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This Financial Statements booklet and the separate booklet entitled 'Management Report' together comprise the full Annual Report for the year 2000 of Koninklijke Philips Electronics N.V. ('Royal Philips Electronics') expressed in euros. For a full understanding of the results of the Philips Group and the state of affairs, both booklets should be consulted.

'Safe Harbor' Statement under the Private Securities Litigation Reform Act of 1995

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 'Outlook' paragraph of the 'Operating and Financial Review and Prospects' in the 'Management Report' booklet. By their nature, forward-looking 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, levels of consumer and business spending in major economies, changes in consumer tastes and preferences, the levels of marketing and promotional expenditures by Philips and its competitors, raw materials and employee costs, changes in future exchange and interest rates (in particular changes in the euro and the US dollar can materially affect results), changes in tax rates and future business combinations, acquisitions or dispositions and the rate of technical changes. Market share estimates contained in this report are based on outside sources such as specialized research institutes, industry and dealer panels, etc. in combination with management estimates.

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Key data

all amounts in millions of euros unless otherwise stated ¹⁾

	2000	1999	1998
Sales	37,862	31,459	30,459
Ebita ⁵⁾	4,623	1,966	943
Income from operations	4,281	1,751	685 ²⁾
As a % of sales	11.3	5.6	2.2
As a % of net operating capital (RONA)	35.7	17.5	6.5
Income from continuing operations	9,602	1,804	541 ²⁾
As a % of stockholders' equity (ROE)	53.5	12.6	5.1
Per common share ⁴⁾	7.31	1.31	0.38
Net income	9,602	1,799	6,053
Per common share ⁴⁾	7.31	1.31	4.20
Excluding one-time gains:			
Income from operations	2,900	1,582	1,060
As a % of sales	7.7	5.0	3.5
As a % of net operating capital (RONA)	24.2	15.8	10.1
Income from continuing operations	2,564	1,557	916
As a % of stockholders' equity (ROE)	14.3	10.9	8.7
Per common share ⁴⁾	1.95	1.13	0.64
Dividend paid per common share (from prior-year profit distribution) ⁴⁾	0.30	0.25	0.23
Cash flows before financing activities	592	(1,921)	699
Stockholders' equity	21,736	14,757	14,560
Per common share ⁴⁾	16.93	11.08	10.09
Net debt : group equity ratio	12:88	6:94	³⁾

¹⁾ The consolidated financial statements have been prepared in euros. Amounts previously reported in Dutch guilders are now reported in euros using the irrevocably fixed conversion rate which became effective on January 1, 1999 (EUR 1 = NLG 2.20371). See the notes to the consolidated financial statements.

²⁾ The 1998 results presented in line with the 2000 and 1999 presentation would result in income from operations of EUR 1,195 million and income from continuing operations of EUR 1,009 million. Net income would remain unchanged (see also Operating and Financial Review and Prospects).

³⁾ Not meaningful: net cash in 1998 exceeded the debt level.

⁴⁾ After 4-for-1 stock split

⁵⁾ In Philips' definition, Ebita equals income from operations excluding amortization charges for goodwill and other intangibles arising from acquisitions (see also Operating and Financial Review and Prospects)

Accounting policies

The consolidated financial statements are prepared on a basis consistent with generally accepted accounting principles in the Netherlands ('Dutch GAAP'). Historical cost is used as the measurement basis unless otherwise indicated.

Accounting changes

In order to further align Philips' accounting policies under Dutch GAAP with US GAAP requirements, product development and process development costs, which previously had been included in inventories, are now charged to expense as incurred. In line with Dutch GAAP, the relevant costs included in the January 1, 2000 balance sheet – an amount of EUR 241 million, net of taxes – were charged directly to stockholders' equity. This change did not materially impact income for the year 2000.

New accounting pronouncements

The Company chose to adopt Statement of Financial Accounting Standards ('SFAS') No. 133, 'Accounting for derivative instruments and hedging activities', as of January 1, 2000, and SFAS No. 138, an amendment of SFAS No. 133, as of July 1, 2000. At the date of initial application all derivative instruments were recognized as either assets or liabilities and measured at fair value. Differences between previous carrying amounts and the fair values are reported as gains or losses in net income or in other reserves under stockholders' equity, as appropriate. The impact of the transition adjustment in the opening balance sheet was a credit of EUR 58 million on equity and a loss of EUR 5 million on current year earnings. Insofar as hedging relationships were established anew and the hedged items were recognized as either assets/liabilities or as firm commitments, the resulting adjustments of the carrying amounts of the hedged items have been recognized as offsetting gains and losses for the risk being hedged.

Effective January 1, 2000, SEC Staff Accounting Bulletin ('SAB') 101, 'Revenue recognition in financial statements', has been applied. The application of SAB 101 did not materially impact sales and revenue recognition.

Presentation changes

Beginning in 1999, results from divestitures, other than segments of business, are reported as income from continuing operations and no longer as extraordinary items. This presentation is in line with recent developments in international accounting and is fully aligned with US GAAP. Furthermore, interest on provisions for pensions has been included in income from operations instead of financial income and expenses. Prior years have not been reclassified.

A pro forma presentation of the 1998 figures in accordance with the methodology used for 2000 and 1999 has been provided in a footnote on the face of the income statement and in the notes to the consolidated financial statements. Certain other reclassifications have been made to conform prior-years' data to the current presentation.

Consolidation principles

The consolidated financial statements include the accounts of Koninklijke Philips Electronics N.V. ('Royal Philips Electronics') and companies that are effectively controlled. Minority interests are disclosed separately in the consolidated statements of income and in the consolidated balance sheets. Intercompany transactions and balances have been eliminated.

Investments in companies in which Royal Philips Electronics does not effectively control the financial and operating decisions, but does exert significant influence, are accounted for by the equity method. Generally, significant influence is presumed to exist if at least 20% of the voting stock is owned. The Company's share of the net income of these companies is included in results relating to unconsolidated companies in the consolidated statements of income. Investments in companies in which Royal Philips Electronics does not exert significant influence are carried at cost or, if a long-term impairment exists, at lower net realizable value.

Reporting currencies

Beginning in 1999, Philips' financial statements are reported in euros. Previously presented financial statements denominated in Dutch guilders have been translated into euros using the irrevocably fixed conversion rate applicable since January 1, 1999 for all periods presented ($\text{EUR 1} = \text{NLG 2.20371}$). Management believes that the data denominated in euros reflect the same trends as previously reported. Philips' financial data may not be comparable to those of other companies that also report in euros if these other companies previously reported in a currency other than the Dutch guilder.

Foreign currencies

The financial statements of foreign operations are translated into euros. Assets and liabilities are translated using the exchange rates on the respective balance sheet dates. Income and expense items are translated based on the average rates of exchange for the periods involved. The resulting translation adjustments are charged or credited to stockholders' equity. Cumulative translation adjustments are recognized as income or expense upon disposal of a segment of business.

The functional currency of foreign operations is generally the local currency, unless the primary economic environment requires the use of another currency. However, when foreign operations conduct their business in economies considered to be highly inflationary, they record transactions in a designated functional currency instead of their local currency.

Gains and losses arising from the translation or settlement of foreign-denominated monetary assets and liabilities into the local currency are recognized in income in the period in which they arise. However, currency differences on intercompany loans which have the nature of a permanent investment, are accounted for as translation differences directly in stockholders' equity.

Derivative financial instruments

The Company uses derivative financial instruments principally in the management of its foreign currency risks and to a more limited extent for interest rate and commodity price risks. Applying SFAS No. 133 and SFAS No. 138, the Company measures all derivative financial instruments based on fair values derived from market prices of the instruments or from option pricing models, as appropriate. Gains or losses arising from changes in the fair value of the instruments are recognized in the income statement for the period in which they arise to the extent that the derivatives have been designated as a hedge of recognized assets or liabilities, or to the extent that the derivatives have no hedging designation or are ineffective. The gains and losses on the designated derivatives substantially offset the changes in the values of the recognized hedged items, which are recognized also as gains and losses in the income statement.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded in earnings.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge are recorded in other reserves, until earnings are affected by the variability in cash flows of the designated hedged item. Changes in the fair value of derivatives that are highly effective as hedges and that are designated and qualify as foreign currency hedges are recorded in either earnings or other reserves, depending on whether the hedge transaction is a fair value hedge or a cash flow hedge.

The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively. Any ineffectiveness is recognized in financial income and expenses.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and short-term highly liquid investments with an original maturity of three months or less that are readily convertible into known amounts of cash. They are stated at face value.

Securities

Securities designated as available for sale are carried at the lower of cost or market value. Gains or losses, if any, are recorded in financial income and expenses.

Securities hedged under a fair value hedge are remeasured for the changes in the fair value that are attributable to the risk which is being hedged.

Receivables

Receivables are carried at face value, net of allowances for doubtful accounts.

Inventories

Inventories are valued at the lower of cost or market value less advance payments on work in process. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred bringing the inventories to their present location and condition. The costs of conversion of inventories include direct labor, fixed and variable production overheads, taking into account the stage of completion.

In 1999 and prior years, product development and process development costs were included in inventories.

The cost of inventories is determined using the first-in, first-out (FIFO) method. Provision is made for obsolescence.

Other non-current financial assets

Loans receivable are carried at face value, less a provision for doubtful accounts.

Investments in companies for which sale is restricted for a period of one year or more are accounted for at cost, being the fair value upon receipt of the shares.

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation. Assets manufactured by the Company include direct manufacturing costs, production overheads and interest charges incurred during the construction period. Government grants are deducted from the cost of the related asset. Depreciation is calculated using the straight-line method over the expected economic life of the asset. Depreciation of special tooling costs is based on the expected future economic benefit of these tools. Gains and losses on the sale of property, plant and equipment are included in other business income.

Intangible assets

Intangible assets, including goodwill arising from acquisitions, are amortized using the straight-line method over their estimated economic lives, not to exceed twenty years.

In-process Research and Development (R&D) is written off immediately upon acquisition. Patents and trademarks acquired from third parties are capitalized and amortized over their remaining lives.

Effective January 1, 1999, the Company adopted the Statement of Position ("SOP") 98-1 issued by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants. SOP 98-1, 'Accounting for the Costs of Computer Software Developed or Obtained for Internal Use', requires companies to capitalize certain costs relating to the development and purchase of software for internal use and to amortize these costs over the estimated useful life of the software.

Costs of research and development are expensed in the period in which they are incurred.

Impairment of intangible and tangible fixed assets

The Company accounts for impairments of intangible and tangible fixed assets in accordance with the provisions of SFAS No. 121, 'Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of'. This statement requires that intangible and tangible fixed assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of, are reported at the lower of the carrying amount or fair value less costs to sell.

Provisions

The Company recognizes provisions for liabilities and losses which have been incurred as of the balance sheet date and for which the amount is uncertain but can be reasonably estimated. Additionally, the Company records provisions for losses which are expected to be incurred in the future, but which relate to contingencies that exist as of the balance sheet date.

The provision for restructuring relates to the estimated costs of planned reorganizations that have been approved by the Board of Management and publicly announced before the year-end, and which involve the realignment of certain parts of the industrial and commercial organization.

When such reorganizations require discontinuance and/or closure of lines of activities, the anticipated costs of closure or discontinuance are included in restructuring provisions. Provisions are stated at face value, with the exception of certain long-term provisions, such as certain environmental provisions, provisions for postretirement benefits (including pensions) and severance payments in certain countries where such payments are made in lieu of pension benefits; those provisions are stated at the present value of the future obligations.

Debt and other liabilities

Debt and liabilities other than provisions are stated at face value. However, loans which are hedged under a fair value hedge are remeasured for the changes in the fair value that are attributable to the risk which is being hedged.

Revenue recognition

Sales are recognized as revenue when they are realized or realizable and earned, which is considered to occur at the time the Company has substantially accomplished what it must do to be entitled to the benefits represented by the revenues. In addition, there should be persuasive evidence of a sales arrangement with the client, the price is fixed or determinable and collection is reasonably assured. Normally, this situation exists when the product or merchandise is delivered or services are rendered to customers, or a sales transaction has otherwise occurred. Recognized sales are net of sales taxes, customer discounts, rebates and similar charges. Service revenue is recognized over the contractual period or as services are rendered. Revenues from long-term contracts are recognized in accordance with the percentage - of - completion method. Provision for estimated contract losses, if any, is made in the period that such losses are determined. Royalty income is recognized on an accrual basis. The most important revenue processes in relation to royalty income are payments as a percentage of sales and fixed amounts per product sold. Government grants, other than those relating to assets, are recognized as income as qualified expenditures are made.

Financial income and expenses

Interest income and interest expense are recognized on an accrual basis.

Income taxes

Income tax expense is based on pre-tax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Measurement of deferred tax assets and liabilities is based upon the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets, including assets arising from loss carryforwards, are recognized if it is more likely than not that the asset will be realized. Deferred tax assets and liabilities are not discounted.

Deferred tax liabilities for withholding taxes are recognized in situations where the income of subsidiaries is to be paid out as dividends in the near future, and in the case of undistributed earnings of minority shareholdings.

Changes in tax rates are reflected in the period that includes the enactment date.

Benefit accounting

The Company accounts for the cost of pension plans and postretirement benefits other than pensions substantially in accordance with SFAS No. 87, 'Employers' Accounting for Pensions' and SFAS No. 106, 'Postretirement Benefits other than Pensions' respectively. Most of the Company's defined-benefit plans are funded with plan assets that have been segregated and restricted in a trust to provide for the pension benefits to which the Company has committed itself.

When plan assets have not been segregated by the Company or in such cases in which the Company is required to make additional pension payments, the Company recognizes a provision for such amounts.

Pension costs primarily represent the increase in actuarial present value of the obligation for pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on plan assets.

In the event that at any date the accumulated benefit obligation, calculated as the present value of the benefits attributed to employee service rendered prior to that date and based on current and past compensation levels, would be higher than the market value of the plan assets or the existing level of the pension provision, the difference is immediately charged to income.

In certain countries the Company also provides postretirement benefits other than pensions to various employees. The cost relating to such plans consists primarily of the present value of the benefits attributed on an equal basis to each year of service, interest cost on the accumulated postretirement benefit obligation, which is a discounted amount, and amortization of the unrecognized transition obligation. This transition obligation is being amortized through charges to earnings over a twenty-year period beginning in 1993 in the USA and in 1995 for all other plans.

Stock-based compensation

The Company accounts for stock-based compensation using the intrinsic value method in accordance with Dutch GAAP, which is also in conformity with US Accounting Principles Board (APB) Opinion No. 25, 'Accounting for Stock Issued to Employees'. The Company has adopted the pro forma disclosure requirements of SFAS No. 123, 'Accounting for Stock-Based Compensation'.

Discontinued operations

Any gain or loss from disposal of a segment of a business (product sector) together with the results of these operations until the date of disposal are reported separately as discontinued operations. The financial information of a discontinued segment of business is excluded from the respective captions in the consolidated financial statements and related notes.

Extraordinary income and losses

Beginning in 1999, extraordinary items include transactions which occur infrequently and are unrelated to the ordinary and typical activities of the Company.

Prior to 1999, extraordinary items included income or losses arising from the disposal of a line of activity or closures of substantial production facilities within a segment of business as well as significant gains or losses from disposals of interests in unconsolidated companies.

Cash flow statements

Cash flow statements have been prepared under the indirect method in accordance with Dutch GAAP, which is in conformity with the requirements of SFAS No. 95, 'Statement of Cash flows' and the amendment, SFAS No. 104. Cash flows resulting from hedges are in the same category as the hedged items. Cash flows in foreign currencies have been translated into euros using the average rates of exchange for the periods involved.

Cash flows resulting from the acquisition or sale of securities are reported under cash flow from investing activities.

Dividend distribution

The proposed dividend distribution from current-year earnings to shareholders, which is subject to approval by the General Meeting of Shareholders, is recorded when such approval is received.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements in order to conform with generally accepted accounting principles. Actual results could differ from those estimates.

Consolidated statements of income of the Philips Group for the years ended December 31

in millions of euros unless otherwise stated ¹⁾)

	2000	1999	1998 ²⁾
Sales	37,862	31,459	30,459
Direct cost of sales	(28,692)	(24,502)	(24,121)
Gross income	9,170	6,957	6,338
Selling expenses	(4,960)	(4,337)	(4,381)
General and administrative expenses	(1,298)	(1,212)	(1,132)
Other business income	1,526	388	190
Restructuring charges	(157)	(45)	(330)
2 Income from operations	4,281	1,751	685
3 Financial income and expenses	1,988	32	(312)
Income before taxes	6,269	1,783	373
4 Income taxes	(570)	(336)	(41)
Income after taxes	5,699	1,447	332
5 Results relating to unconsolidated companies	3,970	409	39
Group income	9,669	1,856	371
6 Minority interests	(67)	(52)	170
Income from continuing operations	9,602	1,804	541
7 Discontinued operations			
Income from discontinued operations (less applicable income taxes of EUR 75 million)	–	–	210
Gain on disposal of discontinued operations (no tax effect)	–	–	4,844
8 Extraordinary items-net	–	(5)	458
9 Net income	9,602	1,799	6,053

¹⁾ The consolidated financial statements have been prepared in euros.
Amounts previously reported in Dutch guilders are now reported in euros using the irrevocably fixed conversion rate which became effective on January 1, 1999 (EUR 1 = NLG 2.20371). See the notes to the consolidated financial statements.

²⁾ The 1998 results presented in line with the 2000 and 1999 presentation would result in income from operations of EUR 1,195 million, financial income and expenses of EUR 253 million (a loss), income from continuing operations of EUR 1,009 million and extraordinary items of EUR 10 million net (a loss). Net income would remain unchanged. See the notes to the consolidated financial statements.

The accompanying notes are an integral part of these consolidated financial statements.

Earnings per share

	2000	1999 ¹⁾	1998 ¹⁾
Weighted average number of common shares outstanding (after deduction of treasury stock) during the year	1,312,859,102	1,378,040,952	1,440,224,304
Basic earnings per common share in euros:			
Income from continuing operations	7.31	1.31	0.38
Income from discontinued operations	–	–	0.15
Gain on disposal of discontinued operations	–	–	3.36
Extraordinary items-net	–	–	0.31
Net income	7.31	1.31	4.20
Diluted earnings per common share in euros:			
Income from continuing operations	7.24	1.30	0.37
Income from discontinued operations	–	–	0.15
Gain on disposal of discontinued operations	–	–	3.34
Extraordinary items-net	–	–	0.31
Net income	7.24	1.30	4.17
Dividend paid per common share in euros (from prior-year profits)	0.30	0.25	0.23

¹⁾ Previously reported figures restated for 4-for-1 stock split

Consolidated balance sheets of the Philips Group as of December 31

in millions of euros unless otherwise stated

The consolidated balance sheets are presented before appropriation of profit

Assets

	2000	1999
Current assets		
Cash and cash equivalents	1,089	2,331
10 Securities	111	1,523
11 Receivables:		
- Accounts receivable-net	5,905	5,274
- Accounts receivable from unconsolidated companies	56	52
- Other receivables	539	755
- Prepaid expenses	306	372
	6,806	6,453
12 Inventories	5,279	4,566
Total current assets	13,285	14,873
Non-current assets		
5 Unconsolidated companies:		
- Investments	4,793	2,060
- Loans	535	31
	5,328	2,091
13 Other non-current financial assets	3,747	340
14 Non-current receivables:		
- Accounts receivable-net	143	185
- Accounts receivable from unconsolidated companies	3	-
- Other receivables	157	67
- Prepaid expenses	2,410	2,074
	2,713	2,326
15 Property, plant and equipment:		
- At cost	20,265	18,302
- Less accumulated depreciation	(11,224)	(10,970)
	9,041	7,332
16 Intangible assets-net	4,427	2,822
Total non-current assets	25,256	14,911
Total	38,541	29,784

The accompanying notes are an integral part of these consolidated financial statements.

