KONINKLIJKE PHILIPS ELECTRONICS NV
Form 20-F
February 24, 2012
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As filed with the Securities and Exchange Commission on February 24, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 20-F

(Mark one)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission file number 001-05146-01

KONINKLIJKE PHILIPS ELECTRONICS N.V.

(Exact name of Registrant as specified in charter)

ROYAL PHILIPS ELECTRONICS

(Translation of Registrant s name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

Breitner Center, Amstelplein 2, 1096 BC Amsterdam, The Netherlands

(Address of principal executive office)

Eric Coutinho, Chief Legal Officer & Secretary to the Board of Management

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Shares par value Euro (EUR) 0.20 per share	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

Class	Outstanding at December 31, 2011
Koninklijke Philips Electronics N.V.	1,008,975,445 shares, including
Common Shares par value EUR 0.20 per share	82,880,543 treasury shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes ¨ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934. ¨ Yes x No

Note-Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨ International Financial Reporting Standards as issued by by the International Accounting Standards Board x Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ¨ Item 17 ¨ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

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IFRS basis of presentation

The financial information included in this document is based on IFRS, unless otherwise indicated.

Forward-looking statements and other information

Please refer to the Forward-looking statements and other information, in the introduction of this report for more information about forward-looking statements, third-party market share data, fair value information, IFRS basis of preparation, use of non-GAAP information, statutory financial statements and management report, and reclassifications.

Dutch Financial Markets Supervision Act

This document comprises regulated information within the meaning of the Dutch Financial Markets Supervision Act *(Wet op het Financieel Toezicht).*

Statutory financial statements and management report

The chapters Group financial statements and Company financial statements contain the statutory financial statements of the Company. The introduction to the chapter Group financial statements sets out which parts of this Annual Report form the Management report within the meaning of Section 2:391 of the Dutch Civil Code (and related Decrees).

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Introduction

This document contains information required for the annual report on Form 20-F for the year ended December 31, 2011 of Koninklijke Philips Electronics N.V. (the 2011 Form 20-F.) Reference is made to the Form 20-F cross reference table herein. Only (i) the information in this document that is referenced in the Form 20-F cross reference table, (ii) the cautionary statement concerning forward-looking statements and explanation on use of non-GAAP information on the next two pages and (iii) the Exhibits shall be deemed to be filed with the Securities and Exchange Commission for any purpose. Any additional information herein which is not referenced in the Form 20-F cross reference table, or the Exhibits themselves, shall not be deemed to be so incorporated by reference, shall not be part of the 2011 Form 20-F and is furnished to the Securities and Exchange Commission for information only.

The terms Philips , the Group , we , our and us refer to the Company and as applicable to its subsidiaries and or its interest in joint ventures an associates.

IFRS based information

The audited consolidated financial statements as of December 31, 2011 and 2010, and for each of the years in the three-year period ended December 31, 2011, included in the 2011 Form 20-F have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective year-end 2011 have been endorsed by the EU, except that the EU did not adopt certain paragraphs of IAS 39 applicable to certain hedge transactions. Philips has no hedge transactions to which these paragraphs are applicable. Consequently, the accounting policies applied by Philips also comply fully with IFRS as issued by the IASB.

Non-GAAP information

In presenting and discussing the Philips Group s financial position, operating results and cash flows, management uses certain non-GAAP financial measures such as: comparable growth; adjusted income from operations; net operating capital; net debt; cash flow before financing activities; net capital expenditures and free cash flow. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent IFRS measure and should be used in conjunction with the most directly comparable IFRS measure(s). Reference is made to the section titled Use of non-GAAP information for further information.

Third-party market share data

Statements regarding market share, contained in this document, including those regarding Philips competitive position, are based on outside sources such as specialized research institutes, industry and dealer panels in combination with management estimates. Where full year information regarding 2011 is not yet available to Philips, those statements may also be based on estimates and projections prepared by outside sources or management. Rankings are based on sales unless otherwise stated.

Fair value information

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

Documents on display

It is possible to read and copy documents referred to in the 2011 Form 20-F that have been filed with the SEC at the SEC s public reference room located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. Philips SEC filings are also publicly available through the SEC s website at www.sec.gov.

For definitions and abbreviations reference is made to chapter 18, Definitions and abbreviations, of this report.

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Introduction

Forward-looking statements

Pursuant to provisions of the United States Private Securities Litigation Reform Act of 1995, Philips is providing the following cautionary statement.

This document, including the information referred to in the Form 20-F cross reference table, contains certain forward looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items, in particular, among other statements, certain statements in Item 4 Information on the Company with regard to management objectives, market trends, market standing, product volumes, business risks, the implementation of our Accelerate! program, the statements in Item 8 Financial Information relating to legal proceedings, the statements in Item 5 Operating and financial review and prospects with regard to trends in results of operations, margins, overall market trends, risk management, exchange rates and statements in Item 11 Quantitative and qualitative disclosures about market risks relating to risk caused by derivative positions, interest rate fluctuations and other financial exposure are forward-looking in nature. Forward-looking statements can be identified generally as those containing words such as anticipates , assumes , believes , estimates , expects , should , will , will likely result , forecast , outlook , projects , may or similar expressions. By their na forward-looking statements involve risk and uncertainty, because they relate to events that depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

These factors include, but are not limited to, domestic and global economic and business conditions, developments within the euro zone, the successful implementation of our strategy and our ability to realize the benefits of this strategy, our ability to develop and market new products, changes in legislation, legal claims, changes in exchange and interest rates, changes in tax rates, pension costs and actuarial assumptions, raw materials and employee costs, our ability to identify and complete successful acquisitions and to integrate those acquisitions into our business, our ability to successfully exit certain businesses or restructure our operations, the rate of technological changes, political, economic and other developments in countries where Philips operates, industry consolidation and competition.

As a result, Philips actual future results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. For a discussion of factors that could cause future results to differ from such forward-looking statements, reference is made to the information in Item 3D Risk Factors .

Use of non-GAAP information

Koninklijke Philips Electronics N.V. (the Company) believes that an understanding of sales performance is enhanced when the effects of currency movements and acquisitions and divestments (changes in consolidation) are excluded. Accordingly, in addition to presenting nominal growth , comparable growth is provided.

Comparable sales exclude the effects of currency movements and changes in consolidation. As indicated in the section 12.10, Significant accounting policies, sales and income are translated from foreign currencies into the Company s reporting currency, the euro, at the exchange rate on transaction dates during the respective years. As a result of significant currency movements during the years presented, the effects of translating foreign currency sales amounts into euros could have a material impact on our sales figures. Therefore, these impacts have been excluded in arriving at the comparable sales in euros. Currency effects have been calculated by translating previous years foreign currency sales amounts into euros at the following year s exchange rates in comparison with the sales in euros as historically reported. The years under review were characterized by a number of acquisitions and divestments, as a result of which activities were consolidated or deconsolidated. The effect of consolidation changes has also been excluded in arriving at the comparable sales. For the purpose of calculating comparable sales growth, when a previously consolidated entity is sold or contributed to a venture that is not consolidated by the Company, relevant sales are excluded from impacted prior-year periods. Similarly, when an entity is acquired, relevant sales are excluded from impacted periods.

Philips discusses adjusted income from operations in the 2011 Form 20-F. Adjusted income from operations represents income from operations before amortization and impairment of intangible assets generated in acquisitions (excluding software and capitalized development expenses).

The Company uses the term adjusted income from operations to evaluate the performance of the Philips Group and its sectors. Referencing adjusted income from operations is considered appropriate in light of the following:

Philips has announced that one of its strategic drivers is to increase profitability through re-allocation of its resources towards opportunities offering more consistent and higher returns. Moreover, Philips intends to redeploy capital through value-creating acquisitions. Since 2006, management has used the adjusted income from operations measurement internally to monitor performance of the businesses on a comparable basis. As of 2007, Philips has also set external performance targets based on this measurement as it will not be distorted by the unpredictable effects of future, unidentified acquisitions.

Non US investors are advised that such presentation is different from the terms used in Philips results announcements and 2011 Annual Report.

Philips believes that an understanding of the Group s financial condition is enhanced by the disclosure of net operating capital (NOC), as this figure is used by Philips management to evaluate the capital efficiency of the Philips Group and its operating sectors. NOC is defined as: total assets excluding assets from discontinued operations *less:* (a) cash and cash equivalents, (b) deferred tax assets, (c) other (non)-current financial assets, (d) investments in associates, and *after deduction of:* (e) provisions excluding deferred tax liabilities, (f) accounts and notes payable, (g) accrued liabilities, (h) current/noncurrent liabilities, and (i) trading securities.

Net debt is defined as the sum of long- and short-term debt minus cash and cash equivalents. The net debt position as a percentage of the sum of group equity (shareholders equity and non-controlling interests) and net debt is presented to express the financial strength of the Company. This measure is widely used by management and investment analysts and is therefore included in the disclosure.

Cash flows before financing activities, being the sum total of net cash from operating activities and net cash from investing activities, and free cash flow, being net cash from operating activities minus net capital expenditures, are presented separately to facilitate the reader s understanding of the Company s funding requirements.

Net capital expenditures comprise of purchase of intangible assets, expenditures on development assets, capital expenditures on property, plant and equipment and proceeds from disposals of property, plant and equipment. This measure is widely used by management to calculate free cash flow.

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Only (i) the information in this document that is referenced in the Form 20-F cross reference table, (ii) the introductory information (including the cautionary statements concerning Forward-looking statements and explanation on use of non-GAAP information) on pages 5-7 of this report, and (iii) the Exhibits shall be deemed to be filed with the Securities and Exchange Commission for any purpose. The content of Philips websites and other websites referenced herein should not be considered to be a part of or incorporated into the 2011 Form 20-F. Any additional information which is not referenced in the Form 20-F cross reference table or the Exhibits themselves shall not be deemed to be so incorporated by reference, shall not be part of the 2011 Form 20-F and is furnished to the Securities and Exchange Commission for information only.

The table below sets out the location in this document of the information required by SEC Form 20-F. The exact location is included in the column Location in this document . The column Page includes the starting page of the section/paragraph for reference only.

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Performance highlights

Prior years results and cash flows have been restated to reflect the effect of classifying the Television business as discontinued operations in 2011.

Financial table

all amounts in millions of euros unless otherwise stated

	2009	2010	2011
Sales	20,092	22,287	22,579
Adjusted IFO[1)]	1,096	2,562	1,680
as a % of sales	5.5	11.5	7.4
IFO	660	2,080	(269)
as a % of sales	3.3	9.3	(1.2)
Net income (loss)	424	1,452	(1,291)
per common share in euros			
- basic	0.46	1.54	(1.36)
- diluted	0.46	1.53	(1.36)
Net operating capital[1)]	12,649	11,951	10,427
Free cash flows[1)]	763	1,356	(108)
Shareholders equity	14,595	15,046	12,355
Employees at December 31[2)]	116,153	119,775	125,241
of which discontinued operations	4,764	3,610	3,353

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report
2) Adjusted to reflect a change of employees reported in the Healthcare sector for the past periods
3) For a definition of mature and growth geographies, see chapter 18, Definitions and abbreviations, of this report

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Performance highlights

Operating cash flows

in millions of euros

Net debt (cash) to group equity[1)]

in billions of euros

Employee Engagement Index

% favorable

Sales of Green Products

as a % of total sales

Operational carbon footprint

in kilotons CO_2-equivalent

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Message from the CEO

Accelerate! is all about bringing meaningful innovations to our customers in local markets and doing so faster and better than the competition!
Frans van Houten, CEO

Dear stakeholder,

Philips is a great company with a wealth of talent and powerful assets e.g. outstanding innovation capabilities, a strong brand, a global footprint, leading positions in healthcare, lighting and lifestyle growth businesses, and a solid balance sheet. We have tremendous potential in terms of margin improvement, growth and higher returns. But as our 2011 results reaffirmed, we cannot be satisfied with our current performance, and we will step up to deliver fully on that potential.

In September 2011 we celebrated 120 years of Philips innovation a landmark achievement. 2011 was also a year of radical change, both on the world stage and within our company. It was the first year of Accelerate! a fundamental change and performance improvement program designed to unlock our full potential, and so make Philips an even stronger company capable of bringing meaningful innovations to market for many years to come. Together with my colleagues on the Executive Committee our new leadership team, spanning businesses, markets and functions I am honored to lead our company through this transformation and am encouraged by the start we have made to what will be a multi-year journey to a bright future.

Despite a challenging and volatile economic environment and ongoing market weakness, especially in Europe, important parts of the company performed well in 2011, and we ended the year with strong balance sheet and cash positions. At the same time, across the company near- term operational issues are being tackled with vigor and urgency. Our passion to improve and aim higher is shared by our 120,000 employees.

At Group level, we achieved 4% comparable sales growth at the lower end of our mid-term performance bandwidth, but with a strong contribution from growth geographies (33% of sales, up from 31% in 2010) and Green Products (39% of sales).

At 7.4% of sales, reported Adjusted IFO was below our mid-term 2013 profitability target, primarily due to continued pressure on gross margins, as well as higher costs and non-recurring charges related to, for example, inventory adjustments. Earnings were also impacted by investments for growth to drive market penetration and accelerate innovation. These include an investment of some EUR 470 million in Green Innovation.

Each year we review and assess the value of past acquisitions. Last year s analysis found the economy posed a higher risk, with recovery slow and uncertain. We adjusted our business plans and discount rates accordingly, resulting in an impairment of EUR 1.4 billion in the second quarter.

One of the major developments in 2011 was the signing of an agreement to transfer our Television business to a joint venture with TPV, in which we will hold a 30% stake. This joint venture will leverage the strengths of both companies to improve the position of Philips Television in the market, and will enable us to focus on expanding leadership positions in health and well-being markets across our three operating sectors. The deal is expected to close at the end of the first quarter of 2012 after the necessary merger clearance and governmental approvals are obtained.

In 2011 we concluded a number of acquisitions, primarily aimed at strengthening our product portfolio in growth geographies. I would like to welcome all our new employees from these acquisitions to Philips.

Reflecting our confidence in our plans to step up profitability and free cash flow through organic growth and operational excellence, we launched a EUR 2 billion share buy-back program in the summer. This will also improve the efficiency of our balance sheet. By the end of the year we had completed 35% of this program, which will run until the end of the second quarter of 2013.

As a further sign of our confidence in Philips future, we are proposing to the upcoming General Meeting of Shareholders to maintain this year s dividend at EUR 0.75 per common share, in cash or stock resulting in a yield (as of December 31, 2011) of 4.6% for shareholders.

Accelerate! the journey to unlock our full potential

For the past 120 years our meaningful innovations have improved the quality of life for millions, creating a strong and trusted Philips brand with market access all over the world. But with lack of consistent growth in recent years, and lean, agile new competitors winning over customers, it was clear that we urgently needed to speed up in order to improve our performance and competitiveness.

To this end, in the second quarter of 2011 we launched our Accelerate! program the first step on our journey to unlock our full potential and seed the ground for our future success. Accelerate! aims to significantly boost profitable growth by stepping up meaningful innovation and competitiveness, expanding margins, driving productivity and reducing complexity and working capital. It is designed to ensure that we empower and strengthen our customer-facing teams to win profitable market share, that we reduce complexity costs and deliver our innovations faster and more efficiently along the end-to- end chain to the customer, that we drive performance with transparency and accountability for granular business/market plans. And that we carry through our

strategies with the resources and determination to win our critical market battles and achieve leadership in our chosen markets.

Of course, making the turn to growth also requires a new, shared mindset a customer-focused, agile, can-do mentality. And with Accelerate! we are creating a new performance and growth culture centered around three key behaviors *Eager to win, Take ownership* and *Team up to excel* that are crucial for success and anchored by our General Business Principles.

With Accelerate! providing the roadmap toward growth, in the summer of 2011 we announced our mid-term performance goals, to be realized by the end of 2013:

- Comparable sales growth CAGR of 4-6%, assuming real GDP growth of 3-4% per annum
- Reported Adjusted IFO margins of 10-12% for the Group; 15-17% for Healthcare; 8-10% for Consumer Lifestyle (excluding unrelated licenses); 8-10% for Lighting
- Return on invested capital of 12-14%

Progress on our path to value by 2013

A key part of Accelerate! has been the implementation of our new operating model, the Philips Business System, which defines how all parts of the company should work together to create a faster, less complex and more competitive Philips. This system has begun to improve granular performance insights, enhancing transparency and management accountability, and enabling rapid corrective action where required.

We also needed to free up money to invest in our customer-facing activities and innovation and so pave the way for profitable growth. For this purpose, we are optimizing all overhead and support costs not directly involved in the operational customer value chain. This will create a lighter overhead structure comprising a single value-adding layer above the businesses, thereby reducing complexity and speeding up decision-making. It will also enable a cost saving of EUR 800 million by 2014. The overhead cost reduction program is on track, with the first savings already visible in the fourth quarter of 2011. In order to resource to win we are also making a targeted additional investment of EUR 200 million to increase the number of business/market combinations in which we are the outright leader.

Customer-centricity is an integral element of Accelerate! Across Philips, we are empowering and strengthening our customer-facing teams to win in markets by delivering superior products and services that meet the specific needs of local populations and bringing them to market faster. To this end, for example, we moved the leadership of our Kitchen Appliances business to Shanghai and acquired leading kitchen appliances companies Preethi (India) and Povos (China) in 2011. This will ensure we are better placed to harvest local consumer insights and match our competitors time-to-market.

One of the key drivers of our Accelerate! journey is the strengthening of our end-to-end customer value chain . We can only speed up our time-to-market and become truly competitive if we take a holistic view from product idea and manufacturing to order intake and delivery. Philips is transforming itself from a predominantly functional organization to a process-driven end-to-end collaboration model, embracing business excellence principles such as LEAN. This should allow us to deliver innovations to market much faster and at lower cost and with lower working capital. Pilots at Lighting, for instance, show that the collaborative end-to-end approach is having a significant impact. Breakthroughs in factory and demand planning, for example, mean our business group Lamps no longer needs to stock the majority of its portfolio in commercial warehouses, but instead packs to order , which allows much lower inventory levels and, ultimately, better profitability. And this approach offers our customers increased service flexibility, thanks to improved response times.

We are pleased that people engagement continues to be high and that Philips is able to attract and retain outstanding talent to strengthen the company. Our new behaviors central to our efforts to establish a culture of entrepreneurship and accountability have been made an integral part of our employee performance appraisal and reward system. And the incentive system for our executives has been changed to reflect line-of-sight accountability and is now fully aligned with the key performance indicators of our 2013 mid-term financial targets.

We also continued to deliver on our EcoVision sustainability commitments in 2011, as we strive to bring care to more than 500 million people, to improve the energy efficiency of our overall portfolio by 50%, and to double the global collection and recycling of our products, as well as the amount of recycled materials in our products. Our sustainability performance received widespread recognition during the year. For instance, *Newsweek* named Philips the 9th greenest company in the world, we regained our sector and super-sector leadership in the Dow Jones Sustainability Index, and our

Lighting sector received a United Nations Leader of Change Award for its contribution to sustainable lighting solutions.

Looking forward

Our mission remains to improve people s lives through meaningful innovation. And we have now tightened the vision that guides us:

At Philips, we strive to make the world healthier and more sustainable through innovation. Our goal is to improve the lives of 3 billion people a year by 2025. We will be the best place to work for people who share our passion. Together we will deliver superior value for our customers and shareholders.

In light of key global trends and challenges e.g. the demand for affordable healthcare, the energy efficiency imperative, and people s desire for personal well-being we are confident in our chosen strategic direction.

We have a focused portfolio, with strong potential in both mature and growth geographies such as China and India. The large majority of our businesses have the right fundamentals for profitable growth, and we are seeing growth in our core businesses. And where there are pressing operational issues, we are working tirelessly to turn things round and increase productivity.

The value potential in our portfolio is underpinned by talent and strong assets. As demonstrated at our Innovation Experience event, held in September 2011 to mark 120 years of Philips, our innovation and design capabilities are rightly world-renowned, and we hold strong technology and intellectual property positions. In 2011 we also secured our highest-ever placing (41st) on the annual Interbrand ranking of the world s most valuable brands, as well as being named one of China s top ten consumer brands by Superbrands. And, crucially, we have capable and motivated people and leadership: our 2011 Employee Engagement Survey showed an Employee Engagement Index of 76%, down one percentage point, and a People Leadership Index of 78%, up two percentage points. And all of this is supported by a solid balance sheet.

We are still in the early stages of a multi-year transformation of our company, and I am delighted that the organization is responding well to the Accelerate! initiatives. Accelerate! will drive granular execution of our plans and enable the necessary investments in innovation, people, systems, and markets to deliver profitable growth and return on invested capital. And we will reap the benefits of our new culture of entrepreneurship and accountability, and commitment to business excellence.

We are cautious about 2012, given the uncertainty in the global economy, and Europe in particular. In addition, we expect our 2012 results to be affected by the previously communicated restructuring charges and one-time investments aimed at improving our business performance trajectory, as part of Accelerate! Excluding these additional charges, we anticipate that underlying operating margins and capital efficiency in the sectors will improve in the latter part of 2012. While we are concerned about the economic environment, all of us at Philips are fully committed to improve our operational performance to achieve our mid-term (2013) financial targets.

On behalf of the Executive Committee, I would like to thank our customers for their loyalty to Philips over this past year. I would also like to thank all our employees for their hard work as well as for their willingness to embrace change. And finally I would like to thank our other stakeholders, in particular our shareholders, for their continued support in these challenging times. We have set out on a demanding and exciting journey. More than ever, we are resolved to accelerate, unlock Philips full potential, and grow the value of your investment.

Frans van Houten,

Chief Executive Officer

1 Our company 1-1

1 Our company

Philips is a diversified company active in the markets of healthcare, consumer lifestyle and lighting, and headquartered in Amsterdam (Netherlands).

Our heritage

Philips was founded in Eindhoven (Netherlands) in 1891 by brothers Anton and Gerard Philips to manufacture incandescent lamps and other electrical products . For the 120 years since then, we have been enhancing people s lives with a steady flow of ground-breaking innovations. And we are determined to build upon this rich heritage as we aspire to touch billions of lives each year with our innovative lighting and healthcare solutions and our consumer lifestyle products.

Our mission

Improving people s lives through meaningful innovation

Innovation is integral to everything we do. But innovation does not only mean new technology . It can also mean a new application, a new business model or a unique customer proposition brought about by an innovative partnership. By tracking global trends and understanding the challenges facing people in their daily lives, we ensure that people s needs and aspirations are at the heart of our innovation endeavors.

Our vision

At Philips, we strive to make the world healthier and more sustainable through innovation. Our goal is to improve the lives of 3 billion people a year by 2025. We will be the best place to work for people who share our passion. Together we will deliver superior value for our customers and shareholders.

Our domain

We operate in the health and well-being domain.

We seek to improve the quality of people s lives through focusing on their health and well-being.

By health we mean not only medical aspects of health, but also keeping fit, having a healthy diet, and generally living a healthy lifestyle. By well-being we mean a general sense of fulfillment, feeling good and at ease. Well-being also refers to the sense of comfort, safety and security people feel in their environment at home, at work, when shopping or on the road. Our focus on health and well- being also implies helping to build a sustainable society.

Our behaviors

In 2011 we adopted a new set of behaviors:

- Eager to win
- Take ownership

Team up to excel

Our new behaviors are designed to foster a new performance culture and help all of us accelerate to deliver sustainable profitable growth always in compliance with Philips General Business Principles.

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1 Our company 1-1

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2 Our strategic focus

In a fast-changing world, we are committed to returning superior value to our stakeholders. We will achieve this through leadership in innovation, an absolute focus on the customer, local market relevance, and operational excellence, while costs need to be at least in line with our competitors.

We aim to create value through a deep understanding of our businesses and markets and by building sustainable competitive advantage in each business. In doing so, we will leverage the strengths of the Philips Group e.g. talented people, outstanding innovation capabilities, a strong brand, a global footprint, leading market positions and a solid balance sheet to deliver global leadership and benchmark performance.

Accelerate!

In 2011 we launched Accelerate! our comprehensive change and performance improvement program. The aim of Accelerate! is to create an agile and entrepreneurial Philips. A company with satisfied customers and employees with fulfilling roles. A company that grows and delivers consistent shareholder value. During the year we managed to put many of our Accelerate! enablers in place:

- We are becoming increasingly customer-centric, focused on meeting local market needs.
- We apply granular performance planning and management to realize operating plans that are resourced to win.
- We are transforming Philips from a predominantly functionally orientated organization to one whereby we seamlessly operate along integrated, lean end-to-end customer value chain processes between global businesses and local market teams, so that we deliver with speed and excellence.
- We are reshaping our operating model for simplicity and speed. The Philips Business System provides us with a blueprint for the company s way of working.
- We are establishing a growth and performance culture in which people are eager to win, take ownership, and team up to excel; our incentive and reward systems recognize sustained performance and the right behavior.

Seizing market opportunities

With a deep understanding of many of the longer-term challenges our world faces from aging populations to the need for efficient energy usage and the desire for personal well-being and the innovative capability to address these challenges, we strongly believe we can continue to make a meaningful contribution to people s lives.

Our strong position in many promising markets, coupled with our innovation pipeline, powerful brand and engaged workforce, puts us in an excellent position for the future.

Our sectors

We strive for a balanced portfolio of businesses that have or can attain global leadership positions and deliver performance at benchmark levels.

Healthcare: The future of healthcare is one of the most pressing issues of our time. Philips Healthcare is committed to providing meaningful innovations that improve the quality of care, enhance patients lives and enable the delivery of better outcomes at lower cost. Our growth strategy is grounded in a fundamental belief that clinical excellence and continuous innovation around the patient experience can fundamentally change healthcare as we know it. Our competitive advantage lies in our clinical perspective, the broad clinical subject-matter expertise within the company, as well as the deep clinical relationships we have with our customer base. This allows us to deliver solutions expertly tuned to the needs of the clinician as well as the financial and operational needs of healthcare administrators, payers, regulators and purchasing organizations by enabling a connected and holistic view of care delivery that tangibly and transparently improves clinical outcomes.

Consumer Lifestyle: Across the world, consumers want to maintain and improve their health and well- being and that of their families. To achieve this, they look for propositions that will improve their lives from brands that they trust. Philips Consumer Lifestyle is on a journey to become a leading player in health and well-being. We have a global footprint, with an established presence in both mature and growth geographies. We have a leading global brand, which is highly trusted across the world. Consumer Lifestyle makes a difference to people s lives by making it easier for them to achieve a healthier and better lifestyle.

Lighting: Human life revolves around light. Light affects our mood, improves our well-being, and enables us to experience and achieve more. It is a vital part of making our lives fuller, more productive and safer. Our Lighting

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sector focuses on innovative ways of using light to enhance people s lives where they live and work at home, at school, at work, in shops and public places, as well as on the road. Recognizing how resource conservation and climate protection will play an increasingly significant part in human health and well- being, we pay special attention to maximizing the effect of lighting while minimizing the energy required to produce it.

Our market opportunity

Global trends and challenges

Ongoing focus on growth geographies

Growth geographies are vitally important to Philips. As the number of middle-class households in these markets grows, we expect demand for our products to increase as people have more money to spend on feeling and staying healthy. Therefore, we will continue to make sure we address local needs effectively and to invest in having the right capabilities and resources in place to win in these growth geographies.

We want to be seen as clear leaders in sustainability

We are committed to being a leading company in matters of sustainability. We look at sustainability through the lenses of our sectors and define specific ambitions (to be realized by the end of 2015) for each of them: bring care to 500 million people; improve the energy efficiency of our overall portfolio by 50%; double the global collection and recycling amounts of Philips products as well as the amount of recycled materials in our products.

Our mid-term 2013 financial targets

We measure value through a balanced combination of sales growth and return on invested capital (driven by Adjusted IFO, capital turns and free cash flow) in conjunction with other financial, operational and strategic key performance indicators.

Our mid-term financial targets (to be realized by the end of 2013):

- Comparable sales growth CAGR of 4-6%, assuming real GDP growth of 3-4% per annum
- Reported Adjusted IFO margins of 10-12% for the Group; 15-17% for Healthcare; 8-10% for Consumer Lifestyle (excluding unrelated licenses); 8-10% for Lighting
- Return on invested capital of 12-14%

3 Our strategy in action

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Philips China journey a dynamic partnership

China faces a major challenge as it works to provide healthcare to more than 1.3 billion people. We are committed to helping the Chinese medical community find answers to China s healthcare needs through innovative technology solutions.

As its population grows and its middle class expands, China faces a huge societal and fiscal challenge: how to provide high-quality cost-effective healthcare to over 1.3 billion people? China is working to meet three key strategic goals. First, it must grow its healthcare system to provide basic medical services for all, particularly in under-served regions. Second, its medical community must find solutions to address the different needs of the emerging middle class. Finally, it must achieve these goals while keeping its remarkable economic growth on track. China s decision to make major investments in the expansion of its healthcare infrastructure is an important step on this journey to provide accessible, affordable care for its people.

Meaningful solutions for changing healthcare demands

As a leading healthcare innovator, Philips has a unique ability and opportunity to help China improve the health and well-being of its people. Starting in 2007, our China Team worked with China s medical community and government to identify the country s primary needs and develop innovative technology solutions to meet their Changing healthcare demands. We began our journey by listening. What we heard was that our customers wanted more clinical benefits from imaging systems and more research collaboration between Philips and China s great university hospitals. Out of these conversations have come ongoing peer-to-peer engagements, continuing education workshops, customer appreciation events and perhaps most important, dynamic, ongoing research.

As we began this journey, we also set a goal for ourselves: to become one of the CT and MR market leaders in China. Today, our CT and MR offerings serve a wide range of needs in environments from rural community hospitals to the country s leading teaching hospitals. The cooperative effort within our China Team encompassing our MR and CT businesses, sales and service and targeted collaborations with customers got us to our goal of becoming one of the imaging technology leaders in China.

The Center for Biomedical Imaging Research at Tsinghua University chose Philips 3T Achieva TX as its main research scanner, says Chun Yuan, Ph.D, the Center s Director. With the help of many different branches within Philips, especially Philips China, and through scientific collaboration, our researchers were able to start active imaging research in several focus areas in cardiovascular, tumor and neurological imaging.

The success of our CT and MR business s China journey is reflected in its growth performance, with sales tripling in the period 2007-2010. This momentum continued in 2011, with a double-digit annual growth rate.

We are succeeding in China because our focus extends beyond sales. We are committed to enhancing patients lives through our clinical expertise and working with our customers to improve the ability to deliver care. With our complete imaging portfolio, today we are even better positioned to help China meet its growing clinical care needs. The next phase of the journey? China plans to make significant investments in county-level hospitals and in digitization to improve healthcare informatics and clinical decision support. As a global healthcare leader and working partner with China, Philips will be there every step of the way.

COPD home care solutions: Philips delivers

Chronic obstructive pulmonary disease, a life-threatening lung disorder, affects nearly 600 million people. Philips comprehensive portfolio of home oxygen therapy is changing the quality of life for COPD sufferers around the world.

Chronic obstructive pulmonary disease (COPD), which includes emphysema and chronic bronchitis, threatens the lives and futures of nearly 600 million people according to the World Health Organization. By 2020, COPD will become the third leading cause of death worldwide. Unfortunately, there is no cure. But there is hope and promising treatments. Clinicians have found that the use of supplemental home oxygen is one of the most effective new treatment options. In fact, long-term oxygen therapy has been shown to significantly improve life expectancy in patients with COPD.

But improved quality of life is equally important. Because COPD patients using home oxygen are relatively young, averaging between 45 and 60 years old, many find themselves juggling a job and children while coping with COPD. Meeting the demands of busy lives means today s COPD patients need a range of innovative devices that support both their health and lifestyles. To improve their quality of life, oxygen therapy must be smaller, lighter, longer-lasting, and highly portable. The ability to generate oxygen at home can also help patients avoid inconvenient waits for deliveries and better manage their time and therapy. COPD patients deserve solutions to address the health and quality of life challenges they face every day. Philips is leading the way in providing those solutions.

Home oxygen treatments designed for the front line

As a global leader in home healthcare, we are committed to the development of better home oxygen solutions to help people with chronic lung diseases such as COPD. At

Philips, what began with just one product in 2005 has now become a comprehensive portfolio of products, programs and services that is positively changing the way COPD patients live and work. With the launch of the HomeLox liquid oxygen system in June 2011, we reinforced our leadership position as the only manufacturer that offers a full line of supplemental oxygen devices for use in and out of the home.

But we realize that to truly improve the quality of life for COPD patients, our solutions have to address both the personal needs of patients and the business needs of homecare providers. Given the dramatic changes in healthcare delivery and costs over the past decade, Philips commitment to find innovative answers to the challenges of COPD means also creating a portfolio that reflects these challenging financial and market realities. By listening to our customers, we develop strong relationships that are helping us understand their unique challenges. Working together, we are able to better serve both patients and clinicians.

Having a manufacturer like Philips on our side is a game- changer. With reimbursements decreasing and competitive bidding on the rise, Philips helps us make good decisions. It s a great thing. because we can t do it alone, says customer Gordon Ridley, area manager, Petersen Medical.

The success of Philips home oxygen business shows in its outstanding financial performance. We tripled sales between 2005 and 2010, and success continued in 2011 with a double-digit annual growth rate.

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Global leadership through local relevance

With four regional product creation hubs leveraging the 2011 acquisitions of Preethi (India) and Povos (China), we are accelerating delivery of innovations that tap into the specific eating habits of different cultures around the world.

It s said that the two features that set a culture apart are the language its people speak and the food they eat. From soy milk makers in China to hand blenders with a cube cutter in Russia and mixer-grinders in India, we are building global leadership by delivering products that meet the needs of local populations.

The Kitchen Appliances market is big and growing, driven by demand in growth geographies, especially Asia. At the start of 2011 we moved the leadership of our Kitchen Appliances business to Shanghai. This way we are better positioned to pick up on local consumer insights and match our competitors time to market.

In record time

In China, sales of soy milk makers are booming due to consumers healthy lifestyles and an increasing desire to create soy milk at home from the bean, rather than buying the pre-made alternative. We acted upon this opportunity by accelerating our innovation process and delivering the first Philips soy milk maker to retailers in November.

We didn t just deliver a product to participate in this large market we also delivered meaningful innovation for consumers. New patents were filed for the easy filtering and anti-splash caps, and the product is the first on the market to use 100% food-grade lubricant in its motor. Initial consumer feedback has shown that consumers prefer Philips soy milk maker thanks to its design, its ease of cleaning and the smooth soy milk it makes thanks to its cutting and grinding performance.

Local salad-maker accessory speeds to market

Across Philips, we are focused on accelerating our performance to deliver more for customers. To achieve this, many teams are working to develop locally relevant and superior products and bring them to market faster. Created using local insights and by quickly developing a new and unique accessory for our flagship hand blender, the cube cutter developed for Russia and Eastern Europe is a great example of this.

Olivier salad, or Russian salad as it is often known outside the country where it was first created, is a popular dish composed of diced potatoes and other vegetables, as well as eggs and ham. It is one of the main courses served during Russian New Year celebrations, and as it is typically made in large quantities it takes a very long time to cube the vegetables during its preparation. This presented an opportunity to produce a dedicated cube cutter and save consumers the time and hassle of chopping manually with a knife.

Our market and business organizations worked closely together to develop an innovative solution to the problem, developing a dedicated cube-cutting accessory for the Philips Avance Collection hand blender. The team worked quickly, and as a result the product was on-shelf in Russian stores in time for the peak selling period in the run-up to the New Year celebrations. Localizing the product in time for this had an immediate positive effect on sales and market share.

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Building a global oral healthcare brand

With its range of Sonicare power toothbrushes Philips has pioneered innovation in oral healthcare and built up a loyal global following. Now we are expanding our global presence, broadening our portfolio and winning market share.

Through its Sonicare brand, Philips has a proven track record of driving growth in the power toothbrush market. That growth is driven by our innovation capability and the trust that dental professionals put in our products to improve their patients oral health. Today, we are expanding geographically into new markets, covering more price points and new channels. We are also expanding our portfolio through acquisitions and innovation to address more consumer needs, including new value spaces such as interdental cleaning.

Philips Sonicare the foundation of our oral healthcare business

Over 22 million enthusiastic users worldwide testify to the great experience of using Philips Sonicare toothbrushes. Pioneering sonic technology generates the brushes unique bristle-tip velocity a combination of high-frequency and high-amplitude bristle motions, delivering over 31,000 strokes per minute for an unrivalled cleaning experience.

A significant market that s set to grow

Around the world, 80% of people suffer from gingivitis. And in the West alone, 10-30% of people suffer from a periodontal disease. We estimate the addressable global market for oral healthcare at approximately EUR 50 billion, including consumables. Through our own innovations, alliances with dental professionals and acquisitions we are significantly increasing the proportion of the market that we address. At present, the market is concentrated in North America, Western Europe and Japan. The substantial growth of higher-income segments will drive growth in emerging markets. And as populations in developed markets continue to age, their oral healthcare needs will increase. And it s not just health concerns that are driving growth in the market consumers are increasingly turning to oral healthcare solutions that help them both look and feel good.

We can win in this market

In recent years we have seen good single-digit and now double-digit growth in oral healthcare. And the business is set to continue to grow faster than the market. We have strong relationships with dental professionals, who are key in driving consumer awareness of the benefits of good oral care.

We will drive growth by investing in innovation, branding and our relationships with dental professionals. We will expand into new channels such as online and pharmacies, and we will leverage Philips global market capabilities and make value-adding acquisitions. In 2010, for instance, we acquired the leading tooth-whitening firm Discus Dental, providing a strong foundation for growth in cosmetic dentistry and strengthening Philips position as a leading oral healthcare brand amongst dental professionals and consumers.

Innovations delivering clinically proven superiority

In 2011 we launched two of our most innovative product developments to date. Sonicare AirFloss is an easy, hassle- free alternative to regular flossing: its patented micro- burst technology releases a tiny burst of air and water between the teeth which removes 99% more plaque than brushing alone (with a manual toothbrush). And the Sonicare DiamondClean takes sonic tooth brushing to its most sophisticated level and provides the best clean yet, removing up to 100% of plaque from hard-to-reach places.

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Innovation bringing city lighting to life

CityTouch is an online outdoor lighting management system that enables dynamic, intelligent and flexible control city-wide. Combined with LED lighting, it can save up to 70% on energy and maintenance costs compared to conventional lighting.

With steeply rising urban populations, it is clear that static, passive streetlights simply can t keep up with the lives we lead. Truly livable cities require lighting that can adjust to the ebb and flow of traffic and urban activities. Drawing upon 120 years of experience in lighting innovation, we have created CityTouch providing the right amount of light precisely when and where it is needed.

Efficient, easy management

CityTouch enables users to manage all the lighting systems for an entire city from a single, intuitive online user interface. It provides easy, streamlined maintenance and oversight, with real-time status reports for each individual light point. That way, lighting operators can track the consumption and output of every part of their system and fine-tune lighting levels to meet local needs. Moreover, CityTouch helps cities face the dual challenge of cutting costs and protecting the environment. By making it possible to dim light points outside of peak hours, detect failures and provide smart lighting workflow support, the system significantly reduces operating costs and energy usage leading to lower energy bills, lower carbon emissions and less light pollution. CityTouch s asset management capabilities even cater for light points which are not connected, thereby significantly reducing maintenance and planning costs.

The case for LED lighting

Cities can maximize these savings by adopting energy- efficient LED lighting. Currently, lighting accounts for 19% of global electricity production. Around two thirds is based on energy-wasting technologies developed before 1970. A full switch to the latest LED lighting could lead to energy savings of up to 80% in many applications and reduce energy consumption for lighting by 40% worldwide. This equates to approximately EUR 130 billion per year in running costs and 670 million tons of avoided CO_2 emissions.

A future-proof solution

Lighting infrastructure represents a major investment for most cities, especially in times of constrained budgets. CityTouch protects that investment by adjusting seamlessly to new technologies and to the needs of our expanding cities. This is one of the system s greatest assets: that it is completely scalable and future-proof. As they grow, communities using CityTouch can simply add new streets and neighborhoods to the existing network. New lighting functionalities can easily be incorporated, and the underlying CityTouch service is continuously updated to meet new demands. Also, CityTouch is the first control platform that isn t bound to one hardware type or provider. This means that users have flexibility in choosing the products that best suit their city s requirements and budget secure in the knowledge that their light points will work seamlessly with the CityTouch system.

CityTouch is already being used by lighting operators in several European cities, including London and Prague. The London boroughs of Croydon and Lewisham, for example, are using CityTouch for a full PFI city lighting renovation project replacing more than 42,000 light points. CityTouch is empowering the lighting operator to adapt to the boroughs specific needs, providing both safety and flexibility while realizing significant savings on energy use and maintenance costs.

Customer-centric innovation shaping the future of motoring

In the growth market of Daytime Running Lights, our Automotive business has shown it s got what it takes to Accelerate! by teaming up with its OEM and after-market customers, addressing their needs, and winning business.

The automotive lighting industry is undergoing radical transformation. More and more people are becoming mobile and want to stay mobile into old age. At the same time, there are growing legislative pressures, e.g. to reduce the environmental impact of motoring and to increase safety. Vehicle makers are also having to serve increasingly diverse needs, with consumer tastes ranging from functional economy cars to luxury vehicles. And new technologies such as our cutting-edge LED technology are changing the face of automotive design and performance.

We are getting closer to our automotive customers and taking ownership of their evolving lighting needs such as those arising from the recent European Union legislation making Daytime Running Lights (DRL) mandatory.

Advocating safer motoring

Automotive lighting is a major safety factor when driving: 40% of all accidents occur during the daytime. And 50% of these are caused by motorists failing to see another road user in time!

EU legislation stipulates that, as of 2011, all new passenger car models and small delivery vans must be equipped with DRL, with trucks and buses to follow in 2012. Through our insights and research activities we helped the EU reach its decision to adopt DRL. The introduction of DRL will make a positive contribution to our goal of reducing fatalities on European roads whilst being more fuel-efficient than existing lights, said Günter Verheugen, Vice President responsible for enterprise and industry policy.

Fast-growing market

With 20 million cars being produced in Europe each year, the EU-wide adoption of DRL represents a significant sales opportunity. It is expected that by 2015 40% of the European car park will be equipped with DRL (today 13%).

As well as selling to OEMs for build-in, we offer LED- based DRL solutions for cars already on the road, enabling drivers to benefit from the safety of DRL right now. Our LED Daylight retrofit modules enable lights to be switched on automatically when the engine is started. These lights substantially increase a car s visibility to other road users and have a low energy consumption compared to existing dipped-beam headlamps. LED DayLight 4 ensures high visibility for safer daytime driving, while LED DayLight 8 offers motorists maximum visibility and premium design. Both enable CO2 savings of 5.5 g per km, while their long lifetime significantly reduces the need for maintenance.

Safety, energy efficiency and style

As the world s leading automotive lighting player, we are committed to understanding our customers needs and helping them to enhance the motoring experience with innovations that make their vehicles safer, more energy- efficient and more stylish. A fact not lost on Mercedes-Benz: We have chosen Philips as our partner for the next-generation LED DRLs, says Uwe Kostanzer, head of Mercedes-Benz s exterior lighting department, not only due to the product s supremacy in lumen output, quality of light and thermal stability, but also due to the entirely trustful cooperation between the engineering teams on both sides.

