ภาคผนวก ก

งบการเงินของบริษัทมัตสุชิตะ อิเล็คทริค อินดัสเตรียล จำกัด (มหาชน)

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งบดุลของบริษัทมัตสุชิตะ อิเล็คทริค อินดัสเตรียล จำกัด (มหาชน)

Consolidated Balance Sheets

Matsushita Electric Industrial Co., Ltd. and Subsidiaries
March 31, 2005 and 2004

Assets	Millions of yen 2005	2004	Thousands of U.S. dollars (Note 2) 2005
Current assets:			
Cash and cash equivalents (Note 10)	¥1,169,756	¥1,275,014	$10,932,299
Time deposits (Note 10)	144,781	170,047	1,353,093
Short-term investments (Notes 6 and 19)	11,978	2,684	111,944
Trade receivables (Notes 5, 7 and 10):			
Notes	107,317	62,822	1,002,963
Accounts	1,188,257	1,052,718	11,105,205
Allowance for doubtful receivables	(43,836)	(47,873)	(409,682)
Net trade receivables	1,251,738	1,067,667	11,698,486
Inventories (Notes 4 and 10)	893,425	777,540	8,349,766
Other current assets (Notes 8, 12 and 19)	558,854	482,025	5,222,935
Total current assets	4,030,532	3,774,977	37,668,523
Noncurrent receivables (Note 7)	246,201	280,398	2,300,944
Investments and advances (Notes 5, 6 and 19)	1,146,505	1,237,427	10,715,000
Property, plant and equipment (Notes 7 and 8):			
Land	393,635	251,419	3,678,832
Buildings	1,665,243	1,253,350	15,563,018
Machinery and equipment	3,087,155	2,705,251	28,851,916
Construction in progress	84,139	46,037	786,346
	5,230,172	4,256,057	48,880,112
Less accumulated depreciation	3,572,092	3,046,555	33,384,037
Net property, plant and equipment	1,658,080	1,209,502	15,496,075
Other assets:			
Goodwill (Notes 3 and 9)	461,912	418,907	4,316,935
Intangible assets (Notes 3 and 9)	101,585	73,099	949,392
Other assets (Notes 11 and 12)	412,066	443,702	3,851,084
Total other assets	975,563	935,708	9,117,411
	¥8,056,881	¥7,438,012	$75,297,953

See accompanying Notes to Consolidated Financial Statements.

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งบกำไรขาดทุนของบริษัทมัตสุชิตะ อิเล็คทริค อินดัสเตรียล จำกัด (มหาชน)

Consolidated Statements of Operations

Matsushita Electric Industrial Co., Ltd. and Subsidiaries
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2005	2004	2003	2005
Revenues, costs and expenses:				
Net sales (Note 5)	¥8,713,636	¥7,479,744	¥7,401,714	$81,435,850
Cost of sales (Notes 5 and 17)	(6,176,046)	(5,313,065)	(5,323,605)	(57,720,056)
Selling, general and administrative expenses (Note 17)	(2,229,096)	(1,971,187)	(1,951,538)	(20,832,673)
Interest income	19,490	19,564	22,267	182,150
Dividends received	5,383	5,475	4,506	50,308
Gain from the transfer of the substitutional portion of Japanese Welfare Pension Insurance (Note 11)	31,509	72,228	—	294,477
Other income (Notes 6, 7, 17 and 18)	82,819	59,544	64,677	774,009
Interest expense	(22,827)	(27,744)	(32,805)	(213,336)
Other deductions (Notes 5, 6, 8, 9, 16, 17 and 18)	(177,955)	(153,737)	(116,300)	(1,663,131)
Income before income taxes	246,913	170,822	68,916	2,307,598
Provision for income taxes (Note 12):				
Current	96,529	77,375	51,704	902,140
Deferred	56,805	21,160	19,572	530,888
	153,334	98,535	71,276	1,433,028
Income (loss) before minority interests and equity in losses of associated companies	93,579	72,287	(2,360)	874,570
Minority interests	27,719	19,618	5,505	259,056
Equity in losses of associated companies (Note 5)	(7,379)	(10,524)	(11,588)	(68,963)
Net income (loss)	¥ 58,481	¥ 42,145	¥ (19,453)	$ 546,551
	Yen			U.S. dollars (Note 2)
Net income (loss) per share of common stock (Note 15):				
Basic	¥ 25.49	¥ 18.15	¥ (8.70)	$ 0.24
Diluted	25.49	18.00	(8.70)	0.24

See accompanying Notes to Consolidated Financial Statements.

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งบกระแสเงินสดของบริษัทมัตสุชิตะ อิเล็คทริค อินดัสเตรียล จำกัด (มหาชน)

