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PHIA.AS - Q1 2013 Koninklijke Philips Electronics NV Earnings Conference Call

EVENT DATE/TIME: APRIL 22, 2013 / 8:00AM GMT

OVERVIEW:

PHIA.AS reported 1Q13 comparable sales growth, adjusting for currency and portfolio changes, of 1% and net income of EUR162m.

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PRESENTATION

Operator

Welcome to the Royal Philips Electronics first quarter results 2013 conference call on Monday, April 22, 2013. During the introduction, hosted by Mr. Frans van Houten, CEO, and Mr. Ron Wirahadiraksa, CFO, all participants will be in a listen-only mode. After the introduction there will be an opportunity to ask questions. (Operator Instructions). Please note that this call will be recorded and is available by webcast on the website of Royal Philips Electronics.

I'll now hand the conference over to Mr. Abhijit Bhattacharya, Head of Investor Relations. Please go ahead, sir.

Abhijit Bhattacharya - *Koninklijke Philips Electronics N.V. - Head of IR*

Good morning, ladies and gentlemen. Welcome to this conference call on the results for the first quarter of 2013 for Royal Philips Electronics. I am here with Frans van Houten, our CEO, and our CFO, Ron Wirahadiraksa.

In a moment, Frans will make his opening remarks, and give you an update on the progress we have made during the quarter. Ron will shed more light on the details of the financial performance during the quarter. After this, both Frans and Ron will be happy to take your questions.

As usual, our press release and the accompanying information slide deck were published at 7.00 am CET this morning. Both documents are now available for download from our Investor Relations website. We'll also make available a full transcript of this conference call on the Investor Relations website by tomorrow.

With that, let me hand over the call to Frans.

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

Thanks, Abhijit. Welcome, and thank you all for joining us today in this call.

The first quarter of 2013 was another quarter of good progress for Philips, as we achieved a 31% improvement in our operational results compared to last year.

What is particularly pleasing is that all sectors achieved a year-on-year improvement in operational results, clearly demonstrating the positive impact that the Accelerate! program is having on our Company.

The initiatives to structurally lower our cost base and improve productivity, by removing layers of management and reducing complexity, have had a positive impact on the results for the quarter.

Our increased focus on a faster time to market for new product introductions, to improve price realization and reduce bill of materials has improved operational gross margin for the Group by 180 basis points compared to a year ago.

These structural improvements have enabled us to deliver better operating results in the first quarter, despite the economic challenges that have led to a modest top-line growth of 1%.

On that note, and as we mentioned previously, the developments in the global economy and the impact on our order book clearly indicated to us that we would have a slow start to 2013.

After a year of good growth in 2012, Healthcare sales in the first quarter were lower than the corresponding period of last year by 1 percentage point.

Uncertainty, primarily in North America, coupled with austerity measures in Europe, resulted in a mid-single-digit decline in order intake in the quarter. Solid execution of our growth plan in Consumer Lifestyle, however, enabled us to deliver double-digit growth in the quarter, with Domestic Appliances delivering the highest growth in the sector.

In Lighting, LED-based sales continued a strong growth trajectory; increasing 38% over the previous year. Sales from LED-based products and solutions are now 23% of the Lighting sector sales. However, reconstruction markets negatively impacted Lighting sales, which were flat compared to the first quarter of 2012.

As we approach the second anniversary since the launch of the Accelerate! program, it is pleasing to see that the detailed improvement actions are being deployed throughout the organization.

Our quarterly surveys of 40,000 employees confirm that the Accelerate! initiatives have been cascaded well across all levels of the organization.

To support our leaders in this unprecedented transformation of our Company, over 900 senior leaders have participated in change-management programs to create a high-performance culture, enabling enhanced collaboration along the lean End2End customer value chain to serve our markets.

In the areas where the End2End program is already running, we have already seen simplified parts of this value chain, which have improved customer service levels by around 25% on executed projects in the first quarter.

We've also reduced our inventory by 1.4 percentage points, compared to a year ago. We have launched our DfX program, whereby DfX stands for Design for Excellence, X, where X can be cost, quality, manufacturing, etc. So the DfX program to reduce our bill of materials and improve value creation, going forward.

The first pilots of this DfX program have clearly demonstrated the potential for improvement in this area.

Finally, our overhead cost reduction program is on track. Our cumulative savings for the end of the first quarter were EUR549 million.

Our target reduction of EUR1.1 billion by 2014 included savings of EUR57 million for the Audio, Video, Multimedia and Accessories business, and that is now reported in discontinued operations.

We maintained the target of EUR1.1 billion, compared to our baseline of the first half of 2011, and thus will find additional savings of EUR57 million to make up for the exclusion of Audio, Video.

Our mission is to improve people's lives from meaningful innovation as a way to create superior value. Let me give you a few examples of some of the recent breakthroughs in innovation that we have achieved.

Healthcare introduced our EchoNavigator live image-guidance tool, a world-first technology that unites and synchronizes X-ray and 3D ultrasound to support minimally invasive structural heart disease repairs, without the need for open heart surgery.

The Philips EchoNavigator has been developed in response to a clear upward trend in the use of both X-ray imaging and 3D cardiac ultrasound imaging during structural heart disease procedures; an area of interventional cardiology that is growing at around 40% per year and has been cleared by the US authorities recently.

The EchoNavigator is our latest example of innovating around clinical needs, and this is making a difference where it really matters.

In Lighting, as part of the transformation to energy-efficient LED solutions, we captured new business opportunities, such as the illumination of the entire art exhibition of the renovated Rijksmuseum in Amsterdam.

This LED lighting solution creates the effect of color rendition like natural daylight, presenting the artwork in the best way and enhancing the visitors' experience dramatically.

With more than 9,500 square meters and 7,500 artworks illuminated by 3,800 LED spots and more than 0.5 million LEDs, it is the largest museum ever lit by LED.

Another example is our creation of the world's most energy efficient LED lamp suitable for general lighting applications. We have developed a tube lighting replacement TLED prototype that produces a record 200 lumens per watt of high quality white light. This prototype TLED lamp is twice as efficient as its predecessor, thereby halving the energy used.

With lighting accounting for more than 90% of the world's total electricity consumption, this innovation promises to drive massive energy and cost savings across the globe.

In the Consumer Lifestyle sector, we continue to drive the local relevance of our portfolio and enhance global scale at the same time.

For example, we set up an innovation center in Shanghai in 2011 to develop locally relevant innovations for China, such as the soy milk maker, the food cleaner and noodle maker. We further enhanced our proposition in China through the acquisition of Povos in 2011, which brought competences in rice cookers, electric pressure cookers and induction cook tops.

Our soy milk maker was the first product out of the Philips Shanghai innovation site. Building on the success of this platform in China in early 2012, our innovation sites in Europe, Klagenfurt and Shanghai began working together on adapting the platform for making soup for Western Europe.

The product was launched in France in the third quarter of 2012, followed by Turkey and other markets in the West. It has been an instant success, contributing to the strong double-digit sales growth that we are now seeing in our Domestic Appliances business.

The Airfryer, another leading innovation which we introduced some time ago, continues to fly off the shelves, as it provides the benefit of low fat frying around the world.

As we progress with Accelerate! and drive operational excellence in our ability to innovate and deliver results, we are integrating the lessons we are learning into what we call the Philips Business System, which is a clearly defined and repeatable way to deliver value throughout Philips. The Philips Business System has four key elements, which you can see on page 36 of the Q1 presentation, and that I would like to articulate here.

