FEDERAL SIGNAL CORP /DE/
Form 10-Q
August 05, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from __________ to __________

Commission file number: 1-6003

Federal Signal Corporation
(Exact name of Company as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	36-1063330 (I.R.S. Employer Identification No.)

1415 West 22nd Street
Oak Brook, IL 60523
(Address of principal executive offices) (Zip code)
(630) 954-2000
(Company s telephone number including area code)
Not applicable
(Former name, former address, and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Company is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate the number of shares outstanding of each of the Company s classes of common stock, as of the latest practicable date.

Title	
Common Stock, $1.00 par value	62,183,827 shares outstanding at July 13, 2011

FEDERAL SIGNAL CORPORATION
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Part I. Financial Information
Item 1. Financial Statements

FORWARD-LOOKING STATEMENTS

This Form 10-Q, reports filed by Federal Signal Corporation and its subsidiaries (the Company) with the Securities and Exchange Commission (SEC), and comments made by management may contain words such as may, will, believe, expect, anticipate, intend, plan, project, estimate and objective or the negative thereof or simi concerning the Company s future financial performance, business strategy, plans, goals and objectives. These expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include information concerning the Company s possible or assumed future performance or results of operations and are not guarantees. While these statements are based on assumptions and judgments that management has made in light of industry experience as well as perceptions of historical trends, current conditions, expected future developments and other factors believed to be appropriate under the circumstances, they are subject to risks, uncertainties and other factors that may cause the Company s actual results, performance or achievements to be materially different.

These risks and uncertainties, some of which are beyond our control, include the cyclical nature of our industrial, municipal, government and commercial markets; restrictive debt covenants; impairment of goodwill and other indefinite lived intangible assets; ability to use net operating loss (NOL) carryovers to reduce future tax payments; availability of credit and third-party financing for customers; technological advances by competitors; ability to expand into new geographic markets and to anticipate and meet customer demands for new products and product enhancements; domestic and foreign governmental policy change; changes in cost competitiveness including those resulting from foreign currency movements; increased competition and pricing pressures in the markets served; retention of key employees; volatility in securities trading markets; economic downturns; increased warranty and product liability expenses and client service interruption; ability to expand our business through acquisitions; ability to finance acquisitions or successfully integrate acquired companies; unknown liabilities assumed in connection with acquisitions; unforeseen developments in contingencies such as litigation; protection and validity of patent and other intellectual property rights; ability to achieve expected savings from integration, synergy and other cost-control initiatives; compliance with environmental and safety regulations; disruptions in the supply of parts or components from sole source suppliers and subcontractors; risks associated with suppliers, dealer and other partner alliances; disruptions within our dealer market; risks associated with work stoppages and other labor relations matters; restructuring and impairment charges as we continue to evaluate opportunities to restructure our business in an effort to optimize the cost structure; and general changes in the competitive environment. These risks and uncertainties include, but are not limited to, the risk factors described under Item 1A, *Risk Factors*, in the Company s Annual Report on Form 10-K, Form 10-Qs and other filings with the SEC. These factors may not constitute all factors that could cause actual results to differ materially from those discussed in any forward-looking statement. We operate in a continually changing business environment and new factors emerge from time to time. We cannot predict such factors nor can we assess the impact, if any, of such factors on our financial position or results of operations. Accordingly, forward-looking statements should not be relied upon as a predictor of actual results. We disclaim any responsibility to update any forward-looking statement provided in this Form 10-Q.

ADDITIONAL INFORMATION

The Company makes its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, other reports and information filed with the SEC and amendments to those reports available, free of charge, through its Internet website *(http://www.federalsignal.com)* as soon as reasonably practical after it electronically files or furnishes such materials to the SEC. All of the Company s filings may be read or copied at the SEC s Public Reference Room at 100 F Street, N.E., Room 1580, Washington, DC 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website *(http://www.sec.gov)* that contains reports, proxy and information statements and other information regarding issuers that file electronically.

FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	Three months ended June 30,		Six months ended June 30,	
(in millions, except per share data)	**2011**	**2010**	**2011**	**2010**
Net sales	$ 204.5	$ 195.6	$ 378.1	$ 360.2
Costs and expenses				
Cost of sales	152.8	144.4	284.9	268.7
Selling, engineering, general and administrative	42.8	43.9	87.1	82.8
Goodwill impairment			(1.6)	
Acquisition and integration related costs		1.1		3.7
Restructuring charges		3.7		4.0
Operating income	8.9	2.5	7.7	1.0
Interest expense	3.8	3.2	7.0	6.1
Other (income) expense, net	(0.2)	0.5		1.4
Income (loss) before income taxes	5.3	(1.2)	0.7	(6.5)
Income tax benefit (expense)	0.4	0.7	(0.3)	2.0
Income (loss) from continuing operations	5.7	(0.5)	0.4	(4.5)
Income (loss) from discontinued operations and disposal, net of income tax benefit (expense) of $0.0, $1.0, ($0.1), and $1.2, respectively	0.3	(2.2)	0.3	(3.2)
Net income (loss)	$ 6.0	$ (2.7)	$ 0.7	$ (7.7)
COMMON STOCK DATA:				
Basic and diluted earnings (loss) per share:				
Earnings (loss) from continuing operations	$ 0.09	$ (0.01)	$ 0.01	$ (0.09)
Earnings (loss) from discontinued operations and disposal	0.01	(0.04)		(0.06)
Earnings (loss) per share	$ 0.10	$ (0.05)	$ 0.01	$ (0.15)
Weighted average common shares outstanding:				
Basic	62.2	57.1	62.2	53.0
Diluted	62.2	57.2	62.2	53.1
Cash dividends per share of common stock	$	$ 0.06	$	$ 0.12

See notes to condensed consolidated financial statements.

FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in millions, except per share data)	June 30, 2011	December 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 14.3	$ 62.1
Accounts receivable, net of allowances for doubtful accounts of $3.5 million and $2.8 million, respectively	113.1	100.4
Inventories, net	123.5	119.6
Other current assets	19.0	17.9
Total current assets	269.9	300.0
Properties and equipment, net	63.6	63.2
Other assets		
Goodwill	316.3	310.4
Intangible assets	83.1	84.4
Deferred charges and other assets	2.9	3.4
Total assets of continuing operations	735.8	761.4
Assets of discontinued operations, net	3.0	3.1
Total assets	$ 738.8	$ 764.5
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Short-term borrowings	$ 9.5	$ 1.8
Current portion of long-term borrowings and capital lease obligations	190.3	76.2
Accounts payable	58.0	53.5
Accrued liabilities		
Compensation and withholding taxes	17.4	21.2
Customer deposits	11.0	10.2
Deferred revenue	11.1	12.4
Other	29.4	39.3
Total current liabilities	326.7	214.6
Long-term borrowings and capital lease obligations, less current portion	34.1	184.4
Long-term pension liabilities	40.0	41.3
Deferred gain	22.5	23.5
Deferred tax liabilities	50.9	45.8
Other long-term liabilities	16.0	15.8
Total liabilities of continuing operations	490.2	525.4
Liabilities of discontinued operations	14.3	18.2
Total liabilities	504.5	543.6
Shareholders equity		

Common stock, $1 par value per share, 90.0 million shares authorized, 63.1 million and 63.0 million shares issued, respectively	63.1	63.0
Capital in excess of par value	166.6	164.7
Retained earnings	51.3	50.6
Treasury stock, 0.9 million and 0.9 million shares, respectively, at cost	(16.1)	(15.8)
Accumulated other comprehensive loss	(30.6)	(41.6)
Total shareholders equity	234.3	220.9
Total liabilities and shareholders equity	$ 738.8	$ 764.5

See notes to condensed consolidated financial statements.

FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY (unaudited)

(in millions)	Common Stock Par Value	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2010	$ 63.0	$ 164.7	$ 50.6	$ (15.8)	$ (41.6)	$ 220.9
Comprehensive income**:**						
Net income			0.7			0.7
Foreign currency translation					10.0	10.0
Unrealized gain on derivatives, net of tax expense of $0.5					0.1	0.1
Change in unrecognized loss related to pension benefit plans, net of tax expense of $1.4					0.9	0.9
Comprehensive income						11.7
Stock-based payments:						
Non-vested stock and options		1.3				1.3
Stock awards	0.1	0.6		(0.3)		0.4
Balance at June 30, 2011	$ 63.1	$ 166.6	$ 51.3	$ (16.1)	$ (30.6)	$ 234.3

See notes to condensed consolidated financial statements.

FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Six months ended June 30,	
(in millions)	**2011**	**2010**
Operating activities		
Net income (loss)	$ 0.7	$ (7.7)
Adjustments to reconcile net income (loss) to net cash used for operating activities:		
(Gain) loss on discontinued operations and disposal	(0.3)	3.2
Depreciation and amortization	11.4	9.2
Stock-based compensation expense	1.3	2.2
Goodwill impairment	(1.6)	
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions of companies	(15.3)	(13.1)
Net cash used for continuing operating activities	(3.8)	(6.2)
Net cash used for discontinued operating activities	(1.7)	(1.7)
Net cash used for operating activities	(5.5)	(7.9)
Investing activities		
Purchases of properties and equipment	(7.3)	(6.5)
Proceeds from sales of properties, plant and equipment	0.9	1.2
Payments for acquisitions, net of cash acquired		(97.3)
Net cash used for continuing investing activities	(6.4)	(102.6)
Net cash used for investing activities	(6.4)	(102.6)
Financing activities		
(Reduction) increase in debt outstanding under revolving credit facilities	(24.6)	61.1
Proceeds on short-term borrowings	33.0	7.6
Payments on short-term borrowings	(25.4)	
Payments on long-term borrowings	(11.4)	(35.0)
Payments of debt amendment fees	(2.1)	
Cash dividends paid to shareholders	(3.7)	(6.7)
Proceeds from equity offering, net of fees		71.0
Other, net	(0.2)	0.3
Net cash (used for) provided by continuing financing activities	(34.4)	98.3
Net cash used for discontinued financing activities		(0.4)
Net cash (used for) provided by financing activities	(34.4)	97.9
Effects of foreign exchange rate changes on cash and cash equivalents	(1.5)	4.7
Decrease in cash and cash equivalents	(47.8)	(7.9)
Cash and cash equivalents at beginning of period	62.1	21.1
Cash and cash equivalents at end of period	$ 14.3	$ 13.2

See notes to condensed consolidated financial statements.

FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description of the Business

Federal Signal Corporation was founded in 1901 and was reincorporated as a Delaware corporation in 1969. References herein to the Company, we, our, or us refer collectively to Federal Signal Corporation and its subsidiari

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements represent the consolidation of Federal Signal Corporation and subsidiaries included herein and have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to ensure the information presented is not misleading. These condensed consolidated financial statements have been prepared in accordance with the Company s accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2010 and should be read in conjunction with the consolidated financial statements and the notes thereto.

These statements include all adjustments (consisting of normal recurring accruals) that we considered necessary to present a fair statement of our results of operations, financial position and cash flows. The results reported in these condensed, consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2010. We label our quarterly information using a calendar convention, that is, first quarter is labeled as ending on March 31, second quarter as ending on June 30, and third quarter as ending on September 30. It is our longstanding practice to establish interim quarterly closing dates using a 5-4-4 calendar with the fiscal year ending on December 31. The effects of this practice are modest and only exist within a reporting year.

We have reclassified certain prior period amounts to conform to the current period presentation. Included with reclassifications are restatements for discontinued operations and adjustments related to the timing of recording revenue on certain arrangements primarily in the Federal Signal Technologies Group, as described in the notes to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Accounting Changes

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-13, *Topic 605- Multiple-Deliverable Revenue Arrangements*, which changes the level of evidence of standalone selling price required to separate deliverables in a multiple deliverable revenue arrangement by allowing a company to make its best estimate of the selling price of deliverables when more objective evidence of selling price is not available and eliminates the use of the residual method. ASU No. 2009-13 applies to multiple deliverable revenue arrangements that are not accounted for under other accounting pronouncements and retains the use of vendor-specific objective evidence of selling price (VSOE) if available, and third-party evidence of selling price when VSOE is unavailable.

In October 2009, the FASB also issued ASU No. 2009-14, *Topic 985- Certain Revenue Arrangements That Include Software Elements,* which amended the accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the products essential functionality from the scope of industry-specific software revenue recognition guidance.

The Company adopted ASU No. 2009-13 and ASU No. 2009-14 prospectively on January 1, 2011. The majority of the Company s businesses generate revenue through the manufacture and sale of a broad range of specialized products and components, with revenue recognized upon transfer of title and risk of loss, which is generally upon shipment. Certain businesses within the Federal Signal

Technologies Group sell under multiple deliverable sales arrangements where the Company utilized estimated selling prices under the relative-selling-price method. In arriving at its best estimates of selling price, management considered market conditions as well as Company-specific factors. Management considered the Company s overall pricing model and objectives, including profit objectives and internal cost structure, as well as historical pricing data. The effect of adopting the new accounting guidance during the first quarter of 2011 was an increase in revenues of $1.2 million and an increase in cost of sales of $0.6 million. The effect of adopting the new accounting guidance during the second quarter of 2011 was an increase in revenues of $2.1 million and an increase in cost of sales of $0.9 million. The total effect of adopting the new accounting guidance for the six months ended June 30, 2011 was an increase in revenues and cost of sales of $3.3 million and $1.5 million, respectively. The Company anticipates that the effect on future quarters of 2011 will be consistent with the effect on the first two quarters.

No other new accounting pronouncements issued or effective during the first six months of 2011 have had or are expected to have a material impact on the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses. Significant estimates and assumptions are used for, but are not limited to, pension and other postretirement benefits, allowance for doubtful accounts, income tax contingency accruals and valuation allowances, product warranty accruals, asset impairment, purchase price allocation and litigation-related accruals. Actual results could differ from our estimates.

2. ACQUISITIONS

For the three and six months ended June 30, 2010, pretax acquisition and integration related expenses totaling $1.1 million and $3.7 million, respectively, were recorded. During the first and second quarters of 2011, there were no charges recorded for acquisition and integration related costs. These charges, which were expensed in accordance with the accounting guidance for business combinations, were recorded in Acquisition and integration related costs on the Condensed Consolidated Statement of Operations and were reflected in the Corporate results.

3. INVENTORIES, NET

Inventories are summarized as follows:

($ in millions)	**June 30, 2011**	**December 31, 2010**
Raw materials	$ 55.4	$ 55.0
Work in progress	34.8	29.0
Finished goods	33.3	35.6
Total inventories, net	$ 123.5	$ 119.6

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill ($ in millions)	**December 31, 2010**	**Impairment**	**Other Adjustments Including Currency Translations**	**June 30, 2011**
Environmental Solutions	$ 120.4	$	$	$ 120.4
Fire Rescue	33.9		1.8	35.7
Safety and Security Systems	118.2		3.2	121.4
Federal Signal Technologies	37.9	1.6	(0.7)	38.8

Total	$ 310.4	$ 1.6	$ 4.3	$ 316.3

Trade names ($ in millions)	December 31, 2010	Impairment	Other Adjustments Including Currency Translations	June 30, 2011
Federal Signal Technologies	$ 15.3	$	$ 0.4	$ 15.7
Total	$ 15.3	$	$ 0.4	$ 15.7

The following table provides the gross carrying value and accumulated amortization for each major class of intangible assets:

		June 30, 2011			December 31, 2010		
($ in millions)	Average Useful Life (Years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortizable Intangible Assets:							
Developed software	6	$ 23.9	$ (18.4)	$ 5.5	$ 23.0	$ (17.5)	$ 5.5
Patents	10	3.9	(1.0)	2.9	2.3	(0.6)	1.7
Customer relationships	15	45.7	(9.3)	36.4	45.0	(7.3)	37.7
Technology	11	23.9	(4.3)	19.6	23.7	(3.1)	20.6
Other	5	5.6	(2.6)	3.0	5.7	(2.1)	3.6
Total	12	103.0	(35.6)	67.4	99.7	(30.6)	69.1
Indefinite-lived Intangible Assets:							
Trade names		15.7		15.7	15.3		15.3
Total		$ 118.7	$ (35.6)	$ 83.1	$ 115.0	$ (30.6)	$ 84.4

Amortization expense for the three and six month period ended June 30, 2011 totaled $2.5 million and $4.9 million, respectively, and for the three and six month period ended June 30, 2010 totaled $2.2 million and $3.8 million, respectively. The Company estimates that the total amortization expense will be $9.3 million in 2011, $8.1 million in 2012, $7.3 million in 2013, $7.2 million in 2014, $6.6 million in 2015, $6.3 million in 2016, and $27.5 million thereafter.

The Company accounts for goodwill and identifiable intangible assets in accordance with ASC 360 Intangibles Goodwill and Other. Under this standard, the Company assesses the impairment of goodwill and indefinite-lived intangible assets at least annually, on October 31, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

During the fourth quarter of 2010, the Company performed its annual assessment and determined that the goodwill and certain trade names within the Federal Signal Technologies Group reporting unit were impaired and recorded impairment charges of $67.1 million and $11.8 million, respectively. The impairment charges resulted from decreased sales and cash flow estimated in our Federal Signal Technologies Group. Upon completion of a detailed second step impairment analysis in the first quarter of 2011, the Company recorded an adjustment of $1.6 million which reduced a portion of the original goodwill impairment recognized during the fourth quarter of 2010.

5. DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The Company manages the volatility of cash flows caused by fluctuations in currency rates by entering into foreign exchange forward contracts and options. These derivative instruments may be designated as cash flow hedges that hedge portions of the Company s anticipated third-party purchases and forecasted sales denominated in foreign currencies. The Company also enters into foreign exchange contracts that are not intended to qualify for hedge accounting, but are intended to offset the effect on earnings of foreign currency movements on short and long term intercompany transactions. Gains and losses on these derivative instruments are recorded through earnings.

For assets and liabilities measured at fair value on a recurring basis, the Company uses an income approach to value the assets and liabilities for outstanding derivative contracts, which include interest rate swap and foreign currency forward contracts. The income approach consists of a discounted cash flow model that takes into account the present value of future cash flows under the terms of the contracts using current market information as of the reporting date,

such as prevailing interest rates and foreign currency spot and forward rates. The following table provides a summary of the fair values of assets and liabilities:

		Fair Value Measurements at June 30, 2011		
($ in millions)	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Derivatives	$ 0.4	$	$ 0.4	$

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	Fair Value Measurements at June 30, 2011			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities				
Derivatives	$ 0.1	$	$ 0.1	$

	Fair Value Measurements at December 31, 2010			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Derivatives	$	$	$	$

	Fair Value Measurements at December 31, 2010			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities				
Derivatives	$ 0.6	$	$ 0.6	$

At June 30, 2011 and December 31, 2010, the fair value of the Company s derivative instruments was recorded as follows:

($ in millions)	Asset Derivatives June 30, 2011 Balance Sheet Location		Fair Value	Liability Derivatives June 30, 2011 Balance Sheet Location		Fair Value
Derivatives designated as hedging instruments:						
Foreign exchange	Other current assets	$	0.4	Other accrued liabilities	$	
Total derivatives designated as hedging instruments			0.4			
Derivatives not designated as hedging instruments:						
Foreign exchange	Accounts receivable, net			Other accrued liabilities		0.1
Total derivatives not designated as hedging instruments						0.1
Total derivatives		$	0.4		$	0.1

($ in millions)	Asset Derivatives December 31, 2010 Balance Sheet Location		Fair Value	Liability Derivatives December 31, 2010 Balance Sheet Location		Fair Value
Derivatives designated as hedging instruments:						
Foreign exchange	Other current assets			Other current Liabilities	$	0.2
Total derivatives designated as hedging instruments						0.2
Derivatives not designated as hedging instruments:						

	Asset Derivatives December 31, 2010		Liability Derivatives December 31, 2010			
($ in millions)	**Balance Sheet Location**		**Fair Value**	**Balance Sheet Location**		**Fair Value**
Foreign exchange	Accounts receivable, net			Other accrued liabilities		0.4
Total derivatives not designated as hedging instruments						0.4
Total derivatives		$			$	0.6

The effect of derivative instruments on the condensed consolidated statement of operations for the three months ended June 30, 2011 was as follows:

($ in millions) **Derivatives in Cash Flow Hedging Relationships**		**Amount of Gain/(Loss) Recognized in OCI on Derivative (Effective Portion)**	**Location of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)**		**Amount of Gain Reclassified from Accumulated OCI into Income (Effective Portion)**
Interest rate contracts	$		Interest expense		
Foreign exchange		0.3	Net sales		
Total	$	0.3		$	

Derivatives Not Designated as Hedging Instruments	**Location of Gain Recognized in Income on Derivative**		**Amount of Loss Recognized in Income on Derivative**
Foreign exchange	Other expense	$	(0.2)
Total		$	(0.2)

The effect of derivative instruments on the condensed consolidated statement of operations for the six months ended June 30, 2011 was as follows:

($ in millions) Derivatives in Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain Reclassified from Accumulated OCI into Income (Effective Portion)	
Interest rate contracts	$		Interest expense	$	
Foreign exchange		0.5	Net sales		0.1
Total	$	0.5		$	0.1

Derivatives Not Designated as Hedging Instruments	Location of Gain Recognized in Income on Derivative	Amount of Loss Recognized in Income on Derivative	
Foreign exchange	Other expense	$	(0.8)
Total		$	(0.8)

At June 30, 2011 and December 31, 2010, accumulated other comprehensive gain associated with interest rate swaps and foreign exchange contracts qualifying for hedge accounting treatment was $0.2 million and $0.5 million, net of income tax effects, respectively. The Company expects $0.4 million of pre-tax net gain on cash flow hedges that are reported in accumulated other comprehensive loss as of June 30, 2011 to be reclassified into earnings within the next 12 months as the respective hedged transactions affect earnings.

The following table summarizes the carrying amounts and fair values of the Company s financial instruments:

	June 30, 2011		December 31, 2010	
($ in millions)	Notional Amount	Fair Value	Notional Amount	Fair Value
Short-term debt	$ 9.5	$ 9.5	$ 1.8	$ 1.8
Long-term debt (1)	226.0	223.3	262.1	259.9
Foreign exchange (2)	21.7	0.4	28.3	(0.6)

(1) Long term debt includes financial service borrowings for all periods presented, which is included in discontinued operations, long term debt above includes current maturities of $191.9 million.

(2) Foreign exchange contracts are denominated in USD, GBP, and Euro.

The carrying value of short-term debt approximates fair value due to its short maturity. The fair value of long-term debt is based on interest rates that are currently available to us for issuance of debt with similar terms and remaining maturities.

