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PHIA.AS - Q1 2012 Koninklijke Philips Electronics NV  
Earnings Conference Call

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**OVERVIEW:**

Co. reported 1Q12 comparable sales growth, adjusting for currency and portfolio changes, of 4% and net income of EUR249m.



## CORPORATE PARTICIPANTS

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**Frans van Houten** *Royal Philips Electronics NV - CEO*

**Ron Wirahadiraksa** *Royal Philips Electronics NV - CFO*

## CONFERENCE CALL PARTICIPANTS

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**Simon Smith** *Credit Suisse Europe - Analyst*

**Peter Reilly** *Deutsche Bank - Analyst*

**Ben Uglow** *Morgan Stanley - Analyst*

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**Andrew Carter** *RBC - Analyst*

## PRESENTATION

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### Operator

Welcome to the Royal Philips Electronics first quarter result 2012 conference call on Monday, April 23, 2012.

During the introduction, hosted by Mr. Frans van Houten, CEO, and Mr. Ron Wirahadiraksa, 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 over to Mr. Abhijit Bhattacharya, Head of Investor Relations. Please go ahead, sir.

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### Abhijit Bhattacharya - Royal Philips Electronics NV - Head of IR

Good morning, ladies and gentlemen. Welcome to this conference call on the first quarter of 2012 for Royal Philips Electronics. I'm here with the Philips' CEO, Mr. Frans van Houten, and our CFO, Ron Wirahadiraksa.

In a moment, Frans will take you through his introductory remarks and provide an update on our performance. Ron will shed more light on the details of the financial performance during the quarter. After this, both Frans and Ron will be happy to take your questions.

As usual, our press release and the accompanying information slide deck were published at 7am Central European time this morning. Both documents are now available for download from our investor relations website. We will also make available a full transcript of this conference call on the investor relations website by tomorrow at the latest.

With that, let me hand over to Frans to start proceedings for the day.



**Frans van Houten - Royal Philips Electronics NV - CEO**

Thanks, Abhijit. Welcome and thank you all for joining us today for our first quarter 2012 earnings conference call.

The end of the first quarter marks the completion of my first year as CEO of Philips, and as I reflect on my tenure thus far, I am pleased with the progress that we have made over the last year.

It remains clear that Philips has a wealth of talent, great assets, a strong brand, a global footprint. We operate in the right markets and have the right portfolio to address key global trends, and a large majority of our businesses have the right fundamentals for profitable growth. Yet, our performance does not match our potential.

In order to address this disparity, we designed and launched our change and improvement program, Accelerate, which is aimed at reigniting organic growth in Philips, and making us an agile, entrepreneurial innovator.

I'm happy to report that we are now seeing solid improvement across all sectors of our business, and our growth figures for the first quarter confirm this trend, with Healthcare growing at 9%, Consumer Lifestyle growth businesses above 7%, and Lighting at 2%.

Excluding external sales of Lumileds, which saw a double-digit decline in the quarter due to inventory correction in the channel and an increase mix of internal sales, our Lighting business actually grew by 4% in the quarter. LED product sales for the quarter grew by 22%, and if we were to exclude Lumileds, even by 50%.

As one of the work streams within the Accelerate program, we are reducing the overhead cost structure of the Company, and we made good progress and are on track with these plans.

In the first quarter of this year, we reduced cost by about EUR37 million, and that is on top of the EUR25 million which we reduced in the fourth quarter of last year.

The Accelerate program's cost reduction initiative specifically targets the overhead cost structure of the Company. That means that when these costs are removed, they will not come back, despite top line growth.

We are not cutting costs in the core customer value chain of the Company, as typically if you cut costs there, you end up cutting R&D investments, which drive future growth of the Company.

So to make Philips a profitable growth Company, we reduce overhead cost, while investing more in the core customer value chain, especially in innovation and customer-facing resources, and that drives higher value creation for Philips. Besides this, we are also executing on our plans to address the industrial footprint of, among others, our traditional Lighting business.

On the portfolio front, the end of the first quarter marked a very important landmark for the future of Philips. We have successfully completed the television joint venture deal with TPV, and the new Company is called TP Vision. TP Vision will be a strong player in the global TV market, and will ensure the continuity of the Philips TV brand.

TP Vision will leverage the strengths of the Philips brand, innovation, power and trade relationships, with the additional skill and manufacturing strength of TPV from Taiwan. The TV partnership with TPV enables Philips to further focus on expanding market-leadership positions across our Healthcare, Consumer Lifestyle and Lighting sectors.

Another key element in the Accelerate program is to ingrain a performance culture across Philips. We know that that will take time, but we are convinced that we need to invest significantly in this area, and we see people responding positively already.

To date, around 200 of our leaders have been through a behavior change program. This is an immersive three-day program that has been very impactful. The top 800 of the Company are actually slated to go through this program by the end of this year.

We also conducted our leadership summit in February this year, where the top 250 leaders were physically present and another 500 were attending through a live webcast. The response has been very encouraging, and this summit was instrumental in driving the Accelerate actions deeper into the organization.



In the post-summit survey which we typically do, 99% of the responders confirmed that they have clarity on what they need to do to accelerate performance of their respective businesses. In order to check that the Accelerate program is, in fact, cascading down the organization, we also run surveys among 4,000 employees every quarter, and the scores indicate that good progress is being made.

Details related to this progress are disclosed in the Q1 information deck. At the same time, I want to emphasize that Accelerate is a multi-year program, and much remains to be done to unlock our full potential.

Let's now discuss the changes in the Executive Committee of Philips. As we previously announced in March, we appointed Eric Rondolat as Chief Executive Officer of Lighting, and a member of the Executive Committee of Philips. Eric has an impressive international career, covering both mature and growth geographies, most recently Asia Pacific and based in China.

Eric brings a wealth of experience from the energy-management solutions industry. We are confident that he will be able to lead Philips through the industry transformation and emerge as the winner in energy-efficient, LED-based, lighting solutions.

I'm also pleased that in Deborah DiSanzo, we have a worthy successor to Steve Rusckowski. Actually, I'd like to reiterate that I wish Steve well in his future endeavors and I'm thankful to him. Deborah will take over as the new CEO of Healthcare, and also join the Executive Committee of Philips.

With Deborah, we have found a strong leader for Healthcare within our own organization. She has a proven track record in the healthcare industry, and has grown the Patient Care & Clinical Informatics, the PCCI business, to become the global market leader in patient monitoring. I'm sure that she will be a catalyst in accelerating our Healthcare business.

Now let me provide you with a few details on our quarterly performance. In our Healthcare business, we recorded strong sales growth helped, in part, by business that was pushed out from Q4. Adjusted EBITA for the quarter grew by 60 basis points compared to the previous year. So following the blip in Q4, performance is back on a normalized trajectory in Q1.

The improved performance in Consumer Lifestyle continued. The growth categories of Personal Care, Health & Wellness and Domestic Appliances, combined, grew by over 7% in the quarter. Sales of Lifestyle Entertainment declined by double digits, as the MP3, MP4 and DVD markets continued to shrink. However, profitability improved compared to Q1 of the previous year. The adjusted EBITA for the quarter also improved significantly by 130 basis points in the quarter.

