KONINKLIJKE PHILIPS ELECTRONICS NV
Form 20-F
February 18, 2011

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As filed with the Securities and Exchange Commission on February 18, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 20-F

(Mark one)

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

OR

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

For the fiscal year ended December 31, 2010

OR

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

OR

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

Commission file number 001-05146-01

KONINKLIJKE PHILIPS ELECTRONICS N.V.
(Exact name of Registrant as specified in charter)
ROYAL PHILIPS ELECTRONICS
(Translation of Registrant s name into English)
The Netherlands
(Jurisdiction of incorporation or organization)
Breitner Center, Amstelplein 2, 1096 BC Amsterdam, The Netherlands
(Address of principal executive office)

Eric Coutinho, Chief Legal Officer & Secretary to the Board of Management
+31 20 59 77232, eric.coutinho@philips.com, Breitner Center, Amstelplein 2, 1096 BC Amsterdam, The Netherlands
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

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

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

None

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

None

(Title of class)

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

Class	Outstanding at December 31, 2010

Koninklijke Philips Electronics N.V.	986,078,784 shares, including
Common Shares par value EUR 0.20 per share	39,572,400 treasury shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

þ Yes o No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934.

o Yes þ No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).[1)]

þ Yes o No

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

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

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

U.S. GAAP o	International Financial Reporting Standards as issued by by the International Accounting Standards Board þ	Other o

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

o Item 17 o Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

1) This requirement does not apply to the registrant until the fiscal year ending December 31, 2011.

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Introduction

Specific portions of Philips Annual Report 2010 to Shareholders (the 2010 Annual Report) are incorporated by reference in this report on Form 20-F to the extent noted herein. Philips 2010 Annual Report is attached hereto as Exhibit 15(b). The 2010 Annual Report is furnished to the Securities and Exchange Commission for information only and the Annual Report is not filed except for such specific portions that are expressly incorporated by reference in this Report on Form 20-F.

The audited consolidated financial statements as of December 31, 2010 and 2009, and for each of the years in the three-year period ended December 31, 2010, included in this Form 20-F have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective year-end 2010 have been endorsed by the EU, except that the EU did not adopt some paragraphs of IAS 39 applicable to certain hedge transactions. Philips has no hedge transactions to which these paragraphs are applicable. Consequently, the accounting policies applied by Philips also comply fully with IFRS as issued by the IASB.

In presenting and discussing the Philips Group s financial position, operating results and cash flows, management uses certain non-GAAP financial measures like: comparable growth; adjusted income from operations; net operating capital; net debt; cash flow before financing activities; net capital expenditures and free cash flow. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent IFRS measure and should be used in conjunction with the most directly comparable IFRS measure(s). Unless otherwise indicated in this document, a discussion of the non-GAAP measures included in this document and a reconciliation of such measures to the most directly comparable IFRS measure(s) is contained under the heading Reconciliation of non-GAAP information in Item 5 Operating and financial review and prospects .

Forward-looking statements

Pursuant to provisions of the United States Private Securities Litigation Reform Act of 1995, Philips is providing the following cautionary statement. This document, including the portions of the 2010 Annual Report incorporated hereby, contains certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items, in particular, among other statements, certain statements in Item 4 Information on the Company with regard to management objectives, market trends, market standing, product volumes and business risks, the statements in Item 8 Financial Information relating to legal proceedings, the statements in Item 5 Operating and financial review and prospects with regard to trends in results of operations, margins, overall market trends, risk management, exchange rates and statements in Item 11 Quantitative and qualitative disclosures about market risks relating to risk caused by derivative positions, interest rate fluctuations and other financial exposure are forward-looking in nature. Forward-looking statements can be identified generally as those containing words such as anticipates , assumes , believes , estimates , expects , sho will , will likely result , forecast , outlook , projects , may or similar expressions. By their nature, forward-lookin statements involve risk and uncertainty, because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

