GRUPO IUSACELL SA DE CV
Form 6-K
July 18, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 or 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of July, 2006

GRUPO IUSACELL, S.A. de C.V.

(Translation of registrant's name into English)

Montes Urales 460
Col. Lomas de Chapultepec, Deleg. Miguel Hidalgo
11000, Mexico D.F.

(Address of principal executive office)

Indicate by check mark whether the registrant files or will fill annual reports under cover of Form 20-F or Form 40-F: Form 20-F [X] Form 40-F [ ]

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g-3-2(b) under the Securities and Exchange Act of 1934. Yes [ ] No [X]

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Documents Furnished By the Registrant
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1. Press Release of the Registrant dated July 17, 2006

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GRUPO IUSACELL, S.A. DE C.V.

Date: July 17, 2006

/s/ Fernando Cabrera

Name: Fernando Cabrera
Title: Attorney in fact

/s/ Jose Luis Riera

Name: Jose Luis Riera
Title: Attorney in fact

GRUPO IUSACELL, S.A. DE C.V.

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Col. Lomas de Chapultepec
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The shares of Grupo Iusacell, S.A. de C.V., (Iusacell) have been registered in the Mexican Stock Exchange ("Bolsa Mexicana de Valores"), since August 4, 1999, under the symbol CEL. The shares of Iusacell are with no par value.

On October 17, 2003, the Extraordinary Shareholders Meeting of Iusacell, approved the capital stock restructure by virtue of the conversion of all the shares series "A" and series "V" in a Unique Series, although approved the reverse stock split whereby shareholders received one new share of common stock in exchange for twenty series "A" and series "V" shares.

The capital stock of Iusacell of Ps.$5,938'689,106.14 is represented by 93'424,919 ordinary shares with no par value.

Ticker: CEL

Iusacell's shares are registered with the Special and the Securities section of the National Registry of Securities.

"Registration with the National Registry of Securities does not imply a certification as to investment quality of the securities nor the solvency of the issuer."

Annual Report submitted in accordance with the General Provisions applicable for Issuers of Securities and other participants of the Securities Market issued by the CNBV (Disposiciones de Caracter General aplicables a las Emisoras de valores y a otros participantes del Mercado de Valores), for the fiscal year ended December 31, 2005.

"This is a free translation of the Annual Report filed in Spanish with the Mexican National Banking and Securities Commission (Comision Nacional Bancaria y de Valores). As this is a free translation, there may be some differences with respect to the original version in Spanish. You may access the Spanish version at www.bmv.com.mx."

CONTENT

CONSIDERED INFORMATION

This Annual Report contents various estimated statements and figures including, among other things, the financial development and operative planning designed for Grupo Iusacell, S.A. de C.V. This information is based in actual considerations realized by our management and in outline assumptions by the management based in the actual available information. Words "estimates", "believes", "intends", "may" or "anticipates" or other variation are using to identify some of these declarations and considered statement. This information is submitted to variations, risks and uncertainties, also to other facts that could have as result that our real results, or our performance or success be mainly different compared with the future results, tacit or expressly mentioned in those statements and considerations. In the event that the considerations of the management don not be exact, the real results could be important and adverse different in comparison with the considerations. We warning the readers do not exclusively assume these declarations and statements, which solely are valid regarding the respective dates. We do not assume any obligation to publicly bring up of modify any of the declarations and statements, as result of new information or future events or any other reason.

The factors described in this Annual Report under Item 1. "General Information- c) Risk Factors", could have as result the fact that the real results may be importantly different regarding those statements.

* * *

"Iusacell" means Grupo Iusacell, S.A. de C.V. This company used to name Nuevo Grupo Iusacell, S.A. de C.V., unless otherwise provided in the context, the terms "we" or "us" refer to Iusacell and its consolidated subsidiaries.

"Iusacell Celular"means Grupo Iusacell Celular, S.A. de C.V. This company used to name Grupo Iusacell, S.A. de C.V. Iusacell is owner of the 100% of the capital stock of Iusacell Celular.

Certain terms are defined the first time they are used in this Annual Report. The "Glossary of Terms and Definitions" provides definitions of certain technical terms used herein.

On July 29, 2003, Grupo Movil Access, S.A. de C.V., or Movil Access, a Mexican telecommunications company subsidiary of Grupo Movil Access, S.A. de C.V., or GMA, a paging company formerly known as Biper, S.A. de C.V., acquired through a tender offer in Mexico and the United States 74.6% of Iusacell's capital, and became Iusacell's principal shareholder. GMA, Movil Access, Operadora Unefon S.A. de C.V., a fixed and mobile telephony company, Grupo Elektra S.A. de C.V., an electronic appliance retailer, and TV Azteca S.A. de C.V., a Mexican television network, are all part of a group of companies that are either controlled or subject to significant influence, directly or indirectly, by Mr. Ricardo B. Salinas Pliego.

The term "Verizon" in this Annual Report refers to Verizon Communications Inc. or its subsidiaries, and to Bell Atlantic Corporation (in connection with events prior to June 2000, when Verizon was formed), as the context requires. The term "Vodafone" in this information memorandum refers to Vodafone Group Plc or its subsidiaries, as the context requires.

The securities represented the stock capital of Iusacell are listed in the Mexican Stock Market. Iusacell as Iusacell Celular have debt securities publicly listed.

Unless otherwise provide, all the references to "E.U. dollars", "E.U. Dollars", "dollars", "E.U.$" or "$" are to dollars of the United States and the references to "Ps." And "pesos" are to Mexican pesos. We published our financial statements in Mexican pesos, which are adjusted in order to reflect changes in the power acquisition as consequence of the inflation. In this way, unless otherwise provided, our financial information is presented in constant pesos at

December 31, 2005. It is possible that the amounts presented in this Annual Report shows inconsistencies regarding its rounding off.

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1) GENERAL INFORMATION

a) GLOSSARY OF TERMS AND DEFINITIONS

GLOSSARY OF TELECOMMUNICATIONS TERMS

1XRTT:	A member of CDMA 2000 which is a family of standards that defines the radio interface allowing a smooth transition from CDMA (1S-95) systems. This family of standards involves some variants and the services, offerings, such as voice and packet data on a single carrier (1XRTT), data only (1X-DO).
Analog:	A transmission method employing a continuous electrical signal that varies in amplitude or frequency in response to changes in sound, light, position, etc., impressed on a transducer in the sending device.
Band:	A range of frequencies between two defined limits.
CDMA:	Code Division Multiple Access, the highest-capacity commercial digital standard available. CDMA increases capacity by transmitting a large number of simultaneous conversations over a single channel, assigning unique codes that can be re-assembled at the receiving end.
Cellular A-band:	The range of frequencies used to provide cellular wireless service between 825-835 MHz and between 870-880 MHz of the radio spectrum.
Cellular B-band:	The range of frequencies used to provide cellular wireless service between 835-845 MHz and between 880-890 MHz of the radio spectrum.
Channel:	A pathway for the transmission of information between a sending point and a receiving point.
Covered POPS:	The number of POPs in a defined area for whom a cellular signal is accessible.
Calling Party Pays (CPP):	Calling Party Pays is a cellular telephony payment structure in which the party that places a call to a cellular telephone is billed for interconnection access, and the recipient is not billed for the airtime charges corresponding to the call.
Digital:	A method of storing, processing and transmitting information through the use of distinct electronic or optical pulses that represent the binary digits 0 and 1. Digital transmission and switching technologies employ a sequence of discrete, distinct pulses to represent information, as

	opposed to the continuous analog signal.
E-1:	A digital telephony format that carries data at the rate of 2.048 Mbps (DS-1 level). E-1 is the European and Latin American version of North American T-1, although T-1 is 1.544 Mbps.
E3/DS3:	Digital signal which number identify for the series of standard digital transmission rates or levels based on DS0, a transmission rate of 64 Kbps, the bandwidth normally used for one telephone voice channel. Both the North American T-carrier system and the European E-carrier system of transmission operate using the DS series as a base multiple. The digital signal is what is carried inside the carrier system. DS3, the signal in the T-3 carrier, carries a multiple of 28 DS1 signals or 672 DS0s or 44.736 Mbps.

EVDO:	Asymmetrical technology that utilizes an exclusive data carrier wave and permits for down link reception transmission at speeds ranging between 38.4 kbps and 2.4 Mbps for downlink reception and between 9.6 and 144 kbps for uplink transmission, which allows the offer of services with greater multimedia content such as video streaming, video-on-demand, data access and high-definition games, among others.
Hertz:	The unit measuring the frequency with which an alternating electromagnetic signal cycles through the zero-value state between lowest and highest states. One hertz (abbreviated Hz) equals one cycle per second; KHz (kilohertz) stands for thousands of hertz; MHz (megahertz) stands for millions of hertz; and GHz (gigahertz) stands for billions of hertz.
IMTS:	Improved mobile telephone service; IMTS systems are analog mobile telephone systems that employ a single powerful radio base station to communicate with IMTS mobile telephones that are within approximately a 25-mile radius.
LATA:	Local access and transport area; an area in which a local exchange carrier is permitted to provide service as designated by the 1982 United States federal court decree resulting from antitrust litigation brought by the United States Department of Justice against AT&T corporation.
PCS:	Personal communications services. PCS represents a digital wireless communications service with the ability to provide features such as voice, video and data applications, short messaging, voicemail, caller identification, call conferencing and call forwarding.
PCS A-band:	The range of frequencies used to provide PCS

	wireless services between 1.850-1.865 GHz and between 1.930-1.945 GHz of the radio spectrum.
PCS B-band:	The range of frequencies used to provide PCS wireless services between 1.870-1.885 GHz and between 1.950-1.965 GHz of the radio spectrum.
PCS D-band:	The range of frequencies used to provide PCS wireless services between 1.865-1.870 GHz and between 1.945-1.950 GHz of the radio spectrum.
PCS E-band:	The range of frequencies used to provide PCS wireless services between 1.885-1.890 GHz and between 1.965-1.970 GHz of the radio spectrum.
PDH:	A transmission system for voice communication using plesiochronous synchronization. PDH is the conventional multiplexing technology for network transmission systems.
Penetration rate:	A cellular operator's subscribers within a defined area derived by total POPs within that area.
POPs:	The population for a particular area based on the 2000 Mexican census, as published by the Instituto Nacional de Estadistica, Geografia e Informatica (the National Institute of Statistics, Geography and Information Processing, "INEGI"). Population figures have been calculated by applying the forecast annual population growth rate for a particular year to the data derived from the 2000 Mexico census. The number of POPs in any region or other geographic area should not be confused with the current number of users of wireless services in that region or other geographic area and is not indicative of the number of users of wireless services in the future.

Roaming:	A service offered by mobile communications providers which allows a subscriber to use his or her telephone while in the service area of another carrier.
SDH:	Synchronous digital hierarchy. It refers to a group of fiber-optic transmission rates that can transport digital signals with different capacities.
STM1:	Synchronous Transport Module Digital signal X is a term for the series of standard digital transmission. STM1 is the signal that carries 155 Mbps.
Switch:	A device that opens or closes circuits or selects the paths or circuits to be used for transmission of information. Switching is the process of interconnecting circuits to form a transmission path between users.

TDMA:	Time division multiple access, a standard of digital cellular technology, which provides more call carrying capacity than analog, but less than CDMA, by interlacing conversations on a single channel through time-sharing methods.
Wi-Fi:	Wireless Fidelity is the popular term for a high-frequency wireless local area network (WLAN). The Wi-Fi technology is rapidly gaining acceptance in many companies as an alternative to a wired LAN. It can also be installed for a home network.

b) EXECUTIVE SUMMARY

We are a wireless telecommunications services provider in Mexico with nearly 1.9 million mobile wireless customers at December 31, 2005, 68.6% of which are prepaid customers. We hold concessions in the 800 megahertz (MHz) band to provide cellular wireless services in five contiguous geographic regions comprising all of central and southern Mexico, and in the 1900 MHz band, which allows us to provide PCS wireless services at national level.

We provide digital service using CDMA technology, the highest-capacity commercial digital technology available in the 800 and 1900 MHz frequency bands. In January 2003, we launched the country's first CDMA2000 1XRTT voice and high-speed data network in Mexico City. With this advanced network, we increased voice capacity and are able to offer subscribers new data services, e-mail and Internet access at speeds of up to 144 kilobits per second (kbps). In 2005, we improved our network in certain cities by implementing EVDO 3-G technology, which permits users to benefit from high-speed data transmissions up to 2.4 megabits per second. In addition to our core mobile telephony services, we also provide a wide range of other telecommunications services, including long distance, wireless local telephony and data transmission services.

Our subscriber base as of December 31, 2005 was 1,857,065. Of these subscribers, 583,695 were postpaid customers who purchase mobile telephony services pursuant to fixed-term contracts, and the remaining 1,273,370 were prepaid customers who pay for their mobile telephony services in advance primarily through the purchase of prepaid airtime.

Since July 29, 2003, Iusacell has been under the management control of Movil Access. The personal and advisors of Movil Access are completely involved in the daily management of the transactions of Iusacell as in the definitions and implementation of long term strategies of Iusacell. Movil Access owns the 74.6% of the capital stock of Iusacell. Before the acquisition of our capital by Movil Access, Iusacell was under the management control of Verizon and Vodafone.

Currently we are restructuring our debt, and on June 2, 2006, Iusacell filed a request of concurso mercantil proceeding. See Item 3 paragraph c) "Material Credits Report - Debt Restructuring Process".

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c) RISK FACTORS

Risk Factors Regarding the Plan of ReorganizationDebt Restructuring Process

Because the Mexican Business Reorganization Act (Ley de Concursos

Mercantiles) is a relatively new statutory mechanism with a limited number of court cases involving these proceedings in Mexico, you may receive different treatment than we propose under the terms of the Reorganization Plan.

As part of the Reorganization Plan, on June 2, 2006, Iusacell filed a solicitation for a concurso mercantil in order that once Iusacell is p pronounce in concurso mercantil, the Reorganization Plan has to be presented to the recognized creditors for their approval. Once the Reorganization Plan has been approved, the exchange of the notes may take place and the debt restructuring may be considered completed.

The company can not assure you which will be the development of the proceeding under the Mexican Business Reorganization Act. The Mexican Business Reorganization Act was recently enacted and very few companies of our size have completed a concurso mercantil proceeding under the new law. Under the Mexican Business Reorganization Act (LCM), concurso mercantil proceedings include a verification phase that typically lasts 30 days and a conciliation phase that may last up to 185 days. The objective of the verification phase is to determine whether the debtor is in fact insolvent under Mexican law. The objective of the conciliation phase is to reach an agreement between the debtor and its creditors to restructure the indebtedness of the debtor. We cannot provide any assurance that an agreement between our creditors and us will in fact occur or that approval of such an agreement will occur within the time frame provided by the law or under the terms specified by the law. If an agreement is not reached during the conciliation phase, we may enter into a bankruptcy phase (quiebra). The bankruptcy phase in which our operations could be affected according with the law. The bankruptcy does not have a specific term within which it must be concluded. Consequently, we cannot accurately predict the duration of any concurso mercantil proceeding related with the concurso mercantil under the LCM.

Pursuant to the LCM, the Reorganization Plan will require the recommendation of a conciliator (conciliador) appointed by the Mexican Institute (the Instituto Federal de Especialistas de Concursos Mercantiles), and the approval of a Mexican judge. As part of the Concurso Mercantil proceeding, the conciliator is required to be available to creditors, some of whom may object to or seek to modify the terms of the Reorganization Plan. We cannot provide any assurances that the conciliator will recommend the Reorganization Plan supported by such parties, or any other plan, that the conciliator will act expeditiously or that decisions by the conciliator will not receive comments or oppositions.

In case that Iusacell is declared in Concurso Mercantil, this procedure will have different effects depending on the relation of the third party with us, even as creditor or shareholder, so in order to know more about the effects or to make a decision, we recommend you to consult a specialist and not to base exclusively in the content of this Annual Report.

Although Mexican law has created a statutory timetable for handling reorganization, the approval process depends on a number of factors beyond our control, including, but not limited to, the scope of the review of and revisions to the Reorganization Plan by the Mexican Court, the number and scope of objections to the Reorganization Plan that are filed with the Mexican Court, the complexity of any evidence submitted to the court and how long it takes the court to handle such objections or comments.

RISK FACTORS REGARDING OUR LIQUIDITY

There is substantial doubt as to our ability to continue as a going concern due to our high level of leverage and recurring losses.

In its Report of Independent Registered Public Accounting Firm dated March 31, 2006, Freyssinier Morin, S.C., our independent accountants, stated that we are highly leveraged and have suffered recurring losses from operations that raise substantial doubt as to our ability to continue as a going concern. As of December 31, 2005, our total consolidated indebtedness, including other financing, was Ps.8,534.4 million, or approximately 130.7% of our total capitalization. For the years ended December 31, 2003, 2004 and 2005, our earnings were insufficient to cover our fixed charges by Ps.5,510.9 million, Ps.1,845.9 million and Ps.600.3 million, respectively. We are also currently in default under substantially all of our indebtedness for, among other things, failure to make principal and/or interest payments.

We believe that if our financial situation does not improve we will be unable to recommence the servicing of our debt and operate as a viable company. We may be forced to file for bankruptcy, liquidate or reorganize, which would materially adversely affect the value and market price of our equity and debt securities and the claims of our equity or debt holders, who could lose some or all of their investment. See Item 3, paragraph c) "Material Credits Report - Debt Restructuring Process".

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Iusacell is a holding company and can pay our liabilities only through the cash flow from our subsidiaries or out of the proceeds of our financing. Our obligations, including under our U.S.$350.0 million 14 1/4 % senior notes due 2006, are structurally subordinated to those of our subsidiaries

Iusacell is a holding company with no significant assets other than the stock of its subsidiaries. In order to pay our obligations, we must rely on income from dividends, loans and other cash flow from our subsidiaries or debt or equity financings. Because we are a holding company, the claims of our creditors are structurally subordinated to the claims of our subsidiaries creditors with respect to the assets of such subsidiaries. At March 31, 2006, our consolidated subsidiaries total indebtedness, including trade notes payable, was Ps.4,867.9 million (U.S.$446.6 million) all under default. For a description of some of our obligations and liabilities, see Item 3, paragraph c) "Material Credits Report".

Our current debt agreements prevent our subsidiaries from paying distributions or dividends or making cash available to us, except for those payments of dividends or loans or advances at such times and in such amounts as are necessary to permit us to make interest and principal payments as and when due in respect of our U.S.$350.0 million 14 1/4 senior notes due 2006, which we refer to as the Iusacell Senior Notes, so long as certain events of default have not occurred under our subsidiaries debt agreements. Our principal operating subsidiary, Iusacell Celular, is in default under its U.S.$265.6 million senior refinancing secured loan as well as in its U.S.$150.0 million 10% senior notes due 2004 for, among other things, failure to make principal and/or interest payments. As a result, dividends and cash flow from Iusacell Celular are therefore unavailable to us pursuant to the terms of its outstanding debt and the restrictive covenants that govern such debt.

