



Conference Call Transcript

PHG - 2005 - Fourth quarter results conference call

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CORPORATE PARTICIPANTS

Pierre-Jean Sivignon

Royal Philips Electronics - CFO

Gerard Kleisterlee

Royal Philips Electronics - President and CEO

CONFERENCE CALL PARTICIPANTS

Uche Orji

JP Morgan - Analyst

Antoine Badel

CSFB - Analyst

Matthew Gehl

Goldman Sachs - Analyst

Bram Cornelisse

Merrill Lynch - Analyst

Francois Meunier

Cazenove - Analyst

Nicholas Gaudois

Deutsche Bank - Analyst

Didier Scemama

ABN Amro - Analyst

Sean Murphy

Nomura International - Analyst

Thomas Brenier

Societe Generale - Analyst

Luc Mouzon

Exane BNP Paribas - Analyst

Niels de Zwart

Rabo Securities - Analyst

PRESENTATION

Operator

Welcome to the Royal Philips Electronics annual results 2005 on Monday, January 23, 2006. For the introduction by Mr. Pierre-Jean Sivignon, CFO of Royal Philips Electronics, all participants will be in a listen-only mode. After the presentation, 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. Pierre-Jean Sivignon. Please go ahead, sir.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Thank you. Ladies and gentlemen, let me firstly welcome you to this conference call for the fourth quarter results of 2005 for Royal Philips Electronics. Gerard Kleisterlee is with me and together we will be answering your questions. I will make a few introductory remarks and then open up the call to your questions.

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This quarter has been one in which we have seen more evidence that targets we have set for ourselves are being, or will be, met. Let me be more specific. Firstly, in Medical Systems we have seen excellent growth in the quarter in terms of sales, and specifically in terms of order intake. Which is a continuation of the trend that we have seen during the year, based on our renewed product range and excellent service capabilities.

There are a couple of items in the IFO that I would like to explain. The results include the high cost of dealing with a billing issue of MedQuist as well as a provision to cover the cost to intend to settle the matter. We have seen a €10m negative impact of the Stentor acquisition as a charge, and related revenue delay.

The order intake of the new iSite packs from Stentor has been very strong, giving us solid confidence. One development that we have seen is increasing growth in developing markets, where there is a greater element of entry level products with a lower margin. In order to deal with this, we need to accelerate our operational efficiency improvement actions and these are -- this has our full attention.

Secondly, in DAP the excellent quarter has given a 6% comparable growth rate for the year, and an annual IFO of 16.3%. Consequently our 7% annual growth rate target and IFO target of 15 to 16% are achievable based on our innovations.

Thirdly, in Consumer Electronics the excellent growth is confirmation that our innovation and renewal program is being rewarded. The quarterly IFO gives us 4.1% for the year, excluding the gain on TPV and the restructuring cost. Consequently the 4 to 4.5% IFO target from here onwards is looking good.

Fourthly in Lighting, even though we saw some weakness in the North American lamp business we ended the year with a comparable growth of 4%, and we are looking forward to commencing shipments of new products early in 2006. The IFO margin was a little short of what we would have liked. However, we see improvements in 2006.

In Semiconductors we have had a good quarter in terms of growth and margin, which increases our confidence that the business renewal program will achieve its targets. In other activities, we have announced the disposal of some businesses during the quarter, and we are making good progress with others. I expect that we will make further announcements soon.

Our cash flow has been very strong, even if we exclude the €15m sale of part of our LG Philips LCD holding. From this cash flow we used €78m to pay for our Lumileds acquisition, and €724m to buy back our own shares. Overall this has led to a net cash position of €806m at the end of this quarter, which we will partly use to complete the current share buyback, as well as to pay for the Lifeline acquisition which we announced late last week.

The inventory percentage of 11.4% looks higher than one year ago. However, when we correct the percentage for currency movements, they are at approximately the same level as one year ago. Apart from an underlying improvement in the results from non-consolidated companies, we expect charges totaling €58m to write off our book value and commitments to LPD. As we have already mentioned, Philips will not inject further capital in LPD.

One year ago we set ourselves the management agenda which was published in the annual report, and we believe that the vast majority of it has been implemented. We have set ourselves a new agenda for 2006.

Finally, we have proposed an increase in our dividend for the second year in succession. This year by 10%, based on increasing our dividend payout ratio from 25 to 30% to a bandwidth of 25 to 35%. Let me now open the call for your questions which Gerard and myself will try to answer as fully as possible.

QUESTION AND ANSWER

Operator

Thank you sir. [OPERATOR INSTRUCTIONS]. The first question comes from Mr. Uche Orji. Please state your company name followed by your question.

