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PRESENTATION

Operator


During the introduction, hosted by Mr. Pierre-Jean Sivignon, CFO, all participants will be in a listen-only mode. After the introduction there’ll 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. Stewart McCrone, Head of Investor Relations. Please go ahead, sir.
Stewart McCrone - Royal Philips Electronics - Head of IR

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

In a minute Philips’ CFO, Pierre-Jean Sivignon, will take you through his introductory remarks on the numbers. After this, we will open up the line to your questions.

As usual, our press release and the accompanying information slide deck were published at 7 am 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 IR website by tomorrow morning, at the latest.

Now, one less positive thing I have to report is that Pierre-Jean himself has developed a problem with his back which will need a couple of weeks’ rest to fully recover. And while he will dial in from home for this call, he will unfortunately not be able to join this week’s road show with myself and our new Head of Investor Relations, Mr. Abhijit Bhattacharya. I’m sure you’ll join me in wishing Pierre-Jean as speedy a recovery as possible.

So with that, let me now hand over to Pierre-Jean to run through the results. Pierre-Jean?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes. Thank you, Stewart. Good morning to you all. Yes, indeed, I have unfortunately developed a back problem and, while I have to confess that I do not always follow medical advice to the letter, I sense that this time I need to do so. And therefore, I will have to moderate my physical activity for the coming week or two.

In terms of next week’s road show I will leave you in the very capable hands of Stewart to update you on the business on a one-to-one basis. And, of course, as Stewart mentioned, you will be introduced to Abhijit who will actually succeed in Stewart’s post this particular road show.

Okay. Now, let me go to the second quarter numbers. I can only start by saying that we are, and it’s now for the fourth quarter in a row, pleased with the performance of the Company. We again delivered good top-line growth and, for the first time in the second quarter, double-digit adjusted EBITA, which, as you will have seen, was spot on 10%.

Importantly, we did this while continuing our tight assets and cash control. And so we managed to further strengthen our balance sheet again this quarter.

Before going through the numbers in more detail, let me say a word or two on some developments we see in our external markets.

In Healthcare we saw the main markets develop pretty much as expected with, if anything, slightly more robust activity than expected in the USA, post-healthcare reform. Whilst it’s clear that the US healthcare market is still digesting how to implement the reform legislation in details, the degree of [higher] demand was visible in our order intake. Outside the US, demand for healthcare remained robust in both the developed and in the emerging economies.

Developments in the Lighting markets were, to a large extent, a carbon copy of what we saw in the first quarter. The lamps market, particularly Professional Lamps, remained solid, driven, in part, by stronger innovation activity.

Auto manufacturing demand also held up well, although here we can expect more moderate market growth in the second half of the year as production comes back in line with sales.
Demand for LED products continues to be strong across the board. The commercial construction market, on the other hand, remains tough. In Europe construction starts are, at best, bottoming out at a low level. In North America construction starts and the forward-looking [Architects Daily] index remains weak. Significant recovery in this market before mid-2011 is unlikely.

In the consumer markets, demand was very much driven by TV sales ahead of the World Cup football championship in both mature and emerging economies. Our indicators suggest that the TV retail channel may be somewhat overstocked going into the third quarter, but not in a really significant manner.

Consumer confidence weakened towards the end of the quarter in certain key economies, notably the US and China. In Europe the picture was more mixed with France, Italy and the UK showing weaker numbers, while Germany was stable and Spain improved slightly.

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

Comparable sales in the second quarter were up 12%, the same level as in Q1, with the impact of the first quarter restocking and additional working days, particularly at Lighting, being compensated by stronger television sales. In absolute value, sales for the first half of the year are now approaching the pre-crisis level of 2008.

Looking geographically, the emerging markets continued to grow strongly, driven, in particular, by Consumer Lifestyle and Lighting. As a result, emerging markets represented over a third of sales in the second quarter; to be precise, 34%. In Europe strong Consumer Lifestyle sales to growth to high single digit, while, conversely, somewhat weaker Consumer Lifestyles sales in the US offset growth in Healthcare and Lighting in that market.

Reported EBITA was EUR527 million, or 8.5%, broadly in line with the first quarter but well ahead of the recession-hit EUR118 million of Q2 last year. Excluding incidental gains and charges, adjusted EBITA reached 10% exactly, a record for a second quarter. Adjusted EBITA profitability on the last 12 months basis improved to 9.9% of sales.

Free cash flow of almost EUR350 million in the second quarter is a testimony of our ongoing strict working capital management, and allowed us to report a slightly higher cash balance of EUR4.5 billion at the end of June, after paying the cash element of our 2009 dividend.

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

Currency comparable equipment order intake grew 10% in the second quarter, with growth quite evenly spread across North America, emerging markets and international markets, including Europe. In the US, growth was driven by Imaging Systems, now including ultrasound, while outside of the US Patient Care and Clinical Informatics saw the highest growth.

Sales at Healthcare were, on a comparable basis, 4% of last year with all businesses delivering higher sales in the quarter. Sales growth was strongest at Patient Care and Clinical Informatics, and at Customer Services. Strong growth continued in emerging markets, particularly in Asia, while both Europe and North America report low single-digit growth numbers.

EBITA at Healthcare for the second quarter was EUR216 million, or 10.4% of sales, on the reported basis. Excluding restructuring and acquisition-related charges, EBITA increased to EUR262 million, or 12.7% of sales, well ahead of the 9.5% profitability of the second quarter of 2009.

Encouragingly, all business delivered higher EBITA on a sequential basis, despite the fact that the first quarter benefited from around [EUR50 million] in additional cost coverage from the increased number of production days in that first quarter.
At Consumer Lifestyle, comparable sales grew by 20% in the period, substantially helped by the 48% growth of TV sales ahead of the world football championships. Excluding TV, comparable sales of the sector were up 6%, supported by solid growth in the Appliances, Personal Care and Health and Wellness businesses.

