FINAL TRANSCRIPT

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PRESENTATION

Operator

Welcome to the Royal Philips Electronics fourth quarter results 2008 conference call on Monday January 26, 2009. During the introduction your hosts Mr. Gerard Kleisterlee, President and CEO, and Mr. Pierre-Jean Sivignon, CFO. (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. Sivignon. Please go ahead, sir.

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

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

Overall, Philips results for the fourth quarter very much reflect the impact of the current economic downturn and the fact that we managed the Company predominantly for cash flow. With that in mind let me quickly walk you through some of the headlines.

Firstly the depressed financial markets triggered a non-cash impairment on our remaining stakes, notably LG Display. Consistent with our December guidance, this had a EUR1.1b impact on the reported net income.

Secondly, weaker end market demand, particularly in consumer retail and automotive, resulted in lower sales margins in our Consumer Lifestyle and in the OEM Lighting businesses. Part of the lower margin was due to production stops implemented to manage inventory levels.

Thirdly, anticipating ongoing weakness in several of our end markets, we booked EUR364m of restructuring charges, an amount EUR24m higher than for guidance given in December. These restructuring plans, combined with those announced earlier in the year, will lead to a reduction in our fixed cost of around EUR400m on an annual basis, the benefits of which we will start to see in the second half of 2009.

Fourthly, I am glad to report that our Healthcare businesses performed well in the quarter both in top as well as in terms of bottom line.

Last, but certainly not least, is our strong cash flow. We said we would increasingly focus on cash sometimes at the expense of additional EBITA, and we did so. The EUR1.6b of cash flow generated in the quarter, significantly strengthens our liquidity position going into 2009.

With that, let me now take a closer look at the sales performance during the quarter.

Comparable sales for Philips as a whole were down 12%, mainly due to low sales at Consumer Lifestyle, notably a 36% fall in sales of televisions. While this was to some degree caused by our own focus on portfolio and channel pruning as well as on enhanced cash flow and risk management, it was predominantly due to lower market demand, particularly in Western Europe.

Lighting's comparable sales declined by 3% as a result of lower sales in OEM markets, specially or specifically automotive, UHP lamps and Lumiled used for cellphone flashes and backlighting in LCD displays. Sales in the general lighting and luminaires businesses were broadly in line with or slightly ahead of last year.

At Healthcare comparable sales grew by an impressive 9% with the growth visible in almost all business and geographies, notably an 18% increase in emerging markets. However, at Group level, like for like sales in emerging markets as a whole fell by 8% as the strong performance of Healthcare was more than offset by 16% lower sales at Consumer Lifestyle.

I will now turn to the performance of each of the sectors, starting with Healthcare. Comparable sales at Healthcare, as I mentioned, grew by 9%, with 8% growth in both Western Europe and North America, and emerging markets sales up 18%. This business contributed to the growth, with the strongest numbers seen at healthcare informatics, customer services and imaging systems. Excluding restructuring and acquisition related charges, Healthcare delivered an EBITA margin of 17.7%, some 0.7% points above last year. Almost all businesses improved their operational earnings compared to Q4 2007.

Consistent with our focus on cash, working capital was tightly managed, particularly inventory levels which fell by almost 5 percentage points of sales during the quarter. Currency comparable order intake at Healthcare fell by 2% compared to Q4 2007 mainly due to lower intake at imaging systems in North America, notably orders for CT and MR products. Clinical care systems and healthcare informatics, both reported higher order intake as did almost all businesses in the rest of the world.

At Consumer Lifestyle, comparable sales declined by 24%, due in part to our own actions but mainly the result of lower market demand caused by the economic downturn. Looking per business, the lower demand was mostly demand for television, where sales fell by 36%. Like for like sales at the non-television businesses were also below the level of Q4 2007, with the former DAP businesses performing significantly better than audio multimedia, video multimedia and peripherals and accessories. Looking geographically, Western Europe saw the largest sales decline.

The profitability of Consumer Lifestyle was just under 1% of sales in the quarter or EUR26m. This number includes restructuring charges of EUR67M, another EUR20m of lost coverage due to production cuts and around EUR40m of mark-to-market adjustments to year-end inventory values. Also at Consumer Lifestyle, stringent working capital management significantly improved cash flow in the period.

At Lighting, comparable sales declined by 3% largely as a result of lower demand in the sector's OEM channels, specifically automotive, UHP lamps and LED solutions for consumer products. This also led to a fall in lighting sales to emerging markets. Sales in the general lighting and luminaire markets were in line with or slightly up on the fourth quarter of last year.

EBITA at Lighting included restructuring and acquisition related charges for an amount of EUR203m, around EUR50m higher than guided during our December Analyst's day, due to yet further pull forward of projects during December. Excluding these charges, EBITA was EUR143m or 7.6% of sales and this includes impact of around EUR40m of costs under coverage, resulting from significant reduction cuts taken to manage inventory levels.

EBITA at Innovation and the Emerging Businesses was lower than Q4 2007 as a result of last year income from a one-time license transaction as well as EUR18m in restructuring charges for Assembleon taken during the quarter.

The EBITA at Group Management and Services was in line with Q4 of last year. Lower investments in our brand campaign were offset by lower results in our service units.

Let me now turn to cash flow for the Group. As I indicated in my introduction, we managed the fourth quarter largely for cash. We lowered inventory levels, in part through production stops which also impacted EBITA as earlier mentioned. We worked closely with suppliers to secure our procurement needs, while standardizing payment terms. We monitored our receivable positions on a daily basis, turning down businesses where appropriate and when we felt payment or credit limits posed an unacceptable level of risk.

The net effect of these measures is clear in our fourth quarter cash flow from operations, which at EUR1.75b was almost EUR400m higher than in the fourth quarter of 2007. After allowing for the EUR371m used -- of cash used early in the quarter for additional share buyback, the Company ended the fourth quarter with a cash balance of EUR3.6b. And if we add to this our committed borrowing facilities with banks, we have over EUR6b of liquidity available going into 2009.

