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This Financial Statements booklet and the separate booklet entitled 'Management Report' together comprise the full Annual Report for the year 1999 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 October 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.

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, 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⁾

	1999	1998	1997
Sales	31,459	30,459	29,658
Ebitda ²⁾	3,555	2,573	3,285
Income from operations	1,751 ³⁾	685	1,714
As a % of sales	5.6	2.2	5.8
As a % of net operating capital (RONA)	17.5	6.5	16.4
Income from continuing operations	1,804 ³⁾	541	1,231
As a % of stockholders' equity (ROE)	12.6	5.1	15.9
Per common share	5.24	1.50	3.52
Discontinued operations	—	5,054	263
Net income	1,799	6,053	2,602
Per common share	5.22	16.81	7.45
Dividend paid per common share (from prior-year profit distribution)	1.00	0.91	0.73
Cash flows (before financing activities)	(1,921)	699	3,255
Stockholders' equity	14,757	14,560	9,154
Per common share	44.33	40.37	25.57
Net debt : group equity ratio	6:94	⁴⁾	21:79

¹⁾ The consolidated financial statements for 1999 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⁾ In Philips' definition, Ebitda equals income from operations before depreciation and amortization charges.

³⁾ The 1999 results presented in line with previous years would result in income from operations of EUR 1,644 million and income from continuing operations of EUR 1,635 million. Net income would remain unchanged (see also Management's Discussion and Analysis).

⁴⁾ Not meaningful: net cash in 1998 exceeded the debt level.

Accounting principles

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 accordance with new developments under Dutch GAAP and trends in international accounting, the proposed dividend distribution to shareholders, which is subject to approval by the General Meeting of Shareholders, is not recorded in the balance sheet. Prior years are restated for comparison purposes. The amount of dividend paid in 1999 from prior-year profit distribution amounts to EUR 361 million. 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. The cost of capitalized software, net of amortization in the year 1999, came to EUR 176 million.

Presentation changes

Beginning in 1999, results from divestitures other than segments of business, which are represented as discontinued operations, are reported as income from continuing operations and no longer as extraordinary items. This 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 restated. However, the 1999 figures in accordance with the 1998/1997 presentation have been provided in a footnote on the face of the income statement. Additionally, the 1997 and 1998 figures have been reclassified in accordance with the 1999 classification in the notes to the consolidated financial statements.

Consolidation principles

The consolidated financial statements include the accounts of Koninklijke Philips Electronics N.V. ('Royal Philips Electronics' or 'the Company') and companies that are majority-owned or otherwise 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 have majority voting interests or 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 (EUR 1 = NLG 2.20371).

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 foreign operations.

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. The Company measures derivatives based on spot rates. Gains or losses arising from changes in the spot rates are recognized in the income statement for the period in which they arise to the extent that they hedge an asset or liability that has been recognized on the balance sheet. Gains and losses relating to derivative financial instruments entered into as hedges of firm commitments and risks related to securities are deferred until the hedged transactions have been reflected in the accounts. Deferred gains and losses on these hedges are reported in the balance sheet as deferred income or expense under stockholders' equity.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and short-term highly liquid investments 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.

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, product development and process development costs, taking into account the stage of completion. 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 (securities) with a restriction on the sale of these securities 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. In the event that an impairment in value of fixed assets occurs, the loss is charged to income. 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. Certain intangible assets purchased in an acquisition are capitalized and amortized over their useful lives.

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.

Beginning in 1999, computer software developed by Philips or purchased from third parties for the Company's own use is capitalized and written off over its useful life.

If events or circumstances indicate that the carrying amount of intangible assets may not be recoverable, an impairment test is applied based upon an assessment of future cash flows to ensure that they are appropriately valued.

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

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 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.

Revenue recognition

Sales are generally recognized at the time the product is delivered to the customer, 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. Government grants, other than those relating to assets, are recognized as income to the extent that it is more likely than not that these grants will be received.

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.

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. The costs related to defined-benefit pension plans are in general terms the aggregate of the compensation cost of the benefits promised, interest cost resulting from deferred payment of those benefits and, in the case of plan assets segregated in a trust, the results on the amounts of the invested plan assets. The cost component of the pension benefit corresponding to each year of service is the actuarial present value of the benefit earned in that year. In principle, the same amount of pension benefit is attributed to each year of service. If and to the extent that as of the beginning of the year the present value of the projected benefit obligation differs from the market value of the plan assets or the existing pension provision, the difference is amortized over the average remaining service period of active employees. In the event, however, 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 of the present value of the benefits attributed on an equal basis to each year of service, and interest cost on the accumulated postretirement benefit obligation, which is a discounted amount. The transition obligation is being recognized 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 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. Comparative figures for prior periods are restated accordingly.

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.

Risks and uncertainties

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. Changes in such estimates and assumptions may affect amounts reported in future periods.

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'. 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.

Consolidated statements of income of the Philips Group

in millions of euros unless otherwise stated ¹⁾

	1999 ²⁾	1998	1997
Sales	31,459	30,459	29,658
Direct cost of sales	(24,502)	(24,121)	(23,043)
Gross income	6,957	6,338	6,615
Selling expenses	(4,337)	(4,381)	(4,061)
General and administrative expenses	(1,212)	(1,132)	(924)
Other business income	388	190	132
Restructuring charges	(45)	(330)	(48)
2) Income from operations	1,751	685	1,714
3) Financial income and expenses	32	(312)	(319)
Income before taxes	1,783	373	1,395
4) Income taxes	(336)	(41)	(276)
Income after taxes	1,447	332	1,119
5) Results relating to unconsolidated companies	409	39	94
Group income	1,856	371	1,213
6) Minority interests	(52)	170	18
Income from continuing operations	1,804	541	1,231
7) Discontinued operations			
Income from discontinued operations			
(less applicable income taxes of EUR 75 million and EUR 161 million for			
1998 and 1997 respectively)	–	210	263
Gain on disposal of discontinued operations			
(no tax effect)	–	4,844	–
8) Extraordinary items – net	(5)	458	1,108
9) Net income	1,799	6,053	2,602

¹⁾ The consolidated financial statements for 1999 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 1999 results presented in line with previous years would result in income from operations of EUR 1,644 million, financial income and expenses of EUR 30 million (a loss), income from continuing operations of EUR 1,635 million and extraordinary items of EUR 164 million (net). Net income would remain unchanged. See the notes to the consolidated financial statements.

Earnings per share	1999	1998	1997
Weighted average number of common shares outstanding (after deduction of treasury stock) during the year	344,510,238	360,056,076	349,397,603
Basic earnings per common share in euros:			
Income from continuing operations	5.24	1.50	3.52
Income from discontinued operations	–	0.58	0.76
Gain on disposal of discontinued operations	–	13.45	–
Extraordinary items – net	(0.02)	1.28	3.17
Net income	5.22	16.81	7.45
Diluted earnings per common share in euros:			
Income from continuing operations	5.19	1.49	3.45
Income from discontinued operations	–	0.58	0.74
Gain on disposal of discontinued operations	–	13.35	–
Extraordinary items – net	(0.01)	1.26	3.11
Net income	5.18	16.68	7.30
Dividend paid per common share in euros (from prior-year profit distribution)	1.00	0.91	0.73

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

		1999	1998
Current assets			
10	Cash and cash equivalents	2,331	6,553
11	Securities	1,523	—
12	Receivables:		
	- Accounts receivable, net	5,326	4,341
	- Other receivables	755	763
	- Prepaid expenses	372	338
		<hr/> 6,453	<hr/> 5,442
13	Inventories	4,566	4,274
	Total current assets	<hr/> 14,873	<hr/> 16,269
Non-current assets			
5	Unconsolidated companies:		
	- Investments	2,060	955
	- Loans	31	20
		<hr/> 2,091	<hr/> 975
14	Other non-current financial assets	340	1,861
15	Non-current receivables:		
	- Accounts receivable	185	286
	- Other receivables	67	206
	- Prepaid expenses	1,786	1,428
		<hr/> 2,038	<hr/> 1,920
16	Property, plant and equipment:		
	- At cost	18,302	16,672
	- Less accumulated depreciation	(10,970)	(10,098)
		<hr/> 7,332	<hr/> 6,574
17	Intangible assets	2,822	554
	Total non-current assets	<hr/> 14,623	<hr/> 11,884
Total			
		<hr/> 29,496	<hr/> 28,153

The consolidated financial statements for 1999 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.

Liabilities and stockholders' equity

	1999	1998
Current liabilities		
Accounts and notes payable:		
- Trade creditors	3,619	2,936
- Unconsolidated companies	13	12
	<hr/>	<hr/>
18 Accrued liabilities	3,553	2,902
19 20 Short-term provisions	1,056	966
21 Other current liabilities	789	929
22 Short-term debt	577	801
Total current liabilities	<hr/>	<hr/>
	9,607	8,546*
Non-current liabilities		
23 Long-term debt	2,737	2,786
19 20 Long-term provisions	2,062	2,019
	<hr/>	<hr/>
Total non-current liabilities	4,799	4,805
24 Commitments and contingent liabilities		
Group equity		
6 Minority interests	333	242
Stockholders' equity:		
Priority shares, par value NLG 5,000 in 1998, EUR 500 per share in 1999:		
Authorized and issued: 10 shares		
Preference shares, par value EUR 1 per share:		
Authorized: 749,995,000 shares		
- Issued: none		
Common shares, par value EUR 1 per share:		
Authorized: 750,000,000 shares		
- Issued: 339,078,811 shares		
(368,494,824 shares, par value NLG 10, in 1998)	339	1,672
25 Share premium	1,631	1,824
25 Other reserves	10,988	5,011
Undistributed profit for the year	1,799	6,053
	<hr/>	<hr/>
Total	14,757	14,560*
	<hr/>	<hr/>
Total	29,496	28,153