Geographically, Consumer Lifestyle saw very high sales growth in the emerging markets, notably Brazil and Russia. In mature markets strong sales in Europe were tempered by slightly lower sales in the US.

The EBITA at Consumer Lifestyle improved from a loss of EUR7 million in Q1 last year to a profit of EUR173 million in the second quarter of this year.

Higher profitability was seen across almost all businesses, notably though at TV, which improved from a loss of EUR100 million in Q2 last year to almost break-even in Q2 of this year.

I would like to point out that license income was again ahead of last year by some EUR25 million in that second quarter. As our full year license income expectation didn’t change, that means that license income for both Q3, Q4 are expected to be materially lower than the first half year, as you remember that in Q1 we were EUR70 million above the Q1 of the year before.

At Lighting, comparable sales rebounded strongly from a weak Q2 ’09 to show 13% growth. This is broadly in line with the underlying growth we saw in the first quarter. That is to say that the reported 18% growth adjusted for the extra working days and the impact of some channel restocking which we had experienced in the first quarter. Growth was driven by Lamps, Lumiled, where the revenue tripled again, and Automotive businesses.

Professional Luminaires recorded modest sales growth, which is a progress versus the previous quarters. This is the first positive comparable growth number since the fourth quarter of 2008, albeit on the back of very soft sales in the second quarter of last year. Consumer Luminaires saw a modest sales decline, impacted primarily by low residential housing activity in Europe.

Geographically, strong sales continued in emerging markets, particularly in all four BRIC countries. In mature markets, comparable sales were broadly in line with last year. Modest growth in Western Europe was offset by lower sales in Eastern Europe.

Reported EBITA at Lighting improved substantially from a EUR21 million loss in the second quarter of 2009 to a positive EBITA of EUR210 million, or 11.3% of sales, in the second quarter of this year.

Adjusted for restructuring and acquisition-related charges, Lighting reported an EBITA of EUR247 million, or an impressive 13.3% of sales. At the business level, EBITA was driven by double-digit profitability at Lamps, Lumileds and Lighting Electronics.

Second quarter EBITA GM&S was in line with our expectations, albeit EUR65 million lower than Q2 ’09, the quarter which showed a positive impact of EUR90 million in legal settlements and insurance recoveries. Consistent with earlier guidance, we still expect a full-year EBITA GM&S of around EUR300 million negative. Our reported net income increased to EUR262 million, up from EUR45 million in the second quarter of 2009, largely as a result of higher EBITA. Adjusted for incidental gains and charges, including the gain last year on the sale of shares in our Pace stake, net income improved by just over EUR300 million year-on-year.

Let me now take a look at cash and the balance sheet and there, I’m glad to report that, notwithstanding the further increase in the absolute value of sales in the second quarter, working capital and cash flow remain well under control.

As a percentage of sales, working capital fell from 7.1% of sales in the first quarter of 2010 to 6.9% in the second quarter, in spite of the further adverse effect of currency on this particular metric.

The increase in inventory as a percentage of sales was also largely attributable to the impact of currency, particularly the weak euro. Expressed in days of sales, inventory levels are slightly lower than what they were, using that same method of calculation as the second quarter of ’09.
Cash from operations of EUR562 million resulted in a free cash flow of EUR348 million in the quarter, almost EUR100 million ahead of the second quarter of 2009.

Ladies and gentlemen, let me conclude by saying that this was indeed another strong financial quarter for the Company, allowing us to be confident, assuming the current economic climate will continue, that we can deliver a full year adjusted EBITA profitability in excess of 10%.

Looking ahead, it's worth reiterating that the first half of the year benefited from a couple of supporting factors that should not repeat in the third and fourth quarter. And there, I mean particularly the additional working days in Q1, and the positive timing of license income for Lifestyle, as well as the seasonality of TV sales in Lifestyle as well.

I expect sales in absolute value to show solid growth in the second half, even if the reported comparable growth numbers were moderate on the back of improving 2009 comparables. Consistent with our usual seasonality, both sales and profitability will be skewed towards the fourth quarter.

And, as a final comment, I will take the opportunity, just before the summer break, to remind all of you that we will update the market on the medium-term prospects for our businesses in the context of our vision 2015 plan at our capital market day in London on Tuesday, September 14. And you'll remember that that capital market day will be the one dedicated to our Lighting business and again, it is taking place in London.

So with that, I will now open the line to your questions.

**Questions and Answers**

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.

Our first question comes from Simon Smith from Credit Suisse. Please go ahead with your question.

Simon Smith - Credit Suisse - Analyst

Hi, thank you. My first question was really with regard to inventories. I think you mentioned in the Consumer Lifestyle business that you'd seen some stock in some channels. I just wondered if you could give some clarity as to what you're seeing in terms of stocking levels within that division?

And my other question was really we've obviously seen a lot of very short-term changes in terms of outlook and volatility in terms of indicators and financial markets, and I just wondered if you could give us any insights as to any changes you saw towards the end of the quarter in some of your very short lead time businesses? Thank you.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Okay. Good morning, Simon. Okay, in terms of inventory, I think your question is both on the Philips side of things and in the channels, right, which are two separate obviously inventory commentary?.
From our own perspective, yes, of course, we have 2% up as expressed as a percentage of revenue; that’s on the Philips side. What I did mention though, that if you express our inventory in terms of number of days of sales, which is the other way we look at it, we normally don’t communicate around that other metric, not to confuse the market, but there our inventory days actually came down.

So I would not -- and the other thing I said in the introduction is that the currency played a role which explained more than 50% of the 2% extra points of inventory expressed as a percentage of sales, because of course, our numerator in that fraction got more impacted by the weaker euro than the denominator. So that is to say that the increase of inventory at Philips level is certainly inflated, and that is something though we will obviously correct in the coming quarters and keep an eye on.

Now your other question, Simon, was related to what happened in the channels. As you know, we have now put some sensors in our channels. That’s true at Lighting; that is true, of course, as well at Lifestyle. And the comment there is at Lighting, we have seen some restocking in Q1, which, of course, helped a little bit you remember our Q1 comps for revenue.

