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PHIA.AS - Q3 2012 Koninklijke Philips Electronics NV Conference Call

EVENT DATE/TIME: OCTOBER 22, 2012 / 8:00AM GMT

OVERVIEW:

PHIA.AS reported 3Q12 net income of EUR170m.

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PRESENTATION

Operator

Welcome to the Royal Philips Electronics third quarter results 2012 conference call on Monday October 22, 2012. During the introduction hosted by Mr. Frans van Houten, CEO, and Mr. Ron Wirahadiraksa, CFO, all participants will be in a listen-only mode. After the introduction, there will be an opportunity to ask questions.

(Operator Instructions). Please note that this call will be recorded, and is available by webcast on the website of Royal Philips Electronics.

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

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

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

In a moment, Frans will make his opening remarks and give you an update on how we are executing on our performance improvement plans. Ron will shed more light on the details of the financial performance during the quarter. After this, both Frans and Ron will be happy to take your questions.

As usual, our press release and accompanying information slide deck were published at 7am 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 the call to Frans to take it forward.

Frans van Houten - *Royal Philips Electronics - CEO*

Thanks, Abhijit. Welcome. Thank you all for joining us today for our third quarter 2012 earnings conference call. Our operational and financial performance this quarter demonstrates that we are making further progress on our path towards our 2013 financial targets, driven by our Accelerate! program.

Before I walk you through the highlights of this quarter, let me provide you with a broader picture of the improvements that we are driving to change Philips.

Early last year, it became clear that we had to address issues affecting our performance like slowing growth, an unsustainable overhead cost structure, a lack of granularity in the performance management system, as well as a culture that needed to change. To address these and other issues, we launched our multi-year change and performance program, Accelerate!, which fundamentally changes the way we manage Philips.

In the past several quarters, we have already seen results from this program. Our performance is on a steady path of improvement, despite the strong economic headwinds that many economies around the world are experiencing.

I continue to be very pleased with how the organization is responding to Accelerate!. We are rebuilding our end-to-end value chain. We are improving customer service. We are investing in innovation and growth. We are taking out cost and reducing inventory. Our portfolio of products is being made more locally relevant, with faster introductions, resulting in stronger growth.

More specifically, we have extended the number of LEAN end-to-end transformation projects in the last quarter, and currently, 15% of our revenues are now within scope. We plan to implement transformations to cover more than 40% of our revenue in 2013.

Let me just give you a few examples of how these end-to-end projects are impacting our business.

In North America, our LED Lamps business has doubled its growth, while improving margins. Our Male Grooming category in China is experiencing strong growth in market share. The Domestic Appliances business in Turkey has achieved a leadership position, with around 40% growth in this market.

In addition to growing market share, these projects are helping to reduce inventory, and they are paving the way for a simplified and more efficient IT platform in the future, with enhanced tools to support granular business management throughout the organization.

Additionally, we have started a company-wide program to improve procurement effectiveness, and we see significant opportunities for 2013 and beyond to reduce our cost of goods and improve gross margins. I'll talk about this in more detail in just a few moments.

We are also fundamentally changing our company culture. We are raising the quality of our executive presence in markets, empowering Philips employees across the globe, encouraging entrepreneurship, and improving accountability and performance management.

In the employee pool surveys that we do, covering about 40,000 of our employee each quarter, over 80% of the respondents have seen a positive uptake and impact of the new behaviors. More than 7 out of 10 of our employees said that this was positively impacting their way of working.

As stated before, we have aligned our short-term incentive structure fully with our goals, based on line-of-sight accountability. We've also issued an Accelerate! restricted shares and options grant which is fully linked with the 2013 financial targets, and we are still working on structurally changing our long-term incentive program.

As we deploy Accelerate! deeper into the organization and make our value chain LEAN, we are finding more ways to save cost. We communicated to you in September that we've increased our cost savings target to EUR1.1 billion. As of the end of Q3, cumulative gross savings amounted to EUR306 million. I regret that the increased savings plan has an unavoidable impact on some of our people as we need to make Philips a leaner and more competitive company.

Of course, the raised productivity targets will require a step-up in restructuring charges, and we now expect restructuring and acquisition-related charges of approximately EUR300 million in the fourth quarter of 2012. Let me describe to you also the measures we are taking to improve gross margins.

First of all, we are further rationalizing our industrial footprint in Lighting and Healthcare.

Secondly, we are increasing our efforts to reduce the bill of materials. As we discussed with you at Capital Markets Day, given the size and scope of our organization, we procure many parts from multiple suppliers. We are changing our processes to involve our procurement teams early in the development phase of a product. This will ensure that we maximize volume leverage, and also drive better results from value engineering.

While we have just begun to embark on this improvement program, we believe that our approach will help offset price erosion and contribute to stronger gross margins over the next three years.

Third, we continue to improve our focus on innovation, which is really our life blood. Our Company has a strong history of creating very innovative products, and we are now ensuring that we better align our R&D plans and our business strategies.

We are reducing the time to market for new innovations, and we are leveraging our world class research and development capabilities and our extensive set of external partnerships. Our ability to innovate will be the key driver to differentiate, to ramp growth and profitability in the years ahead.

With that, let's discuss now some highlights from the quarter, and then I will turn the call over to Ron to walk you through more of the details.

Group sales growth in the quarter was 5% which in combination with productivity improvements we have made, enabled us to deliver an EBITA of 7.3%, and an adjusted EBITA margin of 9.2%.

Our Healthcare business continued to perform well. Comparable sales grew by 7%, and EBITA margin was 13.5%, led by double-digit sales growth at Imaging Systems, high single-digit growth in Home Healthcare Solutions, and mid-single-digit sales growth in the remaining businesses.

In the growth geographies, sales increased 14% on a comparable basis. Currency comparable order intake increased by 6% year on year. This was led by Europe with a growth of 18% as we won some large project orders. In North America, we saw actually a 5% decline as both government and private hospitals delayed ordering. While sales growth has been solid, uncertainty in the US and the weakness in Europe is continuing to impact our order intake.

With the momentum of our Accelerate! programs, we believe our Healthcare business is making good progress towards our 2013 targets.

The growth businesses in Consumer Lifestyle posted another solid quarter, delivering a double-digit revenue increase with double-digit profitability. Our ability to create innovative and locally relevant products has enabled us to grow market share in key markets in a short period of time.

Sales increases in the sector were, however, partly offset by a double-digit decline at the Lifestyle Entertainment business. The reported EBITA margin for the quarter overall was 8.5%. The performance trajectory of the growth businesses in Consumer Lifestyle put us in a good position to achieve our 2013 targets.