6. DEBT

Short-term borrowings consisted of the following:

($ in millions)	June 30, 2011	December 31, 2010
Non-U.S. lines of credit	$ 9.5	$ 1.8

Long-term borrowings consisted of the following:

($ in millions)	June 30, 2011	December 31, 2010
Revolving Credit Facility	$ 190.0	$ 214.6
Alternative Currency Facility (within Revolving Credit Facility)		4.0
13.53% Secured Private Placement note with annual installments of $10.0 million due 2011		1.3
13.34% Secured Private Placement note with annual installments of $7.1 million due 2011		0.6
11.98% Secured Private Placement note due 2012	28.6	31.9
Secured Private Placement note, floating rate (8.10% and 5.39% at June 30, 2011 and December 31, 2010, respectively) due 2013	6.4	7.1
Subsidiary Loan Agreement		1.0
Capital Lease Obligations	0.8	1.0
	225.8	261.5
Unamortized balance of terminated fair value interest rate swaps	0.2	0.6
	226.0	262.1
Less current maturities, excluding financial services activities	(190.0)	(75.8)
Less current capital lease obligations	(0.3)	(0.4)
Less financial services activities borrowings (included in discontinued operations)	(1.6)	(1.5)
Total long-term borrowings and capital lease obligations, net	$ 34.1	$ 184.4

The Company was in violation of its Interest Coverage Ratio covenant minimum requirement as defined in the Second Amended and Restated Credit Agreement (the Credit Agreement) and the Note Purchase Agreements for the fiscal quarter ended December 31, 2010.

On March 15, 2011, the Company executed the Third Amendment and Waiver to the Second Amended and Restated Credit Agreement dated as of April 25, 2007 among the Company, the bank lenders party thereto, and Bank of

Montreal, as Agent (the Third Amendment and Waiver) with regard to the Company s Revolving Credit Facility (the Revolving Credit Facility). On the same date, the Company also executed the Second Global Amendment and Waiver to the Note Purchase Agreements (the Second Global Amendment) with the holders of its private placement notes (the Notes). Both the Third Amendment and Waiver and the Second Global Amendment included a permanent waiver of compliance with the Interest Coverage Ratio covenant for the Company s fiscal quarter ended December 31, 2010. Included in the terms of the Third Amendment and Waiver and the Second Global Amendment are the replacement of the Interest Coverage Ratio covenant with a minimum EBITDA covenant effective January 1, 2011, with the first required reporting period on April 2, 2011; an increase in pricing to the Company s Revolving Credit Facility pricing grid; an increase in pricing for the outstanding Notes; mandatory prepayments from proceeds of asset sales; restrictions on use of excess cash flow; restrictions on dividend payments, share repurchases and other restricted payments; and a 50 basis points fee paid to the bank lenders and holders of the Notes upon execution of the Third Amendment and Waiver and the Second Global Amendment.

The new minimum EBITDA covenant is required to be tested quarterly as of the last day of the fiscal quarters ending April 2, 2011 and July 2, 2011, and monthly thereafter (commencing on August 6, 2011), in each case on a trailing twelve-month basis, except that EBITDA for the fiscal quarters ending April 2, 2011 and July 2, 2011, and the fiscal months of and including July through November of 2011, will be calculated using the Company s year-to-date EBITDA through the test date.

Under the terms of the Third Amendment and Waiver, no share repurchases or other restricted payments will be permitted going forward except with the consent of the bank lenders and the noteholders. Certain restrictions are also placed on the Company s ability to pay dividends subsequent to effective date of the Third Amendment and Waiver.

As of June 30, 2011, the Company was in compliance with all covenants contained in its debt agreements.

As required in the Third Amendment and Waiver and the Second Global Amendment, on March 15, 2011, the Company repaid $30.0 million that was applied to the amounts outstanding under the Revolving Credit Facility and the Notes on a pro rata basis (i.e, 85.8% for the bank lenders under the Revolving Credit Facility and 14.2% for the Notes).

The Third Amendment and Waiver permanently reduced the available commitments to the Company s Revolving Credit Facility from $250.0 million to $240.0 million. The Company s ability to obtain new advances is now limited to $18.0 million. Borrowings up to the first $18.0 million of new advances under the Revolving Credit Facility are senior in right of payment to the existing borrowings under the Revolving Credit Facility and outstanding debt under the Notes. The Company may repay and reborrow amounts up to $18.0 million of new advances. The Company may also repay amounts greater than $18.0 million under the Revolving Credit Facility and, subject to certain other provisions, the bank lenders will make available those commitments dollar for dollar under the Revolving Credit Facility to $240.0 million.

Borrowings under the facility pursuant to the Third Amendment and Waiver bear interest, at the Company s option, at the Base Rate or LIBOR plus an applicable margin. The applicable margin is 2.00% for Base Rate borrowings and 3.00% for LIBOR borrowings for the period January 1, 2011 through June 30, 2011; 2.50% for Base Rate borrowings and 3.50% for LIBOR borrowings from July 1, 2011 through September 30, 2011; 2.75% for Base Rate borrowings and 3.75% for LIBOR borrowings from October 1, 2011 through December 31, 2011; 3.00% for Base Rate borrowings and 4.00% for LIBOR borrowings from January 1, 2012 through March 31, 2012; and 3.25% for Base Rate borrowings and 4.25% for LIBOR borrowings thereafter. The Third Amendment and Waiver requires a LIBOR floor of 1.50% beginning January 1, 2011. The six-month LIBOR borrowing option was removed. Interest on all loans is payable monthly. The default rate increase in interest rates is 300 basis points.

The Second Global Amendment required an increase in interest rates applicable to the Notes by the same amounts as the interest rate increases under the Revolving Credit Facility. Also, under the Second Global Amendment, the default rate increase in interest rates is 300 basis points. The Company also agreed to pay to each consenting Noteholder a consent fee equal to 0.50% of the outstanding principal amounts of the Notes.

The outstanding debt under the Company s Revolving Credit Facility and Notes will be prepaid on a pro rata basis in accordance with their pro rata percentages on a quarterly basis by an amount equal to the Excess Cash Flow for that quarter.

Excess Cash Flow is defined as EBITDA for the applicable quarter minus the sum of interest, scheduled principal payments, cash taxes, cash dividends and capital expenditures paid in accordance with the Revolving Credit Agreement for that quarter, plus after the second fiscal quarter of 2011, the aggregate amount that the Company s working capital has decreased in the ordinary course during such period. The Excess Cash Flow pro rata payment against the Revolving Credit Facility outstanding debt will concurrently and permanently reduce the same amount of Revolving Credit Facility commitments. The commitments may be reinstated with approval from all bank lenders within the Revolving Credit Facility.

The Revolving Credit Facility is secured by a first-priority perfected security interest in substantially all of the domestic tangible and intangible assets of the Company and its domestic subsidiaries as the guarantors.

The amendments also contain certain covenants that restrict the Company s ability to make voluntarily debt payments, acquisitions or dispositions without the lenders consent. In addition, certain limitations are placed on the Company s capital expenditure levels in future years.

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At June 30, 2011, $190.0 million was drawn under the Revolving Credit Facility, leaving available borrowings of $50.0 million that includes $28.8 million of capacity used for existing letters of credit.

At June 30, 2011, the debt outstanding under the Company s Revolving Credit Facility has been classified as current liability based on the April 2012 maturity date. It is the Company s intention to refinance the debt under the Revolving Credit Facility into senior secured long-term notes combined with an asset-based lending facility before December 31, 2011.

At June 30, 2011, $9.5 million was drawn against the Company s non-U.S. lines of credit, which provide for borrowings up to $18.9 million.

7. SHAREHOLDERS EQUITY

In May 2010, the Company issued 12.1 million common shares at a price of $6.25 per share for total gross proceeds of $75.5 million. After deducting direct fees, net proceeds to the Company totaled $71.0 million. Proceeds from the equity offering were used to pay down debt.

8. INCOME TAXES

The Company s effective tax rate for continuing operations was a benefit of 7.5% and a benefit of 58.3% for the three months ended June 30, 2011 and 2010, respectively.

The Company s effective tax rate for continuing operations was an expense of 42.9% and a benefit of 30.8% for the six months ended June 30, 2011 and 2010, respectively.

The tax rates for the three and six months ended June 30, 2011 do not reflect any tax benefit on domestic losses as a result of the domestic valuation allowance which was recorded in the fourth quarter of 2010. For the three and six months ended June 30, 2010, a tax benefit on domestic losses of $2.7 million and $4.5 million, respectively was recorded. The tax benefit for the three and six months ended June 30, 2011 is primarily associated with $0.7 million of foreign income tax, and is partially offset by the release of tax reserves related to the resolution of a foreign tax audit of $0.4 million during the first quarter. The three month period ended June 30, 2011 had a favorable impact of $0.4 million due to a reduction of the valuation allowance needed for domestic deferred tax assets.

The Company s unrecognized tax benefits were $3.8 million at January 1, 2011, of which $4.1 million are tax benefits that, if recognized, would reduce the annual effective tax rate. The Company s continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. Interest and penalties amounting to $0.2 million and $0.1 million, respectively, are included in the condensed consolidated balance sheet at June 30, 2011. The Company expects the unrecognized tax benefits to decrease by $0.3 million over the next twelve months. In the six months ended June 30, 2011, the Company s unrecognized tax benefits decreased by $0.1 million, primarily due to the aforementioned foreign tax audit resolution net of an IRS audit adjustment agreed to during the quarter.

9. POSTRETIREMENT BENEFITS

The components of the Company s net periodic pension expense for its defined benefit pension plans are summarized as follows:

	U.S. Benefit Plan				**Non-U.S. Benefit Plan**			
	Three months ended June 30,		**Six months ended June 30,**		**Three months ended June 30,**		**Six months ended June 30,**	
($ in millions)	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Service Cost	$	$	$	$	$	$	$ 0.1	$
Interest cost	2.0	2.0	3.9	3.9	0.7	0.8	1.4	$ 1.5
Expected return on plan assets	(1.9)	(2.2)	(3.8)	(4.4)	(0.8)	(0.8)	(1.6)	(1.5)
Amortization of actuarial loss	1.2	0.9	2.4	1.9	0.2	0.2	0.4	0.3
Net periodic pension expense	$ 1.3	$ 0.7	$ 2.5	$ 1.4	$ 0.1	$ 0.2	$ 0.3	$ 0.3

During the six month period ended June 30, 2011, no contribution was made to the U.S. defined benefit plan and a $0.6 million contribution was made to the non-U.S. defined benefit plan. During the comparable prior year period, no contribution to the U.S. defined benefit plan was made and the Company contributed $0.5 million to the non-U.S. defined benefit plan.

10. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share basic is computed by dividing income or loss available to common stockholders by the weighted average number of shares of common stock outstanding for the period. Earnings (loss) per share diluted reflects the potential dilution that could occur if options issued under stock-based compensation awards were exercised and converted into common stock. For the three months ended June 30, 2011 and 2010, options to purchase 1.8 million and 1.6 million shares of the Company s common stock had exercise prices that were greater than the average market price of those shares during the respective reporting periods. For the six months ended June 30, 2011 and 2010, options to purchase 1.5 million and 1.5 million shares of the Company s common stock had exercise prices that were greater than the average market price of those shares during the respective reporting periods. As a result, these shares are excluded from the earnings (loss) per share calculation as they are anti-dilutive.

The following is a computation of earnings (loss) per share basic and diluted for the three and six months ended June 30, 2011 and 2010:

Computation of Earnings (Loss) per Common Share

	Three months ended June 30,		**Six months ended June 30,**	
($ in millions, except per share data)	**2011**	**2010**	**2011**	**2010**
Income (loss) from continuing operations	$ 5.7	$ (0.5)	$ 0.4	$ (4.5)
Gain (loss) from discontinued operations and disposal, net of tax	0.3	(2.2)	0.3	(3.2)
Net income (loss)	$ 6.0	$ (2.7)	$ 0.7	$ (7.7)
Average shares outstanding basic	62.2	57.1	62.2	53.0
Dilutive effect of stock options and other		0.1		0.1
Diluted shares outstanding	62.2	57.2	62.2	53.1
Basic and diluted loss per share:				
Earnings (loss) from continuing operations	$ 0.09	$ (0.01)	$ 0.01	$ (0.09)
Gain (loss) from discontinued operations and disposal	0.01	(0.04)		(0.06)
Gain (loss) per share	$ 0.10	$ (0.05)	$ 0.01	$ (0.15)
Weighted average common shares outstanding:				
Basic	62.2	57.1	62.2	53.0
Diluted	62.2	57.2	62.2	53.1

11. COMMITMENTS, CONTINGENCIES AND WARRANTIES

Warranties

The Company issues product performance warranties to customers with the sale of its products. The specific terms and conditions of these warranties vary depending upon the product sold and country in which the Company conducts business, with warranty periods generally ranging from one to ten years. The Company estimates the costs that may be incurred under its basic limited warranty and records a liability in the amount of such costs at the time the sale of the related product is recognized. Factors that affect the Company s warranty liability include the number of units under warranty from time to time, historical and anticipated rates of warranty claims and costs per claim. The Company

periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.
Changes in the Company s warranty liabilities in the six months ended June 30, 2011 and 2010 were as follows:

($ in millions)	2011	2010
Balance at December 31	$ 5.7	$ 6.2
Provisions to expense	4.4	3.8
Actual costs incurred	(4.1)	(3.8)
Balance at June 30	$ 6.0	$ 6.2

Environmental Liabilities

The Company retained an environmental consultant to conduct an environmental risk assessment at its Pearland, Texas facility. The facility, which was previously used by the Company s discontinued Pauluhn business, manufactured marine, offshore and industrial lighting products. While the Company has not completed the risk assessment analysis, it appears probable the site will require remediation. As of June 30, 2011, $2.4 million of reserves related to the environmental remediation are included in Liabilities of discontinued operations on the Condensed Consolidated Balance Sheet. The Company s estimate may change in the near term as more information becomes available; however, the costs are not expected to have a material adverse effect on the Company s results of operations, financial position or liquidity.

Legal Proceedings

The Company is subject to various claims as well as other pending and possible legal actions for product liability and other damages, and other matters arising out of the conduct of the Company s business. The Company believes, based on current knowledge and after consultation with counsel, that the outcome of such claims and actions will not have an adverse effect on the Company s consolidated financial position or results of operations. However, in the event of unexpected future developments, it is possible that the ultimate resolution of such matters, if unfavorable, could have a material adverse effect on the Company s results of operations.

The Company has been sued by firefighters seeking damages claiming that exposure to the Company s sirens has impaired their hearing and that the sirens are therefore defective. There were 33 cases filed during the period 1999-2004, involving a total of 2,443 plaintiffs, in the Circuit Court of Cook County, Illinois. Beginning in 2009, six additional cases were filed in Cook County, involving 299 Pennsylvania firefighter plaintiffs. The trial of the first 27 of these plaintiffs claims occurred in 2008, when a Cook County jury returned a unanimous verdict in favor of the Company. An additional 40 firefighter plaintiffs were selected for trial in 2009. Plaintiffs counsel later moved to reduce the number of plaintiffs from 40 to 9. The trial for these nine plaintiffs concluded with a verdict returned against the Company and for the plaintiffs in varying amounts totaling $0.4 million. The Company is appealing this verdict. All trials previously scheduled in Cook County during 2009 and 2010 were stayed pending the result of this appeal. On April 18, 2011, the trial court lifted this stay and ordered that trials continue while the appeal is pending. Trials have been scheduled in Cook County for November 7, 2011, February 13, 2012, May 14, 2012, August 13, 2012, November 12, 2012, and February 14, 2013. A maximum of 10 plaintiffs have been selected for each trial.

The Company has also been sued on this issue outside of the Cook County, Illinois venue. Most of these cases have involved lawsuits filed by a single attorney in the Court of Common Pleas, Philadelphia County, Pennsylvania. Since September 2007, this attorney filed a total of 71 lawsuits, involving 71 plaintiffs in this jurisdiction. Three of these cases were dismissed pursuant to pretrial motion filed by the Company. Another case was voluntarily dismissed. Prior to trial in four cases, the Company paid nominal sums, which included reimbursements of expenses, to obtain dismissals. Three trials occurred in Philadelphia involving these cases. The first trial involving one of these plaintiffs occurred in 2010, when the jury returned a verdict for the plaintiff. In particular, the jury found that the Company s siren was not defectively designed, but that the Company negligently constructed the siren. The jury awarded damages in the amount of $0.1 million which was subsequently reduced to $0.08 million. The Company appealed this verdict. Another trial, involving 9 Philadelphia firefighter plaintiffs also occurred in 2010 when the jury returned a defense verdict for the Company as to all claims and all plaintiffs involved in that trial. The third trial, involving 9 Philadelphia firefighter plaintiffs, was completed during 2010 when the jury returned a defense verdict for the Company as to all claims and all plaintiffs involved in that trial.

Following defense verdicts in the last two Philadelphia trials, the Company negotiated settlements with respect to all remaining filed cases in Philadelphia as well as other firefighter claimants represented by the attorney who filed the Philadelphia cases. On January 4, 2011, the Company entered into a Global Settlement Agreement (the Settlement Agreement) with the law firm of the attorney representing the Philadelphia claimants, on behalf of 1,125 claimants the firm represents (the Claimants) and who have asserted product claims against the Company (the Claims). Three hundred and eight of these claimants have lawsuits pending against the Company in Cook County, Illinois.

The Settlement Agreement as amended, provides that the Company shall pay (the Settlement Payment) a total amount of $3.8 million to settle the Claims (including the costs, fees and other expenses of the law firm in connection with its representation of the claimants), subject to certain terms, conditions and procedures set forth in the Settlement Agreement. In order for the Company to be required to make the Settlement Payment: (i) each claimant who agrees to settle his or her claims must sign a release acceptable to the Company (a Release); (ii) each claimant who agrees to the settlement and who is a plaintiff in a lawsuit, must dismiss his or her lawsuit, with prejudice; (iii) by April 29, 2011, at least 93% of the claimants identified in Appendix A to the Settlement Agreement must have agreed to settle their claims and provide a signed Release to the Company; and (iv) the law firm shall have withdrawn from representing any claimants who do not agree to the settlement, including those who have filed lawsuits. If the conditions to the settlement set forth in the Settlement Agreement are met, but less than 100% of the claimants have agreed to settle their Claims and sign a Release, the Settlement Payment will be reduced by the percentage of claimants who do not agree to the settlement.

On April 22, 2011, the Company confirmed that the terms and conditions of the Settlement Agreement had been met and made a payment of $3.6 million to conclude the settlement. The amount was based upon the Company s receipt of 1,069 signed releases provided by claimants, which was 95.02% of all claimants identified in the Settlement Agreement.

The Company generally denies the allegations made in the claims and lawsuits and denies that its products caused any injuries to the claimants. Nonetheless, to avoid the expense and uncertainty of further litigation, the Company has entered into the Settlement Agreement for the purpose of minimizing its expenses, including legal fees, and the inconvenience and distraction of the claims and lawsuits.

Firefighters have brought hearing loss claims against the Company in jurisdictions other than Philadelphia and Cook County. Those cases, however, have also been dismissed, including four cases in the Supreme Court of Kings County, New York which were dismissed upon the Company s motion in 2008. The trial court subsequently denied reconsideration of its ruling. On appeal, the appellate court affirmed the trial court s dismissal of these cases. Plaintiffs attorneys have threatened to file additional lawsuits. The Company intends to vigorously defend all of these lawsuits.

On July 29, 2011, a complaint for alleged patent infringements was filed in the U.S. District Court of Delaware by Neology, Inc. against the Company. The lawsuit demands that the Company cease manufacturing, marketing, importing or selling any devices that infringe on certain specified patents and also demands compensation for past alleged infringement. The Company is in the initial stages of investigating the complaint. The Company intends to vigorously defend all claims made under the complaint.

12. SEGMENT INFORMATION

The Company has four operating segments as defined under ASC Topic 280, Segment Reporting. Business units are organized under each segment because they share certain characteristics, such as technology, marketing, distribution and product application, which create long-term synergies. The principal activities of the Company s operating segments are as follows:

Federal Signal Technologies Our Federal Signal Technologies Group is a provider of technologies and solutions to the intelligent transportation systems and public safety markets and other applications. These products and solutions provide end users with the tools needed to automate data collection and analysis, transaction processing and asset tracking. Federal Signal Technologies provides technology platforms and services to customers in the areas of radio frequency identification systems, transaction processing vehicle classification, electronic toll collection, automated license plate recognition (ALPR), electronic vehicle registration, parking and access control, cashless payment solutions, congestion charging, traffic management, site security solutions and supply chain systems. Products are sold under the PIPS™, Idris®, Sirit™ and VESystems™ brand names. Federal Signal Technologies operates manufacturing facilities in North America and Europe.

Safety and Security Systems Our Safety and Security Systems Group is a leading manufacturer and supplier of comprehensive systems and products that law enforcement, fire rescue, emergency medical services, campuses, military facilities and industrial sites use to protect people and property. Offerings include systems for campus and community alerting, emergency vehicles, first responder interoperable communications, industrial communications and command and municipal networked security. Specific products include lightbars and sirens, public warning sirens

and public safety software. Products are sold under the Federal Signal™, Federal Signal VAMA™, Target Tech® and Victor® brand names. The Group operates manufacturing facilities in North America, Europe, and South Africa.

Environmental Solutions Our Environmental Solutions Group is a leading manufacturer and supplier of a full range of street sweeper and vacuum trucks and high-performance waterblasting equipment for municipal and industrial customers. We also manufacture products for the newer markets of hydro-excavation, glycol recovery and surface cleaning for utility and industrial customers. Products are sold under the Elgin®, Vactor®, Guzzler® and Jetstream® brand names. The Group primarily manufactures its vehicles and equipment in the United States.

Fire Rescue Our Fire Rescue Group is a leading manufacturer and supplier of sophisticated, vehicle-mounted, aerial platforms for fire fighting, rescue, electric utility and industrial uses. End customers include fire departments, industrial fire services, electric

utilities, maintenance rental companies for applications such as fire fighting and rescue, transmission line maintenance, and installation and maintenance of wind turbines. The Group s telescopic/articulated aerial platforms are designed in accordance with various regulatory codes and standards, such as European Norms, National Fire Protection Association and American National Standards Institute. In addition to equipment sales, the Group sells parts, service and training as part of a complete offering to its customer base. The Group manufactures in Finland and sells globally under the Bronto Skylift® brand name.

Corporate contains those items that are not included in our other operating segments.

The Company evaluates performance based on operating income of the respective segment. Operating income includes all revenues, costs and expenses directly related to the segment involved, and excludes acquisition and integration related costs, corporate expenses and interest expenses. These costs are contained at Corporate. Operating segment depreciation expense, identifiable assets and capital expenditures relate to those assets that are utilized by the respective operating segment. Corporate assets consist principally of cash and cash equivalents, short-term investments, notes and other receivables and fixed assets. The accounting policies of each operating segment are the same as those described in the summary of significant accounting policies in the Form 10-K for the year ended December 31, 2010.

We have reclassified certain prior period amounts to conform to the current period presentation. Included with reclassifications are restatements for both discontinued operations and the reorganization of certain operating segments. Information regarding the Company s discontinued operations is included in Note 15 Discontinued Operations. The segment information included herein has been reclassified to reflect such discontinued operations.

