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PRESENTATION

Operator

Welcome to the Royal Philips Electronics first quarter results 2010 conference call on Monday, April 19, 2010.
During the introduction, hosted by Mr. Pierre-Jean Sivignon, CFO, all participants will be in a listen-only mode. After the introduction there will be an opportunity to ask questions. (Operator Instructions) Please note that this call will be recorded and is available by webcast on the website of Royal Philips Electronics.

I'll now hand the conference to Mr. Stewart McCrone, Head of Investor Relations. Please go ahead, sir.

Stewart McCrone - Royal Philips Electronics - Head of IR

Good morning, everyone. Let me welcome you to this conference call on the first quarter results of 2010 for Royal Philips Electronics.

I'm here with Philips' CFO, Pierre-Jean Sivignon, who in a minute will take you through his introductory remarks on the numbers. After this we will open up your line to questions.

As usual our press release and accompanying information slide deck was published at 7 am this morning. Both documents are now available on our website for download. A full transcript of this conference call will be made available tomorrow morning at the latest.

With that, let me hand over to Pierre-Jean to run through the results.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Thank you, Stewart. Good morning to you all.

Let me start by saying that we are very encouraged by our first quarter numbers. Sales came in ahead of our expectations, as did EBITA, which was supported by the stronger top line, good cost control and favorable seasonality impacts within the year, notably, additional license income. We continued our tight assets and cash management and strengthening our balance sheet again this quarter.

Before looking into the figures in detail, let me make some comments on developments we see in our external markets.

In Healthcare the big news was, of course, the signing of the US Healthcare Reform Bill on March 23. Finalization of the Bill and, indeed, increasing clarity on its contents as the quarter progressed probably supported our order intake during Q1, although it's difficult to say by exactly how much. As the legislation itself will be phased in over several years, it's unlikely we will see a material structural impact in the short term. Outside the US demand for healthcare remains strong, particularly in the emerging economies.

Our Lighting business benefited from the continuation of the trends which we saw in the fourth quarter. The market for lamps, particularly professional lamps, remained solid, driven in part by an uptake in renovation activity.

Car manufacturing demand also held up well, resulting in strong sales of automotive lighting. At Lumileds sales tripled on sharply higher demand for both consumer OEM and general illumination applications. The commercial constructions market, on the other hand, remains tough with any significant recovery unlikely before 2011.

Geographically, sales remained solid in both mature and emerging markets.

In the consumer markets demand remains more difficult to read as consumer confidence indicators, particularly for mature markets, continue to give mixed signals. We did see strong demand in Europe for televisions, driven, in part, by the upcoming
soccer World Cup Consumer demand in emerging markets remained strong, helped by solid sales during the Chinese New Year holidays.

Let me now move to the Philips Group results for the first quarter.

Comparable sales in Q1 improved for a fourth consecutive quarter, returning the Group to growth for the first time since the second quarter of 2008. All sectors reported good comparable growth, albeit bouncing off a weak Q1 2009, with double-digit sales increases at both Lighting and Consumer Lifestyle pushing sales for the Group as a whole up by 12%.

Although difficult to quantify, sales were helped by a few more selling days in Q1 this year compared to Q1 last year and, particularly in Lighting, by some customer restocking in Lamps in Europe.

Looking geographically, growth returned to mature markets which saw an 8% increase in comparable sales while the emerging economies delivered an excellent 22% growth, driven by China and India.

Reported EBITA was EUR504 million, or 8.9% of sales, compared to a loss of EUR74 million in the first quarter of 2009. Excluding incidental gains and charges, our adjusted EBITA reached 9.8% of sales, a record for a first quarter. Adjusted EBITA profitability on the last 12 months basis improved to 8.5% of sales.

At the macro level the drivers behind the EBITA growth were the additional sales, over EUR600 million on the reported basis, ongoing gross margin, cost management and a positive seasonal effect on some cost and income. I will come back to these last points when looking at the performance of each of the three sectors.

Free cash flow was over EUR300 million better than the first quarter of 2009 due to higher income and strict working capital management. This performance on free cash flow, further strengthened by a cash inflow of just under EUR100 million from the sales of TPV shares, allowed the Group to maintain its cash balance at EUR4.4 billion.

With that summary, let me now take you to a closer look at the performance of each of our businesses during the quarter, starting with Healthcare.

Currency comparable equipment order intake was well north of the somewhat soft level reported in the first quarter 2009, resulting in a 20% comparable growth year-on-year. Encouragingly, North America returned to growth. Equipment orders were 6% higher supported by over 16% growth at Imaging Systems.

Order intake in markets outside North America, both mature and emerging, accelerated in the quarter to reach an aggregate growth of 30% compared to Q1 2009.

Looking globally, almost every modality saw higher order intake for the second quarter in a row, led by very strong growth at interventional X-ray, MR and ultrasound. In absolute value, equipment orders intake was again back above the level of Q1 '08.

Sales at Healthcare were, on a comparable basis, 7% ahead of Q1 last year, driven by customer services, clinical care systems and patient monitoring. Strong growth continued in emerging markets, somewhat offset by 4% lower sales in North America, which continues to be impacted by the weaker order intake last year.

Reported EBITA at Healthcare for the fourth quarter was EUR166 million, or 9.1% of sales, compared to EUR68 million, or 3.9% of sales, in the same period of '09. Excluding restructuring and acquisition-related charges, EBITA increased to EUR195 million, or 10.7% of sales; a strong performance for a first quarter.
All businesses delivered a higher EBITA than in the Q1 of last year, supported, in part, by around EUR15 million in additional cost coverage from an increased number of production days in the quarter. This benefit will, of course, reverse in the fourth quarter of this year.

Consumer Lifestyle sales grew by 11% in the period, with almost all businesses showing an increase in comparable sales. The strongest growth was seen at Television and Health and Wellness, both of which recorded 12% higher sales. Geographically, Consumer Lifestyle saw double-digit sales growth in mature markets, driven by North America, and in emerging markets where the strongest growth came from India and China.