* Restated for dividend distribution 1998

**Consolidated statements of cash flows
of the Philips Group**

in millions of euros

	1999	1998	1997
Cash flows from operating activities:			
Net income	1,799	6,053	2,602
Adjustments to reconcile net income to net cash provided by operating activities:			
Income from, and net gain on disposal of, discontinued operations	–	(5,054)	(263)
Depreciation and amortization	1,853	1,890	1,597
Net gain on sale of investments	(491)	(728)	(1,393)
Income from unconsolidated companies (net of dividends received)	(410)	(31)	–
Minority interests (net of dividends paid)	38	(173)	(45)
(Increase) decrease in working capital	(469)	272	516
(Increase) decrease in non-current receivables	(32)	43	(155)
Decrease in provisions	(87)	(177)	(111)
Other items	(288)	45	462
Net cash provided by operating activities	1,913	2,140	3,210
Cash flows from investing activities:			
Proceeds from the sale of securities	158	–	–
Purchase of intangible assets (software)	(200)	–	–
Capital expenditures on property, plant and equipment	(1,662)	(1,634)	(1,627)
Proceeds from disposals of property, plant and equipment	286	240	225
Purchase of other non-current financial assets	(119)	(68)	(174)
Proceeds from other non-current financial assets	67	132	239
Purchase of businesses	(2,993)	(867)	(261)
Proceeds from sale of interests in businesses	629	756	1,643
Net cash (used for) provided by investing activities	(3,834)	(1,441)	45
Cash flows before financing activities	(1,921)	699	3,255
Cash flows from financing activities:			
Decrease in short-term debt	(257)	(74)	(1,502)
Principal payments on long-term debt	(563)	(565)	(1,179)
Proceeds from issuance of long-term debt	103	194	402
Payments of conversion certificates	–	–	(15)
Effect of other financial transactions	–	114	–
Treasury stock transactions	(38)	(157)	(114)
Capital repayment to shareholders	(1,490)	–	–
Dividends paid	(361)	(326)	(253)
Net cash used for financing activities	(2,606)	(814)	(2,661)
Cash (used for) provided by continuing operations	(4,527)	(115)	594

	1999	1998	1997
Cash (used for) provided by continuing operations	(4,527)	(115)	594
Effect of changes in exchange rates and consolidations on cash positions	305	30	(40)
Net cash from discontinued operations	–	5,241	185
Cash and cash equivalents at beginning of year	6,553	1,397	973
Cash and cash equivalents at end of year	2,331	6,553	1,712
Of which: cash and cash equivalents from discontinued operations	–	–	315
Cash and cash equivalents from continuing operations	2,331	6,553	1,397

Supplemental disclosures to consolidated statements of cash flows:

(Increase) decrease in working capital:

Increase in accounts receivable and prepaid expenses	(534)	(133)	(25)
(Increase) decrease in inventories	46	(60)	(179)
Increase in accounts payable and accrued expenses	19	465	720
	(469)	272	516

Net cash paid during the year for:

Interest	129	244	339
Income taxes	222	200	154

Additional common stock issued upon conversion of long-term

debt	29	25	65
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Net gain on sale of investments:

Cash proceeds from the sale of investments	1,140	1,128	2,107
Book value of these investments	(649)	(400)	(714)
	491	728	1,393

Non-cash investing and financing information:

Assets received in lieu of cash	11	1,698	37
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Treasury stock transactions:

Shares acquired	(139)	(323)	(354)
Shares delivered upon exercise of stock options or convertible personnel debentures	112	118	93
Exercise stock options/warrants	(11)	48	147

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 for 1999 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	total
	outstanding	issued				
Balance as of December 31, 1996	347,080,144	352,479,562	1,600	1,655	3,330	6,585
Issued upon exercise of:						
- Convertible debentures/conversion certificates		1,544,714	6	36		42
- Stock options				(19)		(19)
- Warrants		10,752,840	49	117		166
Net income for the year					2,602	2,602
Dividend paid					(253)	(253)
Treasury stock transactions					(224)	(224)
Translation differences and other changes					255	255
Balance as of December 31, 1997	357,949,491	364,777,116	1,655	1,789	5,710	9,154
Issued upon exercise of:						
- Convertible debentures		80,847		3	22	25
- Stock options				(7)		(7)
- Warrants		3,636,861	17	39		56
Net income for the year					6,053	6,053
Dividend paid					(326)	(326)
Treasury stock transactions					(205)	(205)
Translation differences and other changes					(190)	(190)
Balance as of December 31, 1998	360,690,217	368,494,824	1,672	1,824	11,064	14,560
Issued upon exercise of:						
- Convertible debentures		69,081		2	27	29
- Stock options		20		(11)		(11)
Net income for the year					1,799	1,799
Dividend paid					(361)	(361)
Treasury stock transactions					(27)	(27)
8% share repurchase		(29,485,114)	(1,333)	(184)	27	(1,490)
Translation differences and other changes					258	258
Balance as of December 31, 1999	332,900,135	339,078,811	339	1,631	12,787	14,757

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

The consolidated financial statements for 1999 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.

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

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

Introduction of the euro

Beginning in 1999, Philips' consolidated 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 (EUR 1 = NLG 2.20371).

Historically, the consolidated financial statements of the Group were prepared using the Dutch guilder as the reporting currency. The euro was introduced on January 1, 1999. The countries participating in the European single currency are: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Portugal, Spain and the Netherlands.

The Board of Management believes that the consolidated financial statements reported in euros reflect the same trends as previously reported. Expression of these historical amounts in euros does not eliminate or alter any translation effect that existed when they were originally reported in Dutch guilders. The consolidated financial statements may not be comparable with those of other companies that are also reporting in euros if other companies restated their financial statements from a currency other than the Dutch guilder.

Presentation of balance sheet

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 and 1997 fully in conformity with the 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:

	1999	1998	1997
	after reclassification		
Income from operations	1,751	1,195	1,438
Financial income and expenses	32	(253)	(260)
Income before taxes	1,783	942	1,178
Income taxes	(336)	(142)	(277)
Income after taxes	1,447	800	901
Results relating to unconsolidated companies:			
- Share in results	409	39	94
- Results related to divestments	—	—	1,354
Minority interests	(52)	170	18
Income from continuing operations	1,804	1,009	2,367
Discontinued operations	—	5,054	263
Extraordinary items – net	(5)	(10)	(28)
Net income	1,799	6,053	2,602
Income from continuing operations per common share	5.24	2.80	6.77

1 Acquisitions and divestitures

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 LG's LCD business for EUR 1.7 billion (EUR 0.2 billion of which has not yet been paid) 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. The cost of the acquisition was allocated based upon preliminary estimates and may be revised at a later date. 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 includes 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. 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.

VOICE CONTROL SYSTEMS (VCS) INC.

In June 1999, the Company completed its acquisition of Voice Control Systems at a total cost of EUR 56 million. The results of operations for VCS 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 36 million was assigned to specific intangible assets acquired, of which EUR 7 million, relating to in-process R&D that had not yet reached technological feasibility and had no alternative use, was charged to expense. Additionally, EUR 26 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 5 years.

MICRION/FEI CORPORATION

In August 1999, majority-owned Philips subsidiary FEI Corporation acquired all of the outstanding common stock of Micrion Corporation in exchange for 5,064,150 newly issued FEI shares plus USD 30 million in cash. The merger was accounted for as a purchase. The acquisition cost was allocated on the basis of the fair value of the assets acquired and liabilities assumed. Based upon independent appraisal, EUR 29 million was assigned to specific intangible assets acquired, including existing technology and in-process R&D. Of this amount, EUR 13 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 the acquisition. EUR 22 million, representing the excess 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 10 years.

ORIGIN B.V.

In June 1999, the Company acquired an additional 10% interest in Origin at a cost of EUR 124 million. Philips now owns approximately 98% of Origin's stockholders' equity. Goodwill resulting from the acquisition totaled EUR 107 million and will be amortized over 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).

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

	9 months 1998	3 months 1997
Sales	1,376	570
Loss from operations	(349)	(55)
Loss before income taxes	(350)	(54)
Net loss	(219)	(30)
Net cash (used for) provided by operating activities	(378)	60
Net cash used for investing activities	(48)	(31)
Net cash provided by financing activities	395	53

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 8 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. Car Systems' net assets were deconsolidated as of December 31, 1997 and included under unconsolidated companies. 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. The final tranche of EUR 134 million is due in the year 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 direct cost of sales is depreciation of property, plant and equipment and amortization of intangible assets.

	1999	1998	1997
Depreciation of property, plant and equipment	1,525	1,563	1,446
Amortization of goodwill relating to consolidated companies	95	54	59
Amortization of other intangible assets	70	—	—
Amortization of patents and trademarks	6	2	—
Write-off of in-process R&D	68	202	—
	1,764	1,821	1,505

Depreciation of property, plant and equipment includes an additional write-off in connection with the retirement of property, plant and equipment amounting to EUR 17 million in 1999 (1998: EUR 15 million, 1997: EUR 20 million). In 1999, additional depreciation costs relating to write-downs of EUR 40 million (1998: EUR 67 million, 1997: EUR 66 million) arising from restructuring projects were reported in the income statement, in the separate line item restructuring charges.

Research and development

Expenditures for research and development activities amounted to EUR 2,284 million, representing 7.3% of sales (1998: EUR 2,048 million, 6.7% of sales; 1997: EUR 1,841 million, 6.2% of sales).

These expenditures are included in direct cost of sales.

Salaries and wages

	1999	1998	1997
Salaries and wages	6,910	6,878	6,885
Pension costs	(42)	188	282
Other social security and similar charges:			
- Required by law	958	981	889
- Voluntary	190	162	205
Total	8,016	8,209	8,261

Employees

The average number of employees during 1999 was 230,016 (1998: 252,680, 1997: 255,664).

The number of employees by category is summarized as follows:

	1999			1998	1997
	beginning of year*	end of year	average**	average	average
Production	131,366	123,099	126,622	146,249	150,616
Research & development	20,543	21,987	21,104	20,657	21,238
Other	63,344	61,821	62,443	64,494	63,478
Permanent employees	215,253	206,907	210,169	231,400	235,332
Temporary employees	18,510	19,967	19,847	21,280	20,332
Total	233,763	226,874	230,016	252,680	255,664

* including changes in consolidations at January 1, 1999

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

The number of employees at year-end 1999 decreased by 6,889 as compared to the beginning of the year. This includes a decrease of 2,734 relating to consolidation changes.