Our inventory balance decreased by EUR800m during the fourth quarter to reach a level of EUR3.4b or 12.8% of annual sales. This compares to 11.7% for the same percentage at the end of 2007. The majority of the higher inventory run rate is caused by structural movements in the Company's supply base as well as by the acquisitions we've made over the last year, particularly Respironics and Genlyte.

Reported net income, as you have seen, was a loss of just under EUR1.5b. This included a EUR390m restructuring and acquisition related charges as mentioned before, a EUR232m impairment of Lumileds and a EUR1.1b non-cash value adjustments of our stakes, as well as a EUR150m in year-end tax charges. Our net income in Q4 2007 included a EUR1.2b gain on the sale of stakes in LGD and TSMC.

Let me now look at returns to shareholders, starting with dividends. We propose to our shareholders at the upcoming shareholder meeting, to maintain the level of dividends at EUR0.70 per share, the same level as last year. This proposal, as you are well aware, is subject to approval by our shareholders at our annual general meeting, which will be held on March 27, this year.

On share repurchases, we communicated with our Q3 results the intention to slow the completion of the current EUR5b buy-back program. The further deterioration in the economic environment that we have seen during the fourth quarter and the ongoing lack of visibility into future market developments has led us, on the basis of financial prudence, to now completely stop our share buyback program until further notice.

So to wrap up, it's clear that the further deterioration in the global economy during the fourth quarter has impacted the results of Philips and of our competitors. We are confident, however, that the overall strength of our business portfolio, the proactive measures we have taken to manage impact of the downturn and our strong focus on working capital management will carry us successfully through this economic downturn. This will also make us stronger and better positioned to succeed in building a company with a leading brand in health and wellbeing.

With that introduction, I would like now to open the line to your questions with Gerard Kleisterlee and myself to answer them.

QUESTIONS AND ANSWERS

Operator

Thank you sir. (Operator Instructions). The first question comes from Andreas Willi from JP Morgan. Please go ahead.

Andreas Willi - *JP Morgan - Analyst*

Good morning gentlemen. I have three questions please. The first one, if you could give us a bit more breakdown on the profitability in Consumer Lifestyle, particularly splitting out the charges taken outside TVs so we can estimate the underlying profitability outside the TV business.

Second question, on the geographic growth you did pretty well in the US in the quarter. Maybe you could give us some more information there, particularly given by how much was this driven by Healthcare, a good Q4 in Healthcare in the US.

And the third question also on Healthcare, you mentioned in Q3 that you had some deferred sales that seem to have now materialized in Q4. Does it mean basically you didn't really see deferred sales at the end of Q4 into Q1 and could we have seen maybe in Q4 a little bit of a budget flush in that sense, that the hospitals that still had money or still had something in the budget spent this in Q4 because they are concerned it could be taken away in Q1? I'm just interested in your view on where we go in the next few quarters. Thank you.

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

Good morning Andreas. I think on the -- let me update you on the television. I'll give you a few numbers for the quarter and actually for the year as well because just to put the television in perspective. The restructuring in was -- Lifestyle actual was EUR67m and if you look at it for the split, it's EUR32m to be very precise on television and about the balance, you know which is EUR45m -- sorry, and non-TV would be the rest of it. EUR35m I think for the non part of -- non-television part of Consumer Lifestyle.

Now to give you a little bit of a wrap up on television because I think just for you to know where we stand, if you now look at television for the year, including the fourth quarter, if you exclude from the numbers reported the restructuring on television, which if you make the addition is about EUR126m. And if you pro-forma exclude the transaction that we have announced and the transactions which have been announced but not closed, right, you will find that television was about EUR150m plus in the red for the year. So that gives you a bit of an indication of how Consumer Lifestyle did in other categories. I think with those numbers you can do all the maths.

Going now to your questions on geography, yes, you are correct. When you look at the numbers by geography, North America did better and you've actually given a good chunk of the answer in your question. It is obviously pretty much supported there by Healthcare. Healthcare had actually good growth in North America in, I think it's 8%. So that obviously, given the weight of Healthcare in the fourth quarter, largely contributed to a stronger North America performance in terms of comp growth for the quarter, so that I think is very much the answer.

As far as your last question is concerned, which why is it that your fourth quarter really for Healthcare in general looks so good, there is indeed the fact that we probably caught up some of the sales in the latter part of Q3. You'll remember that in Q3 came (inaudible) guidance. I think we were quite explicit about that.

We said that we had a certain number of sites, in particular in imaging systems, that we could not complete the installations of at the end of Q3. That situation of course normalized when those sites became then fully installed in the fourth quarter. And we ended up having as well a strong book-to-bill business in the fourth quarter, which helped us to basically come up with the strong numbers that we reported, that's essentially 9% like for like growth for the full sector for the quarter. I think that this is the way to read our numbers for Healthcare.

Andreas Willi - *JP Morgan - Analyst*

And in terms of what you expect in the next couple of quarters because on the outlook you sound quite cautious but then you had a run rate at the end of the year of 9% growth. Is that basically going to turn negative now in Q1?

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

I think two things. You see our incoming orders at minus 2%. I think even though that number is a bit polluted by the fact that we have some pretty large orders in the fourth quarter of 2007, still the number of minus 2% makes you cautious.

That number, behind that number, there is a clear weakening of the imaging, and I'm talking about imaging US in particular in that course of that quarter. There we've seen some weaknesses. Obviously the impact of the private financing on hospitals as well as the financing, the bond financing of hospitals is certainly making people more cautious. We saw in the rest of the world, and that includes imaging in the rest of the world, reasonable income order growth in that fourth quarter. But certainly, as I said, the number of the incoming orders for US imaging makes us cautious looking into Q1.

