

Balance sheets and additional ratios

amounts in millions unless otherwise stated

Consolidated balance sheets

	Dutch guilders		USD*	
	September 30, 1997	December 31, 1996	September 30, 1997	December 31, 1996
Fixed assets	23,312	22,701	11,715	13,047
Inventories	13,716	10,766	6,892	6,187
Receivables	20,887	19,460	10,496	11,184
Cash and cash equivalents	2,187	2,145	1,099	1,233
Total assets	60,102	55,072	30,202	31,651
Provisions	9,199	9,047	4,623	5,199
Debt	12,266	13,345	6,164	7,670
Other liabilities	18,183	17,012	9,137	9,777
Group equity	20,454	15,668	10,278	9,005
Of which stockholders' equity	18,295	13,956	9,193	8,021
<i>Per common share (in Dutch guilders/USD)</i>	<i>52.18</i>	<i>40.21</i>	<i>26.22</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 1.99 for 1997 and NLG 1.74 for 1996.

Number of employees

	End of September	
	1997	1996
Comparable figure on 1.1.1997 : 262,200	269,900	274,000

Ratios

	January to September	
	1997	1996
Income from operations:		
As a % of sales	6.1	3.2
As a % of net operating capital (RONA)	16.3	8.4
Net income from normal business operations as a % of stockholders' equity (ROE)	16.6	7.7
	End of September	
	1997	1996
Net debt : group equity ratio (at year-end 1996 42 : 58)	33 : 67	42 : 58
Inventories as a % of sales	18.6	19.6
Outstanding trade receivables, in months' sales	1.7	1.7

Number of common shares outstanding

	September 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 September 1997			position	
	amount	% growth		September 30, 1997	January 1, 1997**
		nominal	comparable *		
Lighting	7,212	14	5	52,100	50,950
Consumer Products	15,792	(3)	6	59,077	58,032
Components and Semiconductors	10,695	25	7	73,329	70,112
Professional Products and Systems	8,797	14	12	32,474	30,933
Software & Services	8,546	13	4	27,628	26,594
Miscellaneous	1,224	(10)	10	12,776	12,673
Not attributable to a specific product sector				12,476	12,930
Total	52,266	9	7	269,860	262,224

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

** Comparable

Segment revenues and income from operations

	January to September					
	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	7,313	861	11.8	6,398	653	10.2
Consumer Products	16,823	519	3.1	17,164	(10)	(0.1)
Components and Semiconductors	14,040	1,722	12.3	11,710	1,191	10.2
Professional Products and Systems	9,063	209	2.3	8,048	(79)	(1.0)
Software & Services	9,287	506	5.4	8,269	291	3.5
Miscellaneous	2,680	135	5.0	2,770	179	6.5
Costs and revenues not allocated		(788)			(701)	
Total	59,206	3,164		54,359	1,524	
Intersegment sales	(6,940)			(6,571)		
Sales	52,266			47,788		
Income from operations as a % of sales		6.1			3.2	

* For comparison reasons reclassified

Geographic areas

amounts in millions of guilders unless otherwise stated

Sales and employees

	sales (to third parties)			employees	
	January to September 1997			position	
	amount	% growth		September 30, 1997	January 1, 1997**
		nominal	comparable *		
Europe	24,704	1	9	137,191	134,143
USA and Canada	11,613	19	5	29,183	28,341
Latin America	4,031	11	(3)	26,960	27,340
Asia Pacific	11,473	21	9	75,451	71,307
Africa	445	10	30	1,075	1,093
Total	52,266	9	7	269,860	262,224

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

** Comparable

Segment revenues and income from operations

	January to September					
	1997			1996*		
	segment revenues	income (loss) from operations	as a % of segment revenues	segment revenues	income from operations	as a % of segment revenues
Europe	45,725	1,815	4.0	42,592	274	0.6
USA and Canada	13,582	(47)	(0.3)	10,838	33	0.3
Latin America	3,860	145	3.8	3,459	214	6.2
Asia Pacific	19,534	1,243	6.4	15,216	996	6.5
Africa	216	8	3.7	216	7	3.2
Total	82,917	3,164		72,321	1,524	
Interregional sales	(30,651)			(24,533)		
Sales	52,266			47,788		
Income from operations as a % of sales		6.1			3.2	

