13% comparable growth.
- All businesses grew above the market average, leading to market share gains. Driven by strong UHP growth, Automotive, Special Lighting & UHP posted 15% sales growth. Lumileds' sales were 22% above the already high Q2 2005 level in USD terms, in line with the 25% comparable growth target for the full year.
- The division recognized an ongoing amortization charge of EUR 8 million related to the acquisition of Lumileds.
- The EBIT increase was driven by Lumileds and the higher level of sales.

Looking ahead

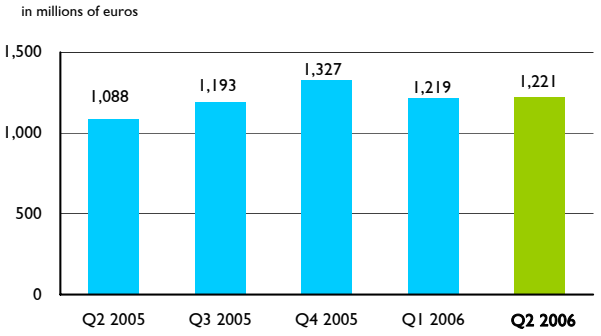
- Lumileds is well on track to meet its targets in terms of growth and profitability.
- The division will continue to launch innovative products and to focus on emerging markets.

Semiconductors

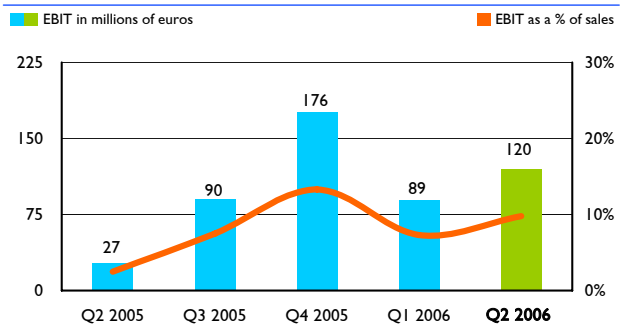
Key data

in millions of euros unless otherwise stated	Q2 2005	Q2 2006
Sales	1,088	1,221
Sales growth		
% nominal	(6)	12
% comparable	(6)	12
EBIT	27	120
as a % of sales	2.5	9.8
Net operating capital (NOC)	2,629	2,226
Number of employees (FTEs)	35,682	36,996

Sales



EBIT



Business highlights

- The French government selected Philips' contactless SmartMX chips for its new electronic passports, bringing the total share of the world's e-passports won by Philips to 80%.
- Philips introduced the world's first single-chip solution to combine immobilization and remote keyless entry functions. The chip is now being used in the new Honda Civic.
- Philips, Nokia, RMV and Vodafone started the first commercial application of Near Field Communication for secure payment and ticketing on Hanau, Germany's public transport system.
- Haier, one of China's top three handset manufacturers, selected Philips' Ultra Low Cost Reference Phone platform based on the Nexperia cellular system solution 5128 to create a low-cost handset for mass production in China.
- Dell selected the Nexperia TV810 semiconductor reference design for its 26-inch digital LCD HD TV. The design offers high picture quality and easy audio/video and PC hook-ups.

Financial performance

- Sales increased by 12% on both a nominal and a comparable basis compared to Q2 2005. Automotive & Identification, MMS and Home were the main contributors to the sales increase, while Mobile & Personal reported flat sales. Sequentially, sales increased by 5% in US dollar terms.
- At the end of Q2, the book-to-bill ratio was 1.07, compared to 1.12 at the end of Q1. Total order book increased by 5%, mainly in Europe, compared to the end of Q1.
- The utilization rate at the end of Q2 improved to 88%, compared to 77% in Q2 2005 and 82% in Q1 2006.
- EBIT amounted to EUR 120 million, EUR 93 million above Q2 2005. The improvement was attributable to increased sales and cost effectiveness, the latter underpinned by the business renewal program.
- The reduction in net operating capital was driven by ongoing progress of the division's asset-light strategy.
- Following the announcement in June of our intention to reduce our ownership share in Semiconductors in the second half of 2006, EUR 10 million of related project costs have been capitalized in Q2. These costs will be expensed upon completion of a transaction.

Looking ahead

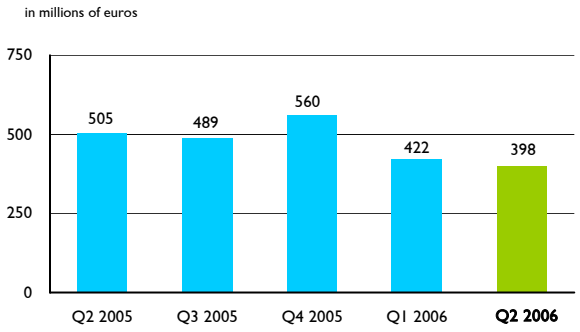
- Mid-to-high-single-digit sequential sales growth in US dollar terms is expected in Q3 2006.