The following table summarizes the Company s net sales, operating income (loss), and total assets by segment. The results for the interim periods are not necessarily indicative of results for a full year. Selected financial information is as follows:

($ in millions)	**Safety and Security Systems**	**Fire Rescue**	**Environmental Solutions**	**Federal Signal Technologies**	**Corporate and Eliminations**	**Total**
Three months ended June 30, 2011:						
Net sales	$56.3	$24.7	$ 94.6	$ 28.9	$	$204.5
Operating income (loss)	6.3	0.7	9.2	(1.5)	(5.8)	8.9
Three months ended June 30, 2010:						
Net sales	56.8	29.6	84.5	24.7		195.6
Operating income (loss)	5.8	2.8	7.4	(3.4)	(10.1)	2.5

($ in millions)	**Safety and Security Systems**	**Fire Rescue**	**Environmental Solutions**	**Federal Signal Technologies**	**Corporate and Eliminations**	**Total**
Six months ended June 30, 2011:						
Net sales	$109.0	$45.9	$ 171.0	$ 52.2	$	$378.1
Operating income (loss)	11.5	1.5	10.1	(5.0)	(10.4)	7.7
Six months ended June 30, 2010:						
Net sales	108.9	54.4	154.5	42.4		360.2
Operating income (loss)	10.5	3.6	11.2	(6.0)	(18.3)	1.0

($ in millions)	Safety and Security Systems	Fire Rescue	Environmental Solutions	Federal Signal Technologies	Corporate and Eliminations	Total
As of June 30, 2011:						
Total assets	$253.0	$122.1	$ 235.0	$ 103.5	$ 25.2	$738.8
As of December 31, 2010:						
Total assets	$247.2	$123.2	$ 241.8	$ 104.9	$ 47.4	$764.5

13. RESTRUCTURING

During fiscal years 2010 and 2009, the Company announced restructuring initiatives. As of June 30, 2011 and December 31, 2010, the

Company s total restructuring accrual was $0.5 million and $2.5 million, respectively. The Company continues to review its businesses for opportunities to reduce operating expenses and focus on executing its strategy based on core competencies and cost efficiencies.

2010 Plan

During the second quarter of 2010, the Company announced restructuring initiatives focused on aligning cost base with revenues and other functional reorganizations, and recorded $3.7 million in restructuring charges related to a global reduction in force across all functions. The total restructuring charge was $5.0 million as of December 31, 2010 and is expected to be completed by the third quarter of 2011.

2009 Plan

In July 2009, the Company began an initiative to consolidate a number of manufacturing and distribution operations into the Company s University Park, Illinois plant, collectively known as the Footprint Restructuring Plan. The Company completed these actions as of December 31, 2010.

The following presents an analysis of the restructuring reserves included in other accrued liabilities as of June 30, 2011:

($ in millions)	**Severance**	**Other**	**Total**
Balance as of December 31, 2010	$ 1.9	$ 0.6	$ 2.5
Cash payments	(1.7)	(0.3)	(2.0)
Balance as of June 30, 2011	$ 0.2	$ 0.3	$ 0.5

The following presents an analysis of the restructuring reserves included in other accrued liabilities as of June 30, 2010:

($ in millions)	**Severance**	**Other**	**Total**
Balance as of December 31, 2009	$ 0.8	$ 0.5	$ 1.3
Restructuring charges	3.5	0.5	4.0
Cash payments	(0.6)	(0.1)	(0.7)
Balance as of June 30, 2010	$ 3.7	$ 0.9	$ 4.6

The following table shows the total amount of costs incurred by operating segment in connection with the restructuring programs:

	Three months ended June 30,		**Six months ended June 30,**	
($ in millions)	**2011**	**2010**	**2011**	**2010**
Environmental Solutions	$	$ 0.2	$	$ 0.2
Safety and Security		1.9		2.2
Fire Rescue		0.6		0.6
Federal Signal Technologies		0.4		0.4
Total restructuring charges by operating segment		3.1		3.4
Corporate		0.6		0.6
Total restructuring charges	$	$ 3.7	$	$ 4.0

14. COMPREHENSIVE INCOME (LOSS)

The following table presents the Company s comprehensive income (loss) for the three and six months ended June 30, 2011 and 2010:

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	**2011**	**2010**	**2011**	**2010**
Net income (loss)	$ 6.0	$ (2.7)	$ 0.7	$ (7.7)
Foreign currency translation	1.9	(6.3)	10.0	(13.4)
Unrealized gain (loss) on derivatives	0.2	0.3	0.1	0.3
Change in unrecognized losses related to pension benefit plans, net of tax	0.1	1.0	0.9	2.1
Comprehensive income (loss)	$ 8.2	$ (7.7)	$ 11.7	$ (18.7)

15. DISCONTINUED OPERATIONS

The following table presents the operating results of the Company s discontinued operations for the three and six months ended June 30, 2011 and 2010:

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	**2011**	**2010**	**2011**	**2010**
Net sales	$ 0.8	$ 0.5	$ 1.4	$ 1.0
Cost and expenses	(0.5)	(1.5)	(1.4)	(2.7)
Loss before income taxes	0.3	(1.0)		(1.7)
Income tax benefit (expense)		0.2		0.4
Income (loss) on discontinued operations	$ 0.3	$ (0.8)	$	$ (1.3)

2010

In December 2010, the Company determined that its China Wholly Owned Foreign Entity (China WOFE) business was no longer strategic. The results of China WOFE operations previously were included within the Environmental Solutions and Safety and Security Systems Groups.

In September 2010, the Company sold its Riverchase business, which had previously been reported as part of the Safety and Security Systems operating segment, for $0.2 million. The Company s Riverchase business developed a suite of products that enables emergency response agencies to manage and communicate remotely with their fleets.

The following table shows an analysis of assets and liabilities of discontinued operations as of June 30, 2011 and December 31, 2010:

($ in millions)	**June 30, 2011**	**December 31, 2010**
Current assets	$	$
Properties and equipment	0.5	0.7
Long-term assets	1.0	0.8
Financial service assets, net	1.5	1.6
Total assets of discontinued operations	$ 3.0	$ 3.1
Current liabilities	$ 4.4	$ 5.9
Long-term liabilities	8.3	10.8
Financial service liabilities	1.6	1.5
Total liabilities of discontinued operations	$ 14.3	$ 18.2

Included in current liabilities at June 30, 2011 and December 31, 2010 is $2.4 million and $2.6 million, respectively, related to environmental remediation at the Pearland, Texas facility, which was previously used by the Company s discontinued Pauluhn business. Included in long-term liabilities at June 30, 2011 and December 31, 2010 is $5.9 million and $6.0 million, respectively, relating to estimated product liability obligations of the North American refuse truck body business.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide information that is supplemental to, and shall be read together with, the condensed consolidated financial

statements and the accompanying notes contained in this Quarterly Report on Form 10-Q and the Annual Report on Form 10-K for the year ended December 31, 2010. Information in MD&A is intended to assist the reader in obtaining an understanding of the condensed consolidated financial statements, information about the Company s business segments and how the results of those segments impact the Company s results of operations and financial condition as a whole, and how certain accounting principles affect the Company s condensed consolidated financial statements. The Company s results for interim periods are not necessarily indicative of annual operating results.

Executive Summary

The Company is a leading global manufacturer and supplier of (i) safety, security and communication equipment, (ii) street sweepers and other environmental vehicles and equipment, and (iii) vehicle-mounted, aerial platforms for fire fighting, rescue, electric utility and industrial uses. We also are a designer and supplier of technology-based products and services for the public safety and intelligent transportation systems markets. In addition, we sell parts and tooling, and provide service, repair, equipment rentals and training as part of a comprehensive offering to our customer base. We operate 19 manufacturing facilities in 6 countries and provide our products and integrated solutions to municipal, governmental, industrial and commercial customers throughout the world.

Results of Operations

The following information summarizes our consolidated statements of operations and illustrates the key financial indicators used to assess our consolidated financial results:

	Three months ended June 30,			**Six months ended June 30,**		
($ in millions, except per share data)	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Net sales	$ 204.5	$ 195.6	$ 8.9	$ 378.1	$ 360.2	$ 17.9
Cost of sales	152.8	144.4	8.4	284.9	268.7	16.2
Gross profit	51.7	51.2	0.5	93.2	91.5	1.7
Selling, engineering, general and administrative	42.8	43.9	(1.1)	87.1	82.8	4.3
Goodwill impairment				(1.6)		(1.6)
Acquisition and integration related costs		1.1	(1.1)		3.7	(3.7)
Restructuring charges		3.7	(3.7)		4.0	(4.0)
Operating income	8.9	2.5	6.4	7.7	1.0	6.7
Interest expense	3.8	3.2	0.6	7.0	6.1	0.9
Other (income) expense, net	(0.2)	0.5	(0.7)		1.4	(1.4)
Income tax benefit (expense)	0.4	0.7	(0.3)	(0.3)	2.0	(2.3)
Income (loss) from continuing operations	5.7	(0.5)	6.2	0.4	(4.5)	4.9
Gain (loss) from discontinued operations and disposal, net of tax	0.3	(2.2)	2.5	0.3	(3.2)	3.5
Net income (loss)	$ 6.0	$ (2.7)	$ 8.7	$ 0.7	$ (7.7)	$ 8.4
Other data:						
Operating margin	4.4%	1.3%	3.1%	2.0%	0.3%	1.7%
Earnings (loss) per share continuing operations	$ 0.09	$ (0.01)	$ 0.10	$ 0.01	$ (0.09)	$ 0.10
Orders	$ 240.9	$ 187.0	$ 53.9	$ 450.6	$ 385.7	$ 64.9
Depreciation and amortization	$ 5.7	$ 4.8	$ 0.9	$ 11.4	$ 9.2	$ 2.2

Net Sales

Safety and Security Systems segment net sales decreased $0.5 million and increased $0.1 million for the three and six months ended June 30, 2011 compared to the respective prior year periods.

Fire Rescue segment net sales decreased $4.9 million and $8.5 million for the three and six months ended June 30, 2011 compared to the respective prior year periods primarily due to a lower order backlog, partially offset by improved industrial demand and favorable currency impacts.

Environmental Solutions segment net sales increased $10.1 million in the three months ended June 30, 2011 compared to the prior year period as a result of an increase in unit shipments for sewer cleaners, vacuum trucks, waterblasters and street sweepers and an improved product mix between municipal and industrial markets. For the six months ended June 30, 2011, net sales increased $16.5 million compared to the prior year period due to increased industrial vacuum trucks, sewer cleaners and street sweeper unit shipments.

Federal Signal Technologies segment net sales increased $4.2 million and $9.8 million for the three and six months ended June 30, 2011 compared to the respective prior year periods due to increased revenue associated with the radio frequency identification systems and the acquisitions of Sirit and VESystems in March 2010.

Cost of Sales

Cost of sales increased $8.4 million and $16.2 million for the three and six months ended June 30, 2011 compared to the prior year periods as a result of increased sales volume. Net sales increased 4% and 5% for the three and six months ended June 30, 2011 over the prior year periods, which is consistent with the cost of sales increases.

Acquisition and Integration Related Costs

For the three and six months ended June 30, 2010, the Company incurred $1.1 million and $3.7 million of acquisition and integration related costs. These costs include, but are not limited to, direct costs of acquisitions and costs directly associated with the formation of Federal Signal Technologies operating segment. There were no acquisition and integration related costs in 2011.

Restructuring Charges

For the three and six months ended June 30, 2011, no restructuring charges were incurred. Restructuring charges for the three and six months ended June 30, 2010 were $3.7 million and $4.0 million, respectively. The 2010 restructuring initiatives focused on aligning the Company s cost base with revenues and other functional reorganizations.

Operating Income

Operating income increased $6.4 million and $6.7 million for the three and six months ended June 30, 2011 compared to the prior year periods. The increase in operating income is a result of increased net sales volume, reduced restructuring costs, and operating efficiencies associated with the alignment of expenses with revenues.

Interest Expense

Interest expense increased $0.6 million and $0.9 million for the three and six months ended June 30, 2011 compared to the prior year periods due primarily to an increase in interest rates in the Third Amendment and Waiver to the Second Amended and Restated Credit Agreement and the Second Global Amendment. See Note 6 Debt for further detail.

Effective Tax Rate

The Company s effective tax rate for continuing operations was a benefit of 7.5% and a benefit of 58.3% for the three months ended June 30, 2011 and 2010, respectively.

The Company s effective tax rate for continuing operations was an expense of 42.9% and a benefit of 30.8% for the six months ended June 30, 2011 and 2010, respectively.

The tax rates for the three and six months ended June 30, 2011 do not reflect any tax benefit on domestic losses as a result of the domestic valuation allowance which was recorded in the fourth quarter of 2010. For the three and six months ended June 30, 2010, a tax benefit on domestic losses of $2.7 million and $4.5 million, respectively was recorded. The tax benefit for the three and six months ended June 30, 2011 is primarily associated with $0.7 million of foreign income tax, and is partially offset by the release of tax reserves related to the resolution of a foreign tax audit of $0.4 million during the first quarter. The three month period ended June 30, 2011 had a favorable impact of $0.4 million due to a reduction of the valuation allowance needed for domestic deferred tax assets.

The Company s unrecognized tax benefits were $3.8 million at January 1, 2011, of which $4.1 million are tax benefits that, if recognized, would reduce the annual effective tax rate. The Company s continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. Interest and penalties amounting to $0.2 million and $0.1 million, respectively, are included in the condensed consolidated balance sheet at June 30, 2011. The Company expects the unrecognized tax benefits to decrease by $0.3 million over the next twelve months. In the six months ended June 30, 2011, the Company s unrecognized tax benefits decreased by $0.1 million, primarily due to the aforementioned foreign tax audit resolution net of an IRS audit adjustment agreed to during the quarter.

Income (Loss) from Continuing Operations

Income (loss) from continuing operations was $5.7 million and $(0.5) million in the three months ended June 30, 2011 and 2010, respectively. The increase in income from continuing operations is due to improved operating income as described above and an income tax benefit, partially offset by an increase in interest expense. Income (loss) from continuing operations was $0.4 million and a loss of $(4.5) million in the six months ended June 30, 2011 and 2010, respectively. The increase in income from continuing operations is due to improved operating income as described above and a lower foreign exchange loss of $1.4 million, partially offset by increased interest expense and income tax expense.

Discontinued Operations and Disposals

A gain of $0.3 million, net of tax was recorded in discontinued operations for the three and six months ended June 30, 2011. After tax losses of $2.2 million and $3.2 million were recorded for the three and six months ended June 30, 2010, respectively, due to strategic decisions of the Company to discontinue Riverchase in June 2010 and the China Wholly Owned Foreign Entity (China WOFE) in December 2010. In September 2010, the Riverchase business was sold for $0.2 million. The 2010 losses were attributable to an impairment of assets for Riverchase. Riverchase results were previously recorded with the Safety and Security Systems segment. China WOFE results were previously recorded with the Environmental Solutions and Safety and Security Systems segments.

Earnings (Loss) per Share

Diluted earnings per share from continuing operations were $0.09 for the quarter ended June 30, 2011. For the six months ended June 30, 2011, diluted earnings per share from continuing operations was $0.01.

Orders and Backlog

Orders increased 29% and 17% for the three months and six months ended June 30, 2011 compared to the prior year periods as the U.S. and global markets continued their recovery from the recession. In the three months ended June 30, 2011, U.S. and non-U.S. orders increased 26% and 33%, respectively, as compared to the prior year period. In the six months ended June 30, 2011, U.S. and non-U.S. orders, each increased 17% as compared to the prior year period.

U.S. municipal and government orders increased 28%, or $16.7 million in the three months ended June 30, 2011 compared to the prior year, primarily resulting from order increases of $9.1 million for street sweepers and $9.9 million for sewer cleaners. U.S. municipal and government order increases in the three months ended June 30, 2011 were partially offset by a reduction in the municipal police market and ALPR cameras of $2.6 million in total. U.S. municipal and government orders increased 6% for the six months ended, June 30, 2011. Orders in the Environmental Solutions and Federal Signal Technologies segments improved $9.8 million and $1.3 million, respectively for the six months ended June 30, 2011; offset by a reduction in orders in the Safety and Security segment of $3.6 million. The Safety and Security Systems segment decline is attributable to municipal police and warning system products.

U.S. industrial orders increased 25% in the three months ended June 30, 2011 compared to the prior year as a result of continuing improvements within industrial markets. Environmental Solutions segment orders increased $15.4 million in the period, primarily in vacuum truck orders. For the six months ended June 30, 2011, U.S. industrial orders increased $31.1 million or 29%. The Environmental Solutions segment contributed $27.7 million to the six month increase with strong order intake pertaining to vacuum trucks. Safety and Security Systems were up $2.0 million from industrial products. The Federal Signal Technologies segment decreased 10% for the six months ended June 30, 2011; primarily in parking system orders.

Non-U.S. orders increased 33% or $22.5 million in the three months ended June 30, 2011 compared to the prior year. The increase was primarily due to strong demand within the Fire Rescue segment which increased 47%. Environmental Solutions, Safety and Security and Federal Signal Technologies segments all had increases in orders of 31%, 25%, and 24%, respectively. Non-U.S. orders increased 17% or $26.1, million for the six months ended June 30, 2011 compared to the prior year with increases in the Fire Rescue segment of $11.8 million, Environmental Solutions segment of $13.5 million and Safety and Security and Federal Signal Technologies segments remaining relatively flat with increases of $0.2 million and $0.6 million, respectively.

Backlog is $292.7 million at June 30, 2011, which is $72.9 million higher than the same period in 2010.

Safety and Security Systems

The following table summarizes the Safety and Security Systems Group s operating results for the three and six months ended June 30, 2011 and 2010, respectively:

	Three months ended June 30,			Six months ended June 30,		
($ in millions)	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Orders	$59.9	$54.5	$ 5.4	$113.5	$115.0	$(1.5)
Net sales	56.3	56.8	(0.5)	109.0	108.9	0.1
Operating income	6.3	5.8	0.5	11.5	10.5	1.0
Operating margin	11.2%	10.2%	1.0%	10.6%	9.6%	1.0%
Depreciation and amortization	$ 1.1	$ 0.9	$ 0.2	$ 2.2	$ 1.9	0.3

Orders of $59.9 million for the quarter were up over the prior year by 10% and year to date orders of $113.5 million were down slightly. U.S. orders for the quarter were down due to weakening in the municipal police markets. Year to date, U.S. orders are down 3%. Non-U.S. orders were up for the quarter as a result of industrial demand and favorable currency impacts. Year to date non-U.S. orders were down slightly, offset by favorable currency rates.

Net sales of $56.3 million for the quarter were down slightly from the prior year and year to date net sales were flat relative to the prior year. U.S. sales were favorable during the quarter and year to date as a result of favorable product mix and increased demand for industrial products. Non-U.S. sales were down for the quarter and year to date due to weak municipal market demand, partially offset by strong industrial exports and favorable currency impacts.

For the second quarter, operating income increased from the prior year by $0.5 million. A reduction in sales volume was offset by favorable restructuring costs between the quarter comparisons. Year to date, operating income increased by $1.0 million due to the absence of restructuring costs in 2011.

Fire Rescue

The following table summarizes the Fire Rescue Group s operating results for the three and six months ended June 30, 2011 and 2010, respectively:

	Three months ended June 30,			Six months ended June 30,		
($ in millions)	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Orders	$30.6	$19.7	$10.9	$66.8	$51.4	$15.4
Net sales	24.7	29.6	(4.9)	45.9	54.4	(8.5)
Operating income	0.7	2.8	(2.1)	1.5	3.6	(2.1)
Operating margin	2.8%	9.5%	(6.7%)	3.3%	6.6%	(3.3%)
Depreciation and amortization	$ 0.6	$ 0.5	$ 0.1	$ 1.2	$ 1.0	$ 0.2

Orders for the second quarter increased $10.9 million, or 55% with strong order growth in the industrial market. European fire-lift market orders increased 48% over second quarter 2010. Industrial orders in the U.S. are up $1.7 million over the same quarter for the prior year. Year to date orders are up $15.4 million, or 30%, due to improvement in the fire-lift markets. In addition, the industrial market has begun to recover from the previous global economic recession.

Net sales declined in the current quarter by 17% over the previous year as a result of a low order backlog due to slower demand in Western Europe, offset by increases in the industrial market. Year to date, net sales were down 16% as result of weak backlog from previous quarters in Western Europe, offset by $2.7 million increase in the U.S. industrial market.

Operating income for the second quarter and year to date was down $2.1 million from the same three month and six month period in 2010 primarily as a result of lower sales volumes. Unit margins were unfavorably impacted by mix changes between the fire-lift product and industrial sales.

Environmental Solutions

The following table summarizes the Environmental Solutions Group s operating results for the three and six month periods ended June 30, 2011 and 2010, respectively:

	Three months ended June 30,			Six months ended June 30,		
($ in millions)	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Orders	$117.0	$77.0	$40.0	$216.8	$164.6	$52.2
Net sales	94.6	84.5	10.1	171.0	154.5	16.5
Operating income	9.2	7.4	1.8	10.1	11.2	(1.1)
Operating margin	9.7%	8.8%	0.9%	5.9%	7.2%	(1.3%)
Depreciation and amortization	$ 1.3	$ 1.1	$ 0.2	$ 2.5	$ 2.3	$ 0.2

Orders of $117.0 million in the second quarter were up 52% compared to the same quarter in 2010. U.S. orders have increased $34.4 million from the prior year period with municipal sewer cleaners up $9.9 million, street sweepers up $9.1 million, industrial vacuum trucks up $10.5 million, and waterblasting orders up $3.5 million. Non-U.S. orders were up $5.6 million from the prior year period. Year to date orders of $216.8 million were up from the previous year by $52.2 million, or 32%. U.S. orders were up 29%, or $38.7 million, from the prior year primarily as a result of increases in industrial vacuum cleaners of $27.7 million, municipal sewer cleaners of $5.5 million, and street sweepers of $2.9 million. Non-U.S. orders were up 40%, or $13.5 million, from the prior year.

Net sales in the second quarter were up 12% over the prior period. Unit shipments for sewer cleaners, vacuum trucks, and waterblasters were favorable from the prior year as a result of increased new orders and improved mix between industrial and municipal. Year to date net sales are up from the prior year by 11% primarily due to sewer cleaners, vacuum trucks and waterblasting units offset by less sweeper units.

Operating income for the second quarter was up 24% primarily due to increased sales volumes and benefits from 2010 cost reduction activities. The result was an improved operating margin of 9.7% compared 8.8% reported in the same quarter for 2010. Year to date operating income is down $1.1 million due to increased costs with the final deployment of a common Enterprise Resource Planning (ERP) system in the first quarter of 2011. In the second quarter, the Company has begun to recover from the disruption in productivity and profitability pertaining to the deployment of the ERP system, as evidenced by the improved operating margins.