In the first quarter we extended our partnership with Sara Lee to drive growth in the global coffee market. Under a new exclusive cooperation framework, we will be the exclusive Senseo consumer appliance manufacturer and distributor until 2020. The extended partnership underlines the shared commitment from Philips and Sara Lee to further strengthen the Senseo brand through investments in innovation and market expansion.

Philips sold its rights to the Senseo trademark to Sara Lee, and we received a total consideration of EUR170 million, of which EUR160 million is reflected as a one-time gain in the results for the quarter.

In Lighting, after a declining trend over the past seven quarters, we have delivered a sequential improvement in performance as changes to the organizational structure and operational improvements start making an impact. The steep decline in profitability over the past several quarters in Lighting has led some people to jump to the conclusion that the deterioration in performance is due to the transformation to LED.

I would like to clarify our view on the Lighting business. The LED transformation is expected to make Lighting less profitable in the short term, and we have recognized this by lowering our midterm EBITA objective from the 12% to 14% range to 8% to 10%. This is due to higher investments in R&D and selling expenses, as well as competitive pricing pressure, especially in relation to LED components and bulbs from new entrants in high-volume electronic space.

The decline in Philips Lighting profitability, below the midterm target range of 8% to 10%, is largely due to operational issues in consumer Luminaires and Lumileds, delays in price increases and obsolescence due to a broken end-to-end value chain. We clearly believe that we have a good handle on these issues, and are in the process of fixing them. We believe Lighting has a profitable future in the Philips Group, and with the Accelerate program, we are focused on unlocking that potential.

So in summary, I'm encouraged by our results in the first quarter of 2012 as we have taken the right steps to achieve our business improvement objectives. Group cost savings initiatives are gaining traction, and our Accelerate efforts are starting to impact the Company's performance.

Healthcare sales and order intake showed robust growth and the growth businesses of Consumer Lifestyle continued to perform well. I'm also happy with the sequential performance improvement in Lighting, as organizational changes and operational improvements begin to show positive results.



We have completed the formation of the TV joint venture as planned, and the start of that joint venture marks an important step in shifting the focus of our product portfolio. We do remain generally cautious about the remainder of 2012, given the uncertainties in Europe, particularly related to healthcare and construction markets.

As we have stated earlier, we expect our results in 2012 to be impacted by restructuring charges and one-time investments aimed at improving our business performance trajectory; and of course, that is all part of the multi-year Accelerate program.

Despite these one-time charges, we expect the underlying operating margins and capital efficiency in the sectors to improve in the latter part of 2012. This expected improved performance trajectory sets us then on the right track towards achieving our midterm 2013 financial targets.

And with that, I'd like to turn the call over to Ron to go over our financials in more detail.

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**Ron Wirahadiraksa - Royal Philips Electronics NV - CFO**

Thank you, Frans. Good morning, and welcome to all of you on the call. I will begin by giving you some color on the developments in the markets we serve, and then walk you through the financial performance for the first quarter.

Let me start with Healthcare where, in the US, we see the outlook as a positive, although the industry will have to deal with the prevailing uncertainties regarding the healthcare reform and possible impacts of the medical device excise tax.

The vast majority of hospital executives expect increases in overall spending budgets this year, marking a significant improvement compared to just two years ago. Continued low interest rates are fuelling these infrastructure advancements in addition to continued strong IT spending in hospitals.

In Europe, the outlook for markets in Southern Europe continues to be weak, and there is a rather subdued outlook of economic growth for the remaining part of Europe. The austerity measures undertaken in countries such as Italy, Spain and Greece significantly affect public spending on healthcare.

We therefore remain cautious on the near-term outlook in the region. That said, the momentum in our growth geographies continued well into the first quarter of 2012, where demand is fuelled by government and private spending.

On consumer markets, US consumer confidence continued to improve from its low point in Q3 2011, and is now slightly above levels of a year ago. Unemployment has continued to fall to levels now just above 8% in March. Private consumption, however, remains somewhat subdued.

In Europe, consumer confidence in Germany and France remained more or less stable compared to Q1, with levels still below those of last year. Unemployment in Germany has continued to fall, and is now under 7% in March. In France, however, unemployment has crept up again to a level of 10% as of February. Private consumption is weak, yet stable in Germany, but has continued to fall in France. In the BRIC markets, most indicators continue to be positive.

From a category point of view, we see lifestyle entertainment markets continuing to perform relatively weakly, whilst we see clearly better trends across the rest of our portfolio; Personal Care, Health and Well-being, Domestic Appliances and Coffee.

The lighting market in Q1 was slightly up versus Q1 2011, and showed positive growth compared to Q4 2011, mainly driven by LED product categories and growth geographies. Though still a bit sluggish, North America has shown a strong recovery with an improved outlook for GDP. An uptick in residential construction combined with the beginning of the phase out of GLS benefited the consumer lamps markets.

Western Europe continues to feel downward economic pressures, though Professional Lamps and Luminaires showed growth in Germany and France due to mix shifts, GLS bands and improved business confidence.

In growth geographies, construction remains strong, especially in the Asia Pacific region, driving growth in the lamps and luminaires markets across categories. The Indian market saw a good growth, especially in Consumer Luminaires, with new product introductions and a number of new market entrants.

Global vehicle production in Q1 is anticipated to rise compared to the same period in 2011, driving growth for the automotive lighting market.



We expect construction in Asia Pacific and Central and Eastern Europe to grow throughout 2012, though at a slightly slower rate than in 2011. Declines are expected in Western Europe, though the decline will be muted in Germany and France. Although the construction growth rate across Asia is slowing, it still remains a clear growth engine across all lighting categories.

Let me now move to the Philips Group results for the first quarter of 2012. Please note that with the formation of TP Vision, the television joint venture with TPV, Q1 of 2012 is the last quarter when the Television business will be reported under discontinued operations.

As with the previous four quarters, all commentary that will follow in terms of sales and earnings at Philips Group level and Consumer Lifestyle sector level does not include Television-related information.

Also, when I refer to adjusted EBITA on this call, this represents EBITA excluding restructuring charges, one-off items above EUR20 million, and acquisition-related charges.

Comparable sales in the first quarter grew by 4% when adjusted for currency and portfolio changes. On a geographical basis, comparable sales in our growth geographies grew by 9% in the first quarter.

Our growth geographies are defined as all markets excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel.

Sales from these growth geographies increased to 33% of Group revenues compared with 32% Q1 last year. Sales in North America grew by 3% in the quarter on a comparable basis. Western Europe saw a decline in comparable sales of 4% in the quarter, mainly due to the market-related weakness I spoke about earlier, which affected Consumer Lifestyle and Lighting.

Healthcare recorded a mid single-digit growth sales in Western Europe due to good growth in the United Kingdom, Germany, Austria and Switzerland, as well as in Sweden.

In Q1 last year, due to certain changes in the NHS in the UK, sales were low, and the growth this year indicates a normalization of activity levels. In other mature markets, we also saw a strong comparable sales growth of 12% in the quarter, led by Japan, with all three sectors recording impressive growth rates.

Reported EBITA was EUR552 million, or 9.8% of sales, which is higher than the EUR438 million or 8.3% of sales reported for Q1 last year. The restructuring and acquisition-related charges for the first quarter for this year were higher than the first quarter of last year by EUR30 million. This is mainly due to increased restructuring charges in Lighting related to the Accelerate program and the rationalization of the industrial footprint.

