

FINAL TRANSCRIPT

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PHG - Q3 2005 Royal Philips Electronics Earnings Conference Call

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CORPORATE PARTICIPANTS

Pierre-Jean Sivignon
Royal Philips Electronics - CFO

CONFERENCE CALL PARTICIPANTS

Guenther Hollfelder
HVB Group - Analyst

Niels de Zwart
Rabo Securities - Analyst

Bert van Dyck
Financial Daily - Analyst

Bram Cornelisse
Merrill Lynch - Analyst

Didier Scemama
ABN Amro - Analyst

Nicolas Gaudois
Deutsche Bank - Analyst

Uche Orji
JP Morgan Chase & Co - Analyst

Janardan Menon
Dresdner Bank - Analyst

Matthew Gehl
Goldman Sachs - Analyst

Antoine Badel
CSFB - Analyst

Francois Meunier
Cazenove - Analyst

Thomas Brenier
Societe Generale - Analyst

Luc Mouzon
Exane BNP Paribas - Analyst

Sean Murphy
Nomura Securities International - Analyst

Jerome Samuel
CDC IXIS Capital Markets - Analyst

Eric de Graaf
Petercam - Analyst

Jan Berghuis
Kempen & Co - Analyst

Bert van Dijk
Het Financieele Dagblad - Media

PRESENTATION

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Operator

Welcome to the Royal Philips Electronics third quarter results 2005 conference call on October 17, 2005. For the introduction by Mr. Pierre-Jean Sivignon, Chief Financial Officer 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

Ladies and gentlemen, good morning. Let me first tell you that I am very proud to be there with you today, for what is my first conference call for these third quarter results of Philips Electronics. So let me welcome you to this conference call for the 2005 third quarter results. I will make a few introductory remarks and then open up the call for your questions.

This quarter has shown a continuation of the implementation of our value-creating strategy, of liquidating our financial holdings and reallocating resources to higher margin businesses, or buying back our own shares. Let me be more specific.

Firstly, we have disposed of 1,740m from a financial holding mainly being TSMC, Atos Origin, and LG Philips LCD. Secondly, we have completed the Stentor acquisition costing 175m, and announced the acquisition of 47% of Lumiled for approximately 765m. Thirdly, we announced the second share buyback program in 2005 for 1.5b, for which we actually purchased 347m of share in the third quarter alone. Fourthly, we continue to improve our underlying performance as well as maintain our financial discipline.

A few words on our strong performance in this quarter. Comparable sales growth versus a year ago was strong in Medical, DAP, Consumer Electronics and Lighting. In Semiconductor we had slightly higher sequential growth than we expected. Much of the growth is a result of our investment in innovation, in the context of some weakness in some of the markets that we are serving.

In Medical we increased our underlying results, excluding MedQuist, and some Stentor acquisition related items. Our order intake continues on a positive trend, with a 9% comparable increase versus one year ago. DAP has had success with newly introduced products, and is on track for the expected annual growth rate of approximately 7%, with an IFO margin of 15 to 16%.

Consumer Electronics has had an excellent sales quarter, and remains on track to deliver the annual 4 to 4.5% IFO margin as from the end of 2005. This is based on the successful implementation of their business renewal program. Based on increased R&D in recent years, Lighting has again shown sales growth of approximately double GDP, compared to the historical one-time GDP. The higher R&D is continuing, and we expect to see the start of deliveries of some new products starting early 2006.

Semiconductors has shown more strength than we had anticipated which, coupled with the early benefit from their own business renewal program, has had a marked impact on their results. In other activities, we still need to do some more work to reduce the run rate of the negative results. But these have our full attention, and we hope to be able to update you on this in the not too distant future.

I'm very happy to say that the corrective actions we took on inventory at the end of the second quarter has proved to be successful, and that the percentage is now lower than one year ago. In fact, it is the lowest ever for the third quarter at Philips.

Our cash flow has been very strong, particularly due to the sale of some of our financial holdings, amounting to 1,714m. At the same time, we did buy back our own shares to the extent of 347m. Overall this has led to a zero net debt position at the

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end of the quarter. During the fourth quarter we expect to pay 765m for the Lumiled acquisition, as well as continue the share buyback program.

I will now open up this call for your questions.

QUESTIONS AND ANSWERS

Operator

Thank you sir. [OPERATOR INSTRUCTIONS]. The first question comes from Mr. Bram Cornelisse from Merrill Lynch. Please state your company name followed by your question.

Bram Cornelisse - Merrill Lynch - Analyst

Hi, good morning. Yes, that's Merrill Lynch. I was wondering if you can update us a bit more on MedQuist, because I think in the last quarter conference call an expectation was raised that maybe more was known in Q3 as to what the total costs were going to be and how long the sale would take. Can you just update us on that please?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes. Good morning Bram. I think what I can say on MedQuist is that we are continuing to make some progress. Actually more customers have been talked to. Some agreements have been reached. But the end result is that it's too early to say more, beyond the fact that we continue to make progress.

On this particular quarter, I would say that MedQuist is impacting us to the tune of 13m, which is not obviously good news. But the good news is that we are continuing to make some progress. I can't really say much more beside the fact that we are making progress, Bram.

Bram Cornelisse - Merrill Lynch - Analyst

Okay, and just one more question please on other activities. It seems to me that the progress there has been a bit slower than expected. I was wondering if you feel the same way, and if you can talk to us why nothing has been announced yet on Mobile Display Systems and Optical Storage, please?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Why? Well, actually I think to be -- to give you my opinion, it's always a little slow. Actually these are businesses on which decisions have been made strategically a while ago. So by definition it's going to be too slow. I think on this particular quarter, yes, we were indeed hoping to announce a few things. Nothing is lost. I think we are still working on those projects.

Actually we have a couple of projects which go beyond the two particular that you mention, which is MDS and POS. We have a couple of others which are boiling, and we hope to be able to announce something in the coming months. So yes, it's too slow but I think we making progress on all accounts.

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Bram Cornelisse - *Merrill Lynch - Analyst*

That's great. Thank you very much.

Operator

The next question comes from Mr. Didier Scemama from ABN Amro. Please ask your question.

Didier Scemama - *ABN Amro - Analyst*

Hello?

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

Yes.

