

# FINAL TRANSCRIPT

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## **PHIA.AS - Q3 2011 Koninklijke Philips Electronics NV Earnings Conference Call**

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## PRESENTATION

**Operator**

Welcome to the Royal Philips Electronics third quarter results 2011 conference call on Monday, October 17, 2011. During the introduction, hosted by Mr. Frans van Houten, CEO, and Mr. Ron Wirahadiraksa, CFO, all participants will be in a listen-only mode.

After the introduction, there will be an opportunity to ask questions. (Operator Instructions). Please note that this call will be recorded and is available by webcast on the website of Royal Philips Electronics.

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I will now hand the conference over to Mr. Abhijit Bhattacharya, Head of Investor Relations. Please go ahead.

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

Good morning, ladies and gentlemen. Welcome to this conference call on the third quarter results for 2011 for Royal Philips Electronics. I am here with Philips' CEO, Frans van Houten, and our CFO, Ron Wirahadiraksa.

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

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

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

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

Thank you, Abhijit. Welcome, and thank you all for joining us today.

Two quarters into my tenure as CEO, I'm encouraged that our organization is responding well to our large multiyear change and performance program, Accelerate! Our renewed focus on innovation and customer intimacy, supported by a changing culture that embraces entrepreneurship and accountability, is driving the organizational changes needed to achieve our goals.

We are beginning to see the impact on growth of stepping up investments to accelerate meaningful innovation and win more customers, while, at the same time, addressing structural change.

The implementation of the Philips Business System is beginning to improve granular performance management on the basis of which, we are initiating corrective actions faster, including management changes in certain businesses and markets.

What remains clear, however, is that a significant amount of work still needs to be done to transform Philips to deliver the shareholder value we believe we can achieve.

As we are in the early stages of change, given the ongoing economic challenges, especially with regard to the unresolved eurozone crisis, and because operational issues and risk continue to impact our business, our financial results do not fully reflect the hard work of our team yet.

The good news, however, is that in the short 90 days or so since I first outlined for you the initiatives that we are taking on, we are encouraged by the response of our employees, and we are making steady progress.

Let me now walk you through a few of the details. Our results for this quarter have been affected by operational issues, as well as raw material price increases, which have resulted in lower gross margins than planned, particularly in Lighting. At the same time, we are stepping up innovation and sales-related expenses to drive growth.

In Healthcare, we are rolling out a number of new products that will better align us with the future of the industry. We are seeing the positive order book and revenue impact from these product launches and, while the investments in selling expenses, speeding up innovation and higher regulatory cost negatively impacted our earnings this quarter, we believe that this is a short-term consequence of our strategy to build our market leadership.

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Having said that, we are closely monitoring both the overall economic environment and government policy, and the potential impact on the Healthcare business in the medium term.

We continue to reshape our Consumer Lifestyle portfolio for profitable growth by repositioning the business towards the health and wellbeing domain, and by driving global scale and category leadership.

We are reducing our exposure to Consumer Electronics, and we are focusing here on more attractive growing categories. In our growth businesses, we continue to invest and are seeing this investment correlate to better sales growth.

The negotiations with TPV for the creation of the television joint venture are intense and constructive. Although these negotiations are taking longer than expected, we continue to work together to come to definitive agreements soon.

For the eventuality that a final agreement cannot be reached, Philips will consider its alternative options. The process of disentangling the TV business from the rest of Consumer Lifestyle is progressing well and according to plan.

In Lighting, we have put through price increases to compensate for the effects of the increase in raw material prices, the full effects of which will be visible in Q4. At the same time, we are significantly stepping up innovation initiatives in growth areas and, more specifically, preparing Lighting for the transformation to energy-efficient LED lighting solutions, and to sustain our global lighting leadership.

In terms of cost cutting, we have scrutinized our processes and overhead cost. By reducing complexity and overhead cost, we will save EUR800 million, which has now been detailed and we are in the process of deploying it across the organization in the countries affected.

About 60% of these cost savings are people-related and hence, will lead to the loss of approximately 4,500 jobs, and I find this regrettable, but it is an inevitable step to improve our operating model to become a lean, agile, entrepreneurial and competitive Company. The remaining 40% of the cost relates to other structural cost savings like in real estate, IT cost, etc.

We also continue to make good progress on our EUR2 billion share buyback program. 24% has been completed at quarter end.

Now, before I turn the call over to Ron to walk you through the financial details, I would like to state that, while we are not yet satisfied with our current financial performance, I do think that it is important to reiterate that we are convinced that the opportunities for operational improvement, and the actions we are taking, will unlock the potential of our portfolio and set the stage for us to achieve our 2013 financial objectives.

With that, I would like to pass it over to Ron.

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

Thank you, Frans. Good morning, and welcome to all of you on the call. I will begin by giving you some color on the developments in the markets we serve.

Let me start with Healthcare, where, in the US, hospitals are becoming more efficient and, as a result, their financial positions are strengthening. This, coupled with improvement in the US credit markets as well as pent up demand for upgrading to new and more efficient technologies, is outweighing some of the concerns and uncertainty around the US budget control and the Affordable Care Act.

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This leads to a growth in hospital construction activity. This hospital construction activity in the US continues to rise, projected at 5% in 2011, and 6% for 2012, as administrators prepare for the influx of newly insured patients and current low interest rates are fuelling these infrastructure advancements.

Nevertheless, there continues to be some concern among hospital CEOs around healthcare reform and possible related reimbursement cuts. While we do continue to see pent up demand, uncertainty remains, and it's an issue we continue to monitor very closely.

In Europe, markets in Southern Europe continue to be weak, given the economic situation prevalent in those geographies, as well as the austerity measures undertaken by various governments. With the current situation in Europe, we remain cautious on the near-term outlook.

In our growth geographies, we continue to see momentum as more investments continue to be directed to these markets, resulting in robust demand.

For the Consumer Lifestyle markets, consumer confidence is still low in North America and has weakened in the past quarters. Confidence among US consumers saw the lowest level in more than two years in Q3, as the outlook for employment and income declined.