Consolidated Statements of Cash Flows

Matsushita Electric Industrial Co., Ltd. and Subsidiaries
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2005	2004	2003	2005
Cash flows from operating activities (Note 17):				
Net income (loss)	¥ 58,481	¥ 42,145	¥ (19,453)	$ 546,551
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	325,465	278,177	302,141	3,041,729
Net gain on sale of investments	(31,399)	(11,327)	(93)	(293,449)
Provision for doubtful receivables	4,963	3,154	17,621	46,383
Deferred income taxes	56,805	21,160	19,572	530,888
Write-down of investment securities (Notes 5 and 6)	16,186	52,492	52,611	151,271
Impairment loss on long-lived assets (Notes 8 and 9)	29,519	11,666	2,375	275,879
Minority interests	27,719	19,618	5,505	259,056
(Increase) decrease in trade receivables	61,207	35,248	(72,604)	572,028
(Increase) decrease in inventories	84,405	(37,016)	82,573	788,832
(Increase) decrease in other current assets	14,649	13,450	27,996	136,906
Increase (decrease) in trade payables	(74,276)	87,226	162,378	(694,168)
Increase (decrease) in accrued income taxes	(3,422)	12,254	4,960	(31,981)
Increase (decrease) in accrued expenses and other current liabilities	(10,736)	10,782	79,252	(100,336)
Increase (decrease) in retirement and severance benefits	(99,499)	(67,332)	16,622	(929,897)
Other	18,368	17,435	16,861	171,663
Net cash provided by operating activities	478,435	489,132	698,317	4,471,355
Cash flows from investing activities (Note 17):				
Proceeds from sale of short-term investments	6,117	—	10,523	57,168
Purchase of short-term investments	(9,001)	(702)	—	(84,121)
Proceeds from disposition of investments and advances	101,374	68,468	121,001	947,421
Increase in investments and advances	(133,636)	(207,869)	(80,774)	(1,248,935)
Capital expenditures	(352,203)	(275,544)	(246,603)	(3,291,617)
Proceeds from disposals of property, plant and equipment	78,131	113,008	58,270	730,196
(Increase) decrease in finance receivables	26,823	30,697	29,158	250,682
(Increase) decrease in time deposits	27,748	202,808	96,371	259,327
Inflows due to acquisition of additional shares of newly consolidated subsidiaries, net of cash paid	82,208	—	—	768,299
Other	(5,857)	(16,311)	877	(54,738)
Net cash used in investing activities	(178,296)	(85,445)	(11,177)	(1,666,318)
Cash flows from financing activities (Note 17):				
Decrease in short-term borrowings	(8,009)	(39,577)	(106,630)	(74,850)
Increase (decrease) in deposits and advances from customers and employees	(139,134)	(15,787)	(20,589)	(1,300,318)
Proceeds from long-term debt	119,422	108,026	122,288	1,116,093
Repayments of long-term debt	(251,554)	(228,039)	(293,088)	(2,350,972)
Dividends paid	(35,251)	(29,218)	(20,798)	(329,448)
Dividends paid to minority interests	(14,765)	(4,675)	(8,267)	(137,991)
Repurchase of common stock (Note 13)	(92,879)	(69,394)	(115,770)	(868,028)
Sale of treasury stock (Note 13)	1,324	—	—	12,374
Other	1,395	5,963	—	13,037
Net cash used in financing activities	(419,451)	(272,701)	(442,854)	(3,920,103)
Effect of exchange rate changes on cash and cash equivalents	14,054	(23,442)	(9,948)	131,346
Net increase (decrease) in cash and cash equivalents	(105,258)	107,544	234,338	(983,720)
Cash and cash equivalents at beginning of year	1,275,014	1,167,470	933,132	11,916,019
Cash and cash equivalents at end of year	¥1,169,756	¥1,275,014	¥1,167,470	$10,932,299

See accompanying Notes to Consolidated Financial Statements.

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นโยบายการบัญชีของบริษัทมัตสุชิตะ อิเล็คทริค อินดัสเตรียล จำกัด (มหาชน)

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Description of Business
Matsushita Electric Industrial Co., Ltd. (hereinafter, the "Company," including consolidated subsidiaries, unless the context otherwise requires) is one of the world's leading producers of electronic and electric products. The Company currently offers a comprehensive range of products, systems and components for consumer, business and industrial use based on sophisticated electronics and precision technology, expanding to building materials and equipment, and housing business. Most of the Company's products are marketed under "Panasonic" and several other trade names, including "National," "Technics," "Quasar," "Victor," "JVC" and "PanaHome."

Sales in fiscal 2005 were categorized as follows: AVC Networks—41%, Home Appliances—14%, Components and Devices—13%, MEW and PanaHome*—17%, JVC—8%, and Other—7%. A sales breakdown in fiscal 2005 by geographical market was as follows: Japan—53%, North and South America—14%, Europe—13%, and Asia and Others—20%.

The Company is not dependent on a single supplier, and has no significant difficulty in obtaining raw materials from suppliers.

* MEW stands for Matsushita Electric Works, Ltd. and PanaHome stands for PanaHome Corporation.

(b) Basis of Presentation of Consolidated Financial Statements
The Company and its domestic subsidiaries maintain their books of account in conformity with financial accounting standards of Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile.

The consolidated financial statements presented herein have been prepared in a manner and reflect the adjustments which are necessary to conform with U.S. generally accepted accounting principles.

(c) Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its majority-owned, controlled subsidiaries. The Company also consolidates entities in which controlling interest exists through variable interests in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" (FIN 46R). The Company currently does not have any variable interest entities to be consolidated.

(d) Revenue Recognition
The Company generates revenue principally through the sale of consumer and industrial products, equipment, and supplies. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, and title and risk of loss have been transferred to the customer or services have been rendered, the sales price is fixed or determinable, and collectibility is reasonably assured.

Revenue from sales of products is generally recognized when the products are received by customers. Revenue from sales of certain products with customer acceptance provisions related to their functionality is recognized when the product is received by the customer and the specific criteria of the product functionality are successfully tested and demonstrated.

The Company enters into arrangements with multiple elements, which may include any combination of products, equipment, installment and maintenance. The Company allocates revenue to each element based on its relative fair value if such element meets the criteria for treatment as a separate unit of accounting as prescribed in the Emerging Issues Task Force (EITF) Issue 00-21, "Revenue Arrangements with Multiple Deliverables" (EITF 00-21). EITF 00-21 was effective for revenue arrangements entered into after June 30, 2003. EITF 00-21 did not have a material effect on the accompanying consolidated financial statements.

The Company's policy is to accept product returns only in the case that the products are defective. The Company issues contractual product warranties under which it guarantees the performance of products delivered and services rendered for a certain period of time. A liability for the estimated product warranty related cost is established at the time revenue is recognized, and is included in "Other accrued expenses." Estimates for accrued warranty cost are primarily based on historical experience and current information on repair cost.

Historically, the Company has made certain allowances related to sales to its consumer business distributors. Such allowances are generally provided to compensate the distributors for a decline in the product's value, and are classified as a reduction of revenue on the consolidated statements of operations. Estimated price adjustments are accrued when the related sales are recognized. The estimate is made based primarily on the historical experience or specific arrangements made with the distributors.

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The Company also occasionally offers incentive programs to its distributors in the form of rebates. These rebates are accrued at the later of the date at which the related revenue is recognized or the date at which the incentive is offered, and are recorded as reductions of sales in accordance with EITF 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)."

(e) Leases (See Note 7)
A subsidiary of the Company leases machinery and equipment. Leases of such assets are principally accounted for as direct financing leases and included in "Trade receivables—Accounts" and "Noncurrent receivables" in the accompanying consolidated balance sheets.

(f) Inventories (See Note 4)
Finished goods and work in process are stated at the lower of cost (average) or market. Raw materials are stated at cost, principally on a first-in, first-out basis, not in excess of current replacement cost.

(g) Foreign Currency Translation (See Note 14)
Foreign currency financial statements are translated in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation," under which all assets and liabilities are translated into yen at year-end rates and income and expense accounts are translated at weighted-average rates. Adjustments resulting from the translation of financial statements are reflected under the caption, "Accumulated other comprehensive income (loss)," a separate component of stockholders' equity.