I think that in Q2 there was a little bit of restocking, but not very much of it. So that’s what makes, of course, the Q2 number and the Q1 number more comparable when you look at what happened restocking in the Lighting channels.

And as far as Lifestyle is concerned, there was a little bit of -- expressed in weeks of sales, there was a little bit of increase on the TV inventory from what we can see in the channels. But nothing, I would say significant, but still a little bit of it at the end of that second quarter. So that’s as much detail as I can give to you on the inventory.

Your next question was what is the very last trend, if I understand correctly, we’ve seen in our short-term businesses, what are the very latest trends we’ve seen at the latter part of Q2. I think that, if you study the seasonality within the quarter, within the second quarter, we saw actually Healthcare and we saw Lifestyle gaining a little bit of traction during the quarter, and we saw Lighting, if anything, leveling off a bit. I think that’s as much a mega trend as I can give you within the particular second quarter in terms of the latest, latest information there. I hope I have answered your questions, Simon.

Simon Smith - Credit Suisse - Analyst

That’s great. Thank you very much.

Operator

Thank you. Our next question comes from Andreas Willi from JPMorgan. Please go ahead with your question.

Andreas Willi - JPMorgan - Analyst

Good morning, Andreas from JPMorgan here. My question is regarding Healthcare where you’ve had now a couple of quarters of good order growth, but the sales are still relatively weak, also given the easier comparisons. Maybe you could give us some more indication about timing of when the better backlog is coming through in sales and also particularly, North America on the sales are still quite weak.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well Andreas, thank you for that question. I think it’s a very important question and if you hadn’t asked it, I think I would have made that comment at the first question coming on Healthcare.
You are totally correct. I think you'll remember Q1, we had a 20% incoming orders. We disclosed to you that was a bit of a one-off worry there, but still, very strong order in Q1 with already good incoming order versus the past, certainly in North America. If you look at Q2, 10%, actually that 10% was more like 11% in North America, so confirmation that something is bouncing back in the US.

What has happened on that is that, as you know, last year, we had some good growth in relative terms in Healthcare and, of course, that used up a bit of our backlog. And we are reconstituting right now our backlog, but, of course, the shorter end of our backlog is the one which got a little bit depleted at the end of last year. So we are recreating a backlog and, as soon as we have reconstituted the shorter end of the backlog, with time going by, obviously you can imagine that the growth will recover.

There is, of course, a bit of a disconnect between the mid single-digit growth of Healthcare we've seen in the first half, I think it was 6% in Q1. We had a bit more than 4% in Q2 with incoming orders of 20% and 10% in Q1 and Q2. That obviously doesn't quick click, but it's coming from the fact that the backlog is refilling and things will get normalized again when the backlog has re-stabilized in terms of ageing, if you understand what I mean, of that particular backlog in terms of the future delivery dates. So yes, indeed, you will start seeing a bit of a recovery of the sales on the back of that improved backlog in the coming quarters.

Andreas Willi - JPMorgan - Analyst

And, thank you, my follow-up question also on Healthcare and maybe also on Consumer, we have heard some US healthcare companies talking about some push-out of hospital CapEx in Europe late into the quarter, wondering whether you have seen anything?

And maybe similar on Consumer. Electrolux this morning said they have seen a sharp falloff in demand in Southern Europe towards the end of the quarter. Maybe you could comment on what you have seen in your Consumer business towards the end?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Okay, Andreas, you said Consumer Electronics, did I understand that right?

Andreas Willi - JPMorgan - Analyst

Just in general in terms of Healthcare in Europe, in terms of CapEx push-outs and in Consumer in general into the quarter-end in Southern Europe.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Understood. Okay, clear. Well actually, I am not aware of push-outs in Europe. I will have to double-check now that you -- but I was not made aware of push-outs in Europe in the second quarter, as far as revenue is concerned. Orders in Europe were pretty consistent. As I said in the introduction, the orders were pretty consistent across the world including Europe, and in deliveries, I just answered that. That's as much I can tell you for Europe.

Now the part of Europe which got a little bit weak was Eastern Europe I think as far as Healthcare is concerned. But that is something that is a trend that we have seen in previous quarters; there was nothing really new there.

As far as Consumer is concerned in Europe, no, we haven't seen what you describe. I did mention though in the introduction, you probably heard me being a little bit specific country-by-country in terms of consumer sentiment. There we've seen France, Italy and the UK showing weaker numbers, so those countries you could say were a bit weaker.
Germany was stable, and the good news was that Spain started to improve a little bit, so that's a very mixed bag in Europe. And, as I said, you almost have to look at it country-by-country, but I can't relate to a spectacular or a very visible, all of a sudden weakening at the end of Q2, which is I think what you are alluding to. That, I cannot relate to that specifically, Andreas.

Andreas Willi - JPMorgan - Analyst

Thank you.

Operator

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

Martin Wilkie - Deutsche Bank - Analyst

Yes, good morning. It’s Martin Wilkie from Deutsche Bank. Just a couple of questions on Lighting. Firstly, you mention you've had a good mix in the quarter, but one area where we have seen some comments from other companies is on continued price weakness in fixtures. Now you mentioned obviously that you're not expecting the non-res market to pick up until later in 2011, but if you could just comment, are you also seeing that weakness in pricing within the Lighting Fixtures business and has there been any improvement in that trend?

And then secondly, still on Lighting, to go back to your comment earlier, you saw Lighting leveling off a little bit in the quarter. We've still had very strong commentary from some other players in LED lighting and I was just wondering if you could just clarify that leveling off. Has it been in a particular part of your Lighting business and perhaps you could just give us a little bit more color on that? Thanks.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Okay, that's on the LED part of Lighting?