In Europe, the weakness is predominantly in Southern Europe, while Northern European markets are registering a low growth. Markets in Asia Pacific remain strong.

The weak market sentiment has had a larger impact on the Lifestyle entertainment markets, compared to the health and wellbeing part of the Consumer Lifestyle portfolio, the latter being personal care, health and wellness, and domestic appliances.

The Lighting market in Q3 was virtually flat, compared to the previous year, and grew modestly, compared to the second quarter of this year, mainly driven by LED product categories and growth geographies.

The US and Western Europe continued to see slow GDP growth, though in the US market, we believe that improved construction in non-residential will benefit the professional luminaires market in the second half of 2011.

In Western Europe both residential and non-residential construction in Q3 were slow, with the exceptions being Germany, Austria, Switzerland and France, which showed a slight uptick in the markets for professional lamps and luminaires.

In growth geographies, construction remained strong, especially in Asia Pacific, driving lamps and luminaires markets across categories.

China remains a clear growth engine, especially for the consumer lamps and luminaires market, with continued strong residential real estate investments.

Vehicle production in Q3 is estimated to have risen slightly, compared to a slower Q2, driving incremental growth for the automotive lighting market.

Let me now move to the Philips Group results for the third quarter of 2011.

Let me remind you that, as of the first quarter of this year, we report a profit and loss on the TV business under discontinued operations, and the net operating capital for the business in the balance sheet on the line assets held for sale.

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The cash flow of the TV business is reported under cash flow for discontinued operations. Therefore, all commentary that will follow, in terms of sales and earnings at Philips Group level and Consumer Lifestyle sector level does not include Television related information.

Also, when I refer to adjusted EBITA on this call, this represents EBITA excluding restructuring and acquisition-related charges.

Comparable sales in the third quarter grew by 6% when adjusted for currency and portfolio changes. On a geographical basis, comparable sales in our growth geographies grew by 13% in the third quarter. Excluding the effect of a decline of packaged LEDs sales to these markets, the comparable growth for the quarter for our growth geographies was a strong 16%.

The packaged LED business is an OEM business, and the products are shipped to destinations, depending on the production plan of our customers, hence this clarification.

Our growth geographies are defined as all markets excluding the USA, Canada, Western Europe, Australia, New Zealand, South Korea and Japan. Sales from these growth geographies increased to 34% of Group revenues, compared to 32% for Q3 of last year.

In other mature markets, we also saw a strong comparable sales growth of 13% in the quarter, led by a strong growth in Consumer Lifestyle and Lighting.

Sales in North America grew by 5% in the quarter on a comparable basis. Western Europe saw a decline in comparable sales of 3% in the quarter, mainly due to the market-related weakness I spoke about earlier, which affected all of our businesses.

Reported EBITA was EUR368 million, or 6.8% of sales, which is lower than the EUR647 million, or 11.8% of sales, reported for Q3 last year.

The restructuring and acquisition-related charges for the third quarter of this year were lower than the third quarter of last year by EUR5 million.

Q3 2010 EBITA was favorably impacted by a pension plan change of EUR36 million and EUR6 million provisions release. Adjusted EBITA, therefore, was EUR392 million, or 7.3% in the quarter, compared to EUR640 million, or 11.7% for Q3 2010.

The decline in the adjusted EBITA was due to declines across the sectors on which I will elaborate in just a few moments.

Net income for the quarter, including a negative impact of EUR39 million from discontinued operations and the negative impact of financial income and expenses of EUR173 million, compared to Q3 of last year, was EUR76 million, compared to a net income of EUR524 million in Q3 of last year.

Our cash flow from operating activities for the quarter was an inflow of EUR53 million, compared to an inflow of EUR168 million in Q3 of 2010. The year-on-year decrease was largely due to a decrease in earnings of EUR218 million, partly offset by lower working capital requirements and provisions.

With that summary, let me now walk you through the performance of each of our businesses during Q3, starting with Healthcare.

Currency comparable equipment order intake grew 5% in Q3 2011, compared to Q3 2010. Order intake was led by a solid performance in the US, where we registered a 6% increase in the order intake on a year-on-year currency comparable basis.

Our growth geographies saw a strong increase, where equipment order intake grew by 15%. This was led by India, which saw a 75% currency comparable growth in order intake, Russia with 53%, LatAm with 16%, and China with 6%.



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These increases were somewhat offset by Europe, which saw a double-digit decline in currency comparable order intake due to weak markets.

On a currency and portfolio comparable basis, our Healthcare business registered a solid year-on-year sales increase of 7%, significantly above the 4% growth registered in Q3 2010.

The Patient Care & Clinical Informatics business had a very strong quarter, registering double-digit sales growth, while the other businesses, namely Imaging Systems, Home Healthcare and Customer Services grew mid single digits.

North America saw a promising growth of 8% in the quarter, while growth geographies delivered a strong sales increase of 20%. This was led by China and India, both of which saw a comparable sales increase of above 40%.

These results were tempered by a low single-digit decline in Europe. Most of Europe saw moderate sales declines, with the exception of the United Kingdom and the DACH region.

Healthcare reported a solid quarter EBITA of EUR261 million, or 12.6% of sales, compared to EUR282 million, or 13.6% of sales, in the same period of 2010.

Adjusted EBITA was EUR263 million, or 12.7% of sales, which is below the EUR288 million, or the 13.9%, in the same period last year.

The lower earnings in this quarter was primarily due to additional selling expenses spent and regulatory-related expenses.

Consumer Lifestyle sales, when adjusted for currency and portfolio changes, grew by 1% compared to Q3 of last year, after four consecutive quarters of declining sales.

Excluding the effect of declining license revenues, the sales growth was 2%. The Lifestyle Entertainment business registered a high single-digit decline in sales for the quarter, with China and India registering double-digit growth.

We are pleased with the continuing momentum of sales growth in Q3 2011 for the Personal Care, Health & Wellness, as well as the Domestic Appliances businesses, which registered high single digit comparable sales growth.

