Annual Report 1999

Management Report

PHILIPS

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Optical fibers like those depicted on the cover are at the heart of Philips' Fiber Optic Lighting Systems (FOLS). With fiber optics, light is distributed either as points of light or in continuous lines, adding a touch of magic or drama exactly where needed. In addition, they are waterproof and emit no heat or infrared/ultraviolet radiation, making them ideal for a wide range of applications inside or outside buildings: from boutique showcases to museums, for guidance in pedestrian areas and other traffic zones, and for the illumination of fountains, etc.

In 1999 we were delighted to receive the Henri Sijthoff Award for the best annual report produced by a company listed on the Amsterdam Exchanges. This was particularly gratifying as it was recognition of our efforts to inform our shareholders about our business performance as quickly and fully as possible. We intend to take this as the baseline for the ongoing improvement of our reporting.

Let's make things better.

Contents

This Management Report booklet and the separate booklet entitled 'Financial Statements' together comprise the full Annual Report for the year 1999 of Koninklijke Philips Electronics N.V. ('Royal Philips Electronics') as expressed in euros. The selected financial information included in this Management Report is derived from the Philips Group's full annual financial statements including notes. The Financial Statements booklet also contains additional financial information and further statutory and other information.

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.

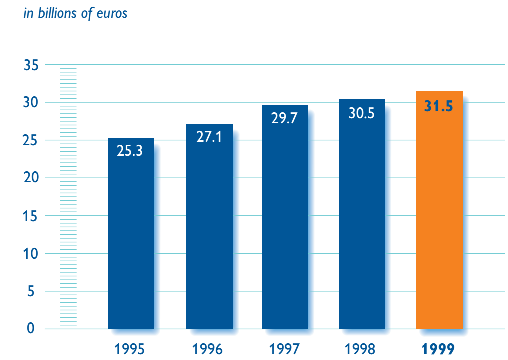
By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these 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.

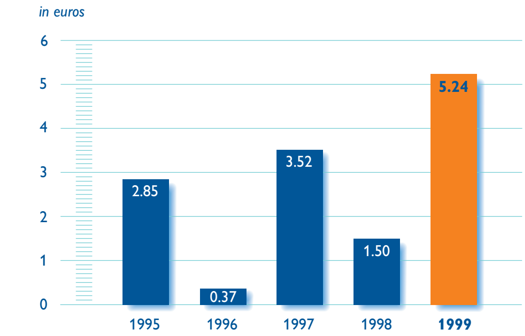
Key data

all amounts in millions of euros unless otherwise stated [1])

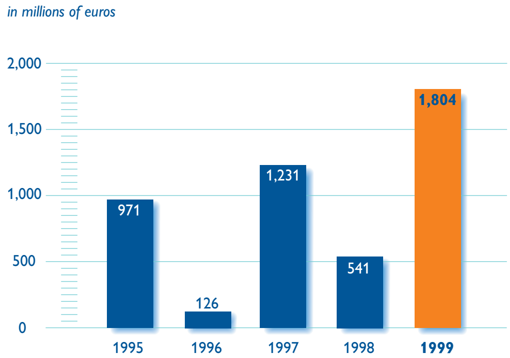
Sales



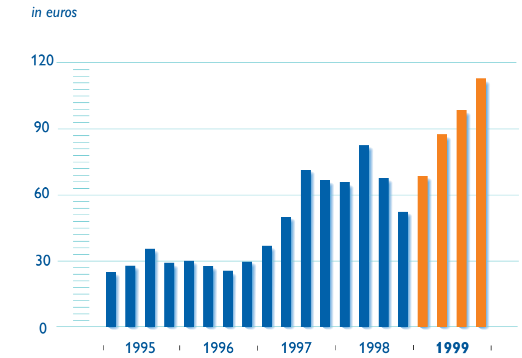
Income from continuing operations per common share



Income from continuing operations



Average share price per quarter



	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.

A fitting end to the old century, a promising start to the new

Dear Shareholder,

All in all, your company had a very good year in 1999 – one that not only fittingly rounds off a century of remarkable achievement at Philips but one that also brings us closer to our goal of achieving consistent profitable growth with sustainable market leadership across our portfolio of businesses.

- With income from continuing operations up 233% to EUR 1,804 million (EUR 5.24 per share), we more than achieved our objective of double-digit growth in earnings. In fact, our compound annual earnings growth since 1996 comes to 143%.
- We invested EUR 2,993 million to speed up profitable growth in selected areas, e.g.: our joint venture with LG Electronics gives us an immediately profitable lead in the important field of Active Matrix LCDs; and our acquisition of VLSI Technology strengthens our position in the semiconductor market and opens up new growth opportunities.
- We used our net cash position to return some EUR 1.5 billion to shareholders while reducing the number of outstanding shares by 8%.
- The share price rose by 136% during the year, adding EUR 24 billion to our market value.

Against the background of these results and our positive expectations for the future, we have decided to submit a proposal to the General Meeting of Shareholders to pay a 20% higher dividend of EUR 1.20 per common share. Also, I am pleased to announce three additional steps designed to further enhance shareholder value.

- We intend to effect a 4-for-1 stock split, which will make the Philips share more widely available to a larger group of investors.
- We are evaluating a number of strategic options for Origin, including the merits of obtaining a primary listing. Having successfully restructured, Origin may require greater freedom and flexibility to realize its full potential for profitable growth in the e-commerce environment while unlocking its value for the Philips shareholder.
- By incorporating greater flexibility in the structure and organization of our businesses, we will ensure that they are better positioned to achieve profitable growth with sustainable market leadership.

Business performance in outline

In 1999, Consumer Products, Components, Origin and Medical Systems showed particularly solid improvements in income from operations, while earnings prospects for our Semiconductors business are looking very promising. Income from unconsolidated companies was up significantly, thanks to the positive start of our joint venture with LG and the strong recovery of Taiwan Semiconductor Manufacturing Co.

Sales growth in the second half of the year came to 5%, compensating for a weak first half when sales growth on a comparable basis amounted to only 2%. For the year as a whole, sales grew by 4%, down from 1998's figure of 6%. In Europe and Latin America, sales rallied after the summer, following a subdued beginning to the year. In North America, sales showed sustained strong growth, while business in Asia Pacific picked up as the economies in the region continued on the road to recovery.

Sharpening focus, improving performance

Two years ago, I said that the process of restructuring at Philips would be an ongoing one. Substantial changes were made in 1998, and we have kept up the momentum in 1999. A number of activities that are less relevant to our major focus have been divested, while others have been acquired in order to strengthen our core businesses and strategic direction. We have also grouped our activities more efficiently, improved our internal communication infrastructure, and – most important of all – we are delivering results in the form of better performance.

Sharper focus

- We have integrated most of Business Electronics into our Consumer Electronics division. Due to the increasingly blurred lines between work and home, so many of Business Electronics' products were quickly making their appearance on consumer markets that it no longer made sense to maintain a strict separation between business and consumer electronic products. The result is that all our branded, high-volume electronics end-user products are now grouped together in one division.
- We have sold our non-ceramic passive components activity and other businesses that no longer fit in with our overall portfolio, bringing the number that have been divested since the refocusing operation began to around 40.

Better performance

- With substantially reduced losses, Philips Consumer Communications is in the final stages of a turnaround and is vigorously pursuing its target of 10% market share in the global cellular phone business. Since the dissolution of the joint venture with Lucent, our activities have focused on our core strength in GSM technology. Having significantly improved the quality of its products, PCC now plans to increase the frequency of product and feature introductions, and no fewer than seven new product launches are scheduled for the year 2000 alone.

- Earnings of Hosiden and Philips Display (HAPD) improved significantly during the year, bringing the joint venture to break-even.

With these improvements now in place, the 'tidying up' operation we started three years ago has largely achieved its goals. Now, we are gearing up for a future of profitable growth. At the same time, we will maintain our disciplined approach to improving operations, further tightening our internal controls and enhancing value-based management.

Strategy

As I explained in my message to you last year, we are implementing a strategy that is designed to make us a world leader (i.e., among the top three) in each of our businesses, with market share of 10% or more. In 1999, we took a number of steps that I believe will bring us closer to this goal.

- We acquired the US semiconductor company VLSI Technology. VLSI's activities perfectly complement our own, and the combination will allow us to expand, both in the US and in fast-growing semiconductor market segments such as mobile communications and digital consumer electronics.
- In the second half of 1999 we took a 50% stake in the LCD business of LG Electronics (Korea). This puts us in the No. 1 position in Active Matrix displays. LCDs are a strong growth area, and cooperation between this new company (called LG.Philips LCD) and our Components and Consumer Electronics divisions will allow us to develop a whole range of exciting new products, such as LCD monitors, LCD TVs and LCD hand-held devices.
- The worldwide market for speech-recognition products is growing exponentially as the technology moves beyond the office desktop and into the world at large. We have intensified our commitment to this field by entering into an R&D partnership with IBM. We have also acquired the US company Voice Control Systems (VCS), enabling us to provide a uniquely wide spectrum of speech technologies, from simple voice commands to full natural dialog capabilities.

We have narrowed our focus in high-volume electronics to concentrate on 'home' products and services – centering around television, set-top boxes, home networking and PC peripherals – and 'away' products and services – focusing on wireless products and LCD displays for small portable devices. Our Consumer Electronics division plays a central role in the development of these products, with Semiconductors and Components providing dedicated technologies. This concerted approach, with improved management of the value chain from internal suppliers to internal customers, should ensure a constant flow of exciting new Philips products, strengthening our position in the marketplace.

IT and the e-environment

Thanks to our systematic approach to solving the millennium issue, we came through the Y2K roll-over without any significant problems. Our new IT infrastructure will provide us with improved functionality and communication capability, putting us in a good position to take up the challenges of the e-business environment. Our activities focus on all business-to-business aspects, including the supply base, e-marketing and Web presence. We are also venturing, on a selective basis, into the business-to-consumer area.

Branding and marketing

We continue to attach great importance to strengthening the Philips brand around the world. Our successful advertising campaign, launched in 1998 and continued throughout 1999, is significantly raising awareness of the Philips brand, particularly in the USA.

Quality and organization

In 1999 we introduced a major new process-improvement program called 'BEST' – Business Excellence through Speed and Teamwork. It's a company-wide drive not only to improve speed but also to reach a level of true world excellence in all aspects of doing business.

In addition, a program has been launched to develop current and potential top talent within the Company for its key managerial positions. The aim is to help these individuals develop their managerial and entrepreneurial skills in line with Philips' needs as a 'best-in-class' company.

Conclusion

We were delighted with our recent inclusion in the S&P Global 100 index, as it is indicative of our improved standing in the financial community. Philips is entering the new century as a confident growth company, focusing on digital products and services. People sometimes speak as if we are already well into the Digital Age, but I believe it has only just started.

Home networking, for instance, is just one early sign of a powerful trend that will sweep digital electronics into every corner of people's lives and constitute a new quantum leap in comfort, convenience and pleasure. And that will be good news for the consumer, for Philips, and for you as a Philips shareholder.

In financial terms, we remain committed to our objectives of double-digit earnings growth and positive cash flow each year, and, in the longer term, 24% return on net assets. This is a challenging but realistic goal. Within the last five years, our share price has increased fivefold. And by executing our strategic plans and improving our speed and efficiency, we will tap the full potential of the twenty-first century Philips.

Finally, I'd like to express my thanks to all our employees for their hard work during the year. It's never easy to maintain, let alone increase, motivation and momentum in an environment that seems to be constantly changing. It's a real tribute to them that the strategic direction we mapped out two years ago is very much on track. Most of all, on behalf of the Board, I would like to thank you, as one of our shareholders, for your continued support. We are very much aware that it is the personal trust shown in the Company by you and your fellow shareholders that makes the whole exciting Philips enterprise possible.

Cor Boonstra, *President*

Divisional structure 2000

In recent years, Philips has made substantial organizational changes in response to developments in its operating environment. Most of the Business Electronics division has now been integrated in the Consumer Electronics division. Due to the increasingly blurred lines between work and home, so many of Business Electronics' products were quickly appearing on consumer markets that it no longer made sense to maintain a strict separation between business and consumer electronics. The result is that all our branded, high-volume electronics products are now grouped together in one division.

We have narrowed our focus in this field to concentrate on 'home' products and services – centering around television, set-top boxes, home networking and PC peripherals – and 'away' products and services – focusing on wireless products and LCD displays for small portable devices. Our Consumer Electronics division plays a central role in the development of these products, with Semiconductors and Components providing dedicated technologies.

Lighting straddles both consumer and professional markets, while Domestic Appliances and Personal Care and Medical Systems are active in the consumer and professional fields respectively. Finally, Origin plays a key enabling role through its IT solutions.

The new structure, composed of the following divisions, will become effective as of the year 2000.

Semiconductors

MultiMarket products
Consumer systems
Telecom terminals
Emerging businesses
Discrete semiconductors

Components

Display components
Optical storage
Flat display systems
Emerging electronics and solutions

SUPPLY & TECHNOLOGY RELATIONS

Origin

Enterprise solutions
integrated total-value-chain solutions, ERP implementation and related services, technical automation
Managed services
outsourcing, infrastructure solutions, applications management, desktop services
Professional services
transformation consulting services, electronic commerce

Lighting

Lamps
Luminaires
Lighting electronics and gear
Automotive and special lighting
Batteries

Consumer Electronics

Mainstream CE
consumer TV (Flat TV, Widescreen TV, Design TV, Digital TV, Projection TV), portable audio, audio systems (incl. CD-Recordable/ReWritable), (LCD) monitors, analog and digital VCR, TV/VCR, DVD-Video and DVD+RW

Communications
mobile phones, corded/cordless phones, answering machines, faxes, business communications

Digital Networks
set-top boxes, home access solutions, Internet streaming

PCB Assembly
assembly of printed circuit boards

Special products
tuners, remote controls, accessories, speaker systems, Marantz, LCD projectors, institutional TV, professional broadcast businesses, broadband networks, PC cameras, observation and security systems, speech systems

Domestic Appliances and Personal Care

Male shaving and grooming
shavers, trimmers

Body beauty and health
depilators, hair dryers, suncare, electric toothbrushes, skin care, thermometers

Home environment care
vacuum cleaners, air cleaners, steam irons, fans

Food and beverage
mixers, coffee makers, toasters

Medical Systems

X-ray equipment
radiography, universal R/F, cardio-vascular, surgery

Computed tomography
Magnetic resonance
Ultrasound
Healthcare services
image and information management programs, consultancy, training and technical support

Sharing the moment

Philips@Times-Square.2000 **The new millennium started with glittering brilliance in Times Square, New York, when the magnificent Waterford crystal ball illuminated by 168 Philips Halogená lamps lit up New Year's Eve. The bulb's specially facetted design allows for increased reflection off various surfaces, making it ideal for enhancing the ball's brilliance. Over a billion viewers worldwide watched the shimmering crystal ball slowly descend in the countdown to midnight. Philips' debut in Times Square was preceded by a multi-million dollar nationwide promotion in The Home Depot stores, the largest promotion in the history of consumer lighting anywhere in the world, and accompanied by a large-scale advertising campaign to boost awareness of the Philips brand in the United States.**

Lighting

Philips Lighting is No.1 in the global lighting market. This position is supported by our leadership in innovation combined with a determined approach to seeking out new market opportunities. Our principle of total accountability has continued to produce improvements in the efficiency and transparency of our five lines of business: Lamps, Luminaires, Lighting Electronics & Gear, Automotive and Batteries. We are placing strong emphasis on value creation through profitable growth in emerging markets such as Central and Eastern Europe and Asia Pacific, while further improving our position in our mature markets.

Cycle-time reduction remains a top priority. We have given new impetus to our quality improvement activities through our BEST (Business Excellence through Speed and Teamwork) approach, which is now being implemented Philips-wide.
Market leadership in LEDs (light-emitting diodes) has been strengthened by the expansion of LumiLeds Lighting, our joint venture with Agilent Technologies (a spin-off from Hewlett-Packard), which now employs 1,000 people. This 50-50 joint venture will develop, manufacture and market LEDs, modules, products and systems worldwide for an increasingly broad range of applications.

We see opportunities for growth, for instance in areas such as energy-saving lighting and technologically advanced lighting applications – and Philips Lighting is in an excellent position to take full advantage of them.

Lighting for Buddhist shrine

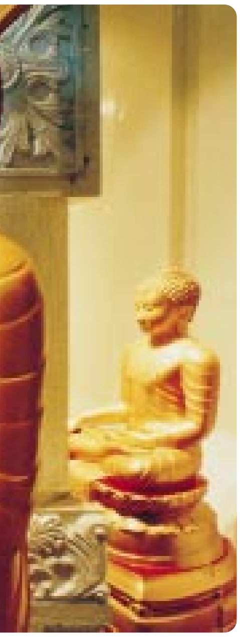
The Dalada Maligawa temple in Sri Lanka, the most sacred shrine in the Buddhist world, reopened in mid-August 1999 with a new state-of-the-art lighting system designed and installed by Philips Lighting. In addition to energy-saving lamps, a 600-point fiber-optic lighting system is installed at the inner entrance of the temple, creating a 'starry sky' over the heads of the pilgrims. The use of compact floodlights further enhances the serene beauty of the temple.

City Beautification

Conceived for the rapidly growing architectural outdoor lighting segment, Philips' Metronomis luminaire range reflects a modern vision of public lighting, in which leading-edge technology is combined with a clear and elegant design, striking a balance between contemporary style and traditional 'urban' values.

BlueVision

The BlueVision range of halogen car lamps from Philips allows driving enthusiasts to upgrade their lighting with the latest high-tech design innovation. As with Philips' Xenon discharge lamps, the natural blue-white light produced by Blue Vision results in greater road safety by stimulating driver concentration, reducing eye-strain and illuminating road markings and signs much more clearly. BlueVision is the first step for many car drivers before upgrading to the full Xenon gas-discharge system on their next car.

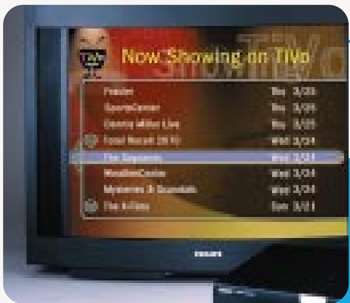


Energy saving in Latin America

Concern for the environment remains one of the major drivers of Philips Lighting's business, whether through developing better energy-saving products or eliminating/reducing the hazardous materials they contain. Energy saving is a prime concern among customers in Latin America. In 1999, Philips Lighting ran a successful region-wide compact fluorescent lamp campaign, which has enhanced the division's innovative positioning in this field.

The delicate touch

As more and more consumers seek to express their personality through their home and its decor, Philips Softone provides a softer, gentler light that will put the finishing touch to any interior. Philips Softone lamps come in a full range of subtle, trendy colors to help create that special, personal ambience in the home.



Unleashing the power

The future of TV is rich and above all personal. Digitalization of television is opening the way not only to many more channels but also to a range of services such as web-surfing, e-mail, e-shopping and games. To help people find their way through this bewildering array of choices, intelligent systems will learn what we like, making recommendations and recording or downloading material that it thinks we will enjoy so that we can view it at times that fit in with our busy lifestyles. Philips works together with service and content providers such as UPC, Canal + and America Online. In the US market, Philips has introduced Personal TV products that incorporate technology of its US partner TiVo. For the German market, Personal TV products will be developed for the Kirch group, also in cooperation with TiVo.

Consumer products

Consumer Electronics

Philips Consumer Electronics encompasses all Philips-branded consumer electronics products in the fields of television, video equipment, audio, PC peripherals, communications and digital networks. Besides Philips-branded products, we are also an important OEM supplier, particularly of monitors and VCRs. In 1999, we conducted a major advertising campaign to boost awareness of the Philips brand in the USA. In the important Asia Pacific region we achieved market share gains in most product categories (in particular, TVs, VCRs and CD/CD-R).

In the audio/video market, we are No. 2 in Europe and No. 3 in the world. Our technological expertise puts us at the forefront of both entertainment and information – the cornerstones of the digital communication age. In television, for instance, our widescreen and integrated sets, both direct-view and projection, for satellite, cable and terrestrial digital broadcasts offer not only superb sound and picture quality but also many channels and interactive services. Set-top boxes for digital TV and Internet delivery, as well as professional products such as TV cameras and studio and compression equipment, are supplied by our Digital Networks group. The latter is one of a number of businesses from our former Business Electronics division, which was discontinued as an organizational entity as of January 1, 2000. Since products and services for the business-to-business market now tend to spread rapidly to the consumer market, these activities have been reassigned to the Consumer Electronics division.
Philips is currently the world's No. 2 supplier of digital set-top boxes. As voice, video and data communication technologies converge, the market for our products, software and services in the fields of digital video and, for instance, natural speech recognition is expected to grow substantially.

In audio, we market systems, portable products, speakers and accessories, including high-end products under the Marantz name. Sales of a number of our lifestyle products indicate we are on the way to becoming the brand of choice among younger consumers. We continue to make substantive contributions to the increasing miniaturization and personalization of audio equipment and the full integration of audio, video and Internet into home entertainment systems. In partnership with others, we are also developing the next step in CD audio technology – the Super Audio CD, bringing even better, purer sound quality.

