

KONINKLIJKE PHILIPS ELECTRONICS NV
Form 20-F
May 07, 2001

1

As filed with the Securities and Exchange Commission on May 7, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark one)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b)
OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2000
- OR
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2000
- OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 2-20193

KONINKLIJKE PHILIPS ELECTRONICS N.V.

(Exact name of Registrant as specified in charter)

THE NETHERLANDS

(Jurisdiction of incorporation or organization)

REMBRANDT TOWER, AMSTELPLEIN 1, 1096 HA AMSTERDAM, THE NETHERLANDS

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICE)

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

Title of each class	Name of each exchange on which registered
COMMON SHARES - PAR VALUE	NEW YORK STOCK EXCHANGE
EURO (EUR) 0.20 PER SHARE	

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

NONE

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

COMMON SHARES - PAR VALUE EURO (EUR) 0.20 PER SHARE

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

(Title of class)

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

Class	Outstanding at December 31, 2000
KONINKLIJKE PHILIPS ELECTRONICS N.V.	
Priority Shares par value EUR 500 per share	10 shares
Common Shares par value EUR 0.20 per share	1,283,894,733 shares

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

Yes	X	No
-----		-----

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17	Item 18
-----	X -----

Name and address of person authorized to receive notices and communications from the Securities and Exchange Commission:

RICHARD C. MORRISSEY
SULLIVAN & CROMWELL
ST. OLAVE'S HOUSE
9A IRONMONGER LANE
LONDON EC2V 8EY, UNITED KINGDOM

2

TABLE OF CONTENTS

	PAGE

INTRODUCTION	
Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS	3
Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE	3
Item 3. KEY INFORMATION	4
Item 4. INFORMATION ON THE COMPANY	10
Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS	17
Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	17
Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	19

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

Item 8. FINANCIAL INFORMATION	20
Item 9. THE OFFER AND LISTING	20
Item 10. ADDITIONAL INFORMATION	21
Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	22
Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	22
Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	22
Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	22
Item 17. FINANCIAL STATEMENTS	22
Item 18. FINANCIAL STATEMENTS	22
Item 19. EXHIBITS	23

2

3

In this report amounts are expressed in euros ("euros" or "EUR") or in US dollars ("dollars", "US \$" or "\$").

INTRODUCTION

In order to utilize the "Safe Harbor" provisions of the United States Private Securities Litigation Reform Act of 1995, Philips is providing the following cautionary statement. This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items. In particular, among other statements, certain statements in Item 4 "Information on the Company" with regard to management objectives, market trends, market standing, product volumes and business risks, the statements in Item 8 "Financial Information" relating to legal proceedings, the statements in Item 5 "Operating and Financial Review and Prospects" with regard to Management's medium term performance objectives over the next 3-5 years under the heading "outlook" and trends in results of operations, margins, overall market trends, risk management, exchange rates and Item 11 "Quantitative and Qualitative Disclosures about Market Risks" are forward-looking in nature. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, levels of consumer and business spending in major economies, changes in consumer tastes and preferences, the levels of marketing and promotional expenditures by Philips and its competitors, raw materials and employee costs, changes in future exchange and interest rates (in particular, changes in the euro and the US dollar can

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

materially affect results), changes in tax rates and future business combinations, acquisitions or dispositions and the rate of technological 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.

Specific portions of Philips' Annual Report 2000 to Shareholders are incorporated by reference in this report on Form 20-F to the extent noted herein. Philips' Annual Report for 2000 comprises 2 separate booklets entitled "Management Report" and "Financial Statements". Philips' First Quarterly Report 2001 is also incorporated herein by reference in this report on Form 20-F.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

3

4

ITEM 3. KEY INFORMATION

SELECTED FINANCIAL DATA

I. IN ACCORDANCE WITH DUTCH GAAP * **

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.

Certain reclassifications have been made to conform prior-year's data to the current presentation.

2000 (a) US \$		2000 (b) EUR	(Millions, except per sha 1999 (b) EUR	1998 (b) EUR
<hr/>				
	INCOME STATEMENT DATA:			
35,253	Sales	37,862	31,459	30,459
3,986	Income from operations	4,281	1,751	685
1,851	Financial income and expenses-net	1,988	32	(312)
8,940	Income from continuing operations	9,602	1,804	541
-	Extraordinary (expenses) income	-	(5)	458
-	Discontinued operations	-	-	5,054
8,940	Net income (loss)	9,602	1,799	6,053
	WEIGHTED AVERAGE NUMBER OF SHARES (IN THOUSANDS)			
1,312,859		1,312,859	1,378,041	1,440,224

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

(2000: EUR 0.20 par value; 1999: EUR 1 par value; 1996 up to and including 1998: NLG 10 par value):

BASIC EARNINGS PER COMMON				
SHARE (c)				
6.81	Income from continuing operations	7.31	1.31	0.38
6.81	Net income (loss)	7.31	1.31	4.20
DILUTED EARNINGS PER COMMON				
SHARE (c) (d)				
6.74	Income from continuing operations	7.24	1.30	0.37
6.74	Net income (loss)	7.24	1.30	4.17
BALANCE SHEET DATA:				
517	Working capital	555	1,124	1,170
35,885	Total assets	38,541	29,784	28,153
1,623	Short-term debt	1,743	577	801
2,127	Long-term debt	2,284	2,737	2,786
902	Short-term provisions (e)	969	1,056	966
2,348	Long-term provisions (e)	2,522	2,062	2,019
437	Minority interests	469	333	242
20,238	Stockholders' equity (net assets)	21,736	14,757	14,560
245	Capital stock	263	339	1,672
CASH FLOW DATA:				
Net cash provided by operating				
2,789	Activities	2,996	1,913	2,140
551	Cash flow before financing activities	592	(1,921)	699
Net cash (used for) provided by				
(1,897)	Financing activities	(2,038)	(2,606)	(814)
Cash (used for) provided by				
(1,346)	continuing operations	(1,446)	(4,527)	(115)

4

5

I. IN ACCORDANCE WITH DUTCH GAAP (continued) * **

	2000	1999	1998

KEY RATIOS:			
Income from operations:			
- as a % of sales	11.3	5.6	2.2
- as a % of net operating capital (RONA)	35.7	17.5	6.5
Turnover rate of net operating capital	3.16	3.14	2.91
Inventories as a % of sales	13.9	14.5	14.0
Outstanding trade receivables (in months' sales)	1.5	1.4	1.3
Income from continuing operations:			

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

- as a % of stockholders' equity (ROE)	53.5	12.6	5.1
Net debt to group equity ratio	12:88	6:94	(f)

DEFINITIONS:

Working capital	:	Current assets excluding cash and cash equivalents and securities less current liabilities
Net operating capital	:	Intangible assets (excluding goodwill unconsolidated companies), property, plant and equipment, non-current receivables and current assets excluding cash and cash equivalents, securities and deferred tax positions, after deduction of provisions and other liabilities
RONA	:	Income from operations as a % of average net operating capital
ROE	:	Income from continuing operations as a % of average stockholders' equity
Net debt	:	Long-term and short-term debt net of cash and cash equivalents
Average number of outstanding shares	:	Weighted average number of outstanding common shares based on monthly positions during the reporting year

- (a) For the convenience of the reader, the euro amounts have been converted into US dollars at the exchange rate used for balance sheet purposes at December 31, 2000 (US \$ 1 = EUR 1.074).
- (b) Income from continuing operations in these years were impacted by a number of significant one-time gains/losses. Excluding these incidental items, income from continuing operations in 2000 totaled EUR 2,564 million (1999: EUR 1,557 million, 1998: EUR 916 million) or EUR 1.95 per common share (1999: EUR 1.13, 1998: EUR 0.64). Reference is made to page 45 ("Income from continuing operations excluding one-time gains") of the 2000 Annual Report -Management Report.
- (c) Previously reported figures restated for 4-for-1 stock split.
- (d) See Note 9 of "Notes to the Consolidated Financial Statements" on page 33 of the 2000 Annual Report -Financial Statements- incorporated herein by reference for a discussion of net income (loss) per common share on a diluted basis.
- (e) Includes provision for pensions, severance payments, restructurings and taxes among other items; see Note 18 of "Notes to the Consolidated Financial Statements" on page 38 of the 2000 Annual Report -Financial Statements- incorporated herein by reference.
- (f) Not meaningful: net cash in 1998 exceeded the debt level.
- * 1997 and prior years have been restated to reflect the sale of PolyGram N.V. in 1998 and to present the Philips Group accounts on a continuing basis.
- ** The consolidated financial data have been prepared in euros. Amounts

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

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).

5

6

II. APPROXIMATE AMOUNTS IN ACCORDANCE WITH US GAAP * (a)

(See Note 28 of "Notes to Consolidated Financial Statements" on pages 54 through 58 of the 2000 Annual Report -Financial Statements- incorporated herein by reference.)