First, the Philips Business System establishes clear strategies for our portfolio, and makes certain that we allocate resources in the right way, in areas that have the highest potential for value creation.

Second, it ensures that we leverage our core capabilities, assets and positions which, in short, we call our CAPs.

Our CAPs are our ability to innovate; our global footprint; our people capabilities; deep market insights in Healthcare, Lighting and Lifestyle; our strong balance sheet; and, very importantly, our world-class brand.

Pursuing those business opportunities that capitalize on our CAPs give us a much higher chance to deliver value. This also means that if opportunities are not building on our CAPs, that we will not pursue them.

Third, the adoption of Philips Excellence in how we operate and execute will make the biggest difference to our results.

Our Accelerate! program has put in place programs and initiatives that drive operational excellence, enabling us to deliver value faster at lower cost with more predictability, better customer service and local market relevance and higher profitability. This is further enabled by our high-performance culture that we are establishing in the Company.

There is tremendous appetite across Philips to embrace all these new practices and our leaders, including the executive committee, are all personally hosting sessions to take people on the journey to deliver excellence, so that they can help Philips become a lean end-to-end company.

As we progress with Accelerate! Initiatives, such as End2End, the new performance culture and lean operating model, we are capturing the new ways of working so that we can act faster and better and don't have to continuously re-invent the wheel any more.

And finally, the Philips Business System will ensure that we execute business plans to deliver sustainable results on our path to value.

In 2011, we clearly articulated our path to value, including financial targets for 2013. We covered it on 3 axes. For example, the comparable compound average growth rate of 4% to 6%, assuming real GDP growth of 3% to 4%; secondly, reported EBITA in the range of 10% to 12%; and a return on invested capital in the range of 12% to 14%.

We remain committed to deliver on these targets, even though market conditions pose significant headwinds.

During the next Capital Markets Day on September 17, we will update you on the progress that we have made to that point, the initiatives that will take us further on our journey and our new targets.

As I said during my Capital Markets Day speech on March 19 this year, and I would like to repeat it here, the Accelerate! program will run through 2017 at least, and we will demonstrate progress by setting ourselves clear financial objectives to be delivered along the way.

With that, I will conclude by reiterating that we are pleased with the progress we have made to date. Accelerate! is working and resulting in good operational improvements. Further, through the Philips Business System, we are implementing a systematic approach to delivering value.

We maintain our view of a slow start to 2013, especially caused by Europe and North America.

We will continue to focus on the execution of the Accelerate! initiatives, which includes significant productivity improvements and investments in innovation and growth. We believe these are the right steps to unlock further the full potential of Philips.

While we are concerned about increasing economic headwinds, we are committed to reach our financial targets this year.

I'll now turn the call over to Ron to go over our financials in more detail.

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

Thank you, Frans. Good morning and welcome to all of you on the call. I will begin by giving you some color on the developments in the markets we serve and then walk you through the financial performance for the first quarter.

Let me start with Healthcare. In the US, market conditions continue to be challenging with hospitals working through the implications of the sequestration and healthcare reform and delaying capital purchase decisions.

We expect the related market uncertainties to continue into the next month also, pending the upcoming round of budgetary decision making.

The medical device excise tax is now effective, with 2.3% tax on sales of most medical devices. This tax will be deductible for Philips and is applicable to sales of our Imaging and Patient Care and the Clinical Informatics business in the US.

Although we can mitigate the effects, it does have some effect on our bottom line.

In Europe, we continue to see significantly differing market dynamics on a country-by-country basis.

Whereas the relatively smaller markets in Northern Europe display signs of moderate growth, the larger markets, such as Germany, Austria and Switzerland, as well as France, declined slightly.

Southern Europe continues to face market declines as a result of the austerity measures undertaken.

Overall, economic fundamentals in the European region still point towards an overall flat outlook for 2013, at best.

In the growth geographies, the ASEAN region and China continue to record good growth during the first quarter of 2013. On the other hand, Middle East and Turkey, Russia and Latam witnessed low market momentum in the first quarter. We expect market growth to be double digits for the growth geographies in 2013.

We expect the US and European markets to continue to be challenging, certainly during the first half of 2013.

Overall, we maintain a market outlook of around 3% to 4% growth in the Healthcare markets we serve.

Consumer markets continue to follow the fluctuating patterns seen in the overall economy, with only limited changes in the outlook. The eurozone continues to look weak; unemployment increased further to reach 12% overall, with Spain and Greece now at over 26%.

Negative consumer confidence prevailed, with a stable picture at close to record-low levels.

Total retail sales continued to decline compared to last year. Germany is poised for a modest economic growth as the following indicators are improving; unemployment falling to 5.4%, consumer confidence arising to almost neutral, and retail sales increasing versus a year ago.

The US picture for the Consumer markets is improving with unemployment falling further to 7.6% and improving retail sales.

Consumer confidence, however, continues to be quite volatile, reflecting household uncertainty about the sustainability of the economic recovery.

In China, consumer confidence reached a new high in February and retail sales growth in the first quarter was a robust 12% compared to a year ago. Government expectations are for higher growth rates later in the year in China, giving the 14.5% target for 2013.

In Brazil, we see the consumer environment getting less positive. Although unemployment is relatively low at 5% to 6%, it is at its highest level since September 2012, resulting in consumer confidence dropping and retail sales growth softening from high-single-digit to mid-single-digit levels.

The Lighting market in Q1 2013 increased slightly compared to Q1 2012. The growth was driven by robust demand for LED-based products, while the market for some of the conventional lighting products declined.

The US economy showed signs of a modest recovery. In Q1 some indicators pointed to a recovery, most notably Architectural Billings, Purchasing Managers Indices, consumer confidence and housing starts.

The construction industry is seeing growth, mainly driven by a recovery in residential construction, which is growing off historically low levels. Non-residential construction, however, is lagging behind residential and is expected to do so throughout 2013.

Uncertainties surrounding government spending and cuts result in a stable market for most segments, while homes and outdoor markets are up.

Market demand for lighting products in Western Europe continues to suffer, as budget cuts, high unemployment and economic uncertainty weigh on business and consumer confidence.

Both Germany and France saw a contraction in construction output in 2012. Real GDP is expected to remain flat for France in 2013, while Germany is expected to show a slight economic expansion in 2013, according to the EIU.

In the growth geographies, construction and economic output remains solid.

Consumer Lamps and Luminaires business in India remains strong.

In China the demand is stable, as a slight decline was seen in manufacturing. Some retail chains have slowed down new store openings and renovations, and real estate dropped with a new control policy of heavy tax offsetting the growth in other segments.

Global vehicle production is expected to have seen a mild contraction in Q1 2013 year on year. We expect to see this strength reversed in the remainder of the year.

Let me now move to the Philips Group results for the first quarter of 2013. As of the first quarter of this year, we report the profit and loss on the Audio, Video, Multimedia and Accessories business under discontinued operations, and the net assets for the business in the balance sheet on the line assets held for sale.

The cash flow of the Audio, Video, Multimedia and Accessories business is reported under cash flow for discontinued operations. Therefore, all commentary that will follow in terms of sales and earnings at Philips Group level and Consumer Lifestyle sector level does not include Audio, Video, Multimedia and Accessories-related information.

Also, when I refer to adjusted EBITA on this call, this represents EBITA excluding restructuring acquisition-related charges and other charges and gains above EUR20 million.

Comparable sales in the first quarter grew by 1% when adjusted for currency and portfolio changes. Comparable sales in our growth geographies increased mid-single-digit in the first quarter.

