Report on the performance of the Philips Group

- Income from continuing operations in Q1 2000 was EUR 1,140 million (EUR 0.86 per share) vs. EUR 469 million (EUR 0.32 per share) in Q1 1999. Q1 2000 income included a EUR 526 million gain from the sale of a portion of JDS Uniphase shares.
- All sectors, except Origin, contributed to the increase in income.
- Ebitda on a comparable basis was more than 50% up on the year-earlier quarter.
- RONA came to 25.1% vs. a comparable 16.2% last year.
- Comparable sales growth was 11% vs. 3% last year.

Income from continuing operations in the first three months amounted to EUR 1,140 million (EUR 0.86 per share) compared to EUR 469 million (EUR 0.32 per share) in the corresponding period of 1999. Included in income is a gain of EUR 526 million from the sale of a portion of the JDS Uniphase shares received upon the sale of Optoelectronics in mid-1998. Income from operations in the first quarter of 1999 included a gain of EUR 169 million (EUR 150 million after tax) from the sale of Conventional Passive Components. Without these non-recurring items, income from continuing operations in the first quarter improved by 92% over the same period of last year. Improvement in income from continuing operations was the result of strong sales performance in virtually all product sectors, significantly lower employment costs, mainly as a result of pension credits, and strong performance at unconsolidated companies.

Sales in the first quarter amounted to EUR 8,329 million, reflecting a 22% nominal increase over the same period a year ago. Adjusted for exchange rate fluctuations (9%), and consolidation changes (2%), comparable sales growth came to 11% compared to 3% a year earlier. Sales growth is accelerating, especially in Semiconductors, Components, Miscellaneous and Domestic Appliances and Personal Care, and within the Consumer Electronics sector, in Consumer Communications and Digital Networks.

Price erosion in the first quarter was 5%, substantially down from 8% in the corresponding quarter last year and also down from the fourth quarter of 1999 (7%). Volume growth came to 17% compared with 11% a year ago.

Income from operations (EUR 663 million or 8.0% of sales, against EUR 549 million or 8.0% of sales in 1999), is reflecting higher depreciation/amortization charges, mainly resulting from a number of acquisitions in 1999. Excluding the non-recurring gains from the sale of participations in 1999, income from operations was 8.0% versus 5.4% in the year-earlier period. The result was positively impacted by pension credits which are partly (EUR 50 million) allocated to the various segments. The RONA ratio amounted to 25.1% compared to 16.2% in the year-earlier period, when excluding the gain on the sale of Conventional Passive Components. Positive income developments occurred across the board except at Origin, which is suffering from a slow start of the IT sector post-millennium.

Financial income and expenses came to a positive balance of EUR 480 million compared to a positive amount of EUR 21 million in the year-earlier period. The current quarter includes a EUR 526 million gain from the sale of a block of JDS Uniphase shares. This positive effect was partly offset by higher net interest expense and exchange rate differences. The tax burden has been determined at a tentative rate of 20% excluding the JDS Uniphase gain, which is not taxable. This resulted in an overall tax burden of less than 11% compared with 20% in the same period of last year.

Philips' results relating to unconsolidated companies rose to EUR 135 million from EUR 25 million a year earlier, primarily coming from the joint venture LG.Philips LCD Co., established mid-1999, and the sharply higher contribution from Taiwan Semiconductor Manufacturing Co. Last year's figure included a non-recurring gain in relation to the transfer of 27% of Philips' shareholding in Navigation Technologies to a Dutch investor group. Minority interests were virtually unchanged.

Trend per product sector

Growth is expressed on a comparable basis

In the *Lighting* sector, the nominal increase in sales was 10%, which was attributable to strengthening Asian markets, combined with positive currency influences. Comparable growth came to 2%.
Income from operations improved to EUR 205 million from EUR 178 million, benefiting from stronger market conditions and improved margins, resulting from a richer product mix, as well as from past restructuring initiatives which address continuing pricing pressures.