The EBITA at Consumer Lifestyle improved from a loss of EUR49 million in Q1 last year to a profit of EUR166 million this quarter. This improvement was driven by better operational results across all businesses, particularly Television, and by EUR70 million higher license income, largely resulting from a different seasonality during the year. Additionally, Q1 2009 included a EUR30 million product recall charge related to Senseo.

At Lighting, comparable sales rebounded strongly from a weak Q1 2009 to grow by 18% in the quarter. Most businesses reported strong growth, notably Lumileds, Automotive and Lamps, the latter supported by some channel restocking in Lamps Europe.

Professional Luminaires, however, saw a further low single-digit comparable sales decline on an already weak Q1 2009 due to ongoing weakness in the commercial constructions market.

Geographically, the emerging markets reported very strong sales growth in the quarter, notably in the BRIC markets, all four of which saw high double-digit growth. Encouragingly, both North America and Europe returned to growth in Q1, both markets showing single-digit increases in comparable sales.

The reported EBITA at Lighting improved dramatically from EUR5 million in Q1 ‘09 to EUR245 million, or 13.5% of sales, in Q1 this year. As well as the higher sales, good mix and ongoing cost savings, the higher profitability was supported by around EUR20 million in additional cost coverage from a higher number of production days and by around the same amount from a positive legal settlement.

Excluding EUR9 million in restructuring and acquisition-related charges, the adjusted profitability increased to EUR254 million, or 14% of sales.

At a business level, the EBITA was driven by solid double-digit profitability at the Lamps, Automotive and Lighting Electronic businesses.

First quarter EBITA at GM&S improved by EUR25 million year-on-year to a net cost of EUR73 million, broadly in line with our guidance for the full year 2010.

Our reported net income improved substantially, from a loss of EUR57 million in Q1 ‘09 to a profit of just over EUR200 million. The improvement was a result of substantially higher operating earnings from all sectors, somewhat tempered by higher tax charge.

The difference in tax is due to EUR103 million tax benefit related in Q1 last year which was related to Lumileds’, as well as an increase in non-tax deductible expenses in the current quarter.

Let me now go to cash and the balance sheet.

As you will have seen, we delivered a positive cash flow from operations in the quarter; a year-on-year improvement of over EUR330 million. This is largely the results of higher cash earnings supported by a minimal increase in cash required for working capital, despite the rebound in sales.
Capital expenditures of EUR180 million resulted in a free cash outflow of just over EUR150 million. This outflow was offset by the sale of shares in TPV and a slight increase in debt, meaning that our cash balance remained at EUR4.4 billion, exactly the same level that we started the year with.

Ladies and gentlemen, let me sum up by repeating that this was, all in all, a very strong quarter for Philips. The core of the performance improvement is, of course, the higher sales combined with lower cost levels and ongoing solid cash management.

That said, it’s worth reiterating that we did benefit from over EUR100 million of EBITA, - including license income and additional production days -, which are largely the result of a different seasonality and so will have to be, - let me say -, “paid back” over the remainder of the year, particularly in the fourth quarter.

As we said in our outlook statement, market developments for the second half of 2010 remain very uncertain. So while continuing to invest in growth we’ll also continue our business rationalization activities which will result in restructuring charges of EUR100 to EUR125 million in Q2.

Nevertheless, we are encouraged by the underlying performance of the first quarter numbers and are increasingly confident that we will be able to deliver an adjusted profitability of 10% as early as this year.

Before going to your questions, let me add one last thing.

As you have seen in the separate press release this morning, my colleague, Mr. Andrea Ragnetti, the Philips Board member responsible for the Consumer Lifestyle business, has decided to leave the Company in September.

I would like to join Gerard Kleisterlee in expressing my appreciation for the leading role Andrea has played in building the Consumer Lifestyle sector, strengthening our customer focus, building marketing competence and repositioning the brand.

While recognizing that Andrea leaves the sector in the hands of a strong, capable management team I regret to see him leave.

With that, let me now open the lines to

QUESTIONS AND ANSWERS

Operator

Thank you, sir. (Operator Instructions) There will be a short pause whilst participants register for a question. Our first question comes from Andreas Willi from JPMorgan. Please state your question.

Andreas Willi - JPMorgan - Analyst

Good morning, gentlemen. Two questions, please; the first one on seasonality.

You already indicated some specific drivers. Maybe you could also give us some indication on marketing spending which you estimate to increase from now. What's the magnitude here? By how much was marketing spending still below normal in Q1?

And also Healthcare in the past had a pretty pronounced seasonality. Should we expect similar seasonality this year?

And then I will come back with the follow-up question.
Good morning, Andreas. Actually on seasonality, the essence of the seasonality was actually on IP income where we're not
guiding you on a very different total amount for the year, but what's happening is that our Q1 was stronger than what was a
low Q1 last year. And all in all for the year we should be pretty much at the level of the year.

And the other thing I think to specify, just to help you with that, Q2 could be a couple of tens of millions lower than the Q2 of
2009. So I think, with that, that should help you to reorganize your forecasts for the year. So that's for IP.

The second element of seasonality came from the fact that we had a few extra days in January in the Philips' calendar. And these
few extra days, which helped a little bit ourselves, but more importantly our absorption of fixed costs in manufacturing, we will
obviously have the reverse impact in Q4, essentially in the month of December.

So there you have a bit of a EUR15 million of extra absorption of fixed costs, which travels from Q1 2010 to Q4 2010 for Healthcare,
and about EUR20 million travelling the same way for absorption of fixed costs at Lighting between Q1 and Q4.

The next point you made is related to selling expenses. There, I would say the seasonality -- more specifically, the comment
there is more specifically related to Lifestyle. You know that Lifestyle is traditionally a higher spender in the second quarter, so
that always is there to kind of tame a little bit the profitability of Lifestyle.

But I think in addition to this, and we've put that in the wording in the release, we will structurally increase our investment in
marketing expenses by about a point in order, of course, to continue to invest into future growth. So there, there is an element
of seasonality; traditional Q2 higher for Lifestyle. And a bit of an extra point there to obviously continue to invest into our future.