Our growth geographies are defined as all markets excluding the US, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel.

Sales from these growth geographies increased to 34% of Group revenues, compared to 33% for Q1 last year. On a comparable basis, sales in North America declined by 3% in the quarter.

Healthcare was affected by lower order intake in the previous quarters, as well as lower turns businesses within the quarter, as sentiment was affected by the uncertain economic environment.

Consumer Lifestyle sales in North America had mid-single-digit comparable sales growth, while Lighting sales declined, mainly due to lower sales for professional lighting solutions.

Group sales in Europe saw a decline in comparable sales of 2% in the quarter, mainly due to Healthcare.

Consumer Lifestyle grew low-single-digit, while Lighting sales were flat in the quarter.

In the other mature markets, the Group saw a 10% increase in comparable sales, with Japan continuing to remain strong with 15% growth.

In Q1 2012 we had one-off items comprising of the sale of assets, which were the Senseo brand, the High Tech Campus and industrial assets in Lighting.

This had a net positive impact of EUR172 million on the EBITA, EUR119 million on the net income and EUR543 million positive impact on the cash flow.

Reported EBITA was EUR402 million, or 7.6% of sales, which is lower than the EUR451 million, or 8.5% of sales, reported for Q1 last year.

EBITA for Q1 2012 included net positive one-off gains of EUR172 million, which I have just mentioned before.

Restructuring and acquisition-related charges in Q1 2013 were EUR24 million lower than in Q1 of 2012.

Adjusted EBITA was EUR421 million, or 8% of sales, in the quarter compared to [EUR322 million] (corrected by company after the call), or 6.1% of sales, for Q1 2012. The improvement in the adjusted EBITA was due to improved operational performance in all sectors.

Net income for the quarter was EUR162 million, which is a EUR98 million improvement when excluding the one-off impact of EUR119 million of net incidental gains in Q1 2012.

Cash flow from operating activities for the quarter was an outflow of EUR228 million compared to an inflow of EUR297 million in Q1 of 2012. Q1 2013 was impacted by the payment of the EUR509 million European Commission fine, while Q1 2012 had cash inflows of EUR543 million due to the Senseo transaction and the sale of the High Tech Campus.

Excluding these one-off cash flows, the cash flow from operating activities in Q1 2013 improved to an inflow of EUR281 million compared to a cash outflow of EUR246 million in Q1 2012.

With that summary, let me now walk you through the performance of each of our businesses during Q1 starting with Healthcare.

Currency comparable equipment order intake declined 5% in Q1 2013 compared to Q1 2012. The decrease in order intake was across the board. Order intake in North America was impacted due to the ongoing uncertainty in the market, which I have spoken about earlier.

After two quarters of double-digit order intake growth in Europe, partly due to large multi-year orders, Q1 saw a high-single-digit decline, with most countries declining. However, we did see growth in the United Kingdom and Ireland.

The austerity measures in Europe are resulting in lumpy order intake in the recent quarters.

Order intake in the growth geographies decreased by 4% on a comparable basis. The decrease in these geographies was in the Patient Care and Clinical Informatics business, where we had a 41% order intake growth in Q1 2012. Order intake in Imaging Systems grew low-single-digit.

Order intake in China grew double-digit, while India and the ASEAN region declined double-digit. Order intake for Imaging Systems decreased low-single-digit. Patient Care and Clinical Informatics order intake decreased by double digits. PCCI had an 18% increase in order intake in Q1 2012, including certain large deals booked in Q1 last year in the Middle East and Japan.

On a currency and portfolio comparable basis, Healthcare's year-on-year sales decreased to 1% after growing 9% in Q1 2012.

Growth in Consumer Services and Home Healthcare was offset by a decline in Imaging Systems, while sales in Patient Care and Clinical Informatics remained flat.

Comparable sales in the growth geographies decreased low-single-digit in the quarter, after a 27% increase in Q1 2012.

Comparable sales in Russia, which increased by over 100% in the first three quarters of last year, declined by double digits in the first quarter of 2013.

Sales in India saw a low-single-digit decline as some installations moved into the second quarter, while Brazil and China grew high-single-digit.

Comparable sales in Europe declined by 4%, with Southern Europe declining by double digits and the rest of Europe declining by low-single-digit.

Sales in North America declined by mid-single-digit in the quarter, as Imaging Systems, Patient Care and Clinical Informatics and Home Healthcare declined in the quarter, while Consumer Services grew low single digit.

Healthcare reported a first-quarter EBITA of [EUR222 million] (corrected by company after the call), which is 10.4% of sales and an improvement of 130 basis points compared to the first quarter of 2012.

The adjusted EBITA amounted to EUR224 million, or 10.5% of sales, which is above the EUR211 million, or 9.6% of sales, in the same period last year.

Higher gross margins and reduction in overhead cost resulted in the improved earnings for the quarter, despite a subdued top line.

Consumer Lifestyle sales, when adjusted for currency and portfolio changes, grew by a strong 10% compared to Q1 of last year.

The growth geographies had a comparable sales increase of 19% in the quarter, led by Russia, Taiwan, Brazil, China and the ASEAN region.

Sales in North America grew mid-single-digit, driven by double-digit growth in Personal Care; while Europe grew low-single-digit.

Other mature markets, comprising of Japan, South Korea, Australia, New Zealand and Israel, recorded low-single-digit growth in the quarter.

EBITA for the quarter was EUR98 million, or 9.8% of sales.

Adjusted EBITA for the sector for Q1 2013 was EUR99 million in the quarter, or 9.9% of sales, compared to EUR62 million, or 6.7% of sales, for the first quarter of 2012.

The improvement in adjusted EBITA was driven by higher sales and gross margins, overhead cost reductions, as well as the elimination of stranded costs related to the Television business, which were part of the Q1 2012 results.

All businesses in Consumer Lifestyle improved their adjusted EBITA in the quarter compared to Q1 2012.

For the Audio, Video, Multimedia and Accessories business, which, as explained earlier, is reported in discontinued operations, the net income, excluding disentanglement costs related to the transfer of the business, improved to EUR18 million compared to EUR15 million in Q1 2012.

On page 15 of the press release we have provided a simple reconciliation of the results of this business.

In Lighting, comparable sales were flat in the quarter compared to Q1 of last year. In our growth geographies sales, excluding Lumileds, increased on a comparable basis by low-single-digit.

On a more granular basis, sales in Brazil, China and India showed good growth.

Europe sales were flat in the quarter, with growth in Western Europe being offset by declining sales in Southern Europe.

North America recorded mid-single-digit sales decline in the quarter.

We're taking a deeper look into each of the Lighting businesses, so we continue to see strong sales of our LED products, with growth of 38% compared to the same quarter in the previous year.

Lumileds recorded strong double-digit growth, while Automotive sales grew mid-single-digit for the quarter. These were offset by declines in the rest of Lighting.

The reported EBITA for Lighting was EUR147 million, or 7.4% of sales, which is a significant improvement compared to the EUR46 million, or 2.3% of sales, in the first quarter of 2012.

The EBITA for Q1 2013 included EUR30 million less restructuring and other charges, compared to Q1 2012.

Adjusted EBITA was EUR166 million, or 8.4% of sales; a significant increase compared to the EUR95 million in the first quarter of 2012. The improvement was driven by a lower bill of materials, including lower phosphor prices, as well as overhead cost savings.

Reported EBITA for Innovation, Group & Services amounted to a net cost of EUR65 million, compared to a net cost of EUR8 million in Q1 2012.