Uche Orji - JP Morgan - Analyst

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Good morning, my name is Uche, JP Morgan. A couple of questions. First on Medical, I understand your explanation about the entry products into the emerging markets. What -- apart from just generally improving your efficiency, how much improve -- how much contribution will Neusoft help make and help you offset these margins? And also if you can give us some margin guidance for 2006 that would be quite helpful.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

I think today Neusoft has still a limited impact on our margins, in terms of a shrinking of cost base and addressing the product portfolio we want for that part of the world. The first product actually which Neusoft is going to roll out, that first rollout took place quite recently, and we should start seeing next year the impact of the Neusoft, I would say, in our margin.

And that should be indeed an element which help us to contribute to restart the improvement of our IFO margin from next year.

Uche Orji - JP Morgan - Analyst

And at this point you're not able to give us any guidance for margins for the full year?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

You mean for the --?

Uche Orji - JP Morgan - Analyst

For Medical.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

For Medical? Well, in case of -- for Medical, I think the guidance we gave to you two months ago actually still holds. We want to add one to two points of margin in the course of the couple -- the next couple of years to the margin of Medical. So we want actually to resume the progress of our margin starting next year.

Uche Orji - JP Morgan - Analyst

Just one more question on the DAP. It's a bit strange that the revenues were not -- were slightly below what the market was expecting, but the margins were very strong. I understand you retracted your guidance but is there any possible explanation as to why that's happened in DAP this quarter? The revenues were okay but not as strong as expected, but the margins were particularly stronger for that level of revenue.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well, I think the -- essentially the good improvement of the margin as well as -- it's hard to say that the revenue is disappointing. Because I think obviously in relative terms, the growth of this particular quarter might look a bit pale compared to the other periods. But you have to look back as to what DAP did in the Q3 and look, of course, accordingly at the year. But -- that's for the growth.

But as far as the margin is concerned, I think probably the best explanation to give to you is the success of Shaving. As you know, we have in that particular domain stronger margins, and I think the good receptions of our new line of shavers is certainly a good part of the explanation to your question.

Uche Orji - JP Morgan - Analyst

Thank you very much.

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Operator

The next questions come from Mr. Antoine Badel. Please state your company name followed by your question.

Antoine Badel - CSFB - Analyst

Yes, good morning. Antoine Badel from Credit Suisse. On the Semiconductor division, could you please help us understand what drove the margins in Q4? How much of that is the seasonal top-line strength, and how much of that is the restructuring program which you're implementing? And how do you expect Semiconductor margins to evolve in 2006 on that basis?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well, I think what drove the improvement of the Semiconductor is obviously quite a bit of volume and improvement of utilization rates. Clearly there, as you've seen, we had a comparable growth of 9% which is obviously quite significant in that particular industry. We improved the utilization rate, as you could see, from 81% to 83% so that's quite significant as well.

The business renewal program is still at the beginning. I think we've given you some numbers, and we've said that it would actually be scattered over a period of two years. So there is really two more years to come. In terms of improvement, I think that we gave you a guidance for the year 2006 which should be around, I think, 10%. And that is something that we feel that we should be able to deliver.

Antoine Badel - CSFB - Analyst

And on the CapEx front, how much do you expect to spend for the Group as a whole this year, and for the Semiconductor division specifically, please?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well, we expect the CapEx overall to stay below €1m and I would say, all in all, with a continued reduction compared to what it is this year. And in terms of mix, as you've seen, we have Semiconductor globally taking a lower proportion of that CapEx all in all.

Antoine Badel - CSFB - Analyst

And one last question if I may. You mentioned you'd be setting a new management agenda for 2006. Could you please give us some color on what your targets are going to be this year?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes. In terms of growth, we absolutely stick to our 5 to 6% revenue growth, and I just want to say one thing there. If you look at what we've done as an average over the last three years, actually we've been there. If you look at '05 and if you exclude other activities, you could make a quick calculation and see that on the other five [PDs] we were there as well.

So in '06 our intention is to deliver 5 to 6%. And in terms of IFO percentage margin, as you've seen our IFO margin has improved this particular year, '05 compared to '04. Our objective is to be at 7 to 10% for '07, and we want '06 to be the bridge between where we are today and that 7%. With the fourth quarter next year to be at a level enabling us precisely to be at 7 to 10% for '07. So those are the IFO objectives.

Antoine Badel - CSFB - Analyst

Thank you.

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Operator

The next questions come from Mr. Matthew Gehl. Please state your company followed by your question.