One more thing I would like to say that Q1 will be for us a quarter of transition because this will be the last quarter really where we don't have in the comp the impact of the growth of Respironics. Respironics grew in the fourth quarter 12%. That is not included in the 9% comp growth we report to you for the fourth quarter. So excluding Respironics, which will be obviously still the case in our comp for Q1 because we only consolidated Respironics about mid-March, you can expect a quarter with maybe very light negative growth coming in.

Andreas Willi - *JP Morgan - Analyst*

Thank you very much. Very helpful.

Operator

The next question comes from Nicolas Gaudois from UBS. Please go ahead.

Nicolas Gaudois - *UBS - Analyst*

Yes, good morning. Just a first question to follow up on Healthcare. Obviously very strong growth in the emerging markets, plus 18% year over year, could you elaborate a little bit on the confidence of that and how much maybe the acquisitions you did last year have helped?

And how do you look at 2009? If you don't want to be granular, you can be qualitative for how you see the trend developing there.

Second question on Healthcare relates to mix, how much the mix has normalized, is it exceptionally good for imaging equipment in Q4 and the impact on margins for that.

And third question is on cash. Considering your strong performance on the cash flows, how should we read you fully suspending the share buyback program? What are the parameters in revisiting that later this year?

What is your view in general on acquisition opportunities? Thank you.

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

Yes, let me try to take them one by one. I think moving back to the 9% of growth, yes, I can give you a little bit more flavor. I think by product category I think this is an important quarter so I'll give you a little bit more there.

Imaging systems was up by high single digits, I would say very high single digits. Clinical care was up by low single digit. Patient monitoring was very strong, I would say mid teens, healthcare informatics mid single digits, and customer service I would say high single -- sorry low, very low double digits. If you now talk about the mix, and of course again those are comp growth excluding Respironics as I previously mentioned. Respironics, which is not included in the numbers, grew separately by 12%.

In terms of mix, did we get extraordinary help in the mix from a special quarter, quote-unquote, in services, no. I think you know and we've been saying this over the last few quarters, we have a small but consistent increase of service in our mix, but it's nothing spectacular and the level of progression in the mix of service in the fourth quarter was I would say nothing to be flagged versus the previous quarters.

A touch now of answer on your question between mature market and emerging market. I think this is a very important question because indeed our growth was 9% in mature markets and 10% in the emerging market. Now your question is are we in the 10% already getting the help of the -- excuse me I want to correct that number. The number, the growth number for emerging market was 18%.

Does that number start including the growth of the acquisitions made during the year? The answer is no because most of these acquisitions have not seen one year yet of full integration in the portfolio and accordingly this 18% should be read on I would say pretty much the portfolio we had at the end of '07. And of course it doesn't include either the growth of Respironics in emerging markets.

Your last questions was on cash. Yes, I think we had been very explicit and of course we have listened to your criticism in the previous quarters on what was I would say a not good enough cash flow performance. I think we told you that we would focus on that.

This obviously is combined with the fact that in particular in Consumer Lifestyle we have been very, very brutal, and I use the word brutal because it was brutal in Consumer Lifestyle. Our credit risk management led us to difficult decisions in terms of pruning channels, pruning product categories and making the decision of not to sell in situation of doubt, which of course is something which helped us in a couple of countries. That led to that very, very strong cash flow.

I want to insist on the fact as well that on the inventory side we decided to almost catch up in one quarter the lag we had shown in the previous quarters. When you express our closing inventory at quarter end, expressed as a percentage of revenue, you can see that we almost bridged the gap with last year end of Q4 in one quarter.

So that was done with very tight management of inventory, but as well taking some very drastic measures in our factories in order to end of the year with a balance sheet absolutely in shape to start 2008. And some of that, as you've seen in the release and in my introduction, some of that of course clearly impacted our EBITA with the under absorption of fixed costs created and triggered by this factory stoppage.

Now as far as the cash position at year end, two things I want to say there. One is as you know we refinanced our bond debt very early in the year, so that turned out to be officially a good move because having done that in March, everything went up. Funds were available obviously far less, spreads widened and everything became just more difficult. So that's something which is off our back.

Our liquidity is basically EUR3.5b just about in cash. The rest coming in committed and in that amount we only include committed line. But I precise that that amount of potential liquidity of EUR6b plus does not include uncommitted line, but in these days uncommitted bank lines are something that we are very careful about.

But now using that balance we have decided of course to be consistent on our dividend policy, which I think is something we have said in the past that we would try to do as much as we could, even in those very difficult, uncertain times. But on the same token, given the very high level of uncertainty, the very low level of visibility, we have decided to suspend until further notice, the share buyback so that we give a balanced view of our A, confidence but as well of our prudence to both the market and to our shareholders.

Nicolas Gaudois - *UBS - Analyst*

Thank you.

Operator

The next question comes from Martin Wilkie from Deutsche Bank. Please kindly limit yourself to one question. This will give more people the opportunity to ask a question. Please go ahead sir.

Martin Wilkie - *Deutsche Bank - Analyst*

Good morning, it's Martin Wilkie from Deutsche Bank. Just a question going back to production levels and normalizing inventory. Obviously you had some production stops in the fourth quarter. Can you just let us know how many of those production stops are still continuing into the first quarter and essentially how much inventory are you still looking to sell down in Q1? So how should we think about the interplay between a lower margin but better cash in Q1 as you saw in Q4 or do you think you really were successful in doing that by the end of Q4 and therefore we shouldn't see any of that going into the first quarter?

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

Yes, I think -- no, I think our factories have restarted. We have obviously have now reached levels of inventories which I would consider obviously are more normal. Those measures were exceptional. Now what we've done, you have to realize, is that we've taken quite a bit of restructuring measures in those factories so this, obviously, the headcounts of our factories will come down. We've announced restructuring, some of this restructuring is impacting factories and the impact of that restructuring will you will only see in the fourth quarter.