Martin Wilkie - Deutsche Bank - Analyst

Yes, please, yes.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Right, okay. Well has there been pricing pressure on fixtures? Well I think there had been a little bit of pricing pressure in the past, nothing dramatic but some, which seems, in the vast majority of the cases -- we are, as you know, the leader in most actually prof lum markets in the world. As the leader we've resisted and, if anything, our margin in Prof Lum has actually improved. It's a margin that we do not disclose, but what I will disclose to you is that the margin of Professional Luminaires, and by the way including in North America, has actually improved during the quarter.

So yes, there has been a little bit of pricing pressure. Yes, as the leader of the game, we have resisted it and yes, we have seen some improvements of our adjusted EBITA margin in Q2 2010 versus Q2 '09. I think that's the best answer I can give you on the Prof Lum.

As far as LED is concerned, two things there. First, we did mention in the introduction, and I think that's in the release as well, that Lumileds continues to do extremely well; their revenue tripled again, as it did in Q1. The LED sales basically represented a
bit more than 12% of our sales in Q2, so that's a percentage which is consistent with the one of Q1. So you could say that the
growth in Q2 was in line with the growth that we had in the first quarter, as far as the LED-related business is concerned.

The one thing I will add is that this is a business which is a touch impacted by a shortage of components. So we had a little bit
of shortage of components impacting Consumer Electronics, but we had as well a little bit of shortage of components impacting
the LED-related business in Lighting. But still, I would say, still a very comfortable growth there as illustrated by, in particular,
the Lumiled numbers.

Martin Wilkie - Deutsche Bank - Analyst

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 - SG Securities - Analyst

Yes, good morning. Thank you for taking my questions. The first one relates to the Healthcare business where, in my view, the
organic growth performance in emerging markets was again a bit disappointing for the second quarter in a row with just 8%
growth in Q2.

This shows some deceleration on the 2009 performance and, apparently, you are underperforming some of your peers in this
area, where they are growing in double-digit terms. So is there any specific reason for this? Are there any, I don't know, recent
acquisitions not performing as well as expected, any market share loss in any given country for Healthcare in emerging markets?

The second question actually relates to the Consumer Lifestyle division. Excluding TVs, sales growth on an organic basis was
6% in Q2, leveling off compared to the plus 10% reported in Q1, and I don't think that the comparison basis was materially
different this quarter. So how do you explain the sequential deterioration in the growth rate, and maybe which businesses are
slowing down maybe in the quarter?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Okay. First of all on Healthcare, no, there is no deceleration in the emerging market. I think what you have to realize is that our
business is still a very young business where the service mix is low in the mix versus our peers. And we still don't have in terms
of the resilience of that business, the resilience of a mature emerging market business.

That is to say that if you look, probably in one, two years from now when the service business has started being a more substantial
part of the revenue mix, you will see probably then a more stable revenue growth, given that, as you know, service is the most
stable part of the Healthcare business.

So no, no slowdown, actually we had some orders in Q2 which we couldn't book which you'll see in Q3. The Service revenue is
still to come in many cases, and I think that I would not guide you on the slowdown of our emerging markets Healthcare business.
I think it's, as I said, just a sign of a business which is still immature with a bigger part of the mix being equipment sales and the
lower part versus competition related to service.
Do we have any acquisition underperforming there? No, absolutely not. Actually, if anything, I would say that all our acquisitions in Healthcare, whether they are in Brazil or in Asia, which is essentially China and India, are actually overperforming our expectations. So no, no rationale coming there from underperformance of acquisition in those parts of the world.

Your second question relates to Lifestyle. 6%, yes, if you exclude TV, we have said that. If you take the ex-DAP business, so the 6% is a bit more than that, it's more between I think 7% and 8%. Have some business decelerated between Q1 and Q2? Nothing, I would say, of significance.

One thing you should keep in your mind is, in the particular domain of Personal Care, which as you know includes a fair bit of business coming from Shaving, you should be aware, and I think this is included in the press release, that we will be introducing pretty new breakthrough products which enables you to do electric shaving wet and dry.

So that's a bit of a unique product where it's an electric shaver, but you can be a wet shaver or a dry shaver using that piece of equipment. So this was pre-announced and, of course, that always has an impact on the sales on the quarter pre-introduction and this product will be obviously in the shops, in the retail channels in Q3. So that might have an impact, now that you ask for it, for Personal Care in Q2. But frankly, Appliances, Health & Wellness absolutely continue to deliver in the second quarter, so no deceleration there.

**Gael De-Bray** - SG Securities - Analyst

Can I have a follow-up on that please, maybe related to TVs and the rest of Consumer Lifestyle?

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

Sure of course, yes.

**Gael De-Bray** - SG Securities - Analyst

Could you maybe elaborate a bit further on the component supply constraints you had in TVs in Q2? And are there any other businesses where you could potentially suffer from the same issues?

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

Well yes, we had to do what we call allocation, so there are countries where we've been, obviously, selling products and to the detriment of others. So we've done some allocation. And the shortage was on panels and on the components, electronic components. That has impacted TV, and that's why versus -- I think some of the analysts were higher on the Lifestyle. And if I try to study that in detail, then I could see that in most cases, for those analysts who ahead on the Lifestyle side it was coming from TV, and we definitely had a bit of a shortage on TV.

But as you know, we don't manage TV for volume; we manage TV for profitability. And I think, for us to be short on TV components, is certainly less of an issue than in other territories.

In Lighting, it has impacted us a bit, and that's something we keep an eye on. That relates to the LED-related component business, so that is something we keep an eye on for the LED Lamp business. It has impacted us a little bit in Q2, and something that we'll keep an eye on.
And as far as the Healthcare business is concerned, we have not suffered from it, but meaning shortage of components impacting potentially some of our equipment deliveries. But there as well it’s something on which we keep a close eye. But I would say Healthcare, we’ve been capable of maneuvering around shortage of components there.

**Gael De-Bray** | SG Securities - Analyst
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Okay, thanks very much.

**Pierre-Jean Sivignon** | Royal Philips Electronics - CFO
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And sorry, just because you need a looking forward comment, and plan to continue to do so, sorry, I should add that as well, as far as Healthcare is concerned, which is important, of course, for you and for us.