Sales in the *Consumer Electronics* sector increased by 9%, reflecting 18% volume growth partly offset by 9% price erosion. The larger part of the growth relates to Consumer Communications, Digital Networks and CE Specialty Products.
Despite a restructuring charge of EUR 18 million, income from operations improved to EUR 72 million from last year's EUR 40 million, mainly due to the turnaround at Philips Consumer Communications and higher license income. The results of Mainstream CE, however, were adversely affected by price erosion offsetting volume growth, and a restructuring charge for downsizing of its Singapore operations. Income in Digital Networks is reflecting the cost of investments in new high-growth digital business opportunities, which will lead to improved sales and earnings in the near future.

The *Domestic Appliances and Personal Care* sector saw a considerable sales increase of 11%, primarily attributable to vigorous growth in Male shaving and grooming.
Income from operations reached EUR 45 million versus EUR 25 million a year-earlier, benefiting mainly from successful product launches such as the Quadra action shaver, favorable currency effects, and improved economies in emerging markets.

The *Components* sector reported a strong 20% increase in sales compared to the prior year, mainly attributable to Display Components and Optical Storage.
Income from operations of EUR 95 million compares to last year's EUR 201 million, which included the EUR 169 million gain relating to the divestment of Conventional Passive Components. The improvement is primarily attributable to strong performance in Optical Storage and Advanced Ceramics & Modules.

In the *Semiconductors* sector sales increased by 58% on a nominal basis, to which VLSI contributed strongly. On a comparable basis, sales growth was 23%, in line with the market served by Philips Semiconductors.
Income from operations was up at EUR 241 million or 16.8% of segment revenues from EUR 167 million or 17.7% in 1999. Higher sales delivered improvements in all businesses; the relative decrease of the operating margin was due to higher goodwill amortization charges related to VLSI.

Sales of the *Medical Systems* sector were 9% up on the prior year, largely attributable to North America.
Income from operations turned to EUR 20 million from a break-even result last year, due to a strong sales performance and strict cost control.

Sales at *Origin* remained 10% below last year as a result of reduced market demand in the post-millennium period.
Income from operations of EUR 1 million was down on last year's EUR 25 million, mainly as a consequence of these lower sales. Also a restructuring charge for the alignment of workforce and facilities costs, and higher goodwill charges negatively impacted on the results.

The *Miscellaneous* sector saw a 25% increase in sales, mainly due to FEI/Micrion, Machinefabrieken and Electronic Manufacturing Technology (EMT).
Income from operations was down at a loss of EUR 6 million versus a EUR 3 million loss in the year-earlier period, which included income contributions from activities that have meanwhile been divested. This year's results include a restructuring charge involving certain research activities in the Netherlands.

In the *Unallocated* segment, the quarter has been positively impacted by pension credits of approximately EUR 70 million.

Trend per geographic area

Growth is expressed on a comparable basis

Sales in Europe increased strongly (14%) in the first quarter, driven by Consumer Electronics - in particular Mainstream CE and Consumer Communications - , Components and Semiconductors. A major upturn occurred in Eastern Europe, which saw a 46% increase in sales. North American sales were 7% up on the prior year, mainly attributable to strong sales in Medical Systems, Semiconductors and DAP.
Latin America posted strong sales growth, 23% ahead of last year. Brazil and Mexico recorded the most significant increases, driven by Mainstream CE and Components.
Sales in Asia Pacific were 7% up on the prior year with the main contributions coming from Semiconductors, Lighting and DAP. Sales in China ended 5% higher.
Income from operations improved in all regions except North America.Europe recorded higher results even including last year's one-off gain on the sale of Conventional Passive Components. This was primarily driven by the turnaround in Consumer Communications, as well as stronger performance in Semiconductors and Components.
Latin America benefited from rationalization measures in prior years, which are particularly visible in the results of Consumer Electronics and Components. Asia Pacific saw the strongest improvement in income despite a substantial restructuring charge for CE's Singapore operations.