Furthermore, the ability of our subsidiaries to pay dividends or distributions is subject to Mexican legal requirements, which in general terms provide that a Mexican corporation may declare and pay dividends or distributions only out of the profits reflected in its year-end financial statements, if such payment is approved by its stockholders and after the creation of required legal reserves and the absorption or satisfaction of losses suffered in previous fiscal years.

We are in default on our obligations under the Iusacell senior notes, and our repayment obligations have been accelerated

We did not receive sufficient income from dividends or were able to obtain alternative sources of funds to make the interest payments due on each of June 1, 2003, December 1, 2003, June 1, 2004 and December 1, 2004 of U.S.$24.9 million each one, on the Iusacell senior notes and, as a result, we did not make those payments. In response to these nonpayment, on April 29, 2005, we received a notice from The Bank of New York, acting as trustee under the indenture governing the Iusacell senior notes, informing us that and unidentified percentage of holders of the Iusacell senior notes had elected to accelerate the principal payment of the notes.

Neither we nor our subsidiaries have the cash resources to repay such amounts. Due to the depressed state of the value of telecommunication assets and the structural subordination of the claims of the holders of the Iusacell senior notes to those of our subsidiaries' creditors, it is doubtful that the value of the assets held by our subsidiaries will be sufficient to satisfy the claims of their creditors and our creditors, including the holders of the Iusacell senior notes. In addition, our principal shareholder is under no obligation to provide financial resources to us, and has not indicated that it is prepared to do so. Therefore, unless we can successfully restructure our consolidated debt, we believe that we will be unable to satisfy our obligations. As a result of our failure to pay all amounts due under the Iusacell senior notes, we may be forced to file for bankruptcy, liquidate or reorganize, which could materially adversely affect the value and market price of our equity and debt securities and the claims of our equity or debt holders, who could lose some or all of their investment. See Item 3, paragraph c) "Material Credits Report - Debt Restructuring Process".

Iusacell Celular is in default of its obligations under its senior notes and its senior refinancing secured loan and its repayment obligations have been accelerated

Iusacell Celular, our principal cellular telephony operating subsidiary, did not make the July 15, 2003 U.S.$7.5 million interest payment due on its U.S.$150.0 million 10% senior notes due 2004. In response to this nonpayment, on September 11, 2003, holders representing 51.3% of the senior notes notified Iusacell Celular that they had elected to accelerate the principal payment of the notes. In addition, Iusacell Celular failed to make the U.S.$265.6 million principal payment on its senior refinancing secured loan which was due on March 31, 2004 because of the automatic acceleration of the maturity date of the loan as a result of our failure to refinance the Iusacell Celular senior notes by such date.

Iusacell Celular reach an preliminary agreement with the majority, in general terms, of its creditors that represents the 58% in order to reorganize its debt of: Senior Refinancing Secured Loan and with U.S.$150.0 million 10% senior notes due 2004 (See Item 3, paragraph c) "Material Credits Report - Debt Reorganization Process"). The Reorganization Plan stablished the possibility of make the reorganization of Iusacell Celular with its creditors, could be judicially through a concurso mercantil proceeding according LCM or out of court, in the knowledge that Iusacell Celular could chose the way for that. The Reorganization Plan of Iusacell Celular will be formalized in its case, according with the established in the LCM.

We may be unable to fund our capital expenditure programs which are critical for us to compete, or pursue business opportunities

In order to implement our operating strategy and be able to compete in the Mexican market, we will have to incur significant capital expenditures. We currently estimate our aggregate capital expenditures requirements for 2005, 2006 and 2007, not including capitalized interest, to total approximately

U.S.$305.0 million. We anticipate that approximately U.S.$70 million of such capital expenditures will need to be invested during 2006 in order to acquire, build and operate our PCS network in Mexico, as well as to make additional investments in the central regions and expand the advance data network capabilities into other key cities. As we make additional investments in our mobile telephony network and pursue long distance and data transmission opportunities, we will also be likely to need additional external funding in 2008 and beyond. Furthermore, the investments required to keep pace with technological change, such as extended coverage on third-generation wireless telecommunication equipment, will require additional capital resources.

Historically, our cash generated from operating activities has not been sufficient to meet our debt service, working capital and capital expenditure requirements. In the past, we have relied on the capital markets for new equity and debt financing, on vendor financing, and on borrowings and equity contributions from our shareholders to meet such funding needs. Given our current critical financial condition, it is highly unlikely that we will be able to obtain funding for these planned capital expenditures without first completing a successful restructuring of our existing indebtedness.

The failure to obtain funding for capital expenditures will materially adversely affect our ability to compete effectively against better capitalized competitors and to withstand downturns in our business or in the Mexican economy generally. Furthermore, this would limit our ability to pursue business opportunities that may be in our interest.

RISKS RELATING TO OUR BUSINESS

We face increasing competition which may reduce our operating margins.

Competition in the Mexican wireless industry is substantial. We face significant competition, mainly from Radio Movil Dipsa, S.A. de C.V. (Telcel), in our core mobile telephony services business. As a subsidiary of America Movil, S.A. de C.V., a company spun off from Telefonos de Mexico, S.A. de C.V. (known as Telmex), Telcel has significantly greater internal financial and operational resources than those available to us, has nationwide cellular and PCS concessions, a nationwide cellular network and has the ability to use Telmex's installed telecommunications systems. We also face competition from Telefonica Moviles S.A. de C.V., which we refer to as Telefonica, and Operadora Unefon, S.A. de C.V. (Unefon), which we refer to as Unefon, one of our affiliates. Both these service providers own concessions in all nine wireless service regions in Mexico and provide service in Mexico's principal cities. We also face increasing competition in certain cities from Nextel de Mexico, S.A. de C.V. (Nextel), a provider of specialized mobile radio services. In long distance, we face increasing competition from nine other concession holders.

The Mexican government may also grant additional concessions to other companies to provide services similar to or the same as those that we provide. In addition, the Mexican government is in the process of developing new regulations that will authorize the operation of telecommunication services resellers.

Competition may lead to increases in advertising and promotional spending, along with higher subsidies, increased demands on access to distribution channels and reduced prices per minute. These factors may lead to smaller operating margins, greater choices for customers and increasing movement of customers between competitors, which may make it difficult for us to retain customers or add new customers.

Because of their resources and, in some cases, ownership by larger companies, some of our competitors are financially stronger than we are, which may enable them to offer services to customers that we cannot offer due to our financial constraints, or at prices that are below the prices at which we can offer comparable services. If we cannot compete effectively based on the availability or price of service offerings, our revenues and growth may be adversely affected. In the past, competitive pressures have not always allowed us to implement price increases to keep pace with inflation and have occasionally caused us to implement price rollbacks and reductions.

Mexican authorities may enact new laws and regulations, or may adopt new interpretations to existing laws and regulations that could negatively affect our operations and profitability.

Mexican authorities may enact new laws and regulations, or may adopt new interpretations to existing laws and regulations that could negatively affect our operations and profitability. In particular, in the past the Mexican government has sought to impose a 10% tax on mobile telephony services. Although this tax has been derogated, we cannot assure you that the Mexican government will not seek to enact new taxes. If such taxes are imposed, or any new laws are enacted or new interpretations to existing laws are adopted that result in increased costs, we may be unable to pass on such costs to our customers, or demand may decrease if we do pass on such costs.

We are particularly exposed to this regulatory risk given that we operate in the telecommunications industry, which is highly regulated. For example, in December 2004, the Mexican Federal Telecommunications Commission (Comision Federal de Telecomunicaciones or COFETEL) ruled that, beginning January 2005, Telmex and its affiliate, Telefonos del Noroeste, S.A. de C.V., must apply a rate of Ps.2.25 per minute for "Calling Party Pays" calls originating on fixed telephones and terminating on mobile phones. This rate will decrease further to Ps.2.03 in 2006 and Ps.1.82 in 2007. This ruling has forced us to reduce our "Calling Party Pays" and interconnection rates, resulting in a decrease in revenues and gross margin.

In addition, in early 2005 other local fixed telephony concessionaries have recently requested that COFETEL approve the reduction of "Calling Party Pays" interconnection rates for calls originating from their networks. If COFETEL approves such a reduction, we may be forced to further reduce our rates.

New Securities Market Law

On September 30, 2005, the Mexican Congress published the new Securities Market Law, which is in force starting on June 28, 2006. The new Securities Market Law includes dispositions that pretend to improve the information disclosure, minoritary shareholders rights and corporate governance. Also, the new Securities Market Law imposes more obligations and liabilities to the Board of Directors members and to significant officers (as the duty of dispatch and duty of loyalty). Otherwise, according with the new Securities Market Law we will be forced to adopt certain modifications to our by-laws within 180 days after the date to take effect the new law. Currently, we are in the process of evaluating the specific modifications that apply to our by-laws.

The technology we use may be made obsolete by advancements in technology.

All companies in the global telecommunications industry must adapt to rapid and significant changes in technology. The technology that we have selected in our wireless business may rapidly become obsolete by market demand for new or improved digital technologies supporting wireless service or other services in the near future.

Some of the most significant changes which the wireless communications industry is experiencing include:

- o evolving industry standards;
- o ongoing improvements in the capacity and quality of digital technology;
- o shorter development cycles for new products, enhancements and changes in end-user needs and preferences;
- o development of data and high bandwidth network capabilities;

- o migration to next-generation services; and
- o expanded availability and functionality of Wi-Fi and EVDO services and other new wireless technologies.

Alternative technologies may develop that may provide wireless communications service or alternative service superior to that available from us, or that enable voice communication over unregulated frequencies.

Technological changes may require substantial new capital expenditures and/or require write-downs of obsolete technology. They may also materially adversely affect our operations and our competitive position to the extent we are not able to react quickly to these changes. See "--Risks Relating to Our Financial Condition--We may be unable to fund our capital expenditure programs which are critical for us to compete, or pursue business opportunities."

If our wireless service offerings do not meet customer expectations, we could be limited in our ability to attract and retain customers.

Customer acceptance of the services we offer is and will continue to be affected by technology-based differences and by the operational performance, quality, reliability and coverage of our wireless networks. We may have difficulty attracting and retaining customers if we are unable to meet customer expectations for, or are otherwise unable to resolve quality issues relating to, our wireless networks, billing systems, or customer care or if those issues limit our ability to expand our network capacity or subscriber base, or otherwise place us at a competitive disadvantage to other wireless service providers in our markets.

We rely on roaming arrangements with other carriers, which we may be unable to obtain or maintain in the future on terms that are acceptable to us.

Our customers automatically can access another provider's analog cellular or digital system only if the other provider allows our customers to roam on its network. We rely on agreements to provide roaming capability to our customers in many areas outside our service area, within and outside Mexico, and to improve coverage within our network footprint.

Some competitors may be able to obtain lower roaming rates than we do because they have larger call volumes or because of their affiliations with, or ownership of, wireless providers, or may be able to reduce roaming charges by providing service principally over their own network. In addition, the quality of service that a wireless provider delivers during a roaming call may be inferior to the quality of service we or our affiliates provide, and our customers may not be able to use some of the advanced features, such as high speed, short-messaging or voicemail notification, that the customers enjoy when making calls within our network. In particular, the biggest mobile telephony companies in Mexico, Telcel and Telefonica, are able to offer a worldwide full voice and data roaming service, which is a competitive disadvantage for us with corporate and other high-usage customers.

Our roaming partners may also migrate their current technology to a technology that is incompatible with ours. In such case, we would no longer be able to offer roaming services to our customers through such carriers.

Equipment failure, power outages, natural disasters, terrorist acts, or other breaches of network or information technology security may adversely affect our business.

A major equipment failure, power outage, natural disaster, terrorist act, or other breach of network or information technology security that affects our mobile telephony switching offices, information systems, microwave links, third-party owned local and long distance networks on which we rely, our cell sites or other equipment or the networks of other providers on which our subscribers roam could have a material adverse effect on our operations. While we have insurance coverage for some of these events, our inability to operate our wireless system or access our information systems even for a limited time period, or the loss of subscriber data, may result in a loss of subscribers or impair our ability to serve our subscribers or attract new subscribers, which would have a material adverse effect on our business, results of operations and financial condition.

A significant portion of our activations is represented by a small number of distributors.

Our three largest distributors accounted for 54% and 45% of our total activations in 2005 and 2004, respectively. We have established certain measures to reduce the risk associated with this concentration, such as certain guarantees and liens. Our results of operations could be materially adversely affected, at least in the short-term, if any payment defaults occur with respect to these distributors or if any of these distributors were to enter into bankruptcy or other reorganization proceedings or terminate their relationship with us.

Our controlling stockholder is able to influence our business and affairs.

As of December 31, 2004, MovilAccess beneficially owned about 74.6% of our outstanding common stock and is our largest stockholder. MuvilAccess is controlled directly or indirectly by Ricardo B. Salinas Pliego, our Chairman of the Board of Directors and Executive Director, who also holds directly 7.4% of our outstanding common stock. As a result, Mr. Salinas Pliego controls our business, policies and affairs, including the election of at least the majority of Iusacell's directors and all major corporate transactions and could cause or prevent a change of control. Mr. Salinas Pliego's interests may not be fully aligned, and could conflict, with the interest of the other equity holders and of debt holders.

We have significant transactions with affiliates that create potential conflicts of interest.

We regularly engage in transactions with entities owned or controlled by the controlling shareholder of Iusacell, our parent company. These transactions include telemarketing and advertising campaigns, paging operations, sale and distribution of our products, operation of our customer sales and service centers, collections from customers and banking services. In particular, we have entered into a capacity exchange and roaming agreement with Unefon, a mobile telephony competitor. In addition, some of the members of our Board of Directors, as well as some of our executives, serve on the Boards of Directors of TV Azteca, Unefon, GMA, our paging competitor, and/or Elektra, a distributor of our products. In addition, some of our executives also hold offices in other companies controlled by Mr. Salinas Pliego. See Item 4 "Management - d) Related Party Transactions and Conflict of Interests" and c) "Management and Shareholders."

Transactions with affiliates may create the potential for conflicts of interest. To guard against these potential conflicts of interest, Iusacell has established a Related Party Transactions Committee of its Board of Directors made up of independent Directors to provide an independent review of Iusacell's and its subsidiaries' (including us) transactions with affiliates to determine whether these transactions are related to our business and are consummated on terms that are at least as favorable to us as terms that would be obtainable in a similar transaction entered into on an arm's-length basis with an unrelated third party. Nevertheless, conflicts of interest may arise and could have a negative effect on our results of operations and financial condition.

The SEC is seeking court-orders barring our Chairman and Vice-Chairman of the Board, who are also key executive officers, from serving as officers or directors of any publicly-held company with securities trading in the United States, such as Iusacell.

On January 4, 2005, the SEC filed civil fraud charges against, among others, Mr. Ricardo Salinas Pliego, our Chairman of the Board and Executive Director, Mr. Pedro Padilla Longoria, our Vice Chairman of the Board and Executive Director, and Mr. Luis Jorge Echarte Fernandez, one of our Directors. The charges are unrelated to us. However, the SEC is seeking, among other things, court-orders barring Mr. Salinas Pliego and Mr. Padilla Longoria from serving as officers or directors of any publicly-held company with securities trading in the United States.

If the SEC is able to obtain such court-orders, Mr. Salinas Pliego and Mr. Padilla Longoria will not be able to serve as our officers or directors for so long as we remain subject to the reporting requirements of the SEC. Our success depends in part on Mr. Salinas Pliego's and Mr. Padilla Longoria's participation as key members of our Board of Directors and management. Their resignation could have a material adverse effect on our financial condition and results of operations.

On May 29, 2006 TV Azteca, S.A. de C.V. announced through a press release that "...as result of conversations between the company and the Securities and Exchange Commission (SEC), previously announced, a potential agreement was structured. The proposal of agreement will be revised by the SEC, which expects to reach a conclusion regarding the procedure in 90 days. The proposal of solution, in the event it is accepted by the SEC, will not represent economic consequences for TV Azteca. Ricardo B. Salinas and Pedro Padilla will assume the monetary cost derivate of such proposal..."

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We have experienced significant turnover in our top management and our Board of Directors.

In recent years we have experienced significant turnover in our top management ranks. Frequent changes in our top management and Board of Directors negatively affect our ability to develop and implement successful business philosophies, strategies and policies. Most recently in July 2003, as a result of the acquisition of Iusacell by MuvilAccess, our top management and Board of Directors were replaced wholesale, with the majority of new executives and directors coming from companies controlled or significantly influenced by Mr. Salinas Pliego. This wholesale and immediate change has resulted in the substantial loss of the institutional memory that companies typically draw from in evaluating projects and opportunities and in developing business strategies and policies.

Our new management has implemented substantial changes to our business operations and strategies. For example, we have changed our sales, marketing and distribution approach, including the format of our customer sales and service centers, in an effort to maximize synergies with other companies controlled or significantly influenced by Mr. Salinas Pliego and control costs. See "Business--Sales, Marketing and Distribution." We have also revised our deactivation policy for prepaid customers, which resulted in the turnover of approximately 572,000 customers in the second half of 2003. See "Business--Churn and Turnover--Prepaid Turnover." Furthermore, we have reevaluated the feasibility of certain projects based on our current financial condition and have made corresponding accounting adjustments that could have a negative effect on our results of operations and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Recent Changes in Our Accounting Policies." We cannot assure you that these changes will be successful.

We may be unable to hire or retain key personnel.

Our success depends in part upon our ability to hire and retain highly-skilled and qualified key personnel. The competition for highly-qualified management personnel in the telecommunications industry is intense. In addition, our critical financial condition makes it more difficult for us to attract such personnel. Accordingly, we cannot assure you that we will be able to hire and retain the key personnel necessary for our success.

We are subject to various litigations.

We are a defendant in certain litigations and legal proceedings involving claims for substantial amounts of money. We have made provisions for some of these contingencies. The ultimate resolutions of these actions could have a material adverse effect on our operations and financial condition. See Item 2, The Company paragraph b) "Description of the Business, xi) Legal, Administrative or Arbitration Proceedings."

Our auditors are new to our company.

In the last quarter of 2004, we appointed Freyssinier Morin, S.C., a member of Moores Rowland International, an international association of independent accounting firms, as our new auditors. Given that Freyssinier Morin has been our auditor for less than two years is probable that they may not be able to identify issues and suggest corrective actions on internal controls and procedures.

RISKS RELATING TO DOING BUSINESS IN MEXICO

The Mexican government may impose additional conditions on our concessions or may take them away.

We provide our services pursuant to concessions granted by the Mexican government. Our commercial activities are subject to several regulations and the government supervision. Sometimes, the concessionaires are subject to additional conditions or inclusive do not renew its concessions when this expire, even the conditions of renewal do not be well define. The conditions or renewal could be adverse and/or costly and could have a negative effect in our operation results and financial condition. Concretely, our cellular concessionaries that cover regions 5, 6, 7, 8 and 9 have request to the authorities the renewal of their concessions according with their titles of concession. We can not anticipate the terms and conditions in which the concessions will be renew or, if, in its case, be renew. The renewals of the concessions are subject to criteria that are not always predictable. In addition, at the moment of grant the renewal, our concessions will be subject automatically to the payment of the rights under article 244B of the Federal Law of Rights (Ley Federal de Derechos) that nowadays we are not subject. The abovementioned, will considerable increase the payments for the exploitation, which could have a negative effect in our operation results and financial condition.