**Operator**
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Thank you. Our next question comes from Ben Uglow from Morgan Stanley. Please go ahead with your question.

**Ben Uglow** | Morgan Stanley - Analyst
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Hello, morning. I have two questions. One, which is going back on Healthcare; I didn’t completely understand the answer to a previous question in terms of growth rates on the top line. You indicated, I think, that there should be some kind of normalization of backlog and that you were rebuilding the backlog. Are we expecting to see revenue growth pick up in the second half of 2010, i.e., should we see a couple of quarters where the growth rates trend above the Group average? Or is this something that we're now going to have to wait for until 2011? So that was my first question; why don’t we take that?

**Pierre-Jean Sivignon** | Royal Philips Electronics - CFO
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Okay. Yes, I think what I tried to say, if you look back, and you have a slide in the pack which we introduced; let me go to the pack while I talk to you. If you go to the pack, on page 42 you will see that you have a pretty detailed quarter-by-quarter, area-by-area incoming order analysis, right? And you could see that during the whole of '09 we were in negative order territory. And while this was happening, if you were to overlay on top of that graph what we did in terms of revenue, you will see that the revenue comps were consistently, almost for every quarter of '09, north of the incoming order comp. So you can see that we used quite a bit of our backlog in the course of '09.

That trend, of course, has now reversed. It started reversing in the fourth quarter of '09, and you've seen full evidence of that in Q1 and Q2 of this year. So we are now replenishing the backlog and, as you've said, indeed this is a carrier of future growth for the coming quarters.

Now, will we see some acceleration of the growth as early as the second half of this year? I think that you will see some. But I would say that you will see mostly that in the early part of next year, because to refill the backlog that we emptied for one year, mathematically, as I’m sure you’ll fully appreciate, you need another year. So you will see some, but I would say you would see more of it in the first half of next year. But you will start seeing some of it in the second half of this year.
Ben Uglow - Morgan Stanley - Analyst

Okay. So in terms of modeling, I guess what you're pointing us toward, or indicating, is mid to high potential single-digit growth in the second half of this year, which is actually essentially what we've seen in the first half, but then the real acceleration comes in 2011. Is that fair?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well, I think I wouldn't say mid to high, I would say, yes, mid-plus growth in second half, yes. And you will see the continuation in the extension of that in the first half of next year, because then you will have had one full year of replenishment of the backlog.

And, of course, that is particularly true for North America. North America, we basically were counting on -- and we are still a bit careful because we only have two quarters there, we've seen Q1 and Q2 coming up with good order growth in Q1 and Q2 on the back, of course, of very easy comps, and let's not get carried away. We'll have to see what Q3/Q4 brings.

But Q1 and Q2 of orders in North America certainly have helped us to support the growth of the equipment sales in North America in the first half of next year because that's, essentially, the kind of backlog we've booked in Q1/Q2 this year.

Ben Uglow - Morgan Stanley - Analyst

Okay, that's very clear, thank you. Second question was just on TVs. Could you just remind me, what the guidance is for the full year profitability, or let's say roughly where you are, at break-even, or what you're thinking now?

I was surprised that you had such dynamic sales growth in the second quarter, well over 40%. And I know you've had a big, big improvement in profitability, but the division is still in loss. Was it unrealistic to expect break-even or better in the second quarter, i.e., were you pleased with that result or not?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes, okay, let's take your question in sequence. The objective and the guidance remains break-even for the year. I think that is the objective.

Now, the question related to Q2, you obviously were counting on maybe better number. But we were, ourselves, counting on better volume in Q2, which we couldn't have for the reasons I mentioned, shortage of components, essentially.

Now, one element which did impact a little bit the profitability of Q2 is exchange rates, where there the -- even though Philips as a whole is balanced in terms of currency exposure, I'm talking about transactional exposure there, it's balanced all in all. And that's a question we often answer on this phone. The TV business is a business which is actually a bit short on the dollar, which means that when the dollar increases versus the euro it puts under pressure a little bit our TV business.

So you could say that there was a little bit of pressure on the margin in Q2 coming from currency, and we are addressing that by our price increases and a few other things. But there was a little bit of pricing pressure. That being said, it doesn't change our guidance for the year of break-even for TV as a whole.

Operator

Thank you. Our next question comes from Olivier Esnou from Exane BNP Paribas. Please go ahead with your question.
Olivier Esnou - Exane BNP Paribas - Analyst
Hello, good morning. My question is on the gross margin. It's still a pretty good level in Q2, but sequentially it's slightly down. I would like you to give us maybe a bit of granularity on the drivers. What would come, in your view, from mix versus maybe the spread between price and raw material and component? Some analysis there of the quarter-over-quarter performance. Thank you.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO
Yes, I would say that the key reason is probably TV. We have a richer mix in television between the first and the second quarter of 2010, so I would say the good chunk of the delta would be coming from there. I think that's probably your best answer.

All in all, our gross margins are continuing to improve. I can't see any other -- well, we'll look at that and if there is anything else we'll tell you during the call. But I would say, for me, the big answer would probably be TV.

Olivier Esnou - Exane BNP Paribas - Analyst
Okay. Maybe just as a follow-up, on pricing more generally, you commented earlier that Lighting Professional there had been some pressure that you resisted and it's getting a bit better. If you look across the other division, how would you characterize your pricing trend?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO
Yes, I think the one I always look at in great details is, obviously, Healthcare. As far as Healthcare is concerned, the pricing pressure of Q2 was in line with what we have seen in previous quarters, so I would say basically that's probably in line. I didn't see a deterioration.

I think we've talked about Prof Lum. There, as I've said, we've resisted, and it's illustrated by indeed the improvement of our EBITA margin for that particular product category.

No, I can't really comment on anything else related to pricing that I am aware of. I think on TV, if anything, we saw a little bit of stabilization of the pricing, of course, caused by the fact that there was a bit of a shortage of products. The margin though, as I said, as I gave as an answer to the previous question, there was more a bit of margin pressure coming from foreign exchange. But the pricing, if anything, was more robust than what could have been expected. I think that's as much as I can tell you on pricing on the quarter.