Q1 2012 EBITA was favorably impacted by the sale of the Senseo trademark to Sara Lee, which had a positive impact of EUR160 million. In the quarter, we also sold the high-tech camps in Eindhoven, and that resulted in a positive impact of EUR37 million. We also recorded a loss of EUR25 million on the sale of assets in Lighting.

Adjusted EBITA was EUR425 million, or 7.6% of sales in the quarter, compared to EUR453 million or 8.6% for Q1 2011. The decline in the adjusted EBITA was due to a decline in Lighting from 10.4% in Q1 last year to 5.5% in Q1 2012, whilst in Healthcare and Consumer Lifestyle, we saw improvements. I will elaborate on this in a few moments.

Net income was EUR249 million, which includes the negative impact of EUR33 million from the discontinued Television business. The net income in Q1 last year was EUR138 million.

Our cash flow from operating activities for the quarter was an inflow of EUR336 million compared to an outflow of EUR493 million in Q1 of 2011. The significant change was due to a large decrease in payables as supplier payment terms were lengthened in Q4 of 2010. This did not occur in the fourth quarter of last year and, as a result, our cash flow in the first quarter of this year was normalized.

The reported figure of net capital expenditures is a positive number, as it includes the cash received from the sale of the Senseo trademark of EUR170 million, as well as the proceeds from the sale of the high-tech campus of EUR373 million.

With that summary, let me now walk you through the performance of each of our businesses during Q1, starting with Healthcare.



Currency-comparable equipment order intake grew strongly at 7% in Q1 2012 compared to Q1 2011. Order intake was led by a solid performance in the US, where we registered a 5% increase in order intake on a year-on-year currency-comparable basis, led by Patient Care and Clinical Informatics, which recorded a double-digit order intake growth compared to Q1 last year.

Our growth geographies show a strong increase where equipment order intake grew by 22%, with the Patient Care and Clinical Informatics business registering a growth of over 40%.

The growth geographies were led by Russia, which saw a currency-comparable growth in order intake above 115%. Africa was above 65%, LatAm above 65%, and India above 40%, with China at 10%. Europe declined slightly by 1% in currency-comparable order intake due to the weak markets I described earlier.

On a currency and portfolio comparable basis, our Healthcare business registered a year-on-year sales increase of 9%, significantly above the 5% growth registered in Q1 2011.

Sales that were pushed out from Q4 2011 did have an impact of around 130 basis points in the growth for Q1 2012. Patient Care and Clinical Informatics and Imaging Systems registered double-digit growth, while Home Healthcare and Customer Services registered mid single-digit growth.

North America saw continued growth of 4% in the quarter, while growth geographies delivered a sales increase of 27%. This was led by Russia, which saw a comparable sales increase of above 110%, Africa 70%, India close to 30%, and China and LatAm above 20%.

Europe registered a comparable sales growth of 5%, with Germany, Austria and Switzerland growing by double digits as a region. The United Kingdom and Ireland grew by high single digits.

Healthcare reported a first quarter EBITA of EUR225 million, or 10.2% of sales, an increase of EUR26 million compared to Q1 2011 when the EBITA was 10.1%.

Adjusted EBITA was EUR234 million or 10.6% of sales, which is above the EUR197 million or 10% of sales in the same period last year. Operating leverage from the positive growth momentum resulted in the improved earnings for the quarter.

Consumer Lifestyle sales, when adjusted for currency and portfolio changes, declined by 1% compared to Q1 of last year, not least with the continuing momentum of sales growth in Q1 2012 for the Personal Care, Health & Wellness, as well as the Domestic Appliances businesses, which registered 7% comparable sales growth.

Shrinking markets, specifically for DVD players and MP3 and MP4 players, led to the Lifestyle Entertainment business sales to a double-digit decline for the quarter, resulting in the overall sales decline for the sector.

The reported EBITA at Consumer Lifestyle improved to EUR259 million from EUR79 million in the first quarter of 2011. Of this, EUR160 million is due to the sale of the Senseo trademark to Sara Lee.

The adjusted EBITA of the sector for Q1 2012 was EUR112 million in the quarter, or 8.7% compared to EUR92 million, or 7.4% of sales for the first quarter of 2011. The improvement in adjusted EBITA was mainly driven by the Lifestyle Entertainment and Health & Wellness businesses.

For the Television business which, as I explained earlier, is reported as part of discontinued operations, the EBITA for the first quarter was a loss of EUR73 million compared to Q1 of 2011 when the EBITA was a loss of EUR106 million.

Excluding stranded costs of EUR25 million, restructuring costs of EUR10 million, and the amount of EUR12 million for property, plant and equipment related charges, due to discontinued operations, the operational results of the Television business on a standalone basis was a loss of EUR26 million in Q1 2012, an improvement compared to the loss of EUR73 million in Q1 2011, which excludes EUR32 million of stranded costs and EUR1 million for restructuring costs.

The final terms of the formation of the Television joint venture were in line with the earlier estimate made in Q4 2011 of around EUR380 million. On page 16 of the press release, we have provided a simple reconciliation to the net income of discontinued operations of a loss of EUR33 million.

In Lighting, comparable sales grew by 2% in the quarter compared to Q1 of last year. Lumileds sales declined for the quarter for the reasons Frans mentioned earlier, excluding which Lighting sales were up 4% compared to the previous year.



The increase in sales was led by our growth geographies, where sales, excluding Lumileds, grew on a comparable basis by 14%. On a more granular basis, sales in China, Russia and Central Asia, Middle East and Turkey, India, ASEAN, LatAm, and Japan, showed good momentum with strong growth.

Sales in North America were flat in the quarter. Weak markets in Europe caused a mid single-digit decline in comparable sales for the quarter.

With taking a deeper look into each business, we continued to see strong sales of our LED products, with growth of 22% compared to the same quarter in the previous year.

Excluding Lumileds sales, which declined, LED product sales grew around 50% in Q1 2012 compared to Q1 2011. Consumer Luminaires delivered a low single-digit growth, while all other businesses grew in the mid single-digit range for the quarter.

The reported EBITA at Lighting declined to EUR61 million from EUR193 million in Q1 2011. EUR44 million of this decline was caused by higher restructuring costs related to the overhead cost savings program and the rationalization of the manufacturing footprint in the Lighting sector, as well as the loss of the sale of certain assets.

Adjusted EBITA was EUR110 million, or 5.5% of sales, a decrease of EUR88 million compared to the first quarter of 2011.

The year-over-year results declined mainly due to raw material price increases during 2011, and operational issues at Lumileds and Consumer Luminaires that we have previously described and are currently being addressed.

As Frans mentioned earlier, the organizational changes, as well as the operational improvements that the Lighting team has been working on, has resulted in a sequential improvement of the adjusted EBITA from 3.7% of sales in Q4 2011 to 5.5% in Q1 2012.

We have renamed Group Management and Services to Innovation, Group & Services. This was necessitated by the change in composition of results reported in this sector. To provide full transparency, we have reported this license income in a separate line as part of IG&S.

As the title suggests, the main buckets will be innovation costs and IP royalty income, followed by Group costs. That is Group Management and regional costs. We will show all Accelerate related expenses in a separate line here. These pertaining to investments, we are making to drive change in the Company.

Further, pensions, service units, and others, will be shown separately, as was done before.