(h) Property, Plant and Equipment
Property, plant and equipment is stated at cost. Depreciation is computed primarily using the declining balance method based on the following estimated useful lives:

Buildings .... 5 to 50 years
Machinery and equipment.............. 2 to 10 years

(i) Goodwill and Other Intangible Assets (See Note 9)
Goodwill represents the excess of costs over the fair value of net assets of businesses acquired. The Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," from the fiscal year beginning April 1, 2002. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, and are instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." SFAS No. 142 required the Company to perform an assessment of whether there was an indication that goodwill is impaired as of the date of adoption. The results of this assessment did not require the Company to recognize an impairment loss.

(j) Investments and Advances (See Notes 5, 6 and 14)
Investments and advances primarily consist of investments in and advances to associated companies, cost method investments, available-for-sale securities, and long-term deposits. Cost method investments and long-term deposits are recorded at historical cost.

The equity method is used to account for investments in associated companies in which the Company exerts significant influence, generally having a 20% to 50% ownership interest, and corporate joint ventures. The Company also uses the equity method for some subsidiaries if the minority shareholders have substantive participating rights. Under the equity method of accounting, investments are stated at their underlying net equity value after elimination of intercompany profits. The cost method is used when the Company does not have significant influence.

The excess of cost of the stock of the associated companies over the Company's share of their net assets at the acquisition date, included in the equity investment balance, was recognized as goodwill. Such equity method goodwill is not being amortized and is instead tested for impairment, in accordance with SFAS No. 142.

The Company accounts for debt and equity securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

SFAS No. 115 requires that certain investments in debt and equity securities be classified as held-to-maturity, trading, or available-for-sale securities. The Company classifies its existing marketable equity securities other than investments in associated companies and all debt securities as available-for-sale. Available-for-sale securities are carried at fair value with unrealized holding gains or losses included as a component of accumulated other comprehensive income (loss), net of applicable taxes.

Realized gains and losses are determined on the average cost method and reflected in earnings.

On a continuous basis, but no less frequently than at the end of each semi-annual period, the Company evaluates the carrying amount of each of the investments in associated companies, cost method investments and available-for-sale securities for possible impairment. Factors considered in assessing whether an indication of other-than-temporary impairment exists include the period of time the fair value has been below the carrying amount or cost basis of investment, financial condition and prospects of each investee, and other relevant factors.

Investments in associated companies, cost method investments and available-for-sale securities are reduced to fair value by a charge to earnings when impairment

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is considered to be other than temporary. Impairment is measured based on the amount by which the carrying amount or cost basis of the investment exceeds its fair value. Fair value is determined based on quoted market prices, discounted cash flows or other valuation techniques as appropriate.

(k) Income Taxes (See Note 12)
Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(l) Advertising (See Note 17)
Advertising costs are expensed as incurred.

(m) Net Income (Loss) per Share (See Notes 10, 13 and 15)
The Company accounts for net income (loss) per share in accordance with SFAS No. 128, "Earnings per Share." This Statement establishes standards for computing net income (loss) per share and requires dual presentation of basic and diluted net income (loss) per share on the face of the statements of operations for all entities with complex capital structures.

Under SFAS No. 128, basic net income (loss) per share is computed based on the weighted-average number of common shares outstanding during each period, and diluted net income per share assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock.

(n) Cash Equivalents
Cash equivalents include all highly liquid debt instruments purchased with a maturity of three months or less.

(o) Derivative Financial Instruments (See Notes 18 and 19)
Derivative financial instruments utilized by the Company are comprised principally of foreign exchange contracts, interest rate swaps, cross currency swaps and commodity futures used to hedge currency risk, interest rate risk and commodity price risk.

The Company accounts for derivative instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. The Company recognizes derivatives in the consolidated balance sheets at their fair value in "Other current assets," "Other assets," "Other current liabilities" or "Other liabilities." On the date the derivative contract is entered into, the Company designates the derivative as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair-value" hedge), a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash-flow" hedge), or a foreign-currency fair-value or cash-flow hedge ("foreign-currency" hedge). The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair-value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded in earnings. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income (loss), until earnings are affected by the variability in cash flows of the designated hedged item. Changes in the fair value of derivatives that are highly effective as hedges and that are designated and qualify as foreign-currency hedges are recorded in either earnings or other comprehensive income (loss), depending on whether the hedge transaction is a fair-value hedge or a cash-flow hedge. The ineffective portion of the change in fair value of a derivative instrument that qualifies as either a fair-value hedge or a cash-flow hedge is reported in earnings.

(p) Impairment of Long-Lived Assets (See Note 8)
The Company accounts for impairment or disposition of long-lived assets in accordance with SFAS No. 144. In accordance with SFAS No. 144, long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

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(q) Restructuring Charges (See Note 16)
In June 2002, FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. The Company adopted SFAS No. 146 on January 1, 2003. Pursuant to SFAS No. 146, liabilities for restructuring costs are recognized when the liability is incurred, which may be subsequent to the date when the Company has committed to a restructuring plan. The adoption of SFAS No. 146 did not have a material effect on the Company's consolidated financial statements.

(r) Stock-Based Compensation (See Note 13)
SFAS No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of SFAS No. 123," established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans.

As permitted by existing accounting standards, the Company has elected to continue to apply the intrinsic-based-method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations to account for its stock option plans described in Note 13, and has adopted only the disclosure requirements of SFAS No. 123, as amended.

As the option price at the date of grant exceeded the fair market value of common stock, no compensation costs have been recognized in connection with the plans.

If the accounting provision of SFAS No. 123, as amended, had been adopted, the impact on the Company's net income (loss) for the three years ended March 31, 2005 would not be material.

(s) Use of Estimates
Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(t) New Accounting Pronouncements
In December 2004, FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R), which addresses accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R is a revision to SFAS No. 123 and supersedes APB Opinion No. 25 and its related implementation guidance. SFAS No. 123R will require measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock options. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized. SFAS No. 123R will be effective for the Company as of April 1, 2006. The application of SFAS No. 123R is not expected to have a material effect.

In December 2004, FASB issued SFAS No. 151, "Inventory Costs," which clarifies the accounting for abnormal amounts of its idle facility expense, freight, handling costs, and wasted material (spoilage). Under SFAS No. 151, such items will be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for the Company for inventory costs incurred on or after April 1, 2006. The Company is currently in the process of assessing the impact of the adoption of SFAS No. 151.

In December 2004, FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets," which eliminates an exception in APB Opinion No. 29, "Accounting for Nonmonetary Transactions," for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 will be effective for the Company for nonmonetary asset exchanges occurring on or after April 1, 2006. The Company is currently in the process of assessing the impact of the adoption of SFAS No. 153.