Olivier Esnou - Exane BNP Paribas - Analyst
Thank you.

Operator
Thank you. Our next question comes from Jan Hein de Vroe from ING. Please go ahead with your question.
Jan Hein de Vroe - ING - Analyst

Yes, a very good morning to all. Two questions from my side. Perhaps, first of all, on the Luminaires, could you contrast the Professional versus the Consumer? I've been thinking that Professional being a bit more late cycle would still be in less of a good shape than the Consumer Luminaires; perhaps this has to do with geography, being mainly exposed to Europe in Consumer.

And second on the TV business, 5% margin, I know it's not a target for this year but at 2010, with the World Cup and all included, would seem to be a year in which break-even, at least from my side, seems to be a little bit disappointing. What sort of levels of sales would you need to get to the 5%? And/or how much additional restructuring would you need to ever get there? Thank you.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

All right, okay, Consumer Luminaires; well, Prof Lum, as I just mentioned, is a sum of the parts. What we've seen in Prof Lum in this particular quarter, we've seen a still modest negative growth in North America, modest negative growth in Europe, and we are seeing an explosion of growth, very much supported by the LED revolution, in emerging markets.

So for the first time in a number of quarters, as I said in my introduction, we have seen positive growth for Prof Lum all in all. But, again, a very much a sum of the parts kind of situations where the emerging markets are now more than offsetting the dullness of the situation in mature markets.

So emerging markets, the LED revolution. As well as, I should add, the Renovation business, which is starting increasingly to appear as a trend. And that's a trend we need, because it will, hopefully, more and more offset the weakness of new construction. So that is the story on Prof Lum. Sum of the parts with our three drivers, which are geography, LED technology, and the renovation market starting to emerge.

On Consumer Luminaires, our business today is still largely a European business. The good news is that we are gaining quite a bit of ground in emerging markets. We have opened shops in Brazil, in China, in India; these businesses are doing well. But the heart of the business is still in Europe and, in particular, centered around the do-it-yourself kind of sub-segments. And there, LED has not arrived yet, of course. And there, of course, the business still has a mature market dominance linked to Europe where, clearly, the economy and the do-it-yourself business are suffering.

So I don't want to compare the two, because there are two totally separate stories and I gave you all the various elements to read the two various sub-segments. Hopefully, I have given you as much clarity as I could on those two Luminaire businesses.

And keep in mind that, at some point, LED will arrive in Consumer Luminaires, but that hasn't really started yet. But we have a very, very first generation of LED Cons Lum appearing, and that's obviously quite encouraging. So you could say that Prof Lum is ahead of the curve versus Cons Lum, as far as the LED revolution is concerned.

The TV business now is your second question, yes, as you know, I've always, and we have always, resisted linking the volume to the profitability in our TV business. It's a game of more value chain, fixed cost structure in terms of how much of those fixed costs we still have in-house and, of course, revenue mix. That is the game we've played.

So do we need a certain volume to increase to get to the 5%? No. Do we need to continue to reduce our cost base? Yes. And we still have a few initiatives which are not reflected yet.

We've taken some restructuring in TV in previous quarters, and the impact of that restructuring is still not reflected in our cost structure. We still have a little bit of restructuring to come in TV. We talk about a couple of tens of millions; we're not talking massive numbers. But there is still further reduction of cost to come in TV.
And with the kind of volume we are currently enjoying, combined with further reduction and streamlining of our value chain and reduction of our fixed costs, that we think we can get to the objective that we've given to you. But you should not link it to the increase of volume, and not deduct from the fact that we almost break-even on a high revenue quarter. As you know, it's more a cost base value chain, revenue mix between geographies, which drives the profitability of our TV business more than the sheer volume of it. I think that's the best answer I can give you on TV.

Jan Hein de Vroe - ING - Analyst

Okay, thank you very much.

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. I've got two questions, please. The first is, getting back to gross margin, I just want to clarify that the climate we saw in gross margin, all of that was due to TVs. Was there any issues with input costs, the fact that you had component supply issues, pricing pressure there? Or was it all purely a mix effect in gross margin?

And the second is on Lighting. I think despite top line volume -- or value growth, we saw Lighting's underlying margin declining Q2 on Q1; why is that? Is that due to the top line being affected by currency, or the restocking effects in Q1? Could you just clarify what's happening with the underlying margin at Lighting?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes. I think gross margin, again, yes, I think largely mix. I can't see any -- again, we're comparing Q1 to Q2. One thing you should not forget, when you compare Q1 to Q2, we've outlined to you that we had extra coverage of fixed costs in the first quarter coming from the extra number of working days. And if you go back to our communication in Q1, you will see that we had extra absorption of fixed costs, both at Lighting and at Healthcare.

So of course, Q1 was a little bit embellished by that, which you'll get an offset in Q4 because you will have, of course, technically less work days in Q4 2010 versus Q4 2009. But now what you're asking me is to compare Q1 to Q2. But when you compare Q1 to Q2 keep in mind that Q1 had more working days versus the Q1 of the year before, and de facto had more work days versus the Q2 of this year, which was a normal Q2 versus the year before.

So I would say maybe the extra element I can bring, beside the mix, is the extra absorption of fixed costs via the extra production days.

Your other questions were related specifically to the margin of Lighting. In Lighting, two things. You keep in mind that in Lighting I think we grew 18% in Q1, we're growing 13% in Q2. And there, when you compare the margin at Lighting, first obviously keep in mind, as I just said, that Lighting at over-absorption or extra absorption in Q1 of fixed cost, again disclosed in the release. And second of all, as you said yourself, Q2 benefited from extra growth, which came from a) restarting in the channels, which I think we clearly mentioned to you and, as well, an extra number of sales work days.
Martin Prozesky - Sanford C Bernstein - Analyst

And maybe just one follow-up on the gross margin, so the normalized level for gross margin that we should expect for the remainder of the year then is above where Q2 was because of the TV effect, but below Q1 because of the fixed cost absorption in Q1 due to the extra days. Is that reasonable?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well as you know I hate to go -- I could answer this, but I will not because then I would introduce something we've not done before, which is guidance at gross margin level.

