

Balance sheets and cash flows

amounts in millions unless otherwise stated

Consolidated balance sheets

	Dutch guilders		USD	
	March 31, 1997	December 31, 1996	March 31, 1997	December 31, 1996
Fixed assets	23,898	22,701	12,578	13,047
Inventories	12,134	10,766	6,386	6,187
Receivables	19,291	19,460	10,153	11,184
Cash and cash equivalents	1,978	2,145	1,041	1,233
Total assets	57,301	55,072	30,158	31,651
Provisions	9,557	9,047	5,030	5,199
Debt	12,865	13,345	6,771	7,670
Other liabilities	17,076	17,012	8,987	9,777
Group equity	17,803	15,668	9,370	9,005
Of which stockholders' equity	15,783	13,956	8,307	8,021
<i>Per common share (in Dutch guilders/USD)</i>	<i>45.20</i>	<i>40.21</i>	<i>23.79</i>	<i>23.11</i>
Closing USD rate			1.90	1.74

Number of common shares outstanding

	March 31, 1997	December 31, 1996
Shares in thousands	353,600	352,500

Consolidated statements of cash flows*

	January to March	
	1997	1996
Cash flows from operating activities:		
Net income	887	692
Depreciation and amortization of (in)tangible fixed assets	837	745
Increase in working capital	(533)	(1,091)
Increase in provisions	327	47
Other adjustments	(356)	(341)
Net cash generated by operating activities	1,162	52
Cash required for investments	(1,047)	(1,420)
Proceeds from divestments	724	1,063
Cash flows (before financing activities)	839	(305)

* Certain items in the statements of cash flows do not correspond to the differences between the balance sheet amounts for the respective items, principally because of the effects of translation differences and consolidation changes.

Product sectors

amounts in millions of guilders unless otherwise stated

Sales and employees

	sales (to third parties)			employees	
	January to March 1997			position	
	amount	% growth		March 31, 1997	January 1, 1997**
		nominal	comparable *		
Lighting	2,337	8	0	51,938	50,975
Consumer Products	4,808	(6)	5	58,387	59,227
Components and Semiconductors	3,293	14	0	70,630	70,112
Professional Products and Systems	2,639	12	8	32,888	32,260
Software & Services	2,691	10	1	27,457	27,047
Miscellaneous	368	(42)	2	12,571	12,492
Not attributable to a specific product sector				12,999	13,241
Total	16,136	3	3	266,870	265,354

* Adjusted for the effects of changes in consolidations and exchange rate movements

** Comparable

Segment revenues and income from operations

	January to March					
	1997			1996*		
	segment revenues	income (loss) from operations	as a % of segment revenues	segment revenues	income (loss) from operations	as a % of segment revenues
Lighting	2,370	275	11.6	2,209	274	12.4
Consumer Products	5,117	206	4.0	5,375	(52)	(1.0)
Components and Semiconductors	4,295	429	10.0	3,886	496	12.8
Professional Products and Systems	2,727	(54)	(2.0)	2,650	(61)	(2.3)
Software & Services	2,943	181	6.2	2,665	162	6.1
Miscellaneous	846	44	5.2	1,112	90	8.1
Costs and revenues not allocated		(245)			(219)	
Total	18,298	836		17,897	690	
Intersegment sales	(2,162)			(2,266)		
Sales	16,136			15,631		
Income from operations as a % of sales		5.2			4.4	

* For comparison reasons reclassified

Geographic areas

amounts in millions of guilders unless otherwise stated

Sales and employees

	sales (to third parties)			employees	
	January to March 1997			position	
	amount	% growth		March 31, 1997	January 1, 1997**
		nominal	comparable *		
Europe	8,070	(3)	4	136,167	135,744
USA and Canada	3,320	6	(2)	29,279	29,502
Latin America	1,146	25	11	28,239	27,343
Asia Pacific	3,471	12	5	72,122	71,662
Africa	129	3	7	1,063	1,103
Total	16,136	3	3	266,870	265,354

* Adjusted for the effects of changes in consolidations and exchange rate movements

** Comparable

Segment revenues and income from operations

	January to March					
	1997			1996*		
	segment revenues	income (loss) from operations	as a % of segment revenues	segment revenues	income from operations	as a % of segment revenues
Europe	14,842	481	3.2	14,486	291	2.0
USA and Canada	3,921	(5)	(0.1)	3,402	15	0.4
Latin America	1,074	43	4.0	889	25	2.8
Asia Pacific	5,766	318	5.5	4,848	356	7.3
Africa	59	(1)	(1.7)	70	3	4.3
Total	25,662	836		23,695	690	
Interregional sales	(9,526)			(8,064)		
Sales	16,136			15,631		
Income from operations as a % of sales		5.2			4.4	

* For comparison reasons reclassified

Information also available on Internet, address: <http://www.philips.com>

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Statements of income and additional ratios

amounts in millions unless otherwise stated

the data included in this report are unaudited

Statements of income

	January to March			
	Dutch guilders		USD	
	1997	1996	1997	1996
Sales	16,136	15,631	8,675	9,531
Income from operations	836	690	450	421
Financial income and expenses	(167)	(226)	(90)	(138)
Income before taxes	669	464	360	283
Income taxes	(167)	(93)	(90)	(57)
Income after taxes	502	371	270	226
Equity in income of unconsolidated companies	(10)	84	(6)	51
Share of other group equity in group income	(32)	(78)	(17)	(47)
Net income from normal business operations	460	377	247	230
<i>Per common share (in Dutch guilders/USD)</i>	<i>1.32</i>	<i>1.10</i>	<i>0.71</i>	<i>0.67</i>
Extraordinary items - net	427	315	230	192
Net income	887	692	477	422
<i>Per common share (in Dutch guilders/USD)</i>	<i>2.55</i>	<i>2.02</i>	<i>1.37</i>	<i>1.23</i>
Average USD rate			1.86	1.64