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4 Our planet, our partners, our people

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Optimizing our ecological footprint

Responsible corporations are taking decisive action to fight climate change and increase resource efficiency. And Philips is leading the way.

To help reduce global CO_2 emissions, companies can either focus on their own operations, for example by reducing energy and material consumption in their activities. Or, they can focus on making their products more ecologically efficient. At Philips we focus on both and much more.

The key performance indicators of our EcoVision program reflect our holistic approach to sustainability. Two of these focus on optimizing our ecological footprint, namely energy efficiency and materials .

Recognition of leadership

At all levels of our operations in 2011, we continued to monitor and minimize the CO2 emissions resulting from our activities. As a result, in September, the independent not-for-profit organization Carbon Disclosure Project (CDP) awarded us the top score of 99 (out of 100) for Carbon Disclosure and an A for our overall Carbon Performance.

Our sustainability performance in 2011 also led to us regaining our sector and super-sector leadership in the Dow Jones Sustainability Index.

Green Products and Green Innovation

In 2011 we continued our drive for Green Products new products that are significantly better (by at least 10%) than either their Philips predecessor or their nearest competitor. Six specific areas are considered in the Green Product classification process: energy efficiency, packaging, hazardous substances, weight, recycling & disposal, and lifetime reliability.

One of the sustainability product highlights in 2011, addressing the subject of materials, was our launch of the world s first ever recycled designer coffee machine: the SENSEO Viva Café Eco, which uses old electronic appliances to create a first-class coffee system. All outer plastic parts except those that come into contact with the water or coffee are made from up to 100% recycled content. The machine also has a five-minute auto shut- off for energy saving, and its packaging is made from 90% recycled cardboard.

Also last year, after 18 months of rigorous testing, the US Department of Energy awarded us the highly prestigious L Prize for our LED replacement for the 60 W incandescent bulb. The Department calculated that if every 60 W incandescent bulb in the US was replaced with our 10 W prize winner, the nation would save USD 3.9 billion in one year and avoid 20 million tons of carbon emissions. This is comparable with the emission reduction that could be realized by shutting down 20 medium-size power stations.

Our InteliVue MX40 Patient Monitor and Trilogy home healthcare solution illustrate how our innovations are also significantly reducing energy usage in the hospital and home settings.

And to ensure our green pipeline remains well stocked, we invested some EUR 470 million in Green Innovation in 2011.

Greener business models

We are also creating innovative new business models that help improve our ecological footprint. For example, the Pay per Lux lighting concept currently being trialed in the Netherlands provides companies with energy-saving, state-of-the-art lighting systems without any capital expenditure. It works like this: after installation, we retain ownership and maintenance of the lighting, and in return the customer pays only for the amount of light emitted. This encourages the deployment of energy-efficient products and advanced lighting controls.

Partnering to drive change

In addition to our own sustainability activities, we also influence those of our supply chain partners, both up- and down-stream from our activities. This helps ensure the broadest possible impact for positive change.

In recognition of our efforts in the area of responsible supply chain management, the Dutch Association of Investors for Sustainable Development (VBDO) ranked us first among 40 of the largest publicly-listed companies in the Netherlands. Our scores have shown continual improvement over the last five years, rising from 62% in 2006 to 93% in 2010, and the highest score ever of 95% in 2011. In particular, VBDO praised the transparency and openness of our sustainability programs related to our supply chains, as well as our enhanced engagement in helping our suppliers to improve their sustainability performance.

Partnership organizations

Besides working with our supply chain partners, we are an active member of several initiatives implementing industry-wide sustainability programs.

For example, we are a member of the Electronic Industry Citizenship Coalition (EICC), which promotes an industry code of conduct to improve working and environmental conditions within global supply chains. Today, the EICC includes more than 50 global electronics companies and their suppliers.

We are also one of the initiators of the IDH Electronics Program, a multi-stakeholder initiative sponsored by the Sustainable Trade Initiative (IDH) together with Dell, Hewlett-Packard, and civil society organizations. This program will work with over 100 electronics suppliers in China to support innovative workforce management practices, sustainability and better business performance. The goal is to improve working conditions of more than 500,000 employees in the electronics sector.

The first phase of the program started in November 2011, with four of our suppliers joining. Each supplier receives support over a period of up to 24 months on the basis of improved dialogue between management and workers. The costs of the program are shared between the supplier, its customer, and the IDH.

Effective partnering

In November 2011 we announced, together with South African public utility Eskom, the largest energy-saving LED lighting deal in Africa to date. Some 200,000 of our MASTER LED lamps will be distributed at discounted prices throughout South Africa s hotels, banks, offices and retail outlets. Because the 7 and 10 W LED lamps replace 50 W halogens, the annual CO2 reduction will be 60,000 tons. And all it takes is the simple replacement of a bulb!

In 2011 we were also praised, along with The Climate Group, for our solar-driven LED street-lighting project in China s Guiyang community. The UN s Momentum for Change event cited the project as a best practice example of public-private partnership that enhances people s lives in poor rural communities, while spurring green growth, saving energy and combating climate change.

Also, for the second year running we worked with Oxfam Novib and electrical distributor Sonepar on a special LED promotion in Uganda on solar-lighting solutions to stimulate education after dark. By using our simple, LED- based solar lighting solutions, thousands of children in off-grid areas can now do their homework in the evenings. And communities in general can benefit from safe, sustainable and clean lighting.

Our people making a difference

Philips employees are the key enabler for making a difference, both within the company and to the lives of people we touch with our meaningful innovations and community programs.

Through the Accelerate! program, Philips is addressing structural change, focusing on execution, reducing overhead costs, investing in growth and adopting a new company culture. This cultural shift is being driven by a new set of behaviors designed to help us unlock our full potential *Eager to win, Take ownership* and *Team up to excel.*

Bringing care to people

At Philips, we are dedicated to making a difference wherever care is provided. In the hospital setting that means supporting and enabling the delivery of critical care, emergency care and surgery. With chronic disease on the rise, the home setting will play an increasingly prominent role in the delivery of care moving forward. Our oral healthcare, light therapy, water purification and air purification products, as well as our solar-powered indoor lamps replacing kerosene lamps in Africa these are just some of the examples of how we bring care to people. Progress on this social dimension of our EcoVision program is measured by the number of lives we touch. Through our products and solutions for bringing care to people we touched 465 million lives in 2011, an increase of 45 million compared to 2010.

Community engagement

In parallel to our daily business focus on customers and markets, we also continue to encourage our people to engage with their immediate wider community. As part of our commitment to sustainability, Philips supports volunteer activities as a way of giving back to our communities. Employee volunteering embraces Philips mission to improve people s lives not only through our technical innovations, but also through our employees and our shared belief that each of us can touch the lives of those around us, making our world a better place.

Our behaviors

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A key initiative in this respect is our SimplyHealthy@Schools program. Across the globe, Philips employees have volunteered to upgrade lighting in local schools and educate the children on energy efficiency. But the program goes much further. The SimplyHealthy@Schools Healthy Heroes toolkit is aimed at children aged 8-12 years and illustrates simple ways of improving health and well-being by paying attention to air, light, water, sleep and oral hygiene, as well as to exercise and care for the environment. When these factors are addressed, children perform better and their overall mental and physical well-being improves.

New volunteering program in the USA

In 2011 we also launched a new employee volunteer program in North America called Philips Cares: giving back to our communities . Philips Cares utilizes an online portal in conjunction with relationships with non-profit organizations across the United States to provide employees with the opportunity to participate in meaningful volunteer opportunities that suit their individual needs, schedule and passion. Since the program launched, thousands of employees have taken action to give back to their community. Examples include a Build-a- Bike event in Salina, Kansas, a Charity Chili Cook-off in Tupelo, Mississippi, and a Day of Caring event in Bothell, Washington.

5 Group performance

2011 was a challenging year in terms of Philips financial performance. The macro-economic developments and the weakness of the Western European markets further impacted this. Despite the challenges we achieved 4% comparable sales growth at the lower end of our mid-term performance bandwidth, with a strong contribution from growth geographies (33% of sales) and 7.4% Adjusted IFO margin.

Ron Wirahadiraksa, Chief Financial Officer

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5.1 Management discussion and analysis

Prior years results and cash flows have been restated to reflect the effect of classifying the Television business as discontinued operations in 2011.

Management summary

Key data

in millions of euros unless otherwise stated

	2009	2010	2011
Sales	20,092	22,287	22,579
Adjusted IFO[1)]	1,096	2,562	1,680
as a % of sales	5.5	11.5	7.4
IFO	660	2,080	(269)
as a % of sales	3.3	9.3	(1.2)
Financial income and expenses	(162)	(121)	(240)
Income tax expense	(99)	(499)	(283)
Results of investments in associates	77	18	16
Income (loss) from continuing operations	476	1,478	(776)
Income (loss) from discontinued operations	(52)	(26)	(515)
Net income (loss)	424	1,452	(1,291)
Net income (loss):			
Per common share basic	0.46	1.54	(1.36)
Per common share diluted	0.46	1.53	(1.36)
Net operating capital (NOC)[1)]	12,649	11,951	10,427
Cash flows before financing activities[1)]	1,226	1,475	(528)
Employees (FTEs)[2)]	116,153	119,775	125,241
of which discontinued operations	4,764	3,610	3,353

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report
2) Adjusted to reflect a change of employees reported in the Healthcare sector for the past periods

The year 2011

2011 was a challenging year for Philips, in which financial performance was impacted by overall market weakness, particularly in Western Europe towards the end of the year. We recorded 4% comparable sales growth, with a strong contribution from growth geographies, while largely as a result of continued investments for growth, gross margin pressure and goodwill impairments we saw earnings decline compared to the previous year. The net loss for the year amounted to EUR 1,291 million, which was mainly attributable to lower earnings, impairment charges in the second quarter of the year and costs related to the discontinued operations of the Television business as a result of the signing of a joint venture agreement with TPV.

Sales amounted to EUR 22.6 billion, a 1% nominal increase for the year. Excluding unfavorable currency effects and portfolio changes, comparable sales were 4% above 2010. Comparable sales growth was driven by Lighting and Healthcare, while Consumer Lifestyle sales were in line with the previous year. Within Lighting, strong growth was seen in the Professional Luminaires business, mainly fueled by the construction market in growth geographies, and the Lamps business, partly mitigated by a sales decline at Lumileds. Healthcare sales grew 5%, with solid growth in all businesses, particularly Patient Care & Clinical Informatics. Sales at Consumer Lifestyle were in line with 2010, but showed an improvement in the second part of the year, where strong growth at Health & Wellness, Personal Care and Domestic Appliances was tempered by a sales decline in our Lifestyle Entertainment business.

Our growth geographies achieved comparable 11% growth, while mature geographies grew by a modest 1%, as a result of the overall macro-economic developments and weakness of the Western European markets. In 2011 growth geographies accounted for 33% of total sales, compared to 31% in 2010.

IFO amounted to a loss of EUR 269 million, or minus 1.2% of sales, compared to EUR 2,080 million, or 9.3% of sales, in 2010. IFO decline was mainly seen at Lighting and Healthcare, largely as a result of EUR 1,355 million of goodwill impairment charges taken in the second quarter of 2011, as well as lower operational earnings in all sectors. The latter was mainly due to continued pressures on gross margin, reflecting challenging economic conditions as well as higher investments for future growth.

We continued to invest in strategically aligned companies, primarily to strengthen our product portfolio in growth geographies. In 2011, we completed six acquisitions, contributing to all three sectors, notably Preethi and Povos in Consumer Lifestyle and Sectra in Healthcare. The cash outflow related to acquisitions amounted to EUR 552 million.

In 2011 we generated EUR 836 million of cash flow from operating activities, which was EUR 1,285 million lower than in 2010. The decline was largely a result of the lower cash earnings and higher working capital requirements mainly related to tightening the accounts payable procedures and the timing of tax payable, which was partly mitigated by lower inventory build. Our cash flows before financing activities were EUR 2,003 million below the level of 2010, due to lower cash flow from operating activities, lower proceeds from the sale of stakes and interests, and higher outflow related to acquisitions of new businesses and capital expenditures.

In July 2011 we launched a EUR 2 billion share buy- back program aimed at improving the efficiency of our balance sheet. By the end of the year we had completed 35% of this program.

The year 2010

In 2010, despite experiencing a recovery in certain markets, overall worldwide market conditions remained challenging, particularly in developed countries. We recorded 5% comparable sales growth.

IFO of EUR 2,080 million, or 9.3% of sales, was significantly higher than the EUR 660 million, or 3.3% of sales, achieved in 2009. Significant IFO improvement, led by Lighting, was achieved in all sectors.

Following a strong rebound in the first six months of the year, sales growth slowed in the second half, ending at 11% nominal for the full year. Adjusted for favorable currency effects, comparable sales were 5% higher than in 2009, attributable to growth in all sectors, notably Lighting. Within Lighting, growth in automotive and LED markets was strong, partly mitigated by limited growth at Professional Luminaires due to weak construction markets in the US and Western Europe; Healthcare sales grew 4%, supported by 6% growth in all businesses except Imaging Systems, which was broadly in line with 2009. Growth at Consumer Lifestyle was limited to 1%, as solid growth at Health & Wellness and Personal Care was tempered by a sales declines at Lifestyle Entertainment.

14% comparable sales growth was achieved in growth geographies, while mature geographies grew 1%. Growth geographies accounted for 31% of total sales, up from 30% in 2009.

In 2010, we completed 11 acquisitions, contributing to all three sectors, notably Discus Holdings in Consumer Lifestyle. The cash outflow related to acquisitions amounted to EUR 241 million.

We generated EUR 2.1 billion of cash flow from operating activities, EUR 730 million higher than in 2009. Our cash flows before financing activities were EUR 249 million higher than 2009, as higher cash flow from operating activities was partly offset by lower proceeds from the sale of stakes.

5.1.1 Sales

The year 2011

The composition of sales growth in percentage terms in 2011, compared to 2010, is presented in the table below.

Sales growth composition 2011 versus 2010

in %

	comparable growth	currency effects	consolidation changes	nominal growth
Healthcare	5.3	(2.5)	0.1	2.9
Consumer Lifestyle	(0.1)	(1.7)	2.6	0.8
Lighting	6.1	(2.3)	(2.7)	1.1
GM&S	2.4		(28.3)	(25.9)

Philips Group	4.1	(2.2)	(0.6)	1.3

Group sales amounted to EUR 22,579 million in 2011, representing 1% nominal growth compared to 2010. Adjusting for a 2% unfavorable currency effect and a 1% unfavorable portfolio effect, comparable sales were 4% above 2010. Comparable sales were 6% higher at Lighting and 5% higher at Healthcare, but this was tempered by Consumer Lifestyle, where sales were broadly in line with the previous year.

Healthcare sales amounted to EUR 8,852 million, which was 5% higher than in 2010 on a comparable basis. Higher sales were driven by mid-single-digit growth at all businesses, as increases in growth geographies and North America were partially offset by lower sales in Western Europe.

Consumer Lifestyle reported sales of EUR 5,823 million, which was EUR 48 million higher than in 2010, or flat on a comparable basis. We achieved double-digit growth at Health & Wellness and high single-digit growth at Personal Care and Domestic Appliances. This was offset by a sales decline at Lifestyle Entertainment.

Lighting sales amounted to EUR 7,638 million, which was EUR 86 million higher than in 2010, or 6% higher on a comparable basis. Growth was largely driven by high single digit growth at Professional Luminaires, Lighting Systems & Controls and Lamps. This was tempered by sales declines at Lumileds and Consumer Luminaires.

GM&S reported sales of EUR 266 million, which was EUR 93 million lower than in 2010, mainly due to the divestment of Assembléon in the first quarter of 2011. Excluding Assembléon and other portfolio changes, sales were 2% higher than in 2010 on a comparable basis, attributable to higher license income.

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The year 2010

The composition of sales growth in percentage terms in 2010, compared to 2009, is presented in the table below.

Sales growth composition 2010 versus 2009

in %

	comparable growth	currency effects	consolidation changes	nominal growth
Healthcare	3.9	6.0	(0.2)	9.7
Consumer Lifestyle	1.3	4.8	1.4	7.5
Lighting	8.7	6.0	0.7	15.4
GM&S	6.4	2.7	(2.6)	6.5
Philips Group	4.8	5.6	0.5	10.9

Group sales amounted to EUR 22,287 million in 2010, 11% nominal growth compared to 2009. Excluding a 6% favorable currency effect, comparable sales were 5% above 2009. Comparable sales were 9% higher at Lighting and 4% higher at Healthcare, though were tempered by 1% higher sales at Consumer Lifestyle.

Healthcare sales amounted to EUR 8,601 million, which was 4% higher than in 2009 on a comparable basis, driven by 6% growth at Patient Care & Clinical Informatics, Home Healthcare Solutions, and Customer Services. Sales at Imaging Systems were broadly in line with 2009, as increase in growth geographies was largely offset by lower sales in North America.

Consumer Lifestyle reported sales of EUR 5,775 million, which was EUR 405 million higher than in 2009, or 1% higher on a comparable basis. We achieved double-digit growth at Health & Wellness and high single-digit growth at Personal Care. This was tempered by a year-on-year sales declines at Lifestyle Entertainment.

Lighting sales amounted to EUR 7,552 million, which was EUR 1 billion higher than in 2009, or 9% higher on a comparable basis. Growth was largely driven by double- digit growth at Lumileds, Automotive Lighting, and Lighting Systems & Controls. Ongoing weakness in residential and commercial construction markets meant our Luminaires businesses yielded little growth.

5.1.2 Earnings

The year 2011

In 2011, Philips gross margin was EUR 8,647 million, or 38.3% of sales, compared to EUR 9,096 million, or 40.8% of sales, in 2010. Gross margin in 2011 was impacted by a EUR 128 million charge related to the impairment of customer relationships and brand names in Consumer Luminaires, as well as raw material price increases. Gross margin in 2011 included EUR 53 million in restructuring and acquisition-related charges, whereas 2010 included EUR 97 million in restructuring and acquisition-related charges. Gross margin percentage was lower than in 2010 for all sectors, notably Lighting and Consumer Lifestyle.

Selling expenses increased from EUR 4,876 million in 2010 to EUR 5,160 million in 2011. 2011 included EUR 54 million in restructuring and acquisition-related charges, compared to EUR 75 million in 2010. The year-on-year increase was mainly attributable to higher expenses aimed at driving higher market penetration and increased spending on advertising and promotion. In relation to sales, selling expenses increased from 21.9% to 22.9%. Compared to 2010 selling expenses as a percentage of sales declined in Healthcare, while they were higher in Lighting and Consumer Lifestyle.

General and administrative expenses amounted to EUR 841 million in 2011, compared to EUR 713 million in 2010. In 2010, general and administrative expenses included a EUR 119 million gain related to a change in pension plan, compared to a gain of EUR 21 million in 2011. As a percentage of sales, costs increased from 3.2% in 2010 to 3.7%.

Research and development costs increased from EUR 1,493 million in 2010 to EUR 1,610 million in 2011. The year-on-year increase was largely attributable to higher investments in innovation to support growth. As a percentage of sales, research and development costs increased from 6.7% in 2010 to 7.1%.

The overview below shows sales, IFO and Adjusted IFO according to the 2011 sector classifications.

Sales, IFO and Adjusted IFO 2011

in millions of euros unless otherwise stated

	sales	IFO	%	Adjusted IFO[1)]	%
Healthcare	8,852	93	1.1	1,145	12.9
Consumer Lifestyle	5,823	392	6.7	472	8.1
Lighting	7,638	(362)	(4.7)	445	5.8
GM&S	266	(392)		(382)	
Philips Group	22,579	(269)	(1.2)	1,680	7.4

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report

Sales, IFO and Adjusted IFO 2010

in millions of euros unless otherwise stated

	sales	IFO	%	Adjusted IFO[1)]	%
Healthcare	8,601	922	10.7	1,186	13.8
Consumer Lifestyle	5,775	679	11.8	718	12.4
Lighting	7,552	695	9.2	869	11.5
GM&S	359	(216)		(211)	
Philips Group	22,287	2,080	9.3	2,562	11.5

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report

In 2011, IFO decreased by EUR 2,349 million compared to 2010, to a loss of EUR 269 million, or minus 1.2% of sales. 2011 included EUR 163 million in restructuring and acquisition-related charges, compared to EUR 203 million in 2010. The year-on-year decrease was mainly driven by goodwill impairments of EUR 1,355 million, lower gross margin percentages in Lighting and Consumer Lifestyle, and lower IFO in Group Management & Services.

Amortization of intangibles, excluding software, capitalized product development and impairment- related charges, amounted to EUR 594 million in 2011, compared to EUR 482 million in 2010.

Adjusted IFO decreased from EUR 2,562 million, or 11.5% of sales, in 2010 to EUR 1,680 million, or 7.4% of sales, in 2011. The decrease in Adjusted IFO was attributable to all sectors.

Healthcare

Adjusted IFO decreased from EUR 1,186 million, or 13.8% of sales, in 2010 to EUR 1,145 million, or 12.9% of sales, in 2011. Adjusted IFO improved in Customer Services, Home Healthcare Solutions and PCCI, but was more than offset by lower results in Imaging Systems. Restructuring and acquisition-related charges totaled EUR 20 million, compared to EUR 77 million in 2010.

Consumer Lifestyle

Adjusted IFO decreased from EUR 718 million, or 12.4% of sales, in 2010 to EUR 472 million, or 8.1% of sales, in 2011. Restructuring and acquisition-related charges amounted to EUR 54 million in 2011, compared to EUR 31 million in 2010. The year-on-year Adjusted IFO decrease was largely due to lower sales, particularly in Lifestyle Entertainment, higher investments in advertising and promotion, as well as lower license income. Adjusted IFO was higher than in 2010 in Health & Wellness, while in all other businesses it declined.

Lighting

Adjusted IFO decreased from EUR 869 million, or 11.5% of sales, in 2010 to EUR 445 million, or 5.8% of sales, in 2011. Restructuring and acquisition-related charges amounted to EUR 66 million in 2011, compared to EUR 97 million in 2010. The decrease in Adjusted IFO was largely attributable to lower gross margin due to raw material price increases, as well as step-ups in investments related to growth.

Group Management & Services

Adjusted IFO decreased from a loss of EUR 211 million in 2010 to a loss of EUR 382 million in 2011. Adjusted IFO in 2010 included a EUR 119 million gain related to a change in pension plan. 2011 results included a EUR 21 million gain from a change in a pension plan, and EUR 23 million in restructuring charges. The year-on-year Adjusted IFO decrease was largely attributable to higher pension costs, provisions for legal and environmental claims, and investments related to the Accelerate! program.

For further information regarding the performance of the sectors, see chapter 6, Sector performance, of this report.

The year 2010

In 2010, Philips gross margin was EUR 9,096 million, or 40.8% of sales, compared to EUR 7,573 million, or 37.7% of sales, in 2009. Gross margin in 2010 included EUR 96 million restructuring and acquisition-related charges, whereas 2009 included EUR 223 million of restructuring and acquisition-related charges and net asbestos-related recoveries of EUR 57 million. Gross margin percentage was higher than in 2009 in all operating sectors, notably Lighting.

Selling expenses increased from EUR 4,703 million in 2009 to EUR 4,876 million in 2010. 2010 included EUR 75 million of restructuring and acquisition-related charges, compared to EUR 158 million in 2009. The year-on-year increase was mainly attributable to higher expenses aimed at supporting higher sales, and increased investments in advertising and promotion. In relation to sales, selling expenses decreased from 23.4% in 2009 to 21.9% in 2010. Expenses were lower than in 2009 in all sectors.

General and administrative expenses amounted to EUR 713 million in 2010, compared to EUR 721 million in 2009. As a percentage of sales, costs improved from 3.6% in 2009 to 3.2% in 2010.

Research and development costs declined from EUR 1,542 million in 2009 to EUR 1,493 million in 2010. The year-on-year decline was largely attributable to lower restructuring and acquisition-related charges, which amounted to EUR 10 million in 2010, compared to EUR 68 million in 2009, and to the discontinuation of certain activities in the field of Molecular Healthcare and 3D Displays. As a percentage of sales, research and development costs decreased from 7.7% in 2009 to 6.7% in 2010.

The overview above shows sales, IFO and Adjusted IFO according to the 2010 sector classifications.

Sales, IFO and Adjusted IFO 2009

in millions of euros unless otherwise stated

				Adjusted	
	sales	IFO	%	IFO[1)]	%
Healthcare	7,839	593	7.6	848	10.8
Consumer Lifestyle	5,370	436	8.1	454	8.5
Lighting	6,546	(16)	(0.2)	145	2.2
GM&S	337	(353)		(351)	
Philips Group	20,092	660	3.3	1,096	5.5

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report

In 2010, IFO increased by EUR 1,420 million compared to 2009, to EUR 2,080 million, or 9.3% of sales. 2010 included EUR 203 million of restructuring and acquisition-related charges, compared to EUR 489 million in 2009. In addition to lower restructuring and acquisition-related charges, the year-on-year improvement was mainly driven by higher sales and a higher gross margin percentage in each of the operating sectors, and lower costs in Group Management & Services.

Amortization of intangibles, excluding software and capitalized product development, amounted to EUR 487 million in 2010, compared to EUR 436 million in 2009. Amortization charges were higher than in 2009 due to acquisitions.

Adjusted IFO increased from EUR 1,096 million, or 5.5% of sales, in 2009 to EUR 2,562 million, or 11.5% of sales, in 2010. Higher Adjusted IFO was visible in all sectors, notably Lighting.

Healthcare

Adjusted IFO increased from EUR 848 million, or 10.8% of sales, in 2009 to EUR 1,186 million, or 13.8% of sales, in 2010. Adjusted IFO improvements were realized across all businesses, largely as a result of higher sales, favorable currency impact and cost-saving programs. Restructuring and acquisition-related charges totaled EUR 77 million, compared to EUR 106 million in 2009.

Consumer Lifestyle

Adjusted IFO improved from EUR 454 million, or 8.5% of sales, in 2009 to EUR 718 million, or 12.4% of sales, in 2010. Restructuring and acquisition-related charges amounted to EUR 31 million in 2010, compared to EUR 74 million in 2009. The year-on-year Adjusted IFO improvement was largely driven by higher sales, fixed cost savings, EUR 48 million product recall related charges in 2009, and lower restructuring charges. Adjusted IFO was higher than in 2009 in all businesses. Notable improvements were achieved in Domestic Appliances and Licenses.

Lighting

Adjusted IFO amounted to EUR 869 million, or 11.5% of sales, which included EUR 97 million of restructuring and acquisition-related charges. EUR 247 million of restructuring and acquisition-related charges were included in 2009. The Adjusted IFO improvement was also driven by higher sales, improved gross margin and fixed cost savings from restructuring programs.

Group Management & Services

Adjusted IFO improved from a loss of EUR 351 million in 2009 to a loss of EUR 211 million in 2010. 2010 results included a EUR 119 million gain from a change in a pension plan. Adjusted IFO in 2009 included a EUR 134 million gain related to curtailment for retiree medical benefit plans, EUR 57 million of net asbestos-related recoveries, and EUR 46 million of asset write-offs. 2009 also included EUR 63 million restructuring charges. The year-on-year Adjusted IFO improvement was largely attributable to higher license revenue, discontinuation of Molecular Healthcare, and lower costs in the global service units.

5.1.3 Pensions

The year 2011

The net periodic pension costs of defined-benefit pension plans amounted to a cost of EUR 18 million in 2011, compared to a credit of EUR 105 million in 2010. The defined-contribution pension cost amounted to EUR 120 million, EUR 6 million higher than in 2010.

In 2011, further steps were taken to manage the financial exposure to defined benefit plans. One of our major plans was frozen and the active members were transferred to a defined contribution plan, causing a curtailment gain. In the same plan, a prior-service gain was recognized due to retired members opting for a one-off benefit increase in exchange for future indexation. The overall curtailment gain for 2011 was EUR 18 million and the prior-service cost gain was EUR 20 million.

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The funded status of our defined benefit plans deteriorated in 2011 due to adverse market movements and lower interest rates. However, this was largely offset by the unrecognized surpluses of the Group s main plans, reducing the impact on the net balance sheet position.

In 2010, results were positively impacted by the recognition of EUR 119 million of negative prior-service costs. These resulted from a reduction of pension benefits expected to be paid in the future, in part due to a change in indexation. In 2010, a curtailment gain of EUR 9 million on one of our retiree medical plans was recognized due to the partial closure of a US site.

For further information, refer to note 29, Pensions and other postretirement benefits.

The year 2010

The net periodic pension costs of defined-benefit pension plans amounted to a credit of EUR 105 million in 2010, compared to a net result of 0 in 2009. The defined- contribution pension cost amounted to EUR 114 million, EUR 11 million higher than in 2009, mainly due to a gradual shift from defined-benefit to defined-contribution pension plans.

The 2010 costs were impacted by the recognition of EUR 119 million of negative prior-service costs. These resulted from a reduction of pension benefits expected to be paid in the future, in part due to a change in indexation. In 2010, a curtailment gain of EUR 9 million on one of our retiree medical plans was recognized due to the partial closure of a US site.

In 2009, curtailment gains totaling EUR 134 million, relating to changes in retiree medical plans, positively impacted the result. These curtailment gains are the result of changes in the benefit level and the scope of eligible participants of a retiree medical plan, which became effective and irreversible in 2009.

For further information, reference is made to note 29, Pensions and other postretirement benefits.

5.1.4 Restructuring and impairment charges

The year 2011

In 2011, IFO included net charges totaling EUR 1,572 million for restructuring and related asset impairments. The annual impairment test led to selected adjustments of pre-recession business cases as well as an adjustment of the discount rate across Philips, leading to a EUR 1,355 million impairment of goodwill. In addition to the annual goodwill impairment tests, trigger-based impairment tests were performed during the year, but resulted in no further goodwill impairments. 2011 also included a EUR 128 million charge related to the impairment of customer relationships and brand names at Consumer Luminaires.

2010 included EUR 132 million in restructuring and related asset impairment charges.

For further information on sensitivity analysis, please refer to note 9, Goodwill.

Restructuring and related charges

in millions of euros

	2009	2010	2011
Restructuring and related charges per sector:			
Healthcare	42	48	3
Consumer Lifestyle	57	12	9
Lighting	225	74	54

Group Management & Services	63	(2)	23
Continuing operations	387	132	89
Discontinued operations	63	30	15
Cost breakdown of restructuring and related charges:			
Personnel lay-off costs	331	151	109
Release of provision	(66)	(70)	(45)
Restructuring-related asset impairment	81	14	10
Other restructuring-related costs	41	37	15
Continuing operations	387	132	89
Discontinued operations	63	30	15

In 2011, the most significant restructuring projects related to Lighting and Group Management & Services and were mainly driven by our change program Accelerate!. Restructuring projects at Lighting centered on Luminaires businesses and Lamps, the largest of which took place in the Netherlands, Brazil and in the US. Group Management & Services restructuring projects focused on the Global Service Units (primarily in the Netherlands), Corporate and Country Overheads (mainly in the Netherlands, Brazil and Italy) and Philips Design (the Netherlands). In Healthcare, the largest projects were undertaken in Imaging Systems, Home Healthcare Solutions and Patient Care & Clinical Informatics in various locations in the US to reduce the operating costs and simplify the organization. Consumer Lifestyle restructuring charges mainly related to our remaining Television operations in Europe.

The restructuring charges in 2010 were mainly attributable to the operating sectors. Within Healthcare, the largest projects related to the reorganization of the commercial organization in Imaging Systems (Germany, the Netherlands and the US). Consumer Lifestyle restructuring charges were mainly in Lifestyle Entertainment, primarily in the Netherlands and the US. Restructuring projects in Lighting were focused on the reduction of production capacity in traditional lighting technologies, such as incandescent. The largest projects were initiated in Brazil, France and the US.

For further information on restructuring, refer to note 20, Provisions.

The year 2010

In 2010, IFO included net charges totaling EUR 132 million for restructuring and related asset impairments. 2009 included EUR 387 million of restructuring and related asset impairment charges. In addition to the annual goodwill impairment tests for Philips, trigger-based impairment tests were performed during the year, resulting in no goodwill impairments.

For further information on sensitivity analysis, please refer to note 9, Goodwill.

The restructuring charges in 2010 were mainly attributable to the operating sectors. Within Healthcare, the largest projects related to the reorganization of the commercial organization in Imaging Systems (Germany, Netherlands, and the US). Consumer Lifestyle restructuring charges were mainly in Lifestyle Entertainment, primarily in the Netherlands and the US. Restructuring projects in Lighting were focused on reduction of production capacity in traditional lighting technologies, such as incandescent. The largest projects were initiated in Brazil, France, and the US.

In 2009, the most significant restructuring projects related to Lighting and Consumer Lifestyle. Restructuring projects at Lighting centered on Lamps. The largest restructuring projects were in the Netherlands, Belgium, Poland and various locations in the US. Consumer Lifestyle restructuring projects focused on Lifestyle Entertainment (mainly Technology & Development in the Netherlands) and Domestic Appliances (mainly Singapore and China). Healthcare initiated various restructuring projects aimed at reduction of the fixed cost structure, mainly impacting Imaging Systems (Netherlands), Home Healthcare Solutions and Patient Care & Clinical Informatics (various locations in the US).

Other restructuring projects focused on reducing the fixed cost structure of Corporate Technologies, Philips Information Technology, Philips Design, and Corporate Overheads within Group Management & Services.

Reference is made to note 20, Provisions. For further information on impairment please refer to the information under the heading Impairment of non- financial assets in section 5.7, Critical accounting policies, of this report.

5.1.5 Financial income and expenses

The year 2011

A breakdown of Financial income and expenses is presented in the table below.

Financial income and expenses

in millions of euros

	2009	2010	2011
Interest expense (net)	(252)	(225)	(210)
Sale of securities	126	162	51
Impairment on securities	(58)	(2)	(34)
Other	22	(56)	(47)

	(162)	(121)	(240)

The net interest expense in 2011 was EUR 15 million lower than in 2010, mainly as a result of lower average outstanding debt.

Sale of securities

in millions of euros

	2009	2010	2011
Gain on sale of NXP shares		154	
Gain on sale of TCL shares			44
Gain on sale of LG Display shares	69		
Gain on sale of Digimarc shares			6
Gain on sale of Pace shares	48		
Others	9	8	1
	126	162	51

In 2011, income from the sale of securities totaled EUR 51 million. This included a EUR 44 million gain from the sale of the remaining shares in TCL and a EUR 6 million gain on the sale of shares of Digimarc. In 2010, income from the sale of securities of EUR 162 million was mainly attributable to the sale of NXP shares.

Impairments on securities

in millions of euros

	2009	2010	2011
NXP	(48)		
TPV			(25)
Chi-Mei Innolux			(4)
BG Medicine			(2)
Prime Technology	(6)	(2)	(1)
Other	(4)		(2)
	(58)	(2)	(34)

2011 was impacted by impairment charges amounting to EUR 34 million, mainly from shareholdings in TPV Technologies Ltd.

Other financial expenses totaled to a EUR 47 million expense in 2011, compared to EUR 56 million in 2010. In 2011 these primarily consisted of a EUR 35 million other financing charge and a EUR 33 million accretion expense (mainly associated with discounted provisions) offset by EUR 11 million dividend income and other financial income, including a net gain of EUR 6 million mostly from the revaluation impact of the option related to NXP.

Other financial expenses in 2010 primarily consisted of a EUR 21 million expense related to the revaluation of the convertible bonds received from TPV Technology and CBAY, and a EUR 20 million accretion expense mainly associated with discounted provisions.

For further information, refer to note 2, Financial income and expenses.

The year 2010

The net interest expense in 2010 was EUR 27 million lower than in 2009, mainly as a result of lower interest expense.

In 2010, income from the sale of securities of EUR 162 million was mainly attributable to the sale of NXP shares. In 2009, income from the sale of securities totaled EUR 126 million. This included a EUR 69 million gain from the sale of the remaining shares in LG Display, and a EUR 48 million gain from the sale of the remaining shares in Pace Micro Technology.

2009 was impacted by impairment charges amounting to EUR 58 million, mainly from shareholdings in NXP.

Other financial expenses amounted to a EUR 56 million expense in 2010, compared to EUR 22 million income in 2009. 2010 primarily consisted of a EUR 21 million loss related to the revaluation of the convertible bonds received from TPV Technology and CBaySystems Holdings (CBAY), and a EUR 20 million accretion expense mainly associated with discounted provisions.

Other financial expenses in 2009 primarily consisted of a EUR 20 million gain related to the revaluation of the convertible bonds received from TPV Technology and CBAY, and dividend income totaling EUR 16 million, EUR 12 million of which related to holdings in LG Display. Other financial expenses included EUR 15 million accretion expenses, mainly associated with discounted asbestos provisions.

For further information, refer to note 2, Financial income and expenses.

5.1.6 Income taxes

The year 2011

Income taxes amounted to EUR 283 million, despite losses incurred for the year, mainly due to goodwill impairment losses, which are largely non-tax-deductible. The tax charge was EUR 216 million lower than in 2010 due to lower taxable earnings, partly offset by higher incidental tax expenses.

The tax burden in 2011 corresponded to an effective income tax rate of negative 55.6%, compared to a positive 25.5% in 2010. The effective income tax rate is negative attributable to goodwill impairment losses of EUR 1,355 million, which are largely non-tax-deductible. Excluding the non-tax-deductible goodwill impairment losses, the effective income tax rate increased mainly due to a change in the mix of profits and losses in various countries, a change in the country mix of income tax rates and higher new loss carry forwards not expected to be realized.

For 2012, the effective tax rate excluding incidental non- taxable items is expected to be between 32% and 35%.

For further information, refer to note 3, Income taxes.

The year 2010

Income taxes amounted to EUR 499 million, compared to EUR 99 million in 2009. The year-on-year increase was largely attributable to higher taxable earnings.

The tax burden in 2010 corresponded to an effective tax rate of 25.5%, compared to 19.9% in 2009. The increase in the effective tax rate was attributable to a change in the country mix of income tax rates and a change in the mix of profits and losses in the various countries, as well as

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2009 s recognition of a deferred tax asset for Lumileds previously not recognized. This was partly offset by a number of tax settlements.

Reference is made to note 3, Income taxes.

5.1.7 Results of investments in associates

The year 2011

The results related to investments in associates declined from EUR 18 million in 2010 to EUR 16 million in 2011, largely attributable to the results on the sale of shares of EUR 5 million in 2010.

Results of investments in associates

in millions of euros

	2009	2010	2011
Company s participation in income	23	14	18
Results on sale of shares		5	
(Reversal of) investment impairment and other charges	54	(1)	(2)
	77	18	16

The company s participation in income increased from EUR 14 million in 2010 to EUR 18 million in 2011, mainly attributable to results on Intertrust.

For further information, refer to note 4, Investments in associates.

The year 2010

The results related to investments in associates declined from EUR 77 million in 2009 to EUR 18 million in 2010.

The company s participation in income declined from EUR 23 million in 2009 to EUR 14 million in 2010, mainly due to the sale of our remaining stake in TPV Technology.

In 2009, following recovery of the TPV share price, the accumulated value adjustment of the shareholding in TPV recognized in 2008 was reversed by EUR 55 million. The company s participation in income of EUR 23 million in 2009 was mainly attributable to results on Intertrust.

For further information, refer to note 4, Investments in associates.

5.1.8 Non-controlling interests

The year 2011

Net income attributable to non-controlling interests amounted to EUR 4 million in 2011, compared to EUR 6 million in 2010.

The year 2010

Net income attributable to non-controlling interests amounted to EUR 6 million in 2010, compared to EUR 14 million in 2009.

5.1.9 Discontinued operations

In connection with the announcement made on April 18th of the Television long-term strategic partnership with TPV Technology Limited, the results of the Television business are reported separately as discontinued operations. Consequently, the related results, including transaction gains and losses, are shown separately in the financial statements under Discontinued operations.

The loss from discontinued operations of EUR 515 million was mainly due to the transaction loss recorded in connection with the sale of our Television business of EUR 353 million (after tax), which included a provision for an onerous contract for the loss recognized

upon signing the agreement with TPV, accruals for the expected costs of disentanglement and value adjustments to assets. In addition, the net operational results of the business were an after-tax loss of EUR 162 million. The transaction is expected to close in the first quarter of 2012.

For further information, refer to note 5, Discontinued operations and other assets classified as held for sale.

5.1.10 Net income

The year 2011

Net income decreased from EUR 1,452 million in 2010 to a negative EUR 1,291 million in 2011. The decrease was largely due to EUR 2,349 million lower IFO and EUR 489 million higher costs related to discontinued operations, partly offset by EUR 216 million lower income tax charges.

Net income attributable to shareholders per common share decreased from EUR 1.54 per common share in 2010 to negative EUR 1.36 per common share in 2011.

The year 2010

Net income increased from EUR 424 million in 2009 to EUR 1,452 million. The improvement was driven by EUR 1,420 million higher IFO and EUR 41 million lower costs in Financial income and expenses, partly offset by EUR 400 million higher income tax charges and EUR 59 million lower income from our investments in associates.

Net income attributable to shareholders per common share increased from EUR 0.46 per common share in 2009 to EUR 1.54 per common share in 2010.

5.1.11 Acquisitions and divestments

In 2011, Philips completed six strategically-aligned acquisitions, benefiting all three operating sectors.

In 2011, acquisitions resulted in post-merger integration charges totaling EUR 74 million: Healthcare EUR 17 million, Consumer Lifestyle EUR 45 million, and Lighting EUR 12 million.

In 2010, acquisitions led to post-merger integration charges totaling EUR 70 million: Healthcare EUR 29 million, Consumer Lifestyle EUR 18 million, and Lighting EUR 23 million.

For further information, refer to note 7, Acquisitions and divestments.

Acquisitions

Within Healthcare, we completed three acquisitions to expand our global presence and expand our capabilities: Sectra, AllParts Medical and Dameca. In Sweden, we acquired the mammography equipment line of Sectra. We acquired Denmark-based Dameca, a global provider of anesthesia machines and accessories for the operating room. In the US, we acquired AllParts Medical, a provider of imaging equipment parts and training that expands our capabilities in imaging equipment services.

Within Consumer Lifestyle, Philips completed two acquisitions that underline the importance Philips attaches to building business creation capabilities in growth geographies. In India, we acquired the assets of the Preethi business, a leading kitchen appliances company in India. In China, we acquired Povos, a leading kitchen appliances company in China.

Within Lighting, Philips acquired Optimum Lighting, strengthening its position within energy-efficient professional lighting solutions in North America.

In 2010, we completed eleven acquisitions. Healthcare acquisitions included Somnolyzer, Tesco, Apex, CDP Medical, Wheb Sistemas and medSage Technologies. Within Lighting, Philips completed the acquisitions of Luceplan, Burton, Street Lighting Controls from Amplex A/S and NCW. Within Consumer Lifestyle, Philips acquired Discus.

In 2009, we completed eight acquisitions. Healthcare acquisitions included Meditronics, Traxtal and InnerCool. Within Lighting, Philips completed the acquisition of four companies: Dynalite, Teletrol Systems, Ilti Luce and Selecon. Within Consumer Lifestyle, Philips acquired Saeco.

Divestments

In 2011, Philips divested 80% of the shares in Assembléon. The Assembléon shares were sold to H2 Equity Partners, an Amsterdam-based private equity firm, for a consideration of EUR 14 million.

