

# FINAL TRANSCRIPT

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**PHGFF.PK - Q3 2009 Royal Philips Electronics Earnings Presentation**

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## PRESENTATION

**Operator**

Ladies and gentlemen, welcome to the Royal Philips Electronics third quarter results 2009 conference call on Monday, October 12, 2009.

During the introduction hosted by Mr. Pierre-Jean Sivignon, CFO, all participants will be in a listen only mode. After the introduction, there will be an opportunity to ask questions. (Operator Instructions).



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Please note that this call will be recorded and is available by web cast on the website of Royal Philips Electronics.

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

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**Stewart McCrone** - *Royal Philips Electronics - Head of IR*

Ladies and gentlemen, good morning. Let me welcome you to this conference call on the third quarter results of 2009 for Royal Philips Electronics. I'm here with our CFO, Pierre-Jean Sivignon, who in a minute will take you through his introductory remarks on the quarter, after which he will open up the call to your questions.

As usual, our press release and the accompanying information slide deck was published at 7.00 am our time this morning. Both documents are now available for download from an investor relations website. We will also make available a full transcript of this conference call on the IR website by tomorrow morning.

With that, let me hand over to Pierre-Jean to run through the Q3 results.

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

Thank you Stewart. Good morning to you all. Before looking to our own numbers, let me briefly comment on some recent developments in the market our business operate in, starting with healthcare reform in the US.

Here things are progressing at a somewhat slower pace than we anticipated at the end of the second quarter. This has meant ongoing uncertainty in the healthcare market, which continues to adversely affect our order intake, particularly for imaging equipment. I will come back to this later.

Outside of the US, demand for healthcare remains comparatively more resilient with a slight decline in mature market orders and, encouragingly, ongoing growth in the emerging markets.

In lighting, the main commercial construction markets remain challenging although we see some early traction from government stimulus programs in several countries including China and the US.

Signals from leading indicators such as new housing starts and architect billing in the US signals from these early indicators are basically remaining mixed and have certainly not moved into growth territory.

In Automotive, we saw improved demand in many markets driven in part by the tailwind from car scrapping incentives. It's however still too early to make a call on the sustainable recovery of automotive demand.

On the Consumer side, I can only echo the comments made by Andrea Ragnetti a few weeks ago that although consumer confidence remain relatively low, we expect stabilization, which could come in a touch earlier than previously anticipated. The seasonally important fourth quarter will be the proof of the pudding in this particular respect.

Let me now turn to the Philips Group results for the third quarter, which, of course, very much reflect developments in our key markets. Comparable sales for the third quarter fell by 11% for the group as a whole and by 11% in both mature and emerging markets.

This was a meaningful sequential improvement on the 19% decline we saw in the second quarter this year, albeit helped by the somewhat easier comparable numbers we had for Consumer Lifestyle.

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Reported EBITA was EUR344 million or 6.1% of sales. This number included both a gain of EUR87 million related to a provision release for retiree medical benefits as well as restructuring and acquisition related charges of EUR125 million.

Excluding incidentals, the EBITA margin came in at 6.8% of sales, amongst the best third quarter performance in recent years. The equivalent EBITA margin for the same quarter of 2008 was 5.4%. While the majority of the improvement came, as expected, from ongoing reductions in our cost base, we also saw a solid improvement in our underlying gross margin. This reflects the overall strength of our portfolio, as well as our ongoing pricing discipline.

Our focus on cash paid off again in the quarter. The free cash inflow of over EUR350 million was driven by our improved bottom line as well as further reductions in both working capital and capital expenditures. This cash inflow meant that even after paying for the Saeco acquisition, which was closed during the third quarter, we could further reduce our net debt.

With that, let me now take a closer look at the performance of each of our businesses during the third quarter and I will start with Healthcare.

Currency comparable equipment order intake at Healthcare fell by 7% in the third quarter. This compares to a 17% drop in orders in the first quarter this year and a 9% drop in the second quarter, so there there was a noticeable improvement in the trend.

In the US, equipment orders were down around 15% in the third quarter. This compares to a decline of around 29% in the first half of the year. Order intake for Imaging Systems in the US remains particularly challenging and was again down by over 30% in the quarter largely due to the ongoing uncertainty around healthcare reform that I alluded to.

Outside of the US, equipment order intake was slightly below last year in mature markets, but continued to grow strongly in emerging markets. Nominal sales at Healthcare continued to show modest growth, while comparable sales fell by 4% broadly in line with the first half of the year.

Looking geographically, the development in sales mirrored the second quarter with a 7% fall in mature market sales partially offset by encouraging double-digit growth in emerging markets. Emerging market sales increased to 19% of total Healthcare sales in the quarter.

At a business level, comparable sales growth at both Customer Services and Home Healthcare were more than offset by mid single-digit declines in the other businesses.

The reported third quarter EBITA at Healthcare was EUR175 million or 9.6% of sales. Excluding incidentals, the EBITA margin was 11.8% of sales, up from an equivalent figure of 8.9% in the third quarter of last year. This improvement in underlying profitability was due in part to the sales growth at Customer Service and Home Healthcare, but largely came from good progress on the reduction of cost across all businesses in the sector.

The third quarter results at Consumer Lifestyle again reflect the benefit of the sector low fixed cost base as well as the highly outsourced asset light business model. Comparable sales for the sector as a whole fell by 15%, a significant improvement on the 30% decline, which we saw in the second quarter of this year, with all businesses showing a sequential improvement in comparable sales.

Despite the lower sales level, the EBITA margin more than doubled from the 2.4% last year to 6.2% this year. Excluding restructuring and acquisition related charges, EBITA reached EUR158 million or 7.6% of sales in the quarter, up from 4.1% in the same period of 2008.

At a business level, Television & Audio Video Multimedia continue to see comparatively higher year-on-year sales decline while the former DAP businesses were significantly more resilient.



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Shaving & Beauty and Domestic Appliances saw low single-digit sales declines, while Health & Wellness grew by 3% comparably. Encouragingly TV delivered in the third quarter an operational EBITA of around breakeven before restructuring charges.

At Lighting, comparable sales fell by 13% in the quarter, a notable improvement on the 18% decline, which we saw in the first six months of this year. Sequentially, almost all businesses saw an improvement in comparable sales, notably Lamps, Automotive and Lumileds.

Geographically, sales were stronger in emerging markets than in mature markets with the BRIC countries managing to deliver single-digit sales growth in the quarter.

The reported EBITA at Lighting was EUR79 million, or 4.8% of sales. Excluding restructuring and acquisition related charges, the profitability increased to 7.4% of sales, up from 3.9% in the second quarter of this year. The sequential improvement in EBITA is driven both by sales, which increased by around EUR100 million, in absolute value, and by early progress in cost reductions.