Other Activities

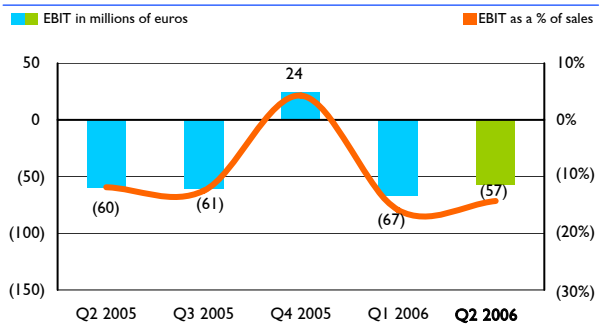
Key data

in millions of euros unless otherwise stated	Q2 2005	Q2 2006
Sales	505	**398**
Sales growth		
% nominal	(17)	**(21)**
% comparable	3	**(10)**
EBIT Corporate Technologies	(44)	**(50)**
EBIT Corp. Investments and others	(16)	**(7)**
Total EBIT	(60)	**(57)**
as a % of sales	(11.9)	**(14.3)**
Net operating capital (NOC)	527	**290**
Number of employees (FTEs)	20,051	**16,772**

Sales



EBIT



Business highlights

- Philips and the Dutch University of Groningen succeeded for the first time in fabricating electronics at the molecular level – a breakthrough published in the magazine *Nature*.
- Philips Business Communications - the company's enterprise communications activities - were transferred to the joint venture NEC Philips Unified Solutions in which Philips retains a 40% stake.
- In the United States, the Industrial Designers Society of America (IDEA) awarded Philips a gold IDEA award for the CityWing pedestrian LED luminaire.

Financial performance Corporate Technologies

- Excluding the divestment of PolyLED and several incidentals in Q2 2005, EBIT of Corporate Technologies declined by EUR 3 million. Higher R&D investments in the Technology Incubators and healthcare research were partly offset by temporarily lower investment at Research and improved performance at Applied Technologies.

Financial performance Corp. Investments/others

- Corporate Investments recorded a loss of EUR 5 million, an improvement compared with Q2 2005 as a result of the higher EBIT in a number of its operational businesses.
- The Service Units recorded a EUR 8 million gain.
- The reduction in net operating capital and number of employees is attributable to the ongoing divestment of non-core business activities.

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Looking ahead

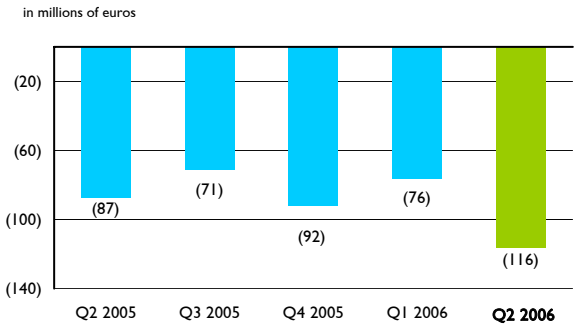
- Continuing its innovation program focused on future growth, Corporate Technologies will step-up Incubator-related R&D investments in Q3.
- Research costs in Q3 are expected to be approximately EUR 10 million higher than in Q2 due to the phasing of certain project expenses.
- Corporate Investments will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

Unallocated

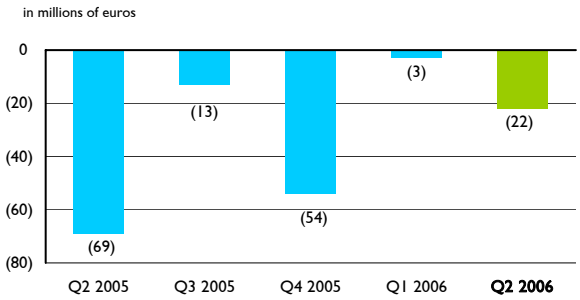
Key data

in millions of euros unless otherwise stated	Q2 2005	Q2 2006
Corporate and regional overheads	(87)	(116)
Global brand campaign	(69)	(22)
Pensions/postretirement benefit costs	(36)	(26)
Total EBIT	(192)	(164)
Number of employees (FTEs)	2,500	2,471

