

# FINAL TRANSCRIPT

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## **PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call**

**Event Date/Time: Apr. 18. 2005 / 4:00AM ET**

**Event Duration: 1 hr 10 min**

### **OVERVIEW**

**The Co. reported that comparable sales were up 2%, inventories declined as a percentage of sales and working capital increased due to a lower level of AP. PHG expects its semiconductor to be in the low-to-mid single-digit higher sales range, IFO margin to be 7-10% within 1-2 years, and margin in Consumer Electronics to be 4.0-4.5%. Q&A Focus: Model display, SSMC, and MedQuist.**

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

## CORPORATE PARTICIPANTS

### **Jan Hommen**

*Royal Philips Electronics - Vice Chairman & CFO*

## CONFERENCE CALL PARTICIPANTS

### **Francois Meunier**

*Cazenove - Analyst*

### **Mr. de Vries**

*- Analyst*

### **Johannes Ries**

*Cominvest - Analyst*

### **Ben Rosen**

*- Analyst*

### **Bram Cornelisse**

*Merrill Lynch - Analyst*

### **Nicholas Gaudois**

*Deutsche Bank - Analyst*

### **Matthew Gehl**

*Goldman Sachs - Analyst*

### **Didier Scemama**

*ABN AMRO - Analyst*

### **Janardan Menon**

*Dresdner Kleinwort Wasserstein - Analyst*

### **Uche Orji**

*J P Morgan - Analyst*

### **Sean Gardiner**

*Morgan Stanley - Analyst*

### **Thomas Brenier**

*SG Securities - Analyst*

### **Ben Adler**

*Morgan Stanley - Analyst*

### **Sean Murphy**

*Nomura - Analyst*

### **Luc Mouzon**

*BNP Paribas - Analyst*

### **Jerome Ramel**

*IXIS Securities - Analyst*

### **Jean Danjou**

*CSFB - Analyst*

### **Ulrich Pelzer**

*Lehman Brothers - Analyst*

### **Jan-Willem Berghuis**

*Kempen & Co - Analyst*

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

## PRESENTATION

### Operator

Ladies and gentlemen thank you for standing by. Welcome to the Royal Philips Electronic first quarter results 2005 conference call on Monday, April 18, 2005. For the introduction by Mr. Jan Hommen, Vice Chairman and Chief Financial Officer of the Royal Philips Electronics. All participants will be in a listen only mode. [OPERATOR INSTRUCTIONS]. I will now hand the conference over to Mr. Jan Hommen. Please go ahead sir.

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### Jan Hommen - Royal Philips Electronics - Vice Chairman & CFO

Thank you. Ladies and gentlemen good morning and welcome to our conference call for the first quarter results of 2005. I will make a very short introduction on our Q1 results and then we can quickly get to your questions.

Comparable sales in Q2 were up 2% with 5% in Medical, 6% in Lighting, 9% in DAP and 7% in Consumer Electronics and Stand Outs. We believe that overall this is a good performance in the current environment. Sales in other activities were lower mainly by the lower sales in Lighting Displays and that affected [indiscernible].

Sales in North America increased by 8%, which included a 29% growth in Consumer Electronics which reflects the success of our new products, the better placement and the actions to strengthen our sales organization during recent years. Sales in Europe were showing no growth.

Within our operating result we saw an improvement. In Medical has increased its margin as expected helped by the renewed product range. DAP has made progress compared to 1 year ago showing improved margins. Excluding the lower Lighting's revenue Consumer Electronics has made a profit in the first quarter, which it last did in 1998. And our efforts to improve our products and our business renewal program are bearing fruits.

In Lighting excluding the restructuring the margin increase of 15.6% due to improved sales and innovation in the product range. Semiconductors remained in the black. We expect low to mid single digit higher sales for the second quarter. Our short order book keeps us cautious for the time being.

Other activities was negatively impacted by losses in Medical Display Systems reflecting a large sequential sales decline and by the fact that NAVTEQ is no longer consolidated here. Unallocated reflects our cost reductions and heartily of any brand exposure this quarter which will not be the case in Q2.

Medical had a 9% overall increase in their order intake in Q1 and even a 17% increase in product orders which builds on the success in 2004 and will improve our market share. It is encouraging for the rest of 2005 and beyond. We suggest that we can increase our margins here.

