

Quarterly report and Semi-annual report

Q2 2010, Royal Philips Electronics

Philips reports second-quarter EBITA of EUR 527 million and sales of EUR 6.2 billion

- Comparable sales up 12%, led by double-digit growth at Lighting and Consumer Lifestyle
- Emerging markets sales growth accelerates to 29%, now representing over one-third of Group sales
- EBITA of EUR 527 million, or 8.5% of sales
- EBITA, excluding EUR 93 million restructuring and acquisition-related charges, at 10% of sales
- Net income of EUR 262 million

“In Q2, Philips delivered another strong quarter, with good top-line growth and strong profitability in all three operating sectors. Sales performance was especially strong in emerging markets. We are particularly pleased to have reached an adjusted profitability level of 10% in the quarter.

It is encouraging to see that our performance continues to improve, despite ongoing weakness in many global markets and economic uncertainty – a clear testimony to the soundness of our strategy and the strength of our portfolio. I believe we remain well on our way to becoming the leading company in health and well-being and consider this quarter another clear step in the right direction.”

Gerard Kleisterlee, President and CEO of Royal Philips Electronics

Forward-looking statements

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items, in particular the paragraphs “Looking ahead” and “Outlook”. Examples of forward-looking statements include statements made about our strategy, estimates of sales growth, future EBITA and future developments in our organic business. By their nature, these statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these statements.

These factors include but are not limited to domestic and global economic and business conditions, the successful implementation of our strategy and our ability to realize the benefits of this strategy, our ability to develop and market new products, changes in legislation, legal claims, changes in exchange and interest rates, changes in tax rates, pension costs and actuarial assumptions, raw materials and employee costs, our ability to identify and complete successful acquisitions and to integrate those acquisitions into our business, our ability to successfully exit certain businesses or restructure our operations, the rate of technological changes, political, economic and other developments in countries where Philips operates, industry consolidation and competition. As a result, Philips’ actual future results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. For a discussion of factors that could cause future results to differ from such forward-looking statements, see the Risk management chapter included in our Annual Report 2009 and the “Risk and uncertainties” section in our semi-annual financial report for the six months ended July 4, 2010.

Third-party market share data

Statements regarding market share, including those regarding Philips’ competitive position, contained in this document are based on outside sources such as research institutes, industry and dealer panels in combination with management estimates. Where information 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.

Use of non-GAAP information

In presenting and discussing the Philips Group’s financial position, operating results and cash flows, management uses certain non-GAAP financial measures. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent IFRS measures and should be used in conjunction with the most directly comparable IFRS measures. A reconciliation of such measures to the most directly comparable IFRS measures is contained in this document. Further information on non-GAAP measures can be found in our Annual Report 2009.

Use of fair-value measurements

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 fairvalues 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 data do not exist, we estimated the fairvalues using appropriate valuation models and unobservable inputs. 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 our 2009 financial statements. Independent valuations may have been obtained to support management’s determination of fairvalues.

All amounts in millions of euros unless otherwise stated; data included are unaudited. Financial reporting is in accordance with IFRS, unless otherwise stated. This document comprises regulated information within the meaning of the Dutch Financial Markets Supervision Act ‘Wet op het Financieel Toezicht’.

PHILIPS

Philips Group

Net income

in millions of euros unless otherwise stated

| | Q2 | Q2 |
|---|-------|-------|
| | 2009 | 2010 |
| Sales | 5,230 | 6,191 |
| EBITA | 118 | 527 |
| as a % of sales | 2.3 | 8.5 |
| EBIT | 8 | 404 |
| as a % of sales | 0.2 | 6.5 |
| Financial expenses | (3) | (71) |
| Income taxes | 15 | (82) |
| Results investments in associates | 25 | 11 |
| Net income | 45 | 262 |
| Net income - shareholders per common share (in euros) - basic | 0.05 | 0.28 |

Sales by sector

in millions of euros unless otherwise stated

| | Q2 | Q2 | % change | |
|--------------------|-------|-------|----------|------------|
| | 2009 | 2010 | nominal | comparable |
| Healthcare | 1,872 | 2,068 | 10 | 4 |
| Consumer Lifestyle | 1,735 | 2,183 | 26 | 20 |
| Lighting | 1,550 | 1,859 | 20 | 13 |
| GM&S | 73 | 81 | 11 | 11 |
| Philips Group | 5,230 | 6,191 | 18 | 12 |

Sales per market cluster

in millions of euros unless otherwise stated

| | Q2 ¹⁾ | Q2 | % change | |
|----------------------|------------------|-------|----------|------------|
| | 2009 | 2010 | nominal | comparable |
| Western Europe | 1,803 | 1,986 | 10 | 8 |
| North America | 1,633 | 1,745 | 7 | 0 |
| Other mature markets | 290 | 370 | 28 | 12 |
| Total mature markets | 3,726 | 4,101 | 10 | 5 |
| Emerging markets | 1,504 | 2,090 | 39 | 29 |
| Philips Group | 5,230 | 6,191 | 18 | 12 |

¹⁾ Revised to reflect an adjusted market cluster allocation

Net income

- Net income was EUR 217 million higher than in Q2 2009, driven by substantially higher earnings in the operating sectors, notably Lighting and Consumer Lifestyle, partially offset by higher income taxes and financial expenses.
- Financial income and expenses in Q2 2010 was impacted by unfavorable fair-value adjustments of the TPV bond option, whereas Q2 2009 included a EUR 48 million gain on the sale of Pace shares.
- The decline in Results from investments in associates was largely attributable to last year's EUR 25 million favorable reversal of the accumulated value adjustment of Philips' shareholding in TPV.
- Income tax was higher than in Q2 2009 due to higher earnings and lower non-taxable income, mainly reflecting last year's EUR 48 million gain on the sale of Pace shares.

Sales per sector

- Sales amounted to EUR 6,191 million, an increase of 12% on a comparable basis.
- Healthcare sales improved by 4% on a comparable basis, driven by growth in all businesses, notably solid growth at Patient Care and Clinical Informatics and at Customer Services.
- Consumer Lifestyle comparable sales grew by 20% year-on-year, driven by growth in almost all businesses, including double-digit growth at Television and Health & Wellness.
- Lighting sales grew by 13% on a comparable basis, driven by double-digit growth at Lamps and Automotive, while Lumileds sales almost tripled. Professional Luminaires reported moderate sales growth, whereas Consumer Luminaires showed a modest decline.

Sales per market cluster

- Comparable sales in the mature markets grew by 5% compared to Q2 2009, driven by Consumer Lifestyle.
- Led by the BRIC countries, the emerging markets showed strong double-digit growth, predominantly driven by Lighting and Consumer Lifestyle. Emerging markets accounted for 34% of Group sales, up from 29% last year.

EBITA

in millions of euros

| | Q2 2009 | Q2 2010 |
|-----------------------------|------------|------------|
| Healthcare | 153 | 216 |
| Consumer Lifestyle | (7) | 173 |
| Lighting | (21) | 210 |
| Group Management & Services | (7) | (72) |
| Philips Group | 118 | 527 |

EBITA

as a % of sales

| | Q2 2009 | Q2 2010 |
|-----------------------------|------------|------------|
| Healthcare | 8.2 | 10.4 |
| Consumer Lifestyle | (0.4) | 7.9 |
| Lighting | (1.4) | 11.3 |
| Group Management & Services | (9.6) | (88.9) |
| Philips Group | 2.3 | 8.5 |

Restructuring and acquisition-related charges

in millions of euros

| | Q2 2009 | Q2 2010 |
|-----------------------------|--------------|-------------|
| Healthcare | (24) | (46) |
| Consumer Lifestyle | (30) | (10) |
| Lighting | (82) | (37) |
| Group Management & Services | (12) | - |
| Philips Group | (148) | (93) |

EBIT

in millions of euros unless otherwise stated

| | Q2 2009 | Q2 2010 |
|-----------------------------|------------|------------|
| Healthcare | 88 | 148 |
| Consumer Lifestyle | (12) | 164 |
| Lighting | (61) | 166 |
| Group Management & Services | (7) | (74) |
| Philips Group | 8 | 404 |
| as a % of sales | 0.2 | 6.5 |

Earnings

- EBITA amounted to EUR 527 million, an increase of EUR 409 million compared to Q2 2009, driven by improved earnings across all operating sectors. Restructuring and acquisition-related charges of EUR 93 million were recorded, EUR 55 million lower than in Q2 2009. Excluding these charges, EBITA amounted to EUR 620 million, or 10% of sales. Last year's restructuring and acquisition-related charges and product recall provision of EUR 17 million were partly offset by legal settlements and insurance recoveries totaling EUR 90 million.
- EBIT improved by EUR 396 million, reflecting higher EBITA in all operating sectors. Amortization charges were EUR 13 million higher than in Q2 2009.
- Healthcare EBITA increased by EUR 63 million year-on-year, despite a EUR 22 million increase in restructuring and acquisition-related charges. Improvements in earnings were seen across all businesses, notably Imaging Systems, Patient Care and Clinical Informatics and Customer Services.
- Consumer Lifestyle EBITA increased by EUR 180 million year-on-year, with improved earnings in most businesses, notably Television. Restructuring and acquisition-related charges were EUR 20 million lower than in Q2 2009; the latter quarter included a EUR 17 million product recall provision.
- Lighting EBITA increased by EUR 231 million year-on-year, driven by higher sales and an improved margin, largely attributable to Lamps, Lumileds and Automotive. Restructuring and acquisition-related charges were EUR 45 million lower than in Q2 2009.
- GM&S EBITA declined by EUR 65 million to a net cost of EUR 72 million. Earnings in Q2 2009 were favorably impacted by EUR 57 million of insurance recoveries and EUR 33 million from legal settlements.

Financial income and expenses

in millions of euros

| | Q2 2009 | Q2 2010 |
|----------------------------------|------------|------------|
| Net interest expenses | (57) | (64) |
| Sale of Pace shares | 48 | - |
| TPV option fair value adjustment | 14 | (12) |
| Other | (8) | 5 |
| | (3) | (71) |

Results relating to investments in associates

in millions of euros

| | Q2 2009 | Q2 2010 |
|----------------------|------------|------------|
| TPV value adjustment | 25 | - |
| Other | - | 11 |
| | 25 | 11 |

Financial income and expenses

- Q2 2010 was impacted by unfavorable fair-value adjustments of the TPV bond option.
- Q2 2009 included a EUR 48 million gain on the sale of shares of Pace and favorable fair-value adjustments of the TPV bond option.

Investments in associates

- Results in Q2 2010 were mainly attributable to earnings from Philips' holding in Intertrust.
- In Q2 2009, the accumulated value adjustment of the shareholding in TPV recognized in December 2008 was partially reversed by EUR 25 million following recovery of the TPV share price.

