Balance sheets and additional ratios

all amounts in millions of Dutch guilders unless otherwise stated

Consolidated balance sheets

	1998 March 31,	1997 December 31,
Cash and cash equivalents	**4,013**	3,773
Receivables	**16,488**	16,471
Inventories	**12,884**	11,421
Non-current assets	**28,118**	27,776
Total assets	**61,503**	59,441
Total current liabilities	**23,529**	23,986
Long-term debt	**7,139**	7,323
Long-term provisions	**6,955**	6,275
Group equity	**23,880**	21,857
Of which stockholders' equity	**21,555**	19,457
Per common share in NLG:	**59.82**	54.36

Number of employees

	End of March	
Comparable figure on 1.1.1998 : 264,100	**267,200**	266,900

Ratios

	January to March	
Income from operations:		
As a % of sales	**4.8**	5.2
As a % of net operating capital (RONA)	**13.5**	13.7
Income from normal business operations		
as a % of stockholders' equity (ROE)	**17.1**	13.4

	End of March	
Net debt : group equity ratio (at year-end 1997 21:79)	**17:83**	38:62
Inventories as a % of sales	**16.5**	17.4
Outstanding trade receivables, in months' sales	**1.7**	1.8

Number of common shares outstanding

	March 31,	December 31,
Shares in thousands	**365,406**	364,777

Product sectors

all amounts in millions of Dutch guilders unless otherwise stated

Sales and total assets

	sales (to third parties)			total assets	
	January to March 1998			1998	1997
		% growth		March 31,	December 31,
	amount	nominal	comparable *		
Lighting	2,467	6	4	6,138	6,001
Consumer Products	6,034	20	9	11,142	11,205
Components	2,013	12	9	7,232	6,932
Semiconductors	1,857	25	23	7,444	6,911
Professional	2,131	9	16	5,045	4,823
PolyGram	2,284	4	(1)	10,899	11,342
Origin	529	28	22	1,144	1,085
Miscellaneous	521	(42)	13	2,792	2,419
Unallocated				9,667	8,723
Total	17,836	11	10	61,503	59,441

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

Segment revenues and income from operations

	January to March					
	1998			1997*		
	segment revenues	income (loss) from operations	as % of segment revenues	segment revenues	income (loss) from operations	as % of segment revenues
Lighting	2,493	333	13.4	2,370	275	11.6
Consumer Products	6,261	(94)	(1.5)	5,354	166	3.1
Components	2,740	176	6.4	2,518	86	3.4
Semiconductors	2,221	498	22.4	1,777	343	19.3
Professional	2,221	80	3.6	2,013	(34)	(1.7)
PolyGram	2,284	37	1.6	2,204	192	8.7
Origin	782	25	3.2	664	12	1.8
Miscellaneous	627	(14)	(2.2)	1,130	(25)	(2.2)
Unallocated		(182)			(179)	
Total	19,629	859		18,030	836	
Intersegment sales	(1,793)			(1,894)		
Sales	17,836			16,136		
Income from operations						
as a % of sales		4.8			5.2	

* Reclassified for reason of comparison

Main countries and geographic areas

all amounts in millions of Dutch guilders unless otherwise stated

Sales and fixed assets

	sales (to third parties)			(in)tangible fixed assets	
	January to March 1998			1998	1997
		% growth		March 31,	December 31,
	amount	nominal	comparable *		
Netherlands	922	18	26	3,837	3,881
United States	4,116	31	11	5,095	4,561
Germany	1,739	(2)	7	1,988	1,783
France	1,314	0	13	1,210	1,274
United Kingdom	1,276	4	(1)	1,456	1,398
Other countries	8,469	7	9	7,042	6,776
Total	17,836	11	10	20,628	19,673

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

Segment revenues and income from operations

	January to March					
	1998			1997		
	segment revenues	income (loss) from operations	as % of segment revenues	segment revenues	income (loss) from operations	as % of segment revenues
Europe	16,268	876	5.4	14,842	481	3.2
USA and Canada	4,987	(299)	(6.0)	3,921	(5)	(0.1)
Latin America	1,217	(31)	(2.5)	1,074	43	4.0
Asia Pacific	5,849	312	5.3	5,766	318	5.5
Africa	69	1	1.4	59	(1)	(1.7)
Total	28,390	859		25,662	836	
Interregional sales	(10,554)			(9,526)		
Sales	17,836			16,136		
Income from operations						
as a % of sales		4.8			5.2	

'Safe Harbor' Statement under the Private Securities Litigation Reform Act of October 1995
This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, levels of consumer and business spending in major economies, changes in consumer tastes and preferences, the levels of marketing and promotional expenditures by Philips and its competitors, raw materials and employee costs, changes in future exchange and interest rates, changes in tax rates and future business combinations, acquisitions or dispositions, and the rate of technical changes.