Sales in our growth geographies grew by 14%. This was offset, however, by declines in the mature markets, mainly due to weak consumer sentiment and reduced license income.

The reported EBITA at Consumer Lifestyle declined to EUR102 million from EUR169 million in the third quarter of 2011, due to a strong decline in the Lifestyle Entertainment business, investments in advertising and promotion and innovation to drive growth, and lower license income in the quarter, compared to last year.

The adjusted EBITA of the sector was 8.1% in the quarter.

In terms of our TV business, which, as I explained earlier, is reported as part of discontinued operations, the operating loss for the third quarter was EUR69 million, a deterioration compared to Q3 of 2010, when the operating loss was EUR31 million. The results for Q3, however, were flat, compared to Q2 of this year.

Inventory, in terms of future sales, decreased to 25 days, a 34 day reduction from the 59 days of inventory we reported in Q2 of this year.

On page 15 of the press release, we have provided a simple reconciliation to the net income of discontinued operations of a loss of EUR54 million.



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In Lighting, comparable sales grew by a strong 8% in the quarter, compared to Q3 of last year. The increase in sales was led by our growth geographies, where sales grew on a comparable basis by over 19%, excluding the impact of the sales of packaged LEDs, as I explained earlier.

On a more granular basis, sales in China, India, ASEAN, LatAm and the Nordic region, United Kingdom and Ireland, showed good momentum, with strong double-digit growth.

Sales in North America continue to recover with a mid single-digit growth in the quarter. Western Europe continued to grow, registering a mid single-digit comparable sales growth.

When taking a deeper look into each business, we continue to see strong sales for our LED products, with growth of 32%, compared to the same quarter in the previous year.

The Lamps business saw a strong double-digit growth in the quarter, with a significant increase in the sales of LED lamps.

Sales of professional luminaires, despite a weak construction market, showed double-digit growth for the third consecutive quarter, although pricing remained under pressure.

Lighting systems and controls delivered mid single-digit growth for the quarter, slightly dampened by the destocking in North America.

Automotive grew around 7% in the quarter. Sales in consumer luminaires continued to remain weak, registering a marginal decline. The consumer markets in Western Europe, in particular, impacted sales in the quarter.

Lumileds saw a steep decline in revenues in Q3 2011, compared to the same period in the previous year, due to a drop in sales for display-related LEDs with one major customer.

Lumileds has seen a strong increase in its general illumination business, however, that hasn't been enough yet to offset the decline in display applications.

The reported EBITA at Lighting declined to EUR110 million from EUR216 million in Q3 2010. Adjusted EBITA was EUR121 million, or 6.4% of sales, a decrease of EUR112 million, compared to the third quarter of 2010.

This decline in earnings was primarily due to steep declines in Lumileds and consumer Luminaires. Additionally, investments in selling expenses for growth, the impact of increase in raw material prices, and mix changes have negatively impacted results in the quarter.

In Q3, Lumileds temporarily halted its manufacturing operations to align inventory levels to the low revenue levels, which affected the growth margin.

Reported EBITA loss at GM&S was [EUR105 million] (corrected by company after the call), which is in line with our guidance.

Inventory value at the end of Q3, 2011 increased EUR298 million in the quarter, mainly attributable to production inventory in Healthcare and Consumer Lifestyle to prepare for Q4 sales. Inventories at Lighting remained flat for the quarter. We will continue to focus our efforts to reduce inventory relative to sales.

Ladies and gentlemen, let me now sum up where we stand at this point of time. Earlier, Frans gave us some color on how we are driving change at Philips; this is fundamental change that takes time and is not a quick fix. As a result, we have said before we do not expect a material performance improvement in the near term as some operational issues and risks remain, and as uncertain economic times persist.



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Our Management team, however, is on top of our operational issues and is addressing them. And we are executing on our change plans that will ultimately make Philips a structurally more profitable Company. We are countering certain adverse factors like increase in rare earth prices and mix shifts, which are impacting results in the short term, through price increases and other measures, including efficiency improvement actions.

I would like to leave you with the clear message that Philips is changing and that, despite the economic challenges, we remain confident in delivering our mid-term financial targets by 2013.

Before I end, I would like to remind you that, for the Company, like we do in December of every year in the form of an update, for this year we have planned a conference call with an update on financial reporting and related matters like pensions, etc. This will be on December 8.

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

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Andreas Willi, JPMorgan.

### Andreas Willi - JPMorgan - Analyst

My first question relates to restructuring, where you've given us a lot of detail in terms of what you plan to spend and where in the next few years. If you look, for example, at the EUR35 million you have put in for 2011, that already seems lower than the divisional guidance you gave in each of the sectors. So maybe you could explain the restructuring for that EUR800 million program. Is that all restructuring, or is that restructuring that's on top of some of the restructuring you planned to do anyway in the sectors? And if I look at the restructuring spending overall in the sectors for the next couple of years, that seems to be a relatively limited number compared to just normal ongoing restructuring you have spent in the last few years?

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

The table in the presentation on page 28 relates specifically to the overhead cost reduction that we have announced this summer, and does not include, let's say, the usual restructuring related to building down some of the industrial footprint of the traditional Lighting business. So that is separate. Does that answer your question?

### Andreas Willi - JPMorgan - Analyst

Yes, so if we look at Q4 you gave EUR50 million guidance for restructuring as part of the EUR800 million program, and then you gave numbers as well for all the sectors. Is the numbers you give for all the sectors the total, or is that to be added to this overhead reduction?

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

So this is the number that is on top of the usual restructuring and it is, therefore, to be added.

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

Yes, just a clarification Andreas. The divisional guidance includes the acquisition-related charges as well and, furthermore, we'll stay with the answer that Frans has just given.

**Andreas Willi** - *JPMorgan - Analyst*

Okay, but not the overhead reductions. And then the follow-up question on Lighting and the good growth you saw in the quarter, relative to the commentary at the capital markets day in September, that implies a better growth rate also in the non-LED business, which, at the capital markets day, you basically said that was down, which I assume was July/August. Does it imply you've had a much better September than you expected in the traditional Lighting business?

