

## Balance sheets and additional ratios

amounts in millions unless otherwise stated

### Consolidated balance sheets

	Dutch guilders		USD*	
	June 30, 1997	December 31, 1996	June 30, 1997	December 31, 1996
Fixed assets	23,938	22,701	12,339	13,047
Inventories	13,069	10,766	6,737	6,187
Receivables	19,645	19,460	10,126	11,184
Cash and cash equivalents	1,787	2,145	921	1,233
<b>Total assets</b>	<b>58,439</b>	<b>55,072</b>	<b>30,123</b>	<b>31,651</b>
Provisions	9,247	9,047	4,766	5,199
Debt	13,632	13,345	7,027	7,670
Other liabilities	16,752	17,012	8,635	9,777
<b>Group equity</b>	<b>18,808</b>	<b>15,668</b>	<b>9,695</b>	<b>9,005</b>
Of which stockholders' equity	16,735	13,956	8,626	8,021
<i>Per common share (in Dutch guilders/USD)</i>	<i>47.87</i>	<i>40.21</i>	<i>24.68</i>	<i>23.11</i>

\* For the convenience of the reader, the Dutch guilder amounts have been converted into US dollars at the rates for the end of the reporting periods: NLG 1.94 for 1997 and NLG 1.74 for 1996.

### Number of employees

	End of June	
	1997	1996
Comparable figure on 1.1.1997 : 262,700	266,300	274,600

### Ratios

	January to June	
	1997	1996
Income from operations:		
As a % of sales	6.0	3.9
As a % of net operating capital (RONA)	15.7	10.4
Net income from normal business operations as a % of stockholders' equity (ROE)	16.1	9.8
	End of June	
	1997	1996
Net debt : group equity ratio (at year-end 1996 42 : 58)	39 : 61	40 : 60
Inventories as a % of sales	18.5	19.7
Outstanding trade receivables, in months' sales	1.7	1.7

### Number of common shares outstanding

	June 30, 1997	December 31, 1996
	Shares in thousands	354,000

## Product sectors

amounts in millions of guilders unless otherwise stated

### Sales and employees

	sales (to third parties)			employees	
	January to June 1997			position	
	amount	% growth		June 30, 1997	January 1, 1997**
		nominal	comparable *		
Lighting	4,732	12	4	52,182	50,977
Consumer Products	9,976	(6)	4	57,848	58,072
Components and Semiconductors	6,791	18	3	71,585	70,112
Professional Products and Systems	5,686	13	13	32,396	31,236
Software & Services	5,412	5	(3)	26,944	26,786
Miscellaneous	789	(23)	5	12,365	12,352
Not attributable to a specific product sector				12,943	13,213
<b>Total</b>	<b>33,386</b>	<b>5</b>	<b>4</b>	<b>266,263</b>	<b>262,748</b>

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

\*\* Comparable

### Segment revenues and income from operations

	January to June					
	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	4,795	580	12.1	4,296	487	11.3
Consumer Products	10,625	268	2.5	11,317	(92)	(0.8)
Components and Semiconductors	8,881	1,059	11.9	7,772	908	11.7
Professional Products and Systems	5,859	95	1.6	5,266	(81)	(1.5)
Software & Services	5,907	420	7.1	5,616	340	6.1
Miscellaneous	1,778	89	5.0	1,999	141	7.1
Costs and revenues not allocated		(521)			(460)	
<b>Total</b>	<b>37,845</b>	<b>1,990</b>		<b>36,266</b>	<b>1,243</b>	
Intersegment sales	(4,459)			(4,467)		
<b>Sales</b>	<b>33,386</b>			<b>31,799</b>		
Income from operations as a % of sales		6.0			3.9	

\* For comparison reasons reclassified

# Geographic areas

amounts in millions of guilders unless otherwise stated

## Sales and employees

	sales (to third parties)			employees	
	January to June 1997			position	
	amount	% growth		June 30, 1997	January 1, 1997**
nominal		comparable *			
Europe	16,164	(2)	5	134,452	134,351
USA and Canada	7,053	11	1	29,569	28,341
Latin America	2,579	11	1	26,476	27,340
Asia Pacific	7,326	15	5	74,737	71,623
Africa	264	(5)	14	1,029	1,093
<b>Total</b>	<b>33,386</b>	<b>5</b>	<b>4</b>	<b>266,263</b>	<b>262,748</b>

