

Balance sheets and additional ratios

all amounts in millions of euros unless otherwise stated

Consolidated balance sheets

	1999 March 31,	1998 December 31,
Cash and cash equivalents	6,686	6,553
Receivables	5,682	5,442
Inventories	4,725	4,274
Non-current assets	11,630	11,884
Total assets	28,723	28,153
Other current liabilities	6,897	7,139
Debt	3,459	3,587
Provisions	3,229	2,985
Group equity	15,138	14,442
Of which stockholders' equity	14,870	14,200
<i>Per common share in EUR</i>	41.15	39.37

Number of common shares outstanding

	End of March	
Shares in thousands	368,564	365,406

Number of employees

Comparable figure on 1.1.1999 : 231,600	228,800	254,700
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Ratios

Net debt : group equity ratio	*	18.82
Inventories as a % of sales	15.6	16.9
Outstanding trade receivables, in months' sales	1.6	1.6

	January to March	
Income from operations:		
As a % of sales	8.0	5.3
As a % of net operating capital (RONA)	24.1	15.1
Income from continuing operations		
as a % of stockholders' equity (ROE)	17.8	16.6

* The current net cash situation renders the net debt to group equity ratio meaningless.

Product sectors

all amounts in millions of euros unless otherwise stated

Sales and total assets

	sales (to third parties)			total assets	
	January to March 1999			1999	1998
	amount	% growth		March 31,	December 31,
nominal		comparable *			
Lighting	1,103	(2)	1	2,745	2,607
Consumer Products	2,636	(4)	7	4,161	4,350
Components	854	(6)	3	3,102	3,112
Semiconductors	775	(8)	(6)	3,285	3,106
Professional	1,020	5	(3)	3,008	2,810
Origin	275	15	15	520	572
Miscellaneous	174	(26)	(16)	965	1,021
Unallocated				10,937	10,575
Total	6,837	(3)	2	28,723	28,153

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

Segment revenues and income from operations

	January to March					
	1999			1998		
	segment revenues	income (loss) from operations	as % of segment revenues	segment revenues	income (loss) from operations	as % of segment revenues
Lighting	1,122	178	15.9	1,131	151	13.4
Consumer Products	2,750	73	2.7	2,841	(43)	(1.5)
Components	1,210	201	16.6	1,243	80	6.4
Semiconductors	946	167	17.7	1,008	226	22.4
Professional	1,107	(7)	(0.6)	1,008	36	3.6
Origin	414	25	6.0	355	11	3.1
Miscellaneous	220	(4)	(1.8)	285	(6)	(2.1)
Unallocated		(84)			(82)	
Total	7,769	549		7,871	373	
Intersegment sales	(932)			(814)		
Sales	6,837			7,057		
Income from operations						
as a % of sales		8.0			5.3	

Main countries and geographic areas

all amounts in millions of euros unless otherwise stated

Sales and fixed assets

	sales (to third parties)			(in) tangible fixed assets	
	January to March 1999			1999	1998
	amount	% growth		March 31,	December 31,
nominal		comparable *			
Netherlands	407	3	5	1,615	1,633
United States	1,478	(7)	7	1,230	1,167
Germany	661	(2)	1	663	698
France	424	(8)	(9)	404	410
United Kingdom	519	26	29	314	298
China (incl. Hong Kong)	482	5	11	610	574
Other countries	2,866	(6)	(3)	2,409	2,348
Total	6,837	(3)	2	7,245	7,128

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

Segment revenues and income from operations

	January to March					
	1999			1998		
	segment revenues	income (loss) from operations	as % of segment revenues	segment revenues	income (loss) from operations	as % of segment revenues
Europe	6,923	437	6.3	6,617	349	5.3
USA and Canada	1,839	42	2.3	1,891	(94)	(5.0)
Latin America	291	(29)	(10.0)	491	(21)	(4.3)
Asia Pacific	2,516	99	3.9	2,498	139	5.6
Africa	25	-	-	28	-	-
Total	11,594	549		11,525	373	
Interregional sales	(4,757)			(4,468)		
Sales	6,837			7,057		
Income from operations						
as a % of sales		8.0			5.3	

'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. Market share estimates contained in this report are based on outside sources such as specialized research institutes, industry and dealer panels, etc. in combination with management estimates.

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

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Statements of income and cash flows

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

The data included in this report are unaudited.

The 1998 data have been restated to reflect the sale of PolyGram N.V. and to present the Philips Group accounts on a continuing basis.