Didier Scemama - *ABN Amro - Analyst*

Good morning Pierre-Jean, it's Didier from ABN Amro.

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

Right.

Didier Scemama - *ABN Amro - Analyst*

I just have -- just one question first on licenses. We had a big drop this quarter in the licensing income. I just like to understand what we should expect it will be for the fourth quarter and foreseeable future? And as a follow-up, you had a nice margin increase in the Semi division. Given the growth rate that you are talking about in the fourth quarter, similar to Q3. Should we expect margins already above 10% for Q4?

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

Okay. Good morning Didier. I think on licenses, I think you're right. We had a decrease but I'm sure you're fully aware that in 2004 we had a bit of an extraordinary quarter, which was linked to the fact that we actually collected quite a lot of backdated income. I think now looking forward, we had that 40 to 45m guidance I think, the third quarter. I think we're probably looking now at something which is closer to 40m. I think that's probably the number to look at for the future.

We have a few new products which will start a new stream of royalties in -- certainly in the months to come. But I think 40m per quarter is probably a good number for the license.

To go to your question on Semi. Yes, we did get 7.5%, a full percentage on this particular quarter, and I believe that we have given the sales increase. I think you know about that. I hope this sales increase enables you to make the calculation precisely for Q4. I won't give you a number right now. The one thing I will tell you though is we see Q3 probably as the beginning of the illustration of the payback of the plan that we presented to you in Amsterdam a couple of weeks back.

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I think that plan was detailed. I won't go through it now. I think it still is but I don't want to waste your time now. But my reading of this, the revenue was nothing to write home about. If anything it was a bit down, comparing things with exchange rates and the like, we actually down 1%. We are -- The book-to-bill is positive, 1.07 versus 1.0. So a bit of a hope there but nothing -- no conclusion that we can reach on the cycle at this point.

I think it's as dull as it was when we talked to you a couple of weeks back. The only thing, as I said, is a little bit of good news coming from the industrial performance.

Didier Scemama - *ABN Amro - Analyst*

Just one question and to clarify. If you don't answer and you don't want to make a comment on the margins, can you talk about capacity utilization in Q4?

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

Yes, I think we -- I think the capacity utilization has gone from 77 to 81% sequentially, and that capacity -- I think we usually don't forecast the capacity -- well, we don't disclose it. But I think we should increase beyond the 81% in Q4. In particular, if you look at our book-to-bill.

You have to realize that in these days and age in Semi we have a very, very limited backlog, so it's difficult to be precise. But if anything the activity is bouncing back a bit.

Didier Scemama - *ABN Amro - Analyst*

Okay, great. Thanks very much.

Operator

The next question comes from Mr. Nicolas Gaudois from Deutsche Bank. Please ask your question.

Nicolas Gaudois - *Deutsche Bank - Analyst*

Yes, hi Pierre-Jean. Nicolas Gaudois from Deutsche Bank. First question on Medical revenues. You had a meaningful increase in year-over-year growth, more in line with your order rate recently. Do you start to see -- Have you started to see the benefit in Q3 of the product launches in China with [indiscernible] [JV], first of all? And secondly, do you start to see any revenue contribution from the Epic alliance, or is it more Q4 and '06, '07? And I have a follow-up.

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

Okay. I think on Medical -- Well, first of all, good morning Nicolas. I think on Medical, yes, indeed I think we start seeing, certainly in Asia, the benefit of our new range of products. If you look -- And you see from two different particular perspectives. First of all in terms of revenue, we -- I haven't disclosed that to you but you can probably see that Medical is stronger in Asia, by a couple of percentage points in terms of revenue mix in Q3 '05 compared to Q3 '04. That's the first one.

Now if you -- you don't see it there, but if you were to look precisely at the split by region of the incoming orders, and you've said that indeed our incoming orders were up by 9% in the third quarter of '05. You will see that there Asia is clearly starting to make a push, and that is certainly on the back of the new products that we have introduced there. Certainly, yes.

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As far as Epic, you have to bear with me, I think I could not -- I would have to come back to you on that. Your question is very specific. The answer is I don't know. I can come back to you offline on that. But the but the Epic alliance revenue stream, I can't be too specific on that.

Nicolas Gaudois - Deutsche Bank - Analyst

Okay, fair enough. And as a follow-up on margins, we saw your margins declining year-over-year slightly, on a clean basis for Medical. Would you -- assuming that year-over-year growth in the fourth quarter is not too different, or at least similar or both to what you achieved in Q3. Would you expect to have a level of margins high enough to basically meet, or exceed, your 13% clean IFO margin you achieved in 2004 for Medical Systems?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Okay. I think for Medical -- Just a quick word first on Q3. I think indeed in Q3 we were -- we had actually a couple of things impacting our margin. One was the purchase accounting of Stentor, and I think we disclosed that to you, and that's for 6m. The other thing which impacted the margin of Medical for this particular quarter, was that we get a couple of customers actually postponing revenue, because they now want to see the product of Stentor, rather than the previous product of Philips.

And that is having an impact, and probably will continue to have a bit of an impact on Q4. Now to your question on Q4, if you remember we had a very strong quarter in Q4 last year for Medical. I don't think a quarter for Medical would be as strong in percentage as it was last year. Last year was really, really strong. As far as missing the 14% for the total year, I think that there we should be not too far.

Nicolas Gaudois - Deutsche Bank - Analyst

14% on an EBITA basis basically, or IFO?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well, I think what I understand was that last year was 12.6% EBIT. So that reference point IFO margin percentage. Now that's the reference point I am using and I think that we should be able to be, I would say, slightly above that. I think that's the reading I have right now, in the vicinity anyway. I don't think we should be too far from that. But as I said, Q4 we will see some more, I would say, adjustment related to the integration of Stentor. That's going to affect us one more quarter.

One more thing about Medical which I think I need to tell you about, is that the margin in Asia is -- because the growth there is quite strong, is turning to be slightly less profitable than the average of the rest of the world so far. So that's something we will work on in the fourth quarter to bring it at par with the other region.

Nicolas Gaudois - Deutsche Bank - Analyst

Okay, thank you Pierre-Jean.

Operator

The next question comes from Mr. Uche Orji from JP Morgan. Please ask a question, sir.