The EBITA for Q1 2012 included a gain of EUR37 million on the sale of the High Tech Campus. Excluding that, the higher net cost was mainly due to lower IP royalties and seasonality.

Inventory as a percentage of sales improved by 140 basis points to 15.5% at the end of Q1 of 2013 compared to 16.9% in Q1 2012.

There was a significant reduction in Healthcare, where inventory as a percentage of sales declined by 200 basis points compared to the end of Q1 2012.

Imaging Systems reduced inventories by 300 basis points, while Patient Care and Clinical Informatics, Home Healthcare Solutions and Customer Services decreased their inventory by 120 basis points, 10 basis points and 190 basis points respectively.

Consumer Lifestyle reduced its inventories as a percentage of sales by 140 basis points at the end of Q1 2013. Main reductions were seen in Domestic Appliances, with 200 basis points, and Personal Care of 80 basis points.

In Lighting, inventory as a percentage of sales improved by 100 basis points compared to the end of Q1 2012, with Consumer Luminaires inventory down by 440 basis points.

Return on invested capital at the end of Q1 2013 declined to 4% from 4.4% in the previous quarter. Excluding incidentals, like the European Commission fine, the profit on the sale of the High Tech Campus and the profit on the Senseo transaction, the return on invested capital increased from 6.3% in Q4 2012 to 7% at the end of Q1 2013.

The discount rate for the Group is 8.9%.

The increase in ROIC was largely due to the effects of higher earnings and improved working capital management.

As far as capital allocation is concerned, we have completed 86% of the EUR2 billion program at the end of Q1 2013 under our share buybacks, and are on course to complete this program, as planned, in July 2013.

This year will be relatively heavy in terms of cash outflows, since we have paid out the EUR509 million related to European Commission fine, as well as make payments for the various restructuring programs that are running.

As mentioned earlier, Accelerate! is focused on organic performance improvement and possible bolt-on M&A transactions to gain access to certain markets or key technologies.

We continue our risk-mitigation efforts to reduce our risk on pension liabilities, and will inform you when we have closure on any such plans.

Ladies and gentlemen, let me briefly summarize before opening the line to questions.

The improved results for the first quarter of [2013] (corrected by company after the call) demonstrate further progress on our path towards our 2013 financial targets. In 2012 we felt the impact of the strong economic headwinds, and expect ongoing economic uncertainty to affect growth going forward, especially in the first half of 2013.

However, we remain confident in our ability to continue improving the operational and financial performance of the Company, driven by the Accelerate! program.

With that, let me now open the line to your questions, which Frans and I will be happy to answer. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Andreas Willi, JPMorgan.

Andreas Willi - *JPMorgan - Analyst*

The first question is -- I have is on Healthcare. You had a weaker start to the year, as you said, but you're still quite positive on the year, reiterating the top line outlook there.

Has Europe become weaker than you expected a few months ago? And, in terms of backlog and visibility, how confident are you that you can deliver 3%, 4% sales growth for the year, after the weaker Q1?

And the second question I have is, if you could just give an update on stranded cost guidance and GM&S spending level for the year after Q1, whether anything changes here. Thank you.

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

Let me take the first question on Healthcare, and then Ron will follow up on the stranded cost question.

You recall that in Europe in the second half of last year we actually saw strong order intake, with some lumpier orders, and with somewhat a longer horizon. That gives us absolutely confidence about our resilience in the European market, whereas the overall market is somewhat challenged, due to the economy.

We believe that in the northern part of Europe we will see some more traction going forward, whereas the southern part of Europe will continue to be weak.

In the United States we characterize the market primarily through that we see postponement of orders; postponement closed by the uncertainty around the healthcare reform. It's good to note that, on the Government side, orders have started to resume, while that was very weak in 2012.

So it is a mixed picture, but we are convinced that the demand for technology such as from us, for example, a minimally invasive treatment in patient monitoring in Hospital-to-Home, are all categories that will be in stronger demand once the dust settles on the US healthcare reform.

Ron, with regard to stranded costs?

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

Yes. Our stranded costs for the quarter in Q1, there were EUR25 million of stranded costs. And that was in Lifestyle EUR7 million; and in IG&S EUR18 million. And it was all for Lifestyle Entertainment. So no stranded costs for TV any more.

For the full year, the same as the guidance I gave at Capital Markets Day; EUR29 million for the full year in Lifestyle, and EUR56 million in IG&S.

I hope this answered the question, Andreas.

Andreas Willi - *JPMorgan - Analyst*

Yes. And the overall IG&S guidance is still the same for total cost.

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

Yes. EUR330 million.

Andreas Willi - *JPMorgan - Analyst*

Okay. Thank you.

Operator

Martin Wilkie, Deutsche Bank.

Martin Wilkie - *Deutsche Bank Research - Analyst*

Just clarifying on that Healthcare point, you talked about the uncertainty in the US. Do you think that Q1, from an order perspective in the US, is the low point? Or do you think that there's still, because of sequestration and other points, that that uncertainty continues into Q2? So, just to get some sense as to where you think we are in that order cycle.

And then if I could just have a question on Lighting, as well. You talked about some benefit from phosphor tailwinds in Lighting. In terms of the phasing we can expect from that throughout the year, do you expect a similar benefit from that in both Q2 and Q3?

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

I'll take the Healthcare one, and Ron will follow up on the bill of material benefits on the phosphor.

You know, on Healthcare, we said a slow start of the year, and that includes the second quarter. In other words, we are also cautious about the second quarter and we really only expect a pickup in the second half of the year.

Ron, the second point?

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

Yes, I said last year we would have benefits in Q1 from the phosphor-related material price decreases. As we also said, we haven't been able to hang on to all of them, but the net balance was a positive and that contributed to a better bill of material. And the rest of the improvement came from overhead cost reductions.

In the bill of material, we expect throughout the year something similar than that we have seen in the first quarter of the phosphor impact.

Martin Wilkie - *Deutsche Bank Research - Analyst*

Okay, thank you very much.

Operator

Ben Uglow, Morgan Stanley.

Ben Uglow - *Morgan Stanley - Analyst*

I had a similar question on the emerging market orders in Healthcare.

Ron, from your commentary, it sounded as if the decline in emerging market orders was really a comp effect, simply from Patient Care and Clinical Informatics being very, very strong last year. Is that correct? And should we think that that comp effect drops out in the second quarter, i.e., is it reasonable for us to assume that emerging market orders in Healthcare trend positive in 2Q? So that was question number one.

Question number two, which is related; in the Imaging Systems business in China, I think you said that orders were up something like 10%. Did that include the benefit of new product launches? Because reading the press release, you've got the 16-slice CT and the 1.5 Tesla MRI. Is there a benefit of that in the 10% order growth?

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

The growth geographies, so let me say the following. So Imaging Systems grew while, indeed, PCCI had a decline, as mentioned. So this was also mainly due to quite tough comparable figures, as we grew 41% in the growth geographies last year for PCCI.

China continued its double-digit growth, as I said, while India and ASEAN declined double-digit.

So it is true that the IS intake was plus 10%. And that was also on the back of new product introductions, as you mentioned, amongst others the 16-slice CT.

As you know, we're expanding our value segment portfolio and a number of new products we have and will be introduced from that.

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

Yes, and besides the ones already mentioned, Ben, we can also underline that we have launched our value segment ultrasound product in China, the ClearVue, and we also expect good traction from that category.

So that means that now in the Imaging side, already in three modalities, we have China-based products launched and SFDA approved. That should, of course, help our business going forward.