Despite the fact that the lighting sector has the longest lead-time between implementing restructuring projects and generating the cost savings, the sector already achieved a EUR23 million structural reduction in fixed cost in the third quarter.

At Group Management & Services, GM&S, it is good to bear in mind that the numbers include for the first time this quarter the significant portion of activities formerly reported under our Innovation & Emerging Business Sector.

The reported EBITA at GM&S was significantly impacted by the release of an EUR87 million provision for retiree medical benefits in Q3, this year as well as a EUR259 million asbestos related charge in the third quarter of 2008. Excluding these incidentals and excluding as well EUR14 million of restructuring charges taken in the quarter 2009, EBITA improved slightly compared to the third quarter of last year.

We reported a net income in Q3 of EUR176 million, compared to an income of EUR58 million in the third quarter of last year. Excluding incidentals, gains and charges, which we detail in full in today's press release, our underlying net income also improved slightly compared to the third quarter of last year.

So much for the P&L, I would like now to move to cash and there, as I mentioned already, we again successfully managed our cash flow in Q3, a quarter which traditionally sees extra demands on cash ahead of the seasonally important fourth quarter in Philips.

Free cash flow improved from an inflow of EUR57 million in Q3 '08 to an inflow of EUR353 million this quarter. This improvement was attributable to higher cash earnings, further improvements in working capital management and lower expenditure on CapEx.

Inventory as a percentage of sales was 1.1% below Q3 2008, despite a slight increase in absolute value mostly attributable to the acquisition of Saeco in the course of the third quarter. Indeed, the only other significant cash movement in the quarter was the EUR172 million paid for acquisition mainly for Saeco.

Our overall performance on cash allowed us to reduce our net debt from EUR0.8 billion at the end of June '09 to EUR0.6 billion, or just about EUR0.6 billion at the end of September '09.

Ladies and gentlemen, let me now wrap up by saying that while we are pleased with many aspects of our Q3 performance, the external environment in which the Company operates remains tough. We have yet to see any structural improvement in the majority of our end markets and the visibility remains low.

This said, assuming sales come in on plan, we are confident that we can deliver a solid sequential improvement in our fourth quarter results. We will continue our relentless focus on cost and cash and, importantly, our focus on innovations.

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Highlights in that particular territory include the full range of LED lighting solutions which we showcased quite recently in September in Boston at our Capital Markets Day, the new range of TV and kitchen appliances which we've launched at IFA, Consumer Lifestyle show, as well as the brand new range of sleep therapy system which we will formally introduce later this week at the 2009 [Medtrade] Show.

With that, and with Stewart McCrone right next to me, let me open now the line to your questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you sir. (Operator Instructions) There will be a short pause whilst participants register for a question.

The first question comes from Mr. Andreas Willi from JPMorgan. Please state your question sir.

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### Andreas Willi - JPMorgan - Analyst

Good morning, two questions please. On Healthcare, you showed a good improvement in profitability over Q3 -- over Q2. You have in the past said that you tried to reduce the seasonality within the year. Is that already partly due to more success there? Or should we expect still the normal seasonal improvement in the profitability for Q4?

And the second question on the working capital, a similar question, more progress year-to-date as you are focusing on cash, is there going to be any seasonality still on Q4 cash flow or not?

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

Okay, good morning Andreas, actually the on Healthcare, the seasonality that we have referred to in the past came from, of course, the higher volumes. It's very much, as you know, a volume driven affair. And on the back -- we have not guided for the fourth quarter. But if the fourth quarter comes with a stronger revenue, we expect indeed the seasonality to be reflected in the margin. I think that trend is still there.

And the other thing I will add is, as you've seen, in the third quarter results gradually the costs measures which were taken at the end of last year, early this year are gradually as well kicking in. So there will be two elements. One is the impact of costs measures, as well as in a scenario where the revenue is higher in absolute terms obviously the impact, of course, of bigger volume.

To the questions on working cap, basically, we are clearly, as you've seen and we have introduced, I'm sure you might have seen that already in the release some appendices where we give you full disclosure sector by sector of the working cap trends over the last two years. So I send you to those two charts, which hopefully are as explicit as we meant them to be.

You can see there that we were at about 6.5% of working cap in the third quarter of '09. That compares -- that's excluding pension, of course. So this is a strict working cap of receivables, plus inventory minus payables.

That 6.5% was actually 10.7% in the third quarter of '08. So you can see that there has been, obviously, some improvement year-on-year. And we would like Q4 to confirm the trend of Q3, so a number which would be at the level of Q3. And maybe if we can do a good job, maybe a touch lower. But we want to stick certainly to the 6.5% and maintain the new working cap level of Philips you've seen now for a couple of quarters. We would like to maintain it almost regardless of the revenue as a working cap percentage model.

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**Andreas Willi** - JPMorgan - Analyst

Thank you.

**Operator**

The next question comes from Mr. Didier Scemama from RBS. Please state your question sir.

**Didier Scemama** - RBS - Analyst

Good morning, thanks for taking my question; just like to touch on the Healthcare part of the business again. Can you explain maybe the different moving parts within your margins, because we would have thought that margins maybe would have been impacted by a higher proportion of revenues coming from emerging market? So perhaps you could touch on the impact of the improved margins perhaps in that region, as well as the impact of lower cost? That would be my question.

And the second, I'm sorry I understand your point about the working capital Pierre-Jean, but if you could talk perhaps on the -- quantitatively if you would see inventories going up in Q4, given that you've been cutting over three quarters? Or if we see the normal decline in inventories on Q4 as you see a higher sell through from your retail customers? Thanks.

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

Yes, good morning to you. The margin of Healthcare, no, I think we've been heard as saying a couple of times that the margin in emerging markets should not be expected to be lower than what it is in the rest of the world. And we basically have said that and I think increasingly we feel comfortable with that particular statement.

So the fact, as you've noticed, that the mix of our business is gradually -- slowly, but I would say gradually and consistently shifting. You saw that in the third quarter we were at 19% of the mix in emerging markets that compares to 17% in the previous quarter. That's 2 points, that's quite substantial for a business like Healthcare for us. And we do that with margins which are in line and increasingly now with contracts where we can sign as well service agreements, which by the way are still to come at the end of the warranty period. So, I wouldn't want to send the perception that when we grow in emerging markets, it is to the detriment of the margin.

The rest of the reason why our margin improves, actually let me give you a couple of things. We had been clear that in the first quarter of the year, we have suffered from a bit of a one-off of ForEx; you remember that. We were quite explicit in the Q1 release. It was unfortunate at the time but we said it was a bit of a one-off. Well actually, it was totally a one-off. And we had still a little bit of impact but significantly lower in Q2 and quasi I would say no impact in the third quarter.