Martin Prozesky - Sanford C Bernstein - Analyst

Fair enough.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

And I think that's something we haven't done. I think, at EBITA level, we've given you some now pretty precise guidance. We're telling you that yes, I think we should be at 10% plus and we've been at 9.9% trading last four quarters on EBITA adjusted. And we're saying now we are now guiding you at 10% plus for the year.

I prefer to stick to that, because if I answer this more I will be de facto guiding you on gross margin. But I have given you quite a bit of details already answering those last two questions on gross margin. I think you have quite a bit of details on what explain between the mix on TV and the subtleties on the Lighting. I think you have quite a bit of the elements between Q1 and Q2.

Martin Prozesky - Sanford C Bernstein - Analyst

Thank you.

Operator

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

Andrew Carter - Macquarie Securities Group - Analyst

Yes, good morning. Two questions please. The first was just going back to the question about growth rates looking at Q2 versus Q1. If I look at the developed markets, it appears to me very crudely that in Q1 sales growth was approaching 10% in the developed market, but in the second quarter it was perhaps below 5%. Do you agree with those figures, and could you help me to understand exactly what's been going on there to drive that?

And then the second one was just a very quick one really on profitability. You mentioned the currency impact in the second quarter at Television, I was wondering if there were any positive impacts anywhere else in the second quarter that we should be aware of? Thank you.
Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Okay, I think Q2 I cannot -- if I compare Q1 to Q2 in mature markets, because I think that's your question. I think the biggest difference I would see between Q1 and Q2 in Lighting, I think the essence of the difference would be in Lighting, where in Q1 we had extra work days, which impacted certainly Lighting in Europe. And the other thing which I think played a role was indeed the re-stocking, which took place in Q1, and we saw certainly less of that in the second quarter, as far as mature markets is concerned.

By the way, the 5% Q2 mature market growth, 5% that's a correct number; I confirm that number. So what you see in Q2 is yes, more modest growth in mature markets, the reason being what I just mentioned to you. And you see, of course, acceleration of growth in emerging markets, which won't come to you as a surprise.

Now your second question relates to currency. All in all we see a little bit of help in Healthcare and, again, I always make, as you know, a clear distinction between transaction and translation. Translation impacting the absolute euros, transaction having more of an impact on the percentages of margins. I guess we understand each other well there. So on the transaction side we see indeed a little bit of punishment in the TV business, and we've discussed that in the previous questions.

We see a little bit of help on the Healthcare side given, of course, that we have more of US or I would say dollar-based cost base, so that helps us from that particular -- sorry revenue base. I'm sorry I'm confused myself. We have more of a dollar-based revenue base in Healthcare, which helps us from the transaction side in Healthcare. And Healthcare, as well, is helped on the translation side because, of course, the dollar earnings are converted back into euros at a better rate.

Andrew Carter - Macquarie Securities Group - Analyst

Thank you.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

So you could say a little bit help on Healthcare, a little bit of headwind on Lifestyle; I think that is probably the best answer to give to you.

Operator

Thank you. Our next question comes from Ilan Chaitowitz from Redburn Partners. Please go ahead with your question.

Ilan Chaitowitz - Redburn Partners - Analyst

Good morning, this is Ilan Chaitowitz from Redburn Partners in London. Thank you for taking the question. Just a couple actually; firstly with regard to China, there's been rising commentary with regard to Chinese protectionism, and I was wondering if you could just make a comment on that as it pertains to your specific business mix. And within that last quarter you did disclose your Chinese Healthcare sales growth, I was wondering if you could give us an update on that?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes, by the way as a complement to the previous questions, you were mentioning 10% and 5%; I think we've checked the numbers in the meantime, the 5% was correct, I just mentioned it, and the Q1 number is more like 8%. So to be absolutely specific we grew 8% mature Q1, and we grew 5% mature Q2. And I tried to explain you the essence of the delta between that [8% and then 5%].
Sorry, now back to your question on China. I think that the China growth for the -- I can disclose to you because normally that's a number we always disclose, so I will do it as we've done it. The growth of Philips in China in the second quarter was 22%, and it was quite strong. It was very strong in Healthcare, it was ahead of that in Healthcare, it was well ahead of that in Lighting, and it was lower than that in Lifestyle, and largely because of Television there where, however, we had some shortages.

So China up 22%, so a very strong quarter. Now your question do we see -- yes, there have been comments on China, do we share also those comments? We never refer to comments made by others but, as far as we are concerned, no, we haven't seen any slowdown of our business in China, and we continue to grow our business in China and plan to continue to do so.

Ilan Chaitowitz - Redburn Partners - Analyst

Thank you. If I can just have one follow-up, just in Q2 we saw a marked pickup in CapEx as a percentage of sales associated with some of your incremental spending programs, investment programs. Is that the run rate we should expect for the remainder of the year, or will CapEx trend back down again?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

No I think it's a good remark: CapEx has trended up I think, and I will guide you for the year. Historically I've guided you on CapEx at the level of depreciation. I think we see an explosion of growth at Lumileds and we have to spend CapEx accordingly. So I'm going to guide you on a net CapEx probably slightly north, and that's the way we see quite now, slightly north of EUR800 million. So that should be north of our depreciation. It’s a bit of a one-off, and it’s almost, if not totally, due to the explosion of growth that we are currently experiencing at Lumileds.

Ilan Chaitowitz - Redburn Partners - Analyst

Thank you.

Operator

Thank you. Our next question comes from Philip Scholte from Rabo Bank. Please go ahead with your question.