Our inventories as a percentage of sales once again declined. However our working capital increased in the quarter due to a lower level of accounts payable. The results of our unconsolidated Company showed a continuing slowdown mainly due to the cyclical developments in the LCD panel industry.

We continue working towards our goals which includes a 7 - 10% IFO margin, this in 1 to 2 years. 4 to 4.5% margin in Consumer Electronics including Licenses by the end of this year and growing our Healthcare business.

Let me leave it with that. I'll see what questions I can answer for you. Hello, Operator can I get the questions?

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

## QUESTIONS AND ANSWERS

### Operator

Thank you ladies and gentlemen. [OPERATOR INSTRUCTIONS]. The first question comes from Mr. Bram Cornelisse.

### Bram Cornelisse - Merrill Lynch - Analyst

The low utilization rate this time around seems to be so much less than it was in Q4. And related to that maybe also tell us what percentage was outsourced this quarter versus Q4 and whether or not you lowered inventory again this quarter? Thanks.

### Jan Hommen - Royal Philips Electronics - Vice Chairman & CFO

I don't know Bram that I pick up all your questions but let me answer what I pick up and if that's not complete then please come back.

Utilization rate was 75%. That's a little bit lower than it was in Q4 and it was at 81%. We are seeing that our inventories which have declined in Q4 have increased slightly in Q1 but not in a significant way. We have seen that our outsourcing, if we calculate that as a percent not including SSMC, our joint venture, then outsourcing excluding that is at the -- about the 10% level.

### Bram Cornelisse - Merrill Lynch - Analyst

Okay, could you say what it was in Q4 again?

### Jan Hommen - Royal Philips Electronics - Vice Chairman & CFO

A little bit higher than that. I think again here excluding SSMC if you include SSMC it is closer to the 19% level -- 18 or 19% level. But if you excluded SSMC, I think it was slightly higher in Q4.

### Bram Cornelisse - Merrill Lynch - Analyst

What -- was it 18%? I remember the Q4 the big disappointment was the sector utilization rate had such a big impact on the margin. But this time around even though utilization came in a lot lower than expected the margin wasn't really affected as much. I'm just wondering did you do something else like cutting R&D or any other cost cutting programs -- sorry. Why was the margin as good as it was given the low utilization rates?

### Jan Hommen - Royal Philips Electronics - Vice Chairman & CFO

Well, utilization rate we have a little bit better performance from inventory, yes. So, that gets you a little bit better coverage of your fixed cost and it was mainly in the end-product area. We did see a number of small items that were 1 time that I think had an impact on our numbers. I would say probably 6 or 7m of 1 time small items that -- that were positive.

### Bram Cornelisse - Merrill Lynch - Analyst

Okay.

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

In these numbers as well.

**Bram Cornelisse** - *Merrill Lynch - Analyst*

Okay, thank you very much.

**Operator**

The next question comes from Mr. Nicholas Gaudois of Deutsche Bank. Please go ahead with your question.

**Nicholas Gaudois** - *Deutsche Bank - Analyst*

Your repurchase program just again your cash flow it seems like you had about 250 or 200m of cash used for capital reduction over 174m for long term incentives on the stock purchase. So, I'm -- could you just remind us how much more do you have to do in terms of share buy backs?

And also looking into 2006 as your underlying cash flow generation is improving, would you consider doing more share buy back programs as a follow up? Thank you.

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes, our share repurchase program was very [indiscernible] cautious. We had a capital reduction and we had a hedging program. The total was 750m, 500m for capital reduction, 250m for hedging.

We're basically at this moment we have realized in Q1 426m. So, we have another 334m to go to get that 750m. We have not -- no further authorization to do more. But I would say if our cash flow continues to perform as we expect, plus we have a very strong balance sheet and we are selling as you know some assets and that is available to make some acquisitions. But I don't anticipate that the level of acquisitions we'll make will be needed or will be bigger than the cash we are generating. So, that leaves room for other -- other options. But at this moment there are official approvals to do them.

