

Balance sheets and cash flows

amounts in millions unless otherwise stated

Consolidated balance sheets

	guilders		USD	
	June 30, 1996	December 31, 1995	June 30, 1996	December 31, 1995
Fixed assets	21,851	20,198	12,778	12,624
Inventories	13,164	12,125	7,698	7,578
Receivables	17,348	17,259	10,145	10,787
Cash and cash equivalents	1,669	2,660	976	1,662
Total assets	54,032	52,242	31,597	32,651
Provisions	(9,531)	(8,911)	(5,574)	(5,569)
Debt	(13,001)	(11,014)	(7,603)	(6,884)
Other liabilities	(14,702)	(16,139)	(8,597)	(10,087)
Group equity	16,798	16,178	9,823	10,111
Of which stockholders' equity	14,856	14,055	8,688	8,784
<i>Per common share (in guilders/USD)</i>	<i>43.49</i>	<i>41.13</i>	<i>25.43</i>	<i>25.71</i>
Closing USD rate			1.71	1.60

Number of common shares outstanding

	June 30, 1996	December 31, 1995
Shares in thousands	346,700	345,100

Consolidated statements of cash flows

	January to June	
	1996	1995
Cash flows from operating activities:		
Net income	236	1,327
Depreciation and amortization of (in)tangible fixed assets	1,521	1,359
Increase in working capital	(2,038)	(2,921)
Increase in provisions	594	193
Other adjustments	(382)	(279)
Net cash used for operating activities	(69)	(321)
Cash required for investments	(3,016)	(2,371)
Proceeds from divestments	1,156	1,013
Financing deficit before financing activities	(1,929)	(1,679)

Product sectors

amounts in millions of guilders unless otherwise stated

Net sales and employees

	net sales			employees	
	January to June 1996			position	
	amount	% growth		June 30, 1996	January 1, 1996*
		nominal	comparable *		
Lighting	4,235	3	1	50,506	50,206
Consumer Products	10,614	8	6	70,132	68,914
Components and Semiconductors	5,772	15	11	67,999	66,942
Professional Products and Systems	5,010	3	8	33,395	33,917
Software & Services	5,148	18	8	26,177	24,261
Miscellaneous	1,020	(10)	19	13,671	13,103
Not attributable to a specific product sector				12,732	12,504
Total	31,799	9	7	274,612	269,847

* Adjusted for the effects of changes in consolidations and -net sales- also for exchange rate movements

Income

	January to June					
	1996			1995**		
	shipments	income (loss) from operations	as a % of shipments	shipments	income (loss) from operations	as a % of shipments
Lighting	4,296	487	11.3	4,160	499	12.0
Consumer Products	11,117	(92)	(0.8)	10,402	269	2.6
Components and Semiconductors	7,772	908	11.7	6,917	1,115	16.1
Professional Products and Systems	5,766	(81)	(1.4)	5,466	(73)	(1.3)
Software & Services	5,616	340	6.1	4,655	315	6.8
Miscellaneous	1,999	141	7.1	2,010	174	8.7
Costs and revenues not allocated		(460)			(436)	
Total	36,566	1,243		33,610	1,863	
Internal shipments	(4,767)			(4,332)		
Net sales	31,799			29,278		
Income from operations as a % of net sales		3.9			6.4	

** For comparison reasons reclassified

Geographical areas

amounts in millions of guilders unless otherwise stated

Net sales and employees

	net sales			employees	
	January to June 1996			position	
	amount	% growth		June 30, 1996	January 1, 1996*
		nominal	comparable *		
Europe	16,489	5	3	146,217	142,915
USA and Canada	6,328	6	3	32,217	33,026
Latin America	2,316	29	20	25,223	23,192
Africa	278	2	10	1,231	1,531
Asia	5,743	17	21	67,053	66,579
Australia and New Zealand	645	9	1	2,671	2,604
Total	31,799	9	7	274,612	269,847

* Adjusted for the effects of changes in consolidations and -net sales- also for exchange rate movements