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

\*\* Comparable

## Segment revenues and income from operations

	January to June					
	1997			1996*		
	segment revenues	income (loss) from operations	as a % of segment revenues	segment revenues	income from operations	as a % of segment revenues
Europe	29,820	1,136	3.8	28,544	385	1.3
USA and Canada	8,346	(8)	(0.1)	7,014	25	0.4
Latin America	2,413	114	4.7	2,216	118	5.3
Asia Pacific	12,303	748	6.1	9,923	708	7.1
Africa	126	-	-	155	7	4.5
<b>Total</b>	<b>53,008</b>	<b>1,990</b>		<b>47,852</b>	<b>1,243</b>	
Interregional sales	(19,622)			(16,053)		
<b>Sales</b>	<b>33,386</b>			<b>31,799</b>		
Income from operations as a % of sales		6.0			3.9	

\* For comparison reasons reclassified

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

Printed in the Netherlands

# Statements of income and cash flows

amounts in millions unless otherwise stated

*the data included in this report are unaudited*

## Consolidated statements of income

	2nd quarter		January to June			
	Dutch guilders		Dutch guilders		USD*	
	1997	1996	1997	1996	1997	1996
Sales	17,250	16,168	33,386	31,799	17,665	19,041
Income from operations	1,154	553	1,990	1,243	1,053	744
Financial income and expenses	(224)	(240)	(391)	(466)	(207)	(279)
Income before taxes	930	313	1,599	777	846	465
Income taxes	(233)	(62)	(400)	(155)	(212)	(93)
Income after taxes	697	251	1,199	622	634	372
Equity in income of unconsolidated companies	54	119	44	203	23	122
Share of other group equity in group income	(58)	(66)	(90)	(144)	(47)	(86)
Net income from normal business operations	693	304	1,153	681	610	408
<i>Per common share (in Dutch guilders/USD)</i>	<i>1.99</i>	<i>0.89</i>	<i>3.31</i>	<i>1.99</i>	<i>1.75</i>	<i>1.19</i>
Extraordinary items - net	54	(760)	481	(445)	255	(267)
<b>Net income (loss)</b>	<b>747</b>	<b>(456)</b>	<b>1,634</b>	<b>236</b>	<b>865</b>	<b>141</b>
<i>Per common share (in Dutch guilders/USD)</i>	<i>2.14</i>	<i>(1.33)</i>	<i>4.69</i>	<i>0.69</i>	<i>2.48</i>	<i>0.41</i>

## Consolidated statements of cash flows\*\*

	2nd quarter		January to June			
	Dutch guilders		Dutch guilders		USD*	
	1997	1996	1997	1996	1997	1996
Cash flows from operating activities:						
Net income	747	(456)	1,634	236	865	141
Depreciation and amortization of (in)angible fixed assets	936	776	1,773	1,521	938	911
Increase in working capital	(1,055)	(947)	(1,588)	(2,038)	(840)	(1,220)
(Decrease) increase in provisions	(275)	547	52	594	27	356
Other adjustments	(76)	(41)	(432)	(382)	(229)	(229)
Net cash generated by (used for) operating activities	277	(121)	1,439	(69)	761	(41)
Cash required for investments	(1,102)	(1,596)	(2,149)	(3,016)	(1,137)	(1,806)
Proceeds from divestments	769	93	1,493	1,156	790	692
<b>Cash flows (before financing activities)</b>	<b>(56)</b>	<b>(1,624)</b>	<b>783</b>	<b>(1,929)</b>	<b>414</b>	<b>(1,155)</b>

\* For the convenience of the reader, the Dutch guilder amounts have been converted into US dollars at the average exchange rates for the respective reporting periods: NLG 1.89 for 1997 and NLG 1.67 for 1996.

\*\* 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.

## Report on the performance of the Philips Group

In the first half of 1997 net income from normal business operations amounted to NLG 1,153 million (NLG 3.31 per share) compared to NLG 681 million (NLG 1.99 per share) in the corresponding period of 1996. Extraordinary items primarily arising from the partial flotation of the shareholding in ASM Lithography N.V. in February 1997 contributed NLG 481 million to net income. Bottom-line net income thus came to NLG 1,634 million (NLG 4.69 per share). Last year's first-half net income of NLG 236 million (NLG 0.69 per share) included a net extraordinary loss of NLG 445 million, which reflected the net balance of a charge for a structural realignment of the Philips Sound & Vision activities and a gain that arose from the public offering of part of the shareholding in ASM Lithography N.V. in March 1996.

Sales in the first half of 1997 were NLG 33,386 million, nominally 5% up on the same period of 1996. Currency exchange rate differences had a positive influence of 8%, whereas consolidation changes had a negative effect of 7%. Adjusted for these effects the comparable sales growth was therefore 4% versus 7% in the first half of 1996. Price erosion in the year to date was 6% versus 4% in the same period of last year. The larger part of the increased price erosion stemmed from the Components and Semiconductors sector and the growing impact on sales of Consumer Communications.

