

Statements of income and additional ratios

amounts in millions unless otherwise stated

the data included in this report are unaudited

Statements of income

	3rd quarter		January to September			
	guilders		guilders		USD	
	1996	1995	1996	1995	1996	1995
Net sales	15,989	15,316	47,788	44,594	28,616	27,698
Income from operations	281	922	1,524	2,785	913	1,730
Financial income and expenses	(218)	(232)	(684)	(600)	(410)	(373)
Income before taxes	63	690	840	2,185	503	1,357
Income taxes	(13)	(138)	(168)	(437)	(101)	(271)
Income after taxes	50	552	672	1,748	402	1,086
Equity in income of unconsolidated companies	86	52	289	137	173	85
Share of other group equity in group income	(13)	(65)	(157)	(219)	(94)	(136)
Net income from normal business operations	123	539	804	1,666	481	1,035
<i>Per common share (in guilders/USD)</i>	<i>0.36</i>	<i>1.57</i>	<i>2.35</i>	<i>4.91</i>	<i>1.41</i>	<i>3.05</i>
Extraordinary items - net	-	-	(445)	200	(266)	124
Net income	123	539	359	1,866	215	1,159
<i>Per common share (in guilders/USD)</i>	<i>0.36</i>	<i>1.57</i>	<i>1.05</i>	<i>5.50</i>	<i>0.63</i>	<i>3.42</i>
Average USD rate					1.67	1.61

Number of employees

	End of September	
	1996	1995
Comparable figure on 1.1.1996 : 267,700	274,000	269,000

Ratios

	January to September	
	1996	1995
Income from operations:		
As a % of net sales	3.2	6.2
As a % of net operating capital (RONA)	8.4	18.0
Net income from normal business operations as a % of stockholders' equity (ROE)	7.7	18.1
	End of September	
	1996	1995
Net debt : group equity ratio	42 : 58	38 : 62
Inventories as a % of net sales	19.6	21.9
Outstanding trade receivables, before deduction of receivables sold, in months' sales	1.7	1.7

Balance sheets and cash flows

amounts in millions unless otherwise stated

Consolidated balance sheets

	guilders		USD	
	September 30, 1996	December 31, 1995	September 30, 1996	December 31, 1995
Fixed assets	22,175	20,198	13,121	12,624
Inventories	13,256	12,125	7,844	7,578
Receivables	17,810	17,259	10,539	10,787
Cash and cash equivalents	1,883	2,660	1,114	1,662
Total assets	55,124	52,242	32,618	32,651
Provisions	(9,323)	(8,911)	(5,517)	(5,569)
Debt	(14,110)	(11,014)	(8,349)	(6,884)
Other liabilities	(14,973)	(16,139)	(8,860)	(10,087)
Group equity	16,718	16,178	9,892	10,111
Of which stockholders' equity	14,821	14,055	8,770	8,784
<i>Per common share (in guilders/USD)</i>	<i>43.49</i>	<i>41.13</i>	<i>25.73</i>	<i>25.71</i>
Closing USD rate			1.69	1.60

Number of common shares outstanding

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

Consolidated statements of cash flows

	January to September	
	1996	1995
Cash flows from operating activities:		
Net income	359	1,866
Depreciation and amortization of (in)tangible fixed assets	2,356	2,035
Increase in working capital	(2,437)	(4,231)
Increase/(decrease) in provisions	402	(97)
Other adjustments	(467)	(283)
Net cash generated by/(used for) operating activities	213	(710)
Cash required for investments	(4,378)	(3,714)
Proceeds from divestments	1,316	1,220
Financing deficit before financing activities	(2,849)	(3,204)