The other elements helping us, we've taken some measures to reduce our cost early in the year. We announced them, if you recall, with our Q4 results as well as reserve Q1 numbers. And that is helping us, I would say, a couple of tens of millions in the quarter are there to come to the rescue. And actually, you can see that being detailed on page 25 of the appendices, where we've disclosed an amount of EUR27 million of benefit. So you can obviously pencil that in.

That helps and, of course, the other thing which helps is the growth of our Service business. You've heard us several times saying that our business was a young business, with a smaller portion of service in the mix. And the increase of service in the mix, of course, helps as well. So the combination of that, I would say explains what helps in service. For instance, this particular quarter was up 5% in terms of revenue, so that helps.

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On the question on working cap and inventory, yes, I think you are right again to mention inventory. We have done an enormous amount of work [of] inventory. You've heard us say several times in the past that the inventory of Philips was too high. And I'm not talking about the absolute number. I'm talking about inventory in the model as a percentage of revenue. Our inventory is 1.1% lower in percentage versus what it was at the end of Q3 a year ago. We have made good progress, in particular in Lighting.

And we really -- we've made some progress as well in the domain of Lifestyle. And we would hope that these changes absolutely stick at the end of Q4.

I think you will see, for instance, some improvement at Healthcare. We are counting on that. You should see the continued improvement at Lighting, because we -- there that's probably where the changes have been the most spectacular. And at Lifestyle, you had already seen some dramatic improvement in the last -- previous quarters.

So our objective and you have, as I said, in the appendices of the press releases ample details with the working cap graph over a period of four quarters, so you can see now the trend materializing for four quarters, almost a full season. We would very much hope that it stays there in the fourth quarter.

And if you go back to last year, by the way, on that slide 27, you will see that the fourth quarter of '08 was, in a way, already at a lower level than what it has been in the first three quarters of this year. So, if we can go there, it would mean that our trend for the first three quarters of '09 would come down even more in the fourth quarter of '09.

But that's not your question. Your question is will it go back up and the answer is we don't think it will go back up.

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**Operator**

The next question comes from Mr. Gael de Bray from Societe Generale. Please state your question sir.

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**Gael de Bray - Societe Generale - Analyst**

Thank you very much for taking my questions. The first one is still on the cash flow. Most of the cash flow improvement actually came from a strong increase in accounts payable and accrued liabilities this quarter. So is this really sustainable on that front and how should we expect accounts payable going into Q4 and maybe into 2010?

The second question is related to the geographical sales development. Sales in Western Europe showed the strongest sequential improvement from minus 20% in Q2 to minus 6% in the third quarter. So could you maybe elaborate a bit more on the trends division by division in Western Europe? And maybe tell us which countries in Western Europe have actually proven the most resilient in Q3.

And maybe just a third question on Saeco, could you tell us a bit more about Saeco's top line and margin performance in Q3? And also tell us about the expected acquisition related charges for this business in the year upcoming quarters? Thank you very much.

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

Okay, let me try to make sure I cover everything. Your first question was on accounts payable.

Yes, some of the increase comes from there this quarter, you're right to mention it. Is that sustainable? Yes, because what we've done, we have actually completely reorganized our payable department, which has been fully centralized and we've agreed





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on two basically world-standardized payment conditions. There is one set of payment terms for Asia and all our Asian suppliers are adhering to that number, and one number for the rest of the world.

And we are gradually shifting all our suppliers towards those new numbers. And that's an effort we actually started three quarters ago and this effort will be completed, I think, some time later Q1 next year. So is that sustainable in terms again of model? Yes, but it's fair to say that a good chunk obviously comes from changing those conditions or updating those conditions. So for some suppliers it's up; some suppliers it's down.

All in all, I would say it has contributed somewhat to the overall improvement of working cap. But the model is stable because those are contractual terms which have been negotiated with suppliers.

Your second question relates to Europe and the resilience of the revenue per country. I think yes, we've seen Europe, which was a slightly better number in Q3 than it was in the second quarter. I think if I look at the countries which have resisted -- and your next question was, where are the countries which have resisted better than others?

I would say if I could and now I'm getting very specific, but I guess that's probably what you want me to say. Austria was in positive territory. Belgium was in positive territory. The rest was negative. And the countries which have behaved the better would be Germany, Italy, Nordic countries; those would be the guys who have performed the best. And then you would have Netherlands and Spain. And after that you start being north of the amount in the mix. I hope that answer -- that's as specific as I can get on Europe.

Moving to your last question, which was related to Saeco; well, Saeco was -- I don't have the number of Saeco, because Saeco is so small in the third quarter. The important thing for us totally insignificant, so let me not comment too much on Saeco this quarter.

The key thing for us in Saeco is that the launch of the brand new range of products which is to come in the fourth quarter happens on time and on target and we have all evidence to believe that this will be the case. So I think that's the news I can give to you.

All what we've seen at Saeco as at today is in line with what we had expected. The launch is happening as we speak. And I will comment in more detail on Saeco, if you don't mind, with the Q4 results, because at this particular point of time, I would say it's under control, in line with what we were expecting. And as I said again, key thing is the launch of the products, because that's really the most important element. But I will give you more numbers and more facts and figures with the Q4, if that's okay with you?

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**Gael de Bray** - Societe Generale - Analyst

Okay thanks, maybe just a follow up about the sales trend in Western Europe. Maybe to what extent have you benefited from restocking in some of your businesses, such as Lighting in Q3?

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

Yes, well, the answer is we don't think we have benefited from restocking too much. Why that? It's because we now track very, very carefully for key distributors the difference between the selling in and the selling out. And one of the things these guys have learnt is that we see a lot of pegging now between those two trends, meaning that these guys will order from us very much only if and when themselves they sell out.



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So we don't believe that a lot of our sales in Q3 came from restocking, because we don't think, at least for the largest distributors that we follow, we don't think that these distributors are restocking. They have moved probably more than before to a just in time type of model.

And to be even more precise, if you look at Lighting Europe's sales, in the first quarter we were at minus 19%, in the second quarter we were at minus 19% and in the third quarter we are at minus 18%. So, if you look at the selling out of those guys it's not moved that much. So I don't think we've had too much impact in our own selling in vis-a-vis them as far as we can see it.

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**Operator**

The next question comes from Mr. Jan Hein de Vroe from ING. Please state your question sir.

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**Jan Hein De Vroe** - *ING Financial Markets - Analyst*

Yes, good morning gentlemen, two questions here. Indeed, I saw a couple of comments from you Pierre-Jean on sequential improvement expected in Q4 versus the Q3 numbers. Being seasonally strong, it seems self evident. Could you also mean that there should be a slightly lower rate of decline in top line across all divisions? That's the first.

And then second could you give some color on the double-digit declines in Audio Video Multimedia peripherals versus the TV business or at least perhaps give some more color on those?

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

Yes. No, I think -- don't read more than what I meant on sequential improvement. I have not guided on the revenue of the fourth quarter, as you know, so please don't read anything there underlying.