Board of Management

Remuneration and pension costs relating to the members of the Board of Management amounted to EUR 9,412,000 (1998: EUR 11,711,000, 1997: EUR 7,863,000). The costs for former members of the Board of Management, which relate to pension charges, amounted to EUR 1,470,000 (1998: EUR 7,638,000, 1997: EUR 2,514,000).

In 1999, the present members of the Board of Management were granted 110,000 stock option rights (1998: 385,900 stock options, 1997: 331,300 stock options). At year-end 1999, the members of the Board of Management held 370,000 stock option rights (year-end 1998: 799,800) at a weighted average exercise price of EUR 50.85 (year-end 1998: EUR 51.25). See note 26 to the financial statements for further information on stock options and the tables on pages 71-76 for further information on individual remuneration and interests in stock options and Philips shares.

Supervisory Board

The remuneration of the members of the Supervisory Board amounted to EUR 414,000 (1998: EUR 377,000, 1997: EUR 329,000); former members received no remuneration. The annual remuneration for individual members is EUR 40,840 and for the Chairman EUR 74,874. Additionally, with effect from 1998, the membership of committees of the Supervisory Board is compensated by an amount of EUR 4,538 per year per committee. At year-end 1999 the present members of the Supervisory Board held no stock options (1998: 28,100 stock options acquired before their membership of the Supervisory Board; these stock options were exercised in May 1999). For further information on individual remuneration and interests in Philips shares, see the tables on pages 74-75.

Other business income

Other business income consists of amounts not directly related to the production and sale of products and services, including EUR 257 million relating to the net gain from the disposal of certain business interests (1998: EUR 37 million, 1997: EUR 15 million). Other business income also includes gains of EUR 71 million from the sale of fixed assets (1998: EUR 74 million, 1997: EUR 42 million) and various smaller items.

Restructuring charges

The following table displays a rollforward of the restructuring provision from December 31, 1997 to December 31, 1999:

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

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 17 million to Professional, EUR 12 million to Miscellaneous, EUR 6 million to Components and EUR 1 million to Consumer Products for a total headcount reduction of approximately 1,500 persons, of whom 1,100 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, Miscellaneous and Professional. The write-downs are based on the discounted cash flow method. Other restructuring charges came to EUR 12 million, largely relating to Professional, Lighting and Components.

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

The remaining prior-year provisions available at December 31, 1999 relate primarily to personnel costs. The Company expects to make cash expenditures of approximately EUR 100 million in 2000 with existing restructuring programs. All existing programs will be completed by the end of 2000.

The 1998 restructuring charges of EUR 349 million included lay-off costs of EUR 124 million for approximately 4,000 persons. EUR 76 million of this charge related to Consumer Products, EUR 17 million to Semiconductors, EUR 14 million to Lighting, EUR 11 million to Components and EUR 6 million to Professional.

The 1998 restructuring charges also included asset write-downs of EUR 192 million, primarily at Consumer Products, Professional and Components. Of this amount, EUR 134 million of inventory write-downs were mostly in Consumer Products and Professional. The restructuring charge for fixed-asset write-downs came to EUR 58 million and related to Components, Lighting, Consumer Products, Professional and Semiconductors.

Other restructuring charges amounted to EUR 33 million, largely relating to the Consumer Products and Lighting sectors.

The year-end 1997 balance of EUR 326 million included provisions for all sectors, of which Consumer Products, Lighting, Professional and Miscellaneous were the most important ones. As of December 31, 1999, a total amount of EUR 7 million of the 1997 balance still remained in the provision, relating to Lighting (EUR 4 million), Miscellaneous (EUR 2 million) and Professional (EUR 1 million). These remaining balances are needed for severance payments and are believed to be adequate to complete the initiated restructuring plans.

3 Financial income and expenses	1999	1998	1997
Interest income	133	77	74
Interest expense	(262)	(321)	(413)
Total interest expense (net)	(129)	(244)	(339)
Gain on sale of securities	117	–	–
Other income from non-current financial assets	39	39	72
Value adjustments of non-current financial assets	(1)	(3)	(4)
Interest on provisions for pensions	–	(59)	(59)
Foreign exchange gains (losses)	13	(40)	12
Miscellaneous financing costs	(7)	(5)	(1)
Total	32	(312)	(319)

Interest income in 1999 was considerably higher than in the preceding years due to higher cash levels principally resulting from the sale of PolyGram. Interest expense decreased as a result of lower average debt, which declined from EUR 4.1 billion in 1998 to a net cash position of EUR 0.7 billion in 1999.

The gain on the sale of securities in 1999 represents the gain on the sale of a portion of the JDS Uniphase shares. Other income from non-current financial assets in 1999 mainly related to dividends received on the Seagram shares. The corresponding results for 1998 include the gain on the sale of the equity investment in Flextronics of EUR 27 million, whereas the 1997 results mainly reflect the profit on the sale of the shares in Viacom and Fluke (together amounting to EUR 58 million).

Foreign exchange gains (losses) include hedging costs of foreign currency (mainly USD) loans to foreign subsidiaries.

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 336 million in 1999 (1998: EUR 41 million, 1997: EUR 276 million). In 1999, the tax benefit on extraordinary items totaled EUR 2 million, compared to a EUR 96 million expense in 1998 and a EUR 14 million benefit in 1997.

The components of income before income taxes are as follows:

	1999	1998	1997
Netherlands	479	330	219
Foreign	1,304	43	1,176
Income before income taxes	1,783	373	1,395

The components of income tax expense are as follows:

Netherlands:

Current taxes	45	1	(2)
Deferred taxes	35	90	74
	80	91	72

Foreign:

Current taxes	229	100	179
Deferred taxes	27	(150)	25
	256	(50)	204
Income tax expense from continuing operations	336	41	276

Philips' operations are subject to income taxes in various foreign jurisdictions with statutory income tax rates varying from 16% to 46%, 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:

	1999	1998	1997
Weighted average statutory income tax rate	33.3	30.7	34.5
Tax effect of:			
Utilization of previously unrecognized loss carryforwards	(10.6)	(93.0)	(14.5)
New loss carryforwards not recognized	5.0	57.4	5.2
Changes in the valuation of other deferred taxes	5.4	16.7	(2.3)
Released valuation allowance	(9.4)	—	—
Exempt income and non-deductible expenses	(4.0)	18.1	1.3
Tax incentives and other	(0.9)	(18.8)	(1.5)
Effect of sale of PolyGram	—	—	(3.0)
Effective tax rate	18.8	11.1	19.7

Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities are as follows:

	1999		1998	
	assets	liabilities	assets	liabilities
Intangible fixed assets	100	(20)	91	(9)
Property, plant and equipment	250	(230)	291	(322)
Inventories	90	(30)	91	(32)
Receivables	80	(80)	86	(27)
Provisions:				
- Pensions	90	(100)	127	(82)
- Restructuring	30	—	63	(5)
- Guarantees	20	—	14	—
- Other	620	(210)	454	(86)
Other assets	151	(310)	63	(222)
Other liabilities	90	(226)	113	(140)
Total deferred tax assets/liabilities	1,521	(1,206)	1,393	(925)
Net deferred tax position	315		468	
Tax loss carryforwards (including tax credit carryforwards)			2,058	
Valuation allowances	(1,951)		(2,163)	
Net deferred tax assets	390		363	

At December 31, 1999, operating loss carryforwards expire as follows:

Total	2000	2001	2002	2003	2004	2005/2009	later	unlimited
5,300	50	110	130	260	190	440	320	3,800

The Company also has tax credit carryforwards of EUR 170 million, which are available to offset future tax, if any, and which expire as follows:

Total	2000	2001	2002	2003	2004	2005/2009	later	unlimited
170	1	5	5	8	12	6	15	118

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

	1999	1998
Deferred tax assets grouped under non-current receivables	659	480
Deferred tax liabilities grouped under provisions	(269)	(117)
	390	363

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

	1999	1998
Income tax receivable grouped under non-current receivables	20	36
Income tax receivable grouped under current receivables	92	136
Income tax payable grouped under current liabilities	(196)	(208)

The amount of the unrecognized deferred income tax liability for temporary differences, totaling EUR 170 million (1998: EUR 281 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 primarily consist of Philips' share in the operating results of LG.Philips LCD Co. in Korea (1999 only), Taiwan Semiconductor Manufacturing Co. and ASM Lithography. Also included are the losses from the ongoing development costs of digitized street maps incurred by Navigation Technologies Corporation (NavTech) and the one-off 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.

In 1997, the gain on the sale of the Company's stake in Bang & Olufsen was included. Furthermore, 1997 includes the Company's share in the losses of Grundig AG through June 1997.

Included in the amount presented in the income statement, but not in share in income presented in the following table, is a charge of EUR 49 million (1998: EUR 1 million, 1997: EUR 8 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 47 million arising from the acquisition of LG.Philips LCD Co.).

Investments in, and loans to, unconsolidated companies

The changes during 1999 are as follows:

	total	investments	loans
Balance as of January 1, 1999	975	955	20
Changes:			
Acquisitions/additions	662	530	132
Sales/redemptions	(190)	(182)	(8)
Share in income	412	518	(106)
Dividend declared	(2)	(2)	—
Changes in consolidations	51	58	(7)
Translation and exchange rate differences	183	183	—
Balance as of December 31, 1999	2,091	2,060	31

The investments in unconsolidated companies at December 31, 1999 include EUR 28 million (1998: EUR 11 million) for companies accounted for under the cost method.

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

	1999	1998
LG.Philips LCD Co.	656	—
Taiwan Semiconductor Manufacturing Co.	1,021	624
ASM Lithography	146	120
Conventional Passive Components	—	102
Other	268	129
Total	2,091	975

The aggregate fair values of Philips' shareholdings in TSMC and ASML, based on quoted market prices at December 31, 1999 were EUR 10.8 billion (1998: EUR 3.2 billion) and EUR 3.6 billion (1998: EUR 0.8 billion) respectively.