2000 (b) US \$		2000 EUR	1999 EUR	1998 EUR
		(Millions, except		

INCOME STATEMENT DATA:				
8,917	Income (loss) from continuing operations	9,577	1,595	1,025
-	Discontinued operations	-	-	4,891
-	Extraordinary items, net	-	(5)	(16)
79	Cumulative effect of a change in accounting for derivative instruments and hedging activities, net	85	-	-
8,996	Net income (loss) in accordance with US GAAP	9,662	1,590	5,900
BASIC EARNINGS PER COMMON SHARE (2000: EUR 0.20 par value; 1999: EUR 1 par value; 1996 up to and including 1998 NLG 10 par value):				
6.80	Income (loss) from continuing operations	7.30	1.16	0.71
6.85	Net income (loss)	7.36	1.15	4.10
DILUTED EARNINGS PER COMMON SHARE:				
6.72	Income (loss) from continuing operations	7.22	1.15	0.70
6.78	Net income (loss)	7.28	1.15	4.06
BALANCE SHEET DATA:				
21,142	Stockholders' equity	22,707	16,708	14,456
36,801	Total assets	39,524	31,385	28,009

(a) Under US GAAP, divestitures which cannot be regarded as discontinued segments of businesses must be included in income from continuing operations. Under Dutch GAAP, prior to 1999, certain material transactions such as disposals of lines of activities, including closures of substantial production facilities or substantial results from disposals of interests in unconsolidated companies, were accounted for as extraordinary items, whereas under US GAAP these would have been recorded in income from operations.

(b) For the convenience of the reader, the euro amounts have been converted into US dollars at the exchange rate used for balance sheet purposes at December 31, 2000 (US \$ 1 = EUR 1.074).

* The consolidated financial data 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).

6

7

III. CASH DIVIDENDS AND DISTRIBUTIONS PAID PER COMMON SHARE

The following table sets forth in euros the gross dividends paid on the Common Shares in the financial years indicated (from prior-year profit distribution) and such amounts as converted into US dollars and paid to holders of Shares of New York Registry (all amounts after the 4-for-1 stock split):

	2000	1999	1998	1997	1996
- In EUR	0.30	0.25	0.23	0.18	0.18
- In US \$	0.29	0.27	0.24	0.21	0.24

The adoption of the dividend proposal by the General Meeting of Shareholders on March 29, 2001, resulted in a total dividend payment in the year 2001 of EUR 462 million (EUR 0.36 per Common Share).

The dollar equivalent (US \$ 0.32) of the 2000 profit distribution of EUR 0.36 - approved by the Annual General Meeting of Shareholders on March 29, 2001 - paid to shareholders in the year 2001, was calculated at the euro/dollar rate of the official Amsterdam daily fixing rate (transfer rate) on the date fixed and announced for that purpose by the Company. The dollar equivalents of the prior year profit distributions paid to shareholders have been calculated at the euro/dollar rate of the official Amsterdam daily fixing rate (transfer rate) on the date fixed and announced for that purpose by the Company.

IV. EXCHANGE RATES US \$: EUR

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

The following two tables set forth, for the periods and dates

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

indicated, certain information concerning the exchange rate for US dollars into euros based on the Noon Buying Rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate"). The years prior to 1999 have been converted into euros using the irrevocably fixed conversion rate which became effective on January 1, 1999 (EUR 1 = NLG 2.20371):

Calendar period	Period End	Average (1)	High	Low

(EUR per US \$ 1)				

1996	0.7837	0.7634	0.7968	0.72
1997	0.9202	0.8887	0.9610	0.78
1998	0.8517	0.8996	0.9479	0.82
1999	0.9930	0.9455	0.9984	0.84
2000	1.0652	1.0881	1.2092	0.96
2001 (through April 17)	1.1346	1.1072	1.1371	1.04

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

	Highest rate	Lowest rate

October 2000	1.2089	1.1399
November 2000	1.1933	1.1456
December 2000	1.1403	1.0608
January 2001	1.0883	1.0484
February 2001	1.1063	1.0622
March 2001	1.1406	1.0715
April 2001 (through April 17)	1.1346	1.1072

May 3, 2001 = 1.1247

IV. EXCHANGE RATES US \$: EUR (continued)

Philips publishes its financial statements in euros while a substantial portion of its assets, earnings and sales are denominated in other currencies.

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

Philips conducts its business in more than 50 different currencies.

Unless otherwise stated, for the convenience of the reader the translations of euros into dollars appearing in this report have been made based on the balance sheet rate on December 31, 2000 (US \$ 1 = EUR 1.074). This rate is not materially different from the Noon Buying Rate on such date (US \$ 1 = EUR 1.065).

The following table sets out the exchange rate for US dollars into euros applicable for translation of Philips' financial statements for the periods specified.

	2000	1999	1998	1997	1996
- Rate at December 31, (as reported)	1.0740	0.9914	0.8576	0.9166	0.7850
- Average rate (a)	1.0858	0.9392	0.8985	0.8849	0.7650
- Highest rate	1.2089	0.9987	0.9484	0.9620	0.7950
- Lowest rate	0.9675	0.8460	0.8213	0.7850	0.7350

(a) The average rates are the accumulated average rates based on daily quotations.

RISK FACTORS

This section describes some of the risks that could affect Philips' businesses. The factors below should be considered in connection with any forward-looking statements in Philips' 20-F Report and the cautionary statements contained in "Introduction" on page 3. Forward-looking statements can be identified generally as those containing words such as "anticipates", "assumes", "believes", "estimates", "expects", "should", "will", "will likely result", "forecast", "outlook", "projects" or similar expressions. From time to time, Philips may also provide oral or written forward-looking statements in other materials Philips releases to the public.

The risks below are not the only ones that Philips faces - some risks are not yet known to Philips and some that Philips does not currently believe to be material could later turn out to be material. All of these risks could materially affect Philips' business, its revenues, operating income, net income, net assets and liquidity and capital resources.

Philips is a global company, which means that it is affected by economic developments in all regions of the world.

PHILIPS' STRATEGY CALLS FOR ACQUISITIONS IN A NUMBER OF ITS CORE BUSINESSES AND, THEREFORE, PHILIPS FACES THE RISKS AND UNCERTAINTIES TYPICAL OF ACQUISITIONS.

Philips has identified and is implementing a strategy that is designed to make Philips a world leader (i.e. among the top three competitors) in each of its businesses. Philips will continue to implement this strategy through acquisitions, as well as through internal growth. Accordingly, Philips' growth strategy depends to a large degree on the availability of suitable acquisition candidates, on the obtaining of regulatory approval and on Philips' skills in assimilating them into the group structure. Potential difficulties inherent in merges and acquisitions, such as delays in implementation or unexpected costs or liabilities, as well as the risk of not realising operating benefits or

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

synergies from completed transactions, may adversely affect Philips' results.

PHILIPS' SUCCESS DEPENDS UPON RECRUITING AND RETAINING KEY PERSONNEL.

Growth areas like Semiconductors and Components require talented people with specific technical key competencies for the realization of their plans. The ability to recruit and retain quality staff, for which there is an increasing demand in the market, is a critical success factor.

PHILIPS FACES STRONG COMPETITION IN MOST OF ITS BUSINESSES. IN PARTICULAR, THE CONSUMER ELECTRONICS INDUSTRY IS PRONE TO VIGOROUS PRICE DRIVEN COMPETITION DURING PERIODS OF DEPRESSED DEMAND. THIS COMPETITION CAN SOMETIMES PUSH PRICES TO UNPROFITABLE LEVELS, WHICH COULD AFFECT PHILIPS' FINANCIAL RESULTS.

Most businesses in which Philips is engaged, including consumer electronics, broadband networks and electronic components, are intensely competitive. Accordingly, Philips continually faces challenges from its competitors, including rapid technological change, evolving standards, short product life cycles and price erosion. In particular, the production of electronic components for televisions and other audiovisual products carries high fixed costs which do not vary with output levels. In other words, these production costs do not decrease when the number of units produced decreases. As a result, most component makers must maintain a minimum sales volume to cover their fixed costs. When demand for their products falls, component makers often try to boost sales volume by lowering prices so that they can continue to cover their fixed costs. When many producers resort to such tactics, prices tend to fall. This tendency is encouraged during economically depressed periods as consumer will tend to be more price sensitive. Price driven competition will result in reduction of profit margins and, in some cases, losses.

8

9

RISK FACTORS (continued)

PRODUCTS IN THE SEMICONDUCTOR INDUSTRY ARE TYPICALLY SUBJECT TO CYCLICAL MARKET FORCES WHICH MAY ADVERSELY AFFECT FUTURE RESULTS OF OPERATIONS IN PHILIPS' BUSINESS UNIT SEMICONDUCTORS.

The semiconductor industry is highly cyclical and subject to rapid technological change and has been subject to significant economic downturns at various times, characterized by diminished product demand, accelerated erosion of average selling prices and production overcapacity. Likewise, the semiconductor industry also periodically experiences increased demand and production capacity constraints. As a result, Philips' Semiconductors may experience substantial period-to-period fluctuations in future results of operations due to general industry conditions, overall economic conditions or other factors.

IF PHILIPS FAILS TO PROTECT ITS PROPRIETARY INTELLECTUAL PROPERTY OR FACES A CLAIM OF INTELLECTUAL PROPERTY INFRINGEMENT BY A THIRD PARTY, PHILIPS MAY LOSE ITS INTELLECTUAL PROPERTY RIGHTS AND BE LIABLE FOR SIGNIFICANT DAMAGES.