The answer was a specific answer on Q3 margin in Healthcare, where I said you will have -- and then I will send you again to that same slide 25, where you have a chart of the benefit coming from the cost cutting. You can see on that slide that we are guiding you on EUR42 million of Healthcare cost reductions in the fourth quarter. So obviously that is significant, so that will drive to obviously some improvement of the margin but, as I said in the answer, subject, of course, to the revenue coming in.

As you know, a good chunk of the revenue of the fourth quarter is a booked to bill revenue. It comes in the quarter at the same time it's booked at the same time it's billed. So of course, the traditional fourth quarter, in terms of revenue, is a function of your booking during that particular quarter and that's the only thing that I meant for Healthcare. I think don't read anything else beyond what I just said on this particular subject.

On your next question, I think was on the Q4 top line but I think I have just answered this. You had a specific on Audio Video. Yes, I think Audio Video was a bit -- in terms of negative growth was a bit north of the one of Television. That's a fact. But I wouldn't read too much. I think Audio Video, to give you some numbers, was in the high 30s negative decline in Q2. And that actually improved by almost 10 points -- by more than 10 points actually in Q3 and should improve again in Q4 in terms of negative comps.

Television indeed did a better job than Audio Video in the particular case of Q3. As far as Peripheral Accessories, I would say that Peripheral Accessories in Q3 was just about where Television was. So I think Peripheral Accessories was in the territory of Television. So don't put in the same bag Audio Video and Peripheral. Peripheral did actually better than Audio Video in the third quarter in terms of comps.

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**Operator**

The next question comes from Mr. Martin Prozesky from Bernstein. Please state your question sir.

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

Good morning gentlemen, I've got two questions please. The first is again on the Consumer Lifestyle business. Can you give us a bit more color, how much of the 300 basis points odd underlying margin improvement is due to the fact that the US Television business was licensed. I think it was late Q3 2008 that it start hitting the accounts; that effect, plus the cost cutting effect plus volume effect. So are we seeing really underlying operating margin improvement in some of the former DAP businesses or is it more of a mix effect in that sense?

The second question is a bit on the theme of restocking. Pierre-Jean you mentioned that you think that a lot of retailers have moved to a just in time model now. So does that mean this is a structural effect -- a structural change in your mind or is it more of a crisis response that we're seeing? So do you, over the longer term, see again some restocking happening?

And if it's not going to happen in your mind, doesn't that mean that you'd have to carry higher inventories structurally to be able to ship on shorter demand notice?

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

Okay, first question then is 300 basis points clean improvement in the margin, where is it coming from? Well, no, I think don't put it on the back of US Television being spun off, no. I think -- and you have to realize that the North America deal was effective early August. So if you look at the comps, you had a good chunk of August and the whole of September which is completely comparable portfolio, if I may say, between '08 and '09.

But to stay on that dimension, TV dimension, the Funai relationship works well and that obviously is helping our case. And we obviously done a lot of homework on the rest of Television. Let's not completely focus on North America. You've heard us say that on Television we've done a lot of additional measures. There was a TPV transaction earlier on this year. There have been some additional measures. We've worked on the mix, We've abandoned some product categories [we have around] the quarters, so I won't repeat it today.

But certainly you see some evidence of that. We've guided you on the television breaking even in the fourth quarter and with an objective to breakeven for the full-year next year. Hopefully, you see a little bit of evidence of that in that third quarter, of a progressive, but I would say, consistent progress but on the whole of Lifestyle; Lifestyle is not only television.

If you recall, back in the fourth quarter of 2007 when we launched the merger between CE and DAP we made some promises. We said we will save EUR150 million to EUR200 million of cost on the back of this merger. And we told you at the time it's going to take us two years, and we should be done by the fourth quarter of 2009. That's a commitment we took vis-a-vis the market. Obviously, there we are. We are now in October 2009 right there, and obviously those measures are kicking in.

And last but not least, if you go to the page -- that same page, 25, I quoted a couple of times, on that same chart, you can see that the benefit expected from the measures we've taken late last year/early this year is EUR27 million -- excuse me, it's EUR62 million, apologies. It's EUR62 million on that chart. It's the second line. You can see there that obviously there is a lot of work which has been done on Lifestyle in our cost base.

So if you combine all that and if I may I will add one last dimension, which is the mix. You heard us say that DAP is more resilient, the ex.-DAP portfolio. CE is suffering less than in the previous quarters. The ex.-CE categories, but -- suffering less but still in relative terms suffering more than the ex.-DAP categories. So the mix, of course, helps because, as you know, in the ex.-DAP

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categories our margin are obviously higher than the ex.-CE categories. So if you add up all those elements you find your 300 basis points of margin improvement that you have referred to.

Your second question relates to the model. I think in the domain of Lighting you have to make the distinction between what I would call the professional channels, who basically distributes our luminaires as well as our lamps for professionals, and of course the retail channels, which essentially look at the lamps for consumers, like we all are.

In the professional retailers, our feeling is that what we have witnessed in the last couple of quarters, which is almost a pegging between selling in and selling out, we have a feeling this is there to stay. We have a feeling that it is now structural and that these guys are very professional. They have reorganized themselves.

Could it then trigger the fact that we have to carry more inventory? The answer is yes, if we were not to adjust our own supply chain. But you have to realize that part of our existing portfolio includes Automotive, which is close to 10% of our -- it's actually 7% of our business. And we were already in a just in time mode with a distributor of automotive. And we've learnt obviously to live with those kind of model. And it's up to us now to actually extend this model to our professional lighting businesses. So that doesn't mean that we will carry more.

And by the way, as you've seen in the last couple of quarters, the fact those retailers have pegged selling in and selling out has not stopped us from reducing structurally in percentage our working cap in Lighting as far as inventory is concerned.

I think for the channels -- the retail channels that will be -- it's a significantly smaller portion of our portfolio. As you know, retail is -- lamp in retail is less than 10%, I think. Actually it's --

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**Stewart McCrone** - *Royal Philips Electronics - Head of IR*

5%.

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

It's actually 5%, Stewart tells me, of the total. And there, obviously, it's more retailers. So could we say that we have a structural change in the model? I would be more prudent. But, of course, that is a significantly smaller portion of our revenue mix in Lighting.

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**Operator**

The next question comes from Mr. Martin Wilkie from Deutsche Bank. Please state your question, sir.

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**Martin Wilkie** - *Deutsche Bank - Analyst*

Hi, good morning. It's Martin Wilkie from Deutsche Bank. So, a couple of questions. The first one is on the restructuring outlook for 2010. If you think we have approached or passed the bottom of the economic cycle how are you thinking about restructuring going into 2010, either in absolute terms or as a percentage of revenues? I think you mentioned in the past that we could see some more in Lighting, but if you could just generally talk about what we could think about for restructuring next year.

