Annual Report 2012

Financial, social and environmental performance

Accelerate!

Progress in delivering our full potential

Please note: this PDF contains only the pages highlighted in the list of contents below. The contents of this file are qualified in their entirety by reference to the printed version of the Philips Annual Report 2012.

The information in this PDF has been derived from the audited financial statements 2012 of Koninklijke Philips Electronics N.V.

KPMG has issued unqualified auditors' reports on these financial statements.

This is the analyst selection from the Philips Annual Report 2012

PHILIPS

Contents

Grey text indicates parts not included in this selection from the Philips Annual Report 2012.

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 chapter 19, Forward-looking statements and other information, of this Annual 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).

Performance highlights

Prior periods amounts have been revised to reflect a voluntary adopted accounting policy change, and immaterial adjustments (see section 12.10, Significant accounting policies, of this Annual Report)

Financial table

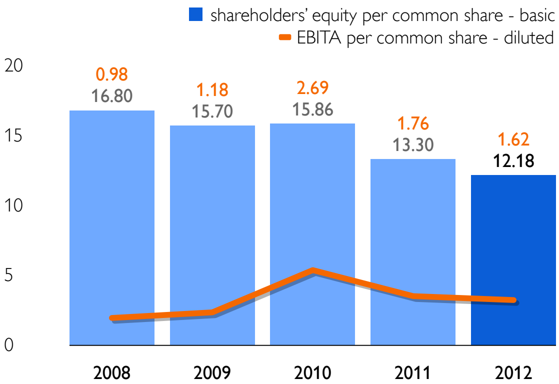
all amounts in millions of euros unless otherwise stated

	2010	2011	2012
Sales	22,287	22,579	24,788
EBITA[1]	2,556	1,680	1,502
as a % of sales	11.5	7.4	6.1
EBIT	2,074	(269)	1,030
as a % of sales	9.3	(1.2)	4.2
Net income (loss)	1,448	(1,291)	231
per common share in euros:			
- basic	1.54	(1.36)	0.25
- diluted	1.53	(1.36)	0.25
Net operating capital[1]	11,897	10,372	9,307
Free cash flows[1]	1,358	(104)	1,723
Shareholders' equity	15,007	12,316	11,140
Employees at December 31	119,775	125,241	118,087
of which discontinued operations	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 Annual Report
2) For a definition of mature and growth geographies, see chapter 18, Definitions and abbreviations, of this Annual Report
3) Group Management & Services sector has been renamed to Innovation, Group & Services
4) Based on 60 pulse surveys conducted in 2012

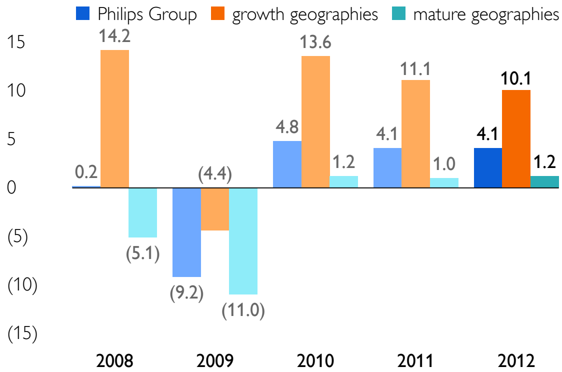
Equity and EBITA per common share[1]

in euros



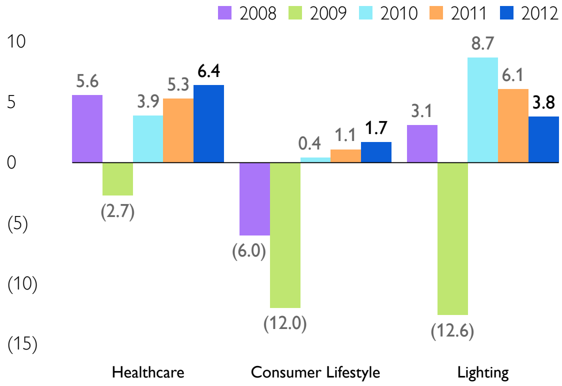
Comparable sales growth by geographic cluster[1,2]

in %



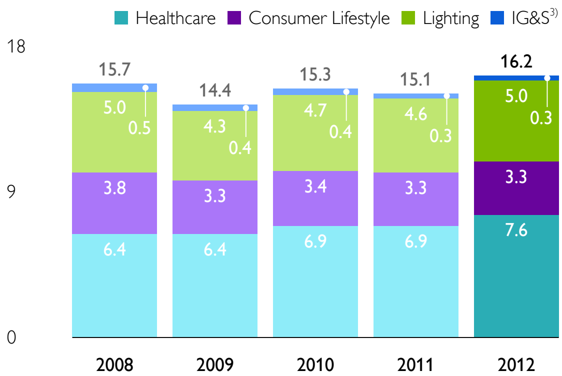
Comparable sales growth by operating sector[1]

in %



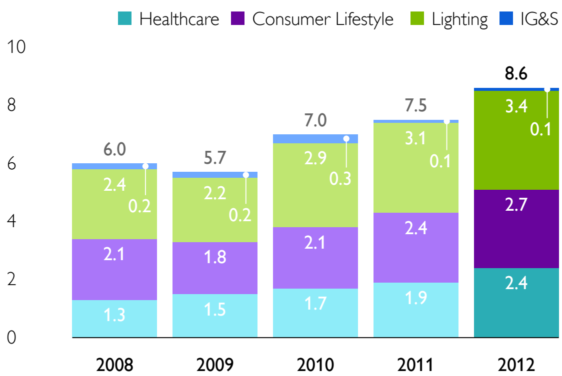
Sales per sector in mature geographies[2]

in billions of euros

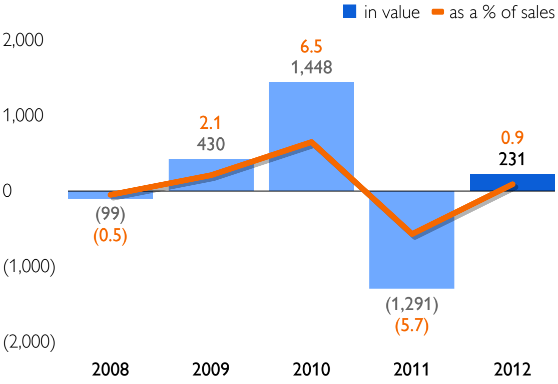


Sales per sector in growth geographies[2]

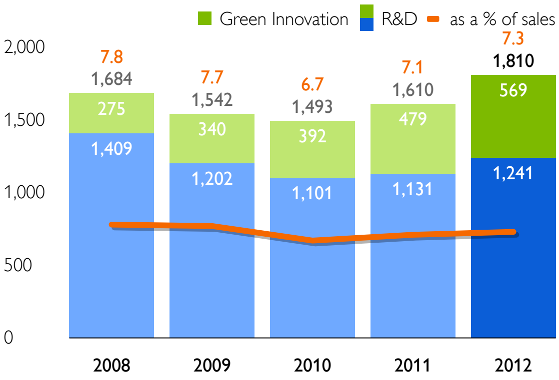
in billions of euros



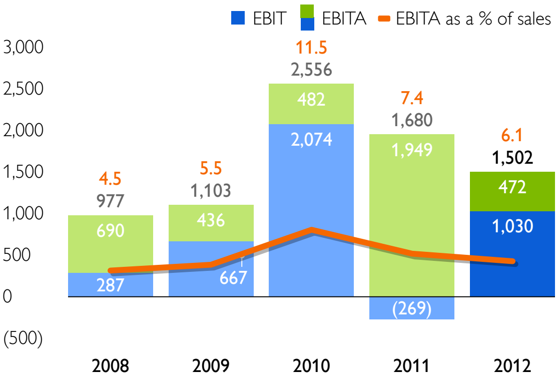
Net income (loss)
in millions of euros



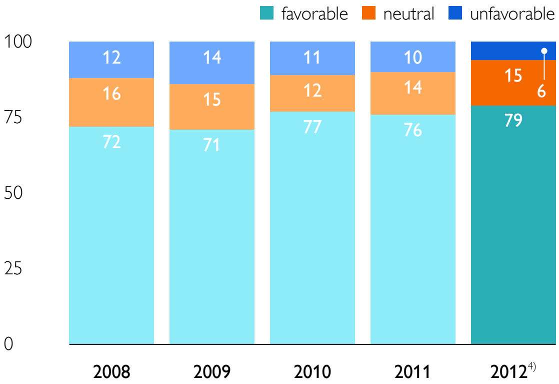
Research and development expenses
in millions of euros



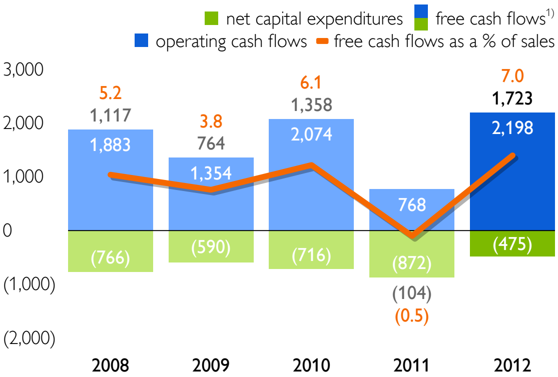
EBIT and EBITA[1]
in millions of euros



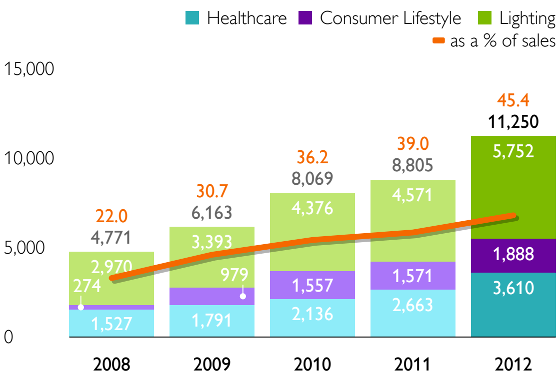
Employee Engagement Index
in %



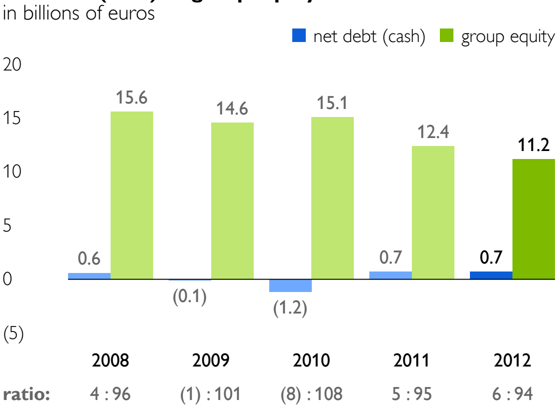
Operating cash flows
in millions of euros



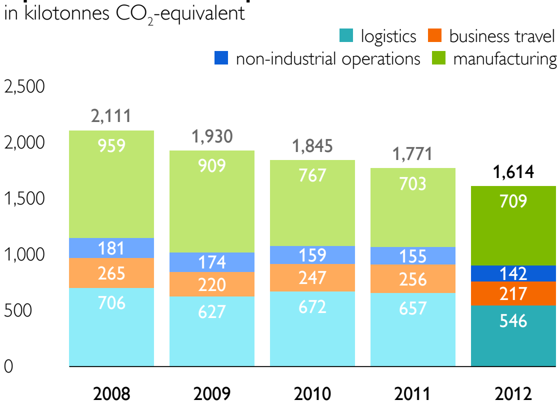
Green Product sales per sector
in millions of euros



Net debt (cash) to group equity[1]
in billions of euros



Operational carbon footprint
in kilotonnes CO_2-equivalent



Message from the CEO

"Accelerate! is gaining good traction and delivering tangible results. We are improving the time-to-market of new innovations and creating value propositions with greater local relevance in key markets around the world. We will continue to relentlessly drive operational excellence and invest in innovation and sales development to deliver profitable growth." **Frans van Houten**, CEO

Dear stakeholder,

Philips is a fantastic company with significant potential still to be fully unlocked. We hold leadership positions in the domains of healthcare, lighting and consumer well-being. Global trends and challenges – such as the demand for affordable healthcare, the need for energy efficiency, and the desire for personal well-being – offer us tremendous opportunities, in both growth and mature geographies. We have talented and engaged people, exceptional innovation capabilities, a strong and trusted brand, presence in over 100 countries, and a solid balance sheet, all of which differentiate us in the market and significantly strengthen our businesses.

We continue to see ourselves as a case of 'self-help' as we have considerable scope for operational improvement that will drive higher growth and better returns. Through our multi-year transformation program Accelerate! we are making progress in unlocking this potential, including a rigorous approach to portfolio management to ensure that we invest in the best value-creating opportunities and exit less attractive businesses.

2012 – a year of significant progress

With the addition of Deborah DiSanzo and Eric Rondolat as CEO of Healthcare and Lighting respectively, we have completed our Executive Committee – a diverse team that is fully motivated to transform Philips into the leading technology company in health and well-being.

Accelerate! is gaining good traction and delivering tangible results. We are improving the time-to-market of new innovations and creating value propositions with greater local relevance in key markets around the world. We are redirecting resources to areas where we have identified opportunities to create value and win in the market.

We are also transforming our processes to create lean end-to-end customer value chains. We are reducing our working capital requirements, including a significant reduction in inventory in 2012. Our cost reduction program – aimed specifically at reducing overhead and support costs – is delivering ahead of target, with cumulative savings of EUR 471 million in 2012.

And we are creating a growth and performance culture by taking decisions faster, fostering entrepreneurial behavior, and taking a granular approach to business planning and performance management, fully anchored by our General Business Principles. Our reward system has been aligned to reflect the focus on growth and improved performance.

I am delighted that the organization is responding well to Accelerate! – all of these actions are making Philips a more customer-focused, agile, entrepreneurial innovator.

We posted 4% comparable sales growth in 2012, despite ongoing economic challenges and market weakness, especially in the United States and Europe. Our growth geographies made a strong and increasing contribution (35% of sales, up from 33% in 2011).

Our underlying operational profitability improved, driven by sales growth and higher productivity of non-manufacturing costs. Reported EBITA was significantly impacted by various charges, as well as restructuring costs. We substantially improved our return on invested capital.

Healthcare did well in 2012, recording 6% comparable sales growth, as well as – importantly – improved profitability at its Imaging Systems business. The growth businesses in our Consumer Lifestyle sector, i.e. Personal Care, Health & Wellness and Domestic Appliances, delivered solid growth, including a significant contribution from 2011 acquisitions in growth geographies. Lighting posted a further increase in LED-based sales and made progress in addressing underperforming units, with Lumileds and Consumer Luminaires returning to profitability – excluding restructuring and acquisition-related charges – in the fourth quarter. Innovation is a key driver of future LED-based applications and solutions, and we were proud to launch our personal wireless LED lighting system Philips hue. Reinforcing our commitment to innovation, we increased our investments in Research & Development from EUR 1.6 billion (7.1% of sales) in 2011 to EUR 1.8 billion (7.3% of total sales) in 2012.

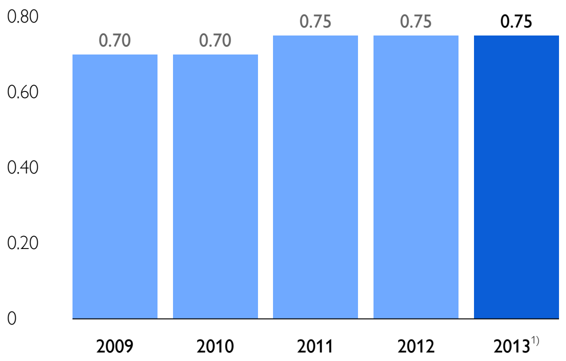
Reshaping our Consumer Lifestyle portfolio was an important step in the transformation of Philips to become the leading technology company in health and well-being. Our Television joint venture with TPV became operational in 2012. This was followed by the announcement of a distribution agreement with Funai for Lifestyle Entertainment in North America. In January 2013 we announced an agreement with Funai on the transfer of our audio, video, multimedia and accessories businesses. This agreement will leverage the strengths of both companies to improve the position of Philips Audio/Video Entertainment in the market, providing continuity for our customers and brand license income for Philips.

As we strive to make the world healthier and more sustainable through innovation, we again delivered on our EcoVision commitments and helped improve the lives of 1.7 billion people in 2012. Our ongoing efforts in this area were recognized when we were named ‘Supersector leader’ in the Dow Jones Sustainability Index for the second consecutive year. In the annual Interbrand ranking of the top 100 global brands, we increased our brand value by 5% to over USD 9 billion, the highest in the history of our brand.

In 2012 we continued to execute our EUR 2 billion share buy-back program, which will improve the efficiency of our balance sheet, and by the end of the year we had completed 73% of this program.

Reflecting 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.

Dividend per common share
in euros



[1)] Subject to approval by the 2013 Annual General Meeting of Shareholders

Looking ahead – our path to value in 2013 and beyond

As we pursue our mission and vision, we are confident that the strategic direction we have chosen is sound. We are bringing many exciting new products and services to the market in all three of our sectors. We will continue with Accelerate! to make us more competitive and to enable our businesses to win in the market and achieve global leadership positions. It is the right platform to drive the execution of our plans and to ensure that our investments in innovation, people, systems and markets deliver profitable growth and improve return on invested capital.

In the coming year we will make further progress through Accelerate! by transforming our end-to-end customer value chain to just four Lean-based business models enabled by an effective and cost-efficient IT platform. This is helping us to deliver our innovations to market faster and reducing our working capital requirements. Our end-to-end projects will scale up to cover over 40% of sales in 2013, up from around 20% in 2012.

We are also implementing focused actions to improve gross margins in 2013 and beyond. These include rationalizing our industrial and distribution footprint at Lighting and Healthcare, enhancing procurement effectiveness and driving value engineering.

In conclusion, we made considerable progress in 2012, but there is still much to be done to deliver Philips' full potential. We are confident that operational and financial performance will improve further during 2013, enabling us to achieve our targets for the year.

On behalf of my colleagues on the Executive Committee, I wish to thank our employees for their dedicated efforts and for the way they have embraced our new culture of entrepreneurship and accountability. And I would like to thank our customers and other stakeholders, especially our shareholders, for their continuing support.

Frans van Houten,

Chief Executive Officer

1 Our company

Philips is a diversified technology company active in the markets of healthcare, lighting and consumer well-being. Our headquarters are in Amsterdam (Netherlands).

Our heritage
Philips was founded in Eindhoven (Netherlands) in 1891 by Frederik and Gerard Philips – later joined by Gerard's brother Anton – to "manufacture incandescent lamps and other electrical products". For the 120-plus 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 well-being products.

Our mission
To improve people's lives through meaningful innovation
Innovation is core 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 remain 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.

Guiding statement
As a diversified technology company we manage a dynamic portfolio of businesses which we build to global leadership performance.

We create value through our capabilities to develop deep understanding of our customers' needs and apply advanced technologies to create innovative solutions. With our people, global presence and trusted brand we reach customers worldwide.

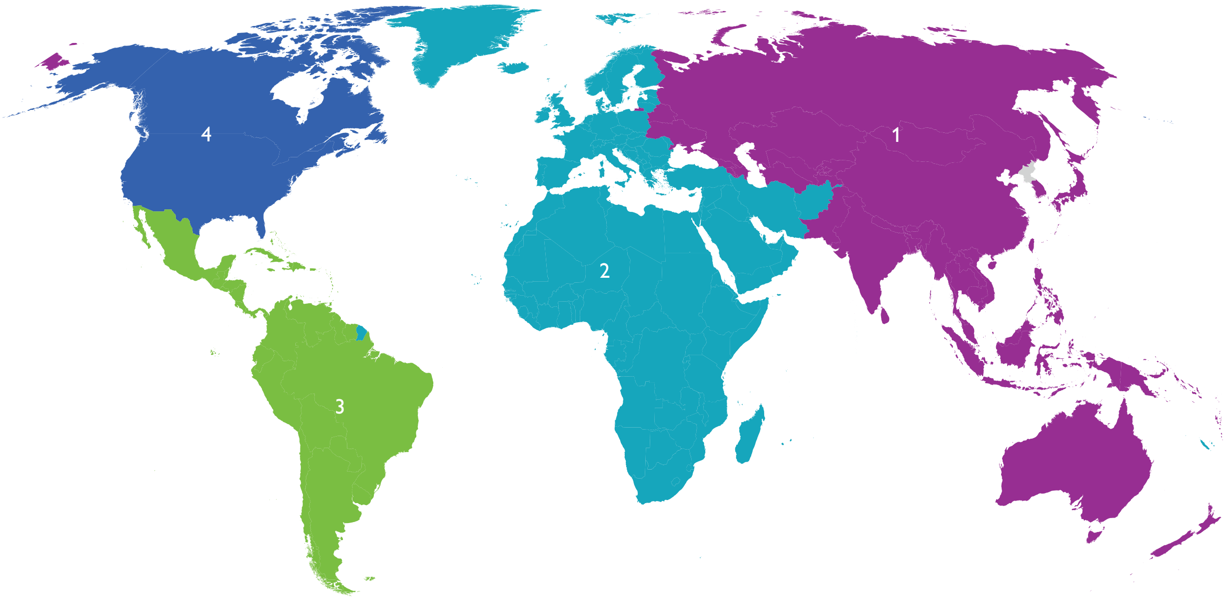
The Philips Business System enables us to deliver superior results by being a learning organization with a growth and performance culture, in which we combine entrepreneurship and agility with disciplined, lean end-to-end execution, leveraging global scale and local relevance.

Our behaviors
Our behaviors:

- Eager to win
- Take ownership
- Team up to excel

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.

Our company



1 Asia & Pacific

Number of employees:	43,392
Employees female:	38%
Employees male:	62%
R&D centers:	2
Manufacturing sites:	28

2 EMEA

Number of employees:	40,903
Employees female:	31%
Employees male:	69%
R&D centers:	5
Manufacturing sites:	44

3 Latin America

Number of employees:	7,670
Employees female:	39%
Employees male:	61%
R&D centers:	-
Manufacturing sites:	6

4 North America

Number of employees:	26,122
Employees female:	37%
Employees male:	63%
R&D centers:	1
Manufacturing sites:	42

External recognition

Philips and its businesses received a tremendous number and variety of awards and other forms of recognition in 2012. The following are just a few examples from a very successful year:

- Equal highest-ever placing (41st) on the annual Interbrand ranking of the world's most valuable brands
- Philips named 'Supersector leader' in the Dow Jones Sustainability Index for the second consecutive year
- Philips won a record-breaking number of 124 design awards in 2012
- MD Buyline: Customers rated Philips Computed Tomography the #1 vendor in the health care industry for Q2, Q3 and Q4 2012; Philips Ultrasound #1 and Philips PROS #1 in Q3 and Q4 2012; Philips Radiography & Fluoroscopy #1 in Q1 and Q2 2012
- KLAS: November 2012 RSNA Report on Philips Magnetic Resonance Imaging – Ingenia 1.5 T ranked #1
- KLAS: Philips Ultrasound #1 'Best in KLAS' award in general imaging and ultrasound cardiology
- 2012 IMV ServiceTrak™ All Systems survey: Philips Ultrasound ranked #1 based on customer feedback
- American Association for Respiratory Care Zenith Award, Philips Hospital Respiratory Care
- In China, Consumer Care of Consumer Lifestyle was recognized as the 'The Best in Consumer Care 2012' by 51callcenter.com
- UK consumer magazine *Which?* ranked Philips kettles, irons and Gaggia espresso machines #1 for reliability
- Lumea Precision won the Beauty Astir Award for Best Body Product
- CityTouch online outdoor lighting management system honored as a top sustainable solution at Rio+20 United Nations Conference on Sustainable Development
- US business magazine *Forbes* named our Philips hue personal wireless lighting system 'Best Product of 2012'

2 Group strategic focus

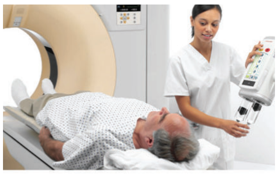
Philips is a technology company with a focus on people's health and well-being. We strive for a balanced portfolio of businesses that have – or can attain – global leadership positions and deliver performance at or above benchmark levels.

A number of trends and challenges are influencing our business activities and portfolio choices:

Global trends and challenges – our market opportunities

Healthcare

- Growing and aging populations
- Increase in patients managing chronic conditions
- Growth geographies wealth creating demand
- Lifestyle changes fueling cardiovascular illnesses and respiratory and sleeping disorders



Consumer Lifestyle

- Consumer focus on health and well-being
- Rising middle class in growth geographies
- Back to basics: simple propositions
- Trusted brands combined with locally relevant portfolio

Lighting

- Ongoing urbanization and globalization
- Increasing need for energy-efficient solutions
- Fast-growing global illumination market
- Expanding renovation market
- Rapid adoption of LED-based lighting solutions

Philips applies its outstanding innovation capabilities, global footprint, talented and engaged people, deep knowledge of customers and specific industry domains, and strong brand to provide solutions that address these needs and challenges and have a meaningful impact on people's lives.

Lives improved

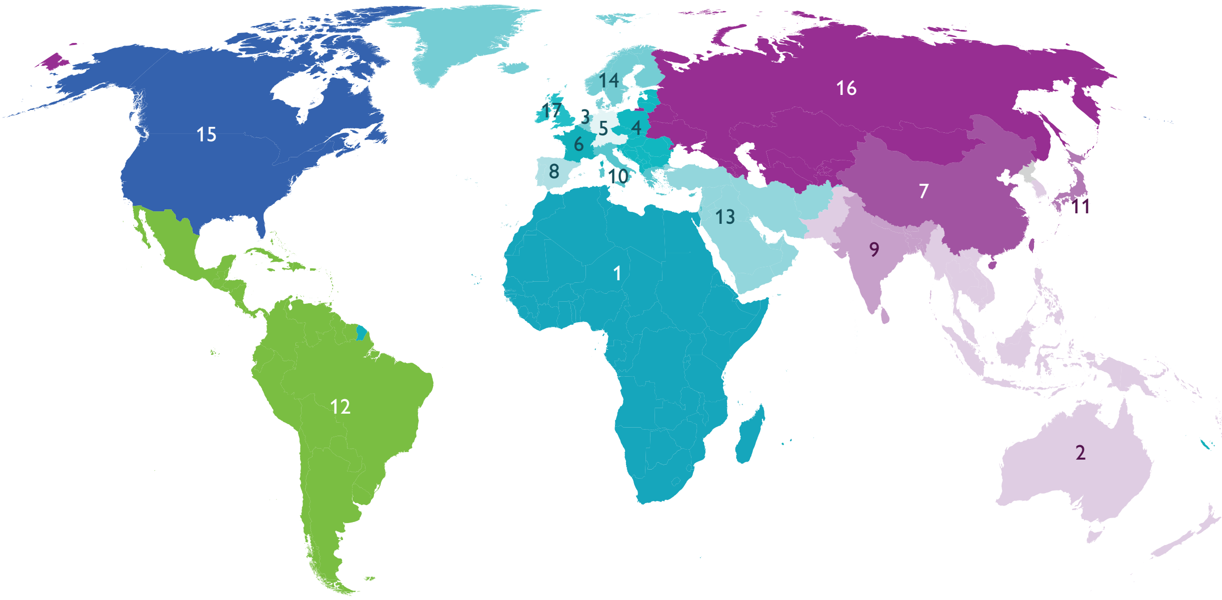
At Philips, we strive to make the world healthier and more sustainable through innovation. Our goal is to improve the lives of 3 billion people a year by 2025.

Where technology and human needs intersect – that is where we find meaningful innovation. Meeting people's needs through technology means re-imagining livable cities with smarter, more energy-efficient lighting, and developing new approaches to healthcare that promote wellness rather than simply treat illness. It means a focus on health and well-being innovations that are more intuitive, more effective, more affordable and accessible.

Our technology, often conceived and developed in collaborative Open Innovation, gives us smart tools to drive far-reaching positive change – intelligent energy, circular economic production, patient-focused healthcare. And with technology trending towards greater personalization and connectedness, we are increasingly incorporating digital intelligence into our products and solutions.

To guide our efforts and measure our progress, we take a two-dimensional approach – social and ecological – to improving people's lives. Products and solutions from our portfolio that directly support the curative (care) or preventive (well-being) side of people's health, determine the contribution to the social dimension. As healthy ecosystems are also needed for people to live a healthy life, the contribution to the ecological dimension is determined by means of our Green Product portfolio, such as our energy-efficient lighting.

Lives improved by Philips: 1.7 billion



1 Africa
Population 1,043 million*
Lives improved 38 million**
GDP $ 2,035 billion***

2 ASEAN & Pacific
Population 883 million*
Lives improved 223 million**
GDP $ 5,438 billion***

3 Benelux
Population 28 million*
Lives improved 28 million**
GDP $ 1,302 billion***

4 Central & East Europe
Population 125 million*
Lives improved 69 million**
GDP $ 1,393 billion***

5 DACH
Population 98 million*
Lives improved 87 million**
GDP $ 4,384 billion***

6 France
Population 68 million*
Lives improved 56 million**
GDP $ 2,590 billion***

7 Greater China
Population 1,384 million*
Lives improved 313 million**
GDP $ 9,017 billion***

8 Iberia
Population 57 million*
Lives improved 41 million**
GDP $ 1,554 billion***

9 Indian Subcontinent
Population 1,410 million*
Lives improved 152 million**
GDP $ 2,146 billion***

10 Italy, Israel & Greece
Population 81 million*
Lives improved 52 million**
GDP $ 2,515 billion***

11 Japan
Population 127 million*
Lives improved 21 million**
GDP $ 5,984 billion***

12 Latin America
Population 588 million*
Lives improved 124 million**
GDP $ 5,934 billion***

13 Middle East & Turkey
Population 320 million*
Lives improved 83 million**
GDP $ 2,684 billion***

14 Nordics
Population 26 million*
Lives improved 25 million**
GDP $ 1,592 billion***

15 North America
Population 350 million*
Lives improved 269 million**
GDP $ 17,423 billion***

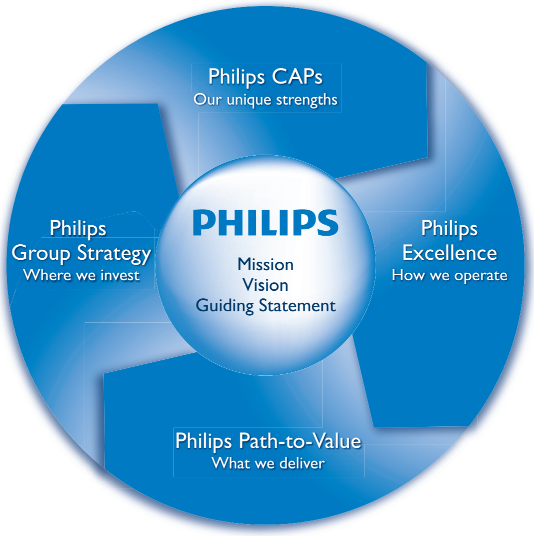
16 Russia & Central Asia
Population 284 million*
Lives improved 77 million**
GDP $ 2,598 billion***

17 UK & Ireland
Population 68 million*
Lives improved 46 million**
GDP $ 2,638 billion***

* Source: UN Department of Economic and Social Affairs
** Source: Philips
*** Source: IMF & CIA Factbook

The Philips Business System

Centered around our company mission, vision and guiding statement, the Philips Business System links four elements into a coherent system: Our overall Group Strategy and the resulting portfolio choices and resource allocation. Our five Capabilities, Assets and Positions, Philips' unique strenghts: deep customer insight, technology innovation, our brand, global footprint, and our people. To collectively leverage these unique strengths, we rigorously apply common operating principles across the Group to achieve "Philips Excellence". This in turn maximizes the value we can create, value that we can then reinvest in our portfolio of businesses, leading to further strengthening of our CAPs.



As such, the Philips Business System acts as a 'virtuous cycle' in which all four elements continually reinforce one another, accelerating profitable growth of all businesses within it. In this way, we steadily build, over time, the momentum needed to maximize the value we create - for us as a company, for our customers, shareholders and society as a whole.

Core principles

The following eight principles describe how we operate the Philips Business System:

- We manage our portfolio with clearly defined strategies and allocate resources to maximize value creation.
- We strengthen and leverage our core Capabilities, Assets & Positions as they create differential value.
- We define and execute business plans that deliver sustainable results along a credible Path to Value.
- We govern through Business-Market Combinations and a single value-added layer.
- We serve our customers with speed & excellence through lean, process-driven end-to-end value chains.
- We run a single, granular, performance management cycle with aligned objectives and rewards.
- We champion our Growth and Performance Culture, always acting with integrity.
- We embrace continuous improvement and learning to enhance our capabilities.

Business Market Combinations

As a diversified technology group, Philips has a wide portfolio of categories/business innovation units which are grouped in business groups based primarily on technology or customer needs. Philips has physical market presence in over 100 countries, which are grouped into 17 market clusters. Our primary operating modus is the Business Market matrix comprising Business Groups and Markets. These Business Market Combinations (BMCs) drive business performance on a granular level at which plans are agreed between global businesses and local market teams.

Single value-added layer

To optimize our overhead structure, we adopt a single value-added layer above the BMCs. Group and Sector are effectively one layer: staff are shared, not layered or duplicated. The goal is to do the same work only once, i.e. no duplication of roles and responsibilities.

Accelerate!

Accelerate! is our comprehensive multi-year change and performance improvement program designed to transform Philips and unlock our full potential for long-term success.

Based upon a renewed culture of entrepreneurship and accountability, Accelerate! is reducing the complexity of our organization, tightening customer focus, increasing empowerment and collaboration between businesses and markets with the right resources to win, and increasing the speed and excellence of innovation and end-to-end execution. Through Accelerate! we are creating an agile, entrepreneurial and innovative company that delivers meaningful, locally relevant products and solutions to our customers. At the same time, our costs efficiency need to be at least in line with that of our competitors.

Our Accelerate! mid-term 2013 financial targets

We measure value through a balanced combination of sales growth, profitability and capital usage (the latter two measured through return on invested capital) in conjunction with other financial, operational and strategic key performance indicators.

Set in 2011 as part of the Accelerate! program, our mid-term financial targets, to be realized by the end of 2013, are:

- Comparable sales growth CAGR of 4-6%, assuming real GDP growth of 3-4% per annum
- Reported EBITA 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%

5 Group performance

"2012 was a year of progress despite the challenging economic environment, especially in the United States and Europe. Supported by our Accelerate! transformation program, we achieved 4% comparable sales growth and improved our net income, capital efficiency and free cash flow. The results in 2012 demonstrate momentum on our path towards our Accelerate! mid-term 2013 financial targets." **Ron Wirahadiraksa**, CFO

5.1 Financial performance

Management summary

Key data[1)]
in millions of euros unless otherwise stated

	2010	2011	2012
Sales	22,287	22,579	24,788
EBITA[2)]	2,556	1,680	1,502
as a % of sales	11.5	7.4	6.1
EBIT	2,074	(269)	1,030
as a % of sales	9.3	(1.2)	4.2
Financial income and expenses	(121)	(240)	(246)
Income tax expense	(497)	(283)	(308)
Results of investments in associates	18	16	(214)
Income (loss) from continuing operations	1,474	(776)	262
Income (loss) from discontinued operations	(26)	(515)	(31)
Net income (loss)	1,448	(1,291)	231
Net income (loss) per common share in euros:			
- basic	1.54	(1.36)	0.25
- diluted	1.53	(1.36)	0.25
Net operating capital (NOC)[2)]	11,897	10,372	9,307
Cash flows before financing activities[2)]	1,477	(525)	1,286
Employees (FTEs)	119,775	125,241	118,087
of which discontinued operations	3,610	3,353	–

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

The year 2012

- Despite strong economic headwinds, we continued on our steady path of improvement driven by our multi-year change and performance program, Accelerate!. We recorded 4% comparable sales growth (10% nominal growth), with a strong contribution from growth geographies. Healthcare and Consumer Lifestyle delivered solid earnings, while Lighting gained momentum in its turnaround. Net income for the year amounted to EUR 231 million, and was impacted by substantial restructuring charges as well as the European Commission fine related to alleged violation of competition rules in the Cathode-Ray Tube (CRT) industry.
- Sales amounted to EUR 24.8 billion, a 10% nominal increase for the year. Excluding favorable currency effects and portfolio changes, comparable sales were 4% above 2011, driven by all three operating sectors. Healthcare sales grew 6%, with solid growth in all businesses. Lighting sales were 4% above 2011, with strong growth coming from Light Sources & Electronics, mainly fueled by market demand for LED, and Automotive, partly tempered by a sales decline at Lumileds. Sales at Consumer Lifestyle were 2% above 2011, with double-digit growth at Domestic Appliances and Health & Wellness and mid-single-digit growth at Personal Care, tempered by a sales decline at our Lifestyle Entertainment business.
- Our growth geographies achieved 10% comparable growth, while mature geographies grew by a modest 1%, as a result of the overall macroeconomic developments and the continued weakness of the Western European markets, particularly Southern Europe. In 2012, growth geographies accounted for 35% of total sales, compared to 33% in 2011.
- EBIT amounted to EUR 1,030 million, or 4.2% of sales, compared to a loss of EUR 269 million, or negative 1.2% of sales, in 2011. Excluding impairment charges of EUR 1,355 million in 2011, significant EBIT improvement was seen at Consumer Lifestyle and Healthcare, while Lighting was impacted by charges related to restructuring activities.
- We continued to re-align our portfolio to further focus on expanding market-leadership positions across our Healthcare, Consumer Lifestyle and Lighting sectors. In 2012, we completed the divestment of our Television business to TP Vision, extended our partnership in Senseo with Sara Lee and strengthened our Lifestyle Entertainment platform in North America through the signing of a distribution agreement with Funai. Additionally, we completed the acquisition of Indal, strengthening our position in outdoor lighting. In January 2013 we announced an agreement to transfer our Audio, Video, Multimedia and Accessories businesses to Funai.
- In 2012 we generated EUR 2,198 million of cash flow from operating activities, which was EUR 1,430 million higher than in 2011. The increase was largely a result of lower working capital requirements and higher cash earnings. Our cash flows before financing activities were EUR 1,811 million above the level of 2011, due to higher cash flow from operating activities, higher proceeds from divestments, and lower outflows related to acquisitions of new businesses.

Content you didn't download
Financial performance - 2011

5.1.1 Sales

Content you didn't download
The year 2012

The composition of sales growth in percentage terms in 2012, compared to 2011, is presented in the table below.

Sales growth composition 2012 versus 2011
in %

	comparable growth	currency effects	consolida-tion changes	nominal growth
Healthcare	6.4	6.4	–	12.8
Consumer Lifestyle	1.7	3.8	0.5	6.0
Lighting	3.8	4.6	2.1	10.5
IG&S[1]	(7.4)	0.1	(6.2)	(13.5)
Philips Group	4.1	5.0	0.7	9.8

[1] Group Management & Services sector has been renamed to Innovation, Group & Services

Group sales amounted to EUR 24,788 million in 2012, representing 10% nominal growth compared to 2011.

Adjusting for a 5% favorable currency effect and a 1% favorable portfolio effect, comparable sales were 4% above 2011. Comparable sales were up 6% at Healthcare, while Lighting was 4% higher and Consumer Lifestyle was 2% higher than the previous year.

Healthcare sales amounted to EUR 9,983 million, which was EUR 1,131 million higher than in 2011, or 6% higher on a comparable basis. Higher sales were driven by solid mid-single-digit comparable growth in all businesses, as increases in growth geographies and North America were tempered by flat sales in Western Europe.

Consumer Lifestyle reported sales of EUR 5,953 million, which was EUR 338 million higher than in 2011, or 2% higher on a comparable basis. We achieved double-digit growth at Domestic Appliances and Health & Wellness and mid-single-digit growth at Personal Care. This was partly offset by a double-digit decline at Lifestyle Entertainment, where growth was tempered by a slowdown in consumer spending, particularly in mature geographies.

Lighting sales amounted to EUR 8,442 million, which was EUR 804 million higher than in 2011, or 4% higher on a comparable basis. Growth was largely driven by high-single-digit growth at Automotive and mid-single-digit growth at Light Sources & Electronics. This was tempered by low-single-digit growth at Professional Lighting Solutions and Consumer Luminaires and a sales decline at Lumileds.

IG&S reported sales of EUR 410 million, which was EUR 64 million lower than in 2011, due to the divestment of Assembléon in the prior year and lower royalty income.

Content you didn't download
Sales - 2011

5.1.2 Earnings

Content you didn't download
The year 2012

In 2012, Philips' gross margin was EUR 9,409 million, or 38.0% of sales, compared to EUR 8,734 million, or 38.7% of sales, in 2011. Gross margin in 2012 included EUR 296 million in restructuring and acquisition-related charges, whereas 2011 included EUR 53 million in restructuring and acquisition-related charges. Gross margin percentage was higher than in 2011 for Consumer Lifestyle and Healthcare, while Lighting was lower.

Selling expenses increased from EUR 5,247 million in 2011 to EUR 5,468 million in 2012. 2012 included EUR 194 million in restructuring and acquisition-related charges, compared to EUR 54 million of restructuring charges in 2011. The year-on-year increase was mainly attributable to restructuring activities and higher expenses aimed at supporting a higher level of sales. In relation to sales, selling expenses decreased from 23.2% to 22.1%. Selling expenses as a percentage of sales were lower in all sectors.

General and administrative expenses amounted to EUR 798 million in 2012, compared to EUR 841 million in 2011. As a percentage of sales, costs decreased from 3.7% in 2011 to 3.2%.

Research and development costs increased from EUR 1,610 million in 2011 to EUR 1,810 million in 2012. The year-on-year increase was largely attributable to higher investments in growth and innovation. As a percentage of sales, research and development costs increased from 7.1% in 2011 to 7.3% in 2012.

The overview below shows sales, EBIT and EBITA according to the 2012 sector classifications.

Sales, EBIT and EBITA
in millions of euros unless otherwise stated

	sales	EBIT	%	EBITA[1]	%
2012					
Healthcare	9,983	1,122	11.2	1,322	13.2
Consumer Lifestyle	5,953	593	10.0	663	11.1
Lighting	8,442	(6)	(0.1)	188	2.2
IG&S	410	(679)	–	(671)	–
Philips Group	24,788	1,030	4.2	1,502	6.1
2011					
Healthcare	8,852	93	1.1	1,145	12.9
Consumer Lifestyle	5,615	217	3.9	297	5.3
Lighting	7,638	(362)	(4.7)	445	5.8
IG&S	474	(217)	–	(207)	–
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 Annual Report

In 2012, EBIT increased by EUR 1,299 million compared to 2011, to EUR 1,030 million, or 4.2% of sales. 2012 included EUR 580 million in restructuring and acquisition-related charges, compared to EUR 163 million in 2011. The year-on-year increase was mainly attributable to goodwill impairments of EUR 1,355 million in 2011 and higher gross margin percentages in Healthcare and Consumer Lifestyle, but was partly offset by a EUR 313 million fine issued by the European Commission in relation to the alleged violation of competition rules in the Cathode-Ray Tube (CRT) industry.

Amortization of intangibles, excluding software, capitalized product development and impairment related charges, amounted to EUR 472 million in 2012, compared to EUR 594 million in 2011.

EBITA decreased from EUR 1,680 million, or 7.4% of sales, in 2011 to EUR 1,502 million, or 6.1% of sales, in 2012. EBITA was higher than in 2011 at Consumer Lifestyle and Healthcare, while Lighting was lower.

Healthcare

EBITA increased from EUR 1,145 million, or 12.9% of sales, in 2011 to EUR 1,322 million, or 13.2% of sales, in 2012. EBITA improvements were realized across all businesses, largely as a result of higher sales and reduced expenses resulting from cost-saving programs. Restructuring and acquisition-related charges totaled EUR 134 million, compared to EUR 20 million in 2011.

Consumer Lifestyle

EBITA increased from EUR 297 million, or 5.3% of sales, in 2011 to EUR 663 million, or 11.1% of sales, in 2012. Restructuring and acquisition-related charges amounted to EUR 75 million in 2012, compared to EUR 54 million in 2011. 2012 results included a EUR 160 million one-time gain from the extension of our partnership with Sara Lee, including the transfer of our 50% ownership rights to the Senseo trademark. Excluding this one-time gain, the year-on-year EBITA increase was driven by higher sales across all growth businesses as well as lower net costs formerly reported as part of the Television business. EBITA was higher than in 2011 in all businesses.

Lighting

EBITA decreased from EUR 445 million, or 5.8% of sales, in 2011 to EUR 188 million, or 2.2% of sales, in 2012. Restructuring and acquisition-related charges amounted to EUR 315 million in 2012, compared to EUR 66 million in 2011. The decrease in EBITA was mainly attributable to higher restructuring and acquisition-related charges, as well as losses on the sale of industrial assets amounting to EUR 81 million, partly offset by higher sales. Compared to 2011, EBITA declined in all businesses except Automotive.

Innovation, Group & Services

EBITA decreased from a loss of EUR 207 million in 2011 to a loss of EUR 671 million in 2012. Results in 2012 were negatively impacted by a charge of EUR 313 million related to the CRT fine and provisions related to various legal matters totaling EUR 132 million. EBITA in 2012 also includes a EUR 25 million gain from a change in a medical retiree benefit plan and a EUR 37 million gain on the sale of the High Tech Campus, while 2011 included a EUR 21 million gain related to a change in pension plan. Restructuring and acquisition-related charges amounted to EUR 56 million in 2012, compared to EUR 23 million in 2011.

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

Content you didn't download
Earnings - 2011

5.1.3 Marketing

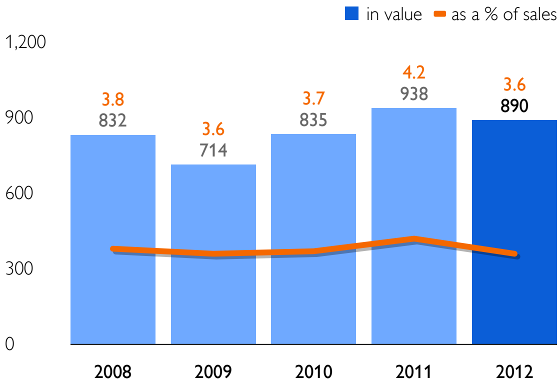
Content you didn't download
The year 2012

Philips' total 2012 marketing expenses approximated EUR 890 million, a decrease of 5% compared to 2011, mainly due to decreased investments in Western Europe.

Consistent with 2011, 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 key growth geographies by 5% compared to 2011. Total 2012 marketing investment as a percentage of sales approximated 3.6%, compared to 4.2% in 2011.

Philips increased its brand value by 5% in 2012 to over USD 9 billion in the ranking of the world's 100 most valuable brands, as measured by Interbrand. In the 2012 listing, Philips maintained its ranking as the 41st most valuable brand in the world.

Marketing expenses
in millions of euros



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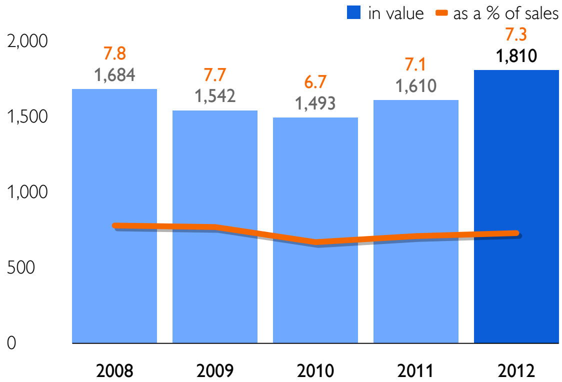
Marketing - 2011

5.1.4 Research and development

Content you didn't download
The year 2012

Research and development costs increased from EUR 1,610 million in 2011 to EUR 1,810 million in 2012. The year-on-year increase was largely attributable to higher investments in growth and innovation, including an increased focus on new value spaces. As a percentage of sales, research and development costs increased from 7.1% in 2011 to 7.3%.

Research and development expenses
in millions of euros



Research and development costs within Healthcare increased EUR 63 million, mainly at Imaging Systems and Home Healthcare Solutions. At Lighting, research and development costs increased EUR 44 million, primarily at Lumileds and our Controls business within Professional Lighting Solutions. At Consumer Lifestyle, research and development spending was EUR 12 million lower than in 2011, mainly as a result of the re-positioning of the Lifestyle Entertainment portfolio. In Innovation, Group & Services, R&D expenses increased by EUR 105 million, driven by investments in new value spaces as well as innovation and design initiatives.

Research and development expenses per sector
in millions of euros

	2010	2011	2012
Healthcare	698	740	803
Consumer Lifestyle	282	313	301
Lighting	355	409	453
Innovation, Group & Services	158	148	253
Philips Group	1,493	1,610	1,810

Content you didn't download
Research & development - 2011

5.1.5 Pensions

Content you didn't download
The year 2012

The net periodic pension costs of defined-benefit pension plans amounted to a credit of EUR 38 million in 2012, compared to a cost of EUR 18 million in 2011. The defined-contribution pension cost amounted to EUR 142 million, EUR 22 million higher than in 2011.

The funded status of our defined-benefit plans improved in 2012, in spite of decreasing discount rates and improved life expectancy assumptions in the Netherlands and UK plans. The surpluses of the plans in the

Netherlands and UK increased, but as we do not recognize the surplus in these countries the net balance sheet position was not impacted.

In 2012, a prior-service cost gain of EUR 25 million was recognized in one of our major retiree medical plans. The plan change reduced certain company post-retirement risks. In the Netherlands a curtailment gain was recognized of EUR 25 million in the pension plan in 2012 due to headcount reductions as a result of our restructuring activities. In 2012, further steps were taken to manage the financial exposure to defined-benefit plans such as the buy-out of the Swiss Pension Fund by an insurance company.

The overall curtailment gain for 2011 was EUR 18 million and the prior-service cost gain was EUR 20 million.

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

Content you didn't download
Pensions - 2011

5.1.6 Restructuring and impairment charges

Content you didn't download
The year 2012

2012 included EUR 530 million in 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.

In 2011, EBIT 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 for Philips, 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.

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

Restructuring and related charges
in millions of euros

	2010	2011	2012
Restructuring and related charges per sector:			
Healthcare	48	3	116
Consumer Lifestyle	12	9	57
Lighting	74	54	301
Innovation, Group & Services	(2)	23	56
Continuing operations	132	89	530
Discontinued operations	30	15	10
Cost breakdown of restructuring and related charges:			
Personnel lay-off costs	151	109	443
Release of provision	(70)	(45)	(37)
Restructuring-related asset impairment	14	10	66
Other restructuring-related costs	37	15	58
Continuing operations	132	89	530
Discontinued operations	30	15	10

In 2012, the most significant restructuring projects related to Lighting and Healthcare and were driven by our change program Accelerate!. Restructuring projects at Lighting centered on Luminaires businesses and Light Sources & Electronics, the largest of which took place in the Netherlands, Germany and in various locations in the US. In Healthcare, the largest projects were undertaken at Imaging Systems and Patient Care & Clinical Informatics in various locations in the United States to reduce operating costs and simplify the organization. Innovation, Group & Services restructuring projects focused on the IT and Financial Operations Service Units (primarily in the Netherlands), Group & Regional Overheads (mainly in the Netherlands and Italy) and Philips Innovation Services (in the Netherlands and Belgium). Consumer Lifestyle restructuring charges were mainly related to Lifestyle Entertainment (primarily US and Hong Kong) and Coffee (mainly Italy).

