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PRESENTATION

Operator

Welcome to the Royal Philips Electronics third quarter results 2008 conference call on Monday October 13, 2008. During the introduction by Mr. Pierre-Jean Sivignon, Chief Financial Officer, all participants will be in a listen-only mode. After the introduction there will be an opportunity to ask questions. (Operator Instructions). Please note that this call will be recorded and is available by webcast on the website of the 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 - EVP & CFO*

Thank you. Ladies and gentlemen let me first welcome you to this conference call on the third quarter results of 2008 for Royal Philips Electronics. I will make a few introductory remarks and then we will open up the call to your questions.

Overall, Philips had a challenging third quarter against a background of a deteriorating macroeconomic environment in many of our mature markets. Nevertheless, the recurring EBITA delivered by our businesses underlines that our transformation into a focused, less cyclical company was strategically sound and well timed.

At Healthcare, 5% sales growth in both mature and emerging markets, was not converted into an improved bottom line due largely to an adverse mix and volume development in the Imaging Systems business. Our Lighting business continued to perform well, delivering 6% comp sales growth and an EBITA profitability, adjusted for gains and charges, just slightly below the one of last year.

Equally, our Consumer Lifestyle business, despite a lower top line, delivered improved EBITA profitability after restructuring charges. Group sales in emerging markets increased by 6% on a comparable basis. Recent acquisitions have strengthened our position in these markets as will the ongoing reallocation of R&D and marketing resources to those markets showing the highest growth potential.

Given the reduced visibility in the global economy, which we saw progressively deteriorate during the quarter, we have decided to accelerate a number of business and margin improvement projects in all three sectors which will lead to additional charges in the fourth quarter. Also, in light of the risks and opportunities presented by the current external environment, we have decided, despite our very strong balance sheet, to slow down the completion of our share buyback program.

Let me now look in more details at the results per sector, starting with Healthcare. Comparable sales at Healthcare grew by 5% in both mature markets, noticeably Western Europe and in the emerging markets as well. The majority of our Healthcare business delivered higher sales, particularly customer service and clinical care. Healthcare order intake was 4% in the quarter with most businesses seeing the strongest growth outside North America. The order book growth was led by patient monitoring and clinical care. Imaging Systems' orders grew by 1%. Year-to-date, order growth for the sector now averages 5%.

The EBITA margin for Healthcare included a EUR45 million gain on the sale of our Speech Recognition business as well as acquisition-related charges of EUR17 million. Excluding these items, margin profitability remained below last year. Higher margin at Clinical Care and Home Healthcare Solutions was more than offset by lower profitability at Imaging Systems due to lower volume and an adverse product mix.

We will take additional charges of approximately EUR50 million in Q4 to accelerate a number of margin improvement initiatives, particularly at Imaging Systems.

At Consumer Lifestyle, the 8% decrease in like-for-like sales was due both to market conditions which we have said we saw progressively deteriorate during the quarter, and our ongoing initiatives to manage the portfolio for margin. Sales at Television fell by 9%, largely due to our actions on the portfolio.

Outside of Television we saw continuing growth at Health & Wellness and Domestic Appliances offset by lower sales in the remaining businesses.

The profitability of Consumer Lifestyle was 3.6% in the quarter. This result included restructuring charges of EUR61 million, mostly related to the Television business. Excluding these charges, the EBITA margin was 5.9%, some 60 basis points above the one of last year. Also at Consumer Lifestyle we will accelerate some planned restructuring projects which will lead to an additional EUR60 million of charges in the fourth quarter.

At Lighting, comparable sales grew by 6% in the quarter driven by a 17% increase in emerging markets. Sales to emerging markets accounted for 35% of Lighting's revenue in the quarter.

Looking per business, the growth was led by Lamps and Lumileds, both of which saw double-digit increasing sales and to a lesser extent, Professional Luminaires and Automotive. Sales of energy efficient green lighting products grew by 18%, while sales at Genlyte, our recently acquired North American luminaire business, increased 2%.

EBITA at Lighting was EUR196 million in the quarter, including [EUR11 million] (corrected by company after the call) in restructuring charges. Last year EBITA was EUR190 million including a net gain of EUR11 million. Excluding these gains and charges, year-on-year profitability was slightly down by around 40 basis points. This was due mainly to an adverse product mix by these two lower sales of higher margin products in our Lamps and Automotive businesses.

In view of recent macroeconomic developments, Lighting will accelerate its existing plans to increase organizational effectiveness and support future margin expansion in order to protect its global leadership position. This will lead to additional charges of up to EUR100 million in the fourth quarter.

The EBITA at Innovation & Emerging Businesses was in line with our expectations excluding some additional investments in healthcare incubation.

The EBITA at Group Management & Services included a charge of EUR241 million for the final settlement, given court approval, of asbestos-related claims. Including this charge, the EBITA of GM&S was broadly in line with last year.

Our cash position ended the third quarter broadly unchanged at EUR2.5 billion. Underlying cash from operations improved thanks to lower working capital requirements. Overall, cash inflow from operating activities and from the sale of our last stake in TSMC offset the EUR800 million return to shareholders during the quarter via our buyback program.

Since January this year, we have now repurchased over 11.5% of our outstanding shares through the current buyback program. As I have said, in light of the risks and opportunities presented by current market conditions, we have decided going forward to slow down the completion of the program. Let me again stress here that Philips continues to maintain a very strong balance sheet and excellent liquidity position.