**Nicholas Gaudois** - *Deutsche Bank - Analyst*

Okay, great. And just a follow up on Mobile Displays, you classified these to others for which quarter? Could you clarify what are your intentions regarding this business? Is this a clear candidate for either a JV or disposal?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Well, we -- what we are doing is -- is taking Mobile Display out of our Semiconductor business to give a special focus. But at the same time to make sure that that management team and the management team in Semiconductors is focusing on improving operations in Semiconductor. So, it is a double -- a double program in both cases that are focused and we are, of course, evaluating a number of options how to go forward but that will be decided, I would say, in the next 3 to 4 months.

**Nicholas Gaudois** - *Deutsche Bank - Analyst*

Okay, thank you Jan.

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Operator**

Thank you. The next question comes from Mr. Matthew Gehl of Goldman Sachs. Please go ahead with your question.

**Matthew Gehl - Goldman Sachs - Analyst**

Yes, good morning. A first question on Semiconductors. Given the comments you made regarding some inventory build up in Q1, some positive 1 time impacts as well in Q1 which benefited your margins there.

I'm just interested in the outlook for Q2 with this rise lower to mid single digits in revenue and a likely small amount back in utilization rates. Could you give us some sense on what type of increase in operating margin we could be looking for in Q2?

**Jan Hommen - Royal Philips Electronics - Vice Chairman & CFO**

Yes, Matt, I would be very hesitant. As you know it's very difficult to forecast exactly what that will mean in numbers. I can give you ranges but I would say it will result in a slightly improved margin that we see for Semiconductors in Q2. That is, I think, the best I can give you at this moment.

**Matthew Gehl - Goldman Sachs - Analyst**

As far as the range are we talking 100 to 300 basis points in that type of?

**Jan Hommen - Royal Philips Electronics - Vice Chairman & CFO**

Yes, I think we were about -- I cannot give it that precise. I think we will clearly do better than 100% increase and the 100 basis point increase.

**Matthew Gehl - Goldman Sachs - Analyst**

And then the second margin related question, looking at the Medical Division margins are running about 50 basis points above where they were last year. And I know there was some impact because of MedQuist costs here in Q1 but it's maybe a bit below what we were looking for given all the improvements you made over the course of all of last year in the Medical Division.

As you go to look forward to the remainder of the year do you expect the margin improvement year on year to increase in the Medical Group?

**Jan Hommen - Royal Philips Electronics - Vice Chairman & CFO**

Yes, I certainly will. I think Medical is really doing well. It may not have come through yet in the financial numbers in Q1. But they had a terrific quarter again in bookings. They did extremely well, CTMR fantastic effect gaining significant market share in those areas. Also Ultrasound, also the patient monitoring business did very well. X-Ray did well. So, I think our product categories are really well positioned.

We see that continuing. We see building margin improvements in our Medical operations. They had some increased cost that slightly reflecting some investments in businesses like new research and development projects that they are doing with a number of institutions to position us well for the next phase in the molecular energy market.

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Matthew Gehl** - *Goldman Sachs - Analyst*

Thank you.

**Operator**

Thank you the next question comes from Mr. Didier Scemama of ABN AMRO. Please go ahead with your question sir.

**Didier Scemama** - *ABN AMRO - Analyst*

Hello, good morning Jan. I'd just like to start with a question on the associates.

If you look at -- if you take out the LCD Displays and I've got like a bag of other things like TSMC, Atos, LumiLeds and I guess NAVTEQ. Is there anything in this other portion that is related to any 1 off? Because I think it's otherwise a bit weaker than at least I had. So, I'd just like to know if there was anything -- any 1 off's that we should be aware of?

And the second thing is about other activities where the revenues were significantly weaker. I think you mention MDS. Is there any plan to reduce the losses in this other activity in the short term or are we looking at some operating losses that we had in Q1 for the rest of the year?

And the last point is could you come back to the reason why you're -- you had such a big cash outflow at the operating level in Q1? I think if you could explain just on payables and inventories that would be great. Thanks.

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes. A major element that I think you have probably not seen in the unconsolidated companies has been the LG Philips Display business. LPD that was negative. That came in, let's say, 16m negative and the main reason there was the restructuring charges that they had to take related to an operation in the U.K.

And in other areas I would say in the other activities in the unconsolidated companies are basically in-line with developments. Yes we have less, of course, ownership in NAVTEQ. Atos Origin is no longer part of that because that company is now a financial asset. It is below the 20% level. We are normally 15%. So, we don't take out any earnings from Atos anymore.