In 2011, the most significant restructuring projects related to Lighting and Innovation, Group & Services and were mainly driven by our change program Accelerate!. Restructuring projects at Lighting centered on Luminaires businesses and Light Sources & Electronics, the largest of which took place in the Netherlands, Brazil and in the US. Innovation, Group & 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). At Healthcare, the largest projects were undertaken at Imaging Systems, Home Healthcare Solutions and Patient Care & Clinical Informatics in various locations in the US to reduce operating costs and simplify the organization. Consumer Lifestyle restructuring charges mainly related to our remaining Television operations in Europe.

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

Content you didn't download
Restructuring and impairment charges - 2011

5.1.7 Financial income and expenses

Content you didn't download
The year 2012

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

Financial income and expenses
in millions of euros

	2010	2011	2012
Interest expense (net)	(225)	(210)	(241)
Sale of securities	162	51	1
Impairment on securities	(2)	(34)	(8)
Other	(56)	(47)	2
	(121)	(240)	(246)

The net interest expense in 2012 was EUR 31 million higher than in 2011, mainly as a result of higher average outstanding debt.

Sale of securities
in millions of euros

	2010	2011	2012
Gain on sale of NXP shares	154	–	–
Gain on sale of TCL shares	–	44	–
Gain on sale of Digimarc shares	–	6	–
Others	8	1	1
	162	51	1

In 2012 there was a EUR 1 million gain on the sale of securities. In 2011, income from the sale of securities totaled EUR 51 million, including a EUR 44 million gain on the sale of the remaining shares in TCL and a EUR 6 million gain on the sale of shares of Digimarc.

Impairments on securities
in millions of euros

	2010	2011	2012
TPV	–	(25)	–
Chi-Mei Innolux	–	(4)	(1)
BG Medicine	–	(2)	(1)
Prime Technology	(2)	(1)	–
Tendris	–	–	(5)
Gilde III	–	–	(1)
Other	–	(2)	–
	(2)	(34)	(8)

Impairment charges in 2012 amounted to EUR 8 million, mainly from shareholdings in Tendris. In 2011, impairment charges amounted to EUR 34 million, mainly from shareholdings in TPV Technologies Ltd.

Other financial income was a EUR 2 million gain in 2012, compared to a net expense of EUR 47 million in 2011. In 2012, there was a EUR 46 million gain related to a change in estimate on the valuation of long-term derivative contracts and remaining other financial income of EUR 20 million. This is offset by EUR 42 million other financing charges and a EUR 22 million accretion expense (mainly associated with discounted provisions).

Other financial expenses in 2011 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.

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

Content you didn't download
Financial income and expenses - 2011

5.1.8 Income taxes

Content you didn't download
The year 2012

Income taxes amounted to EUR 308 million, compared to EUR 283 million in 2011. The year-on-year increase was largely attributable to higher taxable earnings.

The tax burden in 2012 corresponded to an effective income tax rate of 39.3%, compared to negative 55.6% in 2011. In 2011, the negative effective income tax rate was attributable to goodwill impairment losses of EUR 1,355 million, which are largely non-tax-deductible. The effective income tax rate in 2012 included the impact of the non-tax-deductible charge of EUR 509 million arising from the European Commission ruling related to the alleged violation of competition rules in the Cathode-Ray Tube (CRT) industry.

For 2013, 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.

Content you didn't download
Income taxes - 2011

5.1.9 Results of investments in associates

Content you didn't download
The year 2012

The results related to investments in associates declined from income of EUR 16 million in 2011 to a loss of EUR 214 million in 2012, largely attributable to a charge of EUR 196 million related to the former LG.Philips Displays joint venture.

The European Commission imposed fines in relation to alleged violations of competition rules in the Cathode-Ray Tube industry. Philips recorded a total charge of EUR 509 million, of which EUR 313 million is directly related to Philips and therefore recorded in Income from Operations, while EUR 196 million relates to LG.Philips Displays and is therefore recorded in results of investments in associates.

Results of investments in associates
in millions of euros

	2010	2011	2012
Company's participation in income	14	18	(8)
Results on sale of shares	5	–	–
(Reversal of) investment impairment and other charges	(1)	(2)	(206)
	18	16	(214)

The Company's participation in income decreased from EUR 18 million in 2011 to negative EUR 8 million in 2012. The loss in 2012 was mainly attributable to the results of EMGO, while the income in 2011 was mainly due to the results of Intertrust.

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

Content you didn't download
Results of investments in associates - 2011

5.1.10 Non-controlling interests

Content you didn't download
The year 2012

Net income attributable to non-controlling interests amounted to EUR 5 million in 2012, compared to EUR 4 million in 2011.

Content you didn't download
Non-controlling interests - 2011

5.1.11 Discontinued operations

The Television business's long-term strategic partnership agreement with TPV was signed on April 1, 2012. The results related to the Television business are reported under Discontinued operations in the Consolidated statements of income and Consolidated statements of cash flows.

In 2012, the loss from discontinued operations of EUR 31 million was due to the net operational results of the business. The transaction was finalized in the first quarter of 2012.

In 2011, the loss from discontinued operations of EUR 515 million was mainly due to the transaction loss recorded on the sale of our Television business of EUR 353 million (after tax), which included an onerous contract provision 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.

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

5.1.12 Net income

Content you didn't download
The year 2012

Net income increased from negative EUR 1,291 million in 2011 to EUR 231 million in 2012. The increase was largely due to EUR 1,299 million higher EBIT and EUR 484 million lower costs related to discontinued operations, partly offset by lower results relating to investments in associates of EUR 230 million and higher income tax charges of EUR 25 million.

Net income attributable to shareholders per common share increased from negative EUR 1.36 per common share in 2011 to EUR 0.25 per common share in 2012.

Content you didn't download
Net income - 2011

5.1.13 Acquisitions and divestments

In 2012, Philips completed one acquisition. Acquisitions in 2012 and previous years led to post-merger integration charges totaling EUR 50 million in 2012: Healthcare EUR 18 million, Consumer Lifestyle EUR 18 million, and Lighting EUR 14 million.

In 2011, Philips completed six acquisitions. Acquisitions in 2011 and previous years resulted to post-merger integration charges totaling EUR 74 million in 2011: Healthcare EUR 17 million, Consumer Lifestyle EUR 45 million, and Lighting EUR 12 million.

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

Acquisitions

In 2012, Philips completed the acquisition of Indal. This acquisition fits in with Philips' ambition to grow its presence in professional lighting solutions, creating a platform to expand its capabilities to deliver lighting solutions and lead the transition to energy-efficient LED-based lighting applications.

In 2011, we completed six acquisitions. Healthcare acquisitions included Sectra, AllParts Medical and Dameca. Within Consumer Lifestyle, Philips completed the acquisition of Preethi and Povos. Within Lighting, Philips acquired Optimum Lighting.

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.

Divestments

During 2012, Philips completed several divestments of business activities, namely the Television business (for further information see note 5, Discontinued operations and other assets classified as held for sale), certain Lighting manufacturing activities, Speech Processing activities and certain Healthcare service activities. The Speech Processing activities were sold to Invest AG, in line with our strategy.

In 2012, Philips agreed to extend its partnership with Sara Lee Corp (Sara Lee) to drive growth in the global coffee market. Under a new exclusive partnership framework, which will run through to 2020, Philips will be the exclusive Senseo consumer appliance manufacturer and distributor for the duration of the agreement. As part of the agreement, Philips divested its 50% ownership right in the Senseo trademark to Sara Lee.

In 2011, Philips completed several divestments of which Assembléon was the most significant. Philips sold 80% of the shares in Assembléon to H2 Equity Partners, an Amsterdam-based private equity firm, for a consideration of EUR 14 million.

In 2010, Philips completed several divestments of which the sale of 9.4% of the shares in TPV Technology Ltd (TPV) was the most significant. The TPV shares were sold to CEIC Ltd., a Hong Kong-based technology company, for a cash consideration of EUR 98 million.

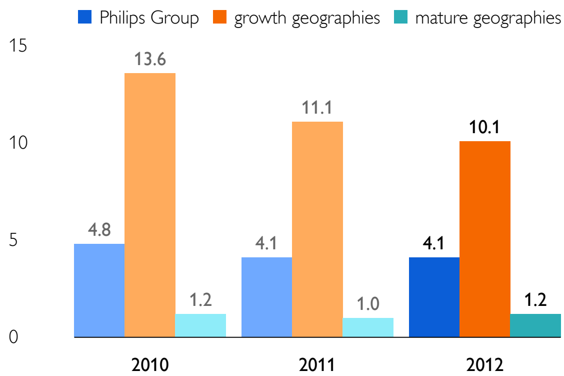
For details, please refer to note 7, Acquisitions and divestments.

5.1.14 Performance by geographic cluster

Content you didn't download
The year 2012

In 2012, sales grew 4% on a comparable basis (10% nominally), driven by growth in Healthcare, notably in growth geographies.

Comparable sales growth by geographic cluster[1]
in %

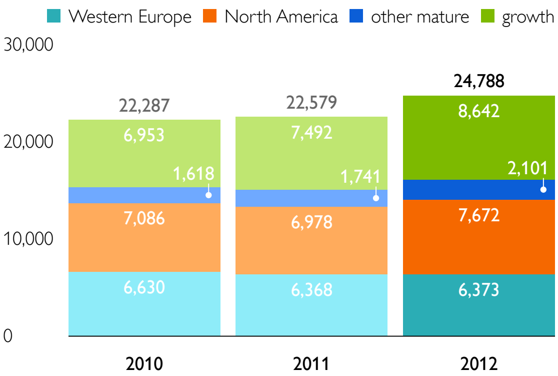


1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

Sales in mature geographies were EUR 1,059 million higher than in 2011, or 1% higher on a comparable basis. Sales in Western Europe were impacted by the macroeconomic developments, resulting in a 3% decline in comparable sales, attributable to all sectors. On a nominal basis, sales in Western Europe were largely unchanged from the prior year, driven by the acquisition of Indal in Lighting. Sales in North America were EUR 694 million higher, or 2% higher on a comparable basis, driven by single-digit growth in all sectors. Both nominal and comparable sales in other mature geographies showed strong growth. Comparable sales in other mature geographies double-digit growth in all sectors.

In growth geographies, sales grew by EUR 1,150 million, or 10% on a comparable basis, driven by double-digit growth at Healthcare. In China, Healthcare and Lighting recorded solid double-digit nominal and comparable growth. Sales in Russia also showed double-digit growth, attributable to strong sales performance at Consumer Lifestyle and Healthcare.

Sales per geographic cluster
in millions of euros



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Performance by geographic cluster - 2011

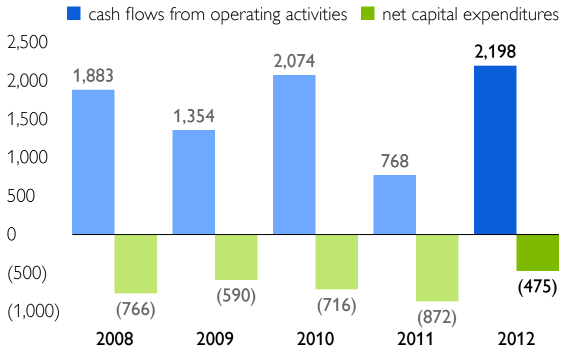
5.1.15 Cash flows provided by continuing operations

Content you didn't download
The year 2012

Cash flows from operating activities

Net cash flow from operating activities amounted to EUR 2,198 million in 2012, compared to EUR 768 million in 2011. The year-on-year improvement was largely attributable to lower working capital outflows, mainly related to accounts payable, as well as higher cash earnings. The increase in other current liabilities includes a payable of EUR 509 million related to the European Commission fine for alleged violations of competition rules in the Cathode-Ray Tube (CRT) industry. Excluding the CRT payable, the increase in accounts payable and accrued and other current liabilities was attributable to increased volume from higher sales, while the outflow in 2011 was attributable to a tightening of vendor payments in the operating sectors.

Cash flows from operating activities and net capital expenditures
in millions of euros



Condensed consolidated statements of cash flows for the years ended December 31, 2010, 2011 and 2012 are presented below:

Condensed consolidated cash flow statements[1]
in millions of euros

	2010	2011	2012
Cash flows from operating activities:			
Net income (loss)	1,448	(1,291)	231
Adjustments to reconcile net income to net cash provided by operating activities	626	2,059	1,967
Net cash provided by operating activities	2,074	768	2,198
Net cash (used for) provided by investing activities	(597)	(1,293)	(912)
Cash flows before financing activities[2]	1,477	(525)	1,286
Net cash used for financing activities	(97)	(1,790)	(292)
Cash (used for) provided by continuing operations	1,380	(2,315)	994
Net cash (used for) discontinued operations	(22)	(364)	(256)
Effect of changes in exchange rates on cash and cash equivalents	89	(7)	(51)
Total change in cash and cash equivalents	1,447	(2,686)	687
Cash and cash equivalents at the beginning of year	4,386	5,833	3,147
Cash and cash equivalents at the end of year	5,833	3,147	3,834

[1] Please refer to section 12.7, Consolidated statements of cash flows, of this Annual Report
[2] Please refer to chapter 15, Reconciliation of non-GAAP information, of this Annual Report

Cash flows from investing activities

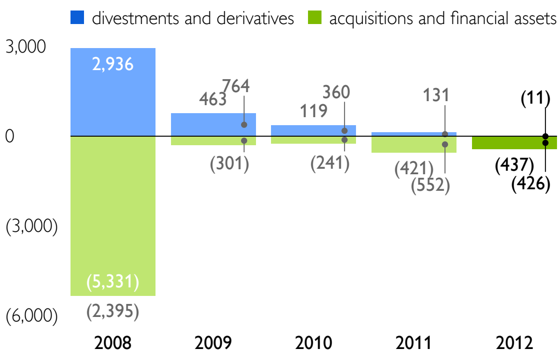
2012 cash flows from investing activities resulted in a net outflow of EUR 912 million, attributable to EUR 475 million cash used for net capital expenditures, EUR 259 million used for acquisitions, as well as a EUR 167 million outflow for financial assets, mainly due to loans provided to TPV Technology Limited and the television joint venture TP Vision Holding BV in connection with the divestment of the Televison business (EUR 151 million in aggregate).

2011 cash flows from investing activities resulted in a net outflow of EUR 1,293 million, attributable to EUR 872 million cash used for net capital expenditures and EUR 509 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.

Net capital expenditures

Net capital expenditures totaled EUR 475 million, which was EUR 397 million lower than 2011, mainly due to proceeds received from the sale of the High Tech Campus of EUR 425 million (consisting of a EUR 373 million cash transaction and an amount of EUR 52 million that will be received in future years) and the divestment of our 50% ownership right in the Senseo trademark to Sara Lee for EUR 170 million. Excluding these impacts, higher investments were visible in all sectors, notably additional growth-focused investments in Lighting.

Cash flows from acquisitions and financial assets, divestments and derivatives
in millions of euros



Acquisitions and financial assets

The net cash impact of acquisitions of businesses and financial assets in 2012 was a total of EUR 426 million, mainly related to the acquisition of Indal. The EUR 167 million outflow for financial assets mainly relates to loans provided to TPV Technology Limited and the television joint venture TP Vision Holding BV in connection with the divestment of the Television business (EUR 151 million in aggregate).

The net cash impact of acquisitions of businesses and financial assets in 2011 was a total of EUR 552 million, mainly related to the acquisitions for Povos, Preethi and Sectra.

Divestments and derivatives

Cash proceeds of EUR 36 million were received from divestments, mainly of non-strategic businesses within Consumer Lifestyle and Healthcare**.** Cash flows from derivatives and securities led to a net cash outflow of EUR 47 million.

In 2011, cash proceeds of EUR 106 million were received from divestments, including EUR 69 million from 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 25 million.

Cash flows from financing activities

Net cash used for financing activities in 2012 was EUR 292 million. Philips' shareholders were given EUR 687 million in the form of a dividend of which cash dividend amounted to EUR 255 million. The net impact of changes in debt was an increase of EUR 731 million, including the issuance of USD 1.5 billion in bonds, partially offset by the early redemption of a USD 500 million bond. Additionally, net cash outflows for share buyback and share delivery totaled EUR 768 million.

Net cash used for financing activities in 2011 was EUR 1,790 million. Philips' shareholders were given 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 860 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 a EUR 200 million committed facility and other new long-term borrowing totaling EUR 454 million. Additionally, net cash outflows for share buyback and share delivery totaled EUR 671 million.

Content you didn't download
Cash flows provided by continuing operations - 2011

5.1.16 Cash flows from discontinued operations

Content you didn't download
The year 2012

In 2012, EUR 256 million cash was used by discontinued operations. This was attributable to the operating cash outflows of the Television business of EUR 296 million and a cash inflow from investing activities of EUR 40 million.

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

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Cash flows from discontinued operations - 2011

5.1.17 Financing

Content you didn't download

The year 2012

Condensed consolidated balance sheets for the years 2010, 2011 and 2012 are presented below:

Condensed consolidated balance sheet information[1]

in millions of euros

	2010	2011	2012
Intangible assets	12,233	11,012	10,679
Property, plant and equipment	3,145	3,014	2,959
Inventories	3,865	3,625	3,495
Receivables	4,947	5,117	4,858
Assets held for sale	120	551	43
Other assets	2,567	2,929	3,211
Payables	(6,977)	(6,563)	(6,210)
Provisions	(2,394)	(2,694)	(2,969)
Liabilities directly associated with assets held for sale	–	(61)	(27)
Other liabilities	(3,628)	(3,867)	(4,165)
	13,878	13,063	11,874
Cash and cash equivalents	5,833	3,147	3,834
Debt	(4,658)	(3,860)	(4,534)
Net cash (debt)	1,175	(713)	(700)
Non-controlling interests	(46)	(34)	(34)
Shareholders' equity	(15,007)	(12,316)	(11,140)
	(13,878)	(13,063)	(11,874)

[1] Please refer to section 12.6, Consolidated balance sheets, of this Annual Report

5.1.18 Cash and cash equivalents

Content you didn't download

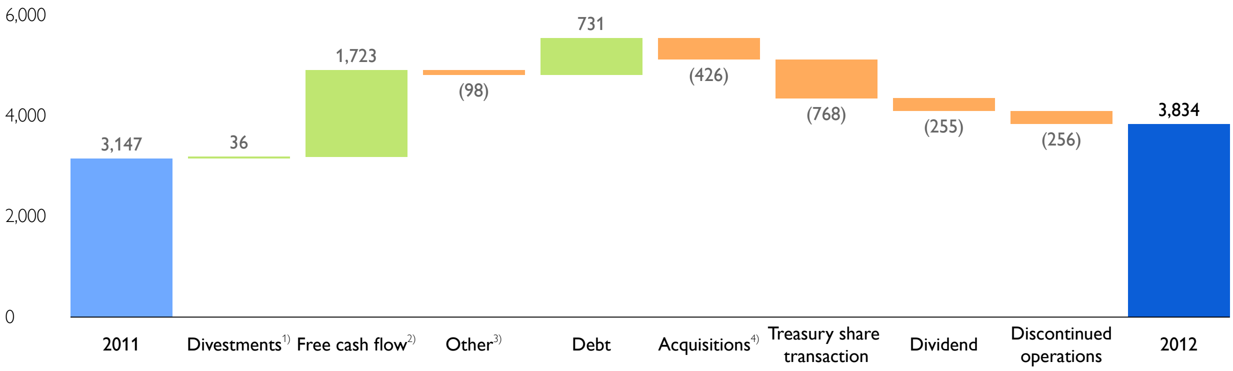
The year 2012

In 2012, cash and cash equivalents increased by EUR 687 million to EUR 3,834 million at year-end. The increase was mainly attributable to cash inflows from operations amounting to EUR 2,198 million and EUR 731 million from increases in debt. This was partly offset by a EUR 768 million outflow for treasury share transactions, an outflow on net capital expenditures of EUR 475 million, a EUR 426 million outflow for acquisitions of businesses and financial assets, a EUR 255 million outflow for the cash dividend payout, and a EUR 256 million outflow related to discontinued operations.

In 2011, cash and cash equivalents decreased by EUR 2,686 million to EUR 3,147 million at year-end. The decrease was mainly attributable to an outflow on net capital expenditures of EUR 872 million, a EUR 860 million decrease in debt, a EUR 671 million outflow for treasury share transactions, a EUR 552 million outflow for acquisitions of businesses and financial assets, and a EUR 259 million outflow for the cash dividend payout. This was partly offset by cash inflows from operations amounting to EUR 768 million, EUR 106 million in proceeds from divestments, including EUR 87 million from the sale of stakes.

Cash balance movements

in millions of euros



[1] Includes proceeds from divestment of CL Speech Processing business
[2] Please refer to chapter 15, Reconciliation of non-GAAP information, of this Annual Report
[3] Includes cash inflow for derivatives, partly offset by unfavorable currency effect
[4] Acquisitions of businesses and financial assets include the acquisitions of Indal and the venture with TPV

Content you didn't download

Cash and cash equivalents - 2011

5.1.19 Debt position

Content you didn't download

The year 2012

Total debt outstanding at the end of 2012 was EUR 4,534 million, compared with EUR 3,860 million at the end of 2011.

Changes in debt
in millions of euros

	2010	2011	2012
New borrowings	(212)	(454)	(1,361)
Repayments	78	1,314	630
Consolidation and currency effects	(257)	(62)	57
Total changes in debt	(391)	798	(674)

In 2012, total debt increased by EUR 674 million. New borrowings of EUR 1,361 million included the issuance of USD 1.5 billion in bonds. Repayment of EUR 630 million included early redemption of a USD 500 million bond. Other changes resulting from consolidation and currency effects led to a decrease of EUR 57 million.

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 of short-term debt. New borrowing and finance leases amounted to EUR 454 million. Other changes resulting from consolidation and currency effects led to an increase of EUR 62 million.

Long-term debt as a proportion of the total debt stood at 82% at the end of 2012 with an average remaining term of 12.7 years, compared to 85% and 10.4 years at the end of 2011.

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

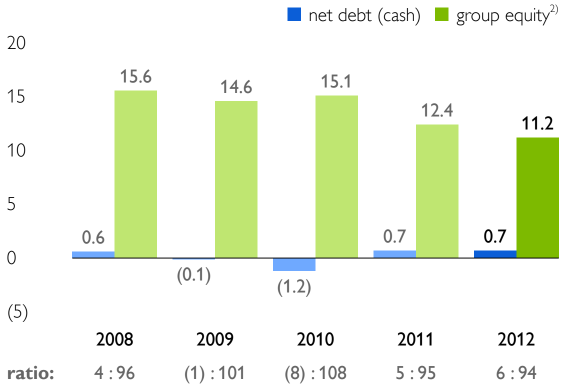
Content you didn't download
Debt position - 2011

5.1.20 Net debt to group equity

Content you didn't download
The year 2012

Philips ended 2012 in a net debt position (cash and cash equivalents, net of debt) of EUR 700 million, compared to a net debt position of EUR 713 million at the end of 2011.

Net debt (cash) to group equity[1)]
in billions of euros



1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report
2) Shareholders' equity and non-controlling interests

Content you didn't download
Net debt to group equity - 2011

5.1.21 Shareholders' equity

Content you didn't download
The year 2012

Shareholders' equity decreased by EUR 1,176 million in 2012 to EUR 11,140 million at December 31, 2012. The decrease was mainly as a result of EUR 816 million related to the purchase of treasury shares and EUR 406 million losses related to pension plans, partially offset by EUR 231 million net income. The dividend payment to shareholders in 2012 reduced equity by EUR 259 million. The decrease was partially offset by a EUR 50 million increase related to the delivery of treasury shares and a EUR 84 million increase in share premium due to share-based compensation plans.

Shareholders' equity decreased by EUR 2,691 million in 2011 to EUR 12,316 million at December 31, 2011. The decrease was mainly as a result of a EUR 1,291 million net loss and EUR 447 million 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 46 million increase related to the delivery of treasury shares and a EUR 56 million increase in share premium due to share-based compensation plans.

The number of outstanding common shares of Royal Philips Electronics at December 31, 2012 was 915 million (2011: 926 million).

At the end of 2012, the Company held 28.7 million shares in treasury to cover the future delivery of shares (2011: 33.6 million shares). This was in connection with the 52.3

million rights outstanding at the end of 2012 (2011: 47.1 million rights) under the Company's long-term incentive plan and convertible personnel debentures. At the end of 2012, the Company held 13.8 million shares for cancellation (2011: 49.3 million shares).

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Shareholders' equity - 2011

5.1.22 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 committed revolving credit facility, the Company had access to net available liquid resources of EUR 1,220 million as of December 31, 2012, compared to EUR 2,597 million one year earlier.

Liquidity position
in millions of euros

	2010	2011	2012
Cash and cash equivalents	5,833	3,147	3,834
Committed revolving credit facility/ CP program/Bilateral loan	2,000	3,200	1,800
Liquidity	7,833	6,347	5,634
Available-for-sale financial assets at fair value	270	110	120
Short-term debt	(1,840)	(582)	(809)
Long-term debt	(2,818)	(3,278)	(3,725)
Net available liquidity resources	3,445	2,597	1,220

The fair value of the Company's available-for-sale financial assets amounted to EUR 120 million.

Philips has a EUR 1.8 billion committed revolving credit facility that can be used for general corporate purposes and as a backstop of its commercial paper program. In January 2013, the EUR 1.8 billion facility was extended by 2 years until February 18, 2018. The commercial paper program amounts to USD 2.5 billion, under which Philips 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, 2012, Philips did not have any loans outstanding under these facilities.

Philips' existing long-term debt is rated A3 (with negative outlook) by Moody's and A- (with negative outlook) by Standard & Poor's. It is Philips' objective to manage its financial ratios to be in line with an A3/A- rating. There is no assurance that Philips 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 repetitive material adverse change clause, financial covenants or credit-rating-related acceleration possibilities.

As at December 31, 2012, Philips had total cash and cash equivalents of EUR 3,834 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 4,534 million at year-end 2012.

Philips believes its current working capital is sufficient to meet our present working capital requirements.

5.1.23 Cash obligations

Contractual cash obligations

Presented below is a summary of the Group's contractual cash obligations and commitments at December 31, 2012.

Contractual cash obligations at December 31, 2012
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[2]	3,733	186	253	2	3,292
Finance lease obligations	298	73	97	40	88
Short-term debt	558	558	–	–	–
Operating leases	1,219	240	368	236	375
Derivative liabilities	544	138	143	138	125
Interest on debt[3]	2,802	201	376	360	1,865
Purchase obligations[4]	289	133	105	36	15
Trade and other payables	2,839	2,839	–	–	–
	12,282	4,368	1,342	812	5,760

1) Data in this table are undiscounted
2) Long-term debt includes short-term portion of long-term debt and excludes finance lease obligations
3) Approximately 28% of the debt bears interest at a floating rate. The 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 the market interest rate changes
4) 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.

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, 2012 approximately EUR 310 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.

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 funding of pension plans in the Netherlands, 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 385 million restructuring-related provisions by the end of 2012, of which EUR 277 million is expected to result in cash outflows in 2013. Refer to note 20, Provisions for details of restructuring provisions and potential cash flow impact for 2012 and further.

A proposal will be submitted to the General Meeting of Shareholders to declare a distribution of EUR 0.75 per common share (up to EUR 685 million), in cash or shares at the option of the shareholder, against the net income for 2012 and the retained earnings of the Company. Further details will be given in the agenda for the General Meeting of Shareholders, to be held on May 3, 2013.

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 2012, the total fair value of guarantees recognized by Philips in other non-current liabilities amounted to less than EUR 1 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, 2011 and 2012.

Expiration per period
in millions of euros

	total amounts committed	less than 1 year	1-5 years	after 5 years
2012				
Business-related guarantees	295	113	114	68
Credit-related guarantees	27	11	–	16
	322	124	114	84
2011				
Business-related guarantees	297	99	126	72
Credit-related guarantees	39	22	–	17
	336	121	126	89

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Supply management

5.2 Social performance

5.3 Environmental performance

5.4 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, 2012, 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 2013 Annual General Meeting of Shareholders to declare a dividend of EUR 0.75 per common share (up to EUR 685 million), in cash or in shares at the option of the shareholder, against the net income for 2012 and the reserve retained earnings of the Company.

Shareholders will be given the opportunity to make their choice between cash and shares between May 10, 2013 and May 31, 2013. If no choice is made during this election period the dividend will be paid in shares. On May 31, 2013 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 29, 30 and 31 May 2013. 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 1.5% 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 June 5, 2013. 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 June 3, 2013.

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 2012, a dividend of EUR 0.75 per common share was paid in cash or shares, at the option of the shareholder. Approximately 62.4% elected for a share dividend resulting in the issue of 30,522,107 new common shares, leading to a 3.4% percent dilution. EUR 255 million was paid in cash.

The balance sheet presented in this report, as part of the Company financial statements for the period ended December 31, 2012, is before appropriation of the result for the financial year 2012.

5.5 Outlook

By executing on our Accelerate! program, we will continue to relentlessly drive operational excellence and invest in innovation and sales development to deliver profitability and growth.

The challenging economic environment in 2012, notably in Europe and United States, has impacted our order book, and hence we expect our sales in 2013 to start slow and pick up in the second half of the year. We will continue to be prudent in our allocation of capital, and we will complete our share buy-back program in the course of 2013. We remain confident in our ability to further improve our operational and financial performance, enabling us to achieve our Accelerate! mid-term 2013 financial targets.

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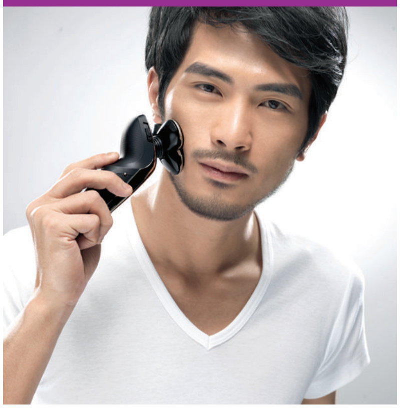
Critical accounting policies

6 Sector performance

Healthcare

Imaging Systems • Home Healthcare Solutions • Patient Care & Clinical Informatics • Customer Services

Consumer Lifestyle



Personal Care • Lifestyle Entertainment • Domestic Appliances • Health & Wellness

Lighting

Light Sources & Electronics • Consumer Luminaires • Professional Lighting Solutions • Automotive Lighting • Lumileds

Innovation, Group & Services

Group Innovation • Group & Regional Overheads • Pensions • Global Service Units • New Venture Integration • Design

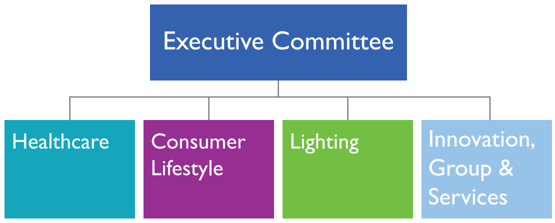
Our structure

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 Innovation, Group & 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.

Organizational chart



Members of the Board of Management and certain key officers together form the Executive Committee

Also included under Innovation, Group & 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.

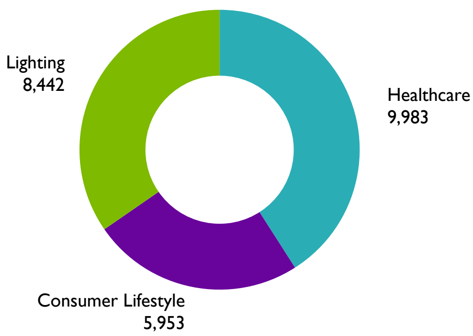
At the end of 2012, Philips had 120 production sites in 29 countries, sales and service outlets in approximately 100 countries, and 118,087 employees.

Sales, EBIT and EBITA 2012
in millions of euros unless otherwise stated

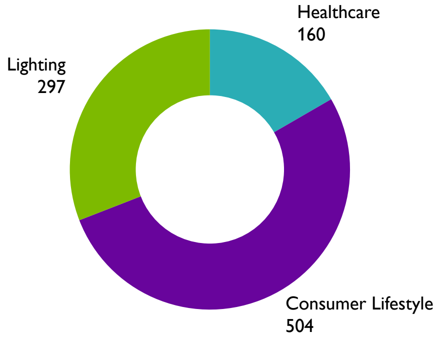
	sales	EBIT	%	EBITA[1]	%
Healthcare	9,983	1,122	11.2	1,322	13.2
Consumer Lifestyle	5,953	593	10.0	663	11.1
Lighting	8,442	(6)	(0.1)	188	2.2
Innovation, Group & Services	410	(679)	–	(671)	–
Philips Group	24,788	1,030	4.2	1,502	6.1

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

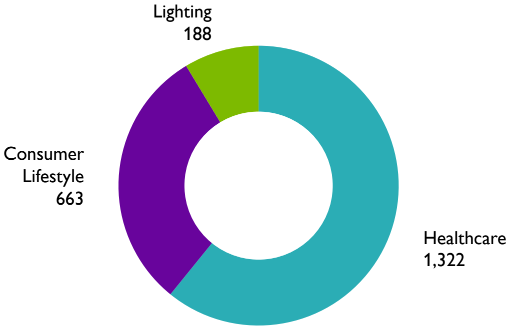
Sales per operating sector 2012
in millions of euros



Cash used for acquisitions per operating sector 2010-2012
in millions of euros

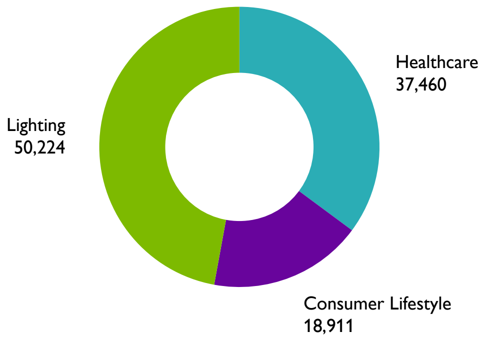


EBITA per operating sector 2012[1]
in millions of euros



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

Employees per operating sector 2012
in FTEs at year-end



6.1 Healthcare

"Health care systems throughout the world are rapidly changing to meet the needs of a changing society. Philips Healthcare is prepared to match the pace of change with innovative solutions that connect and empower patients and their caregivers in new and profound ways. Through the Accelerate! program, Philips Healthcare will speed up innovation, raise customer service and improve value creation." **Deborah DiSanzo**, CEO Philips Healthcare

- The spiraling cost of managing health care for the world's aging population presents a major challenge to society.
- The global demand for care delivery is increasing – which in turn places a significant burden on under-resourced health care systems, governments and health care providers around the world.
- We continued to implement Accelerate! across our global Healthcare business to provide the industry with the most innovative solutions to address these needs.

6.1.1 Health care landscape

In today's health care environment, there are two powerful dynamics at work, which together are challenging the status quo and driving the need for transformational change.

In developed markets, the increasing cost of treating our aging world population, combined with a rise in chronic disease and a shortage of qualified healthcare workers, presents a major challenge to the delivery of care. Concurrently, the continual need for broader access to care has reached critical levels in growth markets. At

Philips, we see the ability to provide connected solutions across the continuum of care as key to addressing these pressing issues. Technological advancements are changing and will continue to change how patient care is delivered from the hospital to the home and points in between for improved outcomes, better value and greater access to effective diagnosis and treatment.

The global economic slowdown and continuing crisis in the Euro zone had a negative impact on our European business in 2012, particularly in Southern Europe. This situation was balanced in part by continued growth in North America, Japan and in growth geographies.

6.1.2 Creating the future of health care

Our health care innovations and ongoing partnership with customers are helping us lay the groundwork for the transformational change of our global health care system.

We continue to introduce solutions and services that connect and empower patients, their providers and support network for the more efficient and productive delivery of care.

We are also developing new products in growth geographies to make state-of-the-art technology affordable and accessible to these markets while investing in creative solutions specifically designed to make quality care possible for the underserved.

6.1.3 About Philips Healthcare

As a global leader in health care, we are guided by the understanding that there is a patient at the center of everything we do. By pioneering new solutions that improve and expand care around the world, we are dedicated to creating the ideal experience for all patients, young and old.

We harness the power of clinical information by providing clinicians and health care providers with real-time information all in one place – across modalities, time zones and technologies – for more confident decision-making and efficient workflow.

We focus on delivering the most technologically advanced products and solutions, as we help clinicians diagnose, treat and manage many of today's most prevalent diseases.

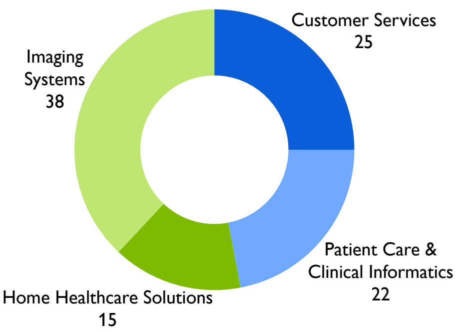
We expand access to care by promoting the adoption of new mobile and remote technologies and developing new protocols that can lead to more efficient and productive health care systems.

These commitments are the driving force behind our research and investment in promising new approaches to radiology, cardiology, oncology, decision support, home health, respiratory and other critical areas.

Our Healthcare business is organized around four strategic business groups:

- **Imaging Systems**: Integrated clinical solutions that include radiation oncology, clinical applications and platforms, and portfolio management; advanced diagnostic imaging, including computed tomography (CT), magnetic resonance imaging (MRI) and molecular imaging (MI); diagnostic X-ray, including digital X-ray and mammography; interventional X-ray, encompassing cardiology, radiology, surgery and other areas; and ultrasound, a modality with diverse customers and broad clinical presence.
- **Patient Care & Clinical Informatics**: Enterprise patient monitoring solutions, from value solutions to sophisticated connected solutions, for real-time clinical information at the patient's bedside; cardiology informatics and enterprise imaging informatics, including picture archiving and communication systems and other clinical information systems; patient monitoring and clinical informatics; mother and child care, including products and solutions for pregnancy, labor and delivery, newborn and neonatal intensive care and the transition home; and therapeutic care, including cardiac resuscitation, emergency care solutions, therapeutic temperature management, anesthesia care, hospital respiratory systems and ventilation.
- **Home Healthcare Solutions**: Sleep management, respiratory care and non-invasive ventilation; medical alert and medication dispensing services for independent living; and remote patient monitoring.
- **Customer Services**: Equipment services and support, including service contracts, equipment maintenance, proactive monitoring and multi-vendor services; managed service programs, including equipment financing and asset management; and professional services, including consulting, site planning and project management, education, and design.

Total sales by business 2012
as a %



Philips is one of the world's leading health care companies (based on sales) along with General Electric and Siemens. The United States, our largest market, represented 41% of our Healthcare business's global sales in 2012, followed by Japan, China and Germany. Growth geographies accounted for 24% of Healthcare sales. Philips Healthcare employs approximately 37,500 employees worldwide.

Sales at Healthcare are generally higher in the second half of the year largely due to the timing of new product availability and customer spending patterns.

Regulatory requirements

Philips Healthcare is subject to extensive regulation. We are committed to compliance with regulatory product approval and quality system requirements in every market we serve by addressing specific terms and conditions of local and national regulatory authorities, including the US FDA and comparable foreign agencies. Obtaining their approval is costly and time-consuming, but a prerequisite for market introduction.

With regard to sourcing, please refer to section 14.5, Supplier indicators, of this Annual Report.

6.1.4 Progress against targets

The Annual Report 2011 set out a number of key targets for Philips Healthcare in 2012 that are steps towards achieving our Accelerate! mid-term 2013 goals. Our progress is outlined below.

Implement Accelerate! transformation

The launch of Accelerating Healthcare in 2012 put us on a fast track to eliminate organizational complexity as a barrier to higher performance. We established Lean operating principles and enhanced the alignment of our product-creation and customer-facing teams to ensure speed of execution while maintaining quality. This included designing for cost by leveraging value engineering.

We also continued to increase our presence and industrial footprint in growth geographies and to expand our value offering and locally relevant services.

Driving to co-leadership in Imaging Systems

Our Imaging 2.0 initiative continued to deliver share gains, as well as awards for quality, performance and reliability, with over 15 new products and features introduced in 2012. Our innovative integrated clinical solutions include elastography; iterative image reconstruction technique for virtually "noise free" image quality; cardiovascular x-ray system software that allows a significant reduction in X-ray dose while preserving image quality; a software application that converts analog MR images to digitized MR images; and a multi-vendor workstation that integrates image history across modality for easy collaboration among physicians.

We announced new strategic alliances in 2012, including a program with Elekta in Sweden to develop a potential breakthrough in cancer care. We also entered into an exclusive distribution agreement with Corindus Vascular Robotics in the US for one of their state-of-the-art robotic-assisted systems.

Achieving leadership with holistic innovation in Patient Care & Clinical Informatics

A number of important advancements in 2012 helped strengthen our leadership position in clinical decision support and address the specific needs of high-growth geographies, such as Brazil, China and India. These included FDA clearance for two groundbreaking clinical decision support applications for our patient monitors, and innovative solutions for interoperability, defibrillation, clinical informatics, anesthesia care and patient monitoring.

We also collaborated with customers on initiatives with far-reaching implications. With Maxima Medical Center in the Netherlands, we created a new concept in neonatal intensive care called the Woman-Mother-Child Center, where mothers and their newborn babies are kept together for fully integrated treatment and nursing care.

International expansion of the Home Healthcare Solutions business

Our Home Healthcare Solutions business grew at or above market rates in 2012, with strong growth in Japan, Western Europe and other geographies where home health care – as part of chronic disease management – is a fundamental component of the care continuum.

We also continued to lead the way in helping shape selected regional markets in the early stages of home health care development. In these markets, we focused on building awareness of chronic conditions and understanding the value of home health care while making investments in research and clinical education.

Invest for leadership in growth geographies

In 2012 we made a number of strategic investments in growth geographies. These included the opening of research and development centers and manufacturing facilities in China and India to drive local innovation. We also strengthened our presence in the Middle East with strategic alliances in Saudi Arabia and Abu Dhabi.

In addition, we extended our innovative telehealth solution to provide remote critical care in India, and continued to expand our solutions in imaging, patient monitoring and clinical informatics for price-sensitive markets, such as Brazil and China.

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

Under Accelerate! we made significant progress in the restructuring of our organization to innovate faster and more efficiently.

Deliver on EcoVision sustainability commitments

As part of our EcoDesign process, we consider all Green Focal Areas to help reduce total life cycle impact. In 2012 we introduced 16 Green Products to support energy efficiency, materials reduction and other sustainability goals.

6.1.5 2012 financial performance

Key data
in millions of euros unless otherwise stated

	2010	2011	2012
Sales	8,601	8,852	9,983
Sales growth			
% increase, nominal	10	3	13
% increase, comparable[1]	4	5	6
EBITA[1]	1,186	1,145	1,322
as a % of sales	13.8	12.9	13.2
EBIT	922	93	1,122
as a % of sales	10.7	1.1	11.2
Net operating capital (NOC)[1]	8,908	8,418	7,976
Cash flows before financing activities[1]	1,141	773	1,394
Employees (FTEs)	36,253	37,955	37,460

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

In 2012, sales amounted to EUR 9,983 million, 13% higher than in 2011 on a nominal basis, driven by higher sales in all businesses. Excluding a 7% favorable impact of currency effects, comparable sales were 6% higher. Solid mid-single-digit comparable sales growth was achieved by all businesses. Green Product sales amounted to EUR 3,610 million, a 36% year-on-year increase.

Geographically, comparable sales in mature geographies were higher than in 2011 in all businesses. The year-on-year sales increase was largely attributable to North America and other mature markets, as sales in Western Europe were in line with the prior year. In growth geographies, we achieved 20% growth, largely driven by strong, double-digit growth in China, Brazil, India and Russia.

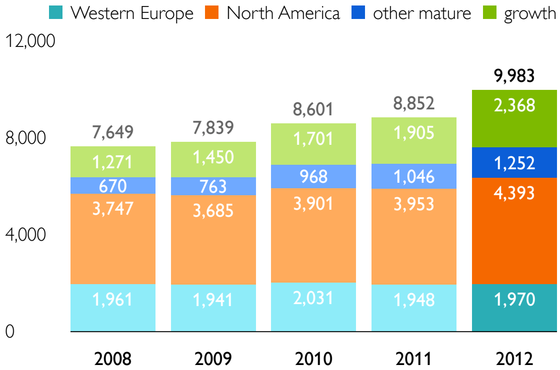
EBITA increased from EUR 1,145 million, or 12.9% of sales, in 2011 to EUR 1,322 million, or 13.2% of sales, in 2012. EBITA improvements were realized at all businesses, largely as a result of higher sales and cost-saving programs. Restructuring and acquisition-related charges amounted to EUR 134 million, compared with EUR 20 million in 2011.

EBIT amounted to EUR 1,122 million, or 11.2% of sales, and included EUR 200 million of charges related to amortization of intangible assets.

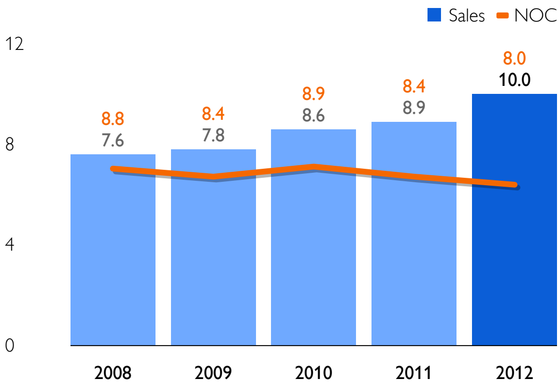
Net operating capital in 2012 decreased by EUR 442 million to EUR 8 billion, mainly due to currency effects and an increase in provisions related to restructuring charges. All businesses showed improved efficiency in inventory usage year-over-year.

Cash flows before financing activities increased from an inflow of EUR 773 million in 2011 to an inflow of EUR 1,394 million in 2012, mainly attributable to higher earnings and lower working capital requirements.

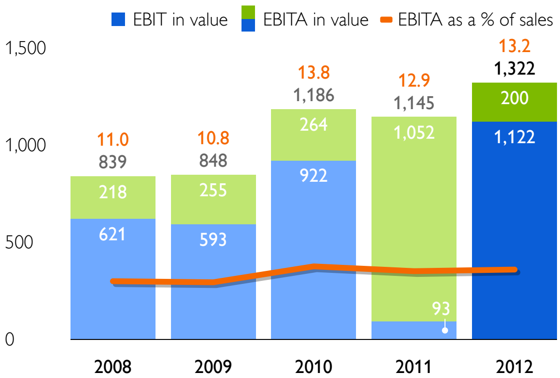
Sales per geographic cluster
in millions of euros



Sales and net operating capital
in billions of euros



EBIT and EBITA[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 Annual Report

Content you didn't download
2011 financial performance

6.1.6 2013 priorities

In 2013 Philips Healthcare will continue to progress on the following imperatives designed to accelerate performance and achieve our goals:

- Complete our Accelerating Healthcare transformation
- Invest in our growth initiatives to deliver differentiated offerings from the hospital to the home
- Create momentum behind Customer Services
- Implement our end-to-end customer relationship management solution across the global Philips Healthcare organization
- Create a high-performance organization as measured by ongoing employee surveys and business results
- Institutionalize our end-to-end operating framework to optimize financial returns on our portfolio and improve the customer experience

In addition to these priorities, Philips Healthcare will continue to deliver on EcoVision sustainability commitments.

6.2 Consumer Lifestyle

"At Consumer Lifestyle we're making the world healthier and more sustainable through meaningful innovation. The Accelerate! transformation program is now showing solid results in our sector. By planning, resourcing and managing performance by Business Market Combination (BMC), we are driving greater consumer intimacy, enabling us to launch more locally relevant products. We continue to transform Consumer Lifestyle for profitable growth, reshaping our portfolio towards health and well-being."

Pieter Nota, CEO Philips Consumer Lifestyle

- New operating model fully in place, moving decisions closer to markets and stimulating entrepreneurship and speed.
- Granular approach to growth is showing solid results, addressing local consumer needs and leveraging our position in attractive growth geographies.
- Announced start of Television joint venture named TP Vision, ensuring the future of the Philips brand in Television.
- January 2013 announcement of agreement to transfer Audio, Video, Multimedia and Accessories businesses to Funai.

6.2.1 Lifestyle retail landscape

Across the world, consumers want to maintain and improve their health and well-being. To achieve this, they seek propositions that help them to look and feel their best and to care for their family and friends: propositions that help them to live well. This is as true of consumers in growth geographies such as China as it is in developed markets such as Western Europe.

In 2012 economic headwinds increased, resulting in pressure on consumer spending in some markets. However, we believe consumers will continue to demand products that enhance their health and well-being, creating resilience in our product categories.

Underlying trends continue to drive growth in our key categories:

- Consumers have a growing interest in personal health
- Consumers are increasingly appearance-conscious
- Consumers want healthy food that is also easy to prepare
- In a complex market environment, consumers look for responsible brands they can trust

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 empowers its business and market organizations to work together in order to address the different and changing needs of consumers and customers across the world.

We are increasing the speed, quality and local relevance of product innovation and expanding our distribution, thereby capturing the increasing spending power of growth geographies.

6.2.3 About Consumer Lifestyle

At Consumer Lifestyle we are delivering on Philips' vision to make the world healthier and more sustainable through innovation. We have a global footprint, with an established presence in both mature and growth geographies. Our investment in innovation and local business creation enables us to deliver a stream of locally relevant, meaningful innovations. We have a leading global brand, which is highly trusted across the world.

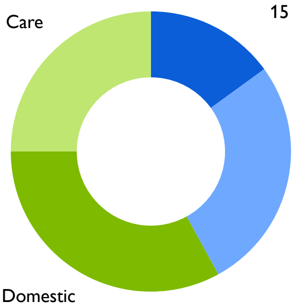
The Philips Consumer Lifestyle sector is organized around its businesses and markets, and is focused on value creation through category development and delivery through operational excellence.

We plan, resource and manage performance by Business Market Combination (BMC). Our operating model stimulates entrepreneurship and speed by ensuring clear accountability and by moving decisions closer to our customers and markets.

In 2012 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: audio and video entertainment; communications, headphones and accessories

Total sales by business 2012
as a %



We offer a broad range of products from high to low price/value quartiles, necessitating a diverse distribution model. We continue to expand our portfolio to increase its accessibility, particularly for lower-tier cities in growth geographies. We have implemented 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 18,900 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 Austria, Brazil, China, India, Indonesia, Italy, Netherlands, Romania, the UK and the US.

Regulatory requirements

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 the US FDA, the European Medical Device Directive, the SFDA in China and the regulations stipulated by Health Authorities in India. Through our growing skincare product portfolio the range of applicable regulations has been extended to include requirements relating to cosmetics and, on a very small scale, pharmaceuticals.

With regard to sourcing, please refer to section 14.5, Supplier indicators, of this Annual Report.

6.2.4 Progress against targets

The Annual Report 2011 set out a number of key targets for Philips Consumer Lifestyle in 2012 that are steps towards achieving our Accelerate! mid-term 2013 goals. Our progress is outlined below.

Implement Accelerate! transformation

In Consumer Lifestyle, Accelerate! is showing solid results. Taking a granular approach to growth, we now have 150 BMC plans in place. We have moved from a functional, centrally-led organization to an organization built around businesses and markets. We have clear accountability in our operating model, for both businesses and markets. We have seven end-to-end transformation pilots in place with clear deliverables: reduced time-to-market, reduced inventories and better gross margin management.