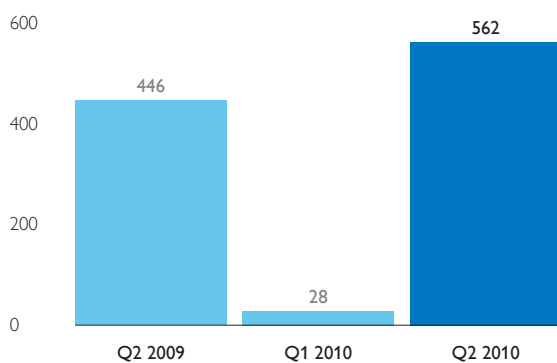
Cash balance

in millions of euros

| | Q2 2009 | Q2 2010 |
|--|------------|------------|
| Beginning cash balance | 4,000 | 4,388 |
| Free cash flow | 251 | 348 |
| <i>Net cash flow from operating activities</i> | 446 | 562 |
| <i>Net capital expenditures</i> | (195) | (214) |
| Acquisitions of businesses | (55) | (21) |
| Other cash flow from investing activities | 65 | (15) |
| Treasury shares transactions | 6 | 19 |
| Changes in debt/other | (44) | 70 |
| Dividend paid | (634) | (296) |
| Ending cash balance | 3,589 | 4,493 |

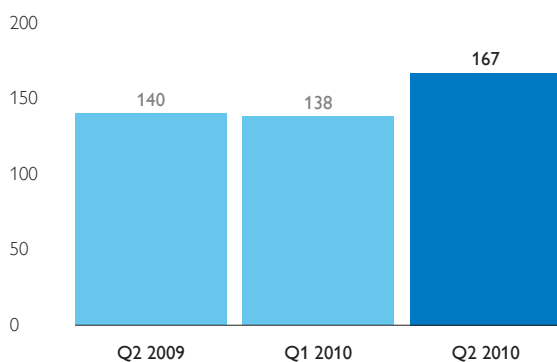
Cash flows from operating activities

in millions of euros



Gross capital expenditures¹⁾

in millions of euros



¹⁾ Capital expenditures on property, plant and equipment only

Cash balance

- The Group cash balance increased to EUR 4.5 billion, mainly driven by EUR 348 million free cash inflow, partly offset by a EUR 296 million cash dividend payment.
- In Q2 2009, the cash balance declined by EUR 411 million. Free cash inflow of EUR 251 million was more than offset by a EUR 634 million cash dividend payment.

Cash flows from operating activities

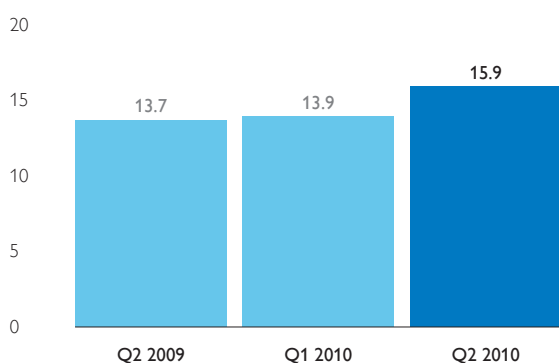
- Operating activities led to a cash inflow of EUR 562 million, compared to an inflow of EUR 446 million in Q2 2009. The year-on-year increase was driven by higher earnings, partly offset by lower working capital inflow.

Gross capital expenditure

- Gross capital expenditures on property, plant and equipment were EUR 27 million higher than in Q2 2009, due to higher investments, mainly at Lighting and Healthcare.

Inventories

as a % of moving annual total sales

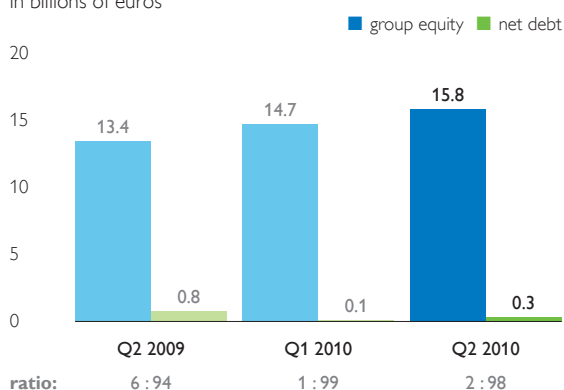


Inventories

- Inventories as a % of sales were 2.2 percentage points higher than in Q2 2009, representing a EUR 0.6 billion year-on-year value increase, more than half of which was due to currency effects. Higher inventories compared to last year were seen across all sectors, notably at Consumer Lifestyle.
- Inventories as a % of sales increased by 2.0 percentage points compared to Q1 2010. Inventory value increased across the operating sectors to EUR 3.9 billion at the end of Q2 2010.

Net debt and group equity

in billions of euros

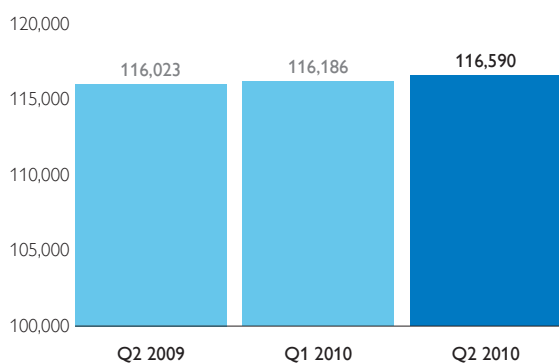


Net debt and group equity

- At the end of Q2 2010, Philips had a net debt position of EUR 306 million, compared to EUR 840 million at the end of Q2 2009. During the quarter, the net debt position increased by EUR 233 million, mainly due to currency translation effects on debt.
- Group equity increased by EUR 1.1 billion in the quarter to EUR 15.8 billion. The increase was largely the result of higher net income, a lower cash dividend following 50% shareholder election for payout in shares, and currency translation effects.

Number of employees

in FTEs



Employees

- During Q2 2010, the number of employees increased by 404, primarily due to increases at Lighting and GM&S, partly offset by declines at Consumer Lifestyle and Healthcare.
- Compared to Q2 2009, the number of employees increased by 567, as reductions at Healthcare and GM&S were more than offset by increases at Consumer Lifestyle (mainly as a result of the Saeco acquisition) and Lighting.

Healthcare

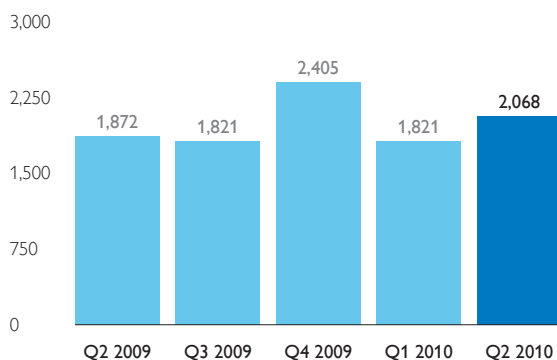
Key data

in millions of euros unless otherwise stated

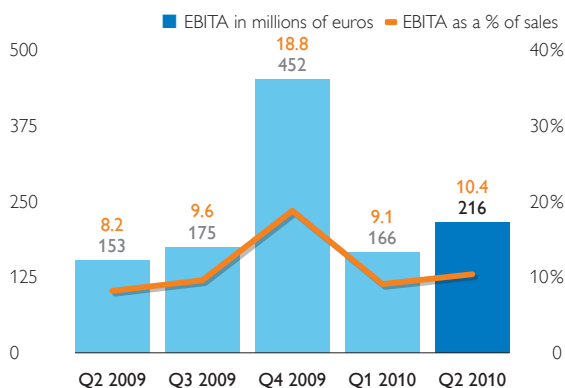
| | Q2 2009 | Q2 2010 |
|-----------------------------|---------|---------|
| Sales | 1,872 | 2,068 |
| Sales growth | | |
| % nominal | 4 | 10 |
| % comparable | (5) | 4 |
| EBITA | 153 | 216 |
| as a % of sales | 8.2 | 10.4 |
| EBIT | 88 | 148 |
| as a % of sales | 4.7 | 7.2 |
| Net operating capital (NOC) | 8,738 | 9,545 |
| Number of employees (FTEs) | 35,094 | 34,344 |

Sales

in millions of euros



EBITA



Business highlights

- Philips and Electron announced a partnership for the development and production of healthcare solutions specifically designed for the Russian healthcare market, initially focusing on imaging modalities.
- To further its capabilities in leading-edge imaging solutions, Philips is collaborating with the University of Washington (Seattle, USA) on research to extend the use of molecular imaging for radiotherapy planning.
- Philips signed a five-year multi-million-euro contract with the Ministry of Health in Zambia to upgrade and maintain diagnostic imaging equipment for 71 government hospitals.
- Philips and RXi Pharmaceuticals entered a research agreement to explore innovative ways of using ultrasound to trigger the delivery of new drug therapies that may treat conditions such as cancer and cardiovascular disease.

Financial performance

- Currency-comparable equipment order intake increased by 10% year-on-year, with improvements across all businesses, notably at Patient Care and Clinical Informatics. In North America, equipment orders were 11% higher on a comparable basis.
- Comparable sales increased by 4% year-on-year, with higher sales in all businesses. From a regional perspective, comparable sales in North America were in line with Q2 2009, while in markets outside North America they grew by 6%.
- EBITA increased by EUR 63 million year-on-year to EUR 216 million, or 10.4% of sales. Excluding restructuring and acquisition-related charges of EUR 46 million, EBITA amounted to EUR 262 million, or 12.7% of sales, compared to EUR 177 million, or 9.5% of sales, in Q2 2009. The improvement was driven by Imaging Systems, Customer Services and Patient Care and Clinical Informatics as a result of higher margins from improved sales and ongoing cost management.

Looking ahead

- Philips will introduce its Healthcare Consulting Solutions to help healthcare providers improve productivity, reduce costs, grow revenue and deliver better patient care.
- Philips expects to introduce innovations in cardiac ultrasound in the second half of 2010, designed to provide clinicians with the versatility of 2D or 3D imaging, or a combination of both.
- Restructuring and acquisition-related charges in Q3 2010 are expected to total around EUR 15 million.