And then the second question is also on your profitability outlook. As you approach the budgeting season internally within Philips, and as you think about your own mid-term profitability outlook, how are you thinking about what were previously your Vision 2010 targets? And when you might think of reintroducing those with a date two to three years out, if you could just let us know what your thoughts are on that. Thanks.

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

Good morning. Yes, restructuring, I think probably it will continue next year. It's hard to really say how much, because we have so little visibility. I said in interview this morning, we try -- in this world with low visibility we try to control as much as we can the things that we can control. And the things we can control are essentially three. It's cost, fixed cost that is, as much as we can. It's of course cash flow, and I would say there, essentially, the working cap part of the cash flow. And thirdly, innovation because, of course, that is something which is in our hands.

So we will continue to focus on cost. And next year I think we will see more restructuring. Hard to say how much. The EUR600 million of savings that we have committed to you guys for 2010 base versus 2008, that is supported by the restructuring we've announced so far and the restructuring we've told you as well for Q4.

By the way, since we are on restructuring, I just want to flash out that Q4 will include in the cash flow a significant amount of cash outflow on the back of restructuring. I think that is something I want to flag out for the cash flow of the fourth quarter.

And for next year, yes, there will be restructuring and probably with a focus on Lighting, because we want there to, obviously, continue to do quickly the transition of technology as quickly as we can. And probably on an as needed basis in Healthcare, because there is uncertainty there, and we have absolutely to adapt the cost base on an opportunistic basis depending on what comes up. But the visibility there is quite low.

I think on Lifestyle we've done a lot of our homework. There might be the end of what we have to do in Lifestyle. But there we've done a lot of what we had to do already.

In terms of cash out flow, because I think you guys are forecasting cash flow and I think it's important, we should have close to EUR200 million of outflow of cash in Q4 on the back of restructuring. That's a number which was not disclosed, I think, in the release and I just want you to have it as a complete answer to a previous question on the expected cash flow of the fourth quarter.

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**Operator**

The next question comes from --

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

If I may, sorry, I would like to complete, because there was a question as well on the Vision 2010 target. I think, yes, we confirm that those targets, which I won't repeat, you know them, business-by-business, we stand by them. They are in the appendices. We reintroduce them clearly. Actually, we never really went away from them.

We fully appreciate that the market would like to know a date. I can't give you a date, but we fully understand that you want a date. It's something we know you need them. I can't give you a date, but it is present in our mind. We realize you do need that.

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**Operator**

The next question comes from Mr. Michael Jungling from Bank of America-Merrill Lynch. Please state your question, sir.

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**Michael Jungling** - Bank of America-Merrill Lynch - Analyst

Great. Thank you for taking my questions. I have two. Firstly, on the cost savings on page 25 of your slide deck, you've indicated some fairly chunky restructuring charges in Q4 compared to Q3. But if you look at the actual benefit you're delivering in Q3 versus Q4 they're actually quite marginal, so that's in Consumer Lifestyle and Lighting.

I'm just curious why such large restructuring charges are resulting in such little incremental benefits sequentially from Q3 to Q4. Or is that perhaps just conservatism and that means you can do more than EUR600 million in savings on a run rate?

And then secondly on the Lighting division, it has shown the smallest recovery from trough margins from all your divisions and yet it also has attracted some of the highest restructuring charges. Can you just comment on why that is and whether perhaps Lighting has got a larger catch-up effect compared to the other divisions from your cost cutting initiatives? Thank you.

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

Yes, good morning. I think the answer to all your questions really is what you are suggesting yourself. In the latter part of your question I think you absolutely got it. The -- if, yes -- well, let's take it in sequence.

The fourth quarter restructuring is large; point absolutely correct. But you have to realize that we, quote-unquote, have under delivered versus guidance in the third quarter restructuring. Actually, if you compare the restructuring of Q3 versus what we had initially guided on, we're coming up with a touch less. So Q4 is actually, to some extent, coming back on the lag which we had actually in the fourth quarter.

Now, why is that extra restructuring of Q4 not coming up to immediate benefit is because exactly for the reasons you gave. If you look at that Q4 you see that the good chunk of it -- actually, more than 50% of it comes from Lighting and -- well, actually almost 50% of it comes from Lighting. And this is the one where you announce now. And the real action in your bottom line is between nine months to 15 months, if not 1.5 years later.

The lead time on Lighting is significantly longer than the other sectors, essentially, because of the geography of where the restructuring takes place.

And by the way, to the second part of your question, you're asking why is it that Lighting is slower than its two colleagues in reconstituting its margin. Go back to the same page 25, you'll see that Lighting booked EUR223 million of cost of restructuring in the latter part of '08. A lot of the benefits of this is only coming now. And this is why the recovery of the Lighting margin is obviously a slower process and will continue to happen not only in Q4 but certainly next year as well.

Now, on your question on the EUR600 million; the EUR600 million is the run rate 2010 savings versus the level of spending in 2008. And out of that EUR600 million, of course, some of it is already included in the latter part of 2009. So when we close 2009 in three months from now we will do our math and we will give you an as-specific-as-possible portion of the EUR600 million, which will have been already booked either in Q3 or Q4 of this year.

So, at the end of this year we will update you of how much of the EUR600 million -- actually, EUR600 million plus, is still incrementally to come in 2010 versus 2009.

**Michael Jungling** - Bank of America-Merrill Lynch - Analyst

But it's fair to say then, if you annualize the savings of EUR159 million times four that's EUR636 million. And yet the additional benefits that we expect from the restructuring charges in Q4 will come through in 2010 and, therefore, the actual cost savings compared to 2008 could well be in excess of EUR700 million?



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

Yes, but that's why we've said in excess of EUR600 million. I think you guys want us to deliver what we promise. There is no game in over-promising, so it is EUR600 million plus. And again, the restructuring, which is coming late in the quarter, which has a good chunk of it in Lighting, a very good chunk of this won't see the impact in the P&L until actually 2011.

So this is why, again, we will be totally transparent. We will give you an update of the chart in a quarter from now. We will then have clarity on Q4. And we will tell you precisely -- as precisely as we can, what is incrementally 2010 versus 2009, and what is as precisely as we can the EUR600 million plus. If we can beef it up, we will beef it up. But at this particular point of time we're guiding you on what we think that we can deliver to you.

**Operator**

The next question comes from Mr. Scott Babka from Morgan Stanley. Please state your question, sir.

**Scott Babka** - Morgan Stanley - Analyst

Morning, gentlemen, Scott Babka from Morgan Stanley, two questions, please. One is on slide 21 you're showing some pretty strong sequential improvement in emerging markets, particularly in Lighting and Consumer. Can you just give us a bit more detail regarding which geographies really drove that?

