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EDITED TRANSCRIPT

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

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OVERVIEW:

PHIA.AS reported 4Q12 comparable sales growth (adjusting for currency and portfolio changes) of 3% and net income (including certain items) of negative EUR355m.



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PRESENTATION

Operator

Thank you for holding, ladies and gentlemen. Welcome to the Royal Philips Electronics fourth quarter and annual results 2012 conference call, on Tuesday, January 29, 2013.

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 from 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 - *Koninklijke Philips Electronics NV - Head, IR*

Good morning, ladies and gentlemen. Welcome to this conference call on the fourth quarter and full-year results for 2012 for Royal Philips Electronics.



I'm here with Frans van Houten, our CEO; and our CFO, Ron Wirahadiraksa. In a moment, Frans will make his opening remarks and give you an update on the progress we've made during the year. Ron will shed more light on the details of the financial performance during this 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 7.00 a.m. 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.

With that, let me hand over the call to Frans.

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

Yes, thank you Abhijit. Welcome, and thank you for joining us today in this call.

2012, it was a year of progress for Philips in which we accomplished a lot. We executed on the initiatives that we launched in 2011 through our change and performance program, Accelerate!.

The Executive Committee grew to full strength with Eric Rondolat coming on board to lead Lighting, at a stage where the lighting industry is going through an unprecedented transformation.

Deborah DiSanzo took over as the leader of Healthcare, and gave a strong impetus to accelerating the Healthcare transformation.

Our Executive Committee is very motivated and committed to unlock and deliver the full potential of Philips.

Our Accelerate! program gained further momentum this year, and enabled us to deliver solid tangible results. Let me highlight a few that led to our improved performance in 2012.

One of the most pleasing trends was our continued revenue growth, especially in our growth businesses and growth geographies, in a year where the economic environment was challenging. The comparable sales growth of 4% for the year clearly indicates that the initiatives launched to reignite growth for Philips are delivering results.

We have made several of our value propositions more locally relevant in markets around the world. The granular approach to running our business market combinations has enabled us to redirect investments and resources to those businesses and geographies with the best value-creation opportunities, all of which have contributed to improved operational performance. This resulted in a substantial reallocation of resources to growth geographies.

We have reduced overhead cost by over EUR471 million, which has helped us to improve profitability, as well as make investments to overhaul Philips' ageing IT infrastructure, improve end-to-end business processes, and accelerate growth, through innovation and winning more customers.

In combination with our efforts to create a high-performance culture, all of these actions are making Philips a more customer focused, agile, and entrepreneurial innovator.

We have made significant portfolio improvements during the year. After dealing with the TV business last year, this morning we announced an agreement to transfer our Audio, Video, Multimedia, and Entertainment businesses to Funai Corporation of Japan.

The new business model will leverage Philips' strong brand and strengthen innovation with Funai's strong position in North and Central America, and Japan, along with its reputed supply and manufacturing expertise.

Funai is already a trusted partner for over 25 years, and this agreement creates a promising future for the business and continuity for our customers.



The agreement, and the creation of the television joint venture early last year, are both important steps in transforming Philips into the leading technology company, focused on health and wellbeing.

A key objective this year was to turn around the Lumileds and Consumer Luminaires businesses. Our teams have worked hard to deliver on these commitments, and in the fourth quarter both Lumileds and Consumer Luminaires have returned to profitability. There is, of course, more work to be done to make these businesses structurally profitable during the course of 2013.

Imaging Systems and Domestic Appliances also made significant improvements to their operating margins during 2012. And the profitability of Lifestyle Entertainment improved from low-single-digit last year to mid-single-digit for 2012.

The Healthcare sector delivered good growth, both for sales, as well as order intake. The growth businesses in Consumer Lifestyle delivered high single-digit growth for the year, including growth in Western Europe where consumer confidence remains low.

LED sales grew by over 40% during the year, enabling Philips to build on its leadership position in LED-based lighting solutions, and contributing to a mid-single-digit growth for the Lighting sector.

We have started a number of initiatives to improve our end-to-end value chain. By planning these projects rigorously, and executing them seamlessly, we believe that we will create significant value for Philips. These projects now cover almost 20% of Group revenues at the end of 2012, and we plan to more than double this coverage in 2013.

We have seen some benefits of this program with the projects that are in the pipeline, for example, showing up to 40% reduction of time to market of new innovations; as well as on, for example, inventory reduction, where our finance and operation teams have worked well together to deliver these targets.

We have done significant work to create a performance-driven culture in our Company. We have, for example, changed the annual incentive system to reflect line of sight accountability, and align it with the key performance indicators of our business plans; all in support of our 2013 targets.

We will also propose a change to our long-term incentive program at the forthcoming Annual General Meeting, details of which will be communicated shortly.

In principle, we propose to move from the current program, which is based on the past three years' total shareholder return and time-based vesting, to using two metrics; namely, the next three years' total shareholder return, and earnings per share.

We will also move from time-based vesting to performance-based vesting as the grants are conditional to achievement of targets for the next three years.

Besides the changes to our incentive programs, our top 700 leaders have been through an immersive changed management program, and we are proceeding to roll this out also to the next levels down.

The full implementation of this granular business management approach, and our performance management system for our business market combinations, has significantly increased transparency and delivered clear insights into areas that need improvement.

While our Accelerate! transformation is a multi-year program, we have made good progress during 2012.

Now let me provide you with a few highlights on our quarterly performance. Healthcare delivered good sales and order intake growth for the quarter, although we did see another quarter of decline in order intake in North America due to the uncertainty around the Election and the fiscal cliff. This was more than offset by double-digit growth in order intake in Europe, and high single-digit growth in order intake in the growth geographies.



The growth businesses in Consumer Lifestyle increased comparable sales by double-digits in the quarter, while a 43% growth in LED sales contributed to Lighting delivering mid-single-digit growth for the quarter. Sales from LED-based products and solutions are now 25% of the total Lighting sector sales.

I am pleased that every business in Philips improved its operational results in the fourth quarter of 2012, compared to 2011. This has resulted in a 50% improvement in operational earnings for the Group, compared to the previous year. Focus on gross margin improvement has led to higher operating gross margins across all businesses, except Lifestyle Entertainment, which was affected by lower sales.

Improved productivity resulted in lower non-manufacturing costs as a percentage of sales for the Group.

We had planned to reduce our inventory as a percentage of sales by 1 percentage point to 1.5 percentage points this year. And the focus on working capital management, as well as some of the benefits of the accelerated end-to-end projects, actually resulted in a 2 percentage points reduction this year, which, along with improved earnings, contributed to a solid free cash flow in the quarter of EUR899 million.

Net income in the quarter was significantly impacted by charges, like the fine imposed by the European Commission related to the ruling on competition rules in the Cathode-Ray Tubes industry.

Philips divested its CRT activities in 2001 to LG Philips Displays, a joint venture which operate as an independent company and was not consolidated in the Philips' accounts. Philips intends to appeal the EU decision.