Reported EBITA was a profit at IG&S of EUR7 million. This is mainly due to the profit booked on the sale of the High Tech Campus in Eindhoven, for EUR37 million. The adjusted EBITA for IG&S is a loss of EUR31 million.

The Accelerate related investments will be weighted more to the second half of the year, and hence the loss with the first quarter is below the mathematical runway.

The inventory runway at the end of Q1 2012 increased on a currency comparable basis by EUR165 million compared to the first quarter of 2011. This increase is related to an increase in the Healthcare sector, as both Consumer Lifestyle and Lighting reduced their inventory on a comparable basis.

The increase in the Healthcare sector is primarily attributable to Imaging Systems, which is due to the build-up of production inventory related to the new range of imaging products.

Since the commencement of the share buyback program in Q3 2012, we have completed 43% of the EUR2 billion program at the end of Q1 2012. As mentioned in the last quarterly call, going forward, we expect to buy back our shares at a rate between EUR150 million to EUR300 million a quarter. We will continue to closely monitor the availability of liquidity in the financial markets and our cash position, and manage the pace of this program appropriately.

Early December 2011, we updated the markets with the EBITA impact of IAS19 in pension accounting, which becomes effective in 2013. The most relevant change for Philips is the elimination in EBITA of long-term investment returns on pension assets, as well as interest costs of the benefits liabilities, which are replaced by net interest costs on the recognized balance sheet position.

Based on 2011 expected pension costs calculated at the then prevailing interest rates, we indicated a negative EBITA impact of EUR120 million for 2011, if applying IAS19.





On the basis of actual market interest data at the end of December 2011, we updated this EBITA impact analysis, resulting in an increase for 2012 to EUR140 million, and for 2013 an estimated increase to EUR260 million when IAS19 is applied. This amount has been included in our discussion of future accounting changes in the Annual Report 2011.

While this is a headwind on the path to our 2013 midterm targets, we remain optimistic in achieving them, given the multiple value creation initiatives running in parallel, such as our end-to-end value chain re-engineering, our cost reduction program, and turning around certain loss-making businesses.

The increase of the estimated EBITA impact for 2103 is entirely due to the significant drop during the month of December in the corporate AA interest rates, which are the discount rates under IFRS.

To put things in perspective, I would like to stress that these accounting changes have no balance sheet or cash flow impact. The actual EBITA impact for 2013 will be known only at the end of 2012.

Ladies and gentlemen, before opening the line to questions, let me briefly sum up where we stand.

We are in the midst of our change and performance management program, Accelerate. We believe that the benefits of this program will take us forward on our path to value, and we expect to see an improvement in our operational performance in the second half of the year. We will continue to closely economic developments and make adjustments to our expense levels when required.

With that, let me now open the line to your questions, which Frans and I will be happy to answer. Thank you.

## QUESTION AND ANSWER

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### Operator

Thank you, sir. (Operator Instructions). Would you please limit yourself to one question, with a maximum of one follow-up? This will give more people the opportunity to ask questions. (Operator Instructions).

There will be a short pause while participants register for a question.

Andreas Willi, JPMorgan.

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### Andreas Willi - JPMorgan - Analyst

My first question is on the Healthcare business. Even if you take into account the push-out which you quantified in the call, it still seems a very strong underlying result in terms of sales growth. Should we expect that pace to be maintained in the near quarters?

And also, given that strong sales growth, isn't the profitability still somewhat disappointing also in the year-on-year comparison? That's the first question.

And the second question on the old Consumer Electronics business, maybe you could say how big that by now still is in terms of sales, and whether the faster decline in some of the DVD players optical pickup we should also expect licensing income to fall faster than you previously indicated.

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### Frans van Houten - Royal Philips Electronics NV - CEO

Okay, Andreas. Thanks for these three questions. Let's first talk a bit about Healthcare, and then maybe Ron can also contribute with some more color.

So, yes, we believe we have a strong position in Healthcare. That's on the back of a strong product range and investment in innovation, where we can also see that during 2011, we have actually gained market share.



With the overall order intake in Healthcare at around 7%, and especially very strong in the growth markets, we are obviously pleased with a strengthened order book, where we take courage then for the future. So we hope to continue good momentum in the Healthcare business, even though, and we have flagged that, the overall uncertainty in the market remains.

With regard to your implied message that the profitability is not good enough, actually, we would agree with you that Healthcare, on its past value to the midterm targets, still has a ways to go in improving profitability.

Healthcare will also benefit from the Accelerate program in improving gross margins and the bottom line. Also, the cost reduction will benefit Healthcare. Deborah DiSanzo, who is taking over on May 1, has already clearly signaled the wish to accelerate Healthcare further.

So Lifestyle Entertainment, we saw a double-digit decline in Lifestyle Entertainment. Despite that fact, I said that the business continues to be profitable. I think this is exactly how we need to manage that business.

We cannot help the fact that consumers buy fewer DVD players and Blu-Ray players, but we can manage the profitability. And as you know, we have moved the unit to Hong Kong. We have merged accessories and audio video. We have taken a lot of cost out, and the net result is that despite significantly lower sales, the unit continues to be profitable.

The proportion of Lifestyle Entertainment of the total of Philips -- sorry, of CL, is approximately 30%, but that, of course, is coming down as we had the developments in Q1.

And then with regard to licenses, I'd like to lean on Ron to give a good perspective on that.

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**Ron Wirahadiraksa - Royal Philips Electronics NV - CFO**

Yes. So as we said last year, we expect license income to come down in about three to four years' time to a level of about EUR130 million of income versus the EUR175 million that it was last year, and that is, as you rightfully say, to indicate the decline of the optical licenses income. Of course, from 2013 onwards, we are expecting to receive the brand license from the TP Vision joint venture.

A little color maybe, Frans, if you're okay on Healthcare.

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**Frans van Houten - Royal Philips Electronics NV - CEO**

Sure.

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**Ron Wirahadiraksa - Royal Philips Electronics NV - CFO**

The answer is absolutely spot on, of course, but please bear in mind that we are at a run rate of expenses for investments for growth in Healthcare, but we're slightly above Q1 2011, as we started with this in Q2, and we have had the conversation on that last year.

So other than that, the impact of the sales that was brought back, which we said in Q4 was a rise of 140 basis points, is a little less now because the -- yes, 130 basis points was a little bit less now because not everything came back. But we're encouraged by what we see of what has come back and that has not been a push-out to Q2. So that's a little more color on the Healthcare profitability.

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**Andreas Willi - JPMorgan - Analyst**

Thank you very much.

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**Operator**



Simon Smith, Credit Suisse.

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**Simon Smith - Credit Suisse Europe - Analyst**

There were two topics that interested me. The first was with regard to Healthcare, and we'd obviously seen orders in Europe come down in the teams. And obviously, you're down 1% in this quarter.

I guess you're implying that, apart from Southern Europe, some of the other economies in Europe may be posed more aggressively during the crisis and you've now started seeing more normal order trends. I was just wondering if you could give any greater detail on that.

And I guess the other point is there's been a lot of discussion about how competition may be developing in the healthcare sector. And, I guess, Europe being the one area where we're getting more clear weakness should be the one we would see it most. So just in terms of orders that are going in Europe, as well as the actual volume of those orders, what are you seeing in terms of pricing? Is there any acceleration of price weakness in any of those areas?