Matthew Gehl - Goldman Sachs - Analyst

Yes, with Goldman Sachs. First question on the Lighting business. You mentioned that you'll start to see some of the revenue coming through from this increased R&D spend, coming through in Q1. Could you go into just a bit of detail on when you expect the margins in Lighting to go back above the 13% level, on a run rate basis? Can that already happen in Q1 or is that something that's going to take likely to the second half of the year before you get back to that level?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well, I think it will be gradual. The introduction of new products will be scattered actually on the first half of next year. Obviously one important thing will be the LCD back lighting, which we will see in the next generation of flat panel display for consumer electronics. So that is a very important one for us.

So I would say that this will obviously help us, combined with some continuation of investment in research and engineering. We won't stop it immediately, will be, I would say, a soft landing there because we'll need to continue to invest there to add those new products, to continue to feed our pipeline stream of new offering. So I would say it's probably going to be gradual over the course of next year.

Matthew Gehl - Goldman Sachs - Analyst

Okay, and the second question on the buyback program. It looks like you were quite aggressive in Q4 as far as repurchasing shares. Can you update us on how much remains within the buyback program, and what your initial thinking is as far as an additional program, once that remainder is finished in 2006?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes. Actually we have accelerated, yes, but, of course, I think it has remained pretty much in line with the interval guidelines we have given ourselves. Which is basically not to exceed 10% of the growth of any particular day.

So the number of shares in total on that second program, which has been brought in the quarter, the second half was 46.8m shares. And to be more specific, on the fourth quarter we bought 30.9m shares. So if you now talk to euros, we have actually incurred a total of €724m on that program on the fourth quarter. And if you now look at the second half, we have incurred an amount of €1.071b on the full second semester. So mathematically we have another €429m to go on that second buyback program.

Matthew Gehl - Goldman Sachs - Analyst

Okay, and what is your initial thinking to continue to be aggressive and use that up in, say, Q1, Q2, or are you going to be opportunistic? What's going to drive when that money --?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes. Finishing up the first program -- well, I'm sorry, the second program which is the €1.5b, that should take us probably around March/April if we -- depending obviously on the speed of things. But again, as I said, we will adhere to the guidelines we've given ourselves, which is below 10% of volume.

As you know, this is now two programs we've launched in '05. As far as launching yet another program in '06, I think that is a decision which has not been made and we will see how things go in '06.

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Matthew Gehl - Goldman Sachs - Analyst

Okay, thank you.

Operator

The next questions come from Mr. Bram Cornelisse. Please state your company name followed by your question.

Bram Cornelisse - Merrill Lynch - Analyst

Hi, good morning. It's Merrill Lynch. Pierre-Jean, can I just come back to something which you said at the very start of your introduction? You said that the MedQuist provision, you hoped that that would settle the matter. Is that -- are you saying that we should not expect any further negative in Medical anymore coming from MedQuist, or --?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes. I think we have, as you know, several issues at MedQuist. The one we've certainly tried to update you on regularly is the negotiation of settlements with customers. I think the important element of the information on this particular quarter is that we have decided, actually in accordance with MedQuist, to book in our numbers, which is reflecting actually the entry which has booked in MedQuist numbers, to book a provision which is our best estimate of what the settlement with customers will cost MedQuist.

So I think this is an indication of two things. First, it's an indication that some progress has been made by the MedQuist people with their customers, that's I think one indication. The second indication is that MedQuist has made a calculation of what, as at today, would be the best estimate of the cost to settle with these particular customers. And that entry has been in these books in the numbers this quarter.

Is that the end of it? Certainly that is the best estimate we have at this point for the litigation with our customers there.

Bram Cornelisse - Merrill Lynch - Analyst

That's very good. If -- just to clarify it. There also were issues with the employees, is that -- could that still be an issue going forward, or is it included in your best estimate now as well in the numbers?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

No, it's not included. There is no issue -- I would say there is no money related to employees in -- I would say, included in the particular number which has been booked this quarter.

Bram Cornelisse - Merrill Lynch - Analyst

Okay. Can I have one follow-up on Lighting, please, as well? I think in the past as well you spoke about the North American market not being that great actually. But the revenue, the comparable revenue cost, was running around 5% every quarter, and certainly now it's dipped down to 1%. Is there anything other special going on, and should it be going back up to 5% again, or how do you look at that?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well I think, Bram, one of the things for Lighting -- if you look at the growth of Lighting on the year, you obviously get a bit of a different story. If you look indeed at the growth of Lighting on the fourth quarter, that 1% on -- I would say, on the merit on that fourth quarter alone, does reflect the fact that we had a shorter quarter in terms of work days.