In 2010, Philips divested 9.4% of the shares in TPV Technology Ltd (TPV). The TPV shares were sold to CEIC Ltd, a Hong Kong-based technology company, for a cash consideration of EUR 98 million.

In 2009, Philips sold its shares in FIMI to Barco NV, in line with its strategy to divest non-core activities and focus on expanding its growth platforms.

For details, please refer to note 7, Acquisitions and divestments.

5.1.12 Performance by geographic cluster

The year 2011

In 2011, sales grew 4% on a comparable basis (1% nominally), driven by growth in Healthcare and Lighting, notably in growth geographies.

Comparable sales growth by geographic cluster[1)]

as a %

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report

Sales in mature geographies were EUR 247 million lower than in 2010, but 1% higher on a comparable basis. Sales in Western Europe were impacted by the macroeconomic developments, resulting in lower nominal sales for all sectors, particularly in the fourth quarter. Lighting sales in Western Europe showed a slight increase on a comparable basis. Sales in North America showed a slight decline from 2010 nominally, while on a comparable basis they were slightly higher than in 2010, driven by single-digit growth at Healthcare and Lighting. Both nominal and comparable sales in other mature geographies showed strong growth. Comparable sales in other mature geographies grew by double-digits at Lighting and Consumer Lifestyle, and by mid single-digit at Healthcare.

In growth geographies, sales grew by EUR 539 million, or 11% on a comparable basis, driven by double-digit growth in all sectors, notably Healthcare (15%). In China, Healthcare and Consumer Lifestyle recorded solid double-digit nominal and comparable growth. Sales in Russia also showed double-digit growth, attributable to strong sales performance at Lighting and Healthcare.

Sales per geographic cluster

in millions of euros

1) Revised to reflect an adjusted geographic cluster allocation

The year 2010

In 2010, sales grew 5% on a comparable basis, driven by growth in all sectors, notably in growth geographies.

Sales in mature geographies were EUR 885 million higher than in 2009, or 1% higher on a comparable basis. Sales in Western Europe were in line with 2009, mainly due to lower sales at Consumer Lifestyle, which were offset by growth at Healthcare. Sales in North America were slightly higher than in 2009, attributable to low single-digit growth in Lighting and Consumer Lifestyle.

Healthcare sales in North America were on par with 2009 on a comparable basis. Sales in other mature geographies, however, grew by double-digits in all sectors.

In growth geographies, sales grew by 14%, driven by growth in all sectors, notably Lighting (more than 20%). Solid double-digit growth was visible in China, driven by Healthcare and Lighting. Sales in Russia also showed double-digit growth, attributable to strong sales performance at Consumer Lifestyle and Lighting.

5.1.13 Employment

The year 2011

The total number of Philips Group employees was 121,888 at the end of 2011, compared to 116,165 at the end of 2010. Approximately 44% were employed in the Lighting sector, due to the continued vertical integration in this business. Some 31% were employed in the Healthcare sector and approximately 15% in the Consumer Lifestyle sector.

Employees per sector 2011

in FTEs at year-end

Compared to 2010, the number of employees increased by 5,723. This figure included 4,759 additional employees from acquisitions and reduction of 479 employees via divestments. The remaining increase centered primarily on Healthcare, mainly in North America.

Approximately 53% of the Philips workforce is located in mature geographies, and about 47% in growth geographies. In 2011, the number of employees in mature geographies increased slightly as headcount reduction from organizational restructuring was more than offset by additional headcount from growing businesses within Healthcare. Growth geographies headcount increased by 5,208, mainly as a result of acquisitions in Consumer Lifestyle.

Employees per sector

in FTEs at year-end

	2009	2010	2011
Healthcare[1]	34,525	36,253	37,955
Consumer Lifestyle	13,625	14,095	18,291
Lighting	51,653	53,888	53,168
Group Management & Services	11,586	11,929	12,474
	111,389	116,165	121,888
Discontinued operations	4,764	3,610	3,353
	116,153	119,775	125,241

1) Adjusted to reflect a change of employees reported for the past periods

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Employees per geographic cluster

in FTEs at year-end

	2009[1)]	2010[1)]	2011
Western Europe	34,174	33,557	33,515
North America	27,055	27,881	28,249
Other mature geographies	3,094	3,045	3,234
Total mature geographies	64,323	64,483	64,998
Growth geographies	47,066	51,682	56,890
	111,389	116,165	121,888
Discontinued operations	4,764	3,610	3,353
	116,153	119,775	125,241

1) Adjusted to reflect a change of employees reported in the Healthcare sector

Employment

in FTEs

	2009[1)]	2010[1)]	2011
Position at beginning of year	121,654	116,153	119,775
Consolidation changes:			
acquisitions	2,432	1,457	4,759
divestments	(276)	(307)	(479)
Comparable change	(7,657)	2,472	1,186
Position at year-end	116,153	119,775	125,241
of which:			
continued operations	111,389	116,165	121,888
discontinued operations	4,764	3,610	3,353

1) Adjusted to reflect a change of employees reported in the Healthcare sector

The year 2010

The total number of employees of the Philips Group was 119,775 at the end of 2010, compared to 116,153 at the end of 2009. Approximately 45% were employed in the Lighting sector, due to the continued relatively strong vertical integration in this business. Some 30% were employed in the Healthcare sector and approximately 12% of the workforce was employed in the Consumer Lifestyle sector.

The increase in headcount in 2010 was mainly attributable to acquisitions and an increase in temporary employees in Lighting to support higher levels of activity. The number of employees increased in all sectors.

5.2 Liquidity and capital resources

Prior years results and cash flows have been restated to reflect the effect of classifying the Television business as discontinued operations in 2011.

5.2.1 Cash flows provided by continuing operations

The year 2011

Cash flows from operating activities

Net cash flow from operating activities amounted to EUR 836 million in 2011, compared to EUR 2,121 million in 2010. The year-on-year decline was largely attributable to lower cash earnings and higher working capital outflow, mainly related to accounts payable, partly offset by lower inventories and an increase in provisions. The accounts payable outflow was mainly due to the tightening of vendor payments in the operating sectors, as well as the timing of taxes payable.

Cash flows from operating activities and net capital expenditures

in millions of euros

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Condensed consolidated statements of cash flows for the years ended December 31, 2009, 2010 and 2011 are presented below:

Condensed consolidated cash flow statements[1)]

in millions of euros

	2009	2010	2011
Cash flows from operating activities:			
Net income (loss)	424	1,452	(1,291)
Adjustments to reconcile net income to net cash provided by operating activities	967	669	2,127
Net cash provided by operating activities	1,391	2,121	836
Net cash (used for) provided by investing activities	(165)	(646)	(1,364)
Cash flows before financing activities[2)]	1,226	1,475	(528)
Net cash used for financing activities	(544)	(95)	(1,787)
Cash (used for) provided by continuing operations	682	1,380	(2,315)
Net cash (used for) discontinued operations	99	(22)	(364)
Effect of changes in exchange rates on cash and cash equivalents	(15)	89	(7)
Total change in cash and cash equivalents	766	1,447	(2,686)
Cash and cash equivalents at the beginning of year	3,620	4,386	5,833
Cash and cash equivalents at the end of year	4,386	5,833	3,147

1) Please refer to section 12.7, Consolidated statements of cash flows, of this report
2) Please refer to chapter 15, Reconciliation of non-GAAP information, of this report

Cash flows from investing activities

2011 cash flows from investing activities resulted in a net outflow of EUR 1,364 million, attributable to EUR 944 million cash used for net capital expenditures and EUR 552 million used for acquisitions, mainly for Povos, Preethi and Sectra. This was partly offset by EUR 106 million proceeds from sale of financial assets and divestment, mainly TCL and Digimarc shares.

2010 cash flows from investing activities resulted in a net outflow of EUR 646 million, attributable to EUR 765 million cash used for net capital expenditures and EUR 241 million used for acquisitions, mainly for Discus, NCW and medSage Technologies. This was partly offset by EUR 385 million proceeds from divestment, including the sale of 9.4% of the shares in TPV and the redemption of the TPV and CBAY convertible bonds.

Net capital expenditures

Net capital expenditures totaled EUR 944 million, which was EUR 179 million higher than 2010. Higher investments were visible in all sectors, notably additional growth-focused investments in Healthcare.

Cash flows from acquisitions, divestments and derivatives

in millions of euros

Acquisitions

Net cash impact of acquisitions in 2011 was a total of EUR 552 million, mainly related to the acquisitions for Povos, Preethi and Sectra.

In 2010, a total of EUR 241 million cash was used for acquisitions, mainly Discus, NCW and medSage Technologies.

Divestments and derivatives

Cash proceeds of EUR 106 million were received from divestments, mainly attributable to EUR 69 million for the sale of remaining shares in TCL, as well as divestments of non-strategic businesses within Consumer Lifestyle and Healthcare. Cash flows from derivatives and securities led to a net cash inflow of EUR 26 million.

In 2010, cash proceeds of EUR 385 million were received from divestments, including EUR 98 million from the sale of 9.4% shares in TPV, EUR 165 million and EUR 74 million from the redemption of the TPV and CBAY convertible bonds respectively. The transaction related to the sale of the remaining NXP shares to Philips UK pension fund which was cash-neutral. Net cash flows used for derivatives led to a EUR 25 million net outflow.

Cash flows from financing activities

Net cash used for financing activities in 2011 was EUR 1,787 million. Philips shareholders were paid EUR 711 million in the form of a dividend of which cash dividend amounted to EUR 259 million. The net impact of changes in debt was a decrease of EUR 857 million, including the redemption of a EUR 750 million bond, a USD 350 million bond and other debts totaling EUR 1,314 million, partially offset by the drawdown of EUR 200 million committed facility and other new long-term borrowing totaling EUR 457 million. Additionally, net cash outflows for share buyback and share delivery totaled EUR 671 million.

Net cash used for financing activities in 2010 was EUR 95 million. Philips shareholders were paid EUR 650 million in the form of a dividend of which cash dividend amounted to EUR 296 million. The net impact of changes in debt was an increase of EUR 136 million, including a EUR 214 million increase from finance lease and bank loans, partially offset by repayments on short-term debts and other long-term debt amounting to EUR 78 million. Additionally, net cash inflows for share delivery totaled EUR 65 million.

The year 2010

Cash flows from operating activities

Net cash flow from operating activities amounted to EUR 2,121 million in 2010, compared to EUR 1,391 million in 2009. The year-on-year improvement was largely attributable to higher earnings across all sectors and last year s EUR 485 million final asbestos settlement payment, partly offset by higher working capital requirements.

Cash flows from investing activities

2010 cash flows from investing activities resulted in a net outflow of EUR 646 million, attributable to EUR 765 million cash used for net capital expenditures and EUR 241 million used for acquisitions, chiefly for Discus, NCW and medSage Technologies. This was partly offset by EUR 385 million proceeds from divestment, including the sale of 9.4% of the shares in TPV and the redemption of the TPV and CBAY convertible bonds.

2009 cash flows from investing activities resulted in a net outflow of EUR 165 million, due to EUR 628 million cash used for net capital expenditures, EUR 301 million used for acquisitions, and EUR 38 million outflow related to derivatives and securities, partly offset by EUR 802 million inflows received mostly from the sale of other non-current financial assets (mainly LG Display and Pace Micro Technology).

Net capital expenditures

Net capital expenditures totaled EUR 765 million, which was EUR 137 million higher than 2009. Higher investments were visible in all sectors, notably additional growth-focused investments in Lighting.

Reference is made to the information under the heading Acquisitions and divestments on pages 63 and 64 of the 2010 Annual Report, which is incorporated herein by reference.

Acquisitions

In 2010, a total of EUR 241 million cash was used for acquisitions, mainly Discus (EUR 129million), NCW (EUR 13 million) and medSage Technologies (EUR 14 million).

In 2009, a total of EUR 301 million cash was used for acquisitions, mainly Saeco (EUR 171 million), Dynalite (EUR 31 million) and Traxtal (EUR 18 million).

Divestments and derivatives

In 2010, cash proceeds of EUR 385 million were received from divestments, including EUR 98 million from the sale of 9.4% shares in TPV, EUR 165 million and EUR 74 million from the redemption of the TPV and CBAY convertible bonds respectively. The transaction related to the sale of the remaining NXP shares to Philips UK pension fund was cash-neutral. Cash flows used for derivatives led to a EUR 25 million outflow.

In 2009, cash proceeds of EUR 628 million and EUR 76 million were received from the final sale of stakes in LG Display and Pace Micro Technology respectively. Cash flows from derivatives and securities led to a net cash outflow of EUR 38 million.

Cash flows from financing activities

Net cash used for financing activities in 2010 was EUR 95 million. Philips shareholders were paid EUR 650 million in the form of a dividend of which cash dividend amounted to EUR 296 million. The net impact of changes in debt was an increase of EUR 136 million, including a EUR 214 million increase from finance lease and bank loans, partially offset by repayments on short-term debts and other long-term debt amounting to EUR 78 million. Additionally, net cash inflows for share delivery totaled EUR 65 million.

Net cash used for financing activities in 2009 was EUR 544 million. Philips shareholders were paid EUR 647 million in the form of a dividend payment. The net impact of changes in debt was an increase of EUR 61 million, including the drawdown of a EUR 251 million loan, EUR 62 million increase from finance lease and bank loans, offset by repayments on short-term debts and other long- term debt amounting to EUR 252 million. Additionally, net cash inflows for share delivery totaled EUR 29 million.

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5.2.2 Cash flows from discontinued operations

The year 2011

In 2011, EUR 364 million cash was used by discontinued operations, attributable to the operating cash flows of the Television business of EUR 270 million and cash flow to investing activities of EUR 94 million.

In 2010, EUR 22 million cash was used by discontinued operations, attributable to cash flow to investing activities of EUR 56 million of the Television business and partially offset by EUR 34 million of operating cash flows.

The year 2010

In 2010, EUR 22 million cash was used by discontinued operations, attributable to cash flow to investing activities of EUR 56 million of the Television business and partially offset by EUR 34 million of operating cash flows.

In 2009, EUR 99 million cash was provided by discontinued operations, driven by EUR 153 million of operating cash flows and partially offset by EUR 54 million of cash flows to investing activities.

5.2.3 Financing

The year 2011

Condensed consolidated balance sheets for the years 2009, 2010 and 2011 are presented below:

Condensed consolidated balance sheet information[1)]

in millions of euros

	2009	2010	2011
Intangible assets	11,523	12,233	11,012
Property, plant and equipment	3,252	3,145	3,014
Inventories	2,913	3,865	3,625
Receivables	7,188	6,296	6,839
Accounts payable and other liabilities	(9,166)	(10,180)	(10,017)
Provisions	(2,450)	(2,339)	(2,639)
Other financial assets	984	596	575
Investments in associates	281	181	203
	14,525	13,797	12,612
Cash and cash equivalents	4,386	5,833	3,147
Debt	(4,267)	(4,658)	(3,860)
Net cash (debt)	119	1,175	(713)
Non-controlling interests	(49)	(46)	(34)
Shareholders equity	(14,595)	(15,046)	(12,355)
	(14,525)	(13,917)	(13,102)

[1)] Please refer to section 12.6, Consolidated balance sheets, of this report

5.2.4 Cash and cash equivalents

The year 2011

In 2011, cash and cash equivalents decreased by EUR 2,686 million to EUR 3,147 million at year-end. Cash inflow from operations amounted to EUR 836 million, a total outflow on net capital expenditure of EUR 944 million, EUR 857 million from changes in debt, EUR 671 million from treasury share transactions, EUR 552 million for acquisitions, EUR 259 million of cash dividend payout, partially offset by EUR 106 million proceeds from divestments including EUR 87 million from the sale of stakes and unfavorable currency translation effects of EUR 7 million.

In 2010, cash and cash equivalents increased by EUR 1,447 million to EUR 5,833 million at year-end. Cash inflow from operations amounted to EUR 2,121 million, a total outflow on net capital expenditure of EUR 765 million, and there was EUR 385 million proceeds from divestments including EUR 268 million from the sale of stakes. This was partly offset by an outflow of EUR 296 million related to the cash dividend payout, EUR 241 million for acquisitions and favorable currency translation effects of EUR 89 million.

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Cash balance movements in 2011

in millions of euros

1) Includes the sale of shares in TCL and Digimarc, and the sale of small portion of Discuss and Raytel Imagine Network
2) Please refer to chapter 15, Reconciliation of non-GAAP information, of this report
3) Includes cash inflow for derivatives, partly offset by unfavourable currency effect
4) Includes the acquisitions of Povos, Preethi and Sectra

The year 2010

In 2010, cash and cash equivalents increased by EUR 1,447 million to EUR 5,833 million at year-end. Cash inflow from operations amounted to EUR 2,121 million, a total outflow on net capital expenditure of EUR 765 million, and there was EUR 385 million proceeds from divestments including EUR 268 million from the sale of stakes. This was partly offset by an outflow of EUR 296 million related to the cash dividend payout, EUR 241 million for acquisitions and favorable currency translation effects of EUR 89 million.

In 2009, cash and cash equivalents increased by EUR 766 million to EUR 4,386 million at year-end. Cash inflow from operations amounted to EUR 1,391 million, and there was EUR 802 million proceeds from divestments including EUR 718 million from the sale of stakes. This was partly offset by an outflow of EUR 647 million related to the annual dividend, EUR 301 million for acquisitions and small unfavorable currency translation effects of EUR 15 million.

5.2.5 Debt position

The year 2011

Total debt outstanding at the end of 2011 was EUR 3,860 million, compared with EUR 4,658 million at the end of 2010.

Changes in debt

in millions of euros

	2009	2010	2011
New borrowings	(312)	(214)	(457)
Repayments	251	78	1,314
Consolidation and currency effects	(18)	(255)	(59)
Total changes in debt	(79)	(391)	798

In 2011, total debt decreased by EUR 798 million. The repayment of EUR 1,314 million included redemptions of a EUR 750 million bond, a USD 350 million bond, and EUR 217 million repayment in short-term debt. New borrowing and finance leases amounted to EUR 457 million. Other changes resulting from consolidation and currency effects led to an increase of EUR 59 million.

In 2010, total debt increased by EUR 391 million. The increase in borrowings including finance leases was EUR 214 million. Repayments under finance leases amounted to EUR 50 million, while EUR 28 million was used to reduce other long-term debt. Other changes resulting from consolidation and currency effects led to an increase of EUR 255 million.

Long-term debt as a proportion of the total debt stood at 85% at the end of 2011 with an average remaining term of 10.4 years, compared to 60% at the end of 2010.

For further information, please refer to note 19, Long-term debt and short-term debt

The year 2010

Total debt outstanding at the end of 2010 was EUR 4,658 million, compared with EUR 4,267 million at the end of 2009.

In 2010, total debt increased by EUR 391 million. The increase in borrowings including finance leases was EUR 214 million. Repayments under finance leases amounted to EUR 50 million, while EUR 28 million was used to reduce other long-term debt. Other changes resulting from consolidation and currency effects led to an increase of EUR 255 million.

In 2009, total debt increased by EUR 79 million. In January, Philips drew upon a EUR 250 million bank loan. The increase in other borrowings including finance leases was EUR 62 million. Repayments under finance leases amounted to EUR 42 million, while EUR 6 million was used to reduce other long-term debt. Furthermore Philips repaid short-term debt of EUR 204 million. Other changes resulting from consolidation and currency effects led to an increase of EUR 18 million.

Long-term debt as a proportion of the total debt stood at 60% at the end of 2010 with an average remaining term of 10.8 years, compared to 85% at the end of 2009.

5.2.6 Net debt to group equity

The year 2011

Philips ended 2011 in a net debt position (cash and cash equivalents, net of debt) of EUR 713 million, compared to a net cash position of EUR 1,175 million at the end of 2010.

Net debt (cash) to group equity[1)]

in billions of euros

ratio: -31:131 4:96 -1:101 -8:108 5:95

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report

2) Shareholders equity and non-controlling interests

The year 2010

Philips ended 2010 in a net cash position (cash and cash equivalents, net of debt) of EUR 1,175 million, compared to a net cash position of EUR 119 million at the end of 2009.

5.2.7 Shareholders equity

The year 2011

Shareholders equity decreased by EUR 2,691 million in 2011 to EUR 12,355 million at December 31, 2011. The decrease was mainly as a result of a EUR 1,291 million lower net income and EUR 447 million actuarial losses related to pension plans, as well as EUR 751 million related to the purchase of treasury shares. The dividend payment to shareholders in 2011 reduced equity by EUR 263 million. The decrease was partially offset by a EUR 86 million increase related to delivery of treasury shares and net share-based compensation plans.

Shareholders equity increased by EUR 451 million in 2010 to EUR 15,046 million at December 31, 2010. The increase was mainly as a result of a EUR 630 million improvement within total comprehensive income. The dividend payment to shareholders in 2010 reduced equity by EUR 304 million. The decrease was partially offset by a EUR 111 million increase related to delivery of treasury shares and net share-based compensation plans.

The number of outstanding common shares of Royal Philips Electronics at December 31, 2011 was 926 million (2010: 947 million).

At the end of 2011, the Company held 33.6 million shares in treasury to cover the future delivery of shares (2010: 37.7 million shares). This was in connection with the 47.1 million rights outstanding at the end of 2011 (2010: 54.9 million rights) under the Company s long-term incentive plan and convertible personnel debentures. At the end of 2011, the Company held 49.3 million shares for cancellation (2010: 1.9 million shares).

The year 2010

Shareholders equity increased by EUR 451 million in 2010 to EUR 15,046 million at December 31, 2010. The increase was mainly as a result of a EUR 630 million improvement within total comprehensive income. The dividend payment to shareholders in 2010 reduced equity by EUR 304 million. The decrease was partially offset by a EUR 111 million increase related to delivery of treasury shares and net share-based compensation plans.

Shareholders equity declined by EUR 949 million in 2009 to EUR 14,595 million at December 31, 2009. The decrease was mainly as a result of a EUR 404 million reduction from total comprehensive income. The dividend payment to shareholders in 2009 further reduced equity by EUR 647 million. The decrease was partially offset by a EUR 101 million increase related to re-issuance of treasury shares and net share-based compensation plans.

The number of outstanding common shares of Royal Philips Electronics at December 31, 2010 was 947 million (2009: 927 million).

At the end of 2010, the Company held 37.7 million shares in treasury to cover the future delivery of shares (2009: 43.1 million shares). This was in connection with the 54.9 million rights outstanding at the end of 2010 (2009: 62.1

million rights) under the Company s long-term incentive plan and convertible personnel debentures. At the end of 2010, the Company held 1.9 million shares for cancellation (2009: 1.9 million shares).

5.2.8 Liquidity position

Including the Company s net debt (cash) position (cash and cash equivalents, net of debt), listed available-for-sale financial assets, as well as its EUR 1.8 billion revolving credit facility, a EUR 900 million bilateral credit facility and a EUR 500 million bilateral credit facility, the Company had access to net available liquid resources of EUR 2,597 million as of December 31, 2011, compared to EUR 3,445 million one year earlier.

Liquidity position

in millions of euros

	2009	2010	2011
Cash and cash equivalents	4,386	5,833	3,147
Committed revolving credit facility/ CP program/Bilateral loan	1,936	2,000	3,200
Liquidity	6,322	7,833	6,347
Available-for-sale financial assets at market value	244	270	110
Main listed investments in associates at market value	113		
Short-term debt	(627)	(1,840)	(582)
Long-term debt	(3,640)	(2,818)	(3,278)
Net available liquidity resources	2,412	3,445	2,597

The fair value of the Company s available-for-sale financial assets, based on quoted market prices at December 31, 2011, amounted to EUR 110 million. Philips disposed of its remaining shareholdings in TCL and Digimarc in 2011.

Philips has a EUR 1.8 billion committed revolving credit facility due in 2015 that can be used for general corporate purposes. In addition, Philips also has a EUR 900 million committed bilateral credit facility in place that can be drawn before July 2013. Furthermore Philips has a USD 2.5 billion commercial paper program, under which it can issue commercial paper up to 364 days in tenor, both in the US and in Europe, in any major freely convertible currency. There is a panel of banks, in Europe and in the US, which service the program. The interest is at market rates prevailing at the time of issuance of the commercial paper. There is no collateral requirement in the commercial paper program. Also, there are no limitations on Philips use of the program. As at December 31, 2011, Philips did not have any loans outstanding under these facilities.

Philips existing long-term debt is rated A3 (with negative outlook as of February 8, 2012) by Moody s and A- (with negative outlook as of February 3, 2012) by Standard & Poor s. It is Philips objective to manage our financial ratios to be in line with an A rating. There is no assurance that we will be able to achieve this goal. Ratings are subject to change at any time. Outstanding long-term bonds and credit facilities do not have a material adverse change clause, financial covenants or credit-rating-related acceleration possibilities.

As at December 31, 2011, Philips had total cash and cash equivalents of EUR 3,147 million. Philips pools cash from subsidiaries to the extent legally and economically feasible. Cash not pooled remains available for local operational or investment needs. Philips had a total gross debt position of EUR 3,860 million at year-end 2011.

We believe our current working capital is sufficient to meet our present working capital requirements.

5.2.9 Cash obligations

Contractual cash obligations

Presented below is a summary of the Group s contractual cash obligations and commitments at December 31, 2011.

Contractual cash obligations at December 31, 2011

in millions of euros[1)]

		payments due by period			
	total	**less than 1 year**	**1-3 years**	**3-5 years**	**after 5 years**
Long term debt	3,213	80	923	1	2,209
Finance lease obligations	218	60	90	33	35
Short-term debt	443	443			
Operating leases	1,017	242	371	224	180
Derivative liabilities	749	208	474	67	
Interest on debt[2)]	1,737	138	268	215	1,116
Purchase obligations[3)]	505	242	211	29	23
Trade and other payables	3,346	3,346			
	11,228	4,759	2,337	569	3,563

1) Data in this table is undiscounted

2) Approximately 27% of the debt bears interest at a floating rate. Majority of the interest payments on variable interest rate loans in the table above reflect market forward interest rates at the period end and these amounts may change as market interest rate changes

3) Philips has commitments related to the ordinary course of business which in general relate to contracts and purchase order commitments for less than 12 months. In the table, only the commitments for multiple years are presented, including their short-term portion

Philips has no material commitments for capital expenditures.

On December 1, 2009, Philips entered into an outsourcing agreement to acquire IT services from T-Systems GmbH over a period of 5 years at a total cost of approximately EUR 300 million. The agreement, which is effective January 1, 2010, provides that penalties may be charged to the Company if Philips terminates the agreement prior to its expiration. The termination penalties range from EUR 40 million if the agreement is cancelled within 12 months to EUR 6 million if the agreement is cancelled within 36 months.

Additionally, Philips has a number of commercial agreements, such as supply agreements, which provide that certain penalties may be charged to the Company if it does not fulfill its commitments.

Certain Philips suppliers factor their trade receivables from Philips with third parties through supplier finance arrangements. At December 31, 2011 approximately EUR 283 million of the Philips accounts payables were known to have been sold onward under such arrangements whereby Philips confirms invoices. Philips continues to recognize these liabilities as trade payables and will settle the liabilities in line with the original payment terms of the related invoices.

As part of the recovery plan for the UK pension fund, Philips Electronics UK has committed to a contingent cash contribution scheme as a back-up for liability savings to the UK fund to be realized through a member choice program. If this member choice program fails to deliver part or all of the expected liability savings with a net present value of GBP 250 million, Philips Electronics UK will pay cash contributions into the UK pension fund to make up for the difference during the years 2015 and 2022. No (further) cash payments will be made under the scheme when the UK pension fund is fully funded.

Other cash commitments

The Company and its subsidiaries sponsor pension plans in many countries in accordance with legal requirements, customs and the local situation in the countries involved. Additionally, certain postretirement benefits are provided in certain countries. The Company is reviewing the future funding of the existing regulatory deficits in pension plans in the US and UK. Refer to note 29, Pensions and other postretirement benefits for a discussion of the plans and expected cash outflows.

The company had EUR 169 million restructuring-related provisions by the end of 2011, of which EUR 118 million is expected to result in cash outflows in 2012. Refer to note 20, Provisions for details of restructuring provisions and potential cash flow impact for 2011 and further.

A proposal will be submitted to the General Meeting of Shareholders to pay a dividend of EUR 0.75 per common share (up to EUR 695 million), in cash or shares at the option of the shareholder, against the retained earnings of the Company.

Guarantees

Philips policy is to provide guarantees and other letters of support only in writing. Philips does not provide other forms of support. At the end of 2011, the total fair value of guarantees recognized by Philips in other non-current liabilities was EUR 9 million. The following table outlines the total outstanding off-balance sheet credit-related guarantees and business-related guarantees provided by Philips for the benefit of unconsolidated companies and third parties as at December 31, 2010 and 2011.

Expiration per period 2011

in millions of euros

	total amounts committed	less than 1 year	1-5 years	after 5 years
Business-related guarantees	297	99	126	72

Credit-related guarantees	39	22		17
	336	121	126	89

Expiration per period 2010

in millions of euros

	total amounts committed	less than 1 year	1-5 years	after 5 years
Business-related guarantees	302	100	133	69
Credit-related guarantees	49	22	8	19
	351	122	141	88

5.3 Other performance measures

Prior years results and cash flows have been restated to reflect the effect of classifying the Television business as discontinued operations in 2011.

The section Other performance measures provides an insight into the performance of key cross-sector functions brand, marketing, research and development and supply management in 2011.

5.3.1 Marketing

The year 2011

Brand and Customer Experience

In 2011, Philips continued to focus on building brand loyalty amongst its professional and consumer audiences, a key element of its brand strategy. The deployment of this strategy led to a rise from 42nd to 41st position among the world s 100 most valuable brands, as measured by Interbrand. Additionally, Philips maintained its estimated brand value at USD 8.7 billion, despite the challenging economic environment throughout 2011, particularly in Europe.

Philips total 2011 marketing expenses approximated EUR 938 million, an increase of 12% compared to 2010. Consistent with 2010, the company allocated a higher proportion of its total marketing spend towards growth geographies and strategic markets, priority areas for the company s growth strategy. Accordingly, the company increased its marketing spend in growth geographies by 15% compared to 2010. Philips also continued to align its businesses around customers and markets, maintaining its level of local marketing investment as a percentage of sales at approximately 5% in growth geographies in both 2010 and 2011. Total 2011 marketing investment as a % of sales approximated 4.2%, compared to 3.7% in 2010.

In 2011, we continued to expand our coverage of the Net Promoter Score (NPS) program to include additional markets strategic to Philips growth. With regard to NPS performance in 2011, the company achieved its leadership targets at Lighting, and strengthened its outright leadership position at Consumer Lifestyle. Philips maintains its strong leadership positions in a large number of its key geographies. In China, it attained new leadership positions in Lighting, whilst retaining all existing Healthcare leadership positions. It also showed an improvement in performance at Healthcare and Consumer Lifestyle in the US, our largest healthcare market. In Europe, Philips showed a mixed performance, with gains in LED lighting in Germany, and a decline at Healthcare in France. Looking ahead to 2012 and beyond, the company will continue to use NPS as a measure of customer experience. In line with its Accelerate! transformation aimed at winning customers in its markets and the pursuit of excellence in the marketplace, it will focus on outright NPS leadership relative to competition, as well as its own absolute position with customers.

Marketing expenses

in millions of euros

The year 2010

Philips total 2010 marketing expenses approximated EUR 835 million, a 17% increase compared to 2009. The additional spend was primarily to support the company s marketing strategy of more focused growth in growth and other strategic geographies. In line with this, the company increased its 2010 marketing spend in key growth geographies by 33% compared to 2009. Total 2010 marketing investment in growth geographies approximated 4.0% of sales, compared to 3.6% of sales in 2009.

5.3.2 Research & development

The year 2011

R&D spending increased as a percentage of sales from 6.7% in 2010 to 7.1%. Philips has continued to expand its vast knowledge and intellectual property base. Early and continuous involvement of customers in new technologies, application and business concepts ensures deep insight into their needs the foundation for our innovations. Innovation leading to new businesses in incubators and internal ventures and Emerging Business Areas is managed separately from the traditional business to ensure focus on these growth initiatives. The

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effectiveness of innovation has been improved by streamlining our organization in Corporate Technologies, leading to more focus, alignment and enhanced offering of value propositions. The scope of the new organization covers front end innovation, i.e. early innovation and pre-development activities, supplemented by small series production. Within the Accelerate! program this approach started to show results in terms of increased speed to market.

Healthcare R&D spend has increased substantially by EUR 42 million, to drive co-leadership in Imaging Systems and leadership in Patient Care and Clinical Informatics. Also, in Consumer Lifestyle we increased the R&D spend by EUR 31 million, to drive category leadership in Male Grooming, Oral Healthcare, Kitchen Appliances and Coffee. In Lighting, we increased our R&D investment by 15% or EUR 54 million compared to 2010, to accelerate transformation to LED, applications and solutions, to maintain our leadership position in LED lighting innovation (e.g. L-prize), and to ensure maintenance of our lead over competition, including our leading IP position. In GM&S, R&D expenses were reduced by EUR 10 million, creating more focus.

Research and development expenses per sector

in millions of euros

	2009	2010	2011
Healthcare	679	698	740
Consumer Lifestyle	300	282	313
Lighting	351	355	409
Group Management & Services	212	158	148
Philips Group	1,542	1,493	1,610

The year 2010

In 2010, Philips investment in R&D activities amounted to EUR 1,493 million (6.7% of sales), compared with EUR 1,542 million (7.7% of sales) in 2009.

5.3.3 Supply management

The Supply organization encompasses four functions: Commercial Supply Chain, Customer Service, Operations and Purchasing. Collectively, they represent around 61,000 Philips employees and are responsible for sourcing, manufacturing and delivering products and solutions.

Management of shortages and management of commodity price increases

The recovery of the global economy led to tight supply of semiconductor components, in particular, in the course of 2011. The scarcity of and increased prices for commodities like copper and phosphor led to upward price pressure. We were largely able to negotiate price decreases, delay price increases and reduce volatility through commodity hedging with our suppliers. Raw material price trends in the last quarter of the year started to move in the opposite direction; prices are trending down again in anticipation of a possible second period of economic turbulence with generally lower demand ahead. Supply achieved 4.9% savings on the Bill of Material (BOM) and 5.2% savings on Non Product Related (NPR) purchasing. Forecast reliability and sales/operational planning processes have improved, for both the short and longer term, resulting in reduced risk. Increased efforts on local talent hiring and breeding in growth geographies are being made to secure the inflow of professionals into supply functions for the future.

Concentration and consolidation of supply base

Philips Supply continued its focus on leveraging the base of selected suppliers. In both BOM and NPR the number of suppliers continued to be reduced. Creating long-term strategic partnerships with suppliers is an important enabler of Philips growth ambitions. Further alignment and standardization of payment terms continued to positively influence Days Payable Outstanding (DPO).

Supplier risk management and business interruption

Our strategic buyers are constantly monitoring their supplier portfolio; risk parameters are measured and contingency plans are in place. Extreme circumstances impacted supply performance in 2011; the earthquake and tsunami in Japan in March 2011 exposed vulnerability in our complex global supply network. During the Japan crisis the complexity of the suppliers and indirect market effects such as hoarding were discovered. Dedicated teams worked both locally in Japan and internationally with suppliers and their suppliers to mitigate risks. Similarly, these experiences have been applied to help deal with the impact of the flooding in Thailand, where supply of a critical component was interrupted, resulting in a significant supply continuity risk, which was handled successfully.

Sustainability in the supply chain

Philips remains focused on improving working conditions and environmental performance in its supply chain and expects suppliers to share this ambition. We support suppliers in this journey and engage with governmental and civil society organizations and other business partners to further embed sustainability in the supply chain. For more information, refer to Supplier performance section (in the chapter Sustainability Statements).

New venture integration

Purchasing participates in the Philips New Venture Integration team. The focus is on creating value via spend savings and cash improvements and on risk mitigation related to sustainability and financial weakness of the supply chain of the newly acquired company.

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5.4 Sustainability

Strategic priorities

Our businesses provide innovative solutions that address the major trends affecting the world the demand for affordable healthcare, the need for greater energy efficiency and the desire for personal well-being. At Philips, sustainability is all about enhancing the health and well-being of individuals and the communities they live in. At the same time we constantly endeavor to improve the environmental performance of our products and processes, and to drive sustainability throughout the supply chain.

Notwithstanding the challenging economic environment, Philips has kept its focus on sustainability in 2011. This is rooted in our long-standing belief that sustainability is a key enabler for growth and offers opportunities to innovate our way out of the economic crisis. Therefore, sustainability is an integral part of Philips strategy and Deliver on our EcoVision sustainability commitments was one of the topics on the 2011 Management Agenda.

By focusing on three sustainability leadership key performance indicators in which we can bring our competencies to bear, namely care , energy efficiency and materials we aim to deliver on our 2015 commitments:

Bringing care to people

- Target: 500 million lives touched by 2015

Improving the energy efficiency of Philips products

- Target: 50% improvement by 2015 (for the average total product portfolio) compared to 2009

Closing the materials loop

- Target: Double global collection and recycling and the amount of recycled materials in products by 2015 compared to 2009

In 2011, we already touched over 465 million lives, mainly driven by our Healthcare sector. Further, the energy efficiency of the products we sold improved slightly (some 2% in 2011 and 8% compared to 2009). Our Lighting sector contributed most to this indicator and notwithstanding strong LED sales, the energy efficiency improvement in the total product portfolio sold in 2011 was limited as traditional lamps were still much in demand. With regard to Closing the materials loop , our global collection and recycling totaled to about 35,000 tons and the amount of recycled materials in our products increased to around 10,000 tons. More importantly, roadmaps have been developed to double the amount of recycled materials in our products with a focus on recycled plastics. More information on these parameters can be found in chapter 14, Sustainability statements, of this report.

External recognition

In 2011, we gained external recognition on various occasions. We obtained the highest status in the Dow Jones Sustainability Index (super-sector leader) and we achieved the highest scores in the Carbon Disclosure Project, both for our Carbon Disclosure and for our Carbon Performance.

5.4.1 EcoVision

Philips has a long sustainability history; our founding fathers embedded sustainability at the heart of the company from its earliest days. In 1998, we launched our first EcoVision program and set sustainability targets focused on our own operations and products. We also started to focus on sustainability in our supply chain in 2003. Later programs included enhanced Manufacturing, Green Innovation and Carbon Footprint targets thereby extending our sustainability scope.

In 2010 we expressed our ambition to be a leader in sustainability by focusing not only on the environmental impact of our products and operations, but also on strengthening social dimension and defined ambitious targets for 2015 along both axes, paving the way for sustainable innovation as visualized below.

The challenge on the ecological axis is to optimize our impact on the environment, especially on climate change and resource scarcity. On the social axis, we aim to increase our contribution to the health and well-being of people. Combined, this will help the transition towards a sustainable society in which ultimately 9 billion people can live a healthy and fulfilling life within the carrying capacity of one planet.

Green Product sales

In 2011, sales from Green Products increased to EUR 8,805 million, contributing significantly to the total revenue stream. As a percentage of the Group total, Green Product sales rose to 39%, up from 36% in 2010, and on track to reach the new target of 50% in 2015.

All sectors contributed to the overall sales increase, but the increase at Healthcare was the most significant, followed by Lighting.

Most of the environmental improvements were realized in energy efficiency of products, one of the Green Focal Areas in our EcoDesign process and an important objective of our EcoVision program. There was also growing attention for substances of concern and recycling in all sectors.

Green Product sales by sector

in millions of euros

Green Innovation

Green Innovation is the Research & Development spend related to the development of new generations of Green Products and Green Technologies. Having achieved the target of a EUR 1 billion cumulative investment in 2010, two years ahead of schedule, we then announced plans to invest a cumulative EUR 2 billion during the coming 5 years. Philips invested some EUR 470 million in Green Innovation in 2011, with a very strong contribution from Lighting in particular.

Healthcare s innovation projects are targeted at making a difference wherever care is provided in the hospital, the home and points in-between which has brought us closer to our goal of touching 500 million lives annually around the globe. The sector focuses on reducing energy consumption, weight, lifecycle management, hazardous substances and radiation dosage.

Green Innovation at Consumer Lifestyle amounted to EUR 67 million and the sector continued its work on improving the energy efficiency of the products, the closing of the materials loop and the voluntarily phase-out of polyvinyl chloride (PVC) and brominated flame retardants (BFR), enabling our Personal Care businesses to launch products which are completely free of these substances. Other results of Consumer Lifestyle s Green Innovation activities are the EcoCare Iron and the Senseo Viva Café Eco.

The Lighting sector accounts for over 60% of the total spend on Green Innovation and also contributes to over 50% of Philips Green Product sales. The focus is on developing new energy-efficient lighting solutions, further enhancing current Green Products and driving toward technological breakthroughs, such as solid-state lighting and water purification through UV light.

Corporate Technologies invested more than EUR 36 million on a Green Innovation activity portfolio mainly focused on energy efficiency, care and the reduction of waste and water consumption. Philips Research developed an EcoVision portfolio mapping tool in which innovation projects are mapped along the environmental and social dimension. The tool will be made available to the innovation community within Philips to further drive sustainable innovation.

Green Innovation investment

in millions of euros

Operational carbon footprint and energy efficiency

In 2011, we took another step towards reaching our target of 25% CO2 reduction by 2012, as operational CO2 emissions decreased 4%. CO2 emissions from manufacturing decreased 8% due to a number of reasons, including our ongoing energy efficiency program, the changing industrial footprint and the increase in purchased electricity from renewable sources. CO2 emissions from non-industrial sites decreased 2%, partly because of our continued focus on the most efficient use of facility space, for instance with our Work Place Innovation program (which enables flex-working), but also due to the increased share of purchased electricity from renewable sources.

As a result of our green lease car policy, our lease car fleet continues to become more CO2 efficient. Consequently, the average CO2 per kilometer further decreased 8% compared to last year. Total emissions from business travel increased, however, due to a higher number of airplane travel movements. We continue to promote video conferencing as an alternative to travel. CO2 emissions from logistics decreased 2%, because of our continued focus on efficient container utilization, reducing mileage in road freight, and the shift from air to sea freight, which is cleaner and more cost effective.

Our operational energy efficiency improved 4%, from 1.29 terajoules per million euro sales in 2010 to 1.24 terajoules per million euro sales in 2011.

Carbon emissions in our Supply Chain

In 2011, we also performed a study to quantify the CO2 emissions of our total supply chain which allows us to target our carbon reduction actions. Total emissions in the supply chain were estimated at 5.6 million tons.

Operational energy efficiency

in terajoules per million euro sales

5.4.2 Green Manufacturing 2015

We developed our Green Manufacturing 2015 program in 2010 as we wanted to continue our efforts to improve our environmental performance in manufacturing. The program focuses on most contributors to climate change, recycling of waste, reduction of water consumption and reduction of restricted and hazardous substances.

Full details, including our 2015 targets, can be found in chapter 14, Sustainability statements, of this report.

5.4.3 Social performance

Employee engagement

In 2011, 87% of our employees took part in the Engagement Survey. The Employee Engagement Index the single measure of the overall level of employee engagement at Philips reached 76%, marking a 1 point decrease. The target for 2011 was to maintain the EEI at the external high-performance benchmark level of 77%.

Equally important is the insight we gained into ways in which we can improve. For 2012, the focus will be put on improving the engagement level within customer facing functions and in the area of confidence and trust.