(u) Reclassifications
Certain reclassifications have been made to the prior years' consolidated financial statements and notes thereto to conform with the presentation used for the year ended March 31, 2005.

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ภาคผนวก ข

งบการเงินของรอยัล ฟิลิปส์ อิเล็กทรอนิกส์ จำกัด (มหาชน)

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งบกำไรขาดทุนของบริษัทรอยัล ฟิลิปส์ อิเล็กทรอนิกส์ จำกัด (มหาชน)

Consolidated statements of income of the Philips Group for the years ended December 31

in millions of euros unless otherwise stated

		2002	2003	2004
	Sales	21,820	29,037	**30,319**
	Cost of sales	(21,722)	(19,558)	**(20,155)**
	Gross margin	10,098	9,479	**10,164**
	Selling expenses	(5,201)	(4,575)	**(4,520)**
	General and administrative expenses	(1,404)	(1,492)	**(1,332)**
	Research and development expenses	(3,043)	(2,617)	**(2,534)**
	Write-off of acquired in-process R&D	(12)	–	**–**
	Impairment of goodwill	(19)	(148)	**(596)**
	Restructuring and impairment charges	(484)	(407)	**(288)**
	Other business income (expense)	485	248	**713**
2	**Income from operations**	420	488	**1,607**
3	Financial income and expenses	(2,227)	(244)	**216**
	Income (loss) before taxes	(1,807)	244	**1,823**
4	Income tax (expense) benefit	(27)	15	**(358)**
	Income (loss) after taxes	(1,834)	259	**1,465**
5	Results relating to unconsolidated companies including net dilution gain of EUR 254 million (2003: gain of EUR 53 million, 2002: loss of EUR 12 million)	(1,346)	506	**1,422**
6	Minority interests	(26)	(56)	**(51)**
	Income (loss) before cumulative effect of a change in accounting principles	(3,206)	709	**2,836**
7	Cumulative effect of a change in accounting principles, net of tax	–	(14)	**–**
8	**Net income (loss)**	(3,206)	695	**2,836**

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งบดุลของบริษัทรอยัล ฟิลิปส์ อิเล็กทรอนิกส์ จำกัด (มหาชน)

Consolidated balance sheets of the Philips Group as of December 31

in millions of euros unless otherwise stated

Note	Assets		2003		2004
	Current assets				
	Cash and cash equivalents		3,072		4,349
(7) (11)	Receivables:				
	- Accounts receivable – net	4,164		4,268	
	- Accounts receivable from unconsolidated companies	49		25	
	- Other receivables	415		235	
			4,628		4,528
(10)	Inventories		3,204		3,230
(11)	Other current assets		1,010		1,216
	Total current assets		11,914		13,323
	Non-current assets				
(5)	Investments in unconsolidated companies		4,841		5,670
(12)	Other non-current financial assets		1,213		876
(13)	Non-current receivables		218		227
(14)	Other non-current assets		2,581		2,823
(15)	Property, plant and equipment:				
	- At cost	14,153		14,609	
	- Less accumulated depreciation	(9,274)		(9,612)	
			4,879		4,997
(16)	Intangible assets excluding goodwill:				
	- At cost	2,189		2,308	
	- Less accumulated amortization	(918)		(1,319)	
			1,271		989
(17)	Goodwill		2,494		1,818
	Total non-current assets		17,497		17,400
	Total		29,411		30,723

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งบกระแสเงินสดของบริษัทรอยัล ฟิลิปส์ อิเล็กทรอนิกส์ จำกัด(มหาชน)

Consolidated statements of cash flows of the Philips Group for the years ended December 31

in millions of euros unless otherwise stated

	2002	2003	2004
Cash flows from operating activities:			
Net income (loss)	(3,206)	695	2,836
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,194	2,075	2,293
Impairment of equity investments	3,260	772	8
Net gain on sale of assets	(643)	(957)	(1,328)
Loss (income) from unconsolidated companies (net of dividends received)	54	(589)	(1,178)
Minority interests (net of dividends paid)	26	49	35
Decrease in working capital/other current assets	815	307	354
Decrease (increase) in non-current receivables/other assets	86	(243)	(435)
(Decrease) increase in provisions	(336)	(155)	48
Other items	(12)	103	64
Net cash provided by operating activities	2,222	1,992	2,697
Cash flows from investing activities:			
Purchase of intangible assets	(149)	(96)	(103)
Capital expenditures on property, plant and equipment	(1,161)	(980)	(1,286)
Proceeds from disposals of property, plant and equipment	370	220	191
(18) Cash from derivatives	422	391	425
Purchase of other non-current financial assets	(15)	(18)	(11)
(23) Proceeds from other non-current financial assets	98	323	504
Purchase of businesses, net of cash acquired	(626)	(470)	(440)
Proceeds from sale of interests in businesses	813	1,372	1,273
Net cash (used for) provided by investing activities	(248)	742	653
Cash flows before financing activities	1,980	2,734	3,350
Cash flows from financing activities:			
(Decrease) increase in short-term debt	(548)	49	(5)
Principal payments on long-term debt	(276)	(1,304)	(1,920)
Proceeds from issuance of long-term debt	406	311	258
Treasury stock transactions	(19)	49	(18)
Dividends paid	(459)	(460)	(460)
Net cash used for financing activities	(897)	(1,355)	(2,145)
Cash provided by continuing operations	1,083	1,379	1,205
Effect of changes in consolidation on cash positions	–	–	117
Effect of changes in exchange rates on cash positions	(113)	(165)	(45)
Cash and cash equivalents at beginning of year	890	1,858	3,072
Cash and cash equivalents at end of year	1,858	3,072	4,349

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นโยบายการบัญชีของบริษัทรอยัล ฟิลิปส์ อิเล็กทรอนิกส์ จำกัด (มหาชน)

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

Consolidation principles

The consolidated financial statements include the accounts of Koninklijke Philips Electronics N.V. ('Royal Philips Electronics', or the 'Company') and all entities in which a direct or indirect controlling interest exists through voting rights or qualifying variable interests. All intercompany balances and transactions have been eliminated in consolidation. Net income is reduced by the portion of the earnings of subsidiaries applicable to minority interests. The minority interests are disclosed separately in the consolidated statements of income and in the consolidated balance sheets.
The Company has adopted Financial Accounting Standards Board (FASB) Interpretation No. 46(R) 'Consolidation of Variable Interest Entities'. In accordance with Interpretation of Accounting Research Bulletin No. 51 'Consolidated Financial Statements', the Company consolidates entities in which variable interests are held to an extent that would require the Company to absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both.