Consumer Lifestyle

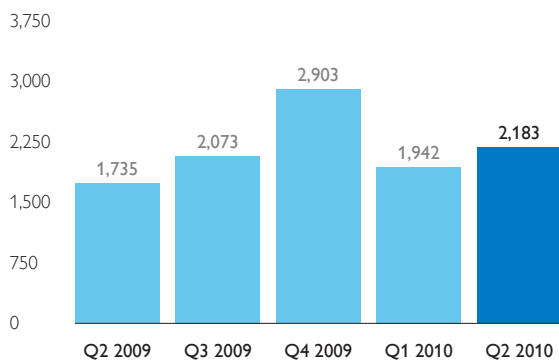
Key data

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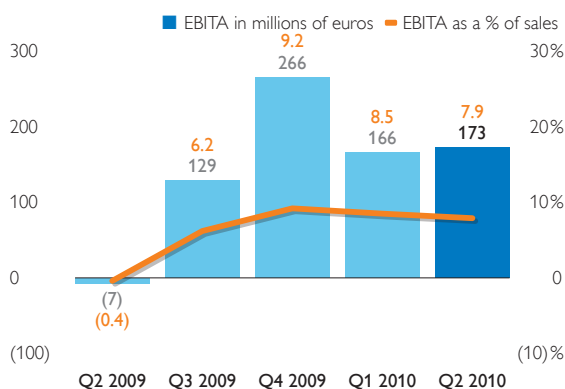
| | Q2 | Q2 |
|-------------------------------|--------|--------|
| | 2009 | 2010 |
| Sales | 1,735 | 2,183 |
| of which Television | 587 | 846 |
| Sales growth | | |
| % nominal | (36) | 26 |
| % comparable | (30) | 20 |
| Sales growth excl. Television | | |
| % nominal | (20) | 16 |
| % comparable | (19) | 6 |
| EBITA | (7) | 173 |
| of which Television | (99) | (8) |
| as a % of sales | (0.4) | 7.9 |
| EBIT | (12) | 164 |
| of which Television | (99) | (9) |
| as a % of sales | (0.7) | 7.5 |
| Net operating capital (NOC) | 903 | 1,055 |
| of which Television | (338) | (266) |
| Number of employees (FTEs) | 17,018 | 18,408 |
| of which Television | 4,955 | 4,519 |

Sales

in millions of euros



EBITA



Business highlights

- Philips AVENT extended the target age range for its products with the launch of its toddler feeding range, designed for use by children aged up to 24 months.
- Philips introduced its range of Full HD 3D Ready LED TVs, delivering a truly immersive 3D Ambilight cinema experience in the home.
- Philips' latest TV campaign won the Grand Prix for Film Craft at the Cannes Lions International Advertising Festival, making Philips the first brand to win the jury's highest accolade for two consecutive years.

Financial performance

- On a comparable basis, sales grew 20%, led by 35% growth in emerging markets, particularly driven by Television in Latin America. Mature markets showed low-double-digit growth.
- Most businesses saw single-digit comparable sales growth, while Television grew by 48%, despite some component supply constraints, in particular for high-end TVs.
- EBITA improved significantly, driven by double-digit sales growth, structural cost improvements, higher license income and lower restructuring charges. Excluding restructuring and acquisition-related charges and last year's product recall-related charges, EBITA improved from 2.3% to 8.4%.
- Net operating capital and headcount increased, mainly due to the Saeco acquisition.

Looking ahead

- Further building its global leadership position in the male electric shaving market, Philips will, in Q3 2010, launch its most advanced premium electric shaver to date, the SensoTouch 3D, which allows men to choose between a dry and a wet shave.
- At IFA 2010, Europe's largest consumer lifestyle trade show, Philips will launch a range of products that deliver simplicity to consumers, including coffee appliances, televisions, blu-ray players and domestic appliances.
- Consumer Lifestyle expects to incur restructuring and acquisition-related charges of around EUR 30 million in Q3 2010.
- Following an increase in license revenues in Q2, income from licenses in Q3 is expected to be lower.

Lighting

Key data

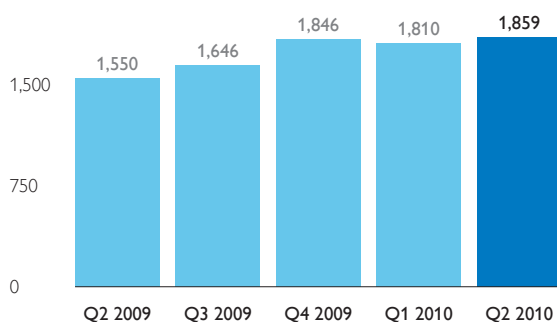
in millions of euros unless otherwise stated

| | Q2 2009 | Q2 2010 |
|-----------------------------|------------|------------|
| Sales | 1,550 | 1,859 |
| Sales growth | | |
| % nominal | (14) | 20 |
| % comparable | (18) | 13 |
| EBITA | (21) | 210 |
| as a % of sales | (1.4) | 11.3 |
| EBIT | (61) | 166 |
| as a % of sales | (3.9) | 8.9 |
| Net operating capital (NOC) | 5,676 | 5,934 |
| Number of employees (FTEs) | 51,627 | 52,031 |

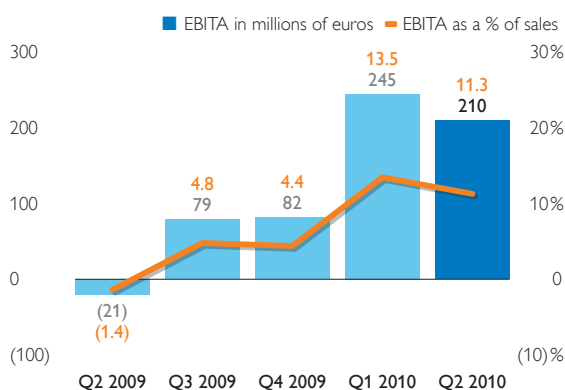
Sales

in millions of euros

2,250



EBITA



Business highlights

- Philips and Cree signed a comprehensive worldwide patent cross-licensing agreement designed to accelerate growth of the LED lighting market.
- Further strengthening its outdoor lighting portfolio, Philips announced the acquisition of the street lighting controls activities of Amplex A/S, a Danish provider of energy-efficient infrastructure solutions.
- At the 2010 Light & Building fair in Frankfurt, Philips presented a breakthrough 12-watt LED lamp to replace 60-watt incandescent bulbs.
- Philips expanded its existing relationship with LED lighting components provider Future Lighting Solutions.
- Philips will partner with Somfy, a specialist in automated sun protection systems for buildings, to develop intelligent solutions for more comfortable and energy-efficient working environments.
- Six of South Africa's top sports stadiums were equipped with Philips' new ArenaVision sports lighting systems.

Financial performance

- Comparable sales were 13% higher year-on-year, driven by growth across most businesses, mainly Lamps, Automotive and Lumileds, which tripled sales compared to Q2 2009. From a geographic perspective, significant growth was seen in emerging markets, led by China.
- In Q2 2010, EBITA excluding restructuring and acquisition-related charges of EUR 37 million (Q2 2009: EUR 82 million) amounted to EUR 247 million, or 13.3% of sales. The substantial year-on-year EBITA improvement was largely driven by strong sales growth, a favorable product mix notably reflecting the transition to energy-saving lamps and LED, and ongoing cost management.
- Net operating capital increased by EUR 258 million to EUR 5,934 million. Excluding currency impact, net operating capital decreased compared to Q2 2009.

Looking ahead

- Restructuring and acquisition-related charges in Q3 2010 are expected to total around EUR 40 million.

Group Management & Services

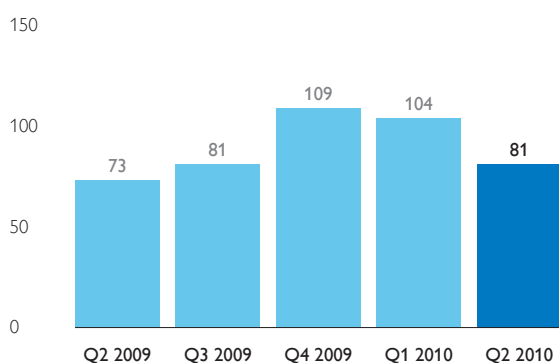
Key data

in millions of euros unless otherwise stated

| | Q2 2009 | Q2 2010 |
|----------------------------------|------------|------------|
| Sales | 73 | 81 |
| Sales growth | | |
| % nominal | (47) | 11 |
| % comparable | (46) | 11 |
| EBITA Corporate Technologies | (44) | (22) |
| EBITA Corporate & Regional Costs | (30) | (35) |
| EBITA Pensions | 23 | (9) |
| EBITA Service Units and Other | 44 | (6) |
| EBITA | (7) | (72) |
| EBIT | (7) | (74) |
| Net operating capital (NOC) | (3,513) | (2,451) |
| Number of employees (FTEs) | 12,284 | 11,807 |

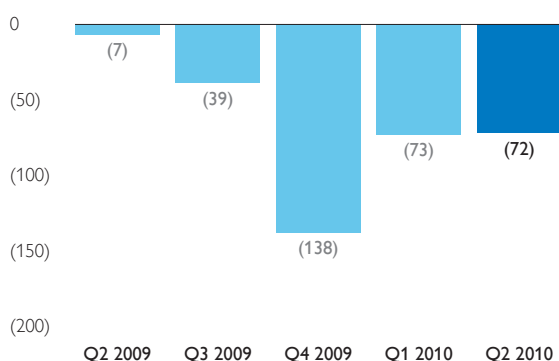
Sales

in millions of euros



EBITA

in millions of euros



Business highlights

- Forbes magazine named Philips as one of the world's most reputable companies, following the release of the Global Reputation Pulse 2010 by the Reputation Institute.
- The Philips Livable Cities Award program was launched in May, with a total prize fund of EUR 125,000, to support simple solutions that improve people's health and well-being in cities.
- Amsterdam Airport Schiphol opened an innovative boarding gate, co-created with Philips Design and Philips Applied Technologies, using lighting and infotainment to enhance the traveler experience.

Financial performance

- Sales increased from EUR 73 million in Q2 2009 to EUR 81 million in Q2 2010, driven by improved license revenues.
- EBITA amounted to a net cost of EUR 72 million, a cost increase of EUR 65 million year-on-year, as last year's results were favorably impacted by EUR 57 million insurance recoveries and a EUR 33 million legal settlement.
- Excluding the aforementioned items, EBITA improved EUR 25 million year-on-year, driven by higher earnings from licenses and lower R&D expenses.

Looking ahead

- Philips Design will receive eight iF communication design awards in September, in recognition of exceptional design in the areas of digital media and packaging.
- Net costs for the Group Management & Services sector in Q3 2010 are expected to total EUR 80 million.

Outlook

After the strong rebound in the first half of the year, we expect comparable sales growth in the remainder of the year to moderate towards mid-single-digit level. This reflects continued but slow recovery in the US and Europe, different seasonality for our Television business following soccer's World Cup, and the improved sales performance in the second half of 2009.

We will continue to drive further improvements, including, where necessary, taking the required actions to offset the effects of rising commodity and component prices. Having achieved an EBITA before restructuring and acquisition-related charges of 9.9% in the first half-year, and assuming that the current economic climate will continue, we are confident that we can exceed 10% for the full-year 2010.

At our Capital Markets Day in London on September 14 we will update the markets on the medium-term prospects for our businesses in the context of our Vision 2015 plan.

Amsterdam, July 19, 2010
Board of Management

Semi-annual financial report

Introduction



This report contains the semi-annual financial report of Koninklijke Philips Electronics N.V. ('the Company'), a company with limited liability, headquartered in Amsterdam, the Netherlands. The principal activities of the Company and its group companies (the Philips Group) are described in note 4.

The semi-annual financial report for the six months ended July 4, 2010 consists of the condensed consolidated semi-annual financial statements, the semi-annual management report and responsibility statement by the Company's Board of Management. The information in this semi-annual financial report is unaudited.

The condensed consolidated semi-annual financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's consolidated IFRS financial statements for the year ended December 31, 2009.