Federal Signal Technologies

The following table summarizes the Federal Signal Technologies Group s operating results for the three and six months ended June 30, 2011 and 2010, respectively:

	Three months ended June 30,			Six months ended June 30,		
($ in millions)	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Orders	$33.4	$ 35.8	$(2.4)	$53.5	$ 54.7	$(1.2)
Net sales	28.9	24.7	4.2	52.2	42.4	9.8
Operating loss	(1.5)	(3.4)	1.9	(5.0)	(6.0)	1.0
Operating margin	(5.2%)	(13.8%)	8.6%	(9.6%)	(14.2%)	4.6%
Depreciation and amortization	$ 2.5	$ 2.1	$ 0.4	$ 5.1	$ 3.6	$ 1.5

Orders were down $2.4 million in the three months ended June 30, 2011 compared to the prior year. U.S. orders were down $4.2 million primarily related to the absence of a large parking system project in 2010. Non-U.S. orders were up 24%, or $1.8 million, in the quarter. Year to date orders of $53.5 million are down 2% from the prior year. U.S. orders were down $1.8 million from the prior year primarily due to the absence of the 2010 parking system project, partially offset by the recently acquired businesses. Non-U.S. orders were up $0.6 million as a result of the recently acquired businesses, offset with a decline in ALPR camera orders.

Net sales increased 17%, or $4.2 million, in the quarter primarily resulting from increased revenue from radio frequency identification systems, partially offset by the reduction of parking system sales. Year to date net sales were favorable to the prior year revenue by 23%, or $9.8 million, resulting from additional revenue from the recently acquired businesses and second quarter favorability in the radio frequency identification systems.

Operating losses of $1.5 million were recognized in the second quarter which was an improvement over the same quarter last year by $1.9 million. This improvement was primarily related to improved net sales volumes and the absence of one-time facility restructuring

charges incurred in 2010. Year to date operating loss of $5.0 million is favorable to prior year losses of $6.0 million. Improvements in operating activities were a result of improved sales volume and one time 2010 expenses related to facility restructuring.

On April 20, 2011, the Company entered into a Memorandum of Understanding with Kapsch TrafficCom IVHS Corp., which outlined the parties interest in exclusively negotiating further agreements within the next 90 days for the joint development, manufacturing, marketing and sale of products for the intelligent transportation systems and electronic toll collection markets. Effective July 20, 2011, the parties amended the Memorandum of Understanding to extend the 90 day exclusive negotiation period for an additional 30 days until August 21, 2011. As of August 5, 2011 the parties have yet to enter into any agreements.

Corporate Expenses

Corporate expenses decreased to $5.8 million for the second quarter of 2011 compared to $10.1 million in the second quarter of 2010. The decrease was due to $4.3 million in lower expenses associated with legal and trial costs pertaining to the Company s firefighter hearing loss litigation and an absence of $1.1 million expenses associated with the acquisitions of Sirit and VESystems and the related integration activities at Federal Signal Technologies in 2010, partially offset by an increase in insurance costs of $0.9 million.

Corporate expenses for the six months ended June 30, 2011 were $10.4 million and $18.3 million for the comparable period in 2010. The decrease was attributable to $5.1 million lower expenses associated with legal and trial costs from the Company s firefighter hearing loss litigation and an absence of $3.7 million expenses associated with the acquisitions of Sirit and VESystems and integration activities at Federal Signal Technologies in 2010, offset by an increase in insurance costs of $1.0 million.

Corporate expenses included depreciation and amortization expense of $0.2 million and $0.4 million for the three and six months ended June 30, 2011, respectively, and $0.2 million and $0.4 million for the comparable periods in 2010, respectively.

Seasonality of Company s Business

Certain of the Company s businesses are susceptible to the influences of seasonal buying or delivery patterns. The Company tends to have lower sales in the first calendar quarter compared to other quarters as a result of these influences.

Financial Position, Liquidity and Capital Resources

The Company utilizes its operating cash flow and available borrowings under its revolving credit facility for working capital needs of its operations, capital expenditures, strategic acquisitions of companies operating in markets related to those already served, pension contributions, debt repayments, share repurchases and dividends.

The following table summarizes the Company s cash flows for the six month periods ended June 30, 2011 and 2010, respectively:

	Six months ended June 30,	
($ in millions)	**2011**	**2010**
Net cash used for operating activities	$ (5.5)	$ (7.9)
Proceeds from sale of properties, plant and equipment	0.9	1.2
Purchases of properties and equipment	(7.3)	(6.5)
Payments for acquisitions, net of cash acquired		(97.3)
Proceeds from equity offering, net of fees		71.0
Borrowing activity, net	(28.4)	33.7
Debt amendment fee	(2.1)	
Net cash used for discontinued financing activities		(0.4)
Cash dividends paid to shareholders	(3.7)	(6.7)
Other, net	(1.7)	5.0
Decrease in cash and cash equivalents	$ (47.8)	$ (7.9)

Cash used in operating activities for the six months ended June 30, 2011 was $5.5 million compared to cash used by operating activities of $7.9 million for the respective prior year period. The change in operating cash flow is primarily driven by a $6.7 million increase in operating income compared to the same period in the prior year.

In the first quarter of 2010, the Company acquired two businesses that are key components to the development of the Company s Intelligent Transportation Systems strategy. VESystems was acquired for $34.8 million, of which $24.6 million was a cash payment. Sirit was acquired for CDN $77.1 million (USD $74.9 million), all of which was paid in cash. The acquisitions were funded with the Company s existing cash balances and debt drawn against the availability of the Company s revolving credit facility. In addition to the use of cash and debt, the Company issued 1.2 million shares of its common stock to fund a portion of the cost of purchasing VESystems.

In May 2010, the Company issued 12.1 million common shares at a price of $6.25 per share for total gross proceeds of $75.5 million. After deducting direct fees, net proceeds totaled $71.0 million. Proceeds from the equity offering were used to pay down debt.

Debt net of cash as a percentage of capitalization was 48.6% at June 30, 2011 versus 47.6% at December 31, 2010. The change was primarily due to an increase in debt net of cash in the first six months of 2011.

The Company was in violation of its Interest Coverage Ratio covenant minimum requirement as defined in the Second Amended and Restated Credit Agreement (the Credit Agreement) and the Note Purchase Agreements for the fiscal quarter ended December 31, 2010.

On March 15, 2011, the Company executed the Third Amendment and Waiver to the Second Amended and Restated Credit Agreement dated as of April 25, 2007 among the Company, the bank lenders party thereto, and Bank of Montreal, as Agent (the Third Amendment and Waiver) with regard to the Company s Revolving Credit Facility (the Revolving Credit Facility). On the same date, the Company also executed the Second Global Amendment and Waiver to the Note Purchase Agreements (the Second Global Amendment) with the holders of its private placement notes (the Notes). Both the Third Amendment and Waiver and the Second Global Amendment included a permanent waiver of compliance with the Interest Coverage Ratio covenant for the Company s fiscal quarter ended December 31, 2010. Included in the terms of the Third Amendment and Waiver and the Second Global Amendment are the replacement of the Interest Coverage Ratio covenant with a minimum EBITDA covenant effective January 1, 2011, with the first required reporting period on April 2, 2011; an increase in pricing to the Company s Revolving Credit Facility pricing grid; an increase in pricing for the outstanding Notes; mandatory prepayments from proceeds of asset sales; restrictions on use of excess cash flow; restrictions on dividend payments, share repurchases and other restricted payments; and a 50 basis points fee paid to the bank lenders and holders of the Notes upon execution of the Third Amendment and Waiver and the Second Global Amendment.

The new minimum EBITDA covenant is required to be tested quarterly as of the last day of the fiscal quarters ending April 2, 2011 and July 2, 2011, and monthly thereafter (commencing on August 6, 2011), in each case on a trailing twelve-month basis, except that EBITDA for the fiscal quarters ending April 2, 2011 and July 2, 2011, and the fiscal months of and including July through November of 2011, will be calculated using the Company s year-to-date EBITDA through the test date.

Under the terms of the Third Amendment and Waiver, no share repurchases or other restricted payments will be permitted going forward except with the consent of the bank lenders and the noteholders. Certain restrictions are also placed on the Company s ability to pay dividends subsequent to effective date of the Third Amendment and Waiver.

As of June 30, 2011, the Company was in compliance with all covenants contained in its debt agreements.

As required in the Third Amendment and Waiver and the Second Global Amendment, on March 15, 2011, the Company repaid $30.0 million that was applied to the amounts outstanding under the Revolving Credit Facility and the Notes on a pro rata basis (i.e, 85.8% for the bank lenders under the Revolving Credit Facility and 14.2% for the Notes).

The Third Amendment and Waiver permanently reduced the available commitments to the Company s Revolving Credit Facility from $250.0 million to $240.0 million. The Company s ability to obtain new advances is now limited to $18.0 million as of the execution date of the Third Amendment and Waiver. Borrowings up to the first $18.0 million of new advances under the Revolving Credit Facility are senior in right of payment to the existing borrowings under the Revolving Credit Facility and outstanding debt under the Notes. The Company may repay and reborrow amounts up to $18.0 million of new advances. The Company may also repay amounts greater than $18.0 million under the Revolving Credit Facility and, subject to certain other provisions; the bank lenders will make available those commitments dollar for dollar under the Revolving Credit Facility to $240.0 million.

Borrowings under the Facility pursuant to the Third Amendment and Waiver bear interest, at the Company s option, at the Base Rate or LIBOR plus an applicable margin. The applicable margin is 2.00% for Base Rate borrowings and 3.00% for LIBOR borrowings for the period January 1, 2011 through June 30, 2011; 2.50% for Base Rate borrowings and 3.50% for LIBOR borrowings from July 1, 2011 through September 30, 2011; 2.75% for Base Rate borrowings and 3.75% for LIBOR borrowings from October 1, 2011 through December 31, 2011; 3.00% for Base Rate borrowings and 4.00% for LIBOR borrowings from January 1, 2012 through March 31, 2012; and 3.25% for Base Rate borrowings and 4.25% for LIBOR borrowings thereafter. The Third Amendment and Waiver require a LIBOR floor of 1.50% beginning January 1, 2011. The six-month LIBOR borrowing option was removed. Interest on all loans is monthly. The default rate increase in interest rates is 300 basis points.

The Second Global Amendment required an increase in interest rates applicable to the Notes by the same amounts as the interest rate increases under the Revolving Credit Facility. Also, under the Second Global Amendment, the default rate increase in interest rates is 300 basis points. The Company also agreed to pay to each consenting Noteholder a consent fee equal to 0.50% of the outstanding principal amounts of the Notes.

The outstanding debt under the Company s Revolving Credit Facility and Notes will be prepaid on a pro rata basis in accordance with their pro rata percentages on a quarterly basis by an amount equal to the Excess Cash Flow for that quarter.

Excess Cash Flow is defined as EBITDA for the applicable quarter minus the sum of interest, scheduled principal payments, cash taxes, cash dividends and capital expenditures paid in accordance with the Revolving Credit Agreement for that quarter, plus after the second fiscal quarter of 2011, the aggregate amount that the Company s working capital has decreased in the ordinary course during such period. The Excess Cash Flow pro rata payment against the Revolving Credit Facility outstanding debt will concurrently and permanently reduce the same amount of Revolving Credit Facility commitments. The commitments may be reinstated with approval from all bank lenders within the Revolving Credit Facility.

The Revolving Credit Facility is secured by a first-priority perfected security interest in substantially all of the domestic tangible and intangible assets of the Company and its domestic subsidiaries as the guarantors.

The amendments also contain certain covenants that restrict the Company s ability make voluntarily debt payments, acquisitions or dispositions without the lender s consent. In addition, certain limitations are placed on the Company s capital expenditure levels in future years.

At June 30, 2011, the debt outstanding under the Company s Revolving Credit Facility has been classified as current liability based on the April 2012 maturity date. It is the Company s intention to refinance the debt under the Revolving Credit Facility into senior secured long-term notes combined with an asset-based lending facility before December 31, 2011.

At June 30, 2011, $190.0 million was drawn under the Revolving Credit Facility, leaving available borrowings of $50.0 million, that includes $28.8 million of capacity used for existing letters of credit.

At June 30, 2011, $9.5 million was drawn against the Company s non-U.S. lines of credit, which provide for borrowings up to $18.9 million.

Given the Company s cash position and debt structure, the Company has not experienced any material liquidity issues. The Company expects that with its existing liquidity and the opportunities available to raise capital in the near term, notwithstanding market conditions, it will meet all of its anticipated needs for liquidity during the next twelve months and for the foreseeable future.

The Company anticipates that capital expenditures for 2011 will approximate $15 million, and will be restricted to no more than $15 million pursuant to the terms of the Third Amendment and Waiver and the Second Global Amendment.

The Company believes that its financial resources and major sources of liquidity, including cash flow from operations and borrowing capacity, will be adequate to meet its operating and capital needs in addition to its financial commitments.

Contractual Obligations and Commercial Commitments

Short-term borrowings increased to $9.5 million at June 30, 2011 from $1.8 million at December 31, 2010, primarily due to the funding of working capital needs. Total long-term borrowings, including current portion of long-term borrowings, decreased to $225.8

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million at June 30, 2011 from $261.5 million at December 31, 2010. See the Financial Condition, Liquidity and Capital Resources section of this Form 10-Q for more information.
Changes to the Company s accrual for product warranty claims in the six months ended June 30, 2011 is discussed in Note 11 of the condensed consolidated financial statements included in Part I of this Form 10-Q.
Change in Critical Accounting Policies and Estimates
The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company s policies and estimates related to revenue recognition changed during the first quarter of 2011 due to the issuance of new accounting guidance by the FASB. The Company s revised revenue recognition policy is outlined below.
Revenue Recognition
Net sales consist primarily of revenue from the sale of equipment, environmental vehicles, vehicle mounted aerial platforms, parts, software, service and maintenance contracts.
The Company recognizes revenue for products when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable. Product is considered delivered to the customer once it has been shipped and title and risk of loss have been transferred. For most of the Company s product sales, these criteria are met at the time the product is shipped; however, occasionally title passes later or earlier than shipment due to customer contracts or letter of credit terms. If at the outset of an arrangement the Company determines the arrangement fee is not or is presumed not to be fixed or determinable, revenue is deferred and subsequently recognized as amounts become due and payable and all other criteria for revenue recognition have been met.
Prior to January 1, 2011, for any product within these groups that either was software or was considered software-related, the Company accounted for such products in accordance with the specific industry accounting guidance for software and software-related transactions. In October 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-14, *Topic 985- Certain Revenue Arrangements That Include Software Elements,* which amended the accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the products essential functionality from the scope of industry-specific software revenue recognition guidance. The Company adopted ASU No. 2009-14 prospectively on January 1, 2011. Certain businesses within the Company s Federal Signal Technologies Group sell tangible products containing software components and non-software components that function together to deliver the products essential functionality, and therefore such products were removed from the scope of industry-specific software guidance effective January 1, 2011.
The Company accounts for multiple element arrangements that consist only of software or software-related products in accordance with industry specific accounting guidance for software and software-related transactions. If a multiple-element arrangement includes software and other deliverables that are neither software nor software-related, the Company applies various revenue-related U.S. GAAP to determine if those deliverables constitute separate units of accounting from the software or software-related deliverables. If the Company can separate the deliverables, the Company applies the industry specific accounting guidance to the software and software-related deliverables and applies other appropriate guidance to the non-software related deliverables.
Prior to January 1, 2011, revenue on arrangements that include multiple elements such as hardware, software, and services was allocated to each element based on the relative fair value of each element. Each element s allocated revenue was recognized when the revenue recognition criteria for that element was met. Fair value was generally determined by vendor specific objective evidence (VSOE), which was based on the price charged when each element was sold separately. If the Company could not objectively determine the fair value of any undelivered element included in a multiple-element arrangement, the Company deferred revenue until all elements were delivered and services were performed, or until fair value could objectively be determined for any remaining undelivered elements. When the fair value of a delivered element had not been established, but fair value existed for the undelivered elements, the Company used the residual method to recognize revenue if the fair value of all undelivered elements was

determinable. Under the residual method, the fair value of the undelivered elements was deferred and the remaining portion of the arrangement fee was allocated to the delivered elements and was recognized as revenue.

In October 2009, the FASB issued ASU No. 2009-13, *Topic 605- Multiple-Deliverable Revenue Arrangements*, which changes the level of evidence of standalone selling price required to separate deliverables in a multiple deliverable revenue arrangement by allowing a company to make its best estimate of the selling price of deliverables when more objective evidence of selling price is not available and eliminates the use of the residual method. ASU No. 2009-13 applies to multiple deliverable revenue arrangements that are not accounted for under other accounting pronouncements and retains the use of VSOE if available, and third-party evidence of selling price when VSOE is unavailable. The Company adopted ASU No. 2009-13 prospectively on January 1, 2011. Certain businesses within the Federal Signal Technologies Group sell under multiple deliverable sales arrangements where the Company utilized estimated selling prices under the relative-selling-price method. In arriving at its best estimates of selling price, management considered market conditions as well as Company-specific factors. Management considered the Company s overall pricing model and objectives, including profit objectives and internal cost structure, as well as historical pricing data.

The effect of adopting ASU Nos. 2009-13 and 2009-14 during the first quarter of 2011 was an increase in revenues of $1.2 million and an increase in cost of sales of $0.6 million. The effect of adopting the new accounting guidance during the second quarter of 2011 was an increase in revenues of $2.1 million and an increase in cost of sales of $0.9 million. The total effect of adopting the new accounting guidance for the six months ended June 30, 2011 was an increase in revenues and cost of sales of $3.3 million and $1.5 million, respectively. The Company anticipates that the effect on the future quarters of 2011 will be consistent with the effect on the first two quarters.

Implementation services include the design, development, testing, and installation of systems. These services are recognized pursuant to SOP 81-1, Accounting for Performance of Construction-Type Contracts and Certain Production-Type Contracts. In such cases, the Company is required to make reasonably dependable estimates relative to the extent of progress toward completion by comparing the total hours incurred to the estimated total hours for the arrangement and, accordingly, would apply the percentage-of-completion method. If the Company were unable to make reasonably dependable estimates of progress towards completion, then it would use the completed-contract method, under which revenue is recognized only upon completion of the services. If total cost estimates exceed the anticipated revenue, then the estimated loss on the arrangement is recorded at the inception of the arrangement or at the time the loss becomes apparent.

Revenue from maintenance contracts is deferred and recognized ratably over the coverage period. These contracts typically extend phone support, software updates and upgrades, technical support and equipment repairs.

Certain products which include software elements that are considered to be more than incidental are sold with post-contract support, which may include certain upgrade rights that are offered to customers in connection with software sales or the sale of extended warranty and maintenance contracts. The Company defers revenue for the fair value of the upgrade rights until the future obligation is fulfilled or the right to the upgrade expires. When the Company s software products are available with maintenance agreements that grant customers rights to unspecified future upgrades over the maintenance term on a when-and-if-available basis, revenue associated with such maintenance is recognized ratably over the maintenance term.

There have been no other material changes in Critical Accounting Policies and Estimates described in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, of the Company s Annual Report on Form 10-K for the period ended December 31, 2010.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Item 7A, *Quantitative and Qualitative Disclosures about Market Risk*, of our Annual Report on Form 10-K for the year ended December 31, 2010. There have been no significant changes in our exposure to market risk since December 31, 2010.

Item 4. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, the Company s management, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures as of June 30, 2011. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of June 30, 2011. As a matter of practice, the Company s

management continues to review and document internal control and procedures for financial

reporting. From time to time, the Company may make changes aimed at enhancing the effectiveness of the controls and to ensure that the systems evolve with the business. During the quarter ended June 30, 2011, there were no changes in the Company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

The information is set forth in Note 11 of the condensed consolidated financial statements included in Part I of this Form 10-Q are incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes in risk factors described in Item 1A (Risk Factors) of the Company s Quarterly Report on Form 10-Q for the period ended June 30, 2011.

Item 1B. Unresolved Staff Comments

None.

Item 2. Restrictions upon the Payment of Dividends

Under the terms of the Third Amendment and Waiver, no share repurchases or other restricted payments will be permitted going forward, except with the consent of the Required Lenders and the Noteholders. Dividends shall be permitted only if the following conditions are met:

No default or event of default shall exist or shall result from such payment;

Minimum availability under the Credit Agreement after giving effect to such restricted payment and any credit extensions in connection therewith of $18.0 million;

Dividends may not exceed the lesser of (a) $625,000 (i.e., $0.01 per share) during any fiscal quarter and (b) Free Cash Flow for such quarter. Free Cash Flow means Excess Cash Flow before giving effect to dividends. The $625,000 limit will be increased to allow for the payment of dividends of $0.01 per share during any fiscal quarter for each share of stock sold for cash in a public or private offering after the effective date of the Third Amendment and Waiver; and

The Company has met or exceeded its projected EBITDA at such time.

Item 5. Other Information.

On August 4, 2011, the Company issued a press release announcing its financial results for the three and six months ended June 30, 2011. The full text of the press release is included as Exhibit 99.1 to this Form 10-Q.

Item 6. Exhibits

Exhibit 10.1 Performance Based Restricted Stock Unit Award Agreement Domestic

Exhibit 10.2 Performance Based Restricted Stock Unit Award Agreement Foreign

Exhibit 10.3 Nonqualified Stock Option Award Agreement Foreign

Exhibit 31.1 CEO Certification under Section 302 of the Sarbanes-Oxley Act

Exhibit 31.2 CFO Certification under Section 302 of the Sarbanes-Oxley Act

Exhibit 32.1 CEO Certification of Periodic Report under Section 906 of the Sarbanes-Oxley Act

Exhibit 32.2 CFO Certification of Periodic Report under Section 906 of the Sarbanes-Oxley Act

Exhibit 99.1 Press Release dated August 4, 2011

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

SIGNATURE

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

Federal Signal Corporation

Date: August 5, 2011

By: /s/ William G. Barker, III
William G. Barker, III
Senior Vice President and
Chief Financial

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assification 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

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

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12.6 Consolidated balance sheets

in millions of euros unless otherwise stated

Consolidated balance sheets of the Philips Group as of December 31

Assets

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

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Equity and liabilities

		2011		2012
Equity				
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
Non-controlling interests		34		34
Group equity		12,350		11,174
Non-current liabilities				
Long-term debt		3,278		3,725
Long-term provisions		1,907		2,132
Deferred tax liabilities		77		92
Other non-current liabilities		1,999		2,001
Total non-current liabilities		7,261		7,950
Current liabilities				
Short-term debt		582		809
Derivative financial liabilities		744		517
Income tax payable		191		200
Accounts and notes payable:				
- Trade creditors	3,340		2,835	
- Accounts payable to related parties	6		4	
		3,346		2,839
Accrued liabilities		3,026		3,171
Short-term provisions		787		837
Liabilities directly associated with assets held for sale		61		27
Other current liabilities		1,047		1,555
Total current liabilities		9,784		9,955
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 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
Cash from (used for) derivatives and securities	(25)	25	(47)
Purchase of other non-current financial assets	(16)	(43)	(167)
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

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	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			
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 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.

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12.8 Consolidated statements of changes in equity

in millions of euros unless otherwise stated

Consolidated statements of changes in equity of the Philips Group

	outstanding number of shares in thousands	common share	capital in excess of par value	retained earnings	revaluation reserve	other reserves	treasury shares at cost	shareholders equity	non-controlling interests	group equity
Balance as of Jan. 1, 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)
		(17)		(1,221)			1,238			

Cancellation of treasury shares										
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 report). The accompanying notes are an integral part of these consolidated financial statements.