* For comparison reasons reclassified

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

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Statements of income and cash flows

amounts in millions unless otherwise stated

the data included in this report are unaudited

Consolidated statements of income

	3rd quarter		January to September			
	Dutch guilders		Dutch guilders		USD*	
	1997	1996	1997	1996	1997	1996
Sales	18,880	15,989	52,266	47,788	26,941	28,616
Income from operations	1,174	281	3,164	1,524	1,631	913
Financial income and expenses	(164)	(218)	(555)	(684)	(286)	(410)
Income before taxes	1,010	63	2,609	840	1,345	503
Income taxes	(252)	(13)	(652)	(168)	(336)	(101)
Income after taxes	758	50	1,957	672	1,009	402
Equity in income of unconsolidated companies	(6)	86	38	289	19	173
Share of other group equity in group income	(31)	(13)	(121)	(157)	(62)	(94)
Net income from normal business operations	721	123	1,874	804	966	481
<i>Per common share (in Dutch guilders/USD)</i>	2.06	<i>0.36</i>	5.37	<i>2.35</i>	2.77	<i>1.41</i>
Extraordinary items - net	711	-	1,192	(445)	614	(266)
Net income	1,432	123	3,066	359	1,580	215
<i>Per common share (in Dutch guilders/USD)</i>	4.09	<i>0.36</i>	8.78	<i>1.05</i>	4.53	<i>0.63</i>

Consolidated statements of cash flows**

	3rd quarter		January to September			
	Dutch guilders		Dutch guilders		USD*	
	1997	1996	1997	1996	1997	1996
Cash flows from operating activities:						
Net income	1,432	123	3,066	359	1,580	215
Depreciation and amortization of (in)tangible fixed assets	933	835	2,706	2,356	1,395	1,411
Increase in working capital	(553)	(399)	(2,141)	(2,437)	(1,104)	(1,459)
(Decrease) increase in provisions	(68)	(192)	(16)	402	(8)	241
Other adjustments	(566)	(85)	(998)	(467)	(514)	(280)
Net cash generated by operating activities	1,178	282	2,617	213	1,349	128
Cash required for investments	(868)	(1,362)	(3,017)	(4,378)	(1,555)	(2,622)
Proceeds from divestments	1,552	160	3,045	1,316	1,569	788
Cash flows (before financing activities)	1,862	(920)	2,645	(2,849)	1,363	(1,706)

* 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 1.94 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 nine months to September 1997, net income from normal business operations amounted to NLG 1,874 million (NLG 5.37 per share) compared to NLG 804 million (NLG 2.35 per share) in the same period of last year. The primary reason for the improved performance is the increased margins on operations.

Extraordinary items contributed NLG 1,192 million to income, primarily arising from the sale of 100 million shares of Taiwan Semiconductor Manufacturing Co. (TSMC) in August and from the partial flotation of our shareholding in ASM Lithography in February. These extraordinary gains were partly offset by the write-off of the book value of our shareholding in Grundig AG. Net income came to NLG 3,066 million compared to NLG 359 million in the same period of 1996.

Sales in the current reporting period were NLG 52,266 million, nominally 9 per cent higher than the previous year. Higher exchange rates had a positive effect on sales of 9 per cent, whereas consolidation changes had a negative effect of 7 per cent. Adjusted for these influences the comparable sales growth was 7 per cent versus 6 per cent in the year earlier. Comparable sales growth in the third quarter was 12 per cent. Price erosion of 7 per cent in January-September was considerably higher than in 1996 (4 per cent). The accelerated price erosion is particularly related to color monitor tubes and to a lesser extent to the Consumer Communications business.

Income from operations came to NLG 3,164 million (6.1 per cent of sales) compared to NLG 1,524 million (3.2 per cent of sales) in the corresponding period of 1996. All product sectors except Miscellaneous realized significant income improvements, to a large extent driven by higher volumes and the termination of loss-making activities.

The cost of finance decreased to NLG 555 million (1996: NLG 684 million), mainly due to a profit from the sale of Viacom shares. The income tax charge has been provisionally determined at a rate of 25 per cent, compared to 20 per cent for the corresponding 1996 period and a 25 per cent effective rate for the whole year of 1996.

Philips' share in the net income of unconsolidated companies came to NLG 38 million compared to NLG 289 million last year. Reduced income of Taiwan Semiconductor Manufacturing Co., higher funding for software development at NavTech and losses incurred on our remaining interest in Grundig 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 5 per cent. Income from operations rose from NLG 653 million to NLG 861 million as a result of higher sales volume, the positive impact of currencies and stricter cost control.