Music wherever you are

At a time of growing individual choice and mobility, there's a need for personalized, go-anywhere audio. Philips' CD Recorder technology allows you to make perfect-quality digital recordings so you can enjoy your favorite music anywhere! In addition, Philips has introduced a digital audio player which can play MP3 files downloaded from the Internet or digitize and compress your current CD and tape collection into MP3 format.

Top performer

Philips' new 42-inch Flat TV has been named *Flat TV System of the Year 1999 – 2000* by the European Imaging and Sound Association. The judging panel, which represents 40 leading audio and video magazines in 18 countries, cited the set's 'astonishing quality in both picture and sound… Its total performance makes it the ideal home-cinema and monitor display.'

What a picture – and it's not even on!

Long renowned for their superior picture quality, our TVs now look more exclusive than ever! To satisfy the growing group of design-conscious consumers who want their TVs to complement their taste in interior design, we've extended our highly successful Design Line widescreen range with stunning new models in high-gloss finishes, and we've introduced My TV, a range of 14-inch sets in seven different colors and designs. But for those whose tastes are more mainstream, we continue to develop our uniquely broad range of sets, providing something for everyone.

DVD-Video: built to last

With DVD-Video enhancing your home cinema system, one thing is certain: you'll see home entertainment in a totally different light. For the first time, DVD-Video creates an all-digital home-cinema viewing experience. And the studio-quality pictures don't deteriorate, no matter how often you play the disc.

Consumer products

Consumer Electronics

In computer peripherals, we are the No. 1 supplier of monitors in Europe and No. 2 in the world in volume terms, making a full range of CRT monitors as well as LCD-based flat-screen models. We are No. 1 in the world in observation systems (e.g. for hospitals), No. 2 in security cameras and No. 3 in PC video cameras, which are instrumental in the fast-growing and exciting market for video mail. We also market products for optical storage and sound reproduction (both areas in which we are the world leader), USB peripherals and LCD projectors. Over the next few years we shall concentrate increasingly on wireless interconnectivity.

In consumer communications, we design, manufacture and market a wide range of products, including cellular and cordless phones, corded phones and answering machines. Our activities also include faxes and business communication systems, again formerly part of our Business Electronics division. We are the No. 1 supplier in Europe in volume terms of analog corded and cordless phones and answering machines and have consolidated our No. 2 position in DECT phones. In cellular phones, our current focus is on GSM technology, which represents the major part of the market. We aim to become the key challenger to the top 3 players and to achieve 10% of the GSM market over the coming years. At the same time, development continues on the next generation of digital mobile phones, which will provide consumers with voice, data and multimedia services (such as web-surfing and e-shopping). We are also engaged in the development of 'third-generation' (3G) mobile phones in anticipation of the market that is expected to open up from 2003 onwards.

An agreement concluded with Phone.com, Inc. allows us to use their microbrowser software in our mobile phones, bringing valuable Web functionality such as e-mail, Internet and Intranet to the screen of a mobile phone. We will introduce WAP-enabled mobile phones in the course of 2000.

Within the framework of high-volume electronics, Philips Consumer Communications (PCC) is seen as an engine for further growth. PCC functions as a source of system know-how for Semiconductors and Components, and can enable wireless integrated media applications 'in the home and on the move', examples being messaging, Internet audio downloading, video streaming (MPEG-4) and portable video-mail.

Hands off! It's a Xenium

The Xenium – the latest GSM phone from Philips – not only incorporates our unique Voice Dial facility, but also Voice Command, a new feature that allows the user to access key functions on its menu totally hands-free. The question is, with something so stylish and compact, will you be able to keep your hands off it?

In a word – brilliant!

Philips' largest flat panel LCD monitor, the Brilliance 181 AS, has been awarded a prestigious 'Editor's Choice' in the US magazine *Computer Reselling News*, which wrote: "Resellers looking for the most feature-laden 18-inch flat panel need look no further than the Philips Brilliance 181 AS." This monitor offers an incredible 18.1-inch viewing area, while optimising desk space with the world's smallest footprint. It also offers outstanding picture clarity through its best-in-class brightness characteristics. The Brilliance 181 AS carries the latest TCO 99 approval seal, guaranteeing objective conformance to today's toughest standards in terms of safety, emission, power consumption, ecology and ergonomics.

Just say the word

Soon, people will be able to control their electronics equipment by talking to it. Philips' FreeSpeech 2000, which allows recognition of natural, continuous speech in 13 different language variants, enables people to create documents in word-processing programs, surf the Web and navigate in a Windows environment, all using their voice. One of FreeSpeech 2000's most useful features is SpeechMike, a trackball, microphone and speaker in one.

Philips has recently joined forces with IBM to develop common standards for the next generation of speech-enabled technologies and extend their application to an increasingly wide range of products.

Consumer products

Domestic Appliances and Personal Care

Philips Domestic Appliances and Personal Care develops, manufactures and markets a wide range of products in the fields of male shaving, body beauty and health, home environment care, and food and beverage preparation. The division has a strong global presence in many product categories and is the world market leader in electric shaving and female depilation and No. 2 in ironing.

During the past year, we have sharpened the focus of our businesses by implementing a tightly coordinated, integrated marketing strategy, comprising new consumer benefit segmentations, coherent product portfolios, new distribution channels and better communication with young consumers through lifestyle, health and beauty magazines.

We introduced a number of new innovative products and marketing concepts during the year. These include Quadra Action, a new high-end range of shavers that give an even closer shave with less effort; Essence, a new range of kitchen appliances combining elegance and innovative high performance; and SensorTouch, a revolutionary new infrared thermometer. These are the first of many exciting products we will be launching as part of our revitalized, totally consumer-focused approach to domestic appliances and personal care.

The essence of taste

With the timeless look of traditional ceramic and soothing, graceful lines, Essence is a stunning family of kitchen appliances for a new era. Essence is specially designed to appeal to those who aspire to a balanced lifestyle that still offers scope for the finer things in life. Available in natural white or polished stone gray, the Essence range consists of a kettle, a coffee maker, a juicer and a toaster/sandwich-maker. Contemporary classics. For a fresh start.

Smooth operator

The Satinelle Sensitive 2-in-1 spirits away unwanted hair quickly and painlessly by applying an age-old trick. It's the same way mothers have soothed away pain ever since they started having babies – by giving the area a gentle rub. Lightly massaging the skin, the Satinelle Sensitive 2-in-1 relaxes the skin to mask the sensation of epilating. And its two interchangeable shaver heads make it ideal for all parts of the body.

Closest shave

The new Philishave Quadra Action shavers have a synchronized pattern of slots and holes in their three heads to grab every little hair – long or short – and then lift them up and cut them off. Applying this patented technique, the Quadra Action follows the contours of the face to give the closest, quickest, most convenient shave ever, without a nick or cut in sight.

The natural, human touch

The SensorTouch is a revolutionary type of thermometer that measures the temperature of the skin over the temporal artery. Just stroke the thermometer head over the forehead and the temple for a highly accurate reading – in seconds. Using an infrared sensor, the SensorTouch takes over 2,000 readings every second, makes allowance for room temperature, and then gives you its reading – quickly and easily. And accurately? No doubt about it: it's clinically proven to be as accurate as a rectal measurement.

Thinking ahead

To further consolidate our leadership position in display technologies and lay the basis for future growth, Philips Components is working on a number of projects that explore 'the ergonomics of the mind'. This means finding the sort of workspace in which humans can process and act on information most effectively. One promising scenario is a multi-display environment. A number of flat screens of different types and sizes dedicated to specific tasks will replace the various visual inputs (from paper to computer screen) that we use simultaneously today. Switching between windows on our computer or searching for that memo on our desk is inefficient: a glance of the eye is a much faster – and more human – way of assimilating data.

Components

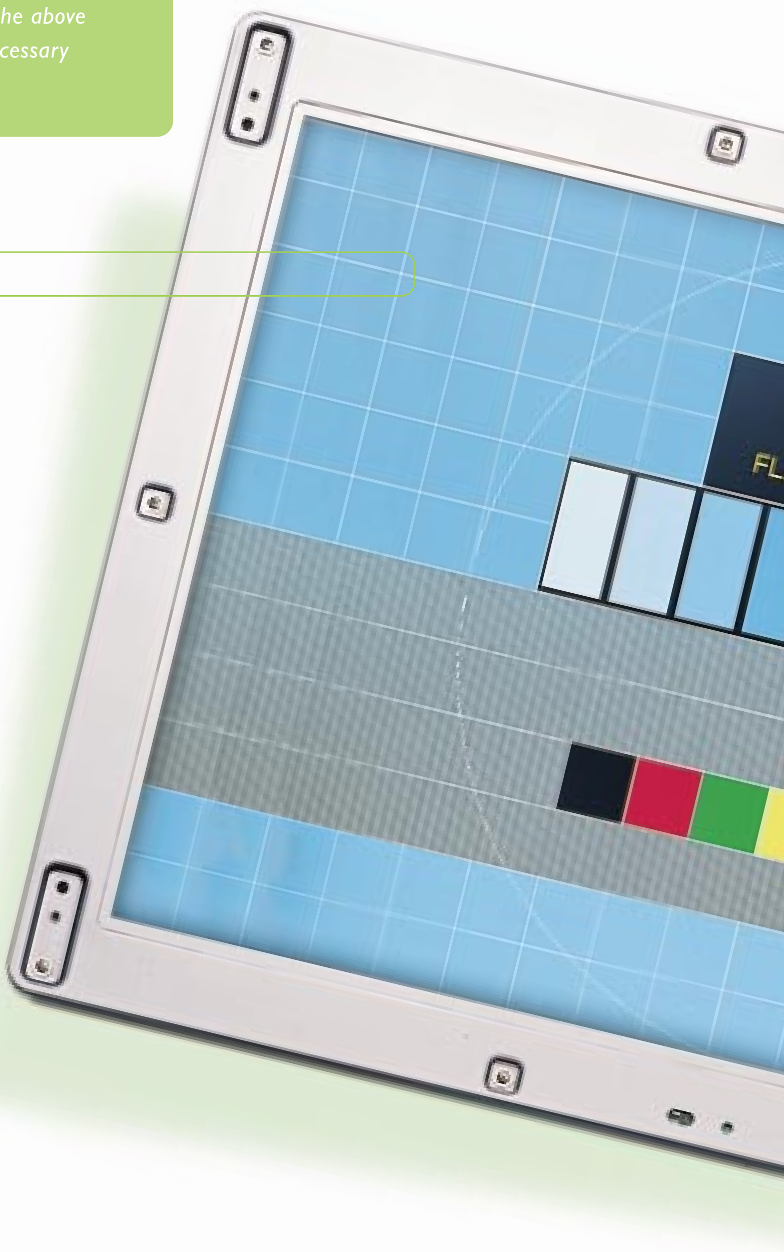
Philips Components is a leading supplier of display, storage and other important sub-systems that help define the digital and electronic products that are changing and shaping our world today. In addition to our joint venture Hosiden and Philips Display (HAPD) in Japan, we created a joint venture in July 1999 between Philips and LG Electronics of South Korea, under the name LG.Philips LCD Co. Ltd. This makes Philips the world's largest manufacturer of flat-panel display technology for notebook computers, desktop monitors and digital TVs – a market that is expected to grow annually by over 20%. Philips is the world's leading maker of passive LCDs for cellular telephones and handheld devices. We also manufacture a wide range of Active Matrix LCDs for automotive applications, cockpit navigation and electronic games.

Philips is the world's leading manufacturer of CD-ReWritable drives and supplier of choice to many of the world's top ten PC manufacturers. We are also a leading producer of modules for CD-ReWritable and Video CD. In addition, Philips is recognized as the world's No. 1 manufacturer of color picture tubes for televisions and monitors.

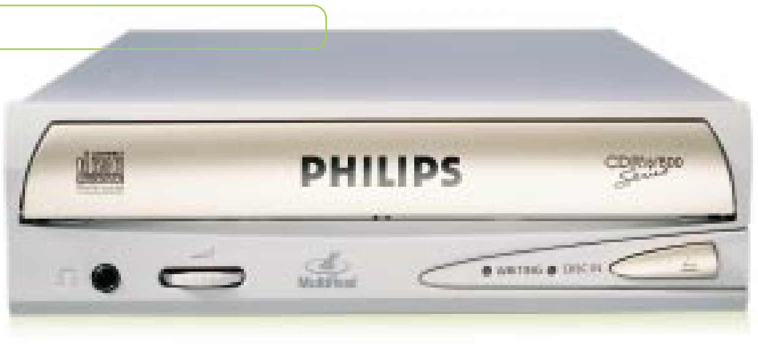
Based on world-class technology and customer knowledge, we provide competitive advantages for Original Equipment Manufacturers (OEMs) in the consumer electronics, electronic data-processing, telecommunications and automotive industries. Our strategic focus is on delivering innovative products for the above markets, exploiting the synergies available within Philips and where necessary entering into alliances to access the required competences.

Looks good

In November 1999, our joint venture LG.Philips LCD introduced the world's first 22-inch flat-panel display. Referred to as Thin Film Transistor LCD (TFT-LCD), or Active Matrix LCD (AMLCD), it is used in applications such as desktop-publishing monitors and digital TVs. As the largest flat-panel display commercially available, it exemplifies state-of-the-art display technology and provides high-quality solutions for all segments of the computer monitor market. Increased consumer adoption of high-performance desktop monitors and digital TV and greater demand for other display-centric consumer and business applications are propelling the global trend towards large-scale flat-panel displays.



Faster and faster and…



Whatever happened to patience? These days, nobody is prepared to wait: we want it now – especially when it's a question of retrieving information from our computers. Philips CD-ReWritable drives are fast replacing the old diskette and CD-ROM read-only drives as the single universal medium of choice among PC manufacturers for the exchange of content. No wonder, because they provide state-of-the art write performance and cutting-edge read speed.

Catching the wave

Small they may be, but they're set to be the biggest thing around: Active Matrix LCD color screens for mobile phones, handheld computers and in the car. As more and more 'smart handhelds' become available and color displays become *de rigueur*, the market for these little beauties is expected to grow rapidly over the next few years. And it's growth that Philips is uniquely positioned to benefit from: our passive LCD group and our joint venture with Hosiden, HAPD, in which we own an 80% stake, are already producing them.

Tomorrow today

No longer a mere means of transportation, the car is evolving into a mobile center integrated into the worldwide IT infrastructure. Processing power is overtaking horsepower in car design, as navigation, communications and entertainment systems converge into a single, integrated environment. Imagine your in-car systems consulting up-to-the-minute travel information to lead you around traffic jams, checking the availability of hotel rooms as you enter a city, notifying you when that important e-mail has arrived, and more! All of this integrated with the newest generation of in-car entertainment and activated by the sound of your voice. Philips Semiconductors' Car Infotainment Platform is putting the single integrated automobile electronics system within reach of manufacturers, enabling them to turn this vision of tomorrow into today's reality.

Semiconductors

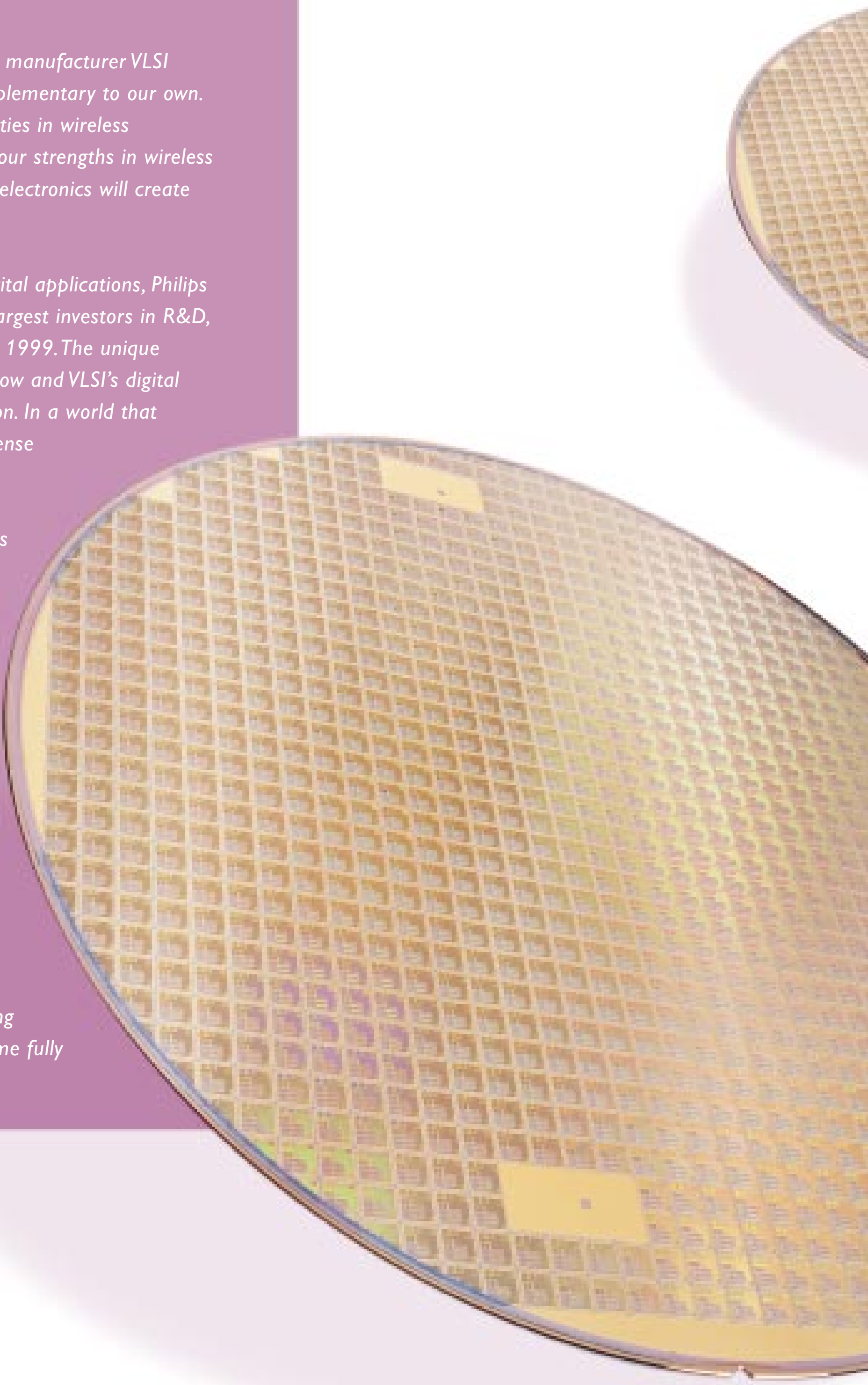
Philips Semiconductors, currently No. 9 in the Dataquest world ranking of semiconductor manufacturers, is a major supplier and partner of manufacturers in the consumer electronics, telecommunications, automotive, PC and PC peripheral industries. Our integrated circuits and discrete semiconductors help to make their products better, smaller, cheaper, more energy-efficient – and therefore 'greener'. Our Silicon System Platform approach also helps them develop new, advanced products faster by offering a basic architecture to which customers can add or change both hardware and software components as required.

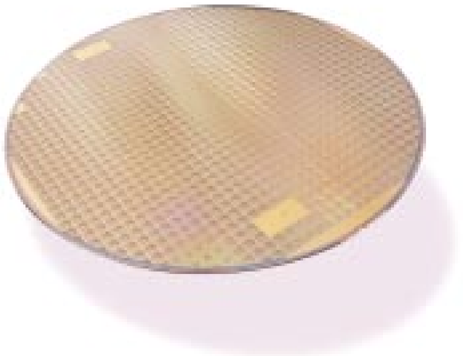
During the year, Philips acquired the US semiconductor manufacturer VLSI Technology, Inc., a company whose operations are complementary to our own. The combination of VLSI's digital expertise and capabilities in wireless communications, computer networking and ASICs with our strengths in wireless communication, multimedia, automotive and consumer electronics will create many new opportunities for growth.

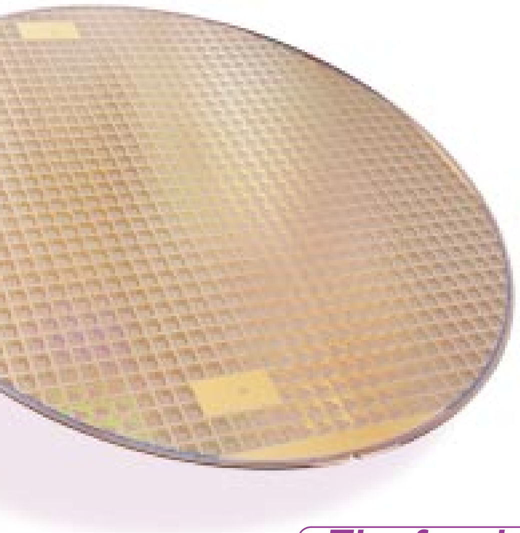
As more and more new markets are opening up for digital applications, Philips Semiconductors is one of the semiconductor industy's largest investors in R&D, with a spend of 16.3% of total sales (including VLSI) in 1999. The unique combination of Philips Semiconductors' systems know-how and VLSI's digital design capabilities provides a strong platform to build on. In a world that has become truly digital, we will capitalize on our immense potential in embedded digital signal processors (DSP).