Income from operations amounted to NLG 1,990 million (6.0% of sales) compared to NLG 1,243 million (3.9% of sales) in the same period of 1996. All product sectors except Miscellaneous contributed to the income improvement.

The cost of finance came to NLG 391 million versus NLG 466 million one year earlier. The income tax charge has been provisionally determined at a rate of 25%, compared to 20% for the corresponding 1996 period and a 25% effective tax rate for the whole year of 1996.

Philips' share in the net income of unconsolidated companies amounted to NLG 44 million as compared to NLG 203 million in the same period of 1996. Reduced income of Taiwan Semiconductor Manufacturing Co., losses incurred on our remaining interest in Grundig, as well as higher funding for software development of NavTech were only partly compensated by a gain from the sale of our stake in Bang & Olufsen A/S.

### Trend per product sector

*Sales growth is expressed on a comparable basis.*

Sales of the *Lighting* sector increased 4%, leading to an improvement of market share

in the global lighting market. Income from operations rose significantly from NLG 487 million to NLG 580 million, resulting from high volume growth combined with strict cost control. Higher sales and income were fully realized in the second quarter.

Sales in the *Consumer Products* sector grew by 4%. Sound & Vision markets in Western Europe and North America were weak. Continued growth occurred in the regions Eastern Europe and Asia Pacific. Consumer Communications showed strong sales growth, particularly in Europe and Asia Pacific. Income from operations of the sector improved considerably from a loss of NLG 92 million to a profit of NLG 268 million. Sound & Vision, which benefited from the effects of the restructuring programs, realized a significant income improvement while the deconsolidation of Grundig A.G. also had a major impact on the results of the sector. Consumer Communications' income deteriorated compared to the year earlier period as a result of building a global organization and of the introduction of new products in the field of cellular telephony. Domestic appliances experienced a strong improvement in income.

Sales of the *Components and Semiconductors* sector showed 3% growth. Components' sales growth was moderate. Sales of Semiconductors accelerated in the second quarter, particularly in consumer ICs and communications and multimedia ICs. Income from operations increased from NLG 908 million to NLG 1,059 million, which largely related to higher Semiconductors activities.

The growth rate of the *Professional Products and Systems* sector came to 13%. Business Electronics realized strong sales growth in virtually all its businesses. Income from operations swung from a loss of NLG 81 million to a profit of NLG 95 million. Business Electronics became profitable in the second quarter.

Sales of *Software & Services* decreased by 3%. Income from operations increased from NLG 340 million to NLG 420 million, mainly as a result of discontinuance of loss-making media activities.

Sales of the *Miscellaneous* sector grew by 5%. Income from operations fell from NLG 141 million to NLG 89 million, because ASM Lithography, which was deconsolidated as per March 31, 1996, no longer contributes to income of this sector.

#### **Trend per geographic area**

In Europe substantial sales growth was reported by the Eastern European countries. Sales in the USA and Canada were slightly higher. Sales growth in Asia Pacific and in

Latin America slowed down. Income from operations in Europe increased substantially, especially in the Netherlands, Germany and France. Income in the USA and Canada was slightly negative. This was caused by the introduction of new products on the consumer market and by advertising costs for the Philips-Magnavox campaign.

### **Balance sheet ratios and cash flows**

Inventories at the end of June 1997 represented 18.5% of sales compared with 19.7% twelve months ago. Outstanding trade receivables were the equivalent of 1.7 months' sales, unchanged from June 30, 1996. Cash flow from operations improved due to higher net income and a lower increase in working capital. Investments of NLG 2,149 million were held below the high level of 1996 (NLG 3,016 million), and proceeds from divestments of NLG 1,493 million exceeded those of last year (NLG 1,156 million). Cash flow surplus amounted to NLG 783 million compared to a deficit of NLG 1,929 million one year earlier.

### **Employees**

The headcount at the end of June 1997 was 266,263, reflecting an increase of 3,515 over the comparable number of January 1, 1997. Most of the increase was in temporary personnel. Employment rose in Lighting, Components and Semiconductors, and Professional Products and Systems, whereas the workforce of Consumer Products fell slightly. From a geographical perspective headcount increased in the USA and Canada and in Asia Pacific, and decreased in Latin America.

### **Outlook**

The first-half results indicate that the improvement program started in 1996 is on track. A number of the restructuring programs, which are still under way, should contribute to profits in future 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.

July 24, 1997

Philips Electronics N.V.

*Board of Management*