Liabilities and stockholders' equity

	2000	1999
Current liabilities		
Accounts and notes payable:		
- Trade creditors	4,250	3,619
- Unconsolidated companies	<u>5</u>	<u>13</u>
	4,255	3,632
17 Accrued liabilities	3,701	3,841
18 19 Short-term provisions	969	1,056
20 Other current liabilities	862	789
21 23 Short-term debt	<u>1,743</u>	<u>577</u>
Total current liabilities	11,530	9,895
Non-current liabilities		
22 23 Long-term debt	2,284	2,737
18 19 Long-term provisions	<u>2,522</u>	<u>2,062</u>
Total non-current liabilities	4,806	4,799
24 Commitments and contingent liabilities		
Group equity		
6 Minority interests	469	333
25 Stockholders' equity:		
Priority shares, par value EUR 500 per share:		
Authorized and issued: 10 shares		
Preference shares, par value EUR 0.20 per share:		
Authorized: 3,249,975,000 shares		
(749,995,000 shares par value EUR 1 in 1999)		
Issued: none		
Common shares, par value EUR 0.20 per share:		
Authorized: 3,250,000,000 shares		
(750,000,000 shares par value EUR 1 in 1999)		
Issued: 1,316,070,392 shares (1,356,315,244 shares in 1999)	263	339
Treasury: 32,175,659 shares (24,714,704 shares in 1999)		
Share premium	7	1,631
Other reserves	11,864	10,988
Undistributed profit for the year	<u>9,602</u>	<u>1,799</u>
	21,736	14,757
Total	<u>38,541</u>	<u>29,784</u>

Consolidated statements of cash flows of the Philips Group for the years ended December 31

in millions of euros

	2000	1999	1998
Cash flows from operating activities:			
Net income	9,602	1,799	6,053
Adjustments to reconcile net income to net cash provided by operating activities:			
Income from, and net gain on disposal of, discontinued operations	–	–	(5,054)
Depreciation and amortization	2,320	1,853	1,890
Net gain on sale of investments	(6,384)	(491)	(728)
Income from unconsolidated companies (net of dividends received)	(1,187)	(410)	(31)
Minority interests (net of dividends paid)	56	38	(173)
(Increase) decrease in working capital	(1,069)	(469)	272
(Increase) decrease in non-current receivables	(510)	(32)	43
Increase (decrease) in provisions	386	(87)	(177)
Other items	(218)	(288)	45
Net cash provided by operating activities	2,996	1,913	2,140
Cash flows from investing activities:			
Purchase of intangible assets (software)	(140)	(200)	–
Capital expenditures on property, plant and equipment	(3,170)	(1,662)	(1,634)
Proceeds from disposals of property, plant and equipment	178	286	240
Proceeds from the sale of securities, net of hedging activities	848	158	–
Purchase of other non-current financial assets	(560)	(119)	(68)
Proceeds from other non-current financial assets	63	67	132
Purchase of businesses	(3,209)	(2,993)	(867)
Proceeds from sale of interests in businesses	3,586	629	756
Net cash used for investing activities	(2,404)	(3,834)	(1,441)
Cash flows before financing activities	592	(1,921)	699
Cash flows from financing activities:			
Increase (decrease) in short-term debt	734	(257)	(74)
Principal payments on long-term debt	(325)	(563)	(565)
Proceeds from issuance of long-term debt	203	103	194
Effect of other financial transactions	–	–	114
Treasury stock transactions	(578)	(38)	(157)
Capital repayment to shareholders	(1,673)	(1,490)	–
Dividends paid	(399)	(361)	(326)
Net cash used for financing activities	(2,038)	(2,606)	(814)
Cash used for continuing operations	(1,446)	(4,527)	(115)
Effect of changes in exchange rates and consolidations on cash positions	204	305	30
Net cash from discontinued operations	–	–	5,241
Cash and cash equivalents at beginning of year	2,331	6,553	1,397
Cash and cash equivalents at end of year	1,089	2,331	6,553

The accompanying notes are an integral part of these consolidated financial statements.

Supplemental disclosures to consolidated statements of cash flows:

	2000	1999	1998
(Increase) decrease in working capital:			
Increase in accounts receivable and prepaid expenses	(513)	(534)	(133)
(Increase) decrease in inventories	(979)	46	(60)
Increase in accounts payable and accrued expenses	423	19	465
	<u>(1,069)</u>	<u>(469)</u>	<u>272</u>
Net cash paid during the year for:			
Interest	167	129	244
Income taxes	266	222	200
Additional common stock issued upon conversion of long-term debt	13	29	25
Net gain on sale of investments:			
Cash proceeds from the sale of investments	4,675	1,140	1,128
Book value of these investments	(875)	(649)	(400)
Non-cash gains	2,584	–	–
	<u>6,384</u>	<u>491</u>	<u>728</u>
Non-cash investing and financing information:			
Assets received in lieu of cash	2,589	11	1,698
Treasury stock transactions:			
Shares acquired	(682)	(139)	(323)
Exercise stock options/warrants/convertible personnel debentures	104	101	166

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

The consolidated financial statements have been prepared in euros.
 Amounts previously reported in Dutch guilders are now reported in euros using the irrevocably fixed conversion rate which became effective on January 1, 1999, (EUR 1 = NLG 2.20371).
 See the notes to the consolidated financial statements.

Consolidated statements of changes in stockholders' equity of the Philips Group

in millions of euros unless otherwise stated

	number of shares*		issued, paid-up capital	share premium	other reserves	treasury shares	total
	outstanding	issued					
Balance as of December 31, 1997	1,431,797,964	1,459,108,464	1,655	1,789	6,081	(371)	9,154
Issued upon exercise of:							
- Convertible debentures		323,388		3	22		25
- Stock options				(7)			(7)
- Warrants		14,547,444	17	39			56
Net income for the year					6,053		6,053
Dividend paid					(326)		(326)
Treasury stock transactions					(53)	(152)	(205)
Translation differences and other changes					(190)		(190)
Balance as of December 31, 1998	<u>1,442,760,868</u>	<u>1,473,979,296</u>	<u>1,672</u>	<u>1,824</u>	<u>11,587</u>	<u>(523)</u>	<u>14,560</u>
Issued upon exercise of:							
- Convertible debentures		276,324		2	27		29
- Stock options		80		(11)			(11)
Net income for the year					1,799		1,799
Dividend paid					(361)		(361)
Treasury stock transactions					(55)	28	(27)
8% share reduction		(117,940,456)	(1,333)	(184)		27	(1,490)
Translation differences and other changes					258		258
Balance as of December 31, 1999	<u>1,331,600,540</u>	<u>1,356,315,244</u>	<u>339</u>	<u>1,631</u>	<u>13,255</u>	<u>(468)</u>	<u>14,757</u>
Change in accounting policy:							
- Product/process development costs previously included in inventories					(241)		(241)
- Derivatives (FAS 133)					58		58
Issued upon exercise of:							
- Convertible debentures		458,356		6	7		13
Net income for the year					9,602		9,602
Dividend paid					(399)		(399)
Treasury stock transactions					(23)	(555)	(578)
3% share reduction		(40,703,208)	(76)	(1,630)	(8)	41	(1,673)
Translation differences and other changes					197		197
Balance as of December 31, 2000	<u>1,283,894,733</u>	<u>1,316,070,392</u>	<u>263</u>	<u>7</u>	<u>22,448</u>	<u>(982)</u>	<u>21,736</u>

* - As from May 28, 1999, the par value of Philips' common shares changed from NLG 10 to EUR 1 per share. The 1999 share reduction program was executed in May/June 1999.

- Share data in this report are based on the number of shares outstanding after the 4-for-1 stock split which was effected on April 14, 2000; prior-year data have been restated accordingly.

- On May 29, 2000, the Extraordinary General Meeting of Shareholders adopted the 2000 share reduction program, which became effective August 1, 2000, and which reduced the number of outstanding shares by approximately 40 million, or 3%, and changed the par value of Philips' common shares from EUR 0.25 to EUR 0.20 per share.

The consolidated financial statements have been prepared in euros.

Amounts previously reported in Dutch guilders are now reported in euros using the irrevocably fixed conversion rate which became effective on January 1, 1999 (EUR 1 = NLG 2.20371).

See the notes to the consolidated financial statements.

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements of the Philips Group

all amounts in millions of euros unless otherwise stated

Introduction

The financial statements of Koninklijke Philips Electronics N.V. ('Royal Philips Electronics'), the parent company of the Philips Group, are included in the statements of the Philips Group. Therefore the unconsolidated statements of income of Royal Philips Electronics only reflect the net after-tax income of affiliated companies and other income after taxes.

Presentation of financial statements

The current balance sheet presentation is somewhat different from the one used under Dutch regulations and is more in line with common practice in the United States in order to accommodate the expectations of foreign - mainly US - shareholders. Under the current format, the order of presentation of assets and liabilities is based on the degree of liquidity.

Reclassifications

In order to provide comparable financial information for 1998 fully in conformity with the 2000 and 1999 presentation, items previously reported under extraordinary items and financial income and expenses have been reclassified to income from operations and results relating to unconsolidated companies, as reflected in the following table:

	after reclassification	1998 as published
Income from operations	1,195	685
Financial income and expenses	(253)	(312)
Income before taxes	942	373
Income taxes	(142)	(41)
Income after taxes	800	332
Results relating to unconsolidated companies:		
- Share in results	39	32
- Results related to divestments	-	7
Minority interests	170	170
Income from continuing operations	1,009	541
Discontinued operations	5,054	5,054
Extraordinary items-net	(10)	458
Net income	6,053	6,053
Income from continuing operations per common share	0.70	0.38

1 Acquisitions and divestitures

A summary of the most significant acquisitions and divestitures during 2000 is given below.

LG ELECTRONICS

In view of the existing relationship with LG Electronics Inc. (LGE) (a publicly listed Korean company with which Philips already has the LG.Philips LCD joint venture) and the intended new joint venture in the cathode ray tube (CRT) business, in December 2000 Philips purchased 32 million convertible redeemable preferred shares in LGE, for 544 billion Korean won (EUR 505 million). The redeemable preferred shares will be redeemed before June 30, 2004, subject to the Korean legal requirement of the existence of sufficient profit and retained earnings available for distribution. The preferred shares are also convertible one year after issuance, at Philips' option, into LGE common stock. The dividend yield on these preferred shares is 7.5%. The preferred shares have no voting rights, unless LGE is in arrears on dividend or redemption payments. The preferred shares are carried at cost (redemption value) in the accompanying consolidated balance sheet. The redeemable preferred shares result in a concentration of credit risk. However, the Company is of the opinion that out of the existing joint venture, LG.Philips LCD, and the new joint venture with LGE (expected to be established in the course of 2001) sufficient funds will flow to LGE to enable LGE to redeem the preferred shares within the next few years. However, earlier repayment is permitted.

TSMC preferred stock

In November 2000, the Company purchased 1.3 billion redeemable preferred shares in Taiwan Semiconductor Manufacturing Company (a publicly listed Taiwanese company in which the Philips Group has a substantial shareholding) for 13 billion Taiwanese dollars (EUR 458 million). The preferred shares are redeemable in 2003. The dividend yield on these preferred shares is 3.5%. The preferred shares carry the same voting rights as TSMC's common shares. The preferred shares are carried at cost (redemption value) in the accompanying consolidated balance sheet. The redeemable preferred shares result in a concentration of credit risks. However, based on historical results, the Company is of the opinion that TSMC will have sufficient means to redeem at the redemption date.

ADAC

In December 2000, Philips acquired substantially all of ADAC Laboratories' common stock for USD 18.50 per share for each outstanding share. The total purchase price approximates EUR 483 million, of which approximately EUR 437 million was paid through December 31, 2000. The balance sheet of ADAC, a medical systems business, has been included in the Company's consolidated balance sheet as of December 31, 2000. The cost of the acquisition was allocated on the basis of the fair value of the assets acquired and the liabilities assumed. Based on an independent appraisal, EUR 241 million was assigned to specific intangible assets acquired, including purchased technology, in-process R&D, the value of the customer base and the value of the existing workforce. Of this amount, EUR 44 million, representing the value of in-process R&D that had not yet reached technological feasibility and had no alternative future use, was charged to expense as of the date of acquisition. An amount of EUR 257 million, representing the excess of cost over the fair value of the net assets acquired, has been recorded as goodwill. Goodwill and other intangibles are being amortized over their useful lives, which average approximately 13 years.

MEDQUIST

During 2000, in a series of transactions, Philips acquired approximately 71% of the outstanding shares in MedQuist, a provider of electronic medical transcription services in the United States, for a total aggregate cash purchase price of EUR 1,339 million. The cost of the acquisition was allocated on the basis of the fair value of the assets acquired and liabilities assumed. Based upon independent appraisal, EUR 207 million was assigned to specific intangible assets acquired, including the value of the customer base and the existing workforce. An amount of EUR 1,097 million, representing the excess of cost over the fair value of the net assets acquired, has been recorded as goodwill. Goodwill and other intangibles are being amortized over their useful lives, which average approximately 15 years. The results of operations for MedQuist have been included in the Company's consolidated financial statements as from July 1, 2000.

OPTIVA

In October 2000, Philips acquired all of the outstanding shares of Optiva Corporation, the manufacturer of the Sonicare toothbrush, at a cost of approximately EUR 291 million. The cost of the acquisition was allocated on the basis of the fair value of the assets acquired and liabilities assumed. Based upon independent appraisal, EUR 99 million was assigned to specific intangible assets acquired, including patents and trademarks and the value of the workforce. Additionally, EUR 182 million, representing the excess of cost over the fair value of the net assets acquired, has been recorded as goodwill. The intangible assets are being amortized over their estimated useful lives, which average approximately 14.5 years. As from October 1, 2000, the results of operations for Optiva have been included in the Company's consolidated financial statements.

Philips has changed the name of Optiva into Philips Oral Healthcare with effect from 2001.

MICRUS

In June 2000, Philips purchased IBM's MiCRUS 8-inch wafer fab in the USA, a semiconductor activity, for which the results of operations have been included in the consolidated financial statements as from June 1, 2000. The acquisition price was approximately EUR 378 million, of which approximately EUR 228 million was paid through December 31, 2000. Based on independent appraisal, approximately EUR 367 million was assigned to the fixed assets acquired and EUR 11 million was assigned to the value of the existing workforce.

ATOS ORIGIN

In October 2000, Philips and Atos of France, a leading European IT services provider, merged Atos and Origin, Philips' IT services subsidiary. Under this transaction, Philips received 21.3 million newly issued Atos shares based on Atos' closing price on August 25, 2000 of EUR 122 per share, representing 48.7% of the shares in the combined entity Atos Origin.

Additionally, Philips received two tranches of warrants, each representing approximately 2.4 million Atos Origin shares. These warrants may be exercised in the event the weighted average share price of Atos Origin exceeds EUR 156 per share for twelve consecutive business days within 20 months following the closing date for the first tranche, and EUR 208 per share within 32 months for the second tranche. As from October 1, 2000, Philips no longer consolidated Origin as a separate division, but will, under the equity method of accounting, include its share in Atos Origin's earnings in results relating to unconsolidated companies from January 1, 2001 onwards. Due to Atos Origin's different reporting cycle, Philips' share can only be accounted for on a three-month-delay basis. The Company adjusted its investment in Origin to equal its share of the post-transaction merged equity of Atos Origin, based on Philips' accounting policies, resulting in a gain of EUR 1,072 million, which is included in other business income.

Philips limited its voting rights to 35% and agreed to reduce its stake in Atos Origin below 35% (directly or indirectly) within two years after the closing date.

AC&M

In May 2000, Philips reached agreement with Yageo Corporation of Taiwan to sell its AC&M (Advanced Ceramics & Modules) business to Yageo Corporation.

The transaction was completed in August 2000, and the Company received cash proceeds of EUR 658 million and recognized a gain, net of cost of disposal, of EUR 309 million which is included in other business income (net of taxes EUR 247 million). Sales and income related to this business included in the consolidated statement of income for 2000 totaled EUR 239 million and EUR 41 million respectively.

AGILENT

In November 2000, the Company announced an agreement to acquire Agilent Technologies' Healthcare Solutions Group (HSG), a medical systems business, for USD 1.7 billion. The transaction is expected to close early in 2001, subject to customary regulatory approvals and other closing conditions.

LG ELECTRONICS AND PHILIPS DISPLAY COMPONENTS

In November 2000, Philips and LG Electronics of South Korea announced the signing of a Letter of Intent through which the companies will merge their respective cathode ray tube (CRT) businesses in a new joint venture. Under the terms of the agreement, LG and Philips will share equal control of the joint venture. The transaction is expected to close in the first half of 2001, subject to customary regulatory approvals. The new joint venture will be required to contribute USD 1.1 billion in cash to LGE to close the difference in valuation of the net assets contributed.

The most significant acquisitions and divestitures during 1999 and 1998 were as follows:

LG.PHILIPS LCD CO., LTD

With effect from July 1, 1999, Philips and LG Electronics of South Korea finalized a manufacturing joint venture agreement, creating a world-leading supplier of Active Matrix Liquid Crystal Displays (AMLCDs).

Philips acquired a 50 per cent stake in LGE LCD business for EUR 1.7 billion and accounts for the investment using the equity method. The cost of the acquisition was allocated on the basis of the fair value of the assets acquired and liabilities assumed. The excess of the Company's investment over its underlying equity in the recognized net assets, commonly referred to as goodwill under Dutch GAAP, is EUR 1.3 billion. Goodwill and other intangibles are being amortized over their estimated useful lives, which average 15 years.

VLSI TECHNOLOGY, INC.

In June 1999, the Company acquired all of the outstanding shares of VLSI Technology (VLSI), a semiconductor business, at a cost of EUR 1.1 billion, which included EUR 0.1 billion of assumed debt. The results of operations for VLSI have been included in the Company's consolidated financial statements from the date of acquisition. The cost of the acquisition was allocated on the basis of the fair value of the assets acquired and liabilities assumed. Based upon independent appraisal, EUR 342 million was assigned to specific intangible assets acquired, including purchased technology, in-process R&D, patents and trademarks, and the value of the existing workforce. Of this amount, EUR 48 million, representing the value of in-process R&D that had not yet reached technological feasibility and had no alternative future use, was charged to expense as of the date of acquisition. An amount of EUR 305 million, representing the excess of cost over the fair value of the net assets acquired, has been recorded as goodwill. Goodwill and other intangibles are being amortized over their useful lives, which average approximately 7 years.

ORIGIN B.V.

In June 1999, the Company acquired an additional 10% interest in Origin at a cost of EUR 124 million. Philips then owned approximately 98% of Origin's stockholders' equity. Goodwill resulting from the acquisition totaled EUR 107 million and had a useful life of 7 years.

CONVENTIONAL PASSIVE COMPONENTS

Under an agreement signed on September 27, 1998, Philips sold its Conventional Passive Components activities to an affiliate of Compass Partners International on January 14, 1999. Net assets were therefore no longer consolidated as of December 31, 1998, but included under unconsolidated companies. However, sales and income for 1998 have been included in the consolidated Group accounts of that year.

In the first quarter of 1999, the transfer price of EUR 358 million was received and the gain of EUR 169 million recognized.

PHILIPS CONSUMER COMMUNICATIONS

Effective September 27, 1998, Philips and Lucent Technologies terminated their joint venture, Philips Consumer Communications (PCC).

Philips, which owned 60% of the venture, and Lucent, which owned 40%, each regained control of the assets originally contributed. The joint venture was formed on October 1, 1997.

Income from operations for 1998 included losses relating to the unwinding of the joint venture, including a write-down of obsolete inventories (EUR 159 million) and the subsequent restructuring of the PCC activities that were returned to Philips (EUR 216 million).

ATL ULTRASOUND, INC

ATL Ultrasound was acquired on October 2, 1998, for EUR 732 million in cash.

ATL Ultrasound is a leading company in the high-performance ultrasound market.

Included in the purchase price for ATL was goodwill of EUR 176 million, in-process R&D of EUR 182 million and other identifiable intangible assets amounting to EUR 228 million. Goodwill and other intangible assets are capitalized and amortized over 12 years and an average of 10 years respectively. In-process R&D was charged to expense at the date of acquisition.

PHILIPS CAR SYSTEMS

In December 1997, Philips and Mannesmann VDO signed a contract for the sale of Philips Car Systems to Mannesmann. Under the agreement, the first tranche (EUR 460 million) of the transfer price was received in the first quarter of 1998, while additional payments of EUR 31 million were received in 1998 for subsequently transferred activities. A final tranche of EUR 128 million was received in March 2000. The total net gain of EUR 379 million was recognized under extraordinary items in 1998.