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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 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.

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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	acquisitions	divestments	impairment	transfer to	translation differences and	carrying value at December 31

	at January 1				assets classified as held for sale	other changes	
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

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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

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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

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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.

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	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 Asset*s.

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 obligation 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 intangible 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.

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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 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

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 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 report for more information).

Advertising and promotion

Advertising and promotion costs are included in selling expenses.

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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.

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 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.

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.

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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

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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.

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

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 details 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.

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	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.

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

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).

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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.

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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

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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.

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 competition, 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 report for a specification of goodwill by sector.

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

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	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 acquisitions 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).

Non-current receivables

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

Other non-current financial assets

The changes during 2012 are as follows:

	available-for-sale financial assets	loans and receivables	held-to-maturity invest-ments	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.

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.

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.

Current financial assets

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

Other current assets

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

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.

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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

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.

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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

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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.

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	addi-tions	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.

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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

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.

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

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.

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.

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.

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).

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.

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.

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.

	Netherlands	other	2011 total	Netherlands	other	2012 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

	Netherlands	other	2011 total	Netherlands	other	2012 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)

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The classification of the net balance is as follows:

	Netherlands	other	2011 total	Netherlands	other	2012 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 formerly 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 actual		2012 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 actual	2012 actual	2013 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:

	Netherlands	other	2010 total	Netherlands	other	2011 total	Netherlands	other	2012 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%

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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)

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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%)

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:

EUR-denominated	2010	2011	2012
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:

EUR-denominated	2012
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.

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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.

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.

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 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 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 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.

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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

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.

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	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 assets 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.

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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)

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 comprehensive 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 reinsurance 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.

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.

12.12 Independent auditors report Group

Report of Independent Registered Public Accounting Firm

To the Supervisory Board and Shareholders of Koninklijke Philips Electronics N.V.:

We have audited the accompanying consolidated balance sheets of Koninklijke Philips Electronics N.V. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, cash flows and changes in equity for each of the years in the three-year period ended December 31, 2012 included in section 12.4 to 12.11. These consolidated financial statements are the responsibility of Koninklijke Philips Electronics N.V. s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Koninklijke Philips Electronics N.V. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Koninklijke Philips Electronics N.V. s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 25, 2013 expressed an unqualified opinion on the effectiveness of the company s internal control over financial reporting.

/s/ KPMG ACCOUNTANTS N.V.

Amsterdam, The Netherlands

February 25, 2013

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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 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 report, section 13.5, Independent auditor s report Company, of this report, and section 5.4, Proposed distribution to shareholders, of this report.

Adjustments

Prior period amounts have been revised to reflect certain immaterial adjustments (see section 12.10, Significant accounting policies, of this report).

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13 Company financial statements 13.1 - 13.1

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	
Investments in affiliated companies	19,543		16,586	
Non-current receivables			49	
Deferred tax assets	148		212	
Other non-current financial assets	114		325	
		19,825		17,183
Current assets:				
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				
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	
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:				
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:				
Short-term debt	7,351		11,742	
Other current liabilities	1,269		1,461	
		8,620		13,203

Contractual obligations and contingent liabilities not appearing in the balance sheet		
	24,031	28,050

[1] Prepared before appropriation of results

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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)
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			7									7

compensation plans												
Balance as of December 31, 2012	914,591	191	1,304	54	54	20	1,161	(93)	9,326	226	(1,103)	11,140

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13 Company financial statements 13.4 - 13.4

13.4 Notes

All amounts in millions of euros unless otherwise stated

Notes to the Company financial statements

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.

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.

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.

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.

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).

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).

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.

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.

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.

Audit fees

For a summary of the audit fees, please refer to the Group Financial statements, note 1, Income from operations.

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 bilion 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

13.5 Independent auditor s report Company

Independent auditor s report

To the Supervisory Board and Shareholders of Koninklijke Philips Electronics N.V.:

Report on the Company financial statements

We have audited the accompanying Company financial statements 2012 which are part of the financial statements of Koninklijke Philips Electronics N.V., Eindhoven, the Netherlands, and comprise the Company balance sheet as at December 31, 2012, the Company statements of income and changes in equity for the year then ended, and the notes, comprising a summary of the accounting policies and other explanatory information as included in section 13 to 13.4.

Management s responsibility

The Board of Management is responsible for the preparation and fair presentation of these Company financial statements and for the preparation of the Management report, both in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the Company financial statements that are free from material misstatement, whether due to fraud or error.

Auditor s responsibility

Our responsibility is to express an opinion on these Company financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Company financial statements. The procedures selected depend on the auditor s judgment, including the assessment of the risks of material misstatement of the Company financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity s preparation and fair presentation of the Company financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Company financial statements give a true and fair view of the financial position of Koninklijke Philips Electronics N.V. as at December 31, 2012, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Management report, to the extent we can assess, as defined in the introduction paragraph of section 12 Group financial statements, has been prepared in accordance with part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the Management report, to the extent we can assess, is consistent with the Company financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, The Netherlands

February 25, 2013

KPMG Accountants N.V.

J.F.C. van Everdingen RA

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14 Sustainability statements

Approach to sustainability reporting

Philips has a long tradition of sustainability reporting, beginning in 1999 when we published our first environmental annual report. In 2003, we expanded our reporting with the launch of our first sustainability annual report, which provided details of our social and economic performance in addition to our environmental results.

As a next step, we decided to publish an integrated financial, social and environmental report, reflecting the progress we have made embedding sustainability in our way of doing business in 2008. This is also supported by the inclusion of sustainability in the Philips Commitments and the company strategy.

This is our fifth annual integrated financial, social and environmental report.

Tracking trends

We continuously follow external trends to determine the issues most relevant for our company and those where we can make a positive contribution to society at large. In addition to our own research, we make use of a variety of sources, including the United Nations Environmental Programme (UNEP), World Bank, World Business Council for Sustainable Development (WBCSD), World Economic Forum and World Health Organization. Our work also involves tracking topics of concern to governments, regulatory bodies, academia, and non-governmental organizations, and following the resulting media coverage.

Stakeholder engagement

Across all our activities we seek to engage stakeholders to gain their feedback on specific areas of our business. Working in partnerships is crucial in delivering on our vision to make the world healthier and more sustainable through innovation. We participate in meetings and task forces as a member of organizations including the WBCSD, Electronic Industry Citizenship Coalition (EICC), Carbon Disclosure Project Supply Chain, European Committee of Domestic Equipment Manufacturers (CECED), Federation of National Manufacturers Associations for Luminaires and Electrotechnical Components for Luminaires in the European Union (CELMA), European Coordination Committee of the Radiological, Electromedical and Healthcare IT Industry (COCIR), Digital Europe, European Lamp Companies Federation (ELC), European Roundtable of Industrialists (ERT), National Electrical Manufacturers Association (NEMA), Environmental Leadership Council of the Information Technology Industry Council (ELC ITIC), Consumer Electronics Association (CEA), Association of Home Appliance Manufacturers (AHAM) and Healthcare Plastics Recycling Council (HPRC).

In 2011, a multi-stakeholder project with the Sustainable Trade Initiative (IDH), a number of NGOs, and electronic companies was started. The program focuses on improving working circumstances in the electronics industry in China.

Furthermore, we engaged with a number of NGOs, including Enough, GoodElectronics, MakeITfair, the leading Dutch labor union (FNV), the Chinese Institute of Public and Environmental Affairs, SOMO, Amnesty International and Greenpeace.

Biodiversity

Philips commitment to the subject of biodiversity made several significant steps forward in 2012. This was led mainly by the Philips Leaders for Nature (LFN) team which is part of the IUCN Netherlands committee LFN program. The program brings companies, NGOs and government together to work on the topic of business and biodiversity. The Philips LFN team grew both in the number of team members, local and company-wide initiatives, as well as widening the scope of discussions on the internal company-wide social network platform. This year the LFN team not only took an active part for the 5th year in the LFN programs but was represented on the LFN organizing committee for the second year running.

In October, the Philips LFN team organized the Philips sustainability week. This was planned to coincide with the Dutch Sustainability awareness day. The Philips activities took place across multiple sites and were intended to raise awareness of sustainability and biodiversity

among Philips employees in the Netherlands. The program included education around biodiversity, sustainable transport, recycling, green products, and reducing your footprint by adopting a more vegetarian diet. There were also recycling and biodiversity restoration activities at the Philips Innovation Campus in Bangalore, Cleveland, Klagenfurt, Reedsville, and the Eindhoven High-Tech Campus amongst others.

The Philips Drachten site green teams have started a program to investigate opportunities for biodiversity restoration locally. This is part of a campaign to raise awareness that healthy ecosystems are the very foundations of our existence. The teams carried out a biodiversity scan of their site and are implementing recommended actions to increase site biodiversity. This will enable the restoration of the local flora and fauna and creating a pleasant outdoor environment for Drachten employees.

In November, the LFN team together with the Philips Corporate Sustainability Office organized the first and very successful Business Ecosystems Training (BET). The training was web-based and nearly 200 Philips employees from all sectors and 21 countries participated. This was the first of a series of trainings intended to increase the knowledge and understanding of the links between ecosystems and business. The BET program was developed by the WBCSD, its member companies and partners, and the IUCN. The training included an introduction to biodiversity and ecosystems, the link to Philips (risks and opportunities) what Philips and other companies have done and can do to include natural capital into their everyday activities.

Philips policy continues to focus on:

- Continuing to reduce the impact of our operations through our Green Operations program, focusing on CO_2 emissions, water, waste and restricted and hazardous substances

- Continuing our EcoDesign activities, resulting in Green Products

- Study concepts such as Cradle to Cradle , Biomimicry and The Natural Step all focused on learning or imitating nature s remarkably efficient designs for our Sustainable Innovation efforts

- Continuing our global partnership with IUCN, the International Union for the Conservation of Nature. Together we are exploring how specific lighting technology can redress the disturbance of fauna around the world, enabling it to co-exist with human sea and coastal development, for instance.

Reporting standards

In this report, we have followed relevant best practice standards and international guidelines while reporting on our sustainability performance. Most important are the Global Reporting Initiative s (GRI) G3.1 Sustainability Reporting Guidelines.

With regard to the GRI Application Levels system, we assessed ourselves at the A+ level. A detailed overview of our Management Approach and the G3.1 Core Indicators is provided at the end of this section.

We signed on to the United Nations Global Compact in March 2007, joining thousands of companies from all regions of the world as well as international labor and civil society organizations to advance 10 universal principles in the areas of human rights, labor, the environment and anti-corruption. Our General Business Principles, Sustainability and Environmental Policies, and our Supplier Sustainability Declaration are the cornerstones that enable us to live up to the standards set by the Global Compact. This is closely monitored and reported, as illustrated throughout this report, which is also our annual Communication on Progress (COP) submitted to the UN Global Compact Office.

Material issues and our focus

Based on ongoing trend analysis and stakeholder input, we identify the key material issues for our company from a sustainability perspective. We have mapped the issues in the table below, taking into account the:

- level of concern to society at large and stakeholders, versus impact on Philips, and

level of control or influence we can have on an issue through our operations and products/solutions.
This is a dynamic process, as we continuously monitor the world around us. We develop our policies and programs based on our findings. The results have been reviewed and approved by the Sustainability Board.

Key material issues

	Reference[1)
Environmental	
- Climate change	section 4.1, The power to make a difference, of this report
	section 5.3, Environmental performance, of this report
	section 14.2, EcoVision, of this report
- Energy management	section 3.5, Re-inventing lighting for consumers, of this report
	section 4.1, The power to make a difference, of this report
	section 5.3, Environmental performance, of this report
- Clean technologies	sub-section 6.4.1, Philips Group Innovation, of this report
- Collection and recycling (waste)	chapter 2, Group strategic focus, of this report
	section 4.1, The power to make a difference, of this report
	section 5.3, Environmental performance, of this report
	section 14.2, EcoVision, of this report
- Limited natural resources and resource efficiency	chapter 2, Group strategic focus, of this report
	section 4.1, The power to make a difference, of this report
	section 5.3, Environmental performance, of this report
	section 14.2, EcoVision, of this report
- Decreasing biodiversity (including wood and paper sources)	chapter 14, Sustainability statements, of this report
- Water scarcity	chapter 14, Sustainability statements, of this report
- Nano materials	sub-section 6.4.1, Philips Group Innovation, of this report

	Reference[1)
Societal	
- Aging population	chapter 2, Group strategic focus, of this report

	section 6.1, Healthcare, of this report
- Rising healthcare costs	chapter 2, Group strategic focus, of this report
	section 6.1, Healthcare, of this report
- Chronic and lifestyle related diseases	chapter 2, Group strategic focus, of this report
	section 6.1, Healthcare, of this report
- Healthy Living	Message from the CEO, of this report
	chapter 2, Group strategic focus, of this report
	section 6.2, Consumer Lifestyle, of this report
- Expanding middle class in growth geographies	Message from the CEO, of this report
	section 6.2, Consumer Lifestyle, of this report
- Rising attention for human rights (deeper into the supply chain)	section 5.2, Social performance, of this report
	chapter 14, Sustainability statements, of this report
	section 14.5, Supplier indicators, of this report
- Demographic shift and urbanization	section 3.1, Driving progressive health care, of this report
	section 3.6, Enhancing urban life with light, of this report
- Conflict minerals	sub-section 5.2.10, Supplier sustainability, of this report
	section 14.5, Supplier indicators, of this report
- Employee health and safety	section 5.2, Social performance, of this report
- Economic downturn	Message from the CEO, of this report
- Transparency and stakeholder activism	sub-section 5.2.9, Stakeholder engagement, of this report
	sub-section 5.2.10, Supplier sustainability, of this report
	section 14.5, Supplier indicators, of this report
- Food scarcity	sub-section 5.3.1, Green Innovation, of this report
	chapter 14, Sustainability statements, of this report

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	Reference[1)]
Governance	
- Privacy	section 14.4, General Business Principles, of this report
- Business ethics and General Business Principles	section 14.4, General Business Principles, of this report
- Partnerships and co-creation	section 4.2, Encouraging positive change, of this report
	sub-section 6.4.1, Philips Group Innovation, of this report
	chapter 14, Sustainability statements, of this report
- Impact of social media	sub-section 5.2.9, Stakeholder engagement, of this report
	section 14.4, General Business Principles, of this report
- Metrics beyond financials	section 5.2, Social performance, of this report
	section 5.3, Environmental performance, of this report
- Increasing product regulation	section 7.5, Compliance risks, of this report
	sub-section 6.1.3, About Philips Healthcare, of this report
	sub-section 6.2.3, About Consumer Lifestyle, of this report
	sub-section 6.3.3, About Philips Lighting, of this report

1) With the exception of section 5.2, Social performance, section 5.3, Environmental performance, and chapter 14, Sustainability statements, of this report, the sections and chapters referred to are not included in the scope of the assurance engagement

Programs and targets

Our sustainability commitments are grouped under the label EcoVision, comprising the following elements:

	target 2015	baseline year
Green Product Sales	50% of total sales	
Lives Improved	2 billion	

Green Innovation		
- Investments	EUR 2 billion (cumulative)	2010
- Energy Efficiency	49 Lumen/Watt (up 50%)	2009
- Materials		
- Collection & Recycling	74,000 tonnes (up 100%)	2009
- Recycled content	15,000 tonnes (up 100%)	2009
Green Operations		
- CO_2 reduction	40%	2007
- Health & Safety	0.26 Lost Workday Injury Cases per 100 FTE	
Supplier Sustainability[1)]	72% compliant	

1) For more information see section 14.5, Supplier indicators, of this report

All of our programs are guided by the Philips General Business Principles, which provide the framework for all of our business decisions and actions.

Scope of sustainability reporting

Our sustainability performance reporting encompasses the consolidated Philips Group activities, following the consolidation criteria detailed in this section.

The consolidated selected financial information in this sustainability statements section has been derived from the Group Financial Statements, which are based on IFRS.

Comparability and completeness

We used expert opinions and estimates for some parts of the Key Performance Indicator calculations. There is therefore an inherent uncertainty in our calculations. The figures reported are Philips best possible estimate. As our insight increases, we may enhance the methodology in the future.

Lives improved by Healthcare have been restated for 2010 and 2011 as a result of improved data quality. Collection and Recycling data for 2011 has been restated to reflect the inclusion of Consumer Luminaires.

The Green Product definition has changed in 2012 to include absolute product norms as well as the revenues from remote servicing. The introduction of absolute norms has a downward impact on the Green Product sales, since these are more stringent than the previous definition. The inclusion of remote servicing in Healthcare has an immaterial upward impact on the trend.

The emissions of substances data is based on measurements and estimates at manufacturing site level. There is therefore an inherent uncertainty in our calculations. The figures reported are Philips best possible estimate. As our insight increases, we may enhance the methodology in the future.

Integration of newly acquired activities is scheduled according to a defined integration timetable (in principle, first full reporting year after the year of acquisition) and subject to the integration agenda. Data for activities that are divested during the reporting year are not included in full-year reporting. Environmental data are measured for manufacturing sites with more than 50 industrial employees.

Social data cover all employees, including temporary employees, but exclude contract workers. Due to the implementation of new HRM systems, we are able to provide exit diversity information on Philips employees for 2012. Historical comparisons may not be available, however.

Health and safety data is measured for units with over 50 FTEs (full-time equivalents) and is voluntary for smaller units. New acquisitions must report, in principle, the first year after acquisition and subject to the integration agenda. Data for activities that are divested during the reporting year are not included in full-year reporting.

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

Data definitions and scope

Lives improved, energy efficiency and materials

The key performance indicators on lives improved , energy efficiency and materials and the scope are defined in the respective methodology documents that can be found at www.philips.com/sustainability.

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.

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Green Innovation

Green Innovation comprise all R&D activities directly contributing to the development of Green Products or Green Technologies. A wide set of additional criteria and boundaries have been defined as the basis for internal and external validation.

Environmental data

All environmental data from manufacturing operations are reported on a half-year basis in our sustainability reporting and validation tool, according to defined company guidelines that include definitions, procedures and calculation methods.

Internal validation processes are followed and audits performed to ensure consistent data quality and to assess the robustness of data reporting systems.

These environmental data from manufacturing are tracked and reported to measure progress against our Green operations program targets.

Reporting on ISO 14001 certification is based on manufacturing units reporting in the sustainability reporting system.

Operational carbon footprint

The Philips operational carbon footprint is calculated on a half-yearly 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

Logistics air, sea and road transport

All emission factors used to transform input data (for example, amount of tonne-kilometers transported) into CO_2 emissions are from the Greenhouse Gas Protocol (GHGP), except for business travel, where the service providers supplied CO_2 data based on their own verified methodology. The GHGP distinguishes three scopes. It is mandatory to report on the first two to comply with the GHGP reporting standards.

Scope 1 direct CO_2 emissions is reported on with direct emissions from our industrial and non-industrial sites in full. Emissions from industrial sites, which consist of direct emissions resulting from processes and fossil fuel combustion on site, are reported in the sustainability reporting system. Energy use and CO_2 emissions from non-industrial sites are based on actual data where available. If this is not the case, they are estimated based on square meters, taking the geographical location and building type of the site into account.

Scope 2 CO_2 emissions resulting from the generation of purchased electricity for our premises is reported on with electricity use from industrial and non-industrial sites in full. Indirect CO_2 emissions resulting from purchased electricity, steam and heat are reported in the sustainability reporting system. Those emissions of industrial sites not yet reporting are calculated on the same basis as described in Scope 1. Indirect emissions of non-industrial sites are calculated in the same manner as described in Scope 1.

Scope 3 other CO_2 emissions related to activities not owned or controlled by the Group is reported on for our business travel and distribution activities. Commuting by our employees, upstream distribution (before suppliers ship to us), outsourced activities and emissions resulting from product use by our customers are not included in our operational carbon footprint. The calculations for business travel by lease cars are based on actual fuel usage and for rental cars on distance traveled. Emissions from business travel by airplane are calculated by the supplier based on mileage flown and emission factors from DEFRA (UK Department of Environment, Food and Rural Affairs), distinguishing between short, medium and long flights. Further, emissions from air freight for distribution are calculated based on the amount of tonne-kilometers transported between airports (distinguishing between short, medium and long hauls), including an estimate (based on actual data of the lanes with the largest volumes) for trucking from sites and distribution centers to airports and vice versa. Express shipments are generally a mix of road and air transport, depending on the distance. Therefore the assumption is applied that shipments over less than 600 km are transported by road and the rest of the shipments by air (those emissions by air are calculated in the same way as air freight). For sea transport, only data on transported volume were available so an estimate had to be made about the average weight of a container. Transportation to and from ports is not registered. This fore and aft part of sea transport was estimated to be around 3% of the total distance (based on actual data of the lanes with the largest volumes), consisting of a mix of modalities, and was added to the total emissions accordingly. CO_2 emissions from road transport were also calculated based on tonne-kilometers. If data were incomplete, the emissions were estimated based on sales volumes. Return travel of vehicles is not included in the data for sea and road distribution.

Health and safety

Health and safety data are reported and validated monthly. The focus is on reporting work-related injuries, which predominantly occur in manufacturing operations. The annual number of cases leading to at least one lost workday is reported per 100 FTEs (full-time equivalents). Fatalities are reported for staff, contractors and visitors and include commuting accidents.

General Business Principles

Alleged GBP violations are registered in our intranet-based reporting and validation tool.

Supplier audits

Supplier audits are primarily focused on identified risk suppliers, based on identified risk countries and on spend of more than EUR 1 million (new suppliers EUR 100,000 and no threshold for high risk suppliers).

Based on the Maplecroft Human Rights Risk Indexes, risk countries for Supply Management in 2012 were: Belarus, Brazil, China, Dominican Republic, India, Indonesia, Mexico, the Philippines, Russia, and Ukraine.

Suppliers of new ventures are included to the extent that the integration process of these ventures has been finalized. Normative integration period is two years after closure of the new venture.

Sustainability governance

Sustainability is strongly embedded in our core business processes, like innovation (EcoDesign), sourcing (Supplier Sustainability Involvement Program), manufacturing (Green Manufacturing 2015) and Logistics (Green Logistics).

The Sustainability Board is the highest governing sustainability body in Philips, chaired by Jim Andrew, member of the Executive Committee. Three other Executive Committee members sit in the Sustainability Board jointly with sector and functional executives. The Sustainability Board convenes four times per year, defines Philips sustainability strategy and programs, monitors progress and takes corrective action where needed.

External assurance

KPMG has provided reasonable assurance on whether the information in chapter 14, Sustainability statements, of this report including the information referred to in section 5.2, Social performance, of this report and section 5.3, Environmental performance, of this report is, in all material respects, fairly presented in accordance with the reporting criteria. We refer to section 14.6, Independent assurance report, of this report.

14.1 Economic indicators

This section provides summarized information on contributions on an accruals basis to the most important economic stakeholders as a basis to drive economic growth. For a full understanding of each of these indicators, see the specific financial statements and notes in this report.