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Uche Orji - *JP Morgan Chase & Co - Analyst*

Good morning. Just a couple of questions on CE. If I look at the Q3 revenues it's actually very strong. How much of that was underlying market demand, and how much of that was market share gain? And if you can an insight into what you expect in the fourth quarter for CE -- mainstream CE?

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

I think, as you know, the market in which we operate, and CE is a fully global business. It's present everywhere - Latin America, U.S., Europe and very much Asia. I think in none of those territories -- the economic conditions were fantastic actually. Beside Asia the rest is quite dull. Maybe Eastern Europe is a bit exciting but the rest is actually not very exciting. So all-in-all I would see that our revenue growth this quarter is market share.

I think you have to realize that we've introduced new products. We have introduced in particular a new range of flat panel, LCD televisions, and that seems to have an impact. And if I take the example of United States, I think there we've gained some market share. So I would say probably more market share than anything else for this particular quarter.

Uche Orji - *JP Morgan Chase & Co - Analyst*

If I look into Q4 at this point, you would expect some [indiscernible] in the fourth quarter? What are you getting from your retail channel partners?

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

I would say 5%. I think a growth of 5% probably on a year-on-year on the fourth quarter. That's what we are currently looking at as an average across, of course, the various regions.

Uche Orji - *JP Morgan Chase & Co - Analyst*

Along this line, your inventory in the third quarter was fairly low, also the impact means CE inventory is also fairly low. Do you see any constraints? As you mean we have --

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

Well, that's a good question actually. You remember we were on the same [telephone] at the end of Q2. We had an abnormally high inventory, and you were concerned with your, and we told you, yes, it's lower than May. But we told you we'll address it and it's been addressed.

Now the next question comes up - could we be in a situation where we could be short of product in Q4? I think the question might be on maybe on LCD. Flat panel displays might become an issue in the fourth quarter. We're not suffering from it right now but, given the strength of the market right now, it -- I'm not saying it's an issue but it could become an issue. And we certainly have no fat in our inventory right now as you can see.

But as of today, I have no information to tell you that we are suffering from it, it's fine. For that particular product it's fine.

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Uche Orji - *JP Morgan Chase & Co - Analyst*

And finally on this topic, if you don't mind, just one more question. If I look at the underlying margin for CE going over, should we expect it to be going up or --?

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

Yes. Actually if you look at -- If you take away incidentals, which I would call essentially restructuring. And if you take, of course, as well the revenue stream coming from license which we touched on a minute ago I -- You won't see that margin of CE for this particular quarter is around 1%, and it's a bit below 1%.

We have actually confirmed to you guys the objective of 4 to 4.5% for next year, and at this particular point of time, we believe that we should be able to make it. And we certainly hope that the fourth quarter should be on its way to reaching that.

Uche Orji - *JP Morgan Chase & Co - Analyst*

Thank you very much.

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

And, of course, you realize that the seasonality of the fourth quarter should be there to help.

Uche Orji - *JP Morgan Chase & Co - Analyst*

Absolutely. Thank you very much, Pierre-Jean.

Operator

The next question comes Mr. Janardan Menon from DRKW. Please ask a question, sir.

Janardan Menon - *Dresdner Bank - Analyst*

Yes, good morning. Just to follow-up on the previous question. Your Q3 sales trend in Consumer Electronics was quite strong, with a 12% growth quarter-on-quarter, 11% up year-on-year. Would all of that be primarily attributable to flat panel TVs, or is -- would other products like set top boxes and -- ?

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

No, we -- no flat panel TV certainly helps but I think home entertainment played a role as well. I think people are -- they very often see us as a television company, but if you really pay attention to the new products which have been actually recently launched in home entertainment, you'll find that the range is now getting quite complete there. And that particular segment certainly helps us as well in the third quarter. And we count on it to continue to do so in the upcoming quarters.

Janardan Menon - *Dresdner Bank - Analyst*

And by home entertainment, you're talking about audio-visual products?

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

Yes. We -- In particular we've introduced a couple of wireless products which we believe are quite innovative and should play a role, yes. So it's not really -- set top boxes certainly helps. There was a story pretty much of the second quarter, but home entertainment helps us beyond television in Q3.

Janardan Menon - *Dresdner Bank - Analyst*

Okay. But how do you -- What do you attribute the fact that, despite seeing such a strong sales increase in Q3, you didn't really see much margin leverage come through in CE --- mainstream CE in the quarter? Is that because some of the flat panel TVs are lower margin products or is that --?

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

Well, I think we have to see where we are coming back from. We are coming back from losses. I think this quarter, if you take away from this quarter restructuring and licenses, and I think you will see that we have a positive quarter in terms of IFO. We have -- Just to give you one additional piece of information. North America has become profitable which for Philips is a real milestone. I'm new to Philips but when I talk to people around, they really see that as a major achievement.

So it's obviously not going to be enough. It could have been better. Consumer Electronics is a work-in-progress. As you know, we have completely reconstructed there the business model, and will continue obviously to benefit from what we are doing there. And I think improvement actually is to come. I wouldn't call that a disappointing quarter. We're profitable in the U.S., we're profitable all-in-all, and we've been able to grow. So quite frankly, definitely not enough.

We gave our target, 4 to 4.5%. We have reiterated them, so I think frankly we see that as a good quarter for CE.

Janardan Menon - *Dresdner Bank - Analyst*

Of course, congratulations on that. But just one last follow-up from me. Your -- You've raised your guidance a bit on Semiconductors. You were earlier guiding at 5% and now you're getting more like 7% in the Q4. Do you see much of the upside coming from Consumer Electronics, or would it be things like handsets, etc., which is driving some of that up?

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

Well, actually in the first quarter what helped Semiconductors was home and mobile. So it's hard to -- it's a bit hard to predict because, as I said, we have such a short backlog there. But I think these two particular segments should continue to perform. The -- In terms of growth, not much I can elaborate on. The only thing I can say, the 1.07 book-to-bill - that's good news, right.

Coming from 1 to 1.07, that's the first quarter where we have a little bit of something happening on the revenue side, and we would like to actually benefit from that in the fourth quarter. Just one correction, I mention 1.07. I see the book-to-bill improved, as you like -- as you've seen in the press release by -- it's to 1.09. Sorry to -- for that mistake. It's 1.09 not 1.07 book-to-bill sequential.