Investments in unconsolidated companies

Investments in companies in which Royal Philips Electronics does not have the ability to directly or indirectly control the financial and operating decisions, but does possess the ability to exert significant influence, are accounted for using the equity method. Generally, in the absence of demonstrable proof of significant influence, it is presumed to exist if at least 20% of the voting stock is owned. The Company's share of the net income of these companies is included in results relating to unconsolidated companies in the consolidated statements of income. The Company recognizes an impairment loss when an other-than-temporary decline in the value of an investment occurs.

Accounting for capital transactions of a subsidiary or an unconsolidated company

The Company recognizes dilution gains or losses arising from the sale or issuance of stock by a consolidated subsidiary or an unconsolidated entity which the Company is accounting for using the equity method of accounting in the income statement, unless the Company or the subsidiary either has or plans to reacquire such shares. In such instances, the result of the transaction will be recorded directly in stockholders' equity as a non-operating gain or loss.

The dilution gains or losses are presented in the income statement in the caption Other business income (expenses) if they relate to consolidated subsidiaries. Dilution gains and losses related to unconsolidated companies are presented in the caption Results relating to unconsolidated companies.

Foreign currencies

The financial statements of foreign entities are translated into euros. Assets and liabilities are translated using the exchange rates on the respective balance sheet dates. Income and expense items in the income statement and cash flow statement are translated at weighted average exchange rates during the year. The resulting translation adjustments are recorded as a separate component of other comprehensive income (loss) within stockholders' equity. Cumulative translation adjustments are recognized as income or expense upon partial or complete disposal or substantially complete liquidation of a foreign entity.

The functional currency of foreign entities is generally the local currency, unless the primary economic environment requires the use of another currency. When foreign entities conduct their business in economies considered to be highly inflationary, they record transactions in the Company's reporting currency (the euro) instead of their local currency.
Gains and losses arising from the translation or settlement of foreign-currency-denominated monetary assets and liabilities into the local currency are recognized in income in the period in which they arise. However, currency differences on intercompany loans that have the nature of a permanent investment are accounted for as translation differences as a separate component of other comprehensive income (loss) within stockholders' equity.

Derivative financial instruments

The Company uses derivative financial instruments principally in the management of its foreign currency risks and to a more limited extent for interest rate and commodity price risks. Applying Statement of Financial Accounting Standards (SFAS) No. 133, 'Accounting for Derivative Instruments and Hedging Activities', SFAS No. 138, 'Accounting for Certain Derivative Instruments and Certain Hedging Activities', and SFAS No. 149 'Amendment of Statement 133 on Derivative Instruments and Hedging Activities', which was adopted in 2003, the Company measures all derivative financial instruments based on fair values derived from market prices of the instruments or from option pricing models, as appropriate. Gains or losses arising from changes in the fair value of the instruments are recognized in the income statement during the period in which they arise to the extent that the derivatives have been designated as a hedge of recognized assets or liabilities, or to the extent that the derivatives have no hedging designation

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or are ineffective. The gains and losses on the designated derivatives substantially offset the changes in the values of the recognized hedged items, which are also recognized as gains and losses in the income statement.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair value hedge, along with the loss or gain on the hedged asset, or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded in the income statement.
Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge, are recorded in accumulated other comprehensive income, until earnings are affected by the variability in cash flows of the designated hedged item. Changes in the fair value of derivatives that are highly effective as hedges and that are designated and qualify as foreign currency hedges are recorded in either earnings or accumulated other comprehensive income, depending on whether the hedge transaction is a fair value hedge or a cash flow hedge.

The Company formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is established that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively. When hedge accounting is discontinued because it has been established that the derivative no longer qualifies as an effective fair value hedge, the Company continues to carry the derivative on the balance sheet at its fair value, and no longer adjusts the hedged asset or liability for changes in fair value. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur within a period of two months from the originally forecasted transaction date, the Company continues to carry the derivative on the balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income are recognized immediately in earnings. In all other situations in which hedge accounting is discontinued, the Company continues to carry the derivative at its fair value on the balance sheet, and recognizes any changes in its fair value in earnings.

For interest rate swaps that are unwound, the gain or loss upon unwinding is released to income over the remaining life of the underlying financial instruments, based on the recalculated effective yield.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and short-term highly liquid investments with an original maturity of three months or less that are readily convertible into known amounts of cash. They are stated at face value.

Investments

The Company classifies its investments in equity securities that have readily determinable fair values as either available-for-sale or for trading purposes. Investments in debt securities are classified in one of three categories: trading, available-for-sale or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the short term. Held-to-maturity securities are those debt securities in which the Company has the ability and intent to hold the security until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale. Trading and available-for-sale securities are recorded at fair value. Held-to-maturity debt securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts using the effective interest method. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income within stockholders' equity until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a first-in, first-out basis.
A decline in the market value of any available-for-sale security or held-to-maturity security below cost that is deemed to be other than temporary results in a reduction in the carrying amount to fair value. The impairment is charged to earnings, and a new cost basis for the security is established. Dividend and interest income are recognized when earned. Gains or losses, if any, are recorded in financial income and expenses.
For available-for-sale securities hedged under a fair value hedge, the changes in the fair value that are attributable to the risk which is being hedged are recognized in earnings rather than in other comprehensive income.
Investments in privately-held companies are carried at cost, or estimated fair value if an other-than-temporary decline in value has occurred.

Receivables

Receivables are carried at face value, net of allowances for doubtful accounts and uncollectible amounts. As soon as trade accounts receivable can no longer be collected in the normal way and are expected to result in a loss, they are designated as doubtful trade accounts receivable and valued at the expected collectible amounts. They are written off when they are deemed to be uncollectible because of bankruptcy or other forms of

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receivership of the debtors.
Long-term receivables are discounted to their net present value.

Valuation adjustment for doubtful trade accounts receivable

The allowance for the risk of non-collection of trade accounts receivable is determined in three stages. First, individual debtors that represent 3% or more of the debtor portfolio are assessed for creditworthiness based on external and internal sources of information; management decides upon an allowance based on that information and the specific circumstances for that debtor which might require a value adjustment. In the second stage, for all other debtors the allowance is calculated based on a percentage of average historical losses. Finally, if, owing to specific circumstances such as serious adverse economic conditions in a specific country or region, it is management's judgment that the valuation of the receivables is inadequately represented by the valuation allowance in stage two, the percentage of valuation allowance for the debtors in the related country or region may be increased to cover the increased risk.

