

KONINKLIJKE PHILIPS ELECTRONICS NV

Form 20-F

February 22, 2005

Table of Contents

As filed with the Securities and Exchange Commission on February 22, 2005

**UNITED STATES
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, 2004

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-05146-01

KONINKLIJKE PHILIPS ELECTRONICS N.V.

(Exact name of Registrant as specified in charter)

ROYAL PHILIPS ELECTRONICS

(Translation of Registrant's name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

Breitner Center, Amstelplein 2, 1096 BC 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 Euro (EUR) 0.20 per share

New York Stock Exchange

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

(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, 2004
Koninklijke Philips Electronics N.V.

Priority Shares par value	EUR 500 per share	10 shares 1,281,527,004
Common Shares par value	EUR 0.20 per share	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 No

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

Item 17 Item 18

Table of contents

	Page
<u>Introduction</u>	
<u>Part I</u>	
<u>Item 1.</u> <u>Identity of directors, senior management and advisors</u>	3
<u>Item 2.</u> <u>Offer statistics and expected timetable</u>	3
<u>Item 3.</u> <u>Key information</u>	4
<u>Item 4.</u> <u>Information on the company</u>	8
<u>Item 5.</u> <u>Operating and financial review and prospects</u>	9
<u>Item 6.</u> <u>Directors, senior management and employees</u>	10
<u>Item 7.</u> <u>Major shareholders and related party transactions</u>	12
<u>Item 8.</u> <u>Financial information</u>	12
<u>Item 9.</u> <u>The offer and listing</u>	13
<u>Item 10.</u> <u>Additional information</u>	14
<u>Item 11.</u> <u>Quantitative and qualitative disclosures about market risk</u>	16
<u>Item 12.</u> <u>Description of securities other than equity securities</u>	16
<u>Part II</u>	
<u>Item 13.</u> <u>Defaults, dividend arrearages and delinquencies</u>	16

<u>Item 14.</u>	<u>Material modifications to the rights of security holders and use of proceeds</u>	16
<u>Item 15.</u>	<u>Controls and procedures</u>	17
<u>Item 16A.</u>	<u>Audit committee financial expert</u>	17
<u>Item 16B.</u>	<u>Code of ethics</u>	17
<u>Item 16C.</u>	<u>Principal accountant fees and services</u>	17
<u>Item 16D.</u>	<u>Exemptions from the Listing Standards for Audit Committees</u>	18
<u>Item 16E.</u>	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	18
<u>Part III</u>		
<u>Item 17.</u>	<u>Financial statements</u>	18
<u>Item 18.</u>	<u>Financial statements</u>	19
<u>Item 19.</u>	<u>Exhibits</u>	20
<u>Exhibit 4.(a)</u>		
<u>Exhibit 4.(b)</u>		
<u>Exhibit 8</u>		
<u>Exhibit 12(a)</u>		
<u>Exhibit 12(b)</u>		
<u>Exhibit 13(a)</u>		
<u>Exhibit 13(b)</u>		
<u>Exhibit 15(a)</u>		
<u>Exhibit 15(b)</u>		
<u>Exhibit 15(c)</u>		

Table of Contents

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

Forward-looking statements

Pursuant to 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 (including, but not limited to, cost savings), 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 current expectations for the short term under the heading Outlook and with regard to trends in results of operations, margins, overall market trends, risk management, exchange rates and statements in Item 11 Quantitative and Qualitative Disclosures about Market Risks relating to risk caused by derivative positions, interest rate fluctuations and other financial exposure are forward-looking in nature. Forward-looking statements can be identified generally as those containing words such as anticipates , assumes , believes , estimates , expects , should , will , will likely forecast , outlook , projects or similar expressions. 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, changes in law, the performance of the financial markets, pension costs, the levels of marketing and promotional expenditures by Philips and its competitors, raw materials and employee costs, changes in exchange and interest rates (in particular changes in the euro and the US dollar can materially affect results), changes in tax rates and future business combinations, acquisitions or dispositions and the rate of technological changes, political and military developments in countries where Philips operates, the risk of a downturn in the semiconductor market, Philips' ability to secure short-term profitability and invest in long-term growth in Lighting and product R&D in Medical Systems, and industry consolidation. See also Item 3 Key information Risk factors . Market share estimates contained in this report are based on outside sources such as specialized research institutes, industry and dealer panels, in combination with management estimates. Where full-year information regarding 2004 is not yet available to Philips, those statements may also be based on estimates and projections prepared by outside sources or management. Rankings are based on, and references to leading and other measures of market performance refer to, sales unless otherwise indicated.