Consolidated statements of income

	January to March	
	1999	1998
Sales	6,837	7,057
Income from operations	549	373
Financial income and expenses	21	(63)
Income before taxes	570	310
Income taxes	(114)	(69)
Income after taxes	456	241
Results relating to unconsolidated companies	25	31
Share of other group equity in group income	(12)	49
Income from continuing operations	469	321
Discontinued operations	-	4
Gain on disposal of discontinued operations		
Extraordinary items - net	-	383
Net income	469	708

Basic earnings per common share in EUR:

- income from continuing operations	1.30	0.89
- net income	1.30	1.98

Consolidated statements of cash flows*

	January to March	
	1999	1998
Cash flows from operating activities:		
Net income	469	708
Income from discontinued operations	-	(4)
Depreciation and amortization	365	372
Net gain on sale of investments	(240)	(478)
Increase in working capital	(450)	(316)
Decrease in provisions	43	60
Other items	(116)	(39)
Net cash generated by operating activities	71	303
Cash required for investments	(361)	(325)
Proceeds from divestments	574	533
Cash flows (before financing activities)	284	511

* 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

Accounting and presentation issues

The consolidated quarterly financial statements for 1998 have been restated to reflect the sale of PolyGram N.V. and to present the Philips Group accounts on a continuing basis for both years presented in this report.

With effect from 1999 a number of accounting changes will be made to present the financial statements more in accordance with US GAAP. Results from divestments other than segments of business will be reported in income from operations and no longer as extraordinary items. The use of equalization accounts within the year has been abolished. The costs of IT software for internal Philips use are capitalized and subsequently amortized over three years. The latter two have had a positive effect on operating income in this quarter.

All financial data are presented in euros (conversion rate: EUR 1 = NLG 2.20371).

Income from continuing operations in the first three months amounted to EUR 469 million (EUR 1.30 per share) as compared to EUR 321 million (EUR 0.89 per share) in the corresponding period of 1998. This improvement was primarily attributable to higher income from operations which included EUR 180 million non-recurring gains on divestments, mainly the sale of the Conventional Passive Components business. Without these gains, income from continuing operations would have been EUR 325 million. In the first quarter of 1998 extraordinary income contributed EUR 383 million to net income relating primarily to the sale of Philips Car Systems. First-quarter net income came to EUR 469 million versus EUR 708 million in the first three months of 1998.

Sales in the first quarter of 1999 amounted to EUR 6,837 million, nominally 3 per cent lower than in the same period of 1998. Exchange rate fluctuations had a negative effect of 2 per cent on sales, while consolidation changes had a negative effect of 3 per cent. The most important deconsolidations were the Lucent part of Philips Consumer Communications (PCC) and Conventional Passive Components, partly offset by the new consolidation of ATL Ultrasound. Adjusted for these effects, the comparable sales growth came to 2 per cent compared to 11 per cent growth a year ago. This reflects the economic downturn in large parts of the world which became apparent from the second quarter of 1998 onwards. The main contributors to the 2 per cent comparable growth were Consumer Products, Origin and Components.

Price erosion in the first quarter was 8 per cent, unchanged from the corresponding quarter in 1998. Volume growth was 10 per cent compared with 19 per cent a year ago.

Income from operations in the reporting period amounted to EUR 549 million (8.0 per cent of sales) against EUR 373 million (5.3 per cent of sales) in 1998. Excluding non-recurring gains from the sale of participations, income from operations was also up on 1998: 5.4 per cent versus 5.3 per cent of sales. Excluding the divestment gains the RONA ratio amounted to 16.2 per cent as compared to 15.1 per cent in the year-earlier period. Positive income developments in Consumer Products, Lighting and Origin more than compensated for the lower results in Components (excluding the non-recurring gains), Semiconductors and Professional.

Financial income and expenses came to a positive balance of EUR 21 million compared to last year's negative amount of EUR 63 million, primarily due to increased interest income from the current excess cash position and favorable exchange results. The tax burden has been determined at a tentative rate of 20 per cent compared with 23 per cent in the same period of last year.

Philips' results relating to unconsolidated companies fell to EUR 25 million from EUR 31 million a year earlier, primarily due to the lower contributions from Taiwan Semiconductor Manufacturing Co. On the other hand, last year's first quarter included 50 per cent of the losses of Hosiden and Philips Display, which was consolidated from April 1, 1998 onwards when shareholding was increased to 80 per cent. Part of the shortfall was compensated by a non-recurring gain in relation to the transfer of 27 per cent of Philips' shareholding in Navigation Technologies to a Dutch investor group. The share of other group equity in group income swung to a negative amount of EUR 12 million from last year's positive amount of EUR 49 million, the difference primarily reflecting the dissolution of the PCC/Lucent joint venture in September 1998.

Trend per product sector

Growth is expressed on a comparable basis

Sales of the *Lighting* sector edged up 1 per cent, virtually in line with the market development. Income from operations grew to EUR 178 million from EUR 151 million benefiting from slightly higher margins attributable to a richer product mix in addition to cost savings as a result of operational improvements and purchasing efficiencies.