2 Income from operations

Depreciation and amortization

Included in income from operations is depreciation of property, plant and equipment and amortization of intangible assets.

	2000	1999	1998
Depreciation of property, plant and equipment	1,789	1,525	1,563
Amortization of goodwill relating to consolidated companies	173	95	54
Amortization of other intangible assets	201	70	–
Amortization of patents and trademarks	10	6	2
Write-off of in-process R&D	44	68	202
	<u>2,217</u>	<u>1,764</u>	<u>1,821</u>

Depreciation of property, plant and equipment includes an additional write-off in connection with the retirement of property, plant and equipment amounting to EUR 19 million in 2000 (1999: EUR 17 million, 1998: EUR 15 million). In 2000, additional depreciation costs relating to write-downs of EUR 42 million (1999: EUR 40 million, 1998: EUR 67 million) arising from restructuring projects were reported in the income statement, in the separate line item restructuring charges. The total amount of depreciation and amortization in 2000 includes EUR 5 million arising from impairment (1999: EUR 41 million, 1998: EUR 250 million).

Amortization of goodwill relating to consolidated companies and other intangible assets in 2000 includes an impairment loss of EUR 35 million with respect to Voice Control Systems within the sector Consumer Electronics. Furthermore, amortization of intangible assets increased in the year 2000 because of the new acquisitions in 2000 and full-year amortization relating to the 1999 acquisitions.

Research and development

Expenditures for research and development activities amounted to EUR 2,766 million, representing 7.3% of sales (1999: EUR 2,284 million, 7.3% of sales; 1998: EUR 2,048 million, 6.7% of sales).

These expenditures are included in direct cost of sales.

Salaries and wages

	2000	1999	1998
Salaries and wages	7,631	6,910	6,878
Pension costs	(445)	(42)	188
Other social security and similar charges:			
- Required by law	1,009	958	981
- Voluntary	261	190	162
Total	<u>8,456</u>	<u>8,016</u>	<u>8,209</u>

See note 19 to the financial statements for further information on pension costs.

Employees

The average number of employees during 2000 was 231,161 (1999: 230,016, 1998: 252,680). The number of employees by category is summarized as follows:

	2000			1999	1998
	beginning of year*	end of year	average **	average	average
Production	122,989	125,421	124,473	126,622	146,249
Research & Development	22,099	22,884	22,201	21,104	20,657
Other	61,866	48,636	60,484	62,443	64,494
Permanent employees	206,954	196,941	207,158	210,169	231,400
Temporary employees	19,964	22,488	24,003	19,847	21,280
Total	226,918	219,429	231,161	230,016	252,680

* including changes in consolidation at January 1, 2000

** (de)consolidation changes have not been taken into consideration in determining the average number of employees

The number of employees at year-end 2000 decreased by 7,489 as compared to the beginning of the year. This includes a decrease of 10,621 relating to consolidation changes.

Remuneration of the Board of Management and Supervisory Board

Board of Management

Remuneration and pension costs relating to the members of the Board of Management amounted to EUR 4,442,733 (1999: EUR 9,412,000, 1998: EUR 11,711,000). The costs for former members of the Board of Management, which relate to pension charges, amounted to EUR 1,350,000 (1999: EUR 1,470,000, 1998: EUR 7,638,000).

In 2000, the present members of the Board of Management were granted 500,000 stock option rights (1999: 440,000* stock options, 1998: 1,543,600* stock options). At year-end 2000, the members of the Board of Management held 1,911,200 stock option rights (year-end 1999: 1,480,000*) at a weighted average exercise price of EUR 20.05 (year-end 1999: EUR 12.71*).

See note 26 to the financial statements for further information on stock options and pages 70-75 for further information on individual remuneration and interests in stock options and Philips shares.

* After stock split in 2000

Supervisory Board

The remuneration of the members of the Supervisory Board amounted to EUR 376,637 (1999: EUR 414,000, 1998: EUR 377,000); former members received no remuneration. The annual remuneration for individual members is EUR 40,840 and for the Chairman EUR 74,874. Additionally, the membership of committees of the Supervisory Board is compensated by an amount of EUR 4,538 per year per committee. At year-end 2000 the present members of the Supervisory Board held no stock options.

For further information on individual remuneration and interests in Philips shares, see pages 73-75.

Other business income

Other business income consists of amounts not directly related to the production and sale of products and services.

Included is EUR 1,429 million relating to the net gain from the disposal of business interests (1999: EUR 257 million, 1998: EUR 37 million), primarily the gain arising from the Atos Origin merger (EUR 1,072 million) and the gain on the sale of AC&M (EUR 309 million) in 2000 and Conventional Passive Components (EUR 169 million) in 1999. Other business income also includes gains of EUR 48 million from the sale of fixed assets (1999: EUR 71 million, 1998: EUR 74 million) and various smaller items.

Restructuring charges

The fast-changing environment in which Philips operates requires rapid adjustments in the organizational structure, product portfolio, etc. Management continuously monitors various projects to improve the performance of the operations.

The following table presents the changes in the restructuring provision from December 31, 1997 to December 31, 2000:

Type of costs	balance December 31, 1997	additions	utilized	releases	balance December 31, 1998
Write-down of assets	41	192	(203)	–	30
Personnel costs	189	124	(118)	(20)	175
Other costs	96	33	(61)	(8)	60
Total	326	349	(382)	(28)	265

Type of costs	balance December 31, 1998	additions	utilized	releases	balance December 31, 1999
Write-down of assets	30	40	(46)	(11)	13
Personnel costs	175	71	(116)	(46)	84
Other costs	60	12	(33)	(21)	18
Total	265	123	(195)	(78)	115

Type of costs	balance December 31, 1999	additions	utilized	releases	balance December 31, 2000
Write-down of assets	13	52	(33)	(10)	22
Personnel costs	84	125	(115)	(27)	67
Other costs	18	26	(24)	(9)	11
Total	115	203	(172)	(46)	100

The additions to the restructuring provision in 2000 affected the income statement as follows:

	write down fixed assets	write down inventories	personnel costs	other costs	total additions
Lighting			27	4	31
Consumer Electronics	3		18	6	27
Components	17	8	53	12	90
DAP	1	1	7	4	13
Origin			15		15
Miscellaneous	21		2		23
Unallocated		1	3		4
Philips Group	42	10	125	26	203

The projects initiated in 2000 will ultimately reduce direct labor by approximately 3,900 persons and indirect labor by approximately 1,100 persons.

Releases of surplus provisions amounted to EUR 46 million and were caused by changes in the original plans.

The remaining prior-year provisions available at December 31, 2000 relate primarily to personnel costs. The Company expects to make cash expenditures of approximately EUR 75 million in 2001 with existing restructuring programs. All existing programs will be completed by the end of 2001.

In 1999, the total restructuring charges to income amounted to EUR 123 million, comprising EUR 71 million for personnel costs, of which EUR 35 million related to Lighting, EUR 29 million to Miscellaneous, EUR 6 million to Components and EUR 1 million to Consumer Electronics for a total headcount reduction of approximately 1,500 persons, of whom 1,100 were direct labor and 400 indirect personnel.

The 1999 charge also included EUR 40 million for asset write-downs, mainly in Components and Lighting. Of this amount, EUR 4 million related to write-down of inventories, primarily in Components. The restructuring charge for fixed-asset write-downs came to EUR 36 million and related to Components, Lighting and Miscellaneous. The write-downs are based on the discounted cash flow method. Other costs totaled EUR 12 million, largely relating to Lighting, Components and Miscellaneous.

Releases of surplus provisions in 1999 amounted to EUR 78 million and were caused by changes in the original plans.

3 Financial income and expenses

	2000	1999	1998
Interest income	99	133	77
Interest expense	(266)	(262)	(321)
Total interest expense (net)	(167)	(129)	(244)
Income from securities officially quoted	2,217	117	–
Gains from non-current financial assets	13	44	36
Foreign exchange gains (losses)	(86)	7	(40)
Miscellaneous financing costs	11	(7)	(5)
Interest on provisions for pensions	–	–	(59)
Total	1,988	32	(312)

Income from securities officially quoted in 2000 includes the gain on the sale of JDS Uniphase shares for an amount of EUR 1,207 million.

Additionally, it includes the gain on the exchange of Seagram shares for Vivendi Universal shares, amounting to EUR 966 million, net of a US dollar hedge. Furthermore, dividends received from Seagram of EUR 32 million are also included.

The corresponding results for 1999 include the gain on the sale of JDS Uniphase shares (see note 10).

Gains (losses) from non-current financial assets in 1999 mainly related to dividends received on Seagram shares, whereas the 1998 results mainly reflect the gain on the sale of the equity investment in Flextronics of EUR 27 million.

Interest on provisions for pensions has been reclassified from financial income and expenses to income from operations with effect from 1999.

4 Income taxes

Tax on income from continuing operations amounted to EUR 570 million in 2000 (1999: EUR 336 million, 1998: EUR 41 million). In 2000, there were no taxes on extraordinary items, compared to a EUR 2 million benefit in 1999 and a EUR 96 million expense in 1998.

The amount of income tax allocated to stockholders' equity relates to a benefit because of results arising from stock option transactions of EUR 11 million (1999: EUR 23 million; 1998: EUR 51 million), a charge because of deferred results on hedge transactions of EUR 85 million (1999: benefit of EUR 102 million; 1998: nil) and a benefit of EUR 107 million with respect to the accounting change related to inventories.

The components of income before taxes are as follows:

	2000	1999	1998
Netherlands	4,620	479	330
Foreign	1,649	1,304	43
Income before taxes	6,269	1,783	373

The components of income tax expense are as follows:

Netherlands:			
Current taxes	120	45	1
Deferred taxes	277	35	90
	397	80	91
Foreign:			
Current taxes	349	229	100
Deferred taxes	(176)	27	(150)
	173	256	(50)
Income tax expense from continuing operations	570	336	41

Philips' operations are subject to income taxes in various foreign jurisdictions with statutory income tax rates varying from 16% to 45%, which causes a difference between the weighted average statutory income tax rate and the Netherlands' statutory income tax rate of 35%.

A reconciliation of the weighted average statutory income tax rate as a percentage of income before taxes and the effective income tax rate is as follows:

	2000	1999	1998
Weighted average statutory income tax rate	34.2	33.3	30.7
Tax effect of:			
Utilization of previously unrecognized loss carryforwards	(2.5)	(10.6)	(93.0)
New loss carryforwards not recognized	1.4	5.0	57.4
Changes in the valuation of other deferred taxes	(0.3)	5.4	16.7
Released valuation allowance	(2.6)	(9.4)	–
Exempt income and non-deductible expenses	(19.2)	(4.0)	18.1
Tax incentives and other	(1.9)	(0.9)	(18.8)
Effective tax rate	9.1	18.8	11.1

Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities are as follows:

	2000		1999	
	assets	liabilities	assets	liabilities
Intangible fixed assets	80	(400)	100	(20)
Property, plant and equipment	240	(310)	250	(230)
Inventories	240	(40)	90	(30)
Receivables	80	(20)	80	(80)
Provisions:				
- Pensions	100	(110)	90	(100)
- Restructuring	50	–	30	–
- Guarantees	10	–	20	–
- Other	510	(10)	620	(210)
Other assets	40	(440)	151	(310)
Other liabilities	120	(63)	90	(226)
Total deferred tax assets/liabilities	1,470	(1,393)	1,521	(1,206)
Net deferred tax position	77		315	
Tax loss carryforwards (including tax credit carryforwards)	1,579		2,026	
Valuation allowances	(1,215)		(1,663)	
Net deferred tax assets	441		678	

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset, the Company will need to generate future taxable income in the countries where the net operating losses were incurred. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2000.

The valuation allowance for deferred tax assets as of December 31, 2000 and 1999 was EUR 1,215 million and EUR 1,663 million respectively. The net change in the total valuation allowance for the years ended December 31, 2000 and 1999 was a decrease of EUR 448 million and a decrease of EUR 275 million respectively.

At December 31, 2000, operating loss carryforwards expire as follows:

Total	2001	2002	2003	2004	2005	2006/2010	later	unlimited
4,440	60	40	280	80	100	320	570	2,990

The Company also has tax credit carryforwards of EUR 140 million, which are available to offset future tax, if any, and which expire as follows:

Total	2001	2002	2003	2004	2005	2006/2010	later	unlimited
140	18	4	18	3	2	5	40	50

Classification of the deferred tax assets and liabilities takes place at a fiscal entity level as follows:

	2000	1999
Deferred tax assets grouped under non-current receivables	916	947
Deferred tax liabilities grouped under provisions	(475)	(269)
	<u>441</u>	<u>678</u>

An amount of EUR 441 million (1999: EUR 358 million), included in deferred tax assets of EUR 916 million, is expected to be realized within one year.

Classification of the income tax payable and receivable is as follows:

	2000	1999
Income tax receivable grouped under non-current receivables	89	20
Income tax receivable grouped under current receivables	24	92
Income tax payable grouped under current liabilities	(613)	(484)

The amount of the unrecognized deferred income tax liability for temporary differences, totaling EUR 254 million (1999: EUR 170 million), relates to unremitted earnings in foreign Group companies, which are considered to be permanently re-invested. Under current Dutch tax law, no additional taxes are payable. However, in certain jurisdictions, withholding taxes would be payable.

5 Results relating to unconsolidated companies

Results relating to unconsolidated companies in 2000 primarily consist of Philips' share in the operating results of LG.Philips LCD Co. in Korea (50%) and Taiwan Semiconductor Manufacturing Co. (22.5% in common stock).

Also included are the losses from the ongoing development costs of digitized street maps incurred by Navigation Technologies Corporation (NavTech).

The results for 2000 include several one-time gains. A gain of EUR 680 million was recorded in conjunction with issuance of shares by TSMC at a price in excess of the Company's per share carrying value.

Additionally, the sale of ASM Lithography shares in June 2000 resulted in a gain of EUR 2,595 million. Furthermore, the exchange of Philips' approximately 33% equity interest in Beltone Electronics Inc. for shares of GN Great Nordic A/S resulted in a gain of EUR 122 million.

Philips' remaining 7.2% investment in ASML and 3.3% investment in GN Great Nordic were reclassified to securities and other non-current financial assets respectively (see notes 10 and 13).

Philips' share in the results of Atos Origin (48.7%) will be recorded under results relating to unconsolidated companies as from January 1, 2001 onwards. Due to Atos Origin's different reporting cycle, Philips' share will be accounted for on a three-month-delay basis.

In 1999, results primarily consisted of Philips' share in the operating results of LG.Philips LCD Co. (50%) in Korea (in 1999 for 6 months only), Taiwan Semiconductor Manufacturing Co. (26.7%) and ASM Lithography (23.9%). Also included are the losses incurred by Navigation Technologies Corporation (NavTech) and the non-recurring gain from the sale of part of the shares of NavTech.

In 1998, an amount of EUR 7 million resulting from the sale of participations in various companies was also included.

Investments in, and loans to, unconsolidated companies

The changes during 2000 are as follows:

	total	investments	loans
Balance as of January 1, 2000	2,091	2,060	31
Changes:			
Acquisitions/additions	2,320	1,688	632
Sales/redemptions	(197)	(141)	(56)
Share in income	1,333	1,417	(84)
Dividend received	(150)	(150)	–
Changes in consolidation	–	(12)	12
Translation and exchange rate differences	(69)	(69)	–
Balance as of December 31, 2000	5,328	4,793	535

Loans to unconsolidated companies include redeemable preferred shares of TSMC, in the amount of EUR 421 million, which are presented as 'additions'.

Included in 'share in income' is a charge of EUR 84 million (1999: EUR 49 million, 1998: EUR 1 million) representing amortization of the excess of the Company's investment over its underlying equity in the net assets of unconsolidated companies, commonly referred to as goodwill under Dutch GAAP (EUR 79 million arising from the acquisition of LG.Philips LCD Co.).

The investments in unconsolidated companies at December 31, 2000 include EUR 215 million (1999: EUR 28 million) for companies accounted for under the cost method, of which EUR 3 million (1999: EUR 2 million) represents dividends received.

The total book value of investments in, and loans to, unconsolidated companies is summarized as follows:

	2000	1999
LG.Philips LCD Co.	832	656
Taiwan Semiconductor Manufacturing Co.	2,553	1,021
ASM Lithography	–	146
Atos Origin	1,449	–
Other	494	268
Total	5,328	2,091

The aggregate fair values of Philips' shareholdings in TSMC and Atos Origin, based on quoted market prices at December 31, 2000, were EUR 6.7 billion (1999: EUR 10.8 billion) and EUR 1.6 billion respectively.

Summarized financial information for the Company's equity investments in unconsolidated companies on a combined basis is presented below:

	January-December	
	2000	1999
Net sales	9,039	5,633
Income before taxes	2,572	1,254
Income taxes	(4)	(124)
Income after taxes	2,568	1,130
Net income	2,594	1,097
Total share in net income of unconsolidated companies recognized in the consolidated statements of income	1,333	412
	December 31,	
	2000	1999
Current assets	5,080	3,866
Non-current assets	16,609	6,150
	21,689	10,016
Current liabilities	(4,123)	(1,595)
Non-current liabilities	(3,427)	(2,615)
Net asset value	14,139	5,806
Investments in and loans to unconsolidated companies included in the consolidated balance sheet	5,328	2,091

6 Minority interests

The share of third-party minority shareholders in Group income totaled EUR 67 million in 2000. In 1999, minority interest amounted to EUR 52 million, in contrast to 1998, when third-party shareholders absorbed EUR 170 million of the net losses incurred by Group companies, principally the losses at PCC (dissolved October 1998).

Minority interests in consolidated companies, totaling EUR 469 million (1999: EUR 333 million), are based on the third-party shareholding in the underlying net assets. The increase in 2000 is mainly attributable to the acquisition of MedQuist, in which the third-party share is 29% at December 31, 2000. On the other hand, Philips acquired the remaining 20% share in Hosiden and Philips Display Corp. (HAPD) from Hosiden Corporation of Japan.

7 Discontinued operations

In December 1998, Philips completed the sale of all of its 75% shareholding in PolyGram N.V. ('PolyGram'), to The Seagram Company Ltd. ('Seagram'). Philips received EUR 5,233 million in cash and 47,831,952 Seagram shares, representing approximately 12% of the outstanding Seagram shares. The sale of PolyGram resulted in a gain of EUR 4,844 million, or EUR 3.36 per share, free of taxes. The results of PolyGram have been classified as discontinued operations in the accompanying financial statements.

PolyGram recorded sales of EUR 4,818 million in 1998 through the date of its sale. Philips' share in net income of PolyGram in 1998 amounted to EUR 210 million, which is included under income from discontinued operations.

8 Extraordinary items-net

	2000	1999	1998
Extraordinary gains	–	–	589
Extraordinary losses	–	(7)	(35)
Taxes	–	2	(96)
Total	–	(5)	458

There were no extraordinary items in 2000.

Extraordinary losses in 1999 (EUR 7 million) resulted from the early redemption of debt.

Extraordinary items in 1998 totaled EUR 458 million, comprising the sale of Philips Car Systems (gain of EUR 379 million) and the sale of the Optoelectronics unit as well as various other items (gain of EUR 79 million), partially offset by a loss on the early redemption of debt (EUR 15 million).

Accumulated translation differences in 1998 relating to the disposed businesses reduced the gains on disposals by EUR 5 million. Those translation differences were previously accounted for directly within stockholders' equity.