Right-size the organization post TV joint venture establishment

We have significantly reduced overhead costs and stranded costs related to the establishment of the TV joint venture with TPV, TP Vision, which was established on April 1, 2012. Key actions taken include streamlining the headcount in the Supply Chain Management, Manufacturing and Support functions, realigning International Key Account Management, rationalizing the central Marketing set-up, reducing logistics and warehousing costs through structural improvements, and reducing the real estate footprint.

Address Lifestyle Entertainment portfolio and execute turn-around plan

We continued to transition the portfolio towards growing categories like docking and connected entertainment, away from rapidly declining categories like MP3, MP4 and DVD players. We reduced the business's cost base to reflect the lower revenue base. In North America we entered into a distribution agreement with Funai, a long-standing Philips business partner, in 2012. We also divested the Speech Processing business in Lifestyle Entertainment, selling it to Invest AG. In January 2013 we announced an agreement to transfer our Audio, Video, Multimedia and Accessories businesses to Funai.

Continued growth investment in core businesses towards global category leadership

In our key growth businesses of Male Grooming, Oral Healthcare, Kitchen Appliances and Coffee (which includes our Espresso and Beverage Appliance categories), we made significant progress in 2012. In Male Grooming, we have increased our share of the total market (including blade shaving), strengthening our leading position. In Oral Healthcare, we are entering new channels, including pharmacies, with the launch of the Sonicare PowerUp power toothbrush.

In Kitchen Appliances, acquisitions and local product creation have driven a strong increase in new product offerings, with leadership in key markets strengthened through local relevance. In Coffee, a new, long-term agreement with DE Master Blenders has further strengthened the Senseo business.

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

Leading kitchen appliances companies Preethi and Povos, acquired in 2011 in India and China respectively, continued to show strength. Povos contributed to an incremental 30% growth in China by strengthening our Chinese product offering. Preethi's leadership in the south of India complements our position across India, where we have over 30% market share in mixer grinders, the largest category. We are also leveraging the Preethi brand to build a portfolio beyond kitchen appliances.

Deliver on EcoVision sustainability commitments

Sustainability continues to play an important role in the product development process at Consumer Lifestyle. In 2012 we made progress in implementing our voluntary commitment to phase out polyvinyl chloride (PVC) and brominated flame retardants (BFR) from our products, and for the first time all of our espresso coffee machines launched during the year are free of these substances.

We increased the use of recycled materials in our products. For example, the housing base of the Performer range of vacuum cleaners is now made from recycled plastics, resulting in the use of approximately 300 tonnes of recycled plastic by 2013.

6.2.5 2012 financial performance

Key data
in millions of euros unless otherwise stated

	2010	2011	2012
Sales	5,504	5,615	5,953
Sales growth			
% increase (decrease), nominal	7	2	6
% increase (decrease), comparable[1]	−	1	2
EBITA[1]	487	297	663
as a % of sales	8.8	5.3	11.1
EBIT	449	217	593
as a % of sales	8.2	3.9	10.0
Net operating capital (NOC)[1]	882	884	1,217
Cash flows before financing activities[1]	288	(257)	597
Employees (FTEs)	14,095	18,291	18,911

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

Sales amounted to EUR 5,953 million, a nominal increase of 6% compared to 2011, mainly driven by double-digit growth in our Health & Wellness and Domestic Appliances businesses. This was partly offset by a double-digit decline in Lifestyle Entertainment, where growth was adversely affected by a slowdown in consumer spending, particularly in mature geographies. Excluding a 3% favorable currency impact and a 1% impact from portfolio changes, comparable sales were 2% higher than the previous year.

From a geographical perspective, we recorded 7% comparable sales growth in growth geographies, which was partly offset by a 2% decline in mature geographies, mainly in Western Europe. In growth geographies, the year-on-year sales increase was driven by Russia and China, primarily in our Domestic Appliances and Personal Care businesses. Growth geographies' share of sector sales increased from 42% in 2011 to 46% in 2012.

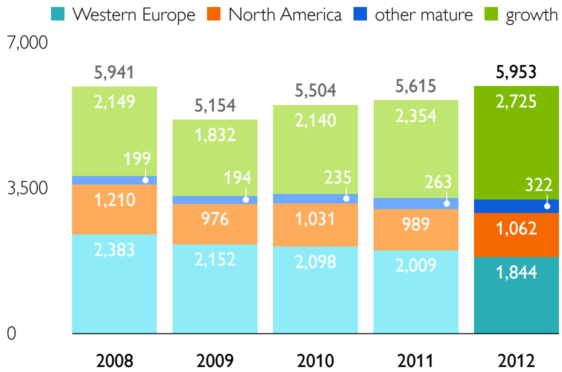
EBITA increased from EUR 297 million, or 5.3% of sales, in 2011 to EUR 663 million, or 11.1% of sales, in 2012. Restructuring and acquisition-related charges amounted to EUR 75 million in 2012, compared to EUR 54 million in 2011. 2012 results included a EUR 160 million one-time gain from the extension of our partnership with Sara Lee, including the transfer of our 50% ownership right to the Senseo trademark. Excluding this one-time gain, the year-on-year EBITA increase was driven by higher sales across all growth businesses as well as lower net costs formerly reported as part of the Television business. Compared to 2011, EBITA improvements were seen in all businesses.

EBIT amounted to EUR 593 million, or 10.0% of sales, which included EUR 70 million of amortization charges, mainly related to intangible assets in Health & Wellness and Domestic Appliances.

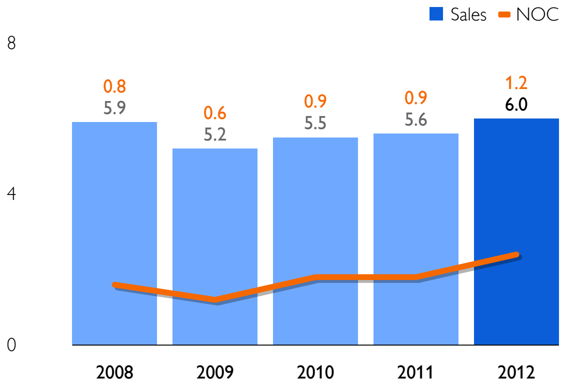
Net operating capital increased from EUR 884 million in 2011 to EUR 1,217 million in 2012, primarily due to a reduction in the accounts payable balance related to the former Television business in Consumer Lifestyle.

Cash flows before financing activities increased from a cash outflow of EUR 257 million in 2011 to a cash inflow of EUR 597 million. The increase was attributable to higher cash earnings, lower cash outflows for acquisitions as well as the transfer of our 50% ownership right to the Senseo trademark to Sara Lee for cash proceeds EUR 170 million.

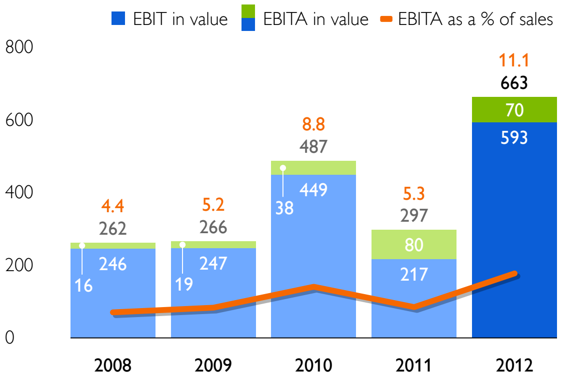
Sales per geographic cluster
in millions of euros



Sales and net operating capital
in billions of euros



EBIT and EBITA[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 Annual Report

Content you didn't download
2011 financial performance

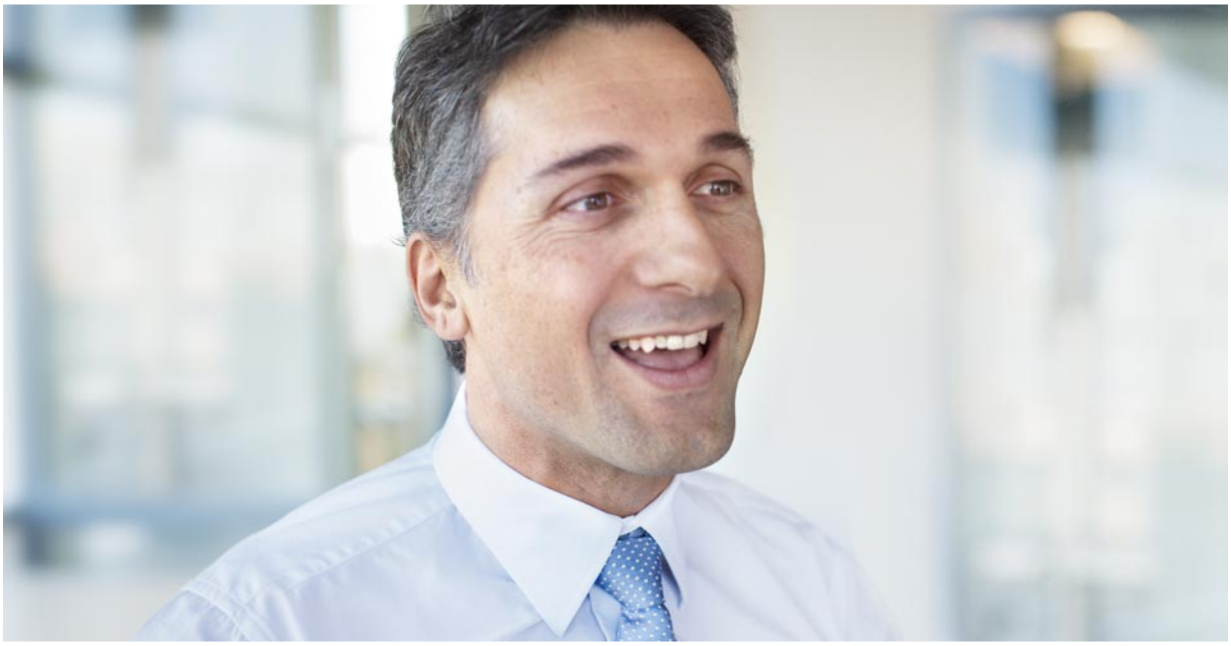
6.2.6 2013 priorities

In 2013 Philips Consumer Lifestyle will continue to progress on the following imperatives designed to accelerate performance and achieve our goals:

- Drive global scale and category leadership in health and well-being categories with attractive profit pools
- Further reduce our cost base
- Improve return on investment in marketing
- Roll out end-to-end programs that will drive reduced time-to-market, reduced inventories and improved gross margins

In addition to these priorities, Philips Consumer Lifestyle will continue to deliver on EcoVision sustainability commitments.

6.3 Lighting



"The market for lighting is sizeable, attractive and growing. In the transition towards energy-efficient and LED-based lighting solutions, we are accelerating our Accelerate! program to excel in customer satisfaction, time-to-market, and end-to-end processes. In 2012 we made a significant step forward on our path to value. Our Accelerate! transformation and the turnaround of two of our business groups helped drive improved profitability. Going forward, Philips Lighting will continue to strengthen its global leadership position through meaningful innovations that enhance people's lives." **Eric Rondolat**, CEO Philips Lighting

- The lighting industry is undergoing a radical transformation.
- The lighting market is large and attractive, driven by major trends.
- Strategy based on four priorities to maximize growth, improve performance and expand leadership.

6.3.1 Lighting business landscape

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

We serve a large and attractive market that is driven by the need for more light, energy-efficient lighting, and digital lighting. Over half the world's population currently lives in urban areas: a figure that is expected to rise to over 70% by 2050. That means 3 billion extra city dwellers. These people will all need light. In addition, the world needs more energy-efficient light in the face of rising energy prices and climate change. At the same time, the lighting industry is moving from traditional to digital lighting – lighting solutions enabled by the integration of LED technology, luminaires, lighting controls and software.

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 applications – heading towards a 45% share by 2015 – and from growth geographies.

In 2011 the lighting industry as a whole was recovering from the global economic developments in 2010. In 2012, however, this recovery slowed due to widespread downward pressure on GDP, weaker consumer markets in mature geographies, and continued weakness in the construction market. Growth geographies continue to show healthy growth, albeit somewhat at a slower pace.

6.3.2 Enhancing life with light

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.

Our lighting solutions are transforming urban environments, helping to create livable cities by enhancing safety, municipal identity and residential well-being. 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. At the same time, consumers are increasingly using lighting to create their own ambience at home as an expression of their lifestyle.

We believe that the rise of LED, coupled with our global market leadership, positions us well to continue to deliver on our mission to 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 121 years, laying the basis for our current strength and ensuring we are well-placed to be a leader in the digital transformation. We aim to further strengthen our position in the digital market through added investment in LED leadership while at the same time capitalizing on our broad portfolio, distribution and brand in conventional lighting ('managing the golden tail' – there is a significant opportunity to grow market share and optimize profits in conventional lamps and drivers by flexibly anticipating the slower or faster phase-out of conventional products).

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 and water purification.

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

- Light Sources & Electronics: LED, eco-halogen, (compact) fluorescent, high-intensity discharge and incandescent light sources, plus electronic and electromagnetic gear, modules and drivers
- Consumer Luminaires: functional, decorative, lifestyle, scene-setting luminaires
- Professional Lighting Solutions: controls and luminaires for city beautification, road lighting, sports lighting, office lighting, shop/hospitality lighting, industry lighting
- Automotive Lighting: car headlights, car signaling, interior
- Lumileds: packaged LEDs.

The Light Sources & Electronics 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 Lighting Solutions is organized in a trade business (commodity products) and a project solutions business (project luminaires, systems and services). Automotive Lighting is organized in two businesses: OEM and After-market.

The conventional lamps industry is highly consolidated, with GE and Siemens/Osram as key competitors. The LED lighting market, on the other hand, features a wide variety of competitors, ranging from start-ups to multinationals. The luminaires industry is fragmented, with our competition varying per region and per market segment.

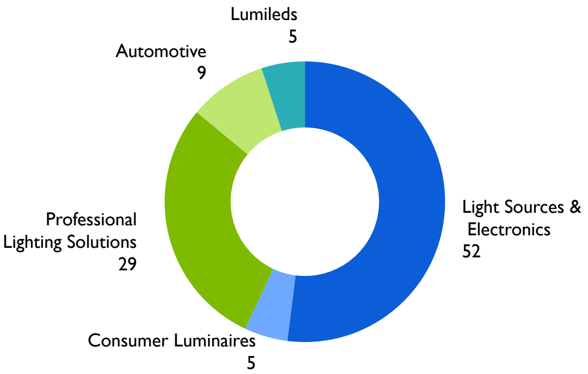
Under normal economic conditions, Lighting's sales are generally not materially affected by seasonality.

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 distributors working with our International Sales organization. Lighting has 50,200 employees worldwide.

Regulatory requirements
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 section 14.5, Supplier indicators, of this Annual Report.

Total sales by business 2012
as a %



6.3.4 Progress against targets

The Annual Report 2011 set out a number of key targets for Philips Lighting in 2012 that are steps towards achieving our Accelerate! mid-term 2013 goals. Our progress is outlined below.

Implement Accelerate! transformation

We are speeding up implementation of the Accelerate! program. We have adapted our processes to improve deliveries in all our geographies. We are taking a granular approach to investment choices through our Business Market Combination (BMC) plans, which are based on local customer insights. We have projects running to increase revenue, expand margins and reduce time-to-market and inventories, and we are aligning our processes in order to better serve our customers. In addition, we are strengthening accountability and simplifying our way of working, leading to cost savings. Driving the whole transformation is the deployment of culture transformation programs across all levels of the organization.

Accelerate transformation to LED, applications and solutions

In 2012 we further strengthened our expertise in LED development and application. Our LED-based sales grew by 41% compared to 2011, representing some 22% of total Lighting sales. Sales growth of LED-based applications was approximately 58%. To strengthen our leadership position, we established a cost-reduction program for LED lamps and expanded our portfolio of LED solutions in professional, automotive and home segments.

We continued to invest in growing our solutions (luminaires, controls, software and services) business, and sales increased by 31% in 2012. We are creating value through seamless integration of controls and management software in our LED-based solutions.

With the journey from initial idea to marketable product taking only nine months, the development of our hue connected lighting system illustrates how our organization has embraced the journey to accelerate. Effective and efficient collaboration across multiple disciplines significantly shortened time-to-market for this ground-breaking solution.

Strengthen performance management and execution

We are stepping up the pace of Accelerate! to prepare our organization to take full advantage of LED-driven future opportunities. We have now connected our business and market teams through our BMC approach to win customers in key markets. Projects are reducing complexity, improving execution along our end-to-end customer value chain, and increasing speed to market – all with the aim of driving market leadership, accelerating growth and boosting profitability.

Address cost base, margin management and working capital

In 2012, as part of our organizational redesign and cost program, we took a fundamental approach to increase the speed and efficiency of our organization. We reduced the number of Business Groups from six to five. Regional layers have been simplified and regional teams no longer sit between markets and businesses. Significant reductions in overhead functions like IT, Human Resource Management and Finance & Accounting have been implemented. Furthermore, we have endeavored to optimize our industrial asset base for maximum efficiency and lowest cost. We have reduced our industrial footprint by 40% compared to 2008, with four sites closed and four divested in 2012.

To protect our margins, we further improved our product mix and implemented selective price increases, mainly in our conventional lamps and luminaires businesses, and also managed cost aggressively. While we continue to invest in innovation and our go-to market capabilities, we will continue to focus on overhead cost reductions and accelerate the rationalization of our industrial footprint.

Our focus on working capital management is clearly paying off. Tight management of the value and quality of inventory led to a year-on-year improvement of 1.9% of sales.

Deliver on turnaround of Lumileds and Consumer Luminaires

Good progress has been made towards turning around our Lumileds and Consumer Luminaires businesses. Both managed to achieve a return to profitability – excluding restructuring and acquisition-related charges – in Q4 2012. At Lumileds, actions have been taken to improve manufacturing yields and innovation effectiveness. Also, the go-to-market and distribution structure has been expanded and strengthened, resulting in incremental top-line growth. At Consumer Luminaires, successful actions have been taken to improve customer intimacy and our go-to-market strategy. In addition, actions have been taken to improve productivity and to improve the end-to-end supply chain costs. In China and India in particular, we have experienced strong growth with continued expansion of branded Philips Lighting stores and shop-in-shops.

Deliver on EcoVision sustainability commitments

In 2012, Philips Lighting invested EUR 325 million in Green Innovation, compared to EUR 291 million in 2011. Major investments have been made in energy-saving technologies such as OLED and lighting controls and in the reduction of regulated substances in our product portfolio.The energy efficiency of our total product portfolio improved from 36 to 38 lm/W, mainly because of the shift to LED lighting. Within the Green Operations 2015 program, we are on track to meet our commitments to reduce Lighting's environmental footprint. By using renewable energy and implementing energy-saving programs in our major operational sites, we have already reduced our carbon footprint by 23%. Currently 78% of our total waste is re-used as a result of recycling.

6.3.5 2012 financial performance

Key data
in millions of euros unless otherwise stated

	2010	2011	2012
Sales	7,552	7,638	8,442
Sales growth			
% increase, nominal	15	1	11
% increase, comparable[1]	9	6	4
EBITA[1]	863	445	188
as a % of sales	11.4	5.8	2.2
EBIT	689	(362)	(6)
as a % of sales	9.1	(4.7)	(0.1)
Net operating capital (NOC)[1]	5,506	4,965	4,635
Cash flows before financing activities[1]	590	254	339
Employees (FTEs)	53,888	53,168	50,224

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

Sales amounted to EUR 8,442 million, a nominal increase of 11% compared to 2011, mainly driven by growth at Light Sources & Electronics and Professional Lighting Solutions, but tempered by a sales decline at Lumileds. Excluding a 5% favorable currency impact and a 2% impact from portfolio changes, comparable sales increased by 4%.

The year-on-year sales increase was substantially driven by growth geographies, which grew 7% on a comparable basis. As a proportion of total sales, sales in growth geographies increased slightly to 41% of total Lighting sales, driven by double-digit growth in China and India, compared to 40% in 2011. In mature geographies, sales growth was limited to low single-digits due to lower demand in North America and Western Europe, particularly for Professional Lighting Solutions and Consumer Luminaires.

Sales of LED-based products grew to over 22% of total sales, up from 16% in 2011, driven by Light Sources & Electronics and Professional Lighting Solutions. Sales of energy-efficient Green Products exceeded EUR 5,752 million, or 68% of sector sales.

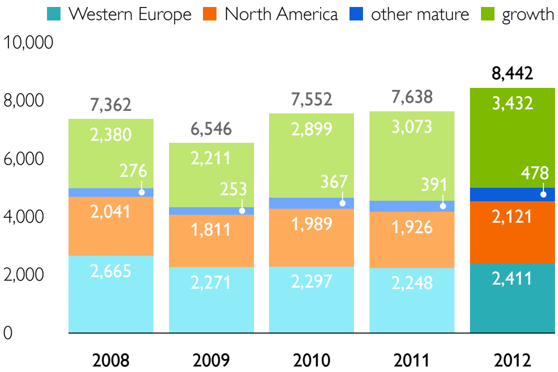
EBITA amounted to EUR 188 million, or 2.2% of sales, compared to EUR 445 million, or 5.8% of sales, in 2011. Restructuring and acquisition-related charges amounted to EUR 315 million in 2012, compared to EUR 66 million in 2011. The decrease in EBITA was mainly attributable to higher restructuring and acquisition-related charges, as well as losses on the sale of industrial assets amounting to EUR 81 million, partly offset by higher sales.

EBIT amounted to a loss of EUR 6 million, or negative 0.1% of sales, which included EUR 194 million of amortization charges, mainly related to intangible assets at Professional Lighting Solutions.

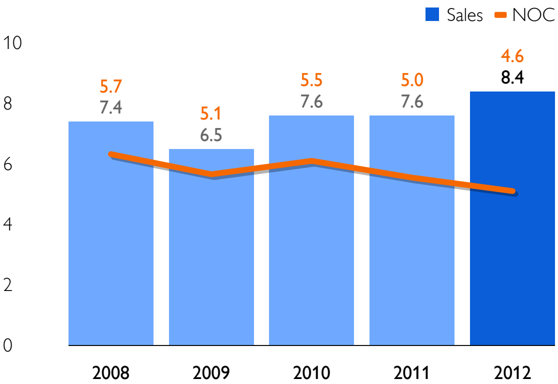
Net operating capital decreased by EUR 330 million to EUR 4.6 billion, primarily due to an increase in provisions related to restructuring, lower inventories and currency effects, partly offset by the consolidation of Indal.

Cash flows before financing activities increased from EUR 254 million in 2011 to EUR 339 million, mainly attributable to lower working capital outflows, partly offset by higher outflows for acquisitions.

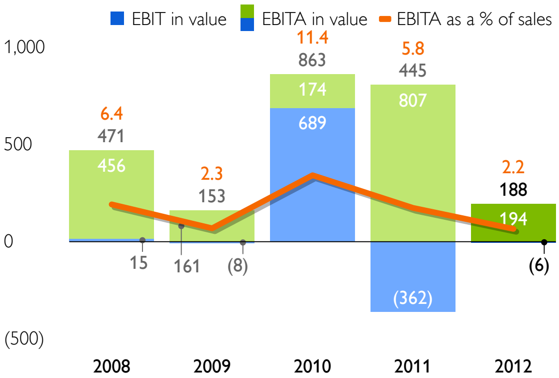
Sales per geographic cluster
in millions of euros



Sales and net operating capital
in billions of euros



EBIT and EBITA[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 Annual Report

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6.3.6 2013 priorities

In 2013 Philips Lighting will continue to progress on the following imperatives designed to accelerate performance and achieve our goals:

- Lead the technological revolution in Lighting, be the thought-leader in LED, and win the 'golden tail' in conventional lighting
- Win in the professional market, developing and growing profitable solutions and services
- Win in consumer markets and develop new ways to go to market
- Use Accelerate! as our transformation and performance improvement platform throughout the whole organization

In addition to these priorities, Philips Lighting will continue to deliver on EcoVision sustainability commitments.

6.4 Innovation, Group & Services

"Innovation is absolutely core to what Philips is, and the way it ensures competitive edge and long-term value creation. We're all about creating value through innovation more quickly, and making sure we earn that return on investment. In 2012 we continued optimizing our innovation portfolio and improved execution. At the same time, we are placing increasing emphasis on initiatives designed to leverage our intellectual property leadership."

Jim Andrew, Chief Innovation & Strategy Officer

Introduction

Innovation, Group & Services comprises the activities of the Group headquarters, including Philips' global management and sustainability programs, country and regional management costs, and costs of pension and other postretirement benefit plans, as well as Group Innovation 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.

Innovation, Group & 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. Innovation, Group & Services supports Idea to Market in five focal areas: Speeding up time to market, Portfolio optimization, Driving breakthrough innovation, Improving innovation competences, and Restoring the image of Philips as an innovation leader. Based on deeper customer insights, enhanced capability and competency building, we are driving value more effectively.

6.4.1 Philips Group Innovation

Philips Group Innovation (PGI) 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, PGI 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.

PGI encompasses Philips Research, Philips Intellectual Property & Standards (IP&S), Philips Innovation Services, the Philips Innovation Campus, Philips Design as well as Emerging Business Areas. In total, PGI employs some 4,800 professionals around the globe.

PGI 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 also seek to ensure proximity of innovation activities to growth geographies.

Philips Research

Philips Research is the main partner of Philips' operating sectors for technology-enabled innovation. It creates new technologies and the related intellectual property (IP), which enables Philips to grow in businesses and markets. Together with the sectors, Philips Research also co-creates innovations and game-changers to strengthen the core businesses as well as to open up new business in adjacencies beyond the core. Research's innovation pipeline is aligned with our vision and strategy and inspired by major societal challenges as well as unmet customer needs.

One such challenge is the huge increase in the number of patients living with cancer. In the Netherlands, Philips Research and University Medical Center Utrecht have started a pilot clinical study to evaluate a new personalized treatment for breast cancer based on a technology called MR-guided High Intensity Focused Ultrasound (MR-HIFU). MR-HIFU has emerged as a technology with the potential to non-invasively destroy tumors by heating them up while they are still inside the body. Magnetic Resonance (MR) imaging provides real-time imaging of soft tissue structures so that the HIFU beam can be accurately focused onto the tumor.

Building on its expertise in LED lighting applications, Philips Research has been testing and validating new LED-based retail lighting concepts, designed to enhance the product appearance of fashion merchandise in shops, at multiple customer locations.

On January 1, 2012, the front-end innovation competencies of Lighting and the Healthcare R&D lab in Paris were integrated into Philips Research, thereby strengthening cooperation in the early stages of the innovation chain.

Philips Intellectual Property & Standards

Philips IP&S proactively pursues the creation of new intellectual property in close co-operation with Philips' operating sectors and Philips Group Innovation. 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 around 59,000 patent rights, 35,000 trademarks, 81,000 design rights and 4,200 domain name registrations. Philips filed approximately 1,500 patents in 2012, 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

Philips Innovation Services supports internal and third-party customers by offering services in concept creation support, product, process and equipment development, prototyping and small-series production, quality and reliability, sustainability, safety and health, and industry consulting.

Innovation Services is playing an increasing role in the operating sectors' digital transformation, supporting the move into internet and network applications/services.

Philips Innovation Campus

Philips Innovation Campus Bangalore (PIC) hosts activities from all three operating 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. While PIC originally started as a software center, it has since developed into a product development center (including mechanical, electronics, and supply chain capabilities). Several Healthcare businesses have also located business organizations focusing on growth geographies at PIC.

New Venture Integration

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

Philips Design

Philips Design partners with the Philips businesses, Group Innovation and 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.

Philips Design is a global function within the company, comprised of a Group Design team that drives the function and develops new competences, and fully integrated sector Design teams ensuring close alignment with the Philips businesses. The organization is made up 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 2012, it won over 120 key design awards in the areas of product, communication and innovation design.

Philips Healthcare Incubator

The Philips Healthcare Incubator is a dedicated corporate venturing organization within Philips. Its mission is to identify novel business opportunities based on the unmet needs of patients and their care providers, and to transform these into successful business ventures. It focuses on breakaway solutions to these unmet needs in areas that are of strategic interest to Philips. The ultimate goal is to create breakthrough businesses for Philips in health care.

6.4.2 2012 financial performance

Key data
in millions of euros unless otherwise stated

	2010	2011	2012
Sales	630	474	410
Sales growth			
% increase (decrease), nominal	14	(25)	(14)
% increase (decrease), comparable[1]	14	(11)	(7)
EBITA of:			
Group Innovation	(84)	(51)	(122)
IP Royalties	258	198	179
Group and Regional costs	(142)	(134)	(154)
Accelerate! investment	−	(28)	(128)
Pensions	100	(23)	48
Service Units and other	(112)	(169)	(494)
EBITA[1]	20	(207)	(671)
EBIT	14	(217)	(679)
Net operating capital (NOC)[1]	(3,399)	(3,895)	(4,521)
Cash flows before financing activities[1]	(542)	(1,295)	(1,044)
Employees (FTEs)	11,929	12,474	11,492

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

In 2012, sales amounted to EUR 410 million, EUR 64 million lower than in 2011, attributable to the divestment of Assembléon in 2011 as well as lower royalty income.

EBITA in 2012 amounted to a loss of EUR 671 million, compared to a loss of EUR 207 million in 2011. The year-on-year decrease in EBITA was largely attributable to a EUR 313 million fine issued by the European Commission in relation to the alleged violation of competition rules in the Cathode-Ray Tube (CRT) industry and provisions related to various legal matters totaling EUR 132 million. Restructuring and acquisition-related charges amounted to EUR 56 million in 2012, compared to EUR 23 million in 2011.

EBITA at Group Innovation was EUR 71 million lower than in 2011, attributable to new innovation and design initiatives, as well as higher investments in new value spaces.

Group & Regional Overhead costs were EUR 20 million higher than in 2011, mainly due to increased costs related to strengthening the market access and growth initiatives.

Accelerate! investments amounted to EUR 128 million in 2012, and include investments in IT infrastructure, internal departments and external consultancy dedicated to the Accelerate! program.

EBITA at Pensions was EUR 71 million higher than in 2011, mainly due to the effect of lower interest rates. In 2011, EBITA was positively impacted by a EUR 21 million gain due to a plan change in one of our major plans, while 2012 was positively impacted by a EUR 25 million gain from a change in a medical retiree plan.

EBITA at Service Units and Other decreased from a loss of EUR 169 million in 2011 to a loss of EUR 494 million. The decrease was largely attributable to the CRT fine of EUR 313 million and provisions related to various legal matters totaling EUR 132 million, partly offset by a gain on the sale of High Tech Campus of EUR 37 million and lower stranded costs from the divestment of our Television business.

Net operating capital decreased to negative EUR 4,521 billion, primarily related to an increase in payables and provisions due to legal and environmental matters.

Cash flows before financing activities improved from an outflow of EUR 1,295 million in 2011 to an outflow of EUR 1,044 million, mainly attributable to higher cash inflows from the sale of fixed assets.

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2011 financial performance

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 categories are further described in section 7.2, Risk categories and factors, of this Annual 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 chapter 19, Forward-looking statements and other information, of this Annual Report and the overview of risk factors described in section 7.2, Risk categories and factors, of this Annual 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, Innovation and IT), at Global Market level and at Sector level (Healthcare, Lighting, Consumer Lifestyle, Innovation, Group & 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 in-depth description of Philips' corporate governance structure can be found in chapter 11, Corporate governance, of this Annual 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 Executive Committee and the Supervisory Board quarterly.

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 Executive Committee. 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 Executive Committee. The Executive Committee'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 Annual 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. All compliance officers operate under the supervision of the GBP Review Committee. 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).

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.

Both the Finance and Supply Management Code of Ethics are signed on an annual basis by the relevant employees, to confirm their awareness of and compliance with, the respective codes.

In 2012 a global internal communications program was launched in support of the roll out of the updated version of the GBP Directives and the Philips Whistleblower Policy, reflecting the effect of recent developments in the area of business ethics (UK Bribery Act, Dodd-Frank Act, UN Guiding Principles on Human Rights). This 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 employees were enrolled on a dedicated GBP e-training course. The GBP dilemma training tool has been made available to all GBP Compliance Officers in support of local training activities.

The GBP self-assessment process is fully embedded in an automated workflow application (ICS) supporting Sector, Market and functional management in monitoring internal controls. Management of reporting entities are required to answer these questions before year-end and report their findings. Embedding GBP self-assessments in ICS seeks to ensure that GBP compliance is now part of Sector, Market and functional 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.

In the course of 2012 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 Sectors and Markets, 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 Annual 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 2012.

7.2 Risk categories and factors

Risks / Opportunities			
Strategic	**Operational**	**Compliance**	**Financial**
• Macroeconomic changes • Changes in industry/market • Growth emerging markets • Joint ventures • Acquisitions • Intellectual property rights	• Transformation program • Innovation process • Supply chain • IT • People • Product liability • Reputation	• Legal • Market practices • Regulatory • General business principle • Internal controls • Data privacy / Product security	• Treasury • Tax • Pensions • Accounting and reporting
Corporate Governance			
Philips Business Control Framework			
Philips General Business Principles			

Taking risks is an inherent part of entrepreneurial behavior. A structured risk management process allows 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 allows potential new risks and opportunities to be discussed at management level and 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, Market 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 laws, regulations, policies and procedures. Within the area of Financial risks, Philips identifies risks related to Treasury, Accounting and reporting, Pensions and Tax. Philips does not classify these risk categories in order of importance.

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 achievement of Philips' Accelerate! mid-term 2013 goals. 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.

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. Continued concerns about the macroeconomic environment has shown its impact on global financial markets during 2012. It is clear that the Eurozone crisis and the fiscal problems in the US are still far from being resolved and political stability and international cooperation remain major drivers to make further progress. The current macroeconomic situation and the economic policies in developed economies continue to point towards reduced levels of capital expenditures in general, continued pressure on consumer and business confidence and increasing unemployment in certain countries. Political developments, such as healthcare reforms in various countries (e.g. the US Healthcare Reform) may impose additional uncertainties by redistributing sector spending, changing reinbursement 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 a material adverse effect 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 could have a material adverse effect on Philips' growth ambitions financial condition and operating result.

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, then could have a material adverse effect on growth ambitions financial condition and operating result.

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 (e.g. TP Vision). 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 a material adverse affect on the value of its investments in those entities or potentially subject Philips to additional claims.

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

Philips acquisitions may continue to expose Philips in the future 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 have a material adverse affect on Philips' earnings, particularly in Healthcare and Lighting which have significant amounts of goodwill (see also note 9, Goodwill).

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 have a material adverse impact on Philips' financial condition and operating results.

7.4 Operational risks

Failure to deliver on the objectives of the transformation programs.

In 2011 Philips has started a very extensive transformation program (Accelerate!) to unlock Philips' full potential. Accelerate! spans a time period of several years. Failure to achieve the objectives of the transformation programs may have a material adverse effect on the mid and long term financial targets.

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.

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.

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. This could introduce additional risk with regard to the delivery of IT services, the availability of IT systems and the scope and nature of the functionality offered by IT systems. The global increase in security threats and higher levels of professionalism in computer crime have increased 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 materially 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. Although we have experienced cyber attacks but to date have not incurred any significant damage as a result, 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.

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.

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, 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.

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 of Philips 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 markets expect a downgrade or downgrades by the rating agencies or if such a downgrade has actually taken place, it could increase the 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. A weakening of the US dollar versus the euro would have an adverse effect on reported earnings of the company. In addition, Philips is exposed to the fluctuation in exchange rates of other currencies such as the Japanese yen and currencies of growth geographies such as China, India and Brazil.

The credit risk of financial and non-financial counterparties with outstanding payment obligations creates exposures for Philips, particularly in relation to accounts receivable with customers and liquid assets and fair values of derivatives and insurance receivables contracts with financial counterparties. A default by counterparties in such transactions can have a material adverse effect on Philips' financial condition and operating results.

Philips' supply chain is exposed to fluctuations in energy and raw material prices. Commodities such as oil are 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.

Philips is 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.

For further analysis, please refer to note 34, Details of treasury risks.

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 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 movements in 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 make estimates on discount rates, inflation, longetivity and expected rates of compensation. Changes in these assumptions 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 cash 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.

Philips is exposed to a number of reporting risks.
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

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 endorsed by the European Union (EU) and with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code. All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective year-end 2012 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 Annual Report
- chapter 2, Group strategic focus, of this Annual Report
- chapter 3, Our strategy in action, of this Annual Report
- chapter 4, Our planet, our partners, our people, of this Annual Report
- chapter 5, Group performance, of this Annual Report
- chapter 6, Sector performance, of this Annual Report
- chapter 7, Risk management, of this Annual Report
- section 10.1, Report of the Corporate Governance and Nomination & Selection Committee, of this Annual Report
- section 10.2, Report of the Remuneration Committee, of this Annual Report
- chapter 11, Corporate governance, of this Annual Report
- chapter 19, Forward-looking statements and other information, of this Annual 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 2012 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 Annual Report on the Group financial statements, section 13.5, Independent auditor's report - Company, of this Annual Report on the Company financial statements, section 5.4, Proposed distribution to shareholders, of this Annual Report, and note 35, Subsequent events.

Please refer to chapter 19, Forward-looking statements and other information, of this Annual 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 25, 2013

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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

		2010	2011	2012
	Sales	22,287	22,579	24,788
	Cost of sales	(13,265)	(13,845)	(15,379)
	Gross margin	9,022	8,734	9,409
	Selling expenses	(4,808)	(5,247)	(5,468)
	General and administrative expenses	(713)	(841)	(798)
	Research and development expenses	(1,493)	(1,610)	(1,810)
	Impairment of goodwill	–	(1,355)	–
	Other business income	93	125	297
	Other business expenses	(27)	(75)	(600)
1	Income from operations	2,074	(269)	1,030
2	Financial income	214	112	106
2	Financial expenses	(335)	(352)	(352)
	Income before taxes	1,953	(509)	784
3	Income tax expense	(497)	(283)	(308)
	Income (loss) after taxes	1,456	(792)	476
4	Results relating to investments in associates:			
	- Company's participation in income	14	18	(8)
	- Other results	4	(2)	(206)
	Income (loss) from continuing operations	1,474	(776)	262
5	Discontinued operations - net of income tax	(26)	(515)	(31)
	Net income (loss)	1,448	(1,291)	231
	Attribution of net income (loss)			
	Net income (loss) attributable to shareholders	1,442	(1,295)	226
	Net income (loss) attributable to non-controlling interests	6	4	5

Earnings per common share attributable to shareholders

		2010	2011	2012
	Basic earnings per common share in euros			
6	Income (loss) from continuing operations attributable to shareholders	1.56	(0.82)	0.28
6	Net income (loss) attributable to shareholders	1.53	(1.36)	0.25
	Diluted earnings per common share in euros[1]			
6	Income (loss) from continuing operations attributable to shareholders	1.55	(0.82)	0.28
6	Net income (loss) attributable to shareholders	1.52	(1.36)	0.24

Prior periods amounts have been revised to reflect certain voluntary adopted accounting policy changes, and immaterial adjustments (see section 12.10, Significant accounting policies, of this Annual Report). The accompanying notes are an integral part of these consolidated financial statements.

[1] The incremental shares from assumed conversion are not taken into account in the periods for which there is a loss attributable to shareholders, as the effect would be antidilutive

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

	2010	2011	2012
Net income (loss)	1,448	(1,291)	231
Other comprehensive income:			
Pensions and other post employment plans:			
Net current period change, before tax	(1,948)	(618)	(550)
Actuarial gains and (losses)	*(1,521)*	*(1,487)*	*(251)*
Changes in the effect of the asset ceiling	*(427)*	*869*	*(299)*
Income tax on net current period change	602	171	144
Revaluation reserve:			
Release revaluation reserve	(16)	(16)	(16)
Reclassification into retained earnings	16	16	16
Currency translation differences:			
Net current period change, before tax	535	71	(99)
Income tax on net current period change	(5)	(2)	−
Reclassification adjustment for (loss)gain realized	(4)	3	(1)
Non-controlling interests	−	−	−
Available-for-sale financial assets:			
Net current period change, before tax	180	(87)	8
Income tax on net current period change	−	19	(2)
Reclassification adjustment for (loss) gain realized	(161)	(26)	3
Cash flow hedges:			
Net current period change, before tax	(44)	(31)	23
Income tax on net current period change	5	−	(8)
Reclassification adjustment for (loss) gain realized	24	27	14
Other comprehensive income (loss) for the period	(816)	(473)	(468)
Total comprehensive income (loss) for the period	632	(1,764)	(237)
Total comprehensive income (loss) attributable to:			
Shareholders	626	(1,768)	(242)
Non-controlling interests	6	4	5

Prior periods amounts have been revised to reflect immaterial adjustments (see section 12.10, Significant accounting policies, of this Annual Report). The accompanying notes are an integral part of these consolidated financial statements.

12.6 Consolidated balance sheets

in millions of euros unless otherwise stated

Consolidated balance sheets of the Philips Group as of December 31

Assets

			2011		2012
	Non-current assets				
8 24	Property, plant and equipment:				
	- At cost	7,812		7,880	
	- Less accumulated depreciation	(4,798)		(4,921)	
			3,014		2,959
9	Goodwill		7,016		6,948
10	Intangible assets excluding goodwill:				
	- At cost	7,663		7,821	
	- Less accumulated amortization	(3,667)		(4,090)	
			3,996		3,731
11	Non-current receivables		127		176
4	Investments in associates		203		177
12	Other non-current financial assets		346		549
3	Deferred tax assets		1,729		1,917
13	Other non-current assets		71		94
	Total non-current assets		16,502		16,551
	Current assets				
14	Inventories - net		3,625		3,495
15	Current financial assets		–		–
16	Other current assets		351		337
33	Derivative financial assets		229		137
3	Income tax receivable		162		97
17 31	Receivables:				
	- Accounts receivable - net	4,584		4,334	
	- Accounts receivable from related parties	19		13	
	- Other current receivables	225		238	
			4,828		4,585
5	Assets classified as held for sale		551		43
34	Cash and cash equivalents		3,147		3,834
	Total current assets		12,893		12,528
			29,395		29,079

Equity and liabilities

Note			2011		2012
	Equity				
18	Shareholders' equity:				
	Preference shares, par value EUR 0.20 per share:				
	- Authorized: 2,000,000,000 shares (2011: 2,000,000,000 shares), issued none				
	Common shares, par value EUR 0.20 per share:				
	- Authorized: 2,000,000,000 shares (2011: 2,000,000,000 shares)				
	- Issued and fully paid: 957,132,962 shares (2011: 1,008,975,445 shares)	202		191	
	Capital in excess of par value	813		1,304	
	Retained earnings	12,878		10,713	
	Revaluation reserve	70		54	
	Other reserves	43		(19)	
	Treasury shares, at cost 42,541,687 shares (2011: 82,880,543 shares)	(1,690)		(1,103)	
			12,316		11,140
18	Non-controlling interests		34		34
	Group equity		12,350		11,174
	Non-current liabilities				
19 24	Long-term debt		3,278		3,725
20 25 29	Long-term provisions		1,907		2,132
3	Deferred tax liabilities		77		92
21	Other non-current liabilities		1,999		2,001
	Total non-current liabilities		7,261		7,950
	Current liabilities				
19 24	Short-term debt		582		809
33	Derivative financial liabilities		744		517
3	Income tax payable		191		200
24 31	Accounts and notes payable:				
	- Trade creditors	3,340		2,835	
	- Accounts payable to related parties	6		4	
			3,346		2,839
22	Accrued liabilities		3,026		3,171
20 25 29	Short-term provisions		787		837
5	Liabilities directly associated with assets held for sale		61		27
23	Other current liabilities		1,047		1,555
	Total current liabilities		9,784		9,955
24 25	Contractual obligations and contingent liabilities				
			29,395		29,079

Prior periods amounts have been revised to reflect immaterial adjustments (see section 12.10, Significant accounting policies, of this Annual Report). The accompanying notes are an integral part of these consolidated financial statements.

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

	2010	2011	2012
Cash flows from operating activities			
Net income (loss)	1,448	(1,291)	231
Loss from discontinued operations	26	515	31
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,343	1,454	1,433
Impairment of goodwill, other non-current financial assets and investments in associates	5	1,387	14
Net gain on sale of assets	(204)	(88)	(163)
(Income) loss from investments in associates	(18)	(14)	8
Dividends received from investments in associates	19	44	15
Dividends paid to non-controlling interests	(4)	(4)	(4)
(Increase) in receivables and other current assets	(325)	(365)	(245)
(Increase) in inventories	(545)	(149)	(19)
Increase(decrease) in accounts payable and accrued and other current liabilities	839	(233)	806
Increase in non-current receivables, other assets and other liabilities	(299)	(596)	(584)
(Decrease)increase in provisions	(205)	6	434
Other items	(6)	102	241
Net cash provided by operating activities	2,074	768	2,198
Cash flows from investing activities			
Purchase of intangible assets	(53)	(69)	(39)
Proceeds from sale of intangible assets	–	–	160
Expenditures on development assets	(220)	(278)	(347)
Capital expenditures on property, plant and equipment	(572)	(653)	(675)
Proceeds from disposals of property, plant and equipment	129	128	426
26 Cash from (used for) derivatives and securities	(25)	25	(47)
Purchase of other non-current financial assets	(16)	(43)	(167)
27 Proceeds from other non-current financial assets	268	87	3
Purchase of businesses, net of cash acquired	(225)	(509)	(259)
Proceeds from sale of interests in businesses, net of cash disposed of	117	19	33
Net cash used for investing activities	(597)	(1,293)	(912)
Cash flows from financing activities			
Proceeds from (payments on) issuance of short-term debt	143	(217)	133
Principal payments on short-term portion of long-term debt	(78)	(1,097)	(630)
Proceeds from issuance of long-term debt	69	454	1,228
Treasury shares transaction	65	(671)	(768)
Dividends paid	(296)	(259)	(255)
Net cash used for financing activities	(97)	(1,790)	(292)
Net cash provided by (used for) continuing operations	1,380	(2,315)	994

	2010	2011	2012
Cash flows from discontinued operations			
Net cash provided by (used for) operating activities	34	(270)	(296)
Net cash provided by (used for) investing activities	(56)	(94)	40
Net cash provided by (used for) discontinued operations	(22)	(364)	(256)
Net cash provided by (used for) continuing and discontinued operations	1,358	(2,679)	738
Effect of changes in exchange rates on cash and cash equivalents	89	(7)	(51)
Cash and cash equivalents at the beginning of the year	4,386	5,833	3,147
Cash and cash equivalents at the end of the year	5,833	3,147	3,834

Supplemental disclosures to the Consolidated statements of cash flows

	2010	2011	2012
Net cash paid during the year for:			
Pensions	(474)	(639)	(610)
Interest	(226)	(231)	(239)
Income taxes	(206)	(582)	(359)
Net gain on sale of assets:			
Cash proceeds from the sale of assets	514	234	622
Book value of these assets	(667)	(164)	(434)
Deferred results on sale and leaseback transactions	(4)	–	(25)
Non-cash proceeds	361	18	–
	204	88	163
Non-cash investing and financing information			
28 Assets in lieu of cash from the sale of businesses:			
Shares/share options/convertible bonds (continuing operations)	3	18	–
Shares/share options/convertible bonds (discontinued operations)	–	–	17
Conversion of convertible personnel debentures	6	–	4
Treasury shares transaction:			
Shares acquired	–	(751)	(816)
Exercise of stock options	65	80	48

Prior periods amounts have been revised to reflect immaterial adjustments (see section 12.10, Significant accounting policies, of this Annual Report).
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.

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, 2010	927,457	194	–	15,912	102	(461)	(1,187)	14,560	49	14,609
Total comprehensive income (loss)				112	(16)	530		626	6	632
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	(535)	(16)	530	111	447	(3)	444
Balance as of Dec. 31, 2010	946,506	197	354	15,377	86	69	(1,076)	15,007	46	15,053
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		46
Share-based compensation plans			56					56		56
Income tax share-based compensation plans			(6)					(6)		(6)
	(20,411)	5	459	(2,499)	(16)	(26)	(614)	(2,691)	(12)	(2,703)
Balance as of Dec. 31, 2011	926,095	202	813	12,878	70	43	(1,690)	12,316	34	12,350
Total comprehensive income (loss)				(164)	(16)	(62)		(242)	5	(237)
Dividend distributed	30,522	6	422	(687)				(259)		(259)
Non-controlling interests movement				–				–	(5)	(5)
Cancellation of treasury shares		(17)		(1,221)			1,238	–		–
Purchase of treasury shares	(46,871)			(47)			(769)	(816)		(816)
Re-issuance of treasury shares	4,845		(22)	(46)			118	50		50
Share-based compensation plans			84					84		84
Income tax share-based compensation plans			7					7		7
	(11,504)	(11)	491	(2,165)	(16)	(62)	587	(1,176)	–	(1,176)
Balance as of Dec. 31, 2012	914,591	191	1,304	10,713	54	(19)	(1,103)	11,140	34	11,174

Prior periods amounts have been revised to reflect immaterial adjustments (see section 12.10, Significant accounting policies, of this Annual Report). The accompanying notes are an integral part of these consolidated financial statements.

12.9 Information by sector and main country

in millions of euros

Prior periods amounts have been revised to reflect certain voluntary adopted accounting policy changes, and immaterial adjustments (see section 12.10, Significant accounting policies, of this Annual Report).

Information by sector and main country

Sectors

	sales	sales including intercompany	research and development expenses	income from operations	income from operations as a % of sales	cash flow before financing activities
2012						
Healthcare	9,983	10,005	(803)	1,122	11.2	1,394
Consumer Lifestyle	5,953	5,967	(301)	593	10.0	597
Lighting	8,442	8,465	(453)	(6)	(0.1)	339
Innovation, Group & Services	410	680	(253)	(679)	−	(1,044)
Inter-sector eliminations		(329)				
	24,788	24,788	(1,810)	1,030	4.2	1,286
2011						
Healthcare	8,852	8,866	(740)	93	1.1	773
Consumer Lifestyle	5,615	5,626	(313)	217	3.9	(257)
Lighting	7,638	7,652	(409)	(362)	(4.7)	254
Innovation, Group & Services	474	725	(148)	(217)	−	(1,295)
Inter-sector eliminations		(290)				
	22,579	22,579	(1,610)	(269)	(1.2)	(525)
2010						
Healthcare	8,601	8,611	(698)	922	10.7	1,141
Consumer Lifestyle	5,504	5,518	(282)	449	8.2	288
Lighting	7,552	7,563	(355)	689	9.1	590
Innovation, Group & Services	630	801	(158)	14	−	(542)
Inter-sector eliminations		(206)				
	22,287	22,287	(1,493)	2,074	9.3	1,477

Our sectors are organized based on the nature of the products and services. The four sectors comprise Healthcare, Consumer Lifestyle, Lighting and Innovation, Group & Services as shown in the table above. A short description of these sectors is as follows:

Healthcare: Consists of the following businesses - Imaging Systems, Home Healthcare Solutions, Patient Care & Clinical Informatics, and Customer Services.

Consumer Lifestyle: Consists of the following businesses - Lifestyle Entertainment, Personal Care, Domestic Appliances, and Health & Wellness.