In Lighting, LED-based sales continue to show strong momentum, with comparable sales growth of over 50%. LED now accounts for 24% of total Lighting sales. Comparable sales increased by 4%, with double-digit growth at Lumileds and Automotive, and low single-digit growth at Light Sources and Electronics.

Adjusted EBITA amounted to 7%. Reported EBITA margin for the quarter was just 2.2%, impacted by higher restructuring charges, as well as a loss on the sale of industrial assets.

We've made good progress towards turning around our Lumileds business in the quarter. Weakness in consumer confidence has affected the growth in Consumer Luminaires, making the task of breaking even in Q4 this year more challenging.

A weak construction market and a faster penetration of LED-based Lighting Solutions have impacted the conventional Lighting businesses. While we continue to invest in innovation and our go-to-market capabilities, there is still more work to be done in terms of cost reductions and accelerated rationalization of the industrial footprint.

In line with previous comments, the improvement in Lighting will be a gradual and bumpy journey. We are confident about our ability to be the winner in the new world of LED Lighting. However, there is still work to do to achieve our 2013 targeted margin range.

While the economy is experiencing stronger headwinds, we continue to focus on our self-help actions. Accelerate! is a comprehensive set of programs aimed at significantly improving our growth, operational and financial performance. It is also helping very much to mitigate the effects of some of the macroeconomic pressures.

The bottom line of my presentation is that we remain confident in our ability to continue improving the performance of the Company, and we do believe that overall, we are on a good trajectory to achieve our 2013 targets.

I will now turn the call over to Ron to go over our financials in more detail.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

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

Let me start with Healthcare. In the US, we are seeing that the recovery of the US economy is challenging. Based on the latest surveys for hospital construction, and contrary to earlier estimates, new starts from January to July 2012 were down 18% versus 2011, this typically has an impact on our industry. We remain cautiously optimistic that after we have the US Presidential elections behind us we will see the market return to modest growth in 2013.

The ramifications of the Supreme Court ruling on the Patient Protection and Affordable Care Act add another layer of complexity to the market outlook for next year. It is not yet clear which states will exactly participate in the Medicaid expansion, adding to the gridlock regarding healthcare reform, and making it increasingly difficult for hospitals to perform adequate long-term planning.

It is important to note that the Medicaid expansion act does not become effective until 2014. The Court also upheld the medical device excise tax, which will become effective in January 2013, with a 2.3% tax on sales of most medical devices. This tax will be deductible for Philips, and we are looking at all opportunities across our value chain to mitigate the impact of this tax on our business.

In Europe, we remain cautious on the economic outlook. Southern Europe continues to be very weak as the austerity measures undertaken in countries such as Italy, Spain and Greece, significantly affect public spending on healthcare.

Market growth for the remaining part of Europe showed the first signs of improvement. However, we remain cautious as economic fundamentals still point towards a subdued outlook for Europe.

On a more positive note, the growth economies continued to show good momentum well into the third quarter. Although China's growth has moderated, the mid to long-term growth drivers for the Chinese healthcare market are still intact.

Overall, we maintain our outlook of 4% to 5% growth in the Healthcare markets overall, with challenges in the North American and European markets for the short term.

The Consumer markets reflect the effects of the overall weakness in the global economy. In the eurozone, unemployment was flat at a record high rate, while consumer confidence declined to the lowest level in three years. Overall, retail sales continue to fall year on year. The situation in Southern Europe remains negative.

In China, there is increased evidence of slowing growth, with consumer confidence falling for the second consecutive month, and growth in retail sales stabilizing. It should be noted that although growth in China is lower, the rate of retail sales growth at well over 10% is still strong compared to other markets.

As far as the other growth geographies are concerned, the decline in unemployment in Brazil and Russia has halted. Consumer confidence rates are seeing some declines, but are still at clearly higher levels than in mature markets. Retail sales growth in Russia slowed, but increased in Brazil, partly boosted by tax cuts.

In the US, unemployment reached an unexpected low in September, consumer confidence is showing signs of recovery, and retail sales were reported to grow at the end of the quarter.

Expectations for the holiday season are mixed, with people remaining cautious and looking for deals.

The Lighting market in Q3 2012 was slightly up versus Q3 2011, and grew sequentially compared to Q2 2012 as well. This was mainly driven by LED product categories and growth geographies. Recent indicators in North America have been a mixed bag, but together point to further sluggish economic growth characterized by uncertainty.

Non-residential construction through July was down 15% compared to a year ago, and it is expected to drop low to mid-single-digit percent for the rest of the year. By contrast, the outlook for residential construction has been raised by a double-digits percent.

Western Europe continues to feel downward economic pressure, though the German Consumer and Professional Luminaires market reflect growth. France continues to show moderate growth in Lamps categories, but we see the market flattening for Luminaires.

In growth geographies, construction remains strong, especially in South East Asia, driving growth in the Lamps and Luminaires markets across categories. The Indian market saw a good growth, especially in Consumer Luminaires.

In China, decelerating GDP and construction have dampened the Lighting market broadly. LED categories continue to show growth, unlike conventional categories and Luminaires.

Global vehicle production in Q3 is estimated to have modestly increased compared to the same period in 2011. Market data indicates that global light vehicle production is expected to slow down in the second half of the year. As a result, it is expected that the second half of 2012 will show slower growth than the first half of the year.

Let me now move to the Philips Group results for the third quarter of 2012. Please note that when I refer to adjusted EBITA on this call, this represents EBITA excluding restructuring charges, other one-off items above EUR20 million in the year, and acquisition-related charges.

Comparable sales in the third quarter grew by 5% when adjusted for currency and portfolio changes. Comparable sales in our growth geographies increased double digit in the third quarter. Our growth geographies are defined as all markets, excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel. Sales from these growth geographies increased to 36% of Group revenues compared to 34% for Q3 last year.

Sales in North America grew by 2% in the quarter on a comparable basis, led by Consumer Lifestyle and Healthcare. Europe saw a decline in comparable sales of 2% in the quarter, mainly due to the market related weakness I spoke about earlier which significantly affected Consumer Lifestyle.

Excluding the decline of Lifestyle Entertainment in Europe, Group sales were flat. Healthcare sales were also flat, and Lighting sales declined marginally.

In the other mature markets, the Group saw a 15% increase in comparable sales, with Japan continuing to remain strong with 24% growth, and Australia growing by 21%.