Balance sheet ratios and cash flows

Inventories at the end of March 2000 came to 14.5% of sales as compared to 15.6% a year earlier. The average collection period of outstanding trade receivables was the equivalent of 1.6 months' sales, unchanged from one year ago.
Cash flow from operating activities was EUR 405 million versus EUR 71 million last year mainly as a result of much higher operating performance. Cash provided by investing activities of EUR 130 million was below 1999, because of higher capital expenditures. The resulting cash flow before financing activities was EUR 535 million compared with EUR 284 million in the first quarter of last year.

Employees

The number of people employed at the end of March 2000 was 229,341, an increase of 1,998 employees over the comparable position on January 1, 2000.

Outlook

Results of the first quarter confirm our positive outlook for the year 2000, and we continue to see opportunities for further improvements ahead. We have reached our RONA target of 24% in the first quarter and will achieve double-digit growth in earnings and a positive cash flow again this year.

April 19, 2000
Royal Philips Electronics

Board of Management

Balance sheets and additional ratios

all amounts in millions of euros (EUR) unless otherwise stated

Consolidated balance sheets

	2000	1999
	March 31,	December 31,
Cash and cash equivalents	2,579	2,331
Securities	1,499	1,523
Receivables	6,619	6,453
Inventories	4,785	4,566
Unconsolidated companies	2,429	2,091
Other non-current financial assets	365	340
Non-current receivables	2,113	2,038
Property, plant and equipment	7,640	7,332
Intangible assets	2,832	2,822
Total assets	30,861	29,496
Current liabilities	8,203	7,974
Dividend payable	399	-
Debt	3,288	3,314
Provisions	3,248	3,118
Minority interests	365	333
Stockholders' equity	15,358	14,757
Total liabilities and stockholders' equity	30,861	29,496
Stockholders' equity:		
Per common share in EUR (after stock split)	11.55	11.08

Number of common shares outstanding

	End of March	
(after stock split)		
Shares in thousands (December 31, 1999: 1,331,601)	1,329,965	1,445,350

Number of employees

Comparable figure on 1.1.2000: 227,300	229,300	228,800

Ratios

Net debt : group equity ratio	4:96	*
Inventories as a % of sales	14.5	15.6
Outstanding trade receivables, in months' sales	1.6	1.6

	January to March	
Income from operations:		
As a % of sales	8.0	8.0
As a % of net operating capital (RONA)	25.1	24.1
Income from continuing operations		
as a % of stockholders' equity (ROE)	31.2	17.7

* As the current net cash situation exceeds the level of debt, the net debt to group equity ratio is not meaningful.

Information also available on Internet, address: http://www.philips.com
Printed in the Netherlands

Product sectors and cash flows

all amounts in millions of euros (EUR) unless otherwise stated

Segment revenues and income from operations

	January to March					
	2000			1999		
	segment revenues	income (loss) from operations	as % of segment revenues	segment revenues	income (loss) from operations	as % of segment revenues
Lighting	1,237	205	16.6	1,122	178	15.9
Consumer Electronics *	3,178	72	2.3	2,863	40	1.4
DAP	387	45	11.6	327	25	7.6
Components	1,491	95	6.4	1,210	201	16.6
Semiconductors	1,435	241	16.8	946	167	17.7
Medical Systems	574	20	3.5	486	0	-
Origin	400	1	0.3	414	25	6.0
Miscellaneous	430	(6)	(1.4)	409	(3)	(0.7)
Unallocated		(10)			(84)	
Total	9,132	663		7,777	549	
Intersegment revenues	(803)			(940)		
Sales	8,329			6,837		
Income from operations						
as a % of sales		8.0			8.0	
* of wich:						
Mainstream CE	1,868	(17)	(0.9)	1,829	9	0.5
Consumer Communications	521	24	4.6	393	(37)	(9.4)
Digital Networks	197	(21)	(10.7)	170	(14)	(8.2)
Specialty Products	552	3	0.5	430	11	2.6
Licenses	94	83	88.3	75	71	94.7
Intrasegment revenues	(54)			(34)		
	3,178	72	2.3	2,863	40	1.4