Besides this, we had significant charges, mainly related to restructuring, but also to various legal matters. The restructuring charges are focused on our overhead cost reduction program, the rationalization of our industrial base, and the elimination of stranded cost as a consequence of some portfolio decisions. Ron will provide some of the details during his commentary.

The restructuring will fundamentally lower our cost base, improving our financial performance further in the coming years.

In keeping with our dividend policy, and as a sign of our confidence in the future, we propose to maintain our dividend at EUR0.75 per share. Based on the positive response we received from shareholders, with over 60% opting for dividend in shares in the last two years, we will again offer an elective dividend.

We have accomplished a lot in 2012, but there's still much more to be done to unlock and deliver the full potential of Philips. Going forward, we will continue to relentlessly drive operational excellence throughout Philips by executing on our multi-year Accelerate! program. At the same time, we will also continue to invest in innovation and sales development to deliver higher profitability and growth.

The challenging economic environment in 2012, notably in the United States and Europe, has impacted our order book, and, hence, we expect our sales in 2013 to start slow and pick up in the second half of the year.

We remain confident in our ability to further improve our operational and financial performance, enabling us to achieve our 2013 financial targets.

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

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

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

Let me start with Healthcare. In the US, market conditions were challenging in Q4, with the fiscal cliff creating uncertainty among market participants.



Despite the 11th hour passage of the American Taxpayer Relief Act, critical topics, such as the debt ceiling, remain open and unaddressed. We, therefore, expect market uncertainty to continue into 2013, pending the next round of political deliberations and decision making.

As far as the Patient Protection and Affordable Care Act, limited progress has been made. It is still unclear which states will exactly participate in the 2014 Medicaid expansion, adding to the difficulty of adequate long-term planning in hospitals.

The medical device excise tax is now effective with a 2.3% tax on sales of most medical devices. This tax will be deductible for Philips, and we have been working on opportunities across our value chain to mitigate the impact of this tax on our business.

In Europe, we see increased activity in the northern parts of Europe, while Southern Europe continues to face substantial market declines as a result of the austerity measures undertaken in countries, such as Italy, Spain, and Greece.

Overall, we believe that economic fundamentals in the European region still point towards a flat outlook for 2013.

The growth economies continued to show good momentum during the last quarter of 2012. Particularly, China and Latin America displayed elevated growth momentum in the final quarter of the year, on the back of public sector spending.

Overall, we maintain a market outlook of around 4% growth in the healthcare markets, but with challenges in the North American and European markets, certainly during the first half of 2013.

The consumer markets reflect the effects of the overall weakness in the global economy.

In the eurozone, conditions continue to remain challenging. Unemployment reached new heights of almost 12%, with Spain and Greece over 25%, and France and Italy above 10%. Consumer confidence continues to be at historically low levels, driven by concerns over unemployment and the general economic situation. Retail sales continued to decline year on year.

In the US, unemployment held stable at just under 8%. Consumer confidence fell quite strongly in December with concerns about the labor market, as well as the uncertain environment. Advance estimates of December retail sales show a modest increase overall, but continued strong growth for non-store retailers.

In China, after a gradual slide in the first three quarters of the year, indicators are recovering, but to lower levels of growth than those seen prior to 2012. Consumer confidence recovered, and the November level is 7 points above July levels. Retail sales growth rate was above 15% in December, compared to 13% in mid-2012, and 17% to 18% at the end of 2011.

In other growth geographies, retail sales in Brazil remained strong, and consumer confidence remained above last year, and at the highest level globally.

In Russia, we see further weakening of consumer confidence and retail sales.

The Lighting market in Q4 2012 was stable versus Q4 2011, and showed limited growth compared to Q3 2012. Growth was mainly driven by LED product categories and growth geographies.

Recent indicators in North America continue to reflect economic uncertainty, especially impacting the Professional Lamps and Luminaires categories. The construction market grew mid-single-digit, mainly due to residential construction picking up, while commercial construction remains weak.

Western Europe continues to feel the effects of the economic challenges. Germany continues to outperform its peers, with the lamps market growing and the professional luminaires market remaining stable.



Despite contraction in construction, France continues to show moderate growth in Lamps categories, while we see the market slightly declining for Luminaires.

In growth geographies, construction remained 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, domestic demand remained strong, with LED categories continuing to grow.

Global vehicle production in Q4 is estimated to be stable compared to the same period in 2011. Vehicle production saw a growth overall in 2012, with the second half of the year being slower than the first half due to global economic conditions.

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

Comparable sales in the fourth quarter grew by 3% when adjusted for currency and portfolio changes. Comparable sales in our growth geographies increased double-digits in the fourth quarter.

Our growth geographies are defined as all markets, excluding the US, Canada, Western Europe, Australia, New Zealand, South Korea, Japan, and Israel. Sales from these growth geographies increased to 35% of Group revenues, compared to 33% for Q4 last year.

On a comparable basis, sales in North America declined by 3% in the quarter. Healthcare was affected by lower order intake in the previous quarters, as well as by low returns businesses within the quarter, as sentiment was affected by the uncertain economic environment.

Consumer Lifestyle declined in North America, primarily due to Lifestyle Entertainment. Excluding Lifestyle Entertainment, the Consumer Lifestyle sales in North America had mid-single-digit comparable sales growth.

Lighting sales declined, mainly due to lower sales for professional lighting solutions.

Group sales in Europe saw a decline in comparable sales of 2% in the quarter, mainly due to the market-related weakness I spoke about earlier, which affected Consumer Lifestyle and Healthcare.

Excluding the decline of Lifestyle Entertainment, Group sales in Europe grew low single-digit.

Lighting delivered mid-single-digit growth in the quarter.

In the other mature markets, the Group saw a 16% increase in comparable sales, with Japan continuing to remain strong with 30% growth.

Reported EBITA was EUR50 million, or 0.7% of sales, which is lower than the EUR503 million, or 7.5% of sales, reported for Q4 last year.

EBITA was significantly impacted by the fine imposed by the European Commission related to the CRT business. Of the total amount of the fine of EUR509 million, EUR313 million affected the EBITA in the quarter. The remaining EUR196 million was booked in the line results investments in associates, and impacts the net income.

There was a significant increase in the restructuring charges in the fourth quarter of 2012 as we accelerated various cost reduction initiatives. The main increase was due to overhead cost reduction initiatives across the Company. Some details per sector are as follows.



Healthcare had charges related to the reduction in personnel related to certain portfolio decisions. Consumer Lifestyle had charges related to the elimination of stranded costs.

In Lighting, the charges relate to the rationalization of the industrial footprint; integration of commercial activities in professional lighting solutions, North America; and supply chain cost reductions, including the consolidation of warehouses and overhead cost reductions in Consumer Luminaires in Europe.