And the second topic for me of interest was Lighting. And obviously, on Lighting, it's nice to see an improvement come through in profitability, and I guess we've seen a lot of pressure coming through from raw materials in that area. And I think pricing, you'd had some successes in pricing, and obviously hope to see more come through. And I just wondered how much of that improvement is from pricing, and what degree of price increases you further have to go through; how much of cost increases has not been recovered? I don't know if you can give us any details on that.

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**Frans van Houten - Royal Philips Electronics NV - CEO**

Okay, Simon. Hi. First of all, let's talk about Healthcare.

You're right. We flagged Europe to be -- continue to be weak. We actually expected mid single-digit decline in Healthcare in Europe. The order intake trend shows a more benign development with the minus 1% in Q1 after several quarters of double-digit decline. But then that means that we have significantly lowered our order book position there. So that still then filters through in the mid single-digit decline in Healthcare as an expectation.

Competition development, I'm not sure exactly what you are after there. We see that we can hold up our position well with a strong pallet of products, both in the imaging diagnostics, as well as the in patient monitoring and home healthcare. So we relate the European situation much more to the general economic situation rather than our competitive position.

Then let's move to Lighting. Raw materials, we have tried very hard to bring that into the pricing. I think generally speaking, we have succeeded, although, in the consumer space, the Consumer Lamps area turned out to be quite hard. Especially in the area of CFLI, we saw that private label brands in the large retail stores were putting a halt to further price increases.

So I think we need to work on our internal fundamentals in Lighting. We're taking significant cost out of that operation, anticipating that we cannot just count on gross margins to improve due to pricing.

The good news is that we see a massive opportunity to improve the operational results in Lighting as we make the unit more competitive. It's also good to see that the LED business in the professional side, we see good gross margins; and also, in the LED solutions business, we see healthy gross margins. So that also bodes well for the future mix.

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**Simon Smith - Credit Suisse Europe - Analyst**

Can I just follow up on that Healthcare point?

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**Frans van Houten - Royal Philips Electronics NV - CEO**

Sure, go ahead.



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**Simon Smith - Credit Suisse Europe - Analyst**

My question was more in a very tough environment, where there's a lot of -- well, there's three particularly strong competitors and the suggestion and of new entrants, to keep winning orders in Europe and the orders that you're putting into the backlog, are they going in at the similar margins to what you're currently reporting? Or is there now maybe a greater element of discounting to win orders with some of these governments which are under a lot more pressure in terms of their budgets?

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**Frans van Houten - Royal Philips Electronics NV - CEO**

We have not seen an out of the order price erosion in the Healthcare market, so I cannot acknowledge that.

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**Simon Smith - Credit Suisse Europe - Analyst**

Okay, thank you.

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**Frans van Houten - Royal Philips Electronics NV - CEO**

Thanks.

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**Operator**

Peter Reilly, Deutsche Bank.

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**Peter Reilly - Deutsche Bank - Analyst**

You mentioned that you're still suffering from operational problems in the Lighting business, but you now say, in your own words, you have a handle on these. Can you give us some more color on what the remaining operational problems are, and more importantly, when you expect to be able to say that those problems are now behind us?

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**Frans van Houten - Royal Philips Electronics NV - CEO**

Well, I did not say that they are behind us.

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**Peter Reilly - Deutsche Bank - Analyst**

No, but when will they be? Because if you have a handle on them, then one would hope that there will be a stage later on this year when you can say they've now been resolved. And I was wondering when that is likely to be.

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**Frans van Houten - Royal Philips Electronics NV - CEO**

Right, let's talk about the bigger picture in Lighting, right? So we have seen seven quarters of declining performance, and we are happy to see that the first quarter is a break in that trend. Nevertheless, the results in the first quarter, of course, are not, still not very good. They're just an improvement, that's all.

The things that we are working on in Lighting are multi-fold. First of all, the turnaround of the Lumileds unit, where we see margin pressure due to some over-supply in the market, as well as operational issues, we've replaced the management team there. We are expecting improvements through the year and getting that unit back to the black figures.



Number two is the Consumer Luminaires business, which is a self-inflicted issue with a supply chain that didn't work very well where we have now seen that that supply chain is back under control, and we are working to restore the confidence of the customers, getting listings back in place. And that should result, again, more towards the end of the year, for the unit to come back to the black.

Then thirdly, as you'll recall, we have higher than normal investments in R&D and selling expenses, especially on the Professional Solutions side, the Professional Luminaires and the Project business, as we see that as the future strategic hotspot of the business. And in this area, actually it's good growth. I already referred to the fact that the underlying gross margins of that Solutions business is actually healthy. So as we grow that business, we expected profitability also there to improve.

And then number four is the raw materials, which applies mainly to the Lamps business, where we have been able to repair margins to a significant degree. And there probably most of the work on the margin improvement has been done, although on the cost side, we still can see many more opportunities to improve.

So all in all, what I hand over to Eric Rondolat is still a plateful of things to do, and over the next four quarters, we need to see further margin improvement in Lighting. But I'm confident that from the low point where we come, that we can achieve this. And we see that the competitiveness of products and solutions, when we look for example at market shares, that we are performing well.

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**Peter Reilly - Deutsche Bank - Analyst**

And if I can just follow up. When you say improvements over the next four quarters, I assume you're building in into your analysis an assessment of continuing price declines in the LED business?

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**Frans van Houten - Royal Philips Electronics NV - CEO**

Well, the LED business, the lamps of course have to come down, right? This is normal in a new technology. And at Light & Building in Frankfurt a week ago, I actually announced that we are launching LED lamps for the consumer market now for the first time below EUR10 to be launched first in Germany in April, and rolled out over the rest of the European countries later this year.

So we can do that because we are in a faster new product introduction, thanks to Accelerate as a program. Our unit is now -- Lamp business is now based in Shanghai, and we are cranking out products every four to six months, so that goes well.

Margin pressure, I do not see that immediately in the professional side of the business. I'd like to underline that Lighting for more than 70% is a B2B business and not a B2C business. Gross margins in the Professional Lighting business are strong, and the pay-back time, thanks to the energy efficiency, makes of LED a very attractive proposition there already.

It's a mouthful of insights. We are confident and positive on the overall potential of the Lighting business, while we still have a quite a lot to do in the next 12 months.

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**Peter Reilly - Deutsche Bank - Analyst**

Okay. Thank you.

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**Operator**

Ben Uglow, Morgan Stanley.

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**Ben Uglow - Morgan Stanley - Analyst**

I had a couple of questions. On the Healthcare side, could you just give us a sense of what you think is driving the Patient Care business in particular? It's obviously very decent growth. What I'm curious about is why Patient Care should be double digit and Imaging Systems relatively flat.



And I guess the follow-up to that is does your Patient Care business in principle carry similar margins to the remainder of your Healthcare business, and that was question number one.

Number two is just a clarification on Lighting. Quarter on quarter, did you see slightly lower pressure, raw material pressure in the Lighting business? I know that you said that year over year things were still up, but I wondered if sequentially raw material pressures were diminishing slightly in Lighting.

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**Frans van Houten - Royal Philips Electronics NV - CEO**

Okay. Yes, good question. So the Patient Care business, let me elucidate first of all the strategy that we have there. So the -- in Patient Care, we are a solutions provider. We help hospitals drive productivity in their patient care environment. So it's no longer a products business. We are pretty strong in what they call clinical informatics, and we link up all the boxes that help the nurses around the bed of the patient. We link them up to the central IT of the intensive care unit and the hospital systems.