Philips' success depends on its ability to obtain and retain patents, license and other intellectual property rights covering its products and its design and manufacturing processes. The process of seeking intellectual property

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

protection can be long and expensive. Patents may not be granted on currently pending or future applications or may not be of sufficient scope or strength to provide Philips with meaningful protection or commercial advantage. In addition, effective copyright and trade secret protection may be unavailable or limited in some countries, and Philips' trade secrets may be vulnerable to disclosure or misappropriation by employees, contractors and others.

Competitors and other third parties may also develop technologies that are protected by patents and other intellectual property rights. These technologies may therefore either be unavailable to Philips or be made available to Philips only on unfavorable terms and conditions. Litigation, which could drain Philips financial and management resources, may be necessary to enforce Philips' patents or other intellectual property rights or to defend against claims of infringement of intellectual property rights brought against Philips by third parties.

CURRENCY FLUCTUATIONS MAY HAVE A HARMFUL IMPACT ON PHILIPS' FINANCIAL RESULTS.

Philips has a structural currency mismatch between costs and revenues, as a substantial proportion of its production, administration and research and development costs is denominated in euro, while a substantial proportion of its revenues is denominated in US dollars. Consequently, fluctuations in the US dollar against the euro can have a material impact on Philips' financial results. In particular, a relatively stronger US dollar during any reporting period will improve Philips income, while a weaker US dollar will worsen it.

PHILIPS MAY NOT BE ABLE TO INTRODUCE NEW PRODUCTS OR MAKE INNOVATIONS TO PHILIPS' EXISTING PRODUCTS QUICKLY ENOUGH TO RESPOND TO TECHNOLOGICAL CHANGES OR EVOLVING STANDARDS IN PHILIPS' CORE BUSINESSES. FAILURE TO DO SO WOULD CAUSE PHILIPS' COMPETITIVENESS AND RESULTS OF OPERATIONS TO SUFFER.

Some of Philips' core businesses are concentrated in industries where technological innovation is the key competitive factor. Product innovations, technological advancements and improved products in Philips' business segments, such as consumer electronics, semiconductors, medical systems and components, may render some of its current products obsolete and/or cause them to suffer from significant reductions in value. As a result, Philips may experience a significant adverse impact on the value of its inventory, products and existing technology and may have difficulty selling these products, which would harm its results of operations.

In addition, Philips continually faces the challenge to develop and create viable innovative new products. The ability to introduce product innovations is particularly difficult because commitments to developing new products, or upgrading existing products, must be made well in advance of sales. Philips must therefore anticipate both future demand and technology that will be available to supply this demand. If Philips is unable to do so, Philips will not be able to compete in new market or product sectors and would be reliant on older, less-marketable products and technology. This could adversely affect Philips' financial results and growth prospects in its building block businesses.

THE POSSIBLE BENEFITS AVAILABLE THROUGH JOINT VENTURES MAY BE DIFFICULT TO ACHIEVE OR MAY PROVE TO BE LESS VALUABLE THAN PHILIPS HAD ESTIMATED. IN ADDITION, PHILIPS MAY FACE PROBLEMS RELATED TO CONFLICTS OF INTERESTS, LOSS OF CONTROL OVER CASH FLOWS AND LOSS OF PROPRIETARY TECHNOLOGIES BY PARTICIPATING IN JOINT VENTURES.

In areas with major technological investments, like Semiconductors, Components and Consumer Communications, Philips continues to build on partnerships to share the high financial risks. Management of this growing

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

number of strategic alliances is a risk area in itself.

9

10

ITEM 4. INFORMATION ON THE COMPANY

THE STRUCTURE OF THE PHILIPS GROUP

The following information is important for understanding the structure of the Philips group ("Philips" or the "Group").

Koninklijke Philips Electronics N.V. (the "Company" or "Royal Philips Electronics") is the parent company of Philips. Its shares are listed on the stock markets of Euronext Amsterdam, the New York Stock Exchange, the London Stock Exchange and several other stock exchanges. The Company was incorporated as a limited partnership with the name Philips & Co under the laws of the Netherlands on May 15, 1891. This limited partnership was converted to the limited liability company N.V. Philips' Gloeilampenfabrieken on September 11, 1912. On May 6, 1994, the name was changed to Philips Electronics N.V., and on April 1, 1998 the name was changed to Koninklijke Philips Electronics N.V. The management of the Company is entrusted to the Board of Management under the supervision of the Supervisory Board. The Group Management Committee, consisting of the members of the Board of Management, certain chairmen of product divisions and certain key officers, is the highest consultative body to ensure that business issues and practices are shared across Philips and to define and implement common policies. Members of the Board of Management and the Supervisory Board are appointed by the Annual General Meeting of Shareholders on the recommendation of the Supervisory Board and the Meeting of Priority Shareholders. See Item 7: "Major Shareholders and Related Party Transactions". The other members of the Group Management Committee are appointed by the Supervisory Board. The general management of Philips' worldwide operations has been historically centered in Eindhoven, the Netherlands. However, in the first half of 1998 the Board of Management moved to Amsterdam, the Netherlands. The activities of the Philips group are organized in product divisions, which are responsible for the worldwide business policy. Philips has more than 180 production sites in over 35 countries and sales and service outlets in approximately 150 countries. Philips, a high growth technology company, delivers products, systems and services in the fields of lighting, consumer electronics, domestic appliances and personal care, components, semiconductors and medical systems.

Since 1996, Philips has made significant progress in a strategic review of its portfolio of businesses. It has reduced the number of businesses to approximately 80 and the number of divisions from 12 to 6, bringing more transparency, accountability and focus to its operations. At present, Philips is focusing on strengthening its existing core businesses, through selected acquisitions, and through disposal of businesses that are underperforming or not essential from a strategic viewpoint.

Royal Philips Electronics has its corporate seat in Eindhoven, the Netherlands and is registered under number 17001910 at the Commercial Register of the Chamber of Commerce and Industry in Eindhoven, the Netherlands. The executive offices of the Company are located at the Rembrandt Tower, Amstelplein 1, 1096 HA Amsterdam, the Netherlands, telephone 31 (0)20 59 77 777.

BUSINESS OF PHILIPS

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

Since it started its activities in 1891, Philips has grown from a small incandescent lamp factory to a widely diversified multinational group of companies, engaged primarily in the manufacture and distribution of electronic and electrical products, systems and equipment, as well as information technology services.

In the last five years, Philips was engaged in a continuing process of reviewing its portfolio of businesses, which started in the course of 1996, comprising more than 100 businesses at that time. At present, rather than acquiring businesses in new areas, Philips is focusing on the strengthening of its existing core activities, including through the use of selected acquisitions, and the disposal of activities that are under-performing and not essential from a strategic viewpoint. A few examples of these disposals are the sale of Philips' 75% equity interest in PolyGram N.V., the disposition of Philips' conventional (non-ceramic) Passive Components business group, the divestment of the Advanced Ceramics & Modules and General System Components business groups, the sale of Philips Car Systems, the reduction of Philips' involvement in the German consumer electronics company Grundig AG, the streamlining of Philips' media portfolio, the divestiture of the data communication activities (for a further description see "Product Sectors and Principal Products"), and the merger of Origin with Atos, see pages 18 through 21 of the 2000 Annual Report -Financial Statements, which are incorporated by reference herein.

In addition to streamlining its portfolio of businesses and management, Philips engaged in a comprehensive review of its strategy and portfolio, involving the focus on high growth technology businesses. In consequence, as of January 1, 2000, Philips has grouped together the relevant operations of Sound & Vision, Philips Consumer Communications and Business Electronics into a single Consumer Electronics organization. Given that the technologies of TV, audio, telecommunications and computing are increasingly converging, these combinations are appropriate. It is expected that they will capitalize on the strength of the Philips brand and make new business generation easier, market intelligence more coordinated and time-to-market shorter.

Besides Consumer Electronics, there are other very important building blocks that make up the Company. The Semiconductors and Components divisions play a crucial role, both as internal suppliers and through their leading positions in the external market. The capital expenditures required in this field place considerable demands on management in terms of ensuring adequate returns by means of flexible and cost-effective operations.

10

11

BUSINESS OF PHILIPS (continued)

The other building blocks include the Lighting division, a world leader with relatively consistent returns and cash flow in which Philips will continue to invest, Medical Systems and Domestic Appliances and Personal Care. The Company has recently invested in the extension of Medical Systems' business scope. In the case of Domestic Appliances and Personal Care, Philips wishes to see this division grow in the personal care field by offering new functionalities and an enhanced emotional appeal to the consumer. The acquisition of Optiva Corporation on October 1, 2000 was in pursuit of this strategy.

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

In the area of information technology services, Philips has merged its Origin activities in a new company Atos Origin as of the first of October 2000.

Philips encounters aggressive and able competition worldwide in virtually all of Philips' business activities. Competitors range from some of the world's largest companies offering a full range of products to small firms specializing in certain segments of the market. In many instances, the competitive climate is characterized by rapidly changing technology that requires continuing research and development commitments and by capital-intensive needs to meet customer requirements. Also, the competitive landscape is changing as a result of increased alliances between competitors.

RECENT DEVELOPMENTS

AGILENT

The European Commission has approved the takeover by Philips of the healthcare division of Agilent Technologies. The transaction was expected to be completed in May 2001. See also page 20 of the 2000 Annual Report -Financial Statements (Agilent).