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

	January- December 1999
Net sales	5,633
Income before taxes	1,254
Income taxes	(124)
Income after taxes	1,130
Net income	1,097
Total share in net income of unconsolidated companies recognized in the consolidated statement of income	412
	December 31, 1999
Current assets	3,866
Non-current assets	6,150
	10,016
Current liabilities	(1,595)
Non-current liabilities	(2,615)
Net asset value	5,806
Share in net asset value of unconsolidated companies included in the consolidated balance sheet	2,060

6 Minority interests

The share of third-party minority shareholders in Group income totaled EUR 52 million in 1999, 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 1997 amounted to EUR 18 million.

Minority interests in consolidated companies, totaling EUR 333 million (1998: EUR 242 million), are valued on the basis of their interest in the underlying net asset value.

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 13.45 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, and EUR 5,035 million in 1997. Philips' share in net income of PolyGram in 1998 and 1997 amounted to EUR 210 million and EUR 263 million respectively, which is included under income from discontinued operations.

8 Extraordinary items – net

	1999	1998	1997
Extraordinary gains	–	589	1,445
Extraordinary losses	(7)	(35)	(351)
Taxes	2	(96)	14
Total	(5)	458	1,108

Extraordinary losses in 1999 amounted to EUR 7 million, resulting from the early redemption of debt (1998: EUR 15 million, 1997: EUR 43 million).

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).

Accumulated translation differences from prior years relating to the disposed businesses reduced the gains on disposals (1998: EUR 5 million, 1997: EUR 5 million).

Those translation differences were previously accounted for directly within stockholders' equity.

The principal components of the EUR 1,445 million extraordinary gain reported in 1997 were the sale of a 5.4% shareholding in TSMC (EUR 898 million), the sale of 50% of UPC (EUR 223 million) and the sale of a portion of ASML (EUR 184 million). Other gains related to various divestitures.

The principal components of the 1997 extraordinary losses were Grundig (EUR 221 million) and the above-mentioned costs resulting from the early repayment of debt. Other losses related to various divestitures.

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:

	1999*	1998**	1997**
Weighted average number of shares	344,510,238	360,056,076	349,397,603
Basic EPS computation			
Income from continuing operations available to holders			
of common shares	1,804	541	1,231
Income from discontinued operations	—	210	263
Gain on sale of discontinued operations	—	4,844	—
Extraordinary items – net	(5)	458	1,108
Net income available to holders of common shares	1,799	6,053	2,602
Diluted EPS computation			
Income from continuing operations available to holders			
of common shares	1,804	541	1,231
Plus interest on assumed conversion of convertible			
debt, net of taxes	—	1	—
Income available to holders of common shares	1,804	542	1,231
Income from discontinued operations	—	210	263
Gain on sale of discontinued operations	—	4,844	—
Extraordinary items – net	(5)	458	1,108
Net income available to holders of common shares	1,799	6,054	2,602
plus effect of assumed conversions	1,799	6,054	2,602
Weighted average number of shares	344,510,238	360,056,076	349,397,603
Plus shares applicable to:			
- Options	1,738,688	2,010,923	3,406,612
- Warrants	—	—	2,630,931
- Convertible debt	1,057,638	952,124	906,763
Dilutive potential common shares	2,796,326	2,963,047	6,944,306
Adjusted weighted average number of shares	347,306,564	363,019,123	356,341,909

* par value EUR 1

** par value NLG 10

10 Cash and cash equivalents

Cash and cash equivalents includes time deposits with banks totaling EUR 17 million (1998: EUR 20 million) that are not freely available for withdrawal.

11 **Securities**

Securities of EUR 1,523 million principally relate to the JDS Uniphase shares and the Seagram shares, both carried at the original acquisition price of the shares.

The JDS Uniphase shares were received in connection with the sale of Philips Optoelectronics to Uniphase Corporation in 1998. Philips received 3,259,646 common shares and 100,000 preference shares of Uniphase Corporation. During 1999 a portion of the originally obtained JDS Uniphase shares was sold. Upon the sale of Philips' 75% equity interest in PolyGram to Seagram in 1998, Philips received 47,831,952 Seagram shares. The fair value upon receipt was EUR 161 million for the Uniphase shares and EUR 1,403 million for the Seagram shares. The Seagram shares are restricted from being sold until December 10, 2000.

At December 31, 1998, both shareholdings were included in other non-current financial assets. During 1999, these shares were designated as available for sale (immediately available or within a period of one year) and, consequently they have been reclassified to securities.

The net realizable value (including deferred foreign exchange hedge results) of the JDS Uniphase and Seagram shares at the balance sheet date amounted to EUR 1,533 million and EUR 1,939 million respectively (see note 27).

To assure the euro value of these shares, USD foreign-exchange contracts totaling EUR 1,822 million were outstanding at year-end. On these hedges, a pre-tax result of EUR 214 million has been deferred until the result on the sale of the shares is realized.

12 **Receivables**

Trade accounts receivable include instalment accounts receivable of EUR 13 million (1998: EUR 2 million) and receivables from unconsolidated companies, primarily representing trade balances, totaling EUR 52 million (1998: EUR 66 million).

Discounted drafts of EUR 22 million (1998: EUR 29 million) have been deducted.

Income taxes receivable (current portion) totaling EUR 92 million (1998: EUR 136 million) are included under other receivables.

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

	1999	1998	1997
Balance as of January 1,	186	155	114
Additions charged to income	198	179	122
Deductions from allowances *	(13)	(60)	(59)
Other movements **	(93)	(88)	(22)
Balance as of December 31,	278	186	155

* Write-offs for which allowances were provided

** Including the effect of translation differences and consolidation changes

13 Inventories

Inventories are summarized as follows:

	1999	1998
Finished products	2,089	2,101
Work in process, materials, parts and supplies	<u>2,477</u>	2,173
Total	4,566	4,274

Included in work in process, materials, parts and supplies is EUR 303 million (1998: EUR 242 million) of customer orders, net of advance payments of EUR 149 million (1998: EUR 110 million).

14 Other non-current financial assets

The changes during 1999 are as follows:

	total	security investments	loans	restricted liquid assets
Balance as of January 1, 1999	1,861	1,691	98	72
Changes:				
Transfer to current assets	(1,564)	(1,564)	–	–
Acquisitions/additions	119	5	89	25
Sales/redemptions	(66)	(6)	(42)	(18)
Value adjustments	(3)	(2)	(1)	–
Translation and exchange differences	8	–	8	–
Changes in consolidations	<u>(15)</u>	<u>1</u>	<u>(16)</u>	<u>–</u>
Balance as of December 31, 1999	340	125	136	79
Accumulated total of write-downs included in the book value	16	4	12	–

Other non-current financial assets include security investments that generate income unrelated to normal business operations.

Security investments include EUR 117 million of shares that are not available for trade or redemption (1998: EUR 90 million).

The opening balance sheet position included the JDS Uniphase and Seagram shareholdings, which were reclassified to securities under current assets in the course of 1999 (see note 11).

15 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 20 million (1998: EUR 36 million). Prepaid expenses in 1999 include prepaid pension costs of EUR 1,065 million (1998: EUR 910 million) and deferred tax assets of EUR 659 million (1998: EUR 480 million).

16 **Property, plant and equipment**

The components of property, plant and equipment and the changes during 1999 were as follows:

	total	land and buildings	machinery and installations	other equipment	prepayments and construction in progress	no longer productively employed
Balance as of January 1, 1999:						
Cost	16,672	3,453	9,753	2,727	699	40
Accumulated depreciation	(10,098)	(1,690)	(6,268)	(2,108)	—	(32)
Book value	6,574	1,763	3,485	619	699	8
Changes in book value:						
Capital expenditures	1,662	182	1,133	357	(14)	4
Retirements and sales	(230)	(89)	(88)	(43)	(9)	(1)
Depreciation	(1,510)	(124)	(1,032)	(352)	(2)	—
Write-downs	(38)	(15)	(16)	(6)	(1)	—
Translation differences	505	140	307	26	32	—
Changes in consolidations	369	156	101	3	109	—
Total changes	758	250	405	(15)	115	3
Balance as of December 31, 1999:						
Cost	18,302	3,787	10,995	2,659	814	47
Accumulated depreciation	(10,970)	(1,774)	(7,105)	(2,055)	—	(36)
Balance	7,332	2,013	3,890	604	814	11

Land is not depreciated.

The expected service lives as of December 31, 1999 were as follows:

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

17 **Intangible assets**

The changes during 1999 were as follows:

	total	goodwill	software	other intangibles
	relating to consolidated companies	relating to unconsolidated companies*		
Balance as of January 1, 1999:				
Acquisition cost	905	850	5	50
Accumulated amortization	(351)	(349)	(2)	—
Book value	554	501	3	50
Changes in book value:				
Reclassifications	—	(176)	—	176
Acquisitions	2,426	486	1,332	200
Amortization and write-downs	(288)	(95)	(49)	(24)
Translation differences	114	53	(3)	51
Changes in consolidation	16	—	—	16
Total changes	2,268	268	1,280	205
Balance as of December 31, 1999:				
Acquisition cost	3,221	1,029	1,334	232
Accumulated amortization	(399)	(260)	(51)	(27)
Balance	2,822	769	1,283	205
				565

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

A portion of the intangible assets recorded in conjunction with the acquisition of ATL in 1998, primarily consisting of developed product technology, core technology and assembled workforce, which was previously presented as goodwill, has been reclassified to other intangibles.

The acquisitions of a 50% interest in LG.Philips LCD Co. of Korea, VLSI Technology, VCS and a 10% incremental ownership in Origin led to an increase in goodwill of EUR 1,767 million (see note 1). The remaining goodwill arose from various smaller acquisitions.

As from January 1, 1999, Philips began to capitalize software for the Company's own use. The amortization period for software is three years.

The amount of other intangibles acquired (EUR 408 million) includes the amounts paid for in-process R&D relating to the acquisitions of VLSI, VCS and Micrion in 1999 (EUR 68 million), which amount was charged directly to the 1999 income statement. Additionally, it includes other specific intangible assets acquired in these transactions, such as purchased technology, patents and trademarks and the value of the assembled workforce.