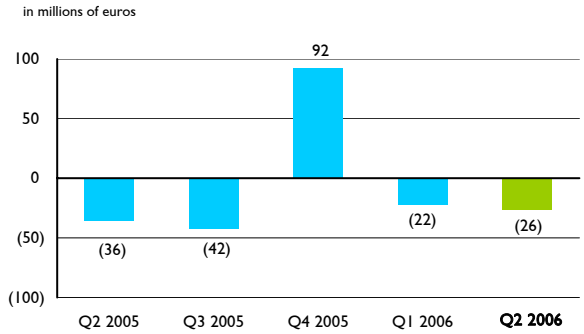
EBIT Corporate and regional overheads



EBIT Global brand campaign



EBIT Pensions/postretirement benefit costs



Business highlights

- As official sponsor of the 2006 FIFA World Cup™, Philips provided Ambilight screens viewed by 18.5 million fans in 12 German cities, RFID chips in 3.2 million tickets and HeartStart defibrillators at all sports venues.
- In India, Philips was one of five large companies to receive a Sustainability Award from the Confederation of Indian Industry (CII) for a "commitment to embedding sustainability policies and procedures in its business processes". The CII represents over 6,100 organizations in India.
- Philips showcased its commitment to its brand promise "sense and simplicity" at a Simplicity Event held in April in New York. The event was attended by 800 key stakeholders, including customers, suppliers, partners, top marketers, product designers, employees and the media.
- Philips was official sponsor of TV and audio equipment to the Wimbledon 2006 tennis championships, providing over 1,400 sets as well as the Vidiwall screen at the famed No. 1 Court.
- To identify and exploit value-adding supplier opportunities, Philips hosted the 4th 'Partners for Growth" supplier forum in May for its top 30 suppliers. Philips channeled 22% of its 2005 spending through these suppliers, up from 17% in 2004.

Financial performance

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

Looking ahead

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

Highlights in the 1st six months

The 1st six months of 2006

- Net income EUR 461 million
- Comparable sales up 10%, driven by CE, Semiconductors and DAP
- EBIT EUR 702 million
- Unconsolidated companies reported a loss of EUR 141 million
- Net debt : group equity ratio 9:91

Net income

in millions of euros unless otherwise stated	January-June	
	2005	**2006**
Sales	13,419	**14,975**
EBIT	365	**702**
as a % of sales	2.7	**4.7**
Financial income and expenses	(105)	**104**
Income taxes	39	**(189)**
Results unconsolidated companies	844	**(141)**
Minority interests	(18)	**(44)**
Income from continuing operations	1,125	**432**
Discontinued operations	(25)	**29**
Net income	1,100	**461**
Per common share – basic	0.87	**0.39**

Management summary

- Net income showed a profit of EUR 461 million, compared to EUR 1,100 million in the first six months of 2005; the latter included a EUR 753 million gain on the sale of shares of NAVTEQ.
- Sales amounted to EUR 14,975 million, 12% higher than in the same period last year. The upward currency effect was more than offset by deconsolidation changes (mainly TPV and ongoing divestments in Corporate Investments), leading to comparable sales growth of 10% compared to the first half of last year.
- Comparable sales grew at all main divisions, with double-digit growth at Consumer Electronics (16%), Semiconductors (13%) and DAP (11%). Medical Systems and Lighting both showed comparable sales growth of 8%. Sales in Corporate Investments declined by 13% as a result of the sale of various businesses (including Philips Business Communications, Anteryon, and Optical Pick-up Unit).
- EBIT showed a profit of EUR 702 million, compared to EUR 365 million in the same period last year. EBIT increased in all divisions except Consumer Electronics. EBIT margin rose from 2.7% to 4.7%; the increase was visible in all operating divisions except Consumer Electronics.
- Net income of EUR 461 million included a EUR 223 million cash dividend from TSMC. Last year's net income included a EUR 753 million gain on the sale of shares in NAVTEQ and a EUR 109 million gain relating to a final agreement on prior-years tax settlements.

Other information

Other information

On June 21, Philips announced its intention to reduce its ownership share in the Semiconductors division to a minority stake in the course of the second half of 2006 through an IPO and/or sale of shares to financial investors, while continuing to evaluate industry consolidation opportunities.

Following the recent cancellation of the shares acquired in earlier share repurchase programs, the Company will continue with a next share repurchase program of up to EUR 1.5 billion, to be executed during the coming 18 months. The program will be used exclusively for capital reduction.

Outlook

The second quarter further confirmed our solid progress in growing sales and increasing profitability. We expect this growth to continue in the second half of the year, although, given the particularly strong second half of 2005, at a slightly slower pace. Overall, we are well on track to meet our medium-term targets.

During the remainder of 2006, we will continue our business portfolio realignment through the expected acquisition of Intermagnetics and the further divestment of a number of non-core business activities. We will continue our value-creating management of capital, focusing our resources on further acquisitions, innovation, the brand, and on returning cash to shareholders.

The intention to reduce our ownership share in the Semiconductors division to a minority stake in 2006 will allow us to take a further step in implementing our strategy to build a more stable, predictable healthcare, lifestyle and technology company with a strong market focus around the brand promise of "sense and simplicity".