The restructuring and acquisition-related charges for the fourth quarter for this year were higher than the fourth quarter of last year by EUR258 million.

In addition, Q4 2012 EBITA was negatively impacted by the loss of the sale of industrial assets in Lighting of EUR22 million.

Adjusted EBITA was EUR875 million, or 12.2% of sales, in the quarter, compared to EUR582 million, or 8.7%, for Q4 2011. The improvement in the adjusted EBITA was due to improved performance across the Group.

Net income was a negative EUR355 million, which includes the negative impact of EUR509 million due to the fine imposed by the European Commission on the divested CRT business.

The net income in Q4 last year was negative EUR160 million, largely due to the booking of the deal result for the then sale of the Television business, and a value adjustment for commercial and brand-related assets of EUR120 million at Lighting.

Cash from operating activities for the fourth quarter was an inflow of EUR1.2 billion; slightly up from Q4 of 2011. The improvement was mainly due to lower inventories, resulting in lower working capital and higher cash earnings.

With that summary, let me now walk you through the performance of each of our businesses during Q4, starting with Healthcare.

Currency comparable equipment order intake grew 4% in Q4 2012, compared to Q4 2011. The increase in order intake was led by a good performance in Europe, which increased by 11% in the quarter. Order intake growth was seen across the region, excluding Iberia and France.

Without the multi-year portion of some orders, the order intake grew by mid-single-digit in the quarter.

Order intake in the growth geographies increased by 7% on a comparable basis. The growth in these geographies was driven by double-digit growth in Imaging Systems.

Order intake in India, China, LatAm, and Russia recorded strong double-digit growth.

Currency comparable order intake declined in North America by 4%, caused by lower spending, both in government and private sectors.

Order intake for Imaging Systems increased mid-single-digit.

Patient Care and Clinical Informatics order intake increased by low single-digit as the North American situation affected growth in order intake.

On a currency and portfolio-comparable basis, Healthcare's year-on-year sales increased 4%. Imaging Systems and Patient Care and Clinical Informatics had low single-digit comparable sales increase. Home Healthcare registered high single-digit growth, and Customer Services grew by mid-single-digit.

Growth geographies delivered a comparable sales increase of 19% in the quarter. This was led by Russia, with an increase of above 40%; India, above 30%; Brazil at 25%; and China at 24%.



Comparable sales in Europe declined by 4%, with Southern Europe declining by high single-digit, and the rest of Europe declining by low single-digit.

Sales in North America declined by low single-digit in the quarter as both Imaging Systems and Patient Care and Clinical Informatics declined in the quarter, and Home Healthcare Solutions recorded mid-single-digit growth.

Healthcare reported a fourth quarter adjusted EBITA of EUR548 million, or 18.8% of sales, which is above the EUR430 million, or 15.8% of sales, in the same period last year. Positive growth momentum and higher gross margins resulted in the improved earnings for the quarter.

Adjusted EBITA for Q4 2011 was partly affected by the push out of orders to Q1 2012. EBITA for Q4 2012 was EUR434 million, or 14.9% of sales, compared to 15% in Q4 2011.

Consumer Lifestyle sales, when adjusted for currency and portfolio changes, grew by 2% compared to Q4 of last year. The sales growth momentum continued in Q4 2012 for the growth businesses combined; that is Personal Care, Health & Wellness, as well as Domestic Appliances, which registered 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 India, Russia, Brazil, and the ASEAN region.

Sales in North America declined low single-digit, while Europe declined by mid-single-digit. The decline in North America and Europe was due to Lifestyle Entertainment as the combined growth businesses in Consumer Lifestyle of Personal Care, Health & Wellness, and Domestic Appliances grew by mid-single-digit in both North America and Europe.

Other mature markets, comprising of Japan, South Korea, Australia, New Zealand, and Israel, recorded double-digit growth in the quarter.

The adjusted EBITA for the sector for Q4 2012 was EUR217 million in the quarter, or 11.7% of sales, compared to EUR148 million, or 8.3% of sales, for the fourth 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 stranded costs related to the Television business, from EUR17 million in Q4 2011 to EUR5 million in Q4 2012.

The reported EBITA in Consumer Lifestyle improved to EUR177 million, from EUR130 million in the fourth quarter of 2011.

Earlier, Frans talked about the sale of the Lifestyle Entertainment business. We expect the Audio, Multimedia, and Accessories business to transfer in the second half of 2013, subject to completion of necessary regulatory procedures. From the first quarter of 2013 until the closure of the deal, these businesses will be accounted for as part of assets held for sale.

The gain on the transaction will be recorded at the closing date. The closing date is expected in the second half of 2013.

The optical video business, for which Funai Corporation will be a distributor, will transfer in 2017, related to existing intellectual property licensing agreements.

In Lighting, comparable sales grew by 4% in the quarter, compared to Q4 of last year. The increase in sales was led by our growth geographies, where sales, excluding Lumileds, grew on a comparable basis by high single-digit. On a more granular basis, sales in India, Latin America, China, the ASEAN region, and Africa showed good momentum with strong growth.

Europe had mid-single-digit sales growth in comparable sales for the quarter, with good growth in Austria, United Kingdom, Denmark, Germany, and Norway. Southern Europe recorded a mid-single-digit comparable sales decline for the fourth quarter 2012.

North America recorded low single-digit sales decline in the quarter.



By taking a deeper look into each of the Lighting businesses, we continue to see strong sales of our LED products with growth of 43%, compared to the same quarter in the previous year. Lumileds recorded a strong double-digit growth for the quarter, while automotive and Consumer Luminaires grew by mid-single-digit. Comparable sales for light sources and electronics and professional lighting solutions were up low single-digit.

Adjusted EBITA was EUR194 million, or 8.6% of sales; a significant increase compared to the EUR77 million in the fourth quarter of 2011. Operational improvements in all businesses resulted in the improvement.

As Frans mentioned earlier, both the Lumileds and the Consumer Luminaires business returned to profitability in the fourth quarter of 2012.

Reported EBITA at Lighting declined to a loss of EUR13 million, from a profit of EUR41 million in Q4 2011. This was mainly due to an increase of EUR171 million in restructuring costs related to the overhead cost savings program, the rationalization of the manufacturing footprint in the Lighting sector, and the loss of sale of industrial assets.

Reported EBITA for Innovation, Group & Services amounted to a net cost of EUR548 million, compared to a net cost of EUR77 million compared to Q4 2011.

The EBITA for Q4 was significantly impacted by the fine imposed by the European Commission of EUR313 million, as well as charges mainly related to the various legal matters amounting to [EUR132 million] (Company corrected after the conference call), both of which are reflected in the line service units and others.

Q4 2012 also had higher investments related to the Accelerate! program, as well as higher costs for Group Innovation.

Stranded costs related to the TV business have reduced from EUR25 million in Q4 2011 to EUR3 million in Q4 2012.

Inventory value at the end of Q4 2012 decreased by EUR130 million, compared to the fourth quarter of 2011.