These factors include, but are not limited to, domestic and global economic and business conditions, the successful implementation of our strategy and our ability to realize the benefits of this strategy, our ability to develop and market new products, changes in legislation, legal claims, changes in exchange and interest rates, changes in tax rates, pension costs and actuarial assumptions, raw materials and employee costs, our ability to identify and complete successful acquisitions and to integrate those acquisitions into our business, our ability to successfully exit certain businesses or restructure our operations, the rate of technological changes, political, economic and other developments in countries where Philips operates, industry consolidation and competition. As a result, Philips actual future results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. For a discussion of factors that could cause future results to differ from such forward-looking statements, reference is made to the information under the heading Risk Factors in Item 3

Key information and the section Risk management on pages 104 through 115 of the 2010 Annual Report, which is incorporated herein by reference.

Third-party market share data

Statements regarding market share, contained in this document, including those regarding Philips competitive position, are based on outside sources such as specialized research institutes, industry and dealer panels in combination with management estimates. Where fullyear information regarding 2010 is not yet available to Philips, those statements may also be based on estimates and projections prepared by outside sources or management. Rankings are based on sales unless otherwise stated.

Fair value information

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

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Part 1

Item 1. Identity of directors, senior management, advisers and auditors

Not applicable.

Item 2. Offer statistics and expected timetable

Not applicable.

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Item 3. Key information

Selected consolidated financial and statistical data

The selected financial data presented in Item 3 Key information as of and for each of the years in the five-year period ended December 31, 2010 has been prepared in accordance with IFRS as issued by the IASB. Reference is made to the information in the section entitled Introduction on page 2.

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Selected financial data as at and for the years ended December 31,

in millions unless otherwise stated	2006[1] EUR	2007[1] EUR	2008 EUR	2009 EUR	2010 EUR	2010[2] USD
Income statement data:						
Sales	26,682	26,793	26,385	23,189	25,419	33,964
Income from operations (IFO)	1,336	1,867	54	614	2,065	2,759
Financial income and expenses net	29	2,849	88	(166)	(122)	(163)
Income (loss) from continuing operations	1,003	5,018	(95)	424	1,452	1,940
Income (loss) from discontinued operations	4,154	(138)	3			
Net income (loss)	5,157	4,880	(92)	424	1,452	1,940
Weighted average number of common shares outstanding (in thousands after deduction of treasury shares) during the year	1,174,925	1,086,128	991,420	925,481	939,861	939,861
Basic earnings per common share:						
Income (loss) from continuing operations	0.85	4.61	(0.09)[3]	0.46	1.54	2.06
Net income (loss)	4.39	4.49	(0.09)[3]	0.46	1.54	2.06
Adjusted weighted average number of common shares (in thousands after deduction of treasury shares) during the year	1,183,631	1,098,925	996,714	929,037	947,725	947,725
Diluted earnings per common share:[4]						
Income (loss) from continuing operations	0.85	4.56	(0.09)	0.46	1.53	2.05
Net income (loss)	4.36	4.43	(0.09)	0.46	1.53	2.05
Balance sheet data:						
Total assets	38,650	36,381	31,910	30,527	32,269	43,117
Net assets	23,234	21,868	15,593	14,644	15,092	20,166
Short-term debt	871	2,350	722	627	1,840	2,459
Long-term debt	3,007	1,213	3,466	3,640	2,818	3,765
Short-term provisions[5]	755	382	1,043	716	623	832
Long-term provisions[5]	1,868	2,021	1,794	1,734	1,716	2,293
Non-controlling interests	135	127	49	49	46	61
Shareholders equity	23,099	21,741	15,544	14,595	15,046	20,104
Common shares issued and fully paid	228	228	194	194	197	263

Cash flow data:						
Net cash provided by operating activities	639	1,752	1,648	1,545	2,156	2,881
Net cash (used for) provided by investing activities	(3,101)	3,700	(3,254)	(219)	(702)	(938)
Net cash used for financing activities	(3,725)	(2,371)	(3,575)	(545)	(96)	(128)
Net cash provided by (used for) continuing operations	(6,187)	3,081	(5,181)	781	1,358	1,815

1) Discontinued operations reflects the effect of the sale of MDS in 2006 and of Semiconductors in 2006; and the effect of classifying the MedQuist business as a discontinued operation in 2007, for each of which previous years have been restated.