PRODUCT SECTORS AND PRINCIPAL PRODUCTS

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

For a description of the changes, and data related to aggregate sales, segment revenues and income from operations, see Note 29: "Information relating to product sectors and geographic areas" on pages 58 through 63 of the 2000 Annual Report, Financial Statements, and page 63 of the Management Report, incorporated herein by reference. For a discussion of revenues and income from operations of the product sectors, see Item 5: "Operating and Financial Review and Prospects". For a discussion of recent acquisitions and alliances, see also "Cooperative Business Activities and Unconsolidated Companies" under Item 4.

LIGHTING

Philips has been engaged in the lighting business since 1891 and is a leader in the world market for lighting products with recognized expertise in the development and manufacture of lighting products. A wide variety of applications is served by a full range of incandescent and halogen lamps, compact and normal fluorescent lamps, automotive lamps, high-intensity gas-discharge and special lamps, QL induction lamps, fixtures, ballasts, lighting electronics and batteries. Lighting products are manufactured in facilities worldwide.

Philips' worldwide presence in the lighting market has given it a strong international position in lighting projects, both in design and full-scale turn key project installation. These activities require sophisticated expertise and help Philips to maintain its leading position in the professional lighting market.

Philips Lighting worldwide consists of five integrally responsible businesses: Lamps, Luminaires, Automotive, Lighting Electronics & Gear, and Batteries. Each of these is given complete control over all its processes. Philips Lighting is focusing more on Special Lighting (which includes applications such as digital data projection, stage and theatre, infrared for

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

industrial use, and ultraviolet for solarium and air/water disinfection) to exploit the opportunities it offers for growth. Due to the OEM (Original Equipment Manufacturer) and innovation character of this business, it has been combined with Automotive.

Philips' Lighting's policy of leadership in innovation continues to bring rewards in the marketplace. Philips is the market leader in Xenon headlamps, which were introduced in 1997 and are achieving increasing penetration in the upper end of the market. Providing superb illumination of the road, these lamps dramatically improve road safety and driver comfort.

Philips' position as a supplier of headlights to the car industry is very strong in Japan, where Philips is the market leader, and Philips is rapidly establishing a full global presence in this field. Another innovation is the UHP (Ultra High Power) lamp which is applied in LCD projectors of leading companies for applications such as business presentations and large-screen consumer TVs. UHP will also increase the application possibilities of fiber-optic lighting. Philips Lighting's new PowerLife battery gives more power and longer life than conventional alkaline batteries. Advanced graphite technology is the key to PowerLife's success in answering consumer demand for batteries which perform better in "high-drain" products.

11

12

PRODUCT SECTORS AND PRINCIPAL PRODUCTS (continued)

The battery marketing and sales activities of Philips will be transferred (Mid 2001) from Lighting to Consumer Electronics.

In response to the greater demand for more efficient light sources and lighting systems, Philips has emphasized among other things the development of more energy-efficient lighting products and projects. In addition to the TL5 system, these include a range of electronic compact fluorescent lamps, Lighting Management Systems, as well as QL induction lamps, which are increasingly being used in general lighting applications. In the US, consumer demand for longer-lasting light bulbs has been met for the first time with a five-year, or 6000 hour, guarantee on the Philips Marathon TM compact fluorescent lamp range.

In recent years Philips Lighting has completed a number of strategic acquisitions and joint ventures, seeking to strengthen its presence in what have been the faster-growing areas of the world, such as the Asia-Pacific region and Eastern Europe. The most recent acquisitions include, in Poland, the Farel Mazury luminaire operation and Polam Pabianice, which promises new opportunities for Philips Lighting's automotive business in Europe. In 1997, Philips and Hewlett-Packard established a joint venture company, LumiLeds Lighting B.V., for the development, manufacture and marketing of LED-based lighting products. This joint venture (now with Agilent Technologies, formerly part of HP) was significantly extended in 1999. As part of its re-branding project, BP has awarded LumiLeds a global contract to supply ChipStrip edge-lighting systems for over 20,000 of its service stations. In the lighting controls business, growth is boosted by the acquisition of ECS, the UK market leader. In the year 2000, a stake was acquired in Metrolight, an Israeli company with a leading position in HID (High Intensity Discharge) ballasts.

Besides the ongoing investments in portfolio and product innovation, Philips Lighting focuses on innovative ways of doing business. In the field of

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

e-business, they concentrated initially on commercial sell-side activities. In particular: information delivery/exchange (public websites, CD-ROM catalogues and interactive training material); online communities (interaction with end-users and influencers); and extranet order management with trading partners. As of December 31, 2000, they are increasingly pursuing buy-side activities (through exchange and buy-side e-marketplaces), where great opportunities exist to drive costs out of the organization and the full value chain.

Regarding the management and improvement of key processes, Philips Lighting has been building on the significant progress made over the past two years in BEST (Business Excellence through Speed and Teamwork). In its drive for breakthrough improvement, especially cycle time reduction, Philips Lighting is mobilizing trained process improvement experts who apply, and facilitate others in the use of, leading-edge improvement tools and methodologies.

CONSUMER ELECTRONICS

This segment markets a wide range of products in the following areas: video products (consumer TV, institutional TV, VCR, TV-VCR, DVD Video), audio products (audio systems, portable products, speaker systems, DVD recording), computer monitors (CRT and LCD based), consumer communications (mobile phones, cordless digital phones, fax), remote control systems, set top boxes, broadband networks, business communications systems and speech processing. This wide range of products is grouped into Mainstream Consumer Electronics (audio/video, monitors), Consumer Communications (phones, faxes), Digital Networks (set-top boxes, broadband networks) and Specialty Products (speaker systems, accessories, institutional TV).

In the course of 2001 a number of the activities listed under Specialty Products will be repositioned in other Philips business segments.

As the world number 3 consumer electronics company, Philips enjoys a leading market position in many Mainstream CE product categories such as television and video, audio, DVD, and PC monitors. Philips plays a leading role in the development of flatscreen and widescreen television sets featuring the 16:9 format and remains at the forefront of trends in the TV viewing experience. They continue to maintain a world-renowned reputation for excellence in TV, a fact emphasized by its flagship 32-inch Widescreen TV being named European TV of the Year 2000-2001 by the European Imaging and Sound Association. The application of high-end display technologies and award-winning digital performance enhancements enabled to combine attractive design with the best available picture and sound quality.

As Philips' televisions set the benchmark for TV viewing, its PC monitors share Philips' display-centric strengths. For both professional and leisure use, Philips monitors deliver sharp, bright images, and with the growth of PC-delivered imaging and video, new technologies provide the sharpest reproduction of still and moving images available today on a PC monitor.

Seizing the opportunities offered by the Internet is an integral part of Philips' product strategy. They have introduced a range of web-enabled products including an MP3 player and a family of audio products capable of playing back high-capacity CDs containing MP3 files. Their PC peripherals group has also created a range of award-winning web-enabled PC video cameras.

Philips markets audio systems, portable audio products, speakers and accessories under the Philips name, as well as high-end audio products and systems under the Marantz brand. Philips was one of the 'founding fathers' of CD technology. Building on its strengths in cross-compatible optical storage technologies such as CD and DVD, they are developing the next-generation audio disc - Super Audio CD.

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

Printed Circuits Board Assembly is a separate business cluster within Consumer Electronics. As a contract manufacturer, it focuses on manufacturing, assembling and supplying printed circuit boards and related added-value services to Philips businesses, enabling them to concentrate on their own core competencies. This business allows Philips to gain economies of scale and to leverage its position in the supply chain.

Digital Networks is a leading supplier in digital broadcasting systems and set-top boxes for digital television, Internet TV and personal TV. These TV-top products are rapidly evolving into multimedia home gateways, and Digital Networks is in the vanguard of technology advances that will transform the set-top boxes of today into the intelligent multimedia entertainment products of tomorrow.

12

13

PRODUCT SECTORS AND PRINCIPAL PRODUCTS (continued)

Digital Networks also focuses on enabling technologies in the areas of secure networked entertainment, developing and producing software and systems that enable digital broadcasting and Internet distribution of audio, visual and other digital content. They also intend to lead the convergence of broadcast and Internet, positioning Philips prominently in the enabling technologies that will facilitate new forms of home entertainment, information and communication.

In 2000, Digital Networks strengthened its global position in set-top boxes, in the process concluding major deals with, among others, Canal+ (Europe-wide), DirecTV (USA), AOL TV (USA), News Corp (Latin America), Premiere World (Germany), UPC (Netherlands) and DigiTurk (Turkey).

The year 2000 also saw the first products in areas like MPEG4-based internet video, secure Internet streaming and video watermarking. Furthermore, an agreement was signed with AT&T to supply, as from 2001, Philips TriMedia based high-end cable boxes supporting MPEG4 (Motion Picture Expert Group) video streaming, HAVi (Home Audio Video interoperability) home networking and hard-disk-based personal TV.

Digital Networks has also developed set-top box software for the MHP (Multimedia Home Platform) enhanced broadcast standard. In September 2000, an agreement was signed with Liberate, a leading supplier of set-top box software, to incorporate the Philips MHP software in the Liberate offering.