Our concessions may be revoked prior to the end of their respective terms if we fail to comply with specified obligations and conditions. The Mexican government also reserves the right to temporarily seize or expropriate concessions or assets related to a concession for reasons, among others, of public interest, such as war, national disaster or significant public disturbances. Also, our concessions may be subject to additional conditions for renewal or may not be renewed when they expire. The conditions for renewal, however, are not fully defined. Any of these developments or other government action could reduce the value of our concessions and adversely affect our financial condition and results of operations.

The general political and economic conditions in Mexico may adversely affect our business, financial condition and results of operations.

We are a Mexican company, and most of our operations are in Mexico. As a result, our business, financial condition and results of operations may be significantly affected by the general condition of the Mexican economy, by a devaluation of the peso, by inflation and high interest rates in Mexico, or by political or economic developments in Mexico. The Mexican economy grew at an annual rate of only 1.4% in 2003, 4.2% in 2004 and 3.0% in 2005.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Mexican governmental actions concerning the economy and state-owned enterprises could have a significant impact on Mexican private sector entities in general and on us in particular, and on market conditions, prices and returns on Mexican securities, including our securities.

In the past, Mexico has experienced economic crises, caused by internal and external factors, characterized by exchange rate instability, high inflation, high domestic interest rates, economic contraction, a reduction of international capital flows, a reduction of liquidity in the banking sector and high unemployment. These economic conditions substantially reduced the purchasing power of the Mexican population and, as a result, the demand for mobile telephony services.

Crises such as these could adversely affect our financial condition and results of operations and the market value of our securities.

The Presidential and Federal Congressional elections in Mexico will be held in July 2006. The electoral process, including municipal and local elections, could lead to further friction among political parties and the executive branch, which could cause political and economic instability. In addition, national politicians are currently focused on the 2006 elections and crucial reforms regarding fiscal and labor policies, gas, electricity, social security and oil have not been and may not be approved. The effects of the electoral process on the social and political situation could adversely affect the Mexican economy, which in turn could have a material adverse effect on our business, financial condition and results of operations. Additionally, once the President and federal representatives are elected, there could be significant changes in the laws, public policies and government programs, which could have an adverse affect on our business, financial condition and results of operations.

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If the Mexican government imposes exchange controls, we may not be able to purchase imported goods or make dividend, principal and interest payments in U.S. dollars.

In the past, the Mexican economy has experienced balance of payment deficits and shortages in foreign exchange reserves. While the Mexican government does not currently restrict the ability of Mexican or foreign persons or entities to convert pesos to foreign currencies generally, and U.S. dollars in particular, it has done so in the past and could do so again in the future. We cannot assure you that the Mexican government will not institute a restrictive exchange control policy in the future. Any such restrictive exchange control policy could prevent or restrict access to U.S. dollars or other foreign currencies to purchase imported goods and to meet our U.S. dollar obligations, such as the payment of dividends or principal and interest under our debt securities.

Payment of judgments entered against us in Mexico will be in pesos, which may expose you to exchange rate risks.

In the event that proceedings are brought against us in Mexico, either to enforce a judgment rendered outside Mexico or as a result of an original action bought in Mexico, we would not be required to discharge these obligations in a currency other than pesos. Under the Mexican Monetary Law (Ley Monetaria de los Estados Unidos Mexicanos), an obligation, whether resulting from a judgment or by contractual agreement, denominated in any currency other than pesos, which is payable in Mexico, may be satisfied in pesos at the rate of exchange in effect on the date on which any such payment is made.

If we were to enter into any concurso mercantil proceedings, our obligations regarding any security debt:

- foreign currency-denominated claims of unsecured creditors will be mandatorily converted into unidades de inversion or UDIs, which will be converted to pesos and adjusted periodically to inflation published by Bank of Mexico. Indexed unit established by Mexican law. The payment will occur at the moment that the claims of the recognized creditors be satisfied, subject to the order stablished by law, and

- would not be adjusted to take into account depreciation of the peso against the U.S. dollar occurring after such court declaration.

High inflation rates in Mexico may result in a decrease in demand for our services and may negatively affect our profit margin.

In recent years, Mexico has experienced high levels of inflation. The annual rate of inflation, as measured by the Mexican National Consumer Price Index, was 4.0%, 5.2% and 3.3% in 2003, 2004 and 2005, respectively. High inflation rates may adversely affect demand for mobile telephony services. In addition, the overall state of the Mexican economy and competitive pressures may not allow us to increase our prices in line with the inflation rate, thus negatively affecting our profit margin.

Depreciation or devaluation of the peso relative to the U.S. dollar may adversely affect our financial condition and results of operations.

While our sales are almost entirely denominated in pesos, the vast majority of our obligations are denominated in U.S. dollars. As a result, we are exposed to the risk of devaluation of the peso relative to the U.S. dollar. Although the peso remained relatively stable as compared to the U.S. dollar in 2004 and appreciated by 4.8% in 2005, the peso depreciated by 13.9% and 7.6% relative to the U.S. dollar during 2002 and 2003, respectively. In the past, the peso has depreciated substantially against the U.S. dollar and may depreciate significantly in the future.

Declines in the value of the peso relative to the U.S. dollar could adversely affect our financial condition and results of operations and our ability to meet U.S. dollar-denominated obligations. In particular, a devaluation could affect our capacity for future investments because the prices for equipment are set in U.S. dollars. In addition, any devaluation of the peso may negatively affect the value of the securities of a Mexican company with sales in pesos and debt denominated in U.S. dollars, such as our company.

d) OTHER SECURITIES

Iusacells shares have been listed on the Mexican Stock Exchange since August 4, 1999, trading under the symbol CEL. ADRs representing ten Iusacell series V shares were listed on the New York Stock Exchange from August 4, 1999 until May 12, 2003, when we implemented a change in the ADR ratio. From that date and until December 19, 2003, one ADR represented 100 Iusacell series V shares and traded under the symbol CEL.

On December 19, 2003, Iusacell concluded an exchange of its series V and series A shares for new common shares with no par value, not representing any series and which have the same rights and obligations. The reorganization of the capital structure included a change in the ADR ratio. From that date and upto September 20, 2005, one ADR represented 5 Iusacell shares and were traded under the ticker CEL. The ADRs are evidenced by American Depositary Receipts issued under a deposit agreement with The Bank of New York, as depositary.

On June 1, 2005, an extraordinary shareholders' meeting approved the termination of Iusacell's ADR program and the subsequent delisting of its ADRs from The New York Stock Exchange. On September 19, 2005, and as per our instruction, The Bank of New York terminated our ADR program. As a result, on September 20, 2005, the trading of our ADRs on The New York Stock Exchange was suspended.

We file annual reports and financial information before the Comision Nacional Bancaria y de Valores (National Banking and Securities Commission) and the Bolsa Mexicana de Valores (Mexican Stock Exchange). Also, we file relevant information to the markets in Mexico and the United States according with the securities legislation.

e) SIGNIFICANT CHANGES REGARDING THE RIGHTS OF THE SECURITIES REGISTERED

On June 1, 2005, an extraordinary shareholders' meeting approved the termination of Iusacell's ADR program and the subsequent delisting of its ADRs from The New York Stock Exchange. On September 19, 2005, and as per our instruction, The Bank of New York terminated our ADR program. As a result, on September 20, 2005, the trading of our ADRs on The New York Stock Exchange was suspended.

f) DESTINY OF FUNDS

Not aplicable

g) PUBLIC DOCUMENTS

Without charge, we could give to any person, copy of this Annual Report, previously oral or written solicitation. The written solicitudes of copies should be address to Grupo Iusacell, S.A. de C.V., Montes Urales 460, Colonia Lomas de Chapultepec, 11000, Mexico, D.F., and Attention: Jose Luis Riera Kinkel, Chief Financial Officer. Solicitudes by e-mail should be address to investor.relations@iusacell.com.mx. Telephone solicitudes could be at phone number 555-109-5927.

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2) THE COMPANY

a) HISTORY AND DEVELOPMENT OF THE ISSUER

HISTORY AND DEVELOPMENT OF THE COMPANY

Grupo Iusacell, S.A. de C.V., which was known as Nuevo Grupo Iusacell, S.A. de C.V. until February 29, 2000, is a holding company that is a sociedad anonima de capital variable with indefinite life organized under the laws of Mexico on August 6, 1998. Grupo Iusacell Celular, S.A. de C.V., the principal operating subsidiary of Iusacell, which was kown as Grupo Iusacell, S.A. de C.V. until February 29, 2000, is a sociedad anonima de capital variable with indefinite life organized under the laws of Mexico on October 6, 1992.

Iusacell's commercial name is "Grupo Iusacell", but our operating subsidiaries commercialize their products under the brand name Iusacell(C). We currently operate primarily in Mexico under Mexican legislation, including, among others, the 1995 Telecommunications Law (Ley Federal de Telecomunicaciones) and the Mexican Companies Law (Ley General de Sociedades Mercantiles).

Iusacell Celular through its subsidiaries is primarily engaged in the wireless telecommunications business and hold concessions to operate cellular telephone systems in five contiguous market regions in central and southern Mexico, and to provide long distance service nationwide. We also recently obtained authorization from the SCT for Iusatel, S.A. de C.V. to provide fixed local wireline telephony nationwide.

Iusacell PCS, S.A. de C.V., which we refer to as Iusacell PCS and Iusacell PCS de Mexico, S.A. de C.V. (Iusacell PCS de Mexico), now hold concessions to provide fixed and mobile wireless telephony services using PC S technology on a nationwide basis in Mexico as a result of the award by the SCT in April 2005of seven concessions for its remaining regions.

On July 29, 2003, MovilAccess, a Mexican telecommunications service provider controlled by Mr. Salinas Pliego and a subsidiary of GMA, completed a public tender offer in Mexico and the United States, pursuant to which it acquired 74.6% of all outstanding capital stock of Iusacell. Verizon and Vodafone, the then principal shareholders of Iusacell, tendered all their shares. At December 2003, we completed at reverse stock split whereby shareholders received one new share of common stock in exchange for twenty series "A" and series "V" shares.

In 2005, excluding the effects of inflation accounting, capitalized interest and certain non-cash trade-in credits, we invested U.S.$64.0 million in capital expenditures, primarily to increase the coverage, improve the quality and enhance the features of our cellular and long distance networks in the central regions, and expand our advanced data network capabilities in certain key cities. See Item 3, paragraph d) "Management's Discussion and Analysis of Financial Condition and Results of Operations, ii) Liquidity and Capital Resources."

In 2006, we plan to invest a total of approximately U.S.$70.0 million in capital expenditures, not including capitalized interest, to acquire, build and operate our nationwide PCS network, to increase the coverage and improve the quality of our cellular and long distance networks in the central regions, enhance our information technology systems, increase capacity in certain cities and expand our advanced data network capabilities in certain key cities. Our ability to carry out these capital expenditures depends on obtaining sufficient funds. It is unclear whether we will be able to obtain the required funds from operations and vendor and other financing. In particular, we cannot assure you that we will be able to complete a successful restructuring of our indebtedness.

On June 1, 2005, an extraordinary shareholders' meeting approved the termination of Iusacell's ADR program and the subsequent delisting of its ADRs from The New York Stock Exchange. On September 19, 2005, and as per our instruction, The Bank of New York terminated our ADR program. As a result, on September 20, 2005, the trading of our ADRs on The New York Stock Exchange was suspended.

Our principal executive offices are located at Montes Urales 460, Colonia Lomas de Chapultepec, Delegacion Miguel Hidalgo, 11000, Mexico, D.F., Mexico, which is also where we are domiciled. Our telephone number is (5255) 5109-4400. Our Internet address is www.iusacell.com.mx. The information of our Internet page should not consider as part of this Annual Report.

b) BUSINESS DESCRIPTION

We are a wireless telecommunications services provider in Mexico with nearly 1.9 million mobile wireless customers at December 31, 2005, 68.6% of which are prepaid customers. We hold and operate concessions in the 800 megahertz (MHz) band which allow us to provide cellular wireless services in five contiguous geographic regions comprising all of central and southern Mexico, and in the 1900 MHz band, they allow us to provide nationwide PCS wireless services.

We provide digital service using CDMA technology, the highest-capacity commercial digital technology available in the 800 and 1900 MHz frequency bands. In January 2003, we launched the country's first CDMA2000 1XRTT voice and high-speed data network in Mexico City. With this advanced network, we increased voice capacity and are able to offer subscribers new data services, e-mail and Internet access at speeds of up to 144 kilobits per second (kbps). In 2005, we improved our network in certain cities by implementing EVDO 3-G technology, which permits users to benefit from high-speed data transmissions up to 2.4 megabits per second. In addition to our core mobile telephony services, we also provide a wide range of other telecommunications services, including long distance, wireless local telephony and data transmission services.

Our subscriber base as of December 31, 2005 was 1,857,065. Of these subscribers, 583,695 were postpaid customers who purchase mobile telephony services pursuant to fixed-term contracts, and the remaining 1,273,370 were prepaid customers who pay for their mobile telephony services in advance primarily through the purchase of airtime.

Since July 29, 2003, Iusacell has been under the management control of Movil Access. The personal and advisors of Movil Access are completely involved in the daily management of the transactions of Iusacell as in the definitions and implementation of long term strategies of Iusacell. Movil Access owns the 74.6% of the capital stock of Iusacell. See Item 4 "Management, paragraph c) Management and Shareholders". Before the acquisition of our capital by Movil Access, Iusacell was under the management control of Verizon and Vodafone.

THE TELECOMMUNICATIONS INDUSTRY IN MEXICO

MOBILE TELEPHONY SERVICES

The Mexican government initiated its efforts to liberalize the telecommunications industry in 1989, dividing Mexico into nine geographic regions for the provision of cellular service. In order to provide an alternative for cellular customers, two concessions were granted in each region, one to Telcel, the cellular subsidiary of Telmex, and the other to an independent operator. In addition, Telmex was required to interconnect all cellular operators to its network in an effort to facilitate competition.

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The nine cellular geographic regions are described in the table below.

REGION NUMBER	GEOGRAPHICAL COVERAGE	MAJOR CITIES IN THE REGION
1	The states of Baja California and Baja California Sur and the municipality of San Luis Rio Colorado in northwestern Sonora state.	Tijuana, Mexicali, Ensena and La Paz.
2	The states of Sonora and Sinaloa (except for the municipality of San Luis Rio Colorado in northwestern Sonora).	Hermosillo, Ciudad Obregon and Mazatlan.
3	The states of Chihuahua and Durango and the municipalities of Torreon, Francisco I. Madero, Matamoros, San Pedro and Viesca in the state of Coahuila.	Ciudad Juarez, Chihuahua, Gomez Palacio and Torreon.
4	The states of Tamaulipas, Nuevo Leon and Coahuila (except for the municipalities of Torreon, Francisco I. Madero, Matamoros, San Pedro and Viesca).	Monterrey, Saltillo, Tampi Victoria, Nuevo Laredo, R Matamoros.
5	The states of Colima, Jalisco (except for 12 municipalities in northeastern Jalisco), Michoacan and Nayarit.	Guadalajara (Mexico's seco city), Morelia, Tepic, C Manzanillo.
6	The states of Aguascalientes, Guanajuato, Queretaro, San Luis Potosi and Zacatecas and 12 municipalities in	Aguascalientes, Leon, Quer Luis Potosi and Zacatecas.

	northeastern Jalisco.	
7	The states of Guerrero, Oaxaca, Puebla, Tlaxcala and Veracruz.	Puebla, Acapulco, Vera Oaxaca.
8	The states of Yucatan, Quintana Roo, Campeche, Chiapas and Tabasco.	Merida, Cancun, Vil Campeche, Tuxtla Gutierre Cristobal de las Casas.
9	The states of Mexico, Hidalgo and Morelos and the Federal District.	Mexico City, Toluca, Cuer Pachuca.

The same nine geographic regions apply for the provision of PCS service. However, cellular regions 5, 6, 7 and 8 correspond to PCS regions 6, 7, 8 and 5, respectively.

In December 1990, the Mexican government initiated the privatization of Telmex, which was then the sole provider of landline local and long distance service and competing in Cellular B-band cellular services, when it sold 20.4% of the equity and 50.1% of the voting power in Telmex to a private consortium for U.S.$1.76 billion. The winning consortium consisted of Grupo Carso, S.A. de C.V., a Mexican conglomerate which owns or otherwise controls a majority of the consortium's voting interest, SBC Communications Inc. and France Telecom S.A. Subsequent to the original privatization, the Mexican government further reduced its holdings in Telmex through additional transactions and completed the sale process in June 1994. In 2001, Telcel and other wireless international subsidiaries of Telmex were spun-off from Telmex to form a new company named America Movil, S.A. de C.V., which is known as America Movil.

Telcel holds the Cellular B-band and PCS D-band concessions in each of the nine cellular regions and is Mexico's largest mobile wireless operator. Our subsidiaries hold the Cellular A-band concession in cellular regions 5, 6, 7, 8 and 9. Our affiliate Iusacell PCS, S.A. de C.V. holds PCS E-band concessions in regions 1 and 4 and the 1900 MHz band concessions for the remaining PCS regions. Telefonica holds, through subsidiaries, the Cellular A-band concessions for regions 1, 2, 3 and 4 and PCS band concessions nationwide. Unefon, our affiliate, has a nationwide PCS band concession.

UNDERSERVED TELECOMMUNICATIONS MARKET

Despite the significant increase in wireline and wireless penetration in Mexico in recent years, we believe that there remains a substantial unmet demand for telephone services in Mexico. According to COFETEL, as of December 31, 2005, there were approximately 18.2 wireline telephone lines per 100 inhabitants in Mexico, which is lower than the teledensity of some other Latin American countries and substantially lower than those of developed countries such as the United States. Due to the relatively low wireline penetration in developing countries such as Mexico, increases in the level of wireless penetration in these countries may be partly attributable to users who purchase wireless services as a principal means of telecommunications.

i) PRINCIPAL ACTIVITY

OUR MOBILE TELEPHONY SERVICES

HISTORY AND OVERVIEW

We became the first Mexican provider of cellular telecommunications services in 1989, when we commenced operations of our Cellular A-band network in region 9. Through a series of transactions from 1990 to 2002, we acquired 100% beneficial ownership interests in the entities which hold the Cellular A-band concessions in regions 5, 6, 7, and 8. In December 2001, we initiated the commercial launch of our PCS services in the cities of Tijuana and Monterrey in regions 1 and 4 in northern Mexico. In April 2005, we obtained the 1900 MHz band concessions for the remaining PCS regions, achieving a national footprint.