2) 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, 2010 (USD 1 = EUR 0.7484).

3) In 2008, the incremental shares from assumed conversion are not taken into account as the effect would be antidilutive.

4) Reference is made to the information under the heading Earnings per Share on page 144 of the 2010 Annual Report incorporated herein by reference for a discussion of net income per common share on a diluted basis.

5) Includes provision for pensions, severance payments, restructurings, product warranty, environmental remediation, product liability and taxes among other items; see note 19 Provisions to the Group financial statements on pages 178 and 179 of the 2010 Annual Report incorporated herein by reference.

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Key ratios

	2006[1)]	2007[1)]	2008	2009	2010
Income from operations (in millions of euros)	1,336	1,867	54	614	2,065
as a % of sales	5.0	7.0	0.2	2.6	8.1
Turnover rate of net operating capital[2)]	3.73	2.71	1.72	1.79	1.91
Inventories as a % of sales	11.0	12.0	13.2	12.6	15.2
Outstanding trade receivables (in days sales)	45	44	42	40	46
Income (loss) from continuing operations as a % of shareholders equity (ROE)	4.8	22.8	(0.5)	2.9	9.6
Ratio net debt : group equity[2)]	(9):109	(31):131	4:96	(1):101	(8):108

1) Discontinued operations reflects the effect of the sale of MDS in 2006 and of Semiconductors in 2006; and the effect of classifying the MedQuist business as a discontinued operation in 2007, for each of which previous years have been restated.

2) See Reconciliation of non-GAAP information in Item 5 Operating and financial review and prospects , which is incorporated herein by reference, for a reconciliation of non-GAAP measures to the most directly comparable IFRS measure(s).

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Definitions:

Turnover rate of net operating capital:

sales divided by average net operating capital (calculated on the quarterly balance sheet positions)

Net operating capital*:

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. Philips 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. Net operating capital is calculated as follows:

	2006	2007	2008	2009	2010
Intangible assets	5,964	6,635	11,757	11,523	12,233
Property, plant and equipment	3,102	3,194	3,496	3,252	3,265
Remaining assets 1)	10,669	11,193	10,361	8,960	8,921
Provisions	(2,623)	(2,403)	(2,837)	(2,450)	(2,339)
Other liabilities 2)	(8,156)	(7,817)	(8,708)	(8,636)	(10,009)
Net operating capital 3)	8,956	10,802	14,069	12,649	12,071

1) Remaining assets includes all other current and non-current assets on the balance sheet, except for intangible assets and property, plant and equipment and excludes deferred tax assets, cash and cash equivalents and trading securities.

2) Other liabilities includes other current and non-current liabilities on the balance sheet, except for short-term and long-term debt and deferred tax liabilities.

3) See Reconciliation of non-GAAP information in Item 5 Operating and financial review and prospects , which is incorporated herein by reference, for a reconciliation of non-GAAP measures to the most directly comparable IFRS measure(s).

Return on equity (ROE):

income from continuing operations as a % of average shareholders equity (calculated on the quarterly balance sheet positions)

Net debt*:

long-term and short-term debt net of cash and cash equivalents

Group equity:

shareholders equity and non-controlling interests

Net debt : group equity ratio*:

the % distribution of net debt over group equity plus net debt

* See Reconciliation of non-GAAP information in Item 5 Operating and financial review and prospects for a reconciliation of non-GAAP measures to the most directly comparable IFRS measure(s).

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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:

	2006	2007	2008	2009	2010
In EUR	0.44	0.60	0.70	0.70	0.70
In USD	0.54	0.80	1.09	0.94	0.93

A proposal will be submitted to the 2011 Annual General Meeting of Shareholders to declare a dividend of EUR 0.75 per common share, in cash or in shares at the option of the shareholder, against the net income for 2010. Such dividend is expected to result in a payment of up to EUR 710 million.