Philips Consumer Communications (PCC) groups together the wireless, wired, fax and business communication activities, offering a comprehensive product portfolio including cellular phones, digital cordless phones and fax machines, as well as enterprise telephone systems

On October 1, 1997 Philips (60%) and Lucent Technologies (40%) formed a joint venture for mobile communications comprising the Philips Consumer Communications business and the Lucent Consumer Products division. Despite ambitious plans for break-even results in the second half of 1998, PCC continued to incur substantial losses and consequently the joint venture was dissolved on September 27, 1998. Ambitions for the remaining activities have been scaled back and the product offering streamlined.

PCC aims to play a leading role in the explosive market growth of

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

wireless communications. This will be achieved by building on its technology base in wireless communications and related areas within the Philips Group, and by building on Philips' expertise in the convergence of communications and consumer electronics. PCC's ambitions are to expand its worldwide GSM market position, while actively preparing for the next generation of digital mobile phones based on UMTS, which will provide consumers voice, data and multimedia service.

PCC's growth ambitions and the entry into the Mobile Internet age require an active partnering model. Since 1999, PCC has embarked on numerous partnerships with innovative players such as Phone.com for WAP browser technology, AU systems for Bluetooth software technology, and M@gic4 for enhanced messaging systems. Other partnerships are envisaged to strengthen PCC's position in the wireless domain and in the entertainment-related area.

In the home telephone market, PCC focuses on the digital cordless standard DECT and aims to consolidate its European No. 2 position. In 2000 PCC expanded its product portfolio and introduced the award-winning Zenia, the first DECT phone with voice recognition.

The fax market remains strong in Europe, and PCC intends to maintain its No. 1 position, by continuously bringing new technologies to the market, such as access to the Internet, resulting in a complete range of Internet Fax Appliances.

DOMESTIC APPLIANCES AND PERSONAL CARE

Philips Domestic Appliances and Personal Care develops, manufactures and markets a wide range of products in the field of male shaving, body beauty and health, dental care, home environment care, and food and beverage preparation. The sector has a strong global presence in many product categories and is the world leader in electric shaving and No. 2 in dental care and ironing. Philips produces the Philishave, a dry shaver which is based on the Philips-invented rotary shaving technique. The division has leading positions in dry shaving in Europe, Latin America, the United States and China.

In October 2000, Philips acquired Optiva Corporation, the Seattle, USA based manufacturer of the Sonicare R.sonic toothbrush and the number one in the U.S. power toothbrush market. By this acquisition, Philips Domestic Appliances and Personal Care division builds on its existing position in dental care products, becoming the number two global player. Other personal care products include female depilatory products, skin care, hair care, fitness and sun care products.

Philips provides products for all stages of food and beverage preparation, such as mixers, blenders, food processors and kitchen machines, toasters, coffee makers, deep fryers, table-top cooking and general kitchen appliances. Philips manufactures and markets vacuum cleaners, irons, air cleaners and heating appliances. Domestic appliances and personal care products are sold under the Philips brand and other brand names.

Philips has long been successful on the US market under the brand name Norelco and will continue to use this brand name for the male shaving and grooming products. To further boost growth, Philips introduced the Philips brand name in the U.S. in 1998, with the initial focus on body beauty and health. In 2000, together with the US retail chain Target, the Essence food and beverage range was launched under the Philips brand.

COMPONENTS

Philips Components aims to be an industry shaper in displays, optical storage, connectivity and imaging and sensing. Philips Components is one of the

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

true global powerhouses, creating systems solutions for Philips Consumer Electronics and other top OEMs. The division focuses on select markets such as digital consumer electronics, mobile telecom, automotive infotainment and PC-related.

13

14

PRODUCT SECTORS AND PRINCIPAL PRODUCTS (continued)

Having gone through a transformation through its 'focus on value' strategy, the division has streamlined its portfolio and built its strategy around four key areas: displays, storage, connectivity, and imaging and sensing. The business develops innovative modules that combine key elements of these areas, providing integrated solutions and driving technological convergence. In cooperation with Philips Semiconductors, 'smart modules' are being developed, which merge technological architecture and software, adding value to the end product.

An integrated market approach has been established, and the migration to low-cost manufacturing centers has been accelerated. Based upon the current market outlook, excluding the CRT (Cathode Ray Tubes) business to be merged with LG Electronics of Korea in a 50/50 joint venture, the division aims to achieve a +25% growth rate through both organic growth and alliances and acquisitions.

In 1997 a majority shareholding was established in Hua Fei Colour Display Systems Co. Ltd. in Hua Fei, China; the financials of this joint venture have been consolidated as from January 1, 1997. On April 1, 1998, Philips increased its ownership in Hosiden and Philips Display Corp., a joint venture in Japan for the development, production and sale of active matrix LCDs, from 50% to 80%. As from the same date, Hosiden and Philips Display Corp. has been reported as a consolidated company. In August 2000, Philips purchased the remaining 20 percent of Hosiden shares. The name of the wholly owned Philips company has been changed to Philips Components Kobe K.K. with effect from August 31, 2000.

Substantial investments in digital-age technologies have been made, e.g. in a flat display joint venture with LG Electronics of Korea (LG.Philips LCD) in 1999, helping to fuel dynamic growth. The division is a world leader in display technology and in large LCD displays (through LG.Philips LCD), color picture tubes for TVs and mobile displays.

In November 2000 Philips Components signed a Letter of Intent to combine its forces with LG Electronics of South Korea in a new company for CRTs that is designated to promote leadership in the display technology market. The aim of this move is to ensure the lowest possible cost base in the maturing CRT market and to achieve significant synergies. Recent innovation in CRTs has led to flatter, slimmer and higher-resolution products, including the revolutionary Cybertube, which gives a picture so sharp that it is almost three-dimensional.

In optical storage Philips Components is a leading innovator in CD and DVD formats for the information technology and consumer electronics markets. The division will be introducing new products at an increasing pace in 2001, including a 16+ speed CD-RW drive and a DVD+RW video, the latter together with Philips Consumer Electronics.

In addition, Philips Components is building a position in connectivity

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

modules (wired and wireless), supported by its current global No. 3 position in RF tuners.

In the last quarter of 2000, Philips Components moved its divisional headquarters from Eindhoven to Sunnyvale, California. The relocation is a reflection of Philips Components' commitment to being at the heart of new digital technologies, and close to many of its key customers.

SEMICONDUCTORS

Philips Semiconductors is one of the technological leaders of the semiconductor industry. Ranked among the top vendors, the division is a leader in complex systems for consumer electronics, telecommunications, automotive and computer peripherals and networking. Additionally it is a volume manufacturer of semiconductors for multi-market products.

The consumer segment, in which Philips has a strong presence with products such as TV chipsets and set-top boxes, offers opportunities for a new generation of digital applications, for connectivity with many devices in the home and for new, simple user interfaces. Philips' Nexperia DVP (Digital Video Processing) platform offers the ability to capitalize on this revolution in the home. In 2000, the first Nexperia platforms were delivered, a revolutionary new concept in the design and delivery of complex systems that help customers bring products to market much faster. The first platform, for digital video applications in set-top boxes, gained support from many industry players, including AT&T, UPC, Acer, Microsoft, Samsung and Philips' Consumer Electronics division. Combined with the Nexperia platform, Philips semiconductors will continue to invest in key technologies and capabilities that will drive the digital revolution forward. These include identification and security, power management, connectivity, wired and wireless communications (such as Bluetooth) and user interface design.

There are Philips chips in 80% of all mobile phones. Future opportunities lie ahead in the race to the third generation of mobile phones that network operators are looking to introduce in the next few years.

In the Automotive sector, Philips is a leading supplier of semiconductors for in-car entertainment systems' and is leading the way in developing the new generation of digital in-car entertainment and information systems, as well as in-vehicle networking systems. Philips Semiconductors is a founding member of the FlexRay consortium with Daimler Chrysler, BMW and Motorola, which is expected to revolutionize car electronics of the near future.

In the PC computing segment there was continued strong demand for solutions for working across platforms: connecting peripherals (printers, cameras, scanners, etc.) to PC systems; audio, video and connectivity solutions for multimedia; and driver and control solutions for displays. In 2000 Philips Semiconductors also launched into the networking market with a number of key technologies.

The division has 17 manufacturing facilities throughout the world, located in Europe, the United States and Asia, producing more than 80 million semiconductor chips per day. Investments during 2000 in the amount of EUR 1.6 billion boosted manufacturing capacity by 40% during the year. Manufacturing investment during 2000 included the purchase of IBM's operational MiCRUS wafer fab in New York State and the ramp-up of a state-of-the-art venture facility in Singapore.

PRODUCT SECTORS AND PRINCIPAL PRODUCTS (continued)

MEDICAL SYSTEMS

Philips Medical Systems is one of the world's leading suppliers of diagnostic imaging equipment with clear no. 1 or 2 positions in many of the world's main markets. The product portfolio includes x-ray, magnetic resonance, ultrasound, computed tomography, nuclear medicine, positron emission tomography, radiation therapy planning, imaging IT systems and related services.