So coming into the first quarter we are restarting production, we're going to obviously be very prudent. We don't have backlog really, with the exception of backlog for about 30% of our businesses in Healthcare. So we'll see how it goes and we will wait, as we've said in the introduction, we will wait for the benefits of our restructuring to help us of course face potentially lower level of production required. We will wait for the benefits of the restructuring which will then help us in the third and the fourth quarter of this year. So that's the balance of things the way we see it as we speak.

Martin Wilkie - *Deutsche Bank - Analyst*

And when you've been taking those restructuring charges, have these been lowering your cost on the assumption of a much lower volume level for some time to come or has this been switching fixed costs and turning it into variable, really looking to reduce the volatility of your margin as the top line moves? How shall we think of that reduction in fixed costs?

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

Yes, I think this reduction in fixed costs is essentially, if you do quick math, you will see it represents about 2% plus percent of the total cost base of Philips. But I think if you were to express this restructuring that we have taken for the year for an amount in excess of EUR500m - to be quite precise I think the total amount is EUR520m - this is largely impacting our fixed cost base. So as a percentage of our fixed cost base I would say this is probably more than twice the 2% that I've just mentioned to you.

Now is that for sure what we need for the year? I think there as well we will play it by ears. You will see that in our guidance for Q1 we have already led you to some additional restructuring in two of the three sectors. There was a leftover in Healthcare, small amounts, which is a carryover of 2008 because there what we've put in the accounts for Q4 is below guidance. But we've put as well some additional restructuring for both Lighting and Lifestyle.

And for the year we will see how it goes. As I've mentioned in the previous questions, with the exception of Healthcare, we don't have a backlog and we have a low level of visibility and we will obviously keep on doing internally scenario and make decision on the back of what the market tells us.

Operator

The next question comes from Scott Babka from Morgan Stanley. Please go ahead.

Scott Babka - *Morgan Stanley - Analyst*

Yes, good morning. Scott Babka from Morgan Stanley, two questions please. First on Lighting, you talked about how the general lighting and construction markets were flat in the quarter. I was just hoping if you can give us a sense of what you're anticipating as we get into the first and second quarters of '09 given that a lot of your competitors that are already sell into those markets are seeing deterioration already?

And then the second question really would be on pricing. On both the Lighting side as well as on Healthcare, I was wondering if you'd just talk a bit about what you're seeing in terms of pricing developments, whether it's continuing at its trend or if there's been a step down as demand has fallen. Thank you.

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

Yes, constructions market is essentially reflected in our businesses in lamps because in lamps you have to split between professional lamps and consumer lamps, and it's obviously reflected as well in our luminaires business. Our luminaires business, let me start with luminaires.

Our luminaires business actually in comp, but those comp exclude Genlyte, our luminaires business showed some small positive growth, about - to be very precise - about 1%. If you were to include the Genlyte business, which is essentially a proxy for our US luminaires business, that business was down 10% for the quarter.

So on the luminaires side of Lighting you can see a mixed bag. You can see a it situation where in the US we are already taking a large part of the impact of the slowdown of construction, which is something which is not true yet in Europe. And if you scrutinize the detail of the professional lamps business as well as the professional luminaires business in Europe, you can see that the countries that are already impacted are in essence UK, Spain and, to some extent, France. So a big chunk of Europe still hasn't been impacted and certainly emerging markets have not been impacted yet.

So that's the essence of luminaries. So we will see in the quarters to come a bit of a wave of slowdown on the back of the constructions market to impact our professional lamps as well as our professional luminaires business.

In terms of one thing I want to add on emerging markets because of course it seems like a bit of a contradiction in terms when you see the reduction of growth in emerging markets and at the same time I tell you that our luminaires business has held up. This is largely created by the fact that the vast majority of negative growth in emerging markets was triggered by UHP, well essentially I should OEM automotive business. That is the bulk of the decline, and the rest of the business actually in emerging markets and particularly in Asia, continued to hold.

On pricing, well I think we are obviously there extremely vigilant. Interestingly enough we will still try to push some sales increases in a couple of spots on a very, very punctual basis in Lifestyle and in some territories of course we will have to see if we have to adapt our pricing. In the particular case of television there, even though our positioning is to some extent higher there end than our peers, pricing pressure obviously might continue.

In Healthcare I think there the essence is obviously to add a product portfolio which is present in as many price points as possible. You have seen that on the back of RSNA we have actually introduced products at different levels of price points. We have introduced high end products on MR with the new 3 Tesla. High end products on scan with the 256, which has now been -- that's on Scan. But we've introduced as well a new 16 slice CT, which is clearly our first product in the very, very important CT product territory. And this is a product which has actually been designed on a native, low cost basis in our Chinese joint venture.

So the essence there is to basically have products which are present at the various value points in the product offering. And that will be our answer as much as we can to handle to answer the pricing pressure in particular North America.

Scott Babka - *Morgan Stanley - Analyst*

Thank you very much. One follow up on Lighting, are you seeing any -- are customers looking for you to hand back some of the raw material increases you've carried forward into the year?

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

You talk about?

Scott Babka - *Morgan Stanley - Analyst*

I'm talking about pricing in Lighting because we talked on the two other divisions, but some of your input costs are obviously going to be down. Are you seeing -- is that having an impact on pricing into 2009?

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

No, that subject hasn't come to my ears. And by the way, I think that beyond the coverage by hedges, the '09 price base for the key raw materials is only now getting at the level of the '07 pricing so I don't think we have really reached a level yet where the price of commodities is significantly lower than the '07 price levels. So I don't think we are in a situation yet where you could justify price reduction on the back of this. '08 is a year which of course was covered by hedges. We are now entering a new year which is beyond the coverage of hedges and we're going to have to watch carefully of course, as our customers will, the price of commodities versus the pre-'08 price base, which was the one of 2007.

Scott Babka - *Morgan Stanley - Analyst*

Thanks.

Operator

The next question comes from Gael de Bray from SocGen. Please go ahead.