The Board of Management of the Company hereby declares that to the best of their knowledge, the semi-annual financial statements, which have been prepared in

accordance with the applicable financial reporting standards for interim financial reporting, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and the semi-annual management report gives a fair review of the information required pursuant to section 5:25d(8)/(9) of the Dutch Financial Markets Supervision Act (*Wet op het Financieel toezicht*).

Amsterdam, July 19, 2010

Board of Management

Gerard Kleisterlee
Gottfried Dutiné
Rudy Provoost

Pierre-Jean Sivignon
Andrea Ragnetti
Steve Rusckowski

Management report

The 1st six months of 2010

- The results for the first half of 2010 compared favorably to the recession-impacted results in the first half of 2009. Group sales were some EUR 1.6 billion above 2009, with strong contributions from all operating sectors.
- On a comparable basis, sales grew 12%, driven by 25% growth in the emerging markets, particularly China and Latin America, while high-single-digit growth was visible in mature markets.
- EBITA improved EUR 1 billion year-on-year, driven by top-line growth, fixed costs savings from restructuring programs and continued sound cost management. Philips has continued to focus on cost optimization and organizational effectiveness, spending EUR 111 million on restructuring, EUR 49 million below last year's level.

Net income

in millions of euros unless otherwise stated

| | January-June | |
|--|--------------|--------|
| | 2009 | 2010 |
| Sales | 10,305 | 11,868 |
| EBITA | 44 | 1,031 |
| as a % of sales | 0.4 | 8.7 |
| EBIT | (178) | 793 |
| as a % of sales | (1.7) | 6.7 |
| Financial expenses | (44) | (140) |
| Income taxes | 186 | (208) |
| Results investments in associates | 24 | 18 |
| Net income (loss) | (12) | 463 |
| Net income (loss) - shareholders per common share (in euros) - basic | (0.02) | 0.49 |

Performance of the Group

- Group sales were some EUR 1.6 billion above the level of the first half of 2009, driven by higher sales across all operating sectors, notably Consumer Lifestyle and Lighting. Adjusted for currency impacts and portfolio changes, sales were 12% above last year's level.
- Group EBITA improved by EUR 987 million compared to the first half of 2009, largely driven by higher sales in the three operating sectors, notably Consumer Lifestyle and Lighting.
- Net income was EUR 475 million higher than in the first half of 2009, mainly driven by higher sector earnings, partly offset by lower net gains on the sale of stakes and higher income tax expenses.
- Cash flow from operating activities was EUR 450 million higher than in the first half of 2009, driven by higher earnings, partly offset by higher provision payments and higher working capital outflow from inventories and accounts receivable.

Philips sectors

Healthcare

- Equipment order intake at Healthcare increased 14% compared to the first half of 2009, with improvements seen across all businesses, notably at Imaging Systems. In North America, orders increased by 9%, while markets outside of North America showed order intake growth of 14%.
- Nominal sales at Healthcare grew by 8%. Excluding currency effects and portfolio changes, comparable sales increased by 5% year-on-year, with improved sales across all businesses, notably at Customer Services and at Patient Care and Clinical Informatics. Sales outside of North America, particularly in emerging markets, continued to show double-digit growth.
- EBITA amounted to EUR 382 million, or 9.8% of sales, EUR 161 million higher than in the first half of 2009. Improvements were mainly driven by higher volume and fixed cost savings as a result of ongoing cost management programs. EBITA included restructuring and acquisition-related charges of EUR 75 million in the first half of 2010, compared to EUR 39 million in the first half of 2009.

Sales by sector

in millions of euros unless otherwise stated

| | January-June | | % change | |
|--------------------|--------------|--------|----------|------------|
| | 2009 | 2010 | nominal | comparable |
| Healthcare | 3,613 | 3,889 | 8 | 5 |
| Consumer Lifestyle | 3,491 | 4,125 | 18 | 15 |
| Lighting | 3,054 | 3,669 | 20 | 15 |
| GM&S | 147 | 185 | 26 | 30 |
| Philips Group | 10,305 | 11,868 | 15 | 12 |

EBITA

in millions of euros

| | January-June | |
|-----------------------------|--------------|-------|
| | 2009 | 2010 |
| Healthcare | 221 | 382 |
| Consumer Lifestyle | (56) | 339 |
| Lighting | (16) | 455 |
| Group Management & Services | (105) | (145) |
| Philips Group | 44 | 1,031 |

EBITA

as a % of sales

| | January-June | |
|-----------------------------|--------------|--------|
| | 2009 | 2010 |
| Healthcare | 6.1 | 9.8 |
| Consumer Lifestyle | (1.6) | 8.2 |
| Lighting | (0.5) | 12.4 |
| Group Management & Services | (71.4) | (78.4) |
| Philips Group | 0.4 | 8.7 |

Consumer Lifestyle

- Sales amounted to EUR 4,125 million, a nominal increase of 18% compared to the first half of 2009, driven by Saeco and higher sales in most businesses. Excluding currency effects and portfolio changes, comparable sales grew 15%, led by 29% growth at Television, double-digit growth at Health & Wellness, higher license income, and single-digit growth in most other businesses.
- EBITA improved significantly compared to the first half of 2009, driven by double-digit sales growth, structural cost improvements, higher license income, EUR 20 million lower restructuring and acquisition-related charges, and last year's EUR 47 million of product recall charges.

Lighting

- Sales in the first half of 2010 amounted to EUR 3,669 million, an increase of 15% on a comparable basis compared to last year. Sales were higher across all regions, notably in emerging markets, with 33% year-on-year comparable sales growth.
- EBITA increased by EUR 471 million compared to the first half of 2009, mainly driven by higher sales and gross margin improvements in most businesses. Results included restructuring and acquisition-related charges of EUR 46 million, compared to EUR 101 million in the first half of 2009.

Group Management & Services

- EBITA declined EUR 40 million compared to the first half of 2009, as last year's results were favorably impacted by EUR 57 million insurance recoveries and a EUR 33 million legal settlement. Excluding those items, EBITA increased by EUR 50 million year-on-year, driven by higher revenue from licenses and lower R&D costs.

Risks and uncertainties

In our Annual Report 2009 we have extensively described certain risk categories and risk factors which could have a material adverse effect on our financial position and results. Those risk categories and risk factors are deemed incorporated and repeated in this report by reference.

For the remainder of 2010, we see the risk of growth stagnation due to government deficits in our markets, in particular in our activities that cater to the consumer markets and the healthcare market.

Additional risks not known to us, or currently believed not to be material, could later turn out to have a material impact on our businesses, objectives, revenues, income, assets, liquidity or capital resources.

Consolidated statements of income

all amounts in millions of euros unless otherwise stated

| | 2nd quarter | | January-June | |
|--|-------------|---------|--------------|---------|
| | 2009 | 2010 | 2009 | 2010 |
| Sales | 5,230 | 6,191 | 10,305 | 11,868 |
| Cost of sales | (3,455) | (3,910) | (6,900) | (7,409) |
| Gross margin | 1,775 | 2,281 | 3,405 | 4,459 |
| Selling expenses | (1,209) | (1,265) | (2,414) | (2,488) |
| General and administrative expenses | (211) | (231) | (424) | (425) |
| Research and development expenses | (384) | (398) | (790) | (773) |
| Other business income | 56 | 17 | 64 | 27 |
| Other business expenses | (19) | – | (19) | (7) |
| Income (loss) from operations | 8 | 404 | (178) | 793 |
| Financial income | 76 | 17 | 173 | 28 |
| Financial expenses | (79) | (88) | (217) | (168) |
| Income (loss) before taxes | 5 | 333 | (222) | 653 |
| Income taxes | 15 | (82) | 186 | (208) |
| Income (loss) after taxes | 20 | 251 | (36) | 445 |
| Results relating to investments in associates | 25 | 11 | 24 | 18 |
| Net income (loss) for the period | 45 | 262 | (12) | 463 |
| Attribution of net income for the period | | | | |
| Net income (loss) attributable to shareholders | 44 | 259 | (15) | 459 |
| Net income attributable to non-controlling interests | 1 | 3 | 3 | 4 |
| Weighted average number of common shares outstanding (after deduction of treasury shares) during the period (in thousands): | | | | |
| - basic | 925,244 | 939,690 | 924,271 | 933,714 |
| - diluted | 927,918 | 948,708 | 926,413 | 941,817 |
| Net income (loss) attributable to shareholders per common share in euros: | | | | |
| - basic | 0.05 | 0.28 | (0.02) | 0.49 |
| - diluted ¹⁾ | 0.05 | 0.27 | (0.02) | 0.49 |
| Ratios | | | | |
| Gross margin as a % of sales | 33.9 | 36.8 | 33.0 | 37.6 |
| Selling expenses as a % of sales | (23.1) | (20.4) | (23.4) | (21.0) |
| G&A expenses as a % of sales | (4.0) | (3.7) | (4.1) | (3.6) |
| R&D expenses as a % of sales | (7.3) | (6.4) | (7.7) | (6.5) |
| EBIT | 8 | 404 | (178) | 793 |
| as a % of sales | 0.2 | 6.5 | (1.7) | 6.7 |
| EBITA | 118 | 527 | 44 | 1,031 |
| as a % of sales | 2.3 | 8.5 | 0.4 | 8.7 |

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

Consolidated statements of comprehensive income

all amounts in millions of euros

| | 2nd quarter | | January-June | |
|--|----------------|------------|----------------|--------------|
| | 2009 | 2010 | 2009 | 2010 |
| Net income (loss) for the period: | 45 | 262 | (12) | 463 |
| Other comprehensive income: | | | | |
| Actuarial losses on pension plans: | | | | |
| Net current period change, before tax | (2,377) | – | (2,381) | – |
| Income tax on net current period change | 613 | – | 613 | (4) |
| Revaluation reserve: | | | | |
| Release revaluation reserve | (2) | (4) | (6) | (8) |
| Reclassification into retained earnings | 2 | 4 | 6 | 8 |
| Currency translation differences: | | | | |
| Net current period change, before tax | (135) | 568 | 58 | 954 |
| Income tax on net current period change | – | (5) | (1) | (9) |
| Reclassification into loss | – | – | – | (2) |
| Available-for-sale securities: | | | | |
| Net current period change | 55 | (47) | 204 | 1 |
| Reclassification into income | (51) | (4) | (123) | (4) |
| Cash flow hedges: | | | | |
| Net current period change, before tax | (8) | (34) | (18) | (44) |
| Income tax on net current period change | (5) | 9 | (14) | 11 |
| Reclassification into (income) loss | 29 | (1) | 55 | (4) |
| Other comprehensive income for the period | (1,879) | 486 | (1,607) | 899 |
| Total comprehensive income for the period | (1,834) | 748 | (1,619) | 1,362 |
| Total comprehensive income attributable to: | | | | |
| Shareholders | (1,835) | 745 | (1,622) | 1,358 |
| Non-controlling interests | 1 | 3 | 3 | 4 |