Reported EBITA was EUR450 million, or 7.3% of sales, which is higher than the EUR368 million, or 6.8% of sales, reported for Q3 last year. The restructuring and acquisition-related charges for the third quarter for this year were higher than the third quarter of last year by EUR54 million. This is mainly due to increased restructuring charges in Lighting related to the rationalization of the industrial footprint and the overhead cost reduction program.

Q3 2012 EBITA was negatively impacted by the loss on the sale of industrial assets in Lighting of EUR34 million. Adjusted EBITA was EUR562 million, or 9.2% of sales in the quarter, compared to EUR392 million, or 7.3%, for Q3 2011.

The improvement in the adjusted EBITA was due to improved performance across the Group. Net income of EUR170 million was EUR94 million higher compared to Q3 2011, reflecting higher operating earnings, and a loss in discontinued operations in Q3 2011 of EUR54 million.

Cash from operating activities for the quarter was an inflow of EUR651 million. This compares to an inflow of EUR45 million in Q3 of 2011. The improvement was mainly due to lower working capital, including some payables, which moved into Q4 as the quarter ended on a weekend, and of course also driven, the increase, by higher earnings.

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

Currency comparable equipment order intake grew 6% in Q3 2012 compared to Q3 2011. The increase in order intake was led by good performance in Europe, which increased by 18% in the quarter, which was driven by large project orders in the Netherlands, United Kingdom and Finland. This is good news, as large project orders had come to a standstill for the last several quarters in Europe. Excluding these large orders, order intake in Europe grew low single digit.

Order intake in the growth geographies increased by 9% on a comparable basis. In these geographies, Patient Care and Clinical Informatics recorded double-digit increases in order intake for the quarter, while Imaging Systems grew low single digit.

Russia and the ASEAN region recorded strong double digit growth. China was at 11%, while LatAm recorded a high single-digit growth. Japan, our second largest market for Healthcare, continued its strong recovery and recorded an impressive order growth in the quarter of over 30%. Currency comparable order intake declined in North America by 5%, mainly due to a decline in Imaging Systems caused by lower spending, both in the government and private sector.

We clearly see the uncertainty around the US presidential elections and healthcare reforms, causing hospital administrations to hold on to cash and to be cautious with their ordering. Order intake for Patient Care and Clinical Informatics increased double digits, while for Imaging Systems, it increased by low single digit.

On a currency and portfolio comparable basis, Healthcare's year-on-year sales increased 7%. Imaging Systems had double-digit comparable sales increase, Home Healthcare high single digit, while Patient Care and Clinical Informatics and Customer Services grew mid-single digit.

The growth geographies delivered a comparable sales increase of 14% in the quarter. This was led by Russia, with an increase of around 150%, India around 30%, LatAm around 20%, and China at 10%.

Comparable sales in Europe were flat for the quarter, with Southern Europe declining by high single digit, and the rest of Europe growing by 3%.

Sales in North America grew by 3% in the quarter with Imaging Systems, Patient Care and Clinical Informatics, and Home Healthcare Solutions all recording mid-single digit growth.

Healthcare recorded a third quarter EBITA of EUR330 million, or 13.5% of sales, which is an increase of EUR69 million compared to Q3 2011 when EBITA was 12.6%. Adjusted EBITA was EUR333 million, or 13.6% of sales, which is above the EUR263 million, or 12.7% of sales, in the same period of last year. Positive growth momentum and higher gross margins resulted in the improved earnings for the quarter.

Consumer Lifestyle sales, when adjusted for currency and portfolio changes, grew by 3% compared to Q3 of last year. The sales growth momentum continued in Q3 2012 for the growth businesses which are Personal Care, Health and Wellness, as well as Domestic Appliances, which registered at 10% comparable sales growth.

Lifestyle Entertainment suffered a double-digit sales decline in the quarter. The growth geographies grew high single digit in the quarter, led by LatAm, Russia and the Asean region. Sales in North America grew mid-single digit, while Europe declined by 7%.

The decline in Europe was due to Lifestyle Entertainment as the combined growth businesses in Consumer Lifestyle grew by 3%. Other mature markets comprising of Japan, South Korea, Australia, New Zealand and Israel recorded high single-digit growth in the quarter.

The reported EBITA at Consumer Lifestyle improved to EUR124 million from EUR62 million in the third quarter of 2011. The adjusted EBITA for the sector for Q3 2012 was EUR133 million in the quarter, or 9.2% of sales, compared to EUR72 million, or 5.4% of sales, for the third quarter of 2011.

The improvement in adjusted EBITA was driven by higher sales in the growth businesses, cost reductions, as well as a significant reduction in the stranded costs related to the Television business from EUR16 million in Q3 2011 to EUR7 million in Q3 2012.

In Lighting, comparable sales grew by 4% 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 11%.

On a more granular basis, sales in Japan, India, Latin America, Africa and China showed good momentum, with strong growth. North America recorded low single-digit sales decline in the quarter.

Weak markets in Europe caused low single-digit sales decline in comparable sales for the quarter due to a strong decline in Southern Europe. Sales growth in the Rest of Europe for the quarter was flat compared to last year.

When taking a deeper look into each of the Lighting businesses, we continue to see strong sales of our LED products, with growth of over 50% compared to the same quarter in the previous year.

Lumileds and Automotive recorded a strong, double-digit growth for the quarter, while Light Sources and Electronics were up low single digit. Professional Lighting Solutions' sales were flat for the quarter compared to the previous year, while Consumer Luminaires' sales had a low single-digit decline in sales for the quarter.

Reported EBITA at Lighting declined to EUR47 million, from EUR110 million in Q3 2011. This was mainly due an increase of EUR61 million in restructuring costs related to the overhead cost savings program, and the rationalization of the manufacturing footprint in the Lighting sector, and the loss on the sale of industrial assets of EUR34 million. Adjusted EBITA was EUR149 million, or 7% of sales, an improvement compared to the EUR121 million in the third quarter of 2011.

Operational improvements in Professional Lighting Solutions and Lumileds have resulted in a sequential improvement of the adjusted EBITA from 6.5% of sales in Q2 2012 to 7% in Q3 2012.

Reported EBITA for Innovation, Group and Services amounted to a net cost of EUR51 million, a decrease of EUR40 million compared to Q3 2011. Q3 2011 included the negative impact of legal and environmental provisions of EUR38 million, as well as EUR17 million of stranded costs related to the TV business.

These charges in Q3 have more than compensated for the higher investments related to the Accelerate! program and the lower license revenues for Q3 2012. Adjusted EBITA amounted, therefore, to a net cost of EUR53 million compared to the net cost of EUR64 million in the prior year.