Inventory as a percentage of sales increased by 1.2% due to higher relative inventory levels in Lighting and Healthcare. The higher inventory was due in part to the acquisition of Respironics and Genlyte, but also due to some somewhat higher inventory level in Lamps and Imaging Systems. Inventory as a percentage of sale at Consumer Lifestyle was in line with Q3 last year.

Our reported net income of EUR357 million was slightly ahead of last year which included an additional tax expense of EUR91 million as well as EUR128 million in equity accounted income related to LG Displays. This quarter, net income included a EUR302 million gain on the sale of our last remaining stake in TSMC as well as the impact of the EUR241 million asbestos-related charges within EBITA.

With that, let me now open the line to your questions.

QUESTIONS AND ANSWERS

Operator

Thank you sir. (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. The first question comes from Nicolas Gaudois from UBS. Please go ahead with your question.

Nicolas Gaudois - *UBS - Analyst*

Yes, hi there. First question is on the 2010 targets. You're effectively not making any changes today. Is this fair to assume that the margin targets are now somewhat a bit more dependent upon the impact to come on costs from the incremental restructuring you're doing? And are you still comfortable with the top line target you set a while back of an average growth rate of 6% for the Group in 2008 to 2010?

And I've got a follow-up on Consumer.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

Yes, Nicolas, good morning. I think the answer on -- the ultimate goal on Vision 2010 is a doubling of the EBITA per share. I think the rest are as much objective as they are really enablers of getting there. So I think right now, today, in a tougher market climate, of course a 6% growth, if you look at this year, and we don't benefit yet from the impact of the M&A we've done because obviously that's not including the comp, but year-to-date we are 2% comp. So clearly the 6% is getting tougher and the -- certainly for this year, and probably for the average as well, I would say that our ultimate objective, both through playing with the margins as well as with the growth, as well as of course with the portfolio, is to get to the doubling of EBITA per share. That is our ultimate objective and we are clearly sticking to that at this point.

Now, yes, you are correct. The measures we are taking, and this year is a year certainly of transition, we are taking -- we had already taken measures in order to reduce the fixed cost base at Philips. And if you look at basically the plans that we have announced for Q4, whether it's for Healthcare, whether it's for Lighting or whether it's for Lifestyle, those are plans which were already in the pipeline. But obviously given the uncertainty there is currently now in the economy, we've decided to move them forward and to make that happen as early as Q4.

So clearly there, there is a plan to improve the margin. And if you look now at Vision 2010 we would like certainly the margin of the Group to be closer to the bracket of 11% in order certainly to compensate for potential shortage on the revenue top line.

Just to give you an idea Nicolas, the -- if you take, to calculate some math, because that's a question we often get on break even and fixed variable costs, the EUR230 million that we've announced for Q4 alone, that would represent I would say between 2% to 3% of the fixed cost base of Philips. Just to give you an idea of the decision which was taken in Q4.

Nicolas Gaudois - *UBS - Analyst*

Okay, great. And then, sorry, and fixed costs as a percentage of total costs would be around what at this point?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

No it is fixed costs out of total -- well you can get [credit] back with the total costs. And it --

Nicolas Gaudois - *UBS - Analyst*

Okay, thank you Pierre-Jean. And just a follow-up more specific to Consumer Lifestyle. Actually your -- considering your top line, your margin performance wasn't too bad. How much of that is a function of more selectivity in the TV markets you still operate in after the divestment of the US -- or the passing over of the US business to Funai? And how should you look at this going forward? Are you trying to position the TV business more at the higher end across the board? Or are you still open to further considerations if you don't hit 5% EBITA for this place going forward?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

Yes I think -- let me spend one more -- let's talk about the revenue for one second because the comp, it's a bit complicated, but in that product transition I think let me -- I think we have to go through those complicated things to get the improvement that we want and that we need. On the comp we give to you for Lifestyle, for the quarter, we are technically like-for-like down 8%. That 8% actually includes like-for-like down 9% for Television. And the down 9% for Television includes the impact of Funai. That means that the North American business is already out of the comps.

Now there is, as you've said, more than the move on Funai. We have done as we had announced, and that has impacted Europe quite a bit as well as Asia. We are pruning channels and portfolios; that is to say that as far as the Television business is concerned, and that is true as well for some of the other businesses of Lifestyle, we are abandoning some product categories in which we don't like the margin. And we are, as well as we have discussed in previous calls, pruning the channels. And there are channels, as we had mentioned as early as Q4 last year, that we are abandoning.

So if you do the math, and I'm going to use now softer comp if I may use that terminology, out of the 9% of down comparison on Television, I would say almost 6 to 7 points comes from the pruning of either products or channels. That would mean that out of the 8% of the negative comp for Lifestyle, about half would come from that explanation. And if you were to calculate those numbers at the Philips' level that would probably put now Philips almost like-for-like at par, quarter-to-quarter.

So this is to say that the pruning, and I'm now beyond the issue of Funai because Funai is already reflected in the reported comps, the pruning of the portfolio and of the channels has played a big role in that third quarter, as I said in particular in Europe and is I would say the driving explanation for the improvement of the margin. Because you don't see yet too much of the impact coming from the Funai deal on the margin because we deconsolidated Funai starting mid August. So we will see the full benefit of Funai really start in Q4 and we will continue to see the benefit of the pruning in the coming quarters. Sorry for that long answer but I think this is as specific as I can be.

Operator

Thank you. Your next question comes from Robert Sanders from Dresdner Kleinwort. And can I please ask you, would you please limit yourself to one question with a maximum of one follow-up. Please go ahead Mr. Sanders.