Janardan Menon - *Dresdner Bank - Analyst*

Thank you very much.

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Operator

The next question comes from Mr. Matthew Gehl from Goldman Sachs. Please ask your question, sir.

Matthew Gehl - Goldman Sachs - Analyst

Yes. First question relates to Semiconductors on the margin side. You noted in the press release that the up-take in margins was driven by a combination of the business renewal program. But also you mentioned a higher foundry utilization. I was just wondering if you can give any more detail on what exactly has been going with SSMC in the quarter? Whether that's now fully utilized, and you can expect any further margin up-take as you go into Q4, driven by that holding? It's fully consolidated.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Yes. I think today -- I think we explained that today our policy between what we keep internally, and what we basically outsource, is still at 80/20, with an objective of course to go -- to bring the 80% much lower. I think figures like 50% have been mentioned. For this particular quarter the utilization, as you've seen, has improved from 77 to 81%, definitely higher foundry utilization.

Those figures should continue to increase in Q4. I don't see I can give you any prediction. I don't think we've ever communicated that moving forward. I don't have that figure by the way. So the only thing I can say is that those percentages should continue to improve in the fourth quarter. And of course, these should support an improvement of the margin in that quarter for Semiconductor.

But it is a number - I have to be honest with you - it is a number which was a pleasant surprise for us, and certainly a bit higher than what we presented to you a couple of weeks back here in Amsterdam.

Matthew Gehl - Goldman Sachs - Analyst

Because in the press release, when you're referring to the higher foundry utilization impacting your income from operations, you're in fact talking about your own ability to outsource more to the foundries benefiting your margin. I'm just trying to understand where that comment came from.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

I think it's our -- I think the comment is really related to our utilization. But as I said, I think the model - because that was part of your question as well - the model 80/20 was between us and what we put outside. Whether it's at core or whether it's TSMC. What I'm telling you is that that 80%, we'll try to actually bring it more to the outside obviously.

So we're trying to make an effort as well as to increase the utilization of our third parties as well. So we're trying to work on both, and hopefully our backlog will enable us to do that.

Matthew Gehl - Goldman Sachs - Analyst

Okay, and just a quick follow-up on the brand campaign. You noted that it's going to be around 60m spend in Q4, as the second phase moves forward. Do you have any initial comments on 2006? Whether we can expect this level on spend on a quarterly basis, for each quarters of '06?

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

Well, I think it's a bit early to talk about that. I think we'll keep that comment for probably the year-end numbers. What I can say that we -- several ways to look at this campaign. We have a certain number of internal indicators, and offline I could go through those if you are interested, which seem to show that it -- something is happening.

And if you look at the inter-brand indicator, we've actually made some quite -- quite deal of progress there in ranking of -- 100 most valuable companies in terms of brand. We've actually gained 12 places.

Now the next question is, could you link this -- the campaign of '05 with revenue growth? That's probably -- That would be easy to do that. It's probably a bit early to say that for us internally at this particular point of time. We will link the increase of revenue probably more to innovation. I think we certainly have introduced a number of new products in most of our product divisions. So I think we attribute that to the -- to that growth through the innovation.

As far as the impact of the brand campaign, we see it a bit longer-term. I think that this is an up-front investment, and you know well the new business model we have in Consumer Electronics. It's based on three things. It's based on the product, it's based on the logistic chain, and it's based on the brand. And certainly for the longer term, probably CE in particular, that investment of the brand is important for us.

So a bit too early to say what we'll do in '06, but certainly a good feeling about what we've done in '05.

Matthew Gehl - *Goldman Sachs - Analyst*

Thank you.

Operator

The next question comes from Mr. Antoine Badel from CSFB. Please ask your question, sir.

Antoine Badel - *CSFB - Analyst*

Yes, good morning. Two quick questions, please. One is, looking at your operational expenses, the G&A spend has been down 10% sequentially this quarter. Could you please give us a little bit of detail as to what's happened there? And second question, on your CapEx for '06 could you please detail what you're expecting to spend in Semiconductors and non-Semiconductor CapEx, please?

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

Okay. I think on the operational expenses, I think it's largely seasonal. So I wouldn't draw any particular conclusions. We obviously try to keep those expenses tight but I wouldn't add anything specific beside the seasonality to report to you.

Antoine Badel - *CSFB - Analyst*

Looking at your year-on-year even, it's down also close to 10%.

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

Yes, I think we -- Yes. We will just keep it under pressure, we'll continue to do that to start of next year but -- Okay, I would love to tell you that we've done a good job but, frankly, I would like to attribute that more to seasonality but it's something we are careful about. But as you know, we have launched a big initiative a couple of years back. We still have, I think, the aftermath of the plan we launched a couple of years back, and we'll continue to keep pressure there, certainly for it not to go up.

But that 10%, I would say, more seasonal than anything. So let's leave it at that for the time being.

For the CapEX, the spending of this particular quarter is 240m. I think in Semiconductor an amount of 70 -- I think 77m for Semiconductor, which obviously is showing some discipline compared to last year. And that amount should continue to come down next year. It's hard for me to guide you right now for next year, but this number should continue to come down as we enter 2006.

Antoine Badel - *CSFB - Analyst*

Thank you.

Operator

The next question comes from Mr. Francois Meunier from Cazenove. Please ask your question, sir.

Francois Meunier - *Cazenove - Analyst*

Good morning. It's Francois here from Cazenove. You said on Bloomberg TV earlier that you were likely to spend around 5b on acquisitions, going forward. Given the state of your balance sheet, you've got only 4.3b of cash and you've got the Lumiled acquisition going out this quarter. So basically do you think you will be able to gear up your balance sheet going forward?

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

Well, I think -- Let me correct. What I -- If I gave that impression to Bloomberg, I think the question was related to capacity and I would like to leave it at that for the time being. In terms of capacity, given that this quarter and we should enjoy it because, as you've said, it won't last for long because we have committed 2.5b of spending in the course of Q3, between the two acquisitions and the share buyback.