By doing that, it makes hospitals more productive. They can save on labor; nurses can help more patients. And this is the competitive edge of Philips.

As we glue all these things more together, we see that we have very strong traction and gain market share in what we call Patient Care and Clinical Informatics.

The margins of PCCI are the best of all in Healthcare, and also improving. So this is good news for Philips Healthcare, as it in fact means a richer mix.

In the Imaging area, I dare say that we still have some work to do to further improve the margin structure. As you recall, we are setting up -- we are building the Suzhou imaging operation so that we can take better benefit from the supply chain in Asia, and also being closer to that market as we roll that out further. And many products are expected to roll out into the market during 2012. We also hope to see margin expansion in the Imaging Systems area.

Ron, anything to add on Healthcare?

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**Ron Wirahadiraksa - Royal Philips Electronics NV - CFO**

Well, the PCCI margin is clearly above the average of Healthcare, but for the Imaging business, of course you have to realize that we should include for a good view the Service part. So that comes a long way.

Also on your question why the growth spurt. Well, there was somewhat of a muted growth in PCCI in Q4. There was only between 3% to 4%. So there is somewhat of a catch-up effect also. And besides that, we think we have a great suite of very compelling products being the leader, particularly in patient monitoring in the globe that we are.

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**Ben Uglow - Morgan Stanley - Analyst**

And, sorry to interrupt, but is it fair to think that you're seeing growth --? I guess I interpreted from Frans' answer that this was about IT and clinical informatics as opposed to simply selling more patient-monitoring systems. Is that so or not?

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**Frans van Houten - Royal Philips Electronics NV - CEO**

Well, I said that because it is one value proposition, so I was not specifically flagging that we sell more IT alone versus the boxes. I was trying to convey that it is the combination of both that makes it such an attractive proposition so that the nurses have fewer things to do in order to help the patient, and that the information is always at the finger-tips, and that the patient can be followed at the emergency ICU, and so on. So the whole thing is an integrated clinical solution, rather than a box.

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**Ben Uglow - Morgan Stanley - Analyst**

Okay. Thank you.



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**Frans van Houten - Royal Philips Electronics NV - CEO**

All right. Ben, on your question on Lighting, well, we have indeed seen raw materials fluctuate. So rare earth going up and down. There was a peak in the middle of last year; then it came down a little bit, and now it goes back up again.

So it's a very unstable situation, which we mitigate by having some term contracts. Now that means that we are not seeing the immediate effect of those fluctuations back in our bottom line, whether up or down, and it becomes a bit more a muted impact.

Nevertheless, we are concerned about raw material availability and pricing, and it is not for nothing, of course, that three continents in the world, Europe, Japan and the United States, all three have complained at the WTO about the practices around rare earth. So it's an area that we closely need to monitor.

By the way, we have launched some innovation projects in order to become less dependent on rare earth. We cannot eliminate it, of course, but in our labs, we have been able to find a way to significantly reduce the amount of rare earth that we need in order to make our products.

So that in the midterm is good news. It will still take us couple of quarters before that comes to bear, probably by 2013. But it is nice to see that when you put pressure on your organization, they come up with creative ideas.

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**Ben Uglow - Morgan Stanley - Analyst**

Thank you.

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**Frans van Houten - Royal Philips Electronics NV - CEO**

You're welcome.

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**Operator**

Ludovic Debailleux, Natixis Securities.

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**Ludovic Debailleux - Natixis Securities - Analyst**

A few questions, please. First of all you are targeting EUR400 million of cost savings as of 2012 at Group level. Could you help us to quantify the effect for Q2, Q3 and Q4 this year? That was question number one.

Question number two, Innovation, Group & Services EBITA stands at plus EUR7 million, or only minus EUR30 million, excluding the capital gain. Even if you expect more charges to come in H2, do you confirm the minus EUR340 million for the full year you guided previously?

And maybe a last question on the free cash flow. What would have been the free cash flow in Q1 restated from the push-out effects from Q4 to Q1 on Healthcare?

Thank you.

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**Ron Wirahadiraksa - Royal Philips Electronics NV - CFO**

Okay. On your IG&S question, yes, we confirm the guidance. As I said, there was an amount of the HTC deal and the Senseo deal -- on the HTC deal in the assets, because those were held at the Group level, so that impacted favorably.

Also, there is some seasonality in the number, so that explains the profit that we've actually shown in IG&S. So for the full year, I would reconfirm the guidance of the EUR340 million.



Then on the EUR400 million cost savings, well, we had incremental savings in Q1 of EUR37 million, and there was EUR25 million in Q4 last year. So the cumulative savings are now EUR62 million in the first quarter, and it provides we think for a good run rate. Of course, we're coming to a point where we really need to push through on the design. We have everything in place and monitoring it very closely.

So as we have said, the cost savings program and the impact on the profit will be more back half loaded. So EUR400 million on the cost savings we reconfirm.

Then the free cash flow push from Q4 and Q1, that effect in last year was about EUR300 million. We're otherwise still very pleased with the free cash flow performance that we have seen, because we did improve in our receivables position and overdues. Inventories in Lighting and Lifestyle were well under control; Healthcare somewhat higher, as explained earlier.

**Correction on this part by Royal Philips Electronics:** The question was misunderstood. The effect of the pushed out sales of Healthcare in Q4 on the cash flow for Q1 was negligible.

And of course, there is also somewhat of an effect of the fact that the month actually ended in the weekend, so this had two effects. People paid us somewhat later, but we also paid people somewhat later due to that. And I think the net effect of that is about EUR100 million -- EUR130 million plus impact. But again, we are very pleased with the free cash flow generation performance.

Yes. So if you ask about the Healthcare push-out in the inventories, so why have inventories not gone down more in Healthcare, that's because we're also gearing up for second half shipment of products, mainly to China. And that is the explanation of the Healthcare increase.

Of course, there is an undercurrent of making the supply chain more efficient, and we're working hard to do that. But for now, this mainly -- this increase mainly relates to production inventories for new product introductions.

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**Ludovic Debailleux - Natixis Securities - Analyst**

Thanks a lot.

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**Operator**

Gael De Bray, Societe Generale.

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**Gael De Bray - Societe Generale - Analyst**

I was actually curious to know what was the negative EBITA contribution of Consumer Luminaires and Lumileds in Q1, and how this contribution had developed over the past three to four quarters now. And I was also surprised to see restructuring charges in Lighting were almost 3 times lower than you initially guided for Q1. So if you could give us the reasons for that, please, that would be great.

And maybe the second question on inventories. So I understand what happened in Q1, but still inventories were up roughly 100 bps on a year-on-year basis in Q1, and that means you're running well below the targeted 1% to 1.5% reduction for the full year. Do you consider yourselves still on track for this specific target, or have these things become really more difficult now?

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**Frans van Houten - Royal Philips Electronics NV - CEO**

Let me start with inventories, and then I'll ask Ron to comment on the EBITA effect of Cons-Lum and Lumileds and restructuring in Lighting.

So on inventories, I would say we are not yet on track. So a little bit more specifically, Lifestyle is progressing. In Lighting, we still have a lot to do, and Healthcare is behind. Especially on the Imaging side we've seen still high inventories.