Robert Sanders - *Dresdner Kleinwort - Analyst*

Yes hi Pierre-Jean. Quick question really on Imaging Systems in North America. If you could just talk about whether that decline was in the double digits and how much of that decline was down to credit conditions rather than maybe some residual impact from regulatory issues?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

Yes, Imaging Systems. Right, a couple of things on that. I think on the revenue side, the revenue was actually up for the quarter by 4%. So in terms of growth, we were up. We were up but short by 2, if not I would say, almost 3 points of what we had actually expected. So the first part of the answer is we were up, but we were -- which by the way puts us 1% year-to-date in terms of growth. So our Imaging business year-to-date is back into positive growth comp at the end of September.

I think now specifically on what happened in Q3, the shortage of volume came from some pushbacks which took place late in the third quarter. I think at the end of that particular quarter we saw two things. We saw one some -- in several modalities some pushbacks to Q4. And the other thing we saw in Q3 was a slowdown, almost a freeze I would say in some product categories in the orders. So clearly the psychology of the extremely volatile market conditions, I'm talking about the financial market conditions, in the latter part of the quarter certainly had an impact on both revenue as well as orders. And I would say this was largely a US phenomenon.

Robert Sanders - *Dresdner Kleinwort - Analyst*

Great. And just on the old DAP, I know you don't like to speak to the old perimeters of that business, but if you could just give us an indication if you're still doing roughly a double-digit margin in the old DAP business? Because I know you've had a few issues with for example the AVENT business. Is there anything specific that's happening in there, or is it really just the Consumer Electronics ex-TV part that is suffering?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

Okay, I think if you look at the old DAP, and I will go in product categories, I think it's essentially three product categories. All in all it grew 1% so the old DAP quote, unquote, was in positive growth territories with growth at Appliances and Health & Wellness which actually offset negative growth at Shaving & Beauty. And all in all the portfolio going up by 1%.

In terms of margin, year-on-year I think we saw a touch of decline of the margin of the old DAP territory, so it is staying in the mid high -- or mid double-digit I should say territory. There, there is no change, but it was a touch lower than the margin of last year. But that's in line with the guidance of -- the 15% guidance we've given to you for that particular business which had, if you remember, high margin last year on the back of a very, very strong volume. (Inaudible) model on that particular one.

Operator

Our next question comes from Andreas Willi from JP Morgan. Please go ahead with your question.

Andreas Willi - *JP Morgan - Analyst*

Good morning, two questions please. The first one is just a follow-up question on Consumer Lifestyle and margin levels. In the quarter, have there been any changes in the level of promotional spending or R&D spending compared to the past run rates? Are you taking that down in anticipation of tougher markets or not?

And the follow-up question I have is on pensions. You obviously have a well funded scheme but maybe you can give us some idea how that has developed in the last quarter? And also what would you expect from earnings contributions from the pensions to your P&L going forward which provided you roughly EUR60 million of income in the quarter, if one just looks at the expected return on plan assets minus the interest costs.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

Yes okay. I think on the commercial spending, which is your first question, basically there was no slowdown there. I think the big question mark will be on Q4 and that will play by ear. But on the Q3 number, I think the underlying of your question is improvement of clean margin coming from putting obviously the foot on the brake pedal on commercial spending. The answer is no. I think we had a commercial spending which was in percentage of revenue quite high at the level of last year, as far as Q3 '08 versus Q3 '07 is concerned.

Moving onto your question on pensions, I'll take it from two angles. As far as the level of funding is concerned, as you know we have really three important plans which are Netherlands, UK, US with a couple of others but those are the three big ones. The level of funding, despite the correction of the stock market for Q3, on the back of the September number, the Dutch plan doesn't need any funding. And we might need to put some funding but not material which was planned anyway but we will have to do that funding a little bit more probably on the US pension plan. I don't have the number yet for the UK fund, but none of that should be material to Philips.

Your last question was related to the impact on the bottom line. As you know it's a difficult question to answer because all this is depending on what are going to be the financial parameters literally on the last day of the month of the last month of the year. Now if I were to make those calculations on the back of the numbers as at today, so let's assume everything stays the way it is today in terms of return interest rates and the like and asset mix, we would look probably at an increase of our pension costs for next year of around EUR50 million. I think that is a number which of course we track on a weekly basis, that is a number as at today. But that number of course can fluctuate largely up or down depending in particular on the exchange -- on interest rates by the end of next year, and we'll keep you informed of that.

Operator

Thank you. Our next question comes from Martin Wilkie from Deutsche Bank. And as a reminder, would you please limit yourself to one question with a maximum of one follow-up. Mr. Wilkie please go ahead.

Martin Wilkie - *Deutsche Bank - Analyst*

Good morning it's Martin Wilkie from Deutsche Bank. So a couple of questions. First of all, just a question on your payment terms, both with suppliers and also your distributors and wholesalers. Are you seeing any change in terms of what your suppliers are requesting and what your distributors are requesting in terms of payment terms, in light of what may be happening to their own lending -- borrowing capability sorry? So just if you could talk us through that.

And then secondly, just coming back to the Connected Displays business and how you're pruning that portfolio. Just in terms of the ultimate size of that business, am I right in thinking that should ultimately be about a EUR4 billion revenue business for Connected Displays once we factor in the disposal as well as the pruning? Just if you could give us a rough idea of how big that business will end up being. Thanks.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

Yes, I think the answer to your first question is we are not seeing a deterioration of the payment terms. Actually our DSO has come down a couple of -- excuse me, has come up a couple of days for the quarter. But it's a reflection of the territories and the countries that we are going in more than anything else, so no attempt from our partners whether they are customers or receivable or suppliers to extend. That's the answer to your first question.