Philips Medical Systems, already the world leader in certain modalities, has significantly strengthened its position in the field of diagnostic imaging with the acquisition of ATL Ultrasound as of October 1, 1998. This company is one of the leaders in ultrasound imaging systems - one of the fastest growing sectors of the market - and the clear leader in all-digital ultrasound systems. In ultrasound, the subsidiary ATL has brought SonoCT realtime compound imaging to all major applications of ultrasound and united it with other advanced capabilities such as 3D, bringing the benefits of numerous powerful technologies together.

In addition to organic growth, Philips Medical Systems is constantly looking for opportunities to strengthen their product and technology portfolio as well as their geographical presence through acquisitions and alliances. In December 2000, Philips Medical Systems acquired approximately a 90% shareholding in ADAC Laboratories, based in Milpitas, California. ADAC Laboratories, a worldwide market leader in nuclear medicine, positron emission tomography - one of the fastest-growing market segments - and radiation therapy planning -, thus completing the range of modalities. Furthermore, subject to customary regulatory approvals, agreement was reached in November 2000 to buy the Healthcare Solutions Group (HSG) of Agilent Technologies Inc., whose products are not only complementary to the existing portfolio in cardiology, but also will enable the Company to enter in exciting new markets. In the past year, investments were made in SHL Telemedicine, the leading company in cardiac home service, with whom a joint venture will be started in Europe in 2001. As a result of these moves, Philips Medical Systems aims to distribute medical technology across all clinical settings, from hospitals and clinical centers to people at work, at home and on the move.

In imaging IT, the offerings have been expanded by acquiring the Cardiologica software suite, an advanced information system that makes all patient data available from every point of care. This system is part of HeartCare, the dynamic portfolio of cardiovascular imaging modalities, connectivity solutions and support services that maximize patient care and workflow efficiency.

In the course of 2000 a range of new customer support products was introduced, aimed at better cost control for healthcare providers. For instance, Philips Medical Systems is capable of offering transcription services that reduce overall reporting costs through the acquisition of the majority of shares in MedQuist Inc. of the United States, a provider of outsourced medical record translation services.

ORIGIN

Origin is a global IT service company delivering systems and a full range of services that facilitate total business solutions for clients. It is represented in more than 30 countries. In October 2000, Philips sold its 98% interest in Origin to Atos and received a 48.7% interest in Atos Origin. As a

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

result of the merger, as from October 1, 2000, Philips no longer consolidated Origin as a separate division but will include its share of Atos origin's earnings in results relating to unconsolidated companies beginning January 1, 2001, with a delay of three months.

MISCELLANEOUS

This sector comprises not only various ancillary businesses, including Philips Enabling Technologies Group (formerly Philips Machinefabrieken), FEI Company, Assembleon (formerly Electronic Manufacturing Technology), Philips Research, Centre for Industrial Technology, Corporate Intellectual Property and Philips Design.

Philips Enabling Technologies Group manufactures customer-specific machinery, tools and precision components for high-quality professional equipment. In 2000, Philips Machinefabrieken changed its name to Philips Enabling Technologies Group, a more accurate expression of the unit's competencies and the competitive environment in which it operates, i.e. at the interface of high technology and precision manufacturing. The unit's strategic focus is to continuously enhance its technical capabilities in order to provide full-fledged co-creation support to high-tech customers wishing to focus on their core competencies and thus wishing to subcontract their manufacturing activities. Philips Enabling Technologies Group seeks to build strategic alliances with clients in carefully selected market segments that offer high growth potential, e.g. front- and back-end semiconductor equipment, aerospace engine and airframe parts, and plastic parts for the electronics and automotive industries.

Assembleon (formerly Electronic Manufacturing Technology) is a leading manufacturer of SMT 'production-on-demand' assembly equipment and support software. As of January 1, 2001, Assembleon has been made an independent unit within the Philips Group with a view to a possible stock market flotation in the course of 2001.

Philips' Centre for Industrial Technology (CFT) 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. On the basis of its specific expertise, CFT contributes, as a strategic partner, to the profitability of the businesses by creating a competitive edge in speed and quality of innovation and in world-class manufacturing.

Philips Design is one of the largest design studios in the world and works according to its proprietary High Design process, a human-focused, multi-disciplinary, research-based approach whose purpose is to provide clients with competitive and sustainable solutions, also in the field of e-Design. The quality of Philips Design's work is internationally recognized, as witnessed by the dozens of design awards that it wins every year for its product and interface design solutions. Philips Design's visionary projects, explorations of future lifestyles aimed at supporting the creation of preferable solutions for consumers, have also received international recognition (e.g. the Gold Industrial Excellence Award of the Industrial Designers Society of America for the Culinary Art project in 2000).

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

PRODUCT SECTORS AND PRINCIPAL PRODUCTS (continued)

Philips' policy in the field of intellectual property is to add value by protecting and leveraging the innovations resulting from its substantial R&D investments. In 2000, about one new patent application was filed for every million euro spent on R&D, which shows the high level of innovation within the Philips R&D organization. Through these new patent filings, Philips has secured solid positions in fields such as set-top boxes, digital video, in-home networking, internet applications and other product areas.

Although many of Philips' patents and licenses are significant, none is individually material to Philips' business as a whole.

Philips has a strong Intellectual Property Right position consisting of approximately 65,000 patent rights. In 2000, Philips filed almost 2,100 new patent applications, up 35% from 1999. Although many of Philips' patents and licenses are significant, none is individually material to Philips' business as a whole. Patent protection is extremely important to Philips' operations. It spends significant resources to protect its intellectual property rights and intellectual property licenses. Reference is also made to the 2000 Annual Report -Financial Statements-, page 22 (research and development) and -Management Report- pages 43, 59 and 60.

RESEARCH AND DEVELOPMENT

Management believes that a sustained strong performance in the field of research and development activities is of the utmost importance to strengthen Philips' competitiveness in its various markets and to open up new markets. Philips Research's mission is to generate value for the Company through technology-based innovations. By focussing not only on technical aspects, but also on the business development side of the innovation process, they are constantly improving the portfolio of Research projects.

The launch of new Research activities in China, India and Belgium has further established Philips Research as one of the world's major global industrial research laboratories. With facilities in three continents and about 3,000 staff, Philips Research is at the forefront in developing new technologies for innovative products and is thus 'shaping the future'.

Research innovations incorporated in consumer products include various applications of optical storage technology, for example CD-RW. Philips continues to play a major role in the further development of standards and technology for CD applications. Research contributions to the Components and Semiconductors businesses include the transfer of polymer LED technology to Components, which has in the meantime resulted in the first product introductions. Semiconductors has achieved a large market share in RF power modules based on bipolar transistor technology developed by Research.

COOPERATIVE BUSINESS ACTIVITIES AND UNCONSOLIDATED COMPANIES

The information set forth under the heading "Cooperative business activities and unconsolidated companies" on pages 60 and 61 of the 2000 Annual Report -Management Report- of the Company, is incorporated herein by reference.

ORGANIZATIONAL STRUCTURE

Information concerning Philips' significant subsidiaries is incorporated by reference from Exhibit 8 to this Annual Report on Form 20-F.

PROPERTY, PLANT AND EQUIPMENT

Philips' manufacturing facilities, warehouses and office facilities are

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

mostly located in the Netherlands, the rest of Europe, the Far East and the United States and Canada. These plants are generally in good condition and adequate for the manufacturing requirements of Philips. The geographic allocation of assets employed as shown in Note 29: "Information relating to product sectors and geographic areas" on pages 58 through 63 of the 2000 Annual Report -Financial Statements- and incorporated herein by reference is generally indicative of the location of manufacturing facilities.

16

17

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The information required by this Item is incorporated by reference herein on pages 44 through 73 of the 2000 Annual Report -Management Report ("Operating and Financial Review and Prospects").

OPERATING RESULTS

The information required by this Item is incorporated by reference herein on pages 44 through 60 of the 2000 Annual Report - Management Report ("Operating and Financial Review and Prospects"). The Issuer's First Quarterly Report 2001, which forms Exhibit 10 (b) (2) to this annual report on Form 20-F is incorporated herein by reference and contains a description of results since December 31, 2000, as well as describing the Company's views about its financial performance and operating plans for 2001. The statements under the "Outlook" section of the First Quarterly Report supplements those statements made in the Issuer's Annual Report - Management Report on page 73 under the heading Outlook. In addition, the Outlook section of the Annual Report - Management Report on page 73 contains the Company's current performance objectives for the medium term. The performance objectives are not necessarily forecasts and management would seek to meet these objectives over a 3-5 year period. These performance objectives and statements concerning results and events in 2001 are subject to a number of factors set forth under the heading "Introduction" and Item 3 - "Risk Factors" that could cause actual results and developments to differ materially from those expressed or implied under the Outlook section of the Annual Report or the Outlook section of the First Quarterly Report 2001.

COOPERATIVE BUSINESS ACTIVITIES AND UNCONSOLIDATED COMPANIES

The information required by this Item is incorporated by reference herein on pages 60 and 61 of the 2000 Annual Report - Management Report ("Operating and Financial Review and Prospects").

LIQUIDITY AND CAPITAL RESOURCES

The information required by this Item is incorporated by reference herein on pages 61 through 65 of the 2000 Annual Report - Management Report ("Operating and Financial Review and Prospects"). Philips believes it has adequate financial resources for financing working capital needs.