Introduction

Specific portions of Philips' Annual Report 2004 to Shareholders are incorporated by reference in this report on Form 20-F to the extent noted herein. Philips' Annual Report 2004 is attached hereto as Exhibit 10(b).

In presenting and discussing the Philips Group's financial position, operating results and cash flows, management uses certain non-GAAP financial measures. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent GAAP measure and should be used in conjunction with the most directly comparable US GAAP measure(s). Unless otherwise indicated in this document, a discussion of the non-GAAP measures included in this document and a reconciliation of such measures to the most directly comparable US GAAP measure(s) is contained in the Introduction section of Operating and Financial Review and Prospects and the separate information in the financial statements section in the 2004 Annual Report.

Item 1. Identity of directors, senior management and advisors

Not applicable.

Item 2. Offer statistics and expected timetable

Not applicable.

3

Table of ContentsItem 3. Key information
Selected consolidated financial data

in millions, except per share data and ratio data	Selected financial data for the years ended December 31,					
	2000 EUR	2001 EUR	2002 EUR	2003 EUR	2004 EUR	2004(a) US \$
Income statement data:						
Sales	37,862	32,339	31,820	29,037	30,319	41,250
Income (loss) from operations	4,258	(1,395)	420	488	1,607	2,186
Financial income and expenses-net	1,993	(915)	(2,227)	(244)	216	294
Income (loss) from continuing operations and before cumulative effect of a change in accounting principles	9,577	(2,475)	(3,206)	709	2,836	3,858
Cumulative effect of a change in accounting principles, net of tax	85			(14)		
Net income (loss)	9,662	(2,475)	(3,206)	695	2,836	3,858
Weighted average number of common shares outstanding (in thousands)	1,312,859	1,278,077	1,274,950	1,277,174	1,280,251	1,280,251
Basic earnings per Common Share:						
Income (loss) from continuing operations and before cumulative effect of a change in accounting principles	7.30	(1.94)	(2.51)	0.55	2.22	3.01
Net income (loss)	7.36	(1.94)	(2.51)	0.54	2.22	3.01
Weighted average number of common shares outstanding on a diluted basis (in thousands)	1,326,538	1,286,544	1,279,002	1,281,227	1,283,716	1,283,716
Diluted earnings per Common Share: (b)						
Income (loss) from continuing operations and before cumulative effect of a change in accounting principles	7.22	(1.94)	(2.51)	0.55	2.21	3.00
Net income (loss)	7.28	(1.94)	(2.51)	0.54	2.21	3.00
Balance sheet data:						
Total assets	39,524	39,202	32,289	29,411	30,723	41,800
Short-term debt	1,743	1,271	617	1,860	961	1,307
Long-term debt	2,284	6,595	6,492	4,016	3,552	4,833
Short-term provisions (c)	969	1,443	1,276	949	781	1,063
Long-term provisions (c)	2,588	2,297	1,970	1,976	2,117	2,880
Minority interests	469	202	179	175	283	385
Stockholders' equity	22,707	19,160	13,919	12,763	14,860	20,218
Capital stock	263	263	263	263	263	358
Cash flow data:						
Net cash provided by operating activities	2,996	1,248	2,228	1,992	2,697	3,669

Net cash (used for) provided by investing activities	(2,404)	(4,564)	(248)	742	653	888
Cash flows before financing activities	592	(3,316)	1,980	2,734	3,350	4,557
Net cash (used for) provided by financing activities	(2,038)	3,159	(897)	(1,355)	(2,145)	(2,918)
Cash provided by (used for) continuing operations	(1,446)	(157)	1,083	1,379	1,205	1,639

4

Table of Contents

	2000	2001	2002	2003	2004
Key Ratios:					
Income (loss) from operations: as a % of sales	11.2	(4.3)	1.3	1.7	5.3
Turnover rate of net operating capital	3.12	2.15	2.43	2.99	3.60
Inventories as a % of sales	13.9	13.3	11.1	11.0	10.7
Outstanding trade receivables (in months sales)	1.5	1.5	1.3	1.4	1.3
Income (loss) from continuing operations: as a % of stockholders equity (ROE)	48.5	(11.9)	(19.2)	5.4	20.3
Ratio net debt* group equity	11:89	26:74	27:73	18:82	1:99

Definitions:

Turnover rate of net operating capital: sales divided by average net operating capital (calculated on the quarterly balance sheet positions)