Distribution of direct economic benefits

in millions of euros

	2010	2011	2012
Suppliers: goods and services	13,265	13,845	15,379
Employees: salaries and wages	5,035	5,123	5,974
Shareholders: distribution from retained earnings	650	711	687
Government: corporate income taxes	497	283	308
Capital providers: net interest	225	210	241

Total purchased goods and services amounted to EUR 15.4 billion, representing 62% of total revenues of the Philips Group. Of this amount, 65% was spent with global suppliers, the remainder with local suppliers. Compared to 2011, spending increased in absolute terms as a result of higher sales volumes.

In 2012, the salaries and wages totaled EUR 6.0 billion. This amount is EUR 851 million higher than in 2011, mainly caused by restructuring costs. See note 1, Income from operations for more information.

Dividend distributed to shareholders amounted to EUR 687 million, EUR 24 million down compared to 2011.

Corporate income taxes increased slightly to EUR 308 million in 2012 from EUR 283 million in 2011, mainly attributable to higher taxable earnings. For a further understanding, see note 3, Income taxes.

14.2 EcoVision

Our latest EcoVision program, includes key performance indicators in relation to Green Product sales, Improving people s lives, Green Innovation, Green Operations, Health & Safety, Employee Engagement and Supplier Sustainability.

Improving people s lives

Philips products and solutions that directly can support the curative or preventive side of people s health was one of the parameters of our EcoVision 5 program, labelled Bringing care to people , with a target of 500 million lives touched in 2015. In this category in 2012, we already touched over 570 million lives, driven by our Healthcare sector.

With the renewal of our company vision in 2012 we have extended that approach with our well-being products that help people live a healthy life as well as our Green Products and solutions of all sectors that contribute to a healthy ecosystem. For the year 2012 we have established our total baseline of 1.7 billion people a year.

Examples of product categories contributing to the care category are all healthcare products.

Examples of products in the well-being category that help people live a healthier life are juicers, blenders, air fryers, but also mother and childcare products. Further details on this parameter and the methodology can be found in the document Improving people s lives .

Operational carbon footprint and energy efficiency

Our operational carbon footprint decreased 9% in 2012.

Operational energy efficiency and carbon footprint: 2012 details

The 2012 results can be attributed to several factors:

Accounting for 44% of the total footprint, total CO_2 emissions from manufacturing increased due to acquisitions which were largely mitigated by continued energy efficiency improvement programs, our changing industrial footprint and the further increase of the share of purchased electricity from renewable sources to 47% of total purchased electricity.

CO_2 emissions from non-industrial operations (offices, warehouses, etc.) represent 9% of the total. The overall floor space decreased marginally. However, CO_2 emissions decreased 9% as we continued to centralize and re-allocate existing facilities, focusing on the most efficient use of facility space and increasing the share of purchased electricity from renewable sources.

The total CO_2 emissions related to business travel, accounting for 13% of our carbon footprint, decreased 15%. Our stringent in-house travel policy resulted in a significant decrease of CO_2 emissions from air travel and rental cars. Furthermore, the fleet of lease cars increased but the total CO_2 emissions decreased.

Overall CO_2 emissions from logistics, representing approximately one third of the total, decreased 17%. This decrease mainly resulted from the exclusion of TV business. However, results can also be attributed to an effective gatekeeping process to move freight from air to sea, as well as our continued focus on optimizing container utilization.

Operational carbon footprint for logistics

in kilotonnes CO_2-equivalent

	2008	2009	2010	2011	2012
Air transport	305	308	345	328	309
Road transport	211	174	160	176	105
Sea transport	190	145	167	153	132
Philips Group	706	627	672	657	546

14.3 Green Operations

In 2010, we decided to group all activities related to improving the environmental performance of our manufacturing facilities (including chemicals management) under the Green Manufacturing 2015 program, which we renamed to Green Operations. The program focuses on most contributors to climate change, but also addresses water, recycling of waste and chemical substances.

In the course of 2012 we implemented a new IT solution for our environmental reporting, thereby further improving the data quality and the accuracy of the reporting process. Next, we implemented a new process to monitor chemicals used in processes in more detail. Since Philips focuses its reduction efforts on the restricted and hazardous substances listed below, we decided to exclude the categories Other restricted substances and Other hazardous substances from our reporting in 2012. Based on the new insights gained through the new chemicals management process, we will define new reduction targets in 2013 for some of those chemicals.

Green Operations

in % unless otherwise stated

	2007 baseline year	2012 actual[1)]	2015 target[1)]
Total CO_2 from manufacturing	865 kilotonnes CO_2-equivalent	-20	-25
Water	4.2 million m^3	15	-10
Materials provided for recycling via external contractor per total waste	79	77	80
Restricted substances:			
Benzene emission	52 kg	-100	achieved
Mercury emission	185 kg	-71	-100
CFCs, HCFCs	156 kg	-100	achieved
Hazardous substances			
Lead emission	1,838 kg	-96	-100
PFCs	1,534 kg	67	-35
Toluene emission	2,210 kg	180	-90

Xylene emission	4,506 kg	320	-90
Styrene	80,526 kg	-47	-90
Antimony, Arsenic and their compounds	18 kg	-99	-100

[1) Against the base year 2007

Energy use in manufacturing

Total energy usage in manufacturing amounted to 14,421 terajoules in 2012, of which Lighting consumes about 80%. Compared to 2011, energy consumption at Philips went up by 3%. This was driven by new acquisitions reporting for the first time, organizational changes and energy efficiency improvements.

Total energy consumption in manufacturing

in terajoules

	2008	2009	2010	2011	2012
Healthcare	1,612	1,670	1,545	1,541	1,798
Consumer Lifestyle	1,521	1,188	1,274	1,252	1,104
Lighting	11,359	11,535	11,580	11,189	11,519
Innovation, Group & Services	34	28	27		
Philips Group	14,526	14,421	14,426	13,982	14,421

Carbon emissions in manufacturing

The greenhouse gas emissions of our manufacturing operations totaled 691 kilotonnes CO_2-equivalent in 2012, 9% higher than 2011. Indirect CO_2 emissions increased, mainly as a result of new acquisitions reporting for the first time.

Total carbon emissions in manufacturing

in kilotonnes CO_2-equivalent

	2008	2009	2010	2011	2012
Direct CO_2 [1)]	300	295	299	294	294
Indirect CO_2	436	443	317	273	310
Other greenhouse gases	61	54	34	40	60
From glass production	28	24	25	28	27
Philips Group[2)]	825	816	675	635	691

1) From energy
2) Excluding new acquisitions therefore different from Operational carbon footprint

CO_2 emissions increased at Healthcare and CL due to new acquisitions reporting for the first time, mitigated by energy efficiency improvements and electricity generated by renewable sources. Lighting achieved additional reductions in CO_2 emissions due to changes in the industrial footprint.

Total carbon emissions in manufacturing per sector

in kilotonnes CO_2-equivalent

	2008	2009	2010	2011	2012
Healthcare	120	118	57	54	70
Consumer Lifestyle	70	53	42	39	38
Lighting	633	644	575	542	583
Innovation, Group & Services	2	1	1		

Philips Group	825	816	675	635	691

Restricted substances

Emissions of restricted substances totaled 55 kilos in 2012, a decrease of 50% versus 2011 mainly as a result of the successful phase-out of benzene in Lighting. With the Green Operations program we continue to focus on a selection of the most important substances in our processes.

Restricted substances

in kilos

	2008	2009	2010	2011	2012
Benzene and Benzene compounds	1	136	101	55	
Mercury and Mercury Compounds	211	122	83	51	54
CFCs/HCFCs[1)]	213	14	4	5	1
Total	425	272	188	111	55

1) Excluding cooling systems

Benzene

Lighting was the only sector that used benzene in manufacturing, but has been successful in 2012 in the phase-out of benzene.

Mercury

Mercury is used exclusively by Lighting. Emissions increased from 51 kg in 2011 to 54 kg in 2012, due to increased loads and a product mix change.

CFCs/HCFCs

In 2012 total emissions from CFCs/HCFCs reduced further to 1 kg.

Hazardous substances

Targets have been set on a selected number of hazardous substances.

Hazardous substances

in kilos

	2008	2009	2010	2011	2012
Lead and lead compounds	684	1,958	108	44	73
PFCs (Per Fluorinated Compounds)	1,858	2,535	1,507	1,842	2,560
Toluene	2,524	2,160	6,745	5,745	6,184
Xylene	3,684	4,619	30,491	37,889	18,947
Styrene	37,454	21,567	22,920	19,920	42,329
Antimony, Arsenic and their compounds	16	30	24	37	
Total	46,220	32,869	61,795	65,477	70,093

Lead and lead compounds

The 66% increase in 2012 was mainly related to soldering activities and increased load in Lighting.

PFCs

The increase in 2012 to 2,560 kg was caused by one Lighting site where PFCs are used as process chemicals.

Toluene

The emission of toluene, mainly used in wet lacquers, increased by 8% in 2012 largely as a result of an increased number of reporting sites.

Xylene

Activities focused on the reduction of Xylene were successful as wet lacquers were replaced by powder coatings mainly at Consumer Lifestyle and Lighting.

Styrene

In 2012, the emission of styrene more than doubled compared to 2011 due to one new reporting site in Lighting.

Antimony, Arsenic and their compounds

Lighting was successful in phasing-out these substances.

ISO 14001 certification

In 2012, 71% of reporting manufacturing sites were certified. This decrease compared to the previous year is attributable to new acquisitions being included in the reporting for the first time, but not being certified yet. The sectors have programs in place to address this.

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ISO 14001 certification

as a % of all reporting organizations

	2008	2009	2010	2011	2012
Philips Group	95	92	95	89	71

Environmental Incidents

In 2012, 2 incidents were reported by Healthcare related to water. There were no fines reported in our sustainability reporting tool in connection with one of the incidents.

14.4 General Business Principles

The analysis is based upon 374 reports submitted in 2012 relating to alleged violations of the General Business Principles (GBP), compared to 269 in 2011.

We see a considerable increase in number of complaints reported, which can be attributed mainly to an increase in number of complaints in North America, which accounted for 47% of all complaints (2011: 32%). This dominance in North America we believe is due to a corporate culture in which employees are very much aware of compliance issues, their rights and the opportunities for reporting potential violations. A considerable decrease in complaints reported is shown in Latin America (2012: 21%; 2011: 32%). The management attention and additional training in 2012 including the launch of a Mutual Respect e-training in Brazil early 2012 we believe may have contributed to this decline. With 15% of the total number of reported complaints, Europe and the Middle East region show a relative decrease in comparison to 2011 (19%). A minor increase is witnessed in the Asia Pacific region, which accounted for 18% of all reports (2011: 17%).

Most common types of alleged violations

Treatment of employees

The most common alleged violations remain related to the Treatment of employees category, which represented 55% of all violations (2011: 49%).

As in 2011, the vast majority of the Treatment of employees complaints (almost 85%) remains related to two issues Discrimination and Respectful treatment. The increase in number of complaints this year can be attributed to the increase related to these two issues.

Complaints regarding Discrimination mainly relate to discrimination based on gender and favoritism, and originated principally in the US and Brazil. Of the complaints reported in the US, 30% related to discrimination, and of the complaints reported in Brazil, 14% related to discrimination, whereas that figure was 19% for Philips. For Brazil, this is a notable decline in percentage in comparison to last year (23%).

Most complaints regarding lack of Respectful treatment primarily verbal abuse, (sexual) harassment and unfair treatment- again come from the US and Brazil. Of the complaints reported in the US, 37% related to respectful treatment; of the complaints reported in Brazil, 32% related to respectful treatment; compared to 27% for Philips as a whole.

Business integrity

In second place, with 32% of the total number of complaints, are allegations in the Business integrity category (2011: 40%).

Supply Management

All employees who are performing (certain) purchasing functions should adhere to and fully comply with the Philips Supply Management Code of Ethics. As in the previous two years, we witnessed a low number of complaints in this regard in 2012, with only 3 complaints concerning alleged violations of the Code (2011: 3 complaints).

More information on these categories can be found in the GBP Directives on www.philips.com/gbp.

Breakdown of alleged violations GBP

	2008	2009	2010	2011	2012
Health & Safety	10	6	3	2	11
Treatment of employees	197	162	184	132	205
- Collective bargaining	1		1		1
- Discrimination	76	63	64	41	72
- Employee development	8	3	1		
- Employee privacy	2	2	2	1	1
- Employee relations	14	15	4	1	2
- Respectful treatment	81	53	96	71	102
- Remuneration	7	22	12	6	15
- Right to organize					1
- Working hours	8	4	4	2	
- HR other				10	11
Legal	8	4	13	10	19
Business Integrity	62	88	112	107	119
Supply management	5	4	4	3	3
Other	78	54	22	15	17
Total	360	318	338	269	374

Actual violations versus not proven allegations

Although 76 of the 374 GBP complaints reported in 2012 are still pending (especially those lodged during the last three months of the year), the table of investigated complaints provides an initial indication of the number of substantiated violations compared to the number of complaints which, upon investigation, could not be substantiated.

Out of the 298 complaints investigated, it was found that roughly one quarter (26%) were justified, considerably lower than in 2011 (32%).

With regard to complaints regarding Treatment of employees, there was a considerable decrease in the number of justified complaints to 13% of the total number of complaints in this category (2011: 21%).

In the other major category, i.e. the investigated complaints in the Business integrity category, the percentage of complaints that were justified decreased slightly to 42% (2011: 43%).

A range of disciplinary and corrective measures have been implemented as a result of established violations of the General Business Principles, ranging from dismissal and written warnings to awareness training sessions and organizational measures.

Classification of the complaints investigated

category	2010		2011		2012	
	substantiated	unsubstantiated	substantiated	unsubstantiated	substantiated	unsubstantiated
Health & Safety	1	2		2	2	7
Treatment of employees	22	111	18	68	22	150
Legal	4	7		5	5	8
Business Integrity	39	45	33	43	37	51
Supply Management	2	2	2	1	1	
Other	10	9	3	5	11	4
Total	78	176	56	124	78	220

14.5 Supplier indicators

Philips has a direct business relationship with approximately 10,000 product and component suppliers and 30,000 service providers. Given the size and complexity of our supply chain we need to focus our efforts. Therefore, we developed an approach based on the supplier s sustainability risk profile related to spend, country of production, business risk and type of supplier relationship. 594 supplier sites have been identified as risk suppliers, including 497 product and component suppliers, and 97 service providers. Different types of service providers are part of our audit program, including labor agencies and transportation companies. All risk suppliers are by definition part of our audit program.

Philips Supplier Sustainability Declaration

The Philips Supplier Sustainability Declaration is based on the EICC code of conduct and we added requirements on Freedom of Association and Collective Bargaining. The topics covered include labor and human rights, worker health and safety, environmental impact, ethics, and management systems. We monitor supplier compliance to the Declaration through a system of regular audits.

In 2012 we updated the Philips Supplier Sustainability Declaration and audit tools, to be in line with the new version of the EICC code of conduct that was recently issued. The updated Declaration includes 4 entirely new provisions, and 14 updates to existing provisions. The new provisions are related to responsible sourcing of minerals, protection of privacy, non-retaliation, and supplier responsibility to monitor code compliance at next tier suppliers. We begin to roll-out the updated Philips Supplier Sustainability Declaration via the purchasing contracts signed with suppliers, and via all trainings and audits conducted.

The Declaration requires suppliers to cascade the EICC Code of Conduct down to their next tier suppliers. This roll-out to deeper tiers in the supply chain is reviewed during the on-site audits. Risk suppliers with who we have a direct business relationship are included in the audit program, and most of these are tier 1 suppliers. However, sometimes Philips also selects and prescribes the tier 2 suppliers, in which case these tier 2 suppliers will also be included in the audit program.

We monitor supplier compliance with the Declaration through a system of regular audits. During these audits, an independent external party visits the supplier s site for several man-days to hold interviews with workers and management, do a factory tour, and review documentation. Based on purchasing spend, production country and type of business, Philips selects suppliers for inclusion in the audit and supplier development program. 594 suppliers have been identified as risk suppliers and are included in the audit program; the majority of these are in China. During the audits, compliance with all sections of the Declaration is reviewed. In the event of non-compliance we require suppliers to make a corrective action plan, and we monitor its implementation until all major non-compliances are resolved. Full-scope audits are conducted in a 3-year cycle; to date we have audited 90% of all identified risk suppliers.

2012 supplier sustainability audits

In 2012 we audited 159 of our current risk suppliers, including 100 continual conformance audits with suppliers that we already audited in 2009. Risk suppliers from recently acquired companies are also included, and this year we audited 17 suppliers from the acquisitions of Indal, Povos, and Preethi. As in previous years, the majority of the audits were done in China. Also in Brazil and India audits were done, as well as a small

number of audits in Mexico, Indonesia, Philippines, Russia, Belarus, Ukraine and the Dominican Republic. With these audits we directly or indirectly impacted over 124,000 workers employed at the production sites that were audited.

On top of the audits with current risk suppliers, we also audited 65 potential suppliers during the supplier selection process. Below we report on the findings at existing suppliers only; findings at potential suppliers are not included in this report since these suppliers are not (yet) part of Philips supply base.

To track our progress in improving compliance with risk suppliers we use the key performance indicator compliance rate , being the percentage of the risk suppliers that was audited in the last 3 years, and has resolved all major non compliances. During 2012 we achieved a compliance rate of 75% (2011: 72%).

Number of initial and continual conformance audits

Audit findings

Below table shows the results of the full scope audits done during 2012. On average we identified 18 major non-compliances per audit, 5 zero tolerance and 13 limited tolerance non-compliances, and we work with each supplier to resolve these non-compliances within 90 days where possible. The limited-tolerance non-compliances include all management systems related issues, accounting for an average of 8 non-compliances per audit. The continual conformance audits showed on average a better result than the initial audits with suppliers that went through the audit cycle for the first time.

When the audit reveals areas of non-compliance we request suppliers to implement corrective actions and we monitor the implementation during resolution audits. During the year a total of 1,375 corrective actions were implemented successfully by our suppliers to resolve major non-compliances. The results of the resolution audits are not shown in below table.

During 2012 for 2 supplier sites the phase-out decision was taken due to, amongst others, a lack of sustainability improvements.

The most frequently observed areas of major non-compliance are:

- Working hours, wages and benefits: excessive overtime, continual seven-day working weeks, insufficient record keeping of standard and overtime working hours, no payment of overtime premiums

Emergency preparedness: inadequate fire detection and suppression systems, blocked or insufficient emergency exits

Occupational safety: worker exposure to safety hazards, e.g. electrical shocks

Lack of adequate management systems to safeguard compliance to the EICC code for labor and ethics, health and safety and environment Compared to 2011 we note on average per audit 8% more non-compliances for wages and benefits, and in particular full payment of all overtime premiums is an issue. Suppliers reported difficulties in implementing the yearly legal wage increases in China, especially in the current weak economic environment. For industrial hygiene and occupational safety non-compliances we observe a 9% and 7% increase respectively, which is mainly due to the application of new and stricter legislation in China.

Areas where we observe improvements compared to previous year are mainly related to environmental impact, especially for environmental permits and reporting, pollution prevention and resource reduction, and product content restrictions. These improvements are the result of increased enforcement and management awareness, and we believe that the Philips programs have contributed to this.

Excessive working hours

In China, there is a wide gap between legislated working hours and reality. Especially in regions with high shares of migrant workers a 72 hour working week is not uncommon. While this issue is not unique to Philips, we have decided to take a step-wise approach by working with our suppliers to reduce to a maximum of 60 work hours per week and at least one day off per week, except in emergency or unusual circumstances.

During the 2012 audits we identified 119 suppliers with working weeks exceeding 60 hours, and 88 cases where workers were not provided with one day off per week. In these cases we require suppliers to submit a corrective action plan taking into account factors like employee turnover, seasonality, workforce size, shift structure, productivity, demand planning, etc.

Management systems

There may be areas where our audits reveal compliance in actual practice, but the related underlying management systems to safeguard continued compliance may not be sufficient. Therefore, also management systems are reviewed during the audits. We see this area as a continued weak area at suppliers where further capacity building is necessary. Related to management systems the most frequently observed areas of non-compliance are insufficient risk assessment and self-audits, absence of performance objectives, and a lack of worker feedback and communication.

More information on the Supplier Sustainability Involvement Program, the Philips Supplier Sustainability Declaration and audit approach can be found at www.philips.com/suppliers.

Summary of 2012 initial and continued conformance audit findings per region

suppliers with one or more major non-compliances per category (in % of suppliers audited in 2012)

	China	Asia excl. China	LATAM	EMEA	Total
No. of audits	110	30	16	3	159
Initial audits	37	12	9	1	59
Continued conformance audits	73	18	7	2	100
Average number of non-compliance per audit	19	16	16	7	18
Workers employed at sites audited	102,494	12,789	6,163	2,788	124,234
Labor					
Freely Chosen Employment[1)]	<10%	25-50%	10-25%		10-25%
Child labor avoidance /young worker management[2)]	<10%				<10%
Working hours	>75%	50-75%	25-50%		>75%
Wages and Benefits	50-75%	25-50%	10-25%		50-75%
Humane Treatment					
Non-discrimination	10-25%		10-25%		<10%
Freedom of association		10-25%			<10%
Collective bargaining					
Health & Safety					
Occupational Safety	50-75%	25-50%	50-75%	50-75%	50-75%
Emergency Preparedness	50-75%	50-75%	50-75%	>75%	50-75%
Occupational Injury and Illness	25-50%	25-50%	<10%	25-50%	25-50%
Industrial Hygiene	50-75%	25-50%	10-25%		25-50%
Physically demanding work	<10%		10-25%		<10%
Machine safeguarding	10-25%	<10%	10-25%		10-25%
Dormitory and canteen	10-25%	10-25%	10-25%		10-25%
Environment					
Environmental Permits and Reporting	25-50%	10-25%	10-25%		10-25%
Pollution prevention and resource reduction	<10%	10-25%	10-25%		<10%
Hazardous substances	25-50%	10-25%	10-25%		25-50%
Waste water and solid waste	<10%	10-25%	10-25%		<10%
Air emissions	<10%	10-25%	<10%		<10%
Product content restrictions	25-50%	25-50%	25-50%		25-50%
Management systems					
Company Commitment	25-50%	25-50%	25-50%	25-50%	25-50%
Management Accountability and responsibility	50-75%	25-50%	50-75%	25-50%	50-75%
Legal and Customer Requirements	25-50%	25-50%	50-75%	50-75%	25-50%
Risk Assessment and Risk Management	50-75%	50-75%	50-75%	25-50%	50-75%
Performance Objectives	50-75%	50-75%	50-75%	25-50%	50-75%
Training	50-75%	25-50%	50-75%		50-75%
Communication	50-75%	25-50%	25-50%	25-50%	50-75%
Worker feedback and participation	50-75%	50-75%	50-75%	25-50%	50-75%
Audits and assessments	50-75%	50-75%	50-75%	25-50%	50-75%
Corrective action process	50-75%	25-50%	50-75%	50-75%	50-75%
Documentation and records	50-75%	25-50%	25-50%		25-50%
Ethics					
Business Integrity	<10%	10-25%			<10%
No Improper Advantage	<10%	10-25%	<10%		<10%
Disclosure of information					
Protection of Intellectual Property	<10%	10-25%			<10%

Fair business, advertising and competition	<10%	10-25%	10-25%	<10%
Protection of identity	10-25%	10-25%	10-25%	10-25%

	China	Asia excl. China	LATAM	EMEA	Total
General					
EICC Code	25-50%	>75%	10-25%	25-50%	25-50%
Compliance with law					

[1] Freely chosen employment: these cases are related to 1) workers having to pay a deposit for uniforms, safety equipment, and/or tools. We requested suppliers to return these deposits to the workers and provide these items without demanding a deposit, and 2) in some cases no labor contract was signed. We requested suppliers to take corrective actions and verified that contracts were in place for all workers.