Sales in the *Consumer Products* sector increased by 7 per cent reflecting an acceleration in sales growth from the two preceding quarters. The larger part of the growth relates to Consumer Electronics, in particular PC Peripherals, Audio and PCC. Sales growth significantly exceeded the market growth in this division. The division Domestic Appliances and Personal Care products recorded lower sales, particularly as a result of weak demand in Brazil and Eastern Europe. Income from operations improved to a profit of EUR 73 million from last year's loss of EUR 43 million, mainly due to a significant reduction in the losses incurred at Philips Consumer Communications, where activities have been more focused following the dissolution of the joint venture with Lucent. Higher license income also contributed positively.

The *Components* sector reported a 3 per cent increase in sales compared to the prior year, mainly attributable to Display Components, where sales in Monitor tubes increased strongly. Also LCD Cells & Modules, part of Flat Display Systems, contributed. Income from operations of EUR 201 million compares to last year's EUR 80 million, but disregarding the EUR 180 million gain mainly from the sale of Conventional Passive Components income from operations was down at EUR 21 million. The reduction is primarily attributable to a decline in Optical Storage income and losses in Flat Display Systems. The Hosiden and Philips Display - HAPD losses in the first quarter of 1998 were reported as results from unconsolidated companies.

In the *Semiconductors* sector sales decreased 6 per cent, approximately in line with the market served by Philips Semiconductors. Income from operations was down to EUR 167 million from EUR 226 million or 17.7 per cent of segment revenues compared with 22.4 per cent in 1998, mainly because of lower demand.

Sales of the *Professional* sector were 3 per cent down on the prior year, fully attributable to lower sales in Business Electronics compared with the very strong first quarter in 1998. Medical Systems sustained last year's double-digit growth level and recorded impressive increases in order intake. Income from operations turned to a loss of EUR 7 million from a profit of EUR 36 million last year. In Medical Systems the 1999 results include charges for a reorganization in Germany while 1998 benefited from one-time gains. Development costs at Business Electronics were relatively high compared with lower sales volumes.

Sales growth at *Origin* came to 15 per cent, particularly realized in Asia and Europe. Income from operations of EUR 25 million was up from last year's EUR 11 million mainly attributable to growth in sales and improved cost efficiency.

The *Miscellaneous* sector saw a 16 per cent decrease in sales. Income from operations was marginally better at a loss of EUR 4 million versus EUR 6 million loss in the year-earlier period.

Trend per geographic area

Growth is expressed on a comparable basis

Sales in the first quarter showed solid growth of 8 per cent in North America, driven by Consumer Products, and regained strong growth in Asia Pacific (9 per cent increase) driven by Consumer Products and Components. Modest growth of 2 per cent was recorded in Europe, partly due to lower sales in Eastern Europe. In Latin America sales dropped by 30 per cent primarily due to Brazil, where sales declined by 46 per cent.

Income from operations in USA and Canada swung to a profit, primarily attributable to the dissolution of the PCC/Lucent joint venture. The positive variance in Europe was due to the gain on the sale of Conventional Passive Components, without which the region was down especially in Semiconductors, Professional and Components in Western Europe. In Latin America, income from operations would have improved due to an effective cost reduction program, if not for a restructuring provision for Lighting. The income in the Asia Pacific region was negatively impacted by Components' Optical Storage business and HAPD, and – to a lesser extent – by lower Semiconductors performance.

Balance sheet ratios and cash flows

Inventories at the end of March 1999 came to 15.6 per cent of sales as compared to 16.9 per cent a year earlier. The average collection period of outstanding trade receivables was the equivalent of 1.6 months' sales unchanged from one year ago. Following the sale of PolyGram in December 1998, Philips has been in a net cash position as compared to a net debt position in the first quarter of last year. When compared to the net debt position, group equity now exceeds 100 per cent, while twelve months ago the net debt to group equity ratio stood at 18:82. Cash flow from operations was EUR 71 million versus EUR 303 million last year mainly due to the impact of changes in working capital. Cash required for investing activities of EUR 213 million was in line with 1998. The resulting cash flow surplus was EUR 284 million compared with EUR 511 million in the first quarter of last year.

On March 25, the General Meeting of Shareholders adopted the proposed 8 per cent share reduction program. The effects of the implementation of this program will occur after the first quarter.

Employees

The number of people employed at the end of March 1999 was 228,754 which reflects a decrease of 2,821 employees from the comparable position as at January 1, 1999.

Outlook

We see an improving economic environment in certain countries in Asia, continued strength in the USA and a slightly less buoyant economic environment in Europe.

We are encouraged by the results of the first quarter which we see as an important step in securing our goal of double-digit growth in earnings from continuing operations for 1999. Furthermore, we again expect to generate positive cash flow.

While it has no impact on earnings for the full year the abolition of the use of equalization accounts will shift earnings from the second half to the first half of the year by about EUR 70 million.

Subsequent event

On April 8, Philips signed a confidentiality and standstill agreement with VLSI Technology ending May 9, and extended its USD 17 per share cash tender offer for all of the outstanding shares of VLSI, valuing the total offer at approximately USD 0.9 billion.

April 22, 1999

Royal Philips Electronics

Board of Management