RESEARCH AND DEVELOPMENT

For information required by this Item, reference is made to the separate section "Research and Development" as part of the business description under Item 4.

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The information required by this Item is incorporated by reference herein on page 23 and pages 70 through 76 of the 2000 Annual Report -Financial Statements, and pages 74 through 78 of the Annual Report -Management Report.

DIRECTORS AND SENIOR MANAGEMENT

At the General Meeting of Shareholders on March 29, 2001, Mr W. Hilger retired from the Supervisory Board. At the same meeting, Messrs L.C. van Wachem and L. Schweitzer were re-elected by the General Meeting of Shareholders as member of the Supervisory Board.

Mr A. Baan retired as Executive Vice-President and member of the Board of Management on March 30, 2001. On April 30, 2001, Mr C. Boonstra retired as President/CEO of the Company and Chairman of the Board of Management. Mr G.J. Kleisterlee is elected as per the same date as his successor by the General Meeting of Shareholders.

On May 1, 2001, Mr A. Huijser, member of the Group Management and head of Corporate Research, became Chief Technology Officer. As per the same date, Mr D. Hamill became Chief Executive Officer of Philips Lighting, succeeding Mr J. Whybrow, and was appointed a member of the Group Management Committee.

COMPENSATION

For information on the remuneration of the Board of Management and the Supervisory Board, required by this Item, see page 23 for the aggregate amounts and pages 70 through 74 for individually named members of the 2000 Annual Report -Financial Statements- incorporated herein by reference.

The aggregate direct remuneration paid in 2000 to, or for the benefit of, the members of the Supervisory Board, the Board of Management, the Group Management Committee and 48 officers in the Netherlands, taken as a group, was as follows:

Aggregate direct remuneration: EUR 25,382,261.

Due to the negative net periodic pension cost as a result of the funded status of the Dutch Philips Pensionfund, no contribution to retirement plans was paid in 2000.

17

18

SHARE OWNERSHIP

	number of shares	
	as of April 17, 2001	as of December 31, 2000
	-----	-----
L.C. van Wachem	17,848	17,848
L. Schweitzer	1,070	1,070
C. Boonstra	54,320	54,320
G.J. Kleisterlee	27,200	-

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

Mr L.C. van Wachem is also Chairman of the Board of the Dr. A.F. Philips Stichting.

Messrs W. de Kleuver, J-M. Hessels and K.A.L.H. van Miert are also member of the Board of the Dr. A.F. Philips Stichting. As per April 30, 2001 Mr G.J. Kleisterlee, has succeeded Mr C. Boonstra as President of the Company, as a consequence of which Mr Kleisterlee has succeeded Mr Boonstra as member of the Dr. A.F. Philips Stichting and as a member of the Stichting Preferente Aandelen Philips.

BOARD PRACTICES

The employment agreements of the members of the Board of Management, other than Mr Kleisterlee, are entered into for a definite period of time. Their employment agreements provide that if their employment is terminated, other than for a compelling reason, prior to the expiration of the term of their respective agreement, they will be entitled to receive a once only payment equal to twice their annual salary. As Mr Kleisterlee's employment agreement with Philips is for an indefinite duration, any benefit payable to him on termination will be determined under Dutch law, in the same manner as other employees of Philips who are employed for an indefinite duration. Exhibit number 4 contains the form of contract used for members of the Board of Management.

EMPLOYEES

The information set forth under the heading "Employment" on page 51 of the 2000 Annual Report -Management Report- and "Employees" on page 23 of the Financial Statements of the Company, is incorporated herein by reference.

Employees by product sector	2000	1999	1998
Lighting	47,124	47,453	48,997
Consumer Electronics	45,421	47,238	50,378
DAP	10,111	9,737	9,393
Components	41,160	41,709	42,613
Semiconductors	35,304	29,952	26,583
Medical Systems	19,358	11,297	11,561
Origin	-	16,690	16,948
Miscellaneous	14,684	16,066	20,107
Unallocated	6,267	6,732	7,106
Total	219,429	226,874	233,686

Employees by geographic area	2000	1999	1998
Netherlands	35,262	43,153	44,476
Europe (excl. Netherlands)	69,733	73,592	73,770
USA and Canada	33,173	26,919	25,941
Latin America	18,882	19,079	22,663
Africa	811	740	782
Asia	60,776	62,264	64,882

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

Australia and New Zealand	792	1,127	1,172

Total	219,429	226,874	233,686

18

19

STOCK OPTIONS

During 2000, 14,923,294 stock options to purchase Common Shares of Koninklijke Philips Electronics N.V. were issued. In 2000 6,012,732 options were exercised and 995,893 initially allocated options were forfeited due to resignations/dismissals prior to vesting. From December 31, 2000 to April 17, 2001, 7,585,450 stock options were newly issued, 932,101 stock options were exercised and 469,381 initially allocated options were forfeited. As of April 17, 2001, the number of shares issuable upon exercise of stock options outstanding was 35,144,425 (December 31, 2000: 28,960,457 stock options).

For a discussion of the options and the employee debentures, see also Note 22: "Long-term debt", Note 25: "Stockholders' equity" and Note 26: "Stock-based compensation" of "Notes to the Consolidated Financial Statements" on pages 42 through 49 of the 2000 Annual Report -Financial Statements- incorporated herein by reference.

For information specified in this Item for individually named directors and officers, see pages 70 through 74 of the 2000 Annual Report -Financial Statements- incorporated herein by reference.

The following table provides more detailed information about the stock options outstanding at April 17, 2001:

	number outstanding at April 17, 2001	exercise price per share	options outstanding weighted average remaining contractual life (years)	exercis at Apr

Fixed option plans:		(price in EUR)		
1996	80,000	6.61	0.5	
1997	1,927,700	9.19-19.43	1.0	1,9
1998	2,145,800	16.45-21.02	1.9	2,0
1999	3,864,400	15.76-23.01	2.9	
2000	3,420,750	42.03-53.75	8.9	
2001	2,775,950	37.60	9.8	
		(price in US\$)		
1998	1,538,299	12.94-23.59	7.0	1,4

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

1999	2,372,862	21.98-35.34	8.1	7
2000	3,568,597	36.65-49.71	9.0	
2001	1,427,225	34.50	9.8	

	23,121,583			6,2
	=====			=====
Variable plans:		(price in		
		EUR)		
2000	3,419,350	42.03-53.75	8.9	
2001	2,775,950	37.60	9.8	
		(price in		
		US\$)		
1993 - 1994	230,918	2.75-6.89	1.8	2
1995 - 1997	1,301,572	7.50-14.20	3.8	1,3
2000	3,718,727	36.65-49.71	9.0	
2001	576,325	34.50	9.8	

	12,022,842			1,5
	=====			=====

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

MAJOR SHAREHOLDERS

As of April 17, 2001, no person is known to the Company to be the owner of more than 5% of its Common Shares.

The Common Shares are held by shareholders worldwide in bearer and registered form. Outside the United States, shares are held primarily in bearer form. As of April 17, 2001, approximately 87% of the Common Shares were held in bearer form. In the United States shares are held primarily in the form of registered Shares of New York Registry (Shares of New York Registry) for which Citibank, N.A., 111 Wall Street, New York, New York 10043 is the transfer agent and registrar. As of April 17, 2001, approximately 13% of the total number of outstanding Common Shares were represented by Shares of New York Registry issued in the name of approximately 1,392 holders of record. Only bearer shares are traded on the stock market of Euronext Amsterdam and other European stock exchanges. Only Shares of New York Registry are traded on the New York Stock Exchange. Bearer shares and registered shares may be exchanged for each other. Since certain shares are held by brokers and other nominees, these numbers may not be representative of the actual number of United States beneficial holders or the number of Shares of New York Registry beneficially held by US residents.

19

20

RELATED PARTY TRANSACTIONS

MERGER OF PHILIPS DISPLAY COMPONENTS WITH LG'S DISPLAY COMPONENTS ACTIVITIES

Philips and LG Electronics of South Korea announced in November 2000 the signing of a letter of intent pursuant to which the companies expect to merge their respective cathode ray tube (CRT) businesses into a new 50-50 joint venture company. The transaction is expected to close in 2001 and is subject to

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

customary regulatory approvals. Upon the closing of the transaction, LG will receive USD 1.1 billion from the new company to address the difference in the valuation of the contributed businesses.

Under the terms of the letter of intent, LG and Philips will share equal control of the joint venture.

ITEM 8. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See Item 18 " Financial Statements".

LEGAL PROCEEDINGS

Philips is involved in proceedings concerning environmental problems including proceedings relating to the closure of discontinued chemical operations and the clean-up of various sites, including Superfund sites, in the United States. The potential costs related to these proceedings and the possible impact thereof on future operations are uncertain. However, based on current information, management does not believe that the outcome of these matters or other litigation incidental to its extensive international operations and involving, among other matters, competition issues and commercial transactions, will result in a liability which would have a material effect on the consolidated financial position and results of operations of Philips at December 31, 2000.

SIGNIFICANT CHANGES

Philips' First Quarterly Report 2001 is incorporated by reference herein.

ITEM 9. THE OFFER AND LISTING

The Common Shares of the Company are listed on the stock market of Euronext Amsterdam, on six other European stock exchanges and on the New York Stock Exchange. The principal markets for the Common Shares are the Amsterdam, New York and London Stock Exchanges.