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And for the Lighting business this is something which is having an impact. But all in all, basically the growth of lamps was there for the full year, and I would say I would look at the fourth quarter pretty much in the perspective of that number of work days. Obviously the other thing but that's -- I'm not repeating that because that's something we've told you in the previous quarters. The issue, of course, of UHP is still very much there for this particular quarter, when you compare to last year.

Bram Cornelisse - Merrill Lynch - Analyst

Thank you very much. It's very helpful.

Operator

The next questions come from Mr. Francois Meunier. Please state your company name followed by your question.

Francois Meunier - Cazenove - Analyst

Hello everyone. It's Francois from Cazenove. Just a question again on Medical. Pierre-Jean, you're talking about a potential increase of 100 to 200 basis points on your margins in the coming years for Medical. But should we look at 2005 earnings, excluding the one-offs you just had on MedQuist or -- and Stentor, i.e., 10.7%, or excluding those one-offs?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well, actually when we talk about the Medical margin we normally talk about it excluding obviously the one-offs. I think we should take some comfort, as far as MedQuist is concerned, on the fact that they have been capable of booking that particular entry. I think just one last word on MedQuist. MedQuist revenue, as you could see on Q4, came down. We are currently starting to regain there some customers, and obviously we'll keep you very much posted on MedQuist.

As far as the margin of Medical, excluding MedQuist, for the year '05, there is in absolute numbers on the year some progress. So I think, as a percentage, we have indeed a reduction in percentage. But if you look at it in absolute numbers, excluding the incidentals of '04, which were Volumetrics and MedQuist, and if you exclude as well the incidentals of '05, you could calculate that in absolute numbers that margin has actually gone up.

Francois Meunier - Cazenove - Analyst

And from this point you're saying margins could still increase by one to two points in the --

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

No, absolutely and on the back of that increase in absolute terms in '05, our objective, as we have actually mentioned it to you at the analyst conference two months ago, certainly to -- is to add another couple of points over the next two years. So that guidance still holds.

Francois Meunier - Cazenove - Analyst

And you're not worried by the lower margins that you have in emerging markets?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

No, we are not. I think we -- I think the one thing which if anything is going faster than we thought is our growth. And we have that growth where it's quite strong in revenue in Q4, as you've seen. What we haven't talked too much about is the growth of incoming orders, which was quite significant. It was actually -- it's true that the first 20% in terms of incoming orders in Q4, and I think what we have to adapt to is, a, that speed.

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We have to adapt as well to the fact that it's shifting more to Asia, with obviously a situation there where customers have signed, I would say, at a slower speed, service agreements. So that has a temporary impact on the mix we have between the service revenue and the product sales revenue. But that's something which will come back to us, of course, as our installed base is going to increase.

And the other thing as well which impacted us in the fourth quarter is the end of the integration of Stentor. Stentor, there we had not only some integration cost but, as we've explained to you in the third quarter, we had as well to adapt to a slightly different business model from the one we had in Philips.

And finally, what we told you is that the customer is actually turning away from our previous product offering in the domain of packs. And they want to absolutely go for the new product offering. So we are facing a rather steep increase of the incoming orders on the actual new packs offering. That is something we have to cope with as well.

So all those elements combined, give us some confidence for next year on our capability to bounce back in terms of IFO percentage margin.

Francois Meunier - Cazenove - Analyst

Thank you.

Operator

The next questions come from Mr. Nicholas Gaudois. Please state your company name followed by your question.

Nicholas Gaudois - Deutsche Bank - Analyst

Yes, hi there. Nicholas Gaudois from Deutsche Bank. Just to stay on Medical for now. Effectively your top-line growth last year was of 7.8% and largely organic. Now order growth has been very steady as well. You just mentioned the growth for iSite bookings as well. If you were to look at the top line for the next couple of years, where do you think you'd set the bar for Medical?

And how could you -- could you give us a bit more clarity on which would be the most significant incremental contributors of [add], versus the [four]?

If we were to look at the Neusoft new tools coming on, the renewed software offering, Epic, and of course [inaudible - highly accented language] as well. Thank you.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well, I think the guidance we gave for Medical was a growth of 6%. We absolutely stand by that. If you look at our growth in the fourth quarter of '05, you will see that it's been everywhere. So, the reality of it is that next year, if I had to say where the biggest chunk of the growth should come, I think we will continue to grow.