All sectors reduced their inventory on a comparable basis. Inventory as a percentage of sales improved by 200 basis points to 14.1% of sales at the end of Q4 2012, which compares with 16.1% in Q4 2011. This achievement is higher than our targeted reduction of 100 basis points to 150 basis points per year for the two years 2012 and 2013.

There was a significant reduction in Healthcare, where inventory as a percentage of sales declined by 320 basis points, compared to the end of Q4 2011.

Imaging Systems reduced inventory by 470 basis points, while Patient Care & Clinical Informatics, home healthcare solutions and customer services decreased their inventory by 180 basis points, 150 basis points, and 270 basis points, respectively.

In Lighting, inventory as a percentage of sales improved by 190 basis points compared to the end of Q4 2011.

Consumer Lifestyle reduced its inventories as a percent of sales by 70 basis points at the end of Q4 2012.

Return on invested capital at the end of Q4 2012 declined to 6.8%, from 9.4% in the previous quarter. This is due to the fine imposed by the European Commission for the CRT business. Excluding this fine, the return on invested capital increased from 9.4% to 9.7% at the end of Q4 2012.

The discount rate for the Group is now at 8.9%.

The increase in ROIC is largely due to the effects of higher earnings and improved working capital management.



During the call to update you on financial reporting-related matters on December 3, 2012, we had estimated pension costs for 2013, based on October 2012 data, to be EUR418 million. Based on the December 2012 data, we can now confirm that the pension cost for 2013 will be EUR423 million. This is an increase of EUR278 million compared to the pension costs of 2012, excluding one-off gains from curtailments.

The net interest cost on account of pensions was estimated on December 3, call at EUR86 million. Based on the December end interest rates, we now confirm these interest rates for 2013 will be EUR77 million.

The cash outflow for pensions was earlier estimated at EUR580 million for 2013. This is now estimated to be EUR623 million. The increase in the cash outflow is caused by higher service cost and deficit payments for the Netherlands plan due to lower interest rates.

The fund status at the end of 2012 is a deficit of EUR879 million, which is an improvement of EUR285 million versus year end 2011, and an improvement of EUR234 million versus the status mentioned during the December 3, call.

Since the commencement of the share buyback program in Q3 2011, we have completed 73% of the EUR2 billion program at the end of Q4 2012. We expect to complete this program, as planned, in July 2013.

Ladies and gentlemen, let me briefly summarize, before opening the line to questions. The improved results for the fourth quarter of 2012 demonstrate further progress on our path towards our 2013 financial targets.

In 2012, we felt the impact of the strong economic headwinds, and expect ongoing economic uncertainty to affect growth going forward, especially the first half of 2013. However, we remain confident in our ability to continue improving the operational and financial performance of the Company, driven by the 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

(Operator Instructions). Would you please limit yourself to one question, with a maximum of one follow up; this will give more people the opportunity to ask questions? (Operator Instructions). Andreas Willi, JPMorgan.

Andreas Willi - JPMorgan - Analyst

My first question is on your capital allocation going forward. You're coming towards the end of the buyback. You generated good cash flow. You've made good progress on the operational turnaround. Should we expect Philips to become more active again on M&A, or is the focus still very much internal as we go into '13?

The second question is on your margin target for 2013. Given that the Consumer Lifestyle -- the Lifestyle Entertainment business moves into discontinued operations, should you not have lifted the target slightly? Or is that too small a difference for you to adjust it? Thank you.

Frans van Houten - Koninklijke Philips Electronics NV - CEO

Morning, Andreas; thanks for asking those questions. On the capital allocation policy, that remains unchanged; focused on maintaining our credit rating and being very prudent.



We will, first, complete our share buyback program as it stands. We still -- we are at 73%, so we still have a piece to finish in the first half of 2013; and we will continue to be focused on our Accelerate! operational improvement program.

At this time, I don't want any distractions in our organization and, basically, continuing to focus on organic improvement. We can imagine that there are questions out there about what is afterwards; what is coming beyond 2013. At this point in time, we prefer to focus on our improvement program. And we can anticipate a further elucidation to the market at the end of 2013.

With regard to the margin targets, the Group targets are going to be unchanged in relation to the sale of the Audio, Video, Multimedia, and Accessories business to Funai.

I hope that answers your questions.

Andreas Willi - *JPMorgan - Analyst*

Thank you.

Operator

Mark Troman, Bank of America Merrill Lynch.

Mark Troman - *Bank of America Merrill Lynch - Analyst*

Just in terms of Accelerate!, you did, I think, EUR470 million/EUR471 million, or so, savings this year; obviously, a strong result. I think you're on schedule, roughly, for about EUR450 million of incremental saving for 2013, if I look at your schedules, give or take.

In the last Capital Market's Day, I think you talked about potential factory closures, and supply chain initiatives as well. Those factory closures and supply chain initiatives, are they going to be undertaken this year? And should we expect a gross saving in excess of the EUR450 million? Thank you.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Yes, thanks for the question. We're happy to be well on track. And you're right with the overhead reductions; we plan accumulative savings for 2013 of EUR900 million. So very pleased with that.

On the industrial footprint rationalization, supply chain rationalization, we did mention, at the Capital Market's Day, that this mainly pertains to Lighting. That we have started, to a lesser extent in Healthcare. And, therefore, Lighting, for the coming years, that will result in EUR165 million improvement of the result. And we left it a bit in the middle on what exactly the timing on that is; it will be the coming few years.

So we have pulled up a number of our plans to rationalize the conventional lamps manufacturing infrastructure, and that explains why we took additional restructuring, that we updated you on December 3.

Mark Troman - *Bank of America Merrill Lynch - Analyst*

Okay, thanks very much, Ron. And just one quick follow up. The EUR154 million charge in Q4 for legal matters, etc., I guess all I really want to know is there any ongoing risk to 2013 of those sort of charges going ahead? Or is that just something to clean everything up that is known? Maybe a bit more color on that, please.



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

Mark, we, of course, regularly look at our legal exposures. And in that context, we have changed some provisions, and that is the cause -- I mean that's substantially explaining the EUR154 million additional charge in the fourth quarter. And details, I prefer not to give because it relates to legal matters and that would not be helpful to the Company.

Mark Troman - *Bank of America Merrill Lynch - Analyst*

Okay, thanks very much.

Operator

Martin Wilkie, Deutsche Bank.

Martin Wilkie - *Deutsche Bank Research - Analyst*

A couple of questions. The first one is on the Healthcare orders. It looks like you had a reasonably strong order intake in Western Europe. Just to clarify, was there any large orders in there that, perhaps, boosted that number? Or was it a base of comparison effect? Just if you could, perhaps, talk about why we saw such strong order strength in Western Europe?

And the second comment was you mentioned in your outlook just more generally about your order backlog pointing to a softer first half and then a stronger second half. Could you just give us some highlights as to where you're seeing that softness; not so much by region, but is it more Lighting, is it more Healthcare? Just a bit more color around that, please.