In support of our strategy to remain a top-flight process technology player, we are also strengthening our strategic alliances and investing substantially in technology (especially CMOS). We will maintain and increase our leadership in cost/performance by continuing to supply advanced technologies at affordable prices, also in an era of platform-based silicon solutions.

We have set ourselves the target of roughly doubling our 1998 level of turnover by 2002. We believe three factors make this realistic. First, the outlook for the semiconductors market for the immediate future is distinctly promising. Second, we are in an excellent position to benefit from the fast-growing market for wireless communications. And third, the benefits resulting from the rapid integration of VLSI into Philips will become fully apparent in 2000.





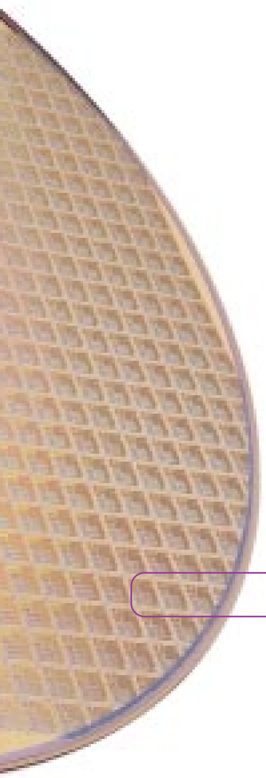


Visa's new security guard

Visa deals with more payments than all the other credit and payment card services put together, so it can't afford to take risks. It recently chose Philips' PSWE5032 crypto-controller chip for its new Visa Cash card system. This powerful chip allows retailers and others to validate card reader terminals and protect them from misuse so that they can then accept consumers' Visa Cash cards. These cash cards store 'electronic money' for transactions like parking fees, phone calls or expressway tolls. Customers 'spend' the money by inserting into a reader.

The freedom to change – with Nexperia

Digital video – with interactive TV and new TV-based services – is here. But how can manufacturers keep pace with developments and still keep prices for consumers within acceptable limits? The answer lies in Philips Semiconductors' Nexperia Digital Video Platform. It gives manufacturers an architecture that allows them to 'pick and mix' hardware and software modules of proven quality as often as they please. The basic structure of the platform stays the same; only the component parts are changed. Modules can be used in different configurations, modules developed for one application can be re-used in another, and new ones can replace outdated ones. The result is faster design, lower costs and more satisfied consumers.



New chip fab in Singapore

Work has started in Singapore on a new factory for state-of-the-art chips. Philips Semiconductors, together with Taiwan Semiconductor Manufacturing Company (TSMC) and EDB Investments, is investing USD 1.2 billion in the plant, which will operate under the name of System-On-Silicon Manufacturing Co. (SSMC). The first chips are expected to come off the production line before the end of 2000. Initially, the interconnects will be 0.25 micron, i.e. *four hundred* times thinner than a human hair. And that's just for starters: after the ramp-up the dimensions will rapidly decrease further.

Making the difference

Ultrasound, already one of the safest, easiest and most cost-effective ways to reach a clinical diagnosis without the use of invasive procedures, is now revealing more detail than ever before. Not surprising, then, that it is the fastest-growing sector of the medical imaging business today, with worldwide revenues expected to reach USD 3.3 billion by 2003. The fastest-growing segment within ultra-sound is all-digital systems, a platform that ATL, part of Philips since 1998, has pioneered and continually improved. ATL's premium HDI 5000 system is used for a wide range of examinations, including gynaecological applications.

Medical Systems

Philips Medical Systems ranks among the top three diagnostic imaging companies in the world. We offer healthcare providers a full range of imaging modalities and services in the areas of x-ray, computed tomography, magnetic resonance and ultrasound systems. Our IT systems enable imaging departments to become completely digital, with improved access to images and seamless integration with hospital-wide IT networks. Our services include management consultancy, training and technical services to help hospitals operate more efficiently and cost-effectively.
The synergy between Philips and ATL, acquired in 1998, has already begun to bear fruit: Philips has expanded direct distribution of ATL's products to various countries and the Philips and ATL sales teams are working closely together in the USA and elsewhere – the outcome being additional growth for ATL sales, despite the crises in Asia and Latin America.
We believe that all the necessary ingredients are now in place to enable Philips Medical Systems to outpace market growth over the coming years.

Philips is the leading innovator in cardiovascular imaging. More than half of all cardiovascular x-ray procedures in the world are performed with our equipment, and the Integris system has become the system of choice of leading medical institutions. These facts underscore the confidence decision-makers have in Philips' twenty-plus years of leadership in this area. Our systems deliver proven value based on image quality, ease of use, reliability and efficient clinical performance.

MR: the next generation

Ten years ago, Philips introduced the first short, wide-open, compact magnetic resonance (MR) system, a magnet technology which has now become the industry standard. In November 1999, Philips introduced the Gyroscan Intera family of MR systems, based on a new common magnet platform. The family has three members: the Gyroscan Intera is optimized for radiology, the Gyroscan Intera CV for cardiovascular use and the Gyroscan Intera I/T for interventional and therapeutic applications. These new systems give clinicians – for the first time – routine real-time, interactive MR images: this is essential for fast cardiac planning of coronary artery imaging as well as MR guided surgical procedures. The routine image quality achievable with the Intera systems is further enhanced by the use of very high gradient systems and Philips' patented SyncraScan technology.

New CT systems unveiled

In the coming year we will continue to increase our investment in the worldwide computed tomography (CT) business. In the fall of 1999, Philips Medical Systems unveiled its revolutionary new CT Aura and CT Secura systems. Incorporating a new technology platform, CT Vision, the new systems are set to establish the company as a leading CT product provider. CT Vision is based upon three system management priorities. The first, Outcome, refers to the functionality of Philips' CT systems that can perform a broad range of diagnostic procedures, from routine to complex. WorkWise allows our CT scanners to be used by two operators at once, with a dual monitor console, saving time and money. ForeSight is the balanced and future-safe new-generation architecture that will accommodate evolving technology.

Getting to the heart of the matter

Today, more than half of all cardiovascular x-ray procedures are performed using Philips equipment. In 1999, Philips Medical Systems launched its Heart Care program at the American College of Cardiology exhibition in New Orleans, USA. This program is an integrated multi-disciplinary approach to heart care, including diagnostic and therapeutic imaging modalities, such as cardiovascular x-ray, echocardiography, and magnetic resonance imaging, as well as cardiology information management and consultancy services. This enables hospitals to maximize the use of their cardiovascular imaging technologies, ensuring the best return on investment.

Overture: music to client' ears

Origin's Overture, a new, end-to-end suite of services for implementing and operating enterprise application systems in the age of e-commerce, was introduced this year. The foundation of this offering is a series of innovative approaches to teaming with global clients in the management of outsourcing projects. Overture lets clients outsource the extraordinary burdens related to the deployment and management of enterprise solutions within ever-changing business models.

Origin

Origin BV, in which Philips owns approximately 98%, is a global, full-service information technology services company. Today, more than 17,000 Origin professionals work in 30 countries successfully delivering information technology services to multinational corporations, including over 100 of the Fortune 500 companies. Origin's success is based on using technology with creativity and innovation to satisfy our customers around the world.

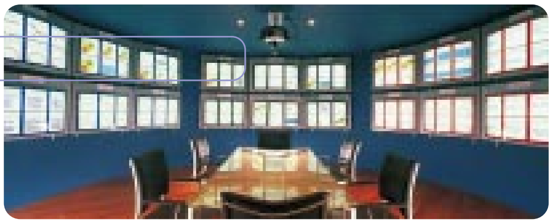
Origin offers valued-added services in the areas of consulting, enterprise solutions, application and infrastructure management, together with systems development, implementation, integration and management. This core set of services is complemented by e-service offerings focused on helping customers extend their supply chain activities between their customers, vendors and employees.

With a global team of more than 5,000 professionals engaged in services supporting the implementation, operations and maintenance of complex distributed enterprise applications, Origin is acknowledged as one of only a handful of suppliers who can deliver these critical services. Beyond our own internal resources, Origin has established partnerships with other industry leaders that allow us to deliver the full range of information technology services that business needs today.

Santa's helper

Children from all over the world benefited when Origin delivered a Europe-wide SAP implementation for Hasbro, the US toy giant. The system became operational on time earlier in the year to beat the rush for Christmas orders.

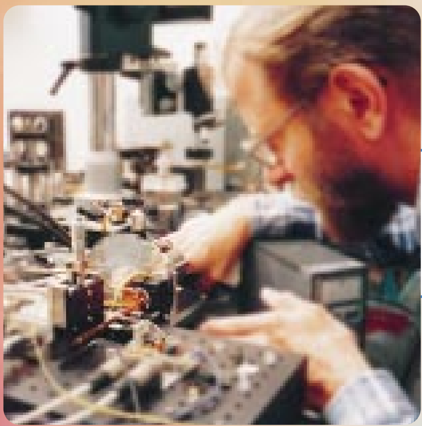
The boardroom of the future



Developed by a team of neurologists, human-intelligence scientists and computer engineers, the Management Cockpit helps top managers easily comprehend key company and market metrics and make strategic decisions. Origin is currently the only certified and preferred implementation partner of the Management Cockpit, with dedicated demonstration centers in Brussels, Dallas and Singapore.

Outsourcing for improved performance

In July 1999, Origin and Akzo Nobel reached agreement on the strategic outsourcing of Akzo Nobel Information Services, successfully concluding Akzo Nobel's search for a partner that could offer the scale and high-level expertise required to further improve the price/performance ratio of the IT services provided to its business units.



New opportunities

In fall 1999, the National Academy of Television Arts and Sciences recognized Philips' expertise and leadership in optical storage by awarding it the prestigious Emmy Award for its outstanding achievements in DVD technology. Philips shared the award with Dolby Digital, Matsushita Electric Co., Sony, Warner Home Video and Toshiba Corp.

Philips, the co-inventor of the CD, has played an important role in developing a number of standards for CD technology, including CD-ROM, CD-R and CD-RW as well as the Audio CD-Recorder. Philips is the leader in implementing recorder functionality in optical storage devices for home entertainment products and personal computers. With a view to continued business growth, the company is extending its CD technology and products with state-of-the-art DVD products such as DVD-Video, high-speed DVD-ROMs and high-capacity DVD+RW drives for personal computers as well as home entertainment products.

Miscellaneous

This sector comprises various ancillary businesses, including Philips Research, Corporate Intellectual Property, Philips CFT, Philips Machinefabrieken and Philips Design.

Philips Research is one of the world's leading private research organizations. Its staff of 3,000, including electrical and mechanical engineers, physicists, chemists, mathematicians and hardware and software engineers, work in close collaboration at Philips Research's laboratories in Europe, Asia and North America. Some two-thirds of their work is directly related to Philips products; the rest is of a more exploratory nature. The intellectual property rights portfolio generated by Philips Research and other Philips organizations over the years comprises approximately 60,000 patent rights, 21,000 registered trademarks and 6,000 design rights, and is managed by Corporate Intellectual Property.

Philips CFT – the Centre for Industrial Technology – supports the Group's businesses in their business and product creation processes, and with the design and realization of advanced process technologies and innovative production equipment. Based on its specific areas of expertise, CFT is evolving from being a high-value technological supplier into a strategic partner for Philips' businesses worldwide.

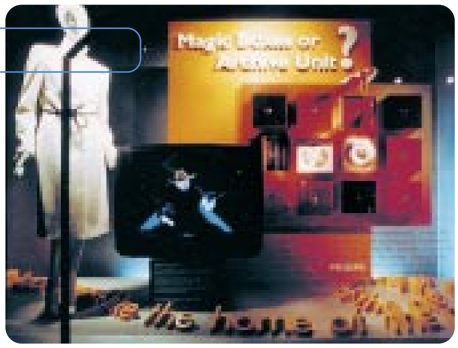
Philips Machinefabrieken provides manufacturing services on a worldwide scale in the field of high-tech mechanical components and assemblies. Its range of activities extends from the injection molding of high-precision plastic lenses to the manufacture and integration of sub-micron precision components to form complex wafer-stepper modules.

Philips Design is one of the world's largest design organizations, with some 25 studios located throughout the world delivering people-focused, multi-disciplinary and research-based design services.

Designing emotion

When people buy an audio product, they usually first admire its looks and only then actually listen to it. So it's up to design to make sure that, before you turn the product on, you're convinced it's going to produce the best sound around. Philips has clearly succeeded in this objective, as evidenced by its recent performance improvements in the field of portable audio. Philips is designing products that trigger an emotional response in their users, products that can form an integral part of their lifestyle.

The Home of the Near Future



La Casa Prossima Futura is the latest exhibition by Philips Design, presented in 1999 at the International Furniture Fair in Milan and at Saks, Fifth Avenue in New York. The exhibition is an exploration of the domestic experience of the near future, in which we will be surrounded by intelligent objects and systems capable of learning, anticipating and providing for our needs. In the Philips Design vision, these intelligent products will resemble familiar objects and furniture, with a greater relevance to our home life than the 'black boxes' of today.

Becoming waitless in TV's new cyberspace

Had enough of the World Wide Wait? Searching the Net can certainly be very frustrating. But must the same irritations plague us when TV and PC merge in the form of interactive TV? Shouldn't online TV also be *inline* TV – in line with people's natural ways of looking for information and entertainment? A new Philips concept for an Electronic Programming Guide uses new digital technologies (MPEG-4) to make sure it is. In addition, digital 'agents' will learn what we like and search for it on our behalf. Speech-recognition technology will enable the TV to listen to what we have to say and do it, too. This way, enjoying tomorrow's interactive TV will be easy and fun – entertainment as it should be.

Management's Discussion and Analysis

The following discussion is based on the consolidated financial statements and should be read in conjunction with those statements and the other financial information. In connection with changes in the presentation of the consolidated financial statements, please refer to the section 'Changes in accounting and presentation' in Management's Discussion and Analysis (MD&A) and footnote 2 to the income statement.

The consolidated financial statements were prepared in accordance with generally accepted accounting principles in the Netherlands (Dutch GAAP). These accounting policies differ in some respects from generally accepted accounting principles in the United States (US GAAP), which are discussed in note 28 to the consolidated financial statements.

The supplemental financial data includes earnings before interest, taxes, depreciation and amortization, referred to as Ebitda. In Philips' definition, Ebitda equals income from operations before depreciation and amortization charges (including write-off of in-process R&D). Because of the significant goodwill and other intangibles associated with the Company's acquisitions, management believes Ebitda can be an appropriate additional measure of operating performance. However, the reader should note that Ebitda is not a substitute for operating income, net income, cash flows and other measures of financial performance as defined by US GAAP and may be defined differently by other companies.

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). Management believes that the data denominated in euros reflects the same trends as previously reported. Philips' financial data may not be comparable to other companies that also report in euros if those other companies previously reported in a currency other than the Dutch guilder. See the notes to the consolidated financial statements.

▶ Summary

During 1999, the overall profitability of continuing operations was improved and brought more into line with the Company's long-term objectives. At the same time, the Company was strengthened through several key acquisitions and continued investment in the Philips brand.

Sales in 1999 totaled EUR 31,459 million, which is an increase of 3% over 1998. On a comparable basis, excluding the effects of consolidations and exchange rates, the increase was 4%. The comparable sales increase in the second half of 1999 amounted to 5%, versus 2% in the first half, reflecting an upturn in our semiconductor business which achieved 15% growth during this period.

Income from continuing operations in 1999 improved to EUR 1,804 million (EUR 5.24 per share) as compared with EUR 541 million (EUR 1.50 per share) in 1998. Excluding the EUR 220 million higher results from business disposals, the increase over 1998 amounted to EUR 1,043 million. The 1999 results include a strong contribution from unconsolidated companies, particularly Taiwan Semiconductor Manufacturing Company (TSMC) and LG.Philips LCD Co.

Income from continuing operations in 1998 was impacted by substantial operating losses at Philips Consumer Communications (PCC) as well as significant restructuring and other incidental charges.

The return on net assets (RONA) rose to 17.5% in 1999, compared to 6.5% in 1998 and 16.4% in 1997. In addition to increased income, the improvement was in part attributable to an increase in the net operating capital turnover rate to 3.14 in 1999 versus 2.91 in 1998 and 2.84 in 1997, reflecting improved operational efficiencies. RONA in 1998 was also affected by restructuring and incidental charges.

Cash flows from operating activities totaled approximately EUR 1.9 billion, compared with EUR 2.1 billion in 1998 and EUR 3.2 billion in 1997. The slight decline from 1998 is primarily attributable to increased working capital requirements of the Company's businesses.

Cash required by investing activities in 1999 totaled approximately EUR 3.8 billion, compared to EUR 1.4 billion in 1998 (excluding the divestiture of PolyGram). In 1997, these activities generated cash of EUR 45 million. The increased cash requirement compared to the last two years is attributable to several business acquisitions during the year.

The net cash utilized by financing activities in 1999 totaled approximately EUR 2.6 billion, including the return of EUR 1.5 billion to shareholders. The requirements in 1998 and 1997 were EUR 0.8 billion and EUR 2.7 billion (including significant debt repayments) respectively.

Over the last several years, numerous actions have been taken to provide increased focus on Philips' core competencies and core businesses. During 1999, several strategic acquisitions were made, reinforcing segments in which Philips aims to have a leadership position. In June 1999, Philips acquired California-based VLSI Technology, at a cost of EUR 1.1 billion, which includes assumed debt totaling EUR 0.1 billion. VLSI's digital expertise, particularly in ASICs design, will be a platform for Philips' expansion in the USA and an important step towards becoming a leading global supplier of communications and consumer semiconductor products.
Effective July 1999, Philips acquired – for EUR 1.7 billion (of which EUR 0.2 billion has not yet been paid) – a 50% equity interest in a new joint venture with LG Electronics of South Korea: LG.Philips LCD Co., a world-leading supplier of active matrix liquid crystal flat panel displays (AMLCDs). Flat panels represent the fastest-growing segment of the display industry, and one in which Philips wants to build a leadership position.

Other 1999 acquisitions included Voice Control Systems Inc. (VCS) in the area of speech technology, an incremental 10% interest in Origin B.V., 51% of Construlita de Queretaro S.A., Mexico's largest seller of architectural lighting, and Micrion Corporation, active in the field of charged particle beam technology, which was acquired to strengthen the majority-owned subsidiary FEI Corporation of the USA. The aggregate cost of acquisitions, approximately EUR 3 billion, was funded through the use of the large cash position which resulted from the sale of the Company's 75% shareholding in PolyGram in 1998.

As part of its refocusing strategy, Philips sold a number of activities in 1999. The most significant divestments were in the Miscellaneous segment (Airpax of the USA, the DDF Logistica warehousing and logistics operations in Brazil, several activities of Philips' Plastics and Metalware Factories (PMF) business, and Philips Hearing Technologies) and the remaining part of the Conventional (non-ceramic) Passive Components business group. Additionally, with the aim of increasing efficiency and enhancing profitability, certain production facilities were closed, integrated with other facilities or relocated to lower cost countries. The consolidation of manufacturing units is expected to be continued beyond 1999.

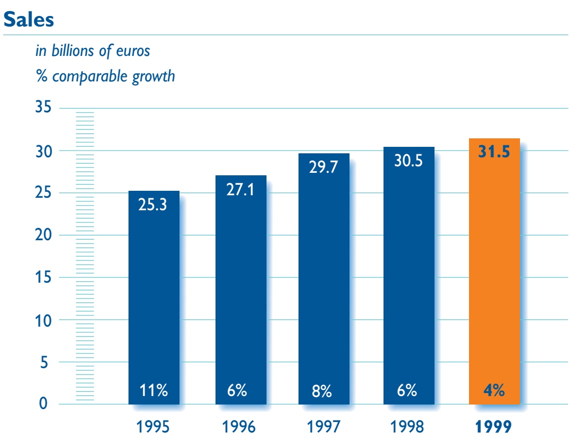
In addition to the refocusing strategy, the Company was strengthened through continued substantial investments in the Philips brand, particularly in the USA.
A comprehensive survey of 14,000 consumers in 17 different countries has confirmed the success of 'Star Products', the global advertising campaign which focuses on a select group of high-end products. The campaign has resulted in enhanced brand awareness and brand image as well as increased market shares.