Amortization of goodwill relating to unconsolidated companies totaling EUR 49 million (1998: EUR 1 million, 1997: EUR 8 million) was not included in income from operations but was charged against results relating to unconsolidated companies. The major part, EUR 47 million, related to the acquisition in 1999 of a 50% equity interest in a new joint venture with LG Electronics: LG.Philips LCD Co.

18 **Accrued liabilities**

Accrued liabilities are summarized as follows:

	1999	1998
Salaries and wages payable	522	390
Income tax payable	196	208
Accrued holiday rights	234	206
Accrued pension costs	131	166
Commissions, freight, interest and rent payable	392	311
Other liabilities	2,078	1,621
Total	3,553	2,902

Other liabilities in 1999 include an amount of EUR 228 million, representing the deferred payment in connection with the acquisition of LG.Philips LCD Co.

19 **Provisions**

Provisions are summarized as follows:

	1999	1998
Pensions (see note 20):		
- defined benefit plans	993	1,060
- other postretirement benefits	356	294
Post-employment benefits	98	93
Deferred tax liabilities (see note 4)	269	117
Restructuring (see note 2)	115	265
Obligatory severance payments	206	195
Replacement and guarantees	411	395
Other provisions	670	566
Total	3,118	2,985
Long-term	2,062	2,019
Short-term	1,056	966

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 28 million (1998: EUR 45 million) and environmental provisions of EUR 205 million (1998: EUR 162 million).

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

Balance as of January 1, 1999	1,156
Changes:	
- Additions	583
- Utilization	(452)
Balance as of December 31, 1999	1,287

20 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.

Provided below is a table with a summary of the changes in the pension benefit obligations and defined pension plan assets for 1999 and 1998, and a reconciliation of the funded status of these plans to the amounts recognized in the consolidated balance sheets.

Also provided below is a table with a summary of the changes in the accumulated postretirement benefit obligation and plan assets for 1999 and 1998, and a reconciliation of the obligation to the amount recognized in the consolidated balance sheets.

	1999	1998	1999	1998
	pension benefits		postretirement benefits	
Benefit obligation				
Benefit obligation at beginning of year	17,526	16,427	519	451
Service cost	424	364	13	11
Interest cost	977	933	35	33
Employee contributions	35	33	—	—
Actuarial (gains) and losses	(612)	317	16	76
Plan amendments	(109)	3	3	—
Settlements	(205)	(129)	(4)	—
Curtailments	(2)	(3)	(2)	—
Changes in consolidations	144	325	1	—
Benefits paid	(889)	(798)	(40)	(34)
Exchange rate differences	483	(290)	37	(22)
Miscellaneous	(41)	344	2	4
Benefit obligation at end of year	17,731	17,526	580	519

Plan assets

Fair value of plan assets at beginning of year	19,622	18,333	16	—
Actual return on plan assets	4,419	2,012	2	—
Employee contributions	35	32	—	—
Plan participants' contribution	(37)	(40)	3	—
Settlements	(193)	(105)	—	—
Changes in consolidations	187	161	—	16
Benefits paid	(798)	(738)	(4)	—
Exchange rate differences	577	(322)	(3)	—
Miscellaneous	(13)	289	—	—
Fair value of plan assets at end of year	23,799	19,622	14	16

Funded status	6,068	2,096	(566)	(503)
Unrecognized net transition (asset) obligation	(283)	(373)	167	176
Unrecognized prior service cost	61	171	6	3
Unrecognized net (gain) loss	(5,905)	(2,210)	37	30
Net balances	(59)	(316)	(356)	(294)

Classification of the net balances is as follows:

- prepaid pension costs under	
non-current receivables	1,065
- accrued pension costs under accrued	
liabilities	(131)
- provisions for pensions under	
provisions	(993)
	(1,060)
	(59)
	(316)

The weighted average assumptions underlying the pension computation at December 31 were:

	1999	1998
Discount rate	6.1%	5.4%
Rate of compensation increase	3.4%	3.3%
Expected return on plan assets	7.0%	6.4%

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 340 million, EUR 318 million and EUR 278 million respectively as of December 31, 1999 (1998: EUR 555 million, EUR 520 million and EUR 441 million respectively).

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

	1999	1998	1997
Service cost – benefits earned during the period	424	364	287
Interest cost on the projected benefit obligation	977	933	941
Expected return on plan assets	(1,353)	(1,113)	(996)
Net amortization of unrecognized net transition assets	(100)	(94)	(90)
Net actuarial gain recognized	(13)	(56)	(25)
Amortization of prior service cost	14	27	21
Settlement (gain) loss	8	(26)	–
Minimum pension liability (gain) loss	(29)	46	–
Net periodic pension cost	(72)	81	138

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 30 million in 1999 (1998: EUR 166 million, 1997: EUR 203 million).

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

	1999	1998	1997
Service cost – benefits earned during the period	13	11	9
Interest cost on accumulated postretirement benefit obligation	35	33	32
Expected return on plan assets	(2)	–	–
Amortization of unrecognized transition obligation	13	14	14
Net actuarial (gain) loss recognized	2	–	(1)
Curtailment cost	9	–	–
Settlement gain	(5)	–	–
	<hr/>	<hr/>	<hr/>
	65	58	54

The accumulated postretirement benefit obligation was determined using a weighted average discount rate of 6.6% (1998: 6.3%), an assumed compensation increase, where applicable, of 4.8% (1998: 4.25%), and an expected return on plan assets, where applicable, of 12.8% (1998: 12.8%). For measurement purposes, the rate of increase in per capita healthcare costs is assumed to be on average 5.9% for 2000, reaching 5% by the year 2003. 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, 1999 by approximately EUR 68 million and increase the net periodic postretirement benefit cost for 1999 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, 1999 by approximately EUR 56 million and decrease the net periodic postretirement benefit cost for 1999 by EUR 5 million.

21 Other current liabilities

Other current liabilities are summarized as follows:

	1999	1998
Advances received from customers on orders not covered by work in process	147	146
Other taxes including social security premiums payable	389	392
Other short-term liabilities	253	391
Total	<hr/>	<hr/>
	789	929

22 Short-term debt

Short-term debt consists of short-term bank borrowings totaling EUR 383 million (1998: EUR 588 million), other short-term loans totaling EUR 98 million (1998: EUR 70 million) and the current portion of long-term debt totaling EUR 96 million (1998: EUR 143 million). During 1999, the weighted average interest rate on the bank borrowings was 5.5% (1998 and 1997: 6.5%).

23 **Long-term debt**

	range of interest rates	average rate of interest	amount outstanding	due in 2000	due after 2000	due after 2004	average remaining term (in years)
Convertible debentures	2.1-3.1	2.7	77	—	77	—	4.0
Other debentures	5.6-8.8	7.3	2,270	2	2,268	1,216	6.0
Private financing	3.0-3.5	3.3	11	4	7	—	4.5
Bank borrowings	1.3-6.5	6.4	201	45	156	10	2.4
Other long-term debt	4.2-7.0	4.8	274	45	229	52	3.3
Total		6.8	2,833	96	2,737	1,278	
Corresponding data previous year		6.7	2,929	143	2,786	1,530	

The following amounts of long-term debt as of December 31, 1999 are due in the next five years:

2000	96
2001	663
2002	268
2003	234
2004	294
	1,555
Corresponding amount previous year	1,399

In 1999 and 1998 a certain amount of debt was repaid prior to maturity, resulting in payment of a redemption premium which was classified as an extraordinary item (see note 8).

In the Netherlands, Philips issues personnel debentures with a 5-year right of conversion, all of which are convertible 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, 1999 an amount of EUR 77 million (1998: EUR 76 million) of personnel debentures was outstanding, with an average conversion price of EUR 66.39 and an average interest rate of 2.7%. The conversion price varies between EUR 25.68 and EUR 135.90, with various conversion periods ending between January 1, 2000 and December 31, 2004.

At the end of 1999, the Group had long-term committed and undrawn credit lines available of USD 2.5 billion, unchanged from a year earlier.

24 **Commitments and contingent liabilities**

Long-term lease commitments totaled EUR 810 million in 1999 (1998: EUR 630 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:

2000	184
2001	73
2002	192
2003	165
2004	30

Guarantees given with regard to unconsolidated companies and third parties amounted to EUR 290 million (1998: EUR 363 million). The amount of conditional liabilities was EUR 27 million (1998: EUR 26 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 should 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. A third party will construct the Campus on land already in the possession of the Company and will lease these buildings 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, being 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 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 **Share premium and other reserves**

Share capital/share premium

Both share capital and the share premium account have been influenced by the share reduction program which was adopted by the General Meeting of Shareholders in March 1999 and completed in June 1999. The first step involved a EUR 184 million increase of Philips' share capital from a corresponding reversal of the share premium account, with an increase in the par value of Philips' outstanding common shares to NLG 11.0974132 from NLG 10 per share. The second step was a reduction of the par value of the common shares to NLG 2.0274132 and the return of NLG 9.07 (per share) of share capital to the shareholders in cash (total amount of share capital returned: EUR 1,490 million). The third step was to convert the authorized share capital (92 'new' shares for 100 'old' shares = 8% reduction) in combination with an increase of the par value to NLG 2.20371. The last step involved the redenomination of the par value of Philips shares from guilders to euros (EUR 1).

Share premium is fully exempt from Dutch taxes upon distribution to Dutch shareholders.

Warrants

Warrants for the purchase of common shares of Royal Philips Electronics were issued in 1992 to the remaining shareholders in Superclub Holding & Finance S.A. with an exercise price of EUR 15.43 (NLG 34.00). All remaining warrants expired on June 30, 1998.

Option rights

Certain officers of the Company have been 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

The regular repurchase and delivery upon exercise of options and convertible personnel debentures of Royal Philips Electronics' shares held as treasury stock are accounted for in stockholders' equity under other reserves.