Gael de Bray - *Societe Generale - Analyst*

Yes, thank you very much. Good morning everyone. My first question is related to the level of inventories. It seems to me that you have been managing the downturn pretty well, obviously by focusing on reducing inventories and on cash flows. But still compared to the end of 2007 inventories increased by 1.1 points, so on a year-on-year basis. In the press release you mentioned that it was partly attributable to structural movements in the Company's supply base. So what do you mean exactly by that and what changes to the supply base have you made, obviously excluding acquisitions?

My second question is related to Genlyte. I think you've just mentioned that the activity was down 10% for Genlyte this quarter so could you maybe tell us if this is significantly different, this minus 10%, with what you had budgeted at the time of the acquisition? So in other words, are you seeing any implement risk on that business?

And maybe also the same question for your other recently acquired businesses? Thank you.

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

Okay, I think I'll answer the inventory question first and I will give you a distinct answer on Genlyte because in reality the two issues are separate.

On inventory, and I'm going to for the sake of simplicity I will use Q4 year-end to Q4 year-end, year-on-year, just to make it simple. The comp numbers are 12.8% as a percentage of -- inventory as a percentage of revenue at the end of '08 versus around 12% at the end of December '07, so about 80 basis points.

If you look at the 80 basis points difference, it's made essentially of two things. One is indeed the impact of the fact that we have a different portfolio and it's Genlyte but it is as well actually Respironics. So -- and there you have 10 to 20 basis points, I would say 25% in terms of basis points of the gap which comes from the portfolio.

And you are still seeing another 60 plus basis points of spread and that 60 basis points of spread is actually coming from our value chain. And the key reason I would say in Lighting, and that is coming -- and we've eluded to that several times in previous calls. You probably remember that we had a critical good growth of CFL lamps in the course of 2008, which by the way remained the case in the fourth quarter. And this is a different value chain there because we are obviously essentially sourcing those lamps from Asia with full ownership of the inventory at the point of, obviously, embarkment of those goods of Asia.

So that has structurally increased the inventory percentage as expressed as a percentage of revenue at Lighting. So it's not Genlyte but more the fact that we increasingly source out of Asia for lamps.

Now moving to Genlyte, so I think I've just answered your question. The inventory of Genlyte is not of a concern to us. Actually, since we talk about Genlyte, let me give you another element on Genlyte which I think is important. Despite the drop of revenue by 10% at a time the US is of course facing absolutely full blast the slowdown of the commercial real estate, which represents about 85% of the Genlyte exposure, I would like to insist on the fact that in the same quarter Genlyte came with an EBITA margin of 14.5%, which certainly shows the capability of Genlyte to manage their business in front of a lot of headwind.

So that leads me of course to your questions on the potential impairments on Genlyte and I will then answer you in the broader scheme of things. We have reviewed, with our auditors of course, the entire portfolio of acquisition which have been made in the last couple of years. The one which came to a decision where we had to impair is lumiled. And basically, as far as our professional luminaires is concerned, we didn't feel the need to impair at the end of Q4 '08, but that is something of course we will continue to look at on a yearly basis, as we should do in the course of 2009.

Gael de Bray - *Societe Generale - Analyst*

Okay, thank you very much, very helpful. Can I ask another question please on the Healthcare business. On Friday GE indicated that the trends were getting worse, clearly in imaging systems with orders down 14% worldwide but also 30% down in the US. So you also mentioned that there was a clear weakening of the market, but is this comparable to that, for you?

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

Well I think in terms of orders for the quarter, I mentioned to you that orders for the quarter were down 2%, so if you look at the comparable numbers for the -- and that is of course equipment. In our particular case remember those numbers are related to equipment and exclude, in particular, Respironics. So we were down 2% for the quarter. The third quarter if you remember was up 4% and the second quarter was up 4%. The year is up 3% but you can clearly see a slowdown in that fourth quarter.

Now if you ask me to go down one level deeper, that minus 2% for the quarter comes essentially from a minus 6% on imaging systems and that minus 6% on imaging systems is largely, if not totally, driven by North America. So if you ask me what is it that we've seen as we speak, we've seen a slowdown essentially in imaging North America, which represents about I would say 50% of the 30% that imaging represent in the new portfolio of Healthcare for 2009.

Operator

The next question comes from Didier Scemama from RBS. Please kindly limit yourself to one question. This will give more people the opportunity to ask a question. Please go ahead sir.

Didier Scemama - *Royal Bank of Scotland - Analyst*

Yes, good morning gentlemen. A couple of questions, starting with maybe the Healthcare business just to finish off on that part, perhaps. I think, Pierre-Jean, in the third quarter results conference call you said that towards the tail end of the quarter you had seen a deterioration and obviously in December 5 you give us a range that you exceeded materially. So I was wondering do you see actually improvement in the business towards the end of the quarter? Can you explain what happened, perhaps easier financing? That's my first question.

And second, maybe a broader question on currency hedging policy for the Company related to the US dollar and the yen. Did you manage to hedge yourself properly so far and do you have any hedging maturing in the first half of this year that would require maybe an adjustment of profitability for the second half of '09 please? Thank you.

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

Yes, Didier, good morning. I think Healthcare, what happened in Healthcare, I think, yes, we benefited from -- you saw a miss in Q3 and I think the market was disappointed. We tried to explain it as best as we can and we told you total transparency.

We had, if you remember, I think we were short on our internal forecast on imaging systems by 11%. I think what we told you at the time is that that 11% had not disappeared. The last chunk of that 11%, which was backlog business, had actually been moved naturally to Q4 when the installation related to that miss of Q3 had been completed. So that obviously gave a pretty good head start into the fourth quarter.

I mentioned as well that the book-to-bill business in the fourth quarter was strong. And you have to realize that a lot of our business is book-to-bill, meaning you book and you bill that same quarter, which led of course to, as I mentioned in particular, a pretty strong quarter in the domain of monitors.