Sales in the *Consumer Products* sector grew by 6 per cent. After a weak first half year, sales of Sound & Vision recovered in the third quarter. Strong growth continued to be experienced in Eastern Europe. Sales of Consumer Communications almost tripled.

Income from operations of the sector significantly improved from a loss of NLG 10 million to a profit of NLG 519 million. Sound & Vision, which is benefiting from the effects of the restructuring programs, realized a much improved income while the deconsolidation of Grundig AG per the end of 1996 also had a major impact on the results of the sector. Consumer Communications' income deteriorated compared to the same period of last year, due to building a global organization and the introduction of new products in the field of cellular telephony. Income of Domestic Appliances and Personal Care increased significantly.

Sales of the *Components and Semiconductors* sector experienced 7 per cent growth.

Components' sales suffered from very strong price erosion in color monitor tubes, due to substantial overcapacity in the industry. The acceleration in Semiconductors' sales, which began in the second quarter, gained momentum in the third quarter. Income from operations surged from NLG 1,191 million to NLG 1,722 million, entirely attributable to higher income of Semiconductors, which was positively influenced by currency changes.

Sales of the *Professional Products and Systems* sector went up 12 per cent. Business Electronics achieved strong growth in all businesses, particularly in monitors. Medical Systems' order intake is clearly showing an upward trend. Income from operations swung from a loss of NLG 79 million to a profit of NLG 209 million, largely as a result of Business Electronics' turnaround in operating performance.

Sales of *Software & Services* increased 4 per cent. Income from operations went up from NLG 291 million to NLG 506 million, primarily as a consequence of discontinuing loss-making media activities.

Sales growth of the *Miscellaneous* sector was 10 per cent. Income from operations decreased from NLG 179 million to NLG 135 million, especially because ASM Lithography, which was deconsolidated as per March 1996, no longer contributes to income of this sector.

Trend per geographic area

In Europe the strongest sales growth came from Eastern Europe, France and Spain. Overall sales growth in the USA and Canada was only modest because sales in Consumer Products declined. Sales growth in Asia Pacific slowed down, but continued at a high rate in China. Sales in Latin America decreased slightly as a result of depressed markets in Brazil, despite strong sales growth in Argentina and Mexico. Income from operations in Europe experienced a major improvement, especially in the Netherlands and Germany. The increase in Asia Pacific income mainly occurred in China, Taiwan and Hong Kong. Income in the USA and Canada was negative as a consequence of starting up various new activities at Sound & Vision and Consumer Communications and of the costs of the Philips-Magnavox advertising campaign. Latin American income fell as a result of depressed markets in Brazil.

Balance sheet ratios and cash flows

Inventories expressed as a percentage of sales dropped from 19.6 one year ago to 18.6. Outstanding trade receivables were the equivalent of 1.7 months' sales, equal to September last year. The net debt : group equity ratio has improved significantly to 33 : 67, due to improved profits and a high level of asset disposals. Cash flow from operations amounted to NLG 2,617 million versus NLG 213 million last year, due to higher net income and a lower increase in working capital. Investments have come down from NLG 4.4 billion to

NLG 3.0 billion. Proceeds from divestments of NLG 3.0 billion exceeded those of last year (NLG 1.3 billion). Cash flow surplus came to NLG 2.6 billion compared to a deficit of NLG 2.8 billion twelve months ago.

Employees

The headcount at the end of September 1997 was 269,860, up 7,636 on the comparable figure of January 1. The larger part of the increase was in temporary personnel. Significant increases occurred in Lighting, Components and Semiconductors, and Origin. Employment grew mainly in Asia Pacific and Europe.

Subsequent events

As of October 1, 1997 the joint venture with Lucent Technologies under the name of Philips Consumer Communications was formed. This activity will significantly expand our operations in this rapidly growing segment. Approximately 8,000 employees have joined the Philips Group of Companies.

At the beginning of October a further tranche of our shareholding in Taiwan Semiconductor Manufacturing Co. was sold for a net amount of NLG 1.1 billion. This transaction will be recognized in the fourth quarter. Philips shareholding in TSMC is now 28.2 per cent.

Outlook

The first nine months' results indicate that the improvement program started in 1996 is on plan. A number of the restructuring programs are still under way and should deliver benefits in the future. With the third quarter behind us, it is clear that we will achieve our goal of a positive cash flow of over NLG 1 billion in 1997. We remain fully committed to grow operating income at double-digit rate and to achieve a 24 per cent return on net assets in the longer term.

October 23, 1997
Philips Electronics N.V.

Board of Management