9 Earnings per share

The earnings per share data have been calculated in accordance with SFAS No. 128 'Earnings per Share' as per the following schedule:

	2000*	1999**	1998***
Weighted average number of shares ¹⁾	1,312,859,102	1,378,040,952	1,440,224,304
Basic EPS computation			
- Income from continuing operations available to holders of common shares	9,602	1,804	541
- Income from discontinued operations	-	-	210
- Gain on sale of discontinued operations	-	-	4,844
- Extraordinary items-net	-	(5)	458
Net income available to holders of common shares	9,602	1,799	6,053
Diluted EPS computation			
- Income from continuing operations available to holders of common shares	9,602	1,804	541
- Plus interest on assumed conversion of convertible debentures, net of taxes	1	-	1
- Income available to holders of common shares	9,603	1,804	542
- Income from discontinued operations	-	-	210
- Gain on sale of discontinued operations	-	-	4,844
- Extraordinary items-net	-	(5)	458
Net income available to holders of common shares plus effect of assumed conversions	9,603	1,799	6,054
Weighted average number of shares ¹⁾	1,312,859,102	1,378,040,952	1,440,224,304
Plus shares applicable to:			
- Options	9,961,410	6,954,752	8,043,692
- Convertible debentures	3,717,651	4,230,552	3,808,496
Dilutive potential common shares	13,679,061	11,185,304	11,852,188
Adjusted weighted average number of shares ¹⁾	1,326,538,163	1,389,226,256	1,452,076,492
Earnings per share ¹⁾:			
- Basic earnings	7.31	1.31	4.20
- Diluted earnings	7.24	1.30	4.17

* par value EUR 0.20

** par value EUR 1

*** par value NLG 10

¹⁾ Previously reported figures restated for 4-for-1 stock split

10 Securities

Included in securities are investments in equity securities which have been designated as available for sale (immediately available or within a period of one year) relating to shares of JDS Uniphase, ASML and, for 1999, Seagram.

All are carried at the original acquisition price of the shares and are presented in the table below:

	2000		1999
	number of shares	book value	book value
JDS Uniphase	10,477,168	61	463
Seagram	–	–	–
ASML	30,000,000	50	726
Balance as of December 31		111	1,189
			1,523

During 2000 and 1999 a portion of the JDS Uniphase shares was sold (see note 3).

In December 2000, Philips exchanged its Seagram shares for Vivendi Universal shares, which have been classified under other non-current financial assets (see note 13).

At December 31, 1999, the ASML shareholding was included in unconsolidated companies. Due to the sale of 69 million shares during 2000 the remaining shares were designated as available for sale and have been reclassified to securities.

11 Receivables

Trade accounts receivable include installment accounts receivable of EUR 69 million (1999: EUR 13 million).

Discounted drafts of EUR 8 million (1999: EUR 22 million) have been deducted.

Income taxes receivable (current portion) totaling EUR 24 million (1999: EUR 92 million) are included under other receivables.

The changes in the allowance for doubtful accounts are as follows:

	2000	1999	1998
Balance as of January 1,	278	186	155
Additions charged to income	59	198	179
Deductions from allowance *	(182)	(118)	(125)
Other movements **	26	12	(23)
Balance as of December 31,	181	278	186

* Write-offs for which an allowance was previously provided

** Including the effect of translation differences and consolidation changes

12 Inventories

Inventories are summarized as follows:

	2000	1999
Raw materials and supplies	1,638	1,694
Work in process	1,125	801
Finished goods	2,627	2,220
Advance payments on work in process	(111)	(149)
Total	5,279	4,566

The changes in the reserve for obsolescence of inventories are as follows:

	2000	1999	1998
Balance as of January 1,	630	735	526
Additions charged to income	302	242	469
Deductions from reserve	(243)	(392)	(277)
Other movements *	65	45	17
Balance as of December 31,	754	630	735

* Including the effect of translation differences and consolidation changes

Product development and process development costs, capitalized in inventories for an amount of EUR 348 million (net of taxes EUR 241 million) at December 31, 1999, are excluded from January 1, 2000 onwards.

13 Other non-current financial assets

The changes during 2000 are as follows:

	total	security investments	loans	restricted liquid assets
Balance as of January 1, 2000	340	125	136	79
Changes:				
Exchange of current assets	2,793	2,793	–	–
Acquisitions/additions	766	638	64	64
Sales/redemptions	(180)	(1)	(179)	–
Value adjustments	(3)	(3)	–	–
Translation and exchange differences	(38)	(41)	3	–
Changes in consolidation	69	–	69	–
Balance as of December 31, 2000	3,747	3,511	93	143
Accumulated total of write-downs included in the book value	24	4	20	–

In December 2000, Philips exchanged its Seagram shares for Vivendi Universal shares, a strategic investment, receiving 0.8 share in Vivendi Universal for each Seagram share. The share ownership will strengthen the Company's opportunities for a long-term relationship.

In view of the existing relationship with LG Electronics Inc. of Korea and the intended new joint venture in the field of CRT business, the Company invested an amount of EUR 505 million in a convertible redeemable preferred share issue by LG Electronics Korea (see note 1).

Acquisition of security investments also includes 6,822,165 shares in GN Great Nordic (EUR 132 million) received in exchange for the Company's equity position in Beltone Electronics Inc. (see note 5). Philips is restricted from selling these shares until 2003, a period of three years from the acquisition date.

Other security investments include EUR 111 million of shares that are not available for sale or redemption (1999: EUR 117 million).

14 Non-current receivables

Non-current receivables include receivables with a remaining term of more than one year and the non-current portion of income taxes receivable totaling EUR 89 million (1999: EUR 20 million). Prepaid expenses in 2000 include prepaid pension costs of EUR 1,469 million (1999: EUR 1,065 million) and deferred tax assets of EUR 916 million (1999: EUR 947 million).

15 Property, plant and equipment

The components of property, plant and equipment and the changes during 2000 were as follows:

Property, plant and equipment

	total	land and buildings	machinery and installations	other equipment	prepayments and construction in progress	no longer productively employed
Balance as of January 1, 2000:						
Cost	18,302	3,787	10,995	2,659	814	47
Accumulated depreciation	(10,970)	(1,774)	(7,105)	(2,055)	–	(36)
Book value	7,332	2,013	3,890	604	814	11
Changes in book value:						
Capital expenditures	3,170	221	1,567	402	980	–
Retirements and sales	(153)	(49)	(65)	(26)	(13)	–
Depreciation	(1,784)	(143)	(1,259)	(374)	(2)	(6)
Write-downs due to impairment	(5)	(3)	–	(2)	–	–
Translation differences	285	76	191	39	(21)	–
Changes in consolidation	196	(27)	110	131	(17)	(1)
Total changes	1,709	75	544	170	927	(7)
Balance as of December 31, 2000:						
Cost	20,265	3,821	11,804	2,840	1,741	59
Accumulated depreciation	(11,224)	(1,733)	(7,370)	(2,066)	–	(55)
Book value	9,041	2,088	4,434	774	1,741	4

Land is not depreciated.

The expected service lives as of December 31, 2000 were as follows:

Buildings	from 14 to 50 years
Machinery and installations	from 5 to 10 years
Other equipment	from 3 to 5 years

The changes during 2000 were as follows:

	total	goodwill		software	other intangibles
		relating to consolidated companies	relating to unconsolidated companies *		
Balance as of January 1, 2000:					
Acquisition cost	3,221	1,029	1,334	232	626
Accumulated amortization	(399)	(260)	(51)	(27)	(61)
Book value	2,822	769	1,283	205	565
Changes in book value:					
Reclassifications	(273)	(180)	(42)	(15)	(36)
Acquisitions	2,070	1,581	3	139	347
Amortization and write-downs	(512)	(173)	(84)	(86)	(169)
Translation differences	57	9	2	6	40
Changes in consolidation	263	–	–	5	258
Total changes	1,605	1,237	(121)	49	440
Balance as of December 31, 2000:					
Acquisition cost	5,219	2,295	1,294	368	1,262
Accumulated amortization	(792)	(289)	(132)	(114)	(257)
Book value	4,427	2,006	1,162	254	1,005

* Represents the excess of the Company's investment over its underlying equity in the net assets of the unconsolidated companies

The final appraisal value of other intangibles in a number of last year's acquisitions, resulted in an adjustment to the amount originally assigned on a provisional basis. The reallocation of the purchase price to other intangibles and goodwill is reflected under 'reclassifications'.

Goodwill relating to consolidated companies of EUR 1,581 million arose from the following acquisitions: MedQuist, Optiva, ADAC and several smaller items (see note 1).

The amount of other intangibles acquired (EUR 347 million) includes the amounts paid for in-process R&D of EUR 44 million relating to the ADAC acquisition, which amount was charged directly to the 2000 income statement. In-process R&D for 1999 amounted to EUR 68 million (1998: EUR 202 million). Additionally, acquisitions include other specific intangible assets acquired in above-mentioned transactions, such as purchased technology, patents and trademarks, the value of the customer base and the value of the assembled workforce (see note 1).

Amortization of goodwill relating to unconsolidated companies totaling EUR 84 million (1999: EUR 49 million, 1998: EUR 1 million) was not included in income from operations but was charged to results relating to unconsolidated companies.

The amortization periods as of December 31, 2000 were as follows:

Goodwill	from 5 to 15 years
Software	average 3 years
Other intangibles	from 3 to 15 years

17 Accrued liabilities

Accrued liabilities are summarized as follows:

	2000	1999
Salaries and wages payable	546	522
Income tax payable	613	484
Accrued holiday rights	232	234
Accrued pension costs	38	131
Commissions, freight, interest and rent payable	389	392
Other liabilities	1,883	2,078
Total	3,701	3,841

Other liabilities in 1999 include an amount of EUR 228 million, representing the deferred payment in connection with the acquisition of the 50% share in LG.Philips LCD Co., of which EUR 142 million was paid in 2000.

18 Provisions

Provisions are summarized as follows:

	2000		1999	
	Long-term	Short-term	Long-term	Short-term
Pensions (see note 19):				
- Defined-benefit plans	900	68	901	92
- Other postretirement benefits	385	47	268	88
Post-employment benefits	79	17	71	27
Deferred tax liabilities (see note 4)	282	193	209	60
Restructuring (see note 2)	20	80	30	85
Obligatory severance payments	129	57	119	87
Replacement and guarantees	74	354	58	353
Other provisions	653	153	406	264
Total	2,522	969	2,062	1,056

Obligatory severance payments

The provision for obligatory severance payments covers the Company's commitment to pay employees a lump sum upon reaching retirement age, or upon the employee's dismissal or resignation. In the event that a former employee has died, the Company may have a commitment to pay a lump sum to the deceased employee's relatives.

Replacement and guarantees

The provision for replacement and guarantees reflects the estimated costs of replacement and free-of-charge services that will be incurred by the Company with respect to products sold.

Other provisions

Other provisions include provisions for expected losses on existing projects/orders totaling EUR 38 million (1999: EUR 28 million), for employee jubilee funds totaling EUR 115 million and environmental provisions of EUR 202 million (1999: EUR 205 million).

The changes in the provisions for post-employment benefits, obligatory severance payments, replacement and guarantees and other provisions are as follows:

Balance as of January 1, 2000	1,385
Changes:	
Additions	705
Utilization	(574)
Balance as of December 31, 2000	1,516

19 Pensions and postretirement benefits other than pensions

Employee pension plans have been established in many countries in accordance with the legal requirements, customs and the local situation in the countries involved. The majority of employees in Europe and North America are covered by defined-benefit plans. The benefits provided by these plans are based primarily on employees' years of service and compensation near retirement.

In addition to providing pension benefits, the Company provides other postretirement benefits, primarily retiree healthcare benefits, in certain countries.

Contributions are made by the Company, as necessary, to provide assets sufficient to meet the benefits payable to defined-benefit pension plan participants. These contributions are determined based upon various factors, including legal and tax considerations as well as local customs. The Company funds certain defined-benefit pension plans and other postretirement benefit plans as claims are incurred. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for defined-benefit pension plans with accumulated benefit obligations in excess of plan assets were EUR 138 million, EUR 120 million and EUR 85 million respectively as of December 31, 2000 (1999: EUR 340 million, EUR 318 million and EUR 278 million respectively).

Provided is a table with a summary of the changes in the pension benefit obligations and defined pension plan assets for 2000 and 1999, and a reconciliation of the funded status of these plans to the amounts recognized in the consolidated balance sheets.

Also provided is a table with a summary of the changes in the accumulated postretirement benefit obligation and plan assets for 2000 and 1999, and a reconciliation of the obligation to the amount recognized in the consolidated balance sheets.

	2000	1999	2000	1999
	pension benefits		postretirement benefits	
Benefit obligation				
Benefit obligation at beginning of year	17,731	17,526	580	519
Service cost	366	424	13	13
Interest cost	1,090	977	43	35
Employee contributions	32	35	–	–
Actuarial (gains) and losses	401	(612)	13	16
Plan amendments	73	(109)	2	3
Settlements	(191)	(205)	–	(4)
Curtailments	(9)	(2)	(7)	(2)
Changes in consolidation	(204)	144	8	1
Benefits paid	(940)	(889)	(47)	(40)
Exchange rate differences	156	483	24	37
Miscellaneous	18	(41)	3	2
Benefit obligation at end of year	18,523	17,731	632	580
Plan assets				
Fair value of plan assets at beginning of year	23,799	19,622	14	16
Actual return on plan assets	(130)	4,419	2	2
Employee contributions	32	35	–	–
Employer contributions	(215)	(37)	3	3
Settlements	(125)	(193)	–	–
Curtailments	(2)	–	–	–
Changes in consolidation	(235)	187	4	–
Benefits paid	(855)	(798)	(6)	(4)
Exchange rate differences	228	577	–	(3)
Miscellaneous	8	(13)	–	–
Fair value of plan assets at end of year	22,505	23,799	17	14
Funded status	3,982	6,068	(615)	(566)
Unrecognized net transition (asset) obligation	(140)	(283)	136	167
Unrecognized prior service cost	192	61	7	6
Unrecognized net (gain) loss	(3,571)	(5,905)	40	37
Net balances	463	(59)	(432)	(356)
Classification of the net balances is as follows:				
- Prepaid pension costs under non-current receivables	1,469	1,065		
- Accrued pension costs under accrued liabilities	(38)	(131)		
- Provisions for pensions under provisions	(968)	(993)		
	463	(59)		

The weighted average assumptions underlying the pension computation were as follows:

	2000	1999
Discount rate	6.0%	6.1%
Rate of compensation increase	3.4%	3.4%
Expected return on plan assets	7.0%	7.0%

The components of net periodic pension costs of major defined-benefit plans were as follows:

	2000	1999	1998
Service cost-benefits earned during the period	366	424	364
Interest cost on the projected benefit obligation	1,090	977	933
Expected return on plan assets	(1,535)	(1,353)	(1,113)
Net amortization of unrecognized net transition assets	(98)	(100)	(94)
Net actuarial gain recognized	(231)	(13)	(56)
Amortization of prior service cost	21	14	27
Settlement (gain) loss	(106)	8	(26)
Curtailment loss	1	–	–
Minimum pension liability (gain) loss	(23)	(29)	46
Net periodic pension cost	(515)	(72)	81

The Company also sponsors defined-contribution and similar-type plans for a significant number of salaried employees. The total cost of these plans amounted to EUR 70 million in 2000 (1999: EUR 30 million, 1998: EUR 166 million).

The components of the net periodic cost of postretirement benefits other than pensions are:

	2000	1999	1998
Service cost-benefits earned during the period	13	13	11
Interest cost on accumulated postretirement benefit obligation	43	35	33
Expected return on plan assets	(2)	(2)	–
Amortization of unrecognized transition obligation	13	13	14
Net actuarial loss recognized	1	2	–
Curtailment cost	22	9	–
Settlement gain	–	(5)	–
Net periodic cost	90	65	58

The accumulated postretirement benefit obligation was determined using a weighted average discount rate of 7.0% (1999: 6.6%), an assumed compensation increase, where applicable, of 4.6% (1999: 4.8%), and an expected return on plan assets, where applicable, of 11.7% (1999: 12.8%). For measurement purposes, the rate of increase in per capita healthcare costs is assumed to be on average 8.3% for 2000, reaching 5% by the year 2004. Healthcare cost trend assumptions have a significant effect on the amounts reported for other postretirement benefits. Increasing the assumed healthcare cost trend rate by 1 percentage point would increase the accumulated postretirement benefit obligation as of December 31, 2000 by approximately EUR 67 million and increase the net periodic postretirement benefit cost for 2000 by EUR 5 million. Conversely, decreasing the assumed healthcare cost trend by 1 percentage point would decrease the accumulated postretirement benefits as of December 31, 2000 by approximately EUR 55 million and decrease the net periodic postretirement benefit cost for 2000 by EUR 4 million.

20 Other current liabilities

Other current liabilities are summarized as follows:

	2000	1999
Advances received from customers on orders not covered by work in process	168	147
Other taxes including social security premiums payable	375	389
Other short-term liabilities	319	253
Total	862	789

21 Short-term debt

	2000	1999
Short-term bank borrowings	1,140	383
Other short-term loans	130	98
Current portion of long-term debt	473	96
Total	1,743	577

During 2000, the weighted average interest rate on the bank borrowings was 5.7% (1999: 5.5% and 1998: 6.5%).

22 Long-term debt

	range of interest rates	average rate of interest	amount outstanding	due in 2001	due after 2001	due after 2005	average remaining term (in years)
Convertible debentures	2.4	2.4	105	–	105	–	4.0
Other debentures	5.6 – 8.8	7.4	2,249	431	1,818	998	6.4
Private financing	2.5 – 5.8	3.5	2	–	2	–	5.8
Bank borrowings	2.5 – 13.4	6.3	181	15	166	22	4.0
Liabilities arising from finance lease transactions	5.0 – 6.3	5.3	48	17	31	1	3.8
Other long-term debt	5.1 – 7.0	5.5	172	10	162	42	3.1
Total		7.0	2,757	473	2,284	1,063	
Corresponding data previous year		6.8	2,833	96	2,737	1,278	

The following amounts of long-term debt as of December 31, 2000 are due in the next five years:

2001	473
2002	274
2003	269
2004	363
2005	315
	1,694
Corresponding amount previous year	1,555

Of the total long-term debt outstanding, a portion amounting to EUR 473 million which falls due in 2001, is included in short-term debt.

In 1999 a certain amount of debt was repaid prior to maturity, resulting in payment of a redemption premium of EUR 7 million, which was classified as an extraordinary item (see note 8).

In the Netherlands, Philips issues personnel debentures with a 5-year right of conversion into common shares of Royal Philips Electronics. Personnel debentures which were issued after December 31, 1998 may not be converted within a period of 3 years after the date of issue. These personnel debentures are available to most permanent employees and are purchased by them with their own funds. The personnel debentures issued on or before December 31, 1998 are redeemable on demand, but in practice are considered to be a form of long-term financing. The personnel debentures become non-convertible debentures at the end of the conversion period. At such time, they will be reported as other long-term debt.

At December 31, 2000, an amount of EUR 105 million (1999: EUR 77 million) of personnel debentures was outstanding, with an average conversion price of EUR 23.21 and an average interest rate of 2.4%. The conversion price varies between EUR 6.82 and EUR 49.50, with various conversion periods ending between January 1, 2001 and December 31, 2005.

Philips had two 'puttable' US dollar bonds outstanding at year-end 2000, which amount to EUR 288 million (1999: EUR 266 million), for which the investor may require prepayment at one specific month during the lifetime of the respective bond. The average remaining tenor of long-term debt was 5.9 years, compared to 5.4 years in 1999, assuming that investors require payment at the relevant put dates. However, assuming that the 'puttable' bonds will be repaid at final maturity dates, the average remaining tenor at the end of 2000 was 8.4 years, compared to 7.4 years at the end of 1999.

At the end of 2000, the Group had long-term committed and undrawn credit lines available of USD 2.5 billion, unchanged from a year earlier. The commitment fees amounted to EUR 2 million.

23 Secured liabilities

Certain portions of long-term and short-term debt have been secured by collateral (see table below):

	amount of the debt	collateral	
		tangible fixed assets	other assets
Institutional financing	31	43	107
Other debts	14	35	—
Total	45	78	107
Previous year	55	51	110

24 Commitments and contingent liabilities

Long-term operating lease commitments totaled EUR 614 million in 2000 (1999: EUR 810 million). These leases expire at various dates during the next 40 years. The payments which fall due in connection with these obligations during the coming five years are:

2001	108
2002	180
2003	173
2004	50
2005	21

Guarantees given with regard to unconsolidated companies and third parties amounted to EUR 805 million (1999: EUR 290 million). The amount of conditional liabilities was EUR 9 million (1999: EUR 27 million).

Royal Philips Electronics and certain of its Group companies are involved as plaintiff or defendant in litigation relating to such matters as competition issues, commercial transactions, product liability, participations and environmental pollution. On the basis of information received to date, the Board of Management believes that this litigation will not materially affect Royal Philips Electronics' financial position and results of operations.