I think the comment you made on the seasonality of Healthcare is more related to the seasonality of the earnings. And there, I
would say nothing's changed. We continued to have a strong Q4; that's what we expect for this year. And you simply saw that
the Q1 of this year was better than the Q1 of last year on the back of better volume, better quality of the numbers, lower cost
base, and as I just said earlier on, better absorptions of fixed cost.

Yes, the follow-up question is just on the restructuring. You guide to a pretty big number in Healthcare for Q2. Given that growth
is coming back there, maybe you could give us some more information on what do you spend it on and what's the reason for
the restructuring there.

Well, actually, the purpose there, this is -- you're right. The essence of the restructuring, of whatever restructuring we've planned
in Lighting -- excuse me, in Healthcare, that will be very much centered on the second quarter.

What is it based? We continue, of course, to basically make our factories more efficient. I think this is something -- this is a project
which has been ongoing. And this is something that we will continue, to some extent, in the second quarter, as well as we
continue to reorganize our sales force to be focused on customers. So we are actually improving our customer organization to
be capable of [being] organization-dedicated customer-by-customer. So this is kind of an improvement of our customer
organization country-by-country.
And if there is any jobs to actually disappear it will not be with people-facing customer, because that is something we've never touched and will not touch. If anything, we will increase it. And any trimming would take place, of course, as a result of our new organization in the back office.

Andreas Willi - JPMorgan - Analyst
Thank you very much.

Fredric Stahl - UBS - Analyst
Yes, good morning, gentlemen. My question was regarding the licensing, and I think I did receive the answer I wanted, so thank you.

Simon Smith - Credit Suisse - Analyst
Hi, thank you. Yes, I had two questions; one was on Lighting. Obviously, you've highlighted in this release some elements of restocking within some channels, and you made the point about the EUR20 million of potential impact on profits from timing differences. But still underlying, it's a very strong margin you have there, probably something in the order of 13%. And I just wondered, given the effects of restocking and the outlook that you've seen through the quarter, whether you see the margins for Q1 as really a baseline for the remainder of the year, or whether there is maybe some overstated strength there.

And I think the second question would really be in terms of the profile of sales. You've obviously seen, relative to expectation, a strong performance on sales pretty much across all your divisions, and particularly in Lighting, and I just wondered what had been the profile through the quarter. Has that been something which is very consistent each month? Or is there maybe a March bias to that sales beat? Thank you.

Simon Smith - Credit Suisse - Analyst
Sales generally across the Group.
Okay. All right, first question on Lighting; is that a good quarter for Lighting, yes it is. I think we flagged two things. We flagged three things actually, to be absolutely totally, utterly transparent. One is indeed some restocking in the Lamps Europe; we flagged that. Difficult to estimate, but that could be a one-off; difficult to estimate how much.

You have commented on the EUR20 million of extra absorption of fixed costs, but we have as well alluded to a legal settlement, I think just to be absolutely extensive. But even if you take all that on the side, and some of that, by the way, is only in the year, this is seasonality within the year, all-in-all it is a very strong quarter at Lighting.

You have to keep in mind that Automotive has rebounded. You have to keep in mind as well that our Lumileds business has seen its revenue literally tripling, which, of course, is helping. Those are high margin businesses. Our Lamp business, which obviously has rebounded quite significantly. So the combination of all this is obviously contributing to a pretty strong quarter.

Now, you ask me what does that mean for the year? Well, our mid-term guidance for Lighting is 12% to 14%; that’s where we are shooting for. Our Lifestyle business is at its guidance for mid-term; you remember, for there we were 8% to 10%. We are proud to say that after -- if you take the last four quarters at Lifestyle, we are at 8.2% so we are within that 8% to 10% we had guided you on a few years back. And I think the Lighting business could be the next business actually to reach its target. I think that’s where we are heading to.

So I won’t guide you for the year because, as you know, we don’t guide you for the year. But what we’re shooting for at Lighting, we’ve said that many, many times, we’ve stuck to our gun there, is 12% to 14%.

Now, your last question, Simon, was related to the seasonality of sales for the Group. I think this quarter -- of course, 12%, that is to be compared to -- go back to last year, where we suffered respectively 17% and 19% in the first quarter and the second quarter of last year. So if you look at where that puts up, I think for both Lighting, and definitely Healthcare, that puts us at the pre-Q1 -- I would say the Q1 ’08 level. We’re not there for Lifestyle. So it is a spectacular quarter in terms of growth, but not quite yet at the level of Q1 ’08.

We think that in Q2, we believe that the momentum, in particular in emerging markets -- I don’t want to dwell on too much on emerging market but 22%, this is obviously quite strong. But I will give you a few more numbers to give you a bit of an idea. Latin America was up 16% in the quarter, China was up 45%, and India was up 31%.

So you can see that emerging markets, as we had alluded to in the press release on the shareholder day, that momentum which actually started in Q3, got confirmed in Q4, is still there in Q1. We think it will continue because Q2 will be another probably easy comp.

Beyond that, Simon, it’s difficult because we flagged, at the same time, that there is uncertainty still in our mind in the second half. Consumer sentiment, with the exception of Asia, is still subdued. Lighting; we think that there is still a negative trend, at least in mature markets for constructions. We’ve seen some positive growth in emerging market, but in the mature world a still negative growth.

And as far as Healthcare is concerned, I think the fact that we got 20% incoming orders, but again, compared to what was a very low Q1 last year, I think it gives us a better backlog at Healthcare finishing that Q1. But still, doesn’t give us enough to tell you that there is lower uncertainty on the second half.

Now, conclusion; with a quarter like Q1 and the momentum of Q2, in terms of results for the year, we feel increasingly confident that we could be at the 10%. We’re not giving you full guidance there, but we are giving you increased confidence that we could get there. That’s the way we see the year, Simon.
Simon Smith - Credit Suisse - Analyst
Thank you. Can I ask just one follow-up question?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO
Sure.

