PHILIPS

sense and simplicity

Royal Philips Electronics

Changes in reporting and other matters

Jan van Leeuwen
Group Controller

PHILIPS

Agenda

- Value declines (US GAAP) expected in the Q4 2008 results
  - Financial assets
  - Goodwill impairment review
- IFRS-only as of Q1 2009
  - Headlines
  - Reconciliation US GAAP to IFRS
- Pensions under IFRS
  - Implementation of IFRIC 14 and SoRIE
  - Prepaid pension assets and pension costs

PHILIPS

Agenda

- **Value declines (US GAAP) expected in the Q4 2008 results**
  - **Financial assets**
  - **Goodwill impairment review**

- IFRS-only as of Q1 2009
  - Headlines
  - Reconciliation US GAAP to IFRS

- Pensions under IFRS
  - Implementation of IFRIC 14 and SoRIE
  - Prepaid pension assets and pension costs

PHILIPS

Philips has financial assets with book value of some EUR 2 billion as at September 2008

Financial Assets	Ownership % of total	Book value (in EUR million)	Valuation	Accounting
LG Display	13.2%	1,154 [1]	listed	available-for-sale
Pace Micro Technology	17.0%	58 [1]	listed	available-for-sale
NXP	19.8%	555	not listed	cost-method
Toppoly	17.4%	103	"grey-market"	cost-method
TCL	6.3%	27	"grey-market"	cost-method
TPV	12.4%	104	listed	equity-accounted
Total		**2,001**		

1: book value is equivalent to the fair value plus the unrealized loss in stockholder’s equity (US GAAP based)

PHILIPS

AFS Securities: LG Display & Pace value declines

- **LG Display and Pace are likely to have value declines “other than temporary” at the end of December 2008** as their stock prices continue to be significantly below book value:
  - the share price of LG Display was 55% or EUR 640 million below book value at the end of November 2008
  - the share price of Pace Micro Technology was 50% or EUR 30 million below book value at the end of November 2008

- Available-for-sale securities, such as LG Display and Pace, are recorded at fair value, whereby differences with the book value are directly reflected in equity. Only upon sale or a value decline other than temporary, the difference between book value and fair value is recorded in Financial income and expenses (P&L) with no net impact on equity

PHILIPS

Q4 value declines are also expected from impairments on NXP, Toppoly and TPV stakes

- Due to deteriorating market circumstances, **it is expected that Philips will have to further impair its stake in NXP**. In June 2008, Philips recorded an impairment of NXP of 35 % or EUR 299 million. Management’s best estimate of an additional impairment in December 2008 is in the range of EUR 250 – 350 million

- **Toppoly is likely to be impaired at the end of December 2008**. Toppoly’s share price at the Taiwanese OTC market was EUR 70 million below book value at the end of November 2008

- **TPV is likely to be impaired at the end of December 2008** as its stock price continues to be significantly below book value. TPV’s share price was 60% or EUR 65 million below book value

- **TCL is not expected to be impaired at the end of December 2008**

PHILIPS

Summary of estimated value declines of financial assets in Q4 2008

Financial Assets	Ownership % of total	Book value (in EUR million)	Estimated value declines [1, 2] (in EUR million)
LG Display	13.2%	1,154 [3]	640
Pace Micro Technology	17.0%	58 [3]	30
NXP	19.8%	555	250 - 350
Toppoly	17.4%	103	70
TCL	6.3%	27	-
TPV	12.4%	104	65
Total		**2,001**	**~ 1,100**

The above mentioned possible impairments are:
1) reported in the Financial income & expenses line of the P&L, except TPV (Results equity accounted investees).
2) subject to (re-)measurement as at December 31, 2008.
3) book value is equivalent to the fair value plus the unrealized loss in stockholder's equity

PHILIPS

Goodwill impairment review

- Triggered by Philips share price decline, Philips’ intangible assets including goodwill are tested for impairment. This testing is currently in progress

- Except for Lumileds, at this point in time, no impairment charges for Q4 2008 are foreseen for intangible assets

PHILIPS

Agenda

- Value declines (US GAAP) expected in the Q4 2008 results
  - Financial assets
  - Goodwill impairment review

- **IFRS-only as of Q1 2009**
  - **Headlines**
  - **Reconciliation US GAAP to IFRS**