During 1999 the Company entered into agreements for the construction of the first phase of the High Tech Campus in the Netherlands. Upon completion of the first phase, the buildings will be leased to Philips until 2007. Commitments have been entered into, and a guarantee has been issued, for all present and future monetary payment obligations of the lessee, Philips Electronics Nederland B.V., with a maximum amount of EUR 130 million. The actual contingent liability outstanding at year-end from this guarantee is EUR 26 million (1999: EUR 10 million), which is the amount spent so far. The first lease payments are anticipated to be due as from 2001, when the first premises will become available for use.

25 Stockholders' equity

Stock split

On March 30, 2000, the General Meeting of Shareholders authorized a 4-for-1 stock split executed on April 10, 2000. All references in the consolidated financial statements and notes to the consolidated financial statements to number of shares, per share amounts and stock option plan data have been restated to reflect the split.

Share reduction program

Both share capital and the share premium account have been influenced by the share reduction program of 2000, which was adopted by the Extraordinary General Meeting of Shareholders in May 2000 and completed in August 2000. The first step involved a EUR 1,630 million increase of Philips' share capital and a corresponding reduction of the share premium account, with an increase in the par value of Philips' outstanding common shares (after 4-for-1 stock split) to EUR 1.454 from EUR 0.25 per share. The second step was a reduction of the par value of the common shares to EUR 0.194 and the return of EUR 1.26 (per share) of share capital to the shareholders in cash (total amount of share capital returned: EUR 1,673 million). The third step was to increase the par value of shares by EUR 0.006 to EUR 0.20, resulting in a share capital consolidation (97 'new' shares for 100 'old' shares = 3% reduction).

In 1999, the Company also executed an 8% share reduction program in a similar series of steps.

Priority shares

There are ten priority shares.

The issuance of shares or rights to shares, cancellation of shares, amendments to the Articles of Association and the liquidation of the Company need approval of the priority shareholders.

Preference shares

The 'Stichting Preferente Aandelen Philips' has been granted the right to acquire preference shares in the Company.

Option rights

The Company has granted stock options on shares of Royal Philips Electronics at original exercise prices equal to market prices of the shares at the date of grant (see note 26).

Other reserves

Royal Philips Electronics' shares which have been repurchased and are held in treasury for the delivery upon exercise of options and convertible personnel debentures are accounted for in stockholders' equity under other reserves. Treasury shares are recorded at cost, representing the market price on the acquisition date.

In order to reduce potential dilution effects, a total of 15,027,513 shares were acquired during 2000 at an average market price of EUR 45.40 per share, totaling EUR 682 million, and a total of 6,573,730 shares were delivered at an average exercise price of EUR 18.94. A total of 32,175,659 shares were being held by Group companies as of December 31, 2000 (1999: 24,714,704 shares after stock split), acquired at an aggregate cost of EUR 982 million.

A net deferred foreign-exchange hedge loss (net of taxes) of EUR 29 million (1999: EUR 161 million loss) is included under other reserves.

The changes are as follows:

Balance as of January 1, 2000	(161)
Adjustments due to transition rules	58
Net change in hedging transactions	(403)
Recognition into earnings	577
Translation differences	(100)
Changes in consolidation	—
Balance as of December 31, 2000 *	(29)

* Estimated net amount expected to be reclassified into earnings within the next 12 months: EUR 29 million.

At the beginning of the year 2000 the opening balance of the deferred foreign exchange hedges has been adjusted with a correction due to the introduction of SFAS No. 133. In the course of the year the deferred position was affected by substantial movements in the deferred foreign exchange results related to securities. Before the end of the year the majority of these results were recognized into earnings.

26 Stock-based compensation

The Company has granted stock options on its common shares to members of the Group Management Committee, Philips Executives and certain non-executives. The purpose of the stock option plans is to align the interests of management with those of shareholders by providing additional incentives to improve the Company’s performance on a long-term basis, thereby increasing shareholder value. Under the Company’s plans, options are granted at fair market value on the date of grant. Exercise of all options is restricted by the Company’s rules on insider trading.

In 2000, fixed stock options and performance (variable) stock options were granted under the Corporate Philips Stock Option Plan 2000.

Under this plan, options are granted for ten years, with a three-year restriction period during which no options can be exercised. The actual number of performance stock options that will be eligible for vesting will be determined based upon Total Shareholder Return of Philips, as defined in comparison with a peer group of multinationals over a three-year period.

In prior years, options were issued with terms of either five or ten years, all vesting within two or three years from grant.

US dollar-denominated stock options are granted to employees in the USA only.

During the year, the Company established an employee stock purchase plan in the USA. Under the terms of this plan, substantially all employees in the USA are eligible to purchase a limited number of shares of Philips stock, through payroll withholdings, at a price equal to the lower of 85% of the closing price at the beginning or end of quarterly stock purchase periods. A total of 4,034 shares were sold in 2000 under the plan at a price of USD 36.13.

The shares subject to the stock option and stock purchase plans are covered by shares held in treasury.

The Company accounts for stock-based compensation using the intrinsic value method. Accordingly, no compensation has been recorded for the fixed stock options granted, nor for the stock purchase plan. Additionally, no compensation cost was recognized for the performance stock options granted in 2000 due to the market value of the shares as at December 31, 2000.

The pro forma net income, calculated as if the fair value of the options granted to option holders would have been considered as compensation costs, is as follows:

	2000	1999 ¹⁾	1998 ¹⁾
Net income:			
- As reported	9,602	1,799	6,053
- Pro forma	9,515	1,775	6,034
Basic earnings per share:			
- As reported	7.31	1.31	4.20
- Pro forma	7.25	1.29	4.19
Diluted earnings per share:			
- As reported	7.24	1.30	4.17
- Pro forma	7.17	1.28	4.16

¹⁾ Previously reported figures restated for 4-for-1 stock split

As noted above, the actual number of performance stock options that are ultimately eligible to vest is dependent upon Total Shareholder Return of Philips, as defined in comparison with a peer group of multinationals over a three-year period. To the extent that the number of stock options that ultimately vest differs from the assumptions underlying the pro forma results presented above, future pro forma net income will be adjusted. Pro forma net income may not be representative of that to be expected in future years.

In accordance with SFAS No. 133, the fair value of stock options granted is required to be based upon a theoretical statistical option valuation model. In actuality, since the Company's stock options are not traded on any exchange, employees can receive no value nor derive any benefit from holding these stock options without an increase in the market price of Philips' stock. Such an increase in stock price would benefit all shareholders commensurately.

The fair value of the Company's 2000, 1999 and 1998 option grants was estimated using a Black-Scholes option pricing model and the following assumptions:

	2000	1999	1998
	(EUR-denominated)		
Risk-free interest rate	5.06%	3.19%	4.16%
Expected dividend yield	0.7%	1.2%	1.4%
Expected option life	4 yrs	4 yrs	3 yrs
Expected stock price volatility	46%	37%	36%
	2000	1999	1998
	(USD-denominated)		
Risk-free interest rate	6.26%	5.32%	5.30%
Expected dividend yield	0.9%	1.2%	1.4%
Expected option life	5 yrs	5 yrs	5 yrs
Expected stock price volatility	43%	37%	34%

The assumptions were used for these calculations only and do not necessarily represent an indication of management's expectations of future development.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The following table summarizes information about the stock options outstanding at December 31, 2000:

Fixed option plans

	options outstanding			options exercisable	
	number outstanding at Dec. 31, 2000	exercise price per share (price in EUR)	weighted average remaining contractual life (years)	number exercisable at Dec. 31, 2000	weighted average exercise price per share (price in EUR)
1996	595,200	6.61-7.53	0.3	595,200	7.41
1997	2,184,000	9.19-19.43	1.3	2,184,000	12.25
1998	2,225,800	11.57-21.02	2.2	2,113,800	16.76
1999	3,872,400	15.76-23.01	3.2	–	–
2000	3,427,750	42.03-53.75	9.3	–	–
		(price in USD)			(price in USD)
1998	1,594,436	12.94-23.59	7.3	810,673	17.13
1999	2,467,645	21.98-35.34	8.3	691,490	23.30
2000	3,802,922	36.65-49.71	9.4	–	–
	<u>20,170,153</u>			<u>6,395,163</u>	

Variable plans

	(price in EUR)			(price in EUR)	
2000	3,426,350	42.03-53.75	9.3	–	–
		(price in USD)			(price in USD)
1993-1994	240,584	2.75-6.89	2.0	240,584	2.91
1995-1997	1,320,448	7.50-14.20	4.0	1,320,448	7.80
2000	3,802,922	36.65-49.71	9.4	–	–
	<u>8,790,304</u>			<u>1,561,032</u>	

A summary of the status of the Company's stock option plans as of December 31, 2000, 1999 and 1998 and changes during the years then ended is presented below:

Fixed option plans

	2000		1999 ¹⁾		1998 ¹⁾	
	shares	weighted average exercise price (price in EUR)	shares	weighted average exercise price (price in EUR)	shares	weighted average exercise price (price in EUR)
Outstanding at the beginning of the year	13,261,600	14.27	15,376,800	11.61	21,162,000	7.80
Granted	3,445,850	43.52	3,983,400	16.22	5,267,600	16.30
Exercised	(4,172,484)	13.56	(6,062,600)	8.47	(11,052,800)	6.55
Forfeited	(229,816)	11.61	(36,000)	9.19	—	—
Outstanding at the end of the year	12,305,150	22.75	13,261,600	14.27	15,376,800	11.61
Weighted average fair value of options granted during the year in EUR	17.42		4.76		3.89	
		(price in USD)		(price in USD)		(price in USD)
Outstanding at the beginning of the year	4,996,988	20.66	2,484,600	17.34	—	—
Granted	4,015,797	42.25	2,914,700	23.12	2,507,600	17.90
Exercised	(665,900)	19.06	(295,644)	17.52	—	—
Forfeited	(481,882)	32.76	(106,668)	20.47	(23,000)	18.34
Outstanding at the end of the year	7,865,003	31.17	4,996,988	20.66	2,484,600	17.34
Weighted average fair value of options granted during the year in USD	18.38		8.55		6.13	

Variable plans

	2000		1999		1998	
	shares	weighted average exercise price (price in EUR)	shares	weighted average exercise price (price in EUR)	shares	weighted average exercise price (price in EUR)
Outstanding at the beginning of the year	—	—	—	—	—	—
Granted	3,445,850	43.52	—	—	—	—
Exercised	—	—	—	—	—	—
Forfeited	(19,500)	42.92	—	—	—	—
Outstanding at the end of the year	3,426,350	43.53	—	—	—	—
Weighted average fair value of options granted during the year in EUR	17.42		—		—	
		(price in USD)		(price in USD)		(price in USD)
Outstanding at the beginning of the year	2,787,200	7.14	4,804,736	6.95	7,276,152	6.58
Granted	4,015,797	42.25	—	—	—	—
Exercised	(1,174,348)	7.28	(1,904,648)	6.62	(1,599,440)	4.74
Forfeited	(264,695)	36.09	(112,888)	7.99	(871,976)	7.91
Outstanding at the end of the year	5,363,954	31.97	2,787,200	7.14	4,804,736	6.95
Weighted average fair value of options granted during the year in USD	18.38		—		—	

¹⁾ Previously reported figures restated for 4-for-1 stock split

Concentrations of credit risk

Credit risk represents the loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. As of December 31, 2000, the Company identified 3 customers with significant exposure. This exposure amounts to EUR 291 million in total and ranges from EUR 50 million to EUR 150 million per customer. To reduce exposure to credit risk, the Company performs ongoing credit evaluations of the financial condition of its customers but generally does not require collateral.

The Company invests available cash and cash equivalents with various financial institutions.

The Company is also exposed to credit risks in the event of non-performance by counterparties with respect to derivative financial instruments. The Company does not enter into any derivative financial instruments to protect against default of financial counterparties. However, the Company requires all financial counterparties with which it deals in derivative transactions to complete legally enforceable set-off agreements prior to trading and, whenever possible, to have a strong credit rating from Standard & Poor's and Moody's Investor Services. It is our policy to conclude financial transactions, where possible, under an ISDA master netting agreement. Wherever possible, cash is invested and financial transactions are concluded with financial institutions with strong credit ratings.

Derivative instruments and hedging activities

The Company is exposed to the risk of changes in foreign exchange rates, certain commodity prices and interest rates. To manage these risks, the Company enters into various hedging transactions that have been authorized pursuant to its policies and procedures as described below. The Company does not purchase or hold derivative financial instruments for trading purposes.

Foreign exchange risk

In the normal course of business, the Company is exposed to foreign exchange risk in the following areas:

- Transaction exposures, such as both existing and forecasted sales and purchases and payables/receivables resulting from such transactions;
- Translation exposure of investments in foreign entities (including results);
- Exposures of non-functional-currency-denominated debt;
- Exposures of non-functional-currency-denominated securities.

The Company periodically enters into derivative contracts to offset significant exposures from transactions such as sales and purchases of products and machines, including certain forecasted amounts, denominated in currencies other than the functional currency.

Generally, the contracts are for a maximum of 12 months. Typically, these derivatives are accounted for as cash flow hedges. It is the Company's policy not to hedge the translation exposure. Gains and losses from such contracts are included in income from operations.

Financing of subsidiaries is generally done in the functional currency of the borrowing entity. If the financing currency is not the functional currency of the business, the entity's exposure to foreign exchange risks is, in principle, hedged, unless this is restricted for regulatory reasons.

The hedges related to external debt and intercompany loans are covered by foreign currency forward contracts. The changes in the fair value of these hedges are accounted for in financial income and expenses and will substantially be offset. All hedges related to debt and intercompany loans are forward foreign exchange contracts or cross-currency basis swaps.

The Company partially hedges the foreign exchange exposure arising from securities that are available for sale. The forward foreign exchange hedges related to securities outstanding at December 31, 2000, are fair value hedges and consequently have an offsetting effect on the value of the hedged securities. All hedges related to securities are forward foreign exchange contracts.

Gains and losses on the derivatives are included in financial income and expenses.

Commodity price risk

The Company is a purchaser of certain base metals such as copper, precious metals and energy. The Company maintains a commodity-price risk management strategy that uses derivative instruments to minimize significant, unanticipated earnings fluctuations caused by commodity-price volatility. The commodity-price derivatives that the Company enters into are concluded as cash flow hedges to offset forecasted purchases. Gains and losses recognized in earnings are included in income from operations.

Interest-rate risk

The Company partially hedges the interest-rate risk inherent in the external debt. As of year-end 2000, the Company hedged a notional amount of USD 803 million, compared to current outstanding denominated fixed-rate public debt of USD 1,313 million.

The euro-denominated debt was not hedged.

The interest-rate currency swaps hedge adverse movements of long-term interest rates and foreign exchange rate movements. Under these hedge contracts, the Company receives fixed US dollar interest and pays variable euro interest. These interest rate hedges are fair value hedges. Changes in fair value on these derivatives are presented in financial income and expenses.

As of December 31, 2000, the majority of debt consists of bonds.

Of the EUR 2,262 million of bonds outstanding, 12.7% have an embedded put feature, which allows the investor to redeem the bonds prior to their final maturity date.

In accordance with the transition provisions of SFAS No. 133, the Company recorded a net of tax cumulative effect-type adjustment credit of EUR 58 million in accumulated other reserves to recognize at fair value all derivatives that are designated as cash flow hedging instruments.

At December 31, 2000, the Company had EUR 29 million (1999: EUR 161 million loss) of net deferred losses on derivative instruments, net of tax, in stockholders' equity. The Company expects that virtually the entire balance will be reclassified into earnings in 2001.

Fair value of financial assets and liabilities

The estimated fair value of financial instruments has been determined by the Company using available market information and appropriate valuation methods. The estimates presented are not necessarily indicative of the amounts that the Company could realize in a current market exchange or the value that will ultimately be realized by the Company upon maturity or disposition. Additionally, because of the variety of valuation techniques permitted under SFAS No. 107 'Disclosures about Fair Value of Financial Instruments', comparisons of fair values between entities may not be meaningful. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.

	December 31, 2000		December 31, 1999	
	carrying amount	estimated fair value	carrying amount	estimated fair value
Assets:				
Cash and cash equivalents	1,089	1,089	2,331	2,331
Securities	111	1,189	1,523	3,686
Accounts receivable-current	6,500	6,500	6,081	6,081
Other financial assets	3,747	3,631	340	340
Accounts receivable-non-current	303	269	252	231
Derivative instruments	423	423	(139)	(130)
Liabilities:				
Accounts payable	(4,255)	(4,255)	(3,632)	(3,632)
Debt	(4,027)	(4,061)	(3,314)	(3,427)

The following methods and assumptions were used to estimate the fair value of financial instruments:

Cash, accounts receivable and accounts payable

The carrying amounts approximate fair value because of the short maturity of these instruments.

Cash equivalents

The fair value is based on the estimated aggregate market value.

Securities

The fair value of equity investments is based on quoted market prices.

Other financial assets

For other financial assets, fair value is based upon the estimated market prices.

Debt

The fair value is estimated on the basis of the quoted market prices for certain issues, or on the basis of discounted cash flow analyses based upon Philips' incremental borrowing rates for similar types of borrowing arrangements with comparable terms and maturities.

Derivative instruments

The fair value is the amount that the Company would receive or pay to terminate the derivative instruments, considering currency exchange rates and remaining maturities.

28 Application of Generally Accepted Accounting Principles in the United States of America

The accounting policies followed in the preparation of the consolidated financial statements differ in some respects from those generally accepted in the United States of America.

To determine net income and stockholders' equity in accordance with generally accepted accounting principles in the United States of America (US GAAP), Philips has applied the following accounting principles:

- Under US GAAP, divestitures which cannot be regarded as discontinued segments of business must be included in income from continuing operations. Under Dutch GAAP, prior to 1999, certain material transactions such as disposals of lines of activities, including closures of substantial production facilities, were accounted for as extraordinary items, whereas under US GAAP they would have been recorded in income from operations.
- In 2000, Philips reported a credit to net income of EUR 16 million (versus a credit of EUR 62 million in 1999 and charges of EUR 34 million in 1998) because the excess amount of the accumulated benefit obligation over the market value of the plan assets or the existing level of the pension provision in certain Company pension plans was lower than in the preceding two years. For US GAAP purposes, when recording the additional minimum liability, a portion of this amount is capitalized as an intangible asset and the remaining balance is charged to equity, net of applicable taxes.
- In 1999 and prior years, certain product development and process development costs were included in inventories under Dutch GAAP.
In order to further align Philips' accounting principles under Dutch GAAP with US GAAP, effective January 1, 2000, such costs are recorded as a period expense when incurred.
- Under Dutch GAAP, securities available for sale are valued at the lower of cost or net realizable value. Under US GAAP they are valued at market price, unless such shares are restricted by contract for a period of one year or more, and unrealized holding gains or losses with respect to securities available for sale are credited or charged to stockholders' equity.
- Prior to the year 2000, under Dutch GAAP, the results of foreign-exchange contracts relating to hedges of securities, when sale is restricted for a period of one year or more, were deferred to stockholders' equity (EUR 90 million). Under US GAAP, changes in the value of these forward exchange contracts are reported in income. On January 1, 2000, the Company adopted SFAS No. 133 as its accounting policy for derivative instruments for both Dutch GAAP and US GAAP. However, the resulting cumulative effect of change in accounting principle is EUR 58 million gain for Dutch GAAP and is EUR 32 million loss for US GAAP because of the differences in accounting for derivatives which existed prior to adoption of SFAS No. 133.