Shareholders will be given the opportunity to make their choice between cash and shares between April 7, 2011 and April 29, 2011. If no choice is made during this election period, the dividend will be paid in shares. On April 29, 2011, 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 27, 28 and 29 April 2011. The Company will calculate the number of share dividend rights entitled to one new common share, such that the gross dividend in shares will be approximately 3% higher than the gross dividend in cash. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from May 4, 2011. The distribution of dividend in cash to holders of New York registry shares will be made in USD at the USD/EUR rate fixed by the European Central Bank on May 2, 2011.

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 2010, a dividend of EUR 0.70 per common share was paid in cash or shares, at the option of the shareholder. Approximately 53% elected for a share dividend resulting in the issue of 13,667,015 new common shares, leading to a 1.5% dilution. The remainder of the dividend was paid in cash (EUR 296 million) against the retained earnings of the Company.

The dollar equivalent of this dividend distribution to shareholders in the year 2011 will be calculated at the EUR/USD rate of the European Central Bank on the date fixed and announced for that purpose by the Company, expected to be May 2, 2011. The dollar equivalents of the prior year profit distributions paid to shareholders have been calculated at the EUR/USD rate of the European Central Bank on the date fixed and announced for that purpose by the Company.

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 11, 2011 was EUR 0.7396 per USD 1.

calendar period				EUR per USD
	period end	average[1)]	high	low
2005	0.8445	0.8046	0.8571	0.7421
2006	0.7577	0.7906	0.8432	0.7504
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

1) The average of the Noon Buying Rates on the last day of each month during the period.

	highest rate	lowest rate
August 2010	0.7904	0.7529
September 2010	0.7869	0.7332
October 2010	0.7306	0.7109
November 2010	0.7671	0.7030
December 2010	0.7640	0.7465
January 2011	0.7726	0.7291

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, 2010 (USD 1 = EUR 0.7484). This rate is not materially different from the Noon Buying Rate on such date (USD 1 = EUR 0.7536).

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[1)]	high	low
2005	0.8435	0.8053	0.8491	0.7613
2006	0.7591	0.7935	0.8375	0.7579
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	0.7484	0.7540	0.8188	0.7036

1) The average rates are based on daily quotations.

Risk factors

The risk factors and the cautionary statements contained in the section entitled Introduction on page 2 should be considered in connection with any forward-looking statements contained in Philips Annual Report on Form 20-F. Forward-looking statements can be identified generally as those containing words such as anticipates , assumes , believes , estimates , expects , should , will , will likely result , forecast , outlook , projects , may or sin

From time to time, Philips may also provide oral or written forward-looking statements in other materials Philips releases to the public. The cautionary statements contained in Introduction are deemed to apply to these statements.

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

Strategic risks and opportunities may affect Philips strategic ambitions. Operational risks include adverse unexpected developments resulting from internal processes, people and systems, or from external events that are linked to the actual running of each business (examples are solution and product creation, and supply chain management). Compliance risks cover unanticipated failures to implement, or comply with, appropriate policies and procedures. Within the area of Financial risks, Philips identifies risks related to Treasury, Accounting and reporting, Pensions and Tax. The risks described below and in pages 107 through 113 of the 2010 Annual Report are not the only ones we face. Additional risks not known to us or that we currently consider immaterial could ultimately have a major impact on Philips businesses, objectives, revenues, income, assets, liquidity, and capital resources.

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

Strategic risks

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

Philips business environment is influenced by economic conditions globally and in individual countries where Philips conducts business. The high degree of unemployment in certain countries, the level of public debt in the US and certain European countries, as well as uncertainties with respect to the long-term high growth stability of the Chinese economy, may result in lower demand and more challenging market environments across our Sectors. Political developments, for example Healthcare reforms in various countries such as the US Healthcare Reform may impose additional uncertainties by redistributing sector spending, changing reimbursement models and fiscal changes. Numerous other factors, such as fluctuation of energy and raw material prices, as well as global political conflicts, including North Africa, the Middle East and other regions, could continue to impact macroeconomic factors and the international capital and credit markets.