Ben Uglow - *Morgan Stanley - Analyst*

Okay, and without wanting to press you too much, but on the second quarter, it seems to me that that comp effect from PCCI should drop out. Is that a fair assumption, i.e., that you didn't have anything like the same growth in the second quarter as 41%? Is that fair?

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

Yes, Ben, there's a lot of truth in what you say. Nevertheless, we maintain a cautious view for the entire first half of the year.

Ben Uglow - *Morgan Stanley - Analyst*

Understood.

Operator

Ludovic Debailleux.

Ludovic Debailleux - *Natixis - Analyst*

First of all, where are you in the process of restructuring Lumileds and Consumer Luminaires? Are you on track with the plan and do you expect additional benefits in Q2 and Q3? That was question number one.

Question number two, could you share with us why the savings in Q1, at EUR78 million, are lower than in Q2 to Q4 2012? Actually, in order to reach the EUR900 million by year end, you need to accelerate saving extraction throughout the year. When do you expect this acceleration to take place? In Q2, or will it be later in the year?

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

I'll take the first one and have Ron take the second one.

So let me first talk about Lumileds. Lumileds turned into a profit zone in the fourth quarter of last year. And we have said that we expect Lumileds to be profitable for the whole of 2013. The same applies to Consumer Luminaires.

We flagged strong sales growth improvement for Lumileds in the first quarter, which is another sign that we are on the right path.

From a seasonality point of view, the first quarter is always less profitable than the full year. So that is something that is normal in that business. So I reiterate the profitability for both businesses on a whole-year basis, full-year basis, in 2013.

I'm looking to my right and see whether Ron is ready for the next question. (laughter)

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

Yes, I am. So there was a EUR78 million overhead reduction saving reported in this first quarter. That is, of course, compared to 2011. So what we have to add into this is the run rate of the quarterly savings of Q4 2012. And then we'll gradually build up in the remaining three quarters of the year to the run rate that will get us to the EUR900 million.

Ludovic Debailleux - *Natixis - Analyst*

Okay, thank you.

Operator

Gael de Bray, Societe Generale.

Gael de Bray - *Societe Generale - Analyst*

Maybe three questions, if I can. The first one, I was actually surprised to see the drop in sales for your Solutions and Consumer Luminaires business in Q1, so, especially after the good performance you had in Q4. What's driving the decline here?

And the second question is about the DfX program. As you walked through the program and applied your approach to more pilots, do you think at this stage there could be actually some savings flowing through the P&L as of this year? So a bit earlier than the official plan, which is of 2014 to 2016?

And the last question related to Healthcare. It seems that Japan had a pretty good quarter in terms of order growth, if I'm not wrong. So I'd like to understand actually a bit better the comps. How the effect of the comparison was and how the effect of the comps will be in the coming quarters for Japan.

And, also, what you're seeing in terms of your competitiveness, given the FX movements obviously in Japan too.

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

The performance in Professional Luminaires and Consumer Luminaires, let me take them one by one.

Professional Luminaires, there is an effect of still weak non-residential construction in there. In the United States, the residential market has picked up, but that is not really the case for the commercial construction. And, as we are addressing some of the internal operational effects in our Professional Luminaires organization, also that has some dampening effect.

In Consumer Luminaires we saw strong Asia performance, less strong European performance and that, of course, is on the back of weak consumer sentiment.

For us, both Professional Luminaires and Consumer Luminaires are in line with our statement of a slow start of the year and, as such, not that surprising.

The DfX approach has a very strong potential, the design for excellence. We have now run it already in several businesses in all three sectors. The enthusiasm is growing. Sometimes we see strong double-digit savings potential. Of course, it depends on the business whether that is quick to be realized or whether that takes a bit longer.

What I mean is that in a Consumer business with a product lifecycle of maybe eight months or a year, we can capture the savings faster than in a Healthcare business, where the time to market of a new product or an engineering change takes longer.

Nevertheless, we do see some benefit coming already this year. However, that is offset by the expenses that we make in running the program.

We are accelerating the deployment of the DfX as we see great potential. That bodes well for further profitability enhancement in 2014. At this stage, as we are still early in the race with DfX, the early bird benefit for this year versus the extra cost of running the program, let's call that still a wash, and if that changes, we can talk about it maybe in July when we have the next quarter behind us.

Ron, could you talk about Healthcare, Japan?

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

Yes. So Healthcare, Japan; very strong team, saw last year very good growth in orders. Therefore, in this quarter, we had a 13% comparable sales growth. That's very encouraging. So competitive-wise and technology-wise, we're quite strong player in the Japanese market.

Gael de Bray - *Societe Generale - Analyst*

Okay. And what about in terms of comps for the coming quarters? Do you think the performance in Q1 was a little bit exceptional or --?

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

Well, we had a very strong order intake last year, but -- so that explains this quarter's good comparable sales growth. However, we don't really give guidance for the quarters by country.

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

And the Japanese yen is obviously a headwind that we need to reckon with.

Gael de Bray - *Societe Generale - Analyst*

Okay. Thank you very much.

Operator

Mark Troman, Bank of America Merrill Lynch.

Mark Troman - *BofA Merrill Lynch - Analyst*

I've got a question on the sales growth target, the 4% to 6%. We've heard a little bit of commentary about European Healthcare and your comments about a slow H1. But what economic assumptions are you using to get that 4% to 6% when you give that guidance?

Are you assuming a marked pickup in GDP? Or is it very specific to the business pattern you're seeing within Healthcare, Lighting and Consumer? Thank you.

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

Well, we do see a stronger second half versus the first half, so I'd like to reiterate that first of all.

Secondly, the targets that we formulated back in 2011, if I may bring them to recollection, that was, on the sales side, a compound average growth rate, on a comparable basis, of 4% to 6%.

So, obviously, what we also build on is strong sales growth performance last year. And this year, even though we have a slow start, we expect a somewhat better second half year. So I think that is how you need to look at it and then do your math.

Mark Troman - *BofA Merrill Lynch - Analyst*

Okay, thank you. And, Frans, on the cost savings, the Accelerate! numbers are obviously very clear and have been communicated, etc. What about -- what is the scope for cost savings outside, if you like, of the, if I can call it, overhead reduction of Accelerate! in terms of factory footprint or rationalization, etc., and, I guess, the supply chain?

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

You're right; also there, we see many opportunities and I think Lighting is showing that. Maybe, Ron, if you want to add some color on that.

And then, before you do that, and then the third part -- so you see three pieces, right. We see overhead cost reduction. We see the factory footprint. And then the third piece is basically the cost of goods sold, the bill of material, where, with the DfX program, we are also going to chip away at that cost.

Anyway, on the industrial footprint, Ron?

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

Yes. So in Lighting, we took quite some charges last year as we pulled up our restructuring plans, on the back of conventional lighting industrial base coming down somewhat faster. So we've done that now for the plans that we are foreseeing in our current base, which will come down over the coming years.

We have also, at the various occasions, indicated about EUR165 million savings related to that, that would come in over the coming two or three years and that will probably come in a bit lumpy. So that on the footprint reduction.

In Healthcare, we have also taken some provisioning last year. That is more a matter of rightsizing of certain geographies.

We still have good technological but also costly setup in a number of higher cost areas. We're balancing that off by bringing more of the production base to Suzhou in China and to Pune in India. We've been successful in that and, as I said earlier, that will also drive some of the newer value segment product releases.

So rightsizing in Healthcare and bringing it to lower cost countries, that's more the order.

Now, Frans mentioned three -- you asked for the potential and so he mentioned overheads, footprint and the DfX.