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

Sure, Martin. Let me start, and maybe Ron can help me out on the details of the Healthcare orders.

In Europe, I think we see the effect of our strong product range. We see the effect that some hospitals have waited and now need to come back. And, indeed, as you imply, there are some multi-year orders in the order intake, and I think we have given the number for the adjusted order intake.

If you would exclude the large multi-year orders then, actually, the comparable order intake is more in the neighborhood of mid-single-digit. So there is some large aggregated orders that have a longer horizon in there.

With regard to the outlook, yes, the second half 2012, of course, was an interesting landscape of United States slowing down due to Election and the fiscal cliff and debt ceiling. China was a bit slow, and Europe continued to be in negative territory.

Looking ahead at 2013, we can only expect that in the US it will still take longer to resolve the budgetary issues. And hospitals that we speak to are quite cautious with their capital policy, and are reluctant to commit themselves, which is, in our view, resulting in a postponement of business across the board.

China we see picking up again, and we expect that to become stronger in the second half of the year.

Europe continues to be flattish, I guess, although the higher order intake will convert eventually in more sales.



To the landscape that I've just painted, we now also need to add Japan, where, with the change in the currency rates, there may also be effects, although, of course, near-term we are hedged and near-term most of the orders are already in the book. But, certainly, a weaker yen creates further uncertainty to the world around us.

Internally, we have said, look, whether the market is growing a bit faster or a bit slower we continue to underline the fact that we are a case of self-help and that most of our results' improvement will actually come through the Accelerate! program. And we don't want to put up the umbrella with regard to the external market conditions when it comes to our confidence in making our mid-term targets, 2013 targets.

Martin Wilkie - *Deutsche Bank Research - Analyst*

And the comment on the order backlog, was that limited to Healthcare? Or, obviously, do you have some project business and some orders in Lighting? Any particular comments there, or not so much seen there.

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

Not so much. That was typically due to Healthcare, Martin.

Martin Wilkie - *Deutsche Bank Research - Analyst*

Okay, thank you very much.

Operator

Ben Uglow, Morgan Stanley.

Ben Uglow - *Morgan Stanley - Analyst*

First of all, just as a follow-up to Martin's question, on the European orders, if we exclude the large orders, was that mid-single-digit improvement, was that in any one business segment? Or was it across the board, i.e., have you seen a general improvement, or any general trend of recovery in the overall capital equipment spend by European hospitals? That was question one.

Question two, you very kindly gave us the growth outlook for the European market, which you saw overall as flat. Could you elucidate on how you see North America developing over the course of this year?

And the final question, I think you mentioned in the opening remarks you've taken action to pass on the excise tax. Do you still believe you're fully going to be able to offset that? Or is it potentially a little bit of a margin headwind this year?

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

Yes, thanks for the question. What we've seen across Europe is, indeed, if you exclude these large orders mid-single-digit increase. We're very pleased by that. It's mainly related to Northern Europe.

I wouldn't say that now across the board we see a recovery overall of hospital healthcare spend. As we guided last quarter, as we see it, in various quarters on and off in various countries. So it's very early, I would say, to draw a line of structural improvement, I would say.



We are pleased with what we have seen, and it is across the board, so there's not a specific business that is pulling this. That's quite, yes, encouraging, I would say.

I think the outlook that we have given is that we expect for the Group across geographies, if you will, on balance to be a slower start. That, of course, pertains mainly to Europe and North America and the uncertainty that there is still lingering, for reasons that I mentioned earlier. Like, for example, the whole deficit discussion in the US that will create some uncertainty. So we need to factor in some of the uncertainty.

The passing on the excise tax, yes, we're looking at various ways. But as we also reported to you on our path to value, this will have somewhat of an impact in the path to value for Healthcare to get to its 2013 targets. So we have factored that in. It's part and parcel of us saying we are on track to deliver on our targets.

Ben Uglow - *Morgan Stanley - Analyst*

That's very clear, thank you.

Operator

Ludovic Debailleux, Natixis.

Ludovic Debailleux - *Natixis - Analyst*

Two things. First of all, could you help us to quantify the license revenue for 2013 and 2014 now that you did the operation with Funai, both on TV, and on Audio, Video, Multimedia? That was question one.

Question two on Lighting. How much positive impact could we have on profitability in 2013 on the back of better rare earth materials? Thank you.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Okay, the license revenue, we estimate, but it's an estimation, that for both years that you mentioned, '13 and '14, each they will be EUR15 million down.

Ludovic Debailleux - *Natixis - Analyst*

It's EUR50 million, or EUR15 million?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

It's EUR15 million, sorry.

Ludovic Debailleux - *Natixis - Analyst*

Thank you.



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

The rare earth improvement in Lighting we've seen drop a bit in the second half of the fourth quarter; not very significant. But it will be more impactful in the first quarter. There's not a specific amount that I can quote right now.

Ludovic Debailleux - *Natixis - Analyst*

Thank you.

Operator

Gael de Bray, Societe Generale.

Gael de Bray - *Societe Generale - Analyst*

The first question relates to Lighting. Obviously, it's clearly good news that both Lumileds and Consumer Luminaires are now profitable in Q4, but what kind of margins did they achieve, more specifically, in Q4? And what could be a reasonable margin objective for these two businesses going into 2013?

The second question is more about the Consumer division. After the transfer of Lifestyle Entertainment, I guess, well, you should have to review the targeting margin range for the Consumer Lifestyle division. Can you confirm that, actually, the margin should be mechanically raised to between probably 10% and 12% for the division? Also, do you expect any capital gain? And how much can it be in the second half?

And lastly, what is the pro forma breakdown of sales by geography for the new Consumer Lifestyle division? Thank you.

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

All right, quite a few questions; let me chip away at them. So Lighting, first. Indeed, good news that Lumileds and Consumer Luminaires turned the corner in the fourth quarter last year. That is, of course, relatively late in the year. I can tell you that Lumileds is a little bit further ahead than Consumer Luminaires.

So we will need to use 2013 to further structurally improve the profitability of both of these businesses, and make sure that they are solid performers and they will not revert back. So I'm confident that we can do that, but we still have more work to be done.

Externally, we do not disclose the margins that they need to achieve in 2013; and maybe this is something that during the Capital Market's Day of Lighting in the fall we can further talk about.

With regard to your question on Lifestyle Entertainment, will we change our targets, that's your question? I think also Andreas Willi talked about that. So for the Group, we are not changing our stated targets of 4% to 6% comparable growth; 10% to 12% EBITA; and 12% to 14% ROIC.

The composition within the Group, obviously, we need to deal with pluses and minuses around our businesses. We are committed on the Group targets, and you can leave it to us to put maximum pressure on each of our sectors to perform to their best ability in 2013.