And secondly, in Lighting I was just hoping for a bit more granularity regarding where the big sequential improvement came from minus 13% -- minus 18% to minus 13%. And did you see a material improvement as you got through to September, because I think your earlier conversations from companies to the quarter was not to expect much of an improvement? Thank you.

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

Yes. I think you -- thank you for referring to emerging market. As you know, it's one of the things which is close to our heart. We have done M&A there. And you can see that the Group in the third quarter is now at a mix of 31%. That compares to 30% in the previous quarter.

And if you basically compare -- if you go to page 22 on the appendices, you will see that Healthcare has gone from 17% for the last 12 months to 19% in emerging markets for Q3. If you look at Lifestyle it is already very high at 39% and constant. Actually, Lifestyle stayed at 39%. But if you look at Lighting, Lighting is at 33% for the last 12 months but the third quarter is at 35%. And the Group is at 31% for third quarter versus 30% for the last 12 months.

The countries which have helped us, you almost have to look at them for each of the segments -- each of the sectors, excuse me. In the domain of Healthcare we've been helped by China, India and Latin America. In the case of Lighting we've been helped by China and India, which are back into positive growth territory. And in the particular case of Lifestyle, there we have suffered essentially on the back of television.

But some of this -- back to the previous answer, some of this, of course, comes from the Consumer sentiment in that part of the world, which remains low, at least lower to what it was. But it's linked as well to some self-inflicted pruning of the portfolio, as already mentioned.

Now, coming to your Lighting question where you ask where are the comps? Basically sequentially Q-to-Q the big improvement comes from lamps. Lamps was, let's say, low mid single-digit in Q2 negative, and that went to -- no, I'm sorry, let me repeat. It



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came into low teens in Q2 negative and it was high single-digit negative in Q3. So you can see clearly an improvement there which is of substance.

Automotive, as referred to in the release, we came from around 20%-plus negative in Q2 and we were low teens negative in Q3.

And lumiled which, of course, is something that we had mentioned would recover because lumiled is now increasingly moving into general lighting applications. And lumiled came from quasi 40% negative growth in the second quarter to high single-digit negative in the third quarter. That's obviously a pretty significant change in terms of comparative growth.

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**Operator**

The next question comes from Mr. Simon Smith from Credit Suisse. Please state your question, sir.

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**Simon Smith - Credit Suisse - Analyst**

Hi, thank you. I just wanted to maybe follow-up just on the question of phasing through the quarter. I think you sort of focused very much on Lighting there. But I just wondered generally if across the businesses if you could just give us a feel for how the exit rate of the three businesses was coming out of the quarter compared to general trading within it.

I think also you talk quite a lot about the effects of restocking and destocking for the Lighting business. But I just wondered have you seen sort of similar effects within the Consumer business, or is there potentially been a slightly different trend there?

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

Well, I think, Simon, let's go through each of the sectors, because I won't come back to Lighting because I think I was as explicit as I could be. I think the only thing I will add in Lighting is luminaires -- Professional Luminaires that is, continues to -- that continues to be tough. The -- you saw in the press release that there is no real evidence of a bouncing back of the constructions market.

We've seen, and we've been quite explicit about that at the analyst -- at the Capital Market Day in Boston, that we start seeing the first order from the US stimulus package funded by the Government. But still professional luminaires, that really remains tough all across the board.

Consumer luminaires did have a bit of a tough quarter in Q3. But the rest of the product categories, I have been quite explicit and I gave you almost the number category-by-category.

Let me move now to the other ones. In Healthcare, I said on the call the services was up. You already have that number. The home Healthcare was slightly up as well, which I think is important. And we'll introduce, as you've heard, the new products in Q4. That is in the release.

And the rest of the portfolio is in mid to high single-digit negative territory. I think that's pretty much where we are for the rest of the portfolio.

And for Lifestyle, TV is disclosed, so that you have. We've discussed at length about audio and P&A, Peripheral Accessories.

I'll give you a little bit more flavor on the rest of the ex-DAP portfolio. Appliances was low single-digit negative. Shaving & Beauty was mid single-digit negative; so those two guys doing a touch better, I would say, in terms of sequential.



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And Health & Wellness continues, in a way, to surprise us, I have to say, because these guys, one more quarter they are in, I would say, between mid to -- well, low single-digit, let's say, growth versus last year. So these guys will have managed, pretty much, to stay positive despite no easy comps last year. Health & Wellness continues to do well.

So, I think I have gone through the whole portfolio. You pretty much have it now, Simon.

On the stocking, I can't add too much more. I think I gave you all what at least we feel on professional channels for Lighting; as far as the Consumer channels for both Lighting as well as for Lifestyle, difficult to talk about a restocking. There is, of course, some anticipation of the selling season.

Thanksgiving, as you know, takes place in the weeks to come, so a lot of the action takes place in October. A little bit of it takes place in -- well, in September. But I wouldn't say that our Q3 numbers were carried by the re-stocking. I think there is some of that, but we don't hear that the stocks in the trade on Lifestyle are abnormally high at this stage of the year. But of course, there we have less visibility than on Lighting. Lighting is less distributors for Professional and it's hard to be as specific as we are for professional distributors in Lighting.

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#### Operator

The next question comes from Rene Verhoef from Fortis Securities. Please state your question sir.

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#### Rene Verhoef - Fortis Securities - Analyst

Yes, good morning, Rene Verhoef, also a question regarding emerging market sales. What we see is that emerging economies Healthcare and Lighting is performing better than in the developed world. But that's not the case for Consumer Lifestyle where we have a 19% contraction reported to Russia and to Latin America, I assume Brazil. Can you elaborate a little bit more what is happening in the Brazilian market regarding Consumer Lifestyle?

Regarding Healthcare, two questions regarding the fixed exchange impact on Q1 and Q2, can that be disclosed?

And the last question is regarding, as I say there has been in the largest study on the impact of weight loss on sleep apnea, and the conclusion was that 10% weight loss should, let's say, solve the disease of sleep apnea. Do you have any information about the impact for that in the US market?

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

Okay, so three questions. Let me try to take them in sequence. Emerging markets, I think -- to an earlier question I mentioned by, for each of the three sectors, which of the particular markets have helped us. So I send you back to the transcript there.

Now you're asking me specifically on Brazil and I will tell you on Brazil for Lifestyle. Brazil indeed suffered for Lifestyle. I think we were in excess of 20% negative growth there, so clearly LatAm consumers haven't come back. I think that's a fact. And this is -- no excuse me, I'm giving you the wrong number. This is the nominal; I'm going to give you the comp. The comp is slightly north of 10%. So it's a consumer which is not obviously back.

In India Lifestyle is slightly positive and in China Lifestyle is very marginally negative. So you could say to your point that consumers are still careful in that particular part of the world. We have better comps in our professional business in that part of the world; Brazil, India and China, as mentioned.