On your second questions, I think your EUR4 billion figure is probably a good number. Once you have taken off Funai and the pruning that we're doing in terms of product categories, as well as in terms of channels, EUR4 billion like-for-like could very well be the number on which now we will obviously work on that objective we have given to ourselves of improving the margin. And by the way, I think in the quarter the margin of Television started to show some sign of progress. But it's a quarter of transition and I think Q4 from that particular perspective will be an important quarter.

Operator

Thank you. Our next question comes from Gael de Bray from Societe Generale. Please go ahead with your question.

Gael de Bray - *Societe General - Analyst*

Thank you and good morning. I've got a first question related to the Healthcare business. The margin was obviously pretty weak this quarter, below 10%, which is probably by far the lowest level which you have -- since 2002. At the same time you said that you feel confident that the Healthcare business will hold up pretty well in the coming quarters and in the current environment. So do you expect the mix to improve somehow in the coming quarters?

And also, what's your view on the general hospital CapEx spending, especially in the US? Don't you expect the spending to be increasingly weaker on the back of the credit crisis?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

Let me answer first your question on the mix. I think, and I'm talking Imaging Systems there which is certainly the main cause. There was a bit of softness as well on our Monitor business in the quarter, but the big -- I'm talking margin here, but the big essential element was indeed the Imaging business. And the fourth quarter is a quarter where we are expecting obviously stronger volumes, that was planned. We have new products being introduced in that particular quarter in the domain of CT in particular. And so we are expecting better mix and certainly a higher volume.

Now to your question on the US, I can only repeat what I said earlier on. I think we saw some pushbacks in the latter weeks of Q3 in terms of deliveries. We will have to see how that materializes for Q4 in a business where the vast majority of our business is already, at least for heavy iron, is already in the backlog. And we saw, as I mentioned, some certainly cautious attitude on the side of orders, and I'm specifically talking North America here. That came in the last two weeks of September right at the heart of the uncertainty, and we have to see what that will really mean in Q4, but more importantly for the quarters to come. So a bit early to say.

Our mix, as we've discussed in previous calls, is a mix which to the average is more skewed to the larger hospitals who basically are supposed to have better access to credits. Historically that was what happened, but of course in the current economic climate this is something that we will check confirmation for in the course of the fourth quarter.

Operator

Our next question comes from Alex Surla from Merrill Lynch. Please go ahead with your question.

Alex Surla - *Merrill Lynch - Analyst*

Hi, maybe just a follow-up on the Healthcare margins. How should we think about those margins going forward and in light of the restructuring charge coming in Q4? The margins, from what I can see on a like-on-like basis, were trending about 100 basis points down for the first half of this year, and then they were 200 basis points down from Q3 of '07 to Q3 of '08. Is there any way that you can tell us in basis points, what kind of positive impact can we expect from the restructuring coming in Q4?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

In terms of margin for Healthcare, I'm going to talk in clean numbers because, as you know, we've had the impact of the integration charges for the year which have been split and guided on, as well as of course the restructuring. So our objective still is -- but that will depend of course on how we deliver, in particular on the domain of pushbacks, in the fourth quarter. But the objective is to have a margin clean for the year at Healthcare which should be at the level or a notch above the one of last year. But that's obviously largely going to depend on the fourth quarter. That's for the overall clean margin of Healthcare excluding restructuring charges, as well as integration charges.

The impact of the restructuring that we have announced for the fourth quarter is EUR50 million and I would say that is pretty much with a one year payback. So EUR50 million of restructuring is something which will bring ultimately by the end of '09 the equivalent of EUR50 million in the bottom line. And you can calculate the impact that has on the overall business of Healthcare.

Operator

The next question comes from Simon Smith from Credit Suisse. Please go ahead with your question.

Simon Smith - *Credit Suisse - Analyst*

In terms of Consumer Lifestyle and the Group generally, you've had each year EUR1 billion of advertising spend and I understood your response from Q3 that the spending within that quarter had not changed. Could you give us a feel as to the amount of spend in Q4 where you may still have some discretion to cut back upon that spending if you so decided to?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

I think that the kind of flex we traditionally have had around that particular quarter is in the domain of EUR40 million, EUR50 million. This is the kind of flex we have. But that is a flex that we decide at the very last minute if we want to use it or not because of course if you use that flex you can run your business for the fourth quarter. But clearly that has potentially some consequences on the next quarter. So in the third quarter, this is a lever to improve the margin as you've said, and as I've said, which we haven't used. And that kind of flex is probably still on the table less and less as the quarter comes down of course for the fourth quarter.

Operator

Thank you. Our next question comes from Marcel Achterberg from ING. Please go ahead with your question.

Marcel Achterberg - *ING - Analyst*

Yes, just first question is to check. You said about the Healthcare EBITA margin, the clean margin objective to be close to or much above last year's. Is that for the full year or for the fourth quarter?

And second question is about the slowdown in the emerging markets. Could you give an idea of which areas -- which countries are slowing down and which have held up during the quarter? Thank you.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

Yes I think on the Healthcare side, yes it would hold if we are capable of delivering on the fourth quarter for Healthcare, that the comment becomes -- meaning having a fourth quarter above last year clean. That would mean that we would have the year for Healthcare at level or a notch above. I think the two things come hand in hand.