Amsterdam, July 17, 2006

Board of Management

Consolidated statements of income

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

	2nd quarter		January to June	
	2005	**2006**	2005	**2006**
Sales	6,927	**7,601**	13,419	**14,975**
Cost of sales	(4,655)	**(5,094)**	(9,037)	**(10,114)**
Gross margin	2,272	**2,507**	4,382	**4,861**
Selling expenses	(1,176)	**(1,198)**	(2,185)	**(2,363)**
General and administrative expenses	(330)	**(351)**	(632)	**(653)**
Research and development expenses	(632)	**(623)**	(1,256)	**(1,254)**
Write off of acquired in-process R&D	-	**(3)**	-	**(3)**
Other business income (expense)	24	**35**	56	**114**
Income from operations	158	**367**	365	**702**
Financial income and expenses	(57)	**127**	(105)	**104**
Income before taxes	101	**494**	260	**806**
Income tax expense	83	**(98)**	39	**(189)**
Income after taxes	184	**396**	299	**617**
Results relating to unconsolidated companies	822	**(105)**	844	**(141)**
Minority interests	(12)	**(19)**	(18)	**(44)**
Income from continuing operations	994	**272**	1,125	**432**
Discontinued operations	(11)	**29**	(25)	**29**
Net income	983	**301**	1,100	**461**
Weighted average number of common shares outstanding (after deduction of treasury stock) during the period (in thousands):				
• basic			1,265,804	**1,191,966**
• diluted			1,267,986	**1,197,857**
Net income per common share in euros:				
• basic	0.78	**0.26**	0.87	**0.39**
• diluted	0.78	**0.25**	0.87	**0.38**
Ratios				
Gross margin as a % of sales	32.8	**33.0**	32.7	**32.5**
Selling expenses as a % of sales	(17.0)	**(15.8)**	(16.3)	**(15.8)**
G&A expenses as a % of sales	(4.8)	**(4.6)**	(4.7)	**(4.4)**
R&D expenses as a % of sales	(9.1)	**(8.2)**	(9.4)	**(8.4)**
EBIT or Income from operations	158	**367**	365	**702**
as a % of sales	2.3	**4.8**	2.7	**4.7**
EBITA	189	**410**	426	**787**
as a % of sales	2.7	**5.4**	3.2	**5.3**

Consolidated balance sheets

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

	June 30, 2005	December 31, 2005	**June 30, 2006**
Current assets:			
Cash and cash equivalents	3,005	5,293	**2,538**
Receivables	4,783	5,155	**4,859**
Assets of discontinued operations	338	241	**-**
Inventories	3,929	3,480	**3,910**
Other current assets	959	937	**1,292**
Total current assets	13,014	15,106	**12,599**
Non-current assets:			
Investments in unconsolidated companies	6,031	5,698	**3,661**
Other non-current financial assets	924	673	**6,654**
Non-current receivables	165	213	**303**
Other non-current assets	3,231	3,231	**3,797**
Property, plant and equipment	4,901	4,893	**4,753**
Intangible assets excluding goodwill	1,008	1,299	**1,474**
Goodwill	2,044	2,748	**2,999**
Total assets	31,318	33,861	**36,240**
Current liabilities:			
Accounts and notes payable	3,230	3,856	**3,449**
Liabilities of discontinued operations	154	143	**-**
Accrued liabilities	3,227	3,632	**3,354**
Short-term provisions	783	869	**989**
Other current liabilities	562	708	**675**
Short-term debt	815	1,167	**1,360**
Total current liabilities	8,771	10,375	**9,827**
Non-current liabilities:			
Long-term debt	3,651	3,320	**3,187**
Long-term provisions	2,128	2,056	**1,975**
Other non-current liabilities	756	1,112	**937**
Total liabilities	15,306	16,863	**15,926**
Minority interests	335	332	**342**
Stockholders' equity	15,677	16,666	**19,972**
Total liabilities and equity	31,318	33,861	**36,240**
Number of common shares outstanding (after deduction of treasury stock) at the end of period (in thousands)	1,247,475	1,201,358	**1,188,109**
Ratios			
Stockholders' equity per common share in euros	12.57	13.87	**16.81**
Inventories as a % of sales	13.4	11.4	**12.2**
Net debt : group equity	8:92	(5):105	**9:91**
Net operating capital	8,447	8,043	**10,532**
Employees at end of period of which discontinued operations 2,278 end June 2005, and 1,780 end December 2005	159,709	159,226	**158,344**