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You mentioned Russia, Russia continues to be a very difficult market across the portfolio. I think that is something that we've seen in the previous quarters and I think I will leave it at that. I think India, China, I mentioned that for both Lighting and Healthcare we had some good numbers there in the quarter.

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**Operator**

The next question comes from Mr. Andrew Carter from Macquarie. Please state your question sir.

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

Yes sorry, let me, before I answer Andrew's question, there were two other questions, one was on ForEx in Healthcare. I said in an earlier question that there was very little ForEx impact in the Q3 results of Healthcare in the third quarter. There was I think -- well, there is but not significant enough to be mentioned around this phone.

And to your last question about if you lose 10% of your weight, you'll solve your sleep apnea problem. That is something I had not heard before; I will follow up on that. It's fair to say that obesity is one of the drivers but it's not the only one, of sleep apnea, but I was not made aware of this particular point. So we'll have to come back on you.

The important thing on sleep apnea is that we're coming up with a brand new line of products in -- basically in October and that's part of the release.

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**Operator**

The next question comes from Andrew Carter from Macquarie. Please state your question sir.

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**Andrew Carter** - *Macquarie Securities - Analyst*

Good morning, it's Andrew Carter calling from Macquarie in London. I had two questions on Healthcare if I could?

The first I guess was relating to your comments about Q4 being sort of a book-to-bill quarter I think you described. And I was just reminding myself, if I went back to a year ago and then also what you'd said in the earlier quarters, I think you talked about, in Imaging in particular, how you had a backlog that you were working through. And I think you mentioned that the backlog was quite important when we look forward to Q4. So should I interpret the point about Q4 now being a book-to-bill quarter as meaning that that order backlog is now at a very, very low level or have I misunderstood what you were referring to previously?

And I guess my second question was just your opening remarks suggesting that the situation in North America hadn't developed exactly as you had anticipated at Q2. Could you extrapolate a little bit on that and give us an idea as to what you think is going on and as regards to a timeline to make the situation clearer? Thank you.

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

No absolutely. Backlog, no I think the profile of Q4 hasn't changed. You -- Q4 is not becoming more of a book-to-bill. I think the point I was making is that a good portion of our revenue is book-to-bill. Let's be specific, a good chunk of the Imaging part of the portfolio, which is about 30% to 33%, I think this quarter was 33%, is indeed that is largely a backlog business. So the majority of Imaging would be a backlog business. That is 33%, 33-plus-%.

The Service business, I think that one is largely a business which is, you could say a backlog business in a way because those contracts are long-term contracts. The rest of the business is largely a book-to-bill business, that is to say clinical care, that is to

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say Healthcare Informatics, which includes monitors, and respiratory care and home healthcare in general, the vast majority of these. So you could say 40% of the business, 40%, 40-plus-% of the business that is largely book-to-bill.

So the profile of Q4 hasn't changed, no. But the point I was making when I was discussing margin, I was saying a chunk of that fourth quarter is a book-to-bill business and I was saying the margin -- the portion of the margin improvement, which comes from the stronger Q4 that we've had historically, some of that will depend of course on the book-to-bill business being there. And I'm not saying it won't be there. I'm just saying it's subject to it and since we have not guided on revenue that's exactly what I'm trying to say. So no change there and don't read more than what I just said.

On the -- visibility of equipment sales in the US, which I think is your second question. Yes, I think in Q2 and actually even until recently in Q3 we had the feeling that we would have more clarity, and not only us but with the markets and, more importantly, the customers had a feeling that they would have more clarity on the outcome of the President Obama reforms. That clarity is not there.

I understand that some of the resolutions will come to be discussed for debate at the Senate in a couple of days from now. I think that's the very latest we have. So we'll follow very carefully those debates and see what comes out of it. But yes, it is fair to say that this clarification of, which is obviously needed, because there is an enormous amount of uncertainty on the market.

The people buying our equipment, they are de facto in the capital goods business, they need to know obviously what's rule of the game to buy. So this uncertainty is almost the worst possible world for them, because it's uncertainty and it's very difficult for them, as it is for us. And we would have hoped that some of that uncertainty would have been waived by now and as we speak, unfortunately it isn't and we just have to wait and see. I think that's as much as I can say for US equipment sales as at now.

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**Operator**

The next question comes from Mr. Olivier Esnou from Exane BNP Paribas. Please state your question sir.

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

Hello, good morning, Olivier Esnou, Exane BNP. Thank you for taking my question; two questions please.

The first one on the savings, if we add up what you've announced so far, we are somewhere between EUR900 million and EUR1 billion. And you mentioned your savings of fixed costs would be north of EUR600 million, probably revised up a little bit as you guided for next year. But is it fair to say that you're not getting EUR1 for EUR1 eventually and that maybe something like 70% retention is the right number? Or is it just an issue of phasing and you should -- and we should see EUR1 for EUR1 savings compared to the fixed cost reduction?

The second question is if you could just comment qualitatively maybe on the pricing trend, Q3 versus Q2, any end market improving or deteriorating? Thank you.

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

Yes, good morning Olivier. Actually the, on savings if you add brutally the restructuring we took at the end of '08, and the restructuring we have booked in '09, or announced for '09, you come up to an amount which is north of the EUR600 million. But there is a reason for that. There are actually two reasons for that. One is that there is about 70-plus-% of the restructuring, which is cash related and you could say 20-plus-% which is impairments.



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That is to say that when you are in cash savings territory, you do get an impact in income statements when the saving is actually realized. And you have to pay for it as well, because by the same token the savings are south of the booking in restructuring. You could see as well that the cash out is south as well. So that tells you that not all of this restructuring is a cash restructuring.

And for the non-cash part of the restructuring, it's essentially impairment, and there you basically get it over five years, because this is the average life of the fixed assets which are impaired. So you should use 70%, 80% of the restructuring which comes.

Now the second part of the answer is that it doesn't come immediately. You have obviously a payback, which is north of a year. I think we have guided you on a payback about 1.5 years. So on the portion which is cash, it takes you as an average 18 months to get it back, which is why that some of the restructuring of '09 won't help us until '11 and some of the restructuring of late '08 we will actually see in early 2010. So be a little bit careful there.

Now as I said in basically the -- well, as I said in basically one of the previous questions, we will update you on the back of Q4 on the specific numbers as at then.

Two more pieces information on savings -- at times you are a little bit surprised by the savings, in particular this quarter. But you have to realize that we've done other savings we never talk about, which are on discretionary expenses. We tend to inform you on the savings we do, which are structural. So they are the cost measures which we've taken and where we hope that if and when the business comes back, we won't see those costs back up. That's what I would call structured reduction of our fixed cost.

But of course you have to assume that we've done as well a reduction of what we call our discretionary cost; that includes consultants, that includes traveling, that includes temporary laborers and a few other things. And of course, we've pushed those costs down but we've not communicated on those savings, because if the business comes up. Those costs will come back. And that's why we never communicate about those costs.