We offer wireless communications services in a variety of plans, which are divided into two basic groups: either "postpaid", where the customer is billed monthly for usage during the previous month based on a fixed-term contract, or "prepaid", where the customer pays in advance for a specified volume of usage over a specified period.

POSTPAID SERVICES

As of December 31, 2005, postpaid subscribers totaled 583,695, comprising 31.4% of our customer base. Nominal average monthly mobile telephony revenue per subscriber (ARPU) in this segment was Ps.745 for 2005.

We offer a number of value-added services designed specifically to fulfill the demands of postpaid subscribers, such as voicemail, call forwarding, call waiting, three-way calling and secretarial services. We also provide news, sports and entertainment reporting, emergency road and legal services, and purchasing services for items or products such as concert tickets, bus tickets, pizza and drugstore products. Moreover, CDMA digital postpaid customers have available caller identification, short message service and multimedia services. In July 2004, we launched 3G services based on our third generation network, which offers to subscribers with 3G handset features such as transfer of ring tones, images, games, email, chat, multimedia messaging and push-to-talk over cellular (POC), among other services, in cities with 1XRTT coverage. During 2005, we launched Moviloffice, a mobile office service with email synchronization, and Ubicacel, a location-based (LBS), whereby a subscriber can find directions to places or locate another subscriber's handset. We believe that these value-added services help increase postpaid subscriber usage and also enhance our market image as a full service mobile telephony provider.

Our EVDO band allows us to offer value-added services such as LBS (Ubicacel), transferring of video streaming (Iusaclips), mobile office services (Moviloffice), access to online cameras (Iusacam), and high-speed internet access with absolute mobility (BAM) (where you can obtain connection speeds of up to 2.4 megabits per second, and. On the second quarter of 2006, we launch the access to television signal services (IusaTV). We planned to launch ring back tones by the end of 2006.

PREPAID SERVICES

As of December 31, 2005, prepaid customers totaled 1,273,370, comprising 68.6% of our customer base. Prepaid ARPU was Ps.134.0 for 2005.

In contrast to postpaid subscribers, prepaid customers typically generate lower levels of usage, have access to a limited number of value-added services, or may choose to purchase a handset with preloaded minutes. Prepaid customers often are unwilling to make a fixed financial commitment or do not have the credit profile to purchase postpaid plan mobile telephony services. Customers may purchase airtime credit with cash or credit or debit card. Customers may make their purchases at a distributor's point of sale, at our customer sales and service centers, through automated teller machines, through our website or by phone.

The prepaid program markets four different prepaid cards, each of which credits a specific peso denomination worth of airtime usage over a specified period of time. For purchases through automated teller machines, we offer six specific peso denominations. We charge for outgoing calls, as well as long distance incoming calls and roaming services.

A prepaid customer ceases to be considered a customer of Iusacell when a specified period of time has elapsed since the customer purchased and activated, or last added credit to his or her last prepaid card, or last received an incoming call. The customer's telephone number is then deactivated, and the customer is considered to have turned over.

ROAMING

Through our roaming agreements with other operators, we offer nationwide roaming service to our prepaid and postpaid mobile telephony subscribers, and international service only to our postpaid subscribers. Through these agreements, subscribers can make calls from any location in Mexico served by a Cellular A-band operator, and can receive a call made to the subscriber's number (automatic call delivery) regardless of the region in Mexico in which the subscriber is located. We also provide mobile telephony services to all subscribers of our roaming partners in Mexico while such subscribers are temporarily located in a region served by us.

An operator (a host operator) providing service to a subscriber of another operator (the home operator) temporarily located in the host operator's service region (an in-roamer) earns usage revenue. We bill the home operator of an in-roamer for the in-roamer's usage in our service region. In the case of roaming by an Iusacell Celular subscriber in the region of a host operator (an out-roamer), Iusacell Celular is billed by the host operator for the subscriber's usage. We remit the billed amount to the host operator and bill our own customer, the out-roamer. As a result, we retain the collection risk for roaming charges incurred by our own subscribers. Conversely, roaming charges billed by Iusacell Celular for in-roaming usage by subscribers of other operators are the responsibility of those operators. Roaming charges between wireless operators are settled monthly.

Interconnection charges owed to Telmex and long-distance charges owed to long distance carriers as a result of roaming are the responsibility of the host operator. In-roaming fees and usage revenue represented 3.0% of our revenues from services during 2005. Out-roaming charges represented 2.0% of our revenues from services during 2005.

We have more than 60 agreements with U.S., Canadian, Latin American and other foreign operators to provide our subscribers with international roaming capabilities, including automatic call delivery without the need to dial an access code. These operators include Verizon Wireless, AT&T Wireless, Sprint and Cingular Wireless, among others. Currently, our customers are able to roam in over 2,000 municipalities in the United States and Canada, as well as in more than 180 other countries around the world.

OUR LONG DISTANCE SERVICES

In August 1996, we became one of Telmex's first competitors in long distance service when we began to provide long distance services to our mobile telephony subscribers in Mexico pursuant to a 30-year concession.

We currently provide long distance service using our own switches and transmission equipment and a combination of fiber optic lines, microwave links and lines leased from Telmex and other carriers. At December 31, 2005, we provided long distance service in 56 cities to 1,861,519 customers, substantially all of which were existing customers of our mobile telephony services. We obtained an exemption from COFETEL that allows us not to make available to our mobile telephony customers the services of other long distance carriers. We cannot assure you that COFETEL will not rescind this exemption in the future. Revenues related to long distance services represented 6.4% of our revenues from services for 2005.

We have been able to reduce our capital investment for our long distance business by entering into fiber optic cable swaps with three other long distance companies between 1998 and 2002. We acquired fibers in the long distance fiber optic networks built by Marcatel, S.A de C.V., Bestel, S.A de C.V., and Telereunion S.A de C.V, in central, northern and eastern Mexico, in exchange for fibers in the long distance fiber optic network we completed in central and western Mexico. As a result, we obtained redundancy in central Mexico and access to the United States border and eastern Mexico at minimal cost.

We also exchange international long distance traffic with AT&T and Teleglobe USA, Inc. These arrangements give us two alternative routes to deliver international long distance traffic. In March 2002, the United States Federal Communications Commission granted to Iusatel USA Inc., our U.S. subsidiary, a Section 214 authorization that allows us to provide facilities-based and resale telecommunications services within the United States. We have international termination traffic contracts with U.S. carriers.

OUR OTHER SERVICES

SHORT MESSAGE SERVICE (SMS) AND MULTIMEDIA MESSAGE SERVICE (MMS)

In December 2003, Iusacell entered into an agreement with all other Mexican mobile telephony companies to allow our respective customers to exchange short messages. We also have agreements with almost every carrier in the United States and Canada, which allow our subscribers to send and receive short messages from U.S. and Canadian mobile phone customers. In addition to basic SMS services, we offer SMS premium services with content from television broadcasting companies and radio stations. Through SMS premium, subscribers can receive sports and weather information, news, jokes and can participate in contests, among other things.

In 2005, SMS represented 3.9% of our revenues from services. We cannot yet estimate whether short messages have had or will have an adverse impact on the volume of voice calls and, consequently, our revenues.

In the second half of 2004, we launched MMS services. Through MMS, subscribers can send messages that include pictures, video and sound to another MMS handset, email account or Internet portal. We believe that MMS may experience significant growth during 2006.

DATA TRANSMISSION

We provide mobile and fixed data transmission services. We offer three types of services: (1) private lines such as E-1, E3/DS3 and STM1 directly to carriers and large corporate customers; (2) internet access to carriers and Internet service providers; and (3) convergent IP services integrating data communications and IP telephony for large corporate customers to improve interoffice communications and reduce costs for local and long distance calls to corporate customers.

In January 2003, we commercially launched Mexico's first CDMA2000 1XRTT voice and high-speed mobile data network in Mexico City. We completed the upgrade of our network to this technology in the second half of 2004. With this advanced network, we have increased our voice capacity and are able to offer subscribers new data services such as high-speed access for internet, intranet, e-mail, instant messaging, and multiple download for multimedia applications and solutions at speeds of up to 144 kilobits per second (kbps).

During the latter part of 2003 and early 2004, we completed the technical testing stage of different platforms to offer voice over IP services in the modality of groups, commercially known as "push to talk" features. We are currently awaiting authorization from COFETEL to introduce these features and we cannot anticipate when COFETEL's authorization will be granted. In the last quarter of 2005, we launched the mobile broadband (BAM) service based on EVDO technology, offering data services for bandwidth velocity of up to 2.4 megabits per second, video streaming and access to television channels, among other things.

Revenues from data transmission services represented 0.8% of our revenues from services in 2005.

PUBLIC AND RURAL TELEPHONY AND FIXED LOCAL WIRELESS TELEPHONY

We operate public and rural telephony programs, using available cellular capacity. These programs provide telecommunications services through cellular telephones in phone booths and rural areas. The provision of services in this way fulfills the terms of our concessions for the provision of cellular telephony service and uses our cellular network to provide telecommunications coverage in areas with little or no basic service. At December 31, 2005, we had 51,251 cellular telephones in service under our public and rural telephony programs, of which 5,501 subscribers represent postpaid plans and 45,750 subscribers represent prepaid plans.

We also provide, on a trial basis pending approval from the SCT, fixed local wireless service in the 450 MHz frequency band in selected markets in cellular region 9.

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Revenues from public and from rural telephony and fixed local wireless telephony represented 0.7% of our revenues from services in 2005.

FIXED LOCAL WIRELINE TELEPHONY

On December 19, 2005, Iusatel received an authorization from the SCT to provide fixed local services nationwide. This authorization was granted by means of an amendment to our long distance concession and is for the duration of the original concession. Under this authorization, Iusatel is obligated to build 15 urban fiber rings in five cities. Iusatel is not obligated to pay fees to the government for this service.

PAGING

On December 14, 1995, Iusacell Celular and Infomin, S.A. de C.V., which we refer to as Infomin, formed Infotelecom, S.A. de C.V., which we refer to as Infotelecom, as a joint venture to market national and international paging services. Iusacell Celular owns 51% of Infotelecom.

At December 31, 2005, Infotelecom had 42 paging customers and provided service in Mexico City. Our revenues from paging services represented less than 0.1% of our revenues from services in 2005. We do not consider paging to be an area of growth because of competition from short message services.

SEASONALITY

Our business is not materially affected by seasonality.

MARKETING

Periodically, we launch marketing campaigns evidencing the benefits of our products and services. Also, we launch promotional campaigns to support the launch of new products and the publish of seasonally promotions. Considering this actions enforce our trademark.

CUSTOMER SALES

Postpaid and prepaid customers can access dedicated support by dialing *611, a toll-free number or a local number. In the fourth quarter of 2003, we outsourced our call center operations to an affiliate of MuvilAccess, Iusacell's controlling shareholder. This outsourcing has enabled us to reduce operational costs. Service is also provided by a streamlined automated voice servicing platform to give customers quicker access to a service agent. See Item 4 "Management -paragraph b) Related Party Transactions and Conflict of Interests."

Customer service representatives are equipped to answer questions regarding services and products 24 hours a day, seven days a week. We train customer service representatives to ensure that each customer receives prompt attention, informed answers to any inquiries and satisfactory resolution of any concerns. Our principal tool is a software application that reduces complexities in providing customer service by avoiding interaction with multiple applications, which also compiles customer contact history information under one single system. This application allows us to provide better customer service for postpaid customers.

In order to motivate our customer service workforce, a performance management process was deployed in 2005 to all customer service representatives, which involved setting goals and weekly evaluations linked to compensation.

We also implemented a loyalty and retention program. This program includes welcome calls and first invoice calls. We also make outreach calls to customers whose contracts are ending or who choose to terminate service, offering them a range of alternative service plans based on their profile to encourage contract renewal. We also actively maintain our Red Club "points" rewards program for postpaid and prepaid customers to encourage loyalty.

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PRICING

GENERAL

We offer a variety of flexible pricing options for our mobile telephony customers. The primary components of the postpaid pricing plans include monthly fees, additional per-minute usage charges and a number of included minutes per month. The prepaid program markets cards which credit peso amounts to a customer's account. The cards can be used for a period of 30, 60 or 90 days. See Item 2, The Company paragraph b) "Business Description - i) Our Mobile Telephony Services-Prepaid Services". Most of the postpaid plans include a selection of free handsets. The prepaid plans do not provide free handsets.

We continually review market pricing in order to maintain a competitive offer and attract customers from our target market. As a result, constant adjustments to meet market and competitive conditions may require that we increase or decrease prices over short periods of time. In the past, we have been unable to increase prices to match increases in inflation due to competitive pressures.

POSTPAID PLANS

The postpaid pricing plans are designed to target primarily high and moderate usage postpaid subscribers. High-usage customers are typically willing to pay higher monthly fees in exchange for larger blocks of minutes, value-added services, a free high-end handset and lower per minute airtime charges. Moderate and lower-usage subscribers typically prefer pricing options which have a lower monthly charge, fewer minutes included, a less expensive handset (but still with subsidy) and higher per minute airtime charges than those options chosen by high-usage customers.

In December 2003, we launched a new set of postpaid value plans aimed to position us as the best alternative for the high-value market segment. These new postpaid plans were designed according to the needs of targeted consumer segments and are supported by advertising and marketing campaigns. The plans were modified in 2004 and 2005 to assure competitiveness and profitability.

We also offer multi-line plans designed to fit the communications needs of small groups of users. Also, the special plans for borderline areas in which the customers could make a call at a minor cost in Mexico, E.U. and Canada, we offer to subscribers of 1 and 4 PCS regions and cellular region 8, we offer local plans at a competitive per minute price.

For our corporate customers, we offer either a flexible combination of our various service packages at a volume rate or a large pool of minutes that can be shared among all users at a competitive per minute price.

PREPAID PLANS

In contrast to postpaid subscribers, prepaid customers typically generate lower levels of airtime usage, have access to a limited number of value-added services, often already own a handset and often are unwilling to make a fixed financial commitment or do not have the credit profile to purchase postpaid plan services.

Our prepaid services, which we market as "VIVA" plans, provide for automated reactivation and value-added services such as voice-messaging. We currently offer our VIVA prepaid cards in denominations of Ps.100, Ps.150, Ps.200 and Ps.300. We also offer virtual airtime in additional denominations of Ps.500 and Ps.1,000 through automated teller machines, our website, *AIRE and in stores operated by Elektra and Salinas y Rocha, , and other national retail chains that are not our affiliates. In October 2005, we introduced an aggressive strategy for growth and reinforcement of our prepaid subscribers that provides for free local calls made to other Iusacell subscribers, when purchasing prepaid cards of denominations of Ps.200 or higher.

HYBRID PLANS

In 2000, we launched a hybrid plan which featured elements of postpaid and prepaid plans targeted at the lower socio-economic segment of the population, which generally wants the communications services of a mobile telephone but wants to control usage. In March 2003, we discontinued the hybrid plans because of the high level of churn experienced. However, due to demand from our customers and once we revisited the manner that we offered the service, we reintroduced hybrid plans in January 2004. We have modified the requirements for applying for hybrid plans in an effort to minimize churn.

In 2004, we launched hybrid plans in three new retail chains operated by Grupo Elektra and its subsidiaries (Elektra, Bodega de Remates and Salinas y Rocha). These "Planes VIVA Control" allow customers to make payments on a weekly basis while controlling their level of consumption. Customers of the "Planes VIVA Control" can buy virtual airtime if they need to exceed the minutes included in their weekly plan.

ACTIVATION, BILLING AND COLLECTION PROCEDURES

We can activate a phone within 15 minutes or less for any prepaid and postpaid customers through the use of new technologies such as Over The Air Service Provisioning (OTA). For postpaid customers who intend to pay their monthly charges either with a credit card or in cash there is an automatic credit scoring process prior to the delivery and activation of a mobile telephone. The deposit requirements are determined automatically based on the risk profile resulting from the credit scoring.

We have also implemented a system to monitor MOU levels and the number of calls to certain geographic areas in order to identify abnormal usage by postpaid subscribers. When abnormal usage is detected, we contact the subscriber to determine whether such usage has been authorized. We believe that these procedures are effective in reducing the number of billing disputes with subscribers and losses due to fraud.

Billing is currently administered using five different billing systems, including:

- a mobile telephony customer care and billing system provided by Schlumberger Distribution Mexico, S.A. de C.V., which we also use for our 450 MHz fixed local wireless business;
- one point of sale system that provides billing, administration and control features;
- a proprietary residential long distance system;
- a proprietary system for high-volume business long distance customers; and
- a system for paging customers.

We compile billing information from our switches by electronic transfer on a half-hour basis for processing by our billing systems. We have measures in place that enable us to recover billing information that may be lost as a result of disasters.

We invoice our postpaid customers at the end of each month for the previous month's service. All customers have 19 credit days, after which they receive an overdue balance notification, except for a select number of postpaid customers distinguished by volume, which customers are allowed a longer credit period. Our payment policy stipulates that after 60 days of non-payment, lines are suspended, and after 120 days of nonpayment, these lines are disconnected and considered as delinquent accounts.

We mitigate our credit exposure in seven ways:

- by obtaining a credit report from the National Credit Bureau (Buro Nacional de Credito), a Mexican affiliate of TransUnion Corporation for those customers not found in our internal database;

- by performing an automatic credit scoring and, depending on the risk profile, we may require our customers to prepay a certain number of monthly fees or even the cost of the handset;

- by requiring payment to be made by credit card;

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- by establishing credit limits and portfolio segmentation, according to customers' credit quality;

- by requiring full payment at the time of purchase of a handset;

- by offering prepaid services, which eliminate all credit risk; and

- by applying additional collection procedures according to a customer's prior payment behavior.

For 2005 we reserved approximately 1.3% of our net revenues for doubtful accounts.

We record a bad debt provision based on historical trends, by applying a percentage to the amounts outstanding for those postpaid customers who have fallen behind on their payments and whose service had been partially suspended. We permit incoming call service and continue to charge monthly fees to suspended customers for an additional two months, but reserve a substantial portion of the monthly fees as a revenue provision.

CHURN AND TURNOVER

POSTPAID CHURN

Postpaid churn measures both voluntarily and involuntarily disconnected subscribers. Average monthly postpaid churn for a given period is calculated by dividing the sum of all postpaid subscribers disconnected during such period by the sum of the beginning-of-month postpaid subscribers for each of the months in such period, expressed as a percentage. Voluntarily disconnected subscribers encompass subscribers who choose not to continue with Iusacell postpaid services or choose to migrate to one of our prepaid options. Involuntarily disconnected subscribers encompass customers whose service is terminated after failing to meet Iusacell's payment requirements.

Average monthly postpaid churn for 2005 was 2.26%. To reduce churn, we have implemented retention and loyalty program that includes the proactive calling of customers as well as the development of specific retention offers to address specific problems and customer segments.

PREPAID TURNOVER

We evaluate alternative methods of determining prepaid customer turnover on an ongoing basis, as the current method is dependent upon, among other things, the number of days without use we permit before deactivating a phone number.