We gained market share in '05. Probably I would say in IT and, thanks to Stentor, we should have some faster growth on that particular side of the business. So if I had to pick out one, I would say that in relative percentage compared to the others, probably in IT we will see some faster growth. And hopefully our service business as well should benefit from the increased installed base of this year.

But we -- again, we see next year pretty much as a continuation of what has happened in the fourth quarter, and we grew just about everywhere.

Nicholas Gaudois - Deutsche Bank - Analyst

Okay, great, and if -- just to clarify what you said, Pierre-Jean, in terms of previous questions. If I understand well, you're saying that the larger installed base of equipment for Medical will generate enough services revenues potentially to offset the lower portion of services attached to sales to emerging markets, is that correct?

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Pierre-Jean Sivignon - Royal Philips Electronics - CFO

No, that's not what I'm saying. I'm saying, as you know, our service business is attracting better margins than our equipment service business. Our service business is in the 20 to 30% range, and our equipment business, as you know, is usually below 10%. So €1.00 of service revenue is obviously contributing almost three times one -- what a euro of equipment sale contributes.

And what I'm saying is that in '05 we certainly have increased our installed base quite significantly. What I'm saying as well is that the starting of the service businesses in particular, in some case, once the warranty period is over this is having some kind of a delayed effect. So the goodies which are included in the fact that our installed base of equipment has actually increased, those goodies are to come. That's what I was saying earlier on in this illustration.

Nicholas Gaudois - Deutsche Bank - Analyst

Okay, fair enough. And last question briefly on -- Licensing had a bit of a bump up in -- for Consumer Electronics. Could you give us any guidance at all for the forthcoming quarters?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes. The -- well, the bump you referred to is linked to the fact that, as you know, we always have every year to have -- this time it is happened, I would say, in the fourth quarter when you compare to last year. You have incidentals which are linked to the collection of past due licenses.

So if you remember that has impacted last year quite significant - last year meaning 2004 - quite significantly. Which means that when you compare obviously those licenses for '05 and '04, '05 is a bit at a disadvantage.

Now if you exclude those incidentals, the guidance we have given to you which is 1.5 to 2%, right, of the revenue of Consumer Electronics over the full year, that still very much holds. And the 4 to 4.5%, including that 1.5 to 2% of royalties, definitely is our guidance for Consumer Electronics for 2006.

And if you look carefully, by the way, at our 2005 numbers, we were there. In terms of absolute numbers, now going away from percentages, you can use pretty much €40m per quarter of licenses. That's the number we use internally.

Nicholas Gaudois - Deutsche Bank - Analyst

Okay, thank you Pierre-Jean.

Operator

The next questions come from Didier Scemama. Please state your company name followed by your question.

Didier Scemama - ABN Amro - Analyst

Hi, it's Didier from ABN Amro. Good morning gentlemen. I'd like to just come back to Medical, I'm sorry, and then I have a few follow-ups on Semis. On the Medical growth, you just indicated 6% as a growth target for revenues. I guess that's excluding acquisitions?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes, sure.

Didier Scemama - ABN Amro - Analyst

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Alright. And then on -- second point on the Semis side, I was just wondering if you could give us a sense of the utilization rate you expect for the first quarter.

And more generally for Semis and CE, what are the inventory levels you see at the major retailers in Europe and in the U.S. and in distribution for Semis at least at this time?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Sorry, I missed the end of your second question.

Didier Scemama - ABN Amro - Analyst

Yes, my question was regarding inventories in the distribution channel and with the retailers in CEs, where you see those. Are they satisfactory at this time?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes, okay. Coming back to Medical, yes, the 6% is most definitely excluding acquisitions. We -- as you know, we will continue to look at acquisitions. But on Medical we will only move as, of course, it creates value for us. So, the 6% is clearly is a pure organic number.

To move to your question on Semiconductors, your first question is on utilization rate. We gain two points, 81% to 83%. Now, sequentially -- and that's largely for seasonality reasons. So, Q1 will come down a bit, but nothing dramatic. This is just the expression of obviously a seasonal weaker first quarter after a strong fourth quarter.

To your question on inventory, no, I think inventory is not an issue. We do not face an inventory situation as we might have faced in the beginning of the year 2005. And as you know, in that particular industry now the customer is ordering at the very last minute precisely to avoid having any kind of inventory. And we have almost to deliver on the back of those very, very late ordering, which -- and in that situation we've been in for a couple of quarters where we have very, very low visibility in that particular product division.

