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FRANS VAN HOUTEN, CEO ROYAL PHILIPS ELECTRONICS

[Andre Manning]:

Good morning, ladies and gentlemen. Thank you for joining this media briefing at our headquarters to discuss our fourth-quarter and 2012 results. I'm here with Chief Executive Officer Frans van Houten and Chief Financial Officer Ron Wirahadiraksa. Frans will make some introductory remarks and after that you can ask your questions. Frans, the floor is yours.

[Frans van Houten]:

Thank you, Andre. Good morning, and welcome. I am pleased with the continued improvement in the operational performance in the fourth quarter. Through our Accelerate! program, we are making good progress in transforming Philips into an agile and entrepreneurial company, driving improved and sustainable results.

Before I discuss the fourth quarter, let me talk about the separate announcement we issued today.

We have signed an agreement with Funai to transfer our Philips Audio, Video, Multimedia and Accessories businesses. This transaction will leverage Philips' strong brand, strength in innovation, and leadership position in these businesses, with Funai's strong presence in America and Japan, and its supply and manufacturing expertise. I am confident the deal will give this business a great future, with continuity for our customers. With this transaction, we have taken an important step in transforming Philips into the leading technology company in Health and Well-being.

Let me now briefly talk about our financial performance in the fourth quarter of 2012.

Our Healthcare sector posted comparable sales growth of 4%, led by high-single digit growth at Home Healthcare Systems, mid-single digit growth at Customer Services and low-single digit growth at both Imaging Systems and Patient Care & Clinical Informatics. In growth geographies, comparable sales increased by 19%. Currency-comparable order intake increased by 4% year-on-year. The EBITA margin excluding restructuring and acquisition related charges increased year-on-year by 3 percentage points to 18.8%.

In the quarter, we reinforced our presence in growth geographies by signing a major new agreement in the Middle East to supply the Farah Medical Complex in Jordan with a customized package of advanced imaging solution systems and energy efficient LED lighting. And we continue to invest in innovations, at the recent RSNA trade show in Chicago we introduced 15 new healthcare products and features, including a new innovative imaging system for low X-ray dose combined with industry leading image quality.

Consumer Lifestyle comparable sales increased by 2%, driven by double-digit growth in the combined growth businesses; Personal Care, Health & Wellness and Domestic Appliances. Sales increases were partly offset by a decline at Lifestyle Entertainment. All businesses in the sector improved underlying profitability. The EBITA margin excluding restructuring and acquisition related charges increased year-on-year by 3.4 percentage points to 11.7%.

Consumer Lifestyle continues to launch innovative products. Since 2010, the sector has quadrupled the number of launches of region-specific innovations in kitchen appliances, such as the soy milk maker in China.

Lighting comparable sales increased by 4%, with sales increases in all businesses, notably double-digit growth at Lumileds and mid-single digit sales growth at Consumer Luminaires and Automotive. LED-based sales grew by 43% and now account for 25% of total Lighting sales. Both Lumileds and Consumer Luminaires returned to profitability in the quarter. The EBITA margin excluding restructuring and acquisition related charges increased year-on-year by 4.9 percentage points to 8.6%. Higher restructuring charges impacted the reported EBITA for the quarter.

Underlining our leadership position in the LED revolution in the consumer domain, Philips introduced the Hue, the first commercially available connected LED lighting system, which can be controlled through smart mobile devices. These are the kind of innovations that continue to proof our leadership in the lighting industry.

Let me now discuss the group performance in the fourth quarter. Sales for the total group increased by 3% on a comparable basis. Our growth initiatives are working, as we increased sales despite the challenging economic environment in western economies.

Our operational results improved across all sectors, as a result of increased sales, overhead cost reductions, and gross margin expansion. EBITA, excluding restructuring and other charges, increased by 50 percent to EUR 875 million. We also exceeded our inventory reduction goals as we stepped up working capital management.

However, net income in the quarter was significantly impacted by charges such the fine imposed by the European Commission, which we intend to appeal, as well as restructuring charges. The restructuring will fundamentally lower our cost base, improving our financial performance in the coming years. Net income, excluding the European Commission fine of EUR 509 million, amounted to EUR 154 million.

Let me highlight our performance in growth geographies, where we showed continued good growth. In these geographies, sales climbed by 10% on a comparable basis and they now account for 35% of total group revenue. And we have many great examples across the world of products that are successes in the market. Let me give you one: for the first time we sold more than 10 million shavers in China in less than a year.

While we have made significant progress in 2012, there is still much more to be done to unlock and deliver the full potential of Philips. Going forward, by continuing to execute on our Accelerate! program, we will relentlessly drive operational excellence throughout Philips.

And that brings me to the last slide, showing our Mission and Vision. To make this Mission and Vision happen, we will continue to invest in innovation and sales development to deliver profitability and growth. In 2013, we will invest approximately EUR 1.7 billion in research & development, consistent with our strategic focus.

My final remark is about the outlook for this year. The challenging economic environment in 2012, notably in Europe and the United States, 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.

With that, we are ready for your questions.

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