Stranded costs related to the TV business have reduced from EUR17 million in Q2 2011 to EUR3 million in Q3 2012.

Inventory value at the end of Q3 2012 decreased on a currency-comparable basis by EUR153 million compared to the third quarter of 2011. All sectors reduced their inventory on a comparable basis. Inventory as a percentage of sales improved to 16.7% at the end of Q3 2012 compared to 18.2% in Q3 2011. There was a significant reduction in Consumer Lifestyle, where inventory as a percentage of sales declined by 250 basis points compared to the end of Q3 2011.

In Lighting, inventory as a percentage of sales improved by 100 basis points compared to the end of Q3 2011. Healthcare inventories decreased by 160 basis points at the end of Q3 this year, after several quarters of increases, due to the inventory reduction programs running in that sector.

Imaging Systems reduced inventories by 290 basis points, while Patient Care and Clinical Informatics, and Home Healthcare Solutions, decreased their inventory by 120 and 110 basis points respectively.

Since the commencement of the share buyback program in Q2 2011, we have completed 63% of the EUR2 billion program at the end of Q3 2012. As mentioned also in the last quarterly call, going forward, we expect to buy back our shares at a rate between EUR150 million to EUR300 million a quarter. We will continue to closely monitor the availability of liquidity in the financial markets and our cash position, and manage the pace of this program appropriately.

I would like to remind you that we have planned a conference call with an update on financial reporting and related matters, like pensions; and we do this in December every year, and for this year, it will be on December 3.

Ladies and gentlemen, let me briefly summarize before opening the line to questions. The improved results for the third quarter of 2012 demonstrate further progress on our path towards our 2013 financial targets. We continue to experience strong economic headwinds on a global scale, which affects growth going forward. While we feel the impact of these pressures, we remain confident in our ability to continue improving the operational and financial performance of the Company, driven by our Accelerate! program.

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

Thank you, sir. (Operator Instructions). Andreas Willi, JPMorgan.

Andreas Willi - *JPMorgan - Analyst*

My first question is on the earnings' bridge. If I add all the positives from pension savings, lower stranded costs, some volume leverage and foreign exchange, I get to about EUR300 million year-on-year positives on the adjusted EBITA number compared to about EUR170 million increase you have shown year on year. Maybe you could break down the negatives in terms of the still ramping up of investments you're doing which is driving top-line growth, but maybe also other negatives in terms of price pressure also that explains basically how we get to the net number in the earnings' bridge.

And the second question on top-line growth; you're guiding to a slowdown going forward due to the economy. Would you still expect to continue to outgrow your end markets by a similar margin as we have seen in the last few quarters? Or would you expect that the difference on the relative growth to [over narrow] now that maybe some of the comparables get a bit more difficult from your investments growth over the last few quarters?

Thank you.

Frans van Houten - *Royal Philips Electronics - CEO*

Andreas, let me take the second question first, and then Ron is preparing for the earnings' bridge question.

The Accelerate! program gets us to become more agile and entrepreneurial. We are speeding up innovation. We're taking many measures by reducing overhead costs. We can actually do a bit more in research and development and customer penetration. So the sum total of all that should allow us to gain market share, which I think is behind your question.

So we have seen good momentum in all three sectors with some market-share gains. Of course, we aim and hope to do more of that. But I do consider the outlook of the world economy sufficiently intransparent that I cannot already now promise you that we will outgrow competition.

So we'll have to take it in strides. I think that we are becoming a more competitive company and, therefore, by and large, we should strive for gaining position.

A good news piece that came in in September was the SFDA approval for our Ingenia 1.5 and 3.0 Tesla MR systems. That should help us also to grow further in the fourth quarter with order intake.

In the meantime, I'll look to Ron. Are you ready for the earnings' bridge?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Yes, thank you. Thanks, Andreas, for the question. So if we look at the absolute increase in the profit, you have to bear in mind that, yes, our gross margin is growing of course at an absolute level, because of the sales growth, and there is indeed some price pressure but we don't see it outside the normal range on average, but we also still increase our costs. And if you look at that, there's a large part here on absolute basis related to the impact of ForEx. That is a translation loss that I have to mention to you.

Otherwise, we of course are saving from Fit2Grow. We're also doing restructuring, and we're doing investments in IT infrastructure and process infrastructure. And then there is the ongoing investments that we're doing in growth, so that we come to the amount you quote, EUR170 million, is the result of these.

Andreas Willi - *JPMorgan - Analyst*

Thank you very much.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Thanks.

Operator

Mark Troman, BofA Merrill Lynch.

Mark Troman - *BofA Merrill Lynch - Analyst*

I've just got a question on Healthcare, Frans. Europe, you won some big orders, looked pretty good. US went the other way, looked weaker. Are these ongoing trends that you see? Do you think that Europe has bottomed out, either from a market perspective or because of what you're doing on the product side, or investment on the sales side that we just alluded to earlier?

Thanks very much.

Frans van Houten - *Royal Philips Electronics - CEO*

I'm afraid we cannot derive a trend from what has just happened. Southern Europe continues to decline, and it is a couple of these bigger, lumpy, orders that made Europe shine in the third quarter with 18% order intake growth. I cannot guarantee you that that will continue going forward. There's quite some uncertainty there.

The US has been going strong up 'til this summer, and with the uncertainty around the elections and the fiscal cliff, we see hospitals being very prudent. We expect that to be the pattern for the next three to six months. The underlying US economy is actually improving, so it's a bit of a paradoxical situation.

China, slowing GDP growth; also uncertainty around government programs. Again, I think we are faced with an uncertain period of maybe three to six months, and we'll have to take that in strides and take it as it comes. We will fight very hard for every order, and I think we are in a better shape. So, sorry, no real trend lines to be derived out of this explanation.

Mark Troman - *BofA Merrill Lynch - Analyst*

Okay, thank you, and just one follow-up. Frans, the procurement program you mentioned before in your opening part of your presentation, can you just clarify, is that in addition to the Accelerate! program, or is that part of some operational excellence drive within Accelerate!? And in terms of the scope of that, can you provide any guidance as to what's going on?

Thank you.

Frans van Houten - *Royal Philips Electronics - CEO*

Sure. We have made the procurement program part of Accelerate! as we went into the end-to-end programs. And we look at innovation, the innovation process, the product creation process, we have found that we are really strong enough in what we call procurement engineering. And so we said that we need to come to a fundamental strengthening of the role of procurement in the early phases of the innovation processes.