Didier Scemama - ABN Amro - Analyst

Right. And maybe just a point on the model. If you look at miscellaneous, or I should say other activities and Unallocated, I think you alluded in the presentation at reduced pension contribution in '06 versus '05. I think €80m. So, should we look at an improvement or a significant improvement in losses in both of the divisions taking into account the divestments and the reduced pension contribution?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well, I think we've disclosed -- we've done two things. I think you were there when Gerard Ruizendaal made a presentation to you disclosing some details on what's included in there. So, thanks to that presentation let me give you a little bit more information.

Yes, we've guided you rather precisely on the pensions. So, you can use that number, which is indeed a reduction compared to the 2005 number.

To your question on the losses on the so-called Corporate businesses, we have divested actually five of them in the course of the last six months. We will be discontinuing. And, yes, as you know and, of course, that will have an impact on that particular one. We will be reducing besides that our losses. We still have one or two businesses which -- on which we keep an eye on, and on which we will continue to update you in the course of 2006.

So, I would say largely the messages are we'll continue to sell. We will improve the level of our losses. And we will focus on one or two issues that we still have to look at very carefully in that particular perimeter.

Didier Scemama - ABN Amro - Analyst

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Okay. Just a final question then, on financial income for '06 the cash and stock division of TSMC, will that be collected all in Q2?

And second of all, for those do you know at this time whether you're going to pay some taxes on those dividends?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

The answer is yes for Q2. Do we pay some taxes there? I don't think so.

Didier Scemama - ABN Amro - Analyst

You don't think so?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

No.

Didier Scemama - ABN Amro - Analyst

Okay, brilliant. Thanks very much.

Operator

The next questions come from Mr. Sean Murphy. Please state your company name followed by your question.

Sean Murphy - Nomura International - Analyst

Hello, it's Sean Murphy from Nomura International. Looking at your sales per region it's quite striking that comparable sales actually fell in Europe, even though they rose strongly 8 or 9% everywhere else. I'm wondering if there's any accounting reason behind that, or genuinely that the other markets are doing so much better than Europe?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well, actually -- well, let me first talk about the other markets for a minute, because we take some pride of having some growth of 9% in North America, 9% in Latin America, and as well 8% in Asia Pacific. You remember that Asia Pacific had been a little bit weaker in the third quarter.

As far as Europe is concerned it's mostly basically Western Europe which is a little bit slower. And that's essentially on the back, I would say, of Semiconductor and other activities, and in the rest of the portfolio, including in that part of the world, a [depression].

Sean Murphy - Nomura International - Analyst

Okay, thank you.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

And Semiconductor, of course, is a geographic shift, which is the reflection of the way this business is now organized. You have to obviously see that the growth in that industry has shifted to Asia, which ended up in the 9% growth altogether we had for Semiconductor on the quarter.

Sean Murphy - Nomura International - Analyst

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Thank you.

Operator

The next questions come from Mr. Thomas Brenier. Please state your company name followed by your question.

Thomas Brenier - Societe Generale - Analyst

Good morning, Thomas Brenier from SG. On Semiconductors could you help us understanding which markets really supported the growth? That would be my first question.

And I'd like to have an idea of the share of outsourcing of production for Semis in Q4, and how has it changed from last year in the last quarter?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Okay. I think the two verticals, we grew everywhere in Semi. It was a strong quarter. What are the two popular ones which helped? They were mobile and home, which have helped this particular quarter.

To your question of the percentage which was outsourced, I must admit I don't know that. And I have not -- I think we'll have to come back to you on that one to give you a precise percentage. I don't know that particular one.

Thomas Brenier - Societe Generale - Analyst

Okay. And I've got a follow-up on Medical, just as a clarification. For the order intake, the plus 15% in order intake that you're mentioning in the press release, is that for equipment and services?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

No, it's only -- it's actually only equipment and it is excluding a very large order. Actually the reality of it, we didn't want to give too much detail, because if -- we obtained another order in Europe, I just can't be too much more specific about that. And if you include actually this order in that part of Europe, the total order intake of Medical for the fourth quarter was a 24% increase on a comparable basis. That is at a comparable currency.

So, you can see that our order intake in Q4 was actually very strong. And this is, as I said, excluding services. So, that's pure equipment.

Thomas Brenier - Societe Generale - Analyst

Okay. And the mix [base] in services and equipment in the revenues, can you help us on that?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

It's about 26% in service and the balance in equipment.

Thomas Brenier - Societe Generale - Analyst

Thanks a lot.

Operator

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The next questions come from Mr. Luc Mouzon. Please state your company name followed by your question.