[2] Child labor avoidance/young worker management: this is related to one case of historic child labor, where a supplier hired 2 workers prior to reaching the legal age, but they were no longer underage at the time of the audit. We requested the supplier to strengthen its management system and age verification procedure, and ensured that the workers were enrolled in the young worker management program.

Supplier training and capability building

Based on many years of experience with the audit program, we know that a combination of audits, capacity building, consequence management and structural attention from management is crucial to realize structural and lasting changes at supplier production sites. During 2012 we extended capacity building initiatives which are offered to help suppliers improve their practices. We organize classroom training sessions, Philips sustainability experts regularly visit suppliers to provide on-site consultancy and training, and we invite suppliers to participate trainings provided by the EICC. In China and India we held dedicated training sessions about the EICC code of conduct, trainings about fire safety, electrical and machine safety, chemical management, and industry hygiene, which were attended by more than 380 supplier representatives for active and potential suppliers, including suppliers for recent acquisitions. In Shenzhen, China we also hosted a Health and Safety Training that was developed in joint effort by the EICC and GeSI.

In India, in a project initiated with the Dutch Ministry suppliers were coached by local consultants in the development and implementation of a sustainability strategy for their company, integrated in their business strategy. Three suppliers participated in this bottom-up approach, which helped suppliers to set their own objectives, based on their own priorities and values as responsible corporate citizens.

Sustainable Trade Initiative IDH

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

The program was formally kicked off end 2011 when the first suppliers entered the program, and in 2012 we continued the implementation phase in China s Pearl River Delta. A total of 8 Philips suppliers are now involved in the program. Suppliers receive a so-called Entry Point Assessment to identify challenges common to factory management and workers such as worker-management communication, occupational health and safety, production, performance management and environmental issues. Based on this a tailor made action plan is developed with each supplier on the basis of improved dialogue between management and workers. Suppliers receive support over a period of up to 24 months, and the costs of the program are shared between the supplier, Philips, and the IDH.

Conflict minerals

Philips is concerned about the situation in the east of the Democratic Republic of the Congo (DRC) where proceeds from the extractives sector are used to finance rebel conflicts in the region. These minerals may end up in many different products such as cars, planes, chemicals, packaging, and electronics equipment. Philips is committed to address this issue, even though it does not directly source minerals from the DRC. The supply chain for the metals of concern consists of many tiers, including mines, traders, exporters, smelters, refiners, alloy producers and component manufacturers, before reaching Philips direct suppliers. Philips is working towards the following goals:

Minimize trade in conflict minerals that benefit armed groups in the DRC or an adjoining country

Enable legitimate minerals from the region to enter global supply chains, thereby supporting the Congolese economy and the local communities that depend on these exports.

What are conflict minerals?

Conflict minerals are defined in the US Dodd-Frank Act as tin, tantalum, tungsten and gold. They can come from many sources around the world, including mines in the DRC which are estimated to provide approximately 18% of global tantalum production, 4% of tin, 3% of tungsten, and 2% of gold. Some of the mines in the DRC are controlled by militias responsible for atrocities committed in the Congolese civil war.

Collaboration with different stakeholders

We believe that industry collaboration and stakeholder dialogue are key to creating impact at these deeper levels of our supply chain. Since 2008 Philips is actively contributing to the Extractives Work Group, a joint effort of the electronic and mobile phone industry organizations EICC and GeSI, to positively influence the social and environmental conditions in the metals extractives supply chain. See also http://www.eicc.info/extractives.htm.

As we have been doing for years, we continued our engagement with relevant stakeholders including the European Parliament, other industry organizations and local as well as international NGOs in Europe and the US to see how we can resolve the issue. To demonstrate our commitment we signed on to the multi-stakeholder statement from the Responsible Sourcing Network, urging stakeholders to continue the momentum on removing conflict minerals from the supply chain.

In September 2012, the Conflict Free Tin Initiative was launched, introducing a tightly controlled conflict-free supply chain of tin from a mine in Congo all the way down to an end-product. Philips is one of the industry partners brought together by the Dutch government that initiated this conflict-free sourcing program in eastern DRC. Although this region has a rich supply of minerals, its economy has collapsed due to decades of ongoing conflict. In an effort to prevent minerals from financing war, many companies worldwide have shielded away from purchasing minerals from the DRC, creating a de facto embargo and a collapse of the local economy. To overcome this issue and promote cooperation and economic growth in the region outside the control of the rebels, we launched the Conflict Free Tin initiative. In October 2012 an important milestone was reached when the first bags of tagged minerals left the mine. The first end-user products containing this conflict-free tin are expected mid 2013.

Supply chain due diligence

To assist in developing a due diligence standard for conflict minerals, we participated in the multi-stakeholder OECD-hosted pilot for the implementation of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

During 2012 we worked with 347 priority suppliers to raise awareness and start supply chain investigations into the country of origin for the metals. These suppliers cover more than 80% of the relevant purchasing spend. Using the EICC-GeSI Conflict Minerals Template we requested our suppliers to report back their progress and to disclose which smelters are used in their supply chains to produce the metals. For all four metals together we identified 127 smelters in our supply chain, of which the majority is located in Asia. By having published this smelter list on our internet we created transparency at deeper levels in our supply chain of those actors that we believe hold the key towards effectively addressing the concerns around conflict minerals.

Number of identified smelters per region

Number of identified smelters per metal

Conflict-free smelter program

The smelter is at a key point in the supply chain to enforce responsible sourcing because at that stage minerals from many sources are processed to produce a refined metal. The EICC-GeSI Conflict-Free Smelter (CFS) program makes it possible to identify smelters that can demonstrate through an independent third party assessment that the minerals they procure did not originate from sources that contribute to conflict in the DRC. After having identified smelters in our supply chain, Philips started to invite these smelters to participate in the CFS program.

A list of CFS compliant smelters for tantalum and gold has been published, and audits for tin and tungsten smelters are under way. As sufficient conflict-free smelters for all four metals become available, Philips plans to direct its supply chain towards these smelters. See www.conflictfreesmelter.org for more details.

For more details, see www.philips.com/suppliers and the published Philips position paper on Conflict Minerals.

14.6 Independent assurance report

To the Supervisory Board and Shareholders of Koninklijke Philips Electronics N.V.:

We were engaged by the Supervisory Board of Koninklijke Philips Electronics N.V. (further Philips) to provide assurance on the information in the chapter Sustainability statements in the Annual Report 2012 including the information referred to in the sections Social performance and Environmental performance (further The Sustainability Information). The Board of Management is responsible for the preparation and fair presentation of The Sustainability Information, including the identification of material issues. Our responsibility is to issue an assurance report based on the engagement outlined below.

Scope

Our assurance engagement was designed to provide reasonable assurance on whether The Sustainability Information is presented fairly, in all material respects, in accordance with the reporting criteria.

We do not provide any assurance on the achievability of the objectives, targets and expectations of Philips.

Reporting criteria and assurance standard

Philips applies the Sustainability Reporting Guidelines G3.1 of the Global Reporting Initiative supported by internally developed guidelines as described in Approach to sustainability reporting in the chapter Sustainability statements, of this Annual Report. It is important to view the performance data in the context of this explanatory information. We believe these criteria are suitable in view of the purpose of our assurance engagement.

We conducted our engagement in accordance with the International Standard for Assurance Engagement (ISAE 3000): Assurance Engagement other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. This standard requires, among others, that the assurance team possesses the specific knowledge, skills and professional competencies needed to provide assurance on sustainability information, and that they comply with the requirements of the Code of Ethics for Professional Accountants of the International Federation of Accountants to ensure their independence.

Work undertaken

Our procedures included assessing the appropriateness of the accounting policies used, evaluating the design and implementation, and testing the operating effectiveness of the systems and processes for collecting and processing the qualitative and quantitative information in The Sustainability Information (including the implementation of these at a number of sites), and evaluating the overall presentation of sustainability information within our scope. Also we held interviews with relevant management and evaluated documentation on a sample basis to determine whether the information is supported by sufficient evidence.

We have also reviewed, to the extent of our competence, whether the information on sustainability in the rest of the Annual Report 2012 is consistent with The Sustainability Information.

Opinion

In our opinion, The Sustainability Information is fairly presented, in all material respects, in accordance with the reporting criteria.

We also report, to the extent of our competence, that the information on sustainability in the rest of the Annual Report 2012 is consistent with The Sustainability Information.

Amsterdam, The Netherlands

February 25, 2013

KPMG Accountants N.V.

J.F.C. van Everdingen RA

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14.7 Global Reporting Initiative (GRI) table

Strategy and analysis	profile disclosure	description	cross-reference [1)]
	1.1	Statement from the most senior decision-maker of the organization	Message from the CEO
	1.2	Description of key impacts, risks, and opportunities	Message from the CEO
			section 7.2, Risk categories and factors
			section 7.3, Strategic risks
			section 7.4, Operational risks
			section 7.5, Compliance risks
			section 7.6, Financial risks
			chapter 14, Sustainability statements

Organizational profile	profile disclosure	description	cross-reference[1)]
	2.1	Name of the organization	chapter 1, Our company
	2.2	Primary brands, products, and/or services	chapter 1, Our company
			chapter 2, Group strategic focus
	2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries and joint ventures	chapter 2, Group strategic focus
			chapter 6, Sector performance
	2.4	Location of organization s headquarters	chapter 1, Our company
			section 17.7, Investor contact
	2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	chapter 1, Our company
			chapter 6, Sector performance
	2.6	Nature of ownership and legal form	chapter 11, Corporate governance
	2.7	Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries)	Performance highlights

	2.8	Scale of the reporting organization	Performance highlights
	2.9	Significant changes during the reporting period relating to size, structure, or ownership	section 17.2, Share information section 17.5, Philips acquisitions note 5, Discontinued operations and other assets classified as held for sale note 7, Acquisitions and divestments
	2.10	Awards received in the reporting period	Message from the CEO section 4.1, The power to make a difference section 14.2, EcoVision

	profile disclosure	description	cross-reference[1)]
Report parameters			
Report profile	3.1	Reporting period	Performance highlights
	3.2	Date of most recent previous report	chapter 12, Group financial statements
	3.3	Reporting cycle	section 17.6, Financial calendar
	3.4	Contact point for questions regarding the report or its contents	section 17.7, Investor contact
Report scope and boundary	3.5	Process for defining report content	chapter 12, Group financial statements section 12.1, Management s report on internal control section 12.2, Reports of the independent auditor section 12.3, Auditors report on internal control over financial reporting chapter 14, Sustainability statements

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profile disclosure	description	cross-reference[1)]
3.6	Boundary of the report	chapter 12, Group financial statements
		section 12.1, Management s report on internal control
		section 12.2, Reports of the independent auditor
		section 12.3, Auditors report on internal control over financial reporting
		chapter 14, Sustainability statements
3.7	State any specific limitations on the scope or boundary of the report	chapter 12, Group financial statements
		section 12.1, Management s report on internal control
		section 12.2, Reports of the independent auditor
		section 12.3, Auditors report on internal control over financial reporting
		chapter 14, Sustainability statements
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/or between organizations	chapter 12, Group financial statements
		section 12.1, Management s report on internal control
		section 12.2, Reports of the independent auditor
		section 12.3, Auditors report on internal control over financial reporting
		section 12.10, Significant accounting policies
		chapter 14, Sustainability statements
3.9	Data measurement techniques and the bases of calculations	chapter 12, Group financial statements
		section 12.1, Management s report on internal control
		section 12.2, Reports of the independent auditor
		section 12.3, Auditors report on internal control over financial reporting
		section 12.10, Significant accounting policies
		chapter 14, Sustainability statements
3.10		chapter 12, Group financial statements

		Explanation of the effect of any re-statements	section 12.1, Management s report on internal control
			section 12.2, Reports of the independent auditor
			section 12.3, Auditors report on internal control over financial reporting
			section 12.10, Significant accounting policies
			chapter 14, Sustainability statements
			Forward-looking statements
	3.11	Significant changes from previous reporting periods	chapter 12, Group financial statements
			section 12.1, Management s report on internal control
			section 12.2, Reports of the independent auditor
			section 12.3, Auditors report on internal control over financial reporting
			section 12.10, Significant accounting policies
			chapter 14, Sustainability statements
			Forward-looking statements
	3.12	Table identifying the location of the Standard Disclosures in the report	Contents
			Performance statements
Assurance	3.13	Policy and current practice with regard to seeking external assurance for the report	section 10.3, Report of the Audit Committee
			chapter 11, Corporate governance
			section 11.2, Supervisory Board
			section 11.4, Logistics of the General Meeting of Shareholders
			chapter 14, Sustainability statements
			section 14.6, Independent assurance report

	profile disclosure	description	cross-reference[1)]
Governance			
Governance	4.1	Governance structure of the organization	chapter 11, Corporate governance
			section 11.1, Board of Management
			section 11.2, Supervisory Board
			section 11.3, General Meeting of Shareholders
			section 11.4, Logistics of the General Meeting of Shareholders
	4.2	Indicate whether the Chair of the highest governance body is also an executive officer	section 11.1, Board of Management
			section 11.2, Supervisory Board
	4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	Not relevant for Philips, see chapter 11, Corporate governance

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profile disclosure	description	cross-reference[1)]
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	chapter 11, Corporate governance section 11.1, Board of Management section 11.2, Supervisory Board section 11.3, General Meeting of Shareholders section 11.4, Logistics of the General Meeting of Shareholders chapter 17, Investor Relations
4.5	Linkage between compensation for members of the highest governance body, senior managers and executives and the organization s performance	section 10.2, Report of the Remuneration Committee
4.6	Processes in place for the highest governance body to ensure, that conflicts of interest are avoided	chapter 10, Supervisory Board report section 11.2, Supervisory Board
4.7	Process for determining the qualifications and expertise of the members of the highest governance body	chapter 10, Supervisory Board report
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental and social performance and the status of their implementation	chapter 1, Our company chapter 2, Group strategic focus section 7.1, Our approach to risk management and business control
4.9	Procedures of the highest governance body for overseeing the organization s identification and management of performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct and principles	chapter 10, Supervisory Board report chapter 11, Corporate governance section 11.1, Board of Management section 11.2, Supervisory Board section 11.3, General Meeting of Shareholders section 11.4, Logistics of the General Meeting of Shareholders
4.10	Processes for evaluating the highest governance body s own performance	chapter 10, Supervisory Board report chapter 11, Corporate governance section 11.1, Board of Management

			section 11.2, Supervisory Board section 11.3, General Meeting of Shareholders section 11.4, Logistics of the General Meeting of Shareholders
Commitments to external initiatives	4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization	section 7.1, Our approach to risk management and business control chapter 11, Corporate governance
	4.12	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or endorses	chapter 14, Sustainability statements
	4.13	Memberships in associations (such as industry associations)	chapter 14, Sustainability statements
Stakeholder engagement	4.14	List of stakeholder groups engaged by the organization	chapter 14, Sustainability statements
	4.15	Basis for identification and selection of stakeholders with whom to engage	chapter 14, Sustainability statements
	4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	chapter 14, Sustainability statements
	4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting	Message from the CEO chapter 10, Supervisory Board report chapter 14, Sustainability statements

	profile disclosure	description	cross-reference[1)]
Economic			
Economic performance		Disclosure on management approach to economic aspects	Message from the CEO chapter 7, Risk management
	EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings and payments to capital providers and governments	Performance highlights section 14.1, Economic indicators
	EC2	Financial implications and other risks and opportunities for the organization s activities due to climate change	chapter 14, Sustainability statements
	EC3	Coverage of the organization s defined-benefit plan obligations	note 29, Pensions and other postretirement benefits
	EC4	Significant financial assistance received from government	Philips does not receive significant financial assistance from governments
	EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	chapter 14, Sustainability statements section 14.1, Economic indicators section 14.5, Supplier indicators
	EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	sub-section 5.2.4, Employment section 5.2, Social performance
	EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement	section 3.6, Enhancing urban life with light section 4.1, The power to make a difference sub-section 5.2.8, Social Investment Programs
	EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	section 3.6, Enhancing urban life with light section 4.1, The power to make a difference sub-section 5.2.8, Social Investment Programs section 14.1, Economic indicators

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Environment	profile disclosure	description	cross-reference[1)]
		Disclosure on management approach to environmental aspects	Message from the CEO
			section 5.3, Environmental performance
Materials	EN1	Materials used by weight or volume	section 14.2, EcoVision
			section 14.3, Green Operations
	EN2	Percentage of materials used that are recycled input materials	section 14.2, EcoVision
			section 14.3, Green Operations
Energy	EN3	Direct energy consumption by primary energy source	section 14.2, EcoVision
			section 14.3, Green Operations
	EN4	Indirect energy consumption by primary source	section 14.2, EcoVision
			section 14.3, Green Operations
Water	EN8	Total water withdrawal by source	section 14.3, Green Operations
Biodiversity	EN11	Location and size of land owned, leased, managed in or adjacent to protected areas and areas of high biodiversity value outside protected areas	This indicator is not material to Philips because the company does not own land in protected areas and areas with high biodiversity
	EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	chapter 14, Sustainability statements
Emissions, effluents, and waste	EN16	Total direct and indirect greenhouse gas emissions by weight	section 14.2, EcoVision
			section 14.3, Green Operations
	EN17	Other relevant indirect greenhouse gas emissions by weight	section 14.2, EcoVision
			section 14.3, Green Operations
	EN19	Emissions of ozone-depleting substances by weight	section 14.3, Green Operations
Commitments to external initiatives	EN20	NOx, SOx and other significant air emissions by type and weight	section 14.3, Green Operations
	EN21	Total water discharge by quality and destination	section 14.3, Green Operations
	EN22		section 14.3, Green Operations

		Total weight of waste by type and disposal method	
	EN23	Total number and volume of significant spills	section 14.3, Green Operations
	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	section 4.1, The power to make a difference section 5.2, Social performance section 14.2, EcoVision
	EN27	Percentage of products sold and their packaging materials that are reclaimed by category	section 5.2, Social performance section 14.2, EcoVision
Compliance	EN28	Monetary value of significant fines and total number of non-monetary sanctions for non- compliance with environmental laws and regulations	section 14.3, Green Operations

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Labor practices and decent work	profile disclosure	description	cross-reference[1)]
		Disclosure on management approach to labor practices and decent work	section 14.4, General Business Principles
Employment	LA1	Total workforce by employment type, employment contract and region	sub-section 5.2.4, Employment
	LA2	Total number and rate of employee turnover by age group, gender and region	sub-section 5.2.3, Diversity and inclusion sub-section 5.2.4, Employment
Labor/Management relations	LA4	Percentage of employees covered by collective bargaining agreements	See also www.philips.com/gbp
	LA5	Minimum notice period(s) relating to significant operational changes, including whether it is specified in collective agreements	See www.philips.com/gbp
Occupational health and safety	LA7	Rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region	sub-section 5.2.6, Health and Safety
	LA8	Education, training, counseling, prevention and risk-control programs in place to assist workforce members, their families or community members in relation to serious diseases	section 4.2, Encouraging positive change section 4.3, Embracing culture change
Training and education	LA10	Average hours of training per year per employee by employee category	section 4.3, Embracing culture change sub-section 5.2.5, Developing our people
Diversity and equal opportunity	LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity	sub-section 5.2.3, Diversity and inclusion chapter 8, Management chapter 9, Supervisory Board
	LA14	Ratio of basic salary of men to women by employee category	See also www.philips.com/gbp

Human rights	profile disclosure	description	cross-reference[1)]
		Disclosure on management approach to human rights	section 14.4, General Business Principles
	HR1		section 14.5, Supplier indicators section 5.1, Financial performance

Investment and procurement practices		Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	
	HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	section 14.5, Supplier indicators
Non-discrimination	HR4	Total number of incidents of discrimination and actions taken	section 14.4, General Business Principles
Freedom of association and collective bargaining	HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	section 14.4, General Business Principles
Child labor	HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor	section 14.4, General Business Principles
Forced and compulsory labor	HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor	section 14.4, General Business Principles

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Society	profile disclosure	description	cross-reference[1)]
		Disclosure on management approach to society and community involvement	section 4.1, The power to make a difference section 4.2, Encouraging positive change section 4.3, Embracing culture change
Community	SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	section 4.3, Embracing culture change section 5.2, Social performance
Ethics	SO2	Percentage and total number of business units analyzed for risks related to ethics	section 14.4, General Business Principles
	SO3	Percentage of employees trained in organization s anti-corruption policies and procedures	section 14.4, General Business Principles
	SO4	Actions taken in response to incidents of ethics	section 14.4, General Business Principles
Public policy	SO5	Public policy positions and participation in public policy development and lobbying	chapter 14, Sustainability statements
Compliance	SO8	Monetary value of significant fines and total number of non-monetary sanctions for non- compliance with laws and regulations	section 12.11, Notes section 14.3, Green Operations

Product responsibility	profile disclosure	description	cross-reference[1)]
		Disclosure on management approach to product responsibility	section 4.1, The power to make a difference
Customer health and safety	PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	section 5.2, Social performance section 14.2, EcoVision
Product and service labeling	PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	section 4.1, The power to make a difference
Marketing communications	PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion and sponsorship	chapter 14, Sustainability statements

PR9	Monetary value of significant fines for non-compliance with laws and regulations relating to the provision and use of products and services	section 12.11, Notes section 14.3, Green Operations

1) The sections referred to, except for the sections in chapter 14, Sustainability statements, are not included in the scope of the assurance engagement on Sustainability performance

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15 Reconciliation of non-GAAP information

Explanation of Non-GAAP measures

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

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

The Company uses the term IFO and Adjusted IFO to evaluate the performance of the Philips Group and its operating sectors. The term IFO has the same meaning as Income from operations (IFO). Referencing Adjusted IFO will make the underlying performance of our businesses more transparent by factoring out the amortization of acquired intangible assets. Adjusted IFO represents income from operations excluding results attributable to non-controlling interests holders, results relating to investments in associates, income taxes, financial income and expenses, amortization and impairment on intangible assets (excluding software and capitalized product development).

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 classified as held for sale 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 an 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.

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

Adjustments

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 report).