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

Yes, we've seen particularly good growth in lamps and in professional Luminaires. There was somewhat of a stronger push after Q2, which was disappointing in sales in those areas. Of course, as we already indicated, we also had some less favorable growth and developments in Lumileds and the Consumer Luminaires business. But overall, we're quite pleased with this performance.

**Andreas Willi** - *JPMorgan - Analyst*

And in terms of the inventory issue, do you think it's just that you carry a bit more inventory, or is the channel -- how do you assess the channel in Lighting for inventories?

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

Well, the inventory that we have at Philips can certainly be improved, and I consider this to be part of the operational issues that we need to work on, and I would not correlate it to an industry situation at large. For Lighting, however, the inventory development was actually flat, already reflecting the strong attention that Ron and I are putting on it in the Lighting division.

**Andreas Willi** - *JPMorgan - Analyst*

Thank you very much.

**Operator**

Simon Smith, Credit Suisse.

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

My question was really around the TV business. You've obviously highlighted in there that you're negotiating hard to get a deal done, but that you may have to look at alternative options. I just wondered, in this environment, what do you see your main alternatives, and if you are able to share with us any insights as to what the potential costs of a solution could be?

My follow-up question would then be just going on with regard to inventory, I just wondered if you look at the rise in inventory that you've seen in a quarter when you've seen such a strong finish in terms of sales, somewhat surprised to see that rise. I just wondered if you could explain the strategy for that particularly on the Healthcare side?



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And also maybe just, again, give us the numbers of inventory that you saw for the TV business; I didn't quite capture what you said was your current situation of inventory relative to where you had been? Thank you.

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

All right, well, Simon I'll take the first one, and then Ron will talk about the inventory questions that you have.

Indeed, I'm a little bit disappointed that it takes longer to come to a conclusion on the negotiates with TPV. I also relate this to the deteriorating environment for TV business globally at large, I mean for all the competitors. But the fundamental idea that both TPV and Philips have -- the rationale to create this joint venture has not changed and we continue to be very committed to come to a conclusion.

So I did want to flag, in the sense of full disclosure, that we have this delay, but we have not changed our focus to try to come to a conclusion. And therefore, I find it too earlier to elucidate to you details around the alternative options as we continue to focus on making this deal happen in the next months.

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

On the inventory in Lighting we have seen flat inventories q-on-q. We still think our inventories in Lighting are too high, and that is due to some of the inefficiencies in the supply chain and some other safety stock that we're holding.

On TV I would say that, as I said earlier on, the days future sales decreased with 25 days, so there's a 34-day reduction and we're very pleased by that. And in Lifestyle we built some inventory to cater for the Q4 sales.

Now Q4 is typically always a quite heavy quarter in the year, so that explains the inventory buildup. And we have, particularly in Healthcare, quite some inventory ramp in forms of WIP, work in progress, to deliver on the increased demands that we have seen following the introduction of our new product suite, RSNA, last year and that is coming really through this time.

Does that answer your question Simon?

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

Yes, that covers it, thank you very much.

**Operator**

Martin Wilkie, Deutsche Bank.

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

A couple of questions. Firstly on Lighting, it sounds like the margin in the quarter was hit by lower utilization at Lumileds, and I was wondering if you could let us know when that production restart might kick in, and just how big a drag it was for the margin in the quarter? Looking into Q4, presumably you do have some positive pricing benefit, but also perhaps that capacity utilization at Lumileds, so if you could just walk us through that first?

And then my second question was just on your commentary that you're not expecting to realize material performance improvement in the near term. Does that mean that we should think your savings that you've guided to in 2012 as very backend



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loaded, i.e. those are largely coming in the second half of the year, or do you still see some of those net benefits kicking in, in the first half of 2012? Thanks.

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

All right Martin, let me start at it and then come back to it. So the Lighting margin overall is affected by several factors; first of all, the raw material price increase, secondly, mix changes to categories that have somewhat lower margin, and specifically due to some actions among which in the Lumileds business. In Lumileds we did see a decline in utilization, due to a lower volume, as we have lower sales in the display category, but also related to transformation to 6-inch and some, let's say, older inventory that we are dealing with.

So of course, we are working very hard to come to a structural margin improvement as we work towards our 2013 mid-term targets as communicated before.

With regard to the cost savings, the overhead cost savings, you see on the table on slide 28 that we see the build up towards the gross savings of EUR800 million, but we do have to make restructuring efforts for that, and there is restructuring costs foreseen. And we also have to do a number of investments to transform the systems and ways of working to make those savings possible.

The amount of gross savings versus the restructuring cost and the investments in 2012 are actually pretty close to each other and, therefore, we do not see net net a lot of bottom line improvement yet in that year. And most of the benefit, on a net basis, then starts to come in from 2013 onwards.

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

Okay. And just to clarify on Lighting, I think you mentioned at the time of the second quarter that you felt that the Lighting margin in the second half of the year overall would be broadly in line with what we saw in the second quarter. Is that still your sense today, or has that changed?

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

Well, as I said we have implemented the price increases in the second half of the quarter, and we expect to be in the fourth quarter, towards the end of that, the run rate of price increases that will offset most of the material cost increases. So that's in general what we have said; I don't think we have given more guidance than that.

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

Very good, thank you very much.

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**Operator**

Ben Uglow, Morgan Stanley.

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

I wanted to press you a little bit harder on the TV issue. The change of language in the press release is quite material, and could you just give us a bit more color in terms of your discussions with TPV where are the broadest areas of disagreement? Is there

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any one single problem, i.e. valuation or whatever, or is it across the board, price, employees, shareholders? Could you be a little bit more specific as to why this may be delayed, or put off altogether?

Just a second issue was just on the inventory. It says in the press release that this has sort of increased in preparation for Q4; what do you see in the Q4 environment, either in terms of Healthcare or Consumer Lifestyle, that you believe warrants a higher level of inventory?