Under our current policy, prepaid customers have 30, 60 or 90 days, depending on the prepaid amount, to use an activated prepaid card, activate a new card or otherwise replenish the airtime in their account. If the customer has not activated a new card or replenished the airtime in its account at the end of 30, 60 or 90 days, the balance of the customer's account becomes zero, and the customer loses the ability to make outgoing calls for an additional period of 90 days. During this 90-day period, a prepaid customer will be able to receive incoming calls, but not to make outgoing calls. Once the 90-day period lapses, and unless the customer has activated a new card, replenished the airtime in its account or received incoming calls, the customer's telephone number is deactivated. This 90-day period can be extended by receiving incoming calls.

In the third quarter of 2003, we made certain changes to our activation and turnover policies aimed at providing greater transparency and focusing on active customers. We reduced the period during which a prepaid customer can receive incoming calls but cannot make outgoing calls from 305 and 275 days (depending on the amount of airtime charged) to the current 90 days. Through this policy change, in the third quarter of 2003 we identified and wrote off approximately 437,000 existing prepaid customers who had not utilized our service nor received income calls for more than 90 days. In the fourth quarter of 2003, we wrote off approximately 135,000 additional lines.

We also reduced the initial period for spending an activated prepaid card and activating a new card from 60 or 90 days, depending on the prepaid plan, to the current 30, 60 or 90 days.

Average monthly prepaid turnover for 2005 was 3.82%.

ii) CHANNEL DISTRIBUTION

SALES, MARKETING AND DISTRIBUTION

Our marketing strategy is directed to achieve profitable growth, focused primarily on our mobile telephony business. We have focused our sales and marketing strategy on innovative products and value-added services for digital postpaid and prepaid customers, defined as the person who utilizes and depends on mobile telephony communications on a daily basis, including data transmission. Our mobile telephony subscribers are classified according to five different usage profiles. We are implementing distribution, advertising, customer service support and pricing plans targeted to each specific customer segment and to increase airtime usage.

We currently target the various segments of our subscriber base through various sales and distribution channels. Our sales force plan provides for continuous training, a basic salary and monetary incentives to encourage our sales force to activate profitable and loyal accounts, cross-sell the full complement of our service offerings and maintain our standards in advertising, promotions and customer service.

During the last quarter of 2004, we implemented a regional sales and marketing strategy, whereby each region is treated as an independent business unit, with marketing campaigns and sales channels tailored to the characteristics of each region.

CUSTOMER SALES AND SERVICE CENTERS

Our customer sales and service centers offer one-stop-shopping for a variety of mobile wireless services and accessories. Walk-in customers can subscribe to mobile telephony service postpaid plans, purchase prepaid cards, sign up for long distance service and purchase equipment such as handsets and accessories. Certain of our stores also offer face-to-face customer service. We currently have a total of 130 customer sales and service centers, 40 of which are managed by Elektra and 90 of which are managed by us.

In an effort to control costs, during 2003 we closed 17 centers. Our affiliate Elektra, a retail house appliances chain with significant experience in the operation of retail points of sale, has assumed the operations of 40 of our centers and also offers some of its products in the premises. See Point 4 "Management, paragraph b) Related Party Transactions and Conflict of Interests."

CORPORATE SALES FORCE

To service the needs of our corporate customers, we have created a direct sales force, which, at December 31, 2005, included 103 full-time sales representatives. These direct sales representatives are distributed throughout Mexico to deliver personalized service. This group of trained representatives seeks to increase sales by:

- aggressively pursuing sales opportunities in the corporate segment;
- "bundling" combinations of services into customized packages designed to meet customers' requirements;
- developing and marketing new services to satisfy the demands of such customers; and
- educating corporate purchasing managers about alternative pricing plans and services.

INDEPENDENT DISTRIBUTORS

We maintain relationships with a broad network of exclusive distributors and national retailers. At December 31, 2005, these distributors and retailers sold all of our products at 2,550 points of sale in Mexico, an increase from 1,154 points of sale a year before. This increase was due primarily to the efforts of new affiliate distributors through the regional sales force. Including non-exclusive distributors, our prepaid cards were distributed at approximately 100,000 points of sale in 2005.

In order to ensure that our standards are maintained at all distribution points, we provide assistance to our distributors in training, promotions and advertising. We also provide them with information on our customer base to allow the distributors to service our customers effectively.

In particular, in May 2004 we launched a web site for our exclusive distributors which enables them to offer almost all of the current services that we provide at our customer sales and service centers such as prepaid and postpaid activations, upgrades, payments, copies of invoices and changes to user plans.

COMMISSION AGENTS

In the past we used to have commission agents as a flexible sales force in all our regions of mobile telephone services. The commission agents act as a services commission agent of mobile telephone for us and worked in its own locals. This agents granted additional points of distribution with minimum support of us. At the beginning of 2005, we discontinued the use of commission agents as sales agents, using only our own corporate sales force.

TELEMARKETING

From time to time, we engage telemarketing service providers as a direct marketing mechanism or to follow up on targeted outbound calls and receive calls through an 800 number. In recent months, we have used telemarketing as a tool to reach out to prospective customers. See Item 4 "Management, paragraph b) "Related Party Transactions and Conflict of Interests."

ELECTRONIC MEANS

We have implemented four electronic tools for the sale of prepaid airtime without the purchase of a prepaid card:

- o sales through automated teller machines;
- o sales over the phone by dialing *AIRE;
- o sales through our website - www.iusacell.com.mx; and
- o sales through specific points of sale.

Sales at ATM machines are charged against our customer's bank account by using a personal identification number. We have implemented ATM sales at BAZ, Banamex-Citibank, BBVA Bancomer, Scotia Bank Inverlat and HSBC. Sales using *AIRE and our website are charged to our customer's credit or debit card.

For sales through specific points of sales, customers can purchase airtime at certain exclusive distributors by simply giving their phone number.

iii) PATENTS, LICENSES, TRADEMARKS AND OTHER AGREEMENTS

Iusacell do not take care of investigation and development activities. The commercial name of Iusacell is "Grupo Iusacell", even that our operative subsidiaries commercialize their products under the trademark Iusacell (TM) and the prepaid products by the trademark VIVA de Iusacell (TM)

Other trademarks under different products are commercialized are "3G de Iusacell" (TM) that cover the applications downloading third generation services focus in entertainment, persons and vehicles localization, "Moviloffice" (TM) and "BAM de Iusacell" (TM) that refers to mobile conection services of high speed conexion to Internet.

MATERIAL AGREEMENTS

CONCESSIONS

We provide our telephone mobile services and other services based on the concessions granted by the Mexican government.

CONCESSIONS AND PERMITS

To provide public telecommunications services in Mexico through a public network, the service provider must first obtain a concession from the SCT. Pursuant to the 1995 Telecommunications Law, concessions for public networks may not exceed a term of 30 years, and concessions for radioelectric spectrum may not exceed a term of 20 years. Concessions may be extended for a term equivalent to the term for which the concession was originally granted, but not to exceed such 20- or 30-year limit, as the case may be. Concessions specify, among other things:

- the type of network, system or service;
- the allocated spectrum, if applicable;
- the geographical region in which the holder of the concession may provide the service;
- the required coverage program;
- the term during which such service may be provided;
- the payment, where applicable, required to be made to acquire the concession, including, where applicable, the participation of the Mexican government in the revenues of the holder of the concession; and
- any other rights and obligations affecting the concession holder.

In addition to concessions, the SCT may also grant permits for (i) establishing, operating or exploiting telecommunications services not constituting a public network (i.e., reselling) and (ii) installing, operating or exploiting transmission-ground stations. There is no specified maximum term for permits. Under the 1995 Telecommunications Law, only registration with the SCT is required to provide value-added telecommunications services.

Under the 1995 Telecommunications Law and the 1993 Foreign Investment Law (Ley de Inversion Extranjera), concessions may only be granted to Mexican individuals and to Mexican corporations in which non-Mexicans hold no more than 49% of their voting shares or which are not otherwise controlled by non-Mexicans, except that, in the case of concessions for cellular communications services, foreign investment participation may exceed 49% with the prior approval of the Mexican Foreign Investment Commission of the Mexican Ministry of Economy. There are no foreign investment participation restrictions with respect to operations conducted under permits.

A concession or a permit may be terminated pursuant to the 1995 Telecommunications Law upon:

- expiration of its term;
- resignation by the concession holder or the permit holder;
- revocation;
- expropriation;
- rescue (rescate); or
- liquidation or bankruptcy of the concession holder or the permit holder.

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A concession or a permit may be revoked prior to the end of its term under certain circumstances, such as:

- unauthorized or unjustified interruption of service;
- the taking of any action that impairs the rights of other concessionaires or permit holders;
- failure to comply with the obligations or conditions specified in the concession or permit;
- failure to provide interconnection services to other holders of telecommunications concessions and permits;
- loss of the concession or permit holder's Mexican nationality in instances in which Mexican nationality is legally required;
- unauthorized assignment, transfer or encumbrance of the concession or permit, of any rights under the concession or permit or of assets used for the exploitation of the concession or permit;
- failure to pay to the Mexican government its fee for the concession or permit or, where applicable, its participation in the revenues of the holder of the concession or permit; or
- participation of any foreign government in the capital stock of the holder of the concession or permit.

In addition, the SCT may establish for any concession further events which could result in revocation of that concession.

The Mexican government, through the SCT, may also temporarily seize (requisa) all assets related to a concession or permit in the event of a natural disaster, war, significant public disturbance or threats to internal peace and for other reasons related to preserving public order or for economic reasons.

In addition, the Mexican government has the statutory right to expropriate a concession (rescate) and assets related to its exploitation for public interest or national security reasons. Under Mexican law, the Mexican government is obligated to compensate the owner of the assets in the case of a statutory expropriation or temporary seizure, except in the event of war. If the Mexican government temporarily seizes such assets, it must indemnify the concession or permit holder for all losses and damages, including lost revenues.

In the case of an expropriation of a concession and the assets, equipment and premises related to the concessioned business, the amount of the compensation is to be determined in the expropriation order (declaratoria de rescate). The expropriation order (declaratoria de rescate) may exclude certain assets from the expropriation (rescate) and no compensation would be paid for those assets.

If the party affected by the expropriation disagrees with the amount of the compensation, it will be entitled to request a competent Mexican court to determine the amount. Iusacell is not aware of any instance in which the SCT has exercised any of these powers in connection with a cellular company.

THE ORIGINAL CONCESSION

Our right to provide radiotelephony, local wireless and data transmission services nationwide, as well as cellular service in region 9, is based upon a concession granted on April 1, 1957, as amended, which we refer to as the Original Concession, to Servicio Organizado Secretarial, S.A., which merged into SOS Telecomunicaciones, S.A. de C.V., one of our wholly-owned subsidiaries, which we refer to as SOS. The term of the Original Concession is 50 years, and it expires on April 1, 2007. The Original Concession may, however, be revoked prior to such date in the event that SOS fails to comply with its terms or applicable law. The Original Concession is renewable upon timely application to the SCT, provided that SOS has complied with all of the requirements of the Original Concession and agrees to any new terms and conditions established by the SCT at the time of renewal. See Item 1 "General Information - c) Risk Factors - Risks Relating to Our Business - The Mexican government may impose additional conditions on our concessions or may take them away."

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In consideration for the Original Concession, SOS must make payments to the Mexican government equal to 5% of all gross revenues derived from services provided through its region 9 cellular network and payments in an amount equal to the greater of (i) 4% of all gross revenues and (ii) 10% of net income, in either case, derived from services provided through its nationwide radio communications network.

Under the terms of the Original Concession, SOS must continually modernize its services. In updating its services, SOS must submit technical and economic plans for approval by the SCT. In determining whether to approve these plans, the SCT is authorized to consider whether the plans sufficiently address factors such as the public interest (including, without limitation, teledensity) and efficiency and uniformity in telecommunications throughout Mexico.

Initially, the Original Concession authorized only the installation and commercial operation of nationwide mobile (vehicle-installed) radiotelephone public service in the 132-144 MHz frequency range. Since then, however, the Original Concession has been amended numerous times, allowing us to expand the types of telecommunications services which we may offer. In 1978, the Original Concession was amended to grant SOS an additional allocation in the 440-450 MHz and 485-495 MHz frequency ranges in return for yielding a portion of its 132-144 MHz frequency range allocation. SOS retained the frequencies between 138 and 144 MHz.

Between 1986 and 1989, the Original Concession was further amended to enable SOS to provide fixed rural radiotelephony service, to offer telex and data transmission with the obligation to link its subscribers to the network owned by Telecom, and to interconnect its radiocommunications ground stations through satellite.

In 1989, SOS was authorized to install, operate and maintain a mobile public radiocommunications network with cellular technology in the 825-835 MHz and 870-880 MHz frequency bands in cellular region 9. In 1990, SOS was authorized to carry intra-regional cellular-to-cellular communications throughout cellular region 9 without being required to interconnect with the long distance carrier. In 1992, SOS was authorized to provide public data transmission service nationwide through its radio communications networks without the obligation to link its subscribers to the Telecom network.

In 1993, SOS was granted an additional 5 MHz band in the 800 MHz frequency range for the provision of cellular service, due to the high volume of cellul align="center" style="font-size: 10pt; margin-top: 18pt">

Business highlights

Philips Research received funding from the research arm of the US Department of Defense to lead a consortium to develop a new ultrasound-based technology that detects and stems the internal bleeding of wounded soldiers.

As part of the company s increasing steps into molecular medicine, Philips has taken a minority stake in US-based BG Medicine a specialist in biomarkers used in molecular imaging and diagnostics.

In September, acclaimed German fashion designer, Anke Loh, presented her new collection, which for the first time incorporated Lumalive textiles fabrics developed by Philips Research that incorporate light-emitting diodes.

In its August issue, I.D. (International Design) magazine featured four Philips products the Wireless Music Center and Station WACS700, Digital Photo Display, Practix Convenio and LED Pedestrian Luminaire out of 2000 entries.

Financial performance Corporate Technologies

EBIT showed a loss of EUR 64 million, EUR 4 million more than in Q3 2005 as a result of additional R&D investment, including in Molecular Healthcare.

Financial performance Corp. Investments/others

EBIT included a charge of EUR 265 million for asbestos-related product liabilities, net of insurance recoveries.

Excluding this charge, Corporate Investments reported a slight improvement in EBIT, mainly attributable to improved performance at the Enabling Technologies Group.

Looking ahead

As Corporate Investments continues to reduce its business portfolio, further divestments can be expected in the fourth quarter.

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Unallocated
Key data

in millions of euros unless otherwise stated	Q3 2005	Q3 **2006**
Corporate and regional overheads	(71)	**(90)**
Global brand campaign	(13)	**(13)**
Pensions/postretirement benefit costs	(42)	**(20)**
Total EBIT	(126)	**(123)**
Total EBITA	(128)	**(125)**
Number of employees (FTEs)	2,397	**2,420**

Business highlights

Philips entered the top 50 global brands in a ranking by leading brand consultant Interbrand, achieving the biggest increase in the electronics sector and advancing to the 48th place with an estimated brand value of USD 6.7 billion.

Philips showcased its commitment to its sense and simplicity brand promise at a Simplicity Event in London; featuring future well-being and lifestyle concepts and soon-to-launch products, the event attracted 1,600 key stakeholders.

As part of the company s drive for further improvements in supply management, Philips increased purchasing via e-auctions more than fourfold during the first three quarters of 2006 compared to the same period in 2005.

Philips climbed the Dow Jones Sustainability Indexes from 77 to 82 points out of 100, gaining in all three fields social, economic and environmental and ranking 1st in the Leisure sector.

For the 2nd year in a row, Philips won the Guangming Daily Corporate Social Responsibility Award in a ranking of 200 foreign multinationals by China s 4th-largest public-owned media group.

Financial performance

EBIT of Corporate and Regional Overheads was EUR 19 million lower than in Q3 2005, mainly due to implementation costs related to compliance with section 404 of the Sarbanes-Oxley Act.

Pension and post-retirement benefit costs were EUR 22 million lower than in Q3 2005. Increased costs for employees in North America were more than compensated by lower costs in the Netherlands.

Looking ahead

Investments in the brand campaign are expected to be approximately EUR 85 million in Q4.

Additional information on the sale of Semiconductors in Q3
Enterprise value

in millions of euros	Q3 2006
Enterprise value	**8,275**
SSMC minority interest	**(200)**
Unrecognized pension liability	**(150)**
Other	**41**
Consideration	**7,966**

Deal result

in millions of euros	Q3 2006
Net cash consideration	**7,068**
Retained interest 19.9%	**857**
Other	**41**
Consideration	**7,966**
Net assets divested	**(2,806)**
Cumulative translation differences and other transaction-related items	**(403)**
Gross deal result	**4,757**
Tax on transaction	**(570)**
Net deal result	**4,187**

Sale of 80.1% of the Semiconductors division

On September 29, Philips announced that it had completed the sale of an 80.1% stake in its Semiconductors business to a private equity consortium led by Kohlberg Kravis Roberts & Co. (KKR). The business has meanwhile been renamed NXP Semiconductors .

Philips has retained a 19.9% stake in NXP Semiconductors initially at fair value and recorded on the balance sheet at cost as an investment in Unconsolidated companies.

Based on an estimated enterprise value of EUR 8,275 million, the total consideration for the sale the Semiconductors business was EUR 7,966 million.

After tax and transaction-related costs, a net deal gain of EUR 4,187 million was recognized in Q3.

It is estimated that the net cash consideration of EUR 7,068 million will result in a net cash inflow (proceeds) of approximately EUR 6.4 billion, after the final settlement of taxes and other transaction-related items.

Charges due to the settlement of certain Semiconductors- related pension obligations will be recorded in 2007. These charges, to be reported under income from discontinued operations, are expected to be approximately EUR 75 million, before tax.

Management has used estimations in the calculation of the net deal result. Final results could differ from the amounts presented.

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Highlights in the 1st nine months

The 1st nine months of 2006

- Net income of EUR 4,703 million, including the gain on the sale of the Semiconductors division

- Comparable sales up 8%, driven by double-digit growth at DAP and CE

- EBIT of EUR 518 million

- Unconsolidated companies showing a loss of EUR 187 million due to LG.Philips LCD

- Income from discontinued operations of EUR 4,335 million, which includes both Semiconductors operational results and the gain on the deal

- Net debt : group equity ratio was (16) : 116 at the end of Q3.

Net income

in millions of euros unless otherwise stated	January-September	
	2005	**2006**
Sales	17,584	**18,848**
EBIT	677	**518**
as a % of sales	3.9	**2.7**
Financial income and expenses	85	**136**
Income taxes	(21)	**(89)**
Results unconsolidated companies	1,800	**(187)**
Minority interests	(9)	**(10)**
Income from continuing operations	2,532	**368**
Discontinued operations	4	**4,335**
Net income	2,536	**4,703**
Per common share (in euros) basic	2.01	**3.96**

Management summary

- Net income showed a profit of EUR 4,703 million, compared to EUR 2,536 million in the first nine months of 2005.