Diversity and inclusion

In 2011, Philips made progress towards its targets relating to the diversity of the company s executive population. The share of female executives increased to 13% compared to 11% in 2010 two percentage points off the 2012 target of 15% female executives. While the Healthcare and Consumer Lifestyle sector traditionally had a better representation of women at senior and executive grades, 2011 saw Philips successfully start to tackle the concern on low numbers of female executives in the Lighting sector. Their share approximately doubled to 14% in 2011.

Female Executives

as a % of total

Of a total of 68 newly appointed executives, resulting from internal promotions, 17% were women. Almost 30% of newly hired executives were female, demonstrating our commitment to increasing gender diversity in the company s leadership beyond the internally available pipeline. With Carole Wainaina, who joined Philips in 2011 as the new Chief HR Officer, Philips once more has a woman on its Executive Committee.

In 2011, Philips also achieved an increase of the share of women especially in senior professional and management roles, clear proof points of the companies ambition to drive gender diversity more broadly and ensure a sustainable internal pipeline of highly qualified women from junior level upwards.

In line with the growing importance of BRIC countries as part of the Philips business, the share of executives with Brazilian, Russian, Indian and Chinese nationality increased from 5% in 2010 to over 8% in 2011. The 2012 target is 10% of the total executive population. In 2011, Patrick Kung, Market Leader Greater China, was appointed to the Executive Committee. Overall, the 567 executives of Philips represent 31 different nationalities.

Developing our people

Our learning strategy focuses on building skills that are strongly aligned with business needs. In 2011, we continued to streamline our classroom offerings in close alignment with businesses and functions to focus on their key priorities. The second important driver of our learning strategy is providing employees with free and unlimited access to a wide range of online learning options to drive their personal development and growth.

Participation in these priority programs and free unlimited online courses increased significantly, with over 39,000 enrollments compared with 20,000 in 2010. Functional Core Curricula enrollment was over 25,000 in 2011, an increase from 15,500 in 2010. These Core Curricula have been developed for functions such as Marketing, Sales, Customer Services, IT, HRM, Supply Management and Finance. Moreover, we had over 30,000 employees participating in various ethics and compliance related training sessions.

Our flagship leadership development programs for our talent pool are run in collaboration with leading business schools with a strong emphasis on blended learning. In 2011, our Inspire program facilitated the completion of 18 project assignments by 147 high potentials. Top potentials in the Octagon program completed 8 business projects. These business projects are sponsored by senior business leaders and focus on Healthcare and Well-being, targeting growth geographies, the US and South Africa.

Our leadership development programs will be extended and upgraded to reflect business needs and the need for local customization, building on the Accelerate! leadership behaviors and culture change.

In line with our Grow with Philips program, 76% of newly appointed executives were promotions and 24% external hires.

Health and safety

We regret to report two fatalities in 2011, of which one was related to a safety accident and one to a traffic accident whilst commuting.

In 2011, we recorded 405 Lost Workday Injuries cases, i.e. injury cases where the injured person is unable to work the day after the injury. This was a 16% decrease compared with 2010. The rate of Lost Workday Injuries also decreased to 0.38 per 100 FTEs, compared to 0.50 in 2010.

The decrease in Lost Workday Injuries was visible in all sectors, but strongest in Lighting that started to see the results of its Safety First health and safety program. We also updated our Health & Safety (H&S) policy and deployed a H&S manual to all sites to help them structurally improve the H&S culture.

Lost Workday Injuries

per 100 FTEs

5.4.4 General Business Principles

The Philips General Business Principles (GBP) govern Philips business decisions and actions throughout the world, applying equally to corporate actions and the behavior of individual employees. They incorporate the fundamental principles within Philips for doing business.

The GBP are available in most of the local languages and are an integral part of the labor contracts in virtually all countries where Philips has business activities. Responsibility for compliance with the principles rests primarily with the management of each business. Every country organization and each main production site has a compliance officer. Confirmation of compliance with the GBP is an integral part of the annual Statement on Business Controls that has to be issued by the management of each business unit. The GBP incorporate a whistleblower policy, standardized complaint reporting and a formal escalation procedure.

The global implementation of the One Philips Ethics hotline seeks to ensure that alleged violations are registered and dealt with consistently within one company-wide system.

To drive the practical deployment of the GBP, a set of directives has been published, which are applicable to all employees. There are also separate directives which apply to specific categories of employees, e.g. the Supply Management Code of Ethics and Financial Code of Ethics. Details can be found at www.philips.com/gbp.

Ongoing training

The global roll-out of the updated version of the mandatory web-based GBP training, which is designed to reinforce awareness of the need for compliance with the GBP, was completed in 23 languages.

More information on the Philips GBP can be found in chapter 7, Risk management, of this report. Results of the monitoring in place are provided in the chapter 14, Sustainability statements, of this report.

5.4.5 Supplier performance

Increasingly, our products are being created and manufactured in close cooperation with a wide range of business partners, both in the electronics industry and other industries. Philips is committed to being a leader in sustainability. Clearly, we need our business partners to share our commitment, not just in the development and manufacturing of products but also in the way they conduct their business. Our Supplier Sustainability Involvement Program is designed to engage our suppliers on a shared journey towards leadership in sustainability.

Our suppliers

As a leading company in sustainability, Philips will act as a catalyst towards our suppliers and support our suppliers in their pursuit of continuous improvement of social and environmental performance. We recognize that this is a huge challenge requiring industry-wide effort in collaboration with other societal stakeholders. Therefore, we remain active in the Electronic Industry Citizenship Coalition (EICC) and encourage our strategic suppliers to join the EICC too. We will invite our strategic suppliers to jointly explore the opportunities to accelerate our product innovation towards our EcoVision objectives. We will also continue to seek active cooperation with other societal stakeholders, either directly or through institutions like the EICC, the multi-stakeholder program from the

Sustainable Trade Initiative and the OECD.

Supplier Sustainability Involvement Program

The Philips Supplier Sustainability Involvement Program is our overarching program to help improve the sustainability performance of our suppliers. We create commitment from our suppliers by requiring them to comply with our Philips Supplier Sustainability Declaration and the Regulated Substances List. The Philips Supplier Sustainability Declaration is based on the EICC code of conduct and also includes additional requirements on Freedom of Association and Collective Bargaining. The topics covered include labor and human rights, worker health and safety, environmental impact, ethics and management systems. The Declaration is signed by suppliers as part of their purchasing contracts.

Philips uses a risk assessment to select suppliers in risk countries for inclusion in the audit program. During the audits, compliance to all sections of the Declaration is reviewed and in case of non-compliance the implementation of corrective actions is monitored.

In addition to the audit program, we developed specific projects and stakeholder engagement activities to help improve the sustainability performance of our suppliers, such as on improving on their worker-management dialogue, carbon footprinting, and compliance with the Conflict minerals provisions. For more details, see section 14.6, Supplier indicators, of this report.

2011 supplier audits

Philips conducted 212 full scope audits in 2011, including 9 joint audits conducted on behalf of Philips and other EICC member companies. During these audits an external company visited the supplier s site in risk countries for a 2 to 12 man-days audit during which compliance with all sections of the Supplier Sustainability Declaration was assessed. As in previous years the majority of the audits were done in China, representing a major part of our supply base. The total number of full scope audits conducted since we started the program in 2005 now exceeds 1,800. This number includes repeated audits, since we execute a full scope audit at our risk suppliers every 3 years.

The most frequently observed areas of non-compliance were:

- Working hours, wages and benefits: excessive overtime, continual seven-day work weeks, record-keeping of standard and overtime working hours, no payment of overtime premiums
- Emergency preparedness: inadequate fire detection and suppression systems, blocked or insufficient emergency exits
- Occupational safety: worker exposure to safety hazards, e.g. electrical shocks
- Lack of adequate management systems to safeguard compliance to the EICC code for labor and ethics, health and safety, and environment

Accumulative number of initial and continual conformance audits

Distribution of supplier audits by country

To track improvements, Philips measures the compliance rate for the identified risk suppliers, being the percentage of risk suppliers that was recently audited and has resolved all major non compliances. During 2011 we achieved a compliance rate of 72%. For more details on audit results, please refer to section 14.6, Supplier indicators, of this report.

Conflict minerals: issues further down the chain

Conflict minerals can come from many souces around the world including mines in the Democratic Republic of the Congo (DRC). Philips is concerned about the situation in the east of the DRC where proceeds from the extractives sector are used to finance rebel conflicts in the region. Philips is committed to address this issue through the means and influencing mechanisms available to us, even though Philips does not directly source minerals from the DRC and mines are typically seven or more tiers removed from our direct suppliers. During 2011 we worked with 100 priority suppliers to raise awareness and start supply chain investigations to determine the origin of the metals in our products, resulting in the identification of over 100 smelters in our supply chain that process these metals. For more details, please refer to section 14.6, Supplier indicators, of this report.

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5.5 Proposed distribution to shareholders

Pursuant to article 34 of the articles of association of Royal Philips Electronics, a dividend will first be declared on preference shares out of net income. The remainder of the net income, after reservations made with the approval of the Supervisory Board, shall be available for distribution to holders of common shares subject to shareholder approval after year-end. As of December 31, 2011, the issued share capital consists only of common shares; no preference shares have been issued. Article 33 of the articles of association of Royal Philips Electronics gives the Board of Management the power to determine what portion of the net income shall be retained by way of reserve, subject to the approval of the Supervisory Board.

A proposal will be submitted to the 2012 Annual General Meeting of Shareholders to declare a dividend of EUR 0.75 per common share (up to EUR 695 million), in cash or in shares at the option of the shareholder, against the reserve retained earnings.

Shareholders will be given the opportunity to make their choice between cash and shares between May 7, 2012 and May 25, 2012. If no choice is made during this election period the dividend will be paid in shares. On May 25, 2012 after close of trading, the number of share dividend rights entitled to one new common share will be determined based on the volume weighted average price of all traded common shares Koninklijke Philips Electronics N.V. at Euronext Amsterdam on 23, 24 and 25 May 2012. The Company will calculate the number of share dividend rights entitled to one new common share, such that the gross dividend in shares will be approximately 3% higher than the gross dividend in cash. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from May 30, 2012. The distribution of dividend in cash to holders of New York registry shares will be made in USD at the USD/EUR rate fixed by the European Central Bank on May 28, 2012.

Dividend in cash is in principle subject to 15% Dutch dividend withholding tax, which will be deducted from the dividend in cash paid to the shareholders. Dividend in shares paid out of earnings and retained earnings is subject to 15% dividend withholding tax, but only in respect of the par value of the shares (EUR 0.20 per share). This withholding tax in case of dividend in shares will be borne by Philips.

In 2011, a dividend of EUR 0.75 per common share was paid in cash or shares, at the option of the shareholder. Approximately 63% elected for a share dividend resulting in the issue of 22,896,661 new common shares, leading to a 2.4% percent dilution. The cash dividend was paid (EUR 259 million) against the net income for the financial year 2010. The remainder of the net income for the financial year 2010 has been retained by way of reserve.

The balance sheet presented in this report, as part of the Company financial statements for the period ended December 31, 2011, is before appropriation of the result for the financial year 2011.

5.6 Outlook

We are cautious about 2012, given the uncertainty in the global economy, and Europe in particular. In addition, we expect our 2012 results to be affected by the previously communicated restructuring charges and one-time investments aimed at improving our business performance trajectory, as part of the multi-year Accelerate! program.

Excluding these additional charges, we anticipate that underlying operating margins and capital efficiency will improve in the latter part of 2012.

5.7 Critical accounting policies

Critical accounting policies

The preparation of Philips financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of our financial statements. The policies that management considers both to be most important to the presentation of Philips financial condition and results of operations and to make the most significant demands on management s judgments and estimates about matters that are inherently uncertain are discussed below. Management cautions that future events often vary from forecasts and that estimates routinely require adjustment. A more detailed description of Philips accounting policies appears in section 12.10, Significant accounting policies, of this report.

Accounting for pensions and other postretirement benefits

Retirement benefits represent obligations that will be settled in the future and require assumptions to project benefit obligations and fair values of plan assets. Retirement benefit accounting is intended to reflect the recognition of future benefit costs over the employee s approximate service period, based on the terms of the plans and the investment and funding decisions made. The accounting requires management to make assumptions regarding variables such as discount rate, rate of compensation increase, mortality rate, return on assets, and future healthcare costs. Pension assumptions are set centrally by management in consultation with its local, regional or country management and locally appointed actuaries at least once a year. For the Company s major plans, a full discount rate curve of high quality corporate bonds (Bloomberg AA Composite) is used to determine the defined benefit obligation whereas for other plans a single point discount rate is used based on the plan s maturity. Plans in countries without a deep corporate bond market, use a discount rate based on the local sovereign curve and the plan s maturity. Relevant data regarding various local swap curves, sovereign bond curves and/or corporate AA bonds are sourced from Bloomberg. Changes in the key assumptions can have a significant impact on the projected benefit obligations, funding requirements and periodic cost incurred.

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5 Group performance 5.7 - 5.7

For a discussion of the current funded status, a sensitivity analysis with respect to pension plan assumptions, a summary of the changes in the accumulated postretirement benefit obligations and a reconciliation of the obligations to the amounts recognized in the consolidated balance sheet, please refer to note 29, Pensions and other postretirement benefits.

Accounting for income taxes

As part of the process of preparing consolidated financial statements, the Company is required to estimate income taxes in each of the jurisdictions in which it conducts business. This process involves estimating actual current tax expense and temporary differences between tax and financial reporting. Temporary differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheet. The Company regularly reviews the deferred tax assets for recoverability and will only recognize these if it is believed that sufficient future taxable profit is available, including income from forecasted operating earnings, the reversal of existing taxable temporary differences and established tax planning relating to the same taxation authority and the same taxable entity. For a discussion of the fiscal uncertainties, please refer to the information under the heading Fiscal risks in note 3, Income taxes.

Provisions and Contingent liabilities

The Company and certain of its group companies and former group companies are involved as a party in legal proceedings, including regulatory and other governmental proceedings, and discussions on potential remedial actions, relating to such matters as antitrust laws, competition issues, commercial transactions, product liabilities, participations and environmental pollution. Since the ultimate disposition of asserted claims and proceedings and investigations cannot be predicted with certainty, an adverse outcome could have a material adverse effect on the Company s Consolidated financial statements.

The Company recognizes a liability when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. If the likelihood of the outcome is less than probable and more than remote or a reliable estimate is not determinable, the matter is disclosed as a contingent liability if management concludes that it is material.

In determining the provision for losses associated with environmental remediation obligations, significant professional judgments are necessary. The Company utilizes experts in the estimation process. Provisions for estimated losses from environmental remediation obligations are recognized when information becomes available that allows a reasonable estimate of the liability, or a component (i.e. particular tasks) thereof. The provisions are adjusted as new information becomes available and they are remeasured at the end of each period using the current discount rate.

Provisions on restructuring represents estimated costs of initiated reorganizations, the most significant of which have been approved by the Board of Management. A liability is recognized for those costs only when the Company has a detailed formal plan for the restructuring and has raised a valid expectation with those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Provisions on onerous contracts represent the lesser of the unavoidable costs of either fulfilling or exiting the related contract, and in which the costs to fulfill the contract exceed the benefits expected to be received under such contract. In determining the cost of fulfilling the contract, the payments due in the period in which the contract cannot be cancelled are considered, unless there is a lesser amount of penalty to exit the contract. Generally, unavoidable costs only include incremental costs related to the contract and exclude allocated or shared costs. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

The Company provides for warranty costs based on historical trends in product return rates and the expected material and labor costs to provide warranty services. The provision is based on historical warranty data and a weighing of possible outcomes against their associated probabilities.

Provision for obsolete inventories

The Company records its inventories at cost and provides for the risk of obsolescence using the lower of cost and net realizable value principle. The expected future use of inventory is based on estimates about future demand and past experience with similar inventories and their usage.

Provision for bad debts

The risk of uncollectability of accounts receivable is primarily estimated based on prior experience with, and the past due status of, doubtful debtors, while large accounts are assessed individually based on factors that include ability to pay, bankruptcy and payment history. In addition, debtors in certain countries are subject to a higher collectability risk, which is taken into account when assessing the overall risk of uncollectability. Should the outcome differ from the assumptions and estimates, revisions to the estimated valuation allowances would be required.

Impairment of non-financial assets

Goodwill is not amortized, but tested for impairment annually and whenever impairment indicators require so. The Company reviews non-financial assets, other than goodwill for impairment, when events or circumstances indicate that carrying amounts may not be recoverable.

In determining impairments of non-current assets like intangible assets, property, plant and equipment, investments in associates and goodwill, management must make significant judgments and estimates to determine whether the recoverable amounts are lower than the carrying value. Changes in assumptions and estimates included within the impairment reviews and tests could result in significantly different results than those recorded in the consolidated financial statements.

The recoverable amount is the higher of the asset s value in use and its fair value less costs to sell, the determination of which involves significant judgment and estimates from management.

Goodwill is allocated to the cash generating units. The basis of the recoverable amount used in the annual (performed in Q2) and trigger-based impairment tests is generally the value in use. Key assumptions used in the impairment tests were sales growth rates, adjusted income from operations and the rates used for discounting the projected cash flows. These cash flow projections were determined using management s internal forecasts that cover an initial period from 2011 to 2015 that matches the period used for our strategic review. Projections were extrapolated with stable or declining growth rates for a period of five years, after which a terminal value was calculated. For terminal value calculation, growth rates were capped at a historical long term average growth rate.

The sales growth rates and margins used to estimate cash flows are based on past performance, external market growth assumptions and industry long-term growth averages. Adjusted income from operations in all units is expected to increase over the projection period as a result of volume growth and cost efficiencies. Please refer to note 9, Goodwill.

New Accounting Standards

For a description of the new pronouncements, please refer to the information under the heading IFRS accounting standard adopted as from 2012 and onwards in section 12.10, Significant accounting policies, of this report.

Off-balance sheet arrangements

Please refer to the information under the heading Guarantees in sub-section 5.2.9, Cash obligations, of this report and in note 25, Contingent liabilities.

6 Sector performances 6 - 6

6 Sector performance

Corporate Technologies Corporate and Country Overheads Pensions Global Service Units Corporate Investments New Venture Integration Design

Our structure

Koninklijke Philips Electronics N.V. (the Company) is the parent company of the Philips Group (Philips or the Group). The Company is managed by the members of the Board of Management and Executive Committee under the supervision of the Supervisory Board. The Executive Committee operates under the chairmanship of the Chief Executive Officer and shares responsibility for the deployment of Philips strategy and policies, and the achievement of its objectives and results.

Philips activities in the field of health and well-being are organized on a sector basis, with each operating sector Healthcare, Consumer Lifestyle and Lighting being responsible for the management of its businesses worldwide.

The Group Management & Services sector provides the operating sectors with support through shared service centers. Furthermore, country management organization supports the creation of value, connecting Philips with key stakeholders, especially our employees, customers, government and society. The sector also includes pensions.

Members of the Board of Management and certain key

officers together form the Executive Committee

Also included under Group Management & Services are the activities through which Philips invests in projects that are currently not part of the operating sectors, but which could lead to additional organic growth or create value through future spin-offs.

At the end of 2011, Philips had 124 production sites in 26 countries, sales and service outlets in approximately 100 countries, and 121,888 employees.

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Sales, IFO and Adjusted IFO 2011

in millions of euros unless otherwise stated

	sales	IFO	%	Adjusted IFO[1]	%
Healthcare	8,852	93	1.1	1,145	12.9
Consumer Lifestyle	5,823	392	6.7	472	8.1
Lighting	7,638	(362)	(4.7)	445	5.8
Group Management & Services	266	(392)		(382)	
Philips Group	22,579	(269)	(1.2)	1,680	7.4

[1] For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report

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6 Sector performance 6.1 - 6.1.1

6.1 Healthcare

2011 presented an increasingly challenging economic environment. We managed to achieve sales growth in every quarter for the second consecutive year because our strategy to fuel growth with targeted investments in innovation and business development worked. As we further implement Accelerate!, new products, operational improvements, and proactive cost management will continue to propel our business forward.
Steve Rusckowski, CEO Philips Healthcare

A growing and aging world population, an increase in chronic disease, a shortage of healthcare practitioners and the rising cost of healthcare are driving the need for meaningful and sustained innovation.

Significant headwinds in parts of the Euro zone were balanced by solid performance in North America and growth geographies, where sales growth outpaced mature geographies.

Investments in innovation, sales and service, to some extent funded through productivity initiatives, helped accelerate growth.

We are on track to fulfill our goal to positively impact 500 million lives around the world by 2015.

6.1.1 Healthcare landscape

We operate in a world challenged by the need to keep a growing and aging population healthy and productive as costs continue to rise. People around the world are living longer, giving rise to an increase in the incidence of chronic conditions, such as cardiovascular disease and respiratory conditions. At the same time, we see an increasing shortage of trained healthcare professionals right when the world can least afford it. These challenges reinforce our mission to provide meaningful innovations that improve the quality of care, enhance patients lives and enable the delivery of better outcomes at lower cost.

The global economic slowdown and continuing crisis in the Euro zone had a negative impact on our European business in 2011, and the disaster in Japan caused a downturn in that country s domestic healthcare market. These situations were balanced in part by continued growth in North America and in growth geographies.

6.1.2 Committed to touching 500 million lives

We are dedicated to making a difference wherever care is provided. In the hospital setting that means supporting and enabling the delivery of critical care, emergency care and surgery. With chronic disease on the rise, the home setting will play an increasingly prominent role in the delivery of care moving forward. During 2011, we delivered many new products and services for the hospital, the home and points in-between which brought us closer to our goal of touching 500 million lives.

6.1.3 About Philips Healthcare

Philips Healthcare is committed to providing meaningful innovations that improve the quality of care, enhance patients lives and enable the delivery of better outcomes at lower cost.

Our growth strategy is grounded in a fundamental belief that clinical excellence and continuous innovation around the patient experience can fundamentally change healthcare as we know it. Our competitive advantage lies in our clinical perspective, the broad clinical subject-matter expertise within the company, as well as the deep clinical relationships we have with our customer base. This allows us to deliver solutions expertly tuned to the needs of the clinician as well as the financial and operational needs of healthcare administrators, payers, regulators and purchasing organizations by enabling a connected and holistic view of care delivery that tangibly and transparently improves clinical outcomes.

Philips is a world leader in cardiology, and with a strong presence in cardio-pulmonary, oncology, and women s health, we are well positioned to help clinicians diagnose, treat and manage today s most prevalent diseases such as congestive heart failure, breast and other cancers, respiratory and other coronary artery diseases as quickly, effectively and efficiently as possible. Our focus is on understanding the complete cycle of care from disease prevention to screening and diagnosis through to treatment, monitoring and health management and choosing to participate in the areas where we can add significant value.

Our go-to-market strategy is organized around businesses and markets. As a result we can better serve our customers, apply locally-relevant practices and act with greater agility and speed to serve each customer s needs. Our business is organized across four strategic business groups reflecting Philips growing portfolio of radiology, oncology, and women s health products, world-class services, and one of the largest footprints of clinical decision support in the industry:

- **Imaging Systems:** interventional X-ray, diagnostic X-ray, computed tomography (CT), magnetic resonance (MR), nuclear medicine (NM) and ultrasound imaging equipment; women s health portfolio.

- **Patient Care & Clinical Informatics:** cardiology informatics and diagnostic electrocardiography (DECG), enterprise imaging informatics, including radiology information systems (RIS) and picture archiving and communication systems (PACS); patient monitoring and clinical informatics; perinatal care, including fetal monitoring and Philips Children s Medical Ventures; and therapeutic care, which includes cardiac resuscitation, emergency care solutions, therapeutic temperature management, hospital respiratory systems, and ventilation.

Home Healthcare Solutions: sleep management and respiratory care, medical alert services, remote cardiac services, and remote patient management.

Customer Services: consultancy, site planning and project management, clinical services, Ambient Experience, education, equipment financing, asset management and equipment maintenance and repair.

Total sales by business 2011

as a %

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Philips is one of the top-tier players in the healthcare technology market (based on sales) alongside General Electric (GE) and Siemens. The United States, our largest market, represented 42% of the Healthcare sector s 2011 global sales, followed by Japan and China. Growth geographies accounted for 22% of sales. Philips Healthcare employs approximately 38,000 employees worldwide.

With regard to sourcing, please refer to sub-section 5.3.3, Supply management, of this report.

6.1.4 Progress against targets

The Annual Report 2010 outlined a number of key targets for Philips Healthcare in 2011. In the course of the year, reflecting the evolving business reality and the adoption of Accelerate!, these were encapsulated in several key trajectories designed to accelerate performance and achieve our mid-term targets. We have made significant headway toward meeting those goals, as outlined below.

Driving to co-leadership in Imaging Systems

In 2011 we realized our vision of Imaging 2.0. As part of this vision we delivered on our promise to bring world-class products to market that address radiologists fundamental needs: a new level of patient focus and safety, improved workflow and more effective integration, leading to better care coordination and improved economic value.

One of the many breakthrough products released in 2011 is the Ingenuity TF PET/MR, the first new imaging modality introduced in a decade. This system integrates the molecular imaging capabilities of PET with the superior soft tissue contrast of MR (magnetic resonance imaging), thereby enabling the system to perform both stand-alone MR and hybrid PET/MR studies. This delivers added flexibility by eliminating the need to invest in multiple scanners while cutting down on throughput time and improving patient comfort since the patient can remain on the same table for both tests. We also released the new Ingenuity CT platform, designed to provide low dose and high image quality, and Ingenia MR, the first digital broadband MR system, which delivers excellent image quality while increasing patient throughput by up to 30%.

Philips Ambient Experience solution continued to differentiate the company and spur growth in 2011, especially in certain growth geographies such as the Middle East. With global installations now approaching 300, this unique approach to the patient experience integrates architecture, design and enabling technologies, such as lighting, sound, projection and RFID, to create a friendlier, more calming and welcoming hospital experience for patients as well as a more pleasant place for staff to work.

In 2011, we strengthened our Women s Health portfolio with the acquisition of the digital mammography business of Sectra. The acquired system, MicroDose Mammography, delivers high-quality breast images using a unique photon-counting detector technology and can deliver outstanding image quality at up to 50% of the radiation dose used by other full-field digital mammography systems, based on phantom testing.

Philips also made a minority investment in Corindus to jointly develop robotic-assisted systems for minimally invasive treatment of obstructed coronary arteries. This emerging field of image-guided, minimally-invasive treatments can lead to faster recovery times and shorter hospital stays. The investment strengthens Philips position as a leader in cardiology.

Achieving leadership with holistic innovation in Patient Care & Clinical Informatics

Our Patient Care & Clinical Informatics group (PCCI) remains focused on saving and improving lives with a holistic portfolio that combines and connects information, technologies, and people in new and meaningful ways.

In 2011, PCCI introduced several clinical decision support algorithms, telehealth applications, workflow tools, and other innovations that are changing care-giving paradigms. The *IntelliVue MX600, MX700, MX800* patient monitoring solution functions as a clinical workstation that provides fast, convenient access to a patient s clinical data from hospital information systems. The *IntelliVue MX40* monitor, recognized as the best new product at the 2011 Military Smart Monitoring Summit, is a wearable patient monitor that allows clinicians to monitor ambulatory patients, not only improving the patient experience but also providing an effective and efficient alternative to traditional care for patients who are capable of walking and moving around. It also improves clinician workflow by providing local alarms to alert clinicians of patient condition changes regardless of the patient s location in the hospital.

The PCCI group also invested in the mother and child care segment to augment its capabilities in obstetrical care and neonatal intensive care. The team delivered products such as the state-of-the-art OBTraceVue obstetrical information management system, which was cited among the products that will make a profound contribution to help save and improve lives as part of the UN s 2015 Millennium Development Goals for the Global Strategy for Women and Children s Health.

In 2011, Philips acquired several companies that strengthened our market position and global reach. For example, with the acquisition of Dameca, a global provider of anesthesia machines and accessories for the operating room, we significantly bolstered our therapeutic and anesthesia-care care capabilities, and furthered our ability to integrate information and technologies for ground-breaking anesthesia-related clinical decision support.

PCCI also pioneered telehealth applications to address customers need to improve financial and clinical outcomes. Sisters of Mercy Health System of St. Louis, Missouri, expanded its use of the Philips eICU telehealth program across four states and eight hospitals to support stroke victims with timely access to scarce stroke neurologists, and it plans to extend this to 24 hospitals by summer 2012.

International expansion of the Home Healthcare Solutions business

Philips is a pioneer in home healthcare solutions. As the company with the most comprehensive suite of solutions in monitoring, sleep therapy and respiratory devices available for the home, we play a significant role in improving the quality of care at lower cost.

Philips is already the leading provider of medical alert services in the US. In order to expand our presence and support independent living for an aging population in Japan, one of the most rapidly aging countries in the world, we introduced our medical alert service Lifeline Auto Alert. Customized to the needs of Japanese patients and developed in close collaboration with local Japanese hospitals, the Lifeline service offers seniors an easy-to-use personal response service that lets them summon emergency help at any time of the day or night.

The introduction of Lifeline in Japan is part of Philips multi-year international growth strategy for its home monitoring business under which Philips plans to continue introducing the Lifeline service in new markets in future.

Philips also aims to enter the sleep therapy and respiratory care home markets in China in the near future. To this end, in 2011 we initiated a comprehensive research project in the Chinese market to obtain deeper insights and determine optimal business models. Given China s aging population, it has become evident that there is a significant clinical need for products and services to address the rise in chronic conditions. Yet today, only a relatively small portion of the population is able to pay for these products and services. Our work in China goes beyond making the products available: we are also investigating ways to increase accessibility.

We contributed one of our telehealth solutions as part of an extensive home healthcare clinical study, commissioned and funded by the UK s Department of Health. In late 2011, the research showed that telehealth solutions, if used correctly, resulted in significant benefits, including a decrease in mortality rates from chronic disease, a drop in emergency admissions and a decrease in in-hospital days.

Invest for leadership in growth geographies

In 2011, Philips invested in the necessary resources to drive our growth and leadership positions in key strategic markets. In line with our mission to provide meaningful innovations that improve the quality of care, enhance patients lives and enable the delivery of better outcomes at lower cost, we accelerated efforts in growth geographies through a number of initiatives, including:

Investing in the local development of our care cycle approach: Using our leading cardiology capabilities, we introduced Chest Pain Centers in China in order to enable cardiologists to better manage acute cardiovascular events, and improve patient survival rates and outcomes.

Expanding our local manufacturing capabilities: The industrial campus for imaging systems in Suzhou, China, became operational and delivered its first systems in 2011, and we also expanded our value segment assets in Interventional X-Ray Systems (IXR) by setting up a greenfield healthcare research & development and manufacturing facility in Pune, India.

Expanding our product portfolio to deliver the right benefits, on the right conditions, at the right times: We introduced new, cost-effective imaging solutions, such as the Achieva 1.5T SE Magnetic Resonance and MX16-slice CT systems, which allowed us to meet the growing demand for easy-to-use, full-featured imaging products that can handle large volumes of work and meet the specific needs of customers in both mature and growth geographies.

Introducing new business models: We provide multi-modality imaging solutions in a pay-per-use model or by entering into multi-modality partnership deals with a revenue-sharing aspect, such as with Fortis Healthcare in India.

Developing locally relevant solutions via partnership agreements: We worked with the Russian State Atomic Energy Corporation (ROSATOM) aimed at jointly manufacturing important imaging modalities in nuclear medicine in Russia.

Executing operational excellence initiatives to increase margin and time-to-market

We continued our transPHorm efficiency and effectiveness program aimed at improving our operating margins over time, focusing on pricing, optimization of low-cost-country sourcing, bill of material reductions, and increased service productivity and operational efficiency.

6.1.5 EcoVision

Philips Healthcare is committed to deliver on its EcoVision sustainability goals. We consider all Green Focal Areas and aim to reduce total life cycle impact. In 2011 we added 29 Green Products to our portfolio, including the Ingenia MRI systems with dStream, which use up to 24% less energy than their predecessor. Another example is the IntelliVue MX40 Patient Monitor, which offers 85% reduction in power usage. Also our Home Healthcare Solution Trilogy, which uses 62% less energy than its predecessor. We also play an active role in developing environmental legislation such as self-regulatory initiatives on EcoDesign of Energy-using Products.

6.1.6 2011 financial performance

In 2011, sales amounted to EUR 8,852 million, 3% higher than in 2010 on a nominal basis, driven by higher sales in all businesses. Excluding a 2% unfavorable impact of currency effects, comparable sales were 5% higher. Mid-single-digit comparable sales growth was achieved by all businesses. Green Product sales amounted to EUR 2,663 million, a 25% year-on-year increase.

Geographically, comparable sales in mature geographies were higher than in 2010 in all businesses except Imaging Systems. The year-on-year sales increase was largely attributable to North America, tempered by lower sales in Western Europe. In growth geographies, we achieved 15% growth, largely driven by strong, double-digit growth in China, India and Russia.

Adjusted IFO decreased from EUR 1,186 million, or 13.8% of sales, in 2010 to EUR 1,145 million, or 12.9% of sales, in 2011. Adjusted IFO improvements were realized at Patient Care & Clinical Informatics, Home Healthcare Solutions and Customer Services, largely as a result of higher sales and cost-saving programs. However, this was more than offset by lower Adjusted IFO at Imaging Systems, due to higher selling expenses and investments in R&D. Restructuring and acquisition-related charges amounted to EUR 20 million, compared with EUR 77 million in 2010.

IFO amounted to EUR 93 million, or 1.1% of sales, and included EUR 229 million of charges related to amortization of intangible fixed assets and EUR 824 million of goodwill impairment losses.

Net operating capital in 2011 decreased by EUR 490 million to EUR 8.4 billion, mainly attributable to lower intangible assets due to goodwill impairment and partially offset by higher inventories, primarily at Imaging Systems.

Cash flows before financing activities decreased from an inflow of EUR 1,139 million in 2010 to an inflow of EUR 770 million in 2011, mainly attributable to lower cash earnings.

Sales at Healthcare are generally higher in the second half of the year largely due to the timing of new product availability and customers attempting to spend their annual budgeted allowances before the end of the year.

Key data

in millions of euros

	2009	2010	2011
Sales	7,839	8,601	8,852
Sales growth			
% increase, nominal	2	10	3
% increase, comparable[1)]	(3)	4	5
Adjusted IFO	848	1,186	1,145
as a % of sales	10.8	13.8	12.9
IFO[1)]	593	922	93
as a % of sales	7.6	10.7	1.1
Net operating capital (NOC)[1)]	8,434	8,908	8,418
Cash flows before financing activities[1)]	889	1,139	770
Employees (FTEs)[2)]	34,525	36,253	37,955

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report

2) Adjusted to reflect a change of employees reported for the past periods

Sales per geographic cluster

in millions of euros

1) Revised to reflect an adjusted geographic cluster allocation

Sales and net operating capital

in billions of euros

IFO and Adjusted IFO[1)]

in millions of euros

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report

2010 financial performance

In 2010, sales amounted to EUR 8,601 million, 10% higher than in 2009 on a nominal basis, driven by higher sales in all businesses. Excluding a 6% favorable impact of currency effects, comparable sales were 4% higher. Mid-single-digit comparable sales growth was achieved by Patient Care & Clinical Informatics, Home Healthcare Solutions and Customer Services. Imaging Systems comparable sales were in line with 2009. Green Product sales amounted to EUR 2,136 million, a 19% year-on-year increase.

Geographically, comparable sales in mature geographies were higher than in 2009 in all businesses except Imaging Systems. The year-on-year sales increase was largely attributable to Western Europe. Comparable sales in North America were broadly in line with 2009. In growth geographies, we achieved 7% increase, largely driven by strong, double-digit growth in China and India.

Adjusted IFO increased from EUR 848 million, or 10.8% of sales, in 2009 to EUR 1,186 million, or 13.8% of sales, in 2010. Adjusted IFO improvements were realized across all businesses in Healthcare, largely as a result of higher sales, favorable currency impact and cost-saving programs. Restructuring and acquisition-related charges were EUR 77 million, compared with EUR 106 million in 2009.

IFO amounted to EUR 922 million, or 10.7% of sales, and included EUR 263 million of charges related to amortization of intangible fixed assets.

Net operating capital in 2010 increased by EUR 474 million to EUR 8.9 billion. Excluding a EUR 713 million currency impact, net operating capital decreased by EUR 239 million.

Cash flows before financing activities increased from an inflow of EUR 889 million in 2009 to an inflow of EUR 1,139 million in 2010, mainly attributable to higher earnings.

6.1.7 Regulatory requirements

Philips Healthcare is subject to extensive regulation. It strives for full compliance with regulatory product approval and quality system requirements in every market it serves by addressing specific terms and conditions of local ministry of health or federal regulatory authorities, including agencies like the US FDA, EU Competent Authorities and Japanese MLHW. Environmental and sustainability requirements like the European Union s Waste from Electrical and Electronic Equipment (WEEE) and Restriction of Hazardous Substances (RoHS) directives are met with comprehensive EcoDesign and manufacturing programs to reduce the use of hazardous materials.

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Philips Healthcare participates in COCIR, the European trade association for the Radiological, Electro-medical and Healthcare IT industry, which has committed to participate in the Energy-using Products Directive through a Self-Regulatory Initiative for imaging equipment.

6.1.8 Strategy and 2012 objectives

In 2012 Philips Healthcare will continue to progress on the following key trajectories designed to accelerate performance and achieve our mid-term targets:

- Implement Accelerate! transformation
- Driving to co-leadership in Imaging Systems and leadership in Patient Care & Clinical Informatics
- Invest for leadership in growth geographies
- International expansion of the Home Healthcare Solutions business
- Executing operational excellence initiatives to increase margin and time-to-market
- Deliver on EcoVision sustainability commitments

6.2 Consumer Lifestyle

With Accelerate! we continued on our path to transform Consumer Lifestyle reshaping the portfolio for profitable growth and moving from a functional, centrally led organization, to an organization built around businesses and markets. We further repositioned the sector towards the health and well-being domain, focusing resources to drive global scale and category leadership. **Pieter Nota,** CEO Philips Consumer Lifestyle

Prior years results and cash flows have been restated to reflect the effect of classifying the Television business as discontinued operations in 2011.

- Achieved strong sales growth in the Personal Care, Health & Wellness and Domestic Appliance businesses combined and increased overall market share
- Signed agreement to transfer Television business into a joint venture with TPV Technology
- Significantly stepped up investment in Advertising & Promotion and Research & Development
- Refocused Lifestyle Entertainment portfolio on growing categories, achieving profitability for the full year

6.2.1 Lifestyle retail landscape

Across the world, consumers want to maintain and improve their health and well-being and that of their families. To achieve this, they look for propositions that will improve their lives from brands they trust. This is as true for consumers in developed markets such as Western Europe as it is for the rapidly expanding middle class in growth geographies such as China.

Consumer Lifestyle is on a journey to become a leading player in health and well-being. We have a global footprint, with an established presence in both mature and growth

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geographies. Our investment in research and development enables us to deliver a stream of locally relevant, meaningful innovations. We have a leading global brand, which is highly trusted across the world.

The fragile global economic environment in 2011 had a negative impact on consumer demand for some categories and some markets. However, we also saw strength in growth geographies, driven in part by the continuing emergence of the middle class.

Underlying trends continue to drive growth in our key categories:

- In Male Grooming, young men are increasingly turning to electrical grooming solutions to create a much wider range of facial hairstyles, helping them to express their own individual look
- In Oral Healthcare, Philips Sonicare is already a market-leading brand in the world s largest oral healthcare markets. It is also a business that s poised for growth thanks to its plans to expand geographically and to broaden its portfolio into new value spaces and price points
- In Kitchen Appliances, Philips is delivering local innovations based on global platforms that deliver on the specific eating habits of different cultures around the world whilst driving global scale
- In Coffee, fully automatic espresso and portioned solutions, such as the Philips SENSEO portfolio, account for more than 60% of the total coffee market value and over 95% of its growth. With the Philips Saeco and SENSEO portfolios, the company is well-positioned to capture this growth

6.2.2 Helping people achieve a healthier and better life

Consumer Lifestyle makes a difference to people s lives by making it easier for them to achieve a healthier and better lifestyle.

Consumer Lifestyle works together with Philips Design to monitor trends ranging from consumer tastes to design aesthetics. With its global footprint, Consumer Lifestyle is well positioned to capture and respond to emerging needs in local markets. Country organizations are our interface with the consumer, allowing us to accurately identify local needs, tastes and commercial opportunities.

We apply a rigorous product development process when creating new value propositions. At its heart are validated consumer insights, which show that the propositions meet a market need. The combination of insight and innovation creates a platform for sustainable business success.

6.2.3 About Consumer Lifestyle

The Philips Consumer Lifestyle sector is organized around its businesses and markets, and is focused on value creation through category development and delivery through operational excellence.

We plan, resource and manage performance by Business/ Market Combination. Our operating model stimulates entrepreneurship and speed by ensuring clear accountability and by moving decisions closer to our customers and markets. Our teams are highly engaged and our local leaders empowered, which provides a strong platform to ignite growth.

In 2011 the sector consisted of the following areas of business:

Health & Wellness: mother and childcare, oral healthcare

Personal Care: male grooming, skincare, beauty

Domestic Appliances: coffee, floor care, garment care, kitchen appliances, water & air, beverage appliances

Lifestyle Entertainment: communication & control, audio & multimedia, speech processing, headphones & accessories, home cinema & home video

Total sales by business 2011

as a %

We offer a broad range of products from high to low price/value quartiles, necessitating a diverse distribution model. We are expanding our portfolio to increase its accessibility, particularly for lower-tier cities in growth geographies. We are also developing new retail channels, for instance selling our innovative laser-based skin rejuvenation solution, Philips RéAura, in high-end beauty retailers. And we have pioneered innovative approaches in online and social media to build our brand and drive sales.

Under normal economic conditions, the Consumer Lifestyle sector experiences seasonality, with higher sales in the fourth quarter resulting from the holiday sales.

Consumer Lifestyle employs approximately 18,300 people worldwide. Our global sales and service organization covers more than 50 developed and growth geographies. In addition, we operate manufacturing and business creation organizations in Argentina, Austria, Belgium, Brazil, China, Hungary, India, Netherlands, Singapore, the UK and the US.

Consumer Lifestyle is subject to significant regulatory requirements in the markets where it operates. This includes the European Union s Waste from Electrical and Electronic Equipment (WEEE), Restriction of Hazardous Substances (RoHS) and Energy-use of Products (EuP) requirements. Consumer Lifestyle has a growing portfolio of medically regulated products in its Health & Wellness and Personal Care businesses. For these products we strive to meet the requirements of all relevant regulatory bodies such as the US FDA, the European Commission for Regulations and Notified Bodies, the SFDA in China and the Health Authorities in India.

With regard to sourcing, please refer to sub-section 5.3.3, Supply management, of this report.

6.2.4 Progress against targets

The Annual Report 2010 set out a number of key targets for Philips Consumer Lifestyle in 2011. In the course of the year, reflecting the evolving business reality and the adoption of Accelerate!, these were encapsulated in four key sector acceleration trajectories designed to reshape our portfolio towards growth and to achieve our mid-term targets. The progress made in addressing these trajectories is outlined below.

Right-size the organization post TV joint venture

We have plans in place to significantly reduce the proportion of the stranded costs that resulted from the disentanglement of our TV operations. We have moved from a functional, centrally-led organization to an organization centered around businesses and markets, where businesses are responsible for the realization of propositions and markets are responsible for the realization of revenues.