Economic and political uncertainty may have a material adverse impact on Philips financial condition or results of operations and can also make Philips budgeting and forecasting more difficult.

Philips may encounter difficulty in planning and managing operations due to unfavorable political factors, including unexpected legal or regulatory changes such as foreign exchange import or export controls, increased healthcare regulation, nationalization of assets or restrictions on the repatriation of returns from foreign investments and the lack of adequate infrastructure. As emerging markets are becoming increasingly important in Philips operations, the above-mentioned risks are also expected to grow and could have an adverse impact on Philips financial condition and operating results.

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

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

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

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

Furthermore, organizational simplification and resulting cost savings may be difficult to achieve. Acquisitions may also lead to a substantial increase in long-lived assets, including goodwill. Write-downs of these assets due to unforeseen business developments may materially adversely affect Philips earnings, particularly in Healthcare and Lighting which have significant amounts of goodwill. Please also refer to note 8 Goodwill to the Group financial statements on pages 172 and 173 of the 2010 Annual Report, which is incorporated herein by reference.

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

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

Philips ongoing investments in the sense and simplicity brand campaign, with a focus on simplifying the interaction with its customers, translating awareness into preference and improving its international brand recognition, could have less impact than anticipated.

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

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

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

Operational risks

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

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

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

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

Most of Philips activities are conducted outside of the Netherlands, and international operations bring challenges. For example, production and procurement of products and parts in Asian countries are increasing, and this creates a risk that production and shipping of products and parts could be interrupted by a natural disaster in that region.

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

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

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

Philips is engaged in a continuous drive to create a more open, standardized and consequently, more cost-effective IT landscape. This is leading to an approach involving further outsourcing, off-shoring, commoditization and ongoing reduction in the number of IT systems. The global increase in security threats and higher levels of professionalism in computer crime have raised the company s awareness of the importance of effective IT security measures, including proper identity management processes to protect against unauthorized systems access. Nevertheless, Philips systems, networks, products, solutions and services remain potentially vulnerable to attacks, which could potentially lead to the leakage of confidential information, improper use of its systems and networks or defective products, which could in turn adversely affect Philips financial condition and operating results. Additionally, the integration of new

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companies and successful outsourcing of business processes are highly dependent on secure and well-controlled IT systems.

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

Philips is from time to time subject to warranty and product liability claims with regard to product performance and effects. Philips could incur product liability losses as a result of repair and replacement costs in response to customer complaints or in connection with the resolution of contemplated or actual legal proceedings relating to such claims. In addition to potential losses arising from claims and related legal proceedings, product liability claims could affect Philips reputation and its relationships with key customers, both customers for end products and customers that use Philips products in their production process. As a result, product liability claims could materially impact Philips financial condition and operating results.

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

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

Compliance risks

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

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

For additional disclosure relating to specific legal proceedings, reference is made to note 24 Contingent liabilities to the Group financial statements on pages 180 through 182 of the 2010 Annual Report, which is incorporated herein by reference.

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

Philips is facing increased scrutiny by national and European authorities of possible anti-competitive market practices, especially in product segments where Philips has significant market shares. For example, Philips and certain of its (former) affiliates are involved in investigations by competition law authorities in several jurisdictions into possible anti-competitive activities in the Cathode-Ray Tubes (CRT) industry and are engaged in litigation in this respect. Philips financial position and results could be materially affected by an adverse final outcome of these investigations and litigation, as well as any potential claims relating to this matter. Furthermore, increased scrutiny may hamper planned growth opportunities provided by potential acquisitions. Reference is made to note 24 Contingent liabilities to the Group financial statements on pages 180 through 182 of the 2010 Annual Report, which is incorporated herein by reference.