Sales growth composition per sector

in %

	comparable growth	currency effects	consolidation changes	nominal growth
2012 versus 2011				
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
Innovation, Group & Services	(7.4)	0.1	(6.2)	(13.5)
Philips Group	4.1	5.0	0.7	9.8
2011 versus 2010				
Healthcare	5.3	(2.5)	0.1	2.9
Consumer Lifestyle	1.1	(1.8)	2.7	2.0
Lighting	6.1	(2.3)	(2.7)	1.1
Innovation, Group & Services	(10.7)	(0.1)	(14.0)	(24.8)
Philips Group	4.1	(2.2)	(0.6)	1.3
2010 versus 2009				
Healthcare	3.9	6.0	(0.2)	9.7
Consumer Lifestyle	0.4	4.9	1.5	6.8
Lighting	8.7	6.0	0.7	15.4
Innovation, Group & Services	13.9	2.0	(1.6)	14.2
Philips Group	4.8	5.6	0.5	10.9

15 Reconciliation of non-GAAP information 15 - 15

Sales growth composition per geographic cluster

in %

	comparable growth	currency effects	consolidation changes	nominal growth
2012 versus 2011				
Western Europe	(2.9)	1.1	1.9	0.1
North America	2.0	8.8	(0.8)	10.0
Other mature geographies	11.5	9.2	(0.1)	20.6
Total mature geographies	1.2	5.4	0.4	7.0
Growth geographies	10.1	4.2	1.1	15.4
Philips Group	4.1	5.0	0.7	9.8
2011 versus 2010				
Western Europe	(2.6)	0.3	(1.7)	(4.0)
North America	2.9	(4.7)	0.3	(1.5)
Other mature geographies	7.0	2.7	(2.0)	7.7
Total mature geographies	1.0	(1.8)	(0.8)	(1.6)
Growth geographies	11.1	(3.2)	(0.2)	7.7
Philips Group	4.1	(2.2)	(0.6)	1.3
2010 versus 2009				
Western Europe	(1.5)	1.2	0.7	0.4
North America	1.5	5.8		7.3
Other mature geographies	12.6	14.5	3.2	30.3
Total mature geographies	1.2	4.3	0.6	6.1
Growth geographies	13.6	9.3	0.3	23.2
Philips Group	4.8	5.6	0.5	10.9

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

Adjusted IFO to Income from operations (or IFO)

	Philips Group	Healthcare	Consumer Lifestyle	Lighting	Innovation, Group & Services
2012					
Adjusted IFO	1,502	1,322	663	188	(671)
Amortization of intangible assets[1)]	(472)	(200)	(70)	(194)	(8)
Income from operations (or IFO)	1,030	1,122	593	(6)	(679)
2011					
Adjusted IFO	1,680	1,145	297	445	(207)
Amortization of intangible assets[1)]	(594)	(228)	(80)	(276)	(10)
Impairment of goodwill	(1,355)	(824)		(531)	
Income from operations (or IFO)	(269)	93	217	(362)	(217)
2010					
Adjusted IFO	2,556	1,186	487	863	20
Amortization of intangible assets[1)]	(482)	(264)	(38)	(174)	(6)
Income from operations (or IFO)	2,074	922	449	689	14

1) Excluding amortization of software and product development

NOC composition

	2008	2009	2010	2011	2012

Intangible assets	11,757	11,523	12,233	11,012	10,679
Property, plant and equipment	3,496	3,252	3,145	3,014	2,959
Remaining assets	10,784	9,316	9,347	9,393	8,921
Provisions	(2,894)	(2,498)	(2,394)	(2,694)	(2,969)
Other liabilities	(9,131)	(8,992)	(10,434)	(10,353)	(10,283)
Net operating capital	14,012	12,601	11,897	10,372	9,307

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Net operating capital to total assets

	Philips Group	Healthcare	Consumer Lifestyle	Lighting	Innovation, Group & Services
2012					
Net operating capital (NOC)	9,307	7,976	1,217	4,635	(4,521)
Eliminate liabilities comprised in NOC:					
- payables/liabilities	10,283	2,760	1,741	1,695	4,087
- intercompany accounts		71	45	37	(153)
- provisions	2,969	355	322	581	1,711
Include assets not comprised in NOC:					
- investments in associates	177	86		22	69
- other non-current financial assets	549				549
- deferred tax assets	1,917				1,917
- liquid assets	3,834				3,834
	29,036	11,248	3,325	6,970	7,493
Assets classified as held for sale	43				
Total assets	29,079				
2011					
Net operating capital (NOC)	10,372	8,418	884	4,965	(3,895)
Eliminate liabilities comprised in NOC:					
- payables/liabilities	10,353	2,697	2,309	1,593	3,754
- intercompany accounts		103	87	51	(241)
- provisions	2,694	287	558	282	1,567
Include assets not comprised in NOC:					
- investments in associates	203	86	3	23	91
- other non-current financial assets	346				346
- deferred tax assets	1,729				1,729
- liquid assets	3,147				3,147
	28,844	11,591	3,841	6,914	6,498
Assets classified as held for sale	551				
Total assets	29,395				
2010					
Net operating capital (NOC)	11,897	8,908	882	5,506	(3,399)
Eliminate liabilities comprised in NOC:					
- payables/ liabilities	10,434	2,603	2,790	1,601	3,440
- intercompany accounts		54	95	68	(217)
- provisions	2,394	321	342	302	1,429
Include assets not comprised in NOC:					
- investments in associates	181	76	1	18	86
- other current financial assets	6				6
- other non-current financial assets	479				479
- deferred tax assets	1,367				1,367
- liquid assets	5,832				5,832

	32,590	11,962	4,110	7,495	9,023
Assets classified as held for sale	120				
Total assets	32,710				

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 report).

Due to factors such as acquisitions and divestments, the amounts, percentages and ratios are not directly comparable.

	2008 EUR	2009 EUR	2010 EUR	2011 EUR	2012 EUR	2012 USD[1)]
General data						
Sales	21,682	20,092	22,287	22,579	24,788	32,693
Income from operations (IFO) (loss)	287	667	2,074	(269)	1,030	1,358
Financial income and expenses - net	87	(162)	(121)	(240)	(246)	(324)
Income (loss) from continuing operations	99	482	1,474	(776)	262	346
Income (loss) from discontinued operations	(198)	(52)	(26)	(515)	(31)	(41)
Net income (loss)	(99)	430	1,448	(1,291)	231	305
Total assets	32,349	30,897	32,710	29,395	29,079	38,353
Net assets	15,552	14,610	15,053	12,350	11,174	14,738
Financial structure						
Debt	4,188	4,267	4,658	3,860	4,534	5,980
Provisions	2,894	2,498	2,394	2,694	2,969	3,916
Shareholders equity	15,503	14,561	15,007	12,316	11,140	14,693
Non-controlling interests	49	49	46	34	34	45
Key figures per share						
Weighted average shares outstanding:						
- basic[2)]	993,374	927,435	941,417	952,536	921,828	921,828
- diluted[2)]	997,780	930,991	949,281	957,019	926,949	926,949
Basic earnings per common share[3)]						
Income (loss) from continuing operations per share	0.10	0.52	1.57	(0.81)	0.28	0.37
Net income (loss)	(0.10)	0.46	1.54	(1.36)	0.25	0.33
Diluted earnings per common share[3)]						
Income (loss) from continuing operations	0.10	0.52	1.55	(0.81)	0.28	0.37
Net income (loss)	(0.10)	0.46	1.53	(1.36)	0.25	0.33

1) For the convenience of the reader, the euro amounts have been converted into US dollars at the exchange rate used for balance sheet purposes at December 31, 2012 (USD 1 = EUR 0.7582. The US dollar amounts are unaudited.)

2) In thousands of shares

3) In euros or US dollars as indicated in the header

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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 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

IFO and Adjusted IFO[1)]

in millions of euros

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

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 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 pursuant 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 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).

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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

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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 unweighted

TSR peer group index base 100 = Dec 31, 2007

3M, Electrolux, Emerson, GE, Hitachi, Honeywell, Johnson & Johnson, Panasonic, Schneider, Siemens, Toshiba,

5-year relative performance: Philips and Dow Jones

base 100 = Dec 31, 2007

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

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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

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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 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

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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

High Tech Campus 5

5656 AE Eindhoven, Netherlands

Switch board, telephone: +31-40-27 91111

Sustainability contact

Philips Corporate Sustainability Office

High Tech Campus 5 (room 2.56)

5656 AE Eindhoven, Netherlands

Telephone: +31-40-27 83651

Fax: +31-40-27 86161

Website: www.philips.com/sustainability

E-mail: philips.sustainability@philips.com

Corporate Communications contact

Royal Philips Electronics

Breitner Center, HBT 19

P.O. Box 77900

1070 MX Amsterdam, Netherlands

Telephone: +31-20-59 77411

E-mail: corporate.communications@philips.com

17.8 Taxation

Netherlands Taxation

The statements below are only a general summary of certain material Dutch tax consequences for holders of Common Shares that are non-residents of the Netherlands based on present Netherlands tax laws and the Tax Convention of December 18, 1992, as amended by the protocol that entered into force on December 28, 2004, between the United States of America and the Kingdom of the Netherlands (the U.S. Tax Treaty) and are not to be read as extending by implication to matters not specifically referred to herein. As to individual tax consequences, investors in the Common Shares should consult their own professional tax advisor.

With respect to a holder of Common Shares that is an individual who receives income or derives capital gains from the Common Shares and this income received or capital gains derived are attributable to past, present or future employment activities of such holder, the income of which is taxable in the Netherlands, the Dutch tax position is not discussed in this summary.

Dividend withholding tax

In general, a distribution to shareholders by a company resident in the Netherlands (such as the Company) is subject to a withholding tax imposed by the Netherlands at a rate of 15%. Share dividends paid out of the Company s paid-in share premium recognized for Netherlands tax purposes are not subject to the above mentioned withholding tax. Share dividends paid out of the Company s retained earnings are subject to dividend withholding tax on the nominal value of the shares issued. Pursuant to the provisions of the U.S. Tax Treaty, a reduced rate may be applicable in respect of dividends paid by the Company to a beneficial owner holding directly 10% or more of the voting power of the Company, if such owner is a resident of the United States (as defined in the U.S. Tax Treaty) and entitled to the benefits of the U.S. Tax Treaty.

Pursuant to Dutch anti-dividend stripping legislation, a holder of Common Shares who is the recipient of dividends will generally not be considered the beneficial owner of the dividends if (i) as a consequence of a combination of transactions, a person other than the recipient wholly or partly benefits from the dividends; (ii) whereby such other person retains, directly or indirectly, an interest similar to that in the Common Shares on which

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the dividends were paid; and (iii) that other person is entitled to a credit, reduction or refund of dividend withholding tax that is less than that of the recipient.

Dividends paid to qualifying exempt US pension trusts and qualifying exempt US organizations are under certain conditions exempt from Dutch withholding tax under the U.S. Tax Treaty. Qualifying exempt US pension trusts normally remain subject to withholding at the rate of 15% and are required to file for a refund of the tax withheld. Only if certain conditions are fulfilled, such pension trusts may be eligible for relief at source upon payment of the dividend. However, for qualifying exempt US organizations no relief at source upon payment of the dividend is available; such exempt US organizations should apply for a refund of the 15% withholding tax withheld.

The Company may, with respect to certain dividends received from qualifying non-Netherlands subsidiaries, credit taxes withheld from those dividends against the Netherlands withholding tax imposed on certain qualifying dividends that are redistributed by the Company, up to a maximum of the lesser of:

- 3% of the amount of qualifying dividends redistributed by the Company; and

- 3% of the gross amount of certain qualifying dividends received by the Company.

The reduction is applied to the Dutch dividend withholding tax that the Company must pay to the Dutch tax authorities and not to the Dutch dividend withholding tax that the Company must withhold.

Income and capital gains

Income and capital gains derived from the Common Shares by a non-resident individual or non-resident corporate shareholder are generally not subject to Dutch income or corporation tax, unless (i) such income and gains are attributable to a (deemed) permanent establishment or (deemed) permanent representative in the Netherlands of the shareholder; or (ii) the shareholder is entitled to a share in the profits of an enterprise or (in case of a non-resident corporate shareholder only) a co-entitlement to the net worth of an enterprise, that is effectively managed in the Netherlands (other than by way of securities) and to which enterprise the Common Shares are attributable; or (iii) such income and capital gains are derived from a direct, indirect or deemed substantial participation in the share capital of a company (such substantial participation not being a business asset), and, in the case of a non-resident corporate shareholder only, it being held with the primary aim or one of the primary aims to avoid the levy of income tax or dividend withholding tax from another person; or (iv) in case of a non-resident corporate shareholder, such shareholder is a resident of Aruba, Curacao or Saint Martin with a permanent establishment or permanent representative in Bonaire, Eustatius or Saba to which the Common Shares are attributable, while the profits of such shareholder are taxable in the Netherlands pursuant to article 17(3)(c) of the Dutch Corporate Income Tax Act 1969; or (v) in case of a non-resident individual, (a) such individual derives income or capital gains from the Common Shares that are taxable as benefits from miscellaneous activities in the Netherlands (*resultaat uit overige werkzaamheden*, as defined in the Dutch Income Tax Act 2001), which includes the performance of activities with respect to the ordinary shares that exceed regular portfolio management; or (b) such individual has elected to be treated as a Dutch resident.

In general, a holder of Common Shares has a substantial participation if he holds either directly or indirectly and either independently or jointly with his partner (as defined in the Dutch Income Tax Act 2001), the ownership of, or certain other rights over, at least 5% of the total issued share capital or total issued particular class of shares of the Company or rights to acquire shares, whether or not already issued, that represent at any time 5% or more of the total issued capital (or the total issued particular class of shares) or the ownership of certain profit participating certificates that relate to 5% or more of the annual profit or to 5% or more of the liquidation proceeds. A shareholder will also have a substantial participation in the Company if one or more of certain relatives of the shareholder hold a substantial participation in the Company. A deemed substantial participation amongst others exists if (part of) a substantial participation has been disposed of, or is deemed to have been disposed of, on a non-recognition basis.

Estate and gift taxes

No estate, inheritance or gift taxes are imposed by the Netherlands on the transfer or deemed transfer of Common Shares by way of gift by or on the death of a shareholder if, at the time of the death of the shareholder or the gift of the Common Shares (as the case may be), such shareholder is not a resident of the Netherlands.

Inheritance or gift taxes (as the case may be) are due, however, if such shareholder:

has Dutch nationality and has been a resident of the Netherlands at any time during the ten years preceding the time of the death or gift; or

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has no Dutch nationality but has been a resident of the Netherlands at any time during the twelve months preceding the time of the gift (for Netherlands gift taxes only)

United States Federal Taxation

This section describes the material United States federal income tax consequences to a US holder (as defined below) of owning Common Shares. It applies only if the Common Shares are held as capital assets for tax purposes. This section does not apply to a member of a special class of holders subject to special rules, including:

- a dealer in securities,
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings,
- a tax-exempt organization,
- a life insurance company,
- a person liable for alternative minimum tax,
- a person that actually or constructively owns 10% or more of our voting stock,
- a person that holds Common Shares as part of a straddle or a hedging or conversion transaction,
- a person that purchases or sells Common Shares as part of a wash sale for tax purposes, or
- a person whose functional currency is not the US dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect, as well as on the U.S. Tax Treaty. These laws and regulations are subject to change, possibly on a retroactive basis.

If a partnership holds the Common Shares, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the Common Shares should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the Common Shares.

A US holder is defined as a beneficial owner of Common Shares that is:

- a citizen or resident of the United States,

a domestic corporation,

an estate whose income is subject to United States federal income tax regardless of its source, or

a trust if a United States court can exercise primary supervision over the trust s administration and one or more United States persons are authorized to control all substantial decisions of the trust.

A US holder should consult its own tax advisor regarding the United States federal, state and local and other tax consequences of owning and disposing of Common Shares in its particular circumstances.

This discussion addresses only United States federal income taxation.

Taxation of Dividends

Under the United States federal income tax laws, the gross amount of any dividend paid out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. For a non-corporate US holder, dividends paid that constitute qualified dividend income will be taxable at a maximum tax rate of 20% provided that the non-corporate US holder holds the Common Shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meets other holding period requirements. Dividends paid with respect to the Common Shares generally will be qualified dividend income[1)]. A US holder must include any Dutch tax withheld from the dividend payment in this gross amount even though it does not in fact receive it. The dividend is taxable to a US holder when it receives the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that a US holder must include in its income will be the US dollar value of the Euro payments made, determined at the spot Euro/US dollar rate on the date the dividend distribution is includible in its income, regardless of whether the payment is in fact converted into US dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date a US holder includes the dividend payment in income to the date a US holder converts the payment into US dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of a US holder s basis in the Common Shares and thereafter as capital gain.

Subject to certain limitations, the Dutch tax withheld in accordance with the U.S. Tax Treaty and paid over to the Netherlands will be creditable or deductible against a US

holder s United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 20% tax rate. To the extent a refund of the tax withheld is available under Dutch law, or under the U.S. Tax Treaty, the amount of tax withheld that is refundable will not be eligible for credit against United States federal income tax liability. Dividends will be income from sources outside the United States, and depending on a holder s circumstances, will generally be either passive or general income for purposes of computing the foreign tax credit allowable to the holder.

Taxation of Capital Gains

A US holder that sells or otherwise disposes of its Common Shares will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the US dollar value of the amount that it realizes and its tax basis, determined in US dollars, in its Common Shares. Capital gain of a non-corporate US holder is generally taxed at a maximum tax rate of 20% where the holder has a holding period greater than one year[2)]. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

PFIC Rules

We do not believe that the Common Shares will be treated as stock of a passive foreign investment company, or PFIC, for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus is subject to change. If we are treated as a PFIC, unless a US holder elects to be taxed annually on a mark-to-market basis with respect to the Common Shares, gain realized on the sale or other disposition of the Common Shares would in general not be treated as capital gain. Instead a US holder would be treated as if it had realized such gain and certain excess distributions ratably over the holding period for the Common Shares and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, in addition to which an interest charge in respect of the tax attributable to each such year would apply. Any dividends received by a US holder will not be eligible for the special tax rates applicable to qualified dividend income if we are treated as a PFIC with respect to such US holder either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income and subject to the excess distribution regime described above.

1) In addition, a US holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (1) the US holder s net investment income for the relevant taxable year and (2) the excess of the US holder s modified adjusted gross income for the taxable year over a certain threshold (the Medicare tax). A US holder s net investment income will generally include its dividend income.
2) In addition, the gain or loss will generally be included in a US holder s net investment income, which may be subject to a 3.8% tax as described in the discussion of the Medicare tax under the heading Taxation of Dividends.

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17.9 New York Registry Shares

Fees and Charges Payable by a Holder of New York Registry Shares

Citibank, N.A. as the US registrar, transfer agent, paying agent and shareholder servicing agent (Agent) under Philips New York Registry Share program (the Program), collects fees for delivery and surrender of New York Registry Shares directly from investors depositing ordinary shares or surrendering New York Registry Shares for the purpose of withdrawal or from intermediaries acting for them. The Agent collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of the distributable property to pay the fees.

The charges of the Agent payable by investors are as follows:

The New York Transfer Agent charges shareholders a fee of up to USD 5.00 per 100 shares for the exchange of New York Registry shares for ordinary shares and vice versa.

Fees and Payments made by the Agent to Philips

The Agent has agreed to reimburse certain expenses of Philips related to the Program and incurred by Philips in connection with the Program. In the year ended December 31, 2012 the Agent reimbursed to Philips, or paid amounts on Philips behalf to third parties, a total sum of EUR 502,298.

The table below sets forth the types of expenses that the Agent has agreed to reimburse and the amounts reimbursed in the year ended December 31, 2012:

Category of Expense Reimbursed to Philips

in euros

	amount Reimbursed in the year ended December 31, 2012
Program related expenses such as investor relations activities, legal fees and New York Stock Exchange listing fees	73,256
A portion of the issuance and cancellation fees actually received by the Agent from holders of New York Registry Shares, net of Program-related expenses already reimbursed by the Agent to Philips.	429,042[1)]
Total	502,298

1) Translated at USD/EUR exchange rate of actual date(s) of reimbursement(s) during 2012

The Agent has also agreed to waive certain fees for standard costs associated with the administration of the program.

The table below sets forth those expenses that the Agent paid directly to third parties in the year ended December 31, 2012.

Category of Expense paid directly to third parties

in euros

	amount in the year ended December 31, 2012
Reimbursement of Settlement Infrastructure Fees	7,000
Reimbursement of Proxy Process expenses	7,043
Reimbursement of Legal Fee expenses	1,945
NYSE Listing Fee	57,248
Fullfillment	20
Total	73,256

Under certain circumstances, including removal of the Agent or termination of the Program by Philips, Philips is required to repay the Agent certain amounts reimbursed and/or expenses paid to or on behalf of Philips.

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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 nongovernmental 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 Exhibits

19.1 Index of exhibits

Exhibit 1	English translation of the Articles of Association of the Company (incorporated by reference to Exhibit 1 of the Company s Annual Report on Form 20-F for the fiscal year ended December 31, 2008, File No. 001-05146-01).
Exhibit 2 (b) (1)	The total amount of long-term debt securities of the Company and its subsidiaries authorized under any one instrument does not exceed 10% of the total assets of Philips and its subsidiaries on a consolidated basis. Philips agrees to furnish copies of any or all such instruments to the Securities and Exchange Commission upon request.
Exhibit 4	Employment contracts of the members of the Board of Management (incorporated by reference to Exhibit 4 of the Company s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, File No. 001-05146-01).
Exhibit 4 (a)	Employment contract between the Company and F.A. van Houten (incorporated by reference to Exhibit 4 (a) of the Company s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, File No. 001-05146-01).
Exhibit 4 (b)	Employment contract between the Company and R.H. Wirahadiraksa (incorporated by reference to Exhibit 4 (b) of the Company s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, File No. 001-05146-01).
Exhibit 4 (c)	Employment contract between the Company and P.A.J. Nota (incorporated by reference to Exhibit 4 (d) of the Company s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, File No. 001-05146-01)
Exhibit 8	List of Subsidiaries.
Exhibit 12 (a)	Certification of F.A. van Houten filed pursuant to 17 CFR 240. 13a-14(a).
Exhibit 12 (b)	Certification of R.H. Wirahadiraksa filed pursuant to 17 CFR 240. 13a-14(a).
Exhibit 13 (a)	Certification of F.A. van Houten furnished pursuant to 17 CFR 240. 13a-14(b).
Exhibit 13 (b)	Certification of R.H. Wirahadiraksa furnished pursuant to 17 CFR 240. 13a-14(b).
Exhibit 15 (a)	Consent of independent registered public accounting firm.
Exhibit 15 (b)	Description of industry terms.

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19 Exhibits 19.1 - 19.2

19.2 Signatures

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

KONINKLIJKE PHILIPS ELECTRONICS N.V.

(Registrant)

/s/ F.A. van Houten
F.A. van Houten
(CEO, Chairman of the Board of Management and the Executive Committee)
Date: February 25, 2013

/s/ R.H. Wirahadiraksa
R.H. Wirahadiraksa
(Executive Vice-President, Chief Financial Officer, member of the Board of Management and the Executive Committee)

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