So we have made it part of Accelerate!. The amounts that we see possible will eventually lead to upside. At this stage, we are not changing our midterm targets. The scope will be all of Philips, but with more than 60 business units in the Company, clearly, we cannot tackle all of them at the same time, so we are taking the most rewarding opportunities first.

I realize very much that this is a substantial program. We are also shifting the resource allocation of our procurement staff -- we have more than 2,000 procurement staff -- from the realization phase, basically handling the orders to suppliers to what we call procurement engineering which is much more the strategic procurement work that happens early in the process. So some new competencies will also be required there.

So the program has two sides. One is an immediate toughening of the requirements on purchasing, and secondly, it's a structural process, reengineering and capability enhancement program.

Mark Troman - *BofA Merrill Lynch - Analyst*

Okay. Thanks very much.

Operator

Martin Wilkie, Deutsche Bank.

Martin Wilkie - *Deutsche Bank - Analyst*

The first question is on Consumer. It sounds like you've had a very good mix in the quarter with some of the higher-margin businesses growing faster than the lower margins. Is there anything unusual in the quarter in terms of new product launches, or anything like that, that might mean that that improvement is not sustainable? Or do you think this is the beginning of showing some of the benefit from investing in these growth markets?

Frans van Houten - *Royal Philips Electronics - CEO*

Great question, Martin. Thank you. I'd say it's a combination of a couple of initiatives that we have taken. You'll recall that when we started this Accelerate!, we actually said we are going to invest a bit more; we're going to invest to bring products like Sonicare into more markets where we had to create the dental professional recommendation network in order to open up these markets. We are seeing the benefits of these geographical adjacencies, and for us, it's something that is there to stay.

The second driver is product adjacencies, so more attractive products that are launched faster. Just in the third quarter, I can give you at least four different products in different categories that are quite exciting.

So first of all, the Home Cooker that we have co-developed with Jamie Oliver, that should get busy families back into the kitchen, preparing healthy food in their home environment.

The Senseo Sarista, which we did with Douwe Egberts master blenders, that gets you freshly ground coffee both as single-serve as well as whole pots when you have a lot of friends over, that is a breakthrough product.

The Sonicare, I just spoke about Sonicare in terms of geographical expansion. We now have launched a Sonicare PowerUp, which is a product range extension, basically bringing Sonicare at lower price points to convert manual tooth brushing into the electrical category, expanding the market.

And the final product that I'd like to mention, and then I'll stop this advertisement, is the Styleshaver. It's a great three-in-one shaver, groomer and hair cutting device that is targeted at young guys, getting them to switch over from wet to dry. It's a real self-expression device that will appeal to them.

So all proof points of a more dynamic entrepreneurial Consumer Lifestyle, and very much what I would like to see them do.

So I think the higher growth -- of course there will be fluctuations, but it should be sustainable. It's a great business.

Martin Wilkie - *Deutsche Bank - Analyst*

Thank you. And if I could just have one follow-up as well on IG&S, the central costs. It's come in a lot lower than I think was generally expected for the second quarter in a row. I think you had been talking earlier in the year that we should be expecting about EUR300 million for that division for this year. Should we expect a spike in Q4, or do you think that the lower rate of costs in that division is sustainable?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Thanks, Martin. We guided for about EUR230 million, That started with the EUR340 million. Then you take out restructuring and stranded costs, and then the lower license income, and add the Accelerate! investments, you come to EUR230 million. So if you look, that would be EUR80 million plus for the quarter.

We had in Q3 lower restructuring costs, about EUR20 million lower stranded costs; about EUR7 million, slightly lower license income. And also, a little bit lower Accelerate! investments. So that explains why we came in better in the adjusted EBITA with EUR53 million. We still would guide for the fourth quarter of around EUR80 million.

Martin Wilkie - *Deutsche Bank - Analyst*

Okay, thank you.

Operator

Ludovic Debailleux, Natixis.

Ludovic Debailleux - *Natixis - Analyst*

First of all on Lighting, have you already benefited from the earth rare price decline? If yes, can you share with us the effect on margin? If no, what could be the impact in Q4 and in 2013?

Thank you.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

For Q4, as hedges are rolling off, we expect some impact but not much. We expect the main impact to start in Q1 of 2013.

Ludovic Debailleux - *Natixis - Analyst*

Okay, thank you. And a follow-up maybe on Lighting. You were supposed to further reduce losses in Consumer Luminaires and Lumileds segments. What is the impact on EBITA margin in Q3, and could you also confirm that Q4 will be profitable?

Thank you.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

With Lumileds, we are making really good strides to break even in this quarter with all the measures we took, replacing management, addressing all the operational issues, cost roadmaps, and what have you.

For Consumer Luminaires, it proves to be more challenging. We're trying to meet this target, so this is not something that we are walking away from, but we have to also note that the economic headwinds don't really help in this category of products. So we expect to see an improvement in Q4 year on year, which we hope to be around break even, depending on the top line.

If you look in the Lighting bridges, so Lumileds compared to Q3 last year is about 30 basis points improvement. In the total difference, in the Lighting margin and Consumer Luminaires, it's about flattish.

Ludovic Debailleux - *Natixis - Analyst*

Okay, thank you.

Operator

Ben Uglow, Morgan Stanley.

Ben Uglow - *Morgan Stanley - Analyst*

I had a handful of questions, but mainly around Healthcare. First of all, could you just give us a bit more color on the double-digit growth in Imaging Systems which is extremely strong? Is that coming from any one particular modality, or any one particular product range? Or are you seeing this broad based across the whole Imaging Systems portfolio? Is there anything special going on there which is driving a market share gain?

That was question number one.

Question number two, and I know it was alluded to on the transcript but I couldn't write it down fast enough, can you just give us a sense of the growth rate this last quarter in Imaging Systems in China versus the previous quarter?

The third question was just on this large order intake in Europe. What was your comparison in the third quarter of 2011? Is there a big base effect there as well which is driving the organic growth?

And then finally, a clarification from Ron on restructuring. I just want to make sure we got this right. You've got EUR300 million of Accelerate!'s restructuring in the fourth quarter. What is the total industrial footprint restructuring as well? What I'd like to know is on a combined basis, Accelerate! plus industrial footprint, what will that amount to for the year?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

[Third quarter] Europe double-digit order intake?

Frans van Houten - *Royal Philips Electronics - CEO*

Yes, well the order intake in Europe, the question was compared to 2011.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Yes.