Simon Smith - Credit Suisse - Analyst
In terms of your comments earlier on license, you made the comment that the seasonality has changed; I just wanted to slightly dig into that. There's normally -- within the license income there's the normal quarterly people used a license from you and paid you for it, and then there is normally the settlement of it where, for past use, you get a one-off payment for it, and you're suggesting that seasonality changed. Is that just the fact that you've got a lot of settlements that have come into Q1 and so you're assuming that the rest of the year there will be less? Or is it something to do with the underlying license income?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO
No, actually, the underlying license income is there. It's not changing as much. And as we've said in the past, it's a bit of a downward trend. It's not spectacular, but it's a bit of a downward trend. We don't guide you on it any more because we said that it's not something which deserved to be analyzed on its own merits and we guide you on the margin sector-by-sector.

The seasonality is more due to settlements. And those settlements, we have a bit of a forecast for the year. We're not planning to have, as I said, a very different number for this year compared to last year. But those settlements, of course, from Q-to-Q are a bit difficult to predict and difficult to forecast. And in this particular year, we're doing better for Q1; we will do a bit lower for Q2. But for the year, as I said, for the settlement part of the income for the year, there shouldn't be a big difference.

Simon Smith - Credit Suisse - Analyst
Thank you very much.

Operator
Thank you. Our next question comes from Didier Scemama from RBS. Please state your question.

Didier Scemama - RBS - Analyst
Yes, thanks for taking my question. My first question would be on the Healthcare business where you've got a pretty strong increase in new orders for the US and the rest of the world. I was wondering, Pierre-Jean, if you could maybe qualify a little bit how you see the rest of the year panning out, especially for North America, but I think also for China and emerging markets. And I just have a quick follow-up.
Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes, I think before I talk about the year, I think I would like to say a few more things on the quarter. On the quarter, on North America Imaging, 16%; for equipment in total, 6%; and for international, which includes emerging markets, 30%; and for Imaging Systems, that 30% becomes 41%.

I think one thing you should know is in those very strong international numbers we have a large order in the Middle East. And if you were -- even if you were to isolate that large order, the number -- the 20% number for Philips would become 16%. So despite that strong Middle East order, we still have something quite strong all across. So that is basically the situation for orders.

Looking at the rest of the year, I think we’re going to have to wait and see what’s going to happen in the US. We’ve guided you in the previous call on a flat to low single-digit growth for incoming orders in North America; that’s the way we see it as at today.

The signing of the reform is, of course, still very young and it’s a bit too early to reach any conclusion on the end of uncertainty there. But still, I will say that you should keep in mind that this reform is essentially not only increasing the coverage, but it is taking a -- it is [putting a beating] one more time on the non-hospital business; essentially, imaging centers and clinics.

And you should keep in your mind that 80% of the business of Philips in North America is done out of hospitals. So I think this is something that you have to keep in your mind, but I can’t reach any conclusion beyond those facts as at today on the US. The guidance I can give to you, as I said, is zero to small single-digit growth in North America year-on-year.

As far as the rest of the world is concerned, we have guided you in emerging markets on continued high single-digit, and at times small double-digit growth for emerging markets. That was there in the last two quarters of last year; it was there in the first quarter of this year; we expect this to continue.

And in mature markets beyond the US, one point to note was a rebound of Japan in Q1, which is important because you need to remember that Japan is the second largest emerging market in the world. So Japan rebounded in the first quarter; we will have to see where that goes. And as far as the rest of the mature market is concerned, I think we’ve guided you on mid-single-digit for the rest of the year.

Customer service will continue to have mid-single-digit growth, and Home Healthcare high single-digit growth. I think this is as much guidance I can give you to on Healthcare for the rest of the year.

Didier Scemama - RBS - Analyst

Brilliant. And I was just wondering if you could just quantify the one-off legal cost -- or, sorry, the gain actually related to the legal settlement in Lighting.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well, I talked about mid-teens in euros.

Didier Scemama - RBS - Analyst

Brilliant. Thank you.

Operator

Thank you. Our next question comes from Gael de Bray from Societe Generale. Please go ahead with your question.
Gael de Bray - Societe Generale - Analyst

Thank you very much, good morning everyone. Gael de Bray from Soc Gen. The first question is again related to Healthcare. I understood that the order trend is quite good in emerging markets, but if I look at the slide 22 of your presentation, the organic sales growth in emerging markets at Healthcare was somewhat disappointing, just plus 7% this quarter, showing some deceleration on the prior quarters and also maybe underperforming the other divisions of the Group. So is there any specific reason behind this, any market share loss in China? Maybe if you could comment on this please?

The second question is about TVs. Do you plan any other licensing agreement in emerging markets such as the one you’ve just announced in India with Videocon Industries? In particular what’s the strategic outlook for your Chinese TV business?

And I've got a third question if I may, a general question. Activity is clearly picking up at a faster pace than you anticipated maybe yourself but, at the same time, restructuring costs are now expected to be towards the upper end of the EUR150 million/EUR250 million range for this year. So what's the rationale behind this, does it reflect any specific concerns on the H2 outlook or is it just a -- does it simply reflect an appetite to further optimize your cost base? Thanks very much for this.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Okay, I think three questions; I'll try to be as specific as possible. Your first question is on emerging markets, Healthcare. Just to give you an idea, the sales of Healthcare in China were up 35%, just to give you a bit of -- now I think what happened was that in emerging markets we have what we call the key emerging markets, which are India, China, LatAm; that's what we call our key emerging markets.

But in the total emerging market we have as well Russia and the -- all-in-all Eastern Europe has not recovered and it's kind of a fluctuating story. And certainly in Q1 2010 this was low water as far as Healthcare for that particular part of emerging market. So that's the essence of the what you call a disappointing number for Healthcare, emerging markets in Q1. But the rest of the trend in the other markets certainly continued.

Your second question was on TV. Yes we have, thank you for noticing it. We've signed consistently with what we had guided you on a deal in India. Could we do more in that part of the world? I'm not going to guide you on this, but it's a possibility. And that is something that we will be looking at, but certainly not a decision made at this particular point of time.

Your last question was related to, are we restructuring more on the back of what is a higher level of uncertainty in the second half? The answer is no. Actually the restructuring which we are -- first of all let me start by saying that the restructuring in the year 2010, even if it's in the upper part of the guidance, it's certainly significantly lower than the restructuring of year 2009. I think I'll start with that statement.