The following table shows the high and low sales prices of the Common Shares on the stock market of Euronext Amsterdam as reported in the Official Price List and the high and low sales prices on the New York Stock Exchange (after 4-for-1 stock split):

		EURONEXT AMSTERDAM (EUR)	
		High	Low
1996		8.05	5.16
1997		20.28	7.71
1998		23.18	9.03
1999		33.75	14.14
2000		58.30	30.39
1999	1st quarter	19.13	14.14
	2nd quarter	24.28	17.95
	3rd quarter	27.44	21.50
	4th quarter	33.75	21.28

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

2000	1st quarter	54.50	30.39
	2nd quarter	56.75	36.70
	3rd quarter	58.30	44.11
	4th quarter	49.35	34.13
October 2000		49.35	38.30
November 2000		48.15	36.74
December 2000		47.18	34.13
January 2001		45.95	34.15
February 2001		41.40	34.22
March 2001		39.99	27.72
April 2001		34.40	27.11

20

21

ITEM 10. ADDITIONAL INFORMATION

MEMORANDUM AND ARTICLES OF ASSOCIATION

For a general description of Philips' Articles of Association see pages 4 through 7 of Philips' Form S-8 filed with the SEC on June 13, 2000, file number 333-39204, which is incorporated by reference herein.

EXCHANGE CONTROLS

There are currently no limitations, either under the laws of the Netherlands or in the Articles of Association of the Company, to the rights of non-residents to hold or vote Common Shares of the Company. Cash dividends payable in Dutch guilders on Netherlands registered shares and bearer shares may be officially transferred from the Netherlands and converted into any other currency without Dutch legal restrictions, except that for statistical purposes such payments and transactions must be reported to the Dutch Central Bank, and furthermore, no payments, including dividend payments, may be made to jurisdictions subject to sanctions adopted by the government of the Netherlands and implementing resolutions of the Security Council of the United Nations. The Articles of Association of the Company provide that cash distributions on Shares of New York Registry shall be paid in US dollars, converted at the rate of exchange on the stock market of Euronext Amsterdam at the close of business on the day fixed and announced for that purpose by the Board of Management in accordance with the Company's Articles of Association.

TAXATION

The statements below are only a summary of the present Netherlands tax laws and the Tax Convention of December 18, 1992 between the United States of America and the Kingdom of the Netherlands (the US Tax Treaty) and are not to be read as extending by implication to matters not specifically referred to herein. As to individual tax consequences, investors in the Common Shares should consult their own tax advisors.

WITHHOLDING TAX

In general, a dividend distributed by a company resident in the Netherlands (such as the Company) is subject to a withholding tax imposed by the Netherlands at a rate of 25%. Stock dividends paid out of the Company's paid-in share premium recognized for Netherlands tax purposes are not subject to the above mentioned withholding tax.

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

Pursuant to the provisions of the US Tax Treaty, dividends paid by the Company to a shareholder who is a resident of the United States (as defined in the US Tax Treaty), are generally eligible for a reduction in the rate of Dutch withholding tax to 15%, unless (i) the beneficial owner of the dividends carries on business in the Netherlands through a permanent establishment, or performs independent personal services in the Netherlands from a fixed base, and the Common Shares form part of the business property of such permanent establishment or pertain to such fixed base, or (ii) the beneficial owner of the dividends is not entitled to the benefits of the US Tax Treaty under the "treaty-shopping" provisions thereof. Dividends paid to qualifying exempt US pension trusts and qualifying exempt US organizations are exempt from Dutch withholding tax under the US Tax Treaty. However, for qualifying exempt US organizations no exemption at source upon payment of the dividend can be applied for; such exempt US organizations should apply for a refund of the 25% withholding tax.

The gross amount (including the withheld amount) of dividends distributed on Common Shares will be dividend income to the US shareholder, not eligible for the dividends received deduction generally allowed to corporations. However, subject to certain conditions and limitations, the Dutch withholding tax will be treated as a foreign income tax that is eligible for credit against the shareholders' US income taxes.

CAPITAL GAINS

Capital gains upon the sale or exchange of Common Shares by a non-resident individual or by a non-resident corporation of the Netherlands are exempt from Dutch income tax, corporation tax or withholding tax, unless (i) such gains are effectively connected with a permanent establishment in the Netherlands of the shareholders' trade or business or (ii) are derived from a direct, indirect or deemed substantial participation in the share capital of a company (such substantial participation not being a business asset).

In general, an individual has a substantial participation if he holds either directly or indirectly and either independently or jointly with his spouse or steady partner, at least 5% of the total issued share capital or particular class of shares of a company. For determining a substantial participation, other shares held by close relatives are taken into account. The same applies to options to buy shares. A deemed substantial participation amongst others exists if (part of) a substantial participation has been disposed of, or is deemed to have been disposed of, on a non-recognition basis. Under the US Tax Treaty however, the Netherlands may only tax a capital gain derived from a substantial participation if the alienator has been a resident of the Netherlands at any time during the five-year period preceding the alienation, and owned at the time of alienation either alone or together with his relatives, at least 25% of any class of shares.

NET WEALTH TAX

As of January 1st, 2001, for foreign shareholders no net wealth tax is levied in the Netherlands.

ESTATE AND GIFT TAXES

No estate, inheritance or gift taxes are imposed by the Netherlands on the transfer of Common Shares if, at the time of the death of the shareholder or

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

the transfer of the Common Shares (as the case may be), such shareholder or transferor is not a resident of the Netherlands, unless such Common Shares are attributable to a permanent establishment or permanent representative of the shareholder in the Netherlands.

Inheritance or gift taxes (as the case may be) are due, however, if such shareholder or transferor:

- (a) has Dutch nationality and has been a resident of the Netherlands at any time during the ten years preceding the time of the death or transfer; or
- (b) has no Dutch nationality but has been a resident of the Netherlands at any time during the twelve months preceding the time of transfer (for Netherlands gift taxes only).

DOCUMENTS ON DISPLAY

It is possible to read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC at the SEC's public reference room located at 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The information required by this Item is incorporated by reference herein on pages 65 through 68 of the 2000 Annual Report -Management Report.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

The following portions of the Company's 2000 Annual Report -Financial Statements- as set forth on pages 3 through 63 are incorporated herein by reference and constitute the Company's response to this Item:

- "Accounting policies"
- "Consolidated statements of income of the Philips Group"
- "Consolidated balance sheets of the Philips Group"
- "Consolidated statements of cash flows of the Philips Group"
- "Consolidated statements of changes in stockholders' equity of the Philips Group"
- "Notes to the consolidated financial statements of the Philips Group"

Schedules:

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

Schedules are omitted as they are either not required or not applicable.

22

23

ITEM 19. EXHIBITS

INDEX OF EXHIBITS

Exhibit 1	Articles of Association, as amended, dated as of August 1, 2000, English translation.
Exhibit 2 (b) (1)	The total amount of long-term debt securities of the Registrant and its subsidiaries authorized under any one instrument does not exceed 10% of the total assets of Philips and its subsidiaries on a consolidated basis. Philips agrees to furnish copies of any or all such instruments to the Securities and Exchange Commission upon request.
Exhibit 4	Material contracts
Exhibit 8	List of Significant Subsidiaries.
Exhibit 10 (a)	Independent auditors' report and consent of the independent auditors.
Exhibit 10 (b) (1)	The 2000 Annual Report to Shareholders of the Company, consisting of the Management Report and Financial Statements, which is furnished to the Securities and Exchange Commission for information only and is not filed except for such specific portions that are expressly incorporated by reference in this report on Form 20-F.
Exhibit 10 (b) (2)	Philips' First Quarterly Report 2001, which is incorporated by reference in this report on Form 20-F.

23

24

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Edgar Filing: KONINKLIJKE PHILIPS ELECTRONICS NV - Form 20-F

KONINKLIJKE PHILIPS ELECTRONICS N.V.

/s/ G.J. Kleisterlee

G.J. Kleisterlee
(President, Chairman
of the Board of Management and
the Group Management Committee)

/s/ J.H.M. Hommen

J.H.M. Hommen
(Executive Vice-President,
Member of the Board of
Management and the
Group Management Committee,
and Chief Financial Officer)

Registrant

Date: May 7, 2001

EXHIBIT INDEX

Exhibit Number -----	Description of Exhibit -----
1	Articles of Association, as amended, dated as of August 1, 2000, English translation.
2 (b) (1)	The total amount of long-term debt securities of the Registrant and its subsidiaries authorized under any one instrument does not exceed 10% of the total assets of Philips and its subsidiaries on a consolidated basis. Philips agrees to furnish copies of any or all such instruments to the Securities and Exchange Commission upon request.
4	Material contracts
8	List of Significant Subsidiaries.
10 (a)	Independent auditors' report and consent of the independent auditors.
10 (b) (1)	The 2000 Annual Report to Shareholders of the Company, consisting of the Management Report and Financial Statements, which is furnished to the Securities and Exchange Commission for information only and is not filed except for such specific portions that are expressly incorporated by reference in this report on Form 20-F.
10 (b) (2)	Philips' First Quarterly Report 2001, which is incorporated by reference in this report on Form 20-F.