Frans van Houten - *Royal Philips Electronics - CEO*

So it's 18% plus.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

So this is mainly caused by three large deals, which were in the Netherlands and in the UK mainly. If you would take those -- and we're happy with that, because as said, the large orders that we have seen had dried up in the past, so we're very pleased that that is coming back.

If you take that out, then the order intake in Europe is actually low single digit in Europe.

Ben Uglow - *Morgan Stanley - Analyst*

And was that on a very easy comp, or anything like that, or just low single-digit growth?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Yes, so we don't really guide for the quarter. We have seen flat for Healthcare in Europe so far, and that's a mixed bag between Southern Europe not getting better and a few of the Northern European countries getting somewhat better.

Okay, answered?

Ben Uglow - *Morgan Stanley - Analyst*

Yes.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Then let me go into the last question that you asked, and that is on the restructuring. So the EUR300 million that we mentioned is the overall restructuring.

Ben Uglow - *Morgan Stanley - Analyst*

Okay.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

It includes industrial footprint. And the fact that we are EUR50 million lower than the amount I indicatively mentioned in Capital Markets Day, just to give a heads-up, was because we found in a number of areas better ways to restructure, though the overall amount is EUR300 million.

Ben Uglow - *Morgan Stanley - Analyst*

Okay, thank you.

Frans van Houten - *Royal Philips Electronics - CEO*

And then the double-digit growth, I think we talked about that, right?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Then Imaging Systems in China, we don't really guide for specific locations, specific BGs. But the growth in Healthcare in China was double digits, solid double-digit growth still. And that is, of course, very good against the overall backdrop now already for quite some time of the China economy slowing.

So we are happy to see that. It also somewhat points in time that says that the Healthcare agenda in China is probably going to still proliferate and, therefore, provides for us better business opportunities. But we need to see in the near term how that will develop in China.

Ben Uglow - *Morgan Stanley - Analyst*

And just a question regarding is there any modality or product category in Imaging Systems which is dramatically outperforming or anything like that?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

No, last year, we introduced this new range of products mainly on radiology, the Imaging 2.0 suite. We are rolling that out. It took quite some time for the Sino FDA to approve; a longer process time than we are used to, but we're doing that now. So that will also help. And the stronger categories are probably more in MR and in CT, because those were the areas where we made improvements.

Ben Uglow - *Morgan Stanley - Analyst*

That's great. Thank you very much.

Operator

Gael De Bray, Societe Generale.

Gael De Bray - *Societe Generale - Analyst*

The first one is related to Healthcare. We had again an outstanding sales growth in the quarter, but how do you explain that the adjusted margin was actually down a little bit on a sequential basis; I think down 50 bps quarter on quarter?

Still related to Healthcare, could you remind us how much is the traditional seasonal positive effect on Q4 margins versus Q3?

And the last question I've got is on IG&S. You look well on track to reach still EUR150 million of IP royalties in 2012. What's your assessment for next year if you include the contribution of the TV license income? And also, are you happy with the performance of the TV joint venture so far?

Thanks very much.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Okay. On your first question, actually, the adjusted EBITA margin of Healthcare came to 13.6%, and that was a 90 basis points improvement versus last year's 12.7%.

Gael De Bray - *Societe Generale - Analyst*

But it was down 50 bps on a quarterly basis Q3 versus Q2?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

There's a little bit of seasonality in this, so the expenses are slightly up, but I wouldn't take it as anything else than that currently.

Gael De Bray - *Societe Generale - Analyst*

Okay.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Then in IG&S, we are quite well on track. We will achieve the guided for IP license income, as I said. So I would just for IG&S stay with the guidance that I gave for the fourth quarter about a little bit over EUR80 million.

Gael De Bray - *Societe Generale - Analyst*

And what about the seasonal effect to be expected in Q4 Healthcare margins?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Well, normally these expand significantly over a much higher sales volume in Q4. Last year, we thought we had good visibility, but we were confronted with the push-out of some of the sales, and that took quite an impact in the results.

Of course, we have looked this year at visibility for the fourth quarter. We're not guiding for that, but we need to see how the actual sales are going to develop. And we do not have an expectation that the same would happen. We don't build that really in. That doesn't necessarily mean that it won't happen. It's just that the telltale signs are not there to say that right now.

Frans van Houten - *Royal Philips Electronics - CEO*

And then your last question was about the television joint venture. We don't, let's say, publish results of our television joint venture. The television joint venture launched a whole series of exciting new products that were well received by the retails. And so if that is any sign, at least we are on the right path there, together with our partner, TPV. We look at the future with confidence.

Gael De Bray - *Societe Generale - Analyst*

Okay, thank you very much.

Operator

Martin Prozesky, Bernstein.

Martin Prozesky - *Sanford C. Bernstein & Co. LLC - Analyst*

Two questions, please, the first again on margin mix in Healthcare. You mentioned that you expect Q4 seasonality to be more normalized than last year. But then in terms of your mix in the orders, it seems like Patient Care and Clinical Informatics, which is one of the best margin businesses within Healthcare, had a very good order intake from the comments in the release. So you do expect the mix within margin to be improving, or is that being too optimistic?

Then second question just on Lighting. Given on the residential side in the US we're seeing pretty good construction data, what are you seeing on the Prof. Lum. side for non-res? Are you seeing it remaining pretty stable? Or is it also being held back by election uncertainty?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Yes, so in Professional Luminaires, we see it down somewhat. So we don't see a real uptick there. But that's fully anticipated.

Martin Prozesky - *Sanford C. Bernstein & Co. LLC - Analyst*

And what is the expectation into next year?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Well, we'll have to see how we end this year. Last year, there was -- towards the end of the year, there was an expectation that into next year the construction there would increase and improve. That didn't really happen the way it was anticipated.

I have to also re-emphasize again that we're not only, of course, playing in the new construction market, but also in the renovation and refurbishment market, where we have quite a good position. But I would say that's a little bit too early to now comment on.

The seasonal mix shift in gross margin you would expect for Healthcare in Q4, we'll have to see exactly what the margin is going to be. It's a little early to comment on that seeing some of the uncertainties that we see.

We're encouraged by what we have seen, of course, in the good order intake in PCCI. But then again, there's a lot of uncertainty, and there is also still a significant amount of what we call book and bill business in Q4. And that's why I said this year we don't plan for really push-outs, but we need to see if they will happen.

Martin Prozesky - *Sanford C. Bernstein & Co. LLC - Analyst*

Okay, thank you.

Operator

Olivier Esnou, Exane.