Inventories

Inventories are stated at the lower of cost or market, less advance payments on work in progress. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred bringing the inventories to their present location and condition. The costs of conversion of inventories include direct labor and fixed and variable production overheads, taking into account the stage of completion. The cost of inventories is determined using the first-in, first-out (FIFO) method. An allowance is made for the estimated losses due to obsolescence. This allowance is determined for groups of products based on purchases in the recent past and/or expected future demand. Individual items of inventory that have been identified as obsolete are typically disposed of within a period of three months either by sale or by scrapping.

Other non-current financial assets

Loans receivable are stated at amortized cost, less the related allowance for impaired loans receivable. Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. Impairment losses are included in the allowance for doubtful accounts through a charge to bad debt expense. Cash receipts on impaired loans receivable are applied to reduce the principal amount of such loans until the principal has been recovered and are recognized as interest income thereafter.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Assets manufactured by the Company include direct manufacturing costs, production overheads and interest charges incurred during the construction period. Government grants are deducted from the cost of the related asset. Depreciation is calculated using the straight-line method over the expected economic life of the asset. Depreciation of special tooling is generally also based on the straight-line method. Gains and losses on the sale of property, plant and equipment are included in other business income. Costs related to major maintenance activities are expensed in the period in which they are incurred. Plant and equipment under capital leases are initially recorded at the present value of minimum lease payments. These assets and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Asset retirement obligations

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". The Company adopted this Statement in 2003. Under the provisions of this Statement, the Company recognizes the fair value of an asset retirement obligation in the period in which it is incurred, while an equal amount is capitalized as part of the carrying amount of the long-lived asset and subsequently depreciated over the life of the asset.
Upon initial application of the Statement, the Company recognized a liability for existing asset retirement obligations adjusted for cumulative accretion to January 1, 2003. Additionally, the Company recorded the asset retirement cost as an increase to the carrying amounts of the associated long-lived assets and recognized the accumulated depreciation on such capitalized cost. The cumulative effect of the initial application of the Statement has been recognized as a change in accounting principle and the net amount has been reported as a cumulative-effect adjustment in the consolidated income statement for 2003. The pro forma disclosure of the amount of the asset retirement obligation that would have been reported if the Statement had been applied during all periods affected, has been omitted because the amounts were not material.

Goodwill

The Company adopted the provisions of SFAS No. 141 as of July 1 2001 and SFAS No. 142 as of January 1, 2002. Goodwill is not amortized but tested for impairment annually in the second quarter or whenever impairment indicators require so.

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Prior to adoption of SFAS No. 142, the Company applied the straight-line method for amortization of goodwill over the period expected to benefit, not exceeding 20 years.

Upon adoption of SFAS No. 142, the Company was required as of January 1, 2002 to evaluate its existing intangible assets and goodwill that were acquired in purchase business combinations, and to make any necessary reclassifications in order to conform with the new classification criteria in SFAS No. 141 for recognition separate from goodwill. The Company re-assessed the useful lives and residual values of all intangible assets acquired. No amortization period adjustments were necessary. Also, in connection with SFAS No. 142's transitional goodwill impairment evaluation, the Company performed an assessment of whether there was an indication that goodwill was impaired as of the date of adoption. To accomplish this, the Company was required to identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of January 1, 2002. Furthermore, the Company was required to determine the fair value of each reporting unit and to compare it to the carrying amount of the reporting unit. To the extent that the carrying amount of a reporting unit exceeded the fair value of the reporting unit, the Company was required to perform the second step of the transitional impairment test. In the second step, the Company was required to compare the implied fair value of the reporting unit's goodwill with the carrying amount of the reporting unit's goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation upon a business combination in accordance with SFAS No. 141. The residual fair value after this allocation is the implied fair value of the reporting unit's goodwill.

The Company identified its reporting units as one level below that of an operating segment, which is the level that constitutes a business and reports discrete financial information to segment management and the Board of Management, and performed the transitional goodwill impairment test for each of those reporting units in the first quarter of 2002. No impairment arose from these tests.

In addition to the transitional goodwill impairment test, the Company performed and completed its annual impairment tests, using methodology similar to that used for the transitional impairment test, in the second quarter of all years presented in the consolidated statements of income.

Intangible assets

Intangible assets arising from acquisitions are amortized using the straight-line method over their estimated economic lives. Economic lives are evaluated every year. There are currently no intangible assets with indefinite lives.

In-process Research and Development (R&D) with no alternative use is written off immediately upon acquisition.

Patents and trademarks acquired from third parties are capitalized and amortized over their remaining lives.

Certain costs relating to the development and purchase of software for internal use are capitalized and subsequently amortized over the estimated useful life of the software in conformity with Statement of Position (SOP) 98-1, 'Accounting for the Costs of Computer Software Developed or Obtained for Internal Use'.

Eligible costs relating to the production of software intended to be sold, leased or otherwise marketed are capitalized and subsequently amortized over the estimated useful life of the software in accordance with SFAS No. 86, 'Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed'.

Impairment or disposal of intangible assets other than goodwill and tangible fixed assets

The Company accounts for intangible and tangible fixed assets in accordance with the provisions of SFAS No. 144, 'Accounting for the Impairment or Disposal of Long-Lived Assets'. This Statement requires that long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset with future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. The review for impairment is carried out at the level where discrete cash flows occur that are independent of other cash flows. Assets held for sale are reported at the lower of the carrying amount or fair value, less costs to sell.

Research and development

All costs of research and development are expensed in the period in which they are incurred, in conformity with SFAS No. 2, 'Accounting for Research and Development Costs'.

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Prior to adoption of SFAS No. 142, the Company applied the straight-line method for amortization of goodwill over the period expected to benefit, not exceeding 20 years.

Upon adoption of SFAS No. 142, the Company was required as of January 1, 2002 to evaluate its existing intangible assets and goodwill that were acquired in purchase business combinations, and to make any necessary reclassifications in order to conform with the new classification criteria in SFAS No. 141 for recognition separate from goodwill. The Company reassessed the useful lives and residual values of all intangible assets acquired. No amortization period adjustments were necessary. Also, in connection with SFAS No. 142's transitional goodwill impairment evaluation, the Company performed an assessment of whether there was an indication that goodwill was impaired as of the date of adoption. To accomplish this, the Company was required to identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of January 1, 2002. Furthermore, the Company was required to determine the fair value of each reporting unit and to compare it to the carrying amount of the reporting unit. To the extent that the carrying amount of a reporting unit exceeded the fair value of the reporting unit, the Company was required to perform the second step of the transitional impairment test. In the second step, the Company was required to compare the implied fair value of the reporting unit's goodwill with the carrying amount of the reporting unit's goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation upon a business combination in accordance with SFAS No. 141. The residual fair value after this allocation is the implied fair value of the reporting unit's goodwill.