Lighting: Consists of the following businesses - Light Sources & Electronics, Professional Lighting Solutions, Consumer Luminaires, Automotive Lighting, and Lumileds.

Innovation, Group & Services: Consists of group headquarters, as well as the overhead expenses of regional and country organizations. Also included are the net results of group innovation, intellectual property & services, the global service units and Philips' pension and other postretirement benefit costs not directly allocated to the other sectors.

Transactions between the sectors mainly relate to services provided by the sector Innovation, Group & Services to the other sectors. The pricing of such transactions is determined on an arm's length principle.

Sectors

	total assets	net operating capital	total liabilities excl. debt	current accounts receivable, net	tangible and intangible assets	depreciation and amortization[1]	capital expenditures
2012							
Healthcare	11,248	7,976	3,185	1,967	7,130	(543)	135
Consumer Lifestyle	3,325	1,217	2,108	892	1,699	(234)	146
Lighting	6,970	4,635	2,313	1,364	4,293	(543)	290
Innovation, Group & Services	7,493	(4,521)	5,738	111	516	(113)	104
	29,036	9,307	13,344	4,334	13,638	(1,433)	675
Assets classified as held for sale	43		27				
	29,079		13,371				
2011							
Healthcare	11,591	8,418	3,087	1,882	7,479	(538)	153
Consumer Lifestyle	3,841	884	2,954	1,339	1,755	(224)	148
Lighting	6,914	4,965	1,927	1,261	4,320	(570)	279
Innovation, Group & Services	6,498	(3,895)	5,156	102	472	(122)	73
	28,844	10,372	13,124	4,584	14,026	(1,454)	653
Assets classified as held for sale	551		61				
	29,395		13,185				
2010							
Healthcare	11,962	8,908	2,978	1,848	8,194	(549)	130
Consumer Lifestyle	4,110	882	3,227	1,335	1,525	(195)	115
of which Television	1,010	(305)	1,315	494	70		
Lighting	7,495	5,506	1,972	1,188	5,014	(458)	273
Innovation, Group & Services	9,023	(3,399)	4,822	158	645	(141)	54
	32,590	11,897	12,999	4,529	15,378	(1,343)	572
Assets classified as held for sale	120						
	32,710						

[1] Includes impairments of tangible and intangible assets excluding goodwill

Goodwill assigned to sectors

	carrying value at January 1	acquisitions	divestments	impairment	transfer to assets classified as held for sale	translation differences and other changes	carrying value at December 31
2012							
Healthcare	4,703	(1)	–	–	–	(129)	4,573
Consumer Lifestyle	674	(1)	(6)	–	–	1	668
Lighting	1,639	100	–	–	–	(32)	1,707
Innovation, Group & Services	–	–	–	–	–	–	–
	7,016	98	(6)	–	–	(160)	6,948
2011							
Healthcare	5,381	64	(3)	(824)	(2)	87	4,703
Consumer Lifestyle	532	131	(5)	–	(3)	19	674
Lighting	2,122	30	–	(531)	–	18	1,639
Innovation, Group & Services	–	–	–	–	–	–	–
	8,035	225	(8)	(1,355)	(5)	124	7,016

Main countries

	sales[1)]	tangible and intangible assets
2012		
Netherlands	669	886
United States	7,018	8,007
China	2,705	1,114
Germany	1,456	271
Japan	1,208	537
France	1,051	90
India	777	147
Other countries	9,904	2,586
	24,788	13,638
Assets classified as held for sale		6
		13,644
2011		
Netherlands	691	908
United States	6,373	8,473
China	2,102	1,126
Germany	1,431	252
Japan	911	618
France	1,046	97
India	678	161
Other countries	9,347	2,391
	22,579	14,026
Assets classified as held for sale		287
		14,313
2010		
Netherlands	661	1,109
United States	6,430	9,693
China	1,864	785
Germany	1,436	282
Japan	856	568
France	1,134	100
India	596	81
Other countries	9,310	2,760
	22,287	15,378
Assets classified as held for sale		120
		15,498

[1)] The sales are reported based on country of destination

12.10 Significant accounting policies

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) and with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code. All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective year-end 2012 have been endorsed by the EU, except that the EU did not adopt some of the 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. These accounting policies have been applied by group entities.

As mentioned in the semi-annual financial statements and detailed at 'IFRS accounting standards and voluntary accounting policy changes adopted as from 2012' of this section of the Annual report, the Company applied three voluntary accounting policy changes retrospectively, which resulted in certain reclassifications in the Consolidated statements of income and sector information only and have no impact on Earnings per share, the Consolidated balance sheet, Consolidated statement of cash-flows and Consolidated statement of changes in equity.

As mentioned in section 12.9 Segment information of this Annual Report the previously reported segment GM&S (Group, Management & Services) has been renamed to IG&S (Innovation, Group & Services). This change did not affect the description and the financial information reported under this segment.

The Consolidated financial statements have been prepared under the historical cost convention, unless otherwise indicated.

The Consolidated financial statements are presented in euros, which is the Company's presentation currency.

On February 25, 2013, the Board of Management authorized the Consolidated financial statements for issue. The Consolidated financial statements as presented in this report are subject to the adoption by the Annual General Meeting of Shareholders.

Use of estimates

The preparation of the Consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These estimates inherently contain certain degree of uncertainty. Actual results may differ from these estimates under different assumptions or conditions.

These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the Consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. We evaluate these estimates and judgments on an ongoing basis and base our estimates on historical experience, current and expected future outcomes, third-party evaluations and various other assumptions that we believe are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. We revise material estimates if changes occur in the circumstances or there is new information or experience on which an estimate was or can be based.

Estimates significantly impact goodwill and other intangibles acquired, tax on activities disposed, impairments, financial instruments, the accounting for an arrangement containing a lease, revenue recognition (multiple element arrangements), assets and liabilities from employee benefit plans, other provisions and tax and other contingencies, classification of assets and liabilities held for sale and the presentation of items of profit and loss and cash-flows as continued or discontinued. The fair values of acquired identifiable intangibles are based on an assessment of future cash flows. Impairment analyses of goodwill and indefinite-lived intangible assets are performed annually and whenever a triggering event has occurred to determine whether the carrying value exceeds the recoverable amount. These analyses generally are based on estimates of future cash flows.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select from a variety of common valuation methods including the discounted cash flow method and option valuation models and to make assumptions that are mainly based on market conditions existing at each balance sheet date.

Actuarial assumptions are established to anticipate future events and are used in calculating pension and other postretirement benefit expense and liability. These factors include assumptions with respect to interest rates, expected investment returns on plan assets, rates of increase in health care costs, rates of future compensation increases, turnover rates, and life expectancy.

Basis of consolidation

The Consolidated financial statements include the accounts of Koninklijke Philips Electronics N.V. ('the Company') and all subsidiaries that fall under its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases. All intercompany balances and transactions have been eliminated in the Consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Business combinations

Business combinations are accounted for using the acquisition method. Under the acquisition method, the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree are recognized as at the acquisition date, which is the date on which control is transferred to the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Company takes into consideration potential voting rights that currently are exercisable.

For acquisitions on or after January 1, 2010, the Company measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss (hereafter referred to as the Statement of income).

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the Statement of income.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date and initially is presented as Long-term provisions. When timing and amount of the consideration become more certain, it is reclassified to Other current liabilities as accrued liabilities. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the Statement of income.

Acquisitions between January 1, 2004 and January 1, 2010

For acquisitions between January 1, 2004 and January 1, 2010, goodwill represents the excess of the cost of the acquisition over the Company's interest in the recognized amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurred in connection with business combinations were capitalized as part of the cost of the acquisition. In particular, with respect to contingent consideration arising from a business combination only in the aforementioned period, any subsequent changes in the measurement of contingent consideration will continue to be treated as an adjustment to the combination's cost, and thus goodwill, until the amount of consideration is finally determined.

Acquisitions of and adjustments to non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

For changes to non-controlling interest without the loss of control, the difference between such change and any consideration paid or received is recognized directly in equity.

Loss of control
Upon the loss of control, the Company derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Company retains any interest in the previous subsidiary, then such interest is measured at fair value at the date the control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Investments in associates (equity-accounted investees)
Associates are all entities over which the Company has significant influence, but not control. Significant influence is presumed with a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Company's share of the net income of these companies is included in results relating to associates in the Statement of income, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term loans) is reduced to zero and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of an associate. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Remeasurement differences of equity stake resulting from gaining control over the investee previously recorded as associate are recorded under results related to investments in associates.

Investments in associates include loans from the Company to these investees.

Accounting for capital transactions of a consolidated subsidiary or an associate
The Company recognizes dilution gains or losses arising from the sale or issuance of stock by a consolidated subsidiary or an associate in the Statement of income, unless the Company or the subsidiary either has reacquired or plans to reacquire such shares. In such instances, the result of the transaction will be recorded directly in equity.

Dilution gains and losses arising in investments in associates are recognized in the Consolidated statements of income under "Results relating to investments in associates".

Foreign currencies

Foreign currency transactions
The financial statements of all group entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The euro (EUR) is the functional and presentation currency of the Company. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for available-for-sale equity investments (except on impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit and loss), which are recognized in other comprehensive income.

All exchange difference items are presented in the same line item as they relate in the Statement of income. However, the results ensuing from fluctuations in foreign currency exchange rates with respect to accounts receivables, accounts payables and intercompany current accounts are credited or debited to Cost of sales.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency using the exchange rate at the date the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of transaction.

Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations, are translated to euro at exchange rates at the dates of the transactions.

Foreign currency differences arising on translation of foreign operations into the group's presentation currency are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to the foreign operation is reclassified to the Statement of income as part of the gain or loss on disposal. When the Company disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Company disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the Statement of income.

Financial instruments

Non-derivative financial instruments
Non-derivative financial instruments are recognized initially at fair value when the Company becomes a party to the contractual provisions of the instrument.

Regular way purchases and sales of financial instruments are accounted for at trade date. Dividend and interest income are recognized when earned. Gains or losses, if any, are recorded in financial income and expenses.

Non-derivative financial instruments comprise cash and cash equivalents, receivables, other non-current financial assets and debt and other financial liabilities.

Cash and cash equivalents
Cash and cash equivalents include all cash balances and short-term highly liquid investments with an original maturity of three months or less that are readily convertible into known amounts of cash.

Receivables
Receivables are carried at the lower of amortized cost or the present value of estimated future cash flows, taking into account discounts given or agreed. The present value of estimated future cash flows is determined through the use of allowances for uncollectible amounts. As soon as individual trade accounts receivable can no longer be collected in the normal way and are expected to result in a loss, they are designated as doubtful trade accounts receivable and valued at the expected collectible amounts. They are written off when they are deemed to be uncollectible because of bankruptcy or other forms of receivership of the debtors. The allowance for the risk of non-collection of trade accounts receivable takes into account credit-risk concentration, collective debt risk based on average historical losses, and specific circumstances such as serious adverse economic conditions in a specific country or region.

In the event of sale of receivables and factoring, the Company derecognizes receivables when the Company has given up control or continuing involvement, which is deemed to have occurred when:

- the Company has transferred its rights to receive cash flows from the receivables or has assumed an obligation to pay the received cash flows in full without any material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Company has transferred substantially all of the risks and rewards of the ownership of the receivables, or (b) the Company has neither transferred nor retained substantially all of the risks and rewards, but has transferred control of the assets.

However, in case the Company neither transfers nor retains substantially all the risks and rewards of ownership of the receivables nor transfers control of the receivables, the receivable is recognized to the extent of the Company's continuing involvement in the assets. In this case, the Company also recognizes an associated liability. The transferred receivable and associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Other non-current financial assets
Other non-current financial assets include held-to-maturity investments, loans and available-for-sale financial assets and financial assets at fair value through profit or loss.

Held-to-maturity investments are those debt securities which the Company has the ability and intent to hold until maturity. Held-to-maturity debt investments are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts using the effective interest method.

Loans receivable are stated at amortized cost, less impairment.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the other categories of financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available for sale-debt instruments are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to the Statement of income.

Available-for-sale financial assets including investments in privately-held companies that are not associates, and do not have a quoted market price in an active market and whose fair value could not be reliably determined, are carried at cost.

A financial asset is classified as fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company-documented risk management or investment strategy. Attributable transaction costs are recognized in the Statement of income as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Share capital
Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. Where the Company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Debt and other liabilities
Debt and liabilities other than provisions are stated at amortized cost. However, loans that are hedged under a fair value hedge are remeasured for the changes in the fair value that are attributable to the risk that is being hedged.

Derivative financial instruments, including hedge accounting
The Company uses derivative financial instruments principally to manage its foreign currency risks and, to a more limited extent, for managing interest rate and commodity price risks. All derivative financial instruments are classified as current assets or liabilities and are accounted for at trade date. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related. The Company measures all derivative financial instruments at fair value derived from market prices of the instruments, or calculated as the present value of the estimated future cash flows based on observable interest yield curves, basis spread and foreign exchange rates, or from option prices models, as appropriate. Gains or losses arising from changes in fair value of derivatives are recognized in the Statement of income, except for derivatives that are highly effective and qualify for cash flow or net investment hedge accounting.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. For interest rate swaps designated as a fair value hedge of an interest bearing asset or liability that are unwound, the amount of the fair value adjustment to the asset or liability for the risk being hedged is released to the Statement of income over the remaining life of the asset or liability based on the recalculated effective yield.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge, are recorded in equity, until the Statement of income is affected by the variability in cash flows of the designated hedged item. To the extent that the hedge is ineffective, changes in the fair value are recognized in the Statement of income.

The Company formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is established that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively. When hedge accounting is discontinued because it is expected that a forecasted transaction will not occur, the Company continues to carry the derivative on the Balance sheet at its fair value, and gains and losses that were accumulated in equity are recognized immediately in the Statement of income. If there is a delay and it is expected that the transaction will still occur, the amount in equity remains there until the forecasted transaction affects income. In all other situations in which hedge accounting is discontinued, the Company continues to carry the derivative at its fair value on the Balance sheet, and recognizes any changes in its fair value in the Statement of income.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized directly as a separate component of equity through other comprehensive income, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in the Statement of income.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The useful lives and residual values are evaluated annually.

Assets manufactured by the Company include direct manufacturing costs, production overheads and interest charges incurred for qualifying assets during the construction period. Government grants are deducted from the cost of the related asset. Depreciation is calculated using the straight-line method over the useful life of the asset. Depreciation of special tooling is generally also based on the straight-line method. Gains and losses on the sale of property, plant and equipment are included in other business income. Costs related to repair and maintenance activities are expensed in the period in which they are incurred unless leading to an extension of the original lifetime or capacity.

Plant and equipment under finance leases and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset. The gain realized on sale and operating leaseback transactions that are concluded based upon market conditions is recognized at the time of the sale.

The Company capitalizes interest as part of the cost of assets that take a substantial period of time to become ready for use, which is defined by the Company as a period of more than 6 months.

Goodwill

Measurement of goodwill at initial recognition is described under ‘Basis of consolidation’. Goodwill is subsequently measured at cost less accumulated impairment losses. In respect of investment in associates, the carrying amount of goodwill is included in the carrying amount of investment, and an impairment loss on such investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of investment in associates.

Intangible assets other than goodwill

Acquired finite-lived intangible assets are amortized using the straight-line method over their estimated useful life. The useful lives are evaluated annually. Patents and trademarks with a finite useful life acquired from third parties either separately or as part of the business combination are capitalized at cost and amortized over their remaining useful lives. Intangible assets acquired as part of a business combination are capitalized at their acquisition-date fair value.

The Company expenses all research costs as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized as an intangible asset if the product or process is technically and commercially feasible and the Company has sufficient resources and the intention to complete development.

The development expenditure capitalized includes the cost of materials, direct labor and an appropriate proportion of overheads. Other development expenditures and expenditures on research activities are recognized in the Statement of income. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses. Amortization of capitalized development expenditure is charged to the Statement of income on a straight-line basis over the estimated useful lives of the intangible assets.

Costs relating to the development and purchase of software for both internal use and software intended to be sold are capitalized and subsequently amortized over the estimated useful life.

Leased assets

Leases in which the Company is the lessee and has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The interest element of the finance cost is charged to the Statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding rental obligations, net of finance charges, are included in other short-term and other non-current liabilities. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the assets and the lease term.

Leases in which substantially all risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in the Statement of income on a straight-line basis over the term of the lease.

Inventories

Inventories are stated at the lower of cost or net realizable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of conversion of inventories include direct labor and fixed and variable production overheads, taking into account the stage of completion and the normal capacity of production facilities. Costs of idle facility and abnormal waste are expensed. The cost of inventories is determined using the first-in, first-out (FIFO) method. Inventory is reduced for the estimated losses due to obsolescence. This reduction is determined for groups of products based on purchases in the recent past and/or expected future demand.

Provisions

Provisions are recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighing of possible outcomes against their associated probabilities.

The Company accrues for losses associated with environmental obligations when such losses are probable and can be estimated reliably. Measurement of liabilities is based on current legal and constructive requirements. Liabilities and expected insurance recoveries, if any, are recorded separately. The carrying amount of liabilities is regularly reviewed and adjusted for new facts and changes in law.

The provision for restructuring relates to the estimated costs of initiated reorganizations, the most significant of which have been approved by the Board of Management, and which generally involve the realignment of certain parts of the industrial and commercial organization. When such reorganizations require discontinuance and/or closure of lines of activities, the anticipated costs of closure or discontinuance are included in restructuring provisions. 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. Before a provision is established, the Company recognizes any impairment loss on the assets associated with the restructuring.

The Company provides for onerous contracts, based on the lower of the expected cost of fulfilling the contract and the expected net cost of terminating the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

Impairment

Value in use is measured as the present value of future cash flows expected to be generated by the asset. If the carrying amount of an asset is deemed not recoverable, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the recoverable amount.

Impairment of goodwill

Goodwill is not amortized but tested for impairment annually and whenever impairment indicators require. In most cases the Company identified its cash generating units as one level below that of an operating segment. Cash flows at this level are substantially independent from other cash flows and this is the lowest level at which goodwill is monitored by the Board of Management. The Company performed and completed annual impairment tests in the same quarter of all years presented in the Consolidated Statements of income. A goodwill impairment loss is recognized in the Statement of income whenever and to the extent that the carrying amount of a cash-generating unit exceeds the unit's recoverable amount, which is the greater of value in use and fair value less cost to sell. An impairment loss on an investment in associates is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in associates.

Impairment of non-financial assets other than goodwill, inventories and deferred tax assets
Non-financial assets other than goodwill, inventories and deferred tax assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is recognized and measured by a comparison of the carrying amount of an asset with the greater of its value in use and its fair value less cost to sell. Value in use is measured as the present value of future cash flows expected to be generated by the asset. If the carrying amount of an asset is deemed not recoverable, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the recoverable amount. The review for impairment is carried out at the level where discrete cash flows occur that are independent of other cash flows.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if and to the extent there has been a change in the estimates used to determine the recoverable amount. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the Statement of income.

Impairment of financial assets
A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. In case of available-for-sale financial assets, a significant or prolonged decline in the fair value of the financial assets below its cost is considered an indicator that the financial assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the Statement of income - is reclassified from the fair value reserve in equity to the Statement of income.

If objective evidence indicates that financial assets that are carried at cost need to be tested for impairment, calculations are based on information derived from business plans and other information available for estimating their fair value. Any impairment loss is charged to the Statement of income.

An impairment loss related to financial assets is reversed if in a subsequent period, the fair value increases and the increase can be related objectively to an event occurring after the impairment loss was recognized. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized. Reversals of impairment are recognized in the Statement of income except for reversals of impairment of available-for-sale equity securities, which are recognized in other comprehensive income.

Employee benefit accounting

A defined-contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined-contribution pension plans are recognized as an employee benefit expense in the Statement of income in the periods during which services are rendered by employees.

A defined-benefit plan is a post-employment benefit plan other than a defined-contribution plan. The net pension asset or liability recognized in the Consolidated balance sheet in respect of defined-benefit postemployment plans is the fair value of plan assets less the present value of the projected defined-benefit obligation (DBO) at the balance sheet date, together with adjustments for projected unrecognized past-service costs. The projected defined-benefit obligation is calculated annually by qualified actuaries using the projected unit credit method. Recognized assets are limited to the present value of any reductions in future contributions or any future refunds.

To the extent that post-employment benefits vest immediately following the introduction of a change to a defined-benefit plan, the resulting past service costs are recognized immediately.

For the Company's major plans, a full discount rate curve of high-quality corporate bonds (Towers Watson RATE:Link; 2011: Bloomberg) is used to determine the defined-benefit obligation, whereas for the 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.

Pension costs in respect of defined-benefit postemployment plans primarily represent the increase of the actuarial present value of the obligation for postemployment benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on plan assets.

Actuarial gains and losses arise mainly from changes in actuarial assumptions and differences between actuarial assumptions and actual experience. The Company immediately recognizes all actuarial gains and losses in other comprehensive income.

The Company recognizes gains and losses on the curtailment or settlement of a defined-benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined-benefit obligation and any related past service cost that had not previously been recognized.

In certain countries, the Company also provides post-retirement benefits other than pensions. The costs relating to such plans consist primarily of the present value of the benefits attributed on an equal basis to each year of service and interest cost on the accumulated postretirement benefit obligation, which is a discounted amount.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Company recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation and the obligation can be measured reliably.

Share-based payment

The Company recognizes the estimated fair value, measured as of grant date of equity instruments granted to employees as personnel expense over the vesting period on a straight-line basis, taking into account expected forfeitures. The Company uses the Black-Scholes option-pricing model to determine the fair value of equity instruments.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense, with a corresponding increase in liabilities, over the vesting period. The liability is remeasured at each reporting date and at settlement date. Any changes in fair value of the liability are recognized as personnel expense in the Statement of income.

Revenue recognition

Revenue from the sale of goods in the course of the ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue for sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of the goods can be estimated reliably, there is no continuing involvement with goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

Transfer of risks and rewards varies depending on the individual terms of the contract of sale. For consumer-type products in the sectors Lighting and Consumer Lifestyle, these criteria are met at the time the product is shipped and delivered to the customer and, depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained, or, in cases where such acceptance is not contractually required, when management has established that all aforementioned conditions for revenue recognition have been met. Examples of the above-mentioned delivery conditions are 'Free on Board point of delivery' and 'Costs, Insurance Paid point of delivery', where the point of delivery may be the shipping warehouse or any other point of destination as agreed in the contract with the customer and where title and risk for the goods pass to the customer.

Revenues of transactions that have separately identifiable components are recognized based on their relative fair values. These transactions mainly occur in the Healthcare sector and include arrangements that require subsequent installation and training activities in order to become operable for the customer. However, since payment for the equipment is contingent upon the completion of the installation process, revenue recognition is generally deferred until the installation has been completed and the product is ready to be used by the customer in the way contractually agreed.

Revenues are recorded net of sales taxes, customer discounts, rebates and similar charges. For products for which a right of return exists during a defined period, revenue recognition is determined based on the historical pattern of actual returns, or in cases where such information is not available, revenue recognition is postponed until the return period has lapsed. Return policies are typically based on customary return arrangements in local markets.

For products for which a residual value guarantee has been granted or a buy-back arrangement has been concluded, revenue recognition takes place when significant risks and rewards of ownership are transferred to the customer. The following are the principal factors that the Company considers in determining that the Company has transferred significant risks and rewards:

- the period from the sale to the repurchase represents the major (normally at least 75%) part of the economic life of the asset;
- the proceeds received on the initial transfer and the amount of any residual value or repurchase price, measured on a present value basis, is equal to substantially all (normally at least 90%) of the fair value of the asset at the sale date;
- insurance risk is borne by the customer; however, if the customer bears the insurance risk but the Company bears the remaining risks, then risks and rewards have not been transferred to the customer; and
- the repurchase price is equal to the market value at the time of the buy-back.

In case of loss under a sales agreement, the loss is recognized immediately.

Shipping and handling billed to customers is recognized as revenues. Expenses incurred for shipping and handling of internal movements of goods are recorded as cost of sales. Shipping and handling related to sales to third parties are recorded as selling expenses. When shipping and handling is part of a project and billed to the customer, then the related expenses are recorded as cost or sales. Service revenue related to repair and maintenance activities for goods sold is recognized ratably over the service period or as services are rendered.

A provision for product warranty is made at the time of revenue recognition and reflects the estimated costs of replacement and free-of-charge services that will be incurred by the Company with respect to the products. For certain products, the customer has the option to purchase an extension of the warranty, which is subsequently billed to the customer. Revenue recognition occurs on a straight-line basis over the contract period.

Revenue from services is recognized when the Company can reliably measure the amount of revenue and the associated cost related to the stage of completion of a contract or transaction, and the recovery of the consideration is considered probable.

Royalty income, which is generally earned based upon a percentage of sales or a fixed amount per product sold, is recognized on an accrual basis.

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the Statement of income over the period necessary to match them with the costs that they are intended to compensate.

Financial income and expenses

Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, net gains on the disposal of available-for-sale financial assets, net fair value gains on financial assets at fair value through profit or loss, net gains on the remeasurement to fair value of any pre-existing available-for-sale interest in an acquiree, and net gains on hedging instruments that are recognized in the Statement of income. Interest income is recognized on accrual basis in the Statement of income, using the effective interest method. Dividend income is recognized in the Statement of income on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, net fair value losses on financial assets at fair value through profit or loss, impairment losses recognized on financial assets (other than trade receivables), and net losses on hedging instruments that are recognized in the Statement of income.

Borrowing costs that are not directly-attributable to the acquisition, construction or production of a qualifying asset are recognized in the Statement of income using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either financial income or financial cost depending on whether foreign currency movements are in a net gain or net loss position.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the Statement of income except to the extent that it relates to items recognized directly within equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially-enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized, using the balance sheet method, for the expected tax consequences of temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially-enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally-enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax assets originated and during the periods when the deferred tax assets become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Deferred tax liabilities for withholding taxes are recognized for subsidiaries in situations where the income is to be paid out as dividend in the foreseeable future, and for undistributed earnings of unconsolidated companies to the extent that these withholding taxes are not expected to be refundable or deductible. Changes in tax rates are reflected in the period when the change has been enacted or substantially-enacted by the reporting date.

Discontinued operations and non-current assets held for sale

Non-current assets (disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale.

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations; and (b) is a part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale.

Non-current assets held for sale and discontinued operations are carried at the lower of carrying amount or fair value less costs to sell. Any gain or loss from disposal of a business, together with the results of these operations until the date of disposal, is reported separately as discontinued operations. The financial information of discontinued operations is excluded from the respective captions in the Consolidated financial statements and related notes for all years presented. A discontinued operation is a component of the Company, which comprises operations and cash flows that can be distinguished clearly, both operationally and for financial reporting purposes, from the rest of the Company. A component that previously was held for use will have been one or more cash-generating units. Generally, the disposal of a business that previously was part of a single cash-generating unit does not qualify as a component of an entity and therefore shall not be classified as a discontinued operation if disposed of.

Comparatives in the balance sheet are not re-presented when a non-current asset or disposal group is classified as held for sale. Comparatives are restated for presentation of discontinued operations in the Statement of cash flow and Statement of income.

Upon classification of a disposal group as held for sale the Company may agree with the buyer to retain certain assets and liabilities (e.g. accounts receivable), in which case such items are not presented as part of assets/ liabilities held for sale, even though the associated item in the Statement of Income would be presented as part of discontinued operations. The presentation of cash flows relating to such items in that case mirrors the classification in the Statement of Income, i.e. as cash flows from discontinued operations.

Adjustments in the current period to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period are classified separately in discontinued operations. Circumstances to which these adjustments may relate include resolution of uncertainties that arise from the terms of the disposal transaction, such as the resolution of a purchase price adjustments and indemnifications, resolution of uncertainties that arise from and are directly related to the operations of the component before its disposal, such as environmental and product warranty obligations retained by the Company, or the settlement of employee benefit plan obligations provided that the settlement is directly related to the disposal transaction.

Segments

Operating segments are components of the Company's business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Board of Management of the Company). The Board of Management decides how to allocate resources and assesses performance. Reportable segments comprise the operating sectors: Healthcare, Consumer Lifestyle, Lighting, and, until 2011, the Television business which was part of Consumer Lifestyle. Segment accounting policies are the same as the accounting policies as applied to the Group. Segment reporting comparatives are reclassified for profit or loss purposes, so it is no longer mentioned for the Television business. The previously reported segment GM&S (Group, Management & Services) has been renamed IG&S (Innovation, Group & Services). This change did not affect the description and the financial information reported under this segment. Please refer to section 12.9 for details.

Cash flow statements

Cash flow statements are prepared using the indirect method. Cash flows in foreign currencies have been translated into euros using the weighted average rates of exchange for the periods involved. Cash flows from derivative instruments that are accounted for as fair value hedges or cash flow hedges are classified in the same category as the cash flows from the hedged items. Cash flows from other derivative instruments are classified consistent with the nature of the instrument.

Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the net income attributable to shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the Statement of income attributable to shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise convertible personnel debentures, restricted shares and share options granted to employees.

Financial guarantees

The Company recognizes a liability at the fair value of the obligation at the inception of a financial guarantee contract. The guarantee is subsequently measured at the higher of the best estimate of the obligation or the amount initially recognized.

Accounting changes

In the absence of explicit transition requirements for new accounting pronouncements, the Company accounts for any change in accounting principle retrospectively.

IFRS accounting standards and voluntary accounting policy changes adopted as from 2012

The accounting policies set out above have been applied consistently to all periods presented in these Consolidated financial statements except as explained below which addresses changes in accounting policies.

The Company has adopted the following new and amended IFRSs as of January 1, 2012.

IFRS 7 Financial Instruments: Disclosures - Transfer of financial assets

According to this amendment, disclosures are required for financial assets that are derecognized in their entirety and where the entity has continuing 'involvement' in them. The amendment was adopted by the Company on January 1, 2012 and impacted disclosures only.

Voluntary changes

The Company has also adopted a number of voluntary accounting policy changes on January 1, 2012. The accounting policy changes have no impact on Earnings per share, the Consolidated balance sheets, Consolidated statements of cash flows and Consolidated statement of changes in equity.

- Warranty costs previously reported in Selling expenses have been reclassified to Cost of Sales. The reason for this change follows the rationale that warranty expenses are an integral part of the sale of goods and services. The amount included in Cost of Sales in 2012 is EUR 280 million. This policy change has been applied retrospectively and reduced Selling expenses and increased Cost of sales as follows for 2010 and 2011:

	2010	2011
Statements of income		
Cost of sales	(325)	(328)
Selling expenses	325	328

- Amortization of brand name and customer relationship intangible assets previously reported in Cost of sales in the Statements of income has been reclassified to Selling expenses. The reclassification follows the rationale that the use of brand names and customer relationship intangible assets supports the sales process. The amount included in Selling expenses in 2012 is EUR 342 million. This policy change has been applied retrospectively and resulted in a reclassification from Cost of sales to Selling expenses as follows for 2010 and 2011:

	2010	2011
Statements of income		
Cost of sales	257	415
Selling expenses	(257)	(415)

- The third change relates to the intellectual property (IP) policy. IP royalties on products sold by a sector are allocated to that sector. IP royalties related to products, which are no longer sold by a sector, were allocated to Group Management & Services (currently Innovation, Group & Services), with the exception of sector Consumer Lifestyle, where IP royalties on such products were allocated to the sector Consumer Lifestyle itself. As of 2012, all IP royalties on products no longer sold by a sector have been allocated to the sector Innovation, Group & Services (IG&S) to ensure consistency, and the exception for Consumer Lifestyle IP royalties has been abolished. This policy change is applied retrospectively and only impacts the sector information (section 12.9), resulting in a reclassification on the Sales and Income from operations respectively from the sector Consumer Lifestyle to the sector IG&S. This change also has reclassification impacts on the Total assets of sector Consumer Lifestyle and sector IG&S as shown in the sector information (section 12.9). As of 2012, IP royalties have been integrated in the IG&S sector. The reclassifications have been included in the table below.

	2010	2011
Sales in sector information (section 12.9)		
Consumer Lifestyle	(270)	(208)
IG&S	270	208
Income from operations in sector information (section 12.9)		
Consumer Lifestyle	(230)	(175)
IG&S	230	175
Total assets in sector information (section 12.9)		
Consumer Lifestyle	(56)	(42)
IG&S	56	42

Other

The following amendments to standards have not been adopted by the Company in 2012 as they are not applicable to the Company's Consolidated Financial Statements:

- IFRS 1 *First-time Adoption of IFRSs - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters;*
- IAS 12 *Income Taxes - Deferred Tax: Recovery of Underlying Assets.*

Changes in accounting estimate

Pension liability discount rate

The Company uses interest rate curves to discount pension liabilities as part of the accounting for retirement benefits under IAS 19 *Employee Benefits*. These discount rates are also used for the calculation of pension cost.

Until 2011 the Company has been using interest rate curves as compiled and provided by Bloomberg. Some of these curves, used for the main defined-benefit plans, are no longer available or are no longer fit for continued use. Therefore the Company has decided to select Towers Watson RATE:Link as new source for interest rate curves as the basis for discounting of pension liabilities and calculation of pension cost. It is the assessment of the Company that the RATE:Link curves provide a better estimate of the discount rates. This change has an impact on the balance sheet position for pension plans and the level of pension cost in Income from Operations in the future. However, as the Bloomberg rates are no longer available or fit for use it is not possible to provide an assessment for the impact of this change in accounting estimate as of the defined obigation measurement date of December 31, 2012.

Fair value of derivative financial instruments
The Company uses valuation techniques in order to determine the fair value of derivative financial instruments. During 2012 we revisited the approach of including the basis spread in our calculation of the fair value of derivative instruments to better reflect the contract terms under the current market conditions. As a result of this change in estimate a gain of EUR 46 million was recognised in Financial income and expenses.

Reclassifications and adjustments

Certain items previously reported under specific financial statement captions have been reclassified or adjusted to conform to the current year reporting:

- Prior period amounts have been revised to adjust for warranty provisions in Lighting related to prior years. These adjustments are not material to the financial statements in any of the prior years. The table below outlines the impact of these adjustments:

	2010	2011
Statements of income		
Income from operations	(6)	0
Income taxes	2	0
Net income (loss)	(4)	0

	December 31, 2010	December 31, 2011
Balance sheets		
Long-term provisions	27	27
Short-term provisions	28	28
Deferred tax assets	16	16
Shareholders' equity	(39)	(39)

- Following a detailed analysis of software development activities, as from 2012 certain software development cost are capitalized under the product development category rather than under the software category. This leads to the following reclassifications:

	December 31, 2010	December 31, 2011
Note 10 – Intangible assets excluding goodwill		
Column Product development	104	129
Column Software	(104)	(129)

	2010	2011
Statements of cash flows		
Investing: Purchase of intantible assets	27	47
Investing: Expenditures on development assets	(27)	(47)

- Up to 2011 the Company offset certain payables to customers at the Lighting and Consumer Lifestyle sectors with the receivables from the same customers (netting). In order to reflect appropriate netting, as from 2012 payables to customers that cannot be offset due to accounting rules are recognized as Other current liabilities, with comparative figures being adjusted to follow the same approach. This also has an impact on the statements of cash flows, resulting in the following reclassifications:

	December 31, 2010	December 31, 2011
Balance sheets		
Receivables	426	412
Other current liabilities	(426)	(412)

	2010	2011
Statements of cash flows		
Operating: Increase in receivables and other current assets	(84)	(26)
Operating: Increase (decrease) in accounts payable, accrued and other liabilities	84	26

- In 2012 it was noted that intercompany profit elimination on property, plant and equipment was accidentally recognized on a net basis as part of the Translation differences in the property, plant and equipment carrying amount, rather than on a gross basis in Cost and Accumulated depreciation. With regard to the same business, the presentation of finance lease cash inflows should be appropriately presented in the Operating and Financing category rather than in the Investing category. In the consolidated statements of cash flows, prior years have been adjusted as shown in the table below to reflect appropriate presentation:

	2010	2011
Statements of cash flows		
Operating: Depreciation and amortization	(14)	(2)
Operating: Other items	14	2
Operating: Decrease (increase) in inventories	(47)	(68)
Investing: Capital expenditures on property, plant and equipment	49	71
Financing: Proceeds from issuance of long-term debts	(2)	(3)

IFRS accounting standards adopted as from 2013 and onwards

The following standards and amendments to existing standards have been published and are mandatory for the Company beginning on or after January 1, 2013 or later periods, and the Company has not yet early adopted them.

IAS 1 Presentation of financial statements (2011 amendment)

The new amendment requires separation of items presented in other comprehensive income into two groups, based on whether or not they can be recycled into the Statement of income in the future. Items that will not be recycled in the future are presented separately from items that may be recycled in the future. The amendment will be adopted on January 1, 2013 and will be applied retrospectively. The amendment was endorsed by the EU. The application of this amendment impacts presentation and disclosures only.

IAS 19 Employee benefits

The revisions to IAS 19 are effective for annual periods beginning on or after January 1, 2013, and have been endorsed by the EU. In general, the amendment no longer allows for deferral of actuarial gains and losses or cost of plan changes and it introduces significant changes to the recognition and measurement of defined-benefit pension expenses and their presentation in the Statement of income. Additional disclosure requirements have been added for risks and plan objectives and the distinction between short-term and other long-term benefits has been revised. The revisions further clarify the classification of various costs involved in benefit plans like expenses and taxes.

The amendment will have a material impact on income from operations and net income of the Company, resulting from the changes in measurement and reporting of expected returns on plan assets (and interest costs), which is currently reported under income from operations. The revised standard requires interest income or expense to be calculated on the net balance recognized, with the rate used to discount the defined-benefit obligations.

There is no impact on the cash flow statement and the balance sheet, since the Company already applies immediate recognition of actuarial gains and losses in other comprehensive income. The Company also has some unrecognized past-service cost gains and losses which must be recognized. The net impact lowers our balance sheet liabilities with EUR 10 million.

The new standard no longer allows for accrual of future pension administration costs as part of the DBO. Such costs should be expensed as incurred. Under the current standard, the Company in the Dutch plan includes a surcharge for pension administration costs as part of the service costs into the DBO. With the adoption of the new standard this accrual needs to be eliminated resulting in an exclusion of EUR 200 million from the DBO, thereby improving the funded status. This funded status improvement is offset by the impact of the asset ceiling test regarding the Dutch plan's surplus, and hence there is no further impact on the Company's balance sheet figures.

The expected negative impact of IAS 19 Revised for post employment defined-benefit plans on Income from Operations and Income before tax for 2013 (as compared to current IAS 19) is:

Income from operations	EUR (280) million
Financial income and expenses	EUR (75) million
Income before taxes	EUR (355) million

As from January 1, 2013 the Company will present net interest expense as part of Financial income and expenses. Comparative figures will be restated accordingly.

The standard also enhances the definition of termination benefits and what constitutes a benefit for future service. In many cases these clarifications are reinforcing the current guidance; therefore this is not expected to materially impact the Consolidated financial statements.

IFRS 9 Financial Instruments

The standard introduces certain new requirements for classifying and measuring financial assets and liabilities. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications, those measured at amortized cost and those measured at fair value. The standard along with proposed expansion of IFRS 9 for classifying and measuring financial liabilities, derecognition of financial instruments, impairment, and hedge accounting will be applicable from January 1, 2015, although entities are permitted to adopt earlier. This standard has not yet been endorsed by the EU. The new standard will primarily impact the accounting for the available-for-sale securities within Philips and will, accordingly, change the timing and placement (profit or loss versus other comprehensive income) of changes in the respective fair value. The actual impact in the year it is applied cannot be estimated on a reasonable basis.

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities (2011)

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. The new standard includes guidance on control with less than half of the voting rights ('de facto' control), participating and protective voting rights and agent/principal relationships. The Company does not expect that the adoption will have a significant impact on the Company's Consolidated financial statements.

Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting. Instead:

- The Company's interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, will be accounted for on the basis of the Company's interest in those assets and liabilities.
- The Company's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, will be equity-accounted.

The currently applied accounting policy by the Company already means that jointly controlled entities are being accounted for using the equity method. The adoption therefore does not have a material impact on the Company's Consolidated financial statements.

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 requires the disclosure of information about the nature, risks and financial effects of these interests. The Company is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures.

These standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

12.11 Notes

all amounts in millions of euros unless otherwise stated

Prior periods amounts have been revised to reflect certain voluntary adopted accounting policy changes, and immaterial adjustments (see section 12.10, Significant accounting policies, of this Annual Report). Discontinued operations reflect the effect of classifying the Television business as discontinued operations in 2011, for which the previous years' results and cash flows have been restated. Movement schedules of balance sheet items include items from continuing and discontinued operations and therefore cannot be reconciled to income from continuing operations and cash flow from continuing operations only.

Notes to the Consolidated financial statements of the Philips Group

1 Income from operations

For information related to Sales and Income from operations on a geographical and sector basis, see section 12.9, Information by sector and main country, of this Annual Report.

Sales and costs by nature

	2010	2011	2012
Sales	22,287	22,579	24,788
Costs of materials used	(7,614)	(8,100)	(9,009)
Employee benefit expenses	(5,777)	(6,053)	(6,933)
Depreciation and amortization	(1,343)	(1,454)	(1,433)
Shipping and handling[1]	(931)	(857)	(854)
Advertising and promotion	(835)	(938)	(890)
Lease expense	(297)	(320)	(370)[2]
Audit fees	(20)	(19)	(22)
Other operational costs	(3,462)	(3,802)	(3,944)
Impairment of goodwill	–	(1,355)	–
Other business income and expenses	66	50	(303)
Income from operations	2,074	(269)	1,030

1) Revised to reflect an adjusted presentation of shipping and handling costs
2) Lease expense includes EUR 35 million of other costs, such as fuel and electricity, and taxes to be paid and reimbursed to the lessor

Sales composition

	2010	2011	2012
Goods	18,904	19,222	21,248
Services	2,867	2,926	3,130
Royalties	516	431	410
	22,287	22,579	24,788

Philips has no single external customer that represents 10% or more of revenues and therefore no further information is disclosed.

Costs of materials used

Cost of materials used represents the inventory recognized in cost of sales.

Employee benefit expenses

	2010	2011	2012
Salaries and wages	5,035	5,123	5,974
Pension costs	8	138	104
Other social security and similar charges:			
- Required by law	571	612	693
- Voluntary	163	180	162
	5,777	6,053	6,933

For further information on pension costs, see note 29, Pensions and other postretirement benefits.

Details on the remuneration of the members of the Board of Management and the Supervisory Board, see note 32, Information on remuneration.

Employees

The average number of employees by category is summarized as follows (in FTEs):

	2010	2011	2012
Production	56,005	57,804	58,613
Research & development	11,817	12,941	13,378
Other	32,354	33,033	33,855
Permanent employees	100,176	103,778	105,846
Temporary employees	13,040	16,207	15,575
Continuing operations	113,216	119,985	121,421
Discontinued operations	4,355	3,545	2,982

Depreciation and amortization

Depreciation of property, plant and equipment and amortization of intangibles are as follows:

	2010	2011	2012
Depreciation of property, plant and equipment	630	632	696
Amortization of internal-use software	62	55	45
Amortization of other intangible assets	482	594	472
Amortization of development costs	169	173	220
	1,343	1,454	1,433

Depreciation of property, plant and equipment and amortization (including impairment) of software is primarily included in cost of sales. Amortization of the categories of other intangible assets are reported in selling expenses for brand names and customer relationships and are reported in cost of sales for technology based and other intangible assets. Amortization (including impairment) of development cost is included in research and development expenses.

Shipping and handling

Shipping and handling costs are included in cost of sales and selling expenses (see section 12.10, Significant accounting policies, of this Annual Report for more information).

Advertising and promotion

Advertising and promotion costs are included in selling expenses.

Audit fees

Fees KPMG

	2010	2011	2012
Audit fees	16.4	15.6	14.7
- consolidated financial statements	10.6	10.1	9.7
- statutory financial statements	5.8	5.5	5.0
Audit-related fees[1]	2.6	2.4	5.6
- acquisitions and divestments	1.0	0.1	2.9
- sustainability assurance	0.3	0.5	0.8
- other	1.3	1.8	1.9
Tax fees[2]	0.4	0.9	1.3
-tax compliance services	0.4	0.9	1.3
Other fees[3]	1.0	0.5	0.7
- royalty investigation	0.4	0.4	0.1
- other	0.6	0.1	0.6
Total	20.4	19.4	22.3

[1] The percentage of services provided in 2012 is 25.1% of the total fees
[2] The percentage of services provided in 2012 is 5.8% of the total fees
[3] The percentage of services provided in 2012 is 3.1% of the total fees

This table 'Fees KPMG' forms an integral part of the Company Financial Statements, please refer to note J, Audit fees.

Impairment of goodwill

In 2011, goodwill has been impaired in the Healthcare sector for an amount of EUR 824 million and in the Lighting sector for an amount of EUR 531 million. For further information on impairment of goodwill, see note 9, Goodwill.

Other business income (expenses)

Other business income (expenses) consists of the following:

	2010	2011	2012
Result on disposal of businesses:			
- income	9	28	30
- expense	(10)	(26)	(85)
Result on disposal of fixed assets:			
- income	49	47	225
- expense	(9)	(11)	(9)
Result on other remaining businesses:			
- income	35	50	42
- expense	(8)	(38)	(506)
	66	50	(303)
Total other business income	93	125	297
Total other business expense	(27)	(75)	(600)

In 2012, results on disposal of business was mainly due to sale of industrial sites.

In 2012, results of disposal of fixed assets was mainly due to the transfer of its 50% ownership of Senseo trademark to Sara Lee and sale of real estate assets of the High Tech Campus in Eindhoven, The Netherlands. For further information, see note 5, Discontinued operations and other assets classified as held for sale and note 7, Acquisitions and divestments

In 2012, results on other remaining business were mainly due to non-core revenue and the European Commission fine, related to alleged violation of competition rules in the Cathode-Ray Tubes (CRT) industry, and various legal matters. For further information, see note 25, Contingent liabilities.

2 Financial income and expenses

	2010	2011	2012
Interest income	40	38	37
Interest income from loans and receivables	*17*	*4*	*9*
Interest income from cash and cash equivalents	*23*	*34*	*28*
Dividend income from available for sale financial assets	6	11	4
Net gains from disposal of financial assets	162	51	1
Net change in fair value of financial assets at fair value through profit or loss	−	6	−
Net change in fair value of financial liabilities at fair value through profit or loss	−	−	44
Net foreign exchange gains	1	−	−
Other finance income	5	6	20
Finance income	214	112	106
Interest expense	(265)	(248)	(278)
Interest on debts and borrowings	*(263)*	*(245)*	*(271)*
Finance charges under finance lease contract	*(2)*	*(3)*	*(7)*
Unwind of discount of provisions	(20)	(33)	(22)
Net foreign exchange losses	−	(2)	−
Impairment loss of financial assets	(2)	(34)	(8)
Net change in fair value of financial assets at fair value through profit or loss	(21)	−	(2)
Other finance expenses	(27)	(35)	(42)
Finance expense	(335)	(352)	(352)
Financial income and expenses	(121)	(240)	(246)

Net financial income and expense showed a EUR 246 million expense in 2012, which was EUR 6 million higher than in 2011. Total finance income of EUR 106 million included a EUR 46 million gain related to a change in estimate on the valuation of long term derivative contracts. Other finance income was EUR 20 million. Total finance expense of EUR 352 million included EUR 8 million impairment charges. Other financial expense consisted of EUR 22 million of accretion expenses mainly associated with discounted provisions and uncertain tax positions and EUR 42 million other financing charges.

Net financial income and expense showed a EUR 240 million expense in 2011, which was EUR 119 million higher than in 2010. Total finance income of EUR 112 million included EUR 51 million gain on the disposal of financial assets, of which EUR 44 million resulted from the sale of shares in TCL and EUR 6 million resulted from the sale of Digimarc. Remaining financial income included dividend income of EUR 11 million and a total net EUR 6 million gain from fair value changes, mainly the revaluation of the NXP option. Total finance expense of EUR 352 million included EUR 34 million impairment charges, mainly related to the shareholding in TPV Technology. Other financial expense consisted of EUR 33 million of accretion expenses mainly associated with discounted provisions and uncertain tax positions and EUR 35 million other financing charges.

Net financial income and expense showed a EUR 121 million expense in 2010, which was EUR 41 million lower than in 2009. Total finance income of EUR 214 million included EUR 162 million gain on the disposal of financial assets, of which EUR 154 million resulted from the sale of shares in NXP (please refer to note 12, Other non-current financial assets for more details) and EUR 4 million resulted from the sale of SHL Telemedicine Ltd.. Interest income from loans and receivables included EUR 15 million related to interest received on the convertible bonds received from the shareholding in TPV Technology and CBaySystems Holdings (CBAY). Total finance expense of EUR 335 million included EUR 21 million of losses mainly in relation to fair value revaluations on the convertible bonds received from TPV Technology and CBAY prior to their redemption in September and October respectively.

3 Income taxes

The tax expense on income before tax amounted to EUR 308 million (2011: EUR 283 million, 2010: EUR 497 million).

The components of income before taxes and income tax expense are as follows:

	2010	2011	2012
Netherlands	952	244	(158)
Foreign	1,001	(753)	942
Income before taxes of continuing operations	1,953	(509)	784
Netherlands:			
Current tax income (expense)	(103)	(40)	(79)
Deferred tax income (expense)	(144)	44	(43)
	(247)	4	(122)
Foreign:			
Current tax income (expense)	(210)	(360)	(280)
Deferred tax income (expense)	(50)	149	117
	(260)	(211)	(163)
Income tax expense of continuing operations	(497)	(283)	(308)
Income tax expense of discontinued operations	(10)	76	23
Income tax expense	(507)	(207)	(285)

The components of income tax expense are as follows:

	2010	2011	2012
Current tax expense	(357)	(390)	(371)
Prior year results	44	(10)	12
Current tax income (expense)	(313)	(400)	(359)

	2010	2011	2012
Recognition of previously unrecognized tax losses	9	20	1
Current year tax loss carried forwards not recognized	(55)	(89)	(50)
Temporary differences (not recognized) recognized	(5)	15	2
Prior year results	(16)	31	(2)
Tax rate changes	(4)	(1)	(4)
Origination and reversal of temporary differences	(125)	217	127
Deferred tax income (expense)	(196)	193	74

Philips' operations are subject to income taxes in various foreign jurisdictions. The statutory income tax rates vary from 10.0% to 42.0%, which results in a difference between the weighted average statutory income tax rate and the Netherlands' statutory income tax rate of 25% (2011: 25.0%; 2010: 25.5%).

A reconciliation of the weighted average statutory income tax rate to the effective income tax rate of continuing operations is as follows:

in %

	2010	2011	2012
Weighted average statutory income tax rate	26.6	55.4	25.8
Tax rate effect of:			
Changes related to:			
- utilization of previously reserved loss carryforwards	(0.5)	3.9	(0.1)
- new loss carryforwards not expected to be realized	2.1	(17.6)	6.4
- addition (releases)	0.3	2.9	(0.3)
Non-tax-deductible impairment charges	–	(98.3)	0.3
Non-taxable income	(7.5)	11.1	(7.6)
Non-tax-deductible expenses	3.9	(22.4)	27.9
Withholding and other taxes	1.2	(4.5)	2.8
Tax rate changes	0.2	(0.1)	0.5
Prior year tax results	(1.4)	4.5	(1.2)
Tax expenses due to other liabilities	(0.4)	(9.0)	1.2
Tax incentives and other	0.9	18.5	(16.4)
Effective tax rate	25.4	(55.6)	39.3

The weighted average statutory income tax rate decreased in 2012 compared to 2011, as a consequence of a change in the country mix of income tax rates, as well as a significant change of the mix of profits and losses in the various countries.