Consolidated balance sheets

in millions of euros unless otherwise stated

| | June 28, 2009 | December 31, 2009 | July 4, 2010 |
|--|------------------|----------------------|-----------------|
| Non-current assets: | | | |
| Property, plant and equipment | 3,423 | 3,252 | 3,430 |
| Goodwill | 7,449 | 7,362 | 8,589 |
| Intangible assets excluding goodwill | 4,358 | 4,161 | 4,612 |
| Non-current receivables | 80 | 85 | 104 |
| Investments in associates | 245 | 281 | 191 |
| Other non-current financial assets | 822 | 691 | 764 |
| Deferred tax assets | 1,365 | 1,243 | 1,390 |
| Other non-current assets | 59 | 1,543 | 1,714 |
| Total non-current assets | 17,801 | 18,618 | 20,794 |
| Current assets: | | | |
| Inventories | 3,330 | 2,913 | 3,928 |
| Other current financial assets | 125 | 191 | 195 |
| Other current assets | 518 | 436 | 636 |
| Receivables | 3,796 | 3,983 | 4,268 |
| Cash and cash equivalents | 3,589 | 4,386 | 4,493 |
| Total current assets | 11,358 | 11,909 | 13,520 |
| Total assets | 29,159 | 30,527 | 34,314 |
| Shareholders' equity | 13,325 | 14,595 | 15,736 |
| Non-controlling interests | 47 | 49 | 61 |
| Group equity | 13,372 | 14,644 | 15,797 |
| Non-current liabilities: | | | |
| Long-term debt | 3,745 | 3,640 | 3,053 |
| Long-term provisions | 1,853 | 1,734 | 1,803 |
| Deferred tax liabilities | 149 | 530 | 519 |
| Other non-current liabilities | 1,943 | 1,929 | 2,307 |
| Total non-current liabilities | 7,690 | 7,833 | 7,682 |
| Current liabilities: | | | |
| Short-term debt | 684 | 627 | 1,746 |
| Accounts and notes payable | 2,560 | 2,870 | 3,462 |
| Accrued liabilities | 3,217 | 3,134 | 4,132 |
| Short-term provisions | 1,057 | 716 | 732 |
| Other current liabilities | 579 | 703 | 763 |
| Total current liabilities | 8,097 | 8,050 | 10,835 |
| Total liabilities and group equity | 29,159 | 30,527 | 34,314 |
| Number of common shares outstanding (after deduction of treasury shares) at the end of period (in thousands) | 926,041 | 927,457 | 945,312 |
| Ratios | | | |
| Shareholders' equity per common share in euros | 14.39 | 15.74 | 16.65 |
| Inventories as a % of sales | 13.7 | 12.6 | 15.9 |
| Net debt : group equity | 6:94 | (1):101 | 2:98 |
| Net operating capital | 11,804 | 12,649 | 14,083 |
| Employees at end of period | 116,023 | 115,924 | 116,590 |

Consolidated statements of cash flows

all amounts in millions of euros

| | 2nd quarter | | January to June | |
|--|--------------|--------------|-----------------|--------------|
| | 2009 | 2010 | 2009 | 2010 |
| Cash flows from operating activities: | | | | |
| Net income (loss) | 45 | 262 | (12) | 463 |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: | | | | |
| Depreciation and amortization | 346 | 349 | 678 | 687 |
| Impairment of other non-current financial assets and (reversal of) impairment of investments in associates | (25) | 4 | 24 | 4 |
| Net gain on sale of assets | (51) | (12) | (124) | (18) |
| Income from investments in associates | – | (14) | (1) | (16) |
| Dividends received from investments in associates | 5 | 5 | 34 | 13 |
| Decrease (increase) in working capital: | | | | |
| Decrease (increase) in receivables and other current assets | 98 | (127) | 621 | (35) |
| Decrease (increase) in inventories | 130 | (354) | 232 | (593) |
| Increase (decrease) in accounts payable, accrued and other liabilities | 1 | 613 | (949) | 408 |
| Increase in non-current receivables/other assets/other liabilities | (123) | (57) | (402) | (144) |
| Increase (decrease) in provisions | 32 | (29) | 25 | (71) |
| Other items | (12) | (78) | 14 | (108) |
| Net cash (used for) provided by operating activities | 446 | 562 | 140 | 590 |
| Cash flows from investing activities: | | | | |
| Purchase of intangible assets | (22) | (18) | (45) | (26) |
| Expenditures on development assets | (52) | (55) | (86) | (109) |
| Capital expenditures on property, plant and equipment | (140) | (167) | (252) | (305) |
| Proceeds from disposals of property, plant and equipment | 19 | 26 | 27 | 47 |
| Cash from (to) derivatives and securities | (12) | (20) | (10) | (42) |
| Purchase of other non-current financial assets | – | (6) | (6) | (12) |
| Proceeds from other non-current financial assets | 77 | 11 | 706 | 14 |
| Purchase of businesses, net of cash acquired | (55) | (21) | (90) | (24) |
| Proceeds from sale of interests in businesses | – | – | – | 98 |
| Net cash provided by (used for) investing activities | (185) | (250) | 244 | (359) |
| Cash flows from financing activities: | | | | |
| Decrease (increase) in short-term debt | (59) | 11 | (98) | 23 |
| Principal payments on long-term debt | (13) | (23) | (24) | (37) |
| Proceeds from issuance of long-term debt | 26 | 19 | 289 | 29 |
| Treasury shares transactions | 6 | 19 | 15 | 43 |
| Dividend paid | (634) | (296) | (634) | (296) |
| Net cash provided by financing activities | (674) | (270) | (452) | (238) |
| Net increase (decrease) in cash and cash equivalents | (413) | 42 | (68) | (7) |
| Effect of change in exchange rates on cash positions | 2 | 63 | 37 | 114 |
| Cash and cash equivalents at beginning of period | 4,000 | 4,388 | 3,620 | 4,386 |
| Cash and cash equivalents at end of period | 3,589 | 4,493 | 3,589 | 4,493 |
| Ratio | | | | |
| Cash flows before financing activities | 261 | 312 | 384 | 231 |
| Net cash paid during the period for | | | | |
| Pensions | (98) | (105) | (204) | (220) |
| Interest | (62) | (62) | (136) | (138) |
| Income taxes | (34) | (47) | (108) | (108) |

For a number of reasons, principally the effects of translation differences, certain items in the statements of cash flows do not correspond to the differences between the balance sheet amounts for the respective items.

Consolidated statements of changes in equity

in millions of euros

| January to June 2010 | | | | | | | | | | | | |
|---|-----------------------|--|--------------------------------|----------------------------------|---|--|--|------------------------------------|--|--|-----------------|---------------|
| | com- mon shares | capital in ex- cess of par val- ue | re- tained earn- ings | revalu- ation re- serve | other reserves | | | treas- ury shares at cost | total share- hold- ers' equity | non- con- trolling inter- ests | total equity | |
| | | | | | curren- cy transla- tion dif- feren- ces | unreal- ized gain (loss) on available- for-sale financial assets | changes in fair value of cash flow hedges | | | | | |
| January-June 2010 | | | | | | | | | | | | |
| Balance as of December 31, 2009 | 194 | - | 15,947 | 102 | (591) | 120 | 10 | (461) | (1,187) | 14,595 | 49 | 14,644 |
| Total comprehensive income | | | 463 | (8) | 943 | (3) | (37) | 903 | | 1,358 | 4 | 1,362 |
| Dividend distributed | 3 | 343 | (650) | | | | | | | (304) | | (304) |
| Non-controlling interest movement | | | | | | | | | | | 8 | 8 |
| Re-issuance of treasury shares | | (46) | 8 | | | | | 86 | | 48 | | 48 |
| Share-based compensation plans | | 29 | | | | | | | | 29 | | 29 |
| Income tax share-based compensation plans | | 10 | | | | | | | | 10 | | 10 |
| | 3 | 336 | (642) | | | | | 86 | | (217) | 8 | (209) |
| Balance as of July 4, 2010 | 197 | 336 | 15,768 | 94 | 352 | 117 | (27) | 442 | (1,101) | 15,736 | 61 | 15,797 |
| January-June 2009 | | | | | | | | | | | | |
| Balance as of December 31, 2008 | 194 | - | 17,101 | 117 | (527) | (25) | (28) | (580) | (1,288) | 15,544 | 49 | 15,593 |
| Total comprehensive income | | | (1,777) | (6) | 57 | 81 | 23 | 161 | | (1,622) | 3 | (1,619) |
| Dividend distributed | | | (647) | | | | | | | (647) | | (647) |
| Non-controlling interest movement | | | | | | | | | | | (5) | (5) |
| Re-issuance of treasury shares | | (35) | (21) | | | | | 71 | | 15 | | 15 |
| Share-based compensation plans | | 35 | | | | | | | | 35 | | 35 |
| | | - | (668) | | | | | 71 | | (597) | (5) | (602) |
| Balance as of June 28, 2009 | 194 | - | 14,656 | 111 | (470) | 56 | (5) | (419) | (1,217) | 13,325 | 47 | 13,372 |

Sectors

all amounts in millions of euros unless otherwise stated

Sales and income (loss) from operations

| | 2nd quarter | | | | | | | |
|-----------------------------|-------------------------------|--------|------------------------|--------|-------------------------------|--------|------------------------|--------|
| | 2009 | | | | 2010 | | | |
| | Sales including inter-company | sales | income from operations | | Sales including inter-company | sales | income from operations | |
| | | amount | as a % of sales | | | amount | as a % of sales | |
| Healthcare | 1,873 | 1,872 | 88 | 4.7 | 2,072 | 2,068 | 148 | 7.2 |
| Consumer Lifestyle* | 1,739 | 1,735 | (12) | (0.7) | 2,188 | 2,183 | 164 | 7.5 |
| Lighting | 1,552 | 1,550 | (61) | (3.9) | 1,864 | 1,859 | 166 | 8.9 |
| Group Management & Services | 121 | 73 | (7) | (9.6) | 123 | 81 | (74) | (91.4) |
| Inter-sector eliminations | (55) | | | | (56) | | | |
| | 5,230 | 5,230 | 8 | 0.2 | 6,191 | 6,191 | 404 | 6.5 |
| * of which Television | 588 | 587 | (99) | (16.9) | 848 | 846 | (9) | (1.1) |

Sales and income (loss) from operations

| | January to June | | | | | | | |
|-----------------------------|-------------------------------|--------|------------------------|--------|-------------------------------|--------|------------------------|--------|
| | 2009 | | | | 2010 | | | |
| | Sales including inter-company | sales | income from operations | | Sales including inter-company | sales | income from operations | |
| | | amount | as a % of sales | | | amount | as a % of sales | |
| Healthcare | 3,616 | 3,613 | 89 | 2.5 | 3,896 | 3,889 | 251 | 6.5 |
| Consumer Lifestyle* | 3,500 | 3,491 | (65) | (1.9) | 4,134 | 4,125 | 321 | 7.8 |
| Lighting | 3,058 | 3,054 | (97) | (3.2) | 3,676 | 3,669 | 370 | 10.1 |
| Group Management & Services | 238 | 147 | (105) | (71.4) | 265 | 185 | (149) | (80.5) |
| Inter-sector eliminations | (107) | | | | (103) | | | |
| | 10,305 | 10,305 | (178) | (1.7) | 11,868 | 11,868 | 793 | 6.7 |
| * of which Television | 1,270 | 1,270 | (182) | (14.3) | 1,550 | 1,546 | (29) | (1.9) |