Luc Mouzon - Exane BNP Paribas - Analyst

Hello, it's Luc Mouzon from Exane BNP Paribas. Maybe one question for Gerard. On the acquisition policy maybe could you take the opportunity of this call to come back on the Lifeline Project? And about the rationales and the synergy that you could anticipate right here. And especially looking at the business model, which sounds to be more linked to a subscriber base at this stage?

Gerard Kleisterlee - Royal Philips Electronics - President and CEO

That's correct. You will remember from earlier communications that we had entered into a number of pilot projects with a solution that we called Motiva, where we did projects in the United States and Europe to allow people to go home after the procedure, in this case a heart procedure earlier, and recover in their home environment. That's a combination of technology, a call center and medical support.

Lifeline extends on that and gives us installed subscriber base. Lifeline also caters for the disabled and the elderly to allow them to continue to live independently with a combination of some technology, particularly communication and wireless communication technology that we can enhance, and a service behind it.

And particularly, we have the ability to roll out that model globally, link it with the Motiva offering that we have piloted in the market and where we got a very good response. And we look to scale further. And that's the rationale for the acquisition of Lifeline.

Luc Mouzon - Exane BNP Paribas - Analyst

Okay. And just a follow-up, do you see still this barrier in the medical market at the moment, which sounds to -- from the analyst's point of view a bit like very expensive acquisition prices, or do you see things that have turned maybe a bit more positive for you by year end, and some projects are getting out because of the more, let's say, affordable situation from your point of view?

Gerard Kleisterlee - Royal Philips Electronics - President and CEO

I think if you look for some of the obvious targets in the market that also make themselves a takeover candidate, then you are looking at companies that are highly priced, if not too highly priced.

But if you look carefully for things that fit with your strategy, fit with your global position, where you can create a synergy, you're still able to find companies that are reasonably priced and give a sufficient opportunity to create value beyond the purchase price.

Luc Mouzon - Exane BNP Paribas - Analyst

This means that we could still anticipate further acquisitions to come over 2006?

Gerard Kleisterlee - Royal Philips Electronics - President and CEO

You will have to anticipate further acquisitions to come, yes.

Luc Mouzon - Exane BNP Paribas - Analyst

Thanks.

Operator

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The next questions come from Mr. Niels de Zwart. Please state your company name followed by your question.

Niels de Zwart - Rabo Securities - Analyst

Good morning, Niels de Zwart, Rabo Securities. I have got a couple of questions regarding the Lumileds. First of all, could you give us the amount of charges related to the consolidation for Q4?

And secondly, your press release also mentions a negative impact of €44m in 2006. I'd just like to clarify if that's the overall contribution of Lumileds, or just the purchase accounted and related amortizations? Those are my questions.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Okay. To your two questions on Lumileds, the impact of the integration cost of Lumileds in the fourth quarter in the Lighting numbers is €10m. So, that's the answer to your first question.

Your second question relating to the contribution moving forward of Lumileds into the Lighting numbers, the guidance we have given to you is precisely to give you a status of the purchase accounting calculation. That is splitting between the portion which will be in goodwill and the portion which will be in amortizable intangibles. And what we are giving to you there is a guidance on the cost of that amortization for 2006.

To be even more specific, this is, of course, not the total contribution of Lumileds. Lumileds will be what we told, which is an IFO objective of 25%, from which, you need to deduct this particular amount. This will be the contribution of Lumileds into this -- in 2006.

Niels de Zwart - Rabo Securities - Analyst

And maybe a short follow-up, how long will these charges relate -- some €44m loss, will it be in 2006 and then a couple of years longer? Or how long will those extra amortizations last?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

I think they'll be over -- it's a mix, because it's being evaluated by external parties. And it will be scattered on an average of five years starting December '05.

Niels de Zwart - Rabo Securities - Analyst

Okay. And one final question if I may. Your press release also mentioned Medical, of course, higher investments in R&D, but it's also in molecular medicine. Could you maybe give us some guidance on what you will do with that in 2006?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

We'll keep it flat.

Niels de Zwart - Rabo Securities - Analyst

You will keep it flat. Okay.

Operator

[OPERATOR INSTRUCTIONS]. We have a follow-up question from Mr. Uche Orji. Sorry, Mr. Uche just cancelled his request.

The next questions come from Mr. Nicholas Gaudois. Please state your company name followed by your question.

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Nicholas Gaudois - Deutsche Bank - Analyst

Nicholas Gaudois, Deutsche Bank. Just going back to Semis, could you give us any clarity on how much of the €250m savings you talked about in September you realized so far?