**Didier Scemama** - *ABN AMRO - Analyst*

Okay.

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

I would say there are no special other items in here. In here is also our share of the Crolles facility, yes, that we share together with ST and Motorola, what is a fixed amount. That's part of that number as well.

In other activities we are, I think, aggressively looking for ways to first of all sell a number of activities that are in there and we have been looking to sell but at the time that the prices were extremely low and in fact at a time that there were no buyers. We have seen the buyers coming back. So, we -- that's number 1.

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

And number 2 a number of activities here relating projects -- technology projects like [LCOS] and [PolyLEDS]. And they have been closed. But you will see the impact of that dribbling through the numbers in this quarter and next quarter mainly. And then there will be -- the losses will stop significantly. We are looking in other activities -- I think those are the main areas.

We have a number of businesses in there that were a little disappointing. And the most disappointing was indeed MDS. That was in a loss giving position. And we are focusing on MDS to make sure that we quickly get to the bottom of what we need to do. And that's why we are looking at various options here that are available to us.

With respect and I think that -- yes, the cash flow. The cash flow in Q1, the main reason why we had the outflow of payables that had to do with partly timing issues. The closing was the old -- the normal month end in March and that always has particular type of issues like they also did a few years ago in Q4. We have seen also in Q4 that I think we were very, very strong in our cash flow, probably a little bit too strong.

We have done some very significant analysis on our payables. But are base payables are basically the same as they were a year ago. I think there's a lot of timing issues here and in fact because we had [an end] date passed we have salary accruals and things like that that have come into play here. But I would say this will get normalized during the rest of the year.

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**Didier Scemama** - *ABN AMRO - Analyst*

Okay, could you just give us an indication of other activity operating losses? What sort of number are you looking for compared to the -- I think to 69m last year for this year? Like substantially lower this year do you think?

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Well, we are -- yes, they will be lower than -- than last year. But there are some special items in there that will have an impact in Q2. We anticipate to have some restructuring charges in there which after we have done that will improve -- the numbers will improve. So, there will be -- actually the losses will be up in Q2 and then there will be at more to a level of about 40m or so accrued.

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**Didier Scemama** - *ABN AMRO - Analyst*

Excellent thanks.

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Bye.

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**Operator**

Thank you. The next question comes from Mr. Janardan Menon of Dresdner Kleinwort Wasserstein.

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**Janardan Menon** - *Dresdner Kleinwort Wasserstein - Analyst*

Yes. Hello. Good morning. A couple of questions, 1 is I'm finding some difficulty in just modeling your Medical margins across the quarters, probably because I'm not a Medical man basically.



Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

But I'm just wondering is the seasonality on margin that you showed last -- last year, which was roughly about 7.3%, 10.2%, 11.6% and 19.8% in the four quarters. Would you regard that sort of trend from a fairly weak Q1 to an extremely strong Q4 as what would be typical for Philips Medical in -- in this year and for future years? And so if you are increasing margin is it a matter of adding 50 basis points, 100 basis points to each of those quarters to get what would be the final year margin?

And I have a couple of follow ups if I can?

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes, I think you are exactly right. The margin development is heavily skewed towards the back end of the year and in particular Q4. The important thing is to see that we are improving our margins quarter over quarter compared with the year before. And I think that trend line we have kept now for the last 2 to 2.5 years and that will continue. So, this is nothing unusual. This is the way it is.

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**Janardan Menon** - *Dresdner Kleinwort Wasserstein - Analyst*

Okay. And a slightly lower than expected earnings at MedQuist, how do you see that developed in the quarter ahead?

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Well, MedQuist as you know is a special case. We have all type of legal issues that we are resolving. I can tell you that management and the Board are right on top of it.

The expense, there was a 10m decline in MedQuist compared with a year ago quarter after quarter. 7m out of the 10m were made for these 1 time special type items, mostly related to legal expense in order to deal with an issue. And needless to say, you like to hear -- to see it finished and so do we. We all like to see this coming to an -- a resolution quickly.