Net operating capital*: intangible assets, 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 Philips believes that an understanding of the Philips group's financial condition is enhanced by the disclosure of net operating capital, as this figure is used by Philips' management to evaluate the capital efficiency of the Philips group. Net operating capital is computed as follows:

	2000	2001	2002	2003	2004
Intangible assets	3,290	5,521	4,934	3,765	2,807
Property, plant and equipment	9,041	7,718	6,137	4,879	4,997
Remaining assets*	13,885	12,544	10,466	9,867	10,227
Provisions**	(3,082)	(3,240)	(3,162)	(2,768)	(2,670)
Other liabilities***	(8,764)	(8,234)	(7,836)	(7,672)	(8,169)
Net operating capital	14,370	14,309	10,539	8,071	7,192

* Remaining assets includes all other current and non-current assets on the balance sheet, besides intangible assets and property, plant and equipment and excludes deferred tax assets, cash and cash equivalents and securities

** Excluding deferred tax liabilities

*** Other liabilities includes other current and non-current liabilities on the balance sheet, besides short-term and long-term debt

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

Group equity: stockholders equity and minority interests

Net debt: group equity ratio*: the % distribution of net debt over group equity plus net debt

*

See pages 210 and 211 of the 2004 Annual Report incorporated herein by reference for a reconciliation of non-GAAP measures to the most directly comparable US GAAP measure(s).

- (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, 2004 (US \$ 1 = EUR 0.7350)
 - (b) See Note 8 of Notes to the Consolidated Financial Statements on page 130 of the 2004 Annual Report incorporated herein by reference for a discussion of net income (loss) per common share on a diluted basis.
 - (c) Includes provision for pensions, severance payments, restructurings and taxes among other items; see Note 19 of Notes to the Consolidated Financial Statements on pages 137 through 139 of the 2004 Annual Report incorporated herein by reference.
-

Table of Contents**Cash dividends and distributions paid per Common Share**

The following table sets forth in euros the gross dividends and cash distributions 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:

	2000	2001	2002	2003	2004
In EUR	0.30	0.36	0.36	0.36	0.36
In US\$	0.29	0.32	0.32	0.38	0.44

The cash dividend of EUR 0.40 per Common Share in respect of 2004, subject to approval by the General Meeting of Shareholders on March 31, 2005, will result in a total payment in the year 2005 of EUR 513 million (based on the outstanding number of shares at December 31, 2004).

The dollar equivalent of this cash distribution to be paid to shareholders in the year 2005 will be 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, being April 6, 2005. 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.

Exchange rates US \$: EUR

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

calendar period	EUR per US \$ 1			
	period end	average(1)	high	low
2000	1.0652	1.0881	1.2092	0.9676
2001	1.1235	1.1234	1.1947	1.0488
2002	0.9537	1.0573	1.1636	0.9537
2003	0.7938	0.8782	0.9652	0.7938
2004	0.7387	0.8014	0.8474	0.7339
2005 (through February 11)	0.7774	0.7718	0.7829	0.7421

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

	highest rate	lowest rate
August 2004	0.8316	0.8085
September 2004	0.8297	0.8053
October 2004	0.8149	0.7823
November 2004	0.7872	0.7526
December 2004	0.7562	0.7339
January 2005	0.7720	0.7421
February 2005 (through Febr. 11)	0.7829	0.7682

Philips publishes its financial statements in euros while a substantial portion of its assets, earnings and sales are denominated in other currencies. Philips conducts its business in more than 50 different currencies.

6

Table of Contents

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 closing rate on December 31, 2004 (US \$ 1 = EUR 0.7350). This rate is not materially different from the Noon Buying Rate on such date (US \$ 1 = EUR 0.7387).

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

	period end	average(a)	EUR per US \$ 1	
			high	low
2000	1.0740	1.0858	1.2089	0.9675
2001	1.1326	1.1215	1.1632	1.0828
2002	0.9543	1.0579	1.1497	0.9543
2003	0.7943	0.8854	0.9543	0.7943
2004	0.7350	0.8050	0.8465	0.7350

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

Risk factors

The information on risk factors required by this Item is incorporated by reference herein from pages 76 through 79 and pages 165 through 169 of the 2004 Annual Report.

It describes some of the risks that could affect Philips' businesses. The factors and the cautionary statements contained in the section entitled "Introduction" on page 3 should be considered in connection with any forward-looking statements contained in Philips' Annual Report on Form 20-F. Forward-looking statements can be identified generally as those containing words such as "anticipates", "assumes", "believes", "estimates", "expects", "should", "will", "will likely result", "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 cautionary statements contained in "Introduction" are deemed to apply to these statements.

The risks described 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.