The effective income tax rate is higher than the weighted average statutory income tax rate in 2012, mainly due to the non-tax-deductible European Commission ruling for the alleged violation of competition rules in the Cathode-Ray Tubes (CRT) industry, new losses carryforward not expected to be realized, and income tax expenses due to tax provisions for uncertain tax positions, which were partly offset by non-taxable income as well as incidental tax benefits.

Deferred tax assets and liabilities

Net deferred tax assets relate to the following balance sheet captions and tax loss carryforwards (including tax credit carryforwards), of which the movements during the years 2012 and 2011 respectively are as follows:

	December 31, 2011	recognized in income	recognized in OCI	acquisitions/ divestments	other[1]	December 31, 2012
Intangible assets	(1,074)	165	−	(35)	16	(928)
Property, plant and equipment	77	(2)	−	−	(7)	68
Inventories	221	41	−	−	(4)	258
Prepaid pension assets	2	(70)	72	−	(4)	−
Other receivables	44	13	−	−	(2)	55
Other assets	19	17	(7)	−	13	42
Provisions:						
- pensions	617	(80)	82	−	(22)	597
- guarantees	34	(8)	−	−	−	26
- termination benefits	42	67	5	−	4	118
- other postretirement benefits	71	3	(3)	−	1	72
- other provisions	636	(33)	10	−	(8)	605
Other liabilities	231	(63)	(4)	−	7	171
Tax loss carryforwards (including tax credit carryforwards)	732	24	(7)	6	(14)	741
Net deferred tax assets	1,652	74	148	(29)	(20)	1,825

	December 31, 2010	recognized in income	recognized in OCI	acquisitions/ divestments	other[1]	December 31, 2011
Intangible assets	(1,217)	180	−	(3)	(34)	(1,074)
Property, plant and equipment	40	30	−	−	7	77
Inventories	242	(9)	−	−	(12)	221
Prepaid pension costs	(1)	(55)	58	−	−	2
Other receivables	38	6	−	−	−	44
Other assets	28	(26)	19	−	(2)	19
Provisions:						
- pensions	569	(88)	119	−	17	617
- guarantees	27	7	−	−	−	34
- termination benefits	68	(26)	−	−	−	42
- other postretirement benefits	79	(4)	(6)	−	2	71
- other provisions	545	62	(6)	1	34	636
Other liabilities	82	145	(1)	(4)	9	231
Tax loss carryforwards (including tax credit carryforwards)	696	(29)	−	1	64	732
Net deferred tax assets	1,196	193	183	(5)	85	1,652

[1] Primarily includes foreign currency translation differences which were recognized in OCI

Deferred tax assets and liabilities relate to the balance sheet captions, as follows:

	assets	liabilities	net
2012			
Intangible assets	151	(1,079)	(928)
Property, plant and equipment	115	(47)	68
Inventories	263	(5)	258
Prepaid pension costs	2	(2)	−
Other receivables	58	(3)	55
Other assets	54	(12)	42
Provisions:			
- pensions	599	(2)	597
- guarantees	26	−	26
- termination benefits	117	1	118
- other postretirement	72	−	72
- other	624	(19)	605
Other liabilities	198	(27)	171
Tax loss carryforwards (including tax credit carryforwards)	741	−	741
	3,020	(1,195)	1,825
Set-off of deferred tax positions	(1,103)	1,103	−
Net deferred tax assets	1,917	(92)	1,825

	assets	liabilities	net
2011			
Intangible assets	55	(1,129)	(1,074)
Property, plant and equipment	147	(70)	77
Inventories	231	(10)	221
Prepaid pension costs	6	(4)	2
Other receivables	56	(12)	44
Other assets	50	(31)	19
Provisions:			−
- pensions	619	(2)	617
- guarantees	34	−	34
- termination benefits	59	(17)	42
- other postretirement	70	1	71
- other	654	(18)	636
Other liabilities	267	(36)	231
Tax loss carryforwards (including tax credit carryforwards)	732	−	732
	2,980	(1,328)	1,652
Set-off of deferred tax positions	(1,251)	1,251	−
Net deferred tax assets	1,729	(77)	1,652

Deferred tax assets are recognized for temporary differences, unused tax losses, and unused tax credits to the extent that realization of the related tax benefits is probable. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax assets originated and during the periods when the deferred tax assets become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

The net deferred tax assets of EUR 1,825 million (2011: EUR 1,652 million) consist of deferred tax assets of EUR 1,917 million (2011: EUR 1,729 million) in countries with a net deferred tax asset position and deferred tax liabilities of EUR 92 million (2011: EUR 77 million) in countries with a net deferred tax liability position. Of the total deferred tax assets of EUR 1,917 million at December 31, 2012, (2011: EUR 1,729 million), EUR 507 million (2011: EUR 487 million) is recognized in respect of fiscal entities in various countries where there have been fiscal losses in the current or preceding period. Management's projections support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilize these deferred tax assets.

At December 31, 2012 and 2011, there were no recognized deferred tax liabilities for taxes that would be payable on the unremitted earnings of certain foreign subsidiaries of Philips Holding USA (PHUSA) since it has been determined that undistributed profits of such subsidiaries will not be distributed in the foreseeable future. The temporary differences associated with the investments in subsidiaries of PHUSA, for which a deferred tax liability has not been recognized, aggregate to EUR 35 million (2011: EUR 36 million).

At December 31, 2012, operating loss carryforwards expire as follows:

Total	2013	2014	2015	2016	2017	2017/ 2021	later	unlimi-ted
4,812	32	39	9	18	11	29	989	3,685

The Company also has tax credit carryforwards of EUR 110 million, which are available to offset future tax, if any, and which expire as follows:

Total	2013	2014	2015	2016	2017	2017/ 2021	later	unlimi-ted
110	−	−	−	−	4	19	72	15

At December 31, 2012 , operating loss and tax credit carryforwards for which no deferred tax assets have been recognized in the balance sheet, expire as follows:

Total	2013	2014	2015	2016	2017	2017/ 2021	later	unlimi-ted
2,007	13	15	2	2	1	11	11	1,952

At December 31, 2012, the amount of deductible temporary differences for which no deferred tax asset has been recognized in the balance sheet is EUR 157 million (2011: EUR 164 million).

Classification of the income tax payable and receivable is as follows:

	2011	2012
Income tax receivable	162	97
Income tax receivable - under non-current receivables	1	−
Income tax payable	(191)	(200)
Income tax payable - under non-current liabilities	(1)	−

Tax risks

Philips is exposed to tax uncertainties. These uncertainties included amongst others the following:

Transfer pricing uncertainties

Philips has issued transfer pricing directives, which are in accordance with international guidelines such as those of the Organization of Economic Co-operation and Development. As transfer pricing has a cross-border effect, the focus of local tax authorities on implemented transfer pricing procedures in a country may have an impact on results in another country. In order to reduce the transfer pricing uncertainties, monitoring procedures are carried out by Group Tax and Internal Audit to safeguard the correct implementation of the transfer pricing directives.

Tax uncertainties on general service agreements and specific allocation contracts

Due to the centralization of certain activities in a limited number of countries (such as research and development, centralized IT, corporate functions and head office), costs are also centralized. As a consequence, these costs and/or revenues must be allocated to the beneficiaries, i.e. the various Philips entities. For that purpose, apart from specific allocation contracts for costs and revenues, general service agreements (GSAs) are signed with a large number of group entities. Tax authorities review the implementation of GSAs, apply benefit tests for particular countries or audit the use of tax credits attached to GSAs and royalty payments, and may reject the implemented procedures. Furthermore, buy in/out situations in the case of (de)mergers could affect the tax allocation of GSAs between countries. The same applies to the specific allocation contracts.

Tax uncertainties due to disentanglements and acquisitions

When a subsidiary of Philips is disentangled, or a new company is acquired, related tax uncertainties arise. Philips creates merger and acquisition (M&A) teams for these disentanglements or acquisitions. In addition to representatives from the involved sector, these teams consist of specialists from various corporate functions and are formed, amongst other things, to identify hidden tax uncertainties that could subsequently surface when companies are acquired and to reduce tax claims related to disentangled entities. These tax uncertainties are investigated and assessed to mitigate tax uncertainties in the future as much as possible. Several tax uncertainties may surface from M&A activities. Examples of uncertainties are: applicability of the participation exemption, allocation issues, and non-deductibility of parts of the purchase price.

Tax uncertainties due to permanent establishments

In countries where e.g. Philips starts new operations or alters business models, the issue of permanent establishment may arise. This is because when operations in a country involves a Philips organization in another country, there is a risk that tax claims will arise in the former country as well as in the latter country.

4 Investments in associates

The changes during 2012 are as follows:

Investments in associates

	loans	investments	total
Balance as of January 1, 2012	2	201	203
Changes:			
Acquisitions/Additions	−	13	13
Sales/Redemption	(2)	(1)	(3)
Reclassifications	−	(6)	(6)
Share in income	−	(8)	(8)
Impairments	−	(5)	(5)
Dividends declared	−	(15)	(15)
Translation and exchange rate differences	−	(2)	(2)
Balance as of December 31, 2012	−	177	177

The share in income mainly relates to restructuring charges recognized within a lighting venture in which Philips has a participation of 50%.

On December 5, 2012 the Company announced that it received a fine of EUR 313 million from the European Commission following an investigation into alleged violation of competition rules in the Cathode-Ray Tubes (CRT) industry. In addition, the European Commission has ordered Philips and LG Electronics to be jointly and severally liable to pay a fine of EUR 392 million for an alleged violation of competition rules by LG.Philips Displays (LPD), a 50/50 joint venture between the Company and LG Electronics. In 2006, LPD went bankrupt. The amount of EUR 196 million (being 50% of the fine related to LPD) is recorded under Results relating to investments in associates. The book value of our interest in LPD is valued at nil, therefore the loss is recognized in Other current liabilities and is not visible in the table above.

Summarized information of investments in associates

Unaudited summarized financial information on the Company's most significant investments in associates, on a combined basis, is presented below. It is based on the most recent available financial information.

Included from April 2012 is the 30%-interest in TP Vision Holding which includes the former Philips TV business.

	2010	2011	2012
Net sales	353	408	2,534
Income before taxes	47	86	(7)
Income taxes	(16)	(27)	2
Other income (loss)	–	–	–
Net income	31	59	(5)
Total share in net income of associates recognized in the Consolidated statements of income	14	18	(8)

	2011	2012
Current assets	669	1,635
Non-current assets	227	485
	896	2,120
Current liabilities	(475)	(1,544)
Non-current liabilities	(58)	(186)
Net asset value	363	390
Investments in associates included in the Consolidated balance sheet	201	177

5 Discontinued operations and other assets classified as held for sale

Discontinued operations: Television business

The Television business's long-term strategic partnership agreement with TPV was signed on April 1, 2012. The results related to the Television business are reported under Discontinued operations in the Consolidated statements of income and Consolidated statements of cash flows.

In 2012, the Television business reported a loss of EUR 31 million. Net operational results of the discontinued operations after-tax amounted to a loss of EUR 31 million (2011: loss of EUR 162 million; 2010: loss of EUR 26 million).

At moment of the divestment a loss of EUR 5 million related to currency translation differences reported in other comprehensive income was recognized in discontinued operations in the income statement.

In 2011, the total net loss reported related to the sale of the Television operations and amounted to approximately EUR 380 million, which mainly comprises present value of initial contributions made to the TV venture (EUR 183 million), total disentanglement costs (EUR 81 million), contributed assets which were not fully recovered (EUR 66 million) and various smaller other items, offset by the revenue associated with the sale, including the fair value of a contingent consideration and a retained 30% interest in the TV venture.

In addition to the contributions that were agreed and recognized as loss on onerous contract, Philips made commitments to provide further financing to the TV venture if needed; for more deails see note 24, Contractual obligations.

The following table summarizes the results of the Television business included in the Consolidated statements of income as discontinued operations.

	2010	2011	2012
Sales	3,132	2,702	563
Costs and expenses	(3,148)	(2,913)	(622)
Expected loss on sale of discontinued operations	−	(380)	5
Income (loss) before taxes	(16)	(591)	(54)
Income taxes	(10)	76	23
Operational income tax	(10)	49	28
Income tax on loss on sale of discontinued operations	−	27	(5)
Results from discontinued operations	(26)	(515)	(31)

The following table presents the assets and liabilities of the Television business, classified as held for sale and liabilities directly associated with assets held for sale in the Consolidated balance sheets at December 31, 2011.
In the 2012 column the divested assets and liabilities are presented.

	2011	2012[1]
Property, plant and equipment	46	91
Intangible assets including goodwill	44	−
Write down to fair value less costs to sell	(90)	−
Inventories	175	124
Other assets	26	25
Assets classified as held for sale	201	240
Provisions	(7)	(6)
Liabilities directly associated with assets held for sale	(7)	(6)

1) At fair value transferred assets

Non-transferrable balance sheet positions, such as accounts receivable, accounts payable and restructuring and warranty provisions are reported on the respective balance sheet captions.

For further information see notes, note 20, Provisions and note 24, Contractual obligations.

Other assets classified as held for sale
Assets and liabilities directly associated with assets held for sale relate to property, plant and equipment for an amount of EUR 1 million (December 31, 2011 EUR 269 million) and business divestments of EUR 15 million at December 31 2012 (December 31, 2011 EUR 27 million).

On March 29, 2012, Philips announced the completion of the High Tech Campus transaction with proceeds of EUR 425 million, consisting of a EUR 373 million cash transaction and an amount of EUR 52 million that will be received in future years. The gain from the transaction, after deducting expenses related to other real estate efficiency measures which are part of the EUR 800 million cost reduction program announced in 2011, will be EUR 65 million, EUR 37 million of which was recognized in the first quarter of 2012 in income from operations while EUR 28 million was deferred to future periods and is recognized periodically starting as of April 2012. The deferral of the gain relates to the finance lease element in the sale and lease-back arrangement part of the deal.

In 2012, Philips divested several industrial sites in sector Lighting, the Speech Processing business in Consumer Lifestyle and a minor service activity in sector Healthcare. The transactions of the industrial sites resulted in a loss of EUR 95 million, consisting of contributed assets, which were not fully recovered leading to an EUR 14 million impairment on property, plant and equipment and EUR 81 million loss reported in other business expense as result on disposal of businesses. As part of these divestments onerous supply agreements were signed, which amount to EUR 60 million at December 31, 2012. The speech Processing business resulted in a gain of EUR 21 million gain reported in other business income as result on disposal of business.

6 Earnings per share

Earnings per share

		2010		2011		2012
Income (loss) from continuing operations		1,474		(776)		262
Income attributable to non-controlling interest		6		4		5
Income (loss) from continuing operations attributable to shareholders		1,468		(780)		257
Income (loss) from discontinued operations		(26)		(515)		(31)
Net income (loss) attributable to shareholders		1,442		(1,295)		226
Weighted average number of common shares outstanding (after deduction of treasury shares) during the year		941,417,235[1]		952,535,685[1]		921,827,725
Plus incremental shares from assumed conversions of:						
Options and restricted share rights	7,548,916		4,309,777		5,014,991	
Convertible debentures	314,874		173,890		106,204	
Dilutive potential common shares		7,863,790		4,483,667		5,121,195
Adjusted weighted average number of shares (after deduction of treasury shares) during the year		949,281,025[1]		957,019,352[1]		926,948,920
Basic earnings per common share in euros [2]						
Income (loss) from continuing operations		1.57		(0.81)		0.28
Income (loss) from discontinued operations		(0.03)		(0.54)		(0.03)
Income (loss) from continuing operations attributable to shareholders		1.56		(0.82)		0.28
Net income (loss) attributable to shareholders		1.53		(1.36)		0.25
Diluted earnings per common share in euros [2,3,4]						
Income (loss) from continuing operations		1.55		(0.81)		0.28
Income (loss) from discontinued operations		(0.03)		(0.54)		(0.03)
Income (loss) from continuing operations attributable to shareholders		1.55		(0.82)		0.28
Net income (loss) attributable to shareholders		1.52		(1.36)		0.24
Dividend distributed per common share in euros		0.70		0.75		0.75

1) Adjusted to make previous years comparable for the bonus shares (889 thousand) issued in May 2012
2) The effect on income of items affecting earnings per share is considered immaterial
3) In 2012, 2011 and 2010, respectively 36 million, 37 million and 36 million securities that could potentially dilute basic EPS were not included in the computation of dilutive EPS because the effect would have been antidilutive for the periods presented
4) The incremental shares from assumed conversion are not taken into account in the periods for which there is a loss attributable to shareholders, as the effect would be antidilutive

7 Acquisitions and divestments

2012

During 2012, Philips entered into one acquisition. On January 9, 2012 Philips acquired (in)directly 99.93% of the outstanding shares of Industrias Derivadas del Aluminio, S.L. (Indal). This acquisition involved a cash consideration of EUR 210 million and has been accounted for using the acquisition method. By the end of July 2012, Indal was fully owned by Philips.

Measured on a yearly basis, the aggregated impact of this acquisition on Group Sales, Income from operations, Net income and Net income per common share (on a fully diluted basis) is not material in respect of IFRS 3 disclosure requirements.

Philips completed in the first quarter of 2012 the divestment of the Television business. Furthermore there were several divestments of business activities during 2012, which comprised the divestment of certain Lighting manufacturing activities, Speech Processing activities and certain Healthcare service activities. These transactions involved an aggregated consideration of EUR 49 million and are therefore deemed immaterial in respect of IFRS 3 disclosure requirements .

For further information on divestments, reference is made to note 5, Discontinued operations and other assets classified as held for sale.

On January 26, 2012, Philips agreed to extend its partnership with Sara Lee Corp (Sara Lee) to drive growth in the global coffee market. Under a new exclusive partnership framework, which will run through to 2020, Philips will be the exclusive Senseo consumer appliance manufacturer and distributor for the duration of the agreement. As part of the agreement, Philips transferred its 50% ownership right in the Senseo trademark to Sara Lee. Under the terms of the agreement, Sara Lee paid Philips a total consideration of EUR 170 million. The consideration was recognized in Other business income for an amount of EUR 160 million. The remainder was included in various line items of the Consolidated statements of income (EUR 8 million) or deducted from the book value of Property, plant and equipment (EUR 2 million).

2011

During 2011, Philips entered into six acquisitions. These acquisitions involved an aggregated purchase price of EUR 498 million and have been accounted for using the acquisition method. Measured on an annualized basis, the aggregated impact of the six acquisitions on group Sales, Income from operations (excluding charges related to goodwill impairment), Net income and Net income per common share (on a fully diluted basis) is not material in respect of IFRS 3 disclosure requirements.

The divestments in 2011 involved an aggregated consideration of EUR 57 million and were therefore deemed immaterial in respect of IFRS 3 disclosure requirements.

2010

During 2010, Philips entered into 11 acquisitions. These acquisitions involved an aggregated purchase price of EUR 235 million and have been accounted for using the acquisition method. Measured on an annualized basis, the aggregated impact of the 11 acquisitions on group Sales, Income from operations, Net income and Net income per common share (on a fully diluted basis) is not material in respect of IFRS 3 disclosure requirements.

On March 9, 2010, Philips divested 9.4% of the shares in TPV Technology Ltd. (TPV). The TPV shares were sold to CEIEC Ltd., a Hong Kong-based technology company, for a cash consideration of EUR 98 million. The transaction resulted in a gain of EUR 5 million, which was reported under Results relating to Investments in Associates.

The remaining divestments in 2010 involved an aggregated consideration of EUR 22 million and were therefore deemed immaterial in respect of IFRS 3 disclosure requirements.

8 Property, plant and equipment

	land and buildings	machinery and installations	other equipment	prepayments and construction in progress	total
Balance as of January 1, 2012:					
Cost	1,981	3,914	1,552	365	7,812
Accumulated depreciation	(895)	(2,762)	(1,141)	–	(4,798)
Book value	1,086	1,152	411	365	3,014
Change in book value:					
Capital expenditures	95	114	98	497	804
Assets available for use	125	312	116	(553)	–
Acquisitions	1	4	12	–	17
Disposals and sales	(64)	(8)	(10)	(10)	(92)
Depreciation	(77)	(358)	(188)	–	(623)
Impairments	(13)	(33)	(12)	(1)	(59)
Transfer to assets classified as held for sale	(23)	(2)	(1)	1	(25)
Reclassifications	(29)	–	–	–	(29)
Translation differences	(12)	(28)	(3)	(5)	(48)
Total changes	3	1	12	(71)	(55)
Balance as of December 31, 2012:					
Cost	1,924	4,004	1,658	294	7,880
Accumulated depreciation	(835)	(2,851)	(1,235)	–	(4,921)
Book value	1,089	1,153	423	294	2,959

	land and buildings	machinery and installations	other equipment	prepayments and construction in progress	total
Balance as of January 1, 2011:					
Cost	2,273	3,837	1,715	273	8,098
Accumulated depreciation	(964)	(2,670)	(1,319)	–	(4,953)
Book value	1,309	1,167	396	273	3,145
Change in book value:					
Capital expenditures	16	118	103	486	723
Assets available for use	49	216	117	(382)	–
Acquisitions	1	11	2	2	16
Disposals and sales	(58)	(12)	(12)	(3)	(85)
Depreciation	(84)	(347)	(166)	–	(597)
Impairments	(13)	(16)	(14)	(2)	(45)
Transfer to assets classified as held for sale	(157)	(10)	(17)	(16)	(200)
Reclassifications	11	–	–	–	11
Translation differences	12	25	2	7	46
Total changes	(223)	(15)	15	92	(131)
Balance as of December 31, 2011:					
Cost	1,981	3,914	1,552	365	7,812
Accumulated depreciation	(895)	(2,762)	(1,141)	–	(4,798)
Book value	1,086	1,152	411	365	3,014

Land with a book value of EUR 152 million at December 31, 2012 (2011: EUR 180 million) is not depreciated.

Property, plant and equipment includes lease assets with a book value of EUR 248 million at December 31, 2012 (2011: EUR 196 million). The total book value of assets no longer productively employed, mainly included in land and buildings, amounted to EUR 4 million at December 31, 2012 (2011: EUR 11 million).

The expected useful lives of property, plant and equipment are as follows:

Buildings	from 5 to 50 years
Machinery and installations	from 3 to 20 years
Other equipment	from 1 to 10 years

Capitalized interest included in capital expenditures is not significant.

Changes in expected useful lives and residual values have an insignificant effect on depreciation in current and future years.

9 Goodwill

The changes in 2011 and 2012 were as follows:

	2011	2012
Balance as of January 1:		
Cost	8,742	9,224
Amortization / Impairments	(707)	(2,208)
Book value	8,035	7,016
Changes in book value:		
Acquisitions	225	98
Divestments	(8)	(6)
Impairments	(1,355)	–
Transfer to assets classified as held for sale	(5)	–
Translation differences	124	(160)
Balance as of December 31:		
Cost	9,224	9,119
Amortization / Impairments	(2,208)	(2,171)
Book value	7,016	6,948

Acquisitions in 2012 include goodwill related to the acquisition of Indal for EUR 100 million. In addition, goodwill changed due to the finalization of purchase price accounting related to acquisitions in the prior year.

Acquisitions in 2011 include mainly the goodwill related to the acquisition of Povos (kitchen appliances) for EUR 102 million, Sectra (mammography business operations) EUR 41 million and Optimum Lighting EUR 30 million.

For impairment testing, goodwill is allocated to (groups of) cash-generating units (typically one level below operating sector level), which represents the lowest level at which the goodwill is monitored internally for management purposes.

In 2012, the organizational structure of the Lighting sector was changed. As a result of the change, the goodwill associated with the former unit Lamps was allocated to Light Sources & Electronics. In addition, the goodwill associated with the former Lighting Systems & Controls unit was allocated to Light Sources & Electronics and to Professional Lighting Solutions (former name was Professional Luminaires).

Goodwill allocated to the cash-generating units Respiratory Care & Sleep Management, Imaging Systems, Patient Care & Clinical Informatics and Professional Lighting Solutions is considered to be significant in comparison to the total book value of goodwill for the Group at December 31, 2012. The amounts allocated are presented below:

	2011	2012
Respiratory Care & Sleep Management	1,779	1,706
Imaging Systems	1,507	1,482
Patient Care & Clinical Informatics	1,360	1,331
Professional Lighting Solutions	1,260[1)]	1,337

1) Revised to reflect the new organizational structure of the Lighting sector

The basis of the recoverable amount used in the annual (performed in the second quarter) and trigger-based impairment tests is the value in use. Key assumptions used in the impairment tests for the units in the table above were sales growth rates, 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 2012 to 2016 that matches the period used for our strategic process. Projections were extrapolated with stable or declining growth rates for a period of 5 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.

Income from operations in all units is expected to increase over the projection period as a result of volume growth and cost efficiencies.

Cash flow projections of Respiratory Care & Sleep Management, Imaging Systems, Patient Care & Clinical Informatics and Professional Lighting Solutions for 2012 were based on the following key assumptions (based on the annual impairment test performed in the second quarter):

in %

	compound sales growth rate[1]			
	initial forecast period	extra-polation period[2]	used to calculate terminal value	pre-tax discount rates
Respiratory Care & Sleep Management	8.0	5.8	2.7	11.2
Imaging Systems	3.4	2.9	2.7	12.8
Patient Care & Clinical Informatics	6.5	4.1	2.7	13.2
Professional Lighting Solutions	6.6	5.3	2.7	13.0

1) Compound sales growth rate is the annualized steady growth rate over the forecast period
2) Also referred to later in the text as compound long-term sales growth rate

The assumptions used for the 2011 cash flow projections were as follows:

in %

	compound sales growth rate[1]			
	forecast period	extra-polation period[2]	used to calculate terminal value	pre-tax discount rates
Respiratory Care & Sleep Management	7.6	5.6	2.7	11.5
Imaging Systems	7.2	4.7	2.7	11.8
Patient Care & Clinical Informatics	8.2	5.6	2.7	13.4
Professional Luminaires	9.5	6.1	2.7	13.6

1) Compound sales growth rate is the annualized steady growth rate over the forecast period
2) Also referred to later in the text as compound long-term sales growth rate

The headroom of Respiratory Care & Sleep Management was estimated at EUR 560 million. The following changes could, individually, cause the value in use to fall to the level of the carrying value**:**

	increase in pre-tax discount rate, basis points	decrease in long-term growth rate, basis points	decrease in terminal value amount, %
Respiratory Care & Sleep Management	210	400	30.0

Based on the annual impairment test, it was noted that for Professional Lighting Solutions the estimated recoverable amount approximates the carrying value of the cash-generating unit. Consequently, any adverse change in key assumptions would, individually, cause an impairment loss to be recognized.

The results of the annual impairment test of Imaging Systems and Patient Care & Clinical Informatics have indicated that a reasonably possible change in key assumptions would not cause the value in use to fall to the level of the carrying value.

Additional information 2012

Other cash-generating units, to which a lower amount of goodwill is allocated, are sensitive to fluctuations in the assumptions as set out above.

Based on the annual impairment test, it was noted that the headroom for the cash-generating unit Home Monitoring was EUR 49 million. An increase of 140 points in pre-tax discounting rate, a 250 basis points decline in the compound long-term sales growth rate or a 20 % decrease in terminal value would cause its value in use to fall to the level of its carrying value. The goodwill allocated to Home Monitoring at at December 31, 2012 amounted to EUR 42 million.

Based on the annual impairment test, it was noted that the headroom for the cash-generating unit Consumer Luminaires was EUR 153 million. An increase of 380 points in pre-tax discounting rate, a 710 basis points decline in the compound long-term sales growth rate or a 52 % decrease in terminal value would cause its value in use to fall to the level of its carrying value. The goodwill allocated to Consumer Luminaires at December 31, 2012 amounted to EUR 133 million.

Based on the Q4 trigger-based impairment test, it was noted that the headroom for the cash-generating unit Lumileds was EUR 174 million. An increase of 150 basis points in pre-tax discounting rate, a 400 basis points decline in the compound long-term sales growth or a 19% decrease in terminal value would cause its value in use to fall to the level of its carrying value. The goodwill allocated to Lumileds at December 31, 2012 amounted to EUR 132 million.

Impairment charge 2011

Based on the annual test in 2011 the recoverable amounts for certain cash-generating units were estimated to be lower than the carrying amounts, and therefore impairment was identified as follows:

Cash-generating unit	reportable segment	amount of impairment
Respiratory Care & Sleep Management	Healthcare	450
Home Monitoring	Healthcare	374
Professional Luminaires	Lighting	304
Consumer Luminaires	Lighting	227

Respiratory Care & Sleep Management
The annual impairment test resulted in EUR 450 million impairment. This was mainly as a consequence of a weaker market outlook, lower profitability projections from increasing investments and price competitition, as well as an adverse movement in the pre-tax discount rate.

Home Monitoring
The annual impairment test resulted in EUR 374 million impairment. This was mainly as a consequence of lower growth projections, particularly in the US markets, and lower profitability projections based on historical performance.

The pre-tax discount rate applied to the 2011 cash flow projection is 11.6%.

Professional Luminaires
The annual impairment test resulted in EUR 304 million impairment, as a consequence of lower growth projections, lower profitability and higher investment levels required.

Consumer Luminaires
The annual impairment test resulted in EUR 227 million impairment. This was mainly as a consequence of lower growth projections on slower than anticipated recovery of the market, a slower LED adoption rate and an adverse movement in the pre-tax discount rate.

The pre-tax discount rate applied to the 2011 cash flow projection is 12.6%.

Please refer to section 12.9, Information by sector and main country, of this Annual Report for a specification of goodwill by sector.

10 Intangible assets excluding goodwill

The changes were as follows:

	other intangible assets	product development	software	total
Balance as of January 1, 2012:				
Cost	5,857	1,437	369	7,663
Amortization/ impairments	(2,593)	(793)	(281)	(3,667)
Book value	3,264	644	88	3,996
Changes in book value:				
Additions	11	347	29	387
Acquisitions and purchase price allocation adjustments	137	–	–	137
Amortization	(455)	(190)	(44)	(689)
Impairment losses	(17)	(30)	(2)	(49)
Translation differences	(42)	(10)	–	(52)
Other	(2)	6	(3)	1
Total changes	(368)	123	(20)	(265)
Balance as of December 31, 2012:				
Cost	5,868	1,584	369	7,821
Amortization/ impairments	(2,972)	(817)	(301)	(4,090)
Book Value	2,896	767	68	3,731

	other intangible assets	product development	software	total
Balance as of January 1, 2011:				
Cost	5,486	1,271	440	7,197
Amortization/ impairments	(1,956)	(708)	(335)	(2,999)
Book value	3,530	563	105	4,198
Changes in book value:				
Additions	31	292	40	363
Acquisitions and purchase price allocation adjustments	242	(1)	(1)	240
Amortization/ deductions	(444)	(172)	(53)	(669)
Impairment losses	(153)	(15)	(2)	(170)
Transfer to assets classified as held for sale	(8)	(26)	1	(33)
Translation differences	72	16	1	89
Other	(6)	(14)	(2)	(22)
Total changes	(266)	80	(16)	(202)
Balance as of December 31, 2011:				
Cost	5,857	1,437	369	7,663
Amortization/ impairments	(2,593)	(793)	(281)	(3,667)
Book value	3,264	644	88	3,996

The additions for 2012 contain internally generated assets of EUR 347 million and EUR 29 million for product development and software respectively (2011: EUR 292 million, EUR 40 million).

The acquisitions through business combinations in 2012 mainly consist of the acquired intangibles assets of Indal for EUR 134 million. The acquisistions in 2011 mainly consist of the acquired intangible assets of Povos for EUR 138 million, Preethi EUR 69 million and Sectra EUR 22 million.

The amortization of intangible assets is specified in note 1, Income from operations.

The impairment charges in 2012 for other intangibles mainly relates to brand names in Professional Lighting Solutions. As part of the rationalization of the go-to-market model in Professional Lighting Solutions, the Company decided to discontinue the use of several brands which resulted in the mentioned impairment charge. The impairment of product development of EUR 30 million relates to various projects in all three operating sectors.

Other intangible assets consist of:

	December 31, 2011		December 31, 2012	
	gross	amortization/ impairments	gross	amortization/ impairments
Brand names	966	(301)	966	(374)
Customer relationships	3,114	(1,165)	3,045	(1,318)
Technology	1,699	(1,072)	1,759	(1,202)
Other	78	(55)	98	(78)
	5,857	(2,593)	5,868	(2,972)

The estimated amortization expense for other intangible assets for each of the next five years is:

2013	380
2014	327
2015	298
2016	264
2017	238

The expected useful lives of the intangible assets excluding goodwill are as follows:

Brand names	2-20 years
Customer relationships	2-25 years
Technology	3-20 years
Other	1-8 years
Software	3 years
Development	3-5 years

The expected weighted average remaining life of other intangible assets is 11.2 years as of December 31, 2012 (2011: 11.4 years).

The Group reviewed the useful lives of the intangible assets, resulting in no material changes.

The unamortized costs of development costs amounted to EUR 361 million (2011: EUR 201 million).

11 Non-current receivables

Non-current receivables include receivables with a remaining term of more than one year.

12 Other non-current financial assets

The changes during 2012 are as follows:

	available-for-sale financial assets	loans and receivables	held-to-maturity investments	financial assets at fair value through profit or loss	total
Balance as of January 1, 2012	204	72	3	67	346
Changes:					
Reclassifications	13	2	−	−	15
Acquisitions/ additions	19	208	−	17	244
Sales/ redemptions/ reductions	(2)	(1)	−	(35)	(38)
Impairment	(8)	−	−	−	(8)
Value adjustments	7	(10)	−	(3)	(6)
Translation and exchange differences	(1)	(4)	−	1	(4)
Balance as of December 31, 2012	232	267	3	47	549

Available-for-sale financial assets
The Company's investments in available-for-sale financial assets mainly consist of investments in common stock of companies in various industries.

Loans and receivables
The increase of loans and receivables in 2012 mainly relates to loans provided to TPV Technology Limited and the television joint venture TP Vision Holding BV (EUR 151 million in aggregate), which was established on April 1, 2012 in the context of the divestment of Philips' Television business. Additionally there was an increase of EUR 53 million in Loans and receivables related to the sale of real estate belonging to the High Tech Campus.

Financial assets at fair value through profit or loss
The reduction of financial assets at fair value through profit and loss with EUR 35 million in 2012 mainly relates to financial assets earmarked for the Swiss pension plan, which have been used in a buy-out transaction.

Also included in this category are certain financial instruments that Philips received in exchange for the transfer of its television activities. The initial value of EUR 17 million was adjusted by EUR 11 million during 2012.

In 2010 Philips sold its entire holding of common shares in NXP Semiconductors B.V. (NXP) to Philips Pension Trustees Limited (herein referred to as "UK Pension Fund"). As a result of this transaction the UK Pension Fund obtained the full legal title and ownership of the NXP shares, including the entitlement to any future dividends and the proceeds from any sale of shares. From the date of the transaction the NXP shares are an integral part of the plan assets of the UK Pension Fund. The purchase agreement with the UK Pension Fund includes an arrangement that may entitle Philips to a cash payment from the UK Pension Fund on or after September 7, 2014, if the value of the NXP shares has increased by this date to a level in excess of a predetermined threshold, which at the time of the transaction was substantially above the transaction price, and the UK Pension Fund is in a surplus (on the regulatory funding basis) on September 7, 2014. The arrangement qualifies as a financial instrument and is reported under Other non-current financial assets. The fair value of the arrangement was estimated to be EUR 8 million as of December 31, 2011. As of December 31, 2012 management's best estimate of the fair value of the arrangement is EUR 14 million, based on the risks, the stock price of NXP, the current progress and the long-term nature of the recovery plan of the UK Pension Fund. The change in fair value in 2012 is reported under Value adjustments in the table above and also recognized in Financial income.

13 Other non-current assets

Other non-current assets in 2012 are comprised of prepaid pension costs of EUR 7 million (2011: EUR 5 million) and prepaid expenses of EUR 87 million (2011: EUR 66 million).

For further details see note 29, Pensions and other postretirement benefits.

14 Inventories

Inventories are summarized as follows:

	2011	2012
Raw materials and supplies	1,083	1,039
Work in process	630	540
Finished goods	1,912	1,916
	3,625	3,495

The amounts recorded above are net of allowances for obsolescence.

In 2012, the write-down of inventories to net realizable value amounted to EUR 276 million (2011: EUR 239 million). The write-down is included in cost of sales.

15 Current financial assets

Other current financial assets were EUR nil million as at December 31, 2012 (2011: EUR nil million).

16 Other current assets

Other current assets include prepaid expenses of EUR 337 million (2011: EUR 351 million).

17 Current receivables

The accounts receivable, net, per sector are as follows:

	2011	2012
Healthcare	1,882	1,967
Consumer Lifestyle	1,339	892
Lighting	1,261	1,364
Innovation, Group & Services	102	111
	4,584	4,334

The aging analysis of accounts receivable, net, is set out below:

	2011	2012
current	3,966	3,624
overdue 1-30 days	290	272
overdue 31-180 days	234	298
overdue > 180 days	94	140
	4,584	4,334

A large part of overdue trade accounts receivable relates to public sector customers with slow payment approval processes. The allowance for doubtful accounts receivable has been primarily established for receivables that are past due.

The changes in the allowance for doubtful accounts receivable are as follows:

	2010	2011	2012
Balance as of January 1	261	264	233
Additions charged to income	24	20	11
Deductions from allowance[1]	(37)	(31)	(43)
Other movements	16	(20)	1
Balance as of December 31	264	233	202

[1] Write-offs for which an allowance was previously provided

18 Equity

Common shares

As of December 31, 2012, the issued and fully paid share capital consists of 957,132,962 common shares, each share having a par value of EUR 0.20.

In May 2012, Philips settled a dividend of EUR 0.75 per common share, representing a total value of EUR 687 million. Shareholders could elect for a cash dividend or a share dividend. Approximately 62.4% of the shareholders elected for a share dividend, resulting in the issuance of 30,522,107 new common shares. The settlement of the cash dividend resulted in a payment of EUR 259 million.

Preference shares

The ‘Stichting Preferente Aandelen Philips’ has been granted the right to acquire preference shares in the Company. Such right has not been exercised. As a means to protect the Company and its stakeholders against an unsolicited attempt to acquire (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 acquire) preference shares to a third party. As of December 31, 2012, no preference shares have been issued.

Option rights/restricted shares

The Company has granted stock options on its common shares and rights to receive common shares in the future (see note 30, Share-based compensation).

Treasury shares

In connection with the Company’s share repurchase programs, shares which have been repurchased and are held in treasury for (i) delivery upon exercise of options and convertible personnel debentures and under restricted share programs and employee share purchase programs, and (ii) capital reduction purposes, are accounted for as a reduction of shareholders’ equity. Treasury shares are recorded at cost, representing the market price on the acquisition date. When issued, shares are removed from treasury shares on a first-in, first-out (FIFO) basis.

Any difference between the cost and the cash received at the time treasury shares are issued, is recorded in capital in excess of par value, except in the situation in which the cash received is lower than cost and capital in excess of par has been depleted.

The following transactions took place resulting from employee option and share plans:

	2011	2012
Shares acquired	32,484	5,147
Average market price	EUR 19.94	EUR 17.86
Amount paid	EUR 1 million	–
Shares delivered	4,200,181	4,844,898
Average market price	EUR 20.54	EUR 24.39
Amount received	EUR 87 million	EUR 118 million
Total shares in treasury at year-end	33,552,705	28,712,954
Total cost	EUR 965 million	EUR 847 million

In order to reduce share capital, the following transactions took place:

	2011	2012
Shares acquired	47,475,840	46,865,485
Average market price	EUR 14.74	EUR 16.41
Amount paid	EUR 700 million	EUR 769 million
Reduction of capital stock	–	82,364,590
Total shares in treasury at year-end	49,327,838	13,828,733
Total cost	EUR 725 million	EUR 256 million

Dividend distribution

A proposal will be submitted to the General Meeting of Shareholders to pay a dividend of EUR 0.75 per common share, in cash or shares at the option of the shareholder, from the 2012 net income and retained earnings.

Limitations in the distribution of shareholders' equity

Pursuant to Dutch law, limitations exist relating to the distribution of shareholders' equity of EUR 1,480 million (2011: EUR 1,418 million). Such limitations relate to common shares of EUR 191 million (2011: EUR 202 million) as well as to legal reserves required by Dutch law included under revaluation reserves of EUR 54 million (2011: EUR 70 million), retained earnings of EUR 1,161 million (2011: EUR 1,094 million) and other reserves of EUR 74 million (2011: EUR 52 million).

In general unrealized gains relating to available-for-sale financial assets and cash flow hedges cannot be distributed as part of shareholders' equity as they form part of the legal reserves protected under Dutch law. By their nature, unrealized losses relating to currency translation differences reduce shareholders' equity, and thereby distributable amounts.

Therefore, unrealized gains related to available-for-sale financial assets (2012: EUR 54 million) and cash flow hedges (2012: EUR 20 million), both included in other reserves, limit the distribution of shareholders' equity. The unrealized losses related to currency translation (2012: EUR 93 million) reduce the distributable amount by their nature.

The legal reserve required by Dutch law of EUR 1,161 million (2011: EUR 1,094 million) included under retained earnings relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

Non-controlling interests

Non-controlling interests represent the claims that third parties have on equity of consolidated group companies that are not wholly owned by the Company. The Sales, Income from operations and Net income of these companies is not material in view of the consolidated financial data of the Company.

Objectives, policies and processes for managing capital

Philips manages capital based upon the measures net operating capital (NOC), net debt and cash flows before financing activities.

The Company believes that an understanding of the Philips 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/non-current 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. Our net debt position is managed in such a way that we can meet our objective to retain our target at A3 rating (Moody's) and A- rating (Standard and Poor's). Furthermore, the Group's objective when managing the net debt position is to fulfill our commitment to a stable dividend policy with a 40% to 50% pay-out of continuing net income.

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.

NOC composition

	2010	2011	2012
Intangible assets	12,233	11,012	10,679
Property, plant and equipment	3,145	3,014	2,959
Remaining assets	9,347	9,393	8,921
Provisions	(2,394)	(2,694)	(2,969)
Other liabilities	(10,434)	(10,353)	(10,283)
Net operating capital	11,897	10,372	9,307

Composition of net debt to group equity

	2010	2011	2012
Long-term debt	2,818	3,278	3,725
Short-term debt	1,840	582	809
Total debt	4,658	3,860	4,534
Cash and cash equivalents	5,833	3,147	3,834
Net debt (cash)[1]	(1,175)	713	700
Shareholders' equity	15,007	12,316	11,140
Non-controlling interests	46	34	34
Group equity	15,053	12,350	11,174
Net debt and group equity	13,878	13,063	11,874
Net debt divided by net debt and group equity (in %)	(8)	5	6
Group equity divided by net debt and group equity (in %)	108	95	94

[1] Total debt less cash and cash equivalents

Composition of cash flows

	2010	2011	2012
Cash flows from operating activities	2,074	768	2,198
Cash flows from investing activities	(597)	(1,293)	(912)
Cash flows before financing activities	1,477	(525)	1,286
Cash flows from operating activities	2,074	768	2,198
Net capital expenditures:	(716)	(872)	(475)
Purchase of intangible assets	(53)	(69)	(39)
Proceeds from sale of intangible assets	–	–	160
Expenditures on development assets	(220)	(278)	(347)
Capital expenditures on property, plant and equipment	(572)	(653)	(675)
Proceeds from disposals of property, plant and equipment	129	128	426
Free cash flows	1,358	(104)	1,723

19 Long-term debt and short-term debt

Long-term debt

	(range of) interest rates	average rate of interest	amount outstanding	due in 1 year	due after 1 year	due after 5 years	average remaining term (in years)	amount outstanding 2011
USD bonds	3.8 - 7.8%	5.6%	3,198	109	3,089	3,089	14.2	2,505
Convertible debentures	–	–	12	12	–	–	–	23
Private financing	0 - 1.6%	1.6%	2	2	–	–	0.9	1
Bank borrowings	2.3 - 7.8%	2.7%	469	13	456	203	4.6	627
Other long-term debt	1.3 - 19.0%	5.0%	52	50	2	–	4.0	57
			3,733	186	3,546	3,292		3,213
Finance leases	0.6 - 15.1%	3.6%	243	65	178	65	7.3	204
		5.2%	3,976	251	3,725	3,357		3,417
Corresponding data of previous year		5.8%	3,417	139	3,278	2,240		3,972

The following amounts of long-term debt as of December 31, 2012, are due in the next five years:

2013	251
2014	305
2015	33
2016	19
2017	11
Total	619
Corresponding amount of previous year	1,177

	effective rate	2011	2012
Unsecured USD Bonds			
Due 5/15/25; 7 3/4%	7.429%	77	75
Due 6/01/26; 7 1/5%	6.885%	128	126
Due 8/15/13; 7 1/4%	6.382%	110	108
Due 5/15/25; 7 1/8%	6.794%	79	78
Due 3/11/13; 4 5/8%[1]	4.949%	386	–
Due 3/11/18; 5 3/4%[1]	6.066%	966	948
Due 3/11/38; 6 7/8%[1]	7.210%	773	758
Due 3/15/22; 3.750%[1]	3.906%	–	758
Due 3/15/42; 5.000%[1]	5.273%	–	379
Adjustments[2]		(14)	(32)
		2,505	3,198

[1] The provisions applicable to these bonds, issued in March 2008 and in March 2012, contain a 'Change of Control Triggering Event'. If the Company would experience such an event with respect to a series of corporate bonds, the Company may be required to offer to purchase the bonds of the series at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest, if any.

[2] Adjustments relate to issued bond discounts, transaction costs and fair value adjustments for interest rate derivatives

Secured liabilities

In 2012, none of the long-term and short-term debt was secured by collateral (2011: EUR nil million).

Short-term debt

	2011	2012
Short-term bank borrowings	422	533
Other short-term loans	21	25
Current portion of long-term debt	139	251
	582	809

During 2012, the weighted average interest rate on the bank borrowings was 7.8% (2011: 10.5%).

In the Netherlands, the Company issued personnel debentures with a 5-year right of conversion into common shares of Royal Philips Electronics. Convertible personnel debentures may not be converted within a period of 3 years after the date of issue. These convertible personnel debentures were available to most employees in the Netherlands and were purchased by them with their own funds and were redeemable on demand. The convertible personnel debentures become non-convertible debentures at the end of the conversion period.

Although convertible debentures have the character of long-term financing, the total outstanding amounts are classified as current portion of long-term debt. At December 31, 2012, an amount of EUR 12 million (2011: EUR 23 million) of convertible personnel debentures was outstanding, with an average conversion price of EUR 19.73. The conversion price varies between EUR 14.19 and EUR 29.5 with various conversion periods ending between January 1, 2013 and December 31, 2013. As of January 1, 2009, Philips no longer issues these debentures.

Furthermore, Philips has a USD 2.5 billion Commercial Paper Program and a EUR 1.8 billion revolving credit facility that can be used for general corporate purposes and as a backstop of its commercial paper program. In January 2013, the EUR 1.8 billion facility was extended by 2 years until February 18, 2018. As of December 31, 2012 Philips did not have any loans outstanding under either facility.

20 Provisions

	2011		2012	
	long-term	short-term	long-term	short-term
Provisions for defined-benefit plans (see note 29)	760	55	808	52
Other postretirement benefits (see note 29)	264	22	246	17
Postemployment benefits and obligatory severance payments	79	25	56	26
Product warranty	92	286	90	229
Environmental provisions	268	37	330	45
Restructuring-related provisions	51	118	108	277
Onerous contract provision	84	164	67	61
Other provisions	309	80	427	130
	1,907	787	2,132	837

Postemployment benefits and obligatory severance payments

The provision for postemployment benefits covers benefits provided to former or inactive employees after employment but before retirement, including salary continuation, supplemental unemployment benefits and disability-related benefits.

	2010	2011	2012
Balance as of January 1	135	116	104
Changes:			
Additions	20	29	12
Utilizations	(33)	(41)	(37)
Translation differences	(7)	−	1
Changes in consolidation	1	−	2
Balance as of December 31	116	104	82

The provision for obligatory severance payments covers the Company commitment to pay employees a lump sum upon the employee's dismissal or resignation. In the event that a former employee has passed away, the Company may have a commitment to pay a lump sum to the deceased employee's relatives. The Company expects the provision will be utilized mostly within the next three years.

Product warranty

The provision for product warranty reflects the estimated costs of replacement and free-of-charge services that will be incurred by the Company with respect to products sold. The Company expects the provision will be utilized mainly within the next year. The changes in the provision for product warranty are as follows:

	2010	2011	2012
Balance as of January 1	385	404	378
Changes:			
Additions	365	444	370
Utilizations	(361)	(470)	(427)
Translation differences	15	1	(4)
Changes in consolidation	−	(1)	2
Balance as of December 31	404	378	319

Environmental provision

This provision includes accrued losses recorded with respect to environmental remediation. Approximately half of this provision is expected to be utilized within the next five years. The remaining portion relates to longer-term remediation activities.

The changes in this provision are as follows:

	2010	2011	2012
Balance as of January 1	200	250	305
Changes:			
Additions	55	48	48
Utilizations	(17)	(15)	(22)
Releases	(3)	(15)	(1)
Changes in discount rate	3	25	18
Accretion	3	6	6
Translation differences	9	6	(4)
Changes in consolidation	−	−	25
Balance as of December 31	250	305	375

Restructuring-related provisions

The most significant projects in 2012

In 2012, the most significant restructuring projects related to Lighting and Healthcare and were driven by our change program Accelerate!.

- In Healthcare, the largest projects were undertaken in Imaging Systems and Patient Care & Clinical Informatics in various locations in the United States, the Netherlands and Germany to reduce the operating costs and simplify the organization.
- Consumer Lifestyle restructuring charges were mainly related to Lifestyle Entertainment (primarily in Hong Kong and the United States) and Coffee (mainly Italy).
- Restructuring projects at Lighting centered on Luminaires businesses and Light Sources & Electronics, the largest of which took place in the Netherlands, Belgium and in various locations in the US.
- Innovation, Group & Services restructuring projects focused on the IT and Financial Operations Service Units (primarily in the Netherlands), Group & Regional Overheads (mainly in the Netherlands and Italy) and Philips Innovation Services (in the Netherlands and Belgium).

The Company expects the provision will be utilized mainly within the next year. The movements in the provisions and liabilities for restructuring in 2012 are presented by sector as follows:

	Dec. 31, 2011	additions	utilized	released	other changes[1]	Dec. 31, 2012
Healthcare	18	100	(29)	(7)	(5)	77
Consumer Lifestyle	39	58	(41)	(8)	−	48
Lighting	52	225	(61)	(16)	(2)	198
IG&S	60	67	(47)	(10)	(8)	62
	169	450	(178)	(41)	(15)	385

[1] Other changes primarily relate to translation differences and transfers between sectors

The most significant projects in 2011

In 2011, the most significant restructuring projects related to Lighting and Innovation, Group & Services were driven by our change program Accelerate!.