Point number two, the vast majority if not the entirety of the restructuring which we will incur in 2010 is on the back of decisions, which have been largely made last year and which are structural decisions. You can't always implement at the time you decide for a number of reasons, and I would say that this restructuring has a lot to do with, of course, the new technology we're in, the place where we want to have for the future of footprint and, as well, the optimization of our cost base. And it's on the back, as I said, in a number of cases of a decision, which we have made already last year.

So you shouldn't read that there is a tightening from that perspective. We have not made any extra restructuring decision on the back of the uncertainty. I'm not saying we will not, but certainly that's a decision we haven't made at this particular point of time.
Okay, thank you very much.

Operator
Thank you. Our next question comes from Olivier Esnou from Exane. Please go ahead with your question.

Olivier Esnou - Exane BNP Paribas - Analyst
Yes, good morning. Two questions please. First, if you could comment maybe across the division a little bit about the pricing trend in sales, maybe also in the order intake just in Healthcare?

And secondly, if you could give us the actual service growth in Q1 for Healthcare? Thank you.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO
Yes, I think not too many comments on pricing. I think the best thing I can say when I get a pricing question and we've been there before, I always answer with a gross margin answer. And the gross margin of the Group is disclosed to you; you don't have the gross margin for the sectors. But I can tell you that the gross margin has actually improved in each of the three sectors and, as a consequence, it has improved for the Group as well.

So if there has been a gross margin --- if there has been pricing pressure we've been able to reflect it in our cost base, and certainly offset it. I think in the coming quarters we will be certainly keen on being very vigilant on prices because, at times, there is obviously increase of raw materials. And we will probably do what we've done in the past, which is that if we are unable to offset our price increases, our cost increases in raw materials, the balance we will try to get through price increases exactly the way we did it last year.

So that is for pricing. As far as order intake, maybe one more indicator on pricing. In the cost of goods sold the portion of the goods we buy expressed as a percentage of revenue that ratio, as well, is continuing to come down. So that is to say that the balance between cost and price is moving in the right direction across the three sectors.

Your second question was order intake at Healthcare. Well there we obviously have a business now which is much more split and much more even across the world. And Stewart I think mentioned in an earlier call that a couple of quarters ago we started having more incoming orders out of the US versus the US.

That dynamic is now very much in place and we have then the benefit of all our portfolio across all the geographies which is something which, given the products we've introduced and given our strength in those markets, is certainly something which is starting to translate into the gross margin and into the EBITA of Healthcare, as you saw in the first quarter.

As far as the service orders are concerned they were strong. In -- actually they were actually in the teens. So we had strong incoming orders for service, which we normally don’t communicate separately. And we had, accordingly, good service growth as we've had in the past few quarters in our Healthcare business.

Olivier Esnou - Exane BNP Paribas - Analyst
Just one follow-up please. So is it fair to say that it's getting, in your view, easier to pass through a component price increase you may have in Lighting or Healthcare, you think you feel more easier with that going forward?
Pierre-Jean Sivignon - Royal Philips Electronics - CFO

No I'm not saying it's -- when you have to increase prices I don't think it's easy. It's never easy. What I'm saying is that so far the increase of our gross margin has been able and the measures we took between hedging our contracts has been able to contain the impact of raw materials. And I'm saying that in the event the measures we've already taken would not offset increase in motion or increase to come, we would certainly increase prices as we've done in the past and put it on through our customers.

I think that is something that we've done in the past and we will continue to do. And being the leader in a number of the product categories we're in I think, as you will recognize with me it's the duty of the leader to do that in the industry you're in.

Olivier Esnou - Exane BNP Paribas - Analyst

Okay, thank you very much.

Jan Hein de Vroe - ING Bank - Analyst

Yes good morning, thanks for taking my question. It's actually one on the restructuring where, to me at least, surprisingly high charges for Healthcare both in the first quarter and the guidance in the second quarter and on which we've briefly touched upon. But I think a more consensual view was that this year the one division where we'd see more restructuring would be Lighting, yet I don't see that back in the numbers or guidance. Could you give us some more color there? Thanks.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes I think -- no I don't think, just to come back specifically, I don't think that Healthcare restructuring was -- in the first quarter was north of the guidance we had given to you. I think I had more the feeling that it was a touch the opposite. As I answered in the previous question, the bulk of the Healthcare restructuring will take place in Q2, and I have explained that so I will not waste your time and repeat it. And I explained as well what was the rationale behind that restructuring.

And as far as Lighting is concerned you are correct. I think we said in earlier calls that the essence of restructuring in the next couple of years would be in Lighting and it's just simply much more spread across the year, and that's something which we've guided you in the first quarter. In the second quarter in the release of this morning and will continue to guide you on in the quarters to come. So I think Lighting is a much more evenly spread effort versus, as I said, Healthcare, which was pretty much concentrated on the second quarter.

Jan Hein de Vroe - ING Bank - Analyst

So correct me if I'm wrong, but let's say the restoration of profitability to the 14% margin we saw in Q1 doesn't mean you'll postpone indefinitely perhaps further restructuring in Healthcare -- in Lighting?
Pierre-Jean Sivignon - Royal Philips Electronics - CFO

No, no, no. I think the 12% to 14% guidance for Lighting is something that has been there consistently in our guidance. The restructuring of Lighting is the result of technology transformations, which are in motion, which are a mid-term effort. And we will not be opportunistic in our restructuring to reach the 12% to 14% that we have guided you on for mid-term.

Jan Hein de Vroe - ING Bank - Analyst

Okay, perhaps one follow-on if I may, Pierre-Jean, on the size of the Videocon deal or deal. This Company makes I think about $2 billion annual sales in India, what could the potential be for your licensing agreement?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Sorry can you repeat?

Jan Hein de Vroe - ING Bank - Analyst

Yes, if I look at the Videocon --

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Sorry you talk about the TV, hard to say. I don’t think it will be -- it’s the same kind of deal that we had agreed very successfully with Funai actually a bit more than two years ago. But the business, of course, is significantly smaller so we won’t disclose, as we by the way did for Funai, and there is a potential basically for that. But I don’t think it is very significant.