And, of course, our End2End value chain improvement program, which stretches into the coming years and 2017 at least, will gradually also drive more of a benefit through various initiatives; not just the supply chain within that, but also time to market and cost of quality reductions, for example.

So, as Frans said, a lot of opportunities to drive further efficiency and, at the same time, grow and innovate.

Mark Troman - *BofA Merrill Lynch - Analyst*

Thanks, Ron. And then just one very quick follow up. On pricing, have you seen any changes in pricing trends, either from external factors or from, if you like, the new initiatives you've been putting through the organization, like time to market? Thanks very much.

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

So, let's take Consumer Lifestyle. What we have found that when we do a great job in improving our time to market, we're actually better capable of capturing a good price early on in phase of the new product introduction, so that's very heartening.

In Lighting, we have seen, in the conventional base, the normal price erosion, not anything off. And also in Healthcare, we have not, in our order portfolio, a lot of price erosion.

But I do remark that we're not participating in each and every deal. If it, profit-wise, doesn't make sense, we don't engage. So we may not see all the price erosion that goes on in the industry, for example. But, for now, this is very manageable.

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

And underlined by the gross margin improvement across all three sectors, and I think that's exactly -- that is heartening in times where the economic pressure is always there.

Mark Troman - *BofA Merrill Lynch - Analyst*

Sorry, just to clarify, Ron and Frans. You're saying in Healthcare, you are being more disciplined, in effect, than you were before. Is that fair to say that, in terms of the business you go after?

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

We didn't say that we were more or less disciplined than before. I think Ron said that we engage in those market opportunities where we can get a good return, with products where we can differentiate.

The healthcare market is a very large market and in line with what we talk about, our business system, Philips Business System, we want to go after the best value-creating opportunities.

So we emphasize our innovation capability. And we want to work with those customers that pay for those innovations, rather than going for lower end segments of the market where it is just volume but no margin.

So I think that is what we were referring to, so we constantly manage the mix for a healthy gross margin.

Mark Troman - *BofA Merrill Lynch - Analyst*

Very clear. Thanks very much.

Operator

Martin Prozesky, Bernstein.

Martin Prozesky - *Sanford C. Bernstein - Analyst*

Two questions, please. On the -- Frans, you've spoken about the Prof Lum business. I just want to understand, in terms of all the issues you've had there, the actions you've put in place, how important is the volume recovery from US non-res?

Do you see that business get back to potential? Or do you think the cost actions you've taken there will mean that business can get back to normalized margins pretty soon, and how soon would that be?

And then the second question, and apologies for belaboring this point, but on the H2 pick up, H2 normally is seasonally stronger. We also will see the full benefit from the cost-cut programs in H2. So are you saying that there will also be a demand improvement in H2? Or is it more of a seasonal and savings annualization comment?

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

Well let's take the first one, the Prof Lum in North America. Some pressure due to our own doing. We have stepped up the post-merger integration of Genlyte. That may feel that it's already years ago, but we still have to do some of that work. That is impacting performance.

But our new management in place since 12 months is taking strong measures with regard to the brand rationalization, the sales force integration, the reduction of the industrial footprint.

We think that we are well on track to get to a better performance in the United States and we believe also there, in the case of self-help. So we are not that dependent on the market recovery, but rather will do this on our own strength.

With regard to the second half, by and large seasonal effects, although I did say that, in Healthcare, orders have been pushed out due to the uncertainty in the healthcare market, and that we do expect some of those orders to come back in later this year.

Ron, anything to add to that? Or are we --?

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

No, you're right. Actually it's a better half year within the year and you said it would be better than the first half. It's correct.

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

Always good to check with the CFO, you know to see if you forgot something.

Operator

Olivier Esnou, Exane.

Olivier Esnou - *Exane BNP Paribas - Analyst*

Two questions, please. There were less trading days in the quarter. I was wondering if you had tried to assess what was the impact in each of your businesses.

Secondly, if I look at the good growth in CL, do you have an assessment of how much of this growth would be the fair reflection of consumer confidence levels, and how much is linked to specific product introduction in your portfolio? Thank you.

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

Let me take the second question first, and then have Ron comment on the trading days.

CL now third quarter in a row with double-digit growth in an economy that is actually weakening, not strengthening. I correlate that entirely to increased focus in CL, thanks to -- and now that we have moved TV out and Lifestyle Entertainment on the course of moving to Funai, the team realizes and is focused on driving performance in the remaining categories of Health and Well-being. That focus, of course, pays off.

And then the more granular performance management resource allocation to those markets that have the best growth, and a strong commitment to introducing locally relevant innovation, such as the salad maker in Russia, soup maker in Europe, the air fryer, a much wider range of Sonicare toothbrushes, our ability to compete also in the value segment in shavers in China -- I can go on. There's numerous examples of how Accelerate! has totally repositioned CL to compete on a better level.

Now, I'd like to point out that CL was one of the first to really full heartedly get Accelerate! deeply deployed in the organization. Of course, also the CL products have a faster cycle and, therefore, the benefits show up earlier.

But for me, what CL is now showing is actually a forebode of what we can actually do in the rest of Philips, where we have strong confidence in our ability to improve performance on the back of strong innovation, and underline that case of self-help that we talk about very often.

Ron, the trading days, please?

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

Yes. We think overall for the two days that you mentioned it was not much of an impact. There's a lot of our business that is projects driven, of course.

In CL, we had, as we said, very strong 10% growth, so we haven't seen an impact there. If at all, it would have had some impact in loading of the lighting factories, but we have not seen a large impact from that either. I would not say that is a major explanation of the results.

Martin Prozesky - *Sanford C. Bernstein - Analyst*

Okay. Thank you.

Operator

Fabian Smeets, ING.

Fabian Smeets - *ING Financial Markets - Analyst*

Two questions from my side. When looking at the DfX plan in your slides, it seems that the cost reduction you see in the DfX plan has increased from the slides you've shown us at the Capital Markets Day in Boston. Could you elaborate a bit on that?

And then also on the raw material tailwind from lower phosphorus prices, could you give us an indication of how much exactly this was in Q1? Thank you very much.

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

On DfX, I can be clear; it is the same slide. And we will double check this slide, but I confirm that it's the same slide and nothing has changed and the program stands as before.

On the raw material tailwind, Ron any more color?

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

No, not much more color. As Frans earlier explained, the effects, we expect the results to materialize mainly in the years '14 to '16; so three years, where we'll go after, hopefully, EUR1 billion savings. For this year it's very important that we build up the funnel, and we will see some effect but I would not, say, and incorporate it now as tailwinds on top of the normal run rate of cost savings that we have.

What I said on the phosphor of Lighting, I said it will be quite evenly spread throughout the year, so we don't have to see a step up from that either.

So managing our pricing, managing our cost, optimizing the mix and a good bill of material should, hopefully, derive the gross margin to an improved level, as we have seen in Q1.

Fabian Smeets - *ING Financial Markets - Analyst*

Okay. Thank you very much.

Operator

Hans Slob, Rabobank.

Hans Slob - *Rabobank - Analyst*

Question on Healthcare. Could you elaborate more on the growth you've seen in the value segments and your plans there?

And, also, what percentage of total Healthcare sales is now being derived from the value segment?

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

I think what most people recall is that Philips actually was a bit slow to come to the value segment market, with some competitors being ahead of us.

We have worked hard to overcome that backlog. In the area of patient monitoring we did that through our Goldway acquisition, and the result we have been very successful in X-ray at its own game in the value segment, and that works well.