- Pensions under IFRS
  - Implementation of IFRIC 14 and SoRIE
  - Prepaid pension assets and pension costs

PHILIPS

IFRS-only reporting as of January 1, 2009

- Currently, Philips' primary reporting is based on US GAAP. In addition, Philips issues quarterly and annual financial statements in accordance with International Financial Reporting Standards (IFRS)
- The US Securities and Exchange Commission (SEC) has withdrawn the requirement that 'Foreign Private Issuers' such as Philips file US GAAP based financial statements (or a reconciliation) and will accept reporting solely based on IFRS as adopted by the IASB
- In order to simplify reporting and reduce cost, **Philips will migrate to IFRS as its only internal & external reporting standard from January 1, 2009**, and will discontinue the use of US GAAP per the same date

PHILIPS

Philips' reconciliation between US GAAP & IFRS: Main net income differences – Sep 2008 YTD

in EUR million	
US GAAP net income	1,296
Development assets	(55)
of which capitalization	*136*
of which amortization	*(191)*
Pensions and other postretirement benefits	29
Realized gain on sale TSMC securities	123
LG Display impairment	(178)
Lumileds impairment goodwill	(90)
Other	(30)
IFRS net income	1,095

IFRS requires capitalization and amortization of development costs, whereas under US GAAP these costs are recorded as an expense.

No amortization of gains and losses and no smoothing of plan assets assumed in expense figures under IFRS.

One-off impact sale TSMC securities: cumulative translation differences between US GAAP and IFRS.

LG Display security has only been impaired under IFRS.

Higher net assets under IFRS related to the acquisition purchase (step-up) accounting under IFRS in 2005.

PHILIPS

Agenda

- Value declines expected in the Q4 2008 results
  - Financial assets
  - Goodwill impairment review

- IFRS-only as of Q1 2009
  - Headlines
  - Reconciliation US GAAP to IFRS

- **Pensions under IFRS**
  - **Implementation of IFRIC 14 and SoRIE**
  - **Prepaid pension assets and pension costs**

PHILIPS

Pension accounting under IFRS as of 2008

Implementation of SoRIE approach and IFRIC 14

- Philips has moved to the SoRIE (Statement of Recognized Income & Expense) approach, under which
  - actuarial gains and losses are recorded in equity and disclosed in SoRIE
  - actuarial gains and losses remain outside the profit and loss account

- Philips has also applied IFRIC 14 which gives guidance on the calculation of the so-called ‘asset ceiling’ test
  - funding surpluses may only be recognized as an asset (‘pre-paid pension cost’) to the extent that they do not exceed that ‘asset ceiling’
  - relevant for pension plans with funding surpluses like the Dutch plan

- For prior years, the asset ceiling allowed for full prepaid recognition

- An update of the ‘asset ceiling test’ is required for year-end 2008

PHILIPS

Recognition of prepaid pension assets (funded status) in equity

- Philips' pension funds have been affected by this year's volatility in financial markets
- The asset ceiling for a pension plan is a measure of the estimated future benefits resulting from pension fund surpluses
- Both asset ceiling and funded status are affected by changes in market conditions
- The asset ceiling for the Netherlands is likely to show bigger decline than funded status, as the decline in plan assets reduces the pace at which Philips may expect to benefit from funding surpluses
- The funded status is likely to be only partially recognized under IFRS. Any unrecognized funded status will be directly recorded in equity

PHILIPS

Pension costs in 2009

- The market turmoil does not affect 2008 pension costs, which are anticipated to amount to:
  - EUR 85 million under IFRS
  - EUR 110 million under US GAAP

- The 2009 pension costs are expected to increase. Calculations due to be finalized January 2009

- 2009 cash contributions may increase depending on valuations and decisions in the coming year

In summary…

Our Q4 2008 results are expected to be impacted by the recent market turmoil:

- the value of our financial stakes is expected to be reduced by approximately EUR 1.1 billion[1]
- At this point in time, only Lumileds' goodwill may be partially impaired

The market volatility also has impact on our pension assets and costs:

- Philips' pension funds have been affected
- the funded status may become partly unrecognizable per year end, due to the asset-ceiling test, as directly reflected in equity
- 2009 pension costs and funding are expected to increase

1: subject to measurement at December 31, 2008

PHILIPS