Yes I would like to come back to your point on Lighting because, in the domain of Lighting, and just to comment on the way we plan to continue to optimize our Lighting business and face the technology changes, you need to realize that we are not only closing factories in some cases, we are actually selling factories. And in this particular quarter we had -- it’s not disclosable and not significant, but we had a little bit of cost actually coming from a factory which will be sold in the course of the second half.

So I don’t think -- I just want to repeat because this is important. There won’t be any opportunism in the monitoring of our footprint in order to get to the 12% to 14% because what has to be done has to be done, and that’s answer one.

And answer two; the optimization of our footprint will be done not only via restructuring but as well this will be obviously done via selling factories. And if I -- just to be absolutely thorough, the 12% to 14% margin is an adjusted margin, which is excluding the one-offs. Just to give you -- this is a target margin for Lighting.

Jan Hein de Vroe - ING Bank - Analyst

Okay very clear, thank you very much.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Just to be absolutely thorough on your question.
Jan Hein de Vroe - ING Bank - Analyst

Thank you.

Operator

Thank you. Our next question comes from Martin Prozesky from Bernstein. Please go ahead with your question.

Martin Prozesky - Sanford C Bernstein - Analyst

Good morning gentlemen. Two questions please. The first in terms of performance of the Medical business, you haven't commented about the Home Healthcare Solutions business. Could you give us a bit of a sense of where the traction is going there? If I look at some of the comps like ResMed, they're expecting 20% growth in that business. Could you give us a sense of how the Respironics business is tracking there and more broadly that segment?

And the second, getting back on the question of gross margin. Your gross margin in Q1 was the highest I think in 10 years, and you've given your view in terms of how that should develop with passing on cost increases through pricing where possible. How much of the gross margin effect was also mix, especially in Lighting; if you saw lots of Auto and LED growth that probably helped a lot. Could you give us a sense for whether this is now a new expected gross margin level that should be sustainable? Thanks.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well in the Respironics business, which you have to realize that all the Respironics business in Philips has actually been allocated to Home Healthcare, but some of it has gone to another business, which is Clinical Care, and if you -- the Hospital business in particular went to Clinical Care. So if you combine these two businesses together to recreate the previous Respironics, the growth of that business was high single digit for the quarter. So that's the Respironics questions.

The gross margin now in -- I think your question was in Lighting or was broader. I think it's a gross margin question across the portfolio, is that the way to understand it?

Martin Prozesky - Sanford C Bernstein - Analyst

The mix effect across the portfolio, how much --?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Across the portfolio. Yes I think probably where the mix is the most spectacular I would say it's in Lighting because Automotive Lighting is going up. Lamps -- Automotive Lighting is a higher margin business. Lamps obviously, which has got a high fixed cost base grew substantially, so that's helping in the mix. And the Lumiled business, as I said, has tripled in volume, so the combination of all this is helping the mix.

Should this -- we expect Automotive to continue to grow, we expect Lumiled to continue to grow. The Lamp business is going to continue to have easy comps at least for the second quarter, we'll have to see what comes third and fourth quarter. But that's pretty much the way we see it for Lighting where, yes indeed, the mix was important.
At Healthcare the mix, I would say, is less important. Because a trend that we have indicated to you in the past, which is the
growth coming from Home Healthcare, the growth coming from our Service business, that is going to continue. And the mix
there will be, I would say, sustained in a resilient manner, as we've discussed in previous calls.

As far as Lifestyle is concerned basically Television has obviously improved. But just about all the product categories now, with
the exception of one, are in positive growth territory. When you combine those growths with a reduced fixed cost base that
we've been working on earlier in the cycle at Lifestyle you end up with the fact that this is -- the first of our three sectors, which
is as early as Q1 has now reached what used to be called the Vision 2010 guidance, what has now become our mid-term guidance.
So there I would say that it's not the flash in the pan of Q1; it's cost control, continuous improvement of Television and growth
having come back to just about all the product categories in the first quarter.

Martin Prozesky - Sanford C Bernstein - Analyst

Great, thanks very much.

Operator

Thank you. Our next question comes from Martin Wilkie from Deutsche Bank. Please go ahead with your question.

Martin Wilkie - Deutsche Bank - Analyst

Good morning, it's Martin Wilkie from Deutsche Bank with a couple of questions. I missed the first part of the call, so apologies
if some of this has been covered already. The first question was obviously you've pointed to a seasonal strength ahead of the
World Cup this summer. I was just wondering if you could let us know, in previous World Cups, how much did that effect the
seasonality of Televisions where, of course, we normally get a much stronger Q4. So if you could just give us some sense as to
what we should expect there for the second quarter?

And then the second question was, obviously you're beginning to see stronger growth coming through across a number of
product areas. Are there any areas where you're concerned you may soon have capacity constraints if you're seeing significant
volume recoveries having taken out capacity last year. So just if you could let us know are there are areas of potential bottlenecks
coming in the business? Thanks.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes, I think two questions. Have we seen any spectacular seasonal impact coming from the World Cup, Soccer World Cup in,
it's hard to -- I would say the TV business in Philips, as you know in the mix, represents a significantly smaller part of the mix. It's
a very different portfolio we have certainly versus the one we had four years ago. I think as far as it is still certainly relevant to
Lifestyle, and that's why we've guided you on Lifestyle business, which should benefit from that in the second quarter.

How spectacular that could be, hard to say. Does that mean that Lifestyle shouldn't have a strong fourth quarter? No, because
the seasonal effect is strictly and solely impacting Television. So I think you have to leave it at that.

Hard to say much more, but please keep in mind that this is now a Lifestyle discussion, whereas in the past this would have
been a Philips discussion.

In terms of -- maybe if I can give you another number. We are counting on sales for Television which could be up year-on-year
by about EUR0.5 billion. I think that's the kind of revenue spread we're looking between Q2, '09 and Q2, '10, just to give you a
magnitude of what would be the impact on the Lifestyle business.
Capacity constraints; we basically so far have been capable of surfing round it. It's not so much an issue of capacity, because there we have capacity. As you know in the case of our Lifestyle business, the business is largely outsourced. In the case of our Lighting business, our plant we're working at under-capacity, so we're getting carefully back to capacity. And in the case of Healthcare, we have enough flex there.