- In Healthcare, the largest projects were undertaken in Home Healthcare Solutions, Imaging Systems and Patient Care & Clinical Informatics in various locations in the United States to reduce the operating costs and simplify the organization.
- Consumer Lifestyle restructuring charges mainly relate to our remaining Television operations in Europe.
- Restructuring projects at Lighting are driven by our change program Accelerate!. In addition projects centered on the Luminaires business and Light Sources & Electronics, the largest of which took place in Brazil, the Netherlands and in various locations in the US.
- Innovation, Group & Services restructuring projects focused on the Global Service Units (primarily in the Netherlands), Group & Regional Overheads (mainly the Netherlands, Brazil and Italy) and Philips Design (Netherlands).

The movements in the provisions and liabilities for restructuring in 2011 are presented by sector as follows:

	Dec. 31, 2010	additions	utilized	released	other changes[1]	Dec. 31, 2011
Healthcare	33	16	(17)	(14)	−	18
Consumer Lifestyle	75	25	(56)	(6)	1	39
Lighting	70	44	(47)	(13)	(2)	52
IG&S	48	37	(15)	(14)	4	60
	226	122	(135)	(47)	3	169

[1] Other changes primarily relate to translation differences and transfers between sectors

The most significant projects in 2010

- Within Healthcare, the largest projects were reorganizations of the commercial organizations in Imaging Systems (Germany, the Netherlands, and the US).
- Consumer Lifestyle restructuring charges were mainly in Television, particularly in China due to the brand licensing agreement with TPV Technology Limited.
- Restructuring projects in Lighting were focused on reduction of production capacity in traditional lighting technologies, such as incandescent. The largest projects were in Brazil, France, and the US.

The movements in the provisions and liabilities for restructuring in 2010 are presented by sector as follows:

	Dec. 31, 2009	additions	utilized	released	other changes[1]	Dec. 31, 2010
Healthcare	24	63	(39)	(17)	2	33
Consumer Lifestyle	142	32	(78)	(14)	(7)	75
Lighting	164	65	(128)	(26)	(5)	70
IG&S	66	11	(30)	(20)	21	48
	396	171	(275)	(77)	11	226

[1] Other changes primarily relate to translation differences and transfers between sectors

Onerous contract provision

The provision for onerous contract includes provision for the loss recognized upon signing the agreement with TPV Technology Limited for the Television business of EUR 24 million (2011: EUR 248 million), provision for onerous supply contracts of EUR 60 million, onerous (sub)lease contracts of EUR 35 million and expected losses on existing projects/orders of EUR 9 million.

More details on provision for losses on divestments can be found in note 5, Discontinued operations and other assets classified as held for sale

The Company expects the provision will be utilized mostly within the next three years. The changes in the provision for Onerous contract are as follows:

	2011	2012
Balance as of January 1	–	248
Changes:		
Additions	270	142
Utilizations	(22)	(277)
Releases	–	(6)
Reclassification	–	21
Balance as of December 31	248	128

Other provisions

Main elements of other provisions are: provision for employee jubilee funds totaling EUR 76 million (2011: EUR 72 million), self-insurance liabilities of EUR 61 million (2011: EUR 65 million), liabilities related to business combinations totaling EUR 36 million (2011: EUR 37 million), provisions for rights of return of EUR 45 million (2011: EUR nil million), provisions in respect of outstanding litigations totaling EUR 238 million (2011: EUR 101 million) and provision for possible taxes/social security of EUR 28 million (2011: EUR 22 million).

The reclassification of EUR 67 million in 2012 relates mainly to provision for rights of return. The liability was recognized in previous years in accrued liabilities.

There are provisions in respect of certain outstanding litigation within various operations, of which management expects the outcomes of these disputes to be resolved within the forthcoming five years. The actual outcome of these disputes and the timing of the resolution cannot be estimated by the Company at this time. The further information ordinarily required by IAS 37, 'Provisions, contingent liabilities and contingent assets' has not been disclosed on the grounds that it can be expected to seriously prejudice the outcome of the disputes.

Less than a half of the provision for employee jubilee funds is expected to be utilized within next five years. Provision for self-insurance liabilities and provision for liabilities related to business combinations are expected to be utilized mainly within the next five years and all other provisions within the next three years.

	2010	2011	2012
Balance as of January 1	337	310	389
Changes:			
Additions	205	201	396
Utilizations	(246)	(138)	(260)
Releases	(8)	(9)	(27)
Reclassification	–	–	67
Liabilities directly associated with assets held for sale	–	(6)	–
Translation differences	14	(4)	(9)
Changes in consolidation	8	35	1
Balance as of December 31	310	389	557

21 Other non-current liabilities

Other non-current liabilities are summarized as follows:

	2011	2012
Accrued pension costs	1,191	1,163
Income tax payable	1	–
Asset retirement obligations	23	23
Other tax liability	566	488
Other liabilities	218	327
	1,999	2,001

The decrease in the accrued pension costs is mainly attributable to the funding of the Switzerland plans. See also note 29, Pensions and other postretirement benefits.

For further details on tax related liabilities refer to note note 3, Income taxes.

22 Accrued liabilities

Accrued liabilities are summarized as follows:

	2011	2012
Personnel-related costs:		
- Salaries and wages	459	590
- Accrued holiday entitlements	193	192
- Other personnel-related costs	159	148
Fixed-asset-related costs:		
- Gas, water, electricity, rent and other	62	69
Distribution costs	96	114
Sales-related costs:		
- Commission payable	62	52
- Advertising and marketing-related costs	121	149
- Other sales-related costs	236	118
Material-related costs	200	186
Interest-related accruals	65	75
Deferred income	878	824
Other accrued liabilities	495	654
	3,026	3,171

23 Other current liabilities

Other current liabilities are summarized as follows:

	2011	2012
Advances received from customers on orders not covered by work in process	293	308
Other taxes including social security premiums	143	176
Other liabilities	611	1,071
	1,047	1,555

On December 5, 2012 the Company announced that it received a fine of EUR 313 million from the European Commission following an investigation into alleged violation of competition rules in the Cathode-Ray Tubes (CRT) industry. In addition, the European Commission has ordered Philips and LG Electronics to be jointly and severally liable to pay a fine of EUR 392 million for an alleged violation of competition rules by LG.Philips Displays (LPD), a 50/50 joint venture between the Company and LG Electronics. In 2006, LPD went bankrupt. The aggregate of the amount of EUR 313 million and EUR 196 million (being 50% of the fine related to LPD) has been recorded under Other liabilities.

24 Contractual obligations

Contractual cash obligations at December 31, 2012[1)]

		payments due by period			
	total	less than 1 year	1-3 years	3-5 years	after 5 years
Long-term debt[2)]	3,733	186	253	2	3,292
Finance lease obligations	298	73	97	40	88
Short-term debt	558	558	–	–	–
Operating leases	1,219	240	368	236	375
Derivative liabilities	544	138	143	138	125
Interest on debt[3)]	2,802	201	376	360	1,865
Purchase obligations[4)]	289	133	105	36	15
Trade and other payables	2,839	2,839	–	–	–
	12,282	4,368	1,342	812	5,760

1) Data in this table is undiscounted
2) Long-term debt includes short-term portion of long-term debt and excludes finance lease obligations
3) Approximately 28% 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
4) 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

Long-term operating lease commitments totaled EUR 1,219 million. Majority of those leases will expire at various dates during the next 15 years. The long-term operating leases are mainly related to the rental of buildings.

A number of these leases originate from sale-and-leaseback arrangements. Operating lease payments under sale-and-leaseback arrangements for 2012 totaled EUR 35 million (2011: EUR 16 million). The increase in 2012 is related mainly to sale and lease back of real estate belonging to the High Tech Campus.

The remaining minimum payments from operating leases originating from sale-and-leaseback arrangements are as follows:

2013	41
2014	41
2015	38
2016	38
2017	39
Thereafter	237

Finance lease liabilities

	2011			2012		
	future minimum lease payments	interest	present value of minimum lease payments	future minimum lease payments	interest	present value of minimum lease payments
Less than one year	60	1	59	73	7	65
Between one and five years	123	9	114	137	25	113
More than five years	35	4	31	88	23	65
	218	14	204	298	55	243

Philips entered into contracts with several venture capitalists where it committed itself to make, under certain conditions, capital contributions to investment funds to an aggregated amount of EUR 48 million until June 30, 2021. These investments will qualify as non-controlling interests once the capital contributions have been paid.

Philips made various commitments upon, signing the agreement with TPV Technology Limited (TPV), to provide further funding to the venture (TP Vision):

- A subordinated shareholder loan of EUR 51 million has been provided to TP Vision based on Philips' share of 30% of the venture. EUR 21 million of this loan is due April, 2015 and EUR 30 million due April, 2017. Both loans can be extended depending on the venture's funding needs;
- A Senior 12-month EUR 30 million bridge loan to the venture, based on Philips' share of 30% in TP Vision, that can be extended up to April, 2017 depending on TP Vision's funding needs. This bridge loan replaced the 9-month EUR 100 million senior bridge loan to the venture which was not drawn upon during 2012;
- Payment of EUR 50 million non-refundable one-off advertising and promotion support for TP Vision to be effected in 2013.

In addition, depending on the funding needs of TP Vision, Philips has committed to provide EUR 60 million based on its 30% share in TP Vision. This additional funding is considered to have only a remote possibility of occurring.

See also note 5, Discontinued operations and other assets classified as held for sale for further details on the total loss related to the discontinued operation.

25 Contingent liabilities

Guarantees

Philips' policy is to provide guarantees and other letters of support only in writing. Philips does not stand by other forms of support. At the end of 2012, the total fair value of guarantees recognized by Philips in other non-current liabilities amounted to less than EUR 1 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, 2012.

Expiration per period
in millions of euros

	business-related guarantees	credit-related guarantees	total
2012			
Total amounts committed	295	27	322
Less than one year	113	11	124
Between one and five years	114	–	114
After five years	68	16	84
2011			
Total amounts committed	297	39	336
Less than one year	99	22	121
Between one and five years	126	–	126
After five years	72	17	89

Environmental remediation

The Company and its subsidiaries are subject to environmental laws and regulations. Under these laws, the Company and/or its subsidiaries may be required to remediate the effects of the release or disposal of certain chemicals on the environment. The Company accrues for losses associated with environmental obligations when such losses are probable and reliably estimable. Such amounts are recognized on a discounted basis since they reflect the present value of estimated future cash flows.

Provisions for environmental remediation can change significantly due to the emergence of additional information regarding the extent or nature of the contamination, the need to utilize alternative technologies, actions by regulatory authorities and changes in judgments, assumptions, and discount rates.

The Company and/or its subsidiaries have recognized environmental remediation provisions for sites in various countries. In the United States, subsidiaries of the

Company have been named as potentially responsible parties in state and federal proceedings for the clean-up of certain sites.

Legal proceedings

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, including discussions on potential remedial actions, relating to such matters as competition issues, commercial transactions, product liability, participations and environmental pollution.

In respect of antitrust laws, the Company and certain of its (former) group companies are involved in investigations by competition law authorities in several jurisdictions and are engaged in litigation in this respect.

In relation to the fraud in the Dutch real estate sector uncovered in 2007, Philips and the Philips Pension Fund in the Netherlands are currently assessing the amount of residual damages, if any, and the possibilities of a settlement thereof. Reference is made to note 29, Pensions and other postretirement benefits for further disclosures.

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 position, results of operations and cash flows.

Provided below are disclosures of the more significant cases:

LCD

On December 11, 2006, LG Display Co. Ltd (formerly LG Philips LCD Co. Ltd.), a company in which the Company then held a minority common stock interest, announced that officials from the Korean Fair Trade Commission had visited the offices of LG Display and that it had received a subpoena from the United States Department of Justice (DOJ) and a similar notice from the Japanese Fair Trade Commission in connection with inquiries by those regulators into possible anticompetitive conduct in the LCD industry. Since then various other authorities have started investigations as well.

Subsequent to the public announcement of these inquiries, a number of class action antitrust complaints were filed in the United States courts, seeking, among other things, damages on behalf of purchasers of products incorporating TFT-LCD panels, based on alleged anticompetitive conduct by manufacturers of such panels. Those lawsuits were consolidated in two master actions in the United States District Court for the Northern District of California: one, asserting a claim under federal antitrust law, on behalf of direct purchasers of TFT-LCD panels and products containing such panels, and another, asserting claims under federal antitrust law, as well as various state antitrust and unfair competition laws, on behalf of indirect purchasers of such panels and products. On November 5, 2007 and September 10, 2008, the Company and certain other companies within the Philips group companies that were named as defendants in various of the original complaints entered into agreements with the indirect purchaser plaintiffs and the direct purchaser plaintiffs, respectively, that generally toll the statutes of limitations applicable to plaintiffs' claims, following which the plaintiffs agreed to dismiss without prejudice the claims against the Philips defendants. Both the direct purchaser and indirect purchaser plaintiffs reached initial settlements with the remaining defendants earlier this year, and those settlements have been submitted to the court for final approval.

In addition, a number of plaintiffs have filed separate, individual actions alleging essentially the same claims as those asserted in the class actions in which the Company and/or Philips Electronics North America Corporation were named as defendants. The Company has resolved these matters or entered into tolling agreements with certain potential claimants tolling the statute of limitations and currently, no Philips entity is named as a defendant in any pending LCD action.

Due to the considerable uncertainty associated with certain of these matters, on the basis of current knowledge the Company has concluded that potential losses cannot be reliably estimated with respect to these matters. These investigations and litigation could have a materially adverse effect on the Company's consolidated financial position, results of operations and cash flows.

Cathode-Ray Tubes (CRT)

On November 21, 2007, the Company announced that competition law authorities in several jurisdictions had commenced investigations into possible anticompetitive activities in the Cathode-Ray Tubes, or CRT industry. As one of the companies that formerly was active in the CRT business, the Company is subject to a number of these ongoing investigations in various jurisdictions. The Company has assisted the regulatory authorities in these investigations. In November 2009, the European Commission sent a Statement of Objections to the Company, indicating that it intends to hold it liable for antitrust infringements in the CRT industry. On May 26 and May 27, 2010, the Company presented its defense at the Oral Hearing. The Company received a supplementary Statement of Objections in June 2012 to which it responded both in writing and at an Oral Hearing. On 5 December 2012, the European Commission issued a decision imposing fines on (former) CRT manufacturers including the Company. The European Commission imposed a fine of EUR 313 million on the Company and a fine of EUR 392 million jointly and severally on the Company and LG Electronics, Inc. The Company intends to appeal the European Commission's decision. In total a payable of EUR 509 million has been recognized (under other current liabilities). The amount of EUR 313 million has been recorded in the Innovation, Group & Services sector. 50% of the fine of EUR 392 million (i.e. EUR 196 million) was recorded in the line results relating to investments in associates.

In the US, the Department of Justice has deferred Philips' obligation to respond to the grand jury subpoena Philips received in November 2007 and Philips expects that no penalties will result from that proceeding. On August 26, 2010, the Czech competition authority issued a decision in which it held that the Company had been engaged in anticompetitive activities with respect to Color Picture Tubes in the Czech Republic between September 21, 1999 and June 30, 2001. No fine was imposed because the statute of limitation for the imposition of fine had expired. On September 14, 2011, the Slovakian competition authority issued a decision in which it held that the Company had been engaged in anticompetitive activities with respect to Color Picture Tubes in Slovakia between March 30, 1999 and June 30, 2001. No fine was imposed because the statute of limitation for the imposition of fine had expired. In April 2012, the authority's decision was annulled by the authority's internal administrative review body.

Subsequent to the public announcement of these investigations in 2007, certain Philips group companies were named as defendants in over 50 class action antitrust complaints filed in various federal district courts in the United States. These actions allege anticompetitive conduct by manufacturers of CRTs and seek treble damages on behalf of direct and indirect purchasers of CRTs and products incorporating CRTs. These complaints assert claims under federal antitrust law, as well as various state antitrust and unfair competition laws and may involve joint and several liability among the named defendants. These actions have been consolidated by the Judicial Panel for Multidistrict Litigation for pretrial proceedings in the United States District Court for the Northern District of California.

On March 30, 2010, the District Court denied the bulk of the motions to dismiss filed on behalf of all Philips entities in response to both the direct and indirect purchaser actions in the federal class actions. The direct and indirect purchasers stipulated to remove allegations of a conspiracy in CRT finished products from their complaints. In February 2012, the Company reached an agreement with counsel for direct purchaser plaintiffs fully resolving all claims of the direct purchaser class and obtaining a complete release by class members. The settlement agreement received preliminary approval on May 3, 2012 and final approval on October 22, 2012.

On October 1, 2012, counsel for indirect purchasers sought certification of the purported class of indirect purchasers pursuant to F.R.C.P. 23. Philips opposed plaintiffs motion and a decision is expected by mid-2013. Discovery is proceeding in the indirect purchaser actions. Seventeen individual plaintiffs, principally large retailers of CRT products who sought exclusion from the direct purchaser class settlement, have filed separate "opt-out" actions against Philips and other defendants based on the same substantive allegations as the putative class plaintiff complaints. These cases have all been consolidated for pre-trial purposes with the putative class actions in the Northern District of California and discovery is being coordinated with the putative class cases. Philips' motions to dismiss the complaints of the individual plaintiffs are pending before the Court. A decision on the motion is expected by mid-2013. Actions by other similarly situated plaintiffs are possible. Philips intends to continue to vigorously defend these indirect purchaser and individual lawsuits.

In addition, the state attorneys general of California, Florida, Illinois, Oregon and Washington filed actions against Philips and other defendants seeking to recover damages on behalf of the states and, in parens patriae capacity, their consumers. Philips' motion to dismiss the Florida complaint as untimely was upheld by the Special Master and pursuant to a stipulation with Florida the Court ordered the dismissal of the Florida complaint with prejudice on December 27, 2012. Philips has answered the Complaints of Washington and Oregon. Philips has not yet been required to respond to the Complaint filed by Illinois. These additional actions are pending in the respective state courts of the plaintiffs. The Courts have not set trial dates and there is no timetable for the resolution of these cases. Philips intends to continue to vigorously defend these remaining lawsuits.

Certain Philips group companies have also been named as defendants, in proposed class proceedings in Ontario, Quebec and British Columbia, Canada, along with numerous other participants in the industry. In December 2012, the class plaintiffs issued an amended statement of claim with more detailed allegations against the defendants. However, at this time, no statement of defense has been filed, no certification motion has been scheduled and no class proceeding has been certified as against the Philips defendants. Philips intends to vigorously oppose these claims.

Due to the considerable uncertainty associated with certain of these matters, on the basis of current knowledge, the Company has concluded that potential losses cannot be reliably estimated with respect to these matters. These investigations and litigation could have a materially adverse effect on the Company's consolidated financial position, results of operations and cash flows.

In addition to the above cases, in 2006 Italian investor Mr. Carlo Vichi filed a claim against Philips for the repayment of a 2002 EUR 200 million loan (plus interest and damages) that was given to an affiliate of the CRT joint venture LG.Philips Displays ("LPD") that went bankrupt in January of 2006. The Company vigorously denies that it has any liability for the repayment of the loan. The trial in the case took place in December 2012 and after a period of post-trial briefing, a decision is expected in the summer of 2013. One of the remaining issues in the case is whether LPD's alleged participation in the CRT cartel as determined by the European Commission is a matter that should have been disclosed to Mr. Vichi.

Optical Disc Drive (ODD)

On October 27, 2009, the Antitrust Division of the United States Department of Justice confirmed that it had initiated an investigation into possible anticompetitive practices in the Optical Disc Drive (ODD) industry. Philips Lite-On Digital Solutions Corp. (PLDS), a joint venture owned by the Company and Lite-On IT Corporation, as an ODD market participant, is included in this investigation. PLDS is also subject to similar investigations outside the US relating to the ODD market. PLDS and Philips intend to cooperate with the authorities in these investigations.

In July 2012, the European Commission issued a Statement of Objections addressed to (former) ODD suppliers including the Company. The European Commission granted the Company immunity from fines, conditional upon the Company's continued cooperation. The Company responded to the Statement of Objections both in writing and at an oral hearing.

Subsequent to the public announcement of these investigations in 2009, the Company, PLDS and Philips & Lite-On Digital Solutions USA, Inc., were named as defendants in numerous class action antitrust complaints filed in various federal district courts in the United States. These actions allege anticompetitive conduct by manufacturers of ODDs and seek treble damages on behalf of direct and indirect purchasers of ODDs and products incorporating ODDs. These complaints assert claims under federal antitrust law, as well as various state antitrust and unfair competition laws and may involve joint and several liability among the named defendants. These actions have been consolidated by the Judicial Panel for Multidistrict Litigation for pre-trial proceedings in the United States District Court for the Northern District of California.

Consolidated amended complaints were filed on August 26, 2010 and initially dismissed. Second Consolidated Amended Complaints were filed on September 3, 2011. The defendants' motions to dismiss the Second Consolidated Complaints were denied on April 12, 2012 and Philips has filed Answers to the Complaints of the direct and indirect purchaser plaintiffs. Discovery is proceeding. Plaintiffs are expected to file motions seeking to certify the putative classes of direct and indirect purchasers under F.R.C.P. Rule 23 in April of 2013. Philips intends to vigorously defend these actions.

The Company and certain Philips group companies have also been named as defendants, in proposed class proceedings in Ontario, Quebec, British Columbia, and Manitoba, Canada along with numerous other participants in the industry. These complaints assert claims against various ODD manufacturers under federal competition laws as well as tort laws and may involve joint and several liability among the named defendants. Philips intends to vigorously defend these lawsuits.

Due to the considerable uncertainty associated with these matters, on the basis of current knowledge, the Company has concluded that potential losses cannot be reliably estimated with respect to these matters. These investigations and litigation could have a materially adverse effect on the Company's consolidated financial position, results of operations and cash flows.

Philips Polska

In connection with an indictment issued by authorities in Poland in December 2009 against numerous individuals, including three former employees of Philips Polska sp. z.o.o., involved in the sale of medical equipment to hospitals in Poland, Philips has been conducting a review of certain activities related to sales of medical equipment for potential violations of the U.S. Foreign Corrupt Practices Act (FCPA). Philips has reported the review to US authorities, including the US Securities and Exchange Commission, and is cooperating with US authorities in connection with the review. Potential penalties for violations of the FCPA and related statutes and regulations include monetary penalties based, amongst others, on disgorgement of profits relating to the sale of certain medical equipment in Poland. The discussions with the US authorities are progressing. At this time the Company cannot indicate when the matter will be resolved.

26 Cash from (used for) derivatives and securities

A total of EUR 47 million cash was paid with respect to foreign exchange derivative contracts related to financing activities (2011: EUR 25 million inflow; 2010: EUR 25 million outflow).

Cash flow from interest-related derivatives is part of cash flow from operating activities. During 2012, there was no cash flow in relation to these derivatives (2011: EUR nil million; 2010: EUR nil million).

27 Proceeds from non-current financial assets

In 2011, the sale of Philips' interest in TCL Corporation (TCL) and Digimarc generated cash totaling EUR 79 million.

In 2010, the redemption of TPV and CBAY convertible bonds generated cash totaling EUR 239 million.

28 Assets in lieu of cash from sale of businesses

In 2012 Philips received certain financial instruments in exchange for the transfer of its television business. At the date of this transaction the fair value of these financial instruments involved an amount of EUR 17 million.

In 2011, the Company entered into four transactions with different venture capital partners where certain incubator activities were transferred in exchange for shares in separately established investment entities. The investment entities represented a value of EUR 18 million at the date that these transactions were closed.

In August 2010, the Company acquired a 49.9% interest in Shapeways Inc. in exchange for the transfer of certain Consumer Lifestyle incubator activities, which represented a value of EUR 3 million at the date of the closing of that transaction.

29 Pensions and other postretirement benefits

Defined-benefit plans: pensions

Employee pension plans have been established in many countries in accordance with the legal requirements, customs and the local situation in the countries involved. The Company also sponsors a number of defined-benefit pension plans. The benefits provided by these plans are based on employees' years of service and compensation levels. The measurement date for all defined-benefit plans is December 31.

The Company's contributions to the funding of defined-benefit pension plans are determined based upon various factors, including minimum contribution requirements, as established by local government, legal and tax considerations as well as local customs.

Summary of pre-tax costs for pensions and other postretirement benefits

	2010	2011	2012
Defined-benefit plans	(105)	18	(38)
Defined-contribution plans including multi-employer plans	114	120	142
Retiree medical plans	11	16	(14)
	20	154	90

The 2012 cost were impacted by the recognition of a EUR 25 million curtailment gain due to the accumulated reduction of employees as a result of restructuring programs. A prior service cost gain of EUR 25 million was recognized in one of our major retiree medical plans. The plan change reduced certain Company post retirement risks. In 2012 a buy-out of the Swiss Pension Fund to an Insurance Company was executed. The related decrease in DBO and assets for retirees is included in the tables below as a settlement.

The 2011 costs were impacted by the recognition of EUR 18 million curtailment gains mainly resulting from one of our defined-benefit plans in which all remaining accrual of benefits was stopped and participants were transferred to a defined-contribution plan. In the same plan a large number of retirees opted for a higher yet non-indexed pension. The resulting prior-service cost gain forms the larger part of the EUR 20 million prior-service cost gains recognized in 2011.

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 in one of our retiree medical plans was recognized due to the partial closure of a US site.

The table below provides a summary of the changes in the defined-benefit obligations for defined-benefit pension plans and the fair value of their plan assets for 2012 and 2011. It also provides a reconciliation of the funded status of these plans to the amounts recognized in the Consolidated balance sheets.

			2011			2012
	Netherlands	other	total	Netherlands	other	total
Defined-benefit obligation at the beginning of year	12,226	7,940	20,166	13,493	8,920	22,413
Service cost	127	73	200	174	86	260
Interest cost	557	404	961	509	387	896
Employee contributions	–	3	3	–	4	4
Actuarial losses	1,307	848	2,155	1,215	423	1,638
Plan amendments	–	(21)	(21)	–	–	–
Acquisitions	–	3	3	–	–	–
Divestments	–	–	–	–	(13)	(13)
Settlements	–	(52)	(52)	–	(294)	(294)
Curtailments	–	(19)	(19)	(25)	(6)	(31)
Reclassifications	–	–	–	–	–	–
Benefits paid	(724)	(431)	(1,155)	(716)	(465)	(1,181)
Exchange rate differences	–	168	168	–	(34)	(34)
Miscellaneous	–	4	4	–	12	12
Defined-benefit obligation at end of year	13,493	8,920	22,413	14,650	9,020	23,670
Present value of funded obligations at end of year	13,486	8,102	21,588	14,643	8,167	22,810
Present value of unfunded obligations at end of year	7	818	825	7	853	860

			2011			2012
	Netherlands	other	total	Netherlands	other	total
Fair value of plan assets at beginning of year	13,606	6,474	20,080	13,946	7,303	21,249
Expected return on plan assets	713	389	1,102	739	429	1,168
Actuarial gains and (losses) on plan assets	155	483	638	1,025	363	1,388
Employee contributions	–	3	3	–	4	4
Employer contributions	196	243	439	209	216	425
Acquisitions	–	–	–	–	–	–
Divestments	–	–	–	–	(1)	(1)
Settlements	–	(51)	(51)	–	(294)	(294)
Benefits paid	(724)	(371)	(1,095)	(716)	(407)	(1,123)
Exchange rate differences	–	133	133	–	(25)	(25)
Miscellaneous	–	–	–	–	–	–
Fair value of plan assets at end of year	13,946	7,303	21,249	15,203	7,588	22,791
Funded status	453	(1,617)	(1,164)	553	(1,432)	(879)
Unrecognized prior-service cost	–	5	5	–	4	4
Unrecognized net assets	(460)	(399)	(859)	(560)	(587)	(1,147)
Net balance sheet position	(7)	(2,011)	(2,018)	(7)	(2,015)	(2,022)

The classification of the net balance is as follows:

	2011			2012		
	Netherlands	other	total	Netherlands	other	total
Prepaid pension costs under other non-current assets	–	5	5	–	7	7
Accrued pension costs under other liabilities	–	(1,198)	(1,198)	–	(1,169)	(1,169)
Provision for pensions under provisions	(7)	(808)	(815)	(7)	(853)	(860)
Liabilities directly associated with assets held for sale formely reported as provision	–	(10)	(10)	–	–	–
	(7)	(2,011)	(2,018)	(7)	(2,015)	(2,022)

Cumulative amount of actuarial (gains) and losses recognized in the Consolidated statements of comprehensive income (pre tax): EUR 4,160 million (2011 EUR 3,909 million).

Plan assets in the Netherlands

The asset allocation in the Company's pension plan in the Netherlands at December 31 was as follows:

in %

		2011		2012
		actual		actual
Matching portfolio:	72		71	
- Debt securities		72		71
Return portfolio:	28		29	
- Equity securities		16		15
- Real estate		5		5
- Other		7		9
		100		100

The objective of the Matching portfolio is to match part of the interest rate sensitivity of the plan's real pension liabilities. The Matching portfolio is mainly invested in euro-denominated government bonds and investment grade debt securities and derivatives. Leverage or gearing is not permitted. The size of the Matching portfolio is targeted to be at least 64% of the fair value of the plan's real pension obligations (on the assumption of 2% inflation). The objective of the Return portfolio is to maximize returns within well-specified risk constraints. The long-term rate of return on total plan assets is expected to be 5.4% per annum, based on expected long-term returns on debt securities, equity securities and real estate of 4.5%, 9.0% and 8% respectively.

Philips Pension Fund in the Netherlands

On November 13, 2007, various officials, on behalf of the Public Prosecutor's office in the Netherlands, visited a number of offices of the Philips Pension Fund and the Company in relation to a widespread investigation into potential fraud in the real estate sector. The Company was notified that one former employee and one employee of an affiliate of the Company had been detained. This affiliate, Philips Real Estate Investment Management B.V., managed the real estate portfolio of the Philips Pension Fund between 2002 and 2008. The investigation by the public prosecutor concerns the potential involvement of (former) employees of a number of Dutch companies with respect to fraud in the context of certain real estate transactions. Neither the Philips Pension Fund nor any Philips entity is a suspect in this investigation. The Philips Pension Fund and Philips have cooperated with the authorities and have also conducted their own investigation. Formal notifications of suspected fraud have been filed with the public prosecutor against the (former) employees concerned and with our insurers. This has resulted in several convictions in 2012. Furthermore, actions have been taken to claim damages from the responsible individuals and legal entities. This has resulted in a number of settlements between the responsible individuals and Philips Pension Fund. Philips Pension Fund has also received payment on the insurance claims in 2012. The Philips Pension Fund and Philips are currently assessing the amount of residual damages, if any, and the possibilities of a settlement thereof. At this time it is not possible to assess the outcome and consequences of this matter.

Plan assets in other countries

The asset allocation in the Company's pension plans in other countries at December 31 is shown in the table below. This table also shows the Trustees' target allocation for 2013:

in %

	2011	2012	2013
	actual	actual	target
Equity securities	16	16	17
Debt securities	75	75	81
Real estate	1	–	–
Other	8	9	2
	100	100	100

Plan assets in 2012 do not include property occupied or financial instruments issued by the Company.

Pension expense of defined-benefit plans recognized in the Consolidated statements of income:

			2010			2011			2012
	Nether-lands	other	total	Nether-lands	other	total	Nether-lands	other	total
Service cost	92	77	169	127	73	200	174	86	260
Interest cost on the defined-benefit obligation	521	418	939	557	404	961	509	387	896
Expected return on plan assets	(743)	(344)	(1,087)	(713)	(389)	(1,102)	(739)	(429)	(1,168)
Prior-service cost	−	(119)	(119)	−	(20)	(20)	−	1	1
Settlement loss (gain)	−	(6)	(6)	−	(1)	(1)	−	1	1
Curtailment loss (gain)	−	(1)	(1)	−	(18)	(18)	(25)	(6)	(31)
Other	1	1	2	(1)	1	−	−	−	−
Net periodic cost (income)	(129)	26	(103)	(30)	50	20	(81)	40	(41)
of which discontinued operations	2	−	2	2	−	2	−	(3)	(3)

Amounts recognized in the Consolidated statements of comprehensive income:

	2010	2011	2012
Actuarial losses	1,535	1,517	250
Change in the effect of the cap on prepaids	427	(869)	299
Total recognised in other comprehensive income	1,962	648	549
Total recognised in total comprehensive income	1,859	668	508
Actual return on plan assets	1,807	1,740	2,556

The pension expense of defined-benefit plans is recognized in the following line items in the Consolidated statements of income:

	2010	2011	2012
Cost of sales	6	8	(3)
Selling expenses	12	7	9
General and administrative expenses	(120)	3	(41)
Research and development expenses	(3)	−	(3)
	(105)	18	(38)

The Company also sponsors defined-contribution and similar types of plans for a significant number of salaried employees. The total cost of these plans amounted to EUR 142 million (2011: EUR 120 million; 2010: EUR 114 million). In 2012, the defined-contribution cost includes contributions to multi-employer plans of EUR 8 million (2011: EUR 8 million; 2010: EUR 6 million).

Cash flows and costs in 2013

Philips expects considerable cash outflows in relation to employee benefits which are estimated to amount to EUR 648 million in 2013, consisting of EUR 432 million employer contributions to defined-benefit pension plans, EUR 142 million employer contributions to defined-contribution pension plans, EUR 58 million expected cash outflows in relation to unfunded pension plans and EUR 16 million in relation to unfunded retiree medical plans. The employer contributions to defined-benefit pension plans are expected to amount to EUR 250 million for the Netherlands and EUR 182 million for other countries. The Company plans to fund part of the existing deficit in the US pension plan in 2013, which amount is included in the amounts aforementioned.

In accordance with revised IAS19 the service costs and interest expense will be disclosed seperately for defined-benefit plans. The service cost for 2013 is expected to amount to EUR 279 million, consisting of EUR 277 million for defined-benefit pension plans and EUR 2 million for defined-benefit retiree medical plans. The net interest expense for 2013 is expected to amount to EUR 75 million, consisting of EUR 64 million for defined-benefit pension plans and EUR 11 million for defined-benefit retiree medical plans. The cost for defined-contribution pension plans in 2013 is expected to amount EUR 142 million.

Assumptions

A significant demographic assumption used in the actuarial valuations is the mortality table.

The mortality tables used for the Company's major schemes are:
Netherlands: Prognosis table 2012-2062 including experience rating TW2010.
United Kingdom retirees: SAPS 2002- Core CMI 2011 projection
United States: RP2000 CH Fully Generational
Germany: Richttafeln 2005 G.K. Heubeck

The Expected Return on Assets for any funded plan equals the average of the expected returns per asset class weighted by their portfolio weights in accordance with the fund's strategic asset allocation. Where liability-driven investment (LDI) strategies apply, the weights are in accordance with the actual matching part and the strategic asset allocation of the return portfolio.

The weighted averages of the assumptions used to calculate the defined-benefit obligations as of December 31 were as follows:

	2011		2012	
	Netherlands	other	Netherlands	other
Discount rate	3.9%	4.4%	3.3%	4.1%
Rate of compensation increase	*	2.9%	*	3.3%

The weighted averages of the assumptions used to calculate the net periodic pension cost for years ended December 31:

	2011		2012	
	Netherlands	other	Netherlands	other
Discount rate	4.7%	5.3%	3.9%	4.4%
Expected returns on plan assets	5.3%	6.2%	5.4%	5.9%
Rate of compensation increase	*	4.0%	*	2.9%

* The rate of compensation increase for the Netherlands consists of a general compensation increase and an individual salary increase based on merit, seniority and promotion. The average individual salary increase for all active participants for the remaining working lifetime is 0.75% annually. The assumed rate of general compensation increase for the Netherlands for calculating the projected benefit obligations amounts to 2.0% (2011: 2.0%). The indexation assumption used to calculate the projected benefit obligations for the Netherlands is 1.0% (2011: 1.0%).

Sensitivity analysis

The table below illustrates the approximate impact on the defined-benefit obligation if the Company were to change key assumptions by one-percent point.

Impact on DBO

	increase assumption 1%	decrease assumption 1%
2012		
Discount rate	(2,784)	3,039
2011		
Discount rate	(2,583)	3,159

Longevity also impacts postemployment benefit liabilities. The table below illustrates the impact on the 2012 defined-benefit obligation and expense of a 10% decrease in the assumed rates of mortality for the Company's major schemes. A 10% decrease in assumed mortality rates equals improvement of life expectancy by 0.5 - 1 year.

Increase of current year:		
	DBO	expense
	663	28

Historical data

	2008	2009	2010	2011	2012
Present value of defined-benefit obligations	16,846	17,720	20,166	22,413	23,670
Fair value of plan assets	17,899	18,470	20,080	21,249	22,791
Surplus	1,053	750	(86)	(1,164)	(879)
Experience adjustments in % on:					
- defined-benefit obligations (gain) loss	1.2%	(0.9%)	0.8%	(0.6%)	(0.4%)
- fair value of plan assets (gain) loss	10.9%	(0.6%)	(3.6%)	(3.0%)	(6.1%)

Defined-benefit plans: other postretirement benefits

In addition to providing pension benefits, the Company provides other postretirement benefits, primarily retiree medical benefits, in certain countries. The Company funds those other postretirement benefit plans as claims are incurred.

Movements in the net liability for other defined-benefit obligations:

	2011	2012
Defined-benefit obligation at the beginning of year	297	269
Service cost	1	1
Interest cost	17	12
Actuarial (gains) or losses	(30)	1
Plan amendments	–	(25)
Curtailment gains	–	–
Changes in consolidation	–	–
Benefits paid	(17)	(17)
Exchange rate differences	1	(6)
Miscellaneous	–	15
Defined-benefit obligation at end of year	269	250
Present value of funded obligations at end of year	–	–
Present value of unfunded obligations at end of year	269	250
Funded status	(269)	(250)
Unrecognized prior-service cost	(17)	(13)
Net balances	(286)	(263)
Classification of the net balance is as follows:		
Provision for other postretirement benefits	(286)	(263)

Other postretirement benefit expense recognized in the Consolidated statements of income:

	2010	2011	2012
Service cost	2	1	1
Interest cost on accumulated postretirement benefits	20	17	12
Prior-service cost	(2)	(2)	(27)
Curtailment loss (gain)	(9)	–	–
Other	–	–	–
	11	16	(14)

Amounts recognized in the Consolidated statements of comprehensive income:

	2010	2011	2012
Actuarial (gains) losses	(11)	(30)	1
Total recognized in Total Comprehensive Income	–	(14)	(13)

The expense for other postretirement benefits is recognized in the following line items in the Consolidated statements of income:

	2010	2011	2012
Cost of sales	(7)	2	1
Selling expenses	1	1	1
General and administrative expenses	17	13	(16)
	11	16	(14)

The weighted average assumptions used to calculate the postretirement benefit obligations other than pensions as of December 31 were as follows:

	2011	2012
Discount rate	5.1%	4.5%
Compensation increase (where applicable)	–	–

The weighted average assumptions used to calculate the net cost for years ended December 31:

	2011	2012
Discount rate	6.6%	5.1%
Compensation increase (where applicable)	–	–

Assumed healthcare cost trend rates at December 31:

	2011	2012
Healthcare cost trend rate assumed for next year	8.3%	7.5%
Rate that the cost trend rate will gradually reach	4.4%	5.2%
Year of reaching the rate at which it is assumed to remain	2018	2019

Assumed healthcare trend rates can have a significant effect on the amounts reported for the retiree medical plans. A one percentage-point change in assumed healthcare cost trend rates would have the following effects as at December 31:

	2011		2012	
	increase of 1%	decrease of 1%	increase of 1%	decrease of 1%
Effect on total of service and interest cost	1	(1)	1	–
Effect on postretirement benefit obligation	16	(14)	15	(13)

Historical data

	2008	2009	2010	2011	2012
Present value of defined-benefit obligation	353	295	297	269	250
Fair value of plan assets	–	–	–	–	–
(Deficit)	(353)	(295)	(297)	(269)	(250)
Experience adjustments in % on defined-benefit obligations; (gains) and losses	0.1%	4.9%	(8.1%)	(9.4%)	(4.8%)

30 Share-based compensation

The purpose of the share-based compensation plans is to align the interests of management with those of shareholders by providing incentives to improve the Company's performance on a long-term basis, thereby increasing shareholder value.

The Company has granted the following:

- options on its common shares;
- rights to receive common shares in the future (restricted share rights).

These options and restricted share rights are granted to members of the Board of Management and other members of the Executive Committee, executives and certain selected employees. The number of granted options and restricted share rights depend on multipliers which are based on the relative Total Shareholders Return of Philips in comparison with a peer group of 11 multinationals.

Furthermore, in January 2012, as part of the Accelerate! program, the Company has granted the following:

- options on its common shares (Accelerate! options);
- rights to receive common shares in the future (Accelerate! share rights).

These Accelerate! options and share rights are granted to a group of approximately 500 key employees below the level of Board of Management.

USD-denominated options and share rights are granted to employees in the United States only.

Share-based compensation costs were EUR 88 million (EUR 76 million, net of tax), EUR 56 million (EUR 58 million, net of tax) and EUR 83 million (EUR 66 million, net of tax) in 2012, 2011 and 2010, respectively.

Option plans

Under the Company's plans, options are granted at fair market value on the date of grant.

The Company grants options that expire after 10 years. Generally, these options vest after 3 years; however, a limited number of options granted to certain employees of acquired businesses may contain accelerated vesting. Except for the Accelerate! options, as of December 31, 2012 there are no outstanding options which contain non-market performance conditions.

The fair value of the Company's 2012, 2011 and 2010 option grants was estimated using a Black-Scholes option valuation model and the following weighted average assumptions:

	2010	2011	2012
EUR-denominated			
Risk-free interest rate	2.43%	2.89%	1.87%
Expected dividend yield	4.1%	3.3%	4.7%
Expected option life	6.5 yrs	6.5 yrs	6.5 yrs
Expected share price volatility	30%	30%	32%
USD-denominated			
Risk-free interest rate	2.43%	2.78%	1.23%
Expected dividend yield	3.9%	3.6%	4.5%
Expected option life	6.5 yrs	6.5 yrs	6.5 yrs
Expected share price volatility	32%	34%	38%

The Company grants Accelerate! options that expire after 10 years. The Accelerate! options ultimately vest on March 31, 2014. The actual number of Accelerate! options that will ultimately vest is dependent on achievement of the performance targets under the Accelerate! program, which are based on the 2013 mid-term financial targets, and provided that the employee is still employed with the Company.

The fair value of the Company's Accelerate! option was estimated using a Black-Scholes option valuation model and the following assumptions:

	2012
EUR-denominated	
Risk-free interest rate	1,52%
Expected dividend yield	4.3%
Expected option life	6.5 yrs
Expected share price volatility	32%
USD-denominated	
Risk-free interest rate	1.19%
Expected dividend yield	4.0%
Expected option life	6.5 yrs
Expected share price volatility	38%

The assumptions were used for these calculations only and do not necessarily represent an indication of Management's expectations of future developments.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of subjective assumptions, including the expected price volatility.

The Company has based its volatility assumptions on historical experience for a period equal to the expected life of the options. The expected life of the options is also based upon historical experience.

The Company's employee stock options have characteristics significantly different from those of traded options, and changes in the assumptions can materially affect the fair value estimate.

The following tables summarize information about the Company's options as of December 31, 2012 and changes during the year:

Option plans (excluding Accelerate! options)
EUR-denominated

	shares	weighted average exercise price
Outstanding at January 1, 2012	25,552,128	23.77
Granted	3,983,925	14.89
Exercised	754,979	13.76
Forfeited	2,263,287	22.92
Expired	3,408,522	32.02
Outstanding at December 31, 2012	23,109,265	21.43
Exercisable at December 31, 2012	13,019,540	22.89

The exercise prices range from EUR 12.63 to EUR 32.04. The weighted average remaining contractual term for options outstanding and options exercisable at December 31, 2012, was 5.9 years and 3.9 years, respectively. The aggregate intrinsic value of the options outstanding and options exercisable at December 31, 2012, was EUR 38 million and EUR 18 million, respectively.

The weighted average grant-date fair value of options granted during 2012, 2011, and 2010 was EUR 2.84, EUR 4.82 and EUR 4.95, respectively. The total intrinsic value of options exercised during 2012, 2011, and 2010 was approximately EUR 3 million, EUR 1 million and EUR 6 million, respectively.

Option plans (excluding Accelerate! options)
USD-denominated

	shares	weighted average exercise price
Outstanding at January 1, 2012	17,110,352	30.56
Granted	3,280,941	19.60
Exercised	651,330	17.42
Forfeited	1,441,659	29.68
Expired	1,691,652	30.10
Outstanding at December 31, 2012	16,606,652	29.04
Exercisable at December 31, 2012	9,420,431	31.25

The exercise prices range from USD 16.41 to USD 44.15. The weighted average remaining contractual term for options outstanding and options exercisable at December 31, 2012, was 6.1 years and 4.2 years, respectively. The aggregate intrinsic value of the options outstanding and options exercisable at December 31, 2012, was USD 41 million and USD 19 million, respectively.

The weighted average grant-date fair value of options granted during 2012, 2011 and 2010 was USD 4.56, USD 7.47 and USD 7.71, respectively. The total intrinsic value of options exercised during 2012, 2011 and 2010 was USD 4 million, USD 4 million and USD 7 million.

At December 31, 2012, a total of EUR 28 million of unrecognized compensation costs relate to non-vested options. These costs are expected to be recognized over a weighted-average period of 1.7 years. Cash received from exercises under the Company's option plans amounted to EUR 19 million, EUR 20 million and EUR 39 million in 2012, 2011, and 2010, respectively. The actual tax deductions realized as a result of option exercises totaled approximately EUR 1 million, EUR 1 million and EUR 2 million, in 2012, 2011, and 2010, respectively.

The outstanding options are categorized in exercise price ranges as follows:

Option plans (excluding Accelerate! options)

exercise price	shares	intrinsic value in millions	weighted average remaining contractual term
EUR-denominated			
10-15	5,894,502	34	8.2 yrs
15-20	2,378,247	4	2.3 yrs
20-25	10,054,042	–	6.3 yrs
25-30	2,009,241	–	3.3 yrs
30-35	2,773,233	–	4.3 yrs
	23,109,265	38	5.9 yrs
USD-denominated			
15-20	4,656,080	38	7.7 yrs
20-25	396,606	2	8.6 yrs
25-30	4,073,352	1	5.7 yrs
30-35	3,527,301	–	5.5 yrs
35-40	2,014,092	–	5.2 yrs
40-55	1,939,221	–	4.3 yrs
	16,606,652	41	6.1 yrs

The aggregate intrinsic value in the tables and text above represents the total pre-tax intrinsic value (the difference between the Company's closing share price on the last trading day of 2012 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders if the options had been exercised on December 31, 2012.

The following table summarizes information about the Company's Accelerate! options as of December 31, 2012 and changes during the year:

Accelerate! options

	shares	weighted average exercise price
EUR-denominated		
Granted	3,082,000	15.24
Forfeited	155,000	15.24
Outstanding at December 31, 2012	2,927,000	15.24
USD-denominated		
Granted	940,000	20.02
Forfeited	80,000	20.02
Outstanding at December 31, 2012	860,000	20.02

The exercise price of the Accelerate! options are EUR 15.24 and USD 20.02. The average remaining contractual term for both EUR and USD Accelerate! options outstanding at December 31, 2012, was 9.1 years. The aggregate intrinsic value of the Accelerate! options outstanding at December 31, 2012, was EUR 14 million and USD 6 million respectively.

The grant-date fair value of Accelerate! options granted during 2012 was EUR 3.01 and USD 4.90. At December 31, 2012, a total of EUR 6 million of unrecognized compensation costs relate to both EUR and USD non-vested Accelerate! options. These costs are expected to be recognized over a period of 1.3 years.

Share plans

The fair value of restricted and Accelerate! share rights is equal to the fair value of the share at grant date less the present value of dividends which will not be received up to the vesting date.

The Company issues restricted share rights that vest in equal annual installments over a three-year period, starting one year after the date of grant. If the grantee still holds the shares after three years from the delivery date, Philips will grant 20% additional (premium) shares, provided the grantee is still with the Company on the respective delivery dates.

A summary of the status of the Company's restricted share plans as of December 31, 2012 and changes during the year are presented below:

Restricted share rights (excluding Accelerate! share rights)[1)]

	shares	weighted average grant-date fair value
EUR-denominated		
Outstanding at January 1, 2012	1,860,891	19.10
Granted	1,147,926	13.44
Vested/Issued	849,144	18.28
Forfeited	204,688	17.69
Outstanding at December 31, 2012	1,954,985	16.45
USD-denominated		
Outstanding at January 1, 2012	1,264,699	26.33
Granted	1,445,614	17.81
Vested/Issued	579,861	24.87
Forfeited	206,296	22.39
Outstanding at December 31, 2012	1,924,156	20.99

1) Excludes 20% additional (premium) shares that may be received if shares delivered under the restricted share rights plan are not sold for a three-year period

At December 31, 2012, a total of EUR 35 million of unrecognized compensation costs relate to non-vested restricted share rights. These costs are expected to be recognized over a weighted-average period of 2 years.

The Company issues Accelerate! share rights that ultimately vest on March 31, 2014. After vesting an additional two-year holding period applies. The actual number of Accelerate! share rights that will ultimately vest is dependent on the performance targets under the Accelerate! program, which are based on the 2013 mid-term financial targets, and provided that the employee is still employed with the Company.

A summary of the status of the Company's Accelerate! share plans as of December 31, 2012 and changes during the year are presented below:

Accelerate! share rights

	shares	weighted average grant-date fair value
EUR-denominated		
Granted	3,082,000	13.75
Forfeited	155,000	13.75
Outstanding at December 31, 2012	2,927,000	13.75
USD-denominated		
Granted	940,000	18.05
Forfeited	80,000	18.05
Outstanding at December 31, 2012	860,000	18.05

At December 31, 2012, a total of EUR 27 million of unrecognized compensation costs relate to both EUR and USD non-vested Accelerate! share rights. These costs are expected to be recognized over a period of 1.3 years.

Other plans

Employee share purchase plan
Under the terms of employee stock purchase plans established by the Company in various countries, substantially all employees in those countries are eligible to purchase a limited number of Philips shares at discounted prices through payroll withholdings, of which the maximum ranges from 5% to 10% of total salary. Generally, the discount provided to the employees is in the range of 10% to 20%. A total of 1,906,183 shares were sold to employees in 2012 under the plan at an average price of EUR 15.69 (2011: 1,851,718 shares at EUR 17.93, 2010: 1,411,956 shares at EUR 22.54).

Convertible personnel debentures
In the Netherlands, the Company issued personnel debentures with a 2-year right of conversion into common shares of Royal Philips Electronics starting three years after the date of issuance, with a conversion price equal to the share price on that date. The last issuance of this particular plan was in December 2008. From 2009 onwards, employees in the Netherlands are able to join an employee share purchase plan as described in the previous paragraph. The fair value of the conversion option of EUR 2.13 in 2008 was recorded as compensation expense. In 2012, 270,827 shares were issued in conjunction with conversions at an average price

of EUR 14.22 (2011: 1,079 shares at an average price of EUR 24.66, 2010: 279,170 shares at an average price of EUR 20.86).