Olivier Esnou - *Exane BNP Paribas - Analyst*

A couple of questions, maybe starting with Healthcare in Europe. I think earlier this year you were not guiding but maybe mentioning you were looking for mid-single digit decline. And even if we back out this large order, it looks like you're well ahead of that. So can you maybe talk about what you see as being really better than what you thought would happen this year? And how much of the pipeline activity for large orders do we have in Europe right now?

Second question on Lighting in North America. I think it seems to be down a little bit. How do you feel about that? Before, you were a bit disappointed with the progress in that region. Do you think you're more in line with the market than your peers here?

Thank you.

Frans van Houten - *Royal Philips Electronics - CEO*

Olivier, Frans here. Let me take the second question, and then Ron will come back on the order pipeline in Europe.

The bottom line is that we still have a lot of work to do in Lighting, Philips Lighting North America. The second quarter looked a little bit better; the third quarter is -- was not a good performance yet.

So we have work to do. The new management there is taking strong action. I'm happy to see that. I think versus competition, we certainly did deliver the performance that I would have liked to hope for.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

On Healthcare Europe, of course, we said earlier we are encouraged by the fact that we saw large orders coming back this quarter -- sorry, in Q3. We haven't seen that for a number of quarters. We won't draw the conclusion from it that that would now be really returning to the surface because it goes a little bit in chunks here.

So the large order intake probably is a little bit more bumpy, and thereby, we would not really say that there could be in the next quarter something similar. Of course, we will work at it, and we will hope for it and try to get it, but that's very uncertain.

For the full year, perhaps Healthcare Europe will be flattish, both on the sales and order intake.

Olivier Esnou - *Exane BNP Paribas - Analyst*

Including large orders?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Yes, including large.

Olivier Esnou - *Exane BNP Paribas - Analyst*

Okay, thank you.

Operator

Simon Toennessen, Credit Suisse.

Simon Toennessen - *Credit Suisse - Analyst*

Just two questions from my side, the first one on the strong free cash flow performance obviously driven by the working capital inflows. Ron, you already mentioned the account payables there and the quarter following on the week end. Could you let us know how much of that was related to that and what kind of reversal would you expect then in the fourth quarter?

And then the second question is on Lifestyle Entertainment. Could you update us on any future plans of the division? Obviously, you flagged at the Q2 stage already about focusing on the growth categories there. The quarter obviously showed another double-digit decline, so maybe an update on that would be great as well.

Thank you.

Frans van Houten - *Royal Philips Electronics - CEO*

Yes, Simon, let me start with Lifestyle Entertainment. So we talked about looking for new business models in July, and we announced the distribution deal with Funai, which is now in place. In the meantime, we are working hard to change the profile of the portfolio, just like you mentioned. With strong traction of our docking stations and also the headphone range is doing really well.

The declines, sorry, are in the traditional home theatre products like DVD and Blu-ray, and that is regrettable, but I think that's the reality.

I'm proud to say that the business continues to be profitable, which means that we are doing all the vigilant actions that are required. Let me leave it at that.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

On your first question on the free cash flow, we estimate the impact of that to be net of EUR200 million plus, so EUR200 million was -- flew into the payments of the Monday following Sunday 30.

So this is totally within our payment discipline. As you know, we reinforced payment discipline in the Group from last year onwards, so this is the normal use that you would make that is a balance between our customers paying us a little later and our payment runs being executed on the 1st of the next month, and that net effect is about EUR200 million.

Simon Toennessen - *Credit Suisse - Analyst*

Perfect. Thank you.

Operator

Erwin Dut, Kempen.

Erwin Dut - *Kempen - Analyst*

Yes, two questions. First question; I am intrigued by the slowdown in China. Can you talk about whether that's destocking already, or do you expect some destocking across your portfolio in China, both on the Consumer Lifestyle side and also on the Lighting side?

And secondly in Automotive, what do you look for for next year? It looks like a lot of those sales are going to be down next year for various automotive producers for 2013. Do you have any guidance or visibility as to what your volume is going to be in Automotive Lighting next year 2013?

Thanks.

Frans van Houten - *Royal Philips Electronics - CEO*

On the first question on China, destocking is not really the word. I don't think that plays a factor in --

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

I'm sorry. Could you please mute your phone because there's some background noise? Thanks.

Frans van Houten - *Royal Philips Electronics - CEO*

So slowdown in China, it starts with the GDP growth, hovering now between the 7% and 7.5%. We see that reflecting across the board, consumers being more careful, but also the Professional business slowing down somewhat. Also, as government incentive programs are running out and the uncertainty is there until the new government will be in place.

So we don't think that there is particular destocking happening and there's normal inventory and trade, and that's what I think we can say about that.

In China, the Healthcare range will get a boost from the recently approved MR products. The Ingenia products that were already out there in the Rest of the World were in China just approved by the SFDA in September, and also, the PET-CT was recently launched in China, so that should be good news for order intake.

On the Lighting side, we see a stronger traction at the Professional Lighting Solutions side, but a bit more carefulness at the Lamps side.

In terms of Automotive, I think you're implying that next year could be more challenging; and, actually, we agree, the visibility on Automotive growth is muted so we'll need to be careful.

Operator

Philip Wilson, Redburn.

Philip Wilson - *Redburn Partners - Analyst*

I have two questions, please. The first is on pricing in Lighting. Can you give us a sense of where the third quarter pricing is in Lighting LED versus traditional, and perhaps how this has moved directionally versus the first half and how you see this moving going forward?

That's the first question.

And the second question on Healthcare. Have you seen any trading down from CT and MRI to Ultrasound and X-ray? In other words, are you seeing any technology substitution in the industry from high margin products to low margin products on the same application?

Thanks.

Frans van Houten - *Royal Philips Electronics - CEO*

We gave at the Capital Markets Day an extensive update on the margin of LED, and we showed that the margins across the board in LED are now pretty close to conventional. Since the Capital Markets date, we have no really new insights to tell you, so you can take this at the same information as a proxy.

In Healthcare, we do see hospitals making more conscious choices when they need a high-end product and when a value product is good enough. So it is not a systematic trading down trend, not at all, but there is a stronger segmentation going on on the demand side about what product is needed and what not.

Our strategy in relation to that, is that at the high end side, we try to create more value, more value by integration of imaging products with treatment; integration also with the Clinical Informatics, helping hospitals to become more productive throughout the care cycle; while at the same time, introducing value products in order to participate in the standalone product segment where people are just looking for a good deal.

I think by and large that strategy works. We still have some gaps in the value product range line-up, with more to come next year from our Suzhou operation for Imaging Systems.