Of course, we need to realize that the deal with Funai is expected to close only in the second half of the year, which means that for most of the year the Audio, Video results are still in the results. Moreover, we will have some deal-related cost and the effects of resolving the stranded costs. All of that will weigh on the 2013 results, thereby making it premature to start changing the Consumer Lifestyle targets.

I think you asked whether we will have a capital gain on the deal. We have an expectation to book a positive deal result, including, let's say, some of the effects that I talked about in the second half of the year, although, of course, it's early days. We have just signed the contract; let's talk again about this when we are at the closing date.

And then your question about the pro forma breakdown, I'm not sure that I fully understood that, maybe, Ron, you can take that.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Yes. I think the question was if you now look at the new Consumer Lifestyle, so to speak, excluding Lumileds -- sorry, what --

Gael de Bray - *Societe Generale - Analyst*

Yes, exactly.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

What was the geography. I don't think it differs very much from the overall profile, geographically, of Consumer Lifestyle now, which is about 30% in Western Europe; 20% North America; 5% other mature; and about 45% in the grow geographies.

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

We didn't have that ready at hand, so we'll do -- we will check, and if it differs then we'll let you know.

Gael de Bray - *Societe Generale - Analyst*

Okay, thank you very much.

Operator

Martin Prozesky, Sanford C. Bernstein.

Martin Prozesky - *Sanford C. Bernstein - Analyst*

Just two questions, please. On Lighting, you mentioned that Prof Lum in the US was quite weak. Can you give us a bit more color on why that was, given some of the construction lead indicators and trending we're seeing there?

And the second on Healthcare, it's a very specific question. Could you just comment on Japan and how strong it was, both in sales and in order momentum in the quarter, given that it was quite strong in Q2 and Q3?

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

Sure. In Lighting, in North America, we, first of all, need to observe that the lighting marketplace, the commercial construction has not really improved yet. What the newspapers report about is the residential construction; that is picking up. Obviously, we are, with this business, mainly focused on the professional markets, and there we have not seen a major improvement of the market sentiment.



Moreover, we are making some changes in our organization. Last year, we appointed new management and this causes some, let's say, disruption in how we go to market in the near term. But we expect to come through in a stronger manner after we have done that.

So we are dealing, for example, with the industrial footprint rationalization in North America. We are integrating some of the old brands of the Genlyte acquisition into a more streamlined go-to-market approach.

With regard to your question on Japan, indeed, we are very happy with the Healthcare sales; that went up strongly. Also, the order intake was up, but we do not separately disclose the percentage.

Martin Prozesky - *Sanford C. Bernstein - Analyst*

Thanks. Just one follow up on the US and Prof Lum. So is that business now stable? Is it still going to go through a bit of a decline before we eventually, maybe in 12 months/18 months, see the pickup there?

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

We don't see a real reason for a decline. But we would love to see strong growth, and we think we have the innovation portfolio to do that.

Our Professional Lamps business does very well. We would like to see the Professional Luminaires business to do a bit better. I'm not at all negative about it. It's just that some of the work that we should have done earlier is now being carried out by the new management team of Philips Lighting North America.

Martin Prozesky - *Sanford C. Bernstein - Analyst*

Great, thank you.

Operator

Olivier Esnou, Exane.

Olivier Esnou - *Exane BNP Paribas - Analyst*

A few questions. Can we just have, maybe, the pro forma performance of the AVM business that's going to Funai for 2012 sales and EBIT?

Secondly, how should I reconcile the license income guidance of Ron going down EUR15 million with the TPV contribution, which I think was about 50 -- is due to be 50? Is it included or not?

And thirdly, with -- on the CFL Lighting side, so there is a benefit of much lower raw material. Do you expect your retail price to have to come down? Or do you think you can cut -- sorry, you can keep most of the benefits for yourself? Thanks.

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

All right, Olivier, thanks for those questions. I'll leave the pro forma breakdown of AVM and Lifestyle Entertainment to Ron, in a moment.

On license income, we can be short; it does include the brand licensing to the TP Vision joint venture. As you recall, we have talked last year about the underlying license income of some of our intellectual property to come down, in conjunction with the decline of some of the Optical Storage businesses.

Of course, we see the positive effects of the brand license income; that is shoring up the total. But Ron gave you the total effect of the minus EUR15 million.

With regard to CFL, shall we flag that we will expect the rare earth prices to have some positive effect on Lighting? But you specifically, I think, asked for the retail prices. And also last year we mentioned already that in retail we see, actually, quite a lot of price pressure also from private label brands in the large retail chains, and, thereby, the ability to really improve margin realization in retail we don't see.

At the same time, we also don't see a reason now to start lowering or changing the prices because the pressure was already there. Of course, that story is different for the professional side of the business.

Then, Ron, maybe you take the Lifestyle Entertainment.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Yes, so Lifestyle Entertainment in Q4 was 26% of the total Lifestyle sales. What is not included is the speech -- sorry, the remote controls part of the business; that is a relatively small business in the portfolio. So we're really talking, actually, material, about almost full business going over, except that small remote control part.

Olivier Esnou - *Exane BNP Paribas - Analyst*

If you look at full-year '12, what does that give us, really?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Well, it is EUR1.5 billion/EUR1.6 billion, around that.

Olivier Esnou - *Exane BNP Paribas - Analyst*

And you said it was profitable always, more or less, so is that also full-year profitable performance, I guess, yes?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Yes, it's full-year profitable.

Olivier Esnou - *Exane BNP Paribas - Analyst*

Okay. I just want to react to Frans' comment on CFL. When I'm thinking about your ability to retain pricing, I was thinking overall. So putting together Consumer and Professional, is there an ability of Philips, so now especially on the Professional side, to keep the benefit of lower rare earth, do you think? Thank you.



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

Okay, thanks for the clarification, Olivier. Overall, we expect a small positive impact on the CFLI profitability, thanks to the rare earth cost coming down.

Olivier Esnou - *Exane BNP Paribas - Analyst*

Okay, thank you very much.

Operator

Simon Toennesen, Credit Suisse.

Simon Toennesen - *Credit Suisse - Analyst*

Just a quick follow up on pricing. Could you just elaborate a bit on the pricing development you've seen in Healthcare in Q4, and what your expectations are for 2013?

We've had some comments from peers over the last two weeks, or so, GE flagging around 1.8% negative pricing in Q4; Siemens more towards 3%. Are you at sort of similar levels? Or where would you -- how would you describe your pricing development you've seen recently, and how it could go forward -- how it could improve, or not, going forward?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Yes, so it's not outside the range that we usually guide of 3% to 4%. I do say that within our business we don't capture all the price decline because there are certain deals that we simply do not participate in when they don't meet the right profitability hurdles.

I would say that what we have seen in Europe and some pockets in Asia, there's somewhat more of a price erosion, but more of a price down undercurrent. But for Healthcare, as I said, in the quarter it has not gone outside the range that we usually see it; 3% to 4%.