Consolidated statements of cash flows *

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

	2nd quarter		January to June	
	2005	**2006**	2005	**2006**
Cash flows from operating activities:				
Net income	983	**301**	1,100	**461**
Adjustments to reconcile income to net cash provided by operating activities:				
(Income) loss from discontinued operations	11	**(29)**	25	**(29)**
Depreciation and amortization	372	**320**	728	**662**
Impairment of equity investments	-	**5**	-	**8**
Net gain on sale of assets	(760)	**(32)**	(777)	**(103)**
Unconsolidated companies (net of dividends received)	(69)	**100**	(2)	**89**
Minority interests (net of dividends paid)	12	**19**	18	**44**
(Increase) decrease in working capital/other current assets	(270)	**(41)**	(1,058)	**(714)**
(Increase) decrease in non-current receivables/other assets	(134)	**(95)**	(223)	**(728)**
Increase (decrease) in provisions	(85)	**(39)**	(102)	**(40)**
Other items	(8)	**(209)**	11	**(217)**
Net cash provided by (used for) operating activities	52	**300**	(280)	**(567)**
Cash flows from investing activities:				
Purchase of intangible assets	(29)	**(31)**	(43)	**(57)**
Capital expenditures on property, plant and equipment	(219)	**(255)**	(439)	**(529)**
Proceeds from disposals of property, plant and equipment	40	**22**	77	**49**
Cash from (to) derivatives	(22)	**(71)**	(35)	**(69)**
Proceeds from sale (purchase) of other non-current financial assets	(16)	**(1)**	(112)	**(3)**
Proceeds from sale (purchase) of businesses	936	**(182)**	958	**(767)**
Net cash provided by (used for) investing activities	690	**(518)**	406	**(1,376)**
Cash flows from financing activities:				
Increase (decrease) in debt	(197)	**(30)**	(326)	**225**
Treasury stock transactions	(285)	**(34)**	(699)	**(407)**
Dividends paid	(504)	**(523)**	(504)	**(523)**
Net cash provided by (used for) financing activities	(986)	**(587)**	(1,529)	**(705)**
Net cash provided by (used for) continuing operations	(244)	**(805)**	(1,403)	**(2,648)**
Effect of change in consolidations and exchange rates on cash positions	56	**(39)**	101	**(101)**
Net cash provided by (used for) discontinued operations [1]	(17)	**(7)**	(42)	**(6)**
Cash and cash equivalents at beginning of period	3,210	**3,389**	4,349	**5,293**
Cash and cash equivalents at end of period	3,005	**2,538**	3,005	**2,538**

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

[1] cash provided by (used for) operating activities	(15)	13	(33)	**15**
cash provided by (used for) investing activities	(2)	(20)	(9)	**(21)**
Ratio				
Cash flows before financing activities	742	(218)	126	**(1,943)**

Consolidated statement of changes in stockholders' equity

all amounts in millions of euros

	January to June 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	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			461								461
Net current period change				(117)	3,629	210	41	3,763			3,763
Reclassifications into income				1			4	5			5
Total comprehensive income, net of tax			461	(116)	3,629	210	45	3,768			4,229
Dividend paid			(523)								(523)
Purchase of treasury stock									(118)	(414)	(532)
Re-issuance of treasury stock		(74)	(69)						283		140
Share-based compensation plans		(8)									(8)
Balance as of June 30, 2006	**263**	**0**	**21,579**	**(2,002)**	**3,619**	**(335)**	**16**	**1,298**	**(1,168)**	**(2,000)**	**19,972**

Sectors

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

Sales and income from operations

	2nd quarter					
	2005			**2006**		
	Sales	Income from operations		Sales	Income from operations	
		amount	as a % of sales		amount	as a % of sales
Medical Systems	1,498	157	10.5	**1,630**	**199**	**12.2**
DAP	461	44	9.5	**572**	**66**	**11.5**
Consumer Electronics	2,259	62	2.7	**2,484**	**45**	**1.8**
Lighting	1,116	120	10.8	**1,296**	**158**	**12.2**
Semiconductors	1,088	27	2.5	**1,221**	**120**	**9.8**
Other Activities	505	(60)	(11.9)	**398**	**(57)**	**(14.3)**
Unallocated		(192)			**(164)**	
Total	6,927	158	2.3	**7,601**	**367**	**4.8**

	January to June					
	2005			**2006**		
	Sales	Income from operations		Sales	Income from operations	
		amount	as a % of sales		amount	as a % of sales
Medical Systems	2,783	257	9.2	**3,099**	**298**	**9.6**
DAP	888	100	11.3	**1,068**	**128**	**12.0**
Consumer Electronics	4,412	108	2.4	**4,907**	**103**	**2.1**
Lighting	2,244	269	12.0	**2,641**	**353**	**13.4**
Semiconductors	2,100	41	2.0	**2,440**	**209**	**8.6**
Other Activities	992	(119)	(12.0)	**820**	**(124)**	**(15.1)**
Unallocated		(291)			**(265)**	
Total	13,419	365	2.7	**14,975**	**702**	**4.7**

Sectors and main countries

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

Sales and total assets

	Sales		Total assets	
	January to June		June 30,	
	2005	**2006**	2005	**2006**
Medical Systems	2,783	**3,099**	5,217	**5,450**
DAP	888	**1,068**	911	**1,577**
Consumer Electronics	4,412	**4,907**	2,627	**2,479**
Lighting	2,244	**2,641**	2,678	**3,772**
Semiconductors	2,100	**2,440**	3,922	**3,651**
Other Activities	992	**820**	7,481	**4,717**
Unallocated			8,144	**14,594**
Total	13,419	**14,975**	30,980	**36,240**
Discontinued operations			338	**-**
Total			31,318	**36,240**