Thirdly it was a smooth quarter, I think we had alerted you on the fact that we had something very important for us for CT, which is the delivery of several tens of ICT 256 slicers. This is a machine which was delivered faultlessly. Actually 31 of those machines to be precise were delivered in the fourth quarter. That is obviously something which we obviously take some comfort from. But in our guidance for Q4 we were a touch cautious there because this is a brand new piece of equipment, quite sophisticated, and you have always to be a little bit careful when you have such an important launch in a quarter.

And lastly, as I mentioned, as you know and we've been there before, Philips Healthcare fourth quarter is always a very important quarter. I know it's a bit difficult and at times nerve wracking, but this is the way our business works with that traditionally strong fourth quarter. This particular quarter was no exception to the rule and in December the month was a strong month, both in terms of execution with about 50% of the sales coming in that month with obviously good margin attached to it given the faultless execution. So this is why you might see a bit of a disconnect between what we knew on December 4, which was still a bit cautious, ahead of the strong month of December which came thereafter.

So I think the combination of all those elements led, obviously, to the strong execution in the fourth quarter.

The -- to your question now on hedging, I think this is a very important question, but it's a question not only for ForEx but it's a question as well for commodities and let me answer both. I think on commodities we made the decision not to close our positions given the enormous uncertainty on the commodity prices. So we will start the year having locked our commodities position for the raw materials needed to supply our backlog, which represents in reality a small part of the commodities we will need in '09. So there we've not locked ourselves.

As far as hedging of currency is concerned, you mentioned the yen, Didier, it's not so much the currency relevant to us. I would say for us the currency of reference would be more the RMB, the Chinese currency. and there we are hedged at our budget rate well into the beginning of the first quarter and maybe even actually into the second quarter. And for the rest of the year if the RMB where to, for instance, drastically increase versus euro/dollars, there we would have to look at -- combined with additional hedging we might have to in some particular case look at sources out of China and that is something we are currently working on.

Operator

The next question comes from Olivier Esnou from Exane. Please kindly limit yourself to one question; this will give more people the opportunity to ask a question. Please go ahead.

Olivier Esnou - *Exane BNP Paribas - Analyst*

Yes, good morning. Just wanted to check on two things. The savings your mentioning, if you can give more granularity by division, what to expect in the second half.

And maybe, quickly, what is the pension funding situation? Thank you.

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

Yes, I think now it's difficult to give you a number -- I think the number which was mentioned to you several times today and to start within the release is a EUR400m, probably EUR400m plus, run rate. I want to alert you to the fact that that EUR400m is a run rate. Only a fraction of that we'll start seeing in the latter part of this year, which is going to be to some extent in Q3 and more importantly in Q4. Why does it take so much time? It is because between the announcements of restructuring measures and the actual implementation of these measures as you know it takes time.

So can I split the EUR400m plus between sectors? No, I think one thing you can do, it's not a good answer but we have given to you the split of the restructuring between sectors so that could give you some ideas of how the EUR400m can be split, but it's a bit too early. I'll try to guide you a bit more precisely at the end of Q1 as we see complete clarity by sector. But at this point I would prefer not to guide you precisely on to the split between the EUR400m beyond referring you to the given split on the restructuring provisions themselves.

Your second question, sorry you had a second question which was pension. I think on pension you will -- basically we've looked at the situation in all our various pension plans and let me answer it from a P&L point of view as well as from a funding point of view.

As far as the funding is concerned we've lost of course like most pension plans of defined benefit from the plan, that we've lost of course some substance. In our Dutch pension plan far less than others, given that our pension plan in the Netherlands was largely with investments, which are actually adjusted through commitments in terms of risk and interest rates profile. So we'd added up taking as you saw, in particular, our IFRS equity, a bit of an adjustments to reflect that.

As far as funding is concerned, only about four key funds we will have potentially to refund in the course of 2008 -- '09, excuse me, on the back of the information that we have today. That is on the back of the valuation of investments in those pension funds as at end of December. The only pension fund that we probably will have to fund in 2009 is the US one and we are discussing there for something which will be between EUR50m to EUR100m.

As far now as the P&L is concerned, you have guidance in the press release on the pension cost we see for Philips in '09 on the back of the calculation made on December 31, 2008. And that number is that the cost, the essential cost for pension will be quasi-flat, and at the Philips level it's about EUR40m to EUR50m increase in the pension cost.

So the one portion of pension cost disclosed in our GM&S section, that one is expected to be quasi-flat year-on-year, but hidden in our overall income statement for the pension cost in all the various sectors, you can count on EUR40m to EUR50m increase on the back of the information to calculate on December 31. And of course this EUR40m to EUR50m is an IFRS number, because you have to realize this is the accounting principle we will use to report '09

Operator

The next question comes from Andrew Carter from Macquarie. Please go ahead.

Andrew Carter - *Macquarie Bank - Analyst*

Good morning, I wonder if I could just follow on, on the question about pensions. I note from the presentation that you're saying that the funding in the Dutch scheme is 121% at the period end. I wondered if you could just help us understand which discount rate you're using to calculate that. Is it the IAS 19 type discount rate of is it more the kind of discount rate that the Dutch pension regulator will use when looking at the scheme? Thank you.

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

Yes, I think the reported number, but that's not exactly the accounting reported number because we have to be careful. Everybody here is using different definitions. The reported number used vis-a-vis the regulators in the Netherlands using this particular Dutch Corporate Governance rule is a touch above 120%. I think it was 121% on December 31 so that number is the one communicated and is very much the one you should use.

Now in terms of the discount rate we have used, we have used the - as per IFRS instructions and confirmed by the way by the Dutch regulator - the Corporate Dutch AA rating rate. And that is basically the number which I understand will be used just about by every corporation in the Netherlands. So it's a AA corporate bond for, to use the terminology, for a bond in a liquid market, so we've used absolutely that.

Andrew Carter - *Macquarie Bank - Analyst*

And could you share with us what that discount rate is?

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

I will have to come back to you on that.

Andrew Carter - *Macquarie Bank - Analyst*

Okay, thank you.

Operator

The next question comes from Colin Gibson from HSBC. Please go ahead.