No, the issue would be more in availability of components. And if there were to be one point to keep an eye on, would be the availability of components, potentially for TV. It's hard to say if that will play a role or not; you have to play it day-by-day, and maybe at times, in some of our other businesses where it can have an impact as well. But so far we've been capable of guaranteeing a supply of components.

So I wouldn't talk about capacity more; continued attention to the sourcing of components, that's probably more the point to watch.

Martin Wilkie - Deutsche Bank - Analyst
Okay, thank you.

Operator
Thank you. Our next question comes from Ludovic Debailleux from Natixis. Please go ahead with your question.

Ludovic Debailleux - Natixis Securities - Analyst
Good morning to all of you. Quick question; the savings stands at EUR158 million in the quarter. It is just in line with Q4, '09, but below the guidance you gave of EUR173 million. It seems to be mainly due to Healthcare and GM&S. Can you elaborate on that topic please?

And a follow-up on the same topic, could you help us to quantify the additional saving we have to expect for 2011? Thanks.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO
I think, Ludovic, the level of precision -- I would love to be precise down to those levels on quarter-by-quarter. But I think we are -- you will recognize with me that we are exactly within the kind of number we mentioned.

We have guided you on EUR700 million plus for the year; we will communicate to you basically what comes out for the third and the fourth quarter in due time. But you will see that adds up to something which will be in excess of EUR700 million.

And the saving across the year should be going with gradual acceleration. I think that's as much as I can tell you at this particular point of time.

Ludovic Debailleux - Natixis Securities - Analyst
Thanks a lot.

Operator
Thank you. Our next question comes from Andrew Carter from Macquarie. Please go ahead with your question.
Andrew Carter - Macquarie Research - Analyst

Good morning, it’s Andrew from Macquarie. Most of my questions have been answered actually, but I wondered if you could just talk a little bit more about the sales growth that you’ve been seeing at the LED businesses.

I noticed in the presentation that you talk about EUR700 million, but I wondered if you could talk about the growth rate, in particular that you’d seen at LED Lamps and Luminaires, and how the size of the two businesses within LED compare now within Q1?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

I think basically, and I think we have tried -- by the way, thank you for asking this question because we have now started introducing a dedicated slide to the LED business as part of our appendices.

So I will refer you to the slide number 56 in the pack, which is called LED, the future of lighting. And there you can see that for the last 12 months, and we will basically update you on a very consistent basis, we had about EUR0.7 billion of sales. And that is representing a little bit more than 10% of the business of Lighting. That pace is accelerating, as you will see on the graph which is in that same slide.

And the split between the components -- let’s call it the naked components versus the Luminaires business, I think it’s about 50/50. And it’s difficult to say that mix will continue to be there in the future, but our intention, of course, is to increasingly position LED into general illumination. And that’s what we have started doing by winning designs and orders in that particular domain, and that’s probably a trend that you will see increasing in the coming quarters.

In the quarter, the specific percentage of LED out of the total of Lighting was 12%, so you can see that the last four quarters we were at 10%, and in the quarter, Q1, we are at 12%. And let me again repeat, Lumiled was the anchor for that, with that gradual shift to general illumination. And as I said earlier in the call, the revenue of Lumiled tripled actually in the course of the first quarter.

Andrew Carter - Macquarie Research - Analyst

Great, thank you.

Operator

Thank you. Our next question comes from Guenther Hollfelder from Unicredit. Please go ahead with your question.

Guenther Hollfelder - Unicredit Research - Analyst

Sorry, I had a follow-up also on this LED business regarding Lumiled, as we are trying to reflect the growth prospects here and some of the [pad] valuations. Could you comment maybe also on the profitability, whether it has reached a plateau here for Lumiled? So what are you expecting, or having here in the first quarter and going forward.
Pierre-Jean Sivignon - Royal Philips Electronics - CFO

No, we have not reached a plateau. We expect the profitability of Lumiled to increase. We are right now in an investment phase at Lumiled, meaning more CapEx in order to address the capacity. So as you know this business, which are obviously more capital intensive than the rest of our business, and is obviously very much driven by volume.

So your profitability in these businesses is very much triggered by the increase of volume. So we would expect that the profitability of Lumiled will increase on the expected increased volume that we should see in the next few quarters.

And the goal there, of course, is a goal that we have referred to pretty much in recent calls, is an EBITA margin of 20% plus.

Guenther Hollfelder - Unicredit Research - Analyst

And still today it's a rough guess would be it's like 50% of your LED-related business?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well I think the answer to this is on slide 56. You can -- I would not want to disclose Lumiled standalone because we've not done it in the past, and I wouldn't want to do that today. But you can pretty much reach your own conclusions, sort of, from the slide 56.

Guenther Hollfelder - Unicredit Research - Analyst

Okay.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Because LED -- not all our sales come from Lumiled, but I think you have a good chunk of the answer in that particular slide.

Guenther Hollfelder - Unicredit Research - Analyst

Okay, thank you.

Operator

Thank you. Our next question comes from Rene Verhoef from Fortis Bank. Please go ahead with your question.

Rene Verhoef - Fortis Bank Netherlands - Analyst

My question was also about the LED business, slide 56. Lumiled sales tripled; can you disclose from what level it was in Q1, ’09, tripled?

And can you tell something, you see also substantial increases in the production capacity in the Lumiled -- in the LED business. Have you any feeling how that is developing in the coming quarters?

And also in the LED Application business, do you now really see an increase in sales momentum, and can you quantify how strong the sales in the LED Application business has been in the quarter? Thank you.
**Pierre-Jean Sivignon - Royal Philips Electronics - CFO**

I think, as I just said in the previous answer, I will not disclose the Lumiled numbers standalone, but as I've said, they have tripled. So I think this will give you an idea of what it is.

The capacity, yes, the industry is investing. We are obviously essentially focused on very high luminosity components; that's where we are. And we will continue to be there, and we are currently investing there.