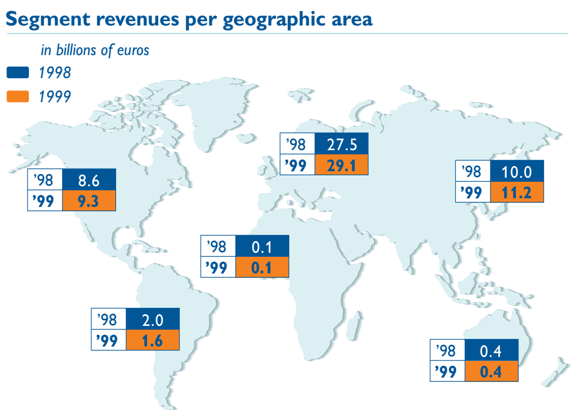
▶ Sales and income from operations

amounts in millions of euros

	1999	1998	1997
Sales	**31,459**	30,459	29,658
% nominal growth	**3**	3	9
% comparable growth	**4**	6	8
Ebitda	**3,555**	2,573	3,285
Income from operations	**1,751**	685	1,714
as a % of sales	**5.6**	2.2	5.8

Sales in 1999 grew to EUR 31,459 million, 3% higher, on a nominal basis, than the EUR 30,459 million in 1998, which in turn was 3% higher than the EUR 29,658 million total for 1997. Currency fluctuations, primarily





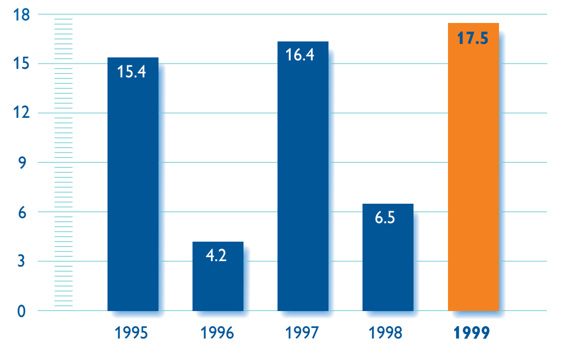
the appreciation of the US dollar and the Japanese yen versus the euro, had a positive effect (2%), while various changes in consolidations reduced sales by 2%. The unfavorable effect of changes in consolidation was primarily attributable to the divestment of the non-ceramic activities of Passive Components and a significant portion of the Miscellaneous sector's operations, partially offset by the acquisitions of VLSI, Construlita de Queretaro and Voice Control Systems. Sales growth in 1999, on a comparable basis, was 4%. This comprised a volume increase of 11% that was partly offset by an average decrease in selling prices of 8%. The growth was driven by Consumer Products (6%) and Semiconductors (5%).

Geographically, sales growth in 1999 showed a divergent pattern. North America recorded robust growth (9%), with nearly all sectors contributing. Asia Pacific recovered from its 1998 slump and recorded 7% higher sales, realized across all sectors. Europe registered 1% growth, which was realized in Consumer Products, benefiting from excellent PCC sales, and Origin. In addition, Latin America experienced a recovery in sales in the second half of the year, and came close to positive growth for the full year.

In 1998, nominal sales were 3% higher than in 1997. This included unfavorable effects of currency fluctuations of 2%, mainly relating to the depreciation of certain Asian currencies and a weakening of the US dollar against the Dutch guilder. Consolidation changes had a net negative impact of 2%. Adjusted for currency and consolidation changes, the comparable sales growth was 6%, consisting of 16% volume growth, offset by 9% price erosion.
The main deconsolidations were Philips Car Systems, Pie Medical, Philips Optoelectronics, Philips Financial Services in the UK, the Smart Card business and various other activities in Industrial Electronics and Components. Positive effects on sales arose from the consolidation of the activities of the PCC joint venture with Lucent Technologies for 9 months in 1998, as compared to only 3 months in 1997, the consolidation of Hosiden and Philips Display (HAPD) from April 1, 1998, and the acquisitions of ATL Ultrasound, Philips Mietsysteme and Payer Lux.

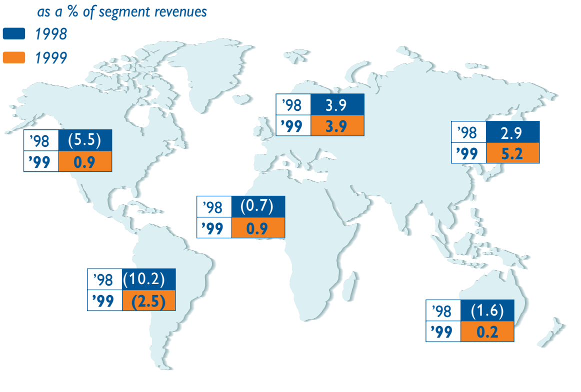
Income from operations in 1999 totaled EUR 1,751 million, or 5.6% of sales, as compared to EUR 685 million or 2.2% of sales and EUR 1,714 million or 5.8% of sales in 1998 and 1997, respectively. The largest increase in income from operations was realized by PCC, whose results improved significantly in 1999. PCC's 1998 results were adversely affected by special

Income from operations
as a % of net operating capital (RONA)



charges in connection with the dissolution of the joint venture with Lucent Technologies (EUR 375 million), including subsequent restructuring costs. Income from operations in 1999 was also favorably impacted by EUR 220 million higher non-recurring income from divestments – principally the sale of Conventional Passive Components. Furthermore, income was positively influenced by the capitalization of IT software and lower pension costs. Wage costs showed a decrease of 2% compared to 1998, reflecting the strong reduction in the average number of personnel, the ongoing relocation of production facilities to low-wage countries and lower pension costs.

Income from operations per geographic area



On a geographic basis, North America generated the largest increase in income from operations. This was primarily due to the aforementioned substantially improved performance at PCC. Europe also achieved an improvement in income, mainly for the same reason. Asia Pacific benefited from stronger results in China, mainly Consumer Electronics and Components, improving results in the HAPD joint venture and better PCC results. Income in Latin America reflected a recovery from last year, driven especially by positive Consumer Electronics results.

The year-to-year comparisons of income from operations are impacted by the amortization of intangibles and the write-off of in-process R&D resulting from recent acquisitions such as VLSI Technology, VCS and Micrion/FEI in 1999 and ATL Ultrasound in 1998. Additionally the comparisons are affected by the write-down of tangible fixed assets at PCC in 1998.

Ebitda in 1999 totaled EUR 3,555 million, which is approximately EUR 1 billion more than in 1998 (EUR 2,573 million) and higher than in 1997 (EUR 3,285 million).

Income from operations of EUR 685 million, or 2.2% of sales in 1998, compared to income of EUR 1,714 million, or 5.8% of sales, in 1997. In addition to the acquisition-related charges for ATL Ultrasound and Active Impulse Systems (EUR 253 million, including asset write-downs), 1998 income was adversely affected by special charges in connection with the dissolution of the PCC joint venture with Lucent Technologies (EUR 375 million), including provisions for PCC's subsequent restructuring. Other special charges include the restructuring provision for HAPD in Japan (EUR 47 million), higher pension costs in a number of countries, the risk relating to trade receivables in Brazil (total EUR 86 million) and other restructuring

programs (EUR 67 million).
In addition to these special items, income from operations in 1998 was adversely affected by the recurring operating losses at PCC and declining profits at Components, which were only partly offset by performance improvements in the Lighting sector and at Origin.
Ebitda performance in 1998 compared to 1997 developed in line with income from operations, except for the write-off of in-process R&D relating to the acquisitions of ATL Ultrasound and Active Impulse Systems in 1998 (total EUR 202 million), which had the effect of reducing income from operations in that year.

► Restructuring

The competitive environment in which Philips' organizations operate requires rapid adjustments in organizational structure, product portfolio and customer orientation. In order to accelerate the process of reorganization, a major restructuring program was launched in 1996 to make the organization more flexible and thus able to respond more effectively to changing conditions. The program led to an ongoing process of restructuring and/or discontinuance of underperforming or non-core activities. The main loss-making operations that have been restructured or eliminated over the past three years include Grundig, Philips Media (including Superclub's video rental business), the Data Communication business, various activities of Industrial Electronics, the remaining PCC operations following the dissolution of the joint venture with Lucent, and the HAPD activities in Japan.
Businesses that have been sold include PolyGram, Philips Car Systems, Conventional Passive Components, Semiconductors' Complex Programmable Logic Devices, Consumer Electronics' retail and rental operations in Australia and sundry activities such as Philips Hearing Technologies, parts of Philips' Plastics and Metalware Factories and Airpax. Overall, over 40 activities have been discontinued or divested. In addition, Philips management continuously monitors various projects to improve the performance of operations, including such measures as the closure of factories, the ongoing shift of production facilities to low-cost areas, and the concentration and integration of production centers into industrial campuses.

Restructuring charges recorded against income from operations in 1999 totaled EUR 123 million for various projects in the sectors Lighting, Components, Consumer Products, Professional and Miscellaneous. Individually, these projects were not of material significance, the largest being the restructuring of the Flat Panel Display activities at Waalre in the Netherlands (EUR 38 million). In 1998, the overall restructuring charges amounted to EUR 349 million, mainly concerning the Consumer Products, Components and Lighting sectors. The two single largest projects in 1998 were the worldwide restructuring of the remaining PCC activities in the Consumer Products sector and HAPD Japan in the Components sector. These projects account for more than 75% of the total charges in that year. None of the above charges had any direct bearing on recently acquired businesses.

The largest portion of the 1999 restructuring charges covers the costs of personnel lay-offs and asset write-downs. Personnel lay-off costs totaled EUR 71 million for approximately 1,500 terminations, of which 1,100 relate to direct labor and 400 to indirect personnel (1998: EUR 124 million for approximately 4,000 terminations, the main project being PCC which involved some 1,400 lay-offs). The actual number of lay-offs effected during 1999 totaled approximately 2,500 persons. Write-downs

of assets totaled EUR 40 million (1998: EUR 192 million), of which EUR 4 million related to inventory write-offs and EUR 36 million to write-downs of tangible fixed assets.
Charges for write-downs of fixed assets mainly related to Components, Lighting, Professional and Miscellaneous (1998: EUR 58 million, largely relating to the write-off of impaired assets in the HAPD joint venture). Inventory write-off charges in 1999 of EUR 4 million were primarily related to Components (1998: EUR 134 million; approximately 90% of these charges involved inventory write-offs at the remaining PCC operations).
Other charges in 1999 amounted to EUR 12 million (1998: EUR 33 million), mainly reflecting the costs involved in the cancellation of various contracts (building leases, car leases, etc).

In 1999, releases of surplus restructuring provisions totaled EUR 78 million. The releases were primarily related to Consumer Products, Lighting and Components and were caused by reduced severance requirements, due to the transfer of workers scheduled to be laid off to other positions within the Company and by changes in restructuring plans. In 1998, these releases amounted to EUR 28 million for Lighting, Consumer Products, Professional and Semiconductors.

In general, the restructuring plans lead to cash outlays in the year in which they have been recognized or in the subsequent year, and are financed from the normal cash flow from operations without having a material impact on the Company's financial position. Management believes that in the near future, the Company's earnings will benefit from the restructuring plans by approximately EUR 100 million per year, as a result of reduced salaries and wages as well as lower depreciation costs.

In January 2000, Philips announced its intention to reduce costs at its picture tube factory in Aachen, Germany and to relocate part of production to another picture tube plant in Dreux in France, in order to improve efficiency. This is expected to result in a headcount reduction of 540 out of a total of 1,600 jobs in Aachen. The cost of this project is as yet unknown but any charges will be recognized in 2000.

For further details on restructuring charges, see note 2 to the financial statements.

Financial income and expenses amounted to income of EUR 32 million in 1999, as compared to expenses of EUR 312 million in 1998 and EUR 319 million in 1997. Beginning in 1999, the interest component of pension expense is no longer included in financial income and expenses but included in pension cost, as part of income from operations. This accounts for a positive variance in financing costs of EUR 62 million in 1999. Net interest expense declined to EUR 129 million in 1999, mainly reflecting the impact of the net cash position (cash exceeded debt) that prevailed during the first half of 1999 as a result of the cash proceeds from the sale of PolyGram at the end of 1998. This compares to net interest expense of EUR 244 million in 1998 and EUR 339 million in 1997. During 1999, the average cash level was higher than the average debt, resulting in an average net cash position of EUR 0.7 billion. This compares to an average net debt position of EUR 4.1 billion in 1998.

Financial income in each of the years contains gains from the sale of marketable securities. In 1999, a gain of EUR 117 million was realized on the sale of a portion of the JDS Uniphase shares received upon the sale of Philips Optoelectronics in 1998. In addition, dividends totaling EUR 28 million were received on the Seagram shares obtained upon the sale of Philips' 75% stake in PolyGram. Likewise, 1998 included a EUR 39 million gain from the sale of shares (mainly Flextronics) and 1997 included a EUR 72 million gain (mainly Viacom Inc. and Fluke Corporation).

The foreign exchange result in 1999, including the effect of hedging US dollar intercompany loans to foreign subsidiaries, was a gain of EUR 13 million. By contrast, the 1998 loss on exchange differences (EUR 40 million) was principally due to hedging expenses in emerging markets, against a gain of EUR 12 million in 1997.

Income tax charges totaled EUR 336 million in 1999, compared to EUR 41 million in 1998 and EUR 276 million in 1997. This corresponds to an effective tax rate in 1999 of 19%, up from 11% in 1998, and in line with 20% in 1997. The lower effective tax rate compared to the statutory rate resulted from the utilization of previously unrecognized loss carryforwards in various countries in Europe and releases of valuation allowances.

Results relating to unconsolidated companies in 1999 totaled EUR 409 million, compared with EUR 39 million in 1998. Income in 1999 was positively influenced by the significant contribution from LG.Philips LCD Co. of EUR 188 million, net of charges for the amortization of goodwill and other intangibles (EUR 47 million) during the last six months of the year. Disregarding LG.Philips LCD Co. and various non-recurring results in 1999 and 1998, the results in 1999 were still considerably higher than the previous year, largely attributable to improving TSMC results, which reflect TSMC's capacity increase (fifth wafer fab operational in 1999) as well as the upturn in the semiconductor industry in 1999. Philips' results relating to unconsolidated companies also reflect a EUR 92 million gain recorded on TSMC's debt equity conversion. ASML reported a 31% increase in earnings in 1999, reflecting a particularly strong second half of the year. Finally, funding costs incurred at NavTech were substantially in line with 1998, excluding the one-off gain from the sale of a portion of the NavTech shares to a consortium of investors in the first quarter of 1999.

In 1998, the results from TSMC and ASML were significantly below 1997 due to the global slump in the semiconductor industry and the crisis in Asia. NavTech's losses in 1998 were below the 1997 level.

The share of third-party minority interests in the income of Group companies amounted to 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. This was substantially related to Lucent Technologies' share in the losses of the PCC joint venture that was dissolved at the end of September 1998. Excluding Lucent's contribution, minority interests in 1998 amounted to EUR 16 million. The increase in 1999 reflects the improving income performance of the joint ventures in China and of HAPD Japan.

In 1997, minority interests amounted to EUR 18 million.

▶ Net income

Income from continuing operations was EUR 1,804 million in 1999 (EUR 5.24 per common share), compared to EUR 541 million (EUR 1.50 per common share) in 1998 and EUR 1,231 million (EUR 3.52 per common share) in 1997.

Income from discontinued operations in 1998 and 1997 represents Philips' 75% share in the operations of PolyGram through December 10, 1998, and amounted to EUR 210 million in 1998, and EUR 263 million for the full year 1997, both amounts net of applicable income taxes.

Philips sold its shares in PolyGram to The Seagram Company on December 10, 1998. In connection with this sale, a gain was recognized in 1998 of EUR 4,844 million, free of taxes.

Extraordinary items in 1999 amounted to a loss of EUR 5 million as opposed to a net gain of EUR 458 million in 1998 and a EUR 1,108 million gain in 1997. The extraordinary losses in 1999 relate entirely to premiums paid for the early redemption of long-term debentures.

Major items in 1998 were the sales of Philips Car Systems at a net gain of EUR 379 million and Philips Optoelectronics at a net gain of EUR 78 million.

The 1997 gain was principally attributable to the sale of a portion of Philips' shareholding in TSMC (net gain EUR 898 million), the sale of the 50% shareholding in United & Philips Communications, the sale of a third tranche of the Company's shares in ASML and several other divestments. These gains were partially offset by the final settlement relating to Grundig, which resulted in an extraordinary loss.

Net income in 1999 amounted to EUR 1,799 million (EUR 5.22 per common share). Net income for 1998, including EUR 5,054 million relating to the discontinued PolyGram operation and its related sale, totaled EUR 6,053 million (EUR 16.81 per common share) compared to EUR 2,602 million (EUR 7.45 per common share) in 1997.

► Changes in accounting and presentation

As part of an ongoing process of making Philips' financial reporting more transparent and in order to provide a better insight into the Company's earnings capacity, financial position and cash flows, certain accounting and presentation changes have been implemented in 1999, which are explained below. Most of the changes have the benefit of aligning Philips' reporting more closely with US GAAP requirements, while still being in full compliance with Dutch regulations.

Accounting changes:

- In contrast to previous years, the 1999 financial statements do not include the proposed dividend distribution for the year 1999, since that dividend must be approved by the General Meeting of Shareholders in March 2000. Prior years have been restated accordingly.

- Beginning in 1999, certain expenses for the development and purchase of IT software for Philips' internal use are capitalized and will subsequently be amortized over its useful life. The cost of capitalized software in 1999, a year of high IT expenditure, amounted to EUR 200 million, of which EUR 24 million was amortized.

Presentation changes:

- The presentation of extraordinary items of income has been brought fully in accordance with US GAAP. Results from divestitures, other than a segment of a business, are reported in income from continuing operations and no longer as extraordinary items.
- The interest component of pension expenses has been included in pension costs (part of income from operations) rather than in financial income and expenses. On a comparable basis, 1998 and 1997

income from operations would both decrease by EUR 59 million.

The comparable figures of previous years have not been restated for these presentation changes. The 1999 figures in accordance with the 1998 and 1997 presentation have been provided in a footnote on the face of the income statement. Reclassified figures for 1998 and 1997 in accordance with the 1999 presentation are provided in the notes to the consolidated financial statements.

New Accounting Standard

On June 15, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (FAS) No. 133: 'Accounting for Derivative Instruments and Hedging Activities'. In compliance with this guideline, Philips will apply FAS 133 beginning on January 1, 2000. This Statement requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period either in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction, and if so, on the type of hedge. The implementation of FAS 133 has led to transition adjustments in the opening balance sheet and the earnings statement at January 1, 2000. These transition adjustments at January 1, 2000, are not expected to have a material impact on earnings or equity.

US GAAP

The Group financial statements have been prepared in accordance with Dutch GAAP, which differs in certain respects from US GAAP. Income from operations under US GAAP was EUR 1,553 million in 1999, compared with EUR 1,309 million in 1998. Income from continuing operations determined in accordance with US GAAP was EUR 1,595 million in 1999, compared with EUR 1,025 million in 1998 and EUR 2,500 million in 1997. These aggregate amounts correspond to basic earnings per common share of EUR 4.63 in 1999, EUR 2.85 in 1998 and EUR 7.16 in 1997.

Please refer to note 28 to the consolidated financial statements for a description of the primary differences between Dutch GAAP and US GAAP, and the earnings per share information.

Dividend

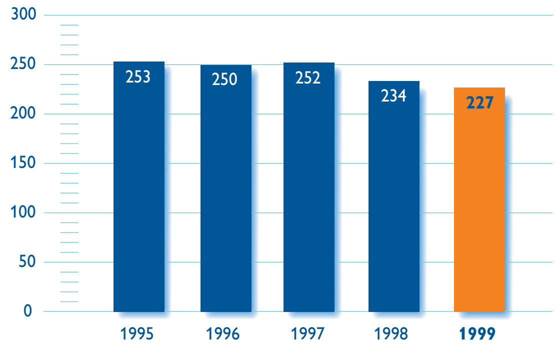
A proposal will be submitted to the General Meeting of Shareholders to declare a dividend of EUR 1.20 per common share (compared with the EUR 1.00 dividend per common share paid in 1999, reflecting the 1998 profit distribution). Unlike previous years, the balance sheet presented in this report as part of the consolidated financial statements for the period ended December 31, 1999 is before profit distribution that is subject to shareholder approval after year-end. This is in line with Dutch GAAP requirements and trends in international accounting. Adoption of the dividend proposal by the General Meeting of Shareholders will result in a total dividend payment in the year 2000 of EUR 399 million (compared with EUR 361 million paid in 1999).

Employment

The number of employees at the end of 1999 totaled 226,874, which translates into a headcount reduction of 6,812 from the previous year-end. The reduction was in part due to a number of consolidation changes. The most significant divestments occurred in the Miscellaneous sector, where the sale of Airpax in the USA led to a reduction of 2,002 employees. In addition, headcount was reduced by approximately 3,632, primarily because of the sale of several activities of PMF, mainly in the Netherlands, and the physical

Employees (at year-end)

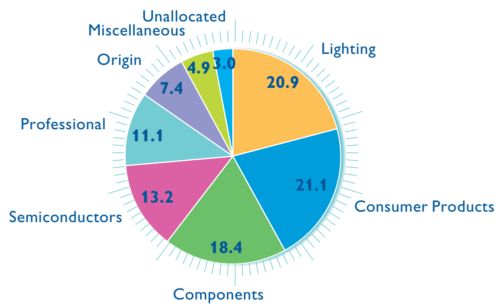
in thousands



distribution and warehousing activities in Brazil. Various acquisitions added 2,977 persons to the Company's payroll, the most important being VLSI with 2,257 employees.
Adjusting for these consolidation effects, the headcount reduction came to 4,155, including Lighting (1,915), Consumer Electronics (2,618) and PCC (962), whereas increases occurred in Semiconductors (1,133) and Components (432). Geographically, the main headcount reductions were in Asia Pacific and Latin America, while additions to headcount were made in Europe.