So this debt-free situation developed Q3 is a bit notional. So what I was trying to tell at Bloomberg is that, in terms of capacity, if you have a debt-free balance sheet, and if you want to stay where we want to stay, which is an A rating which one of the two agencies has attributed us so far - we would like the second one to do the same, that is with S&P we are A rating, we are one notch below for Moodys. We would like to pretty much stay at that A rating, and for that the 30% of gearing is pretty much acceptable.

So if you look at equity, which is 15 to 16b, then 30% of it gives you the 5b capacity which I was trying to refer to during the Bloomberg interview. So that's the point I was trying to make.

Francois Meunier - *Cazenove - Analyst*

Okay. So you're ready to take on more debt on your balance sheet basically?

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

If we had the right project with the disciplined approach that you know that this Company is accustomed to, this is the kind of thing, yes, we could do. I think leveraging the Company up to 30% is doable, yes.

Francois Meunier - *Cazenove - Analyst*

Now, a simpler question I think, on the tax rate for the year. What's your expectation now?

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

I think on the tax rate for the year we can expect a rate of 16%. I think that's the kind of rate we can expect for the year.

Francois Meunier - *Cazenove - Analyst*

16 or 1 - 6?

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

Yes, 16 all in, including all the impact of all the non-taxable items which obviously is quite important. That's the number we are currently looking at.

Francois Meunier - *Cazenove - Analyst*

Thanks very much.

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

But if you take away, of course -- let me just make sure everybody understand that, if you take away the impact of the non-taxable items, then the tax rate of the Company is in excess of 30%. I think we are back to the 30% that you traditionally use for Philips. So keep in mind the impact of the non-taxable items for the particular year, 2005.

Operator

The next question comes from Mr. Thomas Brenier from SG. Please ask your question, sir.

Thomas Brenier - *Societe Generale - Analyst*

Yes, good morning. I have two questions on Medical, please. First, I'd like you just to confirm maybe what I've heard as an answer to the third question, I think. That Medical margins IFO as percentage of sales this year would be at the same level as last year. And my second question would be on growth rates for 2006. We've seen a nice growth in order intakes in Medical equipment. I think in Q1, Q2, and Q3 close to 8, 9%. Does this indicate that we are heading towards a year with something like at least 7, 8% growth?

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

Okay. I think on the IFO margin I said that we grew year-on-year in Q1 and Q2. In Q3, for the reason I mentioned, we have actually a margin which is slightly below Q3 of last year, even though in absolute terms, in absolute euros, it's above. I think on Q4, the way I can see it now, is we should be I think probably a little bit below then. Because, as I said earlier, the combined effect of the growth in Asia combined with the integration of the two product lines, between the one at Philips and the one of Stentor.

For the year I think the margin all-in-all should be in the vicinity of the one it was in 2004. For -- But we will obviously do what it takes to resume the improvement of that margin, certainly next year.

Now in terms of growth, yes, we basically have nice incoming orders of 9% in the third quarter which I think is a good number. That includes, as I said, a strong Asian growth. It's a bit early to say what's going to be our growth of revenue for next year. So I am bit reluctant to give you a number right now. But I think it should -- if anything it should be a strong number. I think Medical has a very important backlog, and right now if anything the issue is our capability to deliver that backlog more than anything else.

So I would see Medical growing nicely next year, yes. Particularly, to give you a precise number, I think I should be able to give that to you later during the quarter.

Thomas Brenier - *Societe Generale - Analyst*

Thank you for that, very helpful. Can I just add a very small one on Consumer Electronics? I'd just like to know roughly what's the share in value of flat panels, that is, LCD and plasma, within your TV sales, please?

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

Can you just hold on for a second? I think the share is about 50% of the total of connected displays. That's about the weight of the LCD flat panel.

Thomas Brenier - *Societe Generale - Analyst*

Thank you very much.

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

Okay.

Operator

The next question comes from Mr. Luc Mouzon from BNP Paribas. Please ask your question, sir.

Luc Mouzon - *Exane BNP Paribas - Analyst*

Hi, good morning. I'm just coming back on a couple of questions about the IFO trend in Consumer Electronics, and mainly on the mainstream products. Do you have now a view about the impact on the TPV deal? Is there any kind of automatic effect that we could expect on the fourth quarter? And what the size of the sale that will be deconsolidated on the back of this deal? And I've got a follow-up.

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

Okay. I think the TPV deal, as you know, has been closed just recently. To be totally transparent, it's a very complex deal. It's not totally old news, has been closed very recently. Actually we're still integrating and finalizing the accounting entries, so it's a bit early to say what's going to be precisely the impact. What we could say, we have disclosed to you in the press release.

Now, certainly it should help on the positive side the margin on the way to go. Because as you've seen, we have actually now exited the low-end displays, and if anything those were the lower margin parts of our portfolio there. So that's definitely a positive impact. A bit early to say what's going to be the impact on us. I think at the end of Q4 we will have one full quarter of operation with MDS -- sorry, with the TPV deal in our pocket. And I think we will be much more capable of telling you what the impact there.

So definitely we can already say it's positive.

Luc Mouzon - *Exane BNP Paribas - Analyst*

Okay. Just a little technical question. Could you maybe update us about the number of shares that you currently own on the first and second share buyback waves, at the end of September, and that might be cancelled next at your shareholder meeting, please?

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

Okay. I think we have the amount -- the precise amount of what we have bought I think is 306m -- 345m of value. And if I remember correctly, in terms of the quantities of shares, this represents 15.9m of shares. That's what the purchase of Q3 represents. The total of this share buyback should be completed for the total 1.5b.

That should be actually completed by August, and yes, indeed, at the next -- as you know, we can only cancel technically those shares once a year at the General Shareholders Meeting, so we will get a vote for further cancellation of shares at that particular meeting next year. In the meantime, the cancellation is purely an accounting one, as you know, in our books.

Luc Mouzon - *Exane BNP Paribas - Analyst*

Okay, thank you.

Operator

The next question comes from Mr. Sean Murphy from Nomura. Please ask your question sir.

Sean Murphy - *Nomura Securities International - Analyst*

Hi, I'm wondering about the sources of sales growth in the Lighting division and the likely change in the product mix following the Lumileds acquisition. Is most of the sales growth coming from the shift to solid-state lighting or are we talking some other trends going on here?