For the comment on emerging markets, we -- if you look -- your question was on the whole portfolio or one of the sectors in particular? I think your question was probably on the whole portfolio so let me answer it for the whole portfolio. On Lighting, basically we had the Lighting business continuing to grow strongly in emerging markets high double-digit. And I think that I can say that all countries, and that includes China and the India subcontinent, delivered certainly from that particular perspective.

If you look at Consumer Lifestyle, Latin America continued to grow double-digit but we certainly had a slowdown in China. There we actually had negative growth in China and we saw that happening in the latter part of the quarter. And that's for Consumer Lifestyle. Some of that coming as well from the pruning of the portfolio to some extent.

And finally on Healthcare, the growth in emerging markets we had good growth in China and we had negative growth in India, but that is actually a pretty small number for us. So the consolidated number for the Group for what we call the key emerging markets which is essentially China, India and Latin America was that 5%. If you include the other emerging markets, that number becomes for the total emerging markets 6%.

Operator

Thank you. Our next question comes from Scott Babka from Morgan Stanley. Please go ahead with your question.

Scott Babka - *Morgan Stanley - Analyst*

Yes good morning, just two questions if I may. First on Healthcare. Do you get a sense from either your channel checks within (inaudible) or from customers of any risk related to further cuts in reimbursing the utilization levels, just given the budget deficit position the US is in? And if so, is that having any impact on order flow?

And then I just wanted to drill down a bit more on the Consumer business. Do you have any early read into the fourth quarter right now just based on what your retailers are doing in terms of inventory levels, to give you a sense on how that is going to perform in the current weakening environment? Thank you.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

I think to your first question for the cuts on Imaging Systems, it's hard. The news at the end of -- and I think that question was on the back of the DRA. I think it's hard to comment much more than what we've seen at the end of Q2. There hasn't been any real disclosure or announcements as far as additional cuts are concerned. The way we see it is that the slowdown which took place in the latter part of Q3, and I would say most importantly in the latter part of the last month of Q3, certainly in our view had more to do with the financing availability than anything else. So hard to comment much more than we've done at the end of the previous quarter on further DRA cuts, there was no news on this in the course of the quarter, but probably more as a reaction to liquidity and obviously the almost quasi [stance] which took place in the last couple of weeks. So that's as much as I can tell you, and that is essentially on the US market.

I think the other question was related --

Scott Babka - *Morgan Stanley - Analyst*

The Consumer business, just --

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

Yes on the Consumer business, too early in the game to say anything. I think the month is quite young. It's very hard to read because I looked at that very carefully trying to find a pattern in Q3 and I can tell you we had a few product categories which actually like-for-like accelerated between July and September, and we had other product categories which gradually slowed down from July to September. So we had, depending on product categories, those two lines crossing. So it's difficult to grow any particular conclusion.

I think the conclusion I would -- the overall conclusion that we can draw which is factual as far as the Philips' portfolio is concerned, is that we saw a slowdown in Europe, even though it's magnified by the pruning of products and channels, especially in the latter part of Q3. But we saw certainly a slowdown in Europe in the latter part of Q3. We now have a situation where the US is actually doing better than Europe, certainly that was the case in Q3. And we've seen a slowdown in emerging economies. Even though we stayed in positive territory, we've seen a slowdown in emerging economies but there again with pattern which differs quite significantly from country to country. So hard to give you a read on what's going to happen in October because I don't have that read as we speak.

Scott Babka - *Morgan Stanley - Analyst*

Great, thank you very much.

Operator

Thank you. The next question comes from Didier Scemama from ABN Amro. Please go ahead with your question.

Didier Scemama - *ABN Amro - Analyst*

Yes, good morning Pierre-Jean. A couple of questions or one question and one follow-up. Can you just give us a feel of how you're going to spend your EUR100 million restructuring charge for Lighting? If you're going to shut down any more fabs or factories; are you actually going to lay off anybody? Just so that we understand a bit of the -- you said payback is about 50% or 50% will have a payback in one year, but I'd just like to understand a bit the underlying dynamics.

And the second question, just going back to the question that was just asked. If you could look at just Consumer Lifestyle and maybe give us a feel of emerging markets, particularly which countries have done better than others, and which categories have been the most impacted beyond any product pruning you may have done in those countries? That would be great.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

Yes. I think on the detail I can give you, on the EUR100 million for Lighting, it impacts factories. We will have some asset write-offs as well but actually not much. It's going to be essentially a reduction in the accounts. This will take place across factories, across geographies and across product categories. So you could assume that the vast majority of it indeed will relate to impacts which will have, not only on the bottom line but as well on the cash flow, because those are expenses which once reduced will have a cash impact.

Your second question is the countries where basically the latest -- and I'm going to give you the latest trend that we've seen, I would say Latin America up and more specifically I would say Brazil. I would say Russia up and I would say China and India down. I think this is the essence of the trend that we've seen in the latter part of Q3. Those things have been volatile but I think I would say this is probably a fair summary of where and how the Consumer Lifestyle portfolio has behaved in the latter weeks.

Looking forward, always difficult, because this is the one business in which as you know we don't have a backlog. And I think that those markets, as well, have to obviously digest the uncertain economic times and how the world gets out of it and how consumers decide of course to behave on the back of those news.

Operator

Thank you. Our next question comes from Olivier Esnou from Exane. Please go ahead with your question.