Product sectors

amounts in millions of guilders unless otherwise stated

Net sales and employees

	net sales			employees	
	January to September 1996			position	
	amount	% growth		September 30, 1996	January 1, 1996 *
		nominal	comparable *		
Lighting	6,318	4	2	50,389	50,206
Consumer Products	16,260	7	5	69,923	67,886
Components and Semiconductors	8,556	11	7	67,704	66,942
Professional Products and Systems	7,741	1	9	32,687	32,583
Software & Services	7,547	19	6	26,542	24,309
Miscellaneous	1,366	(17)	21	13,893	13,224
Not attributable to a specific product sector				12,851	12,504
Total	47,788	7	6	273,989	267,654

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

Income

	January to September					
	1996			1995**		
	shipments	income (loss) from operations	as a % of shipments	shipments	income (loss) from operations	as a % of shipments
Lighting	6,398	653	10.2	6,161	735	11.9
Consumer Products	17,164	(10)	(0.1)	15,996	287	1.8
Components and Semiconductors	11,710	1,191	10.2	10,678	1,697	15.9
Professional Products and Systems	8,048	(79)	(1.0)	8,026	(26)	(0.3)
Software & Services	8,269	291	3.5	6,827	480	7.0
Miscellaneous	2,770	179	6.5	2,995	266	8.9
Costs and revenues not allocated		(701)			(654)	
Total	54,359	1,524		50,683	2,785	
Internal shipments	(6,571)			(6,089)		
Net sales	47,788			44,594		
Income from operations as a % of net sales		3.2			6.2	

** For comparison reasons reclassified

Geographical areas

amounts in millions of guilders unless otherwise stated

Net sales and employees

	net sales			employees	
	January to September 1996			position	
	amount	% growth		September 30, 1996	January 1, 1996 *
		nominal	comparable *		
Europe	24,490	4	3	145,541	141,795
USA and Canada	9,732	4	2	32,715	32,866
Latin America	3,647	29	21	25,651	23,192
Africa	404	1	12	1,115	1,531
Asia	8,519	13	18	66,381	65,771
Australia and New Zealand	996	7	(2)	2,586	2,499
Total	47,788	7	6	273,989	267,654

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

Income

	January to September					
	1996			1995		
	shipments	income from operations	as a % of shipments	shipments	income from operations	as a % of shipments
Europe	42,592	274	0.6	40,285	1,354	3.4
USA and Canada	10,838	33	0.3	10,299	353	3.4
Latin America	3,459	214	6.2	2,724	206	7.6
Africa	216	7	3.2	235	4	1.7
Asia	14,235	968	6.8	12,550	843	6.7
Australia and New Zealand	981	28	2.9	913	25	2.7
Total	72,321	1,524		67,006	2,785	
Interregional shipments	(24,533)			(22,412)		
Net sales	47,788			44,594		
Income from operations as a % of net sales		3.2			6.2	

Report on the performance of the Philips Group

Business performance in the third quarter was most disappointing with net income of only NLG 123 million. The anticipated recovery of sales and income has not materialized.

In the nine months to September, income from normal business operations was halved from NLG 1,666 million (NLG 4.91 per share) in 1995 to NLG 804 million (NLG 2.35 per share) in 1996. In addition to the lower than expected sales growth and increasing price erosion in various markets, income was affected by unfavorable developments particularly in the semiconductor industry and in passive components, and the costs associated with our entry into the consumer communications business.

Extraordinary items remained unchanged from the first half when a loss of NLG 445 million was reported. Total net income in the year to date amounted to NLG 359 million (NLG 1.05 per share) as compared to NLG 1,866 million (NLG 5.50 per share) in the same period of last year.

Sales in the current reporting period came to NLG 47,788 million which was 7% up on the previous year. Higher currency rates had a positive effect on sales of 2%, whereas consolidation changes had a negative effect of 1%. Adjusted for these influences the comparable sales growth was 6% as compared with 12% in the year earlier. Price erosion at 4% was higher than in 1995 (2%).

Income from operations suffered a substantial reduction to NLG 1,524 million (3.2% of sales) from NLG 2,785 million (6.2% of sales) one year earlier, which applied to all sectors.