Table of Contents

Item 4. Information on the Company

The structure of the Philips group

The information on pages 28, 195 and 208 of the 2004 Annual Report is incorporated herein by reference.

Business Overview

The information on pages 1 and 28 through 29 of the 2004 Annual Report is incorporated herein by reference.

Product sectors and principal products

The information on pages 29 through 39 of the 2004 Annual Report is incorporated herein by reference.

Research and Development, Patents and Licenses

The information on pages 37 through 38 of the 2004 Annual Report is incorporated herein by reference.

8

Table of Contents

Organizational structure

The information concerning Philips' significant subsidiaries in Exhibit 8 to this Annual Report on Form 20-F is incorporated herein by reference.

Property, plant and equipment

Philips owns and leases manufacturing facilities, research facilities, warehouses and office facilities in numerous countries over the world.

Philips has over 140 production sites in 32 countries. Philips believes that its plants are well maintained and, in conjunction with its capital expenditures for new property, plant and equipment, are generally adequate to meet its needs for the foreseeable future. For net book value of its property, plant and equipment and developments therein, reference is made to Note 15 Property, plant and equipment on page 134 of the 2004 Annual Report, which is incorporated herein by reference. The geographic allocation of assets employed as shown in Note 35 entitled

Information relating to product sectors and main countries on pages 171 through 175 of the 2004 Annual Report and incorporated herein by reference, is generally indicative of the location of manufacturing facilities. The headquarters in Amsterdam are leased. The information as shown in Note 26, entitled Commitments and contingent liabilities on pages 149 and 150 of the 2004 Annual Report, partly related to the rental of buildings, is incorporated herein by reference.

For environmental issues affecting the Company's properties, reference is made to Legal Proceedings in Item 8, entitled Financial Information, which is incorporated herein by reference.

Item 5. Operating and financial review and prospects

The information on pages 43 through 87 of the 2004 Annual Report (Operating and Financial Review and Prospects) is incorporated herein by reference.

Operating results

The information on pages 43 through 58 and pages 60 through 66 of the 2004 Annual Report (Operating and Financial Review and Prospects), and Note 34, entitled Financial instruments and risks on pages 165 through 170 of the 2004 Annual Report is incorporated herein by reference.

Liquidity and capital resources

The information on pages 70 through 75, pages 146 through 150 and pages 165 through 170 of the 2004 Annual Report is incorporated herein by reference.

Critical accounting policies

For a description of critical accounting policies, reference is made to pages 82 through 84 of the 2004 Annual Report (Operating and Financial Review and Prospects), and such information is incorporated herein by reference.

A complete description of Philips' accounting policies appears on pages 97 through 104 of the 2004 Annual Report, and is incorporated herein by reference.

Table of Contents

Full financial statements of the Company's statutory accounts, in conformity with Dutch law and adopted by the shareholders meeting and subsequently filed, are prepared on a basis consistent with generally accepted accounting principles in the Netherlands (Dutch GAAP) and remain available for investors. A reconciliation of material differences between US GAAP and Dutch GAAP is provided in the notes to the annual Dutch GAAP financial statements.

New Accounting Standards

For a description of new accounting pronouncements, reference is made to page 105 of the 2004 Annual Report, incorporated herein by reference.

Off-balance sheet arrangements

The information on pages 74 and 75 and pages 149 and 150 of the 2004 Annual Report is incorporated herein by reference.

Contractual obligations and commercial commitments

The information on pages 74 and 75, pages 149 and 150 and pages 165 through 170 of the 2004 Annual Report is incorporated herein by reference.

Trading activities that include non-exchange traded contracts accounted for at fair value

Philips does not engage in trading activities in non-exchange traded contracts.

Research and Development

The information on pages 37 and 38, page 57, page 100 and 114 of the 2004 Annual Report is incorporated herein by reference.

Outlook

The information required by the Item Trend Information is included in the section entitled Outlook on page 87 of the 2004 Annual Report, which is incorporated herein by reference.

Item 6. Directors, senior management and employees

The information on pages 17 through 27, page 112, pages 139 through 145 and pages 160 through 165 of the 2004 Annual Report is incorporated herein by reference.

Table of Contents

Directors and senior management

The information required by the Item Directors and Senior Management is included on pages 17 through 20 of the 2004 Annual Report, which is incorporated herein by reference. In line with regulatory requirements, the Company's policy forbids personal loans to and guarantees on behalf of members of the Board of Management, the Supervisory Board or the Group Management Committee, and no loans and guarantees have been granted and issued, respectively, to such members in 2004, nor are any loans or guarantees outstanding as of the date of this Annual Report on Form 20-F.