Income

	January to June					
	1996			1995		
	shipments	income from operations	as a % of shipments	shipments	income from operations	as a % of shipments
Europe	28,544	385	1.3	26,920	1,009	3.7
USA and Canada	7,014	25	0.4	6,500	210	3.2
Latin America	2,216	118	5.3	1,690	125	7.4
Africa	155	7	4.5	156	3	1.9
Asia	9,288	690	7.4	8,090	500	6.2
Australia and New Zealand	635	18	2.8	572	16	2.8
Total	47,852	1,243		43,928	1,863	
Interregional shipments	(16,053)			(14,650)		
Net sales	31,799			29,278		
Income from operations as a % of net sales		3.9			6.4	

Statements of income and additional ratios

amounts in millions unless otherwise stated

the data included in this report are unaudited

Statements of income

	2nd quarter		January to June			
	guilders		guilders		USD	
	1996	1995	1996	1995	1996	1995
Net sales	16,168	14,659	31,799	29,278	19,041	18,185
Income from operations	553	923	1,243	1,863	744	1,157
Financial income and expenses	(240)	(164)	(466)	(368)	(279)	(228)
Income before taxes	313	759	777	1,495	465	929
Income taxes	(62)	(152)	(155)	(299)	(93)	(186)
Income after taxes	251	607	622	1,196	372	743
Equity in income of unconsolidated companies	119	43	203	85	122	53
Share of other group equity in group income	(66)	(67)	(144)	(154)	(86)	(96)
Net income from normal business operations	304	583	681	1,127	408	700
<i>Per common share (in guilders/USD)</i>	<i>0.89</i>	<i>1.72</i>	<i>1.99</i>	<i>3.34</i>	<i>1.19</i>	<i>2.07</i>
Extraordinary items - net	(760)	-	(445)	200	(267)	124
Net (loss) income	(456)	583	236	1,327	141	824
<i>Per common share (in guilders/USD)</i>	<i>(1.33)</i>	<i>1.72</i>	<i>0.69</i>	<i>3.93</i>	<i>0.41</i>	<i>2.44</i>
Average USD rate					1.67	1.61

Number of employees

	End of June	
	1996	1995
Comparable figure on 1.1.1996 : 269,800	274,600	265,500

Ratios

	January to June	
	1996	1995
Income from operations:		
As a % of net sales	3.9	6.4
As a % of net operating capital (RONA)	10.4	18.8
Net income from normal business operations as a % of stockholders' equity (ROE)	9.8	18.7
	End of June	
	1996	1995
Net debt : group equity ratio	40 : 60	35 : 65
Inventories as a % of net sales	19.7	20.8
Outstanding trade receivables, before deduction of receivables sold, in months' sales	1.7	1.7

Report on the performance of the Philips Group

In the six months ended June 1996 net income from normal business operations amounted to NLG 681 million (NLG 1.99 per share) versus NLG 1,127 million (NLG 3.34 per share) in the same period one year earlier. The development of income in the first half of 1996 compared with 1995 was substantially affected by the business cycles of some important activities such as Semiconductors and Passive components. Additional adverse effects include the launch costs of the GSM phone business, increased price erosion in various markets and production curtailments within the framework of our inventory reduction policy.

Developments in the industry and the markets of consumer electronics require a structural realignment of the Philips Sound & Vision activities, especially in Europe. Therefore, an extraordinary pre-tax charge of NLG 800 million has been recognized in the second quarter. The adverse impact of this charge on income of the reporting period is partly compensated by the gain that arose from the public offering of part of our shareholding in ASM Lithography N.V. in the first quarter of the year. Primarily due to these two items the extraordinary loss came to NLG 445 million; last year an extraordinary gain of NLG 200 million was recorded.

Total net income in the first half of the year came to NLG 236 million (NLG 0.69 per share) against NLG 1,327 million (NLG 3.93 per share) in the corresponding period in 1995.

Sales in the first half of 1996 were NLG 31,799 million, reflecting 9% nominal growth of which 2% was attributable to higher currency exchange rates. The influence of consolidation changes was negligible. Adjusted for these effects the comparable sales growth was therefore 7% as compared with 12% growth in the year-earlier period. Income from operations was substantially lower at NLG 1,243 million (3.9% of sales), compared with NLG 1,863 million (6.4% of sales) in the corresponding period in 1995. The cost of finance came to NLG 466 million, up on last year's NLG 368 million, due to the increased funding requirements for capital expenditures and working capital, mainly related to growth. The income tax charge was determined at a rate of 20%, unchanged from the first half of 1995.