Colin Gibson - *HSBC - Analyst*

Hi there, it's Colin Gibson. A couple of questions please, first of all when you look at these numbers for Q4 and when indeed we look at these numbers for Q4 of course it's hard to know what we're looking at because we're seeing the effects of de-stocking across several of your businesses. So my first question is what sense do you get, either a qualitative sense from speaking to distributors or a quantitative sense insofar as there is any data you have access to that we don't necessarily see in these numbers, what sense do you get of how underlying consumer demand, consumer in particular demand, has developed during Q4 and also so far in Q1? That's my first question.

My second question really follows on from a question Scott asked earlier on, on pricing in Lighting. And I was wondering particularly for solid state lighting I guess our background assumption is we're probably looking at several years of strong volume growth and strong price erosion in solid state lighting. Is the current economic climate accelerating any of that price erosion specifically in solid state lighting? Thank you.

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

Okay, I think consumer sentiment, I think we actually elaborated on that in our early December communication. We certainly saw a different world at the opening of the fourth quarter. And if you look at the profile of our sales, and I'm strictly talking here about Consumer Lifestyle. I will come -- I think this is an answer related to Consumer Lifestyle. We saw the month of December, all in all, which in particular for the ex-consumer electronics product categories saw a deterioration which continued into the end of the quarter.

So the interesting thing is that if you look at the other product categories and if you look at it month by month, you see that some of the product categories had -- if I look at appliances and if I look at it month by month, you'll see that some of our product categories at a better, in comp growth, had a better month of December than the earlier part of the quarter. So all in all I would say consumer sentiment which deteriorated in the course of the quarter. Probably this was more true for the consumer electronics categories than for the ex-DAP categories. And as far as looking into the first quarter, I would say that that lack of visibility and that deterioration is continuing.

So I think it's very early to conclude at this point because the other thing that we have noticed is that the channels have reduced quite dramatically their inventory. We've looked at some statistics on a regional basis and whether you look at the lifestyle retailers, and I would add the lighting retailers or distributors, you will see that they have cut one to three weeks of inventory in their channels, which of course translate almost in mathematically one to three weeks of our own revenue spread over the period of the shrink.

And the key question is what will be the attitude of channels going into '09? Will they continue to operate at those very low inventory level, meaning essentially a new business model for them, or will they reconstitute and restock to some extent at some point? Those questions are largely unanswered, but what we see early in the quarter is not a restoring of that consumer situation. But as I said, with numbers which are still very difficult to fully analyze.

As far as the pricing in Lighting is concerned, and there you have focused on solid state lighting, let me give you a couple of angles there. I think in Lighting what we are seeing is more a change in the mix than a pressure in prices. What we see is people buying -- and this is true probably through -- and I wouldn't restrict this comment to SSL. I would really say that it's applicable for the whole of the Lighting portfolio.

We see customers who are obviously -- and that's probably valid for both professional as well as consumers -- the consumers and customers in general are trying to see if they can operate at lower obviously price points when they purchase. And we see more customers buying products which are cheaper than people really trying to absolutely put pressure on selling prices. And I think this is the way to look at this.

And since you talk about SSL, in the domain of SSL, there you talk about pricing pressure, but in the domain of SSL the issue is more a volume pressure. If you look at the solid state lighting, and we said in the call earlier on that there you're touching essentially on OEM markets, you touch on backlighting, you touch on flashlights for phones, you touch on automotive as well to some extent. And what you see in those particular OEM markets is a drop in volume which is impacting very much these OEM end markets.

So I would say all in all customers buying at lower price points more than really putting huge pressure on prices, combined in the particular case of SSL with lower SSL revenue on the back of lower quantities.

Colin Gibson - *HSBC - Analyst*

Thanks very much.

Operator

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

Simon Smith - *Credit Suisse - Analyst*

Thank you. I have two quick questions on Healthcare. The discussions I've had with purchasing managers had suggested that the activity of vendor financing had picked up in the equipment market somewhat in the US for Healthcare. I just wondered if you could give us some perspective on how your activities, how significant financing has been in the sales that you've had in Q4.

Second question is in terms of monitoring, I think you pointed out that monitoring was getting double-digit growth in Q4. I guess that to me it seemed to be an area that was probably most exposed to potentially lower in-patient revenues and somewhere I thought would have been rather starved of capital. I wonder if you could just give us a little bit more perspective on where the strength there was seen. Thank you.

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

Yes, I think your first question, just to make sure I get it right, is referring to the volume of business which came via our financing organization. Is that the way I should understand your question?

Simon Smith - *Credit Suisse - Analyst*

That's correct, yes.

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

Yes. I think that we clearly saw an increase of that activity in terms of -- or basically all the business which is going through this -- if I can just get the percentages just to give you some numbers. If you compare on 12 month the -- and the percentages I am going to give you refer to the total amount of business for Healthcare which goes via our various joint ventures with third party banks to finance Healthcare.

So if you look at the total year, we saw an increase by 20% year-on-year of our volume being financed by those joint ventures when you compare '08 and '07. And if you now zoom on the fourth quarter of 2008, you see an increase of almost 30%. So you could see that all in all you -- 30% plus I should even say. You see that there was an increase of the acceleration of the business financed by our various joint ventures in the course of the fourth quarter, with a trend which is obviously stronger in the fourth quarter versus the overall year. I think that's the best answer I can give to your question.

And I will refresh everybody's mind by saying that those joint ventures are across the various geographies are not included in our balance sheet. And in terms of exposure for Philips, Philips in those joint ventures is limited to an equity risk.

Now you ask another question which is the monitoring situation. Yes. It's interesting because this business is indeed exposed, but in a way it's less exposed because obviously it's lower price point tickets. If you compare the monitor obviously to even an ultrasound machine and certainly a CT or an MR, you talk about totally different obviously price points.