Sectors and main countries

in millions of euros

Sales and total assets

| | sales | | total assets | |
|-----------------------------|-----------------|----------|--------------|--------|
| | January to June | June 28, | July 4, | |
| | 2009 | 2010 | 2009 | 2010 |
| Healthcare | 3,613 | 3,889 | 11,297 | 12,550 |
| Consumer Lifestyle | 3,491 | 4,125 | 3,137 | 3,904 |
| Lighting | 3,054 | 3,669 | 7,100 | 7,766 |
| Group Management & Services | 147 | 185 | 7,625 | 10,094 |
| | 10,305 | 11,868 | 29,159 | 34,314 |

Sales and long-lived assets

| | sales | | long-lived assets ¹⁾ | |
|-----------------|--------------------|----------|---------------------------------|--------|
| | January to June | June 28, | July 4, | |
| | 2009 ²⁾ | 2010 | 2009 ²⁾ | 2010 |
| Netherlands | 400 | 399 | 1,264 | 1,206 |
| United States | 3,003 | 3,061 | 10,154 | 11,007 |
| China | 787 | 952 | 362 | 452 |
| Germany | 834 | 928 | 289 | 286 |
| France | 650 | 693 | 132 | 117 |
| Brazil | 354 | 555 | 114 | 140 |
| Japan | 304 | 423 | 448 | 605 |
| Other countries | 3,973 | 4,857 | 2,467 | 2,818 |
| | 10,305 | 11,868 | 15,230 | 16,631 |

¹⁾ Includes property, plant and equipment, intangible assets excluding goodwill, and goodwill

²⁾ Revised to reflect an adjusted country allocation

Pension costs

in millions of euros

Specification of pension costs

| | 2nd quarter | | | | | |
|---|-------------|-------|-------|-------------|-------|-------|
| | 2009 | | | 2010 | | |
| | Netherlands | other | total | Netherlands | other | total |
| Costs of defined-benefit plans (pensions) | | | | | | |
| Service cost | 27 | 22 | 49 | 23 | 21 | 44 |
| Interest cost on the defined-benefit obligation | 133 | 100 | 233 | 131 | 110 | 241 |
| Expected return on plan assets | (189) | (86) | (275) | (186) | (93) | (279) |
| Prior service cost | - | 1 | 1 | - | (1) | (1) |
| Net periodic cost (income) | (29) | 37 | 8 | (32) | 37 | 5 |
| Costs of defined-contribution plans | | | | | | |
| Costs | 1 | 29 | 30 | 2 | 29 | 31 |
| Total | 1 | 29 | 30 | 2 | 29 | 31 |
| Costs of defined-benefit plans (retiree medical) | | | | | | |
| Service cost | - | 1 | 1 | - | - | - |
| Interest cost on the defined-benefit obligation | - | 9 | 9 | - | 6 | 6 |
| Prior service cost | - | - | - | - | (1) | (1) |
| Net periodic cost | - | 10 | 10 | - | 5 | 5 |

Specification of pension costs

| | January to June | | | | | |
|---|-----------------|-------|-------|-------------|-------|-------|
| | 2009 | | | 2010 | | |
| | Netherlands | other | total | Netherlands | other | total |
| Costs of defined-benefit plans (pensions) | | | | | | |
| Service cost | 54 | 44 | 98 | 46 | 39 | 85 |
| Interest cost on the defined-benefit obligation | 266 | 201 | 467 | 261 | 211 | 472 |
| Expected return on plan assets | (379) | (173) | (552) | (372) | (176) | (548) |
| Prior service cost | - | 2 | 2 | - | (1) | (1) |
| Net periodic cost (income) | (59) | 74 | 15 | (65) | 73 | 8 |
| Costs of defined-contribution plans | | | | | | |
| Costs | 3 | 53 | 56 | 4 | 58 | 62 |
| Total | 3 | 53 | 56 | 4 | 58 | 62 |
| Costs of defined-benefit plans (retiree medical) | | | | | | |
| Service cost | - | 1 | 1 | - | 1 | 1 |
| Interest cost on the defined-benefit obligation | - | 18 | 18 | - | 11 | 11 |
| Prior service cost | - | - | - | - | (2) | (2) |
| Net periodic cost | - | 19 | 19 | - | 10 | 10 |

Reconciliation of non-GAAP performance measures

all amounts in millions of euros unless otherwise stated.

Certain non-GAAP financial measures are presented when discussing the Philips Group's performance. In the following tables, a reconciliation to the most directly comparable IFRS performance measure is made.

Sales growth composition (in %)

| | 2nd quarter | | | | January to June | | | |
|-------------------------|-------------------|------------------|-----------------------|----------------|-------------------|------------------|-----------------------|----------------|
| | comparable growth | currency effects | consolidation changes | nominal growth | comparable growth | currency effects | consolidation changes | nominal growth |
| 2010 versus 2009 | | | | | | | | |
| Healthcare | 4.1 | 6.5 | (0.1) | 10.5 | 5.3 | 2.4 | (0.1) | 7.6 |
| Consumer Lifestyle | 19.6 | 6.5 | (0.3) | 25.8 | 15.2 | 3.7 | (0.7) | 18.2 |
| Lighting | 12.9 | 6.9 | 0.1 | 19.9 | 15.4 | 3.6 | 1.1 | 20.1 |
| GM&S | 11.2 | 5.9 | (6.1) | 11.0 | 29.8 | 3.2 | (7.1) | 25.9 |
| Philips Group | 11.9 | 6.6 | (0.1) | 18.4 | 12.0 | 3.2 | 0.0 | 15.2 |

EBITA (or Adjusted income from operations) to Income from operations (or EBIT)

| | Philips Group | Healthcare | Consumer Lifestyle | Lighting | GM&S |
|--|---------------|------------|--------------------|----------|-------|
| January to June 2010 | | | | | |
| EBITA (or Adjusted income from operations) | 1,031 | 382 | 339 | 455 | (145) |
| Amortization of intangibles ¹⁾ | (238) | (131) | (18) | (85) | (4) |
| Income from operations (or EBIT) | 793 | 251 | 321 | 370 | (149) |
| January to June 2009 | | | | | |
| EBITA (or Adjusted income from operations) | 44 | 221 | (56) | (16) | (105) |
| Amortization of intangibles ¹⁾ | (222) | (132) | (9) | (81) | - |
| Income from operations (or EBIT) | (178) | 89 | (65) | (97) | (105) |

¹⁾ Excluding amortization of software and product development

Composition of net debt to group equity

| | June 28, 2009 | December 31, 2009 | July 4, 2010 |
|---|------------------|----------------------|-----------------|
| Long-term debt | 3,745 | 3,640 | 3,053 |
| Short-term debt | 684 | 627 | 1,746 |
| Total debt | 4,429 | 4,267 | 4,799 |
| Cash and cash equivalents | 3,589 | 4,386 | 4,493 |
| Net debt (cash) (total debt less cash and cash equivalents) | 840 | (119) | 306 |
| Shareholders' equity | 13,325 | 14,595 | 15,736 |
| Non-controlling interests | 47 | 49 | 61 |
| Group equity | 13,372 | 14,644 | 15,797 |
| Net debt and group equity | 14,212 | 14,525 | 16,103 |
| Net debt divided by net debt and group equity (in %) | 6 | (1) | 2 |
| Group equity divided by net debt and group equity (in %) | 94 | 101 | 98 |

Reconciliation of non-GAAP performance measures (continued)

all amounts in millions of euros

Net operating capital to total assets

| | Philips Group | Healthcare | Consumer Lifestyle | Lighting | GM&S |
|---------------------------------------|---------------|---------------|--------------------|--------------|---------------|
| July 4, 2010 | | | | | |
| Net operating capital (NOC) | 14,083 | 9,545 | 1,055 | 5,934 | (2,451) |
| Exclude liabilities comprised in NOC: | | | | | |
| - payables/liabilities | 10,664 | 2,521 | 2,358 | 1,443 | 4,342 |
| - intercompany accounts | - | 49 | 94 | 76 | (219) |
| - provisions | 2,535 | 355 | 396 | 290 | 1,494 |
| Include assets not comprised in NOC: | | | | | |
| - investments in associates | 191 | 80 | 1 | 23 | 87 |
| - other current financial assets | 194 | - | - | - | 194 |
| - other non-current financial assets | 764 | - | - | - | 764 |
| - deferred tax assets | 1,390 | - | - | - | 1,390 |
| - cash and cash equivalents | 4,493 | - | - | - | 4,493 |
| Total assets | 34,314 | 12,550 | 3,904 | 7,766 | 10,094 |
| December 31, 2009 | | | | | |
| Net operating capital (NOC) | 12,649 | 8,434 | 625 | 5,104 | (1,514) |
| Exclude liabilities comprised in NOC: | | | | | |
| - payables/liabilities | 8,636 | 2,115 | 2,155 | 1,247 | 3,119 |
| - intercompany accounts | - | 32 | 85 | 62 | (179) |
| - provisions | 2,450 | 317 | 420 | 324 | 1,389 |
| Include assets not comprised in NOC: | | | | | |
| - investments in associates | 281 | 71 | 1 | 11 | 198 |
| - other current financial assets | 191 | - | - | - | 191 |
| - other non-current financial assets | 691 | - | - | - | 691 |
| - deferred tax assets | 1,243 | - | - | - | 1,243 |
| - cash and cash equivalents | 4,386 | - | - | - | 4,386 |
| Total assets | 30,527 | 10,969 | 3,286 | 6,748 | 9,524 |
| June 28, 2009 | | | | | |
| Net operating capital (NOC) | 11,804 | 8,738 | 903 | 5,676 | (3,513) |
| Exclude liabilities comprised in NOC: | | | | | |
| - payables/liabilities | 8,299 | 2,133 | 1,872 | 1,116 | 3,178 |
| - intercompany accounts | - | 48 | 59 | 44 | (151) |
| - provisions | 2,910 | 305 | 301 | 251 | 2,053 |
| Include assets not comprised in NOC: | | | | | |
| - investments in associates | 245 | 73 | 2 | 13 | 157 |
| - other current financial assets | 125 | - | - | - | 125 |
| - other non-current financial assets | 822 | - | - | - | 822 |
| - deferred tax assets | 1,365 | - | - | - | 1,365 |
| - cash and cash equivalents | 3,589 | - | - | - | 3,589 |
| Total assets | 29,159 | 11,297 | 3,137 | 7,100 | 7,625 |