Lumileds plan

In December 2006, the Company offered to exchange outstanding Lumileds Depository Receipts and options for cash and share-based instruments settled in cash. The amount to be paid to settle the obligation, with respect to share-based instruments, will fluctuate based upon changes in the fair value of Lumileds. Substantially all of the holders of the options and the depository receipts accepted the Company's offer. The amount of the share-based payment liability, which is denominated in US dollars, recorded at December 31, 2011 was EUR 2.7 million. During 2012, the Company paid EUR 2.7 million as a final settlement of the liability.

31 Related-party transactions

In the normal course of business, Philips purchases and sells goods and services from/to various related parties in which Philips typically holds a 50% or less equity interest and has significant influence. These transactions are generally conducted with terms comparable to transactions with third parties.

	2010	2011	2012
Sales of goods and services	240	278	288
Purchases of goods and services	229	117	130
Receivables from related parties	20	19	13
Payables to related parties	5	6	4

Philips made various commitments, upon signing the agreement with TPV Technology Limited (TPV), to provide further funding to the venture (TP Vision):

- A subordinated shareholder loan of EUR 51 million has been provided to TP Vision based on Philips' share of 30% of the venture. EUR 21 million of this loan is due April, 2015 and EUR 30 million due April, 2017. Both loans can be extended depending on the venture's funding needs;
- A Senior 12-month EUR 30 million bridge loan to TP Vision, based on Philips' share of 30% in the venture, that can be extended until April, 2017 depending on the venture's funding needs. This bridge loan replaced the 9-month EUR 100 million senior bridge loan to the venture which was not drawn upon during 2012;
- Payment of EUR 172 million non-refundable one-off advertising and promotion support for the venture in two installments: EUR 122 million which was disbursed in 2012, and EUR 50 million to be paid in 2013.
- A EUR 100 million loan has been provided to TPV, due April, 2015.

In addition, depending on the funding needs of the venture, Philips has committed to provide EUR 60 million based on its 30% share in TP Vision. This additional funding is considered to have only a remote possibility of occurring.

See also note 5, Discontinued operations and other assets classified as held for sale for further details on the Television business divestment.

In light of the composition of the Executive Committee during 2012, the Company considered the members of the Executive Committee and the Supervisory board to be the key management personnel as defined in IAS 24 'Related parties'. In 2010 and 2011, the Company considered the members of the Board of Management and the Supervisory board to be the key management personnel.

For remuneration details of the Executive Committee, the Board of Management and the Supervisory Board see note 32, Information on remuneration.

For employee benefit plans see note 29, Pensions and other postretirement benefits.

32 Information on remuneration

Remuneration of the Executive Committee

In 2012, the total remuneration costs relating to the members of the Executive Committee (including the members of the Board of Management) amounted to EUR 18,585,112 consisting of the elements in the table below.

Remuneration costs of the Executive Committee 2012
in euros

Salary	5,640,090
Annual incentive[1]	4,839,949
Stock options[2]	1,194,444
Restricted share rights[2]	2,615,653
Pension costs	2,054,516
Other compensation[3]	2,240,460

1) The annual incentives are related to the performance in the year reported which are paid out in the subsequent year.
2) Costs of stock options and restricted share rights are based on accounting standards (IFRS) and do not reflect the value of stock options at the end of the lock up period and the value of restricted share rights at the release date
3) The stated amount concern (share of) allowances to members of the Executive Committee that can be considered as remuneration. In a situation where such a share of an allowance can be considered as (indirect) remuneration (for example, private use of the company car), then the share is both valued and accounted for here. The method employed by the fiscal authorities in the Netherlands is the starting point for the value stated. The one-time crisis tax levy of 16% as imposed by the Dutch government amounts to EUR 702,940. This crisis tax is payable by the employer and is charged over income of employees exceeding a EUR 150,000 threshold in 2012. This once-only amount is included in the amount stated under ‘other compensation’.

At December 31, 2012, the members of the Executive Committee (including the members of the Board of Management) held 1,376,913 stock options at a weighted average exercise price of EUR 18.23.

Remuneration of the Board of Management

In 2012, the total remuneration costs relating to the members of the Board of Management amounted to EUR 7,301,334 (2011: EUR 10,844,833; 2010: EUR 12,174,279).

At December 31, 2012, the members of the Board of Management held 454,500 stock options (2011: 1,072,431; 2010: 1,957,282) at a weighted average exercise price of EUR 18.78 (2011: EUR 23.01; 2010: EUR 24.94).

Remuneration costs of individual members of the Board of Management
in euros

	salary	annual incentive[1]	stock options[2]	restricted share rights[2]	pension costs	other compensation[3]
2012[4]						
F.A. van Houten	1,100,000	1,279,520	209,589	315,760	422,845	47,154
R.H. Wirahadiraksa	600,000	523,440	149,067	217,020	243,438	34,961
P.A.J. Nota	600,000	556,200	188,029	253,836	247,883	60,754
S.H. Rusckowski (Jan. - Apr.)	233,333	178,500	(200,400)	(209,638)	90,211	159,833
	2,533,333	2,537,660	346,285	576,978	1,004,377	302,701
2011						
F.A. van Houten (Apr. - Dec.)	825,000	363,000	125,957	253,926	297,179	39,709
R.H. Wirahadiraksa (Apr. - Dec.)	450,000	148,500	105,477	180,686	170,299	72,125
G.H.A. Dutiné	650,000	214,500	462,263	334,186	245,018	143,774
P.A.J. Nota (Apr. - Dec.)	450,000	148,500	131,159	255,159	168,532	67,067
S.H. Rusckowski	687,500	231,000	211,915	341,856	254,975	336,773
G.J. Kleisterlee (Jan. - March)	275,000	92,400	375,736	29,973	(48,117)[5]	105,679
P-J. Sivignon (Jan. - March)	178,750	45,045	213,435	7,041	68,830	9,340
R.S. Provoost (Jan. - Sept.)	512,500	132,300	213,434	69,545	175,301	22,606
	4,028,750	1,375,245	1,839,376	1,472,372	1,332,017	797,073
2010						
G.J. Kleisterlee	1,100,000	962,720	328,485	444,005	(255,757)[5]	321,778
P-J. Sivignon	711,250	469,326	187,763	255,398	240,051	28,122
G.H.A Dutiné	643,750	426,660	185,364	252,057	203,404	135,459
R.S. Provoost	646,250	426,660	185,364	251,225	193,194	30,919
A. Ragnetti (Jan. - Aug.)	429,583	284,440	425,340	284,199	134,353	433,489[6]
S.H. Rusckowski	646,250	426,660	187,763	255,228	216,814	76,713
	4,177,083	2,996,466	1,500,079	1,742,112	732,059	1,026,480

1) The annual incentives are related to the performance in the year reported which are paid out in the subsequent year. For more details on the annual incentives, see sub-section 10.2.6, Annual Incentive, of this Annual Report
2) Costs of stock options and restricted share rights are based on accounting standards (IFRS) and do not reflect the value of stock options at the end of the lock up period and the value of restricted share rights at the release date
3) The stated amounts concern (share of) allowances to members of the Board of Management that can be considered as remuneration. In a situation where such a share of an allowance can be considered as (indirect) remuneration (for example, private use of the company car), then the share is both valued and accounted for here. The method employed by the fiscal authorities in the Netherlands is the starting point for the value stated. In 2011 the other compensation for Mr Rusckowski includes an amount of USD 445,976 (= EUR 325,352) related to tax equalization in connection with pension obligations
4) A one-time crisis levy of 16% as imposed by the Dutch government amounts to EUR 413,405 in total. This crisis tax levy is payable by the employer and is charged over income of employees exceeding a EUR 150,000 threshold in 2012. These expenses do not form part of the remuneration costs mentioned.
5) As Mr Kleisterlee was born before January 1, 1950, he continued to be a member of the final pay plan with a pensionable age of 60. No further accrual took place
6) The other compensation amount includes an amount of EUR 400,000 as a one-off payment provided in conjunction with the departure of Mr Ragnetti from the Company

For further information on remuneration costs, see sub-section 10.2.4, Remuneration costs, of this Annual Report.

The tables below give an overview of the interests of the members of the Board of Management under the restricted share rights plans and the stock option plans of the Company:

Number of restricted share rights

	January 1, 2012	awarded 2012	released 2012	December 31, 2012	potential premium shares
F.A. van Houten	23,401[1)]	20,001	8,367	35,035	9,024
R.H. Wirahadiraksa	17,419[1)]	13,602	6,976	24,045	7,389
P.A.J. Nota	20,402[1)]	13,602	7,934	26,070	7,482
	61,222	47,205	23,277	85,150	23,895

1) (Partly) awarded before date of appointment as a member of the Board of Management

Stock options

	January 1, 2012	granted	exercised	expired	December 31, 2012	exercise price (in euros)	share (closing) price on exercise date	expiry date
F.A. van Houten	20,400[1)]	–	–	–	20,400	22.88	–	10.18.2020
	75,000	–	–	–	75,000	20.90	–	04.18.2021
	–	75,000	–	–	75,000	14.82	–	04.23.2022
R.H. Wirahadiraksa	10,800[1)]	–	–	–	10,800	23.11	–	04.14.2018
	12,000[1)]	–	–	–	12,000	12.63	–	04.14.2019
	16,500[1)]	–	–	–	16,500	24.90	–	04.19.2020
	51,000	–	–	–	51,000	20.90	–	04.18.2021
	–	51,000	–	–	51,000	14.82	–	04.23.2022
P.A.J. Nota	40,800[1)]	–	–	–	40,800	22.88	–	10.18.2020
	51,000	–	–	–	51,000	20.90	–	04.18.2021
	–	51,000	–	–	51,000	14.82	–	04.23.2022
	277,500	177,000	–	–	454,500			

1) Awarded before date of appointment as a member of the Board of Management

See note 30, Share-based compensation for further information on stock options and restricted share rights as well sub-section 10.2.7, Long-Term Incentive Plan, of this Annual Report.

The accumulated annual pension entitlements and the pension costs of individual members of the Board of Management are as follows (in euros):

	age at December 31, 2012	accumulated annual pension as of December 31, 2012[1]	pension costs[2,3]
F.A. van Houten	52	46,655	422,845
R.H. Wirahadiraksa	52	25,207	243,438
P.A.J. Nota	48	17,253	247,883
S.H. Rusckowski	55	40,647	90,211
			1,004,377

[1] Under average pay plan as of December 31, 2012 or the end date of employment
[2] Including costs related to employer contribution in defined-contribution pension plan
[3] Cost are related to the period of board membership

When pension rights are granted to members of the Board of Management, necessary payments (if insured) and all necessary provisions are made in accordance with the applicable accounting principles. In 2012, no (additional) pension benefits were granted to former members of the Board of Management.

Remuneration of the Supervisory Board

The remuneration of the members of the Supervisory Board amounted to EUR 799,500 (2011: EUR 803,250; 2010: EUR 777,000); former members received no remuneration.

At December 31, 2012, the members of the Supervisory Board held no stock options.

The individual members of the Supervisory Board received, by virtue of the positions they held, the following remuneration (in euros):

	membership	committees	other compensation[1]	total
2012				
J. van der Veer	110,000	20,500	5,000	135,500
J.M. Thompson (Jan. - Apr.)	32,500	4,667	11,000	48,167
C.J.A. van Lede	65,000	10,834	5,000	80,834
E. Kist	65,000	10,333	5,000	80,333
J.J. Schiro	65,000	17,000	17,000	99,000
H. von Prondzynski	65,000	10,000	5,000	80,000
C. Poon	65,000	12,666	14,000	91,666
J.P. Tai	65,000	13,333	17,000	95,333
N. Dhawan (Apr. - Dec.)	65,000	6,667	17,000	88,667
	597,500	106,000	96,000	799,500
2011				
J. van der Veer	98,750	19,375	2,000	120,125
J-M. Hessels (Jan. - March)	55,000	5,125	2,000	62,125
J.M. Thompson	65,000	14,000	20,000	99,000
C.J.A. van Lede	65,000	12,500	2,000	79,500
E. Kist	65,000	15,000	2,000	82,000
J.J. Schiro	65,000	14,000	17,000	96,000
H. von Prondzynski	65,000	10,000	2,000	77,000
C. Poon	65,000	10,000	20,000	95,000
J.P. Tai (Apr. - Dec.)	65,000	7,500	20,000	92,500
	608,750	107,500	87,000	803,250
2010				
J.-M.Hessels	110,000	20,500	5,000	135,500
J.M. Thompson	65,000	14,000	14,000	93,000
R. Greenbury (Jan. - March)	32,500	2,000	2,000	36,500
C.J.A. van Lede	65,000	12,500	5,000	82,500
E. Kist	65,000	15,000	5,000	85,000
J.J. Schiro	65,000	14,500	11,000	90,500
H. von Prondzynski	65,000	10,000	5,000	80,000
C. Poon	65,000	7,500	17,000	89,500
J. van der Veer	65,000	14,500	5,000	84,500
	597,500	110,500	69,000	777,000

1) The amounts mentioned under other compensation relate to the fee for intercontinental travel and the entitlement of EUR 2,000 under the Philips product arrangement.

Supervisory Board members' and Board of Management members' interests in Philips shares

Members of the Supervisory Board and of the Board of Management are not allowed to hold any interests in derivative Philips securities.

Number of shares[1]

	December 31, 2011	December 31, 2012
J. van der Veer	15,781	16,624
H. von Prondzynski	3,124	3,290
J.P. Tai	−	1,053
F.A. van Houten	11,700	21,048
R.H. Wirahadiraksa	8,030	16,060
P.A.J. Nota	3,400	11,757

1) Reference date for board membership is December 31, 2012

33 Fair value of financial assets and liabilities

The estimated fair value of financial instruments has been determined by the Company using available market information and appropriate valuation methods. The estimates presented are not necessarily indicative of the amounts that will ultimately be realized by the Company upon maturity or disposal. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.

For cash and cash equivalents, current receivables, current payables, interest accrual and short-term debts, the carrying amounts approximate fair value, because of the short maturity of these instruments.

The fair value of Philips' debt is estimated on the basis of the quoted market prices for certain issues, or on the basis of discounted cash flow analysis based upon market rates plus Philips' spread for the particular tenors of the borrowing arrangement. Accrued interest is not within the carrying amount or estimated fair value of debt.

	December 31, 2011		December 31, 2012	
	carrying amount	estimated fair value	carrying amount	estimated fair value
Financial assets				
Carried at fair value:				
Available-for-sale financial assets - non-current	139	139	153	153
Available-for-sale financial assets - current	−	−	−	−
Fair value through profit and loss - non-current	67	67	47	47
Fair value through profit and loss - current	−	−	−	−
Derivative financial instruments	229	229	137	137
	435	435	337	337
Carried at (amortized) cost:				
Cash and cash equivalents	3,147	3,147	3,834	3,834
Other current financial assets	−	−	−	−
Loans and receivables:				
Other non-current loans and receivables including guarantee deposits	72	72	267	267
Loans to investments in associates	2	2	−	−
Receivables - current	4,828	4,828	4,585	4,585
Receivables - non-current	127	127	176	176
Held-to-maturity investments	3	3	3	3
Available-for-sale financial assets	65	65	79	79
	8,244	8,244	8,944	8,944
Financial liabilities				
Carried at fair value:				
Fair value through profit and loss - non-current	−	−	(11)	(11)
Derivative financial instruments	(744)	(744)	(517)	(517)
Carried at (amortized) cost:				
Accounts payable	(3,346)	(3,346)	(2,839)	(2,839)
Interest accrual	(65)	(65)	(75)	(75)
Debt	(3,860)	(4,489)	(4,534)	(5,532)
	(7,271)	(7,900)	(7,448)	(8,446)

The table below analyses financial instruments carried at fair value, by different hierarchy levels:

Fair value hierarchy

	level 1	level 2	level 3	total
December 31, 2012				
Available-for-sale financial assets - non-current	110		43	153
Available-for-sale financial assets - current	–			–
Financial assets designated at fair value through profit and loss - non-current	28		19	47
Financial asses designated at fair value through profit and loss - current	–			–
Derivative financial instruments - assets		137		137
Total financial assets carried at fair value	138	137	62	337
Financial liabilities designated at fair value through profit and loss - non-current			(11)	(11)
Derivative financial instruments - liabilities		(517)	–	(517)
December 31, 2011				
Available-for-sale financial assets - non-current	103		36	139
Available-for-sale financial assets - current	–			–
Financial assets designated at fair value through profit and loss - non-current	59		8	67
Financial assets designated at fair value through profit and loss - current	–			–
Derivative financial instruments - assets		229		229
Total financial assets carried at fair value	162	229	44	435
Derivative financial instruments - liabilities		(744)		(744)

Specific valuation techniques used to value financial instruments include:

Level 1

Instruments included in level 1 are comprised primarily of listed equity investments classified as available-for-sale financial assets, investees and financial assets designated at fair value through profit and loss.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives or convertible bond instruments) are determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are based on observable market data, the instrument is included in level 2.

The fair value of derivatives is calculated as the present value of the estimated future cash flows based on observable interest yield curves, basis spread and foreign exchange rates.

The valuation of convertible bond instruments uses observable market quoted data for the options and present value calculations using observable yield curves for the fair value of the bonds.

Level 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3. The arrangement with the UK Pension Fund in conjunction with the sale of NXP is a financial instrument carried at fair value classified as level 3. At the end of 2012, the fair value of this instrument is estimated to be EUR 14 million with the changes of fair value recorded to financial income and expense. Please refer to note 12, Other non-current financial assets for more details.

Furthermore, deferred consideration and loan extension options to TP Vision are also included in level 3.

The table below shows the reconciliation from the beginning balance to the end balance for fair value measured in Level 3 of the fair value hierarchy.

	financial assets	financial liabilities
Balance at January 1, 2012	44	–
Total gains and losses recognised in:		
- profit or loss	11	(11)
- other comprehensive income	7	–
Balance at December 31, 2012	62	(11)

34 Details of treasury risks

Philips is exposed to several types of financial risk. This note further analyzes financial risks. Philips does not purchase or hold derivative financial instruments for speculative purposes. Information regarding financial instruments is included in note 33, Fair value of financial assets and liabilities.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk for the group is monitored through the Treasury liquidity committee which tracks the development of the actual cash flow position for the group and uses input from a number of sources in order to forecast the overall liquidity position both on a short and long term basis. Corporate Treasury invests surplus cash in money market deposits with appropriate maturities to ensure sufficient liquidity is available to meet liabilities when due.

The rating of the Company's debt by major rating services may improve or deteriorate. As a result, Philips' future borrowing capacity may be influenced and its financing costs may fluctuate. Philips has various sources to mitigate the liquidity risk for the group. At December 31, 2012, Philips had EUR 3,834 million in cash and cash equivalents (2011: EUR 3,147 million), within which short-term deposits of EUR 3,177 million (2011: EUR 2,422 million) and other liquid assets of EUR 120 million (2011: EUR 119 million). Philips pools cash from subsidiaries to the extent legally and economically feasible; cash not pooled remains available for operational or investment needs by the Company.

Furthermore, Philips has a USD 2.5 billion Commercial Paper Program and a EUR 1.8 billion revolving credit facility that can be used for general corporate purpose and as a backstop for its commercial paper program. In January 2013 the EUR 1.8 billion facility was extended by 2 years until February 18, 2018. The facility has no financial covenants and repetitive material adverse change clauses and can be used for general corporate purposes. As of December 31, 2012, Philips did not have any amounts outstanding under any of these facilities. Additionally Philips also held EUR 120 million of equity investments in available-for-sale financial assets (fair value at December 31, 2012).

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency fluctuations may impact Philips' financial results. Philips is exposed to currency risk in the following areas:

- Transaction exposures, related to forecasted sales and purchases and on-balance-sheet receivables/payables resulting from such transactions
- Translation exposure of net income in foreign entities
- Translation exposure of foreign-currency intercompany and external debt and deposits
- Translation exposure of foreign-currency-denominated equity invested in consolidated companies
- Translation exposure to equity interests in non-functional-currency investments in associates and available-for-sale financial assets.

It is Philips' policy that significant transaction exposures are hedged by the businesses. Accordingly, all businesses are required to identify and measure their exposures resulting from material transactions denominated in currencies other than their own functional currency. Philips' policy generally requires committed foreign currency exposures to be fully hedged using forwards. Anticipated transactions may be hedged using forwards or options or a combination thereof. The amount hedged as a proportion of the total anticipated exposure identified varies per business and is a function of the ability to project cash flows, the time horizon for the cash flows and the way in which the businesses can adapt to changing levels of foreign-currency exchange rates. As a result, hedging activities cannot and will not eliminate all currency risks for these anticipated transaction exposures. Generally, the maximum tenor of these hedges is 18 months.

The following table outlines the estimated nominal value in millions of euros for transaction exposure and related hedges for Philips' most significant currency exposures consolidated as of December 31, 2012:

Estimated transaction exposure and related hedges
in millions of euros

	maturity 0-60 days		maturity over 60 days	
	exposure	hedges	exposure	hedges
Receivables				
Functional vs. exposure currency				
EUR vs. USD	454	(440)	1,803	(1,212)
USD vs. EUR	259	(226)	1,050	(553)
EUR vs. JPY	46	(45)	201	(139)
EUR vs. GBP	50	(43)	165	(94)
USD vs. JPY	32	(30)	182	(93)
EUR vs. PLN	40	(34)	60	(32)
USD vs. AUD	19	(14)	61	(31)
USD vs. CAD	15	(12)	62	(32)
CNY vs. EUR	17	(13)	58	(38)
USD vs. GBP	12	(9)	57	(29)
Others	154	(131)	338	(201)
Payables				
Functional vs. exposure currency				
EUR vs. USD	(188)	184	(653)	435
USD vs. CNY	(68)	68	(303)	173
EUR vs. PLN	(34)	27	(151)	80
IDR vs. USD	(28)	20	(108)	56
MXN vs. USD	(15)	7	(100)	6
USD vs. SGD	(17)	12	(87)	45
USD vs. MYR	(12)	8	(65)	26
EUR vs. GBP	(18)	17	(50)	27
CAD vs. USD	(23)	17	(42)	23
BRL vs. USD	(19)	16	(39)	13
Others	(200)	184	(277)	167

The derivatives related to transactions are, for hedge accounting purposes, split into hedges of on-balance-sheet accounts receivable/payable and forecasted sales and purchases. Changes in the value of on-balance-sheet foreign-currency accounts receivable/payable, as well as the changes in the fair value of the hedges related to these exposures, are reported in the income statement under costs of sales. Hedges related to forecasted transactions, where hedge accounting is applied, are accounted for as cash flow hedges. The results from such hedges are deferred in other comprehensive income within equity to the extent that the hedge is effective. As of December 31, 2012, a gain of EUR 20 million was deferred in equity as a result of these hedges. The result deferred in equity will be released to earnings mostly during 2013 at the time when the related hedged transactions affect the income statement. During 2012, a net gain of EUR 8 million was recorded in the income statement as a result of ineffectiveness on certain anticipated cash flow hedges.

The total net fair value of hedges related to transaction exposure as of December 31, 2012 was an unrealized asset of EUR 25 million. An instantaneous 10% increase in the value of the euro against all currencies would lead to a decrease of EUR 69 million in the value of the derivatives; including a EUR 96 million decrease related to foreign exchange transactions of the US dollar against the euro, a EUR 17 million decrease related to foreign exchange transactions of the Japanese yen against euro, a EUR 8 million decrease related to foreign exchange transactions of the Pound sterling, partially offset by a EUR 69 million increase related to foreign exchange transactions of the euro against the US dollar.

The EUR 69 million decrease includes a loss of EUR 28 million that would impact the income statement, which would largely offset the opposite revaluation effect on the underlying accounts receivable and payable, and the remaining loss of EUR 41 million would be recognized in equity to the extent that the cash flow hedges were effective.

The total net fair value of hedges related to transaction exposure as of December 31, 2011 was an unrealized asset of EUR 7 million. As of February 2012, an instantaneous 10% increase in the value of the euro against all currencies would have led to an increase of EUR 19 million in the value of the derivatives; including a EUR 77 million increase related to foreign exchange transactions of the euro against the US dollar, partially offset by a EUR 17 million decrease related to foreign exchange transactions of the US dollar against the euro, a EUR 14 million decrease related to foreign exchange transactions of the Japanese yen against the euro, and a EUR 10 million decrease related to foreign exchange transactions of the pound sterling.

Foreign exchange exposure also arises as a result of inter-company loans and deposits. Where the Company enters into such arrangements the financing is generally provided in the functional currency of the subsidiary entity. The currency of the Company's external funding and liquid assets is matched with the required financing of subsidiaries either directly through external foreign currency loans and deposits, or synthetically by using foreign exchange derivatives. In certain cases where group companies may also have external foreign currency debt or liquid assets, these exposures are also hedged through the use of foreign exchange derivatives. Changes in the fair value of hedges related to this translation exposure are recognized within financial income and expenses in the income statement. Translation exposure of foreign-currency equity invested in consolidated entities may be hedged. If a hedge is entered into, it is accounted for as a net investment hedge. The total net fair value of these financing derivatives as of December 31, 2012, was a liability of EUR 404 million. An instantaneous 10% increase in the value of the euro against all currencies would lead to an increase of EUR 423 million in the value of the derivatives, including a EUR 356 million increase related to the US dollar. The total amount recorded in other comphresensieve income related to net investment hedges in 2012 was EUR 14 million.

Philips does not currently hedge the foreign exchange exposure arising from equity interests in non-functional-currency investments in associates and available-for-sale financial assets.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Philips had outstanding debt of EUR 4,534 million, which created an inherent interest rate risk. Failure to effectively hedge this risk could negatively impact financial results. At year-end, Philips held EUR 3,834 million in cash and cash equivalents, total long-term debt of EUR 3,725 million and total short-term debt of EUR 809 million. At December 31, 2012, Philips had a ratio of fixed-rate long-term debt to total outstanding debt of approximately 72%, compared to 73% one year earlier.

A sensitivity analysis conducted as of January 2013 shows that if long-term interest rates were to decrease instantaneously by 1% from their level of December 31, 2012, with all other variables (including foreign exchange rates) held constant, the fair value of the long-term debt would increase by approximately EUR 422 million. If there was an increase of 1% in long-term interest rates, this would reduce the market value of the long-term debt by approximately EUR 339 million.

If interest rates were to increase instantaneously by 1% from their level of December 31, 2012, with all other variables held constant, the annualized net interest expense would decrease by approximately EUR 25 million. This impact was based on the outstanding net cash position at December 31, 2012.

A sensitivity analysis conducted as of February 2012 showed that if long-term interest rates were to decrease instantaneously by 1% from their level of December 31, 2011, with all other variables (including foreign exchange rates) held constant, the fair value of the long-term debt would increase by approximately EUR 245 million. If there was an increase of 1% in long-term interest rates, this would reduce the market value of the long-term debt by approximately EUR 245 million.

If interest rates were to increase instantaneously by 1% from their level of December 31, 2011, with all other variables held constant,
the annualized net interest expense would decrease by approximately EUR 21 million. This impact was based on the outstanding net
cash position at December 31, 2011.

Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in equity prices.

Philips is a shareholder in several publicly listed companies, including Chimei Innolux, Shenyang Neusoft Corporation Ltd, and TPV Technology Ltd. As a result, Philips is exposed to potential financial loss through movements in their share prices. The aggregate equity price exposure in its main available-for-sale financial assets amounted to approximately EUR 120 million at year-end 2012 (2011: EUR 110 million including investments in associates shares that were sold during 2011). Philips does not hold derivatives in its own stock or in the above-mentioned listed companies. Philips is also a shareholder in several privately owned companies amounting to EUR 36 million. As a result, Philips is exposed to potential value adjustments.

As part of the sale of shares in NXP to Philips Pension Trustees Limited there was an arrangement that may entitle Philips to a cash payment from the UK Pension Fund on or after September 7, 2014 if the value of the NXP shares has increased by this date to a level in excess of a predetermined threshold, which at the time of the transaction was substantially above the transaction price, and the UK Pension Fund is in surplus (on the regulatory funding basis) on September 7, 2014.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in commodity prices.

Philips is a purchaser of certain base metals, precious metals and energy. Philips hedges certain commodity price risks using derivative instruments to minimize significant, unanticipated earnings fluctuations caused by commodity price volatility. The commodity price derivatives that Philips enters into are accounted for as cash flow hedges to offset forecasted purchases. As of December 2012, a loss of EUR 0.3 million was deferred in equity as a result of these hedges. A 10% increase in the market price of all commodities as of December 31, 2012 would increase the fair value of the derivatives by EUR 2 million.

As of December 2011, a loss of EUR 1 million was deferred in equity as a result of these hedges. As of February 2012, a 10% increase in the market price of all commodities as of December 31, 2011 would increase the fair value of the derivatives by EUR 1 million.

Credit risk

Credit risk represents the loss that would be recognized at the reporting date, if counterparties failed completely to perform their payment obligations as contracted. Credit risk is present within Philips trade receivables. To have better insights into the credit exposures, Philips performs ongoing evaluations of the financial and non-financial condition of its customers and adjusts credit limits when appropriate. In instances where the creditworthiness of a customer is determined not to be sufficient to grant the credit limit required, there are a number of mitigation tools that can be utilized to close the gap including reducing payment terms, cash on delivery, pre-payments and pledges on assets.

Philips invests available cash and cash equivalents with various financial institutions and is exposed to credit risk with these counterparties. Philips is also exposed to credit risks in the event of non-performance by financial institutions with respect to financial derivative instruments. Philips actively manages concentration risk and on a daily basis measures the potential loss under certain stress scenarios, should a financial institution default. These worst-case scenario losses are monitored and limited by the company.

The company does not enter into any financial derivative instruments to protect against default by financial institutions. However, where possible the company requires all financial institutions with whom it deals in derivative transactions to complete legally enforceable netting agreements under an International Swap Dealers Association master agreement or otherwise prior to trading, and whenever possible, to have a strong credit rating from Standard & Poor's and Moody's Investor Services. Philips also regularly monitors the development of the credit risk of its financial counterparties. Wherever possible, cash is invested and financial transactions are concluded with financial institutions with strong credit ratings or with governments or government-backed institutions.

Below table shows the credit ratings of the financial institutions with which Philips had short-term deposits above EUR 25 million as of December 31, 2012:

Credit risk with number of counterparties
for deposits above EUR 25 million

	25-100 million	100-500 million	500-2,000 million
AAA-rated governments	−	1	−
AAA-rated government banks	−	−	1
AAA-rated bank counterparties	−	−	−
AA-rated bank counterparties	1	1	1
A-rated bank counterparties	1	3	−
	2	5	2

For an overview of the overall maximum credit exposure of the group's financial assets, please refer to note 33, Fair value of financial assets and liabilities for details of carrying amounts and fair value.

Country risk

Country risk is the risk that political, legal, or economic developments in a single country could adversely impact our performance. The country risk per country is defined as the sum of the equity of all subsidiaries and associated companies in country cross-border transactions, such as intercompany loans, accounts receivable from third parties and intercompany accounts receivable. The country risk is monitored on a regular basis.

As of December 31, 2012, the company had country risk exposure of EUR 8 billion in the United States, EUR 3 billion in the Netherlands and EUR 1 billion in China (including Hong Kong). Other countries higher than EUR 500 million are Japan (EUR 750 million) and United Kingdom (EUR 741 million). Countries where the risk exceeded EUR 300 million but was less than EUR 500 million are Belgium and Germany. The degree of risk of a country is taken into account when new investments are considered. The company does not, however, use financial derivative instruments to hedge country risk.

Other insurable risks

Philips is covered for a broad range of losses by global insurance policies in the areas of property damage/ business interruption, general and product liability, transport, directors' and officers' liability, employment practice liability, crime, and aviation product liability. The counterparty risk related to the insurance companies participating in the above mentioned global insurance policies are actively managed. As a rule Philips only selects insurance companies with a S&P credit rating of at least A-. Throughout the year the counterparty risk is monitored on a regular basis.

To lower exposures and to avoid potential losses, Philips has a global Risk Engineering program in place. The main focus of this program is on property damage and business interruption risks including company interdependencies. Regular on-site assessments take place at Philips locations and business critical suppliers by risk engineers of the insurer in order to provide an accurate assessment of the potential loss and its impact. The results of these assessments are shared across the company's stakeholders. On-site assessments are carried out against the predefined Risk Engineering standards which are agreed between Philips and the insurers. Recommendations are made in a Risk Improvement report and are monitored centrally. This is the basis for decision-making by the local management of the business as to which recommendations will be implemented. In 2012 additional focus was put on assessing natural catastrophe exposure.

For all policies, deductibles are in place, which vary from EUR 250,000 to EUR 2,500,000 per occurrence and this variance is designed to differentiate between the existing risk categories within Philips. Above this first layer of working deductibles, Philips operates its own re-insurance captive, which during 2012 retained EUR 2.5 million per occurrence for property damage and business interruption losses and EUR 5 million in the aggregate per year. For general and product liability claims, the captive retained EUR 1.5 million per claim and EUR 6 million in the aggregate. New contracts were signed on December 31, 2012, for the coming year, whereby the re-insurance captive retentions remained unchanged.

35 Subsequent events

Transfer of Audio, Video, Multimedia and Accessories businesses to Funai

On 29 January 2013, Philips signed an agreement regarding the transfer of its Lifestyle Entertainment business (Audio, Video, Multimedia and Accessories) to Funai Electric Co., Ltd. (Funai). Under the terms of this agreement, Funai will pay a cash consideration of EUR 150 million and a brand license fee, relating to a license agreement for an initial period of five and a half years, with an optional renewal of five years. Currently these businesses belong to the operating sector Consumer Lifestyle.

The deal for the Audio, Video, Multimedia and Accessories businesses is expected to close second half of 2013. The Video business is expected to transfer in 2017, related to existing intellectual property licensing agreements. The gain on the transaction will be recorded at the closing date.

The transaction is subject to customary conditions, including regulatory and works council procedures.

Renewal of EUR 1.8 billion stand-by facility

On 18 January 2013, the Company extended its EUR 1.8 billion stand-by facility for 2 years until February 18, 2018. The facility has no financial covenants and repetitive material adverse change clauses and can be used for general corporate purposes.

Philips intends to sell its shareholding in Philips-Neusoft Medical Systems joint venture to Neusoft Medical Systems

On February 5, Philips announced that is has entered into a term sheet to sell its 51 percent shareholding in the Philips-Neusoft Medical Systems (PNMS) joint venture between Philips and Neusoft Medical Systems, a subsidiary of Neusoft Corporation, in Shenyang, China, to Neusoft Medical Systems and its overseas associates.

As part of the proposed agreement, a team of approximately 100 to 150 Computed Tomography (CT) system and component engineers and supporting staff will transfer from the joint venture to a new development center of Philips in Shenyang.

Financial details of the proposed transaction were not disclosed. The signing of the definitive agreements and subsequent closing is expected to take place before the end of 2013. The closing of the transaction is subject to the relevant shareholder and regulatory approvals.

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13 Company financial statements

Introduction

Statutory financial statements
The sections Group financial statements and Company financial statements contain the statutory financial statements of Koninklijke Philips Electronics N.V. (the Company).

Accounting policies applied
The financial statements of the Company included in this section are prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code. Section 362 (8), Book 2, Dutch Civil Code, allows companies that apply IFRS as adopted by the European Union in their consolidated financial statements to use the same measurement principles in their company financial statements. The Company has prepared these Company financial statements using this provision.

The accounting policies are described in section 12.10, Significant accounting policies, of this Annual Report.

Subsidiaries are accounted for using the net equity value in these Company financial statements.

Presentation of Company financial statements

The structure of the Company balance sheets is aligned with the Consolidated balance sheets in order to achieve optimal transparency between the Group financial statements and the Company financial statements. Consequently, the presentation of the Company balance sheets deviates from Dutch regulations.

The Company balance sheet has been prepared before the appropriation of result.

The Company statement of income 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.

Additional information
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 Annual Report, section 13.5, Independent auditor's report - Company, of this Annual Report, and section 5.4, Proposed distribution to shareholders, of this Annual Report.

Adjustments
Prior period amounts have been revised to reflect certain immaterial adjustments (see section 12.10, Significant accounting policies, of this Annual Report).

13.1 Balance sheets before appropriation of results

Balance sheets of Koninklijke Philips Electronics N.V. as of December 31
in millions of euros

			2011		2012
	Assets				
	Non-current assets:				
	Property, plant and equipment	1		2	
	Intangible assets	19		9	
A	Investments in affiliated companies	19,543		16,586	
	Non-current receivables	–		49	
	Deferred tax assets	148		212	
B	Other non-current financial assets	114		325	
			19,825		17,183
	Current assets:				
C	Receivables	3,206		7,988	
	Cash and cash equivalents	1,000		2,879	
			4,206		10,867
			24,031		28,050
	Liabilities and shareholders' equity				
D	Shareholders' equity:				
	Preference shares, par value EUR 0.20 per share:				
	- Authorized: 2,000,000,000 shares (2011: 2,000,000,000 shares)				
	- Issued: none				
	Common shares, par value EUR 0.20 per share:				
	- Authorized: 2,000,000,000 shares (2011: 2,000,000,000 shares)				
	- Issued and fully paid: 957,132,962 shares (2011: 1,008,975,445 shares)	202		191	
	Capital in excess of par value	813		1,304	
	Legal reserve: revaluation	70		54	
	Legal reserve: available-for-sale financial assets	45		54	
	Legal reserve: cash flow hedges	(9)		20	
	Legal reserve: affiliated companies	1,094		1,161	
	Legal reserve: currency translation differences	7		(93)	
	Retained earnings	13,079		9,326	
G	Net income [1]	(1,295)		226	
	Treasury shares, at cost: 42,541,687 shares (2011: 82,880,543 shares)	(1,690)		(1,103)	
			12,316		11,140
	Non-current liabilities:				
E	Long-term debt	2,955		3,539	
	Long-term provisions	49		10	
	Deferred tax liabilities	9		19	
	Other non-current liabilities	82		139	
			3,095		3,707
	Current liabilities:				
E	Short-term debt	7,351		11,742	
F	Other current liabilities	1,269		1,461	
			8,620		13,203
I	Contractual obligations and contingent liabilities not appearing in the balance sheet				
			24,031		28,050

This is the analyst selection from the A

[1] Prepared before appropriation of results

13.2 Statements of income

Statements of income of Koninklijke Philips Electronics N.V. for the years ended December 31
in millions of euros

	2011	2012
Net income from affiliated companies	(1,259)	635
Other net income	(36)	(409)
G Net income	(1,295)	226

13.3 Statement of changes in equity

Statement of changes in equity of Koninklijke Philips Electronics N.V.
in millions of euros unless otherwise stated

				legal reserves								
	outstanding number of shares in thousands	common shares	capital in excess of par value	revaluation	available-for-sale financial assets	cash flow hedges	affiliated companies	currency translation differences	retained earnings	net income	treasury shares at cost	shareholders' equity
Balance as of January 1, 2012	926,095	202	813	70	45	(9)	1,094	7	13,079	(1,295)	(1,690)	12,316
Appropriation of prior year result									(1,295)	1,295		–
Net income										226		226
Release revaluation reserve				(16)					16			–
Net current period change					8	23	67	(99)	(473)			(474)
Income tax on net current period change					(2)	(8)		–				(10)
Reclassification into income					3	14		(1)				16
Dividend distributed	30,522	6	422						(687)			(259)
Cancellation of treasury shares		(17)							(1,221)		1,238	–
Purchase of treasury shares	(46,871)								(47)		(769)	(816)
Re-issuance of treasury shares	4,845		(22)						(46)		118	50
Share-based compensation plans			84									84
Income tax on share-based compensation plans			7									7
Balance as of December 31, 2012	914,591	191	1,304	54	54	20	1,161	(93)	9,326	226	(1,103)	11,140

13.4

Notes

All amounts in millions of euros unless otherwise stated

Notes to the Company financial statements

A Investments in affiliated companies

The investments in affiliated companies (including goodwill) are presented in the balance sheet based on either their net asset value in accordance with the aforementioned accounting principles of the consolidated financial statements, or at amortized cost.

	investments in Group companies	investments in associates	loans	total
Balance as of January 1, 2012	17,694	95	1,754	19,543
Changes:				
Acquisitions/ additions	4,613	9	4,623	9,245
Sales/redemptions	(11,725)	−	(202)	(11,927)
Net income from affiliated companies	850	(16)	−	834
Dividends received	(535)	−	−	(535)
Translation differences	(100)	(1)	(72)	(173)
Other	(401)	−	−	(401)
Balance as of December 31, 2012	10,396	87	6,103	16,586

A list of subsidiaries and affiliated companies, prepared in accordance with the relevant legal requirements (Dutch Civil Code, Book 2, Sections 379 and 414), is deposited at the Chamber of Commerce in Eindhoven, The Netherlands.

In December 2012, the Company revisited its foreign based intra-group finance activities. In this context certain intra group finance activities were established in a new foreign based group company and existing activities, embedded in another foreign based group company, were wound down. The establishment and funding of the new finance company involved capital injections of EUR 4,183 million and the issuance of a Subordinated Loan of EUR 4,473 million subject to variable interest payments currently accrued at 5.85% per year. Both amounts are reflected in the line Acquisitions/additions. The winding down of existing foreign based intra-group finance activities resulted in a capital reduction of EUR 11,655 million, which is reflected in the line Sales/redemptions.

On December 5, 2012 the Company announced that it received a fine of EUR 313 million from the European Commission following an investigation into alleged violation of competition rules in the Cathode-Ray Tubes (CRT) industry. In addition, the European Commission has ordered Philips and LG Electronics to be jointly and severally liable to pay a fine of EUR 392 million for an alleged violation of competition rules by LG.Philips Displays (LPD), a 50/50 joint venture between the Company and LG Electronics. In 2006, LPD went bankrupt. The amount of EUR 196 million (being 50% of the fine related to LPD) is therefore recorded directly under net income from afficiated companies and not as a decrease of the investment value in associates. The book value of our interest in LPD, which qualifies as an investment in associates, is valued at nil. The loss of EUR 196 million is therefore recognized in Other current liabilities and is not visible in the table above.

Included in Other, under Investments in Group companies, are actuarial gains and losses of EUR 406 million related to defined-benefit plans of group companies.

B Other non-current financial assets

	available-for-sale financial assets	loans and receivables	financial assets at fair value through profit and loss	total
Balance as of January 1, 2012	81	25	8	114
Changes:				
Acquisitions/additions	13	206	17	236
Value adjustments	(2)	(10)	(5)	(17)
Impairments	(8)	−	−	(8)
Balance as of December 31, 2012	84	221	20	325

Available-for-sale financial assets

The Company's investments in available-for-sale financial assets mainly consists of investments in common stock of companies in various industries.

Loans and receivables

The increase of loans and receivables in 2012 mainly relates to loans provided to TPV Technology Limited and the television joint venture TP Vision Holding BV (EUR 151 million in aggregate), which was established on April 1, 2012 in the context of the divestment of Philips' Television business. Additionally there was an increase of EUR 53 million in Loans and receivables related to the sale of real estate belonging to the High Tech Campus.

Financial assets at fair value through profit and loss

Included in this category are certain financial instruments that Philips received in exchange for the transfer of its television activities. The initial value of EUR 17 million was adjusted by EUR 11 million during 2012.

In 2010, the Company sold its entire holding of common shares in NXP Semiconductors B.V. (NXP) to Philips Pension Trustees Limited (herein referred to as "UK Pension Fund"). As a result of this transaction the UK Pension Fund obtained the full legal title and ownership of the NXP shares, including the entitlement to any future dividends and the proceeds from any sale of shares. From the date of the transaction the NXP shares are an integral part of the plan assets of the UK Pension Fund. The purchase agreement with the UK Pension Fund includes an arrangement that may entitle Philips to a cash payment from the UK Pension Fund on or after September 7, 2014, if the value of the NXP shares has increased by this date to a level in excess of a predetermined threshold, which at the time of the transaction was substantially above the transaction price, and the UK Pension Fund is in a surplus (on the regulatory funding basis) on September 7, 2014. The arrangement qualifies as a financial instrument and is reported under Other non-current financial assets. The fair value of the arrangement was estimated to be EUR 8 million as of December 31, 2011. As of December 31, 2012 management's best estimate of the fair value of the arrangement is EUR 14 million, based on the risks, the stock price of NXP, the current progress and the long-term nature of the recovery plan of the UK Pension Fund.

C Receivables

	2011	2012
Trade accounts receivable	85	83
Affiliated companies	2,679	7,690
Other receivables	27	23
Advances and prepaid expenses	36	16
Derivative instruments - assets	379	176
	3,206	7,988

In 2012, receivables increased by EUR 4,782 million, which largely relates to increased receivables with affiliated companies of EUR 5,011 million. From July 2012, cash transactions with US-based group companies are executed directly through Koninklijke Philips Electronics (KPENV) resulting in significant short term intercompany receivables and payables. Consequently, the intercompany receivables stated under 'Affiliated Companies' are significantly higher compared to previous years.

D Shareholders' equity

Common shares

As of December 31, 2012, the issued and fully paid share capital consists of 957,132,962 common shares, each share having a par value of EUR 0.20.

In May 2012, the Company settled a dividend of EUR 0.75 per common share, representing a total value of EUR 687 million. Shareholders could elect for a cash dividend or a share dividend. Approximately 62.4% of the shareholders elected for a share dividend, resulting in the issuance of 30,522,107 new common shares. The settlement of the cash dividend resulted in a payment of EUR 259 million.

Preference shares

The 'Stichting Preferente Aandelen Philips' has been granted the right to acquire preference shares in the Company. Such right has not been exercised. As a means to protect the Company and its stakeholders against an unsolicited attempt to (de facto) take over 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 acquire) preference shares to a third party. As of December 31, 2012, no preference shares have been issued.

Option rights/restricted shares

The Company has granted stock options on its common shares and rights to receive common shares in the future. Please refer to note 30, Share-based compensation, which is deemed incorporated and repeated herein by reference.

Treasury shares

In connection with the Company's share repurchase programs, shares which have been repurchased and are held in treasury for (i) delivery upon exercise of options and convertible personnel debentures and under restricted share programs and employee share purchase programs, and (ii) capital reduction purposes, are accounted for as a reduction of shareholders' equity. Treasury shares are recorded at cost, representing the market price on the acquisition date. When issued, shares are removed from treasury shares on a FIFO basis.

Any difference between the cost and the cash received at the time treasury shares are issued, is recorded in capital in excess of par value, except in the situation in which the cash received is lower than cost, and capital in excess of par has been depleted.

The following transactions took place resulting from employee option and share plans:

	2011	2012
Shares acquired	32,484	5,147
Average market price	EUR 19.94	EUR 17.86
Amount paid	EUR 1 million	EUR 0 million
Shares delivered	4,200,181	4,844,898
Average market price	EUR 20.54	EUR 24.39
Amount received	EUR 87 million	EUR 118 million
Total shares in treasury at year-end	33,552,705	28,712,954
Total cost	EUR 965 million	EUR 847 million

In order to reduce share capital, the following transactions took place in 2012 (there were no transactions to reduce share capital in 2011):

	2011	2012
Shares acquired	47,475,840	46,865,485
Average market price	EUR 14.74	EUR 16.41
Amount paid	EUR 700 million	EUR 769 million
Reduction of capital stock	–	82,364,590
Total shares in treasury at year-end	49,327,838	13,828,733
Total cost	EUR 725 million	EUR 256 million

Dividend distribution

A proposal will be submitted to the 2013 General Meeting of Shareholders to pay a dividend of EUR 0.75 per common share, in cash or shares at the option of the shareholder, from the 2012 net income and retained earnings of the Company.

Legal reserves

As of December 31, 2012, legal reserves relate to the revaluation of assets and liabilities of acquired companies in the context of multi-stage acquisitions of EUR 54 million (2011: EUR 70 million), unrealized gains on available-for-sale financial assets of EUR 54 million (2011: EUR 45 million), unrealized gains on cash flow hedges of EUR 20 million (2011: unrealized losses of EUR 9 million), 'affiliated companies' of EUR 1,161 million (2011: EUR 1,094 million) and unrealized currency translation losses of EUR 93 million (2011: gains of EUR 7 million).

The item 'affiliated companies' relates to the 'wettelijke reserve deelnemingen', which is required by Dutch law. This reserve relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

Limitations in the distribution of shareholders' equity

Pursuant to Dutch law, limitations exist relating to the distribution of shareholders' equity of EUR 1,480 million (2011: EUR 1,418 million). As at December 31, 2012, such limitations relate to common shares of EUR 191 million (2011: EUR 202 million) as well as to legal reserves included under 'revaluation' of EUR 54 million (2011: EUR 70 million), available-for-sale financial assets of EUR 54 million (2011: EUR 45 million), unrealized gains on cash flow hedges of EUR 20 million and 'affiliated companies' of EUR 1,161 million (2011: EUR 1,094 million). The 2011 limitation included unrealized gains of currency translations of EUR 7 million, that are negative in 2012 (see explanation below).

In general unrealized gains relating to available-for-sale financial assets and cash flow hedges cannot be distributed as part of shareholders' equity as they form part of the legal reserves protected under Dutch law. By their nature, unrealized losses relating to currency translation differences reduce shareholders' equity, and thereby distributable amounts.

Therefore, gains related to available-for-sale financial assets (2012: EUR 54 million) and cash flow hedges (2012: EUR 20 million) included in legal reserves limit the distribution of shareholders' equity. The unrealized losses related to currency translation (2012: EUR 93 million) reduce the distributable amount by their nature.

E Long-term debt and short-term debt

Long-term debt

	(range of) interest rates	average interest rate	amount outstanding	due in 1 year	due after 1 year	due after 5 years	average remaining term (in years)	amount outstanding 2011
USD bonds	3.8 - 7.8%	5.6%	3,198	109	3,089	3,089	14.2	2,505
Convertible debentures	–	–	12	12	–	–	–	23
Private financing	–	–	2	2	–	–	1.0	–
Intercompany financing	0.0 - 1.4%	0.7%	442	442	–	–	0.2	996
Bank borrowings	2.3 - 2.8%	2.5%	450	–	450	200	4.6	450
Other long-term debt	2.5 - 19.0%	5.0%	49	49	–	–	1.0	56
			4,153	614	3,539	3,289		4,030
Corresponding data previous year			4,030	1,075	2,955	2,207		3,990

The following amounts of the long-term debt as of December 31, 2012, are due in the next five years:

2013	614
2014	250
2015	–
2016	–
2017	–
	864
Corresponding amount previous year	1,823

Convertible debentures include Philips personnel debentures. For more information, please refer to note 19, Long-term debt and short-term debt.

Short-term debt

Short-term debt includes the current portion of outstanding external and intercompany long-term debt of EUR 614 million (2011: EUR 1,075 million), other debt to group companies totaling EUR 11,015 million (2011: EUR 6,214 million) and short-term bank borrowings of EUR 113 million (2011: EUR 62 million).

Debt to other group companies is significantly higher compared to previous years as a result of the adoption of a new practice to clear cash transactions with US-based subsidiaries (see note C, Receivables for further explanation).