In order to reduce potential dilution effects, a total of 1,481,027 shares were acquired during 1999 at an average market price of EUR 93.87 per share, and a total of 2,579,640 shares were delivered at an average exercise price of EUR 64.64. A total of 6,178,676 shares were being held by Group companies as of December 31, 1999 (1998: 7,804,607 shares), acquired at an average price of EUR 75.71 per share.

A net deferred foreign-exchange hedge loss (net of taxes) of EUR 161 million (1998: EUR 2 million gain) is included under other reserves.

26 Stock-based compensation

The Company has granted stock options on its common shares to members of the Group Management Committee, Senior Management and certain key employees in the USA. The purpose of the stock option plans is to align the interests of management with those of shareholders by providing additional incentives to increase 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 1999, stock options were granted to the members of the Group Management Committee and to approximately 300 members of the Senior Management under the Dutch Philips Stock Option Plan 1999 and the Global Philips Stock Option Plan 1999. Dutch grantees under these plans may opt for either the Dutch Plan or the Global Plan. Under both plans, options are granted for five years, with a three-year restriction period during which no stock options can be exercised.

The main difference between the two plans is the Dutch tax consequences for the participants. Options granted under the Dutch Plan are taxable upon the date of grant, the taxable value being fixed at 20% of the exercise price, irrespective of whether the options will be exercised or not. Options granted under the Global Plan are taxable upon exercise; no tax is due if there is no share price increase above the exercise price or if the options are not exercised.

In 1999, stock options were granted to approximately 500 employees in the USA participating in the Philips Electronics North America Corporation Long Term Incentive Plan. Under this plan, options are granted for ten years and vest within three years. In prior years, options were issued with terms of either five or ten years, all vesting within three years from the date of grant. Additionally, prior to 1998, options were granted in the USA under the Company's variable plans, subject to the achievement of certain financial objectives during multi-year performance cycles.

The shares subject to the Plans are existing issued shares of the Company.

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

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:

	1999	1998	1997
Net income, as reported	1,799	6,053	2,602
Pro forma net income	1,775	6,034	2,597
Basic earnings per share, as reported	5.22	16.81	7.45
Pro forma basic earnings per share	5.15	16.76	7.43

Pro forma net income may not be representative of that to be expected in future years.

The fair value of the Company's 1999, 1998 and 1997 option grants was estimated using a Black-Scholes option pricing model and the following assumptions:

	1999	1998	1997
(EUR-denominated)			
Risk-free interest rate	3.19%	4.16%	3.87%
Expected dividend yield	1.2%	1.4%	1.5%
Expected option life	4 yrs.	3 yrs.	3 yrs.
Expected stock price volatility	37%	36%	29%

	1999	1998	1997
(USD-denominated)			
Risk-free interest rate	5.32%	5.30%	6.30%
Expected dividend yield	1.2%	1.4%	1.5%
Expected option life	5 yrs.	5 yrs.	4 yrs.
Expected stock price volatility	37%	34%	30%

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, 1999:

Fixed option plans

	options outstanding			options exercisable	
	number outstanding at Dec. 31, 1999	exercise price per share (price in EUR)	weighted average remaining contractual life (years)	number exercisable at Dec. 31, 1999	weighted average price per share (price in EUR)
1995	92,000	25.23	0.2	92,000	25.23
1996	271,850	26.46-30.13	1.2	271,850	29.86
1997	639,800	36.76-77.73	2.3	639,800	48.01
1998	1,315,900	46.29-84.09	3.2	—	—
1999	995,850	63.05-92.05	4.2	—	—
		(price in USD)			(price in USD)
1998	534,722	51.75-94.37	8.3	130,280	69.11
1999	694,525	87.90-124.37	9.4	—	—
	4,544,647			1,133,930	

Variable plans

	(price in USD)			(price in USD)	
1991-1992	14,832	11.81-20.62	1.0	14,832	12.63
1993-1994	86,278	11.00-27.56	3.0	86,278	11.45
1995-1997	595,690	30.00-56.81	5.0	235,326	31.33
	696,800			336,436	

A summary of the status of the Company's stock option plans as of December 31, 1999, 1998 and 1997 and changes during the years then ended is presented below:

Fixed option plans

	1999		1998		1997
	shares	weighted average exercise price in EUR	shares	weighted average exercise price in EUR	shares
Outstanding at the beginning of the year	3,844,200	46.45	5,290,500	31.20	6,805,600
Granted	995,850	64.87	1,316,900	65.18	1,376,400
Exercised	(1,515,650)	33.86	(2,763,200)	26.18	(2,891,500)
Forfeited	(29,000)	36.76	—	—	—
Outstanding at the end of the year	3,295,400	57.77	3,844,200	46.45	5,290,500
Weighted average fair value of options granted during the year in EUR	19.04		15.57		8.43
(price in USD)					
Outstanding at the beginning of the year	621,150	69.34	—		
Granted	728,675	92.47	626,900	71.61	
Exercised	(73,911)	70.07	—		
Forfeited	(26,667)	81.88	(5,750)	73.34	
Outstanding at the end of the year	1,249,247	82.62	621,150	69.34	
Weighted average fair value of options granted during the year in USD	34.18		24.50		

Variable plans

	shares	weighted average exercise price in USD	shares	weighted average exercise price in USD	shares	weighted average exercise price in USD
Outstanding at the beginning of the year	1,201,184	27.80	1,819,038	26.32	2,367,051	23.32
Granted	—		—		32,440	40.26
Exercised	(476,162)	26.47	(399,860)	18.94	(532,351)	12.74
Forfeited	(28,222)	31.94	(217,994)	31.65	(48,102)	38.19
Outstanding at the end of the year	696,800	28.54	1,201,184	27.80	1,819,038	26.32
Weighted average fair value of options granted during the year in USD	—		—		11.87	

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. The Company does not have significant exposure to any individual customer or counterparty.

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. 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.

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 ultimately will be realized by the Company upon maturity or disposition. Additionally, because of the variety of valuation techniques permitted under SFAS No. 107, 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, 1999		December 31, 1998	
	carrying amount	estimated fair value	carrying amount	estimated fair value
Assets:				
Cash and cash equivalents	2,331	2,331	6,553	6,553
Securities	1,523	3,686	–	–
Accounts receivable – current	6,081	6,081	5,133	5,133
Other financial assets	340	340	1,861	2,039
Accounts receivable – non-current	252	231	492	492
Liabilities:				
Accounts payable	(3,632)	(3,632)	(2,948)	(2,948)
Debt	(3,314)	(3,427)	(3,587)	(3,803)
Derivative financial instruments (net)	(139)	(130)	(14)	(14)

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.

Currency exchange agreements

The fair value is the amount that the Company would receive or pay to terminate the exchange agreements, 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 1999, Philips reported a credit to net income of EUR 62 million (versus charges of EUR 34 million in 1998 and EUR 63 million in 1997) 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.
- Under Dutch GAAP, certain product development and process development costs are capitalized in inventory. Under US GAAP such costs are required to be expensed when incurred. The 1998 and 1997 figures have been adjusted to reflect this difference in accounting.
- 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.
- Under Dutch GAAP, the results of foreign-exchange contracts relating to hedges of securities are deferred to stockholders' equity. Under US GAAP, changes in the value of these forward exchange contracts are reported in income when sale of the securities is restricted for a period of one year or more.
- Philips reported a charge to income from operations of EUR 329 million for restructurings 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 has been recorded under US GAAP as a charge in 1999.

- In July 1995, Philips contributed the net assets of its cable networks, with a book value of approximately EUR 91 million, to UPC, a newly established joint venture in which Philips had acquired a 50% interest. Under Dutch GAAP, this transfer resulted in a gain of EUR 58 million relating to the partial disposal of its interest in these assets to the other joint venture party (UIH). For US GAAP purposes, this gain was not considered realized because the consideration received by Philips principally consisted of equity and notes issued by UPC and equity in UIH. In 1997, Philips sold its 50% interest in this joint venture and the gain of EUR 58 million on this transaction was recognized.
- Under Dutch GAAP, majority-owned entities are consolidated. 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 (see note 1).
- 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 (1999: EUR 44 million, 1998: EUR 61 million, 1997: EUR 95 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 part of intangible fixed assets, whereas under US GAAP it would be included in investments in unconsolidated companies.

Reconciliation of net income according to Dutch GAAP versus US GAAP

	1999	1998	1997
Income from continuing operations as per the consolidated statements of income	1,804	541	1,231
Reclassification of extraordinary items under Dutch GAAP	—	474	1,151
	1,804	1,015	2,382
Adjustments to US GAAP (net of taxes):			
Additional minimum liabilities under SFAS No. 87	(62)	34	63
Reversal of capitalized development costs in inventories	(12)	(40)	21
Reversal of provisions for restructuring	(23)	23	—
Reversal of gain on UPC transaction	—	—	58
Amortization of goodwill from acquisitions prior to 1992	—	—	(10)
Reversal of deferred hedge result on securities	(90)	—	—
Other items	(22)	(7)	(14)
Income from continuing operations in accordance with US GAAP	1,595	1,025	2,500
Income from discontinued operations	—	210	233
Gain on disposal of discontinued operations	—	4,681	—
Extraordinary items – net	(5)	(16)	(43)
Net income in accordance with US GAAP	1,590	5,900	2,690
Basic earnings per common share in EUR:			
Income from continuing operations	4.63	2.85	7.16
Income from discontinued operations	—	0.58	0.66
Gain on disposal of discontinued operations	—	13.00	—
Extraordinary items – net	(0.02)	(0.04)	(0.12)
Net income	4.61	16.39	7.70
Diluted earnings per common share in EUR:			
Income from continuing operations	4.59	2.82	7.02
Income from discontinued operations	—	0.58	0.65
Gain on disposal of discontinued operations	—	12.89	—
Extraordinary items – net	(0.01)	(0.04)	(0.12)
Net income	4.58	16.25	7.55

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, deferred gains and losses on currency transactions qualifying for hedge treatment, certain pension liability-related losses not yet recorded as pension costs, and unrealized holding gains and losses on securities available for sale.