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

All right, Ben. Well, yes, I wanted to flag that we are still negotiating together with TPV, and we are constructively doing that. Of course, I cannot give you details on exactly which terms and conditions we have still work to do. I do think that we can tell you that, on many points, we have already achieved agreement, so this is not a situation where we are still miles apart, but a couple of critical points that we need to make sure that we bridge, and, if we could not bridge them, then we go to those alternative solutions.

So usually, in a negotiation, the last bits are the tough ones, so I hope, in the next months, that we can finalize this because, one way or another, we need to move on, and I'm not prepared to let the situation linger without resolution.

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

On the inventory, you see the buildup of the inventory as global, see in the Q4 seasonality, although as we have already stated, it's at a slightly too high inventory level.

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

Yes, that's what I was getting at, so over 18% from around 16.5%. Is that because, let's say, in Healthcare, you're expecting to launch a number of new products in the fourth quarter? Could you just give me any sense of if there's something special about the coming fourth quarter that explains that inventory increase?

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

Yes, but Ben the fourth quarter for Philips is always a big quarter, and so there is always a seasonal pattern that, of course, we need to prepare for. Healthcare usually is well covered for the upcoming sales in the next three months, in terms of order book and, therefore, all the work in progress, the bit that Ron explained, is there to deliver on that demand, so we feel quite comfortable about it. And also in Lifestyle usually the seasonality plays a role.

Now having said that, we are not satisfied with the overall level of inventory, and we do believe that, structurally, we need to bring this down to a more healthy level, but that is irrespective of the seasonal ramp-up, which is habitual and normal.

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

Understood. I was alluding to the fact that, year over year, at the end of the third quarter, it was still going up. So taking seasonality out, it's still going up.

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

Yes, and I agree with you that is not good, and so a part of our operational improvement plan we also target higher working capital turns. You will find this under the Accelerate! program where we talk about end-to-end effectiveness. We think that both the sales and operations planning processes, and how we construct our supply chain, we see many opportunities to improve that, and how people collaborate on that.

But it is just slow in coming. I always expected that, so we didn't promise you a very quick structural improvement, but please be sure that this has our attention. In face-to-face sessions we've always flagged that we feel that we can free up a lot of working capital, both generated and cash, but also enhancing our ROIC.

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

Understood. Thank you very much.

**Operator**

Gael De Bray, Societe Generale.

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

The first one actually relates to the details of your cost cutting program. It seems that you've reduced the savings expectations for Q4, 2011. At the capital market there you guided for EUR40 million, and now it's just EUR20 million. Same thing for 2012; if I look at the net savings you expect now it seems that it's going to be EUR50 million lower than what you initially guided at the capital market day. Could you come back on this please? And does it mean that you are already running late in deploying the savings plan?

The second question relates to Lighting. How much of the 8% sales growth in Q3 was actually price related? And given that more price rises are expected to flow through in Q4, what could then be the price impact in the fourth quarter? And that would be it for the time being.

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

Well, on the cost savings, I will ask Ron to speak in a moment, although I'd like to observe that, besides the structural cost savings, we are also working on discretionary cost savings.

On the growth in Lighting, I dare say that this is not price related; this is all volume driven, thanks to step-ups in efforts in the market, and strong traction of our LED energy efficient lighting solutions. We believe that customers want our products; they can save money on their energy bills right off the bat. We see good traction in those kind of renovation markets. And Ron already mentioned that the brunt of the price increases are actually expected in Lamps for Q4.

Now then back to Ron on the structural cost savings.

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

The EUR500 million that we showed you in July, or we talked about in July, that was focused on people reduction. So there was a fairly high ratio of restructuring costs to cost savings; for example, EUR375 million restructuring costs to save EUR500 million. But after this, as we reported back on capital markets day, we have identified additional opportunities, and these opportunities

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require somewhat more of a fundamental change in our processes and IT systems to make sure that the savings are sustainable and structural savings.

As a result, we decided to pull up some of the investments that we need to make to make this structural change, and therefore, we have higher recurring savings at the back end.

If you look at the restructuring costs of EUR800 million, that is now EUR400 million because, as we said, 40% of the savings are not people related, and we have to make some one-time investments to realize these savings.

I hope this is an answer to your question.

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

Yes, okay, thank you very much.

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**Operator**

Olivier Esnou, Exane BNP Paribas.

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

First, on Lighting, I would like to come back on the net negative effect you still have this quarter from the mismatch between price and raw material. Can you tell us how much it is costing you in gross margin this quarter, that should hopefully disappear in Q4? That's my first question please. I have a follow-up then.

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

We're not really commenting on the actual development between those two. What I said earlier is we started with the price increases in the second half of the quarter. That means we had somewhat of a lag before the year end. We hope to be at the run rate of price increases that offsets most of our material price increases.

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

Okay. So let me talk a bit about some of the issues that you said in Q2 were your own making, i.e., Consumer Luminaires, which you said was on the right track and should improve, even in a weak environment. Is that the case now; do you think it's the case?

And for Lumileds, when do you think we will see the benefit of moving to 6-inch?

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

On the Consumer Luminaires, I do believe we are on the right track. The supply chain performance has already improved, and we see it with higher customer service levels; the customer service levels were at the root cause of losing some traction in the market. Now that this operational excellence starts to come back, we have gone back to our customers for renewing the listings at various retail channels for Luminaires.

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This takes time; we expect that, over 2012, gradually this improvement will become visible. So perhaps there's some disappointment in how fast we see the customers respond to those improvements, but it doesn't take away from the structure or improvement trajectory that we are on, and I can again confirm that.

With regard to Lumileds, the under-loading effect of the drop in volume related to the display customer cannot be compensated by the higher efficiencies of moving to 6-inch. So we would need to see higher loading to really have the full benefit of that, and I expect the growth in the general illumination LEDs to continue to be strong. And we are talking about a substantial growth in that area, and so it's a matter of time that we compensate for the loss of the display category.