- Philips reported a charge to income from operations of EUR 329 million for restructuring in its 1998 financial statements. With regard to a portion of this restructuring, EUR 40 million (EUR 23 million net of taxes), the plans had not been communicated to employees until early 1999 and, accordingly, this portion was recorded under US GAAP as a charge in 1999.
- Under US GAAP, consolidation of majority-owned entities is not permitted if minority interest holders have the right to participate in operating decisions of the entity. Although Philips owned 60% of the Philips Consumer Communications joint venture, under US GAAP the venture with Lucent Technologies could not be consolidated but was accounted for under the equity method.
- Under Dutch GAAP, catalogues of recorded music, music publishing rights, film rights and theatrical rights belonging to PolyGram (which was sold in 1998) were written down to the extent that the present value of the expected income generated by the acquired catalogues was below their book value. Under US GAAP the rights were initially amortized over a maximum period of 30 years. As a result of the sale of PolyGram, the cumulative amortization has been credited to the gain on disposal in 1998 income under US GAAP.
- Under Dutch GAAP, goodwill arising from acquisitions prior to 1992 was charged directly to stockholders' equity. Under US GAAP, goodwill arising from acquisitions, including those prior to 1992, is capitalized and amortized over its useful life up to a maximum period of 20 years. As a result of the sale of PolyGram, the related goodwill has been fully amortized and charged to the gain on disposal in 1998 income under US GAAP.
- Under Dutch GAAP, funding of NavTech's activities is accounted for as results relating to unconsolidated companies (2000: EUR 71 million, 1999: EUR 44 million, 1998: EUR 61 million) whereas under US GAAP these amounts have to be included in income from operations as research and development costs.
- Under Dutch GAAP, the excess of the Company's investment over its underlying equity in the net assets of unconsolidated companies has been classified as goodwill under intangible fixed assets, whereas under US GAAP it would be included in investments in unconsolidated companies.
- During the year ended December 31, 2000, the Company recognized gains on divestitures which totaled EUR 1,381 million. Under Dutch GAAP, these gains are classified in the consolidated statement of income as other business income, which is included as part of income from operations, whereas under US GAAP, such gains are not classified in income from operations.

Reconciliation of net income according to Dutch GAAP versus US GAAP

	2000	1999	1998
Income from continuing operations as per the consolidated statements of income	9,602	1,804	541
Cumulative effect of a change in accounting principle in 2000 and reclassification of extraordinary items under Dutch GAAP	5	–	474
	<u>9,607</u>	<u>1,804</u>	<u>1,015</u>
<i>Adjustments to US GAAP (net of taxes):</i>			
Additional minimum liabilities under SFAS No. 87	(16)	(62)	34
Reversal of capitalized development costs in inventories	–	(12)	(40)
Reversal of provisions for restructuring	–	(23)	23
Reversal of deferred hedge result on securities	–	(90)	–
Adjustments to unconsolidated companies, net	(14)	–	–
Other items	–	(22)	(7)
Income from continuing operations in accordance with US GAAP before discontinued operations, extraordinary items and cumulative effect of change in accounting principle	9,577	1,595	1,025
Income from discontinued operations	–	–	210
Gain on disposal of discontinued operations	–	–	4,681
Extraordinary items-net	–	(5)	(16)
Cumulative effect of a change in accounting for derivative instruments and hedging activities, net	85	–	–
Net income in accordance with US GAAP	9,662	1,590	5,900
Basic earnings per common share in EUR ¹⁾ :			
Income from continuing operations	7.30	1.16	0.71
Income from discontinued operations	–	–	0.15
Gain on disposal of discontinued operations	–	–	3.25
Extraordinary items-net	–	(0.01)	(0.01)
Cumulative effect of a change in accounting	0.06	–	–
Net income	7.36	1.15	4.10
Diluted earnings per common share in EUR ¹⁾ :			
Income from continuing operations	7.22	1.15	0.70
Income from discontinued operations	–	–	0.15
Gain on disposal of discontinued operations	–	–	3.22
Extraordinary items-net	–	–	(0.01)
Cumulative effect of a change in accounting	0.06	–	–
Net income	7.28	1.15	4.06

¹⁾ Previously reported figures restated for 4-for-1 stock split

In addition to the reconciliation of net income, 'comprehensive income' is required to be reported under US GAAP.

Comprehensive income is defined as all changes in the equity of a business enterprise during a period, except investments by, and distributions to, equity owners. Accordingly, comprehensive income consists of net income and other items that are reflected in stockholders' equity on the balance sheet and have been excluded from the income statement. Such items of other comprehensive income include foreign currency translation adjustments, the change in the fair value of certain derivatives qualifying for hedge treatment, certain pension liability-related losses and unrealized holding gains and losses on securities available for sale.

Statement of comprehensive income

	2000	1999	1998
Net income in accordance with US GAAP	9,662	1,590	5,900
<i>Other comprehensive income (net of taxes):</i>			
Cumulative effect of a change in accounting for derivative instruments and hedging activities	(32)	–	–
Translation differences	65	419	(194)
Deferred results on derivatives	132	(71)	15
Minimum pension liability adjustment	–	43	(49)
Unrealized holding gains (losses) on securities available for sale	(1,191)	2,131	32
Comprehensive income in accordance with US GAAP	8,636	4,112	5,704

Reconciliation of stockholders' equity according to Dutch GAAP versus US GAAP

	2000	1999
Stockholders' equity as per the consolidated balance sheets	21,736	14,757
<i>Equity adjustments that affect net income:</i>		
Intangible assets relating to additional liabilities under SFAS No. 87	13	29
Reversal of capitalized development costs in inventories	–	(241)
Unconsolidated companies	(14)	–
<i>Equity adjustments not affecting net income under US GAAP:</i>		
Unrealized holding gains on securities available for sale	972	2,163
Stockholders' equity in accordance with US GAAP	22,707	16,708
Translation differences as included in stockholders' equity	(868)	(991)

Changes in unrealized holding gains on securities available for sale in 2000 primarily relate to the sale of Seagram shares and the partial sale of Uniphase shares during the year 2000, which resulted in realized gains included in Philips' net income under Dutch GAAP for the year 2000.

Philips Consumer Communications

Effective September 27, 1998, Philips and Lucent Technologies terminated their joint venture, Philips Consumer Communications (PCC).

Philips, which owned 60% of the venture, and Lucent, which owned 40%, each regained control of the assets originally contributed. The joint venture was formed on October 1, 1997. Philips has accounted for its investment in the PCC/Lucent joint venture on a consolidated basis, whereas according to US GAAP the joint venture is accounted for under the equity method.

Income from operations for 1998 included losses relating to the unwinding of the joint venture, including a write-down of obsolete inventories (EUR 159 million) and the subsequent restructuring of the PCC activities that were returned to Philips (EUR 216 million).

Summarized financial information for the PCC joint venture, included in Philips' consolidated financial statements in previous years, is as follows:

	9 months 1998
Sales	1,376
Loss from operations	(349)
Loss before income taxes	(350)
Net loss	(219)
Net cash used for operating activities	(378)
Net cash used for investing activities	(48)
Net cash provided by financing activities	395

29 Information relating to product sectors and geographic areas

In order to improve financial transparency to Philips' shareholders and the financial community at large, the Board decided in 2000 that separate results will be published for all divisions. As a consequence, the following 9 segments are distinguished: Lighting, Consumer Electronics, Domestic Appliances and Personal Care, Components, Semiconductors, Medical Systems, Origin (deconsolidated from October 1, 2000 onwards), Miscellaneous and Unallocated.

Lighting

Philips is a leader in the world lighting market. A wide variety of applications are served by a full range of incandescent and halogen lamps, automotive lamps, high-intensity gas-discharge and special lamps, QL induction lamps, fixtures, ballasts, lighting electronics and batteries.

Consumer Electronics

This division markets a wide range of products in the following areas: video products (Consumer TV, Institutional TV, VCR, TV-VCR, DVD Video), audio products (audio systems, portable products, speaker systems), computer monitors (CRT- and LCD-based), consumer communications (mobile phones, cordless digital phones, fax), remote control systems, set-top boxes, broadband networks, business communications systems and speech processing.

The Consumer Electronics sector includes 9 months of operations of the PCC/Lucent joint venture in 1998. For further details, please refer to note 28.

Domestic Appliances and Personal Care

This division markets a wide range of products in the following areas: male shaving & grooming (shavers, trimmers, etc.), body beauty and care (depilators, hair dryers, suncare, electric toothbrushes, skincare, thermometers, etc.), food and beverage (mixers, coffee makers, toasters, etc.) and home environment care (vacuum cleaners, air cleaners, steam irons, fans, etc.).

Components

Philips Components is a leading supplier of display, storage and other key components. It produces a wide range of products such as picture tubes (for TV and monitors), LCDs, passive components, magnetic products and modules for optical storage.

Semiconductors

Philips Semiconductors is a major supplier of integrated circuits (ICs) and discrete semiconductors to the consumer electronics, telecommunications, automotive, PC and PC peripherals industries.

Medical Systems

Philips is among the top three makers of systems for diagnostic imaging, based on x-ray, computed tomography, magnetic resonance and ultrasound technologies. It also provides consultancy services, information management, training and technical services to its customers in the healthcare sector.

Origin

Origin is a global IT service company delivering systems and a full range of services that facilitate total business solutions for clients. It is represented in more than 30 countries. In October 2000, Philips sold its 98% interest in Origin to Atos and received a 48.7% interest in Atos Origin. This investment is accounted for under the equity method. As a result of the merger, as from October 1, 2000, Philips no longer consolidated Origin as a separate division but will include its share of Atos Origin's earnings in results relating to unconsolidated companies beginning January 1, 2001, with a delay of three months.

Miscellaneous

This sector comprises not only various ancillary businesses, including Philips Enabling Technologies Group (formerly Philips Machinefabrieken and FEI Company, but also various (remaining) activities that have been sold, discontinued, phased out or deconsolidated in earlier years, such as, in 1998, Philips Media, Philips Car Systems, Superclub and ASM Lithography.

The costs of basic research and patents are included in the Miscellaneous sector.

Unallocated

The sector Unallocated includes general and administrative expenses in the corporate center and the country organizations.

For a description of the various product divisions included in the product sectors, please refer to the relevant section of the separate booklet entitled 'Management Report'.

The sales volumes of the various business activities and the associated income from operations by product sector and by geographic area are set forth in the following tables. Segment revenues represent the total of sales to third parties ('sales') and sales of products and services between the product sectors ('intersegment revenues').

Included in segment revenues by geographic area is the total revenue from worldwide sales to third parties and unconsolidated companies by consolidated companies located within that geographic area ('sales'), as well as the total value of sales to consolidated companies in other geographic areas ('interregional revenues').

The transfer prices charged for all intersegment (including interregional) sales are based on the arm's length principle as set forth in internationally accepted transfer pricing policies and guidelines.

Product sectors

	2000					
	sales (to third parties)	segment revenues	Ebita	income (loss) from operations	as a % of segment revenues	results relating to unconsolidated companies
Lighting	5,052	5,097	677	668	13.1	(33)
Consumer Electronics	14,683	14,852	420	374	2.5	(4)
DAP	2,107	2,130	292	287	13.5	–
Components	4,562	6,332	570	569	9.0	211
Semiconductors	5,879	6,812	1,451	1,346	19.8	1,151
Medical Systems	3,031	3,047	308	169	5.5	(3)
Origin	717	1,164	1,089	1,063	91.3	(2)
Miscellaneous	1,831	1,882	(105)	(113)	(6.0)	2,647
Unallocated	–	–	(79)	(82)		3
Total	37,862	41,316	4,623	4,281		3,970
Intersegment revenues		(3,454)				
Sales		37,862				
Income from operations as a % of sales				11.3		

1999

Lighting	4,548	4,597	609	602	13.1	(1)
Consumer Electronics	12,436	12,602	276	258	2.0	(1)
DAP	1,791	1,817	221	220	12.1	–
Components	3,754	5,325	289	286	5.4	187
Semiconductors	3,796	4,557	716	614	13.5	259
Medical Systems	2,493	2,495	219	181	7.3	(9)
Origin	1,056	1,735	125	97	5.6	–
Miscellaneous	1,585	1,705	(78)	(94)	(5.5)	(25)
Unallocated			(411)	(413)		(1)
Total	31,459	34,833	1,966	1,751		409
Intersegment revenues		(3,374)				
Sales		31,459				
Income from operations as a % of sales				5.6		

1998

Lighting	4,453	4,504	601	595	13.2	4
Consumer Electronics	12,364	12,524	(443)	(447)	(3.6)	2
DAP	1,746	1,769	200	199	11.2	–
Components	3,814	5,259	46	44	0.8	(10)
Semiconductors	3,212	3,963	769	765	19.3	110
Medical Systems	1,950	1,957	152	(49)	(2.5)	(12)
Origin	1,059	1,654	77	59	3.6	–
Miscellaneous	1,861	2,069	(67)	(82)	(4.0)	(46)
Unallocated			(392)	(399)		(9)
Total	30,459	33,699	943	685		39
Intersegment revenues		(3,240)				
Sales		30,459				
Income from operations as a % of sales				2.2		

Geographic areas

	2000				
	sales (to third parties)	segment revenues	Ebita	income (loss) from operations	as a % of segment revenues
Netherlands	1,696	16,001	2,424	2,395	15.0
Europe excl. Netherlands	15,271	20,084	860	851	4.2
USA and Canada	9,565	11,889	488	186	1.6
Latin America	2,285	2,054	60	59	2.9
Africa	271	167	3	3	1.8
Asia	8,774	14,613	808	807	5.5
Australia and New Zealand		433	(20)	(20)	(4.6)
Total	37,862	65,241	4,623	4,281	
Interregional revenues		(27,379)			
Sales		37,862			
Income from operations as a % of sales				11.3	
					1999
Netherlands	1,619	12,452	546	513	4.1
Europe excl. Netherlands	13,039	16,600	619	611	3.7
USA and Canada	7,918	9,310	255	82	0.9
Latin America	1,862	1,642	(40)	(41)	(2.5)
Africa	229	107	1	1	0.9
Asia	6,346	11,188	584	584	5.2
Australia and New Zealand	446	424	1	1	0.2
Total	31,459	51,723	1,966	1,751	
Interregional revenues		(20,264)			
Sales		31,459			
Income from operations as a % of sales				5.6	
					1998
Netherlands	1,653	11,089	449	446	4.0
Europe excl. Netherlands	13,015	16,430	648	638	3.9
USA and Canada	7,462	8,572	(254)	(473)	(5.5)
Latin America	2,089	2,013	(204)	(205)	(10.2)
Africa	270	126	(1)	(1)	(0.7)
Asia	5,556	10,013	311	287	2.9
Australia and New Zealand	414	419	(6)	(7)	(1.6)
Total	30,459	48,662	943	685	
Interregional revenues		(18,203)			
Sales		30,459			
Income from operations as a % of sales				2.2	

Product sectors

	2000					
	total assets	net operating capital	total liabilities excl. debt	long-lived assets	capital expenditures	depreciation
Lighting	2,944	1,903	947	1,383	258	171
Consumer Electronics	5,366	1,867	3,436	778	324	280
DAP	1,131	752	379	564	96	77
Components	5,532	2,062	1,499	3,273	660	343
Semiconductors	8,501	4,572	1,283	4,233	1,631	692
Medical Systems	3,982	2,821	1,157	2,429	58	47
Origin	1,449	–	–	–	18	43
Miscellaneous	1,421	441	832	430	125	92
Unallocated	8,215	(61)	2,776	378	–	44
Total	38,541	14,357	12,309	13,468	3,170	1,789

	1999					
	total assets	net operating capital	total liabilities excl. debt	long-lived assets	capital expenditures	depreciation
Lighting	2,849	1,875	849	1,275	176	161
Consumer Electronics	4,683	1,677	2,905	791	261	245
DAP	777	459	314	256	76	67
Components	5,179	2,078	1,151	3,197	259	364
Semiconductors	5,188	3,194	928	2,917	622	467
Medical Systems	1,840	1,023	807	640	41	38
Origin	683	240	415	275	56	68
Miscellaneous	1,545	628	820	441	85	98
Unallocated	7,040	(1,016)	3,191	362	86	40
Total	29,784	10,158	11,380	10,154	1,662	1,548

	1998					
	total assets	net operating capital	total liabilities excl. debt	long-lived assets	capital expenditures	depreciation
Lighting	2,607	1,764	810	1,194	191	173
Consumer Electronics	4,287	1,540	2,613	674	321	289
DAP	747	449	293	246	98	72
Components	3,112	2,070	932	1,865	299	357
Semiconductors	3,106	1,905	557	1,584	437	455
Medical Systems	1,677	936	736	597	36	31
Origin	572	147	367	184	69	63
Miscellaneous	1,470	650	727	463	106	124
Unallocated	10,575	212	2,729	321	77	51
Total	28,153	9,673	9,764	7,128	1,634	1,615

Main countries

	2000					
	sales (to third parties)	total assets	net operating capital	long-lived assets	capital expenditures	depreciation
Netherlands	1,696	8,593	2,932	1,885	638	369
United States	9,126	8,802	5,820	5,051	573	349
Germany	3,272	1,644	128	672	194	132
France	2,333	2,749	222	474	205	120
United Kingdom	2,179	951	526	337	89	61
China (incl. Hong Kong)	2,683	2,113	783	814	295	156
Other countries	16,573	13,689	3,946	4,235	1,176	602
Total	37,862	38,541	14,357	13,468	3,170	1,789
						1999
Netherlands	1,619	7,740	2,151	1,811	435	370
United States	7,535	5,139	2,839	2,476	249	228
Germany	2,727	1,558	86	632	134	147
France	1,962	1,118	164	392	92	113
United Kingdom	2,281	1,041	607	321	55	53
China (incl. Hong Kong)	2,023	1,570	635	635	91	123
Other countries	13,312	11,618	3,676	3,887	606	514
Total	31,459	29,784	10,158	10,154	1,662	1,548
						1998
Netherlands	1,653	11,863	2,778	1,633	404	343
United States	7,164	3,518	1,538	1,167	155	189
Germany	2,777	1,536	669	698	143	250
France	2,092	1,130	158	410	76	129
United Kingdom	1,931	907	504	298	60	64
China (incl. Hong Kong)	1,878	1,273	517	574	124	96
Other countries	12,964	7,926	3,509	2,348	672	544
Total	30,459	28,153	9,673	7,128	1,634	1,615

Balance sheets and statements of income of Koninklijke Philips Electronics N.V. ('Royal Philips Electronics')

in millions of euros before appropriation of profit

Balance sheets as of December 31

	2000	1999
Assets		
Current assets:		
Cash and cash equivalents	16	1,021
A Securities	111	1,523
B Receivables	1,691	558
	<u>1,818</u>	<u>3,102</u>
Non-current assets:		
C Investments in affiliated companies	20,923	15,577
D Other non-current financial assets	3,418	70
E Tangible fixed assets	1	1
F Intangible fixed assets	2,306	1,438
	<u>26,648</u>	<u>17,086</u>
Total	<u>28,466</u>	<u>20,188</u>
Liabilities and stockholders' equity		
Current liabilities:		
G Other liabilities	355	551
H Short-term debt	4,075	2,340
I Short-term provisions	72	39
	<u>4,502</u>	<u>2,930</u>
Non-current liabilities:		
J Long-term debt	2,053	2,471
I Long-term provisions	175	30
	<u>2,228</u>	<u>2,501</u>
K Stockholders' equity:		
Issued, paid-up capital	263	339
Share premium account	7	1,631
Reserves	11,864	10,988
Undistributed profit for the year	9,602	1,799
	<u>21,736</u>	<u>14,757</u>
Total	<u>28,466</u>	<u>20,188</u>

Statements of income

Income after taxes from affiliated companies	3,842	1,905
Other income after taxes	5,760	(106)
L Net income	<u>9,602</u>	<u>1,799</u>

Notes to the financial statements of Royal Philips Electronics

all amounts in millions of euros unless otherwise stated

With respect to the accounting policies, see pages 3-10 of the consolidated financial statements, which form part of these notes.

A Securities

See note 10 of the Group financial statements.

B Receivables

	2000	1999
Trade accounts receivable	210	155
Group companies	992	135
Unconsolidated companies	29	10
Total	1,231	300
Other receivables	42	176
Advances and prepaid expenses	2	82
Deferred tax assets	13	–
Income tax receivable	14	–
Derivative instruments – assets	389	–
Total	1,691	558

An amount of EUR 27 million included in other receivables is due after one year (1999: EUR 54 million).

C Investments in affiliated companies

The investments in affiliated companies are included in the balance sheet based on their net asset value in conformity with the aforementioned accounting principles of the consolidated financial statements, or their purchase price.

	total	investments	loans
Balance as of January 1, 2000	15,577	10,002	5,575
Changes:			
Acquisitions/additions	2,551	1,091	1,460
Sales/redemptions	(991)	(139)	(852)
After-tax income from affiliated companies	3,842	3,842	–
Dividends received	(426)	(426)	–
Translation differences/other changes	370	86	284
Balance as of December 31, 2000	20,923	14,456	6,467

A list of affiliated companies, prepared in accordance with the relevant legal requirements, is deposited at the Commercial Register in Eindhoven, the Netherlands.