Philips' share in the net income of unconsolidated companies more than doubled from NLG 85 million in 1995 to NLG 203 million, largely attributable to the performance of Taiwan Semiconductor Manufacturing Co.

Trend per product sector

sales growth is expressed on a comparable basis

Sales of the *Lighting sector* were 1% higher despite continuing price erosion. Growth arose in Asia and Latin America. In Europe sales were hit by the low construction

activity, while in the USA markets for lighting electronics remained weak. Income from operations of NLG 487 million was slightly down from last year's NLG 499 million.

Growth of the *Consumer Products sector* was 6%. In the second quarter sales growth went up to 9% especially from growth in Asia and improved sales in Latin America. Despite higher sales the income was strongly affected by increased price erosion and launch costs of new activities, such as GSM phone business. After a disappointing first quarter, domestic appliances showed an improvement in the second quarter. Income from operations came to a loss of NLG 92 million, whereas last year a profit of NLG 269 million was reported in the corresponding period.

Sales growth of the *Components and Semiconductors sector* leveled off to 11%, mainly due to the slowdown of the growth rate of the Semiconductor markets. This, together with price erosion, had a considerable impact on the income of the sector. Profitability of the Components division improved, mainly due to the favorable display components business.

On balance, income from operations of the sector amounted to NLG 908 million compared to NLG 1,115 million in 1995.

Sales of the *Professional Products and Systems sector* went up by 8%, with Medical Systems and Industrial Electronics reporting growth rates above average. Growth of Business Electronics was lower than in the first quarter due to the competitive market for PC monitors. The latter had an adverse influence on the sector results, which was not fully compensated by the stronger income performance of Medical Systems.

Income from operations of the sector was a loss of NLG 81 million versus a NLG 73 million loss in the first half of 1995.

The growth rate of the *Software & Services sector* improved to 8%. Origin's second quarter sales were favorable and sales of PolyGram improved. All business activities in this sector contributed to the income improvement.

Income from operations in the current period amounted to NLG 340 million compared to NLG 315 million in the year-earlier period.

Sales growth in the *Miscellaneous sector* came to 19%, which was lower than in the first quarter because ASM Lithography, a high growth company, was deconsolidated as from the second quarter.

Income from operations came to NLG 141 million, against NLG 174 million in 1995.

Trend per geographical area

sales growth is expressed on a comparable basis

Growth in Europe and in the USA and Canada was only 3%. This low growth rate and stronger price erosion led to considerably lower income. In Asia and Latin America growth rates of 20% or higher were realized in the first half of 1996. All product sectors contributed to this, particularly Components and Semiconductors. Income in Asia was higher, whereas Latin America suffered due to some one-off negative items.

Balance sheet ratios and cash flows

Greater attention to inventories, has kept the seasonal increase substantially below that of last year. At the end of June 1996, the ratio of inventories to sales was 19.7%, versus 20.8% a year earlier. Outstanding trade receivables equivalent to 1.7 months' sales remained unchanged from June last year.

The financing deficit in the year to date came to NLG 1.9 billion (1995: NLG 1.7 billion), mainly caused by higher net capital expenditures. The effect of lower income was offset by a lower increase in working capital, which was achieved despite a NLG 0.5 billion reduction in the amount of receivables factored.

Employees

The number of employees on a comparable basis increased by 4,800 to 274,600 at the end of June. The additional personnel is mainly employed in the sectors Components and Semiconductors, Software & Services and Consumer Products, notably in Philips Consumer Communications.

Outlook

We confirm our earlier expectation that comparable sales growth in 1996 will not be as strong as in 1995. We expect net income from normal business operations for the full year 1996 to be below 1995, despite an anticipated improvement in income from operations in the second half of this year compared to the same period of 1995.

July 25, 1996

Philips Electronics N.V.

Board of Management