Reconciliation of non-GAAP performance measures (continued)

all amounts in millions of euros

Composition of cash flows

| | 2nd quarter | | January to June | |
|--|-------------|-------|-----------------|-------|
| | 2009 | 2010 | 2009 | 2010 |
| Cash flows provided by operating activities | 446 | 562 | 140 | 590 |
| Cash flows (used for) provided by investing activities | (185) | (250) | 244 | (359) |
| Cash flows before financing activities | 261 | 312 | 384 | 231 |
| Cash flows provided by operating activities | 446 | 562 | 140 | 590 |
| Purchase of intangible assets | (22) | (18) | (45) | (26) |
| Expenditures on development assets | (52) | (55) | (86) | (109) |
| Capital expenditures on property, plant and equipment | (140) | (167) | (252) | (305) |
| Proceeds from disposals of property, plant and equipment | 19 | 26 | 27 | 47 |
| Net capital expenditures | (195) | (214) | (356) | (393) |
| Free cash flows | 251 | 348 | (216) | 197 |

Philips quarterly statistics

all amounts in millions of euros unless otherwise stated

| | 2009 | | | | 2010 | | | |
|---|-------------------|--------------|-------------------|------------------|-------------------|--------------|-------------------|------------------|
| | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter |
| Sales | 5,075 | 5,230 | 5,621 | 7,263 | 5,677 | 6,191 | | |
| % increase | (15) | (19) | (11) | (5) | 12 | 18 | | |
| EBITA | (74) | 118 | 344 | 662 | 504 | 527 | | |
| as a % of sales | (1.5) | 2.3 | 6.1 | 9.1 | 8.9 | 8.5 | | |
| EBIT | (186) | 8 | 237 | 555 | 389 | 404 | | |
| as a % of sales | (3.7) | 0.2 | 4.2 | 7.6 | 6.9 | 6.5 | | |
| Net income (loss) - shareholders | (59) | 44 | 174 | 251 | 200 | 259 | | |
| per common share in euros - basic | (0.06) | 0.05 | 0.19 | 0.27 | 0.22 | 0.28 | | |
| | January-March | January-June | January-September | January-December | January-March | January-June | January-September | January-December |
| Sales | 5,075 | 10,305 | 15,926 | 23,189 | 5,677 | 11,868 | | |
| % income | (15) | (17) | (15) | (12) | 12 | 15 | | |
| EBITA | (74) | 44 | 388 | 1,050 | 504 | 1,031 | | |
| as a % of sales | (1.5) | 0.4 | 2.4 | 4.5 | 8.9 | 8.7 | | |
| EBIT | (186) | (178) | 59 | 614 | 389 | 793 | | |
| as a % of sales | (3.7) | (1.7) | 0.4 | 2.6 | 6.9 | 6.7 | | |
| Net income (loss) - shareholders | (59) | (15) | 159 | 410 | 200 | 459 | | |
| per common share in euros - basic | (0.06) | (0.02) | 0.17 | 0.44 | 0.22 | 0.49 | | |
| Net income (loss) from continuing operations as a % of shareholders' equity | (1.6) | (0.2) | 1.5 | 2.7 | 5.9 | 6.7 | | |
| | period ended 2009 | | | | period ended 2010 | | | |
| Inventories as a % of sales | 13.6 | 13.7 | 14.5 | 12.6 | 13.9 | 15.9 | | |
| Net debt : group equity ratio | 3:97 | 6:94 | 4:96 | (1):101 | 1:99 | 2:98 | | |
| Total employees (in thousands) | 116 | 116 | 118 | 116 | 116 | 117 | | |

Information also available on Internet, address:

www.philips.com/investorrelations

Notes overview

Notes to the unaudited semi-annual consolidated financial statements

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Notes to the unaudited semi-annual consolidated financial statements

This report contains the semi-annual financial report of Koninklijke Philips Electronics N.V. ('the Company'), a company with limited liability, headquartered in Amsterdam, the Netherlands. The principal activities of the Company and its group companies (the Philips Group) are described in note 4.

The semi-annual financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

1 Significant accounting policies

The significant accounting policies applied in these semi-annual financial statements are consistent with those applied in the Company's consolidated IFRS financial statements for the year ended December 31, 2009, except for the adoption of the following new standards, amendments to standards and interpretations, which have been adopted as relevant to the Company for the first time:

Accounting for business combinations

On January 1, 2010, the Company applied IFRS 3 'Business Combinations' (revised standard 2008) in accounting for business combinations. This revised standard has been applied prospectively and since there were no significant acquisitions during the first half of 2010, the change did not have a material impact on the Company's consolidated financial statements.

For acquisitions on or after January 1, 2010, the Company measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in the statements of income.

Transaction costs, 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.

Accounting for acquisitions of non-controlling interests

From January 1, 2010, the Company has applied IAS 27 'Consolidated and Separate Financial Statements' (amendment 2008) in accounting for acquisitions of non-

controlling interests. The change in accounting policy has been applied prospectively; there was no impact on the Company's consolidated financial statements.

From January 1, 2010, acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognized. Previously, goodwill arising on the acquisition of non-controlling interests in a subsidiary was recognized and represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

Distribution of non-cash assets to owners

From January 1, 2010, the Company applied 'IFRIC 17 Distributions of Non-cash Assets to Owners' in accounting for distribution of non-cash assets to owners. This accounting policy has been applied prospectively and did not have a material impact on the Company's consolidated financial statements.

The Group measures a liability to distribute non-cash assets to owners as the fair value of the assets to be distributed. The carrying amount of the liability is measured at each reporting period and the settlement date, with any changes recognized in equity as adjustments to the amount of the distribution.

Upon settlement of the transaction, the Company recognizes the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liability in the statements of income.

Other IFRS standards and interpretations effective from January 1, 2010 did not have a material impact on the Company.

2 Estimates

The preparation of the semi-annual financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated semi-annual financial statements, the significant estimates and judgments made by management in applying the Group's accounting policies and the key sources of estimation

uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2009.

3 Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2009.

4 Segment information

Philips' activities are organized on a sector basis, with operating sectors – Healthcare, Consumer Lifestyle and Lighting – each being responsible for the management of its business worldwide, and Group Management & Services (GM&S). A short description of these sectors is as follows:

- Healthcare: in May 2010, the organizational structure of the Healthcare sector changed. Healthcare now consists of the following businesses – Imaging Systems, Home Healthcare Solutions, Patient Care and Clinical Informatics, and Customer Services.
- Consumer Lifestyle: consists of the following businesses – Television, Personal Care, Audio & Video Multimedia, Domestic Appliances, Accessories, Health & Wellness, and Licenses.
- Television: contained within the Consumer Lifestyle sector, Television results are reported separately due to the large impact the results have on Consumer Lifestyle and the Philips Group.
- Lighting: consists of the following businesses – Lamps, Professional Luminaires, Consumer Luminaires, Lighting Electronics, Automotive, Special Lighting Applications and Solid-State Lighting Components & Modules.
- GM&S: consists of various activities and businesses including the Corporate center, Countries & Regions, Global Service Units, Pensions, Research, Intellectual Property & Standards, Applied Technologies, New Venture Integration, and Design.

Reportable segments for the purpose of the segmental disclosures required by IAS 34 Interim Financial Statements are: Healthcare, Consumer Lifestyle, Television and Lighting.

Significant segment information can be found in the Sectors, Sectors and main countries and Reconciliation of non-GAAP performance measures sections of this document.

5 Seasonality

Under normal economic conditions, the Group's sales are impacted by seasonal fluctuations, particularly at Consumer Lifestyle and Healthcare, typically resulting in higher revenues and earnings in the second half-year results. Within Healthcare, sales are generally higher in the second half of the year, largely due to the timing of new product availability and customers attempting to spend their annual budgeted allowances before the end of the year. Within Consumer Lifestyle, sales are generally higher in the second half-year due to the holiday sales. Sales in the Lighting businesses are generally not materially affected by seasonality.

For the 12 months ended July 4, 2010, Healthcare, Consumer Lifestyle and Lighting had revenues of EUR 8,115 million, EUR 9,101 million and EUR 7,161 million respectively (12 months ended June 28, 2009: EUR 7,988 million, EUR 9,058 million and EUR 6,839 million respectively) and reported adjusted income from operations of EUR 1,009 million, EUR 734 million and EUR 616 million respectively (12 months ended June 28, 2009: EUR 752 million, a loss of EUR 29 million and a profit of EUR 52 million respectively).

6 Acquisitions and divestments

During the first six months of 2010, Philips entered into a number of acquisitions. These acquisitions, both individually and in the aggregate, were deemed immaterial in respect of IFRS disclosure requirements. The acquisitions involved an aggregated purchase price of EUR 11 million and have been accounted for using the purchase method of accounting.

In the first six months of 2010 Philips divested 9.4% of the shares in TPV Technology Ltd. (TPV) and several other minor activities.

The TPV shares were sold on March 9, 2010 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.

7 Investments in associates

On March 9, 2010 Philips sold 9.4% of the shares in TPV Technology Ltd. (TPV) to a third party for a cash consideration of EUR 98 million. Philips retained 3.0% of the TPV shares, which were transferred to Other non-current financial assets, because Philips was no longer able to exercise significant influence with respect to TPV. Consequently, the carrying amount of Investments in

associates was reduced by EUR 123 million. The transaction resulted in a gain of EUR 5 million, which was recognized under Results relating to investments in associates.

8 Income taxes

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. This year's income tax expense is higher, mainly due to higher earnings in 2010 and EUR 95 million of net tax benefits in 2009, including the recognition of a deferred tax asset for Lumileds and a number of tax settlements partly offset by additional liabilities for uncertain tax positions.

9 Property, plant and equipment

Acquisitions and disposals

During the first six months ended July 4, 2010, there were no significant movements in property, plant and equipment. Apart from currency translation-related differences of EUR 243 million (six months ended June 28, 2009: EUR 18 million), the addition of EUR 305 million (six months ended June 28, 2009: EUR 252 million) was more than offset by depreciation and impairment charges of EUR 324 million (six months ended June 28, 2009: EUR 324 million).

10 Goodwill

Goodwill

in millions of euros

| | |
|---------------------------------|-------|
| Balance as of December 31, 2009 | |
| Cost | 8,021 |
| Amortization / Impairments | (659) |
| Book value | 7,362 |
| Changes in book value: | |
| Acquisitions | 6 |
| Impairments | - |
| Translation differences | 1,221 |
| Balance as of July 4, 2010: | |
| Cost | 9,359 |
| Amortization / Impairments | (770) |
| Book value | 8,589 |

Respiratory Care and Sleep Management and Professional Luminaires remain sensitive to fluctuations in the key assumptions used in the impairment tests as set out below. In addition, Home Monitoring is sensitive to healthcare reform in the United States.

In 2010, the organizational structure of the Healthcare sector changed, as referenced in note 4. As a result of the change, part of the goodwill of Clinical Care Systems was allocated to Imaging Systems and the other part to Patient Care and Clinical Informatics (former Healthcare Informatics). Furthermore, Respiratory Hospital and related goodwill were transferred to Patient Care and Clinical Informatics. Applicable goodwill balances are reflected in the table below.