Address Lifestyle Entertainment portfolio and execute turnaround plan

We are transitioning the Lifestyle Entertainment portfolio from declining traditional audio/video products such as MP4 and DVD players towards growing and profitable categories in the connected entertainment space, including solutions that integrate with the Apple Airplay and Google Android ecosystems. As a result, Lifestyle Entertainment was profitable over the full year 2011.

Continued growth investment in core businesses towards global category leadership

We significantly increased our investment in advertising and promotion, particularly in Male Grooming, Oral Healthcare, Kitchen Appliances and Coffee. In Oral Healthcare, we launched the Sonicare AirFloss, a major innovation in dental care that uses rapid bursts of air and water to provide an easier way for interdental cleaning. In addition, we strengthened co-branding with our strong single-category brands like Sonicare and Saeco.

Regional business creation; leverage fill-in acquisitions in China and India

We acquired Preethi and Povos, leading kitchen appliances companies in India and China respectively. We moved the leadership of our Domestic Appliances business to Shanghai, and implemented a network of regional business creation hubs for kitchen appliances in Europe, India, China and Brazil. Following the acquisition of Preethi we now have clear kitchen appliances market leadership in India. As a result of the acquisition of Povos and locally-driven innovation, we have increased the proportion of the Chinese kitchen appliances market we address from 15% to 95%.

6.2.5 EcoVision

Sustainability continued to play an important role in the product development process in our Consumer Lifestyle sector. We continued to implement our voluntary commitment to phase out polyvinyl chloride (PVC) and brominated flame retardants (BFR) from our products, launching new shavers and grooming products, among others, free of these substances.

We introduced the SENSEO Viva Café Eco, the first product in its category to be made from 50% recycled plastics, and we also launched the EcoCare steam iron, which reduces energy consumption by up to 25% and is made from 30% recycled materials.

6.2.6 2011 financial performance

2011 proved to be a challenging year for driving sales growth in Consumer Lifestyle. We began the year with sales declines in the first two quarters, though we finished the year with two quarters of positive growth and improved stock levels. For the year, sales increased by EUR 48 million, or 1% nominal growth. However, adjusted for unfavorable currency and favorable portfolio changes, comparable sales were unchanged from the previous year.

Key data

in millions of euros

	2009	2010	2011
Sales	5,370	5,775	5,823
Sales growth			
% increase (decrease), nominal	(13)	8	1
% increase (decrease), comparable[1]	(12)	1	
Adjusted IFO[1]	454	718	472
as a % of sales	8.5	12.4	8.1
IFO	436	679	392
as a % of sales	8.1	11.8	6.7
Net operating capital (NOC)[1]	625	911	887
Cash flows before financing activities[1]	574	493	(38)
Employees (FTEs)	13,625	14,095	18,291

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report

We achieved double-digit growth at Health & Wellness and high single-digit growth at Personal Care, driven by increased investment in advertising and promotion. Sales at Domestic Appliances showed high single-digit growth, led by strong growth in growth geographies, notably China. Sales declined at Lifestyle Entertainment, where growth was tempered by slow consumer spending in mature geographies.

From a geographical perspective, we recorded 10% comparable sales growth in growth geographies, which was partly offset by a 6% decline in mature geographies, mainly in Western Europe. Sales growth in growth geographies was driven by solid growth in Latin America and China, primarily in our Personal Care business. Growth geographies share of sector sales increased from 38% in 2010 to 42% in 2011.

Adjusted IFO decreased from EUR 718 million, or 12.4% of sales, in 2010 to EUR 472 million, or 8.1% of sales, in 2011. Restructuring and acquisition-related charges amounted to EUR 54 million in 2011, compared to EUR 31 million in 2010. The year-on-year Adjusted IFO decrease was largely attributable to lower gross margin and higher selling expenses, particularly from increased investment in advertising and promotion. Adjusted IFO was higher than in 2010 at Health & Wellness, but this was more than offset by lower earnings at Lifestyle Entertainment and Licenses.

IFO amounted to EUR 392 million, or 6.7% of sales, which included EUR 80 million of amortization charges, mainly related to intangible fixed assets at Lifestyle Entertainment and Health & Wellness.

Net operating capital decreased from EUR 911 million in 2010 to EUR 887 million in 2011, primarily due to higher provisions for the announced divestment of the discontinued Television business, partially offset by higher intangible fixed assets from acquisitions of Povos and Preethi.

Cash flows before financing activities declined from an inflow of EUR 493 million in 2010 to an outflow of EUR 38 million. The decline was attributable to lower cash earnings and higher cash outflows for acquisitions.

Sales per geographic cluster

in millions of euros

1) Revised to reflect an adjusted geographic cluster allocation

Sales and net operating capital

in billions of euros

IFO and Adjusted IFO[1)]

in millions of euros

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report

2010 financial performance

2010 proved to be a challenging year for driving sales growth in Consumer Lifestyle. We began the year with strong comparable sales growth in the first two quarters, though we experienced sales declines in the last two quarters, with high stock levels in retail and, consequently, strong price erosion. For the year, our sales increased by EUR 405 million, or 8% nominal growth. However, adjusted for favorable currency and unfavorable portfolio changes, comparable sales growth was limited to 1%.

We achieved double-digit growth at Health & Wellness and high single-digit growth at Personal Care, driven by our increased investment in advertising and promotion. Sales at Domestic Appliances showed low single-digit growth, as strong comparable sales increases in growth geographies, notably China, was partly offset by lower sales in mature geographies. Sales at Lifestyle Entertainment declined on a comparable basis.

From a geographical perspective, we recorded 6% comparable sales increase in growth geographies, which was partly offset by a 2% decline in mature geographies, mainly in Western Europe. Sales increase in growth geographies was driven by solid growth in Latin America and Russia, though this was tempered by a sales decline in China. Growth geographies share of sector sales increased from 38% in 2009 to 41% in 2010. Green Product sales amounted to over EUR1.5 billion and increased from 18% of total sales in 2009 to 27% in 2010.

Adjusted IFO significantly improved from EUR 454 million, or 8.5% of sales, in 2009 to EUR 718 million, or 12.4% of sales, in 2010. Restructuring and acquisition-related charges amounted to EUR 31 million in 2010, compared to EUR 74 million in 2009. The year-on-year Adjusted IFO improvement was largely driven by improved gross margin, fixed cost savings, the previous year s EUR 48 million product recall-related charges, and lower restructuring charges. Adjusted IFO was higher than in 2009 in all businesses, notably Domestic Appliances.

IFO amounted to EUR 679 million, or 11.8% of sales, which included EUR 39 million of amortization charges, mainly related to amortization of intangible fixed assets at Health & Wellness and Domestic Appliances.

Net operating capital increased from EUR 625 million in 2009 to EUR 911 million in 2010, primarily due to an increase in assets following the acquisition of Discus Holdings.

Cash flows before financing activities declined from an inflow of EUR 574 million in 2009 to an inflow of EUR 493 million. The decline was mainly attributable to lower cash inflow from changes in working capital, partly offset by higher earnings.

6.2.7 Strategy and 2012 objectives

In 2012 Philips Consumer Lifestyle will continue to progress on the following key trajectories designed to accelerate performance and achieve our mid-term targets:

Implement Accelerate! transformation

Right-size the organization post TV joint venture establishment

Address Lifestyle Entertainment portfolio and execute turnaround plan

Continued growth investment in core businesses towards global category leadership

Regional business creation; leverage acquisitions in China and India

Deliver on EcoVision sustainability commitments

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6.3 Lighting

Philips Lighting is the global leader in energy-efficient, customer- centric lighting solutions, driven by strong innovation. In a rapidly evolving but exciting marketplace full of opportunities, we will transform our business model and boost growth, profitability and return on invested capital by implementing the Accelerate! transformation, which is targeted at improving customer intimacy, time-to-market, and end-to-end business excellence. **Frans van Houten**, acting CEO Philips Lighting

Lighting industry undergoing a radical transformation

Important global trends underpinning strategy

Winning in LED

6.3.1 Lighting landscape

We are witnessing a number of transitions that will affect the lighting industry in the years to come and change the way people use and experience light.

The first is the move from traditional vacuum-based technologies to solid-state lighting technology (LEDs). LED lighting is the most profound technological transformation in lighting since the invention of electric light well over a century ago. Offering great opportunities in terms of color, dynamics, miniaturization, architectural integration and energy efficiency, LED lighting is opening up exciting new possibilities.

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The second transition is from bulbs and components as the point of value creation, to end-user-driven applications and solutions. Increasingly, these applications and solutions will include lighting controls. We believe that, going forward, a key differentiator among lighting suppliers will be the innovative strength to create systems and solutions that are truly customer-centric, while leveraging global R&D and supply chain scale.

Consumers, businesses and national and municipal authorities are demanding highly adaptable lighting solutions which they can use to customize their indoor and outdoor environments as and when they desire. Flexible and dynamic, our LED lighting solutions allow a much higher degree of customization and provide significantly greater possibilities than solutions based on conventional technologies.

The third transition is the global interest in energy efficiency, in response to rising energy prices and increased awareness of climate change. Many countries and regions have introduced legislative measures to address energy consumption and the emission of greenhouse gases, which are linked to climate change. Philips will continue to play a significant role in encouraging and enabling the switch to energy-efficient lighting solutions, helping our customers to save on energy costs while making a positive contribution to the environment.

Between now and 2015, we expect the value of the global lighting market to grow by 5-7% on a compound annual basis. The majority of the growth will come from LED-based solutions and products heading towards a 45% share by 2015. As one of the global leaders in LED components, applications and solutions, with a strong global presence across the LED value chain, we believe we are well positioned for the changes at hand.

In 2010 the lighting industry as a whole was recovering from the global economic developments in 2009. In 2011, however, this recovery slowed due to downward pressure on GDP, weaker consumer markets in mature geographies and continued weakness in the construction market. Growth geographies, once at risk of overheating, have slowed to more sustainable growth rates, albeit lower than expected.

6.3.2 Simply enhancing life with light

Philips Lighting enhances life with light through innovative lighting solutions. We believe that by focusing on what people really need and leveraging our expertise with a broad range of leading partners, we can create and deliver the most innovative and meaningful solutions on the market.

Lighting can do more than just shedding light. Our innovative solutions are transforming urban environments, helping to create livable cities through the use of light to enhance safety, municipal identity and residential well-being. Consumers are increasingly applying lighting to create their own ambience at home as an expression of their lifestyle. Building owners and retailers are recognizing the benefits of energy-efficient lighting in reducing their operational costs. And schools are learning how lighting can improve education and well- being. We believe that the rise of LED, coupled with our global leadership, positions us well to continue to deliver on our mission to simply enhance life with light.

6.3.3 About Philips Lighting

Philips Lighting is a global market leader, with recognized expertise in the development, manufacturing and application of innovative lighting solutions. We have pioneered many of the key breakthroughs in lighting over the past 120 years, laying the basis for our current position.

We address people s lighting needs across a full range of market segments. Indoors, we offer lighting solutions for homes, shops, offices, schools, hotels, factories and hospitals. Outdoors, we offer solutions for roads (street lighting and car lights) and for public spaces, residential areas and sports arenas. In addition, we address the desire for light-inspired experiences through architectural projects. Finally, we offer specific applications of lighting in specialized areas, such as horticulture as well as air and water purification.

Philips Lighting spans the entire lighting value chain from light sources, electronics and controls to full applications and solutions via the following businesses:

Lamps: incandescent, halogen, (compact) fluorescent, high-intensity discharge and LED

Consumer Luminaires: functional, decorative, lifestyle, scene-setting

Professional Luminaires: city beautification, road lighting, sports lighting, office lighting, shop/hospitality lighting, industry lighting

Lighting Systems & Controls: electronic and electromagnetic gear, controls, modules and drivers

Automotive Lighting: car headlights, car signaling, interior

Lumileds: packaged LEDs

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Total sales by business 2011

as a %

The Lamps business conducts its sales and marketing activities through the professional, OEM and consumer channels, the latter also being used by our Consumer Luminaires business. Professional Luminaires is organized in a trade business (commodity products) and a project solutions business (project luminaires, systems and services). For the latter, the main focus is on specifiers, lighting designers, architects and urban planners.

Automotive Lighting is organized in two businesses: OEM and After-market. Lighting Systems & Controls and Special Lighting Applications conduct their sales and marketing through both the OEM and professional channels.

The conventional lamps industry is highly consolidated, with GE and Siemens/Osram as key competitors. The LED lamps industry is in its early days, with a variety of competitors entering the marketplace. The luminaires industry is fragmented, with our competition varying per region and per segment. Our Lighting Systems & Controls and Automotive Lighting businesses operate in more consolidated market sectors. In the world of digital lighting, a wide range of new entrants are active in the transitions to LED lighting and to applications and solutions.

Philips Lighting has manufacturing facilities in some 25 countries in all regions of the world and sales organizations in more than 60 countries. Commercial activities in other countries are handled via dealers working with our International Sales organization. Lighting has approximately 53,000 employees worldwide.

Lighting is subject to significant regulatory requirements in the markets where it operates. These include the European Union s Waste from Electrical and Electronic Equipment (WEEE), Restriction of Hazardous Substances (RoHS), Energy-using Products (EuP) and Energy Performance of Buildings (EPBD) directives.

With regard to sourcing, please refer to sub-section 5.3.3, Supply management, of this report.

6.3.4 Progress against targets

The Annual Report 2010 set out a number of key targets for Philips Lighting in 2011. In the course of the year, reflecting the evolving business reality and the adoption of Accelerate!, these were encapsulated in four key sector acceleration trajectories designed to improve profitability on the path to LED and solutions and to achieve our mid-term targets. The progress made in addressing these trajectories is outlined below.

Accelerate transformation to LED, applications and solutions

In 2011 we further strengthened our expertise in LED development and application. Our LED-based sales grew by 30% compared to 2010, representing some 16% of total Lighting sales. Sales growth of LED-based lamps and luminaires was approximately 70%. To retain our leadership position we invested in optimizing lamp performance and lifecycle, and in expanding our portfolio of leading LED solutions in professional segments such as outdoor, office and retail, and in the automotive and home segments. Our leadership position in LED lamps was underlined by our winning the US Department of Energy s coveted L Prize for the first 60 W replacement LED lamp.

Our sales of solutions (luminaires, controls, software and services) grew by 50% in 2011. We continued to invest in growing our solutions business. We hired new key account managers in nearly all our markets and staffed our Turn-Key Projects & Solutions teams, both on a global and a market level. We launched Lighting Capital a payment program that enables customers to acquire lighting solutions without an upfront capital investment and developed several service propositions besides system solutions such as Lumimotion, in which we combine hardware with controls and software to act as a smart system. The acquisitions of Optimum and Indal will strengthen our solutions business.

Strengthen performance management and execution

We are implementing the Accelerate! program to further gear up our organization to take full advantage of the LED- driven future opportunities in the lighting industry. We are connecting business and market teams through our so-called BMC (Business/Market Combination) approach to win customers in key markets, reduce complexity, improve execution along our end-to-end customer value chain, and increase speed to market all with the aim of driving market leadership, accelerating growth and boosting profitability.

Address cost base and margin management

In 2011, as part of our organizational redesign and cost program, we took a fundamental approach to increase the speed and efficiency of our organization. As of 2012 we will merge business groups, take out management layers and implement an overhead cost reduction program. Furthermore, in 2011 we accelerated our program to rationalize our industrial footprint, closing eight sites and divesting three.

Our margin performance has been impacted by higher investment levels in R&D and commercial capabilities. Furthermore, margin pressure was driven by higher material prices and in some areas by operational issues. To protect our margins, we optimized our product mix and implemented price increases, mainly in our conventional lamps and luminaires businesses.

Our focus on working capital management in the fourth quarter has clearly paid off. Inventory levels have been brought down, combined with a significant reduction in overdue receivables. We will continue to focus on these aspects in 2012 and 2013.

Deliver on turnaround of Consumer Luminaires and Lumileds

In Western markets, our Consumer Luminaires business has been suffering from adverse economic conditions, compounded in EMEA by poor supply reliability performance. A turnaround program is well under way and covers operational improvements, a reduction of the product portfolio and a re-focused brand portfolio towards two main channels (DIY and Lifestyle & Specialist). The brand program will result in an extended innovative product portfolio under the Philips brand name. In EMEA a comprehensive supply chain program leveraging on the roll-out of SAP resulted in the recovery of appropriate service levels.

Though our Lumileds business is making further progress on growing its relative share in general illumination, its sales were negatively influenced by lower sales in the display segments.

6.3.5 EcoVision

In 2011 Philips Lighting invested EUR 291 million in Green Innovation, compared to EUR 230 million in 2010. The energy efficiency of our total product portfolio improved by some 2%. Green Product sales increased from 58% of total sector sales in 2010 to 60% in 2011. Our sustainability drive has been rewarded with the prestigious 2011 UN Leader of Change Award for our visionary leadership in the global switch to innovative lighting solutions that demonstrate sustainable, environmental, economic and social value. We also received Richard Branson s Carbon War Room Gigaton Award for outstanding business leadership in energy efficiency and eco-design to reduce carbon emissions. And at the high-level UN Momentum for Change event during the UN Climate Change Conference (COP17) in Durban, South Africa, we were recognized along with The Climate Group for our solar-driven LED street-lighting project in China s Guiyang community.

6.3.6 2011 financial performance

Sales amounted to EUR 7,638 million, a nominal increase of 1% compared to 2010, mainly driven by growth in our Professional Luminaires business, Lighting Systems & Controls, as well as ongoing growth of our Fluorescent and LED lamps, but tempered by declining sales at Lumileds and Consumer Luminaires. Excluding a 2% unfavorable currency impact and a 3% unfavorable consolidation effect, comparable sales increased by 6%.

The year-on-year sales increase was substantially driven by growth geographies, which grew over 10% on a comparable basis. Sales in growth geographies increased to over 40% of total Lighting sales, driven by China and India, compared to 38% in 2010. In mature geographies, sales growth was limited to low single digits due to lower demand in North America and Western Europe, particularly for Lumileds and Consumer Luminaires.

Our Lamps business grew strongly compared to 2010, buoyed by demand for high-end lamps in retail and growth geographies. Ongoing softness in the residential construction markets particularly in mature geographies meant that sales in our Consumer Luminaires business slightly declined compared to 2010. Sales of LED-based products grew to over 16% of total sales, up from 13% in 2010, driven by Lamps and

Professional Luminaires. Sales of energy-efficient Green Products exceeded EUR 4,571 million, or 60% of sector sales.

Adjusted IFO amounted to EUR 445 million, or 5.8% of sales, compared to EUR 869 million, or 11.5% of sales, in 2010 . Restructuring and acquisition-related charges amounted to EUR 66 million in 2011, compared to EUR 97 million in 2010. The Adjusted IFO decrease of EUR 424 million was mainly attributable to lower gross margin, due to raw material increases and higher investments in selling as well as research and development to drive growth.

IFO amounted to a loss of EUR 362 million, or 4.7% of sales, which included EUR 128 million related to the impairment of customer relationships and brand names resulting from the turnaround plan within Consumer Luminaires, and EUR 531 million of goodwill impairment

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losses related to revised growth and profitability expectations for our Luminaires businesses, which were taken in the second quarter of 2011.

Net operating capital declined by EUR 541 million to EUR 5.0 billion, due to decreases in intangible fixed assets from goodwill and other amortization, partially offset by currency translation.

Cash flows before financing activities declined from EUR 590 million in 2010 to EUR 254 million, reflecting lower cash earnings and additional growth-focused investments in capital expenditures.

Under normal economic conditions, the Lighting business sales are generally not materially affected by seasonality.

Key data
in millions of euros

	2009	2010	2011
Sales	6,546	7,552	7,638
Sales growth			
% increase, nominal	(11)	15	1
% increase, comparable[1)]	(13)	9	6
Adjusted IFO	145	869	445
as a % of sales	2.2	11.5	5.8
IFO[1)]	(16)	695	(362)
as a % of sales	(0.2)	9.2	(4.7)
Net operating capital (NOC)[1)]	5,104	5,561	5,020
Cash flows before financing activities[1)]	624	590	254
Employees (FTEs)	51,653	53,888	53,168

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report

Sales per geographic cluster

in millions of euros

Sales and net operating capital

in billions of euros

IFO and Adjusted IFO[1)]

in millions of euros

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report

2010 financial performance

Sales amounted to EUR 7,552 million, a nominal increase of 15% compared to 2009, driven by a rebound in sales of general and automotive lamps as well as ongoing growth of our Lumileds LED business. Excluding a 6% favorable currency impact and a 1% contribution from acquisitions, comparable sales increased by 9%.

The year-on-year sales increase was substantially driven by comparable sales increases in growth geographies, which grew over 20% on a comparable basis. Growth geographies sales grew to over 38% of total Lighting sales, driven by China, India and Brazil, compared to 34% in 2009. In mature geographies, sales growth was limited to low single-digits due to lower demand in North America and Western Europe, particularly for Professional and Consumer Luminaires.

A rebound in the global automotive market supported solid, double-digit sales growth in this business. Our general Lamps business also grew strongly compared to 2009, buoyed by demand for high-end lamps in retail and growth geographies. Ongoing softness in both the residential and commercial construction markets particularly in mature geographies meant that sales in our Luminaires businesses remained broadly in line with 2009. Sales of LED-based products grew to over 13% of total sales, up from 8% in 2009, driven by Lumileds, Lamps and Professional Luminaires. Sales of energy-efficient Green Products exceeded EUR 4 billion, or 58% of sector sales.

Adjusted IFO amounted to EUR 869 million, or 11.5% of sales, which included EUR 96 million of restructuring and acquisition-related charges. This compared to EUR 247 million of restructuring and acquisition-related charges in 2009. The Adjusted IFO improvement was driven by higher sales, improved gross margin and fixed cost savings from restructuring programs.

IFO amounted to EUR 695 million, or 9.2% of sales, which included EUR 174 million of amortization of intangible fixed assets, mainly from Lumileds and Genlyte.

Net operating capital increased by EUR 457 million to EUR 5.6 billion, due to unfavorable currency translation, higher activity levels and additional LED-related capital expenditures.

Cash flows before financing activities declined from EUR 624 million in 2009 to EUR 590 million, reflecting higher cash earnings which were more than offset by higher working capital requirements and additional growth- focused investments in capital expenditures.

6.3.7 Strategy and 2012 objectives

In 2012 Philips Lighting will continue to progress on the following key trajectories designed to accelerate performance and achieve our mid-term targets:

- Implement Accelerate! transformation
- Accelerate transformation to LED, applications and solutions
- Strengthen performance management and execution
- Address cost base, margin management and working capital
- Deliver on turnaround of Consumer Luminaires and Lumileds
- Deliver on EcoVision sustainability commitments

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6.4 Group Management & Services

In 2011 we streamlined our Research and Innovation Services organization and continued the build-up of innovation capabilities in growth geographies.

Jim Andrew, Chief Strategy & Innovation Officer

Philips performance by geographic cluster is based on the following:

- Growth geographies, including China, India, and Latin America and other markets including Central and Eastern Europe, Russia, Ukraine and Central Asia, the Middle East and Africa, Turkey and ASEAN zone
- Mature geographies, including Western Europe, North America, Japan, South Korea, Israel, Australia and New Zealand

Introduction

Group Management & Services comprises the activities of the corporate center, including Philips global management and sustainability programs, country and regional management costs, and costs of pension and other postretirement benefit plans, as well as Corporate Technologies, Philips Design, Corporate Investments and New Venture Integration. Additionally, the global shared business services for purchasing, finance, human resources, IT, real estate and supply are reported in this sector. As of January 1, 2012, Corporate Technologies, New Venture Integration and Design will be merged to create a new entity within Group Management & Services, called Philips Group Innovation.

Group Management & Services plays an important role in the Accelerate! program, notably by helping to improve the end-to-end value chain. The End to End approach consists of three core processes: Idea to Market, Market to Order, and Order to Cash. Group Management & Services supports Idea to Market in five focal areas: Speed up time to market, Portfolio optimization, Driving breakthrough innovation, Improving innovation competences, and Restoring the image of Philips as an innovation leader.

6.4.1 Corporate Technologies

Corporate Technologies feeds the innovation pipeline, enabling its business partners the three Philips operating sectors to create new business options through new technologies, venturing and intellectual property development, to improve time-to-market efficiency, and to increase innovation effectiveness via focused research and development activities. In addition, Corporate Technologies opens up new value spaces beyond current sector scope or focus (Emerging Business Areas, EBAs), manages the EBA-related R&D portfolio, and creates synergy for cross-sector initiatives.

Corporate Technologies encompasses Research, Incubation, Intellectual Property & Standards (IP&S), the Philips Innovation Campus as well as Philips Innovation Services. In total, Corporate Technologies employs about 4,200 professionals around the globe.

Corporate Technologies actively participates in Open Innovation through relationships with academic and industrial partners, as well as via European and regional projects, in order to improve innovation efficiency and share the related financial exposure. The High Tech Campus in Eindhoven (Netherlands), the Philips Innovation Campus in Bangalore (India), and Research Shanghai (China), are prime examples of environments enabling Open Innovation. In this way, we seek to ensure proximity of innovation activities to growth geographies.

Philips Research is a key innovation partner for Philips business sectors. It has three main roles. Firstly, it creates new technologies and innovations that help to spur the growth of the Philips businesses. Secondly, it develops unique intellectual property (IP), which will enable longer- term business and creates standardization opportunities for Philips. Lastly, it prepares the ground for the creation of game-changers and adjacent businesses in the sectors based on technology-enabled innovation in strategically aligned application areas.

On January 1, 2011, innovation competencies of the former Applied Technologies were merged with those of Philips Research. The role of the new Research organization is to co-create and co-develop meaningful innovations, including the relevant IP, for the Philips businesses current and new business areas and key markets. The labs in Shanghai and Bangalore focus on local-for-local innovation, supported by key competencies and technologies from the laboratories elsewhere. Outside-in Open Innovation, leveraging the global network of innovation partners, is an important guiding principle for Research.

In 2011, Philips Research, in cooperation with Eindhoven University of Technology, achieved an important development in MRI-guided local drug delivery for cancer treatment. The joint team demonstrated in pre-clinical studies that an improved local drug uptake in tumors is achieved, and that it can be visualized and measured in real time. These measurements may give an indication at time of delivery if drug uptake in the tumor was sufficient, or if an additional treatment may be needed.

Building upon Philips ambient intelligence insights and in- depth understanding of the hospital patient experience, Philips Research opened a Hospital Lab to investigate the effects of healing environments (e.g. lighting, sound, projection) on the treatment and well-being of patients.

Philips applies the concepts of Incubation and Emerging Business Areas to new business creation to create strategic growth opportunities for Philips. In some cases, spin-out or technology licensing is considered. The Philips Healthcare Incubator has introduced Digital Pathology solutions to ease the workload and support decision- making in central and hospital-based pathology departments. Through its Handheld Diagnostic venture, the Healthcare Incubator has set up a number of strategic partnerships to bring unique point-of-care (PoC) diagnostic solutions to the market. The most prominent partnership announced so far is with bioMérieux, on acute cardiac PoC diagnostics. In addition, the Healthcare Incubator manages Philips investment/relationship with the healthcare venture capital fund Gilde Healthcare III, in which Philips made an anchor investment.

CityTouch is an activity that started in the Lighting and Cleantech Incubator and has now been launched by Philips Lighting. It is an online intelligent street lighting management system that enables savings of up to 70% in energy use and maintenance costs compared to conventional lighting. Another venture initiated in the Incubator and now being marketed by Philips Lighting is the revolutionary lighting concept of Philips luminous textiles, which bring interior spaces to life with light, texture and dynamic content. Luminous textiles are an easy-fit system that integrates multi-colored LED modules within acoustic textile panels to show dynamic content and soften sound.

Philips IP&S proactively pursues the creation of new intellectual property in close co-operation with Philips operating sectors and the other departments within Corporate Technologies. IP&S is a leading industrial IP organization providing world-class IP solutions to Philips businesses to support their growth, competitiveness and profitability. Philips IP portfolio currently consists of

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around 54,000 patent rights, 39,000 trademarks, 70,000 design rights and 4,400 domain name registrations. Philips filed approximately 1,450 patents in 2011, with a strong focus on the growth areas in health and well-being. IP&S participates in the setting of standards to create new business opportunities for the Healthcare, Consumer Lifestyle and Lighting sectors. A substantial portion of revenue and costs is allocated to the operating sectors. Philips believes its business as a whole is not materially dependent on any particular patent or license, or any particular group of patents and licenses.

Philips Innovation Services was formed in 2011 from parts of the former Philips Applied Technologies and Philips MiPlaza. Its mission is to accelerate its customers innovations by offering a range of advanced services, expertise and high-tech facilities across the whole innovation process: from concept creation, product development, prototyping and small series production, quality and reliability, right through to sustainability and industrial consulting. It serves Philips and its partners, as well as many non affiliated companies. Situated at the High Tech Campus Eindhoven, Philips Innovation Services is an innovation hub supporting Philips long-term commitment to Open Innovation.

Philips Innovation Campus Bangalore (PIC) hosts activities from all three sectors, Philips Research, IP&S and IT. Healthcare is the largest R&D organization at PIC, with activities in Imaging Systems and Patient Care & Clinical Informatics. Lighting started in mid-2010, and PIC is now one of its largest software sites. While PIC originally started in 1996 as a software center, it has since developed into a product development center (including mechanical, electronics, supply chain capabilities). In 2011 several Healthcare businesses also located business organizations focusing on growth geographies at PIC.

6.4.2 Corporate Investments

The last remaining business within Corporate Investments Assembléon was a wholly owned subsidiary that develops, assembles, markets and distributes a diverse range of surface-mount technology placement equipment. In 2011 we sold a majority stake in Assembléon to H2 Equity Partners, an independent private equity firm, retaining a 20% stake.

6.4.3 New Venture Integration

The New Venture Integration group focuses on the integration of newly acquired companies across all sectors.

6.4.4 Philips Design

Philips Design partners with the Philips businesses, technology groups and corporate functions to ensure that our innovations are meaningful and locally relevant, and that the Philips brand experience is preferable and consistent across all its touch-points. To further maximize the value that it brings to Philips and strengthen the alignment with its innovation partners, Design is becoming a company function. In 2012 the functional transformation will be completed, with the establishment of fully integrated Design teams within the sectors.

Philips Design s creative force is comprised of designers across various disciplines, as well as psychologists, ergonomists, sociologists and anthropologists, all working together to understand people s needs and desires and to translate these into relevant solutions and experiences that create value for people and business. Design s forward-looking exploration projects deliver vital insights for new business development.

Philips Design is widely recognized as a leader in people- centric design. In 2011, it won 99 key design awards in the areas of product, communication and innovation design.

6.4.5 2011 financial performance

In 2011, sales were EUR 93 million lower than in 2010, mainly due to the divestment of Assembléon in the first quarter of 2011.

Adjusted IFO in 2011 amounted to a loss of EUR 382 million, compared to a loss of EUR 211 million in 2010. The year-on-year decrease in Adjusted IFO was mainly attributable to higher restructuring costs, one-time pension items and investments related to the Accelerate! program.

Adjusted IFO at Corporate Technologies was EUR 23 million higher than in 2010, attributable to higher license revenue and continuous focus on cost efficiency.

Corporate & Regional costs were EUR 15 million higher than in 2010, attributable to higher restructuring charges and investments related to the Accelerate! program.

Adjusted IFO at Pensions was EUR 123 million lower than in 2010, in part due to that year s EUR 119 million curtailment gain, partly offset by a EUR 21 million gain in 2011, due to a plan change in one of our major plans.

Adjusted IFO at Service Units and other decreased from a loss of EUR 106 million in 2010 to a loss of EUR 162 million. The decrease was largely attributable to legal and environmental provisions related to discount rate changes.

Net operating capital declined to negative EUR 3.898 billion, attributable to increased pension liabilities, mark- to-market changes in the group s financial hedging instruments, and sales of tangible fixed assets.

Cash flows before financing activities decreased from an outflow of EUR 747 million in 2010 to an outflow of EUR 1,514 million, mainly attributable to higher cash outflows for taxes and pensions, as well as decreased cash inflows from sales of investments.

Key data
in millions of euros

	2009	2010	2011
Sales	337	359	266
Sales growth			
% increase (decrease), nominal	(31)	7	(26)
% increase (decrease), comparable[1)]	(30)	6	2
Adjusted IFO Corporate Technologies	(162)	(63)	(40)
Adjusted IFO Corporate & Regional costs	(174)	(142)	(157)
Adjusted IFO Pensions	142	100	(23)
Adjusted IFO Service Units and other	(157)	(106)	(162)
Adjusted IFO[1)]	(351)	(211)	(382)
IFO	(353)	(216)	(392)
Net operating capital (NOC)[1)]	(1,514)	(3,429)	(3,898)
Cash flows before financing activities[1)]	(861)	(747)	(1,514)
Employees (FTEs)	11,586	11,929	12,474

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report

2010 financial performance

In 2010, sales were EUR 23 million higher than in 2009, mainly due to higher license revenues and higher sales at Assembléon.

Adjusted IFO in 2010 amounted to a loss of EUR 211 million, compared to a loss of EUR 351 million in 2009. The year-on-year improvement in Adjusted IFO was mainly attributable to higher revenue, lower overhead costs and the discontinuation of Molecular Healthcare.

Adjusted IFO at Corporate Technologies was EUR 99 million higher than in 2009, attributable to higher license revenue, the discontinuation of Molecular Healthcare and 2009 s asset write-offs.

Corporate & Regional costs were EUR 32 million lower than in 2009, attributable to lower restructuring charges and continuous focus on cost reduction.

Adjusted IFO at Pensions was EUR 42 million lower than in 2009, in part due to that year s EUR 134 million curtailment gain on retiree medical benefit plans, partly offset by a EUR 119 million gain in 2010, in part due to a change in indexation.

Adjusted IFO at Service Units and other improved from a loss of EUR 157 million in 2009 to a loss of EUR 106 million. The improvement was largely driven by lower restructuring charges in our global service units.

Net operating capital declined to negative EUR 3.4 billion, mainly attributable to lower prepaid pension cost related to the pension plan in the Netherlands, which is no longer recognized as an asset.

Cash flows before financing activities improved from an outflow of EUR 885 million in 2009 to an outflow of EUR 658 million, mainly attributable to higher cash earnings and the EUR 485 million of final asbestos payments in 2009. This was partly offset by lower proceeds on the sale of stakes, mainly reflecting the sale of LG Display and Pace Micro Technology in 2009.

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7 Risk management

7.1 Our approach to risk management and business control

The following section presents an overview of Philips approach to risk management and business controls and a description of the nature and the extent of its exposure to risks. Philips risk management focuses on the following risk categories: Strategic, Operational, Compliance and Financial risks. These are further described in section 7.2, Risk categories and factors, of this report. The risk overview highlights the main risks known to Philips, which could hinder it in achieving its strategic and financial business objectives. The risk overview may, however, not include all the risks that may ultimately affect Philips. Some risks not yet known to Philips, or currently believed not to be material, could ultimately have a major impact on Philips businesses, objectives, revenues, income, assets, liquidity or capital resources.

All oral and written forward-looking statements made on or after the date of this Annual Report and attributable to Philips are expressly qualified in their entirety by the factors described in the cautionary statement included in Forward-looking statements and other information in the Introduction of this report and the risk factors described in section 7.2, Risk categories and factors, of this report.

Our business, financial condition and results of operations could suffer material adverse effects due to certain risks. We have described below the main risks known to Philips and summarized them in four categories: Strategic risks, Operational risks, Compliance risks, and Financial risks.

Risk management forms an integral part of the business planning and review cycle. The company s risk and control policy is designed to provide reasonable assurance that objectives are met by integrating management control into the daily operations, by ensuring compliance with legal requirements and by safeguarding the integrity of the company s financial reporting and its related disclosures. It makes management responsible for identifying the critical business risks and for the implementation of fit- for-purpose risk responses. Philips risk management approach is embedded in the areas of corporate governance, Philips Business Control Framework and Philips General Business Principles.

Corporate governance

Corporate governance is the system by which a company is directed and controlled. Philips believes that good corporate governance is a critical factor in achieving business success. Good corporate governance derives from, amongst other things, solid internal controls and high ethical standards.

The quality of Philips systems of business controls and the findings of internal and external audits are reported to and discussed by the Audit Committee of the Supervisory Board. Internal auditors monitor the quality of the business controls through risk-based operational audits, inspections of financial reporting controls and compliance audits. Audit committees at corporate level (Group, Finance and IT) and at sector level (Healthcare, Lighting, Consumer Lifestyle, Group Management & Services) meet quarterly to address weaknesses in the business controls infrastructure as reported by internal and external auditors or revealed by self-assessment of management, and to take corrective action where necessary. These audit committees are also involved in determining the desired company-wide internal audit planning as approved by the Audit Committee of the Supervisory Board. An indepth description of Philips corporate governance structure can be found in chapter 11, Corporate governance, of this report.

Philips Business Control Framework

The Philips Business Control Framework (BCF), derived from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework on internal control, sets the standard for risk management and business control in Philips. The objectives of the BCF are to maintain integrated management control of the company s operations, in order to ensure the integrity of the financial reporting, as well as compliance with laws and regulations.

As part of the BCF, Philips has implemented a global standard for internal control over financial reporting (ICS). The ICS, together with Philips established accounting procedures, is designed to provide reasonable assurance that assets are safeguarded, that the books and records properly reflect transactions necessary to permit preparation of financial statements, that policies and procedures are carried out by qualified personnel and that published financial statements are properly prepared and do not contain any material misstatements. ICS has been deployed in all main reporting units, where business process owners perform an extensive number of controls, document the results each quarter, and take corrective action where necessary. ICS supports sector and functional management in a quarterly cycle of assessment and monitoring of its control environment. The findings of management s evaluation are reported to the Board of Management.

As part of the Annual Report process, management s accountability for business controls is enforced through the formal issuance of a Statement on Business Controls and a Letter of Representation by sector and functional management to the Board of Management. Any deficiencies noted in the design and operating effectiveness of controls over financial reporting which were not completely remediated are evaluated at year-end by the Board of Management. The Board of Management s report, including its conclusions regarding the effectiveness of internal control over financial reporting, can be found in section 12.1, Management s report on internal control, of this report.

Philips General Business Principles

The Philips General Business Principles (GBP) govern Philips business decisions and actions throughout the world, applying to corporate actions and the behavior of individual employees. They incorporate the fundamental principles within Philips for doing business. The intention of the GBP is to ensure compliance with laws and regulations, as well as with Philips norms and values.

The GBP are available in most of the local languages and are an integral part of the labor contracts in virtually all countries where Philips has business activities. Responsibility for compliance with the principles rests primarily with the management of each business. Every country organization and each main production site has a compliance officer. Confirmation of compliance with the GBP is an integral part of the annual Statement on Business Controls that has to be issued by the management of each business unit. The GBP incorporate a whistleblower policy, standardized complaint reporting and a formal escalation procedure.

The global implementation of the One Philips Ethics hotline seeks to ensure that alleged violations are registered and dealt with consistently within a company-wide system. To drive the practical deployment of the GBP, a set of directives has been published, which are applicable to all employees. There are also separate directives which apply to specific categories of employees (e.g. the Supply Management Code of Ethics and Financial Code of Ethics, refer to www.philips.com/gbp).

In November 2011 an updated version of the GBP Directives and the Philips Whistleblower Policy came into force, reflecting the effect of recent developments in the area of business ethics (UK Bribery Act, Dodd-Frank Act, UN Guiding Principles on Human Rights). To seek to ensure compliance with the highest standards of transparency and accountability by all employees performing important financial functions, the Financial Code of Ethics contains, amongst other things, standards to promote honest and ethical conduct, as well as full, accurate and timely disclosure procedures in order to avoid conflicts of interest. Philips did not grant any waivers of the Financial Code of Ethics in 2011.

2011 saw a further tightening of the checks on compliance with the Supply Management Code of Ethics: Philips employees performing purchasing functions are now obliged to sign, on an annual basis, to confirm their awareness of, and compliance with, this code.

In order to seek to ensure 100% management commitment to the GBP, a global internal communication program addressing the 5,000 highest-ranking employees was developed to support local management in their communications about the updated GBP Directives, thereby ensuring a consistent tone at the top . Moreover, GBP dilemma training was provided for Philips Executives, while the 5,000 highest-ranking managers were enrolled on a dedicated GBP e-training course.

The GBP self-assessment process is fully embedded in the Philips ICS tool, a workflow application supporting sector/ function management in monitoring internal controls. Management of reporting units are required to answer these questions before year-end and report their findings via a dedicated control. Embedding GBP self-assessments in ICS seeks to ensure that GBP compliance is now part of sector/function management s quarterly ICS/SOx (Sarbanes-Oxley) monitoring process, and that GBP non-compliance issues, if significant, are reported to the Board of Management/Executive Committee via the Quarterly Certification Statement process.

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In order to support management in executing the mandatory risk analysis to identify the major GBP risk areas and issues for their activities, a GBP risk-assessment tool was developed and included in all ICS self-assessment questionnaires.

In the course of 2011 significant progress was made with the roll-out of dedicated anti-corruption programs targeted at our dealers, agents and distributors:

- Implementation of a harmonized Due Diligence Process (DDP) across businesses and regions, supported by a dedicated global DDP program office, with specific focus on selected geographies such as Latin America, Eastern Europe, Asia and China
- Ongoing alignment between sectors on DDP execution through a One Philips contract management system
- Continuous training to promote an understanding among all relevant stakeholders of the One Philips DDP for selecting distributors and agents

For further details, please refer to the General Business Principles paragraph in chapter 14, Sustainability statements, of this report.

Financial Code of Ethics

The Company recognizes that its businesses have responsibilities within the communities in which they operate. The Company has a Financial Code of Ethics which applies to the CEO (the principal executive officer) and CFO (the principal financial and principal accounting officer), and to the heads of the Corporate Control, Corporate Treasury, Corporate Fiscal and Corporate Internal Audit departments of the Company. The Company has published its Financial Code of Ethics within the investor section of its website located at www.philips.com. No changes have been made to the Code of Ethics since its adoption and no waivers have been granted therefrom to the officers mentioned above in 2011.

7.2 Risk categories and factors

Taking risks is an inherent part of entrepreneurial behavior. A structured risk management process encourages management to take risks in a controlled manner. In order to provide a comprehensive view of Philips business activities, risks and opportunities are identified in a structured way combining elements of a top-down and bottom-up approach. Risks are reported on a regular basis as part of the Business Performance Management process. All relevant risks and opportunities are prioritized in terms of impact and likelihood, considering quantitative and/or qualitative aspects. The bottom-up identification and prioritization process is supported by workshops with the respective management at Sector, Market and Corporate Function level. The top-down element ensures that potential new risks and opportunities are discussed at management level and are included in the subsequent reporting process, if found to be applicable. Reported risks and opportunities are analyzed for potential cumulative effects and are aggregated at Sector, Cross-Sector/Region and Corporate level. Philips has a structured risk management process to address different risk categories: Strategic, Operational, Compliance and Financial risks.

Strategic risks and opportunities may affect Philips strategic ambitions. Operational risks include adverse unexpected developments resulting from internal processes, people and systems, or from external events that are linked to the actual running of each business (examples are solution and product creation, and supply chain management). Compliance risks cover unanticipated failures to implement, or comply with, appropriate policies and procedures. Within the area of Financial risks, Philips identifies risks related to Treasury, Accounting and reporting, Pensions and Tax.