Sales and long-lived assets

	Sales		Long-lived assets *	
	January to June		June 30,	
	2005	**2006**	2005	**2006**
Netherlands	496	**526**	1,470	**1,484**
United States	3,279	**3,568**	3,157	**4,805**
Germany	1,004	**1,103**	550	**541**
France	805	**829**	193	**164**
United Kingdom	506	**613**	191	**85**
China	1,286	**1,504**	382	**299**
Other countries	6,043	**6,832**	2,010	**1,848**
Total	13,419	**14,975**	7,953	**9,226**

* 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 MDS business

Net periodic pension costs of defined-benefit plans

	2nd quarter 2006		January-June 2006	
	Netherlands	Other	Netherlands	Other
Service cost	54	32	107	69
Interest cost on the projected benefit obligation	134	105	268	207
Expected return on plan assets	(203)	(98)	(406)	(196)
Amortization of unrecognized transition obligation	-	-	-	-
Net actuarial (gain) loss recognized	(10)	23	(20)	44
Amortization of prior service cost	(15)	6	(30)	13
Settlement loss	-	-	-	-
Other	-	-	-	-
Net periodic cost (income)	**(40)**	**68**	**(81)**	**137**

The net periodic pension costs in the second quarter of 2006 amounted to EUR 52 million, of which EUR 28 million related to defined-benefit plans (the Netherlands income of EUR 40 million, other countries cost of EUR 68 million) and EUR 24 million related to defined-contribution plans outside the Netherlands (the Netherlands cost of EUR 2 million, other countries cost of EUR 22 million).

Net periodic costs of postretirement benefits other than pensions

	2nd quarter 2006		January-June 2006	
	Netherlands	Other	Netherlands	Other
Service cost	-	1	-	2
Interest cost on the accumulated postretirement benefit obligation	-	6	-	13
Amortization of unrecognized transition obligation	-	1	-	3
Net actuarial loss recognized	-	1	-	2
Curtailment gain	-	-	-	-
Net periodic cost (income)	**-**	**9**	**-**	**20**

Consolidated statements of income in accordance with IFRS

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

	2nd quarter		January to June	
	2005	**2006**	2005	**2006**
Sales	6,927	**7,601**	13,419	**14,975**
Cost of sales	(4,670)	**(5,114)**	(9,063)	**(10,160)**
Gross margin	2,257	**2,487**	4,356	**4,815**
Selling expenses	(1,161)	**(1,203)**	(2,172)	**(2,374)**
General and administrative expenses	(358)	**(390)**	(694)	**(729)**
Research and development expenses	(560)	**(576)**	(1,127)	**(1,130)**
Other business income (expense)	19	**26**	41	**92**
Income from operations	197	**344**	404	**674**
Financial income and expenses	(58)	**126**	(107)	**104**
Income before taxes	139	**470**	297	**778**
Income tax expense	72	**(90)**	25	**(180)**
Income after taxes	211	**380**	322	**598**
Results relating to unconsolidated companies	797	**(104)**	819	**(146)**
Minority interests	(11)	**(19)**	(18)	**(44)**
Income from continuing operations	997	**257**	1,123	**408**
Discontinued operations	(17)	**35**	(19)	**35**
Net income	980	**292**	1,104	**443**
Weighted average number of common shares outstanding (after deduction of treasury stock) during the period (in thousands)				
• basic			1,265,804	**1,191,966**
• diluted			1,267,986	**1,197,857**
Net income per common share in euros:				
• basic	0.77	**0.24**	0.87	**0.37**
• diluted	0.77	**0.24**	0.87	**0.37**
Ratios				
Gross margin as a % of sales	32.6	**32.7**	32.5	**32.2**
Selling expenses as a % of sales	(16.8)	**(15.8)**	(16.2)	**(15.9)**
G&A expenses as a % of sales	(5.2)	**(5.1)**	(5.2)	**(4.9)**
R&D expenses as a % of sales	(8.1)	**(7.6)**	(8.4)	**(7.5)**
EBIT or Income from operations	197	**344**	404	**674**
as a % of sales	2.8	**4.5**	3.0	**4.5**
EBITA	305	**524**	528	**905**
as a % of sales	4.4	**6.9**	3.9	**6.0**