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

Printed in the Netherlands

Statements of income and additional ratios

all amounts in millions of Dutch guilders unless otherwise stated

the data included in this report are unaudited

Consolidated statements of income

	January to March	
	1998	1997
Sales	**17,836**	16,136
Income from operations	**859**	836
Financial income and expenses	**(143)**	(167)
Income before taxes	**716**	669
Income taxes	**(165)**	(167)
Income after taxes	**551**	502
Equity in income of unconsolidated companies	**64**	(10)
Share of other group equity in group income	**101**	(32)
Income from normal business operations	**716**	460
Extraordinary items - net	**845**	427
Net income	**1,561**	887
Basic earnings per common share in NLG:		
- income from normal business operations	**2.00**	1.32
- net income	**4.36**	2.55

Consolidated statements of cash flows*

	January to March	
	1998	1997
Cash flows from operating activities:		
Net income	**1,561**	887
Depreciation and amortization	**876**	837
Net gain on sale of investments	**(1,054)**	(508)
Increase in working capital	**(366)**	(533)
Increase in provisions	**90**	327
Other adjustments	**(127)**	152
Net cash generated by operating activities	**980**	1,162
Cash required for investments	**(1,249)**	(1,047)
Proceeds from divestments	**1,176**	724
Cash flows (before financing activities)	**907**	839

* 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.

Report on the performance of the Philips Group

In the first quarter of 1998, income from normal business operations amounted to NLG 716 million (NLG 2.00 per share) compared to NLG 460 million (NLG 1.32 per share) in the first quarter of last year, reflecting an improvement in earnings per share of 51 per cent. All segments improved except PolyGram and Consumer Products, which suffered from losses at Consumer Communications (60 per cent owned by Philips). These losses were partly offset by the share of other group equity in group income. Financial expenses were lower and net income from unconsolidated companies improved.
Extraordinary items contributed NLG 845 million to net income, almost entirely arising from the gain on the sale of Philips Car Systems to Mannesmann VDO. In the first quarter of 1997 extraordinary income was NLG 427 million, mainly relating to the partial flotation of our shareholding in ASM Lithography. Net income came to NLG 1,561 million compared to NLG 887 million in the first quarter of 1997.

Sales in the first quarter of 1998 were NLG 17,836 million, reflecting a nominal increase of 11 per cent over last year's first quarter. Exchange rate fluctuations had a positive effect of 3 per cent on sales, whereas changes in consolidations had a negative effect of 2 per cent. Adjusted for these effects the comparable sales growth rate came to 10 per cent versus 3 per cent in the first three months of 1997. In comparison with the first quarter of last year, average annualized price erosion has increased to 7 from 5 per cent, largely related to Monitors and the fast growing Consumer Communications activities.

Income from operations increased to NLG 859 million (4.8 per cent of sales) from NLG 836 million (5.2 per cent of sales). Improvements in the product sectors Lighting, Semiconductors, Professional and Origin were largely offset by the decline of operating income at Consumer Products and PolyGram. Net financial expense amounted to NLG 143 million versus NLG 167 million in the prior-year period resulting from lower debt levels. Income taxes have been provisionally determined at a rate of 23 per cent, compared to 25 per cent in the corresponding period of 1997.

Philips' share in the net income of unconsolidated companies amounted to NLG 64 million compared to a loss of NLG 10 million in the year-earlier period. The improvement is primarily due to our share of the income from Taiwan Semiconductor Manufacturing Co. The share of third parties in Philips' group income contributed NLG 101 million versus a negative amount of NLG 32 million a year ago, which primarily represents third-party interests in the earnings of Philips Consumer Communications and PolyGram.

Trend per product sector*

Growth is expressed on a comparable basis.