The Company identified its reporting units as one level below that of an operating segment, which is the level that constitutes a business and reports discrete financial information to segment management and the Board of Management, and performed the transitional goodwill impairment test for each of those reporting units in the first quarter of 2002. No impairment arose from these tests.

In addition to the transitional goodwill impairment test, the Company performed and completed its annual impairment tests, using methodology similar to that used for the transitional impairment test, in the second quarter of all years presented in the consolidated statements of income.

Intangible assets

Intangible assets arising from acquisitions are amortized using the straight-line method over their estimated economic lives.

Economic lives are evaluated every year. There are currently no intangible assets with indefinite lives.

In-process Research and Development (R&D) with no alternative use is written off immediately upon acquisition.

Patents and trademarks acquired from third parties are capitalized and amortized over their remaining lives.

Certain costs relating to the development and purchase of software for internal use are capitalized and subsequently amortized over the estimated useful life of the software in conformity with Statement of Position (SOP) 98-1, 'Accounting for the Costs of Computer Software Developed or Obtained for Internal Use'.

Eligible costs relating to the production of software intended to be sold, leased or otherwise marketed are capitalized and subsequently amortized over the estimated useful life of the software in accordance with SFAS No. 86, 'Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed'.

Impairment or disposal of intangible assets other than goodwill and tangible fixed assets

The Company accounts for intangible and tangible fixed assets in accordance with the provisions of SFAS No. 144, 'Accounting for the Impairment or Disposal of Long-Lived Assets'. This Statement requires that long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset with future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

The review for impairment is carried out at the level where discrete cash flows occur that are independent of other cash flows. Assets held for sale are reported at the lower of the carrying amount or fair value, less costs to sell.

Research and development

All costs of research and development are expensed in the period in which they are incurred, in conformity with SFAS No. 2, 'Accounting for Research and Development Costs'.

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equipment has been finalized in accordance with the contractually agreed specifications and therefore the product is ready to be used by the customer, and subsequently a signed acceptance protocol has been obtained from the customer, or, in cases where such acceptance protocol is not contractually required, when management has established on the basis of installation and workflow protocols that the product has been installed and is ready to be used by the customer in the way contractually agreed. Typically, installation activities include, to a certain extent, assembly of the equipment on the spot. Any payments by the customer are typically contingent upon the completion of the installation process in accordance with the contractual requirements and therefore, in such instances, revenue recognition with respect to the equipment delivery is deferred until the installation process is completed.

Revenues are recorded net of sales taxes, customer discounts, rebates and similar charges. For products for which a right of return exists during a defined period, revenue recognition is determined based on the historical pattern of actual returns, or in cases where such information is lacking, revenue recognition is postponed until the return period has lapsed. Return policies are typically in conformity with customary return arrangements in local markets.

For products for which a residual value guarantee has been granted or a buy-back arrangement has been concluded, revenue recognition takes place in accordance with the requirements for lease accounting of SFAS No.13, "Accounting for Leases".

Shipping and handling costs billed to customers are recognized as revenues. Expenses incurred for shipping and handling costs of internal movements of goods are recorded as cost of sales. Shipping and handling costs related to sales to third parties are reported as selling expenses and disclosed separately.

Service revenue related to repair and maintenance activities for sold goods is recognized ratably over the service period or as services are rendered.

A provision for product warranty is made at the time of revenue recognition and reflects the estimated costs of replacement and free-of-charge services that will be incurred by the Company with respect to the sold products. In cases where the warranty period is extended and the customer has the option to purchase such an extension, which is subsequently billed separately to the customer, revenue recognition occurs on a straight-line basis over the contract period.

Royalty income, which is generally earned based upon a percentage of sales or a fixed amount per product sold, is recognized on an accrual basis. Government grants, other than those relating to purchases of assets, are recognized as income as qualified expenditures are made.

EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables", which has been adopted in 2003, applies to some arrangements that occur in the Medical Systems businesses on delivery of equipment that requires subsequent installation and training activities in order to become operable for the customer. However, since payment for the equipment is typically contingent upon the completion of the installation process, revenue recognition is required to be deferred until the installation has been completed. The Company recognizes revenues of the other deliverables based on their relative fair values.

Income taxes

Income taxes are accounted for using the asset and liability method. Income tax is recognized in the income statement except to the extent that it relates to an item recognized directly within stockholders' equity, including other comprehensive income (loss), in which case the related tax effect is also recognized there. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Measurement of deferred tax assets and liabilities is based upon the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets, including assets arising from loss carryforwards, are recognized if it is more likely than not that the asset will be realized. Deferred tax assets and liabilities are not discounted.

Deferred tax liabilities for withholding taxes are recognized for subsidiaries in situations where the income is to be paid out as dividends in the foreseeable future, and for undistributed earnings of minority shareholdings.

Changes in tax rates are reflected in the period that includes the enactment date.

Benefit accounting

The Company accounts for the cost of pension plans and postretirement benefits other than pensions in accordance with SFAS No. 87, "Employers' Accounting for Pensions", and SFAS No. 106, "Postretirement Benefits other than Pensions", respectively. Most of the Company's defined-benefit plans are funded with plan assets that have been segregated and restricted in a trust to provide for the pension benefits to which the Company has committed itself.

When plan assets have not been segregated the Company recognizes a provision for such amounts.

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Pension costs in respect of defined-benefit pension plans primarily represent the increase in the actuarial present value of the obligation for pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on plan assets.

In the event that the accumulated benefit obligation, calculated as the present value of the benefits attributed to employee service rendered and based on current and past compensation levels, exceeds the market value of the plan assets and existing accrued pension liabilities, this difference and the existing prepaid pension asset are recognized as an additional minimum pension liability.

Obligations for contributions to defined-contribution pension plans are recognized as an expense in the income statement as incurred.

In certain countries, the Company also provides postretirement benefits other than pensions. The cost relating to such plans consists primarily of the present value of the benefits attributed on an equal basis to each year of service, interest cost on the accumulated postretirement benefit obligation, which is a discounted amount, and amortization of the unrecognized transition obligation. This transition obligation is being amortized through charges to earnings over a twenty-year period beginning in 1993 in the USA and in 1995 for all other plans.