Employees (at year-end : 226,874)

% per sector



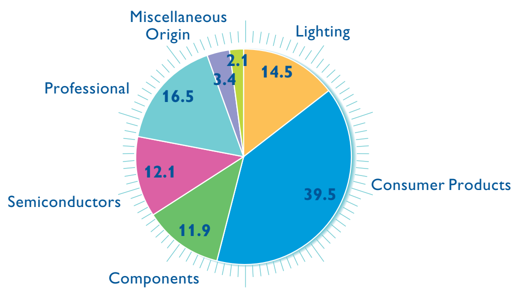
▶ Segment sales and income from operations

The following segments are reported separately: Lighting, Consumer Products, Components, Semiconductors, Professional, Origin, Miscellaneous and Unallocated. For a comprehensive business description of the various product divisions, please refer to the relevant section in the consolidated financial statements (note 29).

In the course of 1999, the Board of Management decided to regroup all the activities of the Business Electronics division. Upon completion of this process, this division ceased to be an organizational entity effective January 1, 2000. Consequently, the financial reporting relating to Business Electronics in the product sector reporting remained unchanged until this date.

Sales per product sector

% per sector

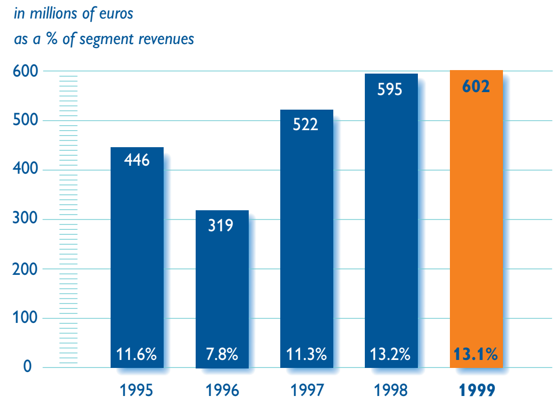


For the convenience of the reader, the following comments on the business performance per product sector are preceded by a summary of the primary performance indicators for the respective years. Further segment information is provided in the notes to the financial statements.

▶ Lighting

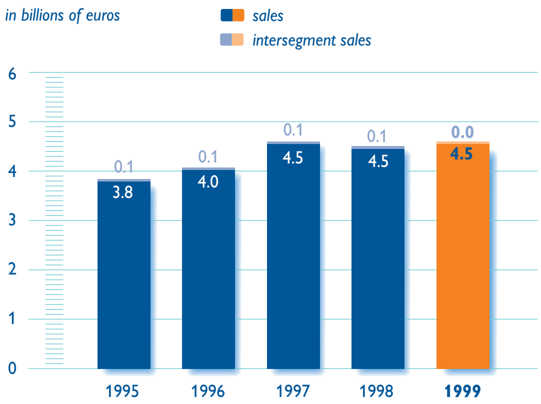
amounts in millions of euros	**1999**	1998	1997
Sales	**4,548**	4,453	4,549
% nominal growth	**2**	(2)	13
% comparable growth	**1**	1	5
Ebitda	**772**	776	715
Income from operations	**602**	595	522
as a % of segment revenues	**13.1**	13.2	11.3

Lighting income from operations



Sales in the Lighting division in 1999 totaled EUR 4.5 billion, representing nominal growth of 2%, in line with the world market, with positive volume growth being eroded by continuing price erosion, particularly in Europe; currency movements had a positive effect. Geographically, Asia posted the strongest growth, whereas the economic problems in South America and Central and Eastern Europe resulted in lower sales in these regions.

Lighting



Of our business units, Automotive achieved the strongest sales growth due largely to the success of the Xenon high-intensity lamps, which were specified by an increasing number of automakers.

Income from operations of EUR 602 million, representing an operating margin of 13.1%, was impacted by restructurings in both Europe and Latin America as we continue to reduce the cost base. Excluding restructuring costs and incidental items, the income improvement was due to slightly higher sales volume and the positive effects of prior-year restructurings and cost efficiencies. The largest income improvement was realized in the Automotive business. Luminaires and Lamps also contributed to the improvement.

Nominal sales in 1998 decreased by 2% to EUR 4.5 billion. Currency movements had a negative impact of 3%. Disregarding this influence, sales on a comparable basis were 1% higher, the net balance of a 4% volume increase and 3% lower prices. Overall, growth continued in Europe and Asia, partly offset by minor decreases in North America and Latin America.

Income from operations in 1998 improved to EUR 595 million, or 13.2% of segment revenues, from EUR 522 million, or 11.3% of segment revenues, in 1997. Income benefited from cost savings associated with prior restructuring actions, purchasing efficiencies, an improved product mix, and the sale of a factory building in Spain.

▶ Consumer Products

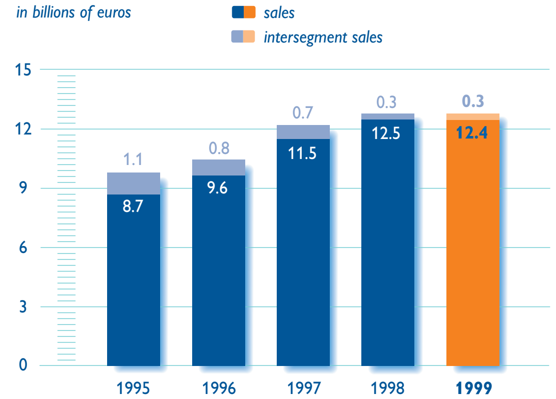
amounts in millions of euros

	1999	1998	1997
Sales	**12,437**	12,472	11,465
% nominal growth	**0**	9	19
% comparable growth	**6**	7	7
Ebitda	**847**	61	706
Income from operations	**555**	(278)	335
as a % of segment revenues	**4.3**	(2.2)	2.7

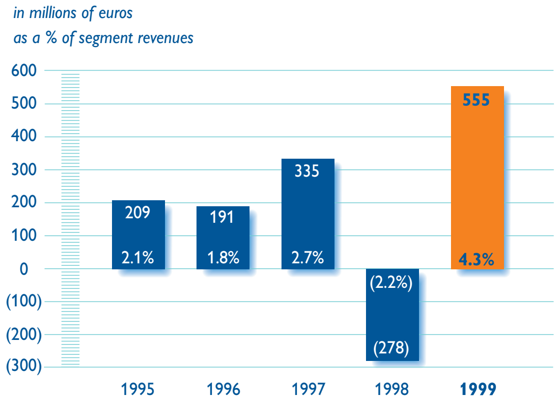
In 1999, nominal sales in this sector were essentially flat at EUR 12.4 billion. However, adjusted for the positive effects of higher exchange rates (1%) and consolidation changes (minus 7%), comparable growth in 1999 amounted to 6%. The main consolidation change was the dissolution of the PCC joint venture, which had a substantial impact on sales in 1999. Lower prices had an impact of 11%, whereas sales volume had a positive effect of 17%. The growth related especially to the substantial increase in sales at PCC, where unit sales of cellular phones almost doubled, and a favorable Consumer Electronics performance.

Income from operations in the sector increased to EUR 555 million, or 4.3% of segment revenues, in 1999, up from a loss of EUR 278 million, or 2.2% of segment revenues, in 1998. The significant turnaround was primarily attributable to the fact that PCC's operating performance was drastically improved after the dissolution of the joint venture with Lucent and the subsequent restructuring of the remaining PCC activities. The disentanglement and restructuring had a significant negative impact on 1998 earnings. Disregarding the impact of PCC, profitability of the Consumer Electronics division was affected by lower income performance in a number of businesses. The income of Domestic Appliances and Personal Care benefited from prior-year restructurings and new product introductions. Higher license income also was a positive factor in 1999.

Consumer Products



Consumer Products income from operations



Sales in 1998 rose 9% to EUR 12.5 billion from EUR 11.5 billion in 1997. On a comparable basis the growth was 7%. Consolidation changes – notably the consolidation of Lucent Technologies' Consumer Products division from October 1997 through its subsequent dissolution in September 1998 – had a positive effect on sales of 3%. Lower exchange rates had an offsetting effect of almost 2%. Prices suffered a 13% decrease and volume increased by 20%.

Income from operations in the sector fell to a loss of EUR 278 million in 1998, compared with a profit of EUR 335 million in 1997. The 1998 figure included the significant losses at the PCC joint venture of EUR 835 million, in part relating to non-recurring charges of EUR 375 million in connection with the dissolution of the joint venture, including restructuring charges of EUR 216 million. In 1997, PCC incurred operating losses of EUR 273 million. Excluding the PCC losses, 1998 income for the sector was almost at the same level as in 1997, helped by a significant increase in license revenues and benefiting from restructuring programs carried out in prior years.

Consumer Electronics

In 1999, disregarding the effects of consolidation changes (minus 8%) – principally the dissolution of the joint venture with Lucent – and currency changes (plus 1%), sales growth was 6% on a comparable basis. This comprised 13% lower prices and 19% higher volume. The growth in Consumer Electronics was headed by very strong sales in PC Peripherals, particularly in monitors, benefiting from strong market demand and reduced price erosion. In addition, sales of PCC and Audio increased sharply. PCC benefited from the successful launches of the Savvy product in the low-mid tier and the Xenium product in the upper tier of the European GSM market, leading to an almost doubling of the unit sales of cellular handsets. The significant sales growth in Audio was driven by CD-R/RW, leading to a gain in market share, particularly in Europe and the USA. Sales in TV were flat, virtually in line with the market. Sales in Videq (video equipment) were virtually unchanged from the prior year, clearly outperforming the market, which saw a sharp decline. Consumer Electronics' sales increased strongest in North America and Asia.

The increase in income from operations was quite spectacular, and was entirely attributable to PCC, whose losses relating to the development and introduction of new products and delayed product launches were significantly reduced after the disentanglement of the Lucent part of the business and the subsequent streamlining of Philips' product offering. The resulting cost reductions and the new product introductions resulted in PCC income ending above break-even in the last quarter of the year. Disregarding PCC, the division's profitability was affected by lower income performance in a number of businesses. Television income was affected by components shortages in Europe, which limited the availability of high-end products in Consumer TV. The Videq business was faced with strong price pressures and incurred high development costs for DVD and DVD-R. PC Peripherals met with severe price erosion in CD-RW and DVD-ROM, whereas income of the Monitor business was influenced by plant restructuring costs and unfavorable currency effects. The Audio business benefited from a strong performance in the Americas and Europe, which was partly offset by increased production costs in Asia Pacific.

In 1998, sales on a comparable basis increased by 9%. Steep volume growth of 24% was partly offset by price erosion of 16%, which was particularly strong in peripherals (monitors), video products and communications (telephony).

Income from operations in 1998 was negative, primarily due to the PCC losses, compared with a profit in 1997. Besides non-recurring and restructuring charges, the losses were caused by delays in the introduction of new products, among many other factors. In 1998, a restructuring program for PCC was designed to streamline the product offering and to reduce costs in order to achieve profitability for the remaining business, focusing on core strengths in GSM technology, corded and cordless phones. Most of the other consumer electronics businesses reported a profitable performance in 1998, but at a lower level than in 1997, partly due to the impact of the difficult economic situation in Brazil. Higher start-up costs for new activities, development costs and continuing price erosion – especially in Monitors – further contributed to the decline in income.

Domestic Appliances and Personal Care

Sales in 1999 increased by 2% on a comparable basis, mostly attributable to a good performance in the Male shaving and grooming business in all regions. Both the Cool Skin product and the recently introduced Quadra Action shaver performed very well in the USA, and as a consequence the global market share in shavers has increased. Sales in all product groups in Asia Pacific ended significantly higher.

Income from operations in 1999 improved, benefiting from the positive effect of prior-year restructurings and new product introductions. Additional positive effects arose from stricter cost controls and lower incidental costs. The income improvement was primarily attributable to stronger results in Male shaving and grooming (notably rota shavers and trimmers), Food preparation and Garment care.

Geographically, income improved in North America, Latin America – attributable to the effect of rationalizations in Brazil – and Asia. Income in Europe was practically unchanged.

DAP sales in 1998 were down 4% on 1997, mainly due to sharply decreasing markets in Asia, Latin America and Eastern Europe. Excluding the effects of changes in consolidations and exchange rates, the comparable sales growth was negative 3%.

Income from operations in 1998 was lower, reflecting the sluggish sales. In addition, costs increased partly because of restructuring charges and higher expenses for advertising and promotion relating to new product introductions. The Personal Care business maintained its strong income level, while Cooking & Comfort recorded good results, especially in Irons. The income of the Domestic Appliances business was affected by restructuring charges relating to various industrial facilities and its high exposure to regions where markets have declined.

▶ Components

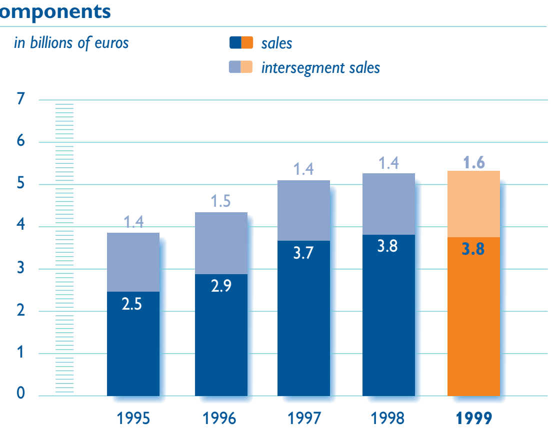
amounts in millions of euros

	1999	1998	1997
Sales	**3,754**	3,814	3,664
% nominal growth	**(2)**	4	27
% comparable growth	**3**	5	5
Ebitda	**661**	408	537
Income from operations	**286**	44	255
as a % of segment revenues	**5.4**	0.8	5.0

Sales in 1999 declined by 2% to slightly less than EUR 3.8 billion from slightly more than EUR 3.8 billion in 1998. Consolidation changes – notably the sale of Conventional Passive Components at the end of 1998 – reduced sales by 9%, while currency changes had a positive effect of 4%.

Components

in billions of euros



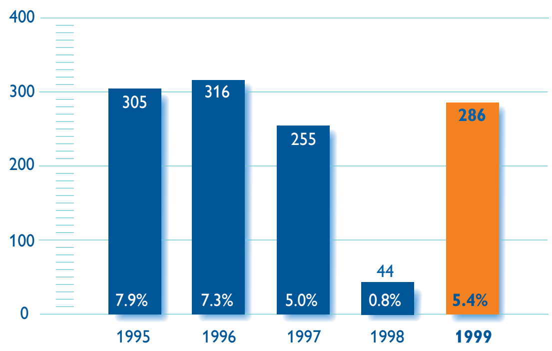
Comparable sales growth came to 3%, which was slightly lower than the market. Average prices decreased 10% while volume rose by 13%. Substantial positive sales growth was recorded in Flat Display Systems, attributable to sustained strong growth in small LCD displays for cellular phones and in large LCD screens, which were partly sourced from the new joint venture with LG Electronics in South Korea. Sales in Display Components were slightly lower, caused by TV tubes, while Color Monitor tubes increased strongly. On balance, the market position was unchanged in Display Components. The division's sales increased strongest in Asia Pacific and North America, partly offset by lower sales in Latin America. Segment revenues (including intersegment sales) in 1999 were 5% higher compared to the previous year.

Income from operations in 1999 improved substantially to EUR 286 million, up from EUR 44 million a year earlier. Disregarding one-off effects such as gains from the sale of participations, largely the EUR 169 million gain on the sale of the Conventional Passive Components business, and restructuring charges for the AMLCD business in both years, income in 1999 improved. Various product groups, but particularly Flat Display Systems, accounted for the increase in income from operations. The results of the HAPD joint venture steadily improved to reach break-even during the second half of the year. For the full year 1999, the HAPD losses were substantially below those incurred in the nine months of 1998 following HAPD's consolidation. Display Components income was marginally up, attributable to favorable developments in Asia Pacific and the Americas, partly offset by weak markets in Europe and Brazil. Although Optical Storage income for the full year was down, income performance showed a strong positive trend in the second half of the year.

Components income from operations

in millions of euros

as a % of segment revenues



In 1998 sector sales grew by 4% to EUR 3.8 billion from EUR 3.7 billion in 1997. Adjusted for consolidation changes (1% plus, principally HAPD) and unfavorable currency changes of 2%, comparable sales growth came to 5% in a market that fell by 9%. Substantial volume growth of 21% was partly offset by strong price erosion of 16%.

Income from operations in 1998 totaled EUR 44 million, compared to EUR 255 million in 1997. The decline in income was partly due to the EUR 101 million losses of HAPD, of which EUR 47 million was charged to income for the planned restructuring in Japan. Significant price erosion in Display Components (monitors), Optical Storage and Passive Components accounted for a further decrease in results, partly offset by higher results in General Systems Components and Magnetic Products.

▶ Semiconductors

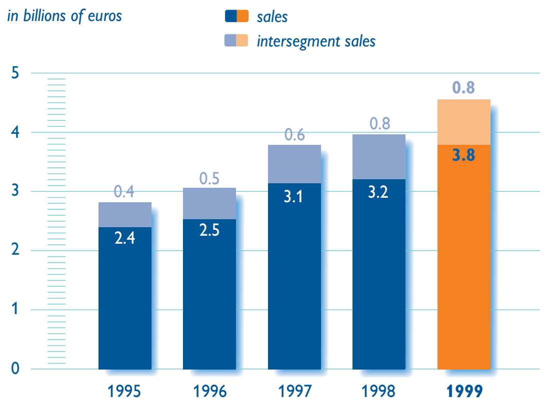
amounts in millions of euros

	1999	1998	1997
Sales	**3,796**	3,212	3,144
% nominal growth	**18**	2	24
% comparable growth	**5**	5	14
Ebitda	**1,195**	1,225	1,164
Income from operations	**614**	765	771
as a % of segment revenues	**13.5**	19.3	20.3

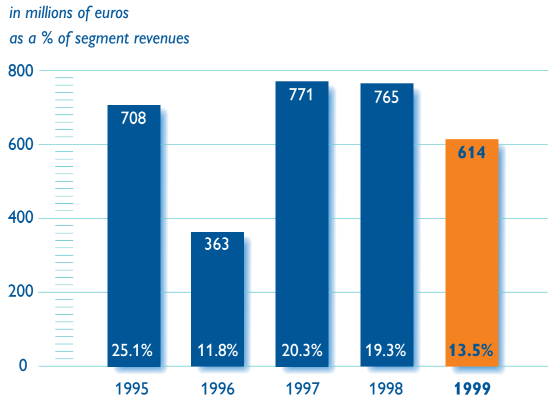
Sales in 1999 were EUR 3.8 billion, up 18% from EUR 3.2 billion in 1998. Adjusted for consolidation changes (10%, mainly attributable to the consolidation of VLSI Technology from June 1, 1999) and currency changes (an increase of 3%), the comparable sales growth was 5%, consisting of 14% volume growth partially offset by price erosion of 9%. In the first half of 1999, the sector suffered from the prior year's global crisis in the semiconductor industry, which came on top of the economic crisis in Asia. The second half saw a strong upturn in sales, following the strong rise in the market. All businesses contributed to the sector's growth. The regions that accounted for the sales growth were North America and Asia. However, the overall sales growth was lower than the increase in the market in which these businesses compete. As a result, Philips currently takes the ninth position in the global semiconductor industry – according to the provisional Dataquest ranking for 1999 – following the eighth position in 1998. Segment revenues (including intersegment sales) in 1999 increased by 3% over 1998.

Full-year income from operations in 1999 was significantly below 1998, fully attributable to the acquisition of VLSI. The consolidation of VLSI from June 1 had an unfavorable impact on income of this sector of EUR 201 million, attributable to VLSI's acquisition-related charges and operational losses.

Semiconductors



Semiconductors income from operations



Ebitda in 1999, unaffected by in-process R&D and goodwill amortization charges for VLSI, ended almost in line with 1998, with the 1999 quarterly results showing an improving trend across all businesses. In 1998, the industry was in a downturn in the latter half of the year. Excluding VLSI and the gain on the sale of Complex Programmable Logic Devices, the operational margin in 1999 came to 18.9% of segment sales versus 19.3% in the prior year. The margins improved in each quarter of the year in line with the upturn of the business cycle, resulting in better factory utilization of capacity and somewhat lower price erosion.

In 1998, sales of EUR 3.2 billion were 2% higher than the previous year's EUR 3.1 billion. On a comparable basis, growth was 5%, driven by volume growth of 15%, offset by 10% price erosion.