* *The reporting of the product sectors has been changed to comply with the new requirements of FAS Statement 131, issued by the Financial Accounting Standards Board of the USA.*

Sales of the *Lighting* sector increased 4 per cent. Income from operations rose to NLG 333 million from NLG 275 million as a result of improved operating performance and increased sales.

Sales of the *Consumer Products* sector grew by 9 per cent. Philips' video and audio sales growth rates were in excess of the market for most businesses. Consumer Communications continued to experience strong growth. Domestic Appliances and Personal Care products performed well in Europe, offset by declines in Asia Pacific and the USA. Income from operations was a loss of NLG 94 million compared with a profit of NLG 166 million in 1997, due to a lack of profitability at Consumer Communications.

Sales of the *Components* sector increased 9 per cent. Income from operations rose to NLG 176 million from NLG 86 million. The first quarter of 1997 included a charge for impairment of an industrial facility in Eastern Europe.

Sales of the *Semiconductors* sector grew by 23 per cent, with all major businesses contributing. Income from operations increased to NLG 498 million from NLG 343 million. Capacity utilization benefited strongly from the high sales level and more than compensated for price erosion.

Sales of the *Professional* sector experienced 16 per cent sales growth, with Business Electronics continuing to achieve strong growth rates, and Medical Systems' order intake increasing, in particular in the USA. Income from operations swung to a profit of NLG 80 million from a loss of NLG 34 million, as most of the activities of Business Electronics improved operating performance.

Sales of *PolyGram* were down 1 per cent. Sales decreases were recorded in Asia Pacific and Europe, while sales in North America, especially in filmed entertainment, showed substantial growth. Income from operations declined to NLG 37 million from NLG 192 million. Releases for music and film are geared towards the second half of the year.

Sales growth of *Origin* came to 22 per cent, particularly realized in Europe. Income from operations increased to NLG 25 million from NLG 12 million as a result of improved operating efficiency.

The increase in sales of the *Miscellaneous* sector by 13 per cent relates to Machinefabrieken and a number of smaller business activities. This sector also includes basic research and patents expense. Income from operations improved to a loss of NLG 14 million from a loss of NLG 25 million.

Trend per geographic area

In all regions except Latin America sales growth was higher than in the first quarter of last year. Sales in Europe, in particular the Netherlands and France showed significant growth rates while the USA and Canada, led by Consumer Electronics outperformed the first quarter of 1997. Decreasing sales in Latin America were entirely due to the depressed economic environment in Brazil. Sales in Mexico and Argentina continued to be strong.

Sales in Asia Pacific were higher compared with the first quarter of 1997. Semiconductors, Components and Lighting achieved substantial increases, whereas Consumer Products and PolyGram recorded lower sales. The five Asian countries mostly impacted by the financial crisis suffered a nominal sales decline of 34 per cent. Together these five countries represent less than 3 per cent of Philips' total sales.

Income from operations in Europe improved substantially, especially in Germany, Belgium and France. Income in the USA and Canada saw a significant deterioration, predominantly attributable to Philips Consumer Communications and to a lesser extent to PolyGram. Income in Latin America was negative as a result of the economic environment in Brazil. Income in Asia Pacific remained stable, while income in China improved.

Balance sheet ratios and cash flows

Inventories at the end of March, 1998 represented 16.5 per cent of sales compared to 17.4 per cent a year earlier. The average collection period of outstanding trade receivables in months' sales was 1.7 versus 1.8 at the end of the first quarter of 1997. The net debt : group equity ratio improved to 17:83 as a result of higher profits and lower debt. Twelve months ago this ratio stood at 38:62. Cash flow from operations came to NLG 980 million versus NLG 1,162 million last year. Cash required for investing activities was almost NLG 300 million below last year's level. Cash flow surplus amounted to NLG 907 million compared to NLG 839 million in the prior-year period.

Employees

The headcount per the end of March 1998 was 267,200, representing an increase of 3,100 over the comparable number per January 1, 1998.

Outlook

The overall first-quarter results are satisfying given the continuing uncertain economic environment in Asia and Brazil and the losses at Consumer Communications. Steps have been taken to improve the performance at Consumer Communications. We continue to expect that we will generate double-digit earnings growth and will produce significant positive cash flow in 1998 while we stay committed to achieve a 24 per cent RONA over time.

April 22, 1998
Royal Philips Electronics

Board of Management