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**Janardan Menon** - *Dresdner Kleinwort Wasserstein - Analyst*

And on the Semiconductor side how -- what -- can you give us some idea of the profitability of the RF Solution business which you're now putting back into Semiconductors?

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes. RF Solutions had a profitability contribution of about 2 or 3m, that level.

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**Janardan Menon** - *Dresdner Kleinwort Wasserstein - Analyst*

And would that be expected to continue going forward roughly at that level?

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes. That's -- I would think so, yes.

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Janardan Menon** - *Dresdner Kleinwort Wasserstein - Analyst*

And if you look at your second quarter guidance on Semiconductors is it mainly LCD, T.V. chip driven or is it wireless driven, the up -- the strength coming in in the quarter in terms of book to bill rising to 1.1m?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Well, the strength is predominantly in the end consumer and in the Mobile handset business where we are clearly designing our -- in a number of new applications. That 1 is the, I think, the best 1 that we have and where we have the best outlook as well and the best visibility.

**Janardan Menon** - *Dresdner Kleinwort Wasserstein - Analyst*

And this last question is, your margins on CE are extremely strong in the quarter and that is mainstream CE and you reported a profit even post charges. Would you say that that is primarily driven by higher margins on high end flat panel TVs or is there some other thing in that which is contributing that strength in the margin?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

There -- there are 2 things that have made a contribution. 1 is the, of course, the flat panels. Televisions they have done well. But also we had a good performance in the Entertainment -- Home Entertainments, DVD, DVD Recorder set top boxes in particular did well. Those have driven, I think, the margins higher.

But at the same time we had -- our business renewal program and our cost reductions and redesigning the way the Company works and the business works has been quite successful. And the combination together with better products and better sales and better placements, I think, has resulted in these higher operating profits.

**Janardan Menon** - *Dresdner Kleinwort Wasserstein - Analyst*

But given that there are DVD recorders and flat panel TVs are today very high end products with probably high margin but as the year progresses by the end of the year they will become commodity products with possibly lower margins. You're still confident that even with such an effect of lower profitability on those products you could still make your 2 to 2.5%, your full margin target?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes, I think we are quite confident the way that we are going. We see improvements basically in month after month, week after week in the business year, better planning. We see our cost of quality which has an impact -- significant impact being heavily addressed. We are quite confident that we will attack the 2 to 2.5% margin target during the second half of this year.

**Janardan Menon** - *Dresdner Kleinwort Wasserstein - Analyst*

Thank you very much, Jan.

**Operator**

Thank you. The next question comes from Uche Orji of J P Morgan. Please go ahead with your question.

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Uche Orji** - *JP Morgan - Analyst*

Good morning Jan. Just let me fill up on CE. The shortfall we saw in Licenses, how much of that was because you have such a strong Q4 in Licenses and what should be the run rate we should use on our models going forward?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes, I think we have mentioned already for a long time that all these collections we are doing on back Licenses, of course, are very important but they distort the picture that of what is the underlying trend.

And the underlying trend as we see it is more in the neighborhood of 40 to 50m a quarter. And that's a little bit light Q1 compared to that 40m. But I think going forward that's the level that you should set.

**Uche Orji** - *JP Morgan - Analyst*

Okay. Just can you characterize the main -- can you just tell us what the mainstream CE margins that were for the quarter just for us to get a proper sense because the guidance was for 4 to 4.5% -- 2 to 2.5% margin coming from mainstream CE? What level did you get to in Q1 for mainstream CE?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

That was only -- what is it? 1.5% excluding restructuring, yes. 1.5%.

**Uche Orji** - *JP Morgan - Analyst*

On LG Philips Display what is the end game here? It looks like the outlook for this technology competitor LCD is not really that strong. All this restructuring what type of margin should we expect for Q2 and how should we model this going forward?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes, LPD -- the LG Philips Display business it's basically a cash flow business which we did. It's not -- we want to make sure that the -- that they have the ability to pay down debt quickly and that they still have flexibility to do at the center of the Company.

I think that's the game plan. Margins will be impacted from time to time. And this quarter they were impacted by restructuring charges of about 16 to 17m restructuring charges. The -- most of the restructuring charges I think in Q2 -- yes, I'll share what that is, 16 to 17m is our share. The real charge for the whole Company 100% is more like 36m.