D Other non-current financial assets

	total	other marketable securities	other receivables
Balance as of January 1, 2000	70	64	6
Changes:			
Acquisitions/additions	3,410	3,410	—
Sales/redemptions	(62)	(62)	—
Balance as of December 31, 2000	3,418	3,412	6

Included in other non-current financial assets are participations and securities that generate income unrelated to the normal business operations.

Included are Vivendi Universal shares, GN Great Nordic shares and preferred shares of LG Electronics Inc. of Korea. See note 13 to the Group financial statements.

E Tangible fixed assets

Balance as of January 1, 2000:	
Cost	1
Accumulated depreciation	—
Book value	1
Changes in book value:	
Capital expenditures	—
Retirements and sales	—
Depreciation and write-downs	—
Total changes	—
Balance as of December 31, 2000:	1
Cost	—
Accumulated depreciation	—
Balance	1

Tangible fixed assets consist of fixed assets other than land and buildings.

F Intangible fixed assets

Balance as of January 1, 2000:	
Acquisition cost	1,558
Accumulated amortization	(120)
Book value	1,438
Changes in book value:	
Reclassifications	(187)
Acquisitions	1,203
Amortization and write-downs	(148)
Total changes	868
Balance as of December 31, 2000:	
Acquisition cost	2,482
Accumulated amortization	(176)
Balance	2,306

The intangible fixed assets represent goodwill paid upon acquisitions. The acquisitions in 2000 mainly relate to MedQuist.

The amortization period ranges between 5 and 15 years.

Additional amortization of goodwill related to the exchange of Origin shares into Atos Origin shares, and a reallocation of goodwill with respect to prior year acquisitions, is reflected under 'Reclassifications'.

G Other liabilities

	2000	1999
Other short-term liabilities	82	63
Deferred income and accrued expenses	273	488
Total	355	551

Included in 2000 deferred income and accrued expenses is a liability of EUR 98 million in connection with LG.Philips LCD Co. in Korea.

H Short-term debt

Short-term debt includes the current portion of outstanding other long-term debt amounting to EUR 430 million (1999: EUR 10 million), debt to other Group companies totaling EUR 2,798 million (1999: EUR 2,330 million) and institutional financing EUR 847 million.

I Provisions

	2000	1999
Pensions	21	21
Other	226	48
Total	247	69
Of which long-term	175	30
Of which short-term	72	39

As almost all obligations in connection with pension plans have been covered by separate pension funds or third parties, the provision for pensions refers to additional payments which the Company intends to make in the future.

J Long-term debt

	range of interest rates	average rate of interest	amount outstanding	due in 2001	due after 2001	due after 2005	average remaining term (in years)
Convertible debentures	2.4	2.4	105	–	105	–	4.0
Other debentures	5.6-8.8	7.4	2,233	422	1,811	998	6.4
Intercompany financing	4.1-6.6	5.9	1,375	1,375	–	–	–
Other long-term debt	5.1-7.0	5.6	145	8	137	31	3.1
Total		6.7	3,858	1,805	2,053	1,029	
Corresponding data previous year		5.9	3,696	1,225	2,471	1,247	

The following amounts of the long-term debt as of December 31, 2000, are due in the next five years:

2001	1,805
2002	201
2003	211
2004	325
2005	287
	2,829
Corresponding amount previous year	2,449

Included in convertible debentures are Philips personnel debentures, for which reference is made to the related note in the Group accounts.

K Stockholders' equity

See the Group financial statements and related notes.

No legal reserve for undistributed income from affiliated companies is required on the basis of the 'collective method', taking into account dividend distributions by affiliated companies, the receipt of which can be effected without restrictions.

L Net income

Net income in 2000 came to EUR 9,602 million (1999: EUR 1,799 million).

For the remuneration of past and present members of both the Board of Management and the Supervisory Board, please refer to the statement on page 23 of the consolidated financial statements.

M Employees

The number of persons employed by Royal Philips Electronics at year-end 2000 was 14 (1999: 14) and included the members of the Board of Management and most members of the Group Management Committee.

N Obligations not appearing in the balance sheet

General guarantees as defined in Book 2, Section 403 of the Netherlands Civil Code have been given by Royal Philips Electronics on behalf of several Group companies in the Netherlands. The liabilities of these companies to third parties and unconsolidated companies totaled EUR 1,674 million as of year-end 2000 (1999: EUR 1,544 million). Guarantees totaling EUR 600 million (1999: EUR 522 million) have also been given on behalf of other Group companies, and guarantees totaling EUR 439 million (1999: EUR 84 million) on behalf of unconsolidated companies and third parties.

Eindhoven, February 6, 2001

The Supervisory Board

The Board of Management

Other information regarding Royal Philips Electronics

Auditors' report

Introduction

We have audited the 2000 financial statements of Koninklijke Philips Electronics N.V. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2000 and the results of its operations for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code.

Eindhoven, February 6, 2001

KPMG Accountants N.V.

Proposed distribution of income of Royal Philips Electronics

Pursuant to article 35 of the Articles of Association, EUR 9,140 million of the income for the financial year 2000 shall be retained by way of reserve. A proposal will be submitted to the General Meeting of Shareholders to declare a dividend of EUR 0.36 per common share from the remaining income (EUR 462 million).

Corporate governance of the Philips Group

General

Koninklijke Philips Electronics N.V. (the 'Company') is the parent company of the Philips Group. Its shares are listed on the stock market of Euronext Amsterdam, the New York Stock Exchange, the London Stock Exchange and several other stock exchanges.

The management of the Company is entrusted to the Board of Management under the supervision of the Supervisory Board. The activities of the Philips Group are organized in product divisions, which are responsible for the worldwide business policy. Philips has more than 200 production sites in over 25 countries and sales and service outlets in some 150 countries. It delivers products, systems and services in the fields of lighting, consumer electronics and communications, domestic appliances and personal care, components, semiconductors, medical systems, business electronics and information technology. The Company's activities are grouped in nine sectors: Lighting, Consumer Electronics, Domestic Appliances and Personal Care, Components, Semiconductors, Medical Systems, Origin (deconsolidated from October 1, 2000 onwards), Miscellaneous and Unallocated. The statutory list of all subsidiaries and affiliated companies, prepared in accordance with the relevant legal requirements (The Netherlands Civil Code, Book 2, Articles 379 and 414), forms part of the notes to the consolidated financial statements and is deposited at the office of the Commercial Register in Eindhoven, the Netherlands (file no. 1910).

In recent years the governance of the Company and the Philips Group has been improved, in particular in respect of the supervisory function, the rights of shareholders and transparency. These improvements were in response to developments in the international capital markets, such as the United States, where the Company's shares have been traded since 1962 and listed on the New York Stock Exchange since 1987. Philips also generally endorses the recommendations of the Committee of the Amsterdam Exchanges of October 1997 on best practices in corporate governance.

Remuneration of the Board of Management and Supervisory Board

General policy

The objective of the remuneration policy for members of the Board of Management is in line with that for Philips Executives within the Philips Group, i.e. to attract, motivate and retain highly qualified executives who improve the performance of the Company.

In order to maintain a competitive remuneration package for Board-level executive talent, benchmarking against comparable companies is carried out systematically.

The remuneration package consists of a base salary, an annual incentive in the form of a cash bonus, and a long-term incentive in the form of stock options.

Base salary

Base salaries are based on a functional salary system. The functional scale salary levels are adapted annually to developments in the market. Each year, on the proposal of the Remuneration Committee, the Supervisory Board decides on a possible salary increase for the individual members of the Board of Management. Progression of the salary of an individual Board of Management member to his functional salary level is usually over a 3-year period from appointment. This progression, in conjunction with a market-related adjustment of salary levels, resulted – for Board members who were in office for the whole year – in a 13.8% increase in salaries compared with 1999.

Annual incentive

Each year, a bonus can be earned: in principle, up to a maximum of 50% of the annual base salary. The Remuneration Committee may decide to grant a higher bonus percentage if special targets are realized. The bonus criteria and the targets for the members of the Board of Management are determined annually by the Remuneration Committee of the Supervisory Board. Targets are set at a challenging level and are partly linked to the Philips Group results and partly to the businesses for which the member of the Board of Management has direct responsibility. The bonus pay-out depends on the degree to which targets were met in the preceding financial year.

The bonuses paid in 2000 were higher than in 1999 as a consequence of the 1999 operating results as compared to 1998.

Long-term incentive

Long-term incentives for members of the Board of Management are provided through Philips' stock option plans. These plans align the interests of shareholders and members of the Board of Management.

Acting on the advice of the Remuneration Committee, the Supervisory Board has the discretionary power to grant Royal Philips Electronics stock options to members of the Board of Management. The conditions attached to the stock options have to be decided each year by the Supervisory Board.

For details of the plan, see page 46.

In 2000, 50% of the granted stock options has been awarded as fixed options and 50% has been awarded as performance options, linked to the long-term performance of the Company.

Remuneration

The total remuneration and related costs (in euros) of the members of the Board of Management in 2000 can be specified as follows:

	2000	1999
Salaries	3,758,811	3,575,000
Bonuses	2,242,922	1,619,000
Other payments	–	1,095,000
	<u>6,001,733</u>	<u>6,289,000</u>
Pension charges *	(1,559,000)	3,123,000
Total	<u>4,442,733</u>	<u>9,412,000</u>

* The negative amount of pension charges in 2000 is mainly due to reduced periodic pension costs related to pensions funded by the Dutch Philips Pension Fund, whereas pension charges in 1999 were influenced by payments related to former members of the Board of Management.

The cash remuneration in euros of the individual members of the Board of Management was as follows:

	2000			1999			
	salary	bonus*	total	salary	bonus*	other	total
C. Boonstra	907,560	900,300	1,807,860	794,115	363,024		1,157,139
J.H.M. Hommen	612,603	432,906	1,045,509	589,914	200,571		790,485
A. Baan	612,603	218,382	830,985	521,847	83,344		605,191
A.P.M. van der Poel	612,603	318,327	930,930	521,847	133,109		654,956
J.W. Whybrow	612,603	302,671	915,274	521,847	229,763		751,610
G.J. Kleisterlee (April-December)	400,839		400,839				
Subtotal	3,758,811	2,172,586	5,931,397	2,949,570	1,009,811		3,959,381
D.G. Eustace		70,336	70,336	136,134	113,445		249,579
Other former members				489,705	495,754	1,094,518	2,079,977
Total	3,758,811	2,242,922	6,001,733	3,575,409	1,619,010	1,094,518	6,288,937

* The bonuses paid are related to the level of performance achieved in the previous year.

The table below gives an overview of the interests of the members of the Board of Management under the stock option plans of Royal Philips Electronics (numbers adjusted for stock split in 2000).

	number of options				amounts in euros		expiry date
	as of Jan. 1, 2000	granted during 2000	exercised during 2000	as of Dec. 31, 2000	exercise price	share price on exercise date	
C. Boonstra	240,000			240,000	9.19		13.02.2002
	120,000			120,000	15.76		11.02.2004
	–	120,000 ^{a)}		120,000 ^{a)}	42.03		17.02.2010
J.H.M. Hommen	480,000			480,000	9.19		13.02.2002
	80,000			80,000	16.45		12.02.2003
	80,000			80,000	15.76		11.02.2004
	–	80,000 ^{a)}		80,000 ^{a)}	42.03		17.02.2010
A. Baan ^{b)}	80,000		60,000	20,000	16.45	52.37	12.02.2003
	80,000			80,000	15.76		11.02.2004
	–	80,000 ^{a)}		80,000 ^{a)}	42.03		17.02.2010
A.P.M. van der Poel	80,000		40,000	40,000	16.45	46.13	12.02.2003
	80,000			80,000	15.76		11.02.2004
	–	80,000 ^{a)}		80,000 ^{a)}	42.03		17.02.2010
J.W. Whybrow	80,000		80,000	–	16.45	43.47	12.02.2003
	80,000			80,000	15.76		11.02.2004
	–	80,000 ^{a)}		80,000 ^{a)}	42.03		17.02.2010
G.J. Kleisterlee	27,200 ^{c)}			27,200 ^{c)}	7.53		25.02.2001
	12,000 ^{c)}			12,000 ^{c)}	9.19		13.02.2002
	12,000 ^{c)}			12,000 ^{c)}	16.45		12.02.2003
	60,000 ^{c)}			60,000 ^{c)}	15.76		11.02.2004
	–	60,000 ^{a/c)}		60,000 ^{a/c)}	42.03		17.02.2010
Total	1,591,200	500,000	180,000	1,911,200			

^{a)} 50% fixed options and 50% performance-related options

^{b)} Mr Baan's interests in Philips securities, including stock options, are held by an independent trustee, having exclusive discretionary power to take investment decisions. The terms thereof comply with internal rules and those of the Securities Board of the Netherlands.

^{c)} awarded before date of appointment as a member of the Board of Management.

The Supervisory Board and the Board of Management have decided to adjust upwards the exercise price of all options granted to, but not yet exercised by, members of the Board of Management as of May 29, 1999 by EUR 0.437 and as of July 31, 2000 by EUR 0.021 per common share in connection with the 8% share reduction program and the 3% share reduction program effected mid-1999 and mid-2000 respectively. This increase is not incorporated in the above table.

Pensions

The pensions are mainly funded by Philips Pension Fund. The Company can also grant additional pension benefits. The by-laws of Philips Pension Fund apply, with the proviso that the pensionable age has been set at 60. If members of the Board of Management continue in the employment of the Company until the age of 62 or later, the pension payments are postponed accordingly. Because the retirement age is different from the date of commencement of the state pension, the pension scheme provides for a temporary payment in order to compensate for the adverse effect. The Board of Management members' own contribution comprises 4% of EUR 56,414 and 6% of the difference between the gross pensionable salary minus the franchise and the above mentioned amount of EUR 56,414.

The vested pension benefits of individual members of the Board of Management are as follows:

	age at 31-12-2000	ultimate retirement age	increase in accrued pension during 2000 (EUR)	accumulated annual pension as at 31-12-2000 (EUR)
C. Boonstra	62	63	14,521	157,021
J.H.M. Hommen	57	62	19,652	73,915
A. Baan	58	62	12,575	342,857
A.P.M. van der Poel	52	62	12,575	216,727
J.W. Whybrow	53	62	12,575	307,479
G.J. Kleisterlee	54	62	9,256	207,791

Supervisory Board

During 2000 the individual members of the Supervisory Board received, by virtue of the positions they held, the following remuneration (in euros):

	2000			1999		
	member ship EUR	committees EUR	total EUR	member ship EUR	committees EUR	total EUR
L.C. van Wachem	74,874	9,076	83,950	74,874	7,941	82,815
W. de Kleuver	40,840	9,076	49,916	40,840	7,941	48,781
W. Hilger	40,840	9,076	49,916	40,840	9,076	49,916
C.J. Oort (Jan./March)	20,420	1,134	21,554	40,840	4,538	45,378
L. Schweitzer	40,840	–	40,840	40,840	–	40,840
R. Greenbury	40,840	4,538	45,378	40,840	3,403	44,243
J-M. Hessels	40,840	3,403	44,243	40,840	–	40,840
K.A.L.H. van Miert	40,840	–	40,840	–	–	–
	340,334	36,303	376,637	319,914	32,899	352,813
Former members	–	–	–	57,857	3,404	61,261
	340,334	36,303	376,637	377,771	36,303	414,074

Supervisory Board members' and Board of Management members' interests in Philips shares

Members of the Supervisory Board and of the Board of Management are not allowed to take any interests in derivative Philips securities.

	number of shares	
	as of December 31, 2000	as of January 1, 2000*
L.C. van Wachem	17,848	18,400
L. Schweitzer	1,070	1,104
C. Boonstra	54,320	–
J.W. Whybrow	1,070	1,104

* After 4-for-1 stock split and before 3% share reduction in 2000

The above statement does not specify ownership of convertible personnel debentures, which are held under a scheme that since 1998 has no longer been applicable to the members of the Board of Management.

Board of Management and Supervisory Board

The Board of Management is *responsible for* the effective management of the business. It is required to keep the Supervisory Board informed of developments, to consult it on important matters and to submit certain important decisions to it for its prior approval. The Board of Management *consists of* at least three members (currently six), who are elected for an indefinite period by the General Meeting of Shareholders. *Individual data* on the members of the Board of Management are printed on page 74 of the separate booklet entitled 'Management Report'. The President is *appointed by* the General Meeting of Shareholders. Members of the Board of Management may be *suspended by* the Supervisory Board and the General Meeting of Shareholders and *dismissed by* the latter. The *remuneration of* the members of the Board of Management is determined by the Supervisory Board upon a proposal from the President and on the advice of the Remuneration Committee of the Supervisory Board.

The Supervisory Board is independent of the Board of Management and is *responsible for* supervising both the policies of the Board of Management and the general direction of the Group's business. It is also required to advise the Board of Management. The Supervisory Board *consists of* at least five members (currently seven). They elect a Chairman, Vice-Chairman and Secretary from their midst. The Board has *three permanent committees*: an Audit Committee, a Remuneration Committee and a Nomination and Selection Committee. These committees advise the plenary Supervisory Board. The Supervisory Board has adopted *Rules of Procedure* to consolidate its own governance rules. The *profile* for the Supervisory Board's composition and *additional data* on the individual members are given on page 76 of the separate booklet entitled 'Management Report'. Members of the Supervisory Board are *appointed by* the General Meeting of Shareholders for fixed terms of four years, and may be re-elected for two additional four-year terms. In exceptional cases, however, the Supervisory Board and the Meeting of Priority Shareholders may deviate from this rule. At the latest, members retire upon reaching the age of 72. Members of the Supervisory Board may be suspended or dismissed by the General Meeting of Shareholders. Their *remuneration* is fixed by the General Meeting of Shareholders.

The appointment of the members of the Board of Management and the Supervisory Board by the General Meeting of Shareholders is upon a *binding recommendation* from the Supervisory Board and the Meeting of Priority Shareholders. However, this binding recommendation may be overruled by a resolution of the General Meeting of Shareholders taken by a majority of at least 2/3 of the votes cast and representing more than half of the issued share capital.

Group Management Committee

The Group Management Committee *consists of* the members of the Board of Management, certain Chairmen of product divisions and certain key officers. Members other than members of the Board of Management are *appointed by* the Supervisory Board. The task of the Group Management Committee, the highest consultative body within Philips, is to ensure that business issues and practices are shared across the Company and to define and implement common policies.

General Meeting of Shareholders

A General Meeting of Shareholders is held at least once a year to discuss and resolve on the report of the Board of Management, the annual accounts with explanation and appendices, the report of the Supervisory Board, any proposal concerning dividends or other distributions, and any other matters proposed by the Supervisory Board, the Board of Management, the Meeting of Priority Shareholders or shareholders in accordance with the provisions of the Company's Articles of Association. This meeting is held in Eindhoven, Amsterdam, Rotterdam or The Hague no later than six months after the end of the financial year. Meetings are *convened by* public notice and mailed to registered shareholders. *Extraordinary General Meetings* may be convened by the Supervisory Board or the Board of Management if deemed necessary and must be held if the Meeting of Priority Shareholders or shareholders jointly representing at least 10% of the outstanding capital make a written request to that effect to the Supervisory Board and the Board of Management specifying in detail the business to be dealt with. The *agenda* of the General Meeting shall contain such business as may be placed thereon by the Board of Management, the Supervisory Board or the Meeting of Priority Shareholders. Requests from shareholders for items to be included on the agenda will be honored, provided that such requests are made to the Board of Management and the Supervisory Board by shareholders representing at least 1% of the Company's outstanding capital at least 60 days before a General Meeting of Shareholders and provided that the Board of Management and the Supervisory Board are of the opinion that such requests are not detrimental to the serious interests of Philips.

The *main powers* of the General Meeting of Shareholders are to appoint, suspend and dismiss members of the Board of Management and the Supervisory Board, to adopt the financial statements and to discharge the Board of Management and the Supervisory Board from responsibility for performing their respective duties for the previous financial year, to adopt amendments to the Articles of Association and proposals to dissolve or liquidate the Company, to issue shares or rights to shares, to restrict or pass pre-emptive rights of shareholders and to repurchase or cancel outstanding shares. Following common practice, the Company each year requests limited authorization to issue (rights to) shares, to pass pre-emptive rights and to repurchase shares.