Philip Wilson - *Redburn Partners - Analyst*

Okay, thank you.

Operator

William Mackie, Berenberg Bank.

William Mackie - *Berenberg Bank - Analyst*

One on Lighting and one on Healthcare. You mentioned earlier in the call that there was more to do across the Lighting division. And following up to that, you commented about Luminaires in North America and the fall behind within Consumer. What else would you characterize as more to do to reach the target range for 2013 to speed up the cost side, or at least to accelerate the growth side?

On the Healthcare division, very strong growth in your growth geographies, and favorable mix. You've given us some outlook on European revenue and order for this year. Given the order falls and the cautionary commentary you're making about the backlog -- sorry, the background to Healthcare North America and the US particularly, what would be your view on revenue in the fourth quarter for the US, and leading into 2013? Are you prepared to at least flag that it's likely to turn negative at the back end of this year and into the start of next on the uncertainties?

Frans van Houten - *Royal Philips Electronics - CEO*

Well, William, I think you know that we are not going to guide for sales in North America in the fourth quarter. And it would be great if we could all have that knowledge right in front of us, but we can't, sorry.

We'll be in fighting mode for sure in Healthcare, going for every -- for the orders that we can get. I think that's also the new culture at Philips where we are more entrepreneurial, we are performance oriented. I think that is really making the difference for Philips, and there should be more opportunity in that area hopefully compensating for economic headwinds.

In Lighting, yes, you of course point out two of the things that stare us in the face, Professional Luminaires of North America, Consumer Luminaires Europe, but there's many more areas. Across the board, productivity drive, cost structures are too high structurally for the future of LED Lighting where we need to prepare ourselves for some ongoing competitive pressure.

I do feel that we are absolutely on the right path. 50% sales growth in LED in the third quarter is no mean achievement. It's really very good. It shows the leadership that we have.

So the third one then was the cost productivity improvements. Now Lumileds needs to come to profit in Q4, so that's the next installment in that chapter. We are working very hard to adjust our industrial base in the conventional area. So that's number -- what was my count, number 5? And I can go on like that.

So the Lighting sector is working on many measures in parallel. It is putting pressure on the organization. They can handle it. I'm pleased with the new management. It will be for the next two years quite a bumpy road, but I've full confidence that we will emerge as a strong, profitable leader in the new world of Lighting.

William Mackie - *Berenberg Bank - Analyst*

Thanks. Could I come back to Healthcare with a quick follow-up? Your major US competitor on Friday called out a challenging pricing environment. How would you characterize the pricing environment for the large healthcare equipment in Europe or North America?

Frans van Houten - *Royal Philips Electronics - CEO*

I think across the board we see that we need to fight for orders. I just a few minutes ago talked about the strategy, the high end that we try to focus on adding value through integration of our modalities so that it is not just a price game. Whereas in the more standalone applications, just an X-ray or a simple ultrasound, products are more comparable, and automatically you get more price pressure.

So I can relate to more price pressure across the board. However, in our mix of sales, we do not see a significant deviation from previous patterns. So I'm making a distinction between, let's say, the average market outside, and what we are able to realize thanks to innovation.

William Mackie - *Berenberg Bank - Analyst*

Great, thanks.

Operator

Fredric Stahl, UBS.

Fredric Stahl - *UBS - Analyst*

I just had a question on your -- the Accelerate! program. If I look at your headcount reductions, you've done -- about 40% have been realized as of Q3 here. And then if I look at your cumulative growth savings, you've done -- I think you were between 25% and, well, just below 30%, so there's a bit of a gap there; and usually from my experience they follow hand in hand. I just wondered if you could provide some color on that, if there's a mix difference in the headcount reductions in terms of geographies, then levels of salaries, or if there are more announcements, or more headcount announcements -- headcount cuts to be announced.

Thank you.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Okay, thank you for the question. With the EUR800 million program, there were [4,500] (corrected by company after the call) people, with this EUR300 million extension of our overhead cost reduction program to EUR1.1 billion. The total headcount is now 6,700.

And so you're right. We did a little over 2,900 people in the third quarter, but that -- I think this becomes a little bit lumpy in the various line items over there. I wouldn't draw too much of a conclusion of that. There is no significant mix shift in the geographical composition, and we're very pleased that we're fully on track in executing on this program.

Fredric Stahl - *UBS - Analyst*

Okay, thank you.

Operator

Andrew Carter, RBC.

Andrew Carter - *RBC Capital Markets - Analyst*

Most of the questions have been answered, I think, but I just have two, please. One was Healthcare, just thinking about the Q4. I was wondering when you've been looking at your customers of Healthcare and thinking about their behaviors, do you think given the budget uncertainties that they face in 2013 and how they're operating at the moment, are they going to be looking to spend all of the money in Q4, so to speak, and avoiding anything slipping into Q1?

That was the first question.

And just the second one was just looking at restructuring charges for 2013. In terms of the sort of usual restructuring, do you have any early thoughts as to where you think that might be?

Thank you.

Frans van Houten - *Royal Philips Electronics - CEO*

Andrew, let me start with the first one. Will customers spend all the money that they have? Well, that would be nice but, actually, the telltale signs are the opposite. So if you looked at the order intake in the US in the third quarter, it was a negative order intake and, actually, customers are postponing orders. And I think that is what we may expect in Q4 as well. So the veterans' administration having postponed their orders to even 'til next year is a very realistic example of that.

This is also why we need to be really cautious about Q4. There's a lot of unclarity on what customer behavior will be. But if anything, it will be on the negative side and not on the positive side, so I ask you to be very careful in your modeling and forecasts.

Then on the restructuring charge?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Yes, so for the restructuring, we guide per quarter. So we have already given you the amount for the overhead cost reduction for the next quarter of [EUR125 million].

Frans van Houten - *Royal Philips Electronics - CEO*

For the next year.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

For the next year, sorry; for 2013. And as we said in Q4, the overall restructuring charge will be EUR300 million.

Andrew Carter - *RBC Capital Markets - 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 - CEO*

Okay. Well, then, if we have answered all your questions for now, I imagine, then thank you so much for joining into this call, and being with us on our journey for further improvement with Accelerate! going on for the next couple of years. You will get the next installment hopefully soon. And if there's any questions remaining, then please reach out to our investor relations team.

Thank you very much. Have a nice day.

Frans van Houten - *Royal Philips Electronics - CEO*

Thank you.

Operator

This concludes the Royal Philips Electronics third quarter results 2012 conference call on Monday October 22, 2012. Thank you for participating. You may now disconnect.