Unrecognized prior service costs related to pension plans and postretirement benefits other than pensions are being amortized by assigning a proportional amount to the income statements of a number of years, reflecting the average remaining service period of the active employees.

Stock-based compensation

In 2003, the Company adopted the fair value recognition provisions of SFAS No. 123, 'Accounting for Stock-Based Compensation', as amended by SFAS No. 148, 'Accounting for stock-based Compensation – Transition and Disclosure', prospectively for all employee awards granted, modified or settled after January 1, 2003. Under the provisions of SFAS No. 123, the Company recognizes the estimated fair value of equity instruments granted to employees as compensation expense over the vesting period.

For awards granted to employees prior to 2003, the Company continues to account for stock-based compensation using the intrinsic value method in accordance with US Accounting Principles Board (APB) Opinion No. 25, 'Accounting for Stock Issued to Employees'.

The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions for all outstanding and unvested awards in each period:

	2002	2003	2004
Net income (loss):			
As reported	(3,206)	695	**2,836**
Add: Stock-based compensation expense included in reported net income, net of related tax	(5)	27	**52**
Deduct: Stock-based compensation expense determined using the fair value method, net of related tax	(147)	(194)	**(115)**
Pro forma	(3,358)	528	**2,773**
Basic earnings per share:			
As reported	(2.51)	0.54	**2.22**
Pro forma	(2.63)	0.46	**2.17**
Diluted earnings per share:			
As reported	(2.51)	0.54	**2.21**
Pro forma	(2.63)	0.46	**2.16**

Discontinued operations

The Company has defined its businesses as components of an entity for the purpose of assessing whether or not operations and cash flows can be clearly distinguished from the rest of the Company, in order to qualify as a discontinued operation in the event of disposal of a business. Any gain or loss from disposal of a business, together with the results of these operations until the date of disposal, is reported separately as discontinued operations in accordance with SFAS No. 144. The financial information of a discontinued business is excluded from the respective captions in the consolidated financial statements and related notes.

Cash flow statements

Cash flow statements have been prepared using the indirect method in accordance with the requirements of SFAS No. 95, 'Statement of Cash flows', as amended by SFAS No. 104. Cash flows in foreign currencies have been translated into euros using the weighted average rates of exchange for the periods involved. Cash flows from derivative instruments that are accounted for as fair value hedges or cash flow hedges are classified in the same category as the cash flows from the hedged items. Cash flows from derivative instruments for which hedge accounting has been discontinued are classified consistent with the nature of the instrument as from the date of discontinuance.

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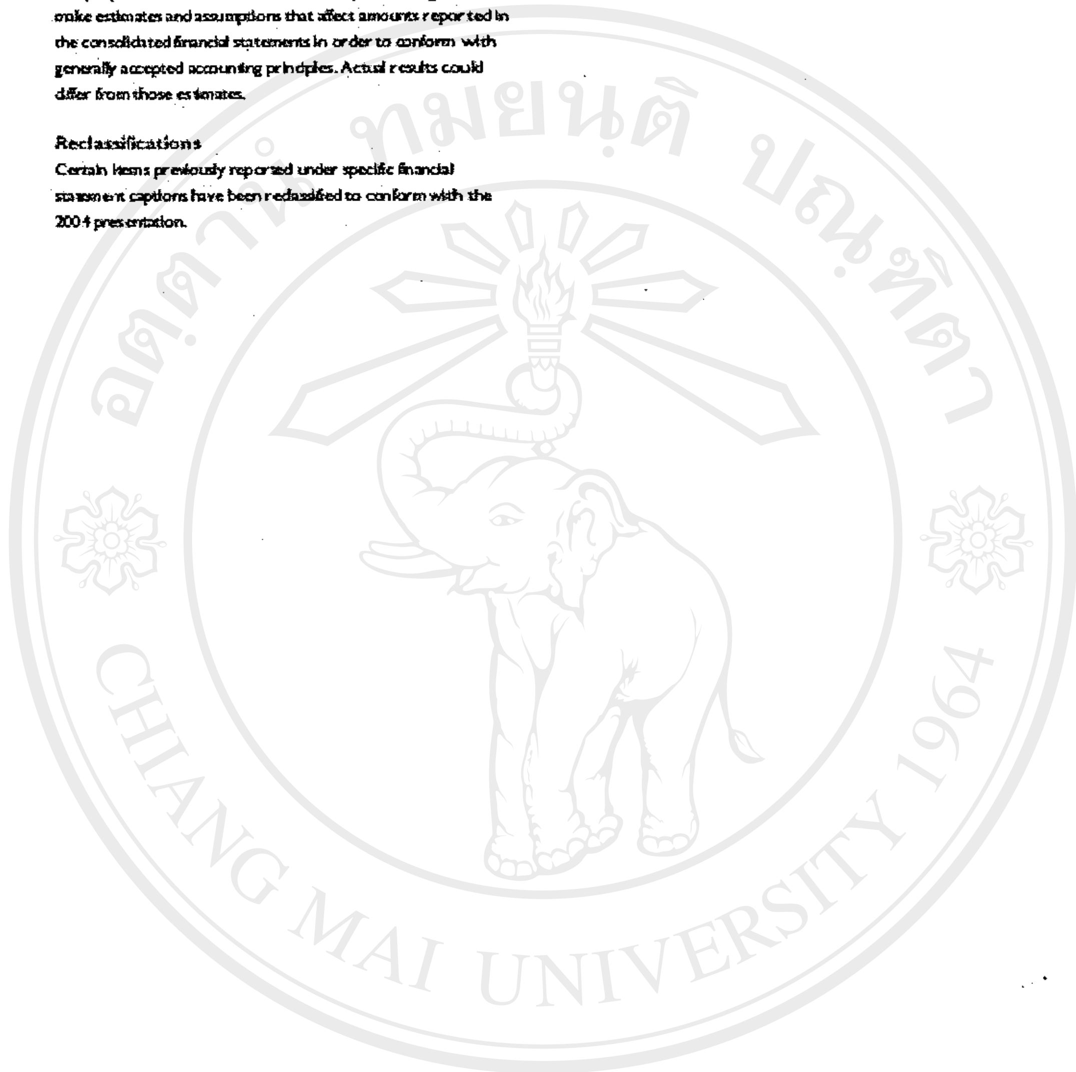
Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements in order to conform with generally accepted accounting principles. Actual results could differ from those estimates.

Reclassifications

Certain items previously reported under specific financial statement captions have been reclassified to conform with the 2004 presentation.



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