F Other current liabilities

	2011	2012
Income tax payable	–	78
Other short-term liabilities	64	538
Accrued expenses	171	253
Derivative instruments - liabilities	1,034	592
	1,269	1,461

Other short-term liabilities include a payable amount of EUR 509 million related to a fine from the European Commission following an investigation into alleged violation of competition rules in the Cathode-Ray Tubes (CRT) industry. The payable amount represents the aggregate of the amount of EUR 313 million to be paid by the Company and EUR 196 million, being 50% of the fine related to LPD (see note A, Investments in affiliated companies for further explanation).

G Net income

Net income in 2012 amounted to a profit of EUR 226 million (2011: a loss of EUR 1,295 million). The increase of net results in 2012 compared to 2011 is especially due to the financial performance of affiliated companies.

H Employees

The number of persons employed by the Company at year-end 2012 was 10 (2011: 9) and included the members of the Board of Management and certain leaders from functions, businesses and markets, together referred to as the Executive Committee.

For the remuneration of past and present members of both the Board of Management and the Supervisory Board, please refer to note 32, Information on remuneration, which is deemed incorporated and repeated herein by reference.

I Contractual obligations and contingent liabilities not appearing in the balance sheet

Philips entered into contracts with several venture capitalists where it committed itself to make, under certain conditions, capital contributions to investment funds to an aggregated amount of EUR 48 million until June 30, 2021. These investments will qualify as non-controlling interests once the capital contributions have been paid. Furthermore, Philips made commitments to third parties of EUR 25 million with respect to sponsoring activities. The amounts are due before 2016.

General guarantees as referred to in Section 403, Book 2, of the Dutch Civil Code, have been given by the Company on behalf of several group companies in the Netherlands. The liabilities of these companies to third parties and investments in associates totaled EUR 1,416 million as of year-end 2012 (2011: EUR 1,450 million).

Guarantees totaling EUR 284 million (2011: EUR 279 million) have also been given on behalf of other group companies and credit guarantees totaling EUR 4 million (2011: EUR 14 million) on behalf of unconsolidated companies and third parties. The Company is the head of a fiscal unity that contains the most significant Dutch wholly-owned group companies. The Company is therefore jointly and severally liable for the tax liabilities of the tax entity as a whole. For additional information, please refer to note 25, Contingent liabilities.

J Audit fees

For a summary of the audit fees, please refer to the Group Financial statements, note 1, Income from operations.

K Subsequent events

Transfer of Audio, Video, Multimedia and Accessories businesses to Funai
On 29 January 2013, Philips signed an agreement regarding the transfer of its Lifestyle Entertainment business (Audio, Video, Multimedia and Accessories to Funai Electric Co., Ltd. (Funai). Under the terms of this agreement, Funai will pay a cash consideration of EUR 150 million and a brand license fee, relating to a license agreement for an initial period of five and a half years, with an optional renewal of five years. Currently these businesses belong to the operating sector Consumer Lifestyle.

The deal for the Audio, Multimedia and Accessories businesses is expected to close second half of 2013. The Video business is expected to transfer in 2017, related to existing intellectual property licensing agreements. The gain on the transaction will be recorded at the closing date.

The transaction is subject to customary conditions, including regulatory and works council procedures.

Renewal of EUR 1.8 billion stand-by facility
On 18 January 2013, the Company extended its EUR 1.8 billion stand-by facility for 2 years until February 18, 2018. The facility has no financial covenants and repetitive material adverse change clauses and can be used for general corporate purposes.

Philips intends to sell its shareholding in Philips-Neusoft Medical Systems joint venture to Neusoft Medical Systems
On February 5, Philips announced that it has entered into a term sheet to sell its 51 percent shareholding in the Philips-Neusoft Medical Systems (PNMS) joint venture between Philips and Neusoft Medical Systems, a subsidiary of Neusoft Corporation, in Shenyang, China, to Neusoft Medical Systems and its overseas associates.

As part of the proposed agreement, a team of approximately 100 to 150 Computed Tomography (CT) system and component engineers and supporting staff will transfer from the joint venture to a new development center of Philips in Shenyang.

Financial details of the proposed transaction were not disclosed. The signing of the definitive agreements and subsequent closing is expected to take place before the end of 2013. The closing of the transaction is subject to the relevant shareholder and regulatory approvals.

February 25, 2013

The Supervisory Board

The Board of Management

Content you didn't download
13.5 Independent auditor's report - Company

16 Five-year overview

all amounts in millions of euros unless otherwise stated

Prior periods amounts have been revised to reflect certain immaterial adjustments (see section 12.10, Significant accounting policies, of this Annual Report).

Due to factors such as acquisitions and divestments, the amounts, percentages and ratios are not directly comparable.

General data

	2008	2009	2010	2011	2012
Sales	21,682	20,092	22,287	22,579	24,788
% increase over previous year	4	(7)	11	1	10
Income from operations (EBIT) (loss)	287	667	2,074	(269)	1,030
Financial income and expenses - net	87	(162)	(121)	(240)	(246)
Income (loss) from continuing operations	99	482	1,474	(776)	262
Income (loss) from discontinued operations	(198)	(52)	(26)	(515)	(31)
Net income (loss)	(99)	430	1,448	(1,291)	231
Free cash flow	1,117	764	1,358	(104)	1,723
Net assets	15,552	14,610	15,053	12,350	11,174
Turnover rate of net operating capital	1.41	1.56	1.68	1.96	2.35
Total employees at year-end (in thousands)	122	116	120	125	118

1) In euros unless otherwise stated
2) In millions of shares
3) Adjusted to make previous years comparable for the bonus shares (889 thousand) issued in May 2012
4) In manufacturing excluding new acquisitions

Income

	2008	2009	2010	2011	2012
EBIT	287	667	2,074	(269)	1,030
as a % of sales	1.3	3.3	9.3	(1.2)	4.2
EBITA	977	1,103	2,556	1,680	1,502
as a % of sales	4.5	5.5	11.5	7.4	6.1
Income taxes	(294)	(100)	(497)	(283)	(308)
as a % of income before taxes	(78.6)	(19.8)	(25.4)	55.6	(39.3)
Income (loss) from continuing operations	99	482	1,474	(776)	262
as a % of shareholders' equity (ROE)	0.5	3.4	9.8	(5.8)	2.2
Net income (loss)	(99)	430	1,448	(1,291)	231

Capital employed

	2008	2009	2010	2011	2012
Cash and cash equivalents	3,620	4,386	5,833	3,147	3,834
Receivables and other current assets	5,461	4,966	5,324	5,570	5,156
Assets classified as held for sale	–	–	120	551	43
Inventories	3,491	2,913	3,865	3,625	3,495
Non-current financial assets/investments in associates	1,624	972	660	549	726
Non-current receivables/assets	2,900	2,885	1,530	1,927	2,187
Property, plant and equipment	3,496	3,252	3,145	3,014	2,959
Intangible assets	11,757	11,523	12,233	11,012	10,679
Total assets	32,349	30,897	32,710	29,395	29,079
Property, plant and equipment:					
Capital expenditures for the year	686	457	572	653	675
Depreciation for the year	662	702	630	632	696
Capital expenditures : depreciation	1.0	0.7	0.9	1.0	1.0
Inventories as a % of sales	16.1	14.5	17.3	16.1	14.1
Outstanding trade receivables, in days sales	54	54	59	58	50

Financial structure

	2008	2009	2010	2011	2012
Other liabilities	9,715	9,522	10,605	10,430	10,375
Liabilities directly associated with assets held for sale	–	–	–	61	27
Debt	4,188	4,267	4,658	3,860	4,534
Provisions	2,894	2,498	2,394	2,694	2,969
Total provisions and liabilities	16,797	16,287	17,657	17,045	17,905
Shareholders' equity	15,503	14,561	15,007	12,316	11,140
Non-controlling interests	49	49	46	34	34
Group equity and liabilities	32,349	30,897	32,710	29,395	29,079
Net debt : group equity ratio	4:96	(1):101	(8):108	5:95	6:94
Market capitalization at year-end	12,765	19,180	21,694	15,077	18,200

Key figures per share[1)]

	2008	2009	2010	2011	2012
Sales per common share	21.83	21.67	23.67	23.70	26.89
EBITA per common share - diluted	0.98	1.18	2.69	1.76	1.62
Weighted average amount of shares outstanding:					
- basic[2,3)]	993	927	941	953	922
- diluted[2,3)]	999	931	949	957	927
Basic earnings per common share:					
Income (loss) from continuing operations per share	0.10	0.52	1.57	(0.81)	0.28
Net income (loss)	(0.10)	0.46	1.54	(1.36)	0.25
Diluted earnings per common share:					
Income (loss) from continuing operations	0.10	0.52	1.55	(0.81)	0.28
Net income (loss)	(0.10)	0.46	1.53	(1.36)	0.25
Dividend distributed per common share	0.70	0.70	0.70	0.75	0.75
Total shareholder return per common share	(14.99)	7.55	2.94	(5.89)	4.37
Shareholders' equity per common share	16.80	15.70	15.86	13.30	12.18
Price/earnings ratio	138.72	39.77	14.60	(20.10)	71.07
Share price at year-end	13.83	20.68	22.92	16.28	19.90
Highest closing share price during the year	28.94	21.03	26.94	25.34	20.33
Lowest closing share price during the year	12.09	10.95	20.34	12.23	13.76
Average share price	21.42	15.26	23.35	18.11	16.92
Amount of common shares outstanding at year-end[2)]	923	927	947	926	915

Sustainability

	2008	2009	2010	2011	2012
Lives improved, in billions					1.7
Lives improved by Healthcare, in millions			450	510	570
Energy efficiency of products, in Lumen/Watt		32.5	34.7	35.5	37.9
Collection and recycling amount, in tonnes			37,000	39,000	43,000
Recycled material in products, in tonnes			7,500	10,000	12,000
Green Product sales, as a % of total sales	22	31	36	39	45
Green Innovation, in millions of euros	275	340	392	479	569
Operational carbon footprint, in kilotonnes CO_2-equivalent	2,111	1,930	1,845	1,771	1,614
Operational energy efficiency, in terajoules per million euro sales	1.28	1.34	1.29	1.24	1.15
Total energy consumption in manufacturing, in terajoules[4)]	14,526	14,421	14,426	13,982	14,421
Total carbon emissions in manufacturing, in kilotonnes CO_2-equivalent[4)]	825	816	675	635	691
Water intake, in thousands m^3 [4)]	3,996	4,216	4,218	4,328	4,857
Total waste, in kilotonnes[4)]	113.6	97.7	104.6	94.0	87.8
Materials provided for recycling via external contractor per total waste, in %	76	77	78	77	77
Restricted substances, in kilos	425	272	188	111	55
Hazardous substances, in kilos	46,220	32,869	61,795	65,477	70,093
ISO 14001 certification, as a % of all reporting organizations[4)]	95	92	95	89	71
Employee Engagement Index, % favorable	72	71	77	76	79
Female executives, in % of total	10	10	11	13	14
Lost Workday Injuries, per 100 FTEs	0.68	0.44	0.50	0.38	0.31
Fatalities				2	7
Initial and continual conformance audits, number of audits	277	360	273	212	159
Suppliers audits, compliance rate, in %				72	75

17 Investor Relations

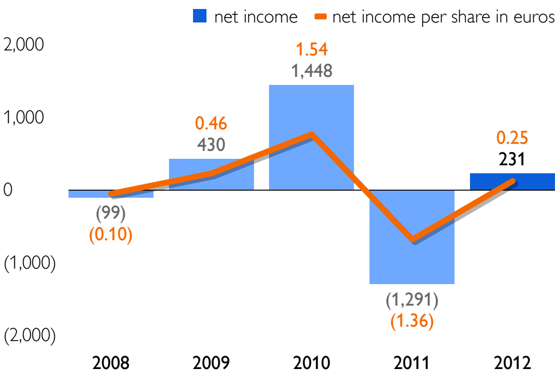
17.1 Key financials and dividend policy

Prior periods amounts have been revised to reflect certain immaterial adjustments (see section 12.10, Significant accounting policies, of this Annual Report).

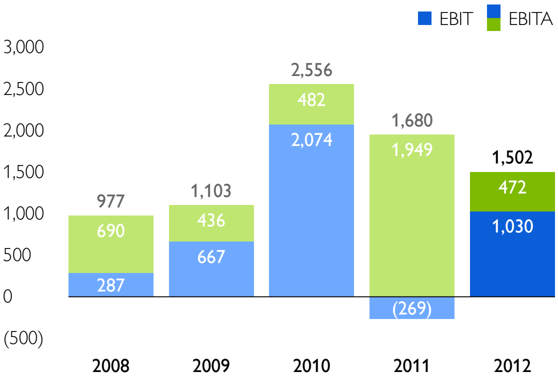
Net income and EPS

Net income of the Philips Group showed a gain of EUR 231 million, or EUR 0.25 per common share, compared to a loss of EUR 1,291 million, or EUR 1.36 per common share, in 2011.

Net income (loss)
in millions of euros

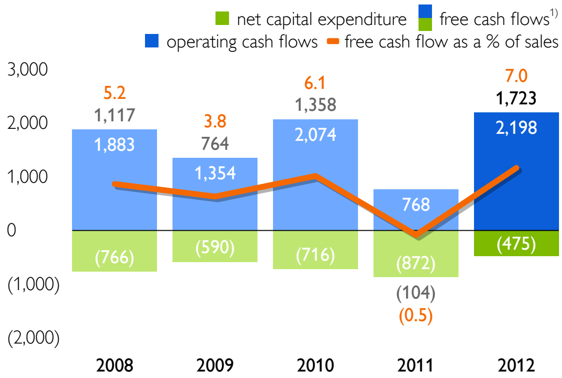


EBIT and EBITA[1)]
in millions of euros



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

Operating cash flows
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 Annual Report

Dividend policy

We are committed to a stable dividend policy with a 40% to 50% pay-out of continuing net income.

Continuing net income is the base figure used to calculate the dividend payout for the year. For 2012, the key exclusions from net income to arrive at continuing net income are the following: the results related to the Television business of Consumer Lifestyle that are shown as discontinued operations, the fine imposed by the European Commission related to alleged violation of competition rules in the Cathode-Ray Tubes (CRT) industry, an increase in legal provisions and the loss on the sale of industrial assets. Gains that were excluded relate to the sale of the Senseo trademark and the High Tech Campus, the divestment of the Speech Processing activities in Consumer Lifestyle as well as a one-time gain of prior service cost related to a medical retiree benefit plan. Restructuring and post-acquisition charges are also excluded.

Proposed distribution

A proposal will be submitted to the 2013 Annual General Meeting of Shareholders to declare a dividend of EUR 0.75 per common share (up to EUR 685 million), in cash or in shares at the option of the shareholder, against the net income for 2012 and the reserve retained earnings of the Company.

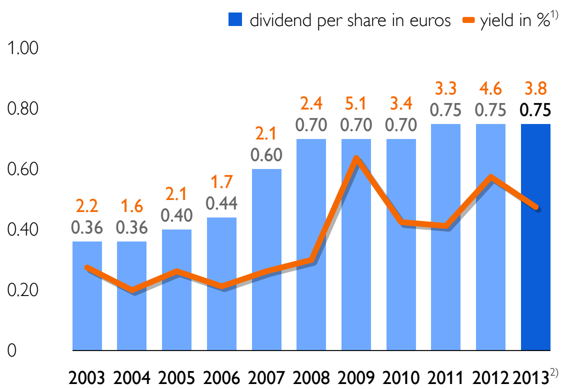
Shareholders will be given the opportunity to make their choice between cash and shares between May 10, 2013, and May 31, 2013. If no choice is made during this election period, the dividend will be paid in shares. On May 31, 2013 after close of trading, the number of share dividend rights entitled to one new common share will be determined based on the volume weighted average price of all traded common shares of Koninklijke Philips Electronics N.V. at Euronext Amsterdam on 29, 30 and 31 May, 2013. 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 1.5% 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 June 5, 2013. 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 June 3, 2013.

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 the case of dividend in shares will be borne by Philips.

In 2012, a dividend of EUR 0.75 per common share was paid in cash or shares, at the option of the shareholder. Approximately 62.4% elected for a share dividend resulting in the issuance of 30,522,107 new common shares, leading to a 3.4% dilution. The remainder of the dividend (EUR 255 million) was paid in cash.

	ex-dividend date	record date	payment date
Amsterdam shares	May 7, 2013	May 9, 2013	June 5, 2013
New York shares	May 7, 2013	May 9, 2013	June 5, 2013

Dividend and dividend yield per common share



[1] Dividend yield % is as of December 31 of previous year
[2] Subject to approval by the 2013 Annual General Meeting of Shareholders

Information for US investors

Dividends and distributions per Common Share
The following table sets forth in euros the gross dividends on the Common Shares in the fiscal years indicated (from prior-year profit distribution) and such amounts as converted into US dollars and paid to holders of Shares of the New York registry:

	2008	2009	2010	2011	2012
in EUR	0.70	0.70	0.70	0.75	0.75
in USD	1.09	0.94	0.93	1.11	0.94

Exchange rates USD : EUR
The following two tables set forth, for the periods and dates indicated, certain information concerning the exchange rate for US dollars into euros based on the Noon Buying Rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the “Noon Buying Rate”). The Noon Buying Rate on February 15, 2013 was EUR 0.7484 per USD 1.

				EUR per USD
	period end	average	high	low
2007	0.6848	0.7259	0.7750	0.6729
2008	0.7184	0.6844	0.8035	0.6246
2009	0.6977	0.7187	0.7970	0.6623
2010	0.7536	0.7579	0.8362	0.6879
2011	0.7708	0.7186	0.7736	0.6723
2012	0.7584	0.7782	0.8290	0.7428

	highest rate	lowest rate
August, 2012	0.8231	0.7947
September, 2012	0.7958	0.7609
October, 2012	0.7766	0.7614
November, 2012	0.7865	0.7686
December, 2012	0.7734	0.7541
January, 2013	0.7665	0.7362

Philips publishes its financial statements in euros while a substantial portion of its net assets, earnings and sales are denominated in other currencies. Philips conducts its business in more than 50 different currencies.

Unless otherwise stated, for the convenience of the reader the translations of euros into US dollars appearing in this report have been made based on the closing rate on

December 31, 2012 (USD 1 = EUR 0.7582). This rate is not materially different from the Noon Buying Rate on such date (USD 1 = EUR 0.7584).

The following table sets out the exchange rate for US dollars into euros applicable for translation of Philips' financial statements for the periods specified.

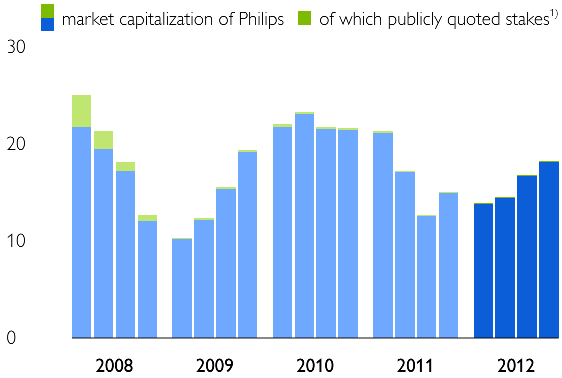
			EUR per USD	
	period end	average	high	low
2007	0.6790	0.7272	0.7694	0.6756
2008	0.7096	0.6832	0.7740	0.6355
2009	0.6945	0.7170	0.7853	0.6634
2010	0.7485	0.7540	0.8188	0.7036
2011	0.7728	0.7192	0.7728	0.6721
2012	0.7582	0.7776	0.8166	0.7500

17.2 Share information

Market capitalization

Philips' market capitalization was EUR 18.2 billion at year-end 2012. The highest closing price for Philips' shares during 2012 in Amsterdam was EUR 20.33 on December 11, 2012 and the lowest was EUR 13.76 on April 11, 2012. The highest closing price for Philips' shares during 2012 in New York was USD 26.81 on December 20, 2012 and the lowest was USD 17.32 on June 1, 2012.

Market capitalization
in billions of euros



[1] The year 2008 mainly reflects our shareholding in LG Display which was exited in 2009

Share capital structure

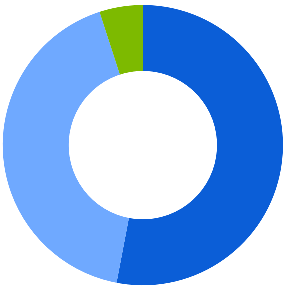
During 2012, Philips' issued share capital decreased by approximately 52 million common shares to a level of 957 million common shares. The main reasons for this are the cancellation of 82,364,590 Philips shares acquired persuant to the EUR 2 billion share repurchase program and the elective dividend, resulting in the issue of 30,522,107 new common shares. The basic shares outstanding decreased from 926 million at the end of December 2011 to 915 million at the end of 2012. As of December 31, 2012, the shares held in treasury amounted to 42.5 million shares, of which 28.7 million are held by Philips to cover long-term incentive and employee stock purchase plans.

The Dutch Financial Markets Supervision Act (Wet op het financieel toezicht) imposes a duty to disclose percentage holdings in the capital and/or voting rights in the Company when such holding reaches, exceeds or falls 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 May 2, 2012, the Company received notification from the AFM that it had received disclosures under the Financial Markets Supervision Act of a substantial holding of 5.42% by Barclays Plc in the Company's common shares. This was reduced to below 5% on May 4, 2012. On June 12, 2012 the Company received notification from the AFM that it had received disclosures under the Financial Markets Supervision Act of a substantial holding of 10.02% by the Company in its own shares. This was reduced to below 5% on September 21, 2012. On November 27, 2012 the Company received notification from the AFM that it had received disclosures under the Financial Markets Supervision Act of a substantial holding of 5.02% by BlackRock, Inc. in the Company's common shares.

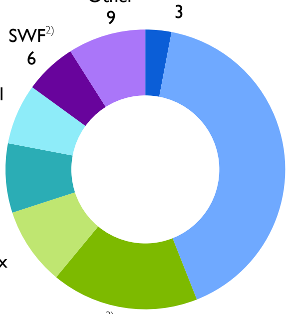
Based on a survey in December 2012 and information provided by several large custodians, the following shareholder portfolio information is included in the graphs Shareholders by region and Shareholders by style.

Shareholders by region (estimated)[1)]
in %



[1)] Split based on identified shares in shareholder identification

Shareholders by style (estimated)[1)]
in %



[1)] Split based on identified shares in shareholder identification
[2)] SWF: Sovereign Wealth Fund
[3)] GARP: growth at reasonable price

Share repurchase programs for capital reduction purposes

On July 18, 2011, Philips announced a further EUR 2 billion share repurchase program to be completed within 12 months. Taking into consideration the volatility of the financial markets, it was decided to extend the program through the end of Q2 2013. By the end of 2012, Philips has completed 73% of the EUR 2 billion share buy-back program.

Further details on the share repurchase programs can be found on the Investor Relations website. For more information see chapter 11, Corporate governance, of this Annual Report.

Impact of share repurchases on share count
in millions of shares

	2008	2009	2010	2011	2012
Shares issued	972	972	986	1,009	957
Shares in treasury	49	45	39	83	42
Shares outstanding	923	927	947	926	915
Shares repurchased	146	–	–	48	47
Shares cancelled	170	–	–	–	82

A total of 42,541,687 shares were held in treasury by the Company at December 31, 2012 (2011: 82,880,543 shares). As of that date, a total of 52,289,603 rights to acquire shares (under convertible personnel debentures, share rights programs and stock options) were outstanding (2011: 47,142,041).

Period	total number of shares purchased	average price paid per share in EUR	total number of shares purchased as part of publicly announced programs	maximum EUR amount of shares that may yet be purchased under the programs
January, 2012	3,004,358	15.22	3,004,358	1,254,459,971
February, 2012	3,849,302	15.68	3,849,302	1,194,096,499
March, 2012	3,757,005	15.44	3,757,005	1,136,078,795
April, 2012	2,421,544	14.55	2,421,544	1,100,844,958
May, 2012	8,222,700	14.39	8,222,700	982,487,277
June, 2012	6,738,465	14.60	6,736,989	884,137,601
July, 2012	2,970,187	16.45	2,968,778	835,297,403
August, 2012	2,413,941	18.47	2,413,941	790,700,971
September, 2012	3,051,738	18.82	3,050,133	733,305,045
October, 2012	5,369,200	18.78	5,369,000	632,473,872
November, 2012	2,718,375	19.88	2,717,918	578,439,218
December, 2012	2,353,817	20.06	2,353,817	531,215,106

17.3 Philips' rating

Philips' existing long-term debt is rated A3 (with negative outlook) by Moody's and A- (with negative outlook) by Standard & Poor's. It is Philips' objective to manage its financial ratios to be in line with an A3/A- rating. There is no assurance that Philips 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 repetitive material adverse change clause, financial covenants or credit rating-related acceleration possibilities.

Credit rating summary

	long-term	short-term	outlook
Standard and Poor's	A-	A-2	Negative[1]
Moody's	A3	P-2	Negative[2]

1) On February 3, 2012, Standard and Poor's decided to change their outlook from stable to negative

2) On February 3, 2012, Moody's decided to change their outlook from stable to negative

17.4 Performance in relation to market indices

The Common Shares of the Company are listed on the stock market of Euronext Amsterdam. The New York Registry Shares of the Company, representing Common Shares of the Company, are listed on the New York Stock Exchange. The principal market for the Common Shares is Euronext Amsterdam. For the New York Registry Shares is the New York Stock Exchange.

The following table shows the high and low closing sales prices of the Common Shares on the stock market of Euronext Amsterdam as reported in the Official Price List and the high and low closing sales prices of the New York Registry Shares on the New York Stock Exchange:

		Euronext Amsterdam (EUR)		New York stock exchange (USD)	
		high	low	high	low
2008		28.94	12.09	42.34	14.79
2009	1st quarter	16.05	10.95	20.78	13.98
	2nd quarter	14.77	11.52	20.30	15.45
	3rd quarter	17.65	12.59	25.82	17.52
	4th quarter	21.03	15.79	30.19	22.89
2010	1st quarter	25.28	20.34	33.48	28.26
	2nd quarter	26.94	22.83	35.90	28.09
	3rd quarter	26.23	21.32	33.32	26.84
	4th quarter	24.19	20.79	33.90	27.10
2011	1st quarter	25.34	21.73	33.81	29.81
	2nd quarter	22.84	16.33	32.44	23.36
	3rd quarter	17.84	12.23	25.74	16.87
	4th quarter	16.28	12.77	22.54	17.22
2012	1st quarter	16.56	14.48	21.51	18.34
	2nd quarter	15.57	13.76	20.26	17.32
	3rd quarter	19.49	15.51	24.89	19.11
	4th quarter	20.33	18.27	26.81	23.52
August, 2012		18.86	18.09	23.30	22.00
September, 2012		19.49	18.16	24.89	22.99
October, 2012		20.11	18.27	26.23	23.52
November, 2012		20.21	19.47	26.01	24.80
December, 2012		20.33	19.83	26.81	25.91
January, 2013		23.13	20.26	31.16	26.54

Euronext Amsterdam

Share price development in Amsterdam

in euros

PHIA	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2012												
High	16.56	16.42	16.26	15.32	15.26	15.57	17.90	18.86	19.49	20.11	20.21	20.33
Low	14.48	15.45	14.95	13.76	14.00	13.87	15.51	18.09	18.16	18.27	19.47	19.83
Average	15.31	15.80	15.55	14.51	14.49	14.67	16.47	18.46	18.80	18.95	19.95	20.05
Average daily volume[1]	6.77	5.53	5.54	8.05	6.91	6.10	6.15	4.68	5.60	4.97	4.89	3.88
2011												
High	25.34	23.83	23.98	22.84	20.70	19.05	17.84	16.99	14.49	15.73	15.37	16.28
Low	22.77	22.49	21.73	20.02	19.01	16.33	16.91	13.28	12.23	12.77	13.38	14.64
Average	23.91	23.22	22.86	21.07	19.86	17.71	17.45	14.50	13.17	14.55	14.27	15.32
Average daily volume[1]	10.64	6.53	8.30	9.23	8.54	12.10	8.45	12.08	10.75	8.06	7.10	5.76

New York Stock Exchange

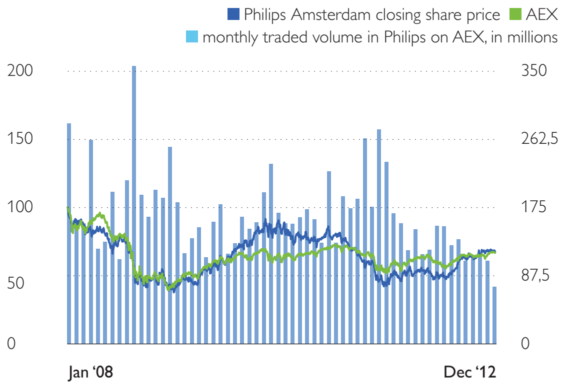
Share price development in New York

in US dollars

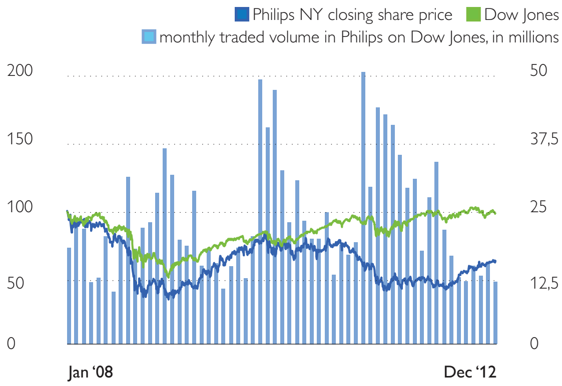
PHG	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2012												
High	21.47	21.36	21.51	20.26	20.00	19.67	22.11	23.30	24.89	26.23	26.01	26.81
Low	18.34	20.24	19.58	17.98	17.68	17.32	19.11	22.00	22.99	23.52	24.80	25.91
Average	19.73	20.85	20.57	19.10	18.53	18.41	20.26	22.84	24.20	24.48	25.51	26.27
Average daily volume[1]	1.64	0.93	1.32	1.80	1.03	0.83	0.63	0.54	0.82	0.64	0.77	0.62
2011												
High	33.81	32.70	33.32	32.44	30.53	27.15	25.74	24.20	20.58	22.54	21.35	20.95
Low	29.81	30.99	29.94	29.27	26.79	23.36	23.79	18.94	16.87	17.22	17.59	18.90
Average	31.93	31.75	32.01	30.49	28.47	25.49	24.92	20.81	18.19	20.03	19.37	20.13
Average daily volume[1]	1.31	0.72	0.86	0.88	0.96	2.45	1.56	2.04	2.17	2.07	1.79	1.48

[1] In millions of shares

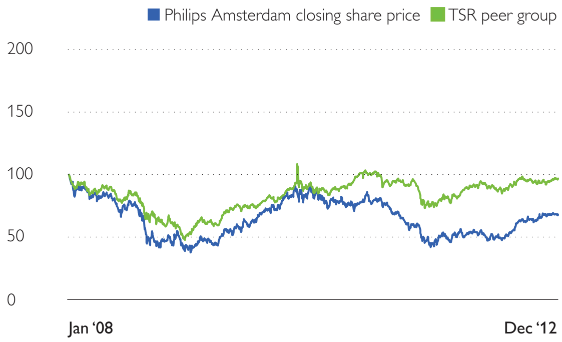
5-year relative performance: Philips and AEX
base 100 = Dec 31, 2007



5-year relative performance: Philips and Dow Jones
base 100 = Dec 31, 2007



5-year relative performance: Philips and unweighted TSR peer group index base 100 = Dec 31, 2007



3M, Electrolux, Emerson, GE, Hitachi, Honeywell, Johnson & Johnson, Panasonic, Schneider, Siemens, Toshiba,

Share listings	Amsterdam, New York
Ticker code	PHIA, PHG
No. of shares issued at Dec. 31, 2012	EUR 957 million
No. of shares outstanding issued at Dec. 31, 2012	EUR 915 million
Market capitalization at year-end 2012	EUR 18.2 billion
Industry classification	
MSCI: Capital Goods	20105010
ICB: Diversified Industrials[1]	2727
Members of indices	
AEX, NYSE, DJSI, and others	

[1] The change of ICB classification took place on June 18, 2012

17.5 Philips' acquisitions

Philips made no announcements of acquisitions in 2012.

Acquisitions 2011 / Announcement dates

January 5, 2011	Optimum Lighting, LLC	Professional Luminaires	Expand portfolio with customized energy-efficient lighting solutions
January 20, 2011	Preethi[1)]	Domestic Appliances	Become a leading kitchen appliances company in India
March 9, 2011	Dameca A/S	Patient Care & Clinical Informatics	Expand portfolio with integrated, advanced anesthesia care solutions
June 20, 2011	AllParts Medical	Customer Services	Expand capabilities in imaging equipment services, strengthening Philips' Multi-Vendor Services business
June 27, 2011	Sectra Mamea AB[2)]	Imaging Systems	Expand Women's Healthcare portfolio with a unique digital mammography solution in terms of radiation dose
June 29, 2011	Indal Group	Professional Luminaires	Strengthen leading position in professional lighting within Europe
July 11, 2011	Povos Electric Appliance (Shanghai) Co., Ltd.[2)]	Domestic Appliances	Expand product portfolio in China and continue to build business creation capabilities in growth geographies

1) Asset transaction
2) Combined asset transaction / share transaction

Acquisitions 2010 / Announcement dates

February 11, 2010	Luceplan	Consumer Luminaires	Iconic brand in the premium design segment for residential applications
February 24, 2010	Somnolyzer[1)]	Home Healthcare	Somnolyzer 24x7 automated-scoring solution that can improve the productivity of sleep centers
March 26, 2010	Tecso	Patient Care & Clinical Informatics	Strengthen clinical informatics portfolio with leading Brazilian provider of Radiology Information Systems (RIS)
July 13, 2010	Street Light Control Portfolio[1)]	Lighting Electronics	Strengthen outdoor lighting portfolio with acquisition control portfolio. Street Lighting controls activities of Amplex A/S
July 28, 2010	Apex	Imaging Systems	Strengthen portfolio of high-quality transducers aimed at the value segment in emerging markets
August 2, 2010	CDP Medical[1)]	Patient Care & Clinical Informatics	Expand clinical informatics portfolio in high-growth markets in the area of PACS
August 20, 2010	Burton	Professional Luminaires	Expand portfolio with leading provider of specialized lighting solutions for healthcare facilities
September 13, 2010	Wheb Sistemas	Patient Care & Clinical Informatics	Strengthen clinical informatics portfolio with a leading Brazilian provider of clinical information systems
October 11, 2010	Discus	Health & Wellness	Expand oral healthcare portfolio with leading manufacturer of professional tooth whitening products
December 6, 2010	NCW	Professional Luminaires	Expand global leadership position of professional lighting entertainment solutions
January 6, 2011	medSage Technologies[1)]	Home Healthcare	Strengthen portfolio by becoming a leading provider of patient interaction and management applications

1) Asset transaction

17.6 Financial calendar

Financial calendar

Annual General Meeting of Shareholders	
Record date Annual General Meeting of Shareholders	April 5, 2013
Annual General Meeting of Shareholders	May 3, 2013
Quarterly reports 2013	
First quarterly report 2013	April 22, 2013
Second quarterly report 2013	July 22, 2013
Third quarterly report 2013	October 21, 2013
Fourth quarterly report 2013	January 28, 2014[1)]
Capital Markets Days 2013	
Capital Markets Day (Healthcare)	March 19, 2013
Capital Markets Day (Consumer Lifestyle and Lighting)	September 17, 2013

1) Subject to final confirmation

17.7 Investor contact

Shareholder services

Holders of shares listed on Euronext

Philips offers a dynamic print manager that facilitates the creation of a customized PDF. Non-US shareholders and other non-US interested parties can make inquiries about the Annual Report 2012 to:

Royal Philips Electronics
Annual Report Office
Breitner Center, HBT 14
P.O. Box 77900
1070 MX Amsterdam, Netherlands
E-mail: annual.report@philips.com

Communications concerning share transfers, lost certificates, dividends and change of address should be directed to:

ABN AMRO Bank N.V.
Department Equity Capital Markets/Corporate Broking
HQ7050
Gustav Mahlerlaan 10, 1082 PP Amsterdam, Netherlands
Telephone: +31-20-34 42000
Fax: +31-20-62 88481

Holders of New York Registry shares

Philips offers a dynamic print manager that facilitates the creation of a customized PDF. Holders of New York Registry shares and other interested parties in the US can make inquiries about the Annual Report 2012 to:

Citibank Shareholder Service
P.O. Box 43077 Providence, Rhode Island 02940-3077
Telephone: 1-877-CITI-ADR (toll-free)
Telephone: 1-781-575-4555 (outside of US)
Fax: 1-201-324-3284
Website: www.citi.com/dr
E-mail: citibank@shareholders-online.com

Communications concerning share transfers, lost certificates, dividends and change of address should be directed to Citibank. The Annual Report on Form 20-F is filed electronically with the US Securities and Exchange Commission.

International direct investment program

Philips offers a dividend reinvestment and direct stock purchase plan designed for the US market. This program provides existing shareholders and interested investors with an economical and convenient way to purchase and sell Philips New York Registry shares and to reinvest cash dividends. Philips does not administer or sponsor the program and assumes no obligation or liability for the operation of the plan. For further information on this program and for enrollment forms, contact:

Citibank Shareholder Service
Telephone: 1-877-248-4237 (1-877-CITI-ADR)
Monday through Friday 8:30 AM EST
through 6:00 PM EST
Website www.citi.com/dr

or by writing to:

Citibank Shareholder Service
International Direct Investment Program
P.O. Box 2502, Jersey City, NJ 07303-2502

Shareholders Communication Channel

Philips is continually striving to improve relations with its shareholders. For instance, Philips was one of the key companies involved 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 participating companies and their shareholders.

Philips will use the Shareholders Communication Channel to distribute the Agenda for this year's Annual General Meeting of Shareholders as well as an instruction form to enable proxy voting at that meeting.

For the Annual General Meeting of Shareholders on May 3, 2013, a record date of April 5, 2013, will apply. Those persons who on April 5, 2013 hold shares in the Company and are registered as such in one of the registers designated by the Board of Management for the Annual General Meeting of Shareholders will be entitled to participate in and vote at the meeting.

Investor relations activities

From time to time the Company engages in communications with investors via road shows, one-on-one meetings, group meetings, broker conferences and capital markets days. The purpose of these meetings is to inform the market on the results, strategy and decisions made, as well as to receive feedback from our shareholders. Also, the Company engages in bilateral communications with investors. These communications take place either 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 individual queries from investors to more elaborate discussions following disclosures that the Company has made such as its annual and quarterly reports. The Company is strict in its compliance with applicable rules and regulations on fair and non-selective disclosure and equal treatment of shareholders.

More information on the activities of Investor Relations can be found in chapter 11, Corporate governance, of this Annual Report.

Analysts' coverage

Philips is covered by approximately 36 analysts who frequently issue reports on the company.

How to reach us

Investor Relations contact

Royal Philips Electronics
Breitner Center, HBT 14
P.O. Box 77900
1070 MX Amsterdam, Netherlands
Telephone: +31-20-59 77221
Website: www.philips.com/investor
E-mail: investor.relations@philips.com

Abhijit Bhattacharya
Executive Vice President – Investor Relations
Telephone: +31-20-59 77222

Vanessa Bruinsma-Kleijkers
Manager – Investor Relations
Telephone: +31-20-59 77447

The registered office of Royal Philips Electronics is
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Switch board, telephone: +31-40-27 91111

Sustainability contact

Philips Corporate Sustainability Office
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Fax: +31-40-27 86161
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E-mail: philips.sustainability@philips.com

Corporate Communications contact

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P.O. Box 77900
1070 MX Amsterdam, Netherlands
Telephone: +31-20-59 77411
E-mail: corporate.communications@philips.com

Content you didn't download

Taxation
New York Registry Shares

18 Definitions and abbreviations

Definitions of key terms (including abbreviations)

BMC
Business Market Combination - As a diversified technology group, Philips has a wide portfolio of categories/business innovation units which are grouped in business groups based primarily on technology or customer needs. Philips has physical market presence in over 100 countries, which are grouped into 17 market clusters. Our primary operating modus is the Business Market matrix comprising Business Groups and Markets. These Business Market Combinations (BMCs) drive business performance on a granular level at which plans are agreed between global businesses and local market teams.

Brominated flame retardants (BFR)
Brominated flame retardants are a group of chemicals that have an inhibitory effect on the ignition of combustible organic materials. Of the commercialized chemical flame retardants, the brominated variety are most widely used.

CAGR
Compound Annual Growth Rate.

Carbon dioxide (CO_2)
Carbon dioxide (chemical formula CO_2) is a chemical compound composed of two oxygen atoms covalently bonded to a single carbon atom. It is a gas at standard temperature and pressure and exists in the Earth's atmosphere in this state. CO_2 is a trace gas comprising 0.039% of the atmosphere.

CO_2-equivalent
CO_2-equivalent or carbon dioxide equivalent is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO_2 that would have the same global warming potential (GWP), when measured over a specified timescale (generally 100 years).

Cash flow before financing activities
The cash flow before financing activities is the sum of net cash flow from operating activities and net cash flow from investing activities.

Chlorofluorocarbon (CFC)
A chlorofluorocarbon is an organic compound that contains carbon, chlorine and fluorine, produced as a volatile derivative of methane and ethane. CFCs were originally developed as refrigerants during the 1930s.

Comparable sales
Comparable sales exclude the effect of currency movements and acquisitions and divestments (changes in consolidation). Philips believes that comparable sales information enhances understanding of sales performance.

Continuing net income
This equals recurring net income from continuing operations, or net income excluding discontinued operations and excluding material non-recurring items.

Dividend yield
The dividend yield is the annual dividend payment divided by Philips' market capitalization. All references to dividend yield are as of December 31 of the previous year.

EBITA
Earnings before interest, tax and amortization (EBITA) represents income from continuing operations excluding results attributable to non-controlling interest holders, results relating to investments in associates, income taxes, financial income and expenses, amortization and impairment on intangible assets (excluding software and capitalized development expenses). Philips believes that EBITA information makes the underlying performance of its businesses more transparent by factoring out the amortization of these intangible assets, which arises when acquisitions are consolidated. In our Annual Report on form 20-F this definition is referred to as Adjusted IFO.

EBITA per common share
EBITA divided by the weighted average number of shares outstanding (basic). The same principle is used for the definition of net income per common share, replacing EBITA.

Electronic Industry Citizenship Coalition (EICC)
The Electronic Industry Citizenship Coalition was established in 2004 to promote a common code of conduct for the electronics and information and communications technology (ICT) industry. EICC now includes more than 40 global companies and their suppliers.

Employee Engagement Index (EEI)
The Employee Engagement Index (EEI) is the single measure of the overall level of employee engagement at Philips. It is a combination of perceptions and attitudes related to employee satisfaction, commitment and advocacy.

Energy-using Products (EuP)
An energy-using product is a product that uses, generates, transfers or measures energy (electricity, gas, fossil fuel). Examples are boilers, computers, televisions, transformers, industrial fans, industrial furnaces etc.

Free cash flow
Free cash flow is the net cash flow from operating activities minus net capital expenditures.

Full-time equivalent employee (FTE)
Full-time equivalent is a way to measure a worker's involvement in a project. An FTE of 1.0 means that the person is equivalent to a full-time worker, while an FTE of 0.5 signals that the worker is only half-time.

Global Reporting Initiative (GRI)
The Global Reporting Initiative (GRI) is a network-based organization that pioneered the world's most widely used sustainability reporting framework. GRI is committed to the framework's continuous improvement and application worldwide. GRI's core goals include the mainstreaming of disclosure on environmental, social and governance performance.

Green Innovation
Green Innovation comprise all R&D activities directly contributing to the development of Green Products or Green Technologies.

Green Products

Green Products offer a significant environmental improvement in one or more Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Recycling and disposal and Lifetime reliability. The life cycle approach is used to determine a product's overall environmental improvement. It calculates the environmental impact of a product over its total life cycle (raw materials, manufacturing, product use and disposal).
Green Products need to prove leadership in at least one Green Focal Area compared to industry standards, which is defined by a sector specific peer group. This is done either by outperforming reference products (which can be a competitor or predecessor product in the particular product family) by at least 10%, outperforming product specific eco-requirements or by being awarded with a recognized eco-performance label. Because of different product portfolios, sectors have specified additional criteria for Green Products, including product specific minimum requirements where relevant.

Growth geographies

Growth geographies are the developing geographies comprising of Asia Pacific (excluding Japan, South Korea, Australia and New Zealand), Latin America, Central & Eastern Europe, the Middle East (excluding Israel) and Africa.

Hydrochlorofluorocarbon (HCFC)

Hydrochlorofluorocarbon is a fluorocarbon that is replacing chlorofluorocarbon as a refrigerant and propellant in aerosol cans.

Income as % of shareholders' equity (ROE)

This ratio measures income from continuing operations as a percentage of average shareholders' equity. ROE rates Philips' overall profitability by evaluating how much profit the company generates with the money shareholders have invested.

Income from continuing operations

Net income from continuing operations, or net income excluding discontinued operations.

Initiatief Duurzame Handel (IDH)

IDH is the Dutch Sustainable Trade Initiative. It brings together government, frontrunner companies, civil society organizations and labor unions to accelerate and up-scale sustainable trade in mainstream commodity markets from the emerging countries to Western Europe.

International Standardization Organization (ISO)

The International Standardization Organization (ISO)is the world's largest developer and publisher of International Standards. ISO is a network of the national standards institutes of more than 160 countries, one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system. ISO is a non-governmental organization that forms a bridge between the public and private sectors.

Light-Emitting Diode (LED)

Light-Emitting Diode (LED), in electronics, is a semiconductor device that emits infrared or visible light when charged with an electric current. Visible LEDs are used in many electronic devices as indicator lamps, in automobiles as rear-window and brake lights, and on billboards and signs as alphanumeric displays or even full-color posters. Infrared LEDs are employed in autofocus cameras and television remote controls and also as light sources in fiber-optic telecommunication systems.

Lives improved by Philips

To calculate how many lives we are improving, market intelligence and statistical data on the number of people touched by the products contributing to the social or ecological dimension over the lifetime of a product are multiplied by the number of those products delivered in a year. After elimination of double counts – multiple different product touches per individual are only counted once – the number of lives improved by our innovative solutions is calculated. In 2012 we established our baseline at 1.7 billion a year.

Mature geographies

Mature geographies are the highly developed markets comprising of Western Europe, North America, Japan, South Korea, Israel, Australia and New Zealand.

Millennium Development Goals (MDG)

Adopted by world leaders in the year 2000 and set to be achieved by 2015, the Millennium Development Goals (MDGs) provide concrete, numerical benchmarks for tackling extreme poverty in its many dimensions. The MDGs also provide a framework for the entire international community to work together towards a common end – making sure that human development reaches everyone, everywhere. Goals include for example eradicating extreme poverty and hunger, achieving universal primary education and ensuring environmental sustainability.

Net debt : group equity ratio

The % distribution of net debt over group equity plus net debt.

Non-Governmental Organization (NGO)

A non-governmental organization (NGO) is any non-profit, voluntary citizens' group which is organized at a local, national or international level.

OEM

Original Equipment Manufacturer.

Operational carbon footprint

A carbon footprint is the total set of greenhouse gas emissions caused by an organization, event, product or person; usually expressed in kilotonnes CO_2-equivalent. The Philips operational carbon footprint is calculated on a half-year basis and includes industrial sites (manufacturing and assembly sites), non-industrial sites (offices, warehouses, IT centers and R&D facilities), business travel (lease and rental cars and airplane travel) and logistics (air, sea and road transport).

Perfluorinated compounds (PFC)

A perfluorinated compound (PFC) is an organofluorine compound with all hydrogens replaced by fluorine on a carbon chain—but the molecule also contains at least one different atom or functional group. PFCs have unique properties to make materials stain, oil, and water resistant, and are widely used in diverse applications. PFCs persist in the environment as persistent organic pollutants, but unlike PCBs, they are not known to degrade by any natural processes due to the strength of the carbon–fluorine bond.

Polyvinyl chloride (PVC)

Polyvinyl chloride, better known as PVC or vinyl, is an inexpensive plastic so versatile it has become completely pervasive in modern society. The list of products made from polyvinyl chloride is exhaustive, ranging from phonograph records to drainage and potable piping, water bottles, cling film, credit cards and toys. More uses include window frames, rain gutters, wall paneling, doors, wallpapers, flooring, garden furniture, binders and even pens.

Productivity

Philips uses Productivity internally and as mentioned in this annual report as a non-financial indicator of efficiency that relates the added value, being income from operations adjusted for certain items such as restructuring and acquisition-related charges etc. plus salaries and wages (including pension costs and other social security and similar charges), depreciation of property, plant and equipment, and amortization of intangibles, to the average number of employees over the past 12 months.

Regulation on Hazardous Substances (RoHS)

The RoHS Directive prohibits all new electrical and electronic equipment placed on the market in the European Economic Area from containing lead, mercury, cadmium, hexavalent chromium, poly-brominated biphenyls (PBB) or polybrominated diphenyl ethers (PBDE), except in certain specific applications, in concentrations greater than the values decided by the European Commission. These values have been established as 0.01% by weight per homogeneous material for cadmium and 0.1% for the other five substances.

Return on equity (ROE)
Income from continuing operations as a % of average shareholders' equity (calculated on the quarterly balance sheet positions).

Turnover rate of net operating capital
Sales divided by average net operating capital (calculated on the quarterly balance sheet positions).

Waste Electrical and Electronic Equipment (WEEE)
The Waste Electrical and Electronic Equipment Directive (WEEE Directive) is the European Community directive on waste electrical and electronic equipment which became European Law in February 2003, setting collection, recycling and recovery targets for all types of electrical goods. The directive imposes the responsibility for the disposal of waste electrical and electronic equipment on the manufacturers of such equipment.

Weighted Average Statutory Tax Rate (WASTR)
The reconciliation of the effective tax rate is based on the applicable statutory tax rate, which is a weighted average of all applicable jurisdictions. This weighted average statutory tax rate (WASTR) is the aggregation of the result before tax multiplied by the applicable statutory tax rate without adjustment for losses, divided by the group result before tax.

19 Forward-looking statements and other information

Forward-looking statements
This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items, in particular section 5.5, Outlook, of this Annual Report. Examples of forward-looking statements include statements made about our strategy, estimates of sales growth, future EBITA and future developments in our organic business. 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 nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

These factors include, but are not limited to, domestic and global economic and business conditions, 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, see also chapter 7, Risk management, of this Annual Report.

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 2012 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.

IFRS basis of presentation
The financial information included in this document is based on IFRS, unless otherwise indicated. As used in this document, the term EBIT has the same meaning as Income from operations (IFO).

Use of non-GAAP information
In presenting and discussing the Philips Group's financial position, operating results and cash flows, management uses certain non-GAAP financial measures like: comparable growth; EBITA; NOC; net debt (cash); free cash flow; and cash flow before financing activities. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent GAAP measures.

Further information on non-GAAP information and a reconciliation of such measures to the most directly comparable GAAP measures can be found in chapter 15, Reconciliation of non-GAAP information, of this Annual Report.

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).

Analysis of 2011 compared to 2010
The analysis of the 2011 financial results compared to 2010, and the discussion of the critical accounting policies, have not been included in this Annual Report. These sections are included in Philips' Form 20-F for the financial year 2012, which will be filed electronically with the US Securities and Exchange Commission.

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