Compensation

For information on the remuneration of the Board of Management and the Supervisory Board, required by this Item, see pages 23 through 26 of the 2004 Annual Report, which is incorporated herein by reference, with respect to information on bonus and profit sharing plans, and note 32 Share-based compensation beginning on page 155 and note 33 Information on remuneration of the individual members of the Board of Management and the Supervisory Board beginning on page 160 of the 2004 Annual Report, which are incorporated herein by reference, with respect to information on an individual basis for aggregate compensation, stock options and restricted share grants and pensions.

Board practices

For information on office terms for the Supervisory Board and the Board of Management, required by this Item, see pages 17 through 22, page 26, page 196 and pages 200 through 201 of the 2004 Annual Report, each of which is incorporated herein by reference. For information on service contracts of the Board of Management providing for termination benefits, see page 26 of the 2004 Annual Report, which is incorporated herein by reference. Information on the members of the Audit Committee and Remuneration Committee is provided on page 20 of the 2004 Annual Report, which is incorporated herein by reference. The terms of reference under which the Supervisory Board and the Audit Committee and Remuneration Committee thereof operate are described on pages 199 through 203 of the 2004 Annual Report, which are incorporated herein by reference.

Employees

Information about the number of employees, including by geography and category of activity, is set forth under the heading Employment on pages 59 and 66 and Employees on page 112 of the 2004 Annual Report, which is incorporated herein by reference.

Share ownership

For information on shares, restricted shares and options granted to members of the Board of Management and the Supervisory Board, as required by this Item, reference is made to pages 155 through 165 of the 2004 Annual Report, incorporated herein by reference. The aggregate share ownership of the members of the Board of Management and the Supervisory Board represents less than 1% of the outstanding ordinary shares in the Company.

For a discussion of the options, restricted shares and the employee debentures of Philips, see note 23 Short-term debt, note 27 Stockholders' equity and note 32 Stock-based compensation of Notes to the Consolidated Financial Statements on pages 146 through 160 of the 2004 Annual Report, incorporated herein by reference.

Table of Contents

Mr L.C. van Wachem is also Chairman of the Board of the Dr. A.F. Philips-Stichting and a member of the Board of the Stichting Preferente Aandelen Philips. Messrs W. de Kleuver, J.M. Hessels and K.A.L.M. van Miert are also members of the Board of the Dr. A.F. Philips-Stichting. Mr Kleisterlee, as President of the Company, is a member of the Dr. A.F. Philips-Stichting and a member of the Board of the Stichting Preferent Aandelen Philips. The Dr. A.F. Philips-Stichting holds all of the outstanding priority shares of the Company. The Stichting Preferente Aandelen Philips has the right to acquire preference shares in the Company. The mere notification that the Stichting Preferente Aandelen Philips wishes to exercise its rights, should a third party ever seem likely, in the judgement of the Stichting Preferente Aandelen Philips, to gain a controlling interest in the Company, will result in the shares being effectively issued. The Stichting Preferente Aandelen Philips may exercise its right for as many preference shares as there are ordinary shares in the Company at that time. For more information see Item 7 Major shareholders and related party transactions .

Item 7. Major shareholders and related party transactions

Major shareholders

As of December 31, 2004, no person or group is known to the Company to be the owner of more than 5% of its Common Shares. For information required by this Item, reference is made to Item 9 The offer and listing .

Related party transactions

For a description of related party transactions see pages 150 Guarantees and 155 Related party transactions of the 2004 Annual Report, incorporated herein by reference. As of December 31, 2004 there were no personal loans or guarantees outstanding to members of the Board of Management, Group Management Committee or the Supervisory Board.

Item 8. Financial information

Consolidated statements and other financial information

See Item 18 Financial Statements .

Legal proceedings

For a description of legal proceedings see pages 151 through 153 of the 2004 Annual Report Litigation , which is incorporated herein by reference.

Dividend policy

Philips aims for a sustainable dividend reflecting, over time, a distribution of 25 to 30% of continuing net income.

Significant changes

For information required by this Item, reference is made to page 86 of the 2004 Annual Report Share repurchase program , which is incorporated herein by reference.