Olivier Esnou - *Exane BNP Paribas - Analyst*

Yes hello, good morning. I have one question and one follow-up. My question, if you look at the P&L of Philips in Q3, at the aggregated level. Compared to Q3 last year, gross margin is down and SG&A as a percentage of sales is increasing while R&D spending is going down. I rather would have expected the reverse, so I wanted to know how you feel about this trend and what you can do about it basically.

And the second question, I keep it for after, the follow-up.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

Yes okay. I think on the ratios, and I will comment them one by one, the gross margin is down but the vast majority of that decline comes from the asbestos provision that we took in the course of the third quarter. So if you recalculate the gross margin in percentage, like-for-like, excluding this, and I'm only going to take that particular one-off out of the equation, you will see that the gross margin is not too far off from the one it was last year. So that's the answer on the gross margin. You have almost 3 points of impact in the gross margin coming from the -- actually 3.7 points to be very precise of impact on the gross margin coming from the asbestos provision.

On the SG&A increase, there you have the impact of the mix. We have acquired businesses which have actually a higher mix of SG&A whether it's Genlyte or whether it's Respironics. So we have to recalculate, and we could do that offline -- we would have to recalculate the SG&A like-for-like with the new portfolio and certainly our objective on the SG&A side is to continue to reduce our costs. And a number of the restructuring plans that we have currently have in motion will actually impact that particular line.

As far as R&D is concerned, R&D basically is something which we absolutely optimize. Right now the game is not to increase R&D, the game is to focus R&D on the growth territory. And one of the things that we are currently doing is we are reallocating, and this will be done for next year, we are reallocating the equivalent of EUR250 million of R&D like-for-like from all the product categories to innovation as well as territories which are growing faster. So on the R&D what you will see, and it has actually started happening now, is a shift of the spending euro for euro from old product categories to new product categories in the mix, as well as low growth territories to higher growth territories. And that's the way we plan to manage R&D moving forward.

Olivier Esnou - *Exane BNP Paribas - Analyst*

Thank you. In terms of follow-up on the pattern through the quarter, you gave some interesting trends. I just wanted to have your thought. Is there anything else, either by geography or by business, where you noticed a major change through the quarter in terms of trend that you want to point out?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

No I think we've been quite detailed on Lifestyle. I think quite detailed on Lighting as well where there, emerging markets are holding; I said that we were still in double-digit. And I think I mentioned as well Healthcare where I told you that the lower growth came essentially there from lower -- actually negative growth into India. So I think you have all the details on emerging markets by product categories for the third quarter.

Operator

Thank you. Our next question comes from Colin Gibson from HSBC. Please go ahead with your question.

Colin Gibson - *HSBC - Analyst*

Hi there, it's Colin Gibson. Just a couple of questions please. First of all on restructuring. So something north of EUR200 million put aside for restructuring charges in Q4. I suppose, a difficult question but an inevitable question is, if the economy doesn't improve any time during Q4, which seems quite unlikely, do you think as you go into 2009 you would be needing to look at further restructuring measures? Or should we be thinking in terms of 2009 earnings unencumbered by any restructuring charges? That was my first question and I might as well give you the second question straightaway.

Second question was on the buyback. I think you've talked about slowing down the pace of the buyback in Q4. Can I just say is that in euros or in number of shares terms? Thanks.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

Yes, I think on the restructuring we will -- the restructuring we've announced for Q4 is to a very large extent restructuring which had already been planned. So restructuring we were planning to do next year so it's not that those are things which have been added, this is restructuring that we would have had next year anyway; the objective being obviously to double the EBITA per share for 2010. And we will take obviously all the measures to get there.

Will there be more restructuring in '09? I think we'll see how the economy evolves. I would say that every year Lighting has always had some kind of a bottom number of EUR50 million, EUR60 million that some quarters we disclose, some quarters we don't disclose depending on the volume for the particular quarter. And I would say that this kind of number should continue because that's part of the model of Lighting and the modernization of the footprint.

As far as Lifestyle is concerned, it will continue because -- and that should not be totally a surprise because we basically have promised that by the second half of '09 the cost base of Lifestyle would have come down by EUR150 million to EUR200 million and that's something that we communicated at the time we merged DAP and CE. So the restructuring you currently see is coming from A, obviously reacting to the environment, but it's as well taking the measures to indeed deliver those savings in the second half of next year. So I would say that probably you will have further restructuring next year at Lifestyle, but they will be disclosed as such so that you can measure the progress.

And in the particular case of Healthcare, I think that we will have to look pretty much and I think the way the fourth quarter behaves will be a good indication of either more or less need of restructuring in that particular territory.

On your question on buyback, the answer is we will slow down probably in both terms which is to say both in euros as well as in number of shares. Of course it's difficult for me to really arbitrage between the two, but the key message was a slowdown in euros.

Operator

Thank you. Our next question comes from Johannes Ries from Cominvest. Please go ahead with your question.

Johannes Ries - *Cominvest - Analyst*

Yes good morning, maybe some brief follow-on points on Healthcare. Maybe you can give us an idea if the price pressure, especially in Imaging, has increased maybe in the end of the quarter given that they had been pushed out, so maybe a harder fight for deals?

And do you also think that maybe the US situation has some indirect [guidance] impacted by the upcoming election? Or maybe given your experience in the past, could there be maybe some improvement after the election because then it's more clearer about political direction?