Philips describes the risk factors within each risk category in order of Philips current view of expected significance, to give stakeholders an insight into which risks and opportunities it considers more prominent than others at present. The risk overview highlights the main risks and opportunities known to Philips, which could hinder it in achieving its strategic and financial business objectives. The risk overview may, however, not include all the risks that may ultimately affect Philips. Describing risk factors in their order of expected significance within each risk category does not mean that a lower listed risk factor may not have a material and adverse impact on Philips business, strategic objectives, revenues, income, assets, liquidity, capital resources or Philips targets 2013. Furthermore, a risk factor described after other risk factors may ultimately prove to have more significant adverse consequences than those other risk factors. Over time Philips may change its view as to the relative significance of each risk factor. Philips does not classify the risk categories themselves in order of importance.

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7.3 Strategic risks

As Philips business is global, its operations are exposed to economic and political developments in countries across the world that could adversely impact its revenues and income.

Philips business environment is influenced by conditions in the domestic and global economies. Although the macroeconomic environment showed further overall improvement in the first half of 2011, the development of certain economic indicators as well as the recent turbulences in the financial markets in the second half of 2011, primarily as a result of the ongoing sovereign debt crisis in the Eurozone, still indicate a highly volatile macroeconomic environment. Future macroeconomic development is dependent upon the evolution of a number of global and local factors such as the crisis in the credit markets, economic crises arising from sovereign debt overruns, and the related government budget consolidation and monetary policy measures, including in the US, Italy, Greece and other European countries. As a result, reduced levels of capital expenditures, declining consumer and business confidence, increasing unemployment in certain countries, fluctuating commodity prices, bankruptcies, natural disasters, political crises and other challenges affecting the speed of sustainable macroeconomic growth, may lead to lower demand and more challenging market environments across our sectors. Political developments, such as healthcare reforms in various countries (e.g. the US Healthcare Reform) may impose additional uncertainties by redistributing sector spending, changing reimbursement models and fiscal changes.

Numerous other factors, such as the fluctuation of energy and raw material prices, as well as global political conflicts in North Africa, the Middle East and other regions, could continue to impact macroeconomic factors and the international capital and credit markets. Economic and political uncertainty may have a material adverse impact on Philips financial condition or results of operations and can also make it more difficult for Philips to budget and forecast accurately. Philips may encounter difficulty in planning and managing operations due to unfavorable political factors, including unexpected legal or regulatory changes such as foreign exchange import or export controls, increased healthcare regulation, nationalization of assets or restrictions on the repatriation of returns from foreign investments and the lack of adequate infrastructure. Given that growth geographies are becoming increasingly important in Philips operations, the above-mentioned risks are also expected to grow and could have an adverse impact on Philips financial condition and operating results.

Philips may be unable to adapt swiftly to changes in industry or market circumstances, which could have a material adverse impact on its financial condition and results.

Fundamental shifts in the industry, like the transition from traditional lighting to LED lighting, may drastically change the business environment. If Philips is unable to recognize these changes in good time, is too inflexible to rapidly adjust its business models, or if circumstances arise, such as pricing actions by competitors, then growth ambitions, financial condition and operating results could be affected materially.

Acquisitions could expose Philips to integration risks and challenge management in continuing to reduce the complexity of the company.

Philips has recently completed acquisitions, and may continue to do so in the future, exposing Philips to integration risks in areas such as sales and service force integration, logistics, regulatory compliance, information technology and finance. Integration difficulties and complexity may adversely impact the realization of an increased contribution from acquisitions. Philips may incur significant acquisition, administrative and other costs in connection with these transactions, including costs related to the integration of acquired businesses.

Furthermore, organizational simplification and resulting cost savings may be difficult to achieve. Acquisitions may also lead to a substantial increase in long-lived assets, including goodwill. Write-downs of these assets due to unforeseen business developments may materially adversely affect Philips earnings, particularly in Healthcare and Lighting which have significant amounts of goodwill (see also note 9, Goodwill).

Philips may not control joint ventures or associated companies in which it invests, which could limit the ability of Philips to identify and manage risks.

Philips has invested or will invest in joint ventures or associated companies in which Philips will have a non-controlling interest. In these cases , Philips has limited influence over, and limited or no control of, the governance, performance and cost of operations of joint ventures or associated companies. Some of these joint ventures or associated companies may represent significant investments. The joint ventures and associated companies that Philips does not control may make business, financial or investment decisions contrary to Philips interests or decisions different from those which

Philips itself may have made. Additionally, Philips partners or members of a joint venture or associated company may not be able to meet their financial or other obligations, which could expose Philips to additional financial or other obligations, as well as adversely affect the value of its investments in those entities or potentially subject Philips to additional claims.

Philips inability to secure and retain intellectual property rights for products, whilst maintaining overall competitiveness, could have a material adverse effect on its results.

Philips is dependent on its ability to obtain and retain licenses and other intellectual property (IP) rights covering its products and its design and manufacturing processes. The IP portfolio is the result of an extensive patenting process that could be influenced by a number of factors, including innovation. The value of the IP portfolio is dependent on the successful promotion and market acceptance of standards developed or co-developed by Philips. This is particularly applicable to Consumer Lifestyle where third-party licenses are important and a loss or impairment could adversely impact Philips financial condition and operating results.

Philips ongoing investments to raise its brand preference could have less impact than anticipated.

Philips has made large investments in the reshaping of the Group into a more market-driven company focusing on delivering advanced and easy-to-use products and easy relationships with Philips for its customers. If Philips fails to deliver on its brand promise, its growth opportunities may be hampered, which could have a material adverse effect on Philips revenue and income.

Philips overall performance in the coming years is dependent on realizing its growth ambitions in growth geographies.

Growth geographies are becoming increasingly important in the global market. In addition, Asia is an important production, sourcing and design center for Philips. Philips faces strong competition to attract the best talent in tight labor markets and intense competition from local companies as well as other global players for market share in growth geographies. Philips needs to maintain and grow its position in growth geographies, invest in local talents, understand developments in end-user preferences and localize the portfolio in order to stay competitive. If Philips fails to achieve this, its growth ambitions, financial condition and operating results could be affected materially.

7.4 Operational risks

Failure to achieve improvements in Philips solution and product creation process and/or increased speed in innovation-to-market could hamper Philips profitable growth ambitions.

Further improvements in Philips solution and product creation process, ensuring timely delivery of new solutions and products at lower cost and upgrading of customer service levels to create sustainable competitive advantages, are important in realizing Philips profitable growth ambitions. The emergence of new low-cost competitors, particularly in Asia, further underlines the importance of improvements in the product creation process. The success of new solution and product creation, however, depends on a number of factors, including timely and successful completion of development efforts, market acceptance, Philips ability to manage the risks associated with new products and production ramp-up issues, the availability of products in the right quantities and at appropriate costs to meet anticipated demand and the risk that new products and services may have quality or other defects in the early stages of introduction. Accordingly, Philips cannot determine in advance the ultimate effect that new solutions and product creations will have on its financial condition and operating results. If Philips fails to accelerate its innovation-to-market processes and fails to ensure that end-user insights are fully captured and translated into solution and product creations that improve product mix and consequently contribution, it may face an erosion of its market share and competitiveness, which could have a material adverse affect on its financial condition and operating results.

If Philips is unable to ensure effective supply chain management, e.g. facing an interruption of its supply chain, including the inability of third parties to deliver parts, components and services on time, and if it is subject to rising raw material prices, it may be unable to sustain its competitiveness in its markets.

Philips is continuing the process of creating a leaner supply base with fewer suppliers, while maintaining dual sourcing strategies where possible. This strategy very much requires close cooperation with suppliers to enhance, amongst other things, time to market and quality. In addition, Philips is continuing its initiatives to reduce assets through outsourcing. These processes may result in increased dependency. Although Philips works closely with its suppliers to avoid supply-related problems, there can be no assurance that it will not encounter supply problems in the future or that it will be able to replace a supplier that is not able to meet its demand. Shortages or delays could materially harm its business. Philips maintains a regular review of its strategic and critical suppliers to assess financial stability.

Most of Philips activities are conducted outside of the Netherlands, and international operations bring challenges. For example, production and procurement of products and parts in Asian countries are increasing, and this creates a risk that production and shipping of products and parts could be interrupted by a natural disaster, such as occurred in Japan in 2011. A general shortage of materials, components or subcomponents as a result of natural disasters also bears the risk of unforeseeable fluctuations in prices and demand, which could have a material adverse affect on its financial condition and operating results.

Sectors purchase raw materials including so-called rare earth metals, copper, steel, aluminum and oil, which exposes them to fluctuations in energy and raw material prices. In recent times, commodities have been subject to volatile markets, and such volatility is expected to continue. If we are not able to compensate for our increased costs or pass them on to customers, price increases could have a material adverse impact on Philips results. In contrast, in times of falling commodity prices, Philips may not fully profit from such price decreases as Philips attempts to reduce the risk of rising commodity prices by several means, such as long-term contracting or physical and financial hedging. In addition to the price pressure that Philips may face from our customers expecting to benefit from falling commodity prices or adverse market conditions, this could also adversely affect its financial condition and operating results.

Due to the fact that Philips is dependent on its personnel for leadership and specialized skills, the loss of its ability to attract and retain such personnel would have an adverse effect on its business.

The attraction and retention of talented employees in sales and marketing, research and development, finance and general management, as well as of highly specialized technical personnel, especially in transferring technologies to low-cost countries, is critical to Philips success. This is particularly valid in times of economic recovery. The loss of specialized skills could also result in business interruptions. There can be no assurance that Philips will continue to be successful in attracting and retaining all the highly qualified employees and key personnel needed in the future.

Diversity in information technology (IT) could result in ineffective or inefficient business management. IT outsourcing and off-shoring strategies could result in complexities in service delivery and contract management. Furthermore, we observe a global increase in IT security threats and higher levels of professionalism in computer crime, posing a risk to the confidentiality, availability and integrity of data and information.

Philips is engaged in a continuous drive to create a more open, standardized and consequently, more cost-effective IT landscape. This is leading to an approach involving further outsourcing, off-shoring, commoditization and ongoing reduction in the number of IT systems. The global increase in security threats and higher levels of professionalism in computer crime have raised the company s awareness of the importance of effective IT security measures, including proper identity management processes to protect against unauthorized systems access. Nevertheless, Philips systems, networks, products, solutions and services remain potentially vulnerable to attacks, which could potentially lead to the leakage of confidential information, improper use of its systems and networks or defective products, which could in turn adversely affect Philips financial condition and operating results. In recent years, the risks that we and other companies face from cyber attacks have increased significantly. The objectives of these cyber attacks vary widely and may include, among things, disruption of operations including provision of services to customers or theft of intellectual property or other sensitive information belonging to us or other business partners. Successful cyber attacks may result in substantial costs and other negative consequences, which may include, but are not limited to, lost revenues, reputational damage, remediation costs, and other liabilities to customers and partners. Furthermore, enhanced protection measures can involve significant costs. We have experienced cyber attacks but to date have not incurred any significant damage as a result. However, there can be no assurance that in the future Philips will be as successful in avoiding damages from cyber attacks. Additionally, the integration of new companies and successful outsourcing of business processes are highly dependent on secure and well-controlled IT systems.

Warranty and product liability claims against Philips could cause Philips to incur significant costs and affect Philips results as well as its reputation and relationships with key customers.

Philips is from time to time subject to warranty and product liability claims with regard to product performance and effects. Philips could incur product liability losses as a result of repair and replacement costs in response to customer complaints or in connection with

the resolution of contemplated or actual legal proceedings relating to such claims. In addition to potential losses arising from claims and related legal proceedings, product liability claims could affect Philips reputation and its relationships with key customers (both customers for end products and customers that use Philips products in their production process). As a result, product liability claims could materially impact Philips financial condition and operating results.

Any damage to Philips reputation could have an adverse effect on its businesses.

Philips is exposed to developments which could affect its reputation. Such developments could be of an environmental or social nature, or connected to the behavior of individual employees or suppliers and could relate to adherence to regulations related to labor, health and safety, environmental and chemical management. Reputational damage could materially impact Philips financial condition and operating results.

7.5 Compliance risks

Legal proceedings covering a range of matters are pending in various jurisdictions against Philips and its current and former group companies. Due to the uncertainty inherent in legal proceedings, it is difficult to predict the final outcome.

Philips, including a certain number of its current and former group companies, is involved in legal proceedings relating to such matters as competition issues, commercial transactions, product liability, participations and environmental pollution. Since the ultimate outcome of asserted claims and proceedings, or the impact of any claims that may be asserted in the future, cannot be predicted with certainty, Philips financial position and results of operations could be affected materially by adverse outcomes.

Please refer to note 25, Contingent liabilities, for additional disclosure relating to specific legal proceedings.

Philips is exposed to governmental investigations and legal proceedings with regard to increased scrutiny of possible anti-competitive market practices.

Philips is facing increased scrutiny by national and European authorities of possible anti-competitive market practices, especially in product segments where Philips has significant market shares. For example, Philips and certain of its (former) affiliates are involved in investigations by competition law authorities in several jurisdictions into possible anti-competitive activities in the Cathode-Ray Tubes (CRT) industry and are engaged in litigation in this respect. Philips financial position and results could be materially affected by an adverse final outcome of these investigations and litigation, as well as any potential claims relating to this matter. Furthermore, increased scrutiny may hamper planned growth opportunities provided by potential acquisitions (see also note 25, Contingent liabilities).

Philips global presence exposes the company to regional and local regulatory rules which may interfere with the realization of business opportunities and investments in the countries in which Philips operates.

Philips has established subsidiaries in over 80 countries. These subsidiaries are exposed to changes in governmental regulations and unfavorable political developments, which may limit the realization of business opportunities or impair Philips local investments. Philips increased focus on the healthcare sector increases its exposure to highly regulated markets, where obtaining clearances or approvals for new products is of great importance, and the dependency on the funding available for healthcare systems. In addition, changes in reimbursement policies may affect spending on healthcare.

Philips is exposed to non-compliance with General Business Principles.

Philips attempts to realize its growth targets could expose it to the risk of non-compliance with the Philips General Business Principles, in particular anti-bribery provisions. This risk is heightened in growth geographies as corporate governance systems, including information structures and the monitoring of ethical standards, are less developed in growth geographies compared to mature geographies. Examples include commission payments to third parties, remuneration payments to agents, distributors, commissioners and the like (Agents), and the acceptance of gifts, which may be considered in some markets to be normal local business practice. (See also note 25, Contingent liabilities.)

Defective internal controls would adversely affect our financial reporting and management process.

The reliability of reporting is important in ensuring that management decisions for steering the businesses and managing both top-line and bottom-line growth are based on top-quality data. Flaws in internal control systems could adversely affect the financial position and results and hamper expected growth.

The correctness of disclosures provides investors and other market professionals with significant information for a better understanding of Philips businesses. Imperfections or lack of clarity in the disclosures could create market uncertainty regarding the reliability of the data presented and could have a negative impact on the Philips share price.

The reliability of revenue and expenditure data is key for steering the business and for managing top-line and bottom-line growth. The long lifecycle of healthcare sales, from order acceptance to accepted installation, together with the complexity of the accounting rules for when revenue can be recognized in the accounts, presents a challenge in terms of ensuring there is consistency of application of the accounting rules throughout Philips Healthcare s global business.

Compliance procedures have been adopted by management to ensure that the use of resources is consistent with laws, regulations and policies, and that resources are safeguarded against waste, loss and misuse.

Ineffective compliance procedures relating to the use of resources could have an adverse effect on the financial condition and operating results.

Philips is exposed to non-compliance with data privacy and product safety laws.

Philips brand image and reputation would be adversely impacted by non-compliance with the various (patient) data protection and (medical) product security laws. In particular, Philips Healthcare is subject to various data protection and safety laws. Privacy and product safety and security issues may arise, especially with respect to remote access or monitoring of patient data or loss of data on our customers systems, although Philips Healthcare contractually limits liability, where permitted.

Philips operates in a highly regulated product safety and quality environment. Philips products are subject to regulation by various government agencies, including the FDA (US) and comparable foreign agencies. Obtaining their approval is costly and time consuming, but a prerequisite for market introduction. A delay or inability to obtain the necessary regulatory approvals for new products could have a material adverse effect on business. The risk exists that product safety incidents or user concerns could trigger FDA business reviews which, if failed, could lead to business interruption which in turn could adversely affect Philips financial condition and operating results.

7.6 Financial risks

Philips is exposed to a variety of treasury risks including liquidity risk, currency risk, interest rate risk, commodity price risk, credit risk, country risk and other insurable risk.

Negative developments impacting the global liquidity markets could affect the ability to raise or re-finance debt in the capital markets or could lead to significant increases in the cost of such borrowing in the future. If the market expect a downgrade or downgrades by the rating agencies or if such a downgrade has actually taken place, it could increase our cost of borrowing, reduce our potential investor base and adversely affect our business.

Philips is exposed to fluctuations in exchange rates, especially between the US dollar and the euro. A high percentage of its business volume is conducted in the US but based on exports from Europe, whilst, a considerable amount of US dollar denominated imports is also sold in Europe. In addition, Philips is exposed to currency effects involving the currencies of growth geographies such as China, India and Brazil.

Philips is also exposed to interest rate risk, particularly in relation to its long-term debt position; this risk can take the form of either fair value or cash flow risk. Failure to effectively hedge this risk can impact Philips financial condition and operating results.

Philips supply chain is also exposed to fluctuations in energy and raw material prices. In recent times, commodities such as oil have been subject to volatile markets and significant price increases from time to time. If Philips is not able to compensate for, or pass on, its increased costs to customers, such price increases could have an adverse impact on its financial condition and operating results.

The credit risk of financial and non-financial counterparties with outstanding payment obligations creates exposure for Philips, particularly in relation to accounts receivable and liquid assets and fair values of derivatives and insurance contracts with financial counterparties. A default by counterparties in such transactions can have a material adverse effect on Philips financial condition and operating results.

For further analysis, please refer to note 34, Details of treasury risks.

Corporate Control, together with Sector and Functional management, performs an assessment of financial reporting risks at least annually.

A risk rating is assigned for each risk identified, based on the likelihood of occurrence and the potential impact of the risk on the financial statements and related disclosures. In determining the probability that a risk will result in a misstatement of a more than inconsequential amount or material nature, the following factors are considered to be critical: complexity of the associated accounting activity or transaction process, history of accounting and reporting errors, likelihood of significant (contingent) liabilities arising from activities, exposure to losses, existence of a related party transaction, volume of activity and homogeneity of the individual transactions processed and changes to the prior period in accounting characteristics compared to the previous period.

Important critical reporting risk areas identified within Philips following the risk assessment are:

- complex accounting for sales-related accruals, warranty provisions, tax assets and liabilities, pension benefits, and business combinations
- complex sales transactions relating to multi-element deliveries (combination of goods and services)
- valuation procedures with respect to assets (including goodwill and inventories)

- past experience of control failures relating to segregation of duties
- significant (contingent) liabilities such as environmental claims and other litigation
- outsourcing of high volume/homogeneous transactional finance and IT operations to third-party service providers

Processes and controls related to the identified critical risk areas will be subject to a more detailed set of requirements in terms of control documentation and control evaluation (monitoring) by Sector and Functional management due to their importance for the reliability of the financial statements and disclosures of the Group.

Philips is exposed to a number of different fiscal uncertainties which could have a significant impact on local tax results.

Philips is exposed to a number of different tax uncertainties which could result in double taxation, penalties and interest payments. These include transfer pricing uncertainties on internal cross-border deliveries of goods and services, tax uncertainties related to acquisitions and divestments, tax uncertainties related to the use of tax credits and permanent establishments, tax uncertainties due to losses carried forward and tax credits

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carried forward and potential changes in tax law that could result in higher tax expense and payments. Those uncertainties may have a significant impact on local tax, results which in turn could adversely affect Philips financial condition and operating results.

The value of the losses carried forward is subject to having sufficient taxable income available within the loss-carried-forward period, but also to having sufficient taxable income within the foreseeable future in the case of losses carried forward with an indefinite carry-forward period. The ultimate realization of the Company s deferred tax assets, including tax losses and credits carried forward, is dependent upon the generation of future taxable income in the countries where the temporary differences, unused tax losses and unused tax credits were incurred and during the periods in which the deferred tax assets become deductible. Additionally, in certain instances, realization of such deferred tax assets is dependent upon the successful execution of tax planning strategies. Accordingly, there can be no absolute assurance that all (net) tax losses and credits carried forward will be realized.

For further details, please refer to the fiscal risks paragraph in note 3, Income taxes.

Philips has defined-benefit pension plans in a number of countries. The funded status and the cost of maintaining these plans are influenced by financial market and demographic developments, creating volatility in Philips financials.

The majority of employees in Europe and North America are covered by defined-benefit pension plans. The accounting for defined-benefit pension plans requires management to determine discount rates, expected rates of compensation and expected returns on plan assets. Changes in these variables can have a significant impact on the projected benefit obligations and net periodic pension costs. A negative performance of the financial markets could have a material impact on funding requirements and net periodic pension costs and also affect the value of certain financial assets and liabilities of the company.

For further details, please see note 29, Pensions and other postretirement benefits.

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8 Management

Koninklijke Philips Electronics N.V. is managed by an Executive Committee which comprises the members of the Board of Management and certain key officers from functions, businesses and markets.

The Executive Committee operates under the chairmanship of the Chief Executive Officer and shares responsibility for the deployment of Philips strategy and policies, and the achievement of its objectives and results.

Under Dutch Law, the Board of Management is accountable for the actions and decisions of the Executive Committee and has ultimate responsibility for the management and external reporting of Koninklijke Philips Electronics N.V. and is answerable to shareholders at the

Frans van Houten

President/Chief Executive Officer (CEO)

Chairman of the Board of Management since April 2011 & Chief

Executive Officer of Philips Lighting (ad interim)

Corporate responsibilities: Chairman of the Executive Committee, Sector

Lighting, Internal Audit, Information Technology, Supply Management,

Marketing & Communication, Accelerate! - Overall transformation

Born 1960, Dutch

Jim Andrew*

Executive Vice President & Chief Strategy and Innovation Officer

Corporate responsibilities: Strategy, Innovation, Design, Sustainability

Born 1962, American

Eric Coutinho

Executive Vice-President, General Secretary & Chief Legal Officer

Corporate responsibilities: Legal, General Business Principles

Born 1951, Dutch

Ronald de Jong

Executive Vice President & Chief Market Leader

Corporate responsibilities: Markets, Areas & Countries (except Greater

China), Accelerate! - Customer Centricity

Born 1967, Dutch

Patrick Kung

Executive Vice President & Chief Executive Officer Philips Greater China

Corporate responsibilities: Greater China

Born 1951, American

Annual General Meeting of Shareholders. Pursuant to the two-tier corporate structure, the Board of Management is accountable for its performance to a separate and independent Supervisory Board.

The Rules of Procedure of the Board of Management and Executive Committee are published on the Company s website

(www.philips.com/investor).

Corporate governance

A full description of the Company s corporate governance structure is published in chapter 11, Corporate governance, of this report.

Pieter Nota

Executive Vice-President & Chief Executive Officer of Philips Consumer

Lifestyle Member of the Board of Management since April 2011

Corporate responsibilities: Sector Consumer Lifestyle, Accelerate! -

Resource to Win

Born 1964, Dutch

Steve Rusckowski

Executive Vice-President & Chief Executive Officer of Philips Healthcare

Member of the Board of Management since April 2007

Corporate responsibilities: Sector Healthcare, Accelerate! - End to end

business re-engineering

Born 1957, American

Carole Wainaina

Executive Vice President & Chief HR Officer

Corporate responsibilities: Human Resource Management, Accelerate! -

Culture and change management

Born 1966, Kenyan

Ron Wirahadiraksa

Executive Vice-President & Chief Financial Officer (CFO)

Member of the Board of Management since April 2011

Corporate responsibilities: Finance, Mergers & Acquisitions, Accelerate! -

Operating Model

Born 1960, Dutch

* In the course of 2011, Jim Andrew took over the innovation portfolio from Gottfried Dutiné, who retired per December 31, 2011.

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9 Supervisory Board

The Supervisory Board supervises the policies of the executive management and the general course of affairs of Philips and advises the executive management thereon. The Supervisory Board, in the two-tier corporate structure under Dutch law, is a separate and independent corporate body.

The Rules of Procedure of the Supervisory Board are published on the Company s website. For details on the activities of the Supervisory Board, see chapter 10, Supervisory Board report, of this report.

J. van der Veer

Chairman

Chairman of Corporate Governance and Nomination & Selection Committee

Member of the Supervisory Board since 2009; first term expires in 2013.

Former Chief Executive and currently Non-executive Director of Royal Dutch Shell and Vice-Chairman of the Supervisory Board of ING Group.

Member of the Supervisory Board of Concertgebouw N.V.

Born 1947, Dutch** ***

J.M. Thompson

Vice-Chairman and Secretary

Member of the Supervisory Board since 2003; third term expires in 2015

Former Executive Vice-Chairman of the Board of Directors of IBM, and director of Hertz and Robert Mondavi; currently member of the Boards of Directors of Toronto Dominion Bank and Thomson Reuters Corporation

Born 1942, Canadian ** ***

C.J.A. van Lede

Chairman of Remuneration Committee

Member of the Supervisory Board since 2003; third term expires in 2015.

Former Chairman of the Board of Management of Akzo Nobel and currently Chairman of the Supervisory Board of Heineken, member of the Boards of AirFrance/KLM, Sara Lee Corporation, Air Liquide and Senior Advisor JP Morgan Plc.

Born 1942, Dutch**

E. Kist

Chairman of Audit Committee

Member of the Supervisory Board since 2004; second term expires in 2012.

Former Chairman of the Executive Board of ING Group and currently member of the Supervisory Boards of the Dutch Central Bank, DSM, Moody s Investor Service and Stage Entertainment

Born 1944, Dutch*

J.J. Schiro

Member of the Supervisory Board since 2005; second term expires in 2013

Former CEO of Zurich Financial Services and Chairman of the Group Management Board. Also serves on various boards of private and listed companies including Goldman Sachs as Chairman of the audit committee, PepsiCo as presiding director of the Supervisory Board and member of the audit committee and Reva Medical as member of the Supervisory Board and audit committee

Born 1946, American** ***

H. von Prondzynski

Member of the Supervisory Board since 2007; second term expires in 2015

Former member of the Corporate Executive Committee of the F. Hofmann- La Roche Group and former CEO of Roche Diagnostics, currently Chairman of the Supervisory Board of HTL Strefa. Member of the Supervisory Boards of various private and listed companies including Qiagen and Hospira

Born 1949, German*

C.A. Poon

Member of the Supervisory Board since 2009; first term expires in 2013

Former Vice Chairman of Johnson & Johnson s Board of Directors and Worldwide Chairman of the Pharmaceuticals Group. Currently dean of Ohio State University s Fisher College of Business and member of the Board of Directors of Prudential and Regeneron

Born 1952, American*

J. Tai

Member of the Supervisory Board since 2011; first term expires in 2015

Former vice-chairman and CEO of DBS Group and DBS Bank Ltd and former managing director at J.P. Morgan &Co. Incorporated. Currently a member of the Board of Directors at NYSE Euronext, The Bank of China Limited, Singapore Airlines and MasterCard incorporated. Also non-executive chairman of privately-held Brookstone, Inc., and director of privately-held Cassis International Pte.

Born 1950, American*

* member of the Audit Committee

** member of the Remuneration Committee

*** member of the Corporate Governance and Nomination & Selection Committee

* Mr Thompson has expressed his wish to relinquish his position as a member of the Supervisory Board as of the closing of the 2012 General Meeting of Shareholders.

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10 Supervisory Board report

Introduction

General

The supervision of the policies and actions of the executive management of Koninklijke Philips Electronics N.V. (the Company) is entrusted to the Supervisory Board, which, in the two-tier corporate structure under Dutch law, is a separate and independent corporate body. This independence is also reflected in the requirement that members of the Supervisory Board can neither be a member of the Board of Management, member of the Executive Committee nor an employee of the Company. The Supervisory Board considers all its members to be independent pursuant to the Dutch Corporate Governance Code of December 2008 (the Dutch Corporate Governance Code) and the applicable US standards.

While retaining overall responsibility, the Supervisory Board assigns certain of its tasks to three permanent committees: the Corporate Governance and Nomination & Selection Committee, the Remuneration Committee and the Audit Committee. The separate reports of these committees are part of this report and are published below. The members (of the committees) of the Supervisory Board are listed in chapter 9, Supervisory Board, of this report.

For further information on the Company s corporate governance structure and a more detailed description of the duties and functioning of the Supervisory Board, see chapter 11, Corporate governance, of this report.

Activities of the Supervisory Board

In 2011, 10 meetings were held of which three meetings were ad hoc to discuss specific topics such as the approval of the formation of the TV joint venture. Furthermore, the Supervisory board from time to time collectively and individually interacted with management outside the formal Supervisory Board meetings. All members were frequently present at the meetings of the Supervisory Board. The Audit Committee met five times. The Corporate Governance and Nomination & Selection Committee had four regular meetings and several ad hoc meetings in connection with succession matters. The Remuneration Committee had seven regular meetings.

During 2011 the Supervisory Board devoted considerable time to discuss the Company s strategy and performance as well as the effects of the macroeconomic outlook on Philips. Furthermore, the Supervisory Board engaged in dedicated sessions on risk management, the formation of the TV joint venture and the Accelerate! program.

In January the Supervisory Board discussed the financial performance of the Philips Group in 2010, the Management Agenda 2011, the strategy for the TV business, the agenda for the 2011 General Meeting of Shareholders, including the proposed dividend to shareholders, the dividend policy and recommendations for (re)appointment of candidates for the Board of Management and Supervisory Board. Moreover, the Supervisory Board received an update on and discussed M&A activities and made amendments to the Rules of Procedure of the Supervisory Board.

In February the Supervisory Board discussed the report of the external auditor of the Company and approved the Annual Report 2010. Furthermore, the Supervisory Board discussed the developments in the TV business.

In March the Supervisory Board discussed the performance of the Philips Group, various M&A activities, the developments in the TV business and the intention to form a TV joint venture, the IT strategy and innovation strategy of the company. The Remuneration Committee gave an update to the full Supervisory Board on remuneration topics.

In April the Supervisory Board assembled in an ad hoc session to discuss the formation of the TV joint venture and the formation of the Executive Committee.

In May the Supervisory Board had a special session to approve the acquisition of Povos (China).

In June the overall strategy of the Company and that of the individual sectors was discussed including the main risks related thereto. In addition, the Supervisory Board discussed the capital and financing structure of the Philips Group and possibility to launch a share buyback program, the progress made in forming the TV joint venture, elements of the Accelerate! program and the Philips General Business Principles.

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In July a meeting was held to discuss the Company s second quarter results.

In August the Supervisory Board discussed the in-depth strategy of the Company and the individual operating sectors, the IT architecture of the company and the formation of the TV joint venture.

In October the Supervisory Board discussed the third quarter 2011 financial results, the TV joint venture, the sustainability program and risk management.

In December the Supervisory Board discussed the 2012 Commitment (management agenda), the situation on the financial markets, especially in Europe, and possible implications for the financing needs of the Philips Group, the share buyback and the Accelerate! program.

Other discussion topics included:

- financial performance of the Philips Group and the sectors
- implementation of the Philips Business System to improve granular performance insights
- management development and succession planning, especially with respect to the CEO of the Lighting sector
- evaluation of the Board of Management and its members
- geographic performance and opportunities in growth geographies, including the shift of resources from mature to growth geographies
- the mid-term performance targets 2013 as well as financial scenarios for 2012 and beyond
- the system of internal business controls and risk management
- legal proceedings, including antitrust proceedings
- the EUR 800 million cost-savings program which forms part of the Accelerate! program
- the governance and financial position of Philips major pension funds

Composition and evaluation of the Supervisory Board

The Supervisory Board currently consists of eight members. The Supervisory Board aims for an appropriate combination of knowledge and experience among its members in relation to the global and multi-product character of Philips businesses. Consequently, the Supervisory Board aims for an appropriate level of experience in marketing, technological, manufacturing, financial, economic, social and legal aspects of international business, government and public administration. The full profile is described in the chapter Corporate governance. Members are appointed for fixed terms of four years and may be reappointed for two additional four-year terms.

All members of the Supervisory Board completed a questionnaire to verify compliance in 2011 with applicable corporate governance rules and the Rules of Procedure of the Supervisory Board. Based on written feedback from each Supervisory Board member, the Chairman of the Supervisory Board discussed the functioning of the Supervisory Board, its committees and its members in private discussions. He shared common themes and conclusions in a private session of the Supervisory Board; items discussed include the follow-up to the evaluation regarding 2010, the composition and competencies of the Supervisory Board and the set-up and content of meetings and meeting materials. In the same meeting the relationship with the Board of Management and Executive Committee was discussed.

Changes Supervisory Board and committees 2011

Mr Hessels has resigned as Chairman and member of the Supervisory Board as from the closing of the 2011 General Meeting of Shareholders.

Mr Van der Veer has succeeded Mr Hessels as Chairman of the Supervisory Board.

Mr Thompson has been reappointed as member of the Supervisory Board.

Mr Van Lede has been reappointed as member of the Supervisory Board.

Mr Von Prondzynski has been reappointed as member of the Supervisory Board.

Mr Tai has become a member of the Supervisory Board as from the 2011 General Meeting of Shareholders and has become a member of the Audit Committee.

Mr Van der Veer has become Chairman of the Corporate Governance and Nomination & Selection Committee and is no longer a member of the Audit Committee.

Changes and reappointments Supervisory Board 2012

It is proposed to appoint Ms Dhawan.* **

It is proposed to reappoint Mr Kist.*

Mr Thompson has expressed his wish to relinquish his position as a member of the Supervisory Board as of the closing of the 2012 General Meeting of Shareholders.

Mr Schiro will replace Mr Thompson as Vice- Chairman of the Supervisory Board as per April 26, 2012.

Mr Tai will become Chairman of the Audit Committee as per April 26, 2012.

Mr van Lede and Ms Dhawan will join the Audit Committee, Mr Kist and Ms Poon will no longer be a member of the Audit Committee as per April 26, 2012.

Mr Schiro will become Chairman of the Remuneration Committee as per April 26, 2012.

Ms Poon and Mr Kist will join the Remuneration Committee, Mr van Lede will no longer be a member of the Remuneration Committee as per April 26, 2012.

Ms Poon will join the Corporate Governance and Nomination & Selection Committee as per April 26, 2012.

* Subject to approval of (re)appointment by the General Meeting of Shareholders

** Ms Dhawan has held various positions in sales and marketing at leading Indian IT companies and currently is the Managing Director of Hewlett-Packard India

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10 Supervisory Board report 10 - 10.1

Changes Management 2011

- Mr Kleisterlee has retired as President/CEO and as a member of the Board of Management as from the closing of the 2011 General Meeting of Shareholders.
- Mr Sivignon has relinquished his position as CFO and as a member of the Board of Management as from the closing of the 2011 General Meeting of Shareholders.
- Mr Van Houten has been appointed as President/ CEO and as a member of the Board of Management.
- Mr Wirahadiraksa has been appointed as a member of the Board of Management.
- Mr Nota has been appointed as a member of the Board of Management.
- Mr Provoost has relinquished his position as a member of the Board of Management as from September 30, 2011.
- Mr Dutiné has retired as a member of the Board of Management as from December 31, 2011.
- Messrs Andrew, Coutinho, De Jong, and Kung have been appointed as members of the Executive Committee as from July 2011.
- Ms Wainaina has been appointed as a member of the Executive Committee as from September 2011.

10.1 Report of the Corporate Governance and Nomination & Selection Committee

The Corporate Governance and Nomination & Selection Committee, currently consisting of three members, reviews the corporate governance principles applicable to the Company and the selection criteria and appointment procedures for the Board of Management, Executive Committee as well as the Supervisory Board. The Committee then advises the full Supervisory Board thereon. Furthermore, it supervises the policy on the selection criteria and appointment procedures for Philips senior management.

In 2011, the Committee consulted with the President/ CEO and other members of the Board of Management on the appointment or reappointment of candidates to fill current and future vacancies on the Board of Management, Executive Committee and Supervisory Board. Following which it prepared decisions and advised the Supervisory Board on the candidates for appointment.

The Committee devoted specific attention to the establishment of the new Executive Committee that is tasked with the management of the Company and comprises the members of the Board of Management and certain senior executives. Subsequently, the Nomination & Selection Committee reviewed and approved the individual appointments of the members of the Executive Committee.

The Committee further discussed developments in the area of corporate governance and relevant legislative changes. It also discussed possible agenda items for the upcoming 2012 General Meeting of Shareholders.

10.2 Report of the Remuneration Committee

Introduction

The Remuneration Committee, currently consisting of four members, is responsible for preparing decisions of the Supervisory Board on the remuneration of individual members of the Board of Management and the Executive Committee. In performing its duties and responsibilities the Remuneration Committee is assisted by an in-house remuneration expert acting on the basis of a protocol which ensures that he acts on the instructions of the Remuneration Committee and maintains an independent position in which conflicts of interest are avoided. The Remuneration Committee s tasks are laid down in the Charter of the Remuneration Committee that forms part of the Rules of Procedure of the Supervisory Board. Currently, no member of the Remuneration Committee is a member of the management board of another listed company. In line with applicable statutory and other regulations this report focuses on the employment and remuneration of the members of the Board of Management.

10.2.1 Remuneration policy

The objective of the remuneration policy for members of the Board of Management, as adopted by the General Meeting of Shareholders, is in line with that for executives throughout the Philips Group: to attract, motivate and retain qualified senior executives of the highest caliber, with an international mindset and background essential for the successful leadership and effective management of a large global company. The Board of Management remuneration policy is benchmarked regularly against companies in the general industry and aims at the median market position.

One of the goals behind the policy is to focus on improving the performance of the company and enhance the value of the Philips Group. Consequently, the remuneration package includes a variable part in the form of an annual cash incentive and a long-term incentive consisting of restricted share rights and stock options. The policy does not encourage inappropriate risk-taking.

The performance targets for the members of the Board of Management are determined annually at the beginning of the year. The Supervisory Board determines whether performance conditions have been met and can adjust the pay-out of the annual cash incentive and the long-term incentive grant upward or downward if the predetermined performance criteria were to produce an unfair result in extraordinary circumstances. The authority for such adjustments exists on the basis of the ultimum remedium- and claw back clauses (in accordance with best practice provisions II.2.10 and II.2.11 of the Dutch Corporate Governance Code). Further information on the performance targets is given in the chapters on the Annual Incentive and the Long-Term Incentive Plan respectively.

10.2.2 Contracts of employment

The main elements of the contracts of the members of the Board of Management are made public no later than the date of the notice convening the General Meeting of Shareholders at which the appointment of the member of the Board of Management will be proposed.

Term of appointment

The members of the Board of Management are appointed for a period of 4 years.

Contract terms for current members[1)]

	end of term
F.A. van Houten	March 31, 2015
R.H. Wirahadiraksa	March 31, 2015
G.H.A. Dutiné[2)]	April 1, 2014
P.A.J. Nota	March 31, 2015

S.H. Rusckowski	April 1, 2014

1) Reference date for board membership is December 31, 2011
2) Mr Dutiné retired as from December 31, 2011

Notice period

Termination of employment by a member of the Board of Management is subject to three months notice. A notice period of six months will be applicable in the case of termination by the Company.

Severance payment

The severance payment is set at a maximum of one year s salary.

Share ownership

To further align the interests of the members of the Board of Management and shareholders, restricted share rights granted to members of the Board of Management shall be retained for a period of at least five years or until at least the end of their employment, if this period is shorter.

Scenario analysis

The Remuneration Committee annually conducts scenario analysis. This includes the calculation of remuneration under different scenarios, whereby different Philips performance assumptions and corporate actions are looked at. The Supervisory Board concluded that the current policy has and continues to prove to function well in terms of the relationship between the strategic objectives and the chosen performance criteria.

10.2.3 Remuneration costs

The table below gives an overview of the costs incurred by the Company in the financial year in relation to the remuneration of the Board of Management. Costs related to stock option and restricted share right grants are taken by the Company over a number of years. As a consequence, the costs mentioned below in the columns stock options and restricted share rights are the accounting cost of multi-year grants given to members of the Board of Management during their board membership.

Information on the individual remuneration of the (former) members of the Board of Management is shown in the tables below as well as in the table in note 32, Information on remuneration.

The previously granted stock options and restricted share rights to Messrs. P-J. Sivignon and R.S. Provoost continue to vest in accordance with the terms and conditions of the Long-Term Incentive Plan.

Remuneration Board of Management 2011[1)]
in euros

				Costs in the year			
	annual base salary	base salary	realized annual incentive	stock options	restricted share rights	pension costs	other compensation
F.A. van Houten[2)]	1,100,000	825,000	363,000	125,957	253,926	297,179	39,709
R.H. Wirahadiraksa[2)]	600,000	450,000	148,500	105,477	180,686	170,299	72,125
G.H.A. Dutiné	650,000	650,000	214,500	462,263	334,186	245,018	143,774
P.A.J. Nota[2)]	600,000	450,000	148,500	131,159	255,159	168,532	67,067
S.H. Rusckowski	700,000	687,500	231,000	211,915	341,856	254,975	336,773

1) Reference date for board membership is December 31, 2011
2) Costs mentinoned relate to the period of board membership. Messrs Van Houten, Wirahadiraksa and Nota have been appointed per March 31, 2011, therefore the amounts are related to the period April - December 2011.

This table Remuneration Board of Management 2011 forms an integral part of the Group financial statements, please refer to note 32, Information on remuneration.

10.2.4 Base salary

The salaries of the members of the Board of Management have been increased in line with the policy for other employees on the yearly review date in April 2011.

10.2.5 Annual Incentive

Each year, a variable cash incentive (Annual Incentive) can be earned, based on the achievement of specific and challenging targets. The Annual Incentive criteria are for 80% the financial indicators of the Company (net income, comparable sales growth and free cash flow). In 2011 the highest weighting was for comparable sales growth. The comparable sales growth calculation focuses on organic growth of the businesses and excludes currency translation effects and impact of acquisitions/ divestments. The 20% team targets comprise the major elements of the management agenda, including sustainability elements such as Employee Engagement Score and Green Product sales.

The on-target Annual Incentive percentage is set at 60% of the base salary for members of the Board of Management and 80% of the base salary for the President/ CEO, and the maximum Annual Incentive achievable is 120% of the annual base salary for members of the Board of Management and for the President/CEO it is 160% of the annual base salary.

Pay-out in 2012[1)]

in euros

	realized annual incentive	as a % of base salary (2011)
F.A. van Houten [2)]	363,000	44.0%
R.H. Wirahadiraksa[2)]	148,500	33.0%
G.H.A. Dutiné	214,500	33.0%
P.A.J. Nota[2)]	148,500	33.0%
S.H Rusckowski	231,000	33.0%

1) Reference date for board membership is December 31, 2011

2) Period March 31 - December 31, 2011

10.2.6 Long-Term Incentive Plan

The LTIP consists of a mix of stock options and restricted share rights. It aims to align the interests of the participating employees with the shareholders interests and to attract, motivate and retain participating employees.