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

No, I think in Lighting several things are happening at the same time. Right, let's take them one by one. In terms of the margin, and certainly a little bit in terms of the revenue as well, I think as you know, and we didn't try to hide last year the disappointment on UHP, the year was actually counting strong on UHP and UHP -- the market was not exactly where we thought it would be. There were other technologies actually coming on the market at the same time, so if anything, UHP is in fact up both in terms of revenue in a way, as well as in terms of margin.

Now, what is helping Lighting, if anything, is Lamps and Luminaires. I think in this particular quarter these are traditional product lines of Lighting, it did pretty well. Ironically, I would mention that in the Netherlands we had an extremely strong quarter in those particular domains so I would say that the traditional revenues of Lamps and Luminaires did help.

To your question on LED and solid-state lighting, that is still today a very small portion of the revenue of Philips. Some growth will come there, in particular now that we have acquired Lumiled, but I wouldn't call that today real stream of major revenue growth for Philips as at today, and the last thing I would add is that we have introduced some new products which are not often referred to. We have a product called T5 which plays a role in office lighting, and don't forget as well that in the domain of Automotive we have a Xenon light which as well playing a pretty major role. So we have new products in Lighting which I am looking at as we speak.

Lastly, in the beginning of next year, you will see production of new [end-year] products as well, and one of the important points for next year will be a strong focus on products which are energy savers. Obviously with what's happening with the price of oil, we will put a particular emphasis on that, and given the existing product range of Lighting, we are confident that this should help the growth of Lighting next year on the back of that energy-saving constraint.

Sean Murphy - *Nomura Securities International - Analyst*

Thank you. Can I have just one follow-on? Dividend policy, you're now back to net cash positive or zero. You're focusing on the non-cyclical cash generative divisions. Are you likely to be more generous in your dividend policy going forward?

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

Well, actually, that's a question which we debated at length around August 15 when we announced to you the share buyback. Obviously we knew we had to do something for shareholders. We discussed it. We went for the share buyback. The reason is that the share buyback is a very strong message. It's not something that Philips has done very much in the past and the fact that we launched that 1.5b certainly gave us the feeling that we were sending a strong signal to our shareholders.

In terms now of dividends, I think we had had that policy of distributing 30 to 35% of -- sorry, 25 to 30% of our regular income stream. I think it's the policy which was presented to you a couple of years back by Jan Hommen. We stuck to it. The reason why I am somewhat reluctant to change that is that in Philips we are often criticized for a lack of predictability and which I'm sure doesn't always help you.

We would want to be now perceived as [growing real] as a predictable company and if anything, our dividend distribution policy has been predictable, and we would like to leave it at that.

Sean Murphy - *Nomura Securities International - Analyst*

Okay, thank you.

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Operator

The next question comes from Mr. Jerome Samuel from IXIS Securities. Please ask your question sir.

Jerome Samuel - CDC IXIS Capital Markets - Analyst

Hi, good morning. I think you mentioned earlier in the conference call that you did a good performance in the Semiconductor within the context where you see some weakness in some of the markets you are serving. Could you please give us some details on where you see some weakness?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well, I think -- I gave you the two strong ones which I said were mobile and home. Obviously the other two, which as you know, because I think you are familiar with the way we have re-orchestrated Semiconductors, the other two product divisions which are Automotive and Identification and the other one which is called Multi-market, were probably a bit weaker. I think that's probably the best answer to your question.

But again, this is a quarter. It's hard to really predict because for those businesses as well, the backlog we have is extremely short, so those things could change in the course of the fourth quarter.

Jerome Samuel - CDC IXIS Capital Markets - Analyst

Okay, and just confirming the Automotive market, any significant impact from the bankruptcy from [Delfie] for you?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well, we are looking at this. We had actually moved into cash on deliveries on Delfie ahead of what happened last week. I'm sure, because Delfie is a customer for us, I'm sure there will be some impact, but it will be - I don't think it will be material for Philips. But we are currently looking at this. As you realize as well, that Chapter 11 is purely U.S.-related. As you know, the laws on Chapter 11 are strictly U.S.-related in terms of having an impact on the receivables, and I think we are a customer to -- we are a supplier to Delfie in the U.S. and out of the U.S. But at this particular point of time, it's a bit early to give you a number, but eventually probably not material.

Jerome Samuel - CDC IXIS Capital Markets - Analyst

Okay, thank you very much.

Operator

The next question comes from Mr. Eric de Graaf from Petercam. Please ask your question sir.

Eric de Graaf - Petercam - Analyst

Yes, good morning. I have two questions on the CE business. First of all, could you give an impression what sort of price pressure you have seen in the third quarter?

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

Okay, and you said two questions?

Eric de Graaf - *Petercam - Analyst*

Yes, okay. And the other one is have you seen or heard anything about inventory-building again in the CE business? It looks like you at least offloaded your inventory but I was wondering if it ended up in too large quantities at your retailers?

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

I think on the first point, it's hard to comment on pricing pressure for us because as you know, our business -- we have actually reconstructed our business model in order precisely to try to as much as we can isolate ourselves from that. As you know, we very much -- the vast majority of our manufacturing is now totally outsourced. I think we're down to, I believe, to four factories now, I think in Consumer Electronics, actually even down to three factories, I understand.

We basically only focus on, as I said, the brands, the product -- the development of the products and obviously the distribution channels, so that particular model has put us in the position where we are somewhat sheltered as much as we can from that so it's hard for me to comment on that. I don't think we, like ourselves, pick up much as some of our competitors. That's really the best answer I can give to you.

As far as now inventory is concerned, no, I think I answered that. I believe the inventory is at a record low. The inventory of Philips is just at about 4b at the end of Q3 for 13.2%, our lowest ever, I understand, in the history of Philips. And as far as CE is concerned, it's a low inventory going into the selling season and as I said, if anything, I would say rather than excess hopefully we don't see a bit of a shortage, in particular, on LCD televisions, because, as you might have read, on the LCD, in particular for the larger screens, the supply is relatively tight.

Eric de Graaf - *Petercam - Analyst*

Yes, okay, thank you.

Operator

The next question comes from Mr. Jan Berghuis from Kempen. Please ask your question sir. Mr. Jan Berghuis, please ask your question.