And finally maybe on the -- you mentioned you have orders irons you mentioned it in the backlog already for Q4. What else are you needing? How much your Q4 budget for in Healthcare is already covered by orders? How much you need it?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

Yes I think on the pricing pressure, I think the overall pricing pressure across the portfolio worldwide is -- the percentage we use continues to be 4%, maybe a notch above. So as we've indicated in an earlier conference, I think that the pricing pressure has come down a notch. But what we see is more a continuous shift of customers to lower specs and lower products in the mix, and this is particularly true for what we call heavy irons and heavy around the CT or MR. So more than a pricing pressure I would say that it's a margin pressure coming from products which are lower in the mix. And the answer to this of course is to come up with products which addresses that and that is something that we are obviously working on.

As far as now pushbacks, yes I think I've answered that. There has been some pushbacks and interestingly enough, they came late in the quarter so we will see if those pushbacks -- we're going to track them very carefully to see if those pushbacks basically transform into installation earlier or early in the fourth quarter to draw really conclusions.

We saw as well, as I mentioned a couple of times in this call, certainly great care and caution on the orders side in the latter part, and essentially the last two weeks of September. What does that mean vis-a-vis the election? It's very hard to make the distinction between perception of what the result of the election will bring and the economic situation and the liquidity situation for the hospitals. My instinct would be that it's more skewed at this particular point to liquidity than anything else. But I think that the fourth quarter, both in terms of revenue as well as in terms of orders, and a careful scrutinizing of pushbacks, A, the one pushed at the end of Q3 reappearing at the end of Q4 -- excuse me, at the beginning of Q4. As well as potential pushbacks at the end of Q4, I think we will have a lot of answers to that question in the course of the fourth quarter.

Your -- I think that -- now, the coverage of orders, I think in the case of heavy irons I would say 80% to 90% of big irons which is in the territory of cardiovascular, in the territory of MR is covered, and that percentage then comes down. If you talk about CT and gradually ultrasound to finish with of course monitors. And because monitors, certainly the book-to-bill in the quarter to a large extent, ultrasound is a mixed bag but obviously a lot of the business of ultrasound turned around in the quarter. And then when you go to CT, x-ray and MR, you start having a good chunk of that in particular for MR and cardiovascular, which is already in backlog. Hard to give you a complete number for the total.

Operator

Next question comes from Francois Meunier from Cazenove. Please go ahead with your question.

Francois Meunier - *Cazenove - Analyst*

Hello, it's Francois from Cazenove. Just a question about the working cap and the working cap to sales ratio which I think is a bit running wide in the past few quarters. If you take probably sales for the year it's around 23%. What's the plan for Q4? Do you plan to reduce the working cap? And what's the plan for next year as well? Thank you.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

Okay. I think in terms of working cap, if you look at the third quarter Q-to-Q, we basically had a reduction of the working cap like-for-like. In other words, we had a positive variation of the working cap by a total of, I think I'll give you that number in a second. I think -- okay, let me come back to that number in a second.

As far as the fourth quarter is concerned, yes we are planning to have a -- it's the normal strong liquidity quarter which has been traditionally the case for Philips and we are going to work on reducing all the elements. Reducing obviously the receivables, reducing as well inventory and continuing to monitor the payables.

What I want to see that in the operating cash flow, and I think you have details on that in the press release -- in the operating cash flow of this quarter you had some incidentals which are coming from the funding of the escrow for the asbestos case as well as the reduced dividends for the TSMC shares. So we can give you offline a reconciliation of that. But keep in mind that in total, the working cap actually of Q3 improved I think by EUR80 million, like-for-like compared to last year, in terms of consumption.

So we had a better cash flow performance from the working cap point of view in Q3 '08 versus Q3 '07.

Operator

Thank you. Our next question comes from [Andrew Orlano] from Merrill Lynch. Please go ahead with your question.

Andrew Orlano - *Merrill Lynch - Analyst*

Hi, this is Andrew Orlano from Merrill Lynch. My first question is on the Lighting business and on your moves in emerging markets, which is basically that a lot of growth is driven in these. For energy efficient lighting, for example, you had great growth. But what I'm worried about is that the higher premium on these products in a downturn economy might push consumers away from them for shorter term lower cost products. So I wonder how the global recession's going to affect that?

And then furthermore I wonder if, for the entire Group, we see that emerging market growth coming down to 6%, if that represents a large global recession? And what we can expect to see in the next six to 12 months going forward?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

Yes, I think if you look at Lighting, it's -- we gave a pretty good detail of the exposure of Lighting to the new constructions. So I will send you to the slides which are on our website from three weeks ago where you have the detail for North America, as well as Europe, of the percentage of our business which is exposed to residential as well as commercial new constructions. And you have it split between geographies. And we've highlighted as well the percentage of our business which is coming from what we call replacement.

Now if you look at the specifics of Q3, we did see double-digit in solid state lighting. We did see some, the so-called green quote, unquote portfolio or mix of green products in the portfolio of sales in Q3 was about 55%. So in the tough climate certainly that started to emerge in Q3, we didn't see a slowdown, actually to the contrary, of customers to go to energy efficient solution.

The key question of course will be -- and -- will the CapEx at some point for decisions which make sense in terms of (inaudible) of ownership. Will obviously those decisions be slowed down, impacted or impaired by availability of CapEx? That is not something that we have seen today but I can't totally exclude that it will happen in the future. But that's not something that we seen to this day.

