

PHILIPS

sense **and** simplicity

Financial reporting related matters

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Group Controller

Agenda

- Goodwill review and update on equity stakes
 - Goodwill review
 - Equity stakes
- Asbestos final settlement
- Pensions
 - Funded status
 - 2010 pension costs
- Group Management & Services in 2010
 - Composition
 - Cost estimate for 2010

Goodwill review

- Business valuations are negatively impacted by lower short term growth, particularly in Home Monitoring, Respiratory and in Professional Luminaires
- Business valuations are positively impacted by lower interest rates
- On balance, at this point in time:
 - No impairments are expected for acquisitions in Lighting, including Lumileds and Professional Luminaires (Genlyte),
 - No impairments are expected for acquisitions in Healthcare, in particular for Respiratory and for Home Monitoring
 - Little “headroom” is remaining for Professional Luminaires, Respiratory and Home Monitoring
 - After last year’s impairment, Lumileds has seen its value bouncing back

Philips major* equity interests have a book value of EUR 455 million as per end of Q3 2009

Equity interest	Ownership (% of total)	Book value (in EUR million)	Valuation	Accounting basis	Source of equity stakes
NXP	19.84%	207	Not listed	Cost	Remaining share following the sale of majority share in semiconductor business in 2008
Toppoly	17.40%	77	Listed, Gre Tai Securities Market	Fair value	Share in Toppoly following merger of Philips Mobile Display Systems with Toppoly Optoelectronics Corporation of Taiwan
TCL	6.30%	58	Listed, Shanghai Stock Exchange	Fair value	Strategic investments, acquired in 2002 and 2007
TPV	12.40%	113	Listed, Hong Kong Stock Exchange	Equity accounted	Acquired in 2005 in exchange of the transfer of the monitor business to TPV
Total		455			

* The aggregate amount of equity interests included in *Investments in equity-accounted Investees* and *Other non-current financial assets* was EUR 704 million as per September 30, 2009

Equity stakes status update

- Philips impaired its interest in NXP by EUR 48 million in Q1 2009. The fair value is above the book value at this point, given the recovery of the semiconductor industry
- TPO's and TCL's fair value based on their current share price* are respectively EUR 51 million and EUR 53 million above their historical cost price
- TPV Impairments of EUR 59 million, initially recognized in December 2008, have been fully reversed in 2009. No impairment of TPV is expected at this point

* TPO share price: TWD 5.35 as per December 11, 2009; TCL share price: CNY 4.93 as per December 11, 2009

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Asbestos final settlement

- As of 2002, Philips was faced with a steadily increasing number of asbestos claims with one of its US subsidiaries, resulting in many legal cases and high legal defense and settlement cost. Process had no foreseeable end to it.
- Resolving these asbestos liabilities through a so called “prepackaged bankruptcy” was agreed November 2008 and court approvals were received during 2009. It entails setting up a USD 900 million trust fund to cover all existing and future liabilities. Effective date November 30, 2009
- The Q4 2009 payment by Philips is USD 900 million. To date, USD 173 million was received from insurance recoveries. Further cash-in is expected from:
 - Receipt of USD140 million of existing insurance receivables
 - Settlement payments from insurance carriers with whom discussions are in progress
- With this bankruptcy reorganization, Philips has put an end to this legacy liability.

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Pension plans funded status update

	December 31, 2008		June 30, 2009		October 31, 2009	
	Funded Status	Balance sheet position	Funded Status	Balance sheet position	Funded Status	Balance sheet position
Netherlands Pre-paid pension asset	2,619	1,837	1,549	0	2,231	1,389
Other major plans	(1,373)	<u>(1,373)</u>	(1,926)	<u>(1,926)</u>	(1,768)	<u>(1,768)</u>
Net balance sheet position major plans		464		(1,926)		(379)
Funded status minor plans		<u>(301)</u>		<u>(199)</u>		n/a
Net balance sheet position		163		(2,125)		n/a

- The amount of prepaid pension asset is an estimate of the future benefits from pension fund surpluses
- Prepaid pension asset was zero in Q2, 2009 due to decrease in pension assets and the movements of key assumptions i.e. inflation and expected returns on plan assets
- **Based on the current funded status of the Netherlands' plan a recognition of a prepaid pension asset is expected at year-end**
- Any change will be directly recorded in equity

Pension cost in 2010

- Pension cost in 2009 are expected to amount to EUR 70 million
- Pension cost in 2009 benefit from one-time settlement gains in Q3, totaling about EUR 90 million. Without these, 2009 pension cost amount to some EUR 160 million
- The 2010 pension are expected to be in line with 2009
 - Compared to the cost without the exceptional gains in 2009
 - Calculations due to be finalized early January 2010 based on assumptions as per December 31, 2009

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Group Management & Services Composition

Corporate Technologies

- Philips Corporate Technologies encompasses Corporate Research, Intellectual Property & Standards (IP&S) and Applied Technologies