Jan Berghuis - *Kempen & Co - Analyst*

Yes, I'm sorry. On the unallocated line, I think excluding brand euros, you're around 100m run-rate so that's corporate and regional overheads and the pension costs, basically. So for '06, do you feel, excluding your branding which is still difficult to determine, would you say a 100m run-rate is reasonable to assume?

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

Yes, I think the brand -- let's talk about the brand. I think I said I would select it through the brand. I think here the corporate is around that 70m. That should be -- we'll continue to work on it and try to, if anything, bring it down. I think our pension -- the good run-rate, and you realize that the pension, on that particular line, this is a pension for the people who are already

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retired. I think just to clarify, it's an important point there. I think 30m is a good number, so if you add the 70m and the 30m, yes, I think 100m is probably a good number going into next year.

Jan Berghuis - *Kempen & Co - Analyst*

Excluding branding? Okay, thanks very much.

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

Of course, and of course, excluding, as you said, branding.

Jan Berghuis - *Kempen & Co - Analyst*

Thank you.

Operator

We have a follow-up question from Mr. Didier Scemama from ABN Amro. Please ask your question sir.

Didier Scemama - *ABN Amro - Analyst*

Yes, just a follow-up on the division, Other Activities. If I look at the comments that were made in the previous conference calls regarding resolution of MDS and possibly Optical Storage, you said earlier in the conference call that it has been slower to operate.

At the same time I see you have 21,000 employees in Other Activities. Isn't there a risk that this situation is going to carry on for some time, simply because those businesses are very difficult to sell at this time?

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

Well, let me tell you that I think, as part of the focus I have had ever since I joined, and not to say that will not be looked at, but I think that's worth being looked at but it's taking quite a bit of my time because those businesses are managed essentially.

What I can tell is that we are making progress on all fronts. I really -- I would like to be able to tell you more. I am sure you would like to hear more, both on POS as well as on MDS, plus a couple of others, as I said in a previous question.

What I can tell you is that we are making progress. I could not drop forever. I certainly could not expect all attention in Optical Storage to its -- it's 5,500 people, in MDS it's 1,900 people. So those are large chunks of the headcount that you just mentioned, but let me tell you that we are working very, very actively on it and I will continue to update you on the coming quarters.

Didier Scemama - *ABN Amro - Analyst*

Sorry to dwell on that, but what are the options that are considered because I imagine that a sale is very difficult at this time, given the operating performance of those units, so what are the other things that you --?

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

No, I think the sale is very much a preferred route, and at this point of time, I don't have a reason -- I don't have reason to believe that we shouldn't be able to do it by ourselves. That is certainly, at this particular point of time, our preferred route.

Didier Scemama - *ABN Amro - Analyst*

Okay, and a last question on that issue. Can you just give us an idea of the operating losses in both Optical Storage and MDS within Other Activities?

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

Well, I don't know. I don't think it's a number we really disclose. I can give you -- I think if you combine the two together on the quarter, right, then it's even. It's the sum of the two will total break-even. Obviously, of course, if you compare to last year, it's down significantly, I think, so if anything, it's not really hurting us. It's putting down the average IFO of Philips but more importantly, it's lower than last year. That's probably where it really hurts us the most right now.

But as you've said, it's something that is important and it's taking, I can absolutely guarantee you, all of our attention right now, and I should be able to give you more at the end of Q4.

Didier Scemama - *ABN Amro - Analyst*

Brilliant, thanks very much.

Operator

[OPERATOR INSTRUCTIONS]. The next question comes from Mr. Guenther Hollfelder from HVB. Please ask your question, sir.

Guenther Hollfelder - *HVB Group - Analyst*

Hi, Guenther Hollfelder. I have one question with regards to Medical Systems business. GE acquired IDX a couple of weeks ago and on the other hand, Stentor had a cooperation with IDX concerning the PACS business and so I just wondered whether you have already made any conclusion about this program, or this co-operation?

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

Okay, two comments. I think, yes, GE has acquired IDX. I think I won't comment on that move besides the fact that IDX is a company that we had looked at and I think I will comment more and I will leave it at that.

Now, as far as the relationship between IDX and Stentor, actually the agreement between IDX and Stentor has been renewed for a period of 10 years just prior to the acquisition of IDX by GE, so I think that leaves us, I would say, with something which should not impact Stentor. Now, that being said, we are [working with] Stentor, I understand, ways to partially at least make us somewhat independent from IDX.

So I think we have a range of possibilities. We could keep the two companies pretty much working together or if they are to do differently, we might decide, actually, to take a bit of independence, in terms, I think, as far as Stentor [costs] is concerned we are pretty much [blocked].

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Guenther Hollfelder - *HVB Group - Analyst*

Okay, that's great. Thank you very much.

Operator

The next question comes from Mr. Niels de Zwart from Rabo Securities. Please ask your question sir.

Niels de Zwart - *Rabo Securities - Analyst*

Good morning. My question is relating to MDS. Could you please give us the demand for which it is on your books currently, given that you indicated you might see some impairment charge in Q4? That was my question.

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

Yes. Indeed, I think the book value of MDS today, at the end of September, is around 150m. I think that's a number we can use.

Niels de Zwart - *Rabo Securities - Analyst*

Sorry, 60m?

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

No, 150m.

Niels de Zwart - *Rabo Securities - Analyst*

150m?

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

1-5-0.

Niels de Zwart - *Rabo Securities - Analyst*

Okay, thank you.

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

Okay.

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Operator

The next question comes from Mr. Sean Murphy from Nomura. Please ask your question sir.

Sean Murphy - *Nomura Securities International - Analyst*

Hi, can I just open it out to a broader question at this stage? For me, the number one feature of these results was sales growth ahead of expectations. And that seemed to be quite broad across all the divisions. I'm wondering to what degree is that affected by currencies or market share gains, and really, I suppose, what I'm asking is, if you exclude currency and market share gains, what's your general impression of the state of the end markets right now?

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

Okay. I think we have communicated to you actually two levels of sales growth, the so-called nominal, which actually is excluding -- I mean, sorry, is not correcting for the impact of exchange rates. But you have the so-called comparable, and that essentially is very much correcting for that, so the 4% growth which is made of 7, 13, 8, 5 and -1 respectively for the five product divisions, that is very much eliminating the impact of currency.