For impairment testing, goodwill is allocated to (groups of) cash-generating units (typically one level below sector level), which represent the lowest level at which goodwill is monitored for internal management purposes. A significant part of goodwill is allocated to the following businesses:

| | July 4, 2010 |
|---------------------------------------|--------------|
| Respiratory Care and Sleep Management | 2,359 |
| Professional Luminaires | 1,608 |
| Imaging Systems | 1,549 |
| Patient Care and Clinical Informatics | 1,409 |

Key assumptions used in the annual impairment tests (performed in the second quarter) for the businesses in the table above were sales growth rates and the rates used for discounting the projected cash flows. For the 2010 annual test, cash flow projections, reflecting value in use, were determined using management's internal forecasts that cover an initial period from 2010 to 2015 and were extrapolated with stable or declining growth rates for a period of no more than 5 years, after which a terminal value was calculated, for which growth rates were capped at a historical long-term average growth rate.

The projected cash flows rely on the experience of the management teams of the cash-generating units and are based on market growth assumptions and industry long-term growth averages. Cash flow projections of Respiratory Care and Sleep Management, Professional Luminaires, Imaging Systems, and Patient Care and Clinical Informatics for 2010 were based on the following key assumptions:

- during the initial forecast period a compound sales growth of 9.4%, 11.3%, 5.2% and 6.5% respectively was used;
- during the period beyond the initial forecast period, stable and declining growth was considered, with compound rates of 5.0%, 7.2%, 4.0% and 5.4% respectively; and
- a terminal value for all four units was based on a growth rate of 2.7%.

Income from operations in all four units is expected to increase over the projection period as a result of volume growth and cost efficiencies. The respective pre-tax discount rates applied to the most recent cash flow projections were 10.2%, 14.0%, 11.1% and 12.1% respectively. Based on this analysis, management did not identify impairment for these (groups of) cash-generating units.

The value in use of Respiratory Care and Sleep Management in the annual impairment test was approximately EUR 100 million above its carrying value. An increase of 30 basis points in the pre-tax discount rate, a 50 basis points decrease in the compound long-term sales growth rate, or a 5% decrease in terminal value would cause its value in use to fall to the level of its carrying value.

The value in use of Professional Luminaires in the annual test was approximately EUR 600 million above its carrying value. An increase of 250 basis points in the pre-tax discount rate, a 280 basis points decrease in the compound long-term sales growth rate, or a 34% decrease in terminal value would cause its value in use to fall to the level of its carrying value.

The results of the annual impairment test of Imaging Systems and Patient Care and 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.

11 Intangible assets excluding goodwill

Intangible assets excluding goodwill

in millions of euros

| | |
|------------------------------------|-------|
| Book value as of December 31, 2009 | 4,161 |
| Changes in book value: | |
| Additions | 194 |
| Acquisitions | 11 |
| Amortization/deductions | (359) |
| Impairment losses | (4) |
| Translation differences | 609 |
| Total changes | 451 |
| Book value as of July 4, 2010 | 4,612 |

12 Other non-current financial assets

The changes during 2010 are as follows:

Other non-current financial assets

in millions of euros

| | |
|--------------------------------------|------|
| Balance as of December 31, 2009 | 691 |
| Changes: | |
| Reclassifications | 34 |
| Acquisitions/additions | 20 |
| Sales/redemptions/reductions | (15) |
| Value adjustments | – |
| Translation and exchange differences | 34 |
| Balance as of July 4, 2010 | 764 |

Other non-current financial assets mainly consist of available-for-sale financial assets.

Reclassifications relate to the 3.0% retained interest in TPV Technology Ltd. (TPV) which was reclassified from Investments in associates subsequent to the sale of 9.4% of the TPV shares to a third party. For further details, please refer to note 7.

The available-for-sale financial assets include a 19.8% interest in NXP Semiconductors N.V. (NXP) with a carrying value of EUR 207 million. NXP is treated as a cost-method investment.

Triggered by the net losses incurred by NXP, Philips performed impairment reviews on the carrying value of the investment in NXP during the first six months of 2010. The impairment review was approached consistent with the methodology outlined in our Annual Report 2009.

In accordance with IAS 39, Financial Instruments: Recognition and Measurement, paragraph 66, if there is objective evidence that an impairment loss has been incurred for an unquoted equity investment carried at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the investment and the present value of the discounted estimated future cash flows.

Based on the impairment reviews performed during the first six months of 2010, we concluded that no impairment was necessary.

13 Inventories

Inventories are summarized as follows:

| | December 31, 2009 | July 4, 2010 |
|----------------------------|----------------------|-----------------|
| Raw materials and supplies | 871 | 1,143 |
| Work in progress | 408 | 555 |
| Finished goods | 1,634 | 2,230 |
| | 2,913 | 3,928 |

The amounts recorded above are net of allowances for obsolescence.

On July 4, 2010, the write-down of inventories to net realizable value amounted to EUR 115 million (year-end 2009: EUR 219 million). The write-down is included in cost of sales.

14 Shareholders' equity

In April 2010, Philips settled a dividend of EUR 0.70 per common share, representing a total value of EUR 650 million. Shareholders could elect for a cash dividend or a share dividend. Around 53.25% of the shareholders elected for a share dividend, resulting in the issuance of 13,667,015 new common shares. The settlement of the cash dividend involved an amount of EUR 304 million.

As of July 4, 2010, the issued and fully paid share capital consists of 986,078,784 common shares, each share having a par value of EUR 0.20.

During the first six months of 2010 a total of 4,187,823 treasury shares were delivered as a result of stock option exercises, restricted share deliveries and other employee-related share plans. There were no transactions to reduce share capital. On July 4, 2010 the total number of treasury shares amounted to 40,766,854, which were purchased at an average price of EUR 27.02 per share.

15 Short-term and long-term debt

At the end of Q2 2010 the total debt position of Philips was EUR 4,799 million, an increase of EUR 533 million compared to December 31, 2009. Long-term debt was EUR 3,053 million, a decrease of EUR 587 million, and short-term debt was EUR 1,746 million, an increase of EUR 1,119 million compared to December 31, 2009. The movement was mainly due to reclassification of outstanding USD and EUR public bonds to short-term debt and currency translation effects. Total remaining long-term debt mainly consisted of outstanding public bonds for a book value of EUR 2,651 million, which were previously issued in USD. The weighted average interest rate of the long-term USD bonds was 5.57% at the end of Q2 2010.

16 Provisions

Provisions are summarized as follows:

| | December 31, 2009 | | July 4, 2010 | |
|--|----------------------|---------------|-----------------|---------------|
| | long term | short term | long term | short term |
| Provisions for defined-benefit plans | 669 | 61 | 686 | 52 |
| Other postretirement benefits | 296 | 21 | 340 | 25 |
| Postemployment benefits and obligatory severance payments | 106 | 29 | 94 | 39 |
| Product warranty | 108 | 227 | 121 | 226 |
| Loss contingencies (environmental remediation and product liability) | 186 | 14 | 220 | 22 |
| Restructuring-related provisions | 78 | 318 | 73 | 293 |
| Other provisions | 291 | 46 | 269 | 75 |
| | 1,734 | 716 | 1,803 | 732 |

There are no significant changes in provisions compared to year-end 2009.

17 Accrued liabilities

The increase in accrued liabilities is mainly driven by changes in the fair values of derivatives totaling EUR 774 million.

18 Pensions

In accordance with IAS 34, actuarial gains and losses are reported in the semi-annual report only if there have been significant changes in financial markets. In the first six months of 2010 no actuarial gains or losses were recorded as the changes in financial markets during that period were considered not significant. In the first six months of 2009 the combined effect of actuarial gains and losses and IFRIC 14 was a reduction in equity of EUR 1.8

billion net of tax. For the whole of 2009 the combined effect of actuarial gains and losses and IFRIC 14 was a reduction in equity of EUR 0.9 billion net of tax due to favorable developments in the second half of 2009.

The half-year estimates are limited to the principal plans, i.e. the defined-benefit plans in the Netherlands, Germany, the UK and the US, which together represent more than 90% of the defined-benefit pension assets and liabilities for the Group as a whole. Estimated changes in recognized prepaid pension costs are in accordance with IFRIC 14.

Actuarial gains or losses, if any, are reported under Other comprehensive income and against the respective balance sheet items.

19 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 Q2 2010, the total fair value of guarantees recognized on the balance sheet was EUR 14 million (December 31, 2009: EUR 14 million). Remaining off-balance-sheet business and credit-related guarantees provided to third parties and associates decreased by EUR 3 million during the first half of 2010 to EUR 305 million.

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.

A number of subsidiaries of the Company have been identified for further investigation of possible environmental obligations. 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 various sites. The Company accrues for losses associated with environmental obligations when such losses are probable and reliably estimable.

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. 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 and consolidated results of operations for a particular period. For certain legal proceedings information required under IAS 37 is not disclosed, if the Company concludes that the disclosure can be expected to prejudice seriously the outcome of the legal proceeding.

For information regarding legal proceedings in which the Company is involved, please refer to our Annual Report 2009. Significant developments regarding legal proceedings that have occurred since the publication of our Annual Report 2009 are described below:

CRT

On March 30, 2010, the District Court adopted the Special Master's Report and Recommendation denying 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 pending in the Northern District of California. These cases have now proceeded to discovery. The Court has not set a trial date and there is no timetable for the resolution of these cases.

LG Display

On April 15, 2010, Philips Electronics North America Corporation moved to dismiss the Nokia complaint on the ground that Nokia has failed to state a claim upon which relief can be granted. This motion was granted on June 29, 2010 with leave to amend. Nokia has until July 23, 2010 to amend its complaint.

Optical Disc Drive (ODD)

On April 7, 2010, a class action proceeding was instituted in the Province of Quebec on behalf of all Canadian residents (or alternatively Quebec residents only) who purchased, used and/or received an ODD or purchased any products which contained an ODD, since approximately January 2001 through to the present. The class action named, amongst others, as defendants, Koninklijke Philips Electronics N.V., Philips Electronics North America Corporation, Philips Canada Ltd., Lite-On IT Corporation, Philips & Lite-On Digital Solution Corporation and Philips & Lite-On Digital Solutions USA, Inc. The petitioner seeks both compensatory and punitive damages and all applicable interest, but they have not quantified the value of these damages in their claim.

20 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.

Related-party transactions

in millions of euros

| | January-June | |
|----------------------------------|---------------|--------------|
| | 2009 | 2010 |
| Purchases of goods and services | 119 | 151 |
| Sales of goods and services | 73 | 68 |
| | | |
| Balance outstanding | | |
| | June 28, 2009 | July 4, 2010 |
| Receivables from related parties | 13 | 11 |
| Payables to related parties | 47 | 13 |

21 Share-based compensation

Share-based compensation expense amounted to EUR 29 million and EUR 35 million in the first six months of 2010 and 2009 respectively.

During the first six months of 2010 the Company granted 5,028,436 stock option rights on its common shares and 1,258,122 rights to receive common shares in the future (restricted share rights).

A total of 1,812,948 restricted shares were issued to employees. 686,274 EUR-denominated options and 796,839 USD-denominated options were exercised at a weighted average exercise price of EUR 19.52 and USD 23.88 respectively.

Under the employee stock purchase plans 1,010,624 shares have been purchased at an average price of EUR 21.73.

For further information on the characteristics of these plans, please refer to the Annual Report 2009, note 30.