Income from operations in 1998, at EUR 765 million, was almost level with the previous year's EUR 771 million. This achievement was mainly attributable to product, manufacturing and investing policies that have been pursued in an industry that as a whole has been sharply affected by the Asian crisis and by overcapacity. Weakening of the market led to lower capacity utilization in the second half of the year and increased price erosion.

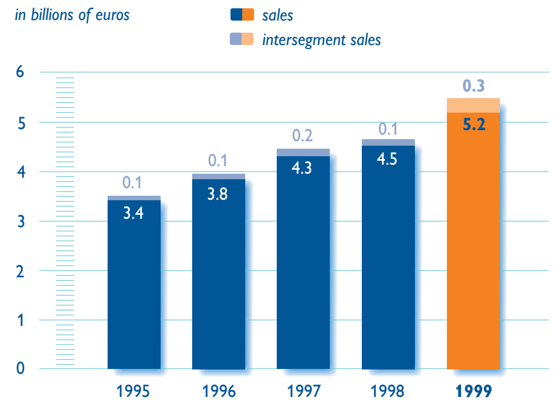
▶ Professional

amounts in millions of euros

	1999	1998	1997
Sales	**5,186**	4,520	4,301
% nominal growth	**15**	5	12
% comparable growth	**4**	7	11
Ebitda	**261**	250	288
Income from operations	**100**	(55)	207
as a % of segment revenues	**1.8**	(1.2)	4.6

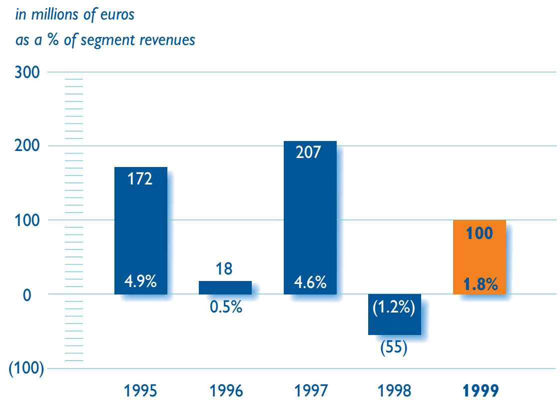
In 1999, this sector generated sales of EUR 5.2 billion, compared to EUR 4.5 billion in 1998, a nominal increase of 15%. Excluding consolidation changes (plus 10%) and changes in currency exchange rates (plus 1%), sales on a comparable basis increased by 4%,

Professional



entirely attributable to Medical Systems, while sales in Business Electronics were flat. Sales volume rose 8%, while prices decreased 4% on average.

Professional income from operations



Income from operations in 1999 was EUR 100 million, or 1.8% of segment revenues, up from a loss of EUR 55 million, or 1.2% of segment revenues, in 1998. Income in 1998 had been substantially affected by the acquisition-related charges of EUR 233 million pertaining to ATL Ultrasound in the fourth quarter. The impact of other, smaller acquisitions (1999: Voice Control Systems and FEI/Micrion, versus 1998: Active Impulse Systems) was practically equal in both years. Excluding the impact of ATL, the income of the sector was down from the previous year, primarily because of the lower income of Business Electronics, mainly due to Digital Video-communication Systems (DVS), which is investing heavily in the US market for digital set-top boxes.

The sector sales in 1998 of EUR 4.5 billion compared to EUR 4.3 billion in 1997, a nominal increase of 5%. Excluding consolidation changes (minus 1%) and changes in currency exchange rates (minus 1%), sales on a comparable basis increased by 7%. Both Medical Systems and Business Electronics contributed to the growth that was driven by 12% higher business volume, partly offset by 5% lower prices.

Income from operations in 1998 came to a loss of EUR 55 million, down from a profit of EUR 207 million in 1997. Excluding the acquisition-related charges for ATL Ultrasound and AIS totaling EUR 253 million, income for the sector was EUR 197 million. The remaining decrease in income from 1997 was due to Business Electronics, which included restructuring charges and other non-recurring charges in 1998. Medical Systems, on the other hand, was positively influenced by the additional contribution from ATL Ultrasound excluding acquisition charges.

Medical Systems

In 1999, Medical Systems recorded 9% comparable sales growth, significantly exceeding the total market growth, particularly in Asia Pacific and Western Europe. All regions, except Eastern Europe, recorded strong sales growth. The most significant increase was realized in Asia Pacific where sales ended significantly ahead of the prior year. The main growth areas are Customer Support, Cardio Vascular, Magnetic Resonance, and – through the acquisition of ATL in 1998 – the Ultrasound business. The integration of ATL has proceeded according to plan and has generated significant incremental synergies. Volume increased by 11%, which was partly offset by price erosion of 3%.

Income from operations in 1999 improved significantly compared to 1998, which had been severely affected by fourth-quarter charges of EUR 233 million for the write-offs of in-process R&D obtained in the strategic acquisition of ATL Ultrasound and other acquisition-related charges. The advance in Ebitda was considerably less spectacular because the 1998 comparison base was not affected by in-process R&D write-offs. Ebitda and income in 1999 both benefited from a strong sales performance and stricter cost control, especially in Western Europe and Asia Pacific. ATL Ultrasound made a significant positive contribution to income this year (excluding acquisition-related charges).

The 1998 sales increased by 6% on a comparable basis. Excluding ATL this was virtually in line with the development of the market. The remaining growth was attributable to the acquisition of ATL. Volume growth of 10% was partly offset by price erosion of 4%.

Income from operations in 1998, excluding the ATL write-offs, increased 10% from 1997. The fourth-quarter ATL charge for in-process R&D amounted to EUR 182 million. Disregarding this charge and other acquisition-related charges (EUR 51 million) in connection with ATL, income benefited from ATL's contribution to normal operating results from the time of acquisition.

Business Electronics

Sales on a comparable basis were flat compared with the previous year, reflecting the balance of contrasting developments in various businesses. Strong growth was recorded in Electronic Manufacturing Technology (EMT), FEI, Fax and Philips Broadband Networks (PBN). On the other hand, lower sales were recorded in Philips Projects and in Philips Business Communications. Sales in Digital Video-communication Systems (DVS) and Communication and Security Systems (CSS) were virtually flat compared to 1998 levels.

Income from operations was significantly down compared to 1998. Both years were affected by special charges. Higher acquisition-related charges – mainly for amortization of goodwill and other identifiable intangible assets (1999: Voice Control Systems and FEI/Micrion; 1998: Active Impulse Systems) – account for a larger fall in income from operations than in

Ebitda. Both performance measures were affected by restructuring charges (1999: total BE division; 1998: DVS/BTS and FEI), as well as other non-recurring charges. The main factor in the deterioration of recurring income was the increase in DVS losses, caused by significant investments in the US markets for digital set-top boxes, even though DVS achieved break-even in the fourth quarter. EMT income was boosted by strong sales of high-margin products, but the improved income was insufficient to offset the higher DVS losses.

In 1998, sales growth was 9% on a comparable basis, mainly attributable to DVS, Projects and EMT. Income from operations was a loss in 1998, compared with a profit in 1997. The loss was primarily caused by the write-off of in-process R&D of AIS and restructuring costs relating to FEI and DVS, both in the United States. EMT, Fax and DVS-Digital Receivers made positive contributions to income in 1998.

▶ Origin

amounts in millions of euros

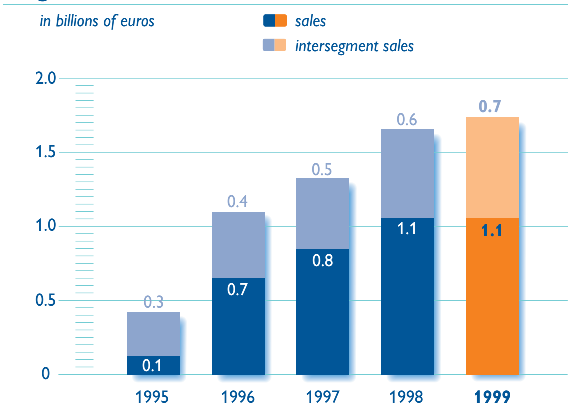
	1999	1998	1997
Sales	**1,056**	1,059	846
% nominal growth	**0**	25	30
% comparable growth	**0**	24	21
Ebitda	**193**	128	73
Income from operations	**97**	59	–
as a % of segment revenues	**5.6**	3.6	–

Origin's sales in 1999 at EUR 1.1 billion were unchanged from the year earlier, both in nominal and comparable terms. Following substantial sales growth in the first six months, growth was sharply lower in the latter half of the year because of lower IT spending by companies in anticipation of the millennium. In particular, Enterprise Solutions and Professional Services were affected, whereas Managed Services was strong. Sales growth was realized in North America, Europe and Asia Pacific, offsetting a strong decrease in Latin America.

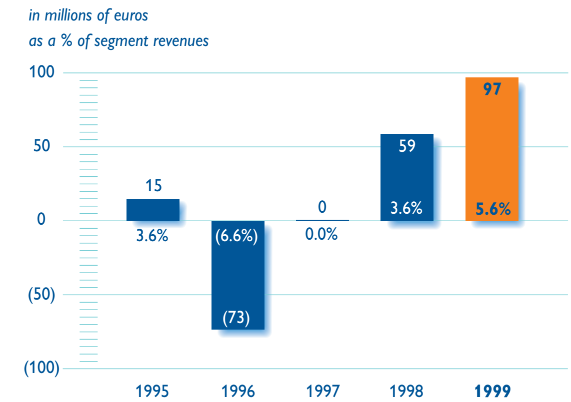
Segment revenues (including intersegment sales) in 1999 developed favorably compared to last year and increased by 5%.

The improvement in income from operations in 1999 was less pronounced than the increase in Ebitda because income from operations includes higher depreciation costs and incremental goodwill amortization charges relating to the additional almost 10% Origin shares that were acquired in 1999. Despite an extra pension cost charge in 1999, overall income increased as a direct reflection of improving capacity utilization as well as cost efficiency.

Origin



Origin income from operations



Sales in 1998 were EUR 1.1 billion, a nominal increase of 25% over the previous year's sales of EUR 0.8 million. Disregarding favorable currency effects (1%), growth was 24% on a comparable basis.

Income from operations in 1998 totaled EUR 59 million or 3.6% of segment revenues versus a break-even situation in 1997. Origin's loss-making screenphone business was discontinued in 1997 and the related costs were recorded as an extraordinary loss.

▶ Miscellaneous

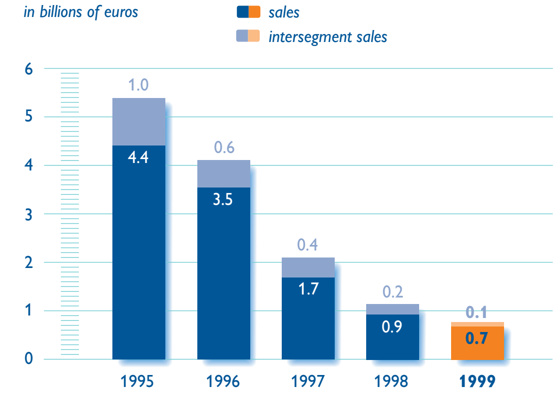
amounts in millions of euros

	1999	1998	1997
Sales	**682**	929	1,689
% nominal growth	**(27)**	(45)	(52)
% comparable growth	**(11)**	6	6
Ebitda	**(9)**	64	130
Income from operations	**(91)**	(46)	14
as a % of segment revenues	**(11.8)**	(4.1)	0.6

This sector comprises various activities and businesses, including other businesses not belonging to a product division, as well as Philips Research, Corporate Intellectual Property, Philips Centre for Industrial Technology, Philips Machinefabrieken and Philips Design.

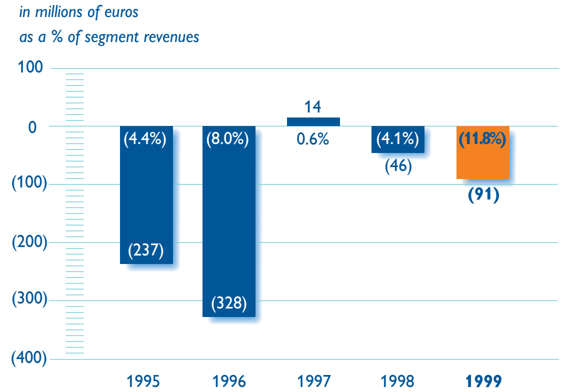
Included in the prior-year figures are contributions from divested activities, which used to be reported as separate divisions under one of the former product sectors which for the sake of comparability have been reclassified to the Miscellaneous sector. For instance, at year-end 1997, Philips signed an agreement with Mannesmann VDO of Germany on the sale of Philips' Car Systems business. The 1997 sales and income contributions of this former division have been included in the Miscellaneous sector.

Miscellaneous



The various businesses in this sector recorded combined sales of EUR 0.7 billion in 1999, which was 27% lower than the EUR 0.9 billion sales in the year earlier. The decrease was substantially due to divestments, including the Printed Circuit Board and Metal Display Components activities of PMF and a number of other non-strategic activities in the Netherlands and the USA. On a comparable basis, sales declined 11%, which was primarily caused by PMF and miscellaneous other activities, partially offset by higher sales in Philips Machinefabrieken.

Miscellaneous income from operations



Income from operations in 1999 came to a loss of EUR 91 million, or 11.8% of segment revenues, which compared with a loss of EUR 46 million, or 4.1% of segment revenues, in 1998. This was primarily due to

PMF and Machinefabrieken achieving lower income in 1999. PMF's income was affected by the divestment of certain of its activities, while Machinefabrieken incurred higher costs for the new aviation project and investments in software. In addition, various other divested activities no longer contributed to income in 1999. Costs for corporate research projects and patent management results were in line with 1998.

Sales in 1998 amounted to EUR 0.9 billion, 45% below the prior-year sales of EUR 1.7 billion. Changes in consolidations – principally Philips Car Systems – resulted in a decrease of 46%. Disregarding the consolidation changes, sales growth on a comparable basis was 6%, entirely attributable to higher business volume.

Income from operations in 1998 fell to a loss of EUR 46 million, or 4.1% of segment revenues, from a profit of EUR 14 million, or 0.6% of segment revenues, in 1997. The change was primarily due to the fact that activities that were divested in previous years, such as Philips Car Systems and some Communication Systems activities, no longer contributed to income in 1998. In addition, certain activities experienced lower profitability, principally Machinefabrieken (as a result of the downturn in the semiconductor industry) and Hearing Technologies. PMF, on the other hand, maintained income performance at the 1997 level. Research activities increased in 1998. A reduction in operating losses occurred as a result of a higher volume of internal contract research and lower organization costs due to lower staffing levels.

▶ Unallocated

Costs – net of revenues – not allocated to a specific product sector comprise the costs of the corporate center - including the Company's investment in the IT backbone and global brand management costs – as well as country and regional overhead costs.

In 1999, non-recurring events had a negative impact of approximately EUR 60 million, of which approximately EUR 40 million in the fourth quarter.

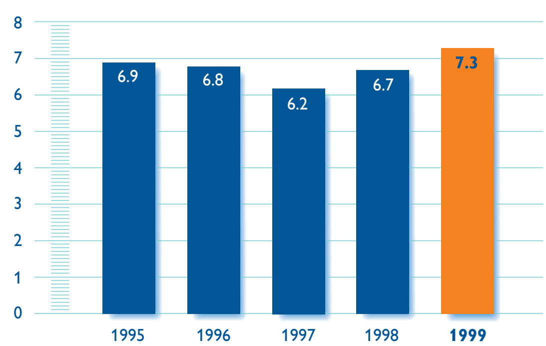
▶ Research and Development

Continuous efforts to sustain a strong performance in the field of R&D are of the utmost importance to Philips in order to preserve and strengthen the Company's competitiveness in its various markets. Through substantial investments in R&D, Philips has created a large knowledge base. Each year, new technological breakthroughs are added to Philips' long list of research successes.

Recent contributions applied in consumer products include various concepts for the Nexperia Digital Video Platform introduced at the 1999 *Internationale Funkausstellung (IFA)*. Research has also applied its video-processing know-how to enhance the picture quality of Philips' Flat TV plasma panels. This supports Flat TV's leadership in this field, as demonstrated by its reception at the IFA, where it won the EISA award for the second time. Also at the IFA, a bridge for wireless in-home networks was demonstrated. This concept was adopted in the standard for wireless 1394 networks. In power management, a number of new product and/or

Research and development expenditures

as a % of sales



technology concepts for, among others, light ballasts, GreenChip and shaver charger ICs, were transferred to Semiconductors. Over the years, Research's innovation has contributed to a range of products for the product divisions. A recent example for Medical Systems is the rotational angio software package which has been added to the Integris product and allows the 3-D reconstruction and display of blood vessels.

► Intellectual property management

Being a technology-driven company, Philips attaches great importance to protecting its innovations by means of intellectual property rights, in order to safeguard its substantial investments in R&D. Philips has intensified its efforts to strengthen its already extensive portfolio of intellectual property rights. In 1999, Philips filed more than 1,500 new patent applications and about 1,200 international patent families based on filings made in 1998. The patent portfolio is used to create substantial value for Philips by granting licenses in return for royalty income, by creating freedom of operation for its commercial activities and by obtaining or maintaining favorable market positions. Philips' trademark portfolio comprises the Philips trademark and a number of important product names. Trademarks are an important asset for the business and are properly protected in order to maintain their exclusive character in the marketplace. Design is an increasingly important marketing tool. Investments made in good product design require adequate protection. Philips' design rights portfolio reflects the value the Company attaches to proper protection of its product designs.

► Cooperative business activities and unconsolidated companies

Since its founding, Philips has engaged from time to time in cooperative activities with other organizations. Philips' principal cooperative business activities and participations, and the main changes therein, are set out below.

Taiwan Semiconductor Manufacturing Company Limited (TSMC) is a semiconductor foundry operation in which Philips currently has 26.8% ownership. During 1999, Philips' interest was reduced by 0.8% due to the conversion of eurobonds into equity capital and dilution arising from incentive plans for TSMC management. Nevertheless, Philips remains the single largest shareholder in TSMC. In the second half of 1999 TSMC largely recovered from the global slump in the semiconductor business and the Asian crisis which had a significant adverse effect on TSMC's income performance from mid-1998 onwards. TSMC's performance was not significantly affected by the earthquake that hit Taiwan in September 1999. On balance, TSMC's income contribution, which included a significant gain from the conversion of bonds into equity, more than doubled compared to the previous year.

Systems on Silicon Manufacturing Company (SSMC) is a Singapore-based wafer fabrication firm established by Philips (48%), TSMC (32%) and the Economic Development Board of Singapore (20%). Construction of a USD 1.2 billion wafer fab (MOS-5) has been started and is expected to come on stream in late 2000. A large number of key technical personnel is currently being trained at Philips' home-base facilities in the Netherlands and at TSMC in Taiwan. Philips will be entitled to 60% of the fab output of 0.25 micron wafers.

ASM Lithography Holding N.V. (ASML), based in the Netherlands and a world leader in the photolithography market, develops, manufactures and markets waferstepper and scanner equipment for the semiconductor industry. As part of a long-standing relationship, Philips Research and Philips' Centre for Industrial Technology perform contract work for ASML. ASML's significantly improved 1999 results – particularly in the second half of the year – reflect and underscore the upturn in the semiconductor industry and ASML's strong position in leading-edge products. Philips has agreed not to sell its current 23.9% shareholding before March 22, 2000.

In the People's Republic of China, Philips currently has some 22 operational business alliances that engage in manufacturing and marketing activities. Generally, these companies are not wholly owned; most of them are consolidated. The total investments in China have exceeded USD 1 billion, and with approximately 16,000 employees in China and more than 5,000 in Hong Kong, Philips is one of the larger private employers in the region.
Philips is active in a wide range of activities, but has particularly strengthened its position in consumer electronics, cellular phones and components, maintaining strong positions in shavers, CD, energy-saving lamps and semiconductors. All product divisions in China are profitable and posted considerable growth in sales and income in 1999.

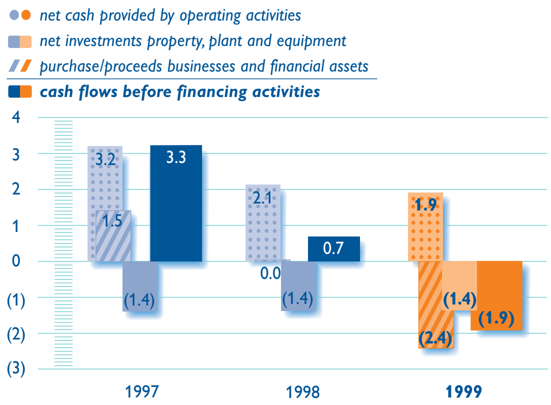
Navigation Technologies Corporation (NavTech) of the USA is engaged in the development of software databases for digital maps to be used for car navigation purposes. Early in 1999, Philips sold approximately 25% of the shares in NavTech to the Oranje Nassau Groep consortium, a transaction that is of considerable importance to the future development of NavTech. As a consequence, Philips' interest in NavTech was reduced to a minority shareholding (on a fully-diluted basis).
As part of the agreement with the consortium, Philips has entered into a funding commitment of up to USD 100 million from the date of the agreement, to be increased by a further USD 25 million if alternative resources cannot be found and certain further terms and conditions are met.