So now to the second part of your question, whether that says for the strength of the end consumer market. I think the end consumer market has been pretty much the way we described it to you at the end of Q2, meaning pretty dull in Europe, a bit more exciting in Eastern Europe, the same -- still strong in Asia, as we all know, and probably a bit lower than before in the U.S. and strong if anything in Latin America.

So why then did we grow? I think we grew essentially as a result of the innovation that we have introduced. You need to realize that besides DAP which introduced a new line of shavers, they introduced a PerfectDraft which we just launched in Germany, Senseo continues to do pretty well, that's for DAP.

As far as CE is concerned, we have the new range of LCD flat panel displays, as well, as I said, as a couple of products you should check on in the Home Entertainment, and all that which is essentially new products, have helped us to grow. But all in all, the market is probably as dull as it was when we discussed that issue at the end of Q2.

Sean Murphy - *Nomura Securities International - Analyst*

Okay, thank you.

Operator

We have a follow-up question from Mr. Nicolas Gaudois from Deutsche Bank. Please ask your question sir.

Nicolas Gaudois - *Deutsche Bank - Analyst*

Yes, can you hear me?

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

Yes.

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Nicolas Gaudois - Deutsche Bank - Analyst

Just a clarification on what you said previously on Semis, when you were talking about strength in mobile and home, and weakness in Automotive and Multi-markets, this is year-over-year comparison versus sequential?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

This is the comparison to last year.

Nicolas Gaudois - Deutsche Bank - Analyst

Okay, thanks. And have you started seeing lead times expanding a bit in your Semis business with lead times starting going up, and if that's so, would you expect the level of turns in Q4 to still be similar to Q3, or actually start coming down, and what was the level of turns business in the third quarter? Thank you.

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

Well, I'm going to say I -- I think I will stay very prudent on Semiconductors. You will say that we were over-conservative when we talked to you a couple of weeks back. I will take the risk of being over-conservative again when I talk to you today. I think it's really too early to say anything. The backlog is so short that it's really hard to reach any conclusion, and I wouldn't do that now. Maybe at the end of Q4 I will tell you a bit more.

Our absolute priority now is, in order to keep that level of margin in the right direction, is to absolutely focus on the operating excellence. That's what we've started doing, and we'll continue to do that in the fourth quarter. It's hard to say anything else today. It's just too early. We can't see anything else.

Nicolas Gaudois - Deutsche Bank - Analyst

Okay, so basically you're saying your backlog is short, that is lead times haven't increased?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

No. I think it's still as, I would say, as a short-term and keeping us on our toes as it was at the end of the previous quarter.

Nicolas Gaudois - Deutsche Bank - Analyst

Okay, and the level of orders shipped in the same quarter in Q3, could you disclose that, vis- -vis --?

Pierre-Jean Sivignon - Royal Philips Electronics - CFO

That's a number I don't have. I think we'll have to come back to you offline on that particular one. I don't have the answer to that one. It's a specific one. I would have to come back to you.

Nicolas Gaudois - Deutsche Bank - Analyst

Okay.

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

We'll call you back after this session.

Nicolas Gaudois - *Deutsche Bank - Analyst*

All right, thank you.

Operator

The last question comes from Mr. Bert van Dijk from Het Financieele Dagblad. Please ask your question sir.

Bert van Dijk - *Het Financieele Dagblad - Media*

Yes, good morning sir. Yes, just one question. I was wondering if you can give us an update on the building up of the new business of Consumer Health and Wellness, and if you still expect the revenues of this new business to be around 750m to 1b at the end of next year. Can you give us an update on that please?

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

Okay. I think in this particular domain of Consumer Health and Consumer Wellness, Health and Wellness, I think what we started doing is two things. We have entered an initiative which should start generating revenue as early as next year and these are either actually products which we have re-assigned internally or existing technology that we had internally that we will start really promoting, pushing and investing on to generate revenue streams for next year. So the first part of your question, yes, we do have internal initiative. I can't say much more. I think we will communicate about that a bit more, probably, at the end of Q4, so yes, these will be there and we'll start adding a bit of traction.

The other thing we've done is that we've looked at actually a few acquisitions. It's too early to talk about it because just like in Medical there, we apply the same kind of discipline. If it doesn't make economic sense for us it's not because it's part of that new domain we want to push, that we are going to do it. So we've looked at a few things. We are continuing to do so, as we speak. We might have things to say come next year, but right now, I can't say much more, but we are looking at a few targets in that domain, yes.

Bert van Dijk - *Het Financieele Dagblad - Media*

But would you still expect the revenues to maybe reach the 750m that you stated earlier? Is that something still possible or --?

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

Well, that -- yes, that is our target. We gave that target, so that target doesn't change, but obviously we can predict certainly the initiatives based on the incoming -- on the revenue for incoming from internal products, or internal technologies. I think that we can do business plans and feel good about it. As far as acquisitions are concerned, until a deal is done, it's not done, so --

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Bert van Dijk - *Het Financieele Dagblad - Media*

Okay.

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

I think the target is confirmed. The initiative is there. You would have to get the first acquisition to really firm up the timing of that specific number that you just mentioned.

Bert van Dijk - *Het Financieele Dagblad - Media*

And maybe as a last question, can you give us a little more detail about what kind of product categories you're thinking of to --?

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

Well, I could but I will not. I have two answers, but if you don't mind, I would wait one more quarter to do that. Actually, we have started to focus on two, if you don't mind I will keep that news for -- as part of our fourth quarter communication. But the answer is, we have started focusing on two, and we'll talk about it in the quarter from now.

Bert van Dijk - *Het Financieele Dagblad - Media*

Okay, well, thanks.

Operator

Mr. Sivignon, there are no further questions. You can continue.

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

Okay, thank you very much all of you. I think there are a couple that we need to come back to, and we'll do that. I think Alan and his team will come back to you, but anyway, thank you very much to all of you.

Operator

This concludes the Royal Philips Electronics third quarter results [indiscernible] conference call on October 17, 2005. Thank you for participating. You may now disconnect.

Oct. 17. 2005 / 4:00AM, PHG - Q3 2005 Royal Philips Electronics Earnings Conference Call

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