Statement of comprehensive income	1999	1998	1997
Net income in accordance with US GAAP	1,590	5,900	2,690
Other comprehensive income (net of taxes):			
Translation differences	419	(152)	293
less: reclassification for translation losses included in net income	–	(42)	(38)
Deferred foreign exchange results	(71)	15	–
Minimum pension liability adjustment	43	(49)	–
Holding gains (losses) on securities available for sale	2,131	32	(64)
<hr/>			
Comprehensive income in accordance with			
US GAAP	4,112	5,704	2,881

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

	1999	1998
Stockholders' equity as per the consolidated balance sheets	14,757	14,560
Equity adjustments that affect net income:		
Intangible assets relating to additional liabilities under SFAS No. 87	29	48
Reversal of capitalized development costs in inventories	(241)	(229)
Reversal of provisions for restructuring	–	23
Adjustment for highly inflationary countries, mainly to property, plant and equipment	–	22
Equity adjustments not affecting net income under US GAAP:		
Holding gain on securities available for sale	2,163	32
Stockholders' equity in accordance with US GAAP	16,708	14,456
Translation differences as included in stockholders' equity	(991)	(1,410)

29 Information relating to product sectors and geographic areas

In 1998, the Company changed its product sector reporting to comply with the new requirements of Statement of Financial Accounting Standard No. 131, issued by the Financial Accounting Standards Board of the USA.

As a consequence, the Philips activities are grouped together into seven product sectors, which are reported separately: Lighting, Consumer Products, Components, Semiconductors, Professional, Origin and Miscellaneous.

The Company evaluates the performance of its sectors and allocates resources to them based on several performance measures, including earnings before interest, taxes, depreciation and amortization from consolidated companies (Ebitda). While not a standard measurement under US GAAP, the Company believes Ebitda is an appropriate measure of operating performance, given the goodwill and other intangibles associated with the Company's acquisitions. In Philips' definition, Ebitda equals income from operations before depreciation and amortization charges.

However, Ebitda could be defined differently by other companies and should be considered in addition to, not as a substitute for, other measures of financial performance including revenues, operating income and cash flows. The Company does not allocate interest income, interest expense, income taxes or unusual items to segments.

The consolidated financial statements for 1999 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 'Introduction of the euro' on page 17.

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 Products

This sector comprises the divisions Consumer Electronics and Domestic Appliances and Personal Care. Moreover, the revenues from license agreements are included in this sector.

Consumer Electronics

This division markets a wide range of consumer products in the following areas: video products (TV, VCR, tuners, remote controls), audio (audio systems, portable products, speaker systems, CD-Recordable), PC peripherals (monitors, PC add-ons), personal communication (mobile phones, corded/cordless phones) and new digital products (DVD, Flat TV, mobile computing products).

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 & care (depilators, hair dryers, suncare, electric toothbrushes, skincare, thermometers, etc.), food & 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.

Professional

This sector comprises the divisions Medical Systems and Business Electronics. Due to the reorganization of Business Electronics as of January 1, 2000, these activities will be included in other sectors in future.

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.

Business Electronics

This division focuses on the business-to-business sector. Main product areas are digital video-communication systems, broadband network equipment, business communication systems, communication and security systems, and fax equipment. The division is a major supplier of electronic manufacturing equipment to the semiconductor industry. It also deals with infrastructural and industrial projects. Effective January 1, 2000, Business Electronics has been fully integrated into the Consumer Electronics division, with the exception of certain units which are being integrated into the Miscellaneous 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. Philips holds an interest of 98% in Origin B.V.

Miscellaneous

This sector comprises not only various ancillary businesses, including Philips Plastics and Metalware Factories and Philips Machinefabriken, but also various (remaining) activities that have been sold, discontinued, phased out or deconsolidated in earlier years, such as Grundig, 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.

All years presented have been restated to eliminate the activities of PolyGram, which also ceased to be a separate product sector. For a description of the various product divisions included in the product sectors, please refer to the relevant section of this report.

Sales to third parties by product sector and by geographic area are shown in the following tables. Sales to third parties by geographic area represent the total proceeds from products and services supplied to third parties in the geographic area concerned. The sales growth rates are also presented on a comparable basis, adjusted for the effects of changes in consolidations and exchange rate movements.

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 include sales to third parties ('sales') as well as 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 by companies located within that geographic area, 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.

Car Systems was deconsolidated as of December 31, 1997. However its results of operations were consolidated for the year then ended. Group sales for 1997 included EUR 0.8 billion relating to Car Systems.

The divested activity has been included in the Miscellaneous sector.

The Consumer Products sector includes 3 months of operations of the PCC/Lucent joint venture in 1997 and 9 months in 1998.

For further details, please refer to note 1.

Sales, sales growth and number of employees by product sector

1999

	sales (to third parties)	% growth		number of employees
	nominal	comparable		
Lighting	4,548	2	1	47,453
Consumer Products	12,437	0	6	47,970
Components	3,754	(2)	3	41,709
Semiconductors	3,796	18	5	29,952
Professional	5,186	15	4	25,187
Origin	1,056	0	0	16,690
Miscellaneous	682	(27)	(11)	11,181
Unallocated				6,732
Total	31,459	3	4	226,874

1998

Lighting	4,453	(2)	1	48,997
Consumer Products	12,472	9	7	51,643
Components	3,814	4	5	42,613
Semiconductors	3,212	2	5	26,583
Professional	4,520	5	7	24,646
Origin	1,059	25	24	16,948
Miscellaneous	929	(45)	6	15,150
Unallocated				7,106
Total	30,459	3	6	233,686

1997

Lighting	4,549	13	5	51,727
Consumer Products	11,465	19	7	66,046
Components	3,664	27	5	46,131
Semiconductors	3,144	24	14	26,916
Professional	4,301	12	11	21,208
Origin	846	30	21	15,464
Miscellaneous	1,689	(52)	6	17,109
Unallocated				7,667
Total	29,658	9	8	252,268

Sales, sales growth and number of employees by main country

1999

	sales (to third parties)	% growth		number of employees
		nominal	comparable	
Netherlands	1,619	(2)	(1)	43,153
United States	7,535	5	9	26,282
Germany	2,727	(2)	2	13,964
France	1,962	(6)	(8)	12,521
United Kingdom	2,281	18	16	7,938
China (incl. Hong Kong)	2,023	8	4	22,097
Other countries	13,312	3	2	100,919
Total	31,459	3	4	226,874

1998

Netherlands	1,653	14	22	44,476
United States	7,164	11	6	25,178
Germany	2,777	(2)	4	14,181
France	2,092	(4)	4	12,228
United Kingdom	1,931	9	12	8,801
China (incl. Hong Kong)	1,878	14	14	21,929
Other countries	12,964	(3)	4	106,893
Total	30,459	3	6	233,686

1997

Netherlands	1,448	(1)	4	46,032
United States	6,425	26	8	30,407
Germany	2,840	(22)	1	15,448
France	2,176	(4)	8	14,779
United Kingdom	1,775	11	2	9,963
China (incl. Hong Kong)	1,654	68	31	20,727
Other countries	13,340	11	9	114,912
Total	29,658	9	8	252,268

Product sectors

1999

	segment revenues	Ebitda*	income (loss) from operations	as % of segment revenues	income (loss) from operations**
Lighting	4,597	772	602	13.1	631
Consumer Products	12,781	847	555	4.3	519
Components	5,325	661	286	5.4	311
Semiconductors	4,557	1,195	614	13.5	612
Professional	5,479	261	100	1.8	125
Origin	1,735	193	97	5.6	97
Miscellaneous	769	(9)	(91)	(11.8)	(83)
Unallocated		(365)	(412)		(416)
Total	35,243	3,555	1,751		1,796
Intersegment revenues	(3,784)				
Sales	31,459				
Income from operations as a % of sales				5.6	5.7
					1998
Lighting	4,504	776	595	13.2	620
Consumer Products	12,760	61	(278)	(2.2)	(54)
Components	5,259	408	44	0.8	91
Semiconductors	3,963	1,225	765	19.3	781
Professional	4,649	250	(55)	(1.2)	(33)
Origin	1,654	128	59	3.6	59
Miscellaneous	1,138	64	(46)	(4.1)	(47)
Unallocated		(339)	(399)		(403)
Total	33,927	2,573	685		1,014
Intersegment revenues	(3,468)				
Sales	30,459				
Income from operations as a % of sales				2.2	3.3
					1997
Lighting	4,602	715	522	11.3	562
Consumer Products	12,194	706	335	2.7	342
Components	5,099	537	255	5.0	254
Semiconductors	3,793	1,164	771	20.3	785
Professional	4,454	288	207	4.6	205
Origin	1,324	73	—	—	—
Miscellaneous	2,102	130	14	0.6	(1)
Unallocated		(328)	(390)		(385)
Total	33,568	3,285	1,714		1,762
Intersegment revenues	(3,910)				
Sales	29,658				
Income from operations as a % of sales				5.8	5.9

* In Philips' definition, Ebitda represents income from operations before depreciation and amortization charges
 ** Excluding restructuring

Geographic areas

1999

	segment revenues	Ebitda*	income (loss) from operations	as % of segment revenues	income (loss) from operations**
Netherlands	12,452	927	513	4.1	565
Europe excl. Netherlands	16,600	1,118	611	3.7	622
USA and Canada	9,310	507	82	0.9	60
Latin America	1,642	15	(41)	(2.5)	(31)
Africa	107	3	1	0.9	1
Asia	11,188	981	584	5.2	578
Australia and New Zealand	424	4	1	0.2	1
Total	51,723	3,555	1,751		1,796
Interregional revenues		(20,264)			
Sales		31,459			
Income from operations as a % of sales				5.6	5.7

1998

Netherlands	11,089	795	446	4.0	462
Europe excl. Netherlands	16,430	1,278	638	3.9	696
USA and Canada	8,572	(50)	(473)	(5.5)	(290)
Latin America	2,013	(140)	(205)	(10.2)	(201)
Africa	126	0	(1)	(0.7)	(1)
Asia	10,013	681	287	2.9	355
Australia and New Zealand	419	9	(7)	(1.6)	(7)
Total	48,662	2,573	685		1,014
Interregional revenues		(18,203)			
Sales		30,459			
Income from operations as a % of sales				2.2	3.3