Simon Toennesen - *Credit Suisse - Analyst*

Okay, thank you.

Operator

Fabian Smeets, ING.

Fabian Smeets - *ING Financial Markets - Analyst*

My question is on a statement Mr. van Houten made on Bloomberg today, stating that much more can be done to unlock Philips' potential. Could you, please, elaborate on some specific further actions you have in mind?

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

Yes, thank you. Well, as you all know, we have consistently said that Philips is a case of self-help. What we mean with that is that, on the one hand, we have strength, like our innovation, power, our brand, our access to more than 100 countries in the world, a strong balance sheet; and on the other hand, the results are below world-class performance.

We relate that to lack of operational excellence, agility, speed. And the Accelerate! program addresses several elements, like changing the culture to a high performance culture; faster decision-making; more entrepreneurial; holding people accountable.

We are working on our end-to-end value chain performance; speeding up time-to-market of new innovations; taking out bottlenecks; becoming more locally relevant. We are shifting our investment money to those pockets where they have the best return. We apply granular performance management by business market combination. We are taking overhead costs down. All of these -- and improving working capital.

So I've compared that to a marathon in the past, and that we are maybe at a quarter into the race. Of course, you are already seeing the results improvement of being a quarter into the race.

But we think that there is much more potential to be realized, both in accelerating growth; expanding gross margins; taking down our non-manufacturing costs; and reducing our working capital. That will make Philips a more profitable company, a more value-creating company.

We believe that we should have done that before, but now we are doing it. And that is going to make Philips a more attractive company for customers, for employees, and, of course, for investors.

Thank you for allowing me to do this commercial (laughter).

Operator

Fredric Stahl, UBS.

Fredric Stahl - *UBS - Analyst*

I'm just going to ask you one question, and that's on the strong performance on the inventory side. I was wondering if it's possible for you to quantify the negative effect on your P&L from under-absorption of fixed costs, if you look at the reduction here year over year.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

The inventory reduction program is a structured program. It actually has two phases. Let's call this phase the lower-hanging fruit. And then we have the phase that we're going to see somewhere down the path later, of the results of the end-to-end transformation, as Frans just described. That is a really very methodical program to revamp our whole customer value chain.

We haven't seen significant under-absorption because we have simply put much more attention and emphasis on running a smooth supply chain. So also in Lighting, where we have seen this phenomena happen, I think the supply chain has improved. Much more work needs to be done, that I will say too, but we feel that with this we're on a good track. So I couldn't say there's been a major impact of the part you mentioned in this P&L.

Fredric Stahl - *UBS - Analyst*

Okay, thank you.



Operator

Hans Slob, Rabo Bank.

Hans Slob - *Rabo Securities - Analyst*

Two questions. You mentioned rare earth impact for the Lighting division, could you also shed some light on the raw material impact for Healthcare and Consumer Lifestyle in 2013?

Secondly, I think you've appointed a new Chief Procurement Officer. You saw some additional savings, I think, you said that in previous calls. What can we expect from that in terms of procurement savings?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Yes, you're right, we have appointed a new Chief Production Officer, and we communicated about that in our Capital Market's Day presentation.

It's not easy to elaborate specifically on the material costs. Of course, we have a good purchasing infrastructure in place, but we can leverage this much more.

We have embarked on a structured program to reduce the cost of goods, to reduce the bill of material; for example, by more re-engineering of the components, by smarter purchasing, and by doing things more efficient and allowing more multi-functions to work together. That is behind the program that we embark on with Fredrick Spalcke.

We see significant opportunities; we'll use the beginning of this year to see what that means on a longer timeframe. But we're after significant savings.

Operator

Philip Wilson, Redburn.

Philip Wilson - *Redburn Partners - Analyst*

I have two questions, please. First, in Lighting, despite the pricing pressure you're seeing in white label, you have also talked about a golden tail in traditional pricing, i.e., raising prices because you don't want to switch to LED. Has this already started? And can you help with how much you're getting in a price increase as a percentage, given it's obviously a major part of Lighting? That's the first question.

And the second question is on US Healthcare. You have said that hospitals are being cautious on capital policy, but am I right in thinking that half of your imaging demand is from imaging centers, rather than hospitals?

And when I look at imaging centers' reimbursements in 2013, the outlook appears to be actually far worse than hospitals. So can you help with what commentary imaging centers is giving; if it's materially different to hospitals, and if it's also an important part of your demand? Thank you.

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

Yes, thanks. On Lighting, I did mention the pricing pressure in retail. For us, the Consumer Lighting is actually less than a quarter of the total Lighting business. So most of our Lighting business is professional, where customers' take positions on total cost of ownership, and we are well able to uphold margins.



With the acceleration of LED, we do see the so-called golden tail of conventional lighting coming under pressure from a volume point of view. Therefore, we are adjusting our industrial base to make sure that our factories continue to have the right and appropriate loading so that we don't fall in the trap of under recovery of those traditional factories. We think that we are well on track to do that, thereby not causing undue pressure on the overall profitability of Lighting.

It's clear the Lighting can only achieve its targets for 2013 by both improving the LED profitability, as well as the conventional profitability, so we see opportunity to improve across the board.

We remain very vigilant on the speed of the LED adoption, and if we need to address the golden tail faster then we can certainly do that.

With regard to the US healthcare market, what not everybody knows, indeed, is that the Taxpayer Relief Act that came on January 1, or at New Year's Eve, there was also a clause in there that affected the reimbursement of diagnostic imaging.

So you're quite right to point out that, for example, imaging centers will be affected. But our statement of a slow start of the year is meant certainly more broadly, where we saw across the market in the US the negative order intake in the fourth quarter. And that will have, broadly, its effect in the first half of 2013. We don't make a distinction; at least, we don't break out market guidance of hospitals versus imaging centers.

Philip Wilson - Redburn Partners - Analyst

Okay, thank you very much.

Operator

William Mackie, Berenberg Bank.

William Mackie - Berenberg Bank - Analyst

Two questions, please, Ron and Frans. Firstly, on Lighting, just coming back to -- in the past, you've given some specific guidance on the potential benefits of the turnaround at Consumer Luminaires, and Lumileds as well. You've highlighted the positive momentum, which is a great result in the fourth quarter. Just, if you maintain the business momentum you've seen, what is the likely margin impact, in basis point terms, in 2013 versus 2012 for Lighting?

And while we're on that subject, could you specify how you see the gross margins comparing within your LED business related to your traditional Lighting business at the moment? It has been moving positively.

Ron Wirahadiraksa - Koninklijke Philips Electronics NV - CFO

Okay. On the comment you made, we said how the previous impact was, the previous impact, not forward-looking. But to give you a perspective, in 2010 to 2011, of the 600 basis points at Lighting came down at that time for the full year, 250 basis points was for Lumileds and Consumer Luminaires combined; half each, I would say. So for the size of business, it was a significant impact.