Now as far as growth, which is skewed to Application, the answer is yes. As we discussed before, emerging markets, China in particular, is focusing on city lighting and road lighting. But we start seeing this now in an increasing number of geographies in the world; it's not only China any more.

So definitely, and that's what we like, the mix towards more applications. That is to say Luminaires using LEDs, using IP dedicated to Luminaires leveraging the portfolio we acquired with Color Kinetics a couple of years ago. That's the kind of trend we are starting to see and that we will increasingly see in the coming quarters.

**Rene Verhoef - Fortis Bank Netherlands - Analyst**

Okay, and one follow-up is license income. IP income in the Lighting business, related to Color Kinetics and all the patent portfolios you have, is that really getting momentum, or not yet?

**Pierre-Jean Sivignon - Royal Philips Electronics - CFO**

Well it is gaining momentum, but obviously from a very low base. So I'm sure that if I was to give you percentages you would be impressed, but I will not because it's starting from a low base. But it is certainly an amount of IP which, in the years to come, will steadily continue to increase.

We'll see where we are at the Lighting there, but it is not an amount we will ever disclose to you because that's not the essence of our business model. The essence of our business model is to create new applications and be the leader in new applications, using LED in the domain of general illumination. That's what is our business model.

**Rene Verhoef - Fortis Bank Netherlands - Analyst**

Thank you very much.

**Operator**

Thank you. Our next question comes from Colin Gibson from HSBC. Please go ahead with your question.

**Colin Gibson - HSBC Global Research - Analyst**

Good morning gentlemen. A couple of questions please. First of all, you have previously made it clear that in terms of uses of cash you put a resumption of your buyback program a fairly long way down the list. But after a fairly strong set of Q1 numbers, and a pretty robust cash flow performance, should we still see a resumption of your buyback program any time in 2010 as only a remote possibility? That was my first question.
Second question refers to Mr. Ragnetti. I think -- I'm looking at the annual report. I think both Mr. Ragnetti and Mr. Provoost's contracts were actually up on April 1. Obviously Mr. Provoost I guess stays on, whereas Mr. Ragnetti goes. There is already investor speculation regarding CEO succession, because I believe Mr. Kleisterlee's contract runs out next year.

Should we see any link between Mr. Provoost's decision to stay, and Mr. Ragnetti's decision to departure, and Mr. Kleisterlee's contract ending next year? Thank you.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Okay, I think on buybacks, no I think we've been quite clear. The world is -- it's two things. The world remains uncertain, and we've been crystal clear with our investors that there wouldn't be any further buyback in 2010. So I think our position there hasn't changed.

Your second question relates to the announced departure of Andrea Ragnetti. I think there is a very detailed press release, which I will send you to, which explains basically pretty much the situation there.

Now, is there a link with the succession of Mr. Kleisterlee? I think there I will send you, too, the verbatim of the Chairman of the Board of Philips, Jan-Michiel Hessels, who said at the shareholder meeting that there was a process in motion that there would be a decision made in the second half of the year. And he said more in the early part than in the latter part of that second half, and that no decision has been made as at today.

I think that's as much as I will tell you on the succession of Mr. Gerard Kleisterlee.

Colin Gibson - HSBC Global Research - Analyst

That's great, thank you.

Operator

Thank you. Our next question comes from [Chris Lu] from Morgan Stanley. Please go ahead with your question.

Christopher Lu - Morgan Stanley - Analyst

Hi there. This is Christopher Lu calling from Morgan Stanley. Can you give us the growth rates for your China Healthcare business in the first quarter of 2010? And how does it compare to previous quarters?

Also can you give us the gross margin trend for the business as well, and your outlook for 2010? This is for the China Healthcare business. Thanks.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Okay, the Lighting business in China for Healthcare, I think I gave that number earlier on in the call. I think it's slightly above 40%, so it's a very strong growth.

Your second question was, I think, on the margin of Healthcare. I think I have not guided you on that particular margin. You have the objective for Philips Healthcare, and that objective is 15% to 17%. I think you have a newly-introduced slide in the pack which gives you the margin -- the adjusted margin, calculated on the last four quarters for Healthcare, and that number is now standing at 13.5%. So we are, as you can see, gradually making progress, quarter-to-quarter.
So that's as much guidance as I can give to you on that particular Healthcare margin.

And on gross margin, what I said earlier on in the call was that the gross margin of each of the businesses has made a robust progress in Q1, '10 versus Q1, '09.

And the gross margin for the Group --

Christopher Lu - Morgan Stanley - Analyst
Is this for China Healthcare business? I'm particularly interested in China.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO
For China, we do not disclose margin per sector per country.

Christopher Lu - Morgan Stanley - Analyst
I see, all right, thank you.

Operator
Thank you. We have a follow-up question from Andreas Willi from JPMorgan. Please go ahead with your question.

Andreas Willi - JPMorgan - Analyst
Thank you very much. Just a quick question on sourcing components, raw materials. Is there an issue in terms of currency headwinds that may hit you later in the year from buying a lot of components in Asia, or also some raw materials that are dollar-based?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO
Yes I think this is a debate we've had. The Company all in all is a bit short on the RMB, so the thing to watch is any potential strengthening of the RMB. We have obviously taken measures in terms of hedging, in particular for Healthcare. As you know there we hedge about a year in advance.

If there were to be some extra needs beyond the horizon of our hedges, and what I said for the cost of raw material is very much true as well for foreign exchange, in those particular cases we would try to push price increases. I think that's our view as at today.

Andreas Willi - JPMorgan - Analyst
Thank you.

Operator
The last question comes from Olivier Esnou from Exane. Please go ahead with your question.
Olivier Esnou - Exane BNP Paribas - Analyst

Thank you. Actually all my questions have been answered by now. Thank you.

Operator

Thank you Mr. Sivignon, there are no further questions. Please continue.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Okay I think I will conclude by thanking all of you for your time, for your questions. And I am sure that we will have the opportunity to meet quite a number of you in the coming days on the road, or extending this conversation on the phone.

Thank you very much for your time. Goodbye.

Operator

This concludes the Royal Philips Electronics first quarter results 2010 conference call on Monday, April 19, 2010. Thank you for participating, you may now disconnect.