The cost of finance increased to NLG 684 million (1995: NLG 600 million), mainly due to the rising cost of servicing the increased debt load. Income taxes were determined at a tentative rate of 20%, unchanged from the same period of last year.

The improvement of the results of unconsolidated companies is primarily attributable to Philips' share in Taiwan Semiconductor Manufacturing Co.

Trend per product sector

sales growth is expressed on a comparable basis, i.e. as adjusted for the effects of changes in exchange rates and consolidations

Sales of the *Lighting sector* in January-September 1996 were up 2%, primarily driven by Asia Pacific and Latin America. Market growth in Europe and the USA was disappointing.

Income from operations came to NLG 653 million, down from last year's NLG 735 million. Compared to last year's favorable third-quarter results, income in the current quarter was hit particularly hard by strong price erosion in Europe and reduced electronic ballast sales in the USA.

Sales growth in the *Consumer Products sector* was 5%, with lower growth of Sound and Vision in the third quarter. On the other hand, sales of Consumer Communications and Domestic Appliances and Personal Care showed favorable trends.

Income from operations swung to a loss of NLG 10 million from a gain of NLG 287 million in 1995, mainly due to the costs of Philips' entry into the Consumer Communications business and higher losses of Grundig.

Sales growth of the *Components and Semiconductors sector* slowed further to 7%, principally as a consequence of the difficult semiconductor and passive components markets resulting in increased price pressure.

Income from operations of the sector fell to NLG 1,191 million from NLG 1,697 million in the year-earlier period.

Sales of the *Professional Products and Systems sector* went up 9% with all product divisions contributing. However, markets for Monitors remained competitive and sales of the former Communication Systems activities were down.

Income from operations came to a loss of NLG 79 million (1995: loss NLG 26 million).

The growth rate of the *Software & Services sector* fell to 6%.

On balance, the income from operations fell to NLG 291 million (1995: NLG 480 million). A substantial charge for realignment costs and merger costs relating to Origin, was taken in the third quarter of 1996. Results of Philips Media were also lower. Last year's Media results included a one-off gain of NLG 100 million on the transfer of the cable business to the UPC venture.

Sales growth in the *Miscellaneous sector* was at a high level of 21%.

Income from operations came to NLG 179 million (1995: NLG 266 million). A substantial part of this deterioration is due to the deconsolidation of ASM Lithography at the end of the first quarter.

Trend per geographical area

Sales growth in January-September continued strongly in Asia and Latin America, where all product sectors contributed to growth. In the USA and Canada, and Europe growth lagged behind, despite substantial increases in Eastern Europe.

Balance sheet ratios and cash flows

The seasonal increase in inventories in the year to date was significantly lower than last year, which led to a level of 19.6% of sales (1995: 21.9%). Outstanding trade receivables expressed in months' sales came to 1.7, unchanged from September 1995. The financing deficit was slightly reduced to NLG 2.8 billion from NLG 3.2 billion in the prior-year period. Despite lower operating income the cash flow from operations improved mainly due to the lower increase in working capital. On the other hand, investments, especially in fixed assets, required higher funding.

Employees

The headcount at the end of September 1996 was 274,000, up 6,300 on the comparable figure of January 1. The increase in the workforce largely arose in Consumer Products, mainly Consumer Communications, Software & Services, especially Origin, and Components and Semiconductors, where an 1,800 increase in Components more than offset the 1,000 decrease at Semiconductors.

Outlook

The improvement in the businesses anticipated for the second half of this year compared to the same period of 1995, is most unlikely to materialize. Analysis of our businesses, especially those which are underperforming, demonstrates the need to accelerate planned actions for recovery. Consequently we anticipate that we will recognize a charge in the fourth quarter of 1996, of approximately NLG 1 billion before taxes.

October 24, 1996

Philips Electronics N.V.

Board of Management