Philip Scholte - Rabo Bank - Analyst

Yes, it’s Philip Scholte, Rabo Bank. A question on your cash priorities and the balance sheet; could you update us a bit on your view on potential share buybacks, or whether priority is still looking at acquisitions?

And partly related to that, can you say something about your plans with your 20% shareholding in NXP, which obviously is rumored to IPO somewhere shortly?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes, I think our cash priorities have not changed. I think if our priorities, of course, at this particular point of time to eliminate the negative watch we are under with Moody’s, because we have said multiple times in the past that a rating starting with an A [means] extreme uncertainty. And I would say this period of difficult accessibility to liquidity rating starting with an A, we don’t need to go very high in the A, but certainly starting with an A is important to us and we are there, but with a negative watch. So our priority there is to work hard at eliminating it. Beside that, no change and certainly no buyback this year and no announcement on any other buybacks, certainly at this point of time.
We continue to look at [M&A], but we've [normally been of] M&A small, which we've announced; you saw that we bought the control company in the domain of municipalities in Europe, and you will continue to see that. We look at M&A, but it has to make sense and it has to be, obviously, value creative. So we will be looking at M&A, but only if that makes sense, and if it doesn't make sense we won't do it. So that hasn't changed either.

And your last question was on NXP, well, I will not comment on NXP. They have filed documentation for an IPO; that I think is public information but I will not say more. I think I will leave NXP to communicate on their own, and I will certainly not make any additional communication on to this. I will send you too a communication, which they have done, when we'll continue to do.

Philip Scholte - Rabo Bank - Analyst
Right, and maybe a very short follow-up on potential acquisitions. You are obviously busy with small add ons, would you shy away from any big deals, because every now and then we see some rumors picking up on big moves in the Healthcare arena? Would you exclude that, or are you looking at that?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO
No, we've always looked at projects, big things; I think we've never really done big things. We've done larger things, could we do larger things? I can't exclude it. Are we looking at things of small to medium to larger one? Yes, but again I can only say we would only do that if that makes sense, if we can create value. Has there been rumors? There has been rumors constantly, as you know, and we never comment on rumors, so I would not listen to rumors.

Philip Scholte - Rabo Bank - Analyst
Right, thank you very much.

Operator
Thank you. Our next question comes from Peter Olofsen from Kepler Capital Markets. Please go ahead with your question.

Peter Olofsen - Kepler Capital Markets - Analyst
Yes, good morning. A question on license income within the Consumer Lifestyle business. Based on what you said back in April, I think we have been expecting license income to be down year-on-year in Q2, however it seems that license income was actually up, but it will be down in Q3. Could you maybe shed some light on what the year-on-year increase was in Q2, and what kind of decline we should expect for Q3?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO
Yes, it's a totally fair question. We have actually said, and I stick to this, but forecasting license income is, unfortunately for us, a bit more an alternate science, and you could see it in Q2. The guidance for the year doesn't change; we think, as much as we can see it now, we think that the license income for the year 2010 will be at the level in absolute terms of 2009, more or less.

Now what has happened is that, in Q1, we were indeed north of Q1 the year before. If you go back to your notes you will see that in actually Q1 we were basically EUR75 million north of Q1 the year before. And as far as -- to be precise it was EUR70 million
north of the year before; that’s what we disclosed to you at the end of Q1. And, as far as Q2 is concerned, I said it in the call. It was contrary to the guidance we had given to you, but that shows how unpredictable that can be. It was EUR25 million above.

So if you combine Q1 and Q2 we will have been EUR95 million north, for the first half, now in terms of license income for Lifestyle, we will have been north of last year, year-on-year, for the first half to the tune of EUR95 million. So that’s the best number we can give you at this particular point of time.

But as you have seen, those predictabilities are not always very robust. The reason for this is because we work on deals, as we’ve explained in the past. Our license income is made of people who pay on a regular basis when they use, of course, IP belonging to Philips. But that IP income is made as well of one-off deals, which we work on for quarters. And you never quite know when they come up, and we did see some of those deals coming up in both Q1 and Q2.

So I’m guiding you as much as I can, but please keep in mind there is a level of uncertainty there and we have, of course, as you have seen, pleasantly surprised you in both Q1 and Q2.

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Peter Olofsen - Kepler Capital Markets - Analyst

Okay, thank you.

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Operator

Thank you. Our last question comes from Rene Verhoef from ABN Amro. Please go ahead with your question.

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Rene Verhoef - ABN Amro - Analyst

Yes, good morning. The Lamps business performed very strong, I was wondering how much that is related to the production at the supplier side and the demand side. I understood capacity is taken out of the market; you earlier even indicated that you was increasing prices for the traditional lamps, vacuum-based lamps. How is this developing, how do you look at the Lamp business?

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Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes, you’re specifically talking about traditional lamps, traditional technologies?

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Rene Verhoef - ABN Amro - Analyst

Excluding LED, yes.

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Pierre-Jean Sivignon - Royal Philips Electronics - CFO

That is your -- you totally exclude LED, but you include CFL, incandescent, HID; I just want to make sure I fully --

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Rene Verhoef - ABN Amro - Analyst

Yes.
Okay, yes you're totally correct. I think there is, in particular for incandescent, because you do realize that as far as CFL, as far as HID, as far as halogen, there is no capacity being taken off the market at this point. The bulk of the capacity which is being taken off the market relates to incandescent and incandescent is a very small part. It’s probably 5%/6% of the revenue of Philips, and probably even less today.

The capacity today disappears on incandescent but, at the same time, incandescent is increasingly being banned. So are we getting some support from the less capacity? Probably, on the margin that is, probably to some extent in incandescent, but please, do realize that this is on an increasingly smaller part of the Philips portfolio. But is there a little bit of help there? I would say there must be, but I wouldn’t say it’s significant.

Rene Verhoef - ABN Amro - Analyst

Okay, thank you very much.

Operator

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

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

I think it’s been a very detailed Q&A, so thank you for all your questions, thank you for all your time, and the team will meet quite a number of you on the road. So thank you very much, and goodbye.

Operator

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