So the targets have all been deployed and programs are in place to redesign our supply chains and to get to a structurally lower level, but I would not yet call this a done deal. Nevertheless, we fully remain committed to improving by 2% to 3% over the two-year period.





I look to my right here; Ron on the other two points?

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**Ron Wirahadiraksa - Royal Philips Electronics NV - CFO**

The Consumer Luminaires, yes. So the Consumer Luminaires impact on the full year Lighting for last year, as I've explained at the time, was about 230 basis points. So what we see q-on-q is this impact, this increased impact tapering off. So we're very pleased by that. We don't give specific guidance for the adjusted EBITA on the Consumer Luminaires or on the Lumileds parts.

Also, Lumileds got slightly worse, but not to the tune that we've also guided for, which was about 250 basis points last year, the impact on the full-year Lighting margin. And that is because we have seen some inventory correction at the customer.

So we are working hard to bring both these businesses to a much higher level of performance, and it's one of the stepping stones, as we said, on building our path to value in the second half of this year.

On the restructuring charges, we guided for EUR60 million. We did EUR49 million actually, and there was a EUR25 million loss on the sale of assets, so EUR21 million restructuring for that. So we don't believe that we're way off of what we have said on the restructuring.

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**Gael De Bray - Societe Generale - Analyst**

Okay, very clear. Thanks very much.

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**Operator**

Martin Prozesky, Sanford Bernstein.

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**Martin Prozesky - Sanford C. Bernstein - Analyst**

Two specific questions, please. On Healthcare and the guidance you gave on the US, we saw growth of 5% in orders for the US, and you commented on the uncertainty given the challenges to healthcare reform. Can you give us a bit more color on how you look at the market over the coming few quarters? Do you see a high level of uncertainty, or what are you hearing from your key clients there? How do they think the healthcare reform is likely to pan out, or what are the boundaries around the outcomes?

And then on Lighting, in terms of Lumileds external sales, you mentioned again that the external sales were down quite significantly because of inventory corrections. How should we think about external sales from Lumileds over the next year?

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**Frans van Houten - Royal Philips Electronics NV - CEO**

All right, Martin, thanks for that. Near term, the Healthcare outlook in the USA actually looks strong, and we have the momentum, both in terms of competitive products and order intake to show for that. The caution is more what would happen towards the end of the year when we cannot totally oversee at -- the impact of the new excise tax coming in. And in that sense, 2013 is a little bit more uncertain. But near term, we expect the train to plow through.

With regard to Lumileds, yes, we make -- of course, we talk about external sales, which already implies that internal sales also exist, which we don't separately show or convey. But we see strong momentum of our LED business, and Lumileds has a big part to play in that in all three types of businesses, automotive, LEDs into the Lamps, and also into the Luminaires. So a significant portion of the Lumileds output goes to our internal customers.

The external side, we have been working historically with one distribution partner, and some of the customers, the larger ones we deal with directly. You may recall from past commentary that we used to sell also into the display market and not just the general illumination market.

The display market is under a lot of pressure. This is, for example, as backlight in TV. Here is where there's a lot of price competition, and we have lost a customer.



The general illumination market, the lamps market in the external market is not yet so big. Most of the big lamp makers in the world have their strategic relationships, and we expect that only over time will the GI market for Lumileds open up in a broader sense. So that will still take a little while.

In the meantime, Lumileds is working on its operational excellence programs. With the new management team on board we can see many ways to improve margins.

We have some exciting new products coming out in the Luxeon range that have better margins, and that will contribute in the rest of the year to a better margin.

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**Martin Prozesky - Sanford C. Bernstein - Analyst**

Thank you. Just one quick follow-up. On Consumer Lifestyle, it seems like the growth geographies were quite weak in the quarter. I think you commented in one of your presentations that China/India did well, but does this mean that some of the other geographies declined in some of the growth geographies in Consumer Lifestyle, or was it a comp effect with the license numbers going out?

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**Frans van Houten - Royal Philips Electronics NV - CEO**

Yes. Well, actually, all that effect is due to lifestyle entertainment. We flagged that if there was a double-digit decline, and that applies across the world, not just in the mature markets. In several of our growth markets, the audio video component is also present so you see the same effect.

So the strength of the -- what they call the growth businesses, or the core businesses, Oral Care, Personal Care, Domestic Appliances across the world are doing well.

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**Martin Prozesky - Sanford C. Bernstein - Analyst**

Okay. Thank you.

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**Operator**

Olivier Esnou, Exane BNP Paribas.

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**Olivier Esnou - Exane BNP Paribas - Analyst**

First one on the restructuring charge. It seems you're reducing the charge quite a bit over the next three years by about EUR100 million. So in total, you will be spending just about EUR240 million versus EUR340 million. You're keeping the savings intact, so there must be something else much better than you were expecting. Can you please come back to that a little bit?

Second question on the Healthcare business. The capitalization of development cost has increased quite a little bit. Is that part of Accelerate, or is that business going through a new development program, meaning we have a new run rate here? And if you can maybe guide on that.

And last question, on the outlook for US Imaging, when I look at the slide, you actually increased the midterm outlook from low single digit to low to mid single digit. This is despite your cautionary comment about taxation and impact towards year end. So what is fundamentally in your view going better midterm in this US healthcare market?

Thank you.

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**Frans van Houten - Royal Philips Electronics NV - CEO**

Okay. Let me start with the last one and the outlook on the US Imaging. Actually, we are not changing our tone in the way we talk about it. It's the same. Then I'd like to ask Ron to take the other two.



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**Ron Wirahadiraksa - Royal Philips Electronics NV - CFO**

Yes. So we indicated restructuring costs in the previous quarter for 2012 worth EUR200 million. That is now down to EUR125 million. So that is because there are a number of people leaving that do not apply for benefit package, and there are number of other people that we are otherwise, of course, still taking out of overhead. But as we're still growing, a small part of that is reemployed in where it makes sense to drive growth.

So that is giving us actually for this year a slightly higher already impact in the EBITA, so we were pleased by that. And of course, as I earlier just said, we have reconfirmed the EUR400 million, and we said our cost program is on track.

Then on your question on capitalizing of R&D and Healthcare, and we disclosed this so it's actually on page 82 of the IR deck. And here you see it's slightly higher than Q1 of last year.

Bear in mind that we have a number of ongoing developments and new products on the plate, and also this is an amount that usually goes up and down depending on new product introduction schedules. So I would have to come back to you on the full year number that we have seen to give more clarity. Maybe we can come back to you on that a little later.

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**Olivier Esnou - Exane BNP Paribas - Analyst**

Thank you. Just a follow on, please. So if I understand well, the restructuring charge is lower for '12 and actually in your guidance for '13, just because people that you were planning to let go have left by themselves. And is there a specific division which is more involved than the others in that respect?

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**Ron Wirahadiraksa - Royal Philips Electronics NV - CFO**

There is also, of course, an element -- when we do this, we estimate restructuring costs, and we certainly don't want to be off. That doesn't mean that we have really -- major to the number, we do an estimate at best insights. And the actual costs are now lower, and as I said, a number of people don't apply for benefits, and to a smaller extent, people find other employment in the Company.

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**Olivier Esnou - Exane BNP Paribas - Analyst**

Okay. Thank you very much.

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**Operator**

Phil Wilson, Redburn.

