

KONINKLIJKE PHILIPS ELECTRONICS NV

Form 20-F

February 23, 2004

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As filed with the Securities and Exchange Commission on February 23, 2004

**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, 2003
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003
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

**Common Shares par value
Euro (EUR) 0.20 per share**

Name of each exchange on which registered
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, 2003
Koninklijke Philips Electronics N.V.	
Priority Shares par value EUR 500 per share	10 shares
Common Shares par value EUR 0.20 per share	1,280,686,130 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.

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Yes No

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

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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 result , forecast , outlook , projects or similar 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/US dollar exchange rate can materially affect results), changes in tax rates and future business combinations, acquisitions or dispositions and the rate of technological changes. 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. 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 2003 to Shareholders are incorporated by reference in this report on Form 20-F to the extent noted herein. Philips Annual Report for 2003 comprises two separate booklets entitled Management Report and Financial Statements and Analysis . Portions of Philips Annual Report 2003 incorporated by reference in this report on Form 20-F are attached hereto as part of Exhibit 14(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 Group Performance section of Operating and Financial Review and Prospects in the 2003 Annual Report Financial Statements and Analysis.

Item 1. Identity of directors, senior management and advisors

Not applicable.

Item 2. Offer statistics and expected timetable

Not applicable.

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Selected consolidated financial data

Beginning January 1, 2002 the audited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP). Financial statements for periods covered by this report have been restated according to US GAAP.

Selected financial data for the years ended December 31,

in millions, except per share data and ratio data	1999 EUR	2000 EUR	2001 EUR	2002 EUR	2003 EUR	2003(a) US \$
Income statement data:						
Sales	31,459	37,862	32,339	31,820	29,037	36,557
Income (loss) from operations	1,553	4,258	(1,395)	420	488	614
Financial income and expenses-net	(107)	1,993	(915)	(2,227)	(244)	(307)
Income (loss) from continuing operations and before cumulative effect of a change in accounting principles	1,595	9,577	(2,475)	(3,206)	709	893
Cumulative effect of a change in accounting principles, net of tax		85			(14)	(18)
Net income (loss)	1,590	9,662	(2,475)	(3,206)	695	875
Weighted average number of common shares outstanding (in thousands)	1,378,041	1,312,859	1,278,077	1,274,950	1,277,174	1,277,174
Basic earnings per Common Share: (b)						
Income (loss) from operations	1.13	3.24	(1.09)	0.33	0.38	0.48
Income (loss) from continuing operations and before cumulative effect of a change in accounting principles	1.16	7.30	(1.94)	(2.51)	0.55	0.69
Net income (loss)	1.15	7.36	(1.94)	(2.51)	0.54	0.68
Weighted average number of common shares outstanding on a diluted basis (in thousands)	1,389,226	1,326,538	1,286,544	1,279,002	1,281,227	1,281,227
Diluted earnings per Common Share: (b) (c)						
Income (loss) from continuing operations and before cumulative effect of a change in accounting principles	1.15	7.22	(1.94)	(2.51)	0.55	0.69
Net income (loss)	1.15	7.28	(1.94)	(2.51)	0.54	0.68
Balance sheet data:						
Total assets	31,673	39,524	39,202	32,289	29,000	36,510
Short-term debt	577	1,743	1,271	617	1,684	2,120
Long-term debt	2,737	2,284	6,595	6,492	4,192	5,278
Short-term provisions (d)	1,056	969	1,443	1,276	949	1,195
Long-term provisions (d)	2,000	2,588	2,297	1,970	1,976	2,488
Minority interests	333	469	202	179	175	220
Stockholders equity	16,708	22,707	19,160	13,919	12,763	16,068
Capital stock	339	263	263	263	263	331
Cash flow data:						
Net cash provided by operating activities	1,913	2,996	1,248	2,228	1,992	2,508
Net cash (used for) provided by investing activities	(3,834)	(2,404)	(4,564)	(248)	742	934
Cash flow before financing activities	(1,921)	592	(3,316)	1,980	2,734	3,442
Net cash (used for) provided by financing activities	(2,606)	(2,038)	3,159	(897)	(1,355)	(1,706)
Cash provided by (used for) continuing operations	(4,527)	(1,446)	(157)	1,083	1,379	1,736

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	1999	2000	2001	2002	2003
Key Ratios:					
Income (loss) from operations:					
as a % of sales	4.9	11.2	(4.3)	1.3	1.7
Turnover rate of net operating capital	3.20	3.12	2.15	2.43	2.99
Inventories as a % of sales	13.6	13.9	13.3	11.1	11.0
Outstanding trade receivables (in months sales)	1.4	1.5	1.5	1.3	1.4
Income (loss) from continuing operations:					
as a % of stockholders' equity (ROE)	10.9	48.5	(11.9)	(19.2)	5.4
Ratio net debt : group equity	5:95	11:89	26:74	27:73	18:82

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. A quantitative reconciliation of net operating capital is provided below.

Net operating capital:	1999	2000	2001	2002	2003
Intangible assets	1,563	3,290	5,521	4,934	3,765
Property, plant and equipment	7,332	9,041	7,718	6,137	4,879
Remaining assets*	12,600	13,885	12,544	10,466	9,456
Provisions**	(2,787)	(3,082)	(3,240)	(3,162)	(2,768)
Other liabilities***	(8,262)	(8,764)	(8,234)	(7,836)	(7,261)
	10,446	14,370	14,309	10,539	8,071

* 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 ratio of net debt over group equity plus net debt equity ratio

(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, 2003 (US \$ 1 = EUR 0.7943).

- (b) Previously reported figures restated for 4-for-1 stock split in 2000.
- (c) See Note 8 Earnings per share on page 87 of the 2003 Annual Report Financial Statements and Analysis incorporated herein by reference for a discussion of net income (loss) per common share on a diluted basis.
- (d) Includes provision for pensions, severance payments, restructurings and taxes among other items; see Note 19 Provisions on pages 93 and 94 of the 2003 Annual Report Financial Statements and Analysis 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:

	1999	2000	2001	2002	2003
In EUR	0.25	0.30	0.36	0.36	0.36
In US\$	0.27	0.29	0.32	0.32	0.39

The cash dividend in respect of 2003, subject to approval by the General Meeting of Shareholders on March 25, 2004, will result in a total payment in the year 2004 of EUR 461 million (EUR 0.36 per Common Share).

The dollar equivalent of this cash distribution to be paid to shareholders in the year 2004 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 March 31, 2004. 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
1999	0.9930	0.9455	0.9984	0.8466
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 (through February 13)	0.7843	0.7937	0.8072	0.7780

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

	highest rate	lowest rate
August 2003	0.9199	0.8780
September 2003	0.9221	0.8584
October 2003	0.8624	0.8451
November 2003	0.8759	0.8337
December 2003	0.8364	0.7938
January 2004	0.8072	0.7780
February 2004 (through Febr. 13)	0.8048	0.7803

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.

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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, 2003 (US \$ 1 = EUR 0.7943). This rate is not materially different from the Noon Buying Rate on such date (US \$ 1 = EUR 0.7938).

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

	EUR per US \$ 1			
	period end	average(a)	high	low
1999	0.9914	0.9392	0.9987	0.8460
2000	1.0740	1.0858	1.2089	0.9675
2001	1.1326	1.1215	1.1632	