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

Okay. Maybe just a last point please, on Healthcare. If I've heard well the growth in China was 6% in the quarter, which is slightly lower than what we've heard over the previous quarters from you and your peers; I think growth was generally trending 15%/20%. Is that just a glitch, or how should we read that number? Is there a general deceleration trend, or just temporary slowdown?

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

It's a little bit complicated construction that I think, Ron, you can explain.

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

In China we saw a reduction in the order intake for our Neusoft joint venture; we're undergoing some reorganization there. If you would exclude that, then actually order intake in China grew by 11%.

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

Okay, so just temporarily then in your mind?

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

Yes, however, reorganization takes some time. But this is the underlying current -- healthy double-digit growth.

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

It's better to take the 11% as a proxy rather than the effect of this joint venture, which is, as it says, a joint venture; it's not 100% our own business.

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

Okay, thank you very much.

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**Operator**

Sjoerd Ummels, ING Financial Markets.

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**Sjoerd Ummels** - ING Financial Markets - Analyst

Two questions from my side, please. The first one is on Healthcare. In your opening comments, and also in the CEO quarterly report, Philips stated that it is currently monitoring the overall economic environment, and the impact on the Healthcare business in the medium term. I was wondering if you could share, at this point in time, some of your key observations -- key findings with respect to the sensitivity of Healthcare to an economic relapse, and also to mature markets' belt tightening.

Second question relates to Lighting, and my question would be whether you could update us on the succession planning of the CEO and CFO positions for the business. Thanks.

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

All right. Let's start with Healthcare. We indeed flagged that consciously, as the Healthcare business is still predominantly a US and European market. Of course, the upcoming markets are growing rapidly, and that's very exciting for us, but the brunt of the business is still quite related to the US and Europe.

The US, as Ron has explained in his comments, is going well, and we also foresee continued growth. I think it is especially Europe that we are worried about where, as we have told you in Q3, we already see for the whole of Philips a decline. And it is really very important that we end this euro impasse as it may affect the real economy more and more.

So it is an uncertain situation where, in terms of order intake, we do see some weakness. Of course, we are working very hard to compensate that through growth in other regions, and there we have good traction.

With regard to Lighting, I could say we are having good fun in being the CEO and CFO in Lighting, and I think our hands-on approach in that sector is starting to pay off in terms of improving operational excellence, granular performance management, but also showing to the Company that we are very committed to this business.

Of course, at some point in time this situation has to change. It doesn't matter to me whether it takes a bit longer. We are currently working on a succession plan for the CEO, and for the CFO we actually have a good solution in the pipeline already.

Sjoerd, that's it. All right?

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**Sjoerd Ummels** - ING Financial Markets - Analyst

Yes, cheers.

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**Operator**

Daniel Cunliffe, RBS.

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**Daniel Cunliffe** - RBS - Analyst

Hi, it's Daniel Cunliffe here. Two questions, one on Healthcare. Firstly, just really looking at the new equipment orders, I note that ex-North America these went from minus 4% in Q2 to plus 3%. Could you just give us some color there? It looks as though the growth markets have stepped up somewhat, but I'm really interested in trying to get what's going on in Europe. It also looks like Europe is starting to improve. I just really want a bit more color on European new equipment orders. That's the first question.

Then secondly, just coming back to TV, you did mention in the press release that you're maybe also looking at alternatives. It would be interesting if you could just share with us what those alternatives may be at this stage. Thank you.

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

All right. Ron, why don't you take the Healthcare question?

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

Yes. So as we said, currency comparable equipment order intake grew 5%. The order intake was led by a solid performance in the US that was 6% up. And as we said, excluding this Neusoft joint venture reorganization issue we had 11% in China. That means that Europe was down versus the third quarter of last year to the tune of, I believe, 10% to 11%.

**Daniel Cunliffe** - *RBS - Analyst*

But in terms -- I'm really looking for the delta and we can work out that it's down from the press release, but in terms of what the percent down was last quarter versus this quarter, just to try and get a sequential pattern? Thank you.

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

Right, why don't we look that up for you, and then maybe we can come back to it a bit later.

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

All right. The team will work on it, Daniel, then let me talk about TV again. I think we covered it in the beginning when Ben and Simon asked about it; I'm still working towards finalizing the joint venture, and that is where our energy is focused. We did want to flag that we have a delay, in all openness, but it doesn't mean that we're already on the path of having no expectation any more that we can finish this deal. Actually, we think we can and, therefore, at this moment, it's not appropriate to start elucidating the alternatives yet.

**Daniel Cunliffe** - *RBS - Analyst*

Okay. All right, thank you very much. I'll hear back from you on the Healthcare question.

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

Yes, sure.

**Daniel Cunliffe** - *RBS - Analyst*

Thanks.

**Operator**

Christel Monot, UBS.



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**Christel Monot** - UBS - Analyst

Just quickly to come back on Lighting and pricing, I think you commented, or you gave us some ideas, about the impact of higher phosphor prices. And basically, I think you guided for 25% to 30% price increase in CFLs and fluorescent tubes which, in theory, would be a 5% boost to the top line. So is this the kind of magnitude that we could expect for Q4? And do you think that's structurally sure and, therefore, you're going to have to either secure more your phosphor supplies, or will you have to increase prices again in Q1 next year? That would be my first question.

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

Okay, so the Lighting price increases are expected to have more impact in Q4. There was already some impact in Q3 that could have a little bit of a boosting effect, but let's not forget that the categories that are most phosphor intensive are only part of the overall product mix. It's applicable primarily to TL and CFLI, whereas our incandescent and HID lamps, of course, are not subject to that. Therefore, when you look at modeling this, you should not forget that there's only a smaller proportion directly affected by these massive price increases that we talked about.

In anticipation of price increases, we did see a few distributors stocking up on the old priced products, and that could have a somewhat dampening effect on the uptake in, especially, the first few weeks of the quarter. So all in all, I don't think we should count on a big effect of price volume effects.

Then on the phosphor strategies, I think this is a global concern whereby Philips has taken mitigating actions to secure phosphor in the long term through various supplier collaborations. And we also have the ability to manufacture in China where access to phosphor is easier, as local companies in China are having more favorable access to phosphor.