In August 1999, Philips invested EUR 1.7 billion (of which EUR 0.2 billion has not yet been paid) in LG.Philips LCD Co., a 50-50 manufacturing joint venture with LG Electronics of South Korea, the world's second largest supplier of Active Matrix Liquid Crystal Displays (AMLCDs). This investment, which marks Philips' commitment to the fastest-growing segment of the display industry, is Philips' largest single investment ever, and the largest foreign investment in South Korea. Started as a manufacturing and technology joint venture, the company may develop further over time, incorporating all AMLCD activities of both companies. The capacity of the two existing fabs at Kumi will be expanded, while a third facility is expected to become fully operational in the year 2000. The transaction has moved Philips into an immediately profitable position in the AMLCD industry.

In November 1999, Philips and Hewlett Packard/Agilent expanded the scope of their existing LumiLeds Lighting joint venture, that was formed over two years earlier. Both parties hold equal shares in the venture, whose product scope has been extended from LED traffic signal products to a variety of other applications including automotive, signaling, contour lighting and signs, outdoor illumination and white LEDs for indoor and outdoor applications, demonstrating both parties' confidence in the new technology. The worldwide operations involve about 1,000 employees and are located in California, Malaysia and the Netherlands.

▶ Cash flows

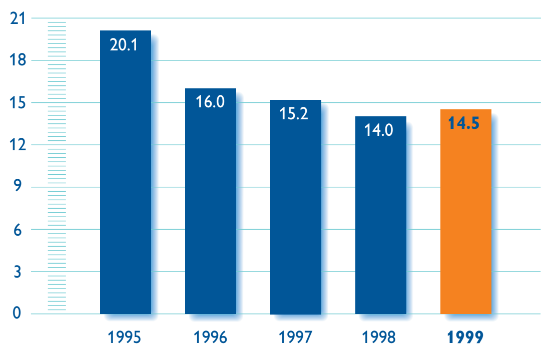
Cash flow *in billions of euros*



The cash flow from operating activities in 1999 of EUR 1,913 million was below the levels generated in the preceding two years (EUR 2,140 million and EUR 3,210 million respectively). Changes in working capital reduced 1999 cash flow from operations by EUR 469 million, as reductions in the amounts of capital invested in inventories less accounts payable were more than offset by the increase in accounts receivable. Higher working capital should be seen against the background of the increased sales level. By contrast, in 1998 the EUR 272 million positive cash flow from lower working capital requirements was attributable to the increased use of suppliers' credit.
Expressed as a percentage of sales, the amount of inventories at the end of 1999 was the equivalent of 14.5% of sales, which represents a 0.5% increase compared to 14.0% a year earlier and 15.2% at the end of 1997. However, excluding currency effects, 1999 inventory as a percentage of sales was actually below 1998 levels. Outstanding trade receivables at year-end 1999 were the equivalent of 1.4 months' sales, compared to 1.3 in the previous years.

Inventories

as a % of sales



Cash flow from investing activities in 1999 required almost 3 times the amount used in the previous year: EUR 3,834 million versus EUR 1,441 million in 1998. In 1997 these activities generated a cash flow of EUR 45 million.

During 1999, the Company invested EUR 2,993 million in businesses that operate in strategic areas where Philips wants to improve its global market position. The investments included the purchase of VLSI Technology of the USA (EUR 976 million) and a 50% share in LG.Philips LCD Co. of Korea (EUR 1,496 million; an additional amount of EUR 228 million has not yet been paid), as well as the acquisition of an additional 10% of the shares in Origin (EUR 124 million) and a number of smaller businesses (EUR 397 million). The largest divestment, Philips' Conventional Passive Components business, yielded a net amount of EUR 323 million in cash. Additionally, the sale of a minority interest in Navigation Technologies (NavTech) generated a positive cash flow of EUR 98 million.
Furthermore, EUR 158 million was generated by the sale of a portion of the JDS Uniphase shares held.

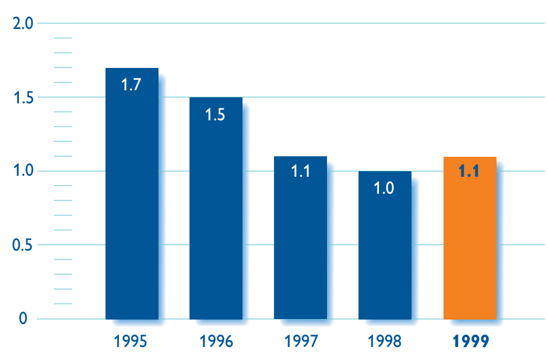
In 1998, the net cash outflow from acquisitions and divestments was EUR 111 million, the main transactions being the acquisitions of ATL Ultrasound and Active Impulse Systems, offset by the sale of Philips Car Systems. It should be noted that the 1998 sale of

Philips' 75% stake in PolyGram was accounted for as the disposal of a discontinued operation, which is not reported in the investing activities section.

In 1997 a positive cash flow of EUR 1,382 million resulted from major divestments of partial shareholdings in TSMC and ASML, the sale of the 50% equity stake in UPC and various others. Acquisitions in that year related to HAPD Japan (50%) and additional shareholdings in Origin and in NavTech.

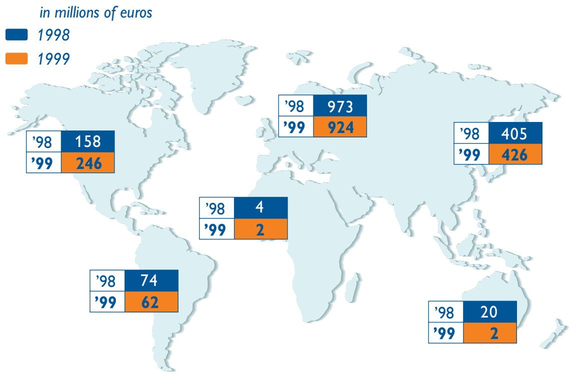
Gross capital spending on property, plant and equipment of EUR 1,662 million in 1999 slightly exceeded the spending in the preceding two years (EUR 1,634 million and EUR 1,627 million in 1998 and 1997, respectively). The ratio of gross investments to depreciation was 1.1, versus 1.0 in 1998 and 1.1 in 1997, reflecting the effect of Philips' ongoing policy of prudent asset management.

Capital expenditures : depreciation



The cash flow before financing activities was negative EUR 1,921 million in 1999 versus positive cash flows of EUR 699 million in 1998 and EUR 3,255 million in 1997. In 1999 net investments in business interests resulted in a cash outflow of EUR 2,364 million. The net impact of acquisitions and divestments (excluding the sale of

Capital expenditures per geographic area



PolyGram) in 1998 was negative EUR 111 million, while in 1997 divestments exceeded investments by EUR 1,382 million.

In 1999, the net cash flow used for financing activities amounted to EUR 2,606 million, of which EUR 1,490 million was used for the 8% share reduction program. Additionally, EUR 717 million was used to repay debt and EUR 361 million was used for the payment of dividends to Philips' shareholders in 1999. Furthermore, treasury stock transactions required EUR 38 million.
In 1998, the net cash flow used for financing activities of EUR 814 million related to the repayment of interest-bearing debt of EUR 445 million and the payment of dividends in 1998 of EUR 326 million. An amount of EUR 157 million net cash was used for treasury stock transactions. In 1997, the larger part of the net cash flow used for financing activities of EUR 2,661 million was used to repay interest-bearing debt (EUR 2,279 million).

▸ Financing

Total debt outstanding at the end of 1999 was EUR 3.3 billion, compared with EUR 3.6 billion at year-end 1998 and EUR 4.0 billion at the end of 1997.

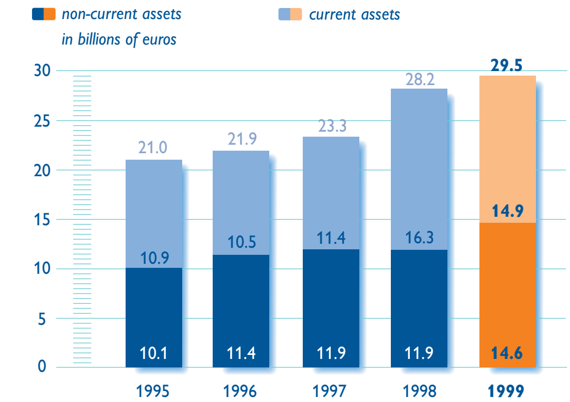
In 1999 long-term debt decreased by EUR 0.1 billion to EUR 2.7 billion. This decrease is the result of net repayments totaling EUR 0.5 billion, offset by currency and consolidation effects of EUR 0.4 billion. In 1998, long-term debt was reduced by EUR 0.4 billion to EUR 2.8 billion. The reduction was the result of net repayments totaling EUR 0.3 billion and currency and consolidation effects of EUR 0.1 billion.
Philips has two 'putable' bonds outstanding at year-end 1999 for a total amount of EUR 266 million for which the investor may require prepayment at one specific month during the lifetime of the respective bonds. Assuming that investors require payment at the relevant put dates, the average remaining tenor of long-term debt was 5.4 years compared to 6.4 years in 1998. However, assuming that the 'putable' bonds will be repaid at final maturity dates, the average remaining tenor at the end of 1999 was 7.4 years, compared to 8.3 years at the end of 1998. Long-term debt in proportion to the total debt at the end of 1999 was 83%, compared to 78% at the end of 1998.

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.
The USD 2.5 billion committed credit line is a multi-currency revolving standby facility, which was signed in July 1996 and which will mature in July 2003.
Short-term debt was reduced by EUR 0.2 billion in 1999 to EUR 0.6 billion at year-end. This reduction was due to net repayments of EUR 0.3 billion and an increase of EUR 0.1 billion as a consequence of currency and consolidation effects. This compares to almost no change in 1998 as a result of net repayments of EUR 0.1 billion being offset by currency and consolidation effects in that year.

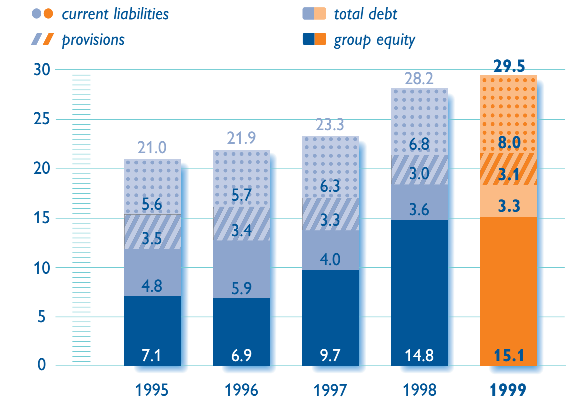
The cash position was reduced by EUR 4.2 billion in 1999 to EUR 2.3 billion at year-end. This reduction was mainly related to the investments in VLSI, LG.Philips LCD Co. and Origin, as well as the share reduction program. The currency and consolidation effects had an increasing impact of EUR 0.3 billion.
The EUR 5.1 billion increase in the cash position in 1998 was to a large extent related to the proceeds of the sale of PolyGram.

The Company had a net debt position (debt net of cash and cash equivalents) of EUR 1.0 billion at the end of 1999. This compares to a net cash position at the end of 1998, with cash exceeding total debt of EUR 3.0 billion, following the sale of PolyGram. The net debt at the end of 1997 amounted to EUR 2.6 billion.
The net debt to group equity ratio amounted to 6:94

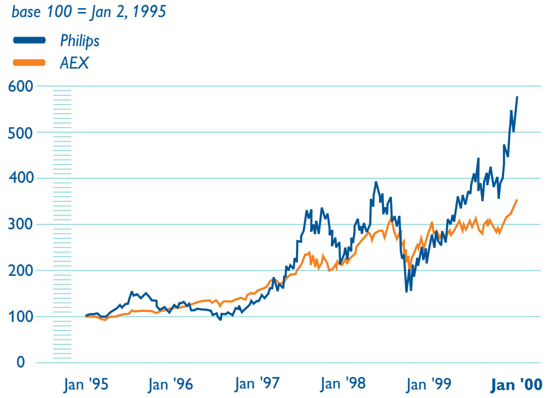
Assets



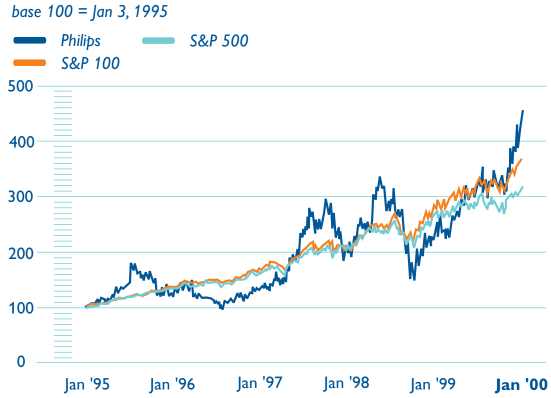
Equity and liabilities



5-year relative performance: Philips and AEX



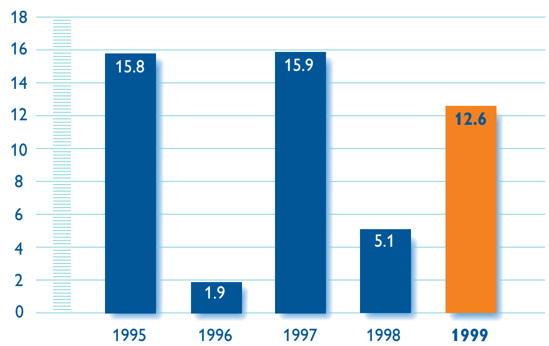
5-year relative performance: Philips, S&P 100, S&P 500



at the end of 1999. The net cash position renders this ratio meaningless in 1998. The ratio at the end of 1997 was 21:79.

Stockholders' equity increased by EUR 0.2 billion to a level of EUR 14.8 billion at year-end 1999. The effect of 1999 net income of EUR 1.8 billion was to a large extent offset by the share reduction program which reduced equity by EUR 1.5 billion. The currency effects on equity resulted in an increase of EUR 0.3 billion. Furthermore, equity was reduced by dividend payments of EUR 0.4 billion. The EUR 5.4 billion increase in equity in 1998 was largely due to 1998 net income of EUR 6.1 billion, partially offset by the pay-out of dividend.

Income from continuing operations
as a % of stockholders' equity (ROE)



The number of outstanding common shares of Koninklijke Philips Electronics N.V. ('Royal Philips Electronics') was reduced to 339.1 million shares at year-end 1999. This reduction was mainly due to the 8% share reduction program that was implemented in 1999. At the same time the shares were redenominated from NLG 10 to EUR 1.

This was accomplished through the conversion of a portion of Philips' surplus paid-in capital into nominal share capital. The resulting adjusted nominal share capital was reduced by making a cash distribution of NLG 9.07 per common share to all Philips' shareholders, which amount equaled 8% of the December 17, 1998 closing price of NLG 113.40 on the Amsterdam Exchanges. Subsequently, every 100 outstanding common shares were exchanged for 92 new common shares, each of which has a par value of EUR 1.

The exercise of convertible personnel debentures led to a 0.1 million increase in the number of outstanding shares in 1999. These shares were delivered out of treasury stock.

The increase in shares outstanding in 1998 of 3.7 million was a result of exercises of Superclub warrants and convertible personnel debentures.

At the end of 1999, the Group held 6.2 million shares in treasury as a hedge against the 6.4 million conversion and option rights outstanding at the end of 1999. At year-end 1998 7.8 million shares were held in treasury against a 7.2 million rights overhang.

► Quantitative and qualitative disclosures concerning market risks

Financial risk management

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

The analysis below presents the sensitivity of either the fair value of the Company's financial instruments or of earnings to certain hypothetical changes in foreign exchange rates and interest rates. Financial instruments consist, for the purpose of this analysis, of debt instruments, liquid assets, securities and derivative financial instruments. The following overview of the Group's risk management activities contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those projected.

Foreign currencies

With regard to currency risks, it is the Company's policy to cover virtually all of its significant transaction exposures, including certain anticipated transaction exposures. For this purpose, the Company enters into forward exchange and option contracts. Virtually all contracts that were outstanding at December 31, 1999 were forward exchange contracts that will expire in 2000.

Financing of subsidiaries is mostly done in the functional currency of the borrowing entity. If the financing currency is neither the functional currency nor the main currency of the business, the entity's exposure to foreign exchange risks is generally hedged, if this is not restricted for regulatory reasons.

As is shown in the sensitivity analysis below, the fair value of the Group's financial instruments is affected by changes in foreign currencies. However, changes in the fair value of financial instruments expressed in euros do not generally affect earnings, as:

- a substantial part of the sensitivity calculated below is related to derivative instruments that are concluded to offset foreign exchange exposures in the businesses, such as committed transactions. These offsetting business exposures are not financial instruments, and therefore are not included in this sensitivity analysis. The changes in the value of these hedges will be offset over time by changes in the value of hedged business assets, liabilities or transactions;
- a large portion of the non-derivative financial assets and liabilities is held by foreign subsidiaries in the same currency as their functional currency. As the results of these subsidiaries are measured in the functional currency, changes in the exchange rates will only affect the value of these financial assets and liabilities expressed in euros at consolidated level, and will not impact earnings.

The sensitivity analysis shows the following results. An instantaneous 10% strengthening or weakening of the non-euro currencies versus the euro from their levels at December 31, 1999, with all other variables held constant, would result in an estimated net change in the fair value of the Company's financial instruments of EUR 425 million versus EUR 48 million in 1998. The main reasons for the increase in the FX sensitivity in

1999 were the increased level of hedging by the businesses, and the increased level of foreign currency indebtedness as a consequence of certain foreign business acquisitions such as VLSI.

Interest rates

At year-end 1999 the Company had a ratio of fixed-rate debt to total outstanding debt of approximately 73%, compared to 68% one year earlier.

During 1999, Philips entered into interest rate swaps as hedges for a portion of the long-term bonds. Below, the effects of these swaps are taken into account.

A sensitivity analysis shows the following results. If the long-term interest rates were to decrease instantaneously by 1% point from their level of December 31, 1999, with all other variables (including foreign exchange rates) held constant, the fair value of the long-term debt would increase by EUR 107 million. This increase is based on the assumption that the 'putable' bonds will be repaid at their final maturity date. If the bond-holders required repayment of the bonds at their respective put dates, the same decrease in interest rates would raise the market value of the long-term bonds by EUR 88 million. If the short-term interest rates were to decrease instantaneously by 1% from their level of December 31, 1999, with all other variables (including foreign exchange rates and composition of financing and deposits) held constant, the annualized interest result on the net financing would decrease by EUR 10 million.

Commodities

The Company is a purchaser of certain base metals such as copper etc., precious metals and energy. The Company covers a limited part of the commodity price risk exposures by entering into hedge transactions such as forward purchasing agreements. Almost all agreements outstanding at December 31, 1999 will expire in 2000. If all commodity prices simultaneously decreased by 10%, the fair value of the commodity hedges would decrease by EUR 8 million.

► Euro

At the start of the Economic and Monetary Union on January 1, 1999, Philips introduced the euro as its reporting currency. Philips is one of the few companies in Europe that changed its reporting currency to the euro on day one. In the previous year, Philips had to adjust a large number of computer systems and applications. By the end of 1998, these computer systems had been tested, and only minor IT problems still had to be fixed. The technical changeover to the euro at the beginning of 1999 went very smoothly.

During the transition period, 1999-2002, no one can be forced to use the euro instead of EMU currencies. From the outset, Philips has offered its customers the possibility of being invoiced in euros. Suppliers have been requested to start invoicing in euros as of January 1, 1999. In the course of 1999 an increasing number of suppliers sent euro invoices, although the number of euro invoices received was less than a third of the total. With no incentives to make payments in euros, our customers, on the other hand, expressed little interest in euro invoicing.

In some European countries the number of euro price tags in the shops is growing. Also, euro prices are appearing more often in advertisements. However, the impact on Philips' businesses and on prices thus far has been limited, because the markets are still dominated by local currencies. Management still believes that in the longer term Philips stands to gain from the introduction of a single European currency.

▶ Millennium

The Philips millennium program was business-driven. It integrated the internal and external risk factors identified in the integral business chains, operating in many different local and regional environments. Seven impact areas – customer base, supply base, IT applications and IT infrastructure, corporate core processes, facilities and services, and countries and regions – were dealt with in accordance with a standard procedure.
Remediation and testing in all seven impact areas were largely completed in the third quarter of 1999. From November 1, 1999, strict company-wide control of changes in ICT was introduced in order to secure the achieved millennium compliance in products, systems and processes.

Roll-over and contingencies

From April 1999 until November 1999, all Philips units established and implemented integral roll-over plans, including detailed activity plans, contingencies and a common global communication and reporting system, enabling the Board of Management to monitor the global developments on a daily basis during the roll-over.