Now we have been reporting on improvements. And, of course, as the first half of 2011 was still relatively okay for Lumileds, its trouble started in the second half, we still had a decline. But now this has improved. So if you look at the EBITA impact in Q4 2012 versus Q4 2011, it has actually helped quite significantly in getting profitability back. So the margin improvement has really significantly improved because of that.



As Frans said, we're not really guiding for further absolute amounts, or the margin percentages going forward, but we will work further to make these businesses structurally profitable. And that's the next step. Now that we have broken even in Consumer Luminaires and make a profit with Lumileds, the next step is to make sure that it holds and it's very solid.

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

And your second question related to the gross margin differential between conventional and LED, in professional, as we reported at the Capital Market's Day, we have more or less closed the gap, thereby LED projects are as profitable as conventional products -- projects. And for certain professional projects, we even see better profitability for LED.

On the Consumer side, that is still a different story. There, as the leader of Lighting, we find it important that we also drive the right price point for the consumers. We think that market consumer adoption will improve dramatically when we are at the right price point, so the profitability of the -- or gross margin level rather, the Consumer business in LED is still behind conventional. But for the professional market, we have closed that gross margin differential already, as reported.

William Mackie - *Berenberg Bank - Analyst*

That's great. Thank you very much. The follow up, it's related to Japan, again. You generated EUR1.2 billion of sales in Japan in 2012, can you at least give a ballpark of how that splits between Healthcare, where I think it's your third largest market, and the other divisions?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Yes, thank you. This is mostly for Healthcare. There's somewhat in Lighting business, but the overriding part is for Healthcare.

Healthcare in Japan has performed very well. We reported on that in the previous communications, the previous quarter. We're pleased with that. Both sales and order intake in Japan have been very strong in the fourth quarter.

William Mackie - *Berenberg Bank - Analyst*

Thank you very much.

Operator

Andrew Carter, Royal Bank of Canada.

Andrew Carter - *RBC Capital Markets - Analyst*

Most of my questions were answered, but perhaps if I could just ask two. One was just a follow up on the Japan comments, and about Healthcare. And it was just that I think we've seen, with the stimulus plans that have been announced or mentioned in the newspapers for Japan, that Healthcare may be a part of that. I was wondering if you have heard any more from on the ground as to whether that would be the case, and whether that could help your business?

And then the second question was we saw Samsung acquiring again in the medical equipment field yesterday, and I wondered how strong do you think the barriers are to a new entrant in the CT and MR areas? And could the likes of a Samsung circumvent Philips' and others technology protection by acquiring, for example, their important equipment suppliers?



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

In Japan, I think we will see, maybe, a positive benefit of the stimuli, but we also will see potentially the negative effect of a weaker yen. The sum total of that, I think it is too early to say. We will have to monitor this closely on how it pans out.

With regard to Samsung, clearly, that company has stated that they have a strong ambition to get into healthcare so we need to take that very seriously. And as they buy companies in the United States or in Europe, they will also acquire intellectual property. Of course, I have seen the announcement yesterday; we will study the implications of it. At this moment, it's too early for me to make detailed commentary.

Andrew Carter - *RBC Capital Markets - Analyst*

Thank you.

Operator

Daniel Cunliffe, Nomura.

Daniel Cunliffe - *Nomura - Analyst*

Just really coming back on the AVM, you gave revenues in terms of the mix. If you could give us an update on the profit, if that would be useful. Last time, I think you mentioned margins were roughly around 6% to 7% here; just wondering how that has changed year on year, and what we can expect, just so we can help us with our pro forma as we head into full-year '14. I guess that was the first question.

And then a follow up really is on the Healthcare. Quick question on European orders. You said it's mid-single-digit excluding these large orders, when did these large orders fall out? It looks as though it's been the second quarter in a row. Is that in two quarters' time, or is that it for now? Those two questions. Thanks.

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

I think Ron already mentioned the profitability of the AVM business, which in the fourth quarter was about mid-single-digit, and for the full year as well. So I think you mentioned 6 or 7, so mid-single-digit is the right way to talk about it.

With regard to Healthcare, when we make the distinction between orders that are more near term and orders that are longer term, you really need to think about an order book that can span a couple of years. An example is an order we took in 2012 at the Isala Hospital, here in my own country, in the Netherlands, which is a five-year deal, where increasingly the order size becomes larger and we become a total service provider to these hospitals.

It's something that we like very much because as we become a total service provider in the medical technology field we're also protecting ourselves against commodity players that come in only with pointed price deals. So you will see Philips, going forward, emphasize these larger deals more and more, where equipment and clinical informatics and a service component will help us to be a more holistic supplier. And we think that's the right way to provide also a competitive barrier against newcomers.

Daniel Cunliffe - *Nomura - Analyst*

Okay, thank you.

Operator

[Victoria Ventus], UBS. Andreas Willi, JPMorgan.

Andreas Willi - *JPMorgan - Analyst*

Thanks for taking the time. I just wanted to clarify on license income and the guidance for '13 on IG&S. I'm a bit surprised about the strong underlying decline in the license income because previously you've guided to EUR15 million/EUR20 million decline. But now, if you add EUR50 million from TV, it looks more like EUR70 million underlying decline, or a EUR60 million, and what does it mean for what you expect overall for IG&S for EBITA in 2013? Thank you.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Yes, so we are aware that the EUR50 million of TV license income is included in the EUR15 million, that I have said. So it's always been there. This, as I said also, remain estimates, Andreas, so it's not really very precise to say.

We have, of course, seen, and will see ongoing, license income decline from this optical technology. And we've guided for that, I believe, in also earlier quarters, where we said, I believe, it would go down from something like EUR200-plus-million to about EUR140 million/EUR130 million in a few years' time.

So this is what I would say, Andreas; hope this is somewhat of an answer. But for us, it's quite explainable.

Andreas Willi - *JPMorgan - Analyst*

Overall, for IG&S, normally, or very often, you give some kind of indication what we should expect for the year?

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

Yes, it's EUR250 million -- EUR350 million for the full year. We have put it in the press release, Andreas; EUR350 million for the full year.

Andreas Willi - *JPMorgan - Analyst*

Sorry I missed that.

Ron Wirahadiraksa - *Koninklijke Philips Electronics NV - CFO*

That's okay.

Operator

Thank you, Mr. van Houten and Mr. Wirahadiraksa. There are no further questions, please continue.

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

All right. At this time, I'd like then to conclude the call. Many spirited and good questions; thank you very much.



As mentioned, we are pleased with the underlying results improvement. We look with confidence at 2013. We know that Philips has more potential to unlock, and we are all going to tenaciously and persistently going to get that and to show and deliver that result to our shareholders. Thank you very much. Bye-bye

Operator

This concludes the Royal Philips Electronics' fourth quarter and annual results 2012 conference call on Tuesday, January 29, 2013. Thank you for participating. You may now disconnect.

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