Consolidated balance sheets in accordance with IFRS

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

	June 30, 2005	December 31, 2005	**June 30, 2006**
Current assets:			
Cash and cash equivalents	3,005	5,293	**2,538**
Receivables	4,783	5,155	**4,859**
Assets of discontinued operations	380	190	**-**
Inventories	3,929	3,480	**3,910**
Other current assets	582	455	**621**
Total current assets	12,679	14,573	**11,928**
Non-current assets:			
Investments in unconsolidated companies	5,763	5,520	**3,563**
Other non-current financial assets	924	673	**6,654**
Non-current receivables	165	213	**303**
Other non-current assets	112	126	**449**
Deferred tax assets	2,228	2,047	**1,889**
Property, plant and equipment	4,930	4,912	**4,762**
Intangible assets excluding goodwill	2,453	3,175	**3,486**
Goodwill	1,645	2,304	**2,573**
Total assets	30,899	33,543	**35,607**
Current liabilities:			
Accounts and notes payable	3,230	3,856	**3,449**
Liabilities of discontinued operations	154	143	**-**
Accrued liabilities	3,164	3,621	**3,316**
Short-term provisions	1,010	842	**791**
Other current liabilities	562	708	**675**
Short-term debt	816	1,168	**1,372**
Total current liabilities	8,936	10,338	**9,603**
Non-current liabilities:			
Long-term debt	3,679	3,339	**3,189**
Long-term provisions	1,919	1,817	**1,754**
Deferred tax liabilities	207	309	**267**
Other non-current liabilities	840	1,068	**874**
Total liabilities	15,581	16,871	**15,687**
Minority interests	338	353	**362**
Stockholders' equity	14,980	16,319	**19,558**
Total liabilities and equity	30,899	33,543	**35,607**
Number of common shares outstanding (after deduction of treasury stock) at the end of period (in thousands)	1,247,475	1,201,358	**1,188,109**
Ratios			
Stockholders' equity per common share in euros	12.01	13.58	**16.46**
Inventories as a % of sales	13.4	11.4	**12.2**
Net debt : group equity	9:91	(5):105	**9:91**
Employees at end of period of which discontinued operations 2,278 end June 2005 and 1,780 end December 2005	159,709	159,226	**158,344**

Reconciliation from US GAAP to IFRS

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

Reconciliation of net income from US GAAP to IFRS

	2nd quarter		January to June	
	2005	**2006**	2005	**2006**
Net income as per the consolidated statements of income on a US GAAP basis	983	**301**	1,100	**461**
Adjustments to IFRS:				
Capitalized product development expenses	171	**188**	320	**385**
Amortization of product development assets	(98)	**(131)**	(183)	**(240)**
Pensions and other postretirement benefits	(28)	**(67)**	(84)	**(131)**
Amortization of intangible assets	-	**(9)**	-	**(25)**
Unconsolidated companies	(24)	**2**	(24)	**(4)**
Deferred income tax effects	(11)	**8**	(14)	**9**
Discontinued operations	(6)	**6**	6	**6**
Other differences in income	(7)	**(6)**	(17)	**(18)**
Net income in accordance with IFRS	980	**292**	1,104	**443**

Reconciliation of stockholders' equity from US GAAP to IFRS

	June 30, 2005	**June 30, 2006**
Stockholders' equity as per the consolidated balance sheets on a US GAAP basis	15,677	**19,972**
Adjustments to IFRS:		
Product development expenses	1,558	**1,787**
Pensions and other postretirement benefits	(1,851)	**(2,139)**
Goodwill amortization (until January 1, 2004)	(399)	**(382)**
Goodwill capitalization (acquisition-related)	-	**(44)**
Acquisition-related intangibles	-	**255**
Assets from discontinued operations	42	**-**
Unconsolidated companies	(268)	**(99)**
Recognized results on sale-and-leaseback transactions	90	**80**
Deferred income tax effects	133	**146**
Other differences in equity	(2)	**(18)**
Stockholders' equity in accordance with IFRS	14,980	**19,558**

Reconciliation of non-US GAAP performance measures

all amounts in millions of euros unless otherwise stated
restated for the sale of the MDS 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 June			
	Comparable growth	Currency effects	Consolidation changes	Nominal growth
2006 versus 2005				
Medical Systems	**8.5**	**2.9**	**0.0**	**11.4**
DAP	**11.2**	**3.2**	**5.9**	**20.3**
Consumer Electronics	**16.5**	**3.8**	**(9.1)**	**11.2**
Lighting	**8.1**	**2.6**	**7.0**	**17.7**
Semiconductors	**12.6**	**3.4**	**0.2**	**16.2**
Other Activities	**(13.0)**	**1.5**	**(5.9)**	**(17.4)**
Philips Group	**10.3**	**3.1**	**(1.8)**	**11.6**

EBITA and EBIT to income before taxes

	Philips Group	Medical Systems	DAP	Consumer Electronics	Lighting	Semi-conductors	Other Activities	Unallocated
January to June 2006								
EBITA	**787**	**350**	**135**	**104**	**368**	**218**	**(124)**	**(264)**
Eliminate amortization of intangibles	**(85)**	**(52)**	**(7)**	**(1)**	**(15)**	**(9)**	**-**	**(1)**
EBIT or Income from operations	**702**	**298**	**128**	**103**	**353**	**209**	**(124)**	**(265)**
Eliminate financial income and expenses	**104**							
Income before taxes	**806**							
January to June 2005								
EBITA	426	298	102	108	269	57	(118)	(290)
Eliminate amortization of intangibles	(61)	(41)	(2)	-	-	(16)	-	(2)
EBIT or Income from operations	365	257	100	108	269	41	(118)	(292)
Eliminate financial income and expenses	(105)							
Income before taxes	260							