- Sales amounted to EUR 18,848 million, 7% higher than in the same period last year. The downward effect of consolidation changes was only partly offset by the upward currency effect, leading to comparable sales growth of 8% compared to the first nine months of 2005.

- Comparable sales grew at all main divisions, with double-digit growth at DAP (10%) and CE (10%). Lighting (9%) and Medical Systems (8%) also showed strong growth, while Corporate Investments declined by 4%.

- EBIT was EUR 518 million, compared to EUR 677 million in the same period last year. EBIT increased in all divisions except Consumer Electronics (due to last year s gain on the TPV transaction) and Other Activities (impacted by the Q3 2006 additional asbestos-related charge).

- The negative result from unconsolidated companies was mainly due to the loss incurred by LG.Philips LCD; last year s result included gains from the sale of shares in TSMC, LG.Philips LCD and NAVTEQ.

Income from discontinued operations of EUR 4,335 million includes both the operational results of Semiconductors for the year to September 29 as well as the deal result from the sale of the division in Q3 2006.

Other information
Other information

Share repurchase

On August 3, 2006 the Company announced that it would return a total of EUR 4 billion to its shareholders by the end of 2007 through a combination of dividends and share repurchases. This EUR 4 billion includes the EUR 1.5 billion share buyback program for capital reduction purposes announced in July 2006.

The current EUR 1.5 billion share buyback, which forms part of the EUR 4 billion, will be expanded and we expect to complete share repurchases of up to EUR 2.5 billion by the end of this year.

Subject to approval of the proposals put before the Extraordinary General Meeting of Shareholders, the Company intends, starting at the beginning of 2007, to return the remaining part of the EUR 4 billion through share buybacks from holders who are tax-exempt or are able to achieve tax compensation.

Asbestos

Judicial proceedings have been brought in the United States relating primarily to the activities of a subsidiary prior to 1981, involving allegations of personal injury from alleged asbestos exposure.

Historically, the subsidiary has established an accrual for loss contingencies with respect to asserted claims for asbestos product liability. However, an accrual for loss contingencies with respect to unasserted claims has not been established in prior periods since this liability could not be reasonably estimated in accordance with SFAS No. 5 (see page 164 Annual Report 2005).

In the third quarter of 2006, in light of additional claims history experienced by the Company s subsidiary and other changed circumstances, a third-party expert provided the

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Company with a projection of the subsidiary s liability for pending and unasserted potential future asbestos-related
Other information
claims, and provided such a projection through 2016. Accordingly, the subsidiary increased its accrual for loss contingencies related to asbestos product liability for claims asserted through 2016 to EUR 398 million, representing the undiscounted estimate of indemnity costs at September 30, 2006.

This resulted in a pre-tax charge to earnings of EUR 331 million at the end of the third quarter. During the third quarter of 2006, the amount of related insurance recoveries recognized in pre-tax earnings totaled EUR 66 million, reflecting agreements in place with insurance carriers.

In light of the inherent uncertainties involved in long-term forecasts of asbestos claims, the Company cannot assess in accordance with SFAS No. 5 the impact that claims asserted after 2016 may have on its consolidated financial position and results of operation. If actual experience differs significantly from the assumptions made in forecasting future liabilities, the Company s consolidated financial position and results of operations could be materially affected.

Subsequent events

Subsequent events

Philips announced on October 12 that it has signed a letter of intent to transfer its remaining mobile phone activities to China Electronics Corporation (CEC). CEC will take over the responsibility for Philips Mobile Phones business, which currently has an annual turnover of approximately EUR 400 million and approximately 240 employees, mainly in Asia Pacific and Eastern Europe.

Under the terms of the letter of intent, CEC will receive a global license to market and sell mobile phones under the Philips brand for the coming five years.

The transaction is still subject to confirmatory due diligence. The transaction will be conditional on all required shareholder, government and regulatory approvals and consents and is expected to be completed by the end of 2006.

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Outlook

Outlook

We expect the fourth quarter to round out what has already been a very good year for the Company. The planned completion of the Intermagnetics acquisition will help further strengthen our Medical business, and we anticipate making further value-adding acquisitions consistent with our strategic direction.

We will continue to invest heavily in the brand and, reflecting our commitment to create value for investors, will continue to return cash to our shareholders.

Amsterdam, October 16, 2006

Board of Management

Consolidated statements of income
all amounts in millions of euros unless otherwise stated
restated for the sale of the Semiconductors and MDS businesses

	3rd quarter		January to September	
	2005	2006	2005	2006
Sales	6,265	**6,313**	17,584	**18,848**
Cost of sales	(4,351)	**(4,580)**	(12,113)	**(13,246)**
Gross margin	1,914	**1,733**	5,471	**5,602**
Selling expenses	(1,112)	**(1,074)**	(3,146)	**(3,252)**
General and administrative expenses	(211)	**(252)**	(667)	**(743)**
Research and development expenses	(404)	**(395)**	(1,188)	**(1,204)**
Write-off of acquired in-process R&D				**(3)**
Other business income (expense)	166	**13**	207	**118**
Income from operations	353	**25**	677	**518**
Financial income and expenses	190	**32**	85	**136**
Income before taxes	543	**57**	762	**654**
Income tax expense	(71)	**27**	(21)	**(89)**
Income after taxes	472	**84**	741	**565**
Results relating to unconsolidated companies, including a year-to-date net dilution gain of EUR 16 million (gain of EUR 165 million in the 3rd quarter of 2005)	929	**(81)**	1,800	**(187)**
Minority interests		**(2)**	(9)	**(10)**
Income from continuing operations	1,401	**1**	2,532	**368**
Discontinued operations	35	**4,241**	4	**4,335**
Net income	1,436	**4,242**	2,536	**4,703**
Weighted average number of common shares outstanding (after deduction of treasury stock) during the period (in thousands):				
basic			1,259,133	**1,188,121**
diluted			1,261,517	**1,195,750**
Net income per common share in euros:				
basic	1.14	**3.57**	2.01	**3.96**
diluted	1.14	**3.55**	2.01	**3.93**

Ratios				
Gross margin as a % of sales	30.6	**27.5**	31.1	**29.7**
Selling expenses as a % of sales	(17.7)	**(17.0)**	(17.9)	**(17.3)**
G&A expenses as a % of sales	(3.4)	**(4.0)**	(3.8)	**(3.9)**
R&D expenses as a % of sales	(6.4)	**(6.3)**	(6.8)	**(6.4)**
EBIT or Income from operations	353	**25**	677	**518**
as a % of sales	5.6	**0.4**	3.9	**2.7**
EBITA	379	**71**	748	**640**
as a % of sales	6.0	**1.1**	4.3	**3.4**

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Consolidated balance sheets
all amounts in millions of euros unless otherwise stated
restated for the sale of the Semiconductors and MDS businesses

	Sept. 30, 2005	Dec. 31, 2005	**Sept. 30, 2006**
Current assets:			
Cash and cash equivalents	4,344	5,293	**7,272**
Securities			**173**
Receivables	4,679	4,638	**4,732**
Current assets of discontinued operations	1,539	1,462	
Inventories	3,289	2,797	**3,435**
Other current assets	850	894	**1,084**
Total current assets	14,701	15,084	**16,696**
Non-current assets:			
Investments in unconsolidated companies	5,563	5,399	**4,067**
Other non-current financial assets	573	673	**6,564**
Non-current receivables	167	213	**204**
Non-current assets of discontinued operations	2,642	2,511	
Other non-current assets	3,332	3,231	**3,860**
Property, plant and equipment	2,881	3,019	**3,157**
Intangible assets excluding goodwill	971	1,240	**1,611**
Goodwill	1,973	2,535	**3,216**
Total assets	32,803	33,905	**39,375**
Current liabilities:			
Accounts and notes payable	3,131	3,457	**3,311**
Current liabilities of discontinued operations	965	1,044	
Accrued liabilities	3,149	3,281	**3,415**
Short-term provisions	810	807	**1,304**
Other current liabilities	570	657	**581**
Short-term debt	967	1,167	**870**
Total current liabilities	9,592	10,413	**9,481**
Non-current liabilities:			
Long-term debt	3,377	3,320	**3,039**
Long-term provisions	1,971	1,903	**2,167**
Non-current liabilities of discontinued operations	345	341	
Other non-current liabilities	799	1,103	**745**
Total liabilities	16,084	17,080	**15,432**
Minority interests	181	159	**140**
Stockholders equity	16,538	16,666	**23,803**

Total liabilities and equity	32,803	33,905	**39,375**
Number of common shares outstanding (after deduction of treasury stock) at the end of period (in thousands)	1,232,102	1,201,358	**1,157,592**
Ratios			
Stockholders equity per common share in euros	13.42	13.87	**20.56**
Inventories as a % of sales	12.9	10.9	**12.7**
Net debt : group equity	0:100	(5):105	**(16):116**
Net operating capital	5,912	5,679	**8,960**
Employees at end of period of which discontinued operations 37,680 end Sept. 2005, and 37,417 end Dec. 2005	161,096	159,226	**125,564**

Consolidated statements of cash flows *
all amounts in millions of euros
restated for the sale of the Semiconductors and MDS businesses

	3rd quarter		January to September	
	2005	2006	2005	2006
Cash flows from operating activities:				
Net income	1,436	**4,242**	2,536	**4,703**
(Income) loss discontinued operations	(35)	**(4,241)**	(4)	**(4,335)**
Adjustments to reconcile income to net cash provided by operating activities:				
Depreciation and amortization	175	**214**	516	**584**
Impairment of equity investments				**8**
Net gain on sale of assets	(958)	**(11)**	(1,724)	**(108)**
Unconsolidated companies (net of dividends received)	(126)	**78**	(156)	**132**
Minority interests (net of dividends paid)	(7)	**(34)**	11	**10**
(Increase) decrease in working capital/other current assets	(213)	**(281)**	(1,155)	**(927)**
(Increase) decrease in non-current receivables/other assets	(110)	**428**	(333)	**(300)**
Increase (decrease) in provisions	73	**152**	(23)	**105**
Other items	11	**131**	14	**(95)**
Net cash provided by (used for) operating activities	246	**678**	(318)	**(223)**
Cash flows from investing activities:				
Purchase of intangible assets	(16)	**(19)**	(48)	**(68)**
Capital expenditures on property, plant and equipment	(162)	**(218)**	(463)	**(584)**
Proceeds from disposals of property, plant and equipment	20	**19**	86	**62**
Cash from (to) derivatives	(1)	**(42)**	(34)	**(113)**
Proceeds from sale (purchase) of other non-current financial assets	619	**10**	617	**10**
Proceeds from sale (purchase) of businesses	930	**(731)**	1,795	**(1,418)**
Net cash provided by (used for) investing activities	1,390	**(981)**	1,953	**(2,111)**
Cash flows from financing activities:				
Increase (decrease) in debt	(106)	**(729)**	(432)	**(504)**
Treasury stock transactions	(337)	**(795)**	(1,036)	**(1,202)**
Dividends paid			(504)	**(523)**
Net cash provided by (used for) financing activities	(443)	**(1,524)**	(1,972)	**(2,229)**
Net cash provided by (used for) continuing operations	1,193	**(1,827)**	(337)	**(4,563)**
Cash flows from discontinued operations.				
Net cash provided by (used for) operating activities	249	**(158)**	500	**191**
Net cash provided by (used for) investing activities	(93)	**6,900**	(259)	**6,633**
Net cash provided by (used for) financing activities				
Net cash provided by (used for) discontinued operations	156	**6,742**	241	**6,824**

Net cash provided by (used for) continuing and discontinued operations	1,349	**4,915**	(96)	**2,261**
Effect of change in consolidations and exchange rates on cash positions	(10)	**(181)**	91	**(282)**
Cash and cash equivalents at beginning of period	3,005	**2,538**	4,349	**5,293**
Cash and cash equivalents at end of period	4,344	**7,272**	4,344	**7,272**
Ratio				
Cash flows before financing activities	1,636	**(303)**	1,635	**(2,334)**

* 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.

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Consolidated statement of changes in stockholders equity
all amounts in millions of euros

January to September 2006

	Common stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss): Currency translation differences	Unrealized gain (loss) on available-for-sale securities	Additional minimum pension liability	Changes in fair value of cash flow hedges	Total	Treasury shares at cost: To hedge share-based compensation plans	To cover capital reduction program	Total stockholders 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			4,703								4,703
Net current period change				(176)	3,637	214	53	3,728			3,728
Reclassifications into income				395			(13)	382			382
Total comprehensive income, net of tax			4,703	219	3,637	214	40	4,110			8,813
Reduction authorized share capital	(17)		(1,983)							2,000	
Dividend paid			(523)								(523)
Purchase of treasury stock									(118)	(1,262)	(1,380)
Re-issuance of treasury stock		(109)	(83)						392		200
Share-based compensation plans		27									27
Balance as of September 30, 2006	**246**	**0**	**23,824**	**(1,667)**	**3,627**	**(331)**	**11**	**1,640**	**(1,059)**	**(848)**	**23,803**

Sectors
all amounts in millions of euros unless otherwise stated
restated for the sale of the Semiconductors and MDS businesses
Sales and income from operations

3rd quarter

	2005			2006		
	Sales	Income from operations		Sales	Income from operations	
		amount	as a % of sales		amount	as a % of sales
Medical Systems	1,531	155	10.1	**1,575**	**186**	**11.8**
DAP	519	91	17.5	**614**	**94**	**15.3**
Consumer Electronics	2,541	164	6.5	**2,407**	**54**	**2.2**
Lighting	1,185	130	11.0	**1,370**	**141**	**10.3**
Other Activities	489	(61)	(12.5)	**347**	**(327)**	**(94.2)**
Unallocated		(126)			**(123)**	
Total	6,265	353	5.6	**6,313**	**25**	**0.4**

January to September

	2005			2006		
	Sales	Income from operations		Sales	Income from operations	
		amount	as a % of sales		amount	as a % of sales
Medical Systems	4,314	412	9.6	**4,674**	**484**	**10.4**
DAP	1,407	191	13.6	**1,682**	**222**	**13.2**
Consumer Electronics	6,953	272	3.9	**7,314**	**157**	**2.1**
Lighting	3,429	399	11.6	**4,011**	**494**	**12.3**
Other Activities	1,481	(180)	(12.2)	**1,167**	**(451)**	**(38.6)**
Unallocated		(417)			**(388)**	
Total	17,584	677	3.9	**18,848**	**518**	**2.7**

Sectors and main countries
all amounts in millions of euros
restated for the sale of the Semiconductors and MDS businesses
Sales and total assets

	Sales		Total assets	
	January to September		September 30,	
	2005	2006	2005	2006
Medical Systems	4,314	**4,674**	5,519	**5,340**
DAP	1,407	**1,682**	1,033	**2,486**
Consumer Electronics	6,953	**7,314**	2,936	**2,908**
Lighting	3,429	**4,011**	2,737	**3,885**
Other Activities	1,481	**1,167**	7,118	**5,671**
Unallocated			9,279	**19,085**
Total	17,584	**18,848**	28,622	**39,375**
Discontinued operations			4,181	
Total			32,803	**39,375**

Sales and long-lived assets

	Sales		Long-lived assets *	
	January to September		September 30,	
	2005	2006	2005	2006
Netherlands	711	**787**	1,064	**1,136**
United States	4,971	**5,254**	3,043	**4,506**
Germany	1,307	**1,370**	262	**339**
France	1,137	**1,063**	145	**119**
United Kingdom	763	**828**	97	**741**
China (incl. Hong Kong)	1,261	**1,311**	208	**183**
Other countries	7,434	**8,235**	1,006	**960**
Total	17,584	**18,848**	5,825	**7,984**

* Includes property, plant and equipment and intangible assets

Pension costs
all amounts in millions of euros unless otherwise stated
restated for the sale of the Semiconductors and MDS businesses
Net periodic pension costs of defined-benefit plans

	3rd quarter 2006		January-September 2006	
	Netherlands	Other	Netherlands	Other
Service cost	52	34	159	103
Interest cost on the projected benefit obligation	135	98	403	305
Expected return on plan assets	(203)	(96)	(609)	(292)
Amortization of unrecognized transition obligation		1		1
Net actuarial (gain) loss recognized	(10)	21	(30)	65
Amortization of prior service cost	(15)	6	(45)	19
Settlement loss				
Net periodic cost (income)	**(41)**	**64**	**(122)**	**201**

The net periodic pension costs in the third quarter of 2006 amounted to EUR 47 million, of which EUR 23 million related to defined-benefit plans (the Netherlands income of EUR 41 million, other countries cost of EUR 64 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

	3rd quarter 2006		January-September 2006	
	Netherlands	Other	Netherlands	Other
Service cost		1		3
Interest cost on the accumulated postretirement benefit obligation		6		19
Amortization of unrecognized transition obligation		1		4
Net actuarial loss recognized		1		3
Curtailment gain				
Net periodic cost (income)		**9**		**29**

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Consolidated statements of income in accordance with IFRS
all amounts in millions of euros unless otherwise stated
restated for the sale of the Semiconductors and MDS businesses

	3rd quarter		January to September	
	2005	2006	2005	2006
Sales	6,265	**6,313**	17,584	**18,848**
Cost of sales	(4,355)	**(4,597)**	(12,132)	**(13,300)**
Gross margin	1,910	**1,716**	5,452	**5,548**
Selling expenses	(1,111)	**(1,061)**	(3,132)	**(3,249)**
General and administrative expenses	(254)	**(293)**	(773)	**(859)**
Research and development expenses	(408)	**(390)**	(1,159)	**(1,175)**
Other business income (expense)	163	**11**	191	**91**
Income from operations	300	**(17)**	579	**356**
Financial income and expenses	192	**32**	85	**136**
Income before taxes	492	**15**	664	**492**
Income tax expense	(53)	**37**	15	**(39)**
Income after taxes	439	**52**	679	**453**
Results relating to unconsolidated companies, included a year-to-date net dilution gain of EUR 16 million (gain of EUR 214 million in the 3rd quarter of 2005)	1,091	**(82)**	1,938	**(193)**
Minority interests		**(1)**	(10)	**(9)**
Income from continuing operations	1,530	**(31)**	2,607	**251**
Discontinued operations	87	**3,659**	114	**3,820**
Net income	1,617	**3,628**	2,721	**4,071**
Weighted average number of common shares outstanding (after deduction of treasury stock) during the period (in thousands)				
basic			1,259,133	**1,188,121**
diluted			1,261,517	**1,195,750**
Net income per common share in euros:				
basic	1.29	**3.05**	2.16	**3.43**
diluted	1.29	**3.03**	2.16	**3.40**

Ratios				
Gross margin as a % of sales	30.5	**27.2**	31.0	**29.4**
Selling expenses as a % of sales	(17.7)	**(16.8)**	(17.8)	**(17.2)**
G&A expenses as a % of sales	(4.1)	**(4.6)**	(4.4)	**(4.6)**
R&D expenses as a % of sales	(6.5)	**(6.2)**	(6.6)	**(6.2)**
EBIT or Income from operations	300	**(17)**	579	**356**
as a % of sales	4.8		3.3	**1.9**
EBITA	359	**42**	725	**512**
as a % of sales	5.7	**0.7**	4.1	**2.7**