And how much of that do you think you will cover by the end of '06? Because when we look at your incremental operating margins over the last two quarters it's very clear that some of that, of course, is coming from cost savings probably faster than one would have initially thought.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well, Nicholas, I think it's hard to give you a precise number, because obviously the things are a little bit more blurred. I think our view internally is that third and fourth quarter are still taking only a small impact from that plan, which you remember was launched really in the second quarter of '05.

So, if you remember, in that particular plan there is a portion which is rather mechanical, which comes from the reduction of the depreciation. And a lot of that reduction in depreciation will start impacting us in 2006. The rest, of course, comes from reduced operating expenses, refocused engineering expenses and all that will be, I would say, scattered.

And as '05 is concerned, I would say it's still small. And for the vast majority of the impact of that plan is to come in '06 and '07.

Nicholas Gaudois - Deutsche Bank - Analyst

Okay, great. And from the conference call we had in December on the announcement on Semis, has your -- have your views evolved in -- either way, or any ways, in terms of a strategy conference for Semis going forward?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

No, I think we've been -- I can't give you an update. Last time we talked on this was barely a month ago. We told you we launched two things in parallel. One, which is what I would call a practical [cut out], which involves a huge amount of work in all kinds of domains. And we said that we would like to be done with this approach sometime in the latter part of 2006. I don't think we want -- we confirmed that. We've started now, of course.

In parallel, of course, we will engage in discussions with an objective of scaling up. But scaling up, there are a number of ways to scale up. And at this particular point of time I think it's too early to give you any effect on that.

But nothing's changed in essence compared to the objective and the agenda that we gave to you a month ago.

Nicholas Gaudois - Deutsche Bank - Analyst

Thank you.

Operator

The next questions come from Mr. Didier Scemama. Please state your company name followed by your question.

Didier Scemama - ABN Amro - Analyst

It's ABN Amro. Just to be -- come back to Semis again and I apologize if the question is a bit specific. But you mentioned mobile and personal communication as the key drivers. I take it that '06 should be also driven by the wireless handset business.

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Specifically on that, could you maybe give us an indication as to when you would start shipping your 3G cellular system solution? And whether the peripheral businesses, like Bluetooth and Wi-Fi and Mobile on TV, will bring on triple-digit revenues in '06?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes. Before we go too far into mobile, I wouldn't want you to get the feeling that mobile will drive our growth next year, actually, no. We -- don't forget Home. Home will come as well with some new products on the digital side. And that should help as well our growth in 2006. So, I wouldn't want -- and certainly we plan to continue to grow on the automotive side where we are introducing products.

So, I wouldn't want this question to let you believe that we are only going to have the year around mobile in 2006.

To your question about when do we introduce products in 3G. I would have to give you a specific quarter. I would say it's probably in the latter part of 2006. To give you a precise quarter, because that's what you want, I would have to come back to you, to be even more specific than that.

Didier Scemama - ABN Amro - Analyst

Sorry, but what you mean is that wireless is going to grow but it's not going to be the only driver for '06. But you don't mean that wireless is going to grow less than the business in '06?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

No, it's not. No, it is not the only driver. Actually, as I said, you should look at automotive, where we have some new products as well in there. And certainly, as well at the Home where digital will start having an impact, right. Even though, I have to say, that analogue is still going strong, yes?

Didier Scemama - ABN Amro - Analyst

Alright, thanks.

Operator

The last questions come from Mr. Thomas Brenier. Please state your company name followed by your question.

Thomas Brenier - Societe Generale - Analyst

Yes, Thomas Brenier from Societe Generale. Just follow up on the TV business, could you tell us if the share of flat TVs in the mix is still around 50% in value? And do you expect a strong World Cup effect? If such, when do you think that it should materialize? Is it more Q1 or Q2?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Right. Just -- I can give you on -- I just want to come back on the previous point which relates to shipping third generation telecom products.

What I understand is that we are already shipping some. So, I think to be more specific to particular products I think we would have to come back to you offline. But what I understand is that as we speak we are already shipping third generation products for telecom.

On television and on the mix of flat screens into the overall collective display revenue, the mix today is at 60%. So, it's well above 50% now.

Thomas Brenier - Societe Generale - Analyst

Okay, and about the World Cup?

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Pierre-Jean Sivignon - Royal Philips Electronics - CFO

And the figure I'm giving to you, by the way, is not a projected one. That 60% is the actual number looking back at 2005. So, the change of mix, as you can see, has been quite significant.

Operator

Thank you. Mr. Sivignon, that was the last question.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Okay. Thank you very much everybody for your questions.

Operator

This concludes the Royal Philips Electronics fourth quarter results 2005 on Monday, January 23, 2006. Thank you for participating. You may now disconnect.

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