And I see Ron reaching out. Do you have the answer on the previous question, or do you want to add to other one?

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

I want to come back on the point that we left open on the Q2 Europe order intake growth. There was in Q2 also a decline. It was about 6%, so q-on-q we saw a weakening from Q2 to Q3.

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

All right. And maybe back to Christel, maybe you have more questions?

**Christel Monot** - UBS - Analyst

Just one additional question was on the cost of TV which are still in Consumer Lifestyle. I think you mentioned EUR7 million this quarter, while the guidance previously was more something like EUR15 million per quarter. So what should we expect there? Is it that Q4 is going to be higher, or that you have already managed to reduce the legacy costs from TV?

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

There has been somewhat of an adjustment in the number, so at this moment, the run rate is somewhat lower than the remaining cost that we guided for earlier. I think you can take that forward.

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**Christel Monot** - UBS - Analyst

Okay, brilliant. May I have a very final question which is the EUR38 million impact, that's going to be a very quick one, EUR38 million impact in GM&S I think, which came from legal and environmental provision related to a discount rate change. Can you be a bit more specific on that, and whether this is a one-off or something we should expect to happen again? Thank you.

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

So this is more to be seen as a one-off.

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

So that was a very short answer (laughter).

**Christel Monot** - UBS - Analyst

Brilliant. Thank you guys.

**Operator**

Martin Prozesky, Sanford Bernstein.

**Martin Prozesky** - Sanford Bernstein - Analyst

I've got a broad question on Europe. We've seen Europe pretty weak across the board across most businesses. I think you just commented that Healthcare orders were trending down. Can you give us a sense, both to the 2013 targets as well as the base case for restructuring for the EUR800 million, what is your expectation for European macro development, and specifically for the various businesses? And if that doesn't play out, how much room do you have to increase savings, if it's needed, in Europe?

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

We did flag before that we feel confident about reaching our mid-term 2013 targets, and that we should not immediately be affected by slight fluctuations in GDP growth. So in other words, also with a slightly lower GDP growth we can still achieve our targets. Ron calls this a situation of self-help. I agree; this is the way to describe. We have so many opportunities to improve that that is what we're going after.

Now having said that, of course if the world really deteriorates in a major way, and the European crisis could trigger that, then that would be a different story. And in that context, it is also important that the European leaders, in the coming weekend, come with more decisive actions to get us out of this impasse. So in other words, we don't need a strong Europe to make our targets, but if Europe triggers a world crisis then it's a different dialog.

Yes, I think I basically have covered, Martin, your question.

**Martin Prozesky** - Sanford Bernstein - Analyst

And just a follow-up on that, in terms of the areas which you see most exposed, continuing Healthcare weakening order trends, that's quite concerning for the medium term, given the weight of that business within the overall mix, but also Lighting. And

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on some of the Consumer businesses you're over-indexing to Europe. So are there areas where you're seeing further weakening at this point, or do you say things are achievable if status quo remains?

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

I think we all have to adapt our value proposition to the market if the market is weak, and in Lighting I can give you a good example. The energy prices are still expected to rise in the next years. We talk to municipalities and highway operators that investing in LED efficient lighting is a great way to cut 60%, 70% of the energy bill and the total cost of ownership, and we can tie that up with financing in several cases. And so we see good traction in the professional lighting and solutions market. And so as we see weakness in one area, we will shift our emphasis to where the opportunities are.

In Healthcare in a way a similar pitch, of course, that we're trying to convince hospital operators and the healthcare system that technology can help bring productivity. And so, even though there is a crisis, people still need medical help, and that won't change, so I think it is a matter of trying to help bring productivity.

Now that doesn't mean that I'm not concerned about the European crisis, of course I am, but I just want to flag that, even in a crisis, there are opportunities, and I refuse to let ourselves be talked into a hole just because there are these risks.

**Martin Prozesky** - *Sanford Bernstein - Analyst*

Thank you, that's very clear. Just one final question. On the EUR800 million target, you've said that 60% will come from employment reduction, the 4,500 jobs. Just running through the numbers, it looks like that's quite a high per FTE cost that's assumed; it's around EUR100,000 by my numbers. Is that because a lot of the restructuring is focused on management layers, or am I missing something on that math?

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

I don't think you're missing anything. As we said, this is pertaining to the overhead structure of the Company and typically, you would find somewhat more of management in there, and that would explain why this is more weighted to the higher side of the spectrum.

**Martin Prozesky** - *Sanford Bernstein - Analyst*

Okay, thank you.

**Operator**

William Mackie, Berenberg Bank.

**William Mackie** - *Berenberg Bank - Analyst*

First of all, I just wanted to understand, within the restructuring costs that you've outlined exactly what has changed. It seems that you have increased the allocation of expenses against the sectors by nearly 80% since the last time that you provided the projections for the costs, and you've cut the expenses against the GM&S by around 20%. So allocated GM&S expenses now have gone from EUR270 million to EUR215 million, whereas sectors has gone up from EUR105 million to EUR185 million, which seems a very significant change in your allocation of expenses against the EUR800 million of savings.

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So could you perhaps elaborate on what changed so significantly, and how that may impact the way in which savings are achieved, going forward, over the next three years or so?

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

We strive to be as granular as possible, so we want to make sure that what we're doing in GM&S as part of the functions is also allocated as per GSU, Global Service Units, and cost allocations to the sectors. So we should find it back there. So it's not so that the overhead reduction program is just a corporate-led program, it is deployed fully throughout the sectors and, therefore, also the cost that pertain to this will have to be borne by the sectors.

Thank you for getting back on this point; I want to clarify a point we made earlier on the restructuring charges, and this gives me an opportunity. So if you look at the EUR120 million that we have guided for, restructuring and acquisition and charges, that is actually including the restructuring for this overhead reduction which we put at EUR50 million. And then you have the normal restructuring for industrial footprint rationalization and acquisition-related cost. So that explains it. Andreas, I think I owed you that point from earlier.