Table of Contents

Item 9. The offer and listing

The Common Shares of the Company are listed on the stock market of Euronext Amsterdam and on the New York Stock Exchange. The principal markets for the Common Shares are the Amsterdam and New York 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:

		Euronext		New York	
		Amsterdam (EUR)		stock exchange (US\$)	
		high	low	high	low
2000		58.30	30.39	55.80	31.00
2001		45.95	16.30	42.63	15.03
2002		36.20	12.61	33.00	12.75
2003	1 st quarter	18.66	12.45	19.45	13.80
	2 nd quarter	18.42	14.01	21.47	15.52
	3 rd quarter	23.20	15.95	25.84	18.50
	4 th quarter	25.27	19.27	30.14	23.07
2004	1 st quarter	26.30	21.68	33.38	26.65
	2 nd quarter	25.44	20.67	30.57	25.08
	3 rd quarter	22.66	17.79	27.41	21.97
	4 th quarter	20.40	17.81	27.17	22.14
August 2004		20.15	17.79	24.13	21.89
September 2004		20.08	18.29	24.72	22.72
October 2004		19.67	17.81	24.27	22.14
November 2004		20.16	18.52	26.40	23.70
December 2004		20.40	19.21	27.17	25.61
January 2005		20.06	18.35	26.69	23.97
February 2005 (through Feb. 11)		21.40	20.04	27.45	26.34

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 December 31, 2004, approximately 89% of the total number of outstanding 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 for which Citibank, N.A., 111 Wall Street, New York, New York 10043 is the transfer agent and registrar. As of December 31, 2004, approximately 11% of the total number of outstanding Common Shares were represented by Shares of New York Registry issued in the name of approximately 1,700 holders of record.

Only bearer shares are traded on the stock market of Euronext Amsterdam. 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.

For further information on Priority and Preference shares, a reference is made to the sections entitled Stockholders Equity on pages 153 through 154 and Meeting of Priority Shareholders and the Dr. A.F. Philips-Stichting and

Preference Shares and the Stichting Preferente Aandelen Philips on pages 205 through 206 of the 2004 Annual Report, which is incorporated herein by reference. As of December 31, 2004, there were ten authorized and issued Priority shares, and 3,249,975,000 Preference shares authorized, of which none were issued. A proposal shall be made to the 2005 Annual General Meeting of Shareholders to amend the current articles of association of the Company. Upon the shareholders meeting approving this amendment, the Priority shares will be cancelled.

Table of Contents

Item 10. Additional information

Articles of association

A general description of Philips Articles of Association is herewith incorporated by reference to Form 6-K filed with the SEC on May 2, 2002.

Priority Shares

For a description of Priority Shares, see pages 153 and 205 of the 2004 Annual Report Stockholders Equity and Meeting of Priority Shareholders and the Dr. A.F. Philips-Stichting , which are incorporated herein by reference. A proposal shall be made to the 2005 Annual General Meeting of Shareholders to amend the current articles of association of the Company. Upon the shareholders meeting approving this amendment, the Priority shares will be cancelled.

Preference shares

For a description of Preference Shares, see page 153 and pages 205 through 206 of the 2004 Annual Report Preference Shares and the Stichting Preferente Aandelen Philips , which is incorporated herein by reference.

Material contracts

For a description of the material provisions of the employment agreements with members of the Board of Management, refer to Item 6: Directors and Senior Management Board Practices .

The terms and conditions of the employment agreements entered into by members of the Board of Management, are filed herewith as Exhibit 4.

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 Euros 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, as amended by the protocol that entered into force on December 28, 2004, 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.

14

Table of Contents

Withholding tax

In general, a distribution to shareholders 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. Stock dividends paid out of the Company's retained earnings are subject to dividend withholding tax on the nominal value of the shares issued. Pursuant to the provisions of the US Tax Treaty, dividends paid by the Company to a beneficial owner of shares (as defined in Dutch Dividend Tax Act) and 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. Special rules apply to the rate of withholding tax applied to dividends paid to beneficial owners that own 10% or more of the voting power of the Company. 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 shareholder's US income taxes. 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.

Dividends

The gross amount (including the withheld amount) of dividends distributed on Common Shares out of current or accumulated earnings and profits will be dividend income to the US shareholder and subject to United States federal income taxation. Dividends paid with respect to shares will generally be qualified dividend income. If you are a non-corporate US shareholder, qualified dividend income paid to you in taxable years beginning before January 1, 2009 will be taxable to you at a maximum tax rate of 15% provided that you hold the shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. The dividend will not be eligible for the dividends received deduction generally allowed to United States corporations in respect to dividends received from other United States corporations.

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 that is derived by an alienator who is an US resident under the US Tax Treaty and is not disqualified from treaty benefits under the treaty-shopping rules from a substantial participation and that is not effectively connected with a permanent establishment in the

Netherlands 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.