The stock option plan vests three years after grant, dependent upon employment on the vesting date. The exercise price is the share price upon grant, and the total option term is 10 years.

A restricted share right is a right to receive a share, subject to being employed with Philips on the vesting date. Vesting occurs in three equal tranches 1, 2 and 3 years respectively after grant. An additional 20% of the restricted share rights grant is deferred, subject to the condition that released shares are held for three years after vesting, and employment with Philips is continued during this period.

The actual number of stock options and restricted share rights to be granted to the board members is performance-related and depends on the ranking of Philips in the Total Shareholder Return (TSR) peer group and the realization of the team targets of the Board of Management. The peer group comprises the following companies: Electrolux, Emerson Electric, General Electric, Hitachi, Honeywell International, Johnson & Johnson, Matsushita, Philips, Schneider, Siemens, Toshiba and 3M.

The TSR ranking is the basis for the two different multipliers that apply to the grant of stock options and restricted share rights. The multipliers are determined in line with the table below.

TSR multiplier

Philips position ranking	1	2	3	4	5	6
restricted share rights	2.0	1.8	1.6	1.4	1.2	1.0
stock options	1.2	1.2	1.2	1.2	1.0	1.0

TSR multiplier

Philips position ranking	7	8	9	10	11	12
restricted share rights	1.0	0.8	0.6	0.4	0.2	0.0

stock options	1.0	1.0	0.8	0.8	0.8	0.8

Based on Philips share performance over the period December 2007 - December 2010, Philips ranked 8th in its peer group.

In 2011, members of the Board of Management were granted 303,000 stock options and 80,808 restricted share rights under the LTIP (excluding 20% premium shares deferred for a three-year holding period).

The following tables provide an overview of stock option grants made, but not yet vested (locked up), and of restricted share rights granted but not yet released. The reference date for board membership is December 31, 2011.

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Stock options

in euros

	grant date	number of stock options	value at grant date	end of lock up period	value at end of lock up period
F.A. van Houten	2010	20,400[1)]	103,428	2013	n.a.
	2011	75,000	366,000	2014	n.a.
R.H. Wirahadiraksa	2008	10,800[1)]	59,616	2011	38,238
	2009	12,000[1)]	33,240	2012	n.a.
	2010	16,500[1)]	81,675	2013	n.a.
	2011	51,000	248,880	2014	n.a.
G.H.A. Dutiné	2008	38,403	211,985	2011	135,970
	2009	38,400	106,368	2012	n.a.
	2010	40,800	201,960	2013	n.a.
	2011	51,000	248,880	2014	n.a.
P.A.J. Nota	2010	40,800[1)]	206,856	2013	n.a.
	2011	51,000	248,880	2014	n.a.
S.H. Rusckowski	2008	38,403	211,985	2011	135,970
	2009	38,400	106,368	2012	n.a.
	2010	40,800	201,960	2013	n.a.
	2011	75,000	366,000	2014	n.a.

1) Awarded before date of appointment as a member of the Board of Management

Restricted share rights

in euros

	grant date	originally granted number of restricted share rights	value at grant date	number of restricted share rights released in 2011	value at release date in 2011
F.A. van Houten	2010	5,100[1)]	116,688	1,700	24,939
	2011	20,001	418,021	n.a.	n.a.
R.H. Wirahadiraksa	2008	3,600[1)]	83.196	1,200	25,644
	2009	3,200[1)]	40,416	1,067	22,802
	2010	4,125[1)]	102,713	1,375	27,954
	2011	13,602	284,282	n.a.	n.a.
G.H.A. Dutiné	2008	12,801	295,831	4,267	91,186
	2009	10,242	129,356	3,414	72,957
	2010	10,200	253,980	3,400	69,122
	2011	13,602	284,282	n.a.	n.a.
P.A.J. Nota	2010	10,200[1)]	233,376	3,400	49,878
	2011	13,602	284,282	n.a.	n.a.
S.H. Rusckowski	2008	12,801	295,831	4,267	91,186
	2009	10,242	129,356	3,414	72,957
	2010	10,200	253,980	3,400	69,122

	2011	20,001	418,021	n.a.	n.a.

[1] Awarded before date of appointment as a member of the Board of Management

For more details of the LTIP, see note 30, Share-based compensation.

10.2.7 Pensions

Eligible members of the Board of Management participate in the Executives Pension Plan in the Netherlands consisting of a combination of a defined-benefit (career average) and defined-contribution plan. The target retirement age under the plan is 62.5. The plan does not require employee contributions. For more details, see note 32, Information on remuneration.

10.2.8 Additional arrangements

In addition to the main conditions of employment, a number of additional arrangements apply to members of the Board of Management. These additional arrangements, such as expense and relocation allowances, medical insurance, accident insurance and company car arrangements, are in line with those for Philips executives in the Netherlands. In the event of disablement, members of the Board of Management are entitled to benefits in line with those for other Philips executives in the Netherlands.

Unless the law provides otherwise, the members of the Board of Management and of the Supervisory Board shall be reimbursed by the Company for various costs and expenses, like reasonable costs of defending claims, as formalized in the articles of association. Under certain circumstances, described in the articles of association, such as an act or failure to act by a member of the Board of Management or a member of the Supervisory Board that can be characterized as intentional (opzettelijk), intentionally reckless (bewust roekeloos) or seriously culpable (ernstig verwijtbaar), there will be no entitlement to this reimbursement. The Company has also taken out liability insurance (D&O Directors & Officers) for the persons concerned.

10.2.9 Remuneration Supervisory Board

The table below gives an overview of the remuneration structure, which has remained unchanged since 2008.

Remuneration 2011[1)]

in euros per year

	Chairman	Member
Supervisory Board	110,000	65,000
Audit Committee	15,000	10,000
Remuneration Committee	12,500	8,000
Corporate Governance and Nomination & Selection Committee	12,500	6,000
Fee for intercontinental traveling per trip	3,000	3,000
Entitlement Philips product arrangement	2,000	2,000

1) For more details, see note 32, Information on remuneration

10.2.10 2012

Annual Incentive

To support the strategic direction of the Company the financial targets for the Annual Incentive 2012 have been set in line with our (mid-term) performance goals. Following the overall direction within Philips, line-of-sight for the sector CEO s will be introduced, whereby half of their financial targets will be related to their sector and the remaining half to the Philips Group. The team targets will remain 20% of the total annual incentive opportunity.

Long-Term Incentive

A one-time special Long-Term Incentive grant was made to a group of key employees below the level of Board of Management (approx. 500 persons) in January 2012. The purpose of this Accelerate! Grant is to focus the key-leaders on achieving the 2013 objectives: 4-6% comparable sales growth CAGR, 10-12% Reported Adjusted IFO and 12-14% return on invested capital (ROIC).

The Accelerate! Grant has the following features:

- An equal balance of shares and options (1 to 1);
- The vesting of the granted shares and options is based on achieving specific midterm (2013) financial objectives. Thus the vesting of this special grant is dependent on future performance;
- The vesting period for both the shares and the options is two years with an additional two year holding period applying to the shares.

The Supervisory Board is supportive of this program and contemplates introducing similar awards for the Board of Management. This will be further discussed by the Supervisory Board and in due time submitted to the General Meeting of Shareholders for approval.

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10.3 Report of the Audit Committee

The Audit Committee, currently consisting of four members, assists the Supervisory Board in fulfilling its supervisory responsibilities for the integrity of the Company s financial statements, the financial reporting process, the system of internal business controls and risk management, the internal and external audit process, the internal and external auditor s findings and recommendations, independence and performance, as well as the Company s process for monitoring compliance with laws and regulations and the General Business Principles (GBP). Moreover, the Audit Committee evaluates the performance of the external auditor every 3 years, in accordance with the Philips Policy on Auditor Independence.

The Audit Committee met five times in 2011 and reported its findings to the plenary Supervisory Board. The President/CEO, the Chief Financial Officer, the internal auditor, the Group Controller and the external auditor attended all regular meetings. Furthermore, the Audit Committee met each quarter separately with each of the President/CEO, the Chief Financial Officer, the internal auditor and the external auditor.

In accordance with its charter, which is part of the Rules of Procedure of the Supervisory Board, the Audit Committee in 2011 reviewed the Company s annual and interim financial statements, including non-financial information, prior to publication thereof. It also assessed in its quarterly meetings the adequacy and appropriateness of internal control policies and internal audit programs and their findings.

In its 2011 meetings, the Audit Committee periodically reviewed matters relating to accounting policies, financial risks and compliance with accounting standards. Compliance with statutory and legal requirements and regulations, particularly in the financial domain, was also reviewed. Important findings, identified risks and follow-up actions were examined thoroughly in order to allow appropriate measures to be taken.

With regard to the internal audit, the Audit Committee reviewed, and if required approved, the internal audit charter, audit plan, audit scope and its coverage in relation to the scope of the external audit, as well as the staffing, independence and organizational structure of the internal audit function. With regard to the external audit, the Audit Committee reviewed the proposed audit scope, approach and fees, the independence of the external auditors, non-audit services provided by the external auditors in conformity with the Philips Policy on Auditor Independence, as well as any changes to this policy. The Audit Committee has assessed the performance of the external auditor. For information on the fees of KPMG Accountants N.V., please refer to the table Fees KPMG in note 1, Income from operations.

In 2011, the Audit Committee periodically discussed the company s policy on business controls, the GBP including the deployment thereof and amendments thereto, and Philips major areas of risk, including the internal auditor s reporting thereon. The Audit Committee was informed on, discussed and monitored closely the company s internal control certification processes, in particular compliance with section 404 of the US Sarbanes-Oxley Act and its requirements regarding assessment, review and monitoring of internal controls. It also discussed risk management, tax issues, IT strategy, legal proceedings including antitrust investigations and related provisions, environmental exposures and financing and liquidity of the company, dividend, pensions, valuation and performance of financial holdings and recent acquisitions, developments in regulatory investigations, as well as a financial evaluation of the investments made in 2008.

Financial statements 2011

The financial statements of Koninklijke Philips Electronics N.V. for 2011, as presented by the Board of Management, have been audited by KPMG Accountants N.V., independent auditors. Their reports have been included in the section Group financial statements; section 12.12, Independent auditor s report - Group, of this report and the section Company financial statement; section 13.5, Independent auditor s report - Company, of this report. We have approved these financial statements, and all individual members of the Supervisory Board (together with the members of the Board of Management) have signed these documents.

We recommend to shareholders that they adopt the 2011 financial statements. We likewise recommend to shareholders that they adopt the proposal of the Board of Management to make a distribution of EUR 0.75 per common share (up to EUR 695 million), in cash or in shares at the option of the shareholder, against the reserve retained earnings.

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Finally, we would like to express our thanks to the members of the Executive Committee and all other employees for their continued contribution during the year.

February 23, 2012

The Supervisory Board

11 Corporate governance 11.1 - 11.1

11 Corporate governance

Corporate governance of the Philips group

Introduction

Koninklijke Philips Electronics N.V., a company organized under Dutch law (the Company), is the parent company of the Philips Group (Philips or the Group). The Company, which started as a limited partnership with the name Philips & Co in Eindhoven, the Netherlands, in 1891, was converted into the company with limited liability N.V. Philips Gloeilampenfabrieken on September 11, 1912. On May 6, 1994, the name was changed to Philips Electronics N.V., and on April 1, 1998, the name was changed to Koninklijke Philips Electronics N.V. Its shares have been listed on the Amsterdam Stock Exchange, Euronext Amsterdam, since 1913. The shares have been traded in the United States since 1962 and have been listed on the New York Stock Exchange since 1987.

Over the last decades the Company has pursued a consistent policy to enhance and improve its corporate governance in line with Dutch, US and international (codes of) best practices. The Company has incorporated a fair disclosure practice in its investor relations policy, has strengthened the accountability of its executive management and its independent supervisory directors, and has increased the rights and powers of shareholders and the communication with investors. The Company is required to comply with, inter alia, Dutch Corporate Governance rules, the US Sarbanes-Oxley Act, New York Stock Exchange rules and related regulations, insofar as applicable to the Company. A summary of significant differences between the Company s corporate governance structure and the New York Stock Exchange corporate governance standards is published on the Company s website (www.philips.com/investor).

In this report, the Company addresses its overall corporate governance structure and states to what extent it applies the provisions of the Dutch Corporate Governance Code of December 10, 2008 (the Dutch Corporate Governance Code). This report also includes the information which the Company is required to disclose pursuant to the governmental decree on Article 10 Takeover Directive and the governmental decree on Corporate Governance. The Supervisory Board and the Board of Management, which are responsible for the corporate governance structure of the Company, are of the opinion that the principles and best practice provisions of the Dutch Corporate Governance Code that are addressed to the Board of Management and the Supervisory Board, interpreted and implemented in line with the best practices followed by the Company, are being applied. Deviations from aspects of the corporate governance structure of the Company, when deemed necessary in the interests of the Company, will be disclosed in the Annual Report. Substantial changes in the Company s corporate governance structure and in the Company s compliance with the Dutch Corporate Governance Code are submitted to the General Meeting of Shareholders for discussion under a separate agenda item.

11.1 Board of Management

Introduction

The Board of Management (the Board of Management) is entrusted with the management of the Company. Certain key officers have been appointed to manage the Company together with the Board of Management. The members of the Board of Management and these key officers together constitute the Executive Committee (the Executive Committee). Under the chairmanship of the President/Chief Executive Officer (CEO) the members of the Executive Committee share responsibility for the deployment of its strategy and policies, and the achievement of its objectives and results. The Executive Committee has, for practical purposes, adopted a division of responsibilities indicating the functional and business areas monitored and reviewed by the individual members. For the purpose of this document, where the Executive Committee is mentioned this also includes the Board of Management unless the context requires otherwise.

The members of the Board of Management remain accountable for the actions and decisions of the Executive Committee and have ultimate responsibility for the Company s management and the external reporting and are answerable to shareholders of the Company at the Annual General Meeting of Shareholders.

All resolutions of the Executive Committee are adopted by majority vote comprising the majority of the members of the Board of Management present or represented, such majority comprising the vote of the CEO. The Board of Management retains the authority to, at all times and in all circumstances, adopt resolutions without the participation of the other members of the Executive Committee. In discharging its duties, the Executive Committee shall be guided by the interests of the Company and its affiliated enterprise, taking into consideration the interests of the

Company s stakeholders.

The Executive Committee is supervised by the Supervisory Board and provides the latter with all information the Supervisory Board needs to fulfill its own responsibilities. Major decisions of the Board of Management and Executive Committee require the approval of the Supervisory Board; these include decisions concerning (a) the operational and financial objectives of the Company, (b) the strategy designed to achieve the objectives, (c) if necessary, the parameters to be applied in relation to the strategy and (d) corporate social responsibility issues that are relevant to the Company.

The Executive Committee follows the Rules of Procedure of the Board of Management and Executive Committee, which set forth procedures for meetings, resolutions, minutes and (vice-) chairmanship. These Rules of Procedure are published on the Company s website.

(Term of) Appointment and conflicts of interests

Members of the Board of Management and the CEO are elected by the General Meeting of Shareholders upon a binding recommendation drawn up by the Supervisory Board after consultation with the CEO. This binding recommendation may be overruled by a resolution of the General Meeting of Shareholders adopted by a simple majority of the votes cast and representing at least one-third of the issued share capital. If a simple majority of the votes cast is in favor of the resolution to overrule the binding recommendation, but such majority does not represent at least one-third of the issued share capital, a new meeting may be convened at which the resolution may be passed by a simple majority of the votes cast, regardless of the portion of the issued share capital represented by such majority. The remaining members of the Executive Committee are appointed by the CEO, subject to approval by the Supervisory Board.

Members of the Board of Management and the CEO are appointed for a term of four years, it being understood that this term expires at the end of the General Meeting of Shareholders to be held in the fourth year after the year of their appointment. Reappointment is possible for consecutive terms of four years or, if applicable, until a later retirement date or other contractual termination date in the fourth year, unless the General Meeting of Shareholders resolves otherwise. Members may be suspended by the Supervisory Board and the General Meeting of Shareholders and dismissed by the latter. Individual data on the members of the Board of Management and Executive Committee are published in chapter 8, Management, of this report.

The acceptance by a member of the Board of Management of membership of the supervisory board of another company requires the approval of the Supervisory Board. The Supervisory Board is required to be notified of other important positions (to be) held by a member of the Board of Management. No member of the Board of Management holds more than two supervisory board memberships of listed companies, or is a chairman of such supervisory board, other than of a Group company or participating interest of the Company.

The Company has formalized its rules to avoid conflicts of interests between the Company and members of the Board of Management. The articles of association state that in the event of a legal act or a lawsuit between the Company and a member of the Board of Management, certain of such member s relatives, or certain (legal) entities in which a member of the Board of Management has an interest, and insofar as the legal act is of material significance to the Company and/or to the respective member of the Board of Management, the respective member of the Board of Management shall not take part in the decision-making in respect of the lawsuit or the legal act. Resolutions concerning such legal acts or lawsuits require the approval of the Supervisory Board.

These rules apply to members of the Executive Committee correspondingly.

Legal acts as referred to above shall be mentioned in the Annual Report for the financial year in question. The Rules of Procedure of the Board of Management and Executive Committee establish further rules on the reporting of (potential) conflicts of interests. No legal acts as referred to above have occurred during the financial year 2011.

Amount and composition of the remuneration of the Board of Management

The remuneration of the individual members of the Board of Management is determined by the Supervisory Board on the proposal of the Remuneration Committee of the Supervisory Board, and is consistent with the policies thereon as adopted by the General Meeting of Shareholders. The remuneration policy applicable to the Board of Management was adopted by the 2004 General Meeting of Shareholders, and lastly amended by the 2008 General Meeting of Shareholders and is published on the Company s website. A full and detailed description of the composition of the remuneration of the individual members of the Board of Management is included in chapter 10, Supervisory Board report, of this report.

The remuneration structure, including severance pay, is such that it promotes the interests of the Company in the medium and long-term, does not encourage members of the Board of Management to act in their own interests or take risks that are not in line with the adopted strategy, and does not reward failing members of the Board of Management upon termination of their employment. The level and structure of remuneration shall be determined in the light of factors such as the results, the share price performance and other developments relevant to the Company. Deviations on elements of the remuneration policy in extraordinary circumstances, when deemed necessary in the interests of the Company, will be disclosed in the Annual Report or, in case of an appointment, in good time prior to the appointment of the person concerned.

The main elements of the contract of employment of a new member of the Board of Management including the amount of the fixed base salary, the structure and amount of the variable remuneration component, any severance plan, pension arrangements and the general performance criteria - shall be made public no later than at the time of issuance of the notice convening the General Meeting of Shareholders in which a proposal for appointment of that member of the Board of Management has been placed on the agenda. From August 1, 2003 onwards, for new members of the Board of Management the term of their contract of employment is set at four years, and in case of termination, severance payment is limited to a maximum of one year s base salary; if the maximum of one-year s salary would be manifestly unreasonable for a member of the Board of Management who is dismissed during his first term of office, the member of the Board of Management shall be eligible for a severance payment not exceeding twice the annual salary. Current members of the Board of Management are employed by means of a contract of employment. Subject to the implementation of new legislation, new members of the Board of Management will be employed by means of an agreement of assignment (*overeenkomst van opdracht*). The Company does not grant personal loans, guarantees or the like to members of the Board of Management, and no such (remissions of) loans and guarantees were granted to such members in 2011, nor are outstanding as per December 31, 2011.

In 2003, Philips adopted a Long-Term Incentive Plan (LTIP or the Plan), lastly amended by the 2009 General Meeting of Shareholders, consisting of a mix of restricted shares rights and stock options for members of the Board of Management, Philips executives and other key employees. This Plan was approved by the 2003 General Meeting of Shareholders. Future substantial changes to the Plan applicable to members of the Board of Management will be submitted to the General Meeting of Shareholders for approval. As from 2002, the Company grants fixed stock options that expire after ten years to members of the Board of Management (and other grantees). The options vest after three years and may therefore not be exercised in the first three years after they have been granted. Options are granted at fair market value, based on the closing price of Euronext Amsterdam on the date of grant, and neither the exercise price nor the other conditions regarding the granted options can be modified during the term of the options, except in certain exceptional circumstances in accordance with established market practice. The value of the options granted to members of the Board of Management and other personnel and the method followed in calculating this value are stated in the notes to the annual accounts. Philips is one of the first companies to have introduced restricted shares as part of the LTIP. A grantee will receive the restricted shares in three equal installments in three successive years, provided he/she is still with Philips on the respective delivery dates. If the grantee still holds the shares after three years from the delivery date, Philips will grant 20% additional (premium) shares, provided he/she is still with Philips. The Plan is designed to stimulate long-term investment in Philips shares. To further align the interests of members of the Board of Management and shareholders, restricted shares granted to these members of the Board of Management shall be retained for a period of at least five years, or until at least the end of employment, if this period is shorter.

The actual number of long-term incentives (both stock options and restricted shares rights) that are to be granted to the members of the Board of Management will be determined by the Supervisory Board and depends on the achievement of the set team targets in the areas of responsibility monitored by the individual members of the Board of Management and on the share performance of Philips. The share performance of Philips is measured on the basis of the Philips Total Shareholder Return (TSR) compared to the TSR of a peer group of 12 leading multinational electronics/electrical equipment companies over a three-year period; the composition of this group is described in the section Supervisory Board Report. With regard to stock options the TSR performance of Philips and the companies in the peer group is divided into three groups: top 4, middle 4 and bottom 4. Based on this relative TSR position, the Supervisory Board establishes a multiplier which varies from 1.2 to 0.8 and depends on the group in which the Philips TSR result falls. With regard to restricted share rights the TSR performance of Philips and the companies in the peer group is ranked from 1 to 12. Based on this relative TSR position, the Supervisory Board establishes a multiplier which varies from 0.0 to 2.0 and depends on the TSR position of Philips within the peer group. Every individual grant, the size of which depends on the positions and performance of the individuals, will be multiplied by the TSR-multiplier.

The so-called ultimum remedium clause and claw-back clause of best practice provisions II.2.10 and II.2.11 of the Dutch Corporate Governance Code is applicable to Annual Incentive payments and LTIP grants for the year 2009 onwards to all members of the Board of Management. In respect of the LTIP grants, the ultimum remedium clause can be applied to the performance-related actual number of stock options and restricted share rights that is (unconditionally) granted.

Members of the Board of Management hold shares in the Company for the purpose of long-term investment and are required to refrain from short-term transactions in Philips securities. According to the Philips Rules of Conduct on Inside Information, members of the Board of Management are only allowed to trade in Philips securities (including the exercise of stock options) during windows of ten business days following the publication of annual and quarterly results (provided the person involved has no inside information regarding Philips at that time) unless an exemption is available. Furthermore, the Rules of Procedure of the Board of Management and Executive Committee contain provisions concerning ownership of and transactions in non- Philips securities by members of the Board of Management. Members of the Board of Management are prohibited from trading, directly or indirectly, in securities of any of the companies belonging to the peer group, during one week preceding the disclosure of Philips annual or quarterly figures. These rules apply to members of the Executive Committee correspondingly. Transactions in shares in the Company carried out by members of the Board of Management or members of the Supervisory Board are notified to the Netherlands Authority for the Financial Markets (AFM) in accordance with Dutch law and, if necessary, to other relevant authorities.

Indemnification of members of the Board of Management and Supervisory Board

Unless the law provides otherwise, the members of the Board of Management and of the Supervisory Board shall be reimbursed by the Company for various costs and expenses, such as the reasonable costs of defending claims, as formalized in the articles of association. Under certain circumstances, described in the articles of association, such as an act or failure to act by a member of the Board of Management or a member of the Supervisory Board that can be characterized as intentional (opzettelijk), intentionally reckless (bewust roekeloos) or seriously culpable (ernstig verwijtbaar), there will be no entitlement to this reimbursement. The Company has also taken out liability insurance (D&O - Directors & Officers) for the persons concerned.

In line with regulatory requirements, the Company s policy forbids personal loans to and guarantees on behalf of members of the Board of Management or the Supervisory Board, and no loans and guarantees have been granted and issued, respectively, to such members in 2011, nor are any loans or guarantees outstanding as of the date of this Annual Report on Form 20-F.

The aggregate share ownership of the members of the Board of Management and the Supervisory Board represents less than 1% of the outstanding ordinary shares in the Company.

Risk management approach

Within Philips, risk management forms an integral part of business management. The Company has implemented a risk management and internal control system that is designed to provide reasonable assurance that strategic objectives are met by creating focus, by integrating management control over the Company s operations, by ensuring compliance with applicable laws and regulations and by safeguarding the reliability of the financial reporting and its disclosures. The Executive Committee reports on and accounts for internal risk management and control systems to the Supervisory Board and its Audit Committee. The Company has designed its internal control system in accordance with the recommendations of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company s risk management approach is embedded in the periodic business planning and review cycle and forms an integral part of business management. On the basis of risk assessments, management determines the risks and appropriate risk responses related to the achievement of business objectives and critical business processes. Risk factors and the risk management approach, as well as the sensitivity of the Company s results to external factors and variables, are described in more detail in chapter 7, Risk management, of this report. Significant changes and improvements in the Company s risk management and internal control system have been discussed with the Supervisory Board s Audit Committee and the external auditor and are disclosed in that section as well.

With respect to financial reporting a structured self-assessment and monitoring process is used company-wide to assess, document, review and monitor compliance with internal control over financial reporting. Internal representations received from management, regular management reviews, reviews of the design and effectiveness of internal controls and reviews in corporate and divisional audit committees are integral parts of the Company s risk management approach. On the basis thereof, the Board of Management confirms that internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies, and confirms that these controls have properly functioned in 2011. The financial statements fairly represent the financial condition and result of operations of the Company and provide the required disclosures.

It should be noted that the above does not imply that these systems and procedures provide certainty as to the realization of operational and financial business objectives, nor can they prevent all misstatements, inaccuracies, errors, fraud and non-compliances with rules and regulations.

In view of the above the Board of Management believes that it is in compliance with the requirements of recommendation II.1.4. of the Dutch Corporate Governance Code. The above statement on internal controls should not be construed as a statement in response to the requirements of section 404 of the US Sarbanes-Oxley Act. The statement as to compliance with section 404 is set forth in the section Management s report on internal control over financial reporting of this Annual Report.

Philips has a financial code of ethics which applies to certain senior officers, including the CEO and CFO, and to employees performing an accounting or financial function (the financial code of ethics has been published on the Company s website). The Company, through the Supervisory Board s Audit Committee, also has appropriate procedures in place for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. Internal whistleblowers have the opportunity, without jeopardizing their position, to report on irregularities of a general, operational or financial nature and to report complaints about members of the Executive Committee to the Chairman of the Supervisory Board.

In view of the requirements under the US Securities Exchange Act, procedures are in place to enable the CEO and the CFO to provide certifications with respect to the Annual Report on Form 20-F.

A Disclosure Committee is in place, which advises the various officers and departments involved, including the CEO and the CFO, on the timely review, publication and filing of periodic and current (financial) reports. Apart from the certification by the CEO and CFO under US law, each individual member of the Supervisory Board and the Board of Management must under Dutch law, sign the Group and Company financial statements being disclosed and submitted to the General Meeting of Shareholders for adoption. If one or more of their signatures is missing, this shall be stated, and the reasons given for this. The members of the Board of Management issue the responsibility statement with regard to chapter 12, Group financial statements, of this report, pursuant to requirements of Dutch civil and securities laws.

11.2 Supervisory Board

Introduction

The Supervisory Board supervises the policies of the Board of Management and Executive Committee and the general course of affairs of Philips and advises the executive management thereon. The Supervisory Board, in the two-tier corporate structure under Dutch law, is a separate body that is independent of the Board of Management. Its independent character is also reflected in the requirement that members of the Supervisory Board can be neither a member of the Board of Management nor an employee of the Company. The Supervisory Board considers all its members to be independent pursuant to the Dutch Corporate Governance Code and under the applicable US Securities and Exchange Commission standards.

The Supervisory Board, acting in the interests of the Company and the Group and taking into account the relevant interest of the Company s stakeholders, supervises and advises the Board of Management and Executive Committee in performing its management tasks and setting the direction of the Group s business, including (a) achievement of the Company s objectives, (b) corporate strategy and the risks inherent in the business activities, (c) the structure and operation of the internal risk management and control systems, (d) the financial reporting process, (e) compliance with legislation and regulations, (f) the operational and financial objectives, (g) the parameters to be applied in relation to the strategy, (h) corporate social responsibility issues and (i) the company-shareholder relationship. Major management decisions and the Group s strategy are discussed with and approved by the Supervisory Board. In its report, the Supervisory Board describes its activities in the financial year, the number of committee meetings and the main items discussed.

Rules of Procedure of the Supervisory Board

The Supervisory Board s Rules of Procedure set forth its own governance rules (including meetings, items to be discussed, resolutions, appointment and re-election, committees, conflicts of interests, trading in securities, profile of the Supervisory Board). Its composition follows the profile, which aims for an appropriate combination of knowledge and experience among its members encompassing marketing, technological, manufacturing, financial, economic, social and legal aspects of international business and government and public administration in relation to the global and multi-product character of the Group s businesses. The Supervisory Board attaches great importance to diversity in its composition. More particularly, it aims at having members with a European and a non- European background (nationality, working experience or otherwise), one or more female members and one or more members with an executive or similar position in business or society no longer than 5 years ago. In line with US and Dutch best practices, the Chairman of the Supervisory Board should be independent pursuant to the Dutch Corporate Governance Code and under the applicable US standards.

The Rules of Procedure of the Supervisory Board are published on the Company s website. They include the charters of its committees, to which the plenary Supervisory Board, while retaining overall responsibility, has assigned certain tasks: the Corporate Governance and Nomination & Selection Committee, the Audit Committee and the Remuneration Committee. A maximum of one member of each committee need not be independent as defined by the Dutch Corporate Governance Code. Each committee reports, and submits its minutes for information, to the Supervisory Board.

The Supervisory Board is assisted by the General Secretary of the Company. The General Secretary sees to it that correct procedures are followed and that the Supervisory Board acts in accordance with its statutory obligations and its obligations under the articles of association. Furthermore the General Secretary assists the Chairman of the Supervisory Board in the actual organization of the affairs of the Supervisory Board (information, agenda, evaluation, introductory program) and is the contact person for interested parties who want to make concerns known to the Supervisory Board. The General Secretary shall, either on the recommendation of the Supervisory Board or otherwise, be appointed and may be dismissed by the Executive Committee, after the approval of the Supervisory Board has been obtained.

(Term of) Appointment, individual data and conflicts of interests

The Supervisory Board consists of at least five members (currently eight), including a Chairman, Vice-Chairman and Secretary. The so-called Dutch structure regime does not apply to the Company itself. Members are currently elected by the General Meeting of Shareholders for fixed terms of four years, upon a binding recommendation from the Supervisory Board. According to the Company s articles of association, this binding recommendation may be overruled by a resolution of the General Meeting of Shareholders adopted by a simple majority of the votes cast and representing at least one-third of the issued share capital. If a simple majority of the votes cast is in favor of the resolution to overrule the binding recommendation, but such majority does not represent at least one-third of the issued share capital, a new meeting may be convened at which the resolution may be passed by a simple majority of the votes cast, regardless of the portion of the issued share capital represented by such majority.

Members may be suspended and dismissed by the General Meeting of Shareholders. In the event of inadequate performance, structural incompatibility of interests, and in other instances in which resignation is deemed necessary in the opinion of the Supervisory Board, the Supervisory Board shall submit to the General Meeting of Shareholders a proposal to dismiss the respective member of the Supervisory Board. There is no age limit applicable, and members may be re-elected twice. The date of expiration of the terms of Supervisory Board members is published on the Company s website. Individual data on the members of the Supervisory Board are published in the Annual Report, and updated on the Company s website.

After their appointment, all members of the Supervisory Board shall follow an introductory program, which covers general financial and legal affairs, financial reporting by the Company, any specific aspects that are unique to the Company and its business activities, and the responsibilities of a Supervisory Board member. Any need for further training or education of members will be reviewed annually, also on the basis of an annual evaluation survey.

In accordance with policies adopted by the Supervisory Board, no member of the Supervisory Board shall hold more than five supervisory board memberships of Dutch listed companies, the chairmanship of a supervisory board counting as two regular memberships.

In compliance with the Dutch Corporate Governance Code, the Company has formalized strict rules to avoid conflicts of interests between the Company and members of the Supervisory Board; all information about a conflict of interests situation is to be provided to the Chairman of the Supervisory Board. No decisions to enter into material transactions in which there are conflicts of interest with members of the Supervisory Board have occurred during the financial year 2011.

Meetings of the Supervisory Board

The Supervisory Board meets at least six times per year, including a meeting on strategy. The Supervisory Board, on the advice of its Audit Committee, also discusses, in any event at least once a year, the main risks of the business, and the result of the assessment of the structure and operation of the internal risk management and control systems, as well as any significant changes thereto. The members of the Executive Committee attend meetings of the Supervisory Board except in matters such as the desired profile, composition and competence of the Supervisory Board and the Executive Committee, as well as the remuneration and performance of individual members of the Executive Committee and the conclusions that must be drawn on the basis thereof. In addition to these items, the Supervisory Board, being responsible for the quality of its own performance, discusses, at least once a year on its own, without the members of the Executive Committee being present, both its own functioning and that of the individual members, and the conclusions that must be drawn on the basis thereof. The President/CEO and other members of the Executive Committee have regular contacts with the Chairman and other members of the Supervisory Board. The Executive Committee is required to keep the Supervisory Board informed of all facts and developments concerning Philips that the Supervisory

Board may need in order to function as required and to properly carry out its duties, to consult it on important matters and to submit certain important decisions to it for its prior approval. The Supervisory Board and its individual members each have their own responsibility to request from the Executive Committee and the external auditor all information that the Supervisory Board needs in order to be able to carry out its duties properly as a supervisory body. If the Supervisory Board considers it necessary, it may obtain information from officers and external advisers of the Company. The Company provides the necessary means for this purpose. The Supervisory Board may also require that certain officers and external advisers attend its meetings.

The Chairman of the Supervisory Board

The Supervisory Board s Chairman will see to it that: (a) the members of the Supervisory Board follow their introductory program, (b) the members of the Supervisory Board receive in good time all information which is necessary for the proper performance of their duties, (c) there is sufficient time for consultation and decision-making by the Supervisory Board, (d) the committees of the Supervisory Board function properly, (e) the performance of the Executive Committee members and Supervisory Board members is assessed at least once a year, and (f) the Supervisory Board elects a Vice-Chairman. The Vice- Chairman of the Supervisory Board shall deputize for the Chairman when the occasion arises. The Vice-Chairman shall act as contact of individual members of the Supervisory Board or the Board of Management concerning the functioning of the Chairman of the Supervisory Board.

Remuneration of the Supervisory Board and share ownership

The remuneration of the individual members of the Supervisory Board, as well as the additional remuneration for its Chairman and the members of its committees is determined by the General Meeting of Shareholders. The remuneration of a Supervisory Board member is not dependent on the results of the Company. Further details are published in the Supervisory Board report. The Company shall not grant its Supervisory Board members any personal loans, guarantees or similar arrangements. No such (remissions of) loans and guarantees were granted to such members in 2011, nor were any outstanding as per December 31, 2011.

Shares or rights to shares shall not be granted to a Supervisory Board member. In accordance with the Rules of Procedure of the Supervisory Board, any shares in the Company held by a Supervisory Board member are long-term investments. The Supervisory Board has adopted a policy on ownership of transactions in non-Philips securities by members of the Supervisory Board. This policy is included in the Rules of Procedure of the Supervisory Board.

The Corporate Governance and Nomination & Selection Committee

The Corporate Governance and Nomination & Selection Committee consists of at least the Chairman and Vice-Chairman of the Supervisory Board. The Committee reviews the corporate governance principles applicable to the Company at least once a year, and advises the Supervisory Board on any changes to these principles as it deems appropriate. It also (a) draws up selection criteria and appointment procedures for members of the Supervisory Board, the Board of Management and the Executive Committee; (b) periodically assesses the size and composition of the Supervisory Board, the Board of Management and the Executive Committee, and makes the proposals for a composition profile of the Supervisory Board, if appropriate; (c) periodically assesses the functioning of individual members of the Supervisory Board, the Board of Management and the Executive Committee, and reports on this to the Supervisory Board. The Committee also consults with the President/CEO and the Executive Committee on candidates to fill vacancies on the Supervisory Board, the Executive Committee, and advises the Supervisory Board on the candidates for appointment. It further supervises the policy of the Executive Committee on the selection criteria and appointment procedures for Philips Executives.

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The Remuneration Committee

The Remuneration Committee meets at least twice a year and is responsible for preparing decisions of the Supervisory Board on the remuneration of individual members of the Board of Management and the Executive Committee.

The Remuneration Committee prepares an annual remuneration report. The remuneration report contains an account of the manner in which the remuneration policy has been implemented in the past financial year, as well as an overview of the implementation of the remuneration policy planned by the Supervisory Board for the next year(s). The Supervisory Board aims to have appropriate experience available within the Remuneration Committee. No more than one member of the Remuneration Committee shall be an executive board member of another Dutch listed company.

In performing its duties and responsibilities the Remuneration Committee is assisted by an in-house remuneration expert acting on the basis of a protocol ensuring that the expert acts on the instructions of the Remuneration Committee and on an independent basis in which conflicts of interests are avoided.

The Audit Committee

The Audit Committee meets at least four times a year, before the publication of the annual, semi-annual and quarterly results. All of the members of the Audit Committee are considered to be independent under the applicable US Securities and Exchange Commission rules and at least one of the members of the Audit Committee, which currently consists of four members of the Supervisory Board, is a financial expert as set out in the Dutch Corporate Governance Code and each member is financially literate. In accordance with this code, a financial expert has relevant knowledge and experience of financial administration and accounting at the company in question. The Supervisory Board considers the fact of being compliant with the Dutch Corporate Governance Code, in combination with the knowledge and experience available in the Audit Committee as well as the possibility to take advice from internal and external experts and advisors, to be sufficient for the fulfillment of the tasks and responsibilities of the Audit Committee. The Supervisory Board has determined that none of the members of the Audit Committee is designated as an Audit Committee financial expert as defined under the regulations of the US Securities and Exchange Commission. The Audit Committee may not be chaired by the Chairman of the Supervisory Board or by a (former) member of the Board of Management.

All members of the Audit Committee are independent

The tasks and functions of the Audit Committee, as described in its charter, which is published on the Company s website as part of the Rules of Procedure of the Supervisory Board, include the duties recommended in the Dutch Corporate Governance Code. More specifically, the Audit Committee assists the Supervisory Board in fulfilling its oversight responsibilities for the integrity of the Company s financial statements, the financial reporting process, the system of internal business controls and risk management, the internal and external audit process, the internal and external auditor s qualifications, its independence and its performance, as well as the Company s process for monitoring compliance with laws and regulations and the General Business Principles (GBP). It reviews the Company s annual and interim financial statements, including non-financial information, prior to publication and advises the Supervisory Board on the adequacy and appropriateness of internal control policies and internal audit programs and their findings.

In reviewing the Company s annual and interim statements, including non-financial information, and advising the Supervisory Board on internal control policies and internal audit programs, the Audit Committee reviews matters relating to accounting policies and compliance with accounting standards, compliance with statutory and legal requirements and regulations, particularly in the financial domain. Important findings and identified risks are examined thoroughly by the Audit Committee in order to allow appropriate measures to be taken. With regard to the internal audit, the Audit Committee, in cooperation with the external auditor, reviews the internal audit charter, audit plan, audit scope and its coverage in relation to the scope of the external audit, staffing, independence and organizational structure of the internal audit function.

With regard to the external audit, the Audit Committee reviews the proposed audit scope, approach and fees, the independence of the external auditor, its performance and its (re-)appointment, audit and permitted non-audit services provided by the external auditor in conformity with the Philips Policy on Auditor Independence, as well as any changes to this policy. The Audit Committee also considers the report of the external auditor and its report with respect to the annual financial statements. According to the procedures, the Audit Committee acts as the principal contact for the external auditor if the auditor discovers irregularities in the content of the financial reports. It also advises on the Supervisory Board s statement to shareholders in the annual accounts. The Audit Committee periodically discusses the Company s policy on business controls, the GBP including the deployment thereof, overviews on tax, IT, litigation and legal proceedings, environmental exposures, financial exposures in the area of treasury, real estate, pensions, and the Group s major areas of risk. The Company s external auditor, in general, attends all Audit Committee meetings and the Audit Committee meets separately at least on a quarterly basis with each of the President/CEO, the CFO, the internal auditor and the external auditor.

The Company does not have an Audit Committee financial expert as defined under the regulations of the US Securities and Exchange Commission serving on its Audit Committee.

11.3 General Meeting of Shareholders

Introduction

A General Meeting of Shareholders is held at least once a year to discuss the Annual Report, including the report of the Board of Management, the annual financial statements with explanatory notes thereto and additional information required by law, and the Supervisory Board report, any proposal concerning dividends or other distributions, the appointment of members of the Board of Management and Supervisory Board (if any), important management decisions as required by Dutch law, and any other matters proposed by the Supervisory Board, the Board of Management or shareholders in accordance with the provisions of the Company s articles of association. The Annual Report, the financial statements and other regulated information such as defined in the Dutch Act on Financial Supervision (Wet op het Financieel Toezicht), will solely be published in English. As a separate agenda item and in application of Dutch law, the General Meeting of Shareholders discusses the discharge of the members of the Board of Management and the Supervisory Board from responsibility for the performance of their respective duties in the preceding financial year. However, this discharge only covers matters that are known to the Company and the General Meeting of Shareholders when the resolution is adopted. The General Meeting of Shareholders is held in Eindhoven, Amsterdam, Rotterdam, The Hague, Utrecht or Haarlemmermeer (Schiphol Airport) no later than six months after the end of the financial year.

Meetings are convened by public notice, via the Company s website or other electronic means of communication and by letter or by the use of electronic means of communication, to registered shareholders. Extraordinary General Meetings of Shareholders may be convened by the Supervisory Board or the Board of Management if deemed necessary and must be held if shareholders jointly representing at least 10% of the outstanding share capital make a written request to that effect to the Supervisory Board and the Board of Management, specifying in detail the business to be dealt with. The agenda of the General Meeting of Shareholders shall contain such business as may be placed thereon by the Board of Management or the Supervisory Board, and agenda items will be explained where necessary in writing. The agenda shall list which items are for discussion and which items are to be voted upon. Material amendments to the articles of association and resolutions for the appointment of members of the Board of Management and Supervisory Board shall be submitted separately to the General Meeting of Shareholders, it being understood that amendments and other proposals that are connected in the context of a proposed (part of the) governance structure may be submitted as one proposal. In accordance with the articles of association and Dutch law, requests from shareholders for items to be included on the agenda will generally be honored, subject to the Company s rights to refuse to include the requested agenda item under Dutch law, provided that such requests are made in writing at least 60 days before a General Meeting of Shareholders to the Board of Management and the Supervisory Board by shareholders representing at least 1% of the Company s outstanding capital or, according to the official price list of Euronext Amsterdam, representing a value of at least EUR 50 million. Written requests may be submitted electronically and shall comply with the procedure stipulated by the Board of Management, which procedure is posted on the Company s website.