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Consolidated balance sheets in accordance with IFRS
all amounts in millions of euros unless otherwise stated
restated for the sale of the Semiconductors and MDS businesses

	Sept. 30, 2005	Dec. 31, 2005	**Sept. 30, 2006**
Current assets:			
Cash and cash equivalents	4,344	5,293	**7,272**
Securities			**173**
Receivables	4,679	4,638	**4,732**
Current assets of discontinued operations	1,539	1,462	
Inventories	3,289	2,797	**3,435**
Other current assets	479	412	**633**
Total current assets	14,330	14,602	**16,245**
Non-current assets:			
Investments in unconsolidated companies	5,339	5,221	**3,963**
Other non-current financial assets	573	673	**6,564**
Non-current receivables	167	213	**204**
Non-current assets of discontinued operations	3,780	3,542	
Other non-current assets	2,289	2,173	**2,125**
Property, plant and equipment	2,907	3,038	**3,164**
Intangible assets excluding goodwill	1,323	1,952	**2,332**
Goodwill	1,656	2,174	**2,874**
Total assets	32,364	33,588	**37,471**
Current liabilities:			
Accounts and notes payable	3,131	3,457	**3,311**
Current liabilities of discontinued operations	965	1,044	
Accrued liabilities	3,107	3,243	**3,380**
Short-term provisions	706	780	**735**
Other current liabilities	570	658	**581**
Short-term debt	968	1,168	**863**
Total current liabilities	9,447	10,350	**8,870**
Non-current liabilities:			
Long-term debt	3,404	3,339	**3,041**
Long-term provisions	1,861	1,606	**2,370**
Non-current liabilities of discontinued operations	570	535	
Other non-current liabilities	856	1,086	**646**
Total liabilities	16,138	16,916	**14,927**
Minority interests*	330	353	**159**
Stockholders equity	15,896	16,319	**22,385**

Total liabilities and equity	32,364	33,588	**37,471**
Number of common shares outstanding (after deduction of treasury stock) at the end of period (in thousands)	1,232,102	1,201,358	**1,157,592**
Ratios			
Stockholders equity per common share in euros	12.90	13.58	**19.34**
Inventories as a % of sales	12.9	10.9	**12.7**
Net debt : group equity	0:100	(5):105	**(18):118**
Employees at end of period of which discontinued operations 37,680 end Sept. 2005 and 37,417 end Dec. 2005	161,096	159,226	**125,564**

* Of which discontinued operations 146 end of September 2005 and 173 end of December 2005

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Reconciliation from US GAAP to IFRS
all amounts in millions of euros unless otherwise stated
restated for the sale of the Semiconductors and MDS businesses
Reconciliation of net income from US GAAP to IFRS

	3rd quarter		January to September	
	2005	**2006**	2005	**2006**
Net income as per the consolidated statements of income on a US GAAP basis	1,436	**4,242**	2,536	**4,703**
Adjustments to IFRS:				
Capitalized product development expenses	61	**82**	188	**208**
Amortization of product development assets	(59)	**(69)**	(146)	**(156)**
Pensions and other postretirement benefits	(49)	**(53)**	(120)	**(164)**
Amortization of intangible assets				
Unconsolidated companies	162	**(2)**	138	**(6)**
Deferred income tax effects	18	**11**	36	**50**
Discontinued operations	52	**(582)**	110	**(515)**
Other differences in income	(4)	**(1)**	(21)	**(49)**
Net income in accordance with IFRS	1,617	**3,628**	2,721	**4,071**

Reconciliation of stockholders equity from US GAAP to IFRS

	Sept. 30, 2005	**Sept. 30, 2006**
Stockholders equity as per the consolidated balance sheets on a US GAAP basis	16,538	**23,803**
Adjustments to IFRS:		
Product development expenses	464	**508**
Pensions and other postretirement benefits	(1,909)	**(2,295)**
Goodwill amortization (until January 1, 2004)	(316)	**(298)**
Goodwill capitalization (acquisition-related)		**(44)**
Acquisition-related intangibles		**242**
Assets from discontinued operations	767	
Unconsolidated companies	(226)	**(104)**
Recognized results on sale-and-leaseback transactions	84	**75**
Deferred income tax effects	499	**499**
Other differences in equity	(5)	**(1)**
Stockholders equity in accordance with IFRS	15,896	**22,385**

Reconciliation of non-US GAAP performance measures
all amounts in millions of euros unless otherwise stated
restated for the sale of the Semiconductors and MDS businesses
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 September			
	Comparable growth	Currency effects	Consolidation changes	Nominal growth
2006 versus 2005				
Medical Systems	**7.6**	**0.7**	**0.0**	**8.3**
DAP	**10.3**	**1.3**	**7.9**	**19.5**
Consumer Electronics	**10.2**	**1.7**	**(6.7)**	**5.2**
Lighting	**8.8**	**1.0**	**7.2**	**17.0**
Other Activities	**(4.6)**	**0.5**	**(17.1)**	**(21.2)**
Philips Group	**8.2**	**1.2**	**(2.2)**	**7.2**

EBITA and EBIT to income before taxes

	Philips Group	Medical Systems	DAP	Consumer Electronics	Lighting	Other Activities	Unallocated
January to September 2006							
EBITA	**640**	**563**	**241**	**158**	**517**	**(450)**	**(389)**
Eliminate amortization of intangibles	**(122)**	**(79)**	**(19)**	**(1)**	**(23)**	**(1)**	**1**
EBIT or Income from operations	**518**	**484**	**222**	**157**	**494**	**(451)**	**(388)**
Eliminate financial income and expenses	**136**						
Income before taxes	**654**						
January to September 2005							
EBITA	748	478	195	272	400	(179)	(418)
Eliminate amortization of intangibles	(71)	(66)	(4)		(1)	(1)	1
EBIT or Income from operations	677	412	191	272	399	(180)	(417)
Eliminate financial income and expenses	85						
Income before taxes	762						

Composition of net debt and group equity

	Sept. 30, 2005	**Sept. 30, 2006**
Long-term debt	3,377	3,039
Short-term debt	967	870

Total debt	4,344	3,909
Cash and cash equivalents	(4,344)	(7,272)
Net debt (total debt less cash and cash equivalents)	0	(3,363)
Minority interests	181	140
Stockholders equity	16,538	23,803
Group equity	16,719	23,943
Net debt and group equity	16,719	20,580
Net debt divided by net debt and group equity (in %)	0	16
Group equity divided by net debt and group equity (in %)	100	116

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Reconciliation of non-US GAAP performance measures (continued)
all amounts in millions of euros unless otherwise stated
restated for the sale of the Semiconductors and MDS businesses
Net operating capital to total assets

	Philips Group	Medical Systems	DAP	Consumer Electronics	Lighting	Other Activities	Unallocated
September 30, 2006							
Net operating capital (NOC)	**8,960**	**3,330**	**1,885**	**192**	**2,697**	**(272)**	**1,128**
Eliminate liabilities comprised in NOC:							
payables/liabilities	**8,052**	**1,665**	**521**	**2,329**	**993**	**1,404**	**1,140**
intercompany accounts		**28**	**20**	**72**	**31**	**(129)**	**(22)**
provisions[1]	**2,610**	**245**	**60**	**279**	**150**	**846**	**1,030**
Include assets not comprised in NOC:							
investments in unconsolidated companies	**4,067**	**72**		**36**	**14**	**3,822**	**123**
securities	**173**						**173**
other non-current financial assets	**6,564**						**6,564**
deferred tax assets	**1,677**						**1,677**
liquid assets	**7,272**						**7,272**
Total assets	**39,375**	**5,340**	**2,486**	**2,908**	**3,885**	**5,671**	**19,085**

1) provisions on balance sheet EUR 3,471 million excluding deferred tax liabilities of EUR 861 million

	Philips Group	Medical Systems	DAP	Consumer Electronics	Lighting	Other Activities	Unallocated
September 30, 2005							
Net operating capital (NOC)	5,912	3,506	569	212	1,721	395	(491)
Eliminate liabilities comprised in NOC:							
payables/liabilities	7,650	1,672	391	2,312	779	1,014	1,482
intercompany accounts		20	19	87	33	(136)	(23)
provisions[2]	2,471	259	54	305	131	583	1,139
Include assets not comprised in NOC:							
investments in unconsolidated companies	5,563	62		20	73	5,262	146
other non-current financial assets	573						573
deferred tax assets	2,109						2,109
liquid assets	4,344						4,344
Total assets	28,622	5,519	1,033	2,936	2,737	7,118	9,279
Discontinued operations	4,181						
Total	32,803						

2) provisions on balance sheet EUR 2,781 million excluding deferred tax liabilities of EUR 310 million

Composition of cash flows before financing activities

	3rd quarter		January to September	
	2005	**2006**	2005	**2006**
Cash flows from operating activities	246	**678**	(318)	**(223)**
Cash flows from investing activities	1,390	**(981)**	1,953	**(2,111)**
Cash flows before financing activities	1,636	**(303)**	1,635	**(2,334)**

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Philips quarterly statistics
all amounts in millions of euros unless otherwise stated; percentage increases always in relation to the corresponding period of previous year
restated for the sale of the Semiconductors and MDS businesses

	2005				2006			
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Sales	5,480	5,839	6,265	8,191	6,155	6,380	**6,313**	
% increase	3		7	5	12	9	**1**	
EBIT	193	131	353	795	246	247	**25**	
as a % of sales	3.5	2.2	5.6	9.7	4.0	3.9	**0.4**	
Net income	117	983	1,436	332	160	301	**4,242**	
per common share in euros	0.09	0.78	1.14	0.28	0.13	0.26	**3.57**	

	January-March	January-June	January-September	January-December	January-March	January-June	January-September	January-December
Sales	5,480	11,319	17,584	25,775	6,155	12,535	**18,848**	
% increase	3	1	3	4	12	11	**7**	
EBIT	193	324	677	1,472	246	493	**518**	
as a % of sales	3.5	2.9	3.9	5.7	4.0	3.9	**2.7**	
Net income	117	1,100	2,536	2,868	160	461	**4,703**	
as a % of stockholders equity (ROE)	4.2	16.7	23.8	18.1	3.8	4.6	**2.7**	
per common share in euros	0.09	0.87	2.01	2.29	0.13	0.39	**3.96**	

	period ending 2005				period ending 2006			
Inventories as a % of sales	11.4	12.9	12.9	10.9	11.9	11.9	**12.7**	
Net debt : group equity ratio	8:92	8:92	0:100	(5):105	6:94	9:91	**(16):116**	
Total employees (in thousands)	161	160	161	159	161	158	**126**	
of which discontinued operations	37	38	38	38	37	37		

Information also available on Internet, address: www.investor.philips.com
Printed in the Netherlands
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July 28, 2006

PHILIPS ONE OF TOP CLIMBERS IN BRAND VALUE INTERBRAND

Amsterdam, The Netherlands Royal Philips Electronics (NYSE:PHG, AEX:PHI) was one of the largest gainers in brand value in the annual ranking of the top 100 global brands by leading brand consultant, Interbrand. Philips had the largest increase in the electronics sector, gaining 14% to an estimated brand value of USD6.7 billion. Its ranking in the Interbrand list of the world s most valuable brands increased to 48th spot from 53rd in 2005 and 65th in 2004.

Andrea Ragnetti, Philips Chief Marketing Officer, said the growth in brand value demonstrated that Philips transformation into a market-driven healthcare, lifestyle and technology company was showing its merits. The improved Interbrand ranking confirms that our brand promise sense and simplicity , which is also the framework for our future growth, is making a difference to the way the world sees and experiences Philips, and is reinvigorating faith in the Philips brand, he said. Our commitment and presence in the growing healthcare market, which promises to be an engine for future economic growth, has also increased recognition of the brand strength and value, he added.

Jürgen Häusler, CEO Interbrand Zintzmeyer & Lux said that Philips 14% growth in brand value reflected the company s success in managing the brand. Philips clearly understands the importance of its brand, which supports the vision of transforming Philips into a healthcare, lifestyle and technology company. In this context the thorough management of a strong master brand, communicating the same values across a highly diversified product portfolio in a variety of countries, is of utmost importance, he added.

Information on Interbrand s top 100 global brands is available at www.interbrand.com More information and news about Philips is available at www.philips.com/newscenter Philips image library is available at www.newcenter.philips.com/photolibrary

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About Royal Philips Electronics

Royal Philips Electronics of the Netherlands (NYSE: PHG, AEX: PHI) is one of the world s biggest electronics companies and Europe s largest, with sales of EUR 30.4 billion in 2005. With activities in the three interlocking domains of healthcare, lifestyle and technology and 158,000 employees in more than 60 countries, it has market leadership positions in medical diagnostic imaging and patient monitoring, color television sets, electric shavers, lighting and silicon system solutions.

Philips sense and simplicity

Philips launched its brand promise, sense and simplicity in 2004 as an integral part of its efforts to become a market-driven company. For Philips, sense and simplicity sets the criteria against which Philips gauges everything it does and makes. It ensures the Philips mission to improve the quality of people s lives through the timely introduction of meaningful technological innovations that are guided by three principles designed around people s unique needs, easy to experience and advanced. Philips also took a step further to live up to sense and simplicity as a company, applying this promise to internal processing, the way the company works with customers and suppliers open and transparent, approachable and easy to do business with to the way employees work and to the products and services it brings to market.

Brand valuation by Interbrand Zintzmeyer & Lux

Brand values were determined using the method Interbrand pioneered nearly 20 years ago and has since used to value more than 4,000 brands. Brand value is calculated as the net present value of the earnings the brand is expected to generate and secure in the future for the time frame from July 1, 2005 to June 30, 2006. To be considered, the brands must have a minimum brand value of US$2.7 billion, achieve about one-third of their earnings outside of their home country, have publicly available marketing and financial data, and have a wider public profile beyond their direct customer base.

August 3, 2006

PHILIPS TO SELL MAJORITY STAKE IN SEMICONDUCTORS BUSINESS TO PRIVATE EQUITY CONSORTIUM KKR, SILVER LAKE AND ALPINVEST

Amsterdam, The Netherlands and London, United Kingdom Royal Philips Electronics (NYSE:PHG, AEX:PHI) announced today that the company has signed an agreement with Kohlberg Kravis Roberts & Co. (KKR), Silver Lake Partners and AlpInvest Partners NV (together referred to as the consortium) through which the consortium will acquire an 80.1% stake in Philips Semiconductors business, with Philips retaining a 19.9% stake in this business. The transaction will put the enterprise value for Philips Semiconductors business at approximately EUR 8.3 billion consisting of EUR 3.4 billion purchasing price, EUR 4.0 billion for debt and other liabilities, and EUR 0.9 billion for Philips remaining stake. Philips estimates it will receive cash proceeds after tax and transaction related costs of approximately EUR 6.4 billion. The transaction is expected to close in the fourth quarter of 2006, subject to closing conditions, including governmental and regulatory approvals.

Philips Semiconductors is a leading supplier of silicon system solutions for mobile communications, consumer electronics, digital displays, contactless payment and connectivity, and in-car entertainment and networking, with approximately 37,000 employees worldwide. The business had sales in 2005 of EUR 4.6 billion.

Commenting on today s announcement, Mr. Gerard Kleisterlee, President and CEO of Royal Philips Electronics, said: This is a defining moment for both Philips and its semiconductors business. As a stand-alone company, the semiconductors business will have every opportunity to realize its full potential and we are very pleased to have found strong partners that share our belief. As a business partner, we will remain strongly committed to the future success of the business. As Philips, we are completing our shift away from running cyclical activities, and can fully focus on building an even stronger company in Healthcare and Lifestyle around the brand promise of sense and simplicity.

Upon completion of the transaction, Mr. Frans van Houten will relinquish his current positions as member of the Board of Royal Philips Electronics and CEO of Philips Semiconductors business to become the President and CEO of the new stand-alone semiconductors company. The renaming of the new company will be announced in due course.

Commenting on today s announcement, Mr. van Houten said: Today s agreement with KKR, Silver Lake and AlpInvest represents an exciting foundation upon which our new semiconductors company can successfully grow and compete as a stand-alone company. The business, with its strong R&D capabilities and broad intellectual property portfolio, will continue to focus on strengthening its performance and presence in Mobile & Personal, Home, Automotive & Identification and Multi Market Semiconductors our four key markets. We remain entirely committed to completing our successful business renewal program.

The consortium consists of KKR, one of the world s most experienced private equity firms, Silver Lake, the leading private equity firm focused on technology and AlpInvest, a major Dutch-based private equity investor operating worldwide. The extensive expertise in technology buy-outs of the partners in the consortium is evidenced by buy-outs such as SunGard Data Systems Inc. in the US and Avago Technologies Ltd. in Singapore.

Commenting on the transaction, Johannes Huth, a Member of KKR said: We are very pleased to be making this investment and are excited about the opportunity to work with the company s outstanding management team. With the support of the consortium and Philips as an investor, the company will continue to innovate in order to provide its customers with leading-edge solutions and products that drive growth.

Egon Durban, a Managing Director of Silver Lake Partners, commented: We believe the Philips Semiconductor business is well positioned to pursue and achieve significant expansion. We look forward to partnering with management to continue building value through a demonstrated commitment to innovative technologies and a strong share in both established and emerging markets.

Credit Suisse and Bank of America acted as lead M&A financial advisors to the consortium, with ABN Amro also providing advice. Clifford Chance and Simpson Thacher & Bartlett served as legal advisors.

For more information on this announcement, please visit www.newscenter.philips.com.

The webcasting of the press conference on this announcement is accessible via www.philips.com/webcast. This will be live as from 10:00 CET on Friday, August 4, 2006 with a replay available shortly afterwards. For the analysts conference call/audiowebcast on August 4, 2006 at 11:30 CET, please visit www.philips.com/investor.

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About Royal Philips Electronics:

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About KKR:

KKR is one of the world s oldest and most experienced private equity firms specializing in management buy-outs, with offices in New York, Menlo Park, California, London, Paris, Hong Kong and Tokyo. Over the past year, KKR has committed more than $1 billion to technology businesses, including SunGard Data Systems and Avago Technologies, which are considered the two largest private equity technology investments in history, with transaction prices of US$11.8 billion and US$2.8 billion, respectively. Past KKR technology industry investments include: Amphenol, RELTEC, Wincor Nixdorf, Tenovis, Zhone Technologies and the software development and solutions business of Flextronics International Ltd (pending). Over the past thirty years, KKR has invested in more than 141 transactions with a total value of US$213 billion. In Europe, KKR has invested a total of US$5.9bn in 20 companies, including Vendex, AVR, VNU, SBS Broadcasting, Newsquest, Willis Group, Wincor Nixdorf, Legrand, FL Selenia, ATU and MTU, among others. For more information, please visit www.kkr.com.