The roll-over proceeded according to plan. Friday, December 31, 1999 and Saturday, January 1, 2000 were mainly dedicated to the roll-over of the internal and external systems, services and infrastructures. On Sunday, January 2, 2000 the emphasis shifted to the resumption of normal business operations. No disruptions were encountered apart from a few minor incidents. Continuity in products, services and business processes was maintained. On Thursday, January 6, 2000 the Company considered the roll-over process to be completed, though all Philips units are instructed to remain vigilant during 2000 because of potential residual risks in external environments, especially the total supply base.

Costs

The costs associated with the millennium program, including roll-over and contingencies, are congruent with Philips' ongoing efforts to learn from the millennium experience and to improve its ICT systems and its business processes, and will provide future benefits to its operations.

The Company is able to confirm that the overall costs of the total program, including those still to be incurred in 2000, are in line with the estimates of approximately EUR 270 million given in the 1998 Annual Report. Additional costs expected to be incurred in the year 2000 are believed to be less than EUR 10 million.

▶ Corporate governance

The Company has consistently improved its corporate governance over the past decade by increasing transparency and accountability to its shareholders through simplification of the corporate structure, by improving the supervision of the Company's policies and activities, and by adopting recommendations on best practices.

Business Controls

The Philips Policy on Business Controls is communicated to all levels of management. Key elements are: setting clear policies; issuing clear directives; delegating tasks and responsibilities clearly; carrying out supervision; taking corrective action; and maintaining highly responsive accounting systems including an internal control system (internal accounting controls). The Company's internal control structure follows current thinking and practice in integrating management control over company operations, compliance with legal requirements and the reliability of financial reporting. It makes management responsible for implementing and maintaining effective business controls, including internal financial controls. The effectiveness of these controls is monitored by self-assessment and by audits performed by internal and external auditors. Accountability is enforced through the formal issuance of a Statement on Business Controls by each business unit, resulting, via a cascade process, in a statement by each product division.

Audit committees at each of the product divisions ensure adherence to the policy and take corrective action where necessary. They are also involved in determining the desired audit coverage. The entire process is reviewed on a regular basis by the Corporate Audit Committee chaired by the CFO and independently by Corporate Internal Audit. Reports on the functioning of the process are sent to the Board of Management and the Audit Committee of the Supervisory Board.

Communication with shareholders

Philips is continuously striving to improve relations with its shareholders. In 1999 the Shareholders' Communication Channel – a pilot project of Amsterdam Exchanges, banks in the Netherlands and several major Dutch companies to simplify contacts between a participating company and its shareholders – became operational for the distribution of information. Recently, amendments to Dutch law have been adopted to enable proxy solicitation as well. Due to the fact that the Company has its General Meeting of Shareholders relatively early in the year, proxy solicitation could not be introduced in time for the Company's General Meeting of Shareholders on March 30, 2000.

As in 1999, Philips will use the Shareholders' Communication Channel to distribute its Annual Report and the Agenda for the General Meeting of Shareholders in 2000. Philips expects to use proxy solicitation for its General Meeting of Shareholders in the year 2001.

The participants in the Shareholders' Communication Channel will continue to discuss further improvements to the system, also taking into account practical experience.

In a broader context, Philips is constantly striving to improve its contacts with the financial community at large.

Business Principles

The Philips General Business Principles were issued in February 1998. These govern the Company's business decisions and actions throughout the world, applying equally to corporate actions and to the behavior of individual employees when on company business. They incorporate the values on which all Philips activity is or should be based – business focus, integrity, speed, simplicity, quality, people and teamwork – and in almost all countries have been translated into the local language. The responsibility for compliance with the Principles rests first and foremost with the management of the business. In every country a Compliance Officer has been appointed, and the Philips Intranet provides information on how to contact the Compliance Officer. A corporate Review Committee supervises the practical implementation of the Principles; Corporate Internal Audit is responsible for auditing the compliance procedure. It is the intention of the Review Committee to issue additional guidelines where needed. In 1999 the Review Committee met six times, discussing, among other things, the further implementation of the Principles, the question of how to increase awareness, and reported violations.

▶ Environmental performance

With regard to eco-efficiency, management initiated a pragmatic approach in 1994 and defined measurable targets, laid down in four-year action programs. The present four-year program, running from 1998 until 2002, is called EcoVision, and 1999 is the second year that Philips will report in quantitative terms on its environmental progress on a worldwide scale by means of a dedicated Corporate Environmental Report.

Under the EcoVision program, Green Flagships, or 'green' star products, must be developed. These are defined as products with a better environmental performance than their predecessors or competitors in one or more of five Green Focal Areas. The provisional results for 1999 show that 34 Philips products were selected as Green Flagships, of which 15 have actually been marketed as such.

Of the manufacturing sites, 81% are certified and manage their activities in accordance with ISO 14001, the internationally accepted environmental standard. In 1998 this was at a level of 52%, in 1997 30%.

Compared with the reference year 1994, energy saving improved from 20% in 1997 to 23% in 1998 and 25% in 1999. Under the present four-year program Philips is also monitoring a number of other important parameters. The provisional data shows the following improvements compared with the reference year 1994: industrial waste – from a 28% saving in 1998 to 45% in 1999; and water consumption – from 34% in 1998 to 40% in 1999.

▶ Information technology

Two years ago initiatives were started to implement a new IT vision and strategy. In 1999, three projects resulting from these initiatives were successfully completed:

- A fully standardized state-of-the-art global communication network has been implemented. This common network consists of an international backbone, which interconnects country-based domestic networks. It is designed to meet the rapidly growing requirements of traffic volume, transmission speed, and quality of service demanded by Enterprise Resource Planning systems and e-commerce applications.
- A single company-wide e-mail, groupware and knowledge management infrastructure was made operational in 1999. It now serves 100,000 users across businesses and geographic regions around the globe.
- Hardware and software in the desktop environment have been standardized, leading to increased productivity, improved communication and lower costs. Further operational efficiency and cost reductions will be achieved by introducing common services that take advantage of the new communication infrastructure.

The options available for doing business electronically are proliferating rapidly. IT technology will be the enabler for Sales and Purchasing organizations to execute the e-commerce strategy for their business and to support their customer/vendor relations. Success depends on building solutions on the foundation of a robust, secure IT infrastructure. Corporate IT is partnering the product divisions in designing and supporting the implementation of a technical framework that will allow integration of the divisions' e-commerce activities.

▶ Human Resources Management

With its new Human Resources approach, Philips is deploying a clear, uniform and integrated approach to management recruitment and development. The first steps have already been taken: key managerial functions have been defined, and the current and potential top talent within the Company for these positions has been identified – some 6,500 people in all. They will now take part in the Leadership Competencies Program, a company-wide management development process geared to helping the most promising employees develop their managerial skills in line with Philips' needs as a global high-performance company.

In 1999, Philips conducted its third worldwide Employee Motivation Survey, which consulted 203,000 employees. Given that this was a voluntary survey, the 76% response rate was outstanding. The survey showed an average improvement of around 2%, which, given the scale of the survey, is a very significant shift. The Company continues to make progress, especially in important domains like performance orientation, financial awareness and cooperative working relationships; however, in other areas, such as immediate boss support, management support and quality, there is clear room for improvement. Accordingly, the latter are being addressed in the above-mentioned Leadership Competencies Program as well as the BEST program.

▶ Business Excellence policy

In July 1999, Philips launched its Business Excellence through Speed and Teamwork (BEST) program. BEST is intended to give renewed focus and impetus to the drive towards world-class performance in all processes along the business chain.

Under BEST, quality becomes a leadership issue driven by committed management.
With its emphasis on speed and teamwork, the program is a real driver for cultural change. Quality is no longer an isolated function, but crucial to how Philips manages its business and implements its strategies. For this reason, BEST is integrated in every business performance review cycle, providing measurement tools and focus through Business Balanced Scorecards.

The role of speed is recognized in BEST as the fundamental driver of business excellence. Regarding teamwork, many thousands of improvement teams are currently active throughout the Company. Quality improvement competitions in various businesses have given a structure to these activities, producing very substantial benefits not only for the Group's businesses and customers, but also in terms of recognition and the opportunities for personal growth and self-fulfillment they offer Philips' employees.

As a key new approach in BEST, headquarters and management audits support and reinforce the improvement process by providing cross-business exposure to leadership practice and by ensuring that headquarters clearly define their added value and focus on processes as well as results.

With BEST, Philips is striving for a level of excellence in performance that results in fully satisfied customers, loyal to its brand; employees operating to their full potential; suppliers working with us in a truly value-adding fashion; society perceiving Philips as really contributing to the quality of life; and, last but not least, shareholders gaining a premium return on their investment.

Outlook

We view the year 2000 with optimism. The economic development in the various regions of the world – except for Japan – is encouraging. The trend of improving earnings should continue, supported by positive signs across all our product divisions.

Capital expenditure will exceed depreciation charges as a result of investments in profitable growth; employment will stay at about the same level as at the end of 1999.

We will continue to reduce the cycle time of operating processes and improve teamwork in the organization supported by the BEST program. Our disciplined approach to improving operations, further tightening our business controls and enhancing value-based management will be maintained.

We remain committed to achieve double-digit earnings growth and positive cash flow each year, while closing in on our longer-term objective of 24% return on net assets.

Eindhoven, February 15, 2000

Board of Management
Group Management Committee

Board of Management

Cor Boonstra

Jan Hommen

Adri Baan

Arthur van der Poel

John Whybrow

Cor Boonstra *1938, Dutch*

President and Chairman of the Board of Management and the Group Management Committee

Member of the Board of Management and the Group Management Committee since June 1994; Chairman and President of the Company since October 1996

Jan Hommen *1943, Dutch*

Executive Vice-President and Chief Financial Officer

Member of the Board of Management and the Group Management Committee and Chief Financial Officer since March 1997

Adri Baan *1942, Dutch*

Executive Vice-President

Member of the Board of Management since May 1998; member of the Group Management Committee since May 1996

Chairman of the Consumer Electronics division since 1998

Arthur van der Poel *1948, Dutch*

Executive Vice-President

Member of the Board of Management since May 1998; member of the Group Management Committee since May 1996

Chairman of the Semiconductors division since 1996

John Whybrow *1947, British*

Executive Vice-President

Member of the Board of Management since May 1998; member of the Group Management Committee since April 1995

Chairman of the Lighting division since 1995

Group Management Committee

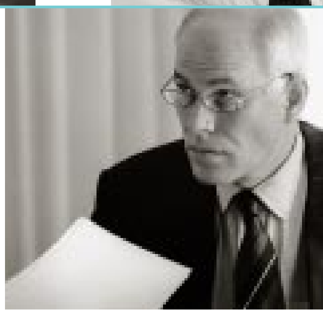
The Group Management Committee is composed of the Board of Management and the following senior officers:

Hans Barella

Ad Veenhof

Fred Bok

Jan Oosterveld



Nico Bruijel

Gerard Kleisterlee

Ad Huijser

Arie Westerlaken

Ad Veenhof *1945, Dutch*

Member of the Group Management Committee since January 1996 and Chairman of the Domestic Appliances and Personal Care division since 1996

Hans Barella *1943, Dutch*

Member of the Group Management Committee since March 1997 and Chairman of the Medical Systems division since 1997

Fred Bok *1940, Dutch*

Member of the Group Management Committee since April 1998 and Chairman of the Business Electronics division from 1998 to August 1,1999

Jan Oosterveld *1944, Dutch*

Member of the Group Management Committee since May 1998 and Senior Director of Corporate Strategy since 1997

Nico Bruijel *1945, Dutch*

Member of the Group Management Committee from July 1998 to January 1, 2000; responsible for Corporate Human Resource Management and, as of April 1999, the Regional Organizations

Gerard Kleisterlee *1946, Dutch*

Member of the Group Management Committee and Chairman of the Components division since January 1999

Arie Westerlaken *1946, Dutch*

Member of the Group Management Committee since May 1998, Secretary to the Board of Management since 1997 and Chief Legal Officer since 1996

Ad Huijser *1946, Dutch*

Member of the Group Management Committee since April 1999 and Head of Corporate Research since October 1998

Supervisory Board

L.C. van Wachem

C.J. Oort

W. de Kleuver

L. Schweitzer

W. Hilger

Sir Richard Greenbury

J-M. Hessels

L.C. van Wachem *1931, Dutch** ****

Chairman

Member of the Supervisory Board since 1993; second term expires in 2001

Former Chairman of the Committee of Managing Directors of the Royal Dutch/Shell Group and currently Chairman of the Supervisory Board of Royal Dutch Petroleum Company; also member of the Supervisory Boards of Akzo Nobel, BMW and Bayer, and member of the Board of Directors of IBM, Atco and Zürich Insurance

C.J. Oort *1928, Dutch**

Member of the Supervisory Board since 1995; reaches the statutory age limit in 2000

Former Treasurer General of the Dutch Ministry of Finance and currently Chairman of the Supervisory Boards of KLM Royal Dutch Airlines and the Robeco Group

W. de Kleuver *1936, Dutch* ****

Vice-Chairman and Secretary

Member of the Supervisory Board since 1998; first term expires in 2002

Former Executive Vice-President of Royal Philips Electronics

L. Schweitzer *1942, French*

Member of the Supervisory Board since 1997; first term expires in 2001

Chairman and Chief Executive Officer of Renault and member of the Boards of Pechiney, Banque Nationale de Paris and Electricité de France

W. Hilger *1929, German* ***

Member of the Supervisory Board since 1990; third term expires in 2001

Former Chairman of the Board of Management of Hoechst and currently member of the Supervisory Boards of Victoria Versicherung and Victoria Lebensversicherung

Sir Richard Greenbury *1936, British***

Member of the Supervisory Board since 1998; first term expires in 2002

Former Chairman and Chief Executive Officer of Marks & Spencer and former non-executive director of Lloyds TSB, British Gas, ICI and Zeneca

J-M. Hessels *1942, Dutch*

Member of the Supervisory Board since 1999; first term expires in 2003

Chief Executive Officer of Vendex KBB and member of the Supervisory Boards of Achmea, Amsterdam Exchanges, Barnes & Noble.com, Laurus, Schiphol Group and Royal Vopak

* Member of the Audit Committee

** Member of the Remuneration Committee

*** Member of the Nomination and Selection Committee

Report of the Supervisory Board

The Supervisory Board met seven times in the course of 1999. Except in matters regarding the composition of the Supervisory Board, the Board of Management and the Group Management Committee, the members of the Board of Management and/or the Group Management Committee were present at Board meetings to inform us on the course of business, important decisions and the strategy of the Philips Group. A number of important matters, such as the LG.Philips LCD Co. Ltd. joint venture and the acquisition of VLSI Technology, Inc., were discussed at length. A two-day meeting was devoted to strategy.

The Audit Committee met four times in the presence of the external auditor before the publication of the annual and quarterly results. On behalf of the Supervisory Board and in preparation for our decisions, this committee monitors the effectiveness of internal financial control systems and reviews internal audit programs and their findings. It also reviews the annual and quarterly figures and discusses the scale and scope of the annual audit by the external auditor. Important findings and identified risks are examined thoroughly so that appropriate measures can be taken.

The Remuneration Committee met four times. This committee is responsible for preparing resolutions regarding the remuneration of members of the Board of Management and the other members of the Group Management Committee.

In addition, it advises the Supervisory Board with regard to the policy to be pursued.

The Nomination and Selection Committee met four times, in particular to discuss the filling of vacancies in the Board of Management and/or the Group Management Committee.

► Composition of the Supervisory Board

At the General Meeting of Shareholders on March 25, 1999, Messrs A. Leysen and F.A. Maljers retired from the Supervisory Board, while Messrs C.J. Oort and J-M. Hessels were (re-)appointed with effect from the same date.

The Supervisory Board has appointed Mr L.C. van Wachem as its chairman as from March 25, 1999.

At the General Meeting of Shareholders on March 30, 2000, Mr C.J. Oort will retire from the Supervisory Board. Mr Oort joined the Supervisory Board in 1995 and has been Chairman of the Audit Committee. He reaches the statutory age limit this year. We wish to express our gratitude to Mr Oort for his contribution to the Company and wish him well for the future.

In agreement with the Meeting of Priority Shareholders we will propose at the General Meeting of Shareholders on March 30, 2000 to elect Mr K. van Miert to the Supervisory

Profile of the Supervisory Board
The Supervisory Board will aim for an adequate spread of knowledge and experience among its members in relation to the global and multi-product character of the business of the Company. Consequently, the Board will aim for an adequate level of experience in financial, economic, social and legal aspects of international business and government and public administration. The Supervisory Board further aims to have available adequate experience within Philips by having one or two former Philips executives on the Supervisory Board. In the case of vacancies the Supervisory Board will ensure that when such persons are recommended for appointment, these various qualifications are reflected sufficiently.

Term of appointment
Members of the Supervisory Board are appointed for a fixed term of four years. In principle, they may be re-elected for two additional terms of four years (for further information, see page 75 of the separate booklet entitled 'Financial Statements').

Board as from April 1, 2000. Mr van Miert (1942) served as a member of the European Commission for ten years, and was responsible for competition policy; he has extensive international experience.

Composition of the Board of Management / Group Management Committee

In the course of 1999, Messrs D.G. Eustace (April 1), Y.C. Lo (May 1) and R. Pieper (June 1) retired as members of the Board of Management and the Group Management Committee. We are most grateful to them for everything they did for the Company, especially Mr Eustace, who served as Chief Financial Officer in some difficult years. During 1999, Messrs M. Moakley (January 31) and K. Bulthuis (April 1) retired as members of the Group Management Committee. Mr N.J. Bruijel retired as a member of the Group Management Committee on January 1, 2000, and Mr F. Bok will do so on April 1, 2000. We wish to thank them for all their efforts on behalf of the Company.

In agreement with the Meeting of Priority Shareholders we will propose at the General Meeting of Shareholders to elect Mr G. Kleisterlee as a member of the Board of Management and Executive Vice-President of the Company as of April 1, 2000. With effect from the same date Messrs T. Hooghiemstra and G.J.M. Demuynck will be appointed as members of the Group Management Committee.

Financial statements

The financial statements of Koninklijke Philips Electronics N.V. for 1999, as presented by the Board of Management, have been audited by KPMG Accountants N.V., independent public auditors. Their report appears on page 70 of the separate booklet entitled 'Financial Statements'. We have approved these financial statements and recommend that you adopt them in accordance with the proposal of the Board of Management and likewise adopt the proposal to declare a dividend of EUR 1.20 per common share.

Eindhoven, February 15, 2000

The Supervisory Board

Selected Financial Information

Introduction

This Management Report and the separate booklet entitled 'Financial Statements' together comprise the full Annual Report 1999 of Royal Philips Electronics expressed in euros. Selected Financial Information is derived from the Philips Group's full annual financial statements including notes as reported in the separate booklet entitled 'Financial Statements'. That separate booklet also contains additional financial information and further statutory and other information. For a full understanding of the results of the Group and the state of affairs, both booklets should be consulted.

The following selected financial information should be read in conjunction with Management's Discussion and Analysis set out earlier in this Management Report.

Auditors' report

We have audited the accompanying 1999 selected financial information of Koninklijke Philips Electronics N.V. This information is derived from the 1999 financial statements of Koninklijke Philips Electronics N.V. as audited by us. We issued an unqualified auditors' report on those financial statements on February 15, 2000.

This selected financial information is the responsibility of the Company's management. Our responsibility is to express an opinion on this information based on our audit.

In our opinion this selected financial information corresponds in all material respects with the financial statements from which it is derived.

For a more comprehensive view of the financial position and results of the Company and the scope of our audit, the selected financial information should be read in conjunction with the full financial statements from which it is derived and the auditors' report we issued thereon.

Eindhoven, February 15, 2000
KPMG Accountants N.V.

Accounting policies

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

▶ Important dates

Annual General Meeting of Shareholders	March 30, 2000
First quarterly report 2000	April 20, 2000
Second quarterly report 2000	July 20, 2000
Third quarterly report 2000	October 19, 2000
Publication of 2000 results	February 8, 2001*
Publication of the Annual Report 2000	February 8, 2001*
Annual General Meeting of Shareholders	March 29, 2001*
First quarterly report 2001	April 19, 2001*
Second quarterly report 2001	July 19, 2001 *
Third quarterly report 2001	October 18, 2001 *

* These dates are subject to final confirmation.

▶ Payment of dividend

Shares of Koninklijke Philips Electronics N.V. ('Royal Philips Electronics') will be listed ex-dividend as of March 31, 2000. In compliance with the listing requirements of the New York Stock Exchange and the Amsterdam Exchanges, the record dates will be April 4, 2000 for holders of American shares of New York Registry, and March 30, 2000 for other Philips shares.

The dividend as proposed to the General Meeting of Shareholders will be payable as of April 19, 2000 to holders of American shares, and as of April 14, 2000 to holders of other Philips shares. The dividend to holders of American shares will be made in USD at the USD/EUR rate at the close of business of the Amsterdam Exchanges on March 29, 2000.