1997

Netherlands	9,684	752	380	3.6	398
Europe excl. Netherlands	15,831	1,260	687	4.3	714
USA and Canada	7,644	221	10	0.1	1
Latin America	2,104	16	(55)	(2.6)	(55)
Africa	113	6	3	2.8	3
Asia	10,803	1,020	703	6.5	715
Australia and New Zealand	598	10	(14)	(2.4)	(14)
Total	46,777	3,285	1,714		1,762
Interregional revenues		(17,119)			
Sales		29,658			
Income from operations as a % of sales				5.8	5.9

* In Philips' definition, Ebitda represents income from operations before depreciation and amortization charges

** Excluding restructuring

Product sectors

1999

	total assets	net operating capital	(in)tangible fixed assets	capital expenditures	depreciation
Lighting	2,849	1,875	1,275	176	161
Consumer Products	4,500	1,689	884	296	285
Components	5,179	2,078	3,197	259	364
Semiconductors	5,188	3,194	2,917	622	467
Professional	3,432	1,780	916	99	84
Origin	683	240	275	56	68
Miscellaneous	913	318	328	68	79
Unallocated	6,752	(728)	362	86	40
Total	29,496	10,446	10,154	1,662	1,548

1998

Lighting	2,607	1,764	1,194	191	173
Consumer Products	4,350	1,689	822	380	333
Components	3,112	2,070	1,865	299	357
Semiconductors	3,106	1,905	1,584	437	455
Professional	2,810	1,377	755	88	77
Origin	572	147	184	69	63
Miscellaneous	1,021	509	403	93	106
Unallocated	10,575	212	321	77	51
Total	28,153	9,673	7,128	1,634	1,615

1997

Lighting	2,723	1,819	1,240	216	187
Consumer Products	5,085	2,434	1,001	286	337
Components	3,146	2,216	1,955	400	278
Semiconductors	3,136	1,970	1,646	362	369
Professional	2,188	881	392	123	98
Origin	492	126	202	63	58
Miscellaneous	1,098	270	378	128	107
Unallocated	3,972	341	333	49	58
Total	21,840	10,057	7,147	1,627	1,492
Discontinued operations		1,482			
Total		23,322			

Main countries

1999

	total assets	net operating capital	(in)tangible fixed assets	capital expenditures	depreciation
Netherlands	7,452	2,439	1,811	435	370
United States	5,139	2,839	2,476	249	228
Germany	1,558	86	632	134	147
France	1,118	164	392	92	113
United Kingdom	1,041	607	321	55	53
China (incl. Hong Kong)	1,570	635	635	91	123
Other countries	11,618	3,676	3,887	606	514
Total	29,496	10,446	10,154	1,662	1,548

1998

Netherlands	11,863	2,778	1,633	404	343
United States	3,518	1,538	1,167	155	189
Germany	1,536	669	698	143	250
France	1,130	158	410	76	129
United Kingdom	907	504	298	60	64
China (incl. Hong Kong)	1,273	517	574	124	96
Other countries	7,926	3,509	2,348	672	544
Total	28,153	9,673	7,128	1,634	1,615

1997

Netherlands	4,913	2,958	1,688	265	347
United States	3,661	1,363	1,028	138	181
Germany	1,833	684	701	156	161
France	1,370	401	509	140	147
United Kingdom	907	521	339	73	57
China (incl. Hong Kong)	1,289	627	580	255	68
Other countries	7,867	3,503	2,302	600	531
Total	21,840	10,057	7,147	1,627	1,492
Discontinued operations		1,482			
Total		23,322			

**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

	1999	1998															
Assets																	
Non-current assets:																	
<table border="0"> <tr> <td style="vertical-align: top;">A</td><td style="text-align: right;">Intangible fixed assets</td><td style="text-align: right;">1,438</td></tr> <tr> <td style="vertical-align: top;">B</td><td style="text-align: right;">Tangible fixed assets</td><td style="text-align: right;">1</td></tr> <tr> <td style="vertical-align: top;">C</td><td style="text-align: right;">Investments in affiliated companies</td><td style="text-align: right;">15,577</td></tr> <tr> <td style="vertical-align: top;">D</td><td style="text-align: right;">Other non-current financial assets</td><td style="text-align: right;">70</td></tr> </table>			A	Intangible fixed assets	1,438	B	Tangible fixed assets	1	C	Investments in affiliated companies	15,577	D	Other non-current financial assets	70			
A	Intangible fixed assets	1,438															
B	Tangible fixed assets	1															
C	Investments in affiliated companies	15,577															
D	Other non-current financial assets	70															
	17,086	13,925															
Current assets:																	
<table border="0"> <tr> <td style="vertical-align: top;">E</td><td style="text-align: right;">Receivables</td><td style="text-align: right;">558</td></tr> <tr> <td style="vertical-align: top;">F</td><td style="text-align: right;">Securities</td><td style="text-align: right;">1,523</td></tr> <tr> <td></td><td style="text-align: right;">Cash and cash equivalents</td><td style="text-align: right;">1,021</td></tr> </table>			E	Receivables	558	F	Securities	1,523		Cash and cash equivalents	1,021						
E	Receivables	558															
F	Securities	1,523															
	Cash and cash equivalents	1,021															
	3,102	5,875															
Total	20,188	19,800															
Liabilities and stockholders' equity																	
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J	Short-term debt	2,340															
K	Other liabilities	551															
	2,594	175															
Total	20,188	19,800															

Statements of income

Income after taxes from affiliated companies	1,590	904
Income from discontinued operations	–	210
Gain on disposal of discontinued operations	–	4,844
Other income after taxes	209	95
L Net income	1,799	6,053

The financial statements for 1999 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.

Notes to the financial statements of Royal Philips Electronics

all amounts in millions of euros unless otherwise stated

For the policies with regard to valuation and income determination, see pages 3-10 of the financial statements, which form part of these notes.

A Intangible fixed assets

Balance as of January 1, 1999:

Acquisition cost	123
Accumulated amortization	(44)
Book value	79
Changes in book value:	
Acquisitions	1,435
Amortization and write-downs	(76)
Total changes	1,359
Balance as of December 31, 1999:	
Acquisition cost	1,558
Accumulated amortization	(120)
Balance	1,438

The intangible fixed assets represent goodwill paid upon acquisitions. The acquisitions in 1999 mainly relate to goodwill arising from the purchase of the additional interest in Origin, LG.Philips LCD Co. and LumiLeds Lighting B.V.

B Tangible fixed assets

Balance as of January 1, 1999:

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, 1999:	
Cost	1
Accumulated depreciation	—
Balance	1

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

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, 1999	12,268	7,622	4,646
Changes:			
Acquisitions/additions	2,581	924	1,657
Sales/redemptions	(1,337)	(252)	(1,085)
After-tax income from affiliated companies	1,905	1,905	–
Dividends declared	(251)	(251)	–
Translation differences/other changes	411	54	357
Balance as of December 31, 1999	15,577	10,002	5,575

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, 1999	1,577	1,571	6
Transfer to current assets	(1,564)	(1,564)	–
Changes:			
Acquisitions/additions	63	63	–
Sales/redemptions	(6)	(6)	–
Balance as of December 31, 1999	70	64	6

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

With regard to the reclassification of the JDS Uniphase and Seagram shares to securities, please refer to the Group financial statements and the relevant notes.

E Receivables	1999	1998
Trade accounts receivable	155	111
Group companies	135	287
Unconsolidated companies	10	7
Total	300	405
Other receivables	176	178
Advances and prepaid expenses	82	16
Deferred tax assets	-	82
Income tax receivable	-	31
Total	558	712

An amount of EUR 54 million included in other receivables is due after one year (1998: EUR 147 million).

F **Securities**

With regard to the reclassification of the JDS Uniphase and Seagram shares to securities, please refer to the Group financial statements and the relevant notes.

G **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.

H **Provisions**

	1999	1998
Pensions	21	84
Other	48	23
Total	69	107
Of which long-term	30	106
Of which short-term	39	1

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.

I Long-term debt

	range of interest rates	average rate of interest	amount outstanding	due in 2000	due after 2000	due after 2004	average remaining term (in years)
Convertible debentures	2.1-3.1	2.7	77	—	77	—	4.0
Other debentures	5.6-8.8	7.3	2,253	—	2,253	1,216	6.0
Intercompany financing	3.0-6.4	3.6	1,215	1,215	—	—	—
Other long-term debt	4.2-7.0	5.0	151	10	141	31	3.3
Total		5.9	3,696	1,225	2,471	1,247	
Corresponding data previous year		6.0	3,262	898	2,364	1,452	

The following amounts of the long-term debt as of December 31, 1999 are due in the next five years:

2000	1,225
2001	553
2002	184
2003	209
2004	278
	2,449
Corresponding amount previous year	1,810

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

J Short-term debt

Short-term debt includes the current portion of outstanding other long-term debt amounting to EUR 10 million (1998: EUR 185 million) and debt to other Group companies totaling EUR 2,330 million (1998: EUR 2,409 million).

K Other liabilities

	1999	1998
Other short-term liabilities	63	52
Deferred income and accrued expenses	488	123
Total	551	175

Included in 1999 deferred income and accrued expenses is a liability of EUR 228 million in connection with the acquisition of LG.Philips LCD Co. in Korea.

L Net income

Net income in 1999 came to EUR 1,799 million (1998: net income of EUR 6,053 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 1999 was 14 (1998: 16) 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 1,544 million as of year-end 1999 (1998: EUR 1,583 million). Guarantees totaling EUR 522 million (1998: EUR 1,322 million) have also been given on behalf of other Group companies, and guarantees totaling EUR 84 million (1998: EUR 146 million) on behalf of unconsolidated companies and third parties. The reduction of guarantees on behalf of other Group companies can to a large extent be explained by the replacement of external debt of Group companies, guaranteed by Royal Philips Electronics, by intercompany debt.

Eindhoven, February 15, 2000

The Supervisory Board

The Board of Management