Corporate & Regional Costs

- Corporate center; Countries & regions and Brand campaign expenditures

Pensions

- Pension and other postretirement benefit costs mostly related to former Philips' employees

Service Units and Other

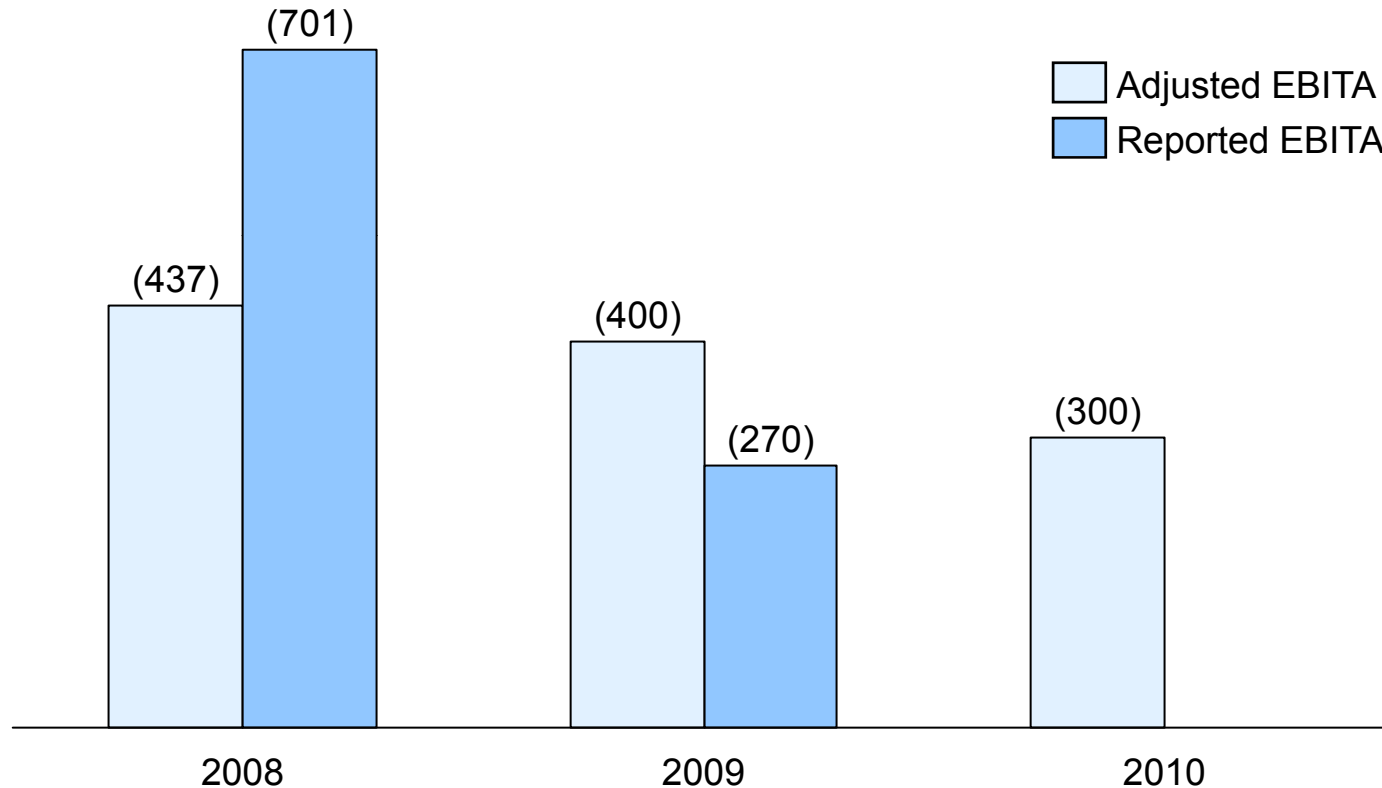
- Global service units; Shared service centers; Corporate Investments, New venture integration and Philips Design



Group Management & Services in 2010

- Excluding incidental P&L items, GM&S cost in 2009 are expected to amount about EUR 400 million in 2009
- GM&S cost in 2010 are expected at around EUR 300 million and EUR 100 million below the level of 2009
- Efficiency gains expected in Corporate Technologies (Research, IP&S), Corporate & regional cost incl. Brand Campaign, across service units and with Corporate Investments
- Savings are expected to be skewed towards the second half of the year.

Group Management & Services adjusted* costs are declining



* Cost exclude incidental items for restructuring, sale of assets, pensions, asbestos provision

In summary...

- As part of our Q4 2009 results:
 - The book value of our financial stakes is expected to remain constant
 - No goodwill impairments are expected to date
- Philips has fully settled the liability for Asbestos claims
- Philips' pension funds funded status has improved since Q2 2009. 2010 pension costs (before one-off's) are expected to remain in line with 2009
- Group Management & Services adjusted costs in 2010 are expected to come down by about EUR 100 million vs 2009