And finally, we do not communicate on the saved depreciation coming from the impairments. I think in the -- I said there is a non-cash portion in the savings, coming back to the earlier part of the answer. We have a reduction of course, a depreciation of the results of that -- of those non-cash impairments and we do not guide you on the reduced depreciation.

So that gives of course a little bit of extra in a way, but this is an extra which comes on a significantly longer point of time.

Pricing, I think -- pricing not much to add. Still a bit of pricing pressure, I would say probably on Professional Luminaires. Something to keep on eye on and I think besides that, we try to stay disciplined. I think you saw our gross margin, our gross margin clean is showing a nice up-tick. Of course the mix helps there. But we obviously -- gross margin is always the best indicator of your pricing discipline and you saw that our gross margin made some progress. If you compare clean gross margin of this year versus last year, you can see that we've made some progress there. So all in all, we've tried to stay disciplined in our pricing.

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### Operator

The next question comes from Guenther Hollfelder from Unicredit. Please state your question sir.

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### Guenther Hollfelder - Unicredit - Analyst

Hello, yes. Referring to Consumer Lifestyle, the TV business, you already achieved quite a strong sequential growth here. Also given the presentation of your new product portfolio at the IFA in Berlin, I was wondering how do you think about your market position, especially in Western Europe going into the holiday season for the TV business, whether there might be some share gains.



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And the second question, P&L related, the general administration expenses of just EUR129 million includes some of the provision gains you have announced today?

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

Yes, two questions on market position in television. Yes we have gained a little bit of market share. Your question is on Europe. We have gained some market share -- our understanding is that we have gained some market share in Europe in the third quarter. I think that is a fact. We don't have the September numbers yet, but as at end of August we've seen an up-tick.

But you know it didn't come to you as a complete surprise because we have introduced a brand new line, which is well received. And as you probably remember, we said that we -- for the last couple of years we've been very careful about having some sleek design and trying to introduce that as a design game and not only as a technology game, and hopefully we are starting to collect a little bit the fruits of that.

Your second question was in G&A, are we doing a good job on G&A? Yes, if you don't have a clean income statement it is fair to say that the release of the medical retiree benefit is indeed on the G&A line. But if you were -- but we have as well a couple of -- we have some restructuring in that line as well. I'm not going to go into specifics.

But I can tell you that if you look at the clean income statement for G&A, you could see a significant improvement of our EBITA, in percentage point a good chunk of it come from G&A. I won't guide you much more, because we don't give full detail of the P&L. But you could consider that a good -- the improvement of our EBITA, which we have actually disclosed to you on a clean basis in the opening speech. It comes from gross margin, we've talked about that but it comes as well from a good control of G&A. G&A has helped as well.

So if you combine gross margin and if you combine that with the job done on G&A, you find a good chunk of the mileage accomplished when you see our clean EBITA of Q3 '09 versus the clean EBITA of Q3 '08 at Philips level.

**Operator**

Due to the time, we have a last question from William Mackie from MainFirst Bank. Please state your question sir.

**William Mackie** - *MainFirst Bank - Analyst*

Yes, good morning. It's Will Mackie, MainFirst, thank you; a couple of questions, first of all on page 28, to clear up something on the presentation, you've given one of the potential positives to the cash flow this year as being the sale of remaining stakes. So perhaps you could just give a brief update on where you are in that process?

And then more generally back to your businesses, I was trying reconcile your caution about the fourth quarter and going into next year with the increased levels of employment that you've taken on in the Group in this quarter. So perhaps you could throw some color on the 2,200 additional temporary employees you've taken on and what their primary focus is in the fourth quarter and into next year?

And then lastly, I know you've been asked the question before, but could we just go back to pricing trends. Could you perhaps highlight where you're seeing your pricing strength, even in the face of weaker demand, that significantly helped the gross margin expansion into the third quarter? Thank you very much.



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

Yes let me try, so three questions then. Okay on cash -- we -- I think this is page 28, you have pretty much the summary, the key ticket, for this year. In Q4 I think the one which relates -- I'm looking at page 28 as probably as you are as I'm speaking. There is the asbestos one, which we've commented on and you have disclosure on this particular comments in the press release and indeed a set of remaining stakes. But I can't comment on that because of course a good chunk of those companies are publicly traded, so it's very hard to comment on any of that.

The only thing I can say is that those stakes are there to be sold and as we've done in the past on a -- I would say, if we think that there is value for money, we will obviously execute. But I will never for obvious reasons comment on timing, because given that a lot of this is publicly traded, I simply cannot do that. We've put it in there because if there is something, that is something that you guys should pencil in our cash flow for the fourth quarter.

Your second question was on labor. Yes, we've added temp labor, but there is -- don't read too much into this. There is some seasonality in the way we manage temporary labor. The selling season asks some of the factories to work a little bit differently and if you look historically at the seasonality of our temps, you will see that it's always been there.

So I wouldn't read -- because I think that's where you're going, I would not necessarily link the increase of temps in with our cost management. It's, I would say that all in all, temps is much more a representation of the seasonality there is in the Philips' revenue, so don't read more into this.

And as far as cost savings on Health, I send you back to the ample discussion we've already had on that subject through this call.

Your last question is on pricing, yes, I think, as I said the ultimate proof point of pricing is the gross margin. There is, of course, left and right some pricing pressure. We've tried as much as we could to resist. Our luck is that in a number of product categories we are a leader.

Our defense -- our line of defense has been to try to have products present at the various price points, so that rather than giving in on a particular product on the pricing in a situation where you don't want to lose a sale, what we try to do is to basically offer the customer a product -- still Philips products at a lower price point; that has been our line of defense.

And that's, as you know, and we've discussed that at length in previous quarters, this is where we still have to make some progress on Healthcare, and obviously coming up in all our portfolio, with that capability, which is something we've discussed at length in the past and we are working on.

But there is pricing pressure. We have been able to, I would say, in most cases fight it with the particular approach I just described. And we will continue to do that as much as we can in the quarters to come. I think that's as much as I can say on this particular subject.

I think I am told that given time, I think this is the last question. So I want to thank all of you. [This] was quite a number of you on this call, so appreciate that you spend the time. Thank you for your questions. Appreciate some of you, in particular in the Americas who are very, very early next to your phone; we absolutely appreciate that. And we say you goodbye and basically see quite a number of you on the road in the days to come.

And I want to say as well that we fully appreciate the Columbus Day in the US which makes extra pressure on some of you guys. We're fully aware of this; try to do something in the future about it. But of course as I am sure you understand, it's not that easy but we are aware of it. Thank you very much from Stewart and myself and the team here. Goodbye.



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**Operator**

This concludes the Royal Philips Electronics third quarter results 2009 conference call on Monday, October 12, 2009. Thank you for participating, you may now disconnect.

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