And I haven't had the time to study to that level of details, but you have to assume that that business hopefully will be somewhat less exposed to the restrictions of financing. But I would be -- that is something I can only assume because I haven't any evidence of that. And we're going to hear certainly in the beginning of Q1 what really is the feedback of our sales force on monitors.

But monitors, A, is essentially book-to-bill, did well in Q4 and probably is less exposed to a credit crunch versus the heavy ticket item. I think that's the way we see it, but I would wait for one quarter of confirmation to see what is our incoming orders in monitors in the course of Q1 to be absolutely firm on that.

Simon Smith - *Credit Suisse - Analyst*

Thank you. And just as a quick follow-up, what would be your total equity risk in those joint ventures for financing.

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

It's minimal. It's not significant to Philips. We can give you that offline, but it's limited to the equity and it's of course less than 50% by definition of that equity. We could give you offline the sigma of that equity. Actually if you look at our annual report you can probably find it in the balance sheet, but we'll give you offline. I don't have that number off my mind, but it's not significant for Philips.

Operator

The next question comes from Jan Hein de Vroe from ING Bank.

Jan Hein de Vroe - *ING Bank - Analyst*

Good morning gentlemen. I have a question on Lighting. We've seen a 3% comparable drop year-on-year in the fourth quarter. Yet I think on profitability level, cleaned for some charges you've taken, I can see a drop of about 500 basis points year-on-year. Could you give us an idea of what profitability given, let's say, still wavering demand, should look like going forwards into 2009?

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

Yes, actually Lighting is the business probably with Healthcare, right, where we have our highest percentage of fixed costs. And you clearly see that when you see that even though we are doing better than our competitors there, but you can clearly see that the loss of volume does impact our bottom line. I have to add that this was certainly amplified by the fact that one, if not the product category in which we took the most beating, I would say, in terms of comp growth, is automotive. And obviously that doesn't help in the mix, right?

Now how do we basically address that looking forward? You see as well that Lighting is the sector which in relative terms we took the highest amount of restructuring. This is as well the sector where the numbers reported in the fourth quarter were actually ahead of the guidance we had given to you at the end of -- sorry, at the beginning of December.

So you can see that not only, at the end of Q3, we had come up with lighting as the biggest chunk of the restructuring, but you could see that early December we guided you on something that we exceeded one more time in the numbers that we are now reporting to you. This is to tell you that in terms of restructuring, we are continuing proactively to obviously reduce that fixed cost base as quickly as we can in order to face exactly the point that you've mentioned in your question.

Operator

The next question comes from Guenther Hollfelder from UniCredit. Please kindly limit yourself to one question. This will give more people the opportunity to ask a question. Please go ahead sir.

Guenther Hollfelder - *UniCredit - Analyst*

Hi, thanks. It's just one question concerning the dividends. You confirmed the EUR0.70 of 2007. I just wanted to ask, maybe to get a better feeling about your dividend policy going forward for the year 2009. I mean it's very difficult right now, but still could you comment a little bit on it to get a better feeling for our estimate for 2009, whether it's a high priority to keep it stable also for 2009, or also after you cancelled the share buyback program, which gives you a little bit more flexibility for your cash? This would be helpful. Thanks.

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

Yes, I think thank you for mentioning this. We restarted the journey of repositioning Philips away from cyclicality, away from volatility. Part of this -- and of course to position the Company as a diversified industrial portfolio, focused on the healthcare and wellness. As part of this repositioning, something which was very important was of course our dividend strategy. We have changed two years ago our distribution policy, you probably remember that, I think the 40% to 50% as an average, right?

Guenther Hollfelder - *UniCredit - Analyst*

Yes.

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

And on a consistent basis. You know all that and I'm not going to come back to it. Is that important for us? Of course it is very much an essential part of the repositioning of the stock in terms of perception as well as in terms of reality.

As far as '09 in concerned, on the back of '08 we will as mentioned in the release propose to stick to the EUR0.70. We do realize that around us a lot of companies are cutting dividends, but we obviously have decided to do it differently. You know, by the way, that in tough times historically Philips had always been in that position of distributing dividends in a year of loss.

Looking forward, you're asking me now what will happen in 2010 on the back of the year '09, I think I will give you a two-side answer. Will it be a priority for us to have consistency? Absolutely, as it is this year. Does that mean that in all scenario we would distribute the dividend in 2010 on the back of '09? I think this is something we will answer of course at the time.

Guenther Hollfelder - *UniCredit - Analyst*

Yes, okay, most helpful. Thank you very much.

Operator

The last question comes from Timm Schulze-Melander from JP Morgan. Please go ahead.

Timm Schulze-Melander - *JP Morgan - Analyst*

Hi. It's Timm here on the sales desk. I just have two questions? You're obviously taking share from GE in imaging. What geographies do you think that is and how durable it is.

And then secondly CapEx was up 17%. Increased spending in real estate and Respironics. What should we expect for '09? Thank you.

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

Well, market share, I think it's always a bit early to talk about year-end market share because the numbers have not been published, you know the ones which are published by several sources. So I think I would be a bit prudent there before announcing that we are taking market share.

I think what people need to realize is that the 9% growth of revenue comp is more a reflection of a different portfolio and an increasingly different portfolio which is obviously in a number of territories. So you should not compare our numbers to the one of our competitors because you can't do that because what really is happening is that we have increasingly different portfolio. If you now were to do the study down to the comparable territories, I think you would see that the fluctuations are not that significant and certainly still very difficult to read at this particular point of time. I think we need to study '08 fully in details to reach that kind of conclusion, but we certainly have not lost market share, that's for sure.

Operator

Thank you sir. That was the last question. Please continue.

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

I think that we thank you for all your questions. I have taken note that we owe one answer back on the specific situation of the rate for the Dutch pension system and we will come back to you very shortly on that. Thank you very much for your questions and your attention for the day. Goodbye.

Operator

This concludes the Royal Philips Electronics fourth quarter results 2008 conference call on Monday January 26, 2009. Thank you for participating. You may now disconnect.