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**Phil Wilson - Redburn - Analyst**

If we look at your Healthcare Equipment organic order growth, you reported plus 7%, which is an improvement. Looking into the detail, the biggest change seems to be Europe where the year-on-year rate has improved from minus 14% to minus 1%. So my question is around sustainability of this improvement and the outlook for European Healthcare Equipment order. Is it a one-off, or can you see from the customer tenders that Europe is in recovery despite austerity?

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**Frans van Houten - Royal Philips Electronics NV - CEO**

Well, on that first question, we are generally cautious in our outlook for the reason that this is not exactly predictable, and we know that austerity measures in Europe are still further rolled out and may affect the order intake of the quarters to come. So this is an uncertainty that we will have to deal with. And it is when we talk about many moving parts in our journey to the midterm targets that this is certainly one of them. I cannot give you any further assurance at this time on how Europe will develop.



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**Phil Wilson - Redburn - Analyst**

Okay. Thank you very much.

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**Operator**

William Mackie, Berenberg Bank.

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**William Mackie - Berenberg Bank - Analyst**

A couple on lighting, please. Firstly, a few more months have passed by and the industry has developed further. Could you update us on your views regarding the strategic position of Lumileds within your lighting portfolio?

And then secondly perhaps, within the lighting portfolio again, how far down the path do you see yourself with regard to, as you refer to it, realigning the manufacturing base of the traditional Lamps business? Is that a two to five-year journey? Or are we coming close to the end of that process by the end of this year?

Thank you.

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**Frans van Houten - Royal Philips Electronics NV - CEO**

Yes, all right. First of all the position of Lumileds. I know that everybody is pushing us to make strong statements about it, whereas we repeatedly say that for two reasons, we want to be in the LED business. First of all, there is a lot of innovation going on between the packaged LED and the application side. This applies to Automotive; it applies to Lamps and to Luminaires.

We believe that we are well placed to take benefit from that innovation and generate intellectual property on it, but also, the trade secrets give us an edge, and we don't want that to be passed on to competitors.

The second reason is that we are not totally clear on how the supply market will pan out for the LEDs. Today, there is a fragmented market with many players, but our expectation is that that market will become far more concentrated. And as it becomes concentrated, Philips, as the largest lighting player in the world, cannot become dependent on, for example, a Samsung for its source of LEDs.

So having an internal supply source for those two reasons is important. And of course, we monitor very carefully on whether we are right in these assumptions, and also whether we are the rightful owner. But for now, we believe we are, and we are working hard to improve the operational results of Lumileds.

Then your question on the industrial footprint, we are working hard to take care of that. Four years ago in 2008, Philips lighting had approximately -- let me rephrase that. I'm getting some advice from my colleagues here. If we put an index on the amount of factories and we look at the developments since 2008, so let's put the index on 100 four years ago in 2008, then today we are around at 70. So we have taken about a 30% of the industrial footprint down, and our forecast is that we will take that further down to between 40% and 50% by the year 2015.

Of course, this depends on how fast the market shifts to LED, or in other words, how long the golden tail will be the cash cow that we predicted it will be. So basically, we would be half way down by 2013/14, so still a bit to go.

And this factory adjustment applies, of course, mostly to the Lamps business, but also to a degree to some of the factories in the Luminaires space where we are shifting factories from the western side of Europe, for example, to Eastern Europe.

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**William Mackie - Berenberg Bank - Analyst**

Okay, thank you.



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**Operator**

Andrew Carter, RBC.

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**Andrew Carter - RBC - Analyst**

Most of my questions have been answered, but I wondered if I could just ask one more on the restructuring program. One of the slides in the pack, I think it's slide 35, shows the actual headcount reduction and talks about 4,500 of headcount reduction. I wondered if you could mention, is that 4,500 to be completed by the end of 2012?

And then also, just in terms of the progress that you've actually made, it appears that the number of people leaving the Company was quite a bit lower in the more recent quarter compared to the previous one. And I was just wondering, does that actually mean that the cumulative gross savings that we should expect in the Q2 coming up, is that going to be a relatively small increase in cost savings, or is that not the way to think about it?

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**Frans van Houten - Royal Philips Electronics NV - CEO**

First of all, the 4,500 people is by 2014, so that is about 15% of the workforce that it pertains to. If you look at the 1,190, those are people who really have left, so there are a few who have found reemployment maybe for good reasons, but the vast majority of course of these people have left.

So the restructuring costs we have said are somewhat lower, so we're at the lower run rate in restructuring costs. And that means the EBITA impact for the full year will be somewhat higher. And as I said earlier, the main impact will be in the second half of the year. Does that answer your question?

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**Andrew Carter - RBC - Analyst**

Yes, but if I could just ask just a bit more though. Just in terms of the smaller number of people leaving in this quarter that's just been completed, does that mean that we will get a similar level of increase in the gross savings in this next quarter, or is it not going to be such an improvement?

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**Frans van Houten - Royal Philips Electronics NV - CEO**

Well, this number goes a little bit up and down in the quarters. These are discretionary decisions that we take, aligned with the Workers' Council applications that we do and the decisions that come from that. So I would just that for now, we're encouraged by what we see. We're on track with the cost savings. I think that's the good and heartening news, EUR62 million cumulative savings.

In general, you have heard us talk about the fact that we expect the underlying operating margins of the three sectors to improve in the second half of the year. We say that for a reason. Also, some of the improvements are slated to show up in the bottom line in that timeframe. So perhaps that also helps you a little bit.

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**Andrew Carter - RBC - Analyst**

Thank you very much.

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**Frans van Houten - Royal Philips Electronics NV - CEO**

All right, Ron?

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**Ron Wirahadiraksa - Royal Philips Electronics NV - CFO**

Yes, you were going to wrap up, right?



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**Frans van Houten - Royal Philips Electronics NV - CEO**

Yes.

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**Ron Wirahadiraksa - Royal Philips Electronics NV - CFO**

So just two things. Earlier, I was asked on the IG&S cost, and I said EUR340 million as per earlier guidance. I just want everybody to bear in mind, in that number was EUR70 million for restructuring. That is one.

And the second is that the Capital Markets Day for Healthcare will on May 9 and May 10 in Boston, and of course, we look very much forward to welcoming you there. Frans, over to you.

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**Frans van Houten - Royal Philips Electronics NV - CEO**

And Deborah DiSanzo will be there to welcome you as well.

Well, let me wrap it up. So thank you for joining. Let me reiterate that we see Q1 improvement as a first step on the journey to our midterm targets. The unlocked potential of Philips is much larger. We have a lot of work still to do, but we are confident that we can do that.

Philips is repositioning itself into attractive markets of healthcare, energy efficient lighting, and consumer health and well-being. So we are an industrial goods company and we compete on the basis of innovation and customer intimacy.

And the closing of the TV deal with something we promised and we delivered on; we feel good about that. And we will with the same vigor and conviction work on all the other issues that we still have to address and solve. We know that there are many things to do, but the team really is now complete at the top and we feel that we're getting into a flow to get it all done.

So thank you for being patient with us, and we hope to be able to talk to you soon.

Thanks very much.

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**Operator**

This concludes the Royal Philips Electronics first quarter results 2012 conference call on Monday April 23, 2012. Thank you for participating. You may now disconnect.

COMPANY DISCLAIMERS The question was misunderstood. The effect of the pushed out sales of Healthcare in Q4 on the cash flow for Q1 was negligible.



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