Capital gain of non-corporate US shareholder that is recognized before January 1, 2009, is generally taxed at a maximum rate of 15% where the shareholder has a holding period greater than one year.

Table of Contents

Net wealth tax

As of January 1, 2001, the net wealth tax is abolished 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 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. The Company's SEC filings are also publicly available through the SEC's website at <http://www.sec.gov>.

Item 11. Quantitative and qualitative disclosure about market risk

The information required by this Item is incorporated by reference herein on pages 76 through 81 and pages 165 through 169 of the 2004 Annual 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.

16

Table of Contents

Item 15. Controls and procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Annual Report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

Item 16A. Audit Committee Financial Expert

The Company does not have an Audit Committee financial expert as defined under the regulations of the US Securities and Exchange Commission serving on its Audit Committee. The information required by this Item is incorporated herein by reference on pages 202 through 203 of the 2004 Annual Report.

Item 16B. Code of Ethics

The Company recognizes that its businesses have responsibilities within the communities in which they operate. The Company has a Financial Code of Ethics which applies to the CEO and CFO (the principal financial and principal accounting officer), and to the heads of the Corporate Control, Corporate Treasury, Corporate Fiscal and Corporate Internal Audit departments of the Company. The Company has published its Financial Code of Ethics within the investor section of its website located at www.philips.com. No changes have been made to the Code of Ethics since its adoption and no waivers have been granted therefrom to the officers mentioned above.

Item 16C. Principal Accountant Fees and Services

The Company has instituted a comprehensive auditor independence policy that regulates the relation between the Company and its external auditors and is available on the Company's website (www.philips.com). The policy includes rules for the pre-approval by the Audit Committee of all services to be provided by the external auditor. The policy also describes the prohibited services that may never be provided. Proposed services may be pre-approved at the beginning of the year by the Audit Committee (annual pre-approval) or may be pre-approved during the year by the Audit Committee in respect of a particular engagement (specific pre-approval). The annual pre-approval is based on a detailed, itemized list of services to be provided, designed to ensure that there is no management discretion in determining whether a service has been approved and to ensure the Audit Committee is informed of each service it is pre-approving. Unless pre-approval with respect to a specific service has been given at the beginning of the year, each proposed service requires specific pre-approval during the year. Any annually pre-approved services where the fee for the engagement is expected to exceed pre-approved cost levels or budgeted amounts will also require specific pre-approval. The term of any annual pre-approval is 12 months from the date of the pre-approval unless the Audit Committee states otherwise. During 2004, there were no services provided to the Company by the external auditors which were not pre-approved by the Audit Committee.

Audit Fees

The information required by this Item is incorporated by reference herein on page 27 of the 2004 Annual Report.

Audit-Related Fees

The information required by this Item is incorporated by reference herein on page 27 of the 2004 Annual Report.

Tax Fees

The information required by this Item is incorporated by reference herein on page 27 of the 2004 Annual Report.

Table of Contents***All Other Fees***

The information required by this Item is incorporated by reference herein on page 27 of the 2004 Annual Report.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not yet applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In the following table, the information is specified with respect to purchases made by Philips of its own shares.

Period	Total number of shares purchased	Average price paid per share in EUR
January 2004		
February 2004	433,757	25.80
March 2004	3,000,081	23.07
April 2004	463,309	23.58
May 2004	200,536	21.87
June 2004	6	20.67
July 2004		
August 2004		
September 2004	3,153	22.71
October 2004	213	19.08
November 2004	163	18.31
December 2004	802	19.90
Total	4,102,020	23.35

Pursuant to the authorization given at the Company's Annual General Meeting of Shareholders referred to below to purchase shares, the Company has purchased shares for delivery under convertible personnel debentures, restricted share programs, employee stock purchase plans and stock options in order to avoid dilution from new issuances. When shares are delivered, they are removed from treasury stock. In 2004, Philips acquired a total of 4,102,020 shares and a total of 4,942,894 shares were delivered. A total of 34,543,388 shares were held in treasury by the Company at December 31, 2004 (2003: 35,384,262 shares). As of that date, a total of 66,082,833 rights to acquire shares (under convertible personnel debentures, restricted share programs, employee stock purchase plans and stock options) are outstanding (2003: 69,276,504).

The General Meeting of Shareholders, at their meeting of March 25, 2004, authorized the Board of Management for a period of 18 months, within the limits of the law and the Articles of Association, to acquire for valuable consideration, on the Amsterdam Stock Exchange or otherwise, shares in the Company, provided the Company may hold no more than 10% of its issued share capital.