Main powers of the General Meeting of Shareholders

All outstanding shares carry voting rights. The main powers of the General Meeting of Shareholders are to appoint, suspend and dismiss members of the Board of Management and of the Supervisory Board, to adopt the annual accounts, declare dividends and to discharge the Board of Management and the Supervisory Board from responsibility for the performance of their respective duties for the previous financial year, to appoint the external auditor as required by Dutch law, to adopt amendments to the articles of association and proposals to dissolve or liquidate the Company, to issue shares or rights to shares, to restrict or exclude pre-emptive rights of shareholders and to repurchase or cancel outstanding shares. Following common corporate practice in the Netherlands, the Company each year requests limited authorization to issue (rights to) shares, to restrict or exclude pre-emptive rights and to repurchase shares. In compliance with Dutch law, decisions of the Board of Management that are so far-reaching that they would greatly change the identity or nature of the Company or the business require the approval of the General Meeting of Shareholders. This includes resolutions to (a) transfer the business of the Company, or almost the entire business of the Company, to a third party (b) enter into or discontinue long-term cooperation by the Company or a subsidiary with another legal entity or company or as a fully liable partner in a limited partnership or ordinary partnership, if this cooperation or its discontinuation is of material significance to the Company or (c) acquire or dispose of a participating interest in the capital of a company to the value of at least one-third of the amount of the assets according to the balance sheet and notes thereto or, if the Company prepares a consolidated balance sheet, according to the consolidated balance sheet and notes thereto as published in the last adopted annual accounts of the Company, by the Company or one of its subsidiaries. Thus the Company applies principle IV.1 of the Dutch Corporate Governance Code within the framework of the articles of association and Dutch law and in the manner as described in this corporate governance report.

The Board of Management and Supervisory Board are also accountable, at the Annual General Meeting of Shareholders, for the policy on the additions to reserves and dividends (the level and purpose of the additions to reserves, the amount of the dividend and the type of dividend). This subject is dealt with and explained as a separate agenda item at the General Meeting of Shareholders. Philips aims for a sustainable and stable dividend distribution to shareholders in the long term. A resolution to pay a dividend is dealt with as a separate agenda item at the General Meeting of Shareholders.

The Board of Management and the Supervisory Board are required to provide the General Meeting of Shareholders with all requested information, unless this would be prejudicial to an overriding interest of the Company. If the Board of Management and the Supervisory Board invoke an overriding interest in refusing to provide information, reasons must be given. If a serious private bid is made for a business unit or a participating interest and the value of the bid exceeds a certain threshold (currently one-third of the amount of the assets according to the balance sheet and notes thereto or, if the Company prepares a consolidated balance sheet, according to the consolidated balance sheet and notes thereto as published in the last adopted annual accounts of the Company), and such bid is made public, the Board of Management shall, at its earliest convenience, make public its position on the bid and the reasons for this position.

A resolution to dissolve the Company or change its articles of association can be adopted at the General Meeting of Shareholders by at least three-fourths of the votes cast, at which meeting more than half of the issued share capital is represented. If the requisite share capital is not represented, a further meeting shall be convened, to be held within eight weeks of the first meeting, to which no quorum requirement applies. Furthermore, the resolution requires the approval of the Supervisory Board. If the resolution is proposed by the Board of Management, the adoption needs an absolute majority of votes and no quorum requirement applies to the meeting.

Repurchase and issue of (rights to) own shares

The 2011 General Meeting of Shareholders has resolved to authorize the Board of Management, subject to the approval of the Supervisory Board, to acquire shares in the Company within the limits of the articles of association and within a certain price range until September 30, 2012. The maximum number of shares the company may hold, will not exceed 10% of the issued share capital as of March 31, 2011, which number may be increased by 10% of the issued capital as of that same date in connection with the execution of share repurchase programs for capital reduction programs.

In addition, the 2011 General Meeting of Shareholders resolved to authorize the Board of Management, subject to the approval of the Supervisory Board, to issue shares or grant rights to acquire shares in the Company as well as to restrict or exclude the pre-emption right accruing to shareholders until September 30, 2012. This authorization is limited to a maximum of 10% of the number of shares issued as of March 31, 2011 plus 10% of the issued capital in connection with or on the occasion of mergers and acquisitions.

11.4 Logistics of the General Meeting of Shareholders and provision of information

Introduction

The Company will set a registration date for the exercise of the voting rights and the rights relating to General Meetings of Shareholders. In accordance with Dutch law this registration date is fixed at the 28th day prior to the day of the meeting. Shareholders registered at such date are entitled to attend the meeting and to exercise the other shareholder rights (in the meeting in question) notwithstanding subsequent sale of their shares thereafter. This date will be published in advance of every General Meeting of Shareholders. Shareholders who are entitled to attend a General Meeting of Shareholders may be represented by proxies.

Information which is required to be published or deposited pursuant to the provisions of company law and securities law applicable to the Company and which is relevant to the shareholders, is placed and updated on the Company s website, or hyperlinks are established. The Board of Management and Supervisory Board shall ensure that the General Meeting of Shareholders is informed by means of a shareholders circular published on the Company s website of facts and circumstances relevant to the proposed resolutions.

Resolutions adopted at a General Meeting of Shareholders shall be recorded by a civil law notary and co-signed by the chairman of the meeting; such resolutions shall also be published on the Company s website within 15 days after the meeting. A summary of the discussions during the General Meeting of Shareholders, in the language of the meeting, is made available to shareholders, on request, no later than three months after the meeting. Shareholders shall have the opportunity to respond to this summary for three months, after which a final summary is adopted by the chairman of the meeting in question. Such summary shall be made available on the Company s website.

Proxy voting and the Shareholders Communication Channel

Philips was one of the key companies in the establishment of the Shareholders Communication Channel, a project of Euronext Amsterdam, banks in the Netherlands and several major Dutch companies to simplify contacts between a participating company and shareholders that hold their shares through a Dutch securities account with a participating bank. The Company uses the Shareholders Communication Channel to distribute a voting instruction form for the Annual General Meeting of Shareholders. By returning this form, shareholders grant power to an independent proxy holder who will vote according to the instructions expressly given on the voting instruction form. Also other persons entitled to vote shall be given the possibility to give voting proxies or instructions to an independent third party prior to the meeting. The Shareholders Communication Channel can also be used, under certain conditions, by participating Philips shareholders to distribute either by mail or by placing it on the Company s or Shareholders Communication Channel s website information directly related to the agenda of the General Meeting of Shareholders to other participating Philips shareholders.

Preference shares and the Stichting Preferente Aandelen Philips

As a means to protect the Company and its stakeholders against an unsolicited attempt to obtain (de facto) control of the Company, the General Meeting of Shareholders in 1989 adopted amendments to the Company s articles of association that allow the Board of Management and the Supervisory Board to issue (rights to) preference shares to a third party. As a result, the Stichting Preferente Aandelen Philips (the Foundation) was created, which was granted the right to acquire preference shares in the Company. The mere notification that the Foundation wishes to exercise its rights, should a third party ever seem likely in the judgment of the Foundation to obtain (de facto) control of the Company, will result in the preference shares being effectively issued. The Foundation may exercise this right for as many preference shares as there are ordinary shares in the Company outstanding at that time. No preference shares have been issued as of December 31, 2011. In addition, the Foundation has the right to file a petition with the

Enterprise Chamber of the Amsterdam Court of Appeal to commence an inquiry procedure within the meaning of section 2:344 Dutch Civil Code.

The object of the Foundation is to represent the interests of the Company, the enterprises maintained by the Company and its affiliated companies within the Group, in such a way that the interests of Philips, those enterprises and all parties involved with them are safeguarded as effectively as possible, and that they are afforded maximum protection against influences which, in conflict with those interests, may undermine the autonomy and identity of Philips and those enterprises, and also to do anything related to the above ends or conducive to them. In the event of (an attempt at) a hostile takeover or other attempt to obtain (de facto) control of the Company this arrangement will allow the Company and its Board of Management and Supervisory Board to determine its position in relation to the third party and its plans, seek alternatives and defend Philips interests and those of its stakeholders from a position of strength. The members of the self-electing Board of the Foundation are Messrs S.D. de Bree, F.J.G.M. Cremers and M.W. den Boogert. No Philips board members or officers are represented on the board of the Foundation.

The Company does not have any other anti-takeover measures in the sense of other measures which exclusively or almost exclusively have the purpose of frustrating future public bids for the shares in the capital of the Company in case no agreement is reached with the Board of Management on such public bid. Furthermore, the Company does not have measures which specifically have the purpose of preventing a bidder who has acquired 75% of the shares in the capital of the Company from appointing or dismissing members of the Board of Management and subsequently amending the articles of association of the Company. It should be noted that also in the event of (an attempt at) a hostile takeover or other attempt to obtain (de facto) control of the Company, the Board of Management and the Supervisory Board are authorized to exercise in the interests of Philips all powers vested in them.

Audit of the financial reporting and the position of the external auditor

The annual financial statements are prepared by the Board of Management and reviewed by the Supervisory Board upon the advice of its Audit Committee and taking into account the report of the external auditor. Upon approval by the Supervisory Board, the accounts are signed by all members of both the Board of Management and the Supervisory Board and are published together with the final opinion of the external auditor. The Board of Management is responsible, under the supervision of the Supervisory Board, for the quality and completeness of such publicly disclosed financial reports. The annual financial statements are presented for discussion and adoption to the Annual General Meeting of Shareholders, to be convened subsequently. Philips, under US securities regulations, separately files its Annual Report on Form 20-F, incorporating major parts of the Annual Report as prepared under the requirements of Dutch law.

Internal controls and disclosure policies

Comprehensive internal procedures, compliance with which is supervised by the Supervisory Board, are in place for the preparation and publication of the Annual Report, the annual accounts, the quarterly figures and ad hoc financial information. As from 2003, the internal assurance process for business risk assessment has been strengthened and the review frequency has been upgraded to a quarterly review cycle, in line with emerging best practices in this area.

As part of these procedures, a Disclosure Committee has been appointed by the Board of Management to oversee the Company s disclosure activities and to assist the Executive Committee in fulfilling its responsibilities in this respect. The Committee s purpose is to ensure that the Company implements and maintains internal procedures for the timely collection, evaluation and disclosure, as appropriate, of information potentially subject to public disclosure under the legal, regulatory and stock exchange requirements to which the Company is subject. Such procedures are designed to capture information that is relevant to an assessment of the need to disclose developments and risks that pertain to the Company s various businesses, and their effectiveness for this purpose will be reviewed periodically.

Auditor information

In accordance with the procedures laid down in the Philips Policy on Auditor Independence and as mandatorily required by Dutch law, the external auditor of the Company is appointed by the General Meeting of Shareholders on the proposal of the Supervisory Board, after the latter has been advised by the Audit Committee and the Board of Management. Under this Auditor Policy, once every three years the Supervisory Board and the Audit Committee conduct a thorough assessment of the functioning of the external auditor. The main conclusions of this assessment shall be communicated to the General Meeting of Shareholders for the purposes of assessing the nomination for the appointment of the external auditor. The current auditor of the Company, KPMG Accountants N.V., was appointed by the 1995 General Meeting of Shareholders. In 2002, when the Auditor Policy was adopted, the appointment of KPMG Accountants N.V. was confirmed by the Supervisory Board for an additional three years. The 2008 and 2011 General Meeting of Shareholders resolved to re-appoint KPMG Accountants N.V. as auditor. Mr M.A. Soeting is the current partner of KPMG Accountants N.V. in charge of the audit duties for Philips. In accordance with the rotation schedule determined in accordance with the Auditor Policy, he will be replaced by another partner of KPMG Accountants N.V., Mr J.F.C. van Everdingen, in the course of 2012. The external auditor shall attend the Annual General Meeting of Shareholders. Questions may be put to him at the meeting about his report. The Board of Management and the Audit Committee of the Supervisory Board shall report on their dealings with the external auditor to the Supervisory Board on an annual basis, particularly with regard to the auditor s independence. The Supervisory Board shall take this into account when deciding upon its nomination for the appointment of an external auditor.

The external auditor attends, in principle, all meetings of the Audit Committee. The findings of the external auditor, the audit approach and the risk analysis are also discussed at these meetings. The external auditor attends the meeting of the Supervisory Board at which the report of the external auditor with respect to the audit of the annual accounts is discussed, and at which the annual accounts are approved. In its audit report on the annual accounts to the Board of Management and the Supervisory Board, the external auditor refers to the financial reporting risks and issues that were identified during the audit, internal control matters, and any other matters, as appropriate, requiring communication under the auditing standards generally accepted in the Netherlands and the US.

Auditor policy

The Company maintains a policy of auditor independence, and this policy restricts the use of its auditing firm for non-audit services, in line with US Securities and Exchange Commission rules under which the appointed external auditor must be independent of the Company both in fact and appearance. The policy is laid down in the comprehensive policy on auditor independence published on the Company s website.

The policy includes rules for the pre-approval by the Audit Committee of all services to be provided by the external auditor. The policy also describes the prohibited services that may never be provided. Proposed services may be pre-approved at the beginning of the year by the Audit Committee (annual pre-approval) or may be pre-approved during the year by the Audit Committee in respect of a particular engagement (specific pre-approval). The annual pre-approval is based on a detailed, itemized list of services to be provided, designed to ensure that there is no management discretion in determining whether a service has been approved and to ensure the Audit Committee is informed of each services it is pre-approving. Unless pre-approval with respect to a specific service has been given at the beginning of the year, each proposed service requires specific pre-approval during the year. Any annually pre-approved services where the fee for the engagement is expected to exceed pre-approved cost levels or budgeted amounts will also require specific pre-approval. The term of any annual pre-approval is 12 months from the date of the pre-approval unless the Audit Committee states otherwise. During 2011, there were no services provided to the Company by the external auditor which were not pre-approved by the Audit Committee.

11.5 Investor Relations

Introduction

The Company is continually striving to improve relations with its shareholders. In addition to communication with its shareholders at the Annual General Meeting of Shareholders, Philips elaborates its financial results during (public) conference calls, which are broadly accessible. It publishes informative annual, semi-annual and quarterly reports and press releases, and informs investors via its extensive website. The Company is strict in its compliance with applicable rules and regulations on fair and non-selective disclosure and equal treatment of shareholders.

Each year the Company organizes Philips Capital Market Days and participates in several broker conferences, announced in advance on the Company s website and by means of press releases. Shareholders can follow in real time, by means of webcasting or telephone lines, the meetings and presentations organized by the Company. Thus the Company applies recommendation IV.3.1 of the Dutch Corporate Governance Code, which in its perception and in view of market practice does not extend to less important analyst meetings and presentations. It is Philips policy to post presentations to analysts and shareholders on the Company s website. These meetings and presentations will not take place shortly before the publication of annual, semi-annual and quarterly financial information.

Furthermore, the Company engages in bilateral communications with investors. These communications either take place at the initiative of the Company or at the initiative of individual investors. During these communications the Company is generally represented by its Investor Relations department. However, on a limited number of occasions the Investor Relations department is accompanied by one or more members of the Board of Management. The subject matter of the bilateral communications ranges from single queries from investors to more elaborate discussions on the back of disclosures that the Company has made such as its annual and quarterly reports. Also here, the Company is strict in its compliance with applicable rules and regulations on fair and non-selective disclosure and equal treatment of shareholders.

The Company shall not, in advance, assess, comment upon or correct, other than factually, any analyst s reports and valuations. No fee(s) will be paid by the Company to parties for the carrying-out of research for analysts reports or for the production or publication of analysts reports, with the exception of credit-rating agencies.

Major shareholders and other information for shareholders

The Dutch Act on Financial Supervision imposes a duty to disclose percentage holdings in the capital and/or voting rights in the Company when such holdings reach, exceed or fall below 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. Such disclosure must be made to the Netherlands Authority for the Financial Markets (AFM) without delay. The AFM then notifies the Company.

On July 13, 2011 the Company received notification from the AFM that it had received disclosures under the Dutch Act on Financial Supervision of a substantial holding of 5.10% (representing 51,428,846 shares) by Southeastern Asset Management Inc., in the Company s common shares. On December 7, 2011 the Company received notification from the AFM that it had received disclosures under the Financial Markets Supervision Act of a substantial holding of 5.05% (representing 50,990,018 shares) by Dodge & Cox, in the Company s common shares. The common shares are held by shareholders worldwide in bearer and registered form. As per December 31, 2011, approximately 91% of the common shares were held in bearer form and approximately 9% of the common shares were represented by registered shares of New York Registry issued in the name of approximately 1,311 holders of record, including Cede & Co. Cede & Co acts as nominee for the Depository Trust Company holding the shares (indirectly) for individual investors as beneficiaries. Citibank, N.A., 388 Greenwich Street, New York, New York 10013 is the transfer agent and registrar.

Only bearer shares are traded on the stock market of Euronext Amsterdam. Only shares of New York Registry are traded on the New York Stock Exchange. Bearer shares and registered shares may be exchanged for each other. Since certain shares are held by brokers and other nominees, these numbers may not be representative of the actual number of United States beneficial holders or the number of Shares of New York Registry beneficially held by US residents.

The provisions applicable to all corporate bonds that have been issued by the Company in March 2008 contain a Change of Control Triggering Event . This means that if the Company experienced such an event with respect to a series of corporate bonds the Company might be required to offer to purchase the bonds of that series at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any.

Major shareholders do not have different voting rights than other shareholders.

Corporate seat and head office

The statutory seat of the Company is Eindhoven, the Netherlands, and the statutory list of all subsidiaries and affiliated companies, prepared in accordance with the relevant legal requirements (Dutch Civil Code, Book 2, Sections 379 and 414), forms part of the notes to the consolidated financial statements and is deposited at the office of the Commercial Register in Eindhoven, the Netherlands (file no. 17001910).

The executive offices of the Company are located at the Breitner Center, Amstelplein 2, 1096 BC Amsterdam, the Netherlands, telephone 31 (0)20 59 77 777.

Compliance with the Dutch Corporate Governance Code In accordance with the governmental decree of December 10, 2009, the Company fully complies with the Dutch Corporate Governance Code and applies all its principles and best practice provisions that are addressed to the Board of Management and the Supervisory Board. The full text of the Dutch Corporate Governance Code can be found at the website of the Monitoring Commission Corporate Governance Code (www.commissiecorporategovernance.nl).

February 23, 2012

11.6 Additional information

Articles of association

Summaries of certain provisions of the Articles of Association of the Company, applicable Dutch law and related Company policies appear below.

Object and purpose

The objects of the Company are to establish, participate in, administer and finance legal entities, companies and other legal forms for the purpose of the manufacture and trading of electrical, electronic, mechanical or chemical products, the development and exploitation of technical and other expertise, including software, or for the purpose of other activities, and to do everything pertaining thereto or connected therewith, including the provision of security in particular for commitments of business undertakings which belong to its group, all this in the widest sense, as may also be conducive to the proper continuity of the collectivity of business undertakings, in the Netherlands and abroad, which are carried on by the Company and the companies in which it directly or indirectly participates.

Voting rights

Each common share and each preference share is entitled to one vote. All common shares vote together on all matters presented at a General Meeting of Shareholders. As of December 31, 2011, the issued share capital consists only of common shares; no preference shares have been issued.

Dividends

A dividend will first be declared on preference shares out of net income. The remainder of the net income, after reservations made with the approval of the Supervisory Board, shall be available for distribution to holders of common shares subject to shareholder approval after year-end. The Board of Management has the power to determine what portion of the net income shall be retained by way of reserve, subject to the approval of the Supervisory Board. As of December 31, 2011, the issued share capital consists only of common shares; no preference shares have been issued.

Liquidation rights

In the event of the dissolution and liquidation of the Company, the assets remaining after payment of all debts and liquidation expenses are to be distributed in the following order of priority: to the holders of Preference shares, the amount paid thereon; and the remainder to the holders of the common shares. As of December 31, 2011, the issued share capital consists only of common shares; no preference shares have been issued.

Preemptive rights

Shareholders have a pro rata preferential right of subscription to any common share issuance unless the right is restricted or excluded. If designated by the General Meeting of Shareholders, the Board of Management has the power to restrict or exclude the preferential subscription rights. A designation of the Board of Management will be

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effective for a specified period of up to five years and may be renewed. Currently, the Board of Management has been granted the power to restrict or exclude the preferential right of subscription until September 30, 2012. If the Board of Management has not been designated, the General Meeting of Shareholders has the power to restrict or exclude such rights, upon the proposal of the Board of Management, which proposal must be approved by the Supervisory Board. Resolutions by the General Meeting of Shareholders referred to in this paragraph require approval of at least two-thirds of the votes cast if less than half of the issued share capital is represented at the meeting.

The foregoing provisions also apply to the issuance of rights to subscribe for shares.

General Meeting of Shareholders

The ordinary General Meeting of Shareholders shall be held each year not later than the thirtieth day of June and, at the Board of Management s option, in Eindhoven, Amsterdam, The Hague, Rotterdam, Utrecht or Haarlemmermeer (including Schiphol airport); the notice convening the meeting shall inform the shareholders accordingly.

Without prejudice to applicable laws and regulations, the Board of Management may resolve to give notice to holders of bearer shares via the Company s website and/or by other electronic means representing a public announcement, which announcement remains directly and permanently accessible until the general meeting. Holders of registered shares shall be notified by letter, unless the Board of Management resolves to give notice to holders of registered shares by electronic means of communication by sending a legible and reproducible message to the address indicated by the shareholder to the Company for such purpose provided the relevant shareholder has agreed hereto.

In principle all shareholders are entitled to attend the General Meeting of Shareholders, to address the meeting and to vote, except for shares held in treasury by the Company. They may exercise the aforementioned rights at a meeting only for the common shares which on the record date are registered in their name. The record date is determined by the Board of Management and published in the above announcement. Holders of registered shares must advise the Company in writing of their intention to attend the General Meeting of Shareholders. Holders of bearer shares who either in person or by proxy wish to attend the General Meeting of Shareholders, should notify The Royal Bank of Scotland N.V. acting as agent for the Company. They must submit a confirmation by a participating institution, in which administration they are registered as holders of the shares, that such shares are registered and will remain registered in its administration up to and including the record date, whereupon the holder will receive an admission ticket for the General Meeting of Shareholders. Holders of shares who wish to attend by proxy have to submit the proxy at the same time. A participating institution is a bank or broker which according to the Dutch Securities Depository Act (Wet giraal effectenverkeer) is a participating institution (aangesloten instelling) of Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. (Euroclear Nederland).

In connection with the General Meeting of Shareholders, the Company doesn t solicit proxies within the United States.

Limitations on right to hold or vote Common Shares

There are no limitations imposed by Dutch law or by the Articles of Association on the right of non-resident owners to hold or vote the Common Shares.

Exchange controls

There are currently no limitations, either under the laws of the Netherlands or in the Articles of Association of the Company, to the rights of non-residents to hold or vote common shares of the Company. Cash dividends payable in Euros on Netherlands registered shares and bearer shares may be officially transferred from the Netherlands and converted into any other currency without Dutch legal restrictions, except that for statistical purposes such payments and transactions must be reported to the Dutch Central Bank, and furthermore, no payments, including dividend payments, may be made to jurisdictions subject to sanctions adopted by the government of the Netherlands and implementing resolutions of the Security Council of the United Nations.

The Articles of Association of the Company provide that cash distributions on Shares of New York Registry shall be paid in US dollars, converted at the rate of exchange on the stock market of Euronext Amsterdam at the close of business on the day fixed and announced for that purpose by the Board of Management.

General

The corporate governance rules introduced by the New York Stock Exchange (NYSE) allow foreign private issuers, like Koninklijke Philips Electronics N.V., to follow home country practices on most corporate governance matters instead of those that apply to US domestic issuers, provided that they disclose any significant ways in which their corporate governance practices differ from those applying to listed domestic US companies under the NYSE listing standards. A summary of significant differences between certain provisions of the Code and the corporate governance provisions applicable to US companies under the NYSE listing standards appears below.

Dutch corporate governance provisions

The Company is a company organized under Dutch law, with its Common Shares listed on Euronext Amsterdam, and is subject to the Dutch Corporate Governance Code of December 10, 2008 (the Code). Philip s New York Registry Shares, representing Common Shares of the Company, are listed on the NYSE.

Board structure

The NYSE listing standards prescribe regularly scheduled executive sessions of nonexecutive directors. As a Dutch company, the Company has a two-tier corporate structure consisting of a Board of Management consisting of executive directors under the supervision of a Supervisory Board consisting exclusively of nonexecutive directors. Members of the Board of Management and other officers and employees cannot simultaneously act as member of the Supervisory Board. The Supervisory Board must approve specified decisions of the Board of Management.

Independence of members of our Supervisory Board

Under the Code all members of the Supervisory Board with the exception of not more than one person, must be independent. The present members of our Supervisory Board are all independent within the meaning of the Code. The definitions of independence under the Code, however, differ in their details from the definitions of independence under the NYSE listing standards. In some cases the Dutch requirements are stricter than the NYSE listing standards and in other cases the NYSE listing standards are the stricter of the two.

Committees of our Supervisory Board

The Company has established an Audit Committee, a Remuneration Committee and a Corporate Governance and Nomination & Selection Committee, consisting of members of the Supervisory Board only. The roles, responsibilities and composition of these committees reflect the requirements of the Code, the company s articles of association and Dutch law, which differ from the NYSE listing standards in these respects. The role of each committee is to advise the Supervisory Board and to prepare the decision-making of the Supervisory Board. In principle, the entire Supervisory Board remains responsible for its decisions even if they were prepared by one of the Supervisory Board s committees.

The NYSE requires that, when an audit committee member of a U.S. domestic listed company serves on four or more audit committees of public companies, the listed company should disclose (either on its website or in its annual report on Form 10-K) that the board of directors has determined that this simultaneous service would not impair the director s service to the listed company. Dutch law does not require the Company to make such a determination.

Dutch law requires that the Company s external auditors be appointed at the general meeting and not by the Audit Committee.

Major shareholders as filed with SEC

On February 6, 2012, Southeastern Asset Management Inc. filed a Schedule 13G with the SEC indicating that it beneficially owned 7.1% (representing 72,051,468 shares) of the Company s common shares. On February 10, 2012, Dodge & Cox filed a Schedule 13G with the SEC indicating that it beneficially owned 5.3% (representing 53,180,318 shares) of the Company s common shares.

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Equity compensation plans

The Company complies with Dutch legal requirements regarding shareholder approval of equity compensation plans. Dutch law does not require shareholder approval of certain equity compensation plans for which the NYSE listing standards would require such approval. Although the Company is only subject to a requirement to seek shareholder approval for equity compensation-plans for its members of the Board of Management, the General Meeting of Shareholders adopted, in 2003, a Long-Term Incentive Plan consisting of a mix of restricted shares and stock options for members of the Board of Management.

Code of business conduct

The listing standards of the NYSE prescribe certain parameters for listed company codes of business conduct and ethics. The Company has implemented the Philips General Business Principles applicable to all employees and a Financial Code of Ethics applicable to all employees performing an accounting or financial function. Waivers granted to Senior (Financial) Officers (as defined in our Financial Code of Ethics) will be disclosed. In 2011 the Company did not grant any waivers of the Financial Code of Ethics.

General meeting

The articles of association of the Company provide that there are no quorum requirements to hold a general meeting, although certain shareholder actions and certain resolutions may require a quorum.

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12 Group financial statements

Introduction

This section of the Annual Report contains the audited consolidated financial statements including the notes thereon that have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code. The Consolidated financial statements in this section have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective year-end 2011 have been endorsed by the EU, except that the EU did not adopt some paragraphs of IAS 39 applicable to certain hedge transactions. Philips has no hedge transactions to which these paragraphs are applicable. Consequently, the accounting policies applied by Philips also comply fully with IFRS as issued by the IASB.

Together with the section Company financial statements, this section contains the statutory financial statements of the Company.

The following sections and chapters of this Annual Report:

- chapter 1, Our company, of this report
- chapter 2, Our strategic focus, of this report
- chapter 3, Our strategy in action, of this report
- chapter 4, Our planet, our partners, our people, of this report
- chapter 5, Group performance, of this report
- chapter 6, Sector performance, of this report
- chapter 7, Risk management, of this report
- section 10.2, Report of the Remuneration Committee, of this report
- chapter 11, Corporate governance, of this report
- Introduction, Forward-looking statements and other information, of this report

form the Management report within the meaning of section 2:391 of the Dutch Civil Code (and related Decrees).

The sections Group performance and Sector performance provide an extensive analysis of the developments during the financial year 2011 and the results. The term EBIT has the same meaning as Income from operations (IFO), and is used to evaluate the performance of the business. These sections also provide information on the business outlook, investments, financing, personnel and research and development activities.

The Statement of income included in the section Company financial statements has been prepared in accordance with section 2:402 of the Dutch Civil Code, which allows a simplified Statement of income in the Company financial statements in the event that a comprehensive Statement of income is included in the consolidated Group financial statements.

For Additional information within the meaning of section 2:392 of the Dutch Civil Code, please refer to section 12.12, Independent auditor s report - Group, of this report on the Group financial statements, section 13.5, Independent auditor s report - Company, of this report on the Company financial statements, section 5.5, Proposed distribution to shareholders, of this report, and note 35, Subsequent events.

Please refer to chapter 19, Forward-looking statements and other information, of this report for more information about forward- looking statements, third-party market share data, fair value information, and revisions and reclassifications.

The Board of Management of the Company hereby declares that, to the best of our knowledge, the Group financial statements and Company financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole and that the management report referred to above gives a true and fair view concerning the position as per the balance sheet date, the development and performance of the business during the financial year of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks that they face.

Board of Management

February 23, 2012

12.1 Management s report on internal control

Management s report on internal control over financial reporting pursuant to section 404 of the US Sarbanes-Oxley Act

The Board of Management of Koninklijke Philips Electronics N.V. (the Company) is responsible for establishing and maintaining an adequate system of internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the US Securities Exchange Act). Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with IFRS as issued by the IASB.

Internal control over financial reporting includes maintaining records that, in reasonable detail, accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

The Board of Management conducted an assessment of the Company s internal control over financial reporting based on the *Internal Control-Integrated Framework* established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that assessment, the Board of Management concluded that, as of December 31, 2011, the Company s internal control over Group financial reporting is considered effective.

The effectiveness of the Company s internal control over financial reporting as of December 31, 2011, as included in this section Group financial statements, has been audited by KPMG Accountants N.V., an independent registered public accounting firm, as stated in their report which follows hereafter.

Board of Management

February 23, 2012

12.1.1 Disclosure controls and procedures

The Company s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by the Annual Report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective as of December 31, 2011.

12.1.2 Changes in internal control over financial reporting

During the year ended December 31, 2011 there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

12.2 Reports of the independent auditor

The report set out below is provided in compliance with auditing standards of the Public Company Accounting Oversight Board in the US and includes an opinion on the effectiveness of internal control over financial reporting as at December 31, 2011. Management s report on internal control over financial reporting is set out in section 12.1, Management s report on internal control, of this Annual Report. KPMG Accountants N.V. has also issued a report on the consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board in the US, which is set out in 12.12, Independent auditors report - Group, of this Annual Report. KPMG Accountants N.V. has also issued reports on the consolidated financial statements in accordance with Dutch law, including the Dutch standards on auditing, and on the Company Financial Statements of Koninklijke Philips Electronics N.V. These audit reports dated February 23, 2012, have been included in the Annual Report that will be filed with the Commercial Register.

12.3 Auditors report on internal control over financial reporting

Report of Independent Registered Public Accounting Firm

To the Supervisory Board and Shareholders of Koninklijke Philips Electronics N.V.:

We have audited Koninklijke Philips Electronics N.V. and subsidiaries internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Koninklijke Philips Electronics N.V. s Board of Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying section 12.1 Management s report on internal control, of this Annual Report. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Koninklijke Philips Electronics N.V. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Koninklijke Philips Electronics N.V. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2011. Our report dated February 23, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG ACCOUNTANTS N.V.

Amsterdam, The Netherlands

February 23, 2012

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12.4 Consolidated statements of income

in millions of euros unless otherwise stated

Consolidated statements of income of the Philips Group for the years ended December 31

	2009	2010	2011
Sales	20,092	22,287	22,579
Cost of sales	(12,519)	(13,191)	(13,932)
Gross margin	7,573	9,096	8,647
Selling expenses	(4,703)	(4,876)	(5,160)
General and administrative expenses	(721)	(713)	(841)
Research and development expenses	(1,542)	(1,493)	(1,610)
Impairment of goodwill			(1,355)
Other business income	95	93	125
Other business expenses	(42)	(27)	(75)
Income from operations	660	2,080	(269)
Financial income	225	214	112
Financial expenses	(387)	(335)	(352)
Income before taxes	498	1,959	(509)
Income tax expense	(99)	(499)	(283)
Income (loss) after taxes	399	1,460	(792)
Results relating to investments in associates:			
- Company s participation in income	23	14	18
- Other results	54	4	(2)
Income (loss) from continuing operations	476	1,478	(776)
Discontinued operations - net of income tax	(52)	(26)	(515)
Net income (loss)	424	1,452	(1,291)
Attribution of net income (loss)			
Net income (loss) attributable to shareholders	410	1,446	(1,295)
Net income (loss) attributable to non-controlling interests	14	6	4
Earnings per common share attributable to shareholders			
	2009	2010	2011
Basic earnings per common share in euros			

Income (loss) from continuing operations attributable to shareholders	0.50	1.57	(0.82)
Net income (loss) attributable to shareholders	0.44	1.54	(1.36)
Diluted earnings per common share in euros			
Income (loss) from continuing operations attributable to shareholders	0.50	1.55	(0.82)
Net income (loss) attributable to shareholders	0.44	1.52	(1.36)

The years 2009 and 2010 are restated to present the Television business as discontinued operations.

The accompanying notes are an integral part of these consolidated financial statements.

12.5 Consolidated statements of comprehensive income

in millions of euros unless otherwise stated

Consolidated statements of comprehensive income of the Philips Group for the years ended December 31

	2009	2010	2011
Net income (loss)	424	1,452	(1,291)
Other comprehensive income:			
Actuarial gains (losses) on pension plans:			
Net current period change, before tax	(1,110)	(1,948)	(618)
Income tax on net current period change	177	602	171
Revaluation reserve:			
Release revaluation reserve	(15)	(16)	(16)
Reclassification into retained earnings	15	16	16
Currency translation differences:			
Net current period change, before tax	(64)	535	71
Income tax on net current period change		(5)	(2)
Reclassification adjustment for (loss)gain realized		(4)	3
Non-controlling interests	(1)		
Available-for-sale financial assets:			
Net current period change, before tax	272	180	(87)
Income tax on net current period change			19
Reclassification adjustment for (loss) gain realized	(127)	(161)	(26)
Cash flow hedges:			
Net current period change, before tax	(19)	(44)	(31)
Income tax on net current period change	(15)	5	
Reclassification adjustment for (loss) gain realized	72	24	27
Other comprehensive income (loss) for the period	(815)	(816)	(473)
Total comprehensive income (loss) for the period	(391)	636	(1,764)
Total comprehensive income (loss) attributable to:			
Shareholders	(404)	630	(1,768)
Non-controlling interests	13	6	4

The years 2009 and 2010 are restated to present the Television business as discontinued operations.

The accompanying notes are an integral part of these consolidated financial statements

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12.6 Consolidated balance sheets

in millions of euros unless otherwise stated

Consolidated balance sheets of the Philips Group as of December 31

Assets

		2010		2011
Non-current assets				
Property, plant and equipment:				
- At cost	8,112[1)]		7,828	
- Less accumulated depreciation	(4,967)[1)]		(4,814)	
		3,145		3,014
Goodwill		8,035		7,016
Intangible assets excluding goodwill:				
- At cost	7,197		7,663	
- Less accumulated amortization	(2,999)		(3,667)	
		4,198		3,996
Non-current receivables		88		127
Investments in associates		181		203
Other non-current financial assets		479		346
Deferred tax assets		1,351		1,713
Other non-current assets		75		71
Total non-current assets		17,552		16,486
Current assets				
Inventories - net		3,865		3,625
Current financial assets		5		
Other current assets		348		351
Derivative financial assets		112		229
Income tax receivable		79		162
Receivables:				
- Accounts receivable - net	4,104		4,171	
- Accounts receivable from related parties	20		19	
- Other current receivables	231		225	
		4,355		4,415
Assets classified as held for sale		120[1)]		551
Cash and cash equivalents		5,833		3,147
Total current assets		14,717		12,480
		32,269		28,966

1) Revised to reflect a property, plant and equipment reclassification to assets classified as held for sale

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Equity and liabilities

		2010		2011
Equity				
Shareholders equity:				
Preference shares, par value EUR 0.20 per share:				
- Authorized: 2,000,000,000 shares (2010: 2,000,000,000 shares), issued none				
Common shares, par value EUR 0.20 per share:				
- Authorized: 2,000,000,000 shares (2010: 2,000,000,000 shares)				
- Issued and fully paid: 1,008,975,445 shares (2010: 986,078,784 shares)	197			
			202	
Capital in excess of par value	354		813	
Retained earnings	15,416		12,917	
Revaluation reserve	86		70	
Other reserves	69		43	
Treasury shares, at cost 82,880,543 shares (2010: 39,572,400 shares)	(1,076)		(1,690)	
		15,046		12,355
Non-controlling interests		46		34
Group equity		15,092		12,389
Non-current liabilities				
Long-term debt		2,818		3,278
Long-term provisions		1,716		1,880
Deferred tax liabilities		171		77
Other non-current liabilities		1,714		1,999
Total non-current liabilities		6,419		7,234
Current liabilities				
Short-term debt		1,840		582
Derivative financial liabilities		564		744
Income tax payable		291		191
Accounts and notes payable:				
- Trade creditors	3,686		3,340	
- Accounts payable to related parties	5		6	
		3,691		3,346
Accrued liabilities		2,995		3,026
Short-term provisions		623		759
Liabilities directly associated with assets held for sale				61
Other current liabilities		754		634
Total current liabilities		10,758		9,343
Contractual obligations and contingent liabilities				
		32,269		28,966

The accompanying notes are an integral part of these consolidated financial statements

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12.7 Consolidated statements of cash flows

in millions of euros

Consolidated statements of cash flows of the Philips Group for the years ended December 31

	2009	2010	2011
Cash flows from operating activities			
Net (loss) income	424	1,452	(1,291)
Loss from discontinued operations	52	26	515
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,395	1,356	1,456
Impairment of goodwill, other non-current financial assets and investments in associates	2	5	1,387
Net gain on sale of assets	(139)	(204)	(88)
Income from investments in associates	(23)	(18)	(14)
Dividends received from investments in associates	35	19	44
Dividends paid to non-controlling interests	(4)	(4)	(4)
Decrease (increase) in receivables and other current assets	337	(241)	(339)
(Increase) decrease in inventories	516	(498)	(81)
(Decrease) increase in accounts payable and accrued and other current liabilities	(203)	755	(259)
Increase in non-current receivables, other assets and other liabilities	(365)	(297)	(596)
Decrease (increase) in provisions	(667)	(211)	6
Other items	31	(19)	100
Net cash provided by operating activities	1,391	2,121	836
Cash flows from investing activities			
Purchase of intangible assets	(96)	(80)	(116)
Expenditures on development assets	(162)	(193)	(231)
Capital expenditures on property, plant and equipment	(495)	(621)	(725)
Proceeds from disposals of property, plant and equipment	125	129	128
Cash from (used for) derivatives and securities	(38)	(25)	26
Purchase of other non-current financial assets	(6)	(16)	(43)
Proceeds from other non-current financial assets	718	268	87
Purchase of businesses, net of cash acquired	(295)	(225)	(509)
Proceeds from sale of interests in businesses, net of cash disposed of	84	117	19
Net cash used for investing activities	(165)	(646)	(1,364)
Cash flows from financing activities			
Proceeds from (payments on) issuance of short-term debt	(201)	143	(217)
Principal payments on short-term portion of long-term debt	(50)	(78)	(1,097)
Proceeds from issuance of long-term debt	312	71	457
Treasury shares transaction	29	65	(671)
Dividends paid	(634)	(296)	(259)
Net cash used for financing activities	(544)	(95)	(1,787)
Net cash (used for) provided by continuing operations	682	1,380	(2,315)

	2009	2010	2011
Cash flows from discontinued operations			
Net cash used for operating activities	153	34	(270)
Net cash provided by investing activities	(54)	(56)	(94)
Net cash used for discontinued operations	99	(22)	(364)
Net cash (used for) provided by continuing and discontinued operations	781	1,358	(2,679)
Effect of changes in exchange rates on cash and cash equivalents	(15)	89	(7)
Cash and cash equivalents at the beginning of the year	3,620	4,386	5,833
Cash and cash equivalents at the end of the year	4,386	5,833	3,147

Supplemental disclosures to the Consolidated statements of cash flows

	2009	2010	2011
Net cash paid during the year for:			
Pensions	(422)	(474)	(639)
Interest	(244)	(226)	(231)
Income taxes	(197)	(206)	(582)
Net gain on sale of assets:			
Cash proceeds from the sale of assets	927	514	234
Book value of these assets	(788)	(675)	(164)
Deferred results on sale and leaseback transactions		4	
Non-cash proceeds		361	18
	139	204	88
Non-cash investing and financing information			
Assets in lieu of cash from the sale of businesses:			
Shares/share options/convertible bonds		3	18
Conversion of convertible personnel debentures	3	6	
Treasury shares transaction:			
Shares acquired			(751)
Exercise of stock options	29	65	80

The years 2009 and 2010 are restated to present the Television business as discontinued operations.

The accompanying notes are an integral part of these consolidated financial statements.

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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12.8 Consolidated statements of changes in equity

in millions of euros unless otherwise stated

Consolidated statements of changes in equity of the Philips Group

	outstanding number of shares in thousands	common share	capital in excess of par value	retained earnings	revaluation reserve	other reserves	treasury shares at cost	shareholders equity	non-controlling interests	group equity
Balance as of Jan. 1, 2009	922,982	194		17,101	117	(580)	(1,288)	15,544	49	15,593
Total comprehensive income (loss)				(508)	(15)	119		(404)	13	(391)
Dividend distributed				(647)				(647)		(647)
Non-controlling interests movement									(13)	(13)
Purchase of treasury shares	(2)									
Re-issuance of treasury shares	4,477		(70)	1			101	32		32
Share-based compensation plans			65					65		65
Income tax share-based compensation plans			5					5		5
	4,475			(1,154)	(15)	119	101	(949)		(949)
Balance as of Dec. 31, 2009	927,457	194		15,947	102	(461)	(1,187)	14,595	49	14,644
Total comprehensive income (loss)				116	(16)	530		630	6	636
Dividend distributed	13,667	3	343	(650)				(304)		(304)
Non-controlling interests movement				(6)				(6)	(9)	(15)
Purchase of treasury shares	(15)									
Re-issuance of treasury shares	5,397		(49)	9			111	71		71
Share-based compensation plans			55					55		55
Income tax share-based compensation plans			5					5		5
	19,049	3	354	(531)	(16)	530	111	451	(3)	448
Balance as of Dec. 31, 2010	946,506	197	354	15,416	86	69	(1,076)	15,046	46	15,092
Total comprehensive income (loss)				(1,726)	(16)	(26)		(1,768)	4	(1,764)
Dividend distributed	22,897	5	443	(711)				(263)		(263)
Non-controlling interests movement				(5)				(5)	(16)	(21)
Purchase of treasury shares	(47,508)			(51)			(700)	(751)		(751)
Re-issuance of treasury shares	4,200		(34)	(6)			86	46		