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

Okay, William, any other questions?

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**William Mackie** - *Berenberg Bank - Analyst*

Well, coming back to inventories, the 1.4 percentage point increase against sales; you say that's split between Healthcare and Consumer Lifestyle. Could you break that down? And more specifically, perhaps indicate why you see it's appropriate to raise, year on year and quarter on quarter, the inventory levels within Consumer Lifestyle against the backdrop of declining consumer indicators for confidence which you alluded to earlier in the call, in North America and Europe.

And then lastly on Healthcare, it's more specific. Perhaps you could quantify the actual level of higher selling and R&D expenses you're incurring which has impacted the margin, and how that may trend for the rest of this year.

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

So actually if you look at by sector, you see that Healthcare goes from 19.6% to 21.5%, and as I said earlier, that is partly due to the seasonality. But why is it then 19.6%? And that's because we have some quite big quarter to make, and also lining up more of the new products, which explains for us the increase in the WIP. Let me assure you that we need to work further, and we are very focused, as Frans said, on reducing inventory; this just simply takes somewhat more time. In Lifestyle, I would say it goes from 14.3% to 15.2%; that is not a very big jump I would say. But we have also lined up for the fourth quarter, because our growth businesses still have quite good growth and we really want to be prepared for that. Your point on caution in the fourth quarter, it's well taken. This is basically the plans that we have based on current information. So good growth in the growth businesses in Consumer Lifestyle, and we just need to be prepared for that.

We, of course, owe you and we've alluded to an inventory target at the Capital Markets Day. This requires really some bottom up and significant deployment throughout the Company; we are working on that, as Frans said, and we will come back to you on that in the next quarter. And this is a direct relationship with our end-to-end process efforts under the Accelerate! program next to overhead reduction.

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

Right, well I could add, it's not that Ron and I don't know what the target should be, but we want the target to be owned deep in the organization before we communicate it.

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

All right. That's it, William?

**William Mackie** - Berenberg Bank - Analyst

There was the question on incremental spend at Healthcare.

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

Yes, this pertains to new product introductions that we have made; quite good orders we saw in otherwise a very compelling new product suite. Very pleased that this is going very successful. And we simply have to make a little bit more of the expenses that we need to get this well introduced and well deployed with our customer base, lining up for a success in the fourth quarter.

Also somewhat more effort in our go-to-market feet on the street that are simply required to help drive the growth in Healthcare which was in the third quarter, as you know, a solid 7%.

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

But investments in innovation and investments in feet on the street are both fully in line with our commitment to step that up in the Company, as part of Accelerate!. And of course, we have talked before around the step-up of the EUR200 million in order to accelerate profitable growth.

**William Mackie** - Berenberg Bank - Analyst

Great. Thank you very much.

**Operator**

Andrew Carter, RBC.

**Andrew Carter** - RBC Capital Markets - Analyst

Most of my questions have actually been asked, but I just wanted to inquire more on that annual investments, and I think you just referred to it there. There was already a EUR200 million that you'd referred to and now, on slide 28, there's a EUR345 million. I was wondering whether the EUR345 million is in addition to, or does it include that previously announced EUR200 million?

And then perhaps on answering that one, I recall last quarter that you said that of that EUR200 million, I think you said that half of the targeted investments were already coming through in the run rate. So if that is the case, how does it fit with what you're saying on slide 28?

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And then just perhaps finally for a clarification, these annual investments, are they all going to be expensed, or is any proportion of it going to be capitalized?

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

Well, let me start. So the annual investments on page 28 are one-off investments to come to a structurally better infrastructure and overhead setup in Philips, and therefore, are not recurring. The EUR200 million investments in innovation and customer-facing resources are a permanent step up, however, we said over time they will normalize in terms of percentage of sales.

We said, in the summer, that about 50% was already in the run rate, and then we said we will keep that percentage kind of flat for the remainder of the year, also given that there's only so much that an organization can absorb at the same time. And of course, we see the somewhat deteriorating economy, and therefore, we don't want to go overboard in stepping up all at once, although it does remain on our wish list to, in certain areas of the Company, continue to do further step-ups in innovation and market penetration.

Then your question on how we treat the investments; I'll let that to be answered by Ron.

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

Yes, so a large part of this expense is IT related. There will be a certain portion that we capitalize, but I would say at this moment that about 70% to 80% of the amounts will be expenses.

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**Andrew Carter** - *RBC Capital Markets - Analyst*

Great. Thank you.

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

Probably something that, as we go along, we will come back on with further elucidations as the exact details of these investments are also discussed with our auditors and so on.

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**Operator**

Gael De Bray, Societe Generale.

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

Actually, these are two specific questions more on the accounting side. First of all, looking at the Lighting business, the level of amortization in Q4 came down to just EUR24 million, while the quarterly run rate was closer to EUR40 million/EUR45 million in the preceding quarters. So what would be the expected new quarterly run rate, going forward, for Lighting in terms of amortization, please?

And the second question relates to the calculations on the pensions. Given the recent moves in equity markets, and also in interest rates, what is your initial view on how pension liabilities and pension costs will trend next year? Thank you.



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

Okay. Well, on the Lighting part, that is, of course, related to the impairment charge that we took, so the current run rate is the one that is the stable rate, going forward.

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

Okay.

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

And then on pensions, as I said, we'll give an update. We do that annually on December 8; we'll do a call to fully update you on that. Of course, we're very keenly assessing and reviewing the impact of the current financial situation on our pension fund, but I'd like to come back to you on that at a later stage.

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

Okay, thank you.

**Operator**

Thank you, Mr. van Houten and Mr. Wirahadiraksa, there are no further questions. Please continue.

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

I think if there are no further questions, then we can conclude this conference call. I really appreciate everybody's time and attention and, as before, look forward to our next session. So thank you very much, and have a nice day.

**Operator**

This concludes the Royal Philips Electronics third quarter results 2011 conference call on Monday, October 17, 2011. Thank you for participating, you may now disconnect.

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