About Silver Lake Partners:

Silver Lake Partners is the leading private equity firm focused on large-scale investing in technology and related growth industries. Silver Lake seeks to achieve superior returns by investing with the strategic insight of an experienced industry participant, the operating skill of a world-class manager and the financial expertise of a disciplined private equity investor. Specifically, Silver Lake s mission is to function as a value-added partner to the management teams of the world s leading technology franchises. Its portfolio companies include technology industry leaders such as Avago, Flextronics, Gartner, Instinet, NASDAQ, Network General, Seagate Technology, Serena Software, SunGard Data Systems, Thomson and UGS. For more information, please visit www.silverlake.com.

About AlpInvest Partners NV:

AlpInvest Partners is one of the largest private equity investors in the world with over EUR 30 billion of assets under management. Approximately 80% of these funds are invested by AlpInvest Partners in private equity funds globally, with the remainder invested directly in companies as a co-investor in Europe and the US. AlpInvest Partners has 56 investment professionals based in Amsterdam and New York. Its shareholders and main clients are ABP and PGGM, two of the largest pension funds in the world with respectively EUR 192 billion and EUR 71 billion of assets under management (as per December 2005). To learn more about AlpInvest Partners visit www.alpinvest.com

Forward-looking statements

This release may contain 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. 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 and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

August 3, 2006

PHILIPS TO COMPLETE ITS TRANSFORMATION FROM A CYCLICAL TECHNOLOGY COMPANY TO A HEALTHCARE AND LIFESTYLE COMPANY BUILT AROUND A STRONG BRAND

Philips to return approximately EUR 4 billion to shareholders through dividends and share repurchase.

Company increases its focus on growth in Healthcare and Lifestyle sectors.

Amsterdam, The Netherlands Royal Philips Electronics announced its intent for capital allocation following the divestment of an 80.1% majority share in its Semiconductor unit. The transaction, announced separately today, values this business at around EUR 8.3 billion.

Proceeds from the sale, after tax and transaction-related costs, will total approximately EUR 6.4 billion. Philips will return a total of EUR 4 billion to shareholders by the end of 2007 through a combination of dividends and share repurchases, including the EUR 1.5 billion share repurchase program already announced on July 17, 2006.

The company reiterated its strategy to re-invest in additional opportunities for high-margin growth, both organically and through acquisitions. In the last 12 months Philips has announced the investment of EUR 3.5 billion in eight acquisitions (some yet to be completed), predominantly in Medical Systems, Lighting and Consumer Health and Wellness. These have brought almost EUR 1 billion in new revenue and over 5,000 employees into the group. The company noted that the earlier acquisitions were performing in line with, or better than, expectations. R&D investment in targeted areas such as Lighting and Domestic Appliances has been increased, in order to stimulate organic growth. Philips also re-confirmed its intent to exit from its participations in LG.Philips LCD and TSMC in a responsible manner. In addition, Philips will continue to improve its cost structure by simplifying the organization and its ways of working.

With this transaction we have now practically completed our shift towards more stable, cash generative businesses and away from the earnings volatility associated with cyclical industries like Components and Semiconductors, a journey we started in 2002, said Gerard Kleisterlee, President and CEO of Philips.

We close the chapter of being a traditional, vertically integrated electronics company which is why, going forward, we would like to be known just as Royal Philips. This emphasizes the shift in our focus to a company built around a brand with the promise of sense and simplicity and with a focus on Healthcare and Lifestyle, Kleisterlee said.

Kleisterlee explained that Philips was now a much simpler company, committed to improving the quality of peoples lives through meaningful innovation. He said resources would be focused on capturing value from some of the most important global economic, social and demographic trends. Notable among these were the trend for better healthcare and more well-being, the need to provide energy efficient solutions (e.g. in lighting) and the desire for rewarding consumer lifestyle experiences.

All these elements, together with the Semiconductors transaction will contribute to redefining Philips as a core value holding stock, in contrast with the historic perception of an electronics stock exposed to the volatile technology sector.
For more information on this announcement and on the divestment of Philips Semiconductors, please visit www.newscenter.philips.com.
The webcasting of the press conference on this announcement is accessible via www.philips.com/webcast. This will be live as from 10:00 CET on Friday, August 4, 2006 with a replay available shortly afterwards. For the analysts conference call/audiowebcast on August 4, 2006 at 11:30 CET, please visit www.philips.com/investor.
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About Royal Philips Electronics
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Forward-looking statements
This release may contain 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. 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 and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

August 16, 2006

PHILIPS TO SELL ENABLING TECHNOLOGIES GROUP TO VDL GROEP

Amsterdam and Eindhoven, The Netherlands Royal Philips Electronics (NYSE:PHG, AEX:PHI) and VDL Groep today announced that they have signed a letter of intent for VDL Groep to acquire Philips Enabling Technologies Group (ETG). Subject to regulatory approvals, the transaction is expected to close in the fourth quarter of 2006. No financial details of this transaction were disclosed.

Philips ETG, with annual revenues of EUR 231 million in 2005, is a leading manufacturer, developer and supplier of precision components and mechatronic (sub) systems used for industrial equipment. Philips ETG s headquarters are based in Eindhoven. The group employs approximately 1650 people, of which about 1100 in The Netherlands.

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About Royal Philips Electronics

Royal Philips Electronics of the Netherlands (NYSE: PHG, AEX: PHI) is one of the world s biggest electronics companies and Europe s largest, with sales of EUR 30.4 billion in 2005. With activities in the three interlocking domains of healthcare, lifestyle and technology and 158,000 employees in more than 60 countries, it has market leadership positions in medical diagnostic imaging and patient monitoring, color television sets, electric shavers, lighting and silicon system solutions.

About VDL Groep

VDL Groep, with its head offices in Eindhoven, is an international company focused on the development, production and sales of semi-manufactured and finished products. In total, the group, with approximately 5,300 employees, consists of more than 70 subsidiaries spread over 13 countries. In 2005, VDL Groep had a net turnover of EUR 991 million and a net profit of EUR 50 million. In the supply sector, VDL specialises in metalworking, plastics processing, system supply and surface treatment.

The bus & coach division includes coaches, chassis modules, public transport buses, mini and midi buses. The finished products sector comprises suspension systems for the automotive industry, production automation systems, heating, cooling and air-technical systems, systems for the oil, gas and petrochemical industry, sunbeds and roof boxes, systems for the agricultural sector, cigar-making and packaging machines, container handling equipment, medical systems and production systems for optical media.

Forward-looking statements
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September 4, 2006

PHILIPS COMPLETES ACQUISITION OF AVENT HOLDINGS LTD.

Amsterdam, The Netherlands Royal Philips Electronics (NYSE:PHG, AEX:PHI) announced today that it has completed its acquisition of AVENT Holdings Ltd., a leading provider of baby and infant feeding products in the United Kingdom and the United States, with sales in more than 60 countries. Under the terms of the agreement, which was announced on May 23, 2006, Philips acquired AVENT Holdings Ltd. for approximately £ 460 million (approximately EUR 675 million), which was paid in cash upon completion of the transaction. As a result of the transaction, AVENT Holdings Ltd. will be financially consolidated with immediate effect within the Mother & Childcare business of Philips Domestic Appliances and Personal Care division.

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September 5, 2006

PHILIPS TO SET UP HIGH POWER LED PRODUCTION FACILITY IN SINGAPORE

Amsterdam, The Netherlands Royal Philips Electronics (NYSE:PHG, AEX:PHI) announced today it will invest in the setting up of a high power LED production facility in Singapore. Initial production is expected to start in Q1 2007, ramping up to double Philips total power LED production capacity by the end of 2007.

This investment is part of Philips Lighting s strategy to strengthen its leadership position in the fast growing and rapidly emerging power LED market. The plant will be a high volume production facility for the LUXEON® range of LEDs, employing about 900 people at full capacity. The LEDs are used in city beautification lighting, LCD displays, camera flash for mobile phones, automotive applications and various other applications.

Theo van Deursen, CEO of Philips Lighting and member of Philips Board of Management, comments: This investment will not only double the production capacity of our power LEDs in the next year and strengthen our number one position in this field, it will also significantly increase efficiency, supporting our aim for profitable growth.

Philips Lighting is focusing on the power LED market, which has an expected annual growth of 25% over the coming years. The long-lasting LUXEON® range of power LEDs matches the brightness of conventional light sources and for the first time, makes it possible to replace incandescent, halogen and fluorescent bulbs in many products with smaller, longer-lasting and more energy efficient LEDs.

Solid-state lighting is seen as the biggest revolution in lighting technology since Thomas Edison invented the incandescent bulb. Although it has been a niche solution for general lighting markets in the past, the creation of white-light LEDs a few years ago has transformed its potential. Over time, solid-state lighting is expected to revolutionize lighting in homes, cars, shops and cities.

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September 8, 2006

PHILIPS NOTIFIES FINANCIAL AUTHORITIES OF INCREASE IN SHARES HELD

Amsterdam, The Netherlands Today, Royal Philips Electronics (NYSE: PHG, AEX: PHI) notified the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten or AFM) that the company s holding in Philips shares has exceeded 5 percent of Philips total outstanding shares. Philips informed the AFM in accordance with Dutch law, which states that shareholders are to inform the AFM whenever their shareholding in a Dutch listed company exceeds the 5 percent threshold.

As of the close of business on September 7, 2006, Philips held approximately 61.5 million Philips shares, or approximately 5.0 percent of the company s outstanding shares. On July 17, 2006, Philips announced the start of a EUR 1.5 billion share repurchase program for capital reduction purposes.

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September 11, 2006

PHILIPS TO HOLD EXTRAORDINARY GENERAL MEETING OF SHARE-HOLDERS ON OCTOBER 25, 2006 TO CANCEL REPURCHASED SHARES

Amsterdam, The Netherlands Today, Royal Philips Electronics (NYSE: PHG, AEX: PHI) announced it will hold an Extraordinary General Meeting of Shareholders (EGM) on Wednesday, October 25, at Philips headquarters in Amsterdam. At the EGM, Philips will request that shareholders approve cancellation of shares.

On July 17, 2006, Philips announced the start of a EUR 1.5 billion share repurchase program, which at that time the company expected would take 18 months to complete. Philips now intends to complete this share repurchase program by the end of 2006. The EUR 1.5 billion share repurchase program represents part of EUR 4 billion that Philips indicated it would return to shareholders through a combination of dividends and share repurchases by the end of 2007, as part of an announcement on August 3, 2006, that Philips would sell an 80.1% stake in its Semiconductors business for EUR 6.4 billion.

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NASA using Live 3D ultrasound imaging to learn how space travel affects the hearts of Space Shuttle astronauts
Tuesday, September 19, 2006
Study evaluates loss of heart mass in astronauts
Andover, Mass. Royal Philips Electronics (NYSE: PHG, AEX: PHI) announced today that the National Aeronautics and Space Administration (NASA) is using the Philips iE33 echocardiography system and QLAB Quantification software to evaluate the effects of space flight on the hearts of Space Shuttle astronauts and, in the near future, astronauts on the International Space Station and ground-based analogs. Of interest to NASA researchers is the loss of heart mass brought on by space flight.
Astronauts commonly are thought to lose heart mass during prolonged flight. Two-dimensional echocardiography measurements reveal a 5 percent decrease, which usually returns within three days of being back on Earth. Researchers are interested in learning the cause of these changes. Possible explanations include heart atrophy caused by weightlessness, dehydration from space travel or error caused by the geometric assumptions used in two-dimensional echo.
The new technology being used captures a full-volume image of the beating heart in less than a minute and allows physicians to examine the heart as if they were holding it in their hands. It also allows the researchers to make accurate measurements of heart mass, ejection fraction, blood flow, strain rate and cardiac wall motion pre- and post-flight.
We have a very short window of time in which to do an echo exam on the astronauts, said David S. Martin of Wyle Laboratories, Inc., ultrasound lead for the NASA Cardiovascular Laboratory at the Johnson Space Center in Houston, Texas. Live 3D Echo allows us to quickly grab all the image data we need to do a full examination of the heart anatomy and function and send the astronauts on their way. Following the image acquisition, we use off-line analysis software to do several measurements that help us evaluate changes after space travel.
The use of this heart imaging and measurement technology will be part of ongoing research at the NASA Cardiovascular Laboratory. It will also complement the imaging done by a modified Philips HDI 5000 ultrasound system that was installed in the International Space Station s Human Research Facility in 2001.
These new ultrasound technologies help us efficiently conduct sophisticated cardiac research of astronauts and the effects of microgravity, said Martin.
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and technology and 158,000 employees in more than 60 countries, it has market leadership positions in medical diagnostic imaging and patient monitoring, color television sets, electric shavers, lighting and silicon system solutions. News from Philips is located at www.philips.com/newscenter

September 20, 2006

PHILIPS UPDATES MARKET ON LIGHTING BUSINESS

Amsterdam, The Netherlands In a meeting with investors and financial analysts today, Royal Philips Electronics (NYSE: PHG, AEX: PHI) will discuss how the company s Lighting business continues to make a solid contribution to profitable growth and value creation by building on Philips number one position in the global lighting market and playing an active role in shaping the emerging market in energy efficient lighting.

Booming Asian demand highlights potential for energy-efficient lighting

Lighting accounts for 19% of global electricity consumption, and Asia continues to make up a growing share of that demand. For example, Asian economic growth is boosting the region s demand for global oil by 45% and for natural gas by 25%. As a leading supplier of energy efficient lighting products, Philips recognizes the potential both for its Lighting business and for conserving energy.

Through R&D and investments in product innovations there has been a marked improvement in the energy efficiency of lighting products over the past 15 years. Philips estimates that if today s installed global base of lighting products were replaced by energy efficient alternatives, it would result each year in approximately EUR 50 billion of savings in electricity costs and approximately 270 million fewer tons of CO_2 emissions, equalling just over 1 billion fewer barrels of oil consumed or the equivalent CO_2 consumption of nearly 14 billion trees.

Mr. Theo van Deursen, CEO of Philips Lighting: Asia represents a promising lighting market for Philips. Between 2000 and 2005, Philips Lighting sales in Asia grew on average 15% per year, mirroring solid growth in other emerging markets. This steady growth in demand highlights the importance of coming out with energy efficient lighting solutions.

Emerging technologies such as solid-state lighting to shape future market

At the meeting, Philips will also discuss how emerging technologies, such as energy efficient light emitting diodes (LEDs), have significant untapped potential for meeting future lighting needs. For example, Lumileds, the solid state lighting business Philips bought out from Agilent last year, is already further fuelling growth at Philips Lighting: Over the past three years, Lumileds has grown at an average annual rate of 24%. Clearly, this trend along with robust demand from emerging markets is helping keep us well on track to meeting a long-term annual sales growth rate in Lighting of 6%, Mr. van Deursen said.

For more information on the Lighting Analysts Day, please visit www.philips.com/investor

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Philips completes sale of 80.1% stake in Semiconductors business to private equity consortium KKR, Silver Lake, Bain Capital, Apax and AlpInvest
Friday, September 29, 2006
Amsterdam, The Netherlands Royal Philips Electronics (NYSE:PHG, AEX:PHI) announced today that it has completed its sale of an 80.1% stake in its Semiconductors business to a private equity consortium consisting of Kohlberg Kravis Roberts & Co. (KKR), Silver Lake Partners, Bain Capital, Apax Partners and AlpInvest Partners NV. Under the terms of the agreement, which was announced on August 3, 2006, Philips sold an 80.1% stake in its Semiconductors business, and estimates that, after subsequent payment of taxes, it will receive approximately EUR 6.4 billion in cash. This transaction puts the enterprise value of the entire stand-alone semiconductors company now known as NXP at approximately EUR 8.3 billion.
With the completion of the transaction, Mr. Frans van Houten, President and CEO of NXP, relinquishes his position as member of the Board of Royal Philips Electronics. As a result of the transaction, Philips will treat its Semiconductors activities as Discontinued Operations in the company s financial reporting as of Philips 2006 Third Quarterly Report, to be published on October 16, 2006.
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About Royal Philips Electronics
Royal Philips Electronics of the Netherlands (NYSE: PHG, AEX: PHI) is a global leader in healthcare, lifestyle and technology, delivering products, services and solutions through the brand promise of sense and simplicity . Headquartered in the Netherlands, Philips employs approximately 125,500 employees in more than 60 countries worldwide. With sales of EUR 30.4 billion in 2005, the company is a market leader in medical diagnostic imaging and patient monitoring systems, energy efficient lighting solutions, personal care and home appliances, as well as consumer electronics. News from Philips is located at www.philips.com/newscenter.
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October 6, 2006

PHILIPS ANNOUNCES DIVESTMENT OF ADVANCED METROLOGY SYSTEMS BUSINESS UNIT

Amsterdam, The Netherlands and Boston, Massachusetts Royal Philips Electronics (NYSE:PHG, AEX:PHI) and JHW Greentree Capital today announced Philips has sold its Advanced Metrology Systems business unit to JHW Greentree Capital, L.P., an affiliate of J.H. Whitney & Co. of New Canaan, Connecticut. The business unit will form a new company called Advanced Metrology Systems LLC. As part of the transaction, Philips will retain a 19.9% stake in the new company. No further financial details of the transaction were disclosed.

Philips Advanced Metrology Systems business unit produces measuring equipment for the semiconductor manufacturing industry. Based near Boston, Massachusetts and employing approximately 35 people, Philips Advanced Metrology Systems business unit formed part of Philips Corporate Investments.

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About J.H. Whitney & Co.

J.H. Whitney & Co. was established in 1946 by the industrialist and philanthropist John Hay Whitney as one of the first U.S. private equity firms, and it has invested in hundreds of companies over its 60-year history. Today, the Firm remains privately owned by its investing professionals and provides private equity capital for small and middle market companies.

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October 12, 2006

PHILIPS TO TRANSFER REMAINING MOBILE PHONE ACTIVITIES TO CEC

Amsterdam, the Netherlands and Beijing, the People s Republic of China Royal Philips Electronics (NYSE:PHG, AEX:PHI) has signed a letter of intent to transfer its remaining Mobile Phone activities to China Electronics Corporation (CEC). CEC will take over the responsibility for Philips Mobile Phones business, which currently has an annual turnover of approximately EUR 400 million and approximately 240 employees, mainly in Asia Pacific and Eastern Europe.

Under the terms of the letter of intent, CEC will receive a global license to market and sell mobile phones under the Philips brand for the coming five years.

The transaction is still subject to confirmatory due diligence. The transaction will be conditional on all required shareholder, government and regulatory approvals and consents and is expected to be completed by the end of 2006.

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About CEC

China Electronics Corporation (CEC) engages mainly in four business fields: semiconductor, computer software/hardware & system integration, telecommunication network & terminals, and digital home appliances. Sales revenue of CEC in 2005 was RMB53.38 billion Yuan. Its business activities cover the complete value chain of the industry, including R&D, design, manufacturing, application, marketing & distribution and technical service. In the fields of semiconductor, computer software & hardware, telecommunication engineering and mobile handsets, CEC takes a pioneering position in China in terms of production scale, technology level and R&D capability. News from CEC is located at www.cec.com.cn.

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