Item 17. Financial statements

Philips is furnishing the Financial Statements pursuant to the instructions of Item 18 of Form 20-F.

18

Table of Contents

Item 18. Financial statements

The following portions of the Company's 2004 Annual Report as set forth on pages 89 through 175 are incorporated herein by reference and constitute the Company's response to this Item:

Report of independent registered public accounting firm
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
Accounting policies
New accounting standards
Notes to the consolidated financial statements of the Philips Group

Schedules:

Schedules are omitted as they are either not required or the required information is included in the consolidated financial statements.

Philips owns 44.6% of LG.Philips LCD and accounts for its LG.Philips LCD holding by the equity method of accounting. Under SEC Rule 3-09 under Regulation S-X, Philips is required to include LG.Philips LCD financial statements for the year 2004 in this Annual Report. Therefore, Philips expects to file an amendment to this Annual Report to file any required financial statements with respect to LG.Philips LCD on or before June 30, 2005.

As Philips' holding in LG.Philips Displays met the requirements of SEC Rule 3-09 under Regulation S-X for the provision of separate audited financial statements in 2003, the unaudited financial statements for the year 2004 of LG.Philips Displays will be filed as an amendment to this Annual Report on or before June 30, 2005, as required by the SEC Rule.

As a result of Philips' holding in Atos Origin meeting the requirements of SEC Rule 3-09 under Regulation S-X for the provision of separate audited financial statements in 2002, the unaudited financial statements for the year 2004 of Atos Origin will be filed as an amendment to this Annual Report on or before June 30, 2005, as required by the SEC Rule.

Table of Contents

Item 19. Exhibits

Index of exhibits

Exhibit 1	English translation of the Articles of Association of the Company (incorporated by reference to Exhibit 1 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2000 (File No. 2-20193).
Exhibit 2 (b) (1)	The total amount of long-term debt securities of the Company 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	Employment contracts of the members of the Board of Management (incorporated by reference to Exhibit 4 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2003) (File No. 001-05146-01).
Exhibit 4 (a)	Employment contract between the Company and G.J. Kleisterlee.
Exhibit 4 (b)	Employment contract between the Company and P.J. Sivignon.
Exhibit 8	List of Significant Subsidiaries.
Exhibit 12 (a)	Certification of G.J. Kleisterlee filed pursuant to 17 CFR 240. 13a-14(a).
Exhibit 12 (b)	Certification of J.H.M. Hommen filed pursuant to 17 CFR 240. 13a-14(a).
Exhibit 13 (a)	Certification of G.J.Kleisterlee furnished pursuant to 17 CFR 240. 13a-14(b).
Exhibit 13 (b)	Certification of J.H.M. Hommen furnished pursuant to 17 CFR 240. 13a-14(b).
Exhibit 15 (a)	Consent of independent registered public accounting firm.
Exhibit 15 (b)	The 2004 Annual Report to Shareholders of the Company 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 15 (c)	Description of industry terms.

Table of Contents

SIGNATURES

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.

KONINKLIJKE PHILIPS ELECTRONICS N.V.
(Registrant)

/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
(Vice-Chairman
of the Board of
Management, and the
Group Management Committee
and Chief Financial Officer)

Date: February 22, 2005

Table of Contents

Exhibits

- Exhibit 1 English translation of the Articles of Association of the Company (incorporated by reference to Exhibit 1 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2000 (File No. 2-20193).
- Exhibit 2 The total amount of long-term debt securities of the Company and its subsidiaries authorized under (b)(1) 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 Employment contracts of the members of the Board of Management (incorporated by reference to Exhibit 4 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2003) (File No. 001-05146-01).
- Exhibit 4 (a) Employment contract between the Company and G.J. Kleisterlee.
- Exhibit 4 (b) Employment contract between the Company and P.J. Sivignon.
- Exhibit 8 List of Significant Subsidiaries.
- Exhibit 12 (a) Certification of G.J. Kleisterlee filed pursuant to 17 CFR 240. 13a-14(a).
- Exhibit 12 (b) Certification of J.H.M. Hommen filed pursuant to 17 CFR 240. 13a-14(a).
- Exhibit 13 (a) Certification of G.J. Kleisterlee furnished pursuant to 17 CFR 240. 13a-14(b).
- Exhibit 13 (b) Certification of J.H.M. Hommen furnished pursuant to 17 CFR 240. 13a-14(b).
- Exhibit 15 (a) Consent of independent registered public accounting firm.
- Exhibit 15 (b) The 2004 Annual Report to Shareholders of the Company 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 15 (c) Description of industry terms.