Then in the Imaging Systems arena we established our Suzhou greenfield operation, close to Shanghai, in order to do the in-house development and manufacturing of our value products for Imaging Systems. They're supported also by our Bangalore R&D center in India.

Earlier this call, we talked about several products that are now manufactured in Suzhou, such as the 1.5 Tesla MR, the CT, and the ClearVue Ultrasound, which are three examples in the value segment.

In terms of quantification, I would rate it at around one-fifth of revenues that can be in the value segment this year. And that, of course, is -- that's in Imaging Systems, let me be clear. So maybe close to 20% in value.

Our main strategy, and I'd like to underline that, remains in high-end innovation. So I realize we need to have a good value product offering; I call that defending our flanks. Whereas our main strategic thrust is in providing integrated solutions along the continuum of care. And the better we are able to integrate diagnostic imaging with minimally invasive treatment, the more we protect ourselves against competitive pressures from, for example, new Asian competitors.

We introduced the EchoNavigator product recently. We got FDA approval for that. EchoNavigator integrates and overlays X-ray with ultrasound images on a real-time basis. And that gives cardiac surgeons the opportunity to look inside the body without cutting open the patient and treat the patients with minimally (technical difficulty).

So this is -- of course, not everybody can do that. And the intellectual property is protected on these innovations. There's a lot of software there. And we think that others will not be able to follow us in this integration strategy.

Therefore, it's not a goal in its own right to improve the value segment. It is more to defend our flanks while the cream of the pudding is in the integration.

Hans Slob - *Rabobank - Analyst*

Thank you.

Operator

Fredric Stahl, UBS.

Fredric Stahl - *UBS - Analyst*

Can I just ask you, it seems to me that you still have quite a bit of confidence in your full-year growth numbers, and an improvement here in the second half. And I was wondering what proportion of that confidence comes from hard numbers that you can see in your reports from across the business, whether it's the end-of-Q1 trends, or even beginning of April here, beginning of Q2 figures.

What can you exactly look at and say, well here we have a bottom, or here we're accelerating? If you can provide some color around that, that would be great. Thank you.

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

Well, we had an earlier question this call about the makeup of the growth target and I explained that it was a comparable compound average growth rate. So we start the confidence already on the basis of the growth that we have built up over last year.

This year, even though we see a slow start of the year on the back of order book customers that signal that they are interested in our products, and normal seasonality, we expect the second half year to be stronger.

I may also point out that, in terms of comparable, the first quarter of 2012 was pretty strong due to the push out of Q4 2011. So I don't want to make this too complicated, but Q1 2012 was a very strong, and maybe even overly strong, quarter. And that, of course, creates a difficult comparison, which is then somewhat negative in a comparison of quarter 1 2013.

So I hope, with that, I've given you just that little bit more color that you were looking for.

Fredric Stahl - *UBS - Analyst*

Fine, thank you.

Operator

Daniel Cunliffe, Nomura.

Daniel Cunliffe - *Nomura - Analyst*

Two questions, please. Firstly just on Lighting, you mention LEDs up 38%. So it works out roughly at about minus 10% for traditional. But then you also said that traditional was up 2% in the growth areas. Therefore, mathematically, that would imply 13%, 14% declines in traditional in areas like US and Europe.

If you could just give a bit more color and granularity on what's going on within the traditional market, and whether those assumptions are correct, just simply by backing out the LED and using your comments. That's question number one.

The second question really just on cash flow. You talked about inventories to sales, I think, a reduction of 1.4%, but as much as 300 basis points in Imaging, and 2% of sales that are Healthcare in total.

The question here is, given the size of inventory cuts to revenues, has there been any underproduction and under-absorption impact on the margins? And, if so, if you could help us quantify what that was. Thank you very much.

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

I'll take the first one and, Ron, if you could think about the second one.

So yes, strong traction in LED growth; 38%, that's great. It underlines how competitive we are in LED. Your math, it does go a bit fast for me, so I won't comment on the exact calculation that you did.

I don't think we broke out how conventional did between the regions. So maybe there I would need to be a bit more nuanced. But, of course, the growth in LED does come at the expense of conventional. Let's not beat around the bush there; that's true.

I think we have said earlier in Capital Markets Day, and other presentations, that already more than 40% of all our professional projects are based on LED. And so the total cost of ownership proposition is very strong. And, of course, professional customers are the first to recognize that, and to take up on that.

The profitability of LED in professional is healthy. And, therefore, we're also not that worried about the cannibalization effect that LED will have on our conventional business.

And since overall lighting was flat, yes, it does go to the expense of conventional markets and first in the Professional Luminaires space, whereas the replacement lamp business is still holding out. And that is in line with our story around the golden tale of conventional lighting, where people will continue to replace lamps in existing sockets for a long while.

Maybe we can switch to the second question.

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

Yes, on your question on inventory to MAT sales, we've reducing inventory now for the past couple of quarters, and we're not doing that by under-loading factories. So there's not a real effect of that.

What we are doing is we're looking at the low-hanging fruits. We're optimizing our sales and operating procedures, also across geographies, and that helps a lot.

We have handed out better accountability around inventories; also geographically, between businesses and markets. And that helps a lot in a number of other lower-hanging fruits.

We do expect that, going forward, under the influence of the End2End value chain improvement that we are making within the Accelerate! program, we can get to further optimization. But, for now, we are driving to bring inventories down 300 basis points from where we exited 2011, as you know. Last year we did 200 basis points; so 100 basis points to go.

It won't necessarily stop there, but this is the, let's say, the first port of call. So no under-absorption impact.

Daniel Cunliffe - *Nomura - Analyst*

Thank you. And just one quick follow up. I didn't quite hear what you said on Healthcare orders. You said for the growth areas, up 41% in PCCI, but what was the underlying -- if you just confirm what you said there, that would be great. Thank you.

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

No, we said that in Q1 2012, we had a 41% increase in orders for PCCI. So that makes the compare for PCCI not very easy. But that's what I said, I believe.

Daniel Cunliffe - *Nomura - Analyst*

So there's no actual number given on what the underlying growth was, ex that large order?

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

No, we didn't.

Daniel Cunliffe - *Nomura - Analyst*

Okay, thank you.

Operator

Philip Wilson, Redburn.

Philip Wilson - *Redburn Partners - Analyst*

Most of my questions have been asked, but I have two questions left. First on Lighting pricing, just to be a bit more specific. Can you describe and contrast the trends you're seeing in incandescent versus CFL, versus LED, and how those are trending. And particularly with reference to what's happening in the private label competition in CFL? That's the first question.

And, secondly, on Imaging in North America, given the weaker demand, can you explain a bit any particular modality -- MRI versus CT, versus Ultrasound versus X-Ray -- and the impact that might have on margins, going forward, as I imagine some of your higher margins might have made in this more advanced CT/MRI products? Thank you.

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

Let us start with the Lighting pricing. I take it that most of your question actually relates to the Consumer segment. Philips Lighting is heavily skewed to Professional Lighting. Close to 75%/80% is Professional. And for the Consumer market, we have less exposure there.

As we also mentioned last year, the Consumer market, there is price pressure. Also due to retailers that have their private label brands. We have seen this in incandescent and CFLI in a consistent manner. We then play only in those, let's say, retail outlets where we can make a good margin. So we play selectively.

In LED, it is very early days. Actually, for LED, we need price erosion, otherwise we don't get to consumer price adoption points. So you could argue that, actually, Philips is driving price erosion ourselves in order to get to price points that are attractive to consumers.