Meeting of Priority Shareholders and the Dr. A.F. Philips-Stichting

There are *ten priority shares*. Eight are held by the Dr. A.F. Philips-Stichting, with Messrs F.J. Philips and H.A.C. van Riemsdijk each holding one. The self-electing Board of the *Dr. A.F. Philips-Stichting* consists of the Chairman and the Vice-Chairman and Secretary of the Supervisory Board, certain other members of the Supervisory Board, and the President of the Company. At present, the Board consists of Messrs L.C. van Wachem, W. de Kleuver, J-M. Hessels, K.A.L.H. van Miert and C. Boonstra.

A *Meeting of Priority Shareholders* is held at least once a year, at least thirty days before the General Meeting of Shareholders. Approval of the Meeting of Priority Shareholders is required for resolutions of the General Meeting of Shareholders regarding the issue of shares or rights to shares, the cancellation of shares, amendments to the Articles of Association, and the liquidation of the Company. Acting in agreement with the Supervisory Board, the Meeting also makes a *binding recommendation* to the General Meeting of Shareholders for the appointment of members of the Board of Management and the Supervisory Board, which can be overruled by the General Meeting of Shareholders as set out before.

Meeting of Holders of Preference Shares and the Stichting Preferente Aandelen Philips

The *authorized share capital* of the Company consists of ten priority shares, 3,250,000,000 ordinary shares and 3,249,975,000 preference shares. The *Stichting Preferente Aandelen Philips* (*the Foundation*) has been granted the *right to acquire preference shares* in the Company. The mere notification that the Foundation wishes to exercise its rights, should a third party ever seem likely to gain a controlling interest in the Company, will result in the preference shares being effectively issued. The Foundation may exercise this right for as many preference shares as there are ordinary shares in the Company outstanding at that time. The object of the Foundation is to represent the interests of the Company, the enterprises maintained by the Company and its affiliated companies within the Philips Group, such that the interests of Philips, those enterprises and all parties involved with them are safeguarded as effectively as possible, and that they are afforded maximum protection against influences which, in conflict with those interests, may undermine the autonomy and identity of Philips and those enterprises, and also to do anything related to the above ends or conducive to them.

The *members of the self-electing Board of the Foundation* are Messrs J.R. Glasz, H.B. van Liemt, W.E. Scherpenhuijsen Rom, L.C. van Wachem and C. Boonstra. As Chairman of the Supervisory Board and the Board of Management respectively, Messrs Van Wachem and Boonstra are members of the Board *ex officio*. Mr Boonstra is not entitled to vote. The Board of Management of the Company and the Board of the Stichting Preferente Aandelen Philips declare that they are jointly of the opinion that the Stichting Preferente Aandelen Philips is *independent* of the Company as required by the Listing Requirements of Euronext Amsterdam N.V.'s stock market.

Some key financial information in NLG and US dollar

all amounts in millions of Dutch guilders and US dollars unless otherwise stated

Philips' consolidated financial data are presented in euros. For the convenience of the reader, certain information is summarized below in Dutch guilders and in US dollars. The 2000 euro amounts of the statement of income and cash flow items have been converted at average rates, while the balance sheet amounts have been converted at the official rates as of December 31, 2000. The 1999 amounts in NLG and US dollar are as published in the annual report for that year. The conversion rates used have been listed in the table below.

Statement of income

	NLG		USD	
	2000	1999	2000	1999
Sales	83,437	69,327	34,864	33,496
Income from operations	9,434	3,859	3,942	1,864
Financial income and expenses	4,381	71	1,831	34
Income before taxes	13,815	3,930	5,773	1,898
Income taxes	(1,256)	(741)	(525)	(357)
Income after taxes	12,559	3,189	5,248	1,541
Results relating to unconsolidated companies	8,749	901	3,656	435
Minority interests	(148)	(115)	(62)	(55)
Income from continuing operations	21,160	3,975	8,842	1,921
Per common share (after stock split)	16.11	2.89	6.73	1.40
Net income	21,160	3,964	8,842	1,915
Per common share (after stock split)	16.11	2.88	6.73	1.39

Balance sheet as of December 31

Cash and cash equivalents	2,400	5,137	1,014	2,351
Securities	245	3,356	103	1,536
Receivables	14,998	14,221	6,337	6,508
Inventories	11,633	10,062	4,915	4,606
Non-current assets	55,657	32,859	23,516	15,047
Total assets	84,933	65,635	35,885	30,048
Other current liabilities	19,432	18,207	8,210	8,340
Debt	8,874	7,303	3,750	3,343
Provisions	7,693	6,871	3,250	3,145
Total provisions and liabilities	35,999	32,381	15,210	14,828
Stockholders' equity	47,900	32,520	20,238	14,885
Minority interests	1,034	734	437	335
Group equity	48,934	33,254	20,675	15,220
Total equity and liabilities	84,933	65,635	35,885	30,048
Stockholders' equity per common share (after stock split)	37.31	24.42	15.76	11.18
Cash flow statement				
Net cash provided by operating activities	6,602	4,216	2,759	2,037
Net cash used for investing activities	(5,298)	(8,449)	(2,214)	(4,082)
Net cash used for financing activities	(4,491)	(5,743)	(1,877)	(2,775)
Conversion rates in euros:				
Average	0.45378	0.45378	1.086	0.9392
Year-end	0.45378	0.45378	1.074	0.9912

The Philips Group in the last seven years *

all amounts in millions of euros unless otherwise stated
Due to factors such as consolidations and divestments, the amounts, percentages and ratios are not directly comparable.

General data

	2000	1999	1998	1997	1996	1995	1994
Sales	37,862	31,459	30,459	29,658	27,094	25,259	23,768
Percentage increase over previous year	20	3	3	9	7	6	2
Income from continuing operations	9,602	1,804	541	1,231	126	971	683
Discontinued operations	–	–	5,054	263	202	247	281
Net income (loss)	9,602	1,799	6,053	2,602	(268)	1,143	964
Turnover rate of net operating capital	3.16	3.14	2.91	2.84	2.70	2.88	2.95
Total employees at year-end (in thousands)	219	227	234	252	250	253	241
Salaries, wages and social costs paid	8,456	8,016	8,209	8,261	8,083	7,363	7,031

Income

Income from operations	4,281	1,751	685	1,714	422	1,350	1,227
As a % of sales	11.3	5.6	2.2	5.8	1.6	5.3	5.2
As a % of net operating capital (RONA)	35.7	17.5	6.5	16.4	4.2	15.4	15.2
Income taxes	(570)	(336)	(41)	(276)	7	(74)	(135)
As a % of income before taxes	9	19	11	20	(40)	7	16
Income after taxes	5,699	1,447	332	1,119	25	964	696
As a % of sales	15.1	4.6	1.1	3.8	0.1	3.8	2.9
Income from continuing operations	9,602	1,804	541	1,231	126	971	683
As a % of stockholders' equity (ROE)	53.5	12.6	5.1	15.9	1.9	15.8	12.5
Per common share (after stock split)	7.31	1.31	0.38	0.88	0.09	0.71	0.51
Net income (loss)	9,602	1,799	6,053	2,602	(268)	1,143	964
Per common share (after stock split)	7.31	1.31	4.20	1.86	(0.20)	0.84	0.72
Dividend paid per common share (from prior-year profit distribution, after stock split)	0.30	0.25	0.23	0.18	0.18	0.14	0.14

* 1997 and prior years have been restated to reflect the sale of PolyGram N.V. in 1998 and to present the Philips Group accounts on a continuing basis.

Definitions

Net operating capital:	intangible assets (excl. goodwill unconsolidated companies), property, plant and equipment, non-current receivables and current assets excl. cash and cash equivalents, securities and deferred tax positions, after deduction of provisions and other liabilities
RONA:	income from operations as a % of average net operating capital
ROE:	income from continuing operations as a % of average stockholders' equity
Net debt:	long-term and short-term debt net of cash and cash equivalents
Average number of outstanding shares:	weighted average number of outstanding common shares based on monthly positions during the reporting year
Ebita:	income from operations excluding amortization charges for goodwill and other intangibles arising from acquisitions

The financial statements have been prepared in euros. Amounts previously reported in Dutch guilders are now reported in euros using the irrevocably fixed conversion rate which became effective on January 1, 1999 (EUR 1 = NLG 2.20371). See the notes to the consolidated financial statements.

Capital employed

	2000	1999	1998	1997	1996	1995	1994
Cash and cash equivalents	1,089	2,331	6,553	1,397	785	932	940
Securities	111	1,523	–	–	–	–	–
Receivables	6,806	6,453	5,442	5,464	5,369	4,890	4,567
Inventories	5,279	4,566	4,274	4,522	4,334	5,083	4,330
Current assets	13,285	14,873	16,269	11,383	10,488	10,905	9,837
Non-current financial assets	9,075	2,431	2,836	1,451	1,618	1,358	1,257
Net assets discontinued operations	–	–	–	1,482	1,198	1,013	901
Non-current receivables	2,713	2,326	1,920	1,858	1,662	1,413	1,397
Property, plant and equipment (book value)	9,041	7,332	6,574	6,935	6,719	6,094	5,599
Intangible assets (book value)	4,427	2,822	554	213	222	198	105
Non-current assets	25,256	14,911	11,884	11,939	11,419	10,076	9,259
Total assets	38,541	29,784	28,153	23,322	21,907	20,981	19,096
Property, plant and equipment:							
Capital expenditures for the year	3,170	1,662	1,634	1,627	2,185	2,127	1,535
Depreciation for the year	1,789	1,548	1,615	1,492	1,437	1,218	1,270
Capital expenditures : depreciation	1.8	1.1	1.0	1.1	1.5	1.7	1.2
Inventories as a % of sales	13.9	14.5	14.0	15.2	16.0	20.1	18.2
Outstanding trade receivables, in months' sales	1.5	1.4	1.3	1.3	1.3	1.5	1.5

Financial structure

Other current liabilities	8,818	8,262	6,779	6,328	5,768	5,643	5,373
Debt	4,027	3,314	3,587	4,030	5,855	4,756	3,875
Provisions	3,491	3,118	2,985	3,251	3,420	3,460	3,566
Total provisions and liabilities	16,336	14,694	13,351	13,609	15,043	13,859	12,814
Issued, paid-up capital	263	339	1,672	1,655	1,600	1,566	1,536
Surplus and reserves	21,473	14,418	12,888	7,499	4,985	5,060	4,410
Stockholders' equity	21,736	14,757	14,560	9,154	6,585	6,626	5,946
Minority interests	469	333	242	559	279	496	336
Group equity	22,205	15,090	14,802	9,713	6,864	7,122	6,282
Total equity and liabilities	38,541	29,784	28,153	23,322	21,907	20,981	19,096
Net debt : group equity ratio	12:88	6:94	*	21:79	42:58	35:65	32:68
Stockholders' equity per common share (after stock split)	16.93	11.08	10.09	6.39	4.74	4.85	4.41
Market price per common share at year-end (after stock split)	39.02	33.75	14.30	13.80	7.94	6.58	5.83

* Not meaningful: net cash in 1998 exceeded the debt level

**INFORMATION
FOURTH QUARTER
2000**

Philips quarterly statistics

in millions of euros unless otherwise stated; percentage increases always in relation to the corresponding period of previous year

	1999				2000			
	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter
Sales	6,837	7,298	7,744	9,580	8,329	9,155	9,371	11,007
% increase	(3)	(2)	6	11	22	25	21	15
Ebita	569	393	410	594	716	779	1,016	2,112
as % of sales	8.3	5.4	5.3	6.2	8.6	8.5	10.8	19.2
% increase	44	(18)	87	.	26	98	148	256
Income from operations (Ebit)	549	319	352	531	663	724	945	1,949
as % of sales	8.0	4.4	4.5	5.5	8.0	7.9	10.1	17.7
% increase	47	(32)	52	.	21	127	168	267
Income from continuing operations	469	274	374	687	1,140	3,604	2,066	2,792
% increase	46	(28)	154	.	143	1,215	452	306
per common share (in EUR) (after stock split)	0.32	0.20	0.28	0.51	0.86	2.71	1.58	2.16
Net income	469	271	372	687	1,140	3,604	2,066	2,792
% increase	(34)	(42)	93	(85)	143	1,230	455	306
per common share (in EUR) (after stock split)	0.32	0.20	0.28	0.51	0.86	2.71	1.58	2.16
	January- March	January- June	January- September	January- December	January- March	January- June	January- September	January- December
Sales	6,837	14,135	21,879	31,459	8,329	17,484	26,855	37,862
% increase	(3)	(3)	0	3	22	24	23	20
Ebita	569	962	1,372	1,966	716	1,495	2,511	4,623
as % of sales	8.3	6.8	6.3	6.2	8.6	8.6	9.4	12.2
% increase	44	10	25	108	26	55	83	135
Income from operations (Ebit)	549	868	1,220	1,751	663	1,387	2,332	4,281
as % of sales	8.0	6.1	5.6	5.6	8.0	7.9	8.7	11.3
% increase	47	3	14	156	21	60	91	144
as a % of net operating capital (RONA)	24.1	18.3	16.4	17.5	25.1	25.3	27.4	35.7
Income from continuing operations	469	743	1,117	1,804	1,140	4,744	6,810	9,602
as a % of stockholders' equity (ROE)	17.7	12.6	11.7	12.6	31.2	62.1	56.5	53.5
per common share (in EUR) (after stock split)	0.32	0.52	0.80	1.31	0.86	3.57	5.15	7.31
Net income	469	740	1,112	1,799	1,140	4,744	6,810	9,602
% increase	(34)	(37)	(19)	(70)	143	541	512	434
per common share (in EUR) (after stock split)	0.32	0.52	0.80	1.31	0.86	3.57	5.15	7.31
	Period ending 1999				Period ending 2000			
Inventories as % of sales	15.6	16.4	16.6	14.5	14.5	14.7	15.8	13.9
Average collection period of trade receivables in months' sales	1.6	1.6	1.6	1.4	1.6	1.6	1.6	1.5
Net debt : group equity ratio	*	*	10:90	6:94	4:96	*	8:92	12:88
Total employees (in thousands)	229	228	231	227	229	232	239	219

* Not meaningful: net cash exceeded the debt level.

Consolidated statements of income and cash flows

all amounts in millions of euro unless otherwise stated

Consolidated statements of income

	4th quarter		January-December	
	2000	1999	2000	1999
Sales	11,007	9,580	37,862	31,459
Ebita	2,112	594	4,623	1,966
Income from operations (Ebit)	1,949	531	4,281	1,751
Financial income and expenses	902	(13)	1,988	32
Income before taxes	2,851	518	6,269	1,783
Income taxes	(130)	(83)	(570)	(336)
Income after taxes	2,721	435	5,699	1,447
Results relating to unconsolidated companies	94	269	3,970	409
Minority interests	(23)	(17)	(67)	(52)
Income from continuing operations	2,792	687	9,602	1,804
Extraordinary items-net	-	-	-	(5)
Net income	2,792	687	9,602	1,799
Basic earnings per common share in EUR (after stock split):				
- income from continuing operations	2.16	0.51	7.31	1.31
- net income	2.16	0.51	7.31	1.31

Consolidated statements of cash flows

<i>Cash flows from operating activities:</i>				
Net income	2,792	687	9,602	1,799
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	697	554	2,320	1,853
Net gain on sale of investments	(2,095)	(105)	(6,384)	(491)
Income unconsolidated companies	(16)	(286)	(1,187)	(410)
Minority interests	23	17	56	38
Decrease (increase) in working capital	194	733	(1,579)	(501)
Increase (decrease) in provisions	222	30	386	(87)
Other items	161	(183)	(218)	(288)
Net cash provided by operating activities	1,978	1,447	2,996	1,913
<i>Cash flows from investing activities:</i>				
Proceeds from the sale of securities, net of hedging activities	(424)	158	848	158
Net capital expenditures	(1,248)	(504)	(3,132)	(1,576)
(Purchase) proceeds other non-current financial assets	(463)	5	(497)	(52)
Proceeds from sale of business				
Purchase of business (proceeds from sale of business)	(1,146)	(183)	377	(2,364)
Net cash used for investing activities	(3,281)	(524)	(2,404)	(3,834)
Cash flows before financing activities	(1,303)	923	592	(1,921)
<i>Cash flows from financing activities:</i>				
Increase (decrease) in debt	689	(168)	612	(717)
Effect of other financial transactions	-	(234)	-	-
Treasury stock transactions	(39)	22	(578)	(38)
Capital repayment to shareholders	-	-	(1,673)	(1,490)
Dividends paid	-	-	(399)	(361)
Net cash provided by (used for) financing activities	650	(380)	(2,038)	(2,606)
Cash used for (provided by) continuing operations	(653)	543	(1,446)	(4,527)
Effect of changes in exchange rates and consolidations on cash positions	(53)	70	204	305
Cash and cash equivalents at beginning of the period	1,795	1,718	2,331	6,553
Cash and cash equivalents at end of period	1,089	2,331	1,089	2,331

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

Segment revenues and income from operations by Product sectors and Geographic area

in millions of euros unless otherwise stated

Product Sector

	4 th quarter						January-December					
	2000			1999			2000			1999		
	segment revenues	Ebita	income (loss) from operations	segment revenues	Ebita	income (loss) from operations	segment revenues	Ebita	income (loss) from operations	segment revenues	Ebita	income (loss) from operations
Lighting	1,413	178	176	1,264	158	155	5,097	677	668	4,597	609	602
Consumer Electronics*	4,538	111	76	3,882	129	123	14,852	420	374	12,602	276	258
DAP	784	130	125	659	90	89	2,130	292	287	1,817	221	220
Components	1,564	61	61	1,523	84	83	6,332	570	569	5,325	289	286
Semiconductors	1,933	436	408	1,401	198	167	6,812	1,451	1,346	4,557	716	614
Medical Systems	1,045	159	70	814	122	112	3,047	308	169	2,495	219	181
Origin	–	1,072	1,072	438	24	15	1,164	1,089	1,063	1,735	125	97
Miscellaneous	519	(27)	(29)	481	(52)	(56)	1,882	(105)	(113)	1,705	(78)	(94)
Unallocated		(8)	(10)		(159)	(157)		(79)	(82)		(411)	(413)
Total	11,796	2,112	1,949	10,462	594	531	41,316	4,623	4,281	34,833	1,966	1,751
Intersegment revenues	(789)			(882)			(3,454)			(3,374)		
Sales	11,007			9,580			37,862			31,459		
Income from operations as a % of sales			17.7			5.5			11.3			5.6

* of which:

Mainstream CE	2,798	115	115	2,500	43	42	9,065	161	161	8,024	97	97
Digital Networks	304	(34)	(34)	262	(15)	(15)	878	(107)	(107)	758	(86)	(86)
Consumer												
Communications	674	(35)	(33)	532	19	18	2,229	1	1	1,810	(52)	(53)
Specialty Products	697	17	(20)	583	6	3	2,400	54	8	2,007	54	38
Licenses	100	48	48	83	76	75	409	311	311	296	263	262
Intrasegment revenues	(35)			(78)			(129)			(293)		
Consumer Electronics	4,538	111	76	3,882	129	123	14,852	420	374	12,602	276	258

Geographic area

Netherlands	4,599	1,448	1,450	3,611	32	22	16,001	2,424	2,395	12,452	546	513
Europe excl. Netherlands	5,907	272	270	5,123	264	263	20,084	860	851	16,600	619	611
USA and Canada	3,690	266	104	2,718	84	33	11,889	488	186	9,310	255	82
Latin America	635	16	16	506	(34)	(35)	2,054	60	59	1,642	(40)	(41)
Africa	53	1	1	32	–	–	167	3	3	107	1	1
Asia	3,961	107	106	3,347	247	247	14,613	808	807	11,188	584	584
Australia and New Zealand	124	2	2	113	1	1	433	(20)	(20)	424	1	1
Total	18,969	2,112	1,949	15,450	594	531	65,241	4,623	4,281	51,723	1,966	1,751
Interregional revenues	(7,962)			(5,870)			(27,379)			(20,264)		
Sales	11,007			9,580			37,862			31,459		
Income from operations as a % of sales			17.7			5.5			11.3			5.6