What we see to this day, in the margin, is more -- two things. One is on Lamps. We've seen on the high margin lamps a bit of an unfavorable mix coming in particular from high intensity discharge lamps which are a bit lower in the mix. And we've seen as well of course the impact of lower growth than expected on the automotive side. So those are really the key elements of the three. We haven't seen a slowdown coming from availability of CapEx on the green products.

Operator

Thank you. Our next question comes from Timm Schulze-Melander from JP Morgan. Please go ahead with your question.

Timm Schulze-Melander - *JP Morgan - Analyst*

Hi, just a very quick one to follow up. Can you just let me know, are there any meaningful volume purchase commitments for long lead-time items that you have in '09 that you would need to renegotiate if business conditions do turn south?

And then secondly, with respect to your Imaging Systems, the big iron product line up. Could you just let us know what the length of time is in terms of product development lead times and when do you feel comfortable that you'll have the right product line up given the increasing value focus that you're seeing in the market? Thank you.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

I think that, when you talk about lead time I am assuming that you're talking about lead times on long-term procurement vis-a-vis suppliers, I think that's the way I understand your questions.

Timm Schulze-Melander - *JP Morgan - Analyst*

Correct.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

No, I'm not aware of having to renegotiate. I think we are currently negotiating prices for next year. When we don't hedge raw materials in particular, a lot of the negotiation on the prices and to some extent on the volume for next year, they take place late in the year. So as far as procurement is concerned, a lot of the action is taking place as we speak. So I'm not expecting a major renegotiation of prices given that a lot of the commitments, and as I said, in particular for raw materials, is actually taking place now.

Your second question relates with the product portfolio. We obviously are already reintroducing high end products. I think we -- which have obviously a place in the market. One is on the 256 slice scan, which is called the iCT; that is being shipped in the fourth quarter, so that will help our mix. We have products as well coming in which are going to play a small role in '07 -- excuse me in '08, but will start helping us next year.

We have in particular, a new compact ultrasound machine which will start helping us next year, and will have a small impact in the mix. And of course, moving forward, the product portfolio of the companies that we have acquired, whether it's VMI in Brazil, Dixtal in Brazil, Goldway in China, those are covering monitors as well as x-ray equipment. Those are products which will come in the middle of next year to be, I would say, at full speed.

So to give you an answer, the improvements of the product portfolio, thanks to the coming in of new products is a progressive process which is starting as we speak, and which we will focus on over the next, I would say, two years, with good obviously -- move already taking place in 2009.

Timm Schulze-Melander - *JP Morgan - Analyst*

Thanks.

Operator

Thank you. (Operator Instructions). We have a follow-up question from Andreas Willi from JP Morgan. Please go ahead with your question.

Andreas Willi - *JP Morgan - Analyst*

Yes, just a follow-up question on Healthcare. Basically, from your guidance, you more or less imply a 20% underlying EBITA margin for Healthcare for Q4. Given that the financial market dislocation's continued already for the first weeks of October, and given that you have been quite optimistic on Healthcare in the last -- well more optimistic than your peers in the last 12 months on Healthcare, I would like to better understand where you have to take your optimism that a 20% margin is achievable in Q4 in these circumstances.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

No I think I'm a bit more measured than that and I think you've seen it in our press release. I'm saying that you are correct. Mathematically we need a fourth quarter, maybe not at 20% but around probably 19% clean to deliver what we've talked about. This is what we've done in the previous quarters -- fourth quarter of the previous years. Will it be tougher to get there in '08? Yes I think it will be because of course of the risk in particular of pushbacks, which is something that is difficult to control at this particular point of time.

So yes, I think I am certainly a bit more cautious entering that fourth quarter. And I'm saying we need that fourth quarter to take place to basically have a margin for the whole of Healthcare to be at level or a small notch above last year clean, for the whole of Healthcare. So I'm a bit more cautious because precisely of those pushbacks.

Andreas Willi - *JP Morgan - Analyst*

Thank you.

Operator

Thank you. Our last question comes from the line of Marcel van de Hoef from Bloomberg. Please go ahead with your question.

Marcel van de Hoef - *Bloomberg - Media*

Yes, hi. I'm just wondering, on the already planned projects and the acceleration of that to increase margins at some point, to what extent does it include cost cuts? And could you give a breakdown of that? And does it also imply the reduction of jobs?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

Yes, I think in the case of Healthcare, basically I can't give you too much clarity. It's nothing really new because we've constantly adjusted the headcount of Healthcare so that is something which has taken place without really being disclosed in the coming previous quarters. I think the reason why we disclosed it, this particular quarter, is because this is something which obviously we will announce in one quarter. But that's not very different from what we've done down the line in the previous quarters. So it's not a big bang. And it's essentially, yes, impacting headcount.

Marcel van de Hoef - *Bloomberg - Media*

And sorry, and on the other divisions?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

Well on the other divisions, I think I already answered that question on Lighting where I said that, in the case of Lighting, some of it was in asset write-downs. The rest will be indeed in terms of impact on headcount. And I think that in the case of Lifestyle it will be a mix.

Marcel van de Hoef - *Bloomberg - Media*

And do you have a combined number for job reduction?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

No we don't have a combined number and we usually don't communicate those numbers.

Marcel van de Hoef - *Bloomberg - Media*

Great, thank you.

Operator

Thank you Mr. Sivignon, there are no further questions.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP & CFO*

Okay, thank you very much for your questions and your attention. Goodbye.

Operator

This concludes the Royal Philips Electronic third quarter results 2008 conference call on Monday October 13, 2008. Thank you for participating, you may now disconnect.