In that context, we have recently announced that we will go below $10 for LED lamps during this summer. And, of course, the sweet spot expectedly to be reached in 2014 or '15, when we are below $5. We think that's the turning point for consumer adoption.

So it's a mixed picture. Certainly some price pressure in the Consumer area, but strong, good pricing in the Professional side, where the total cost of ownership story and the additional added value of embedded controls and software, the quality of lighting is far more important.

With regard to Imaging, I'm looking to my right here, whether we can give us extra color on the composition of the portfolio.

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

Yes, so if you look at the -- I think the question was, what part is growing? We saw a growth in our ultrasound business, of course. We saw very strong growth in our interventional X-ray business, as Frans explained. And then there was a weaker situation with CT and MR and NucMed for that matter.

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

There's also last year we had quite some good order intake on still the back of the imaging radiology suite, that we introduced in 2010, which started to roll out more to the growth geographies.

Philip Wilson - *Redburn Partners - Analyst*

Thank you.

Operator

William Mackie, Berenberg Bank.

William Mackie - *Berenberg Bank - Analyst*

I'd like to come back to Healthcare. Given the uncertainties regarding the outlook for the second half, how do you anticipate the organization can respond, above and beyond what is already in train within the Accelerate! program?

And then secondly, you mentioned Japan, or you mentioned Japan revenues; plus 13%. Could you clarify the order situation in Japan under the current yen conditions?

And lastly on Lighting. We've talked about trading days, but, also, did you see anything across the European or the North American landscape in Lighting that indicated that the distributors were changing behavior just in the first quarter? Was there any change in the channels, in terms of a pattern of trading which could reverse in the second half of the year? Thank you.

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

Well, Healthcare, you mentioned the uncertainty in the market. We agree with that. Our response is to Accelerate! I don't want to be cheeky there, but, of course, that is our plan and it works.

We discussed how successful it is in Lifestyle. Healthcare was a little bit slower in the full adoption of the managers deep into the organization. Deborah DiSanzo, who became CEO a year ago, made a strong push in that direction. And we feel that we have now very good traction on all fronts. But some of the benefit still needs to get into the numbers.

So we did do quite a number of overhead cost reductions, changing the marketing organization, redirecting investments to more compelling, innovative areas, reducing our commitment from lower margin products. And then the DfX program has just started in Healthcare.

So we feel that we are able to deal with a slower demand and still have significant improved earnings. And, as such, we don't need to initiate new steps right now, although the unlocked potential of Philips applies to all three sectors. And by no standard are we world class yet in terms of cost or productivity, and we will continue to push the envelope in those areas.

With regard to the Japan situation -- well, situation, that sounds negative. I want to turn it positive, because we have strong traction in Japan due to our innovations. And that, of course, shows up in a very successful first quarter and last year.

I did mention that the currency gives us a headwind with, let's say, local competitors means that we cannot compensate that through higher prices. We see, therefore, also a slight decline in the order intake value, as it gets into our reporting currency, but nothing to be concerned about. We think that the good traction in Japan will, in fact, continue.

The third question on Lighting, I need some help here from my team.

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

It was a question on the distribution channels.

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

Thanks for reminding me. No, we have not seen any strange behavior in stocking up or stocking down and, therefore, we don't expect effects going forward.

As I mentioned before, in the United States the relative lower performance of Philips in North America in Professional Lighting Solutions correlates with the efforts that we are doing to get the organization to a higher plan, which we feel is on the right track. And then we also expect the traction of the business to improve in the marketplace.

William Mackie - *Berenberg Bank - Analyst*

Thank you.

Operator

Mark Davies Jones, Agency Partners.

Mark Davies Jones - *Agency Partners - Analyst*

First just a clarification. I wondered if Ron could just run me through how we get from the EUR425 million adjusted EBITA as reported for the first quarter last year to the restated EUR322 million you say today.

Just the breakdown of how much of that is the deconsolidation, how much is the change in accounting treatment around pensions, etc., because I haven't seen a reconciliation of that.

And then on the question side, you were mentioning some of the LED solutions on the tubular lighting side. Do you think there's a chance that we see a second step up in the rate of transition to LED on the professional side, which might mean you need to restructure traditional capacity a little bit faster? Is there another wave coming through on that side, do you think?

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

I can take the second while you look up the first. Actually, it's great to see how innovation continues to push the envelope in LED lighting. That's good, because it's all intellectual property for us and it all helps us protect our own market position.

So I'm pleased to see that we can innovate like that. And that it has a cannibalization effect on our traditional business is inevitable, but I always tell my people it's better to make yourself obsolete than have an external competitor do that. And so we need to push the envelope like hell and make sure that we bring the best products to our customers.

We count on restructuring our manufacturing base in a very substantial manner between 2009 and 2015 where, off the top of my head, we take almost half of the infrastructure out.

If LED would penetrate even faster beyond the forecasted 45% by 2015, yes, we would further accelerate restructuring of our industrial base. At this moment we are actually tracking along our own forecast, that LED penetration will hit 45% by 2015.

To bring it in recollection, so far our penetration now is 23% of overall Lighting sales, so there's still a doubling to be done before we would have to change our own market penetration forecast.

With regard to the reconciliation of EBITA.

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

So if you look at Q1 2012, as we have taken in our press release, that is already restated for the IAS 19R, so for the pension adjustment. I just wanted to be clear. And we published the restate a few weeks ago. So there is, for that matter, no real variance. It's on a comparable basis related to pension impact.

The biggest positive swing comes from the overhead cost reduction program, as we have reported; the EUR141 million. We also have a positive from the gross margin and somewhat on volume, as we have reported a 1% comparable sales growth.

And then we have done some investments to support our growth. Nothing out of the extraordinary, but we're at a slightly higher impact of that. And there is somewhat of an impact of currency.

So that basically derives the difference. So the main positive is the overhead cost-reduction savings, then you get gross margin and volume and there is some ForEx impact and some investments in driving growth.

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

Is that clear?

Mark Davies Jones - *Agency Partners - Analyst*

Yes. I was wondering more about the restatement of the historic, but we'll dig through that later.

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

So it has been restated for the pension impact. So the Q1 2012, as I said, is stated as if Q1 2012 had already IAS 19R in the numbers.

Mark Davies Jones - *Agency Partners - Analyst*

Yes, I understand that. It was just in the divisionals it's not quite clear what is that effect and what is the deconsolidation of the Audiovisual side.

Ron Wirahadiraksa - *Koninklijke Philips Electronics N.V. - CFO*

So the numbers that you're looking at -- that's a very good point, I forgot to mention that. Apologies. The numbers that you're looking at are excluding Audio, Video, Multimedia and Accessories. So that is completely excluded from the numbers and those results you will find in discontinued operations.

Mark Davies Jones - *Agency Partners - Analyst*

Indeed. Okay, thank you.

Operator

Thank you. Mr. van Houten and Mr. Wirahadiraksa, there are no further questions. Please continue.

Frans van Houten - *Koninklijke Philips Electronics N.V. - CEO*

Okay. Well, at this stage, then, I would like to thank you very much for all your insight, full and good questions. And I'd like to reiterate that we are committed to achieving our targets this year and we feel that we are on the right path with Accelerate! and our self-help story and we will just continue to drive that very diligently.

Hope to speak with you all soon and, for now, have a great day. Thank you.

Operator

Thank you. This concludes the Royal Philips Electronics first quarter results 2013 conference call on Monday, April 22, 2013. Thanks for participating. You may now disconnect.