Consolidated statements of cash flows*

	January to March	
	2000	1999
Cash flows from operating activities:		
Net income	1,140	469
Depreciation and amortization	502	366
Net gain on sale of investments	(545)	(240)
Income unconsolidated companies	(153)	14
Minority interests	14	8
Increase in working capital	(475)	(450)
Increase in provisions	70	43
Other items	(148)	(139)
Net cash provided by operating activities	405	71
Proceeds from the sale of securities	550	0
Net capital expenditures	(456)	(236)
Purchase/proceeds other non-current financial assets	(45)	(6)
Acquisition/sale of businesses	81	455
Cash flows before financing activities	535	284

* For a number of reasons, principally the effects of translation differences and consolidation changes, certain items in the statements of cash flows do not correspond to the differences between the balance sheet amounts for the respective items.

Product sectors and main countries

all amounts in millions of euros (EUR) unless otherwise stated

Sales and total assets

	sales (to third parties)			total assets	
	January to March 2000			2000	1999
		% growth		March 31,	December 31,
	amount	nominal	comparable *		
Lighting	1,226	11	2	2,972	2,849
Consumer Electronics	3,160	18	9	4,875	4,683
DAP	381	19	11	749	777
Components	1,100	29	20	5,460	5,179
Semiconductors	1,224	58	23	5,628	5,188
Medical Systems	573	19	9	1,869	1,840
Origin	248	(10)	(10)	686	683
Miscellaneous	417	21	25	1,416	1,545
Unallocated				7,206	6,752
Total	8,329	22	11	30,861	29,496

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

Sales and fixed assets

	sales (to third parties)			(in)tangible fixed assets	
	January to March 2000			2000	1999
		% growth		March 31,	December 31,
	amount	nominal	comparable *		
Netherlands	438	8	9	1,822	1,811
United States	1,849	25	7	2,576	2,476
Germany	795	20	21	625	632
France	509	20	15	405	392
United Kingdom	497	9	(2)	331	321
China (incl. Hong Kong)	579	20	5	681	635
Other countries	3,662	25	14	4,032	3,887
Total	8,329	22	11	10,472	10,154

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

Statements of income

all amounts in millions of euros (EUR) unless otherwise stated

The data included in this report are unaudited.

Consolidated statements of income

	January to March	
	2000	1999
Sales	8,329	6,837
Ebitda	1,147	915
Income from operations (Ebit)	663	549
Financial income and expenses	480	21
Income before taxes	1,143	570
Income taxes	(124)	(114)
Income after taxes	1,019	456
Results relating to unconsolidated companies	135	25
Minority interests	(14)	(12)
Income from continuing operations	1,140	469
Extraordinary items - net	-	-
Net income	1,140	469
Basic earnings per common share in EUR (after stock split):		
- income from continuing operations	0.86	0.32
- net income	0.86	0.32

Presentation and accounting issues

The data per share in this report have been based on the (average) number of shares outstanding after the 4-for-1 stock split which was effected per April 14, 2000. Prior-year data have been restated accordingly.

As of this quarter, the segment reporting is extended to nine segments. Consumer Electronics and Domestic Appliances and Personal Care (DAP), formerly part of Consumer Products, are shown separately, as is Medical Systems which was part of Professional. Additionally, revenues and income from operations are provided for the business groups within Consumer Electronics.

In order to further align Philips' accounting principles under Dutch GAAP with US GAAP requirements, certain product development and process development costs are no longer included in inventories. In line with Dutch GAAP, the relevant costs included in the January 1 balance sheet were debited direct to stockholders' equity.