Number of employees

	End of March	
	1997	1996
Comparable figure on 1.1.1997 : 265,400	266,900	272,300

Ratios

	January to March	
	1997	1996
Income from operations:		
As a % of net sales	5.2	4.4
As a % of net operating capital (RONA)	13.7	11.8
Net income from normal business operations as a % of stockholders' equity (ROE)	13.4	10.8
	End of March	
	1997	1996
Net debt : group equity ratio (at year-end 1996 42 : 58)	38 : 62	34 : 66
Inventories as a % of sales	17.4	19.5
Outstanding trade receivables, in months' sales	1.8	1.7

Report on the performance of the Philips Group

Net income from normal business operations in the first quarter of 1997 amounted to NLG 460 million (NLG 1.32 per share) compared with NLG 377 million (NLG 1.10 per share) in the same quarter of last year. Extraordinary items primarily arising from the partial flotation of the shareholding in ASM Lithography N.V. in February 1997 contributed NLG 427 million to net income. Bottom-line net income thus arrived at NLG 887 million or NLG 2.55 per share. Last year's first quarter net income of NLG 692 million (NLG 2.02 per share) included a net extraordinary gain of NLG 315 million, largely resulting from the public offering of part of ASM Lithography's shares in March 1996.

Sales in the first quarter were NLG 16,136 million, representing 3% growth both nominally and on a comparable basis. Exchange rate fluctuations had a positive influence on sales of 8%, while consolidation changes, in particular the deconsolidation of Grundig A.G., had a negative effect of 8%. Price erosion came to 5% in the first quarter, which was 2% stronger than in the same quarter last year, and at the same rate as for the year 1996.

Income from operations increased to NLG 836 million or 5.2% of sales from NLG 690 million or 4.4% of sales.

The cost of finance in the first quarter came to NLG 167 million compared with NLG 226 million in 1996. Income taxes have been provisionally determined at a rate of 25% versus 20% in the first quarter of 1996, and an actual rate for that year of 25%.

Philips' share in the net income of unconsolidated companies amounted to a loss of NLG 10 million as compared to a profit of NLG 84 million last year. Lower income was largely attributable to reduced income of Taiwan Semiconductor Manufacturing Co. and losses on the minority holding of Grundig A.G.

Trend per product sector

growth is expressed on a comparable basis

Sales in the *Lighting sector* were unchanged on last year. Continued growth in Eastern Europe, Asia Pacific and Latin America was offset by weak markets in Europe and flat markets in the USA. Income from operations of NLG 275 million was at the same level as in 1996.

Sales in the *Consumer Products* sector grew by 5%. Markets for traditional consumer products were flat in Western Europe and the USA, but continued to grow in Eastern Europe, Asia Pacific and Latin America. Consumer Communications showed strong sales in expanding markets.

Income from operations improved substantially from a loss of NLG 52 million to a profit of NLG 206 million, helped in part by the deconsolidation of Grundig A.G., and better operating performances in sound and vision and domestic appliances.

Sales of the *Components and Semiconductors* sector remained at last year's level. Higher sales of components by 3% were offset by lower semiconductor sales. Severe price erosion of color monitor tubes, and continued price pressure in semiconductors, caused income from operations to fall from NLG 496 million to NLG 429 million. However, this reflects an upward trend in performance compared with the fourth quarter of 1996.

The growth rate of the *Professional Products and Systems* sector came to 8%. Income from operations improved slightly from a loss of NLG 61 million to a loss of NLG 54 million. Losses of Business Electronics were reduced.

Sales of the *Software & Services* sector showed modest growth of 1%. Income from operations increased from NLG 162 million to NLG 181 million, mainly due to reduced losses of Philips Media.

Sales of the *Miscellaneous* sector grew by 2%. Income from operations decreased from NLG 90 million to NLG 44 million. Last year's first quarter included the income contribution of ASM Lithography, which company was deconsolidated as per March 31, 1996.

Trend per geographic area

Sales growth in Europe was modest with the exception of Eastern Europe. In the USA and Canada sales experienced negative growth, while sales growth in Asia Pacific slowed down. Growth in Latin America remained strong. Income from operations in Europe improved significantly, partly as a consequence of the deconsolidation of Grundig A.G. as per December 31, 1996.

Balance sheet ratios and cash flows

Inventories at the end of March 1997 represented 17.4% of sales compared with 19.5% twelve months ago. The ratio of outstanding trade receivables in months' sales came to 1.8 versus 1.7 as per March 31, 1996. Cash flow surplus amounted to NLG 839 million compared with a deficit of NLG 305 million in the prior-year period. The cash flow from operations improved mainly as a result of higher net income and a lower increase in working capital.

Employees

The headcount at the end of March 1997 was 266,870, up 1,516 on the comparable number of January 1, 1997, partly as a result of maintaining overlapping organizations while some production is moved to lower cost countries. More than half of the increase comprised temporary personnel. All product sectors registered higher workforces with the exception of Consumer Products. Growth of the headcount arose in Eastern Europe, Asia Pacific and Latin America while in the USA and Canada employment fell.

Outlook

The first-quarter results provide us with the confidence that we are on track following the improvement program started in 1996.

A number of the restructuring programs, which are still under way, should begin to contribute to profit over the next several quarters. We remain committed to achieving our previously announced goals of double digit growth in operating income, a positive cash flow of over NLG 1 billion in 1997, and a 24 % return on net assets in the longer term.

April 23, 1997

Philips Electronics N.V.

Board of Management