Composition of net debt and group equity

	June 30, 2005	June 30, 2006
Long-term debt	3,651	**3,187**
Short-term debt	815	**1,360**
Total debt	4,466	**4,547**
Cash and cash equivalents	(3,005)	**(2,538)**
Net debt (total debt less cash and cash equivalents)	1,461	**2,009**
Minority interests	335	**342**
Stockholders' equity	15,677	**19,972**
Group equity	16,012	**20,314**
Net debt and group equity	17,473	**22,323**
Net debt divided by net debt and group equity (in %)	8	**9**
Group equity divided by net debt and group equity (in %)	92	**91**

Reconciliation of non-US GAAP performance measures (continued)

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

Net operating capital to total assets

	Philips Group	Medical Systems	DAP	Consumer Electronics	Lighting	Semi-conductors	Other Activities	Unallocated
June 30, 2006								
Net operating capital (NOC)	**10,532**	**3,387**	**1,071**	**5**	**2,652**	**2,226**	**290**	**901**
Eliminate liabilities comprised in NOC:								
– payables/liabilities	**8,415**	**1,724**	**423**	**2,071**	**925**	**837**	**1,017**	**1,418**
– intercompany accounts	**-**	**25**	**27**	**80**	**35**	**51**	**(195)**	**(23)**
– provisions[1)]	**2,500**	**244**	**56**	**286**	**138**	**198**	**543**	**1,035**
Include assets not comprised in NOC:								
– investments in unconsolidated companies	**3,661**	**70**	**-**	**37**	**22**	**339**	**3,062**	**131**
– other non-current financial assets	**6,654**							**6,654**
– deferred tax assets	**1,940**							**1,940**
– liquid assets	**2,538**							**2,538**
Total assets	**36,240**	**5,450**	**1,577**	**2,479**	**3,772**	**3,651**	**4,717**	**14,594**

1) provisions on balance sheet EUR 3,035 million excluding deferred tax liabilities of EUR 535 million

June 30, 2005								
Net operating capital (NOC)	8,447	3,287	511	232	1,702	2,629	527	(441)
Eliminate liabilities comprised in NOC:								
– payables/liabilities	7,775	1,594	339	2,021	748	773	957	1,343
– intercompany accounts	-	22	4	63	37	(19)	(136)	29
– provisions[2)]	2,700	254	57	291	127	227	610	1,134
Include assets not comprised in NOC:								
– investments in unconsolidated companies	6,031	60	-	20	64	312	5,523	52
– other non-current financial assets	924							924
– deferred tax assets	2,098							2,098
– liquid assets	3,005							3,005
Total assets	30,980	5,217	911	2,627	2,678	3,922	7,481	8,144
Discontinued operations	338							
Total	31,318							

2) provisions on balance sheet EUR 2,911 million excluding deferred tax liabilities of EUR 211 million

Composition of cash flows before financing activities

	2nd quarter		January to June	
	2005	**2006**	2005	**2006**
Cash flows from operating activities	52	**300**	(280)	**(567)**
Cash flows from investing activities	690	**(518)**	406	**(1,376)**
Cash flows before financing activities	742	**(218)**	126	**(1,943)**

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 MDS business

	2005				2006			
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Sales	6,492	6,927	7,458	9,518	7,374	**7,601**		
% increase	2	(1)	6	6	14	**10**		
EBIT	207	158	443	971	335	**367**		
as a % of sales	3.2	2.3	5.9	10.2	4.5	**4.8**		
Net income	117	983	1,436	332	160	**301**		
per common share in euros	0.09	0.78	1.14	0.28	0.13	**0.26**		

	January-March	January-June	January-September	January-December	January-March	January-June	January-September	January-December
Sales	6,492	13,419	20,877	30,395	7,374	**14,975**		
% increase	2	0	2	4	14	**12**		
EBIT	207	365	808	1,779	335	**702**		
as a % of sales	3.2	2.7	3.9	5.9	4.5	**4.7**		
Net income	117	1,100	2,536	2,868	160	**461**		
as a % of stockholders' equity (ROE)	3.7	16.3	23.7	18.3	4.0	**6.9**		
per common share in euros	0.09	0.87	2.01	2.29	0.13	**0.39**		

	period ending 2005				period ending 2006			
Inventories as a % of sales	12.0	13.4	13.3	11.4	12.3	**12.2**		
Net debt : group equity ratio	8:92	8:92	0:100	(5):105	6:94	**9:91**		
Total employees (in thousands)	161	160	161	159	161	**158**		
of which discontinued operations	2	2	2	2	2	**-**		

Information also available on Internet, address: www.investor.philips.com
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