Yes, we keep focused on cash flow. I think that's the most important thing to keep focused on and get the result wherever where we do create strategic flexibility to do the same for that company.

**Uche Orji** - *JP Morgan - Analyst*

Okay, thank you very much.

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Operator**

Thank you. The next question comes from Sean Gardiner of Morgan Stanley. Please go ahead with your question.

**Sean Gardiner - Morgan Stanley - Analyst**

Yes, hello, thanks. Hello Jan. I was wondering if you could just talk about the DAP margins you had in the first quarter and how you see that developing during the rest of the year? They looked a bit weak. And in terms of the outlook you're talking about extending your alliances and expanding retail chains in emerging markets. So, should you expect this weakness to continue?

**Jan Hommen - Royal Philips Electronics - Vice Chairman & CFO**

You ask in the margins in DA. To me they're not really that disappointing

DAP has on average, I would say, they will make margins of about 15% on an annualized basis. Most of that will come always in Q4. DAP is a business that is low in the first quarter. Then it picks up in Q2 because of Mother's Day, Father's Day and then it really picks up at the end of the year. And so that is the seasonality in there.

I think to me DAP was okay. They have a lot of new product introductions that they are coming to the market with this year. So, I think you can see the same trend that you saw last year. And I'm confident that by the end of the year you will see that 15% on average for DAP.

**Sean Gardiner - Morgan Stanley - Analyst**

Okay, thanks.

**Operator**

[OPERATOR INSTRUCTIONS]. The next question comes from Thomas Brenier of SG Securities. Please go ahead with your question, sir.

**Thomas Brenier - SG Securities - Analyst**

Yes, good morning. I'd like to come back on the growth rates of Medical.

I actually have quite some difficulties to reconcile the growth in the order intake and the growth in sales looking especially at the growth in order intake that you announced in Q3 '04, Q4 '04 and now in Q1 '05. That's quite a strong growth rate and we're not seeing as much growth rates in the actual sales. I know there's an impact from MedQuist. Could you come back on that and help us try to see the link between this?

**Jan Hommen - Royal Philips Electronics - Vice Chairman & CFO**

Yes. Well, I'll try. We had significant growth in the start of already in Q2 last year and really taking place most of last year.

A significant portion of that had to do with service contracts that are longer term service contracts. So, they are significant. They are important because they are very important for our margins. But they -- you will see the impact of that over multiple years and not just in 1 single year.

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

Now, the importance of the Q1 order improvement, it was only 9%, but if I look at the product part that is the most significant part this time. And there you will see that these will be -- products that will be shipped during the remainder of this year. They have strong 17% growth on the product side, which stands out being the CT where it was over 40%, MR over 20%, Cardiovascular X-Ray and Ultrasound at a 30% level. So, very significant order growth here in a number of very important products areas. Yet once you have them installed later they'll lead to higher service capability as well. So, this is a very important trend that I think during the year should lead our PMS business to better perform with higher sales and higher margins.

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**Thomas Brenier** - SG Securities - Analyst

Okay. And [by any chance,] could you give us an idea of the growth rate that we could -- or the range for the growth rate that we could expect for the year?

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**Jan Hommen** - Royal Philips Electronics - Vice Chairman & CFO

Yes, for the year we are looking in PMS at a currency adjusted about 5% growth rate. And we are evaluating based on our book that we have had in Q1 whether that number should be upscaled or not.

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**Thomas Brenier** - SG Securities - Analyst

Thank you very much.

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**Operator**

Thank you. The next question is from Ben Adler of Morgan Stanley. Please go ahead with the question, sir.

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**Ben Adler** - Morgan Stanley - Analyst

Thank you. Good morning. Can you just give us a little bit more detail -- I'm sorry to keep going on about the Healthcare margins. But -- but you've told us about the service components and hopefully that that's going up.

My question really relates to pricing. How are the pricing dynamics in Europe and the U.S. at the moment? Is any of this perceived margin weakness, I know that you guys maybe don't see it that way, but is any of this related to pricing? We did have numbers from General Electric on Friday, which again were about a 100 to 150 basis points lower than what we were looking for. So, could you calm us that this isn't due to some top pricing competition in either of your main markets?

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**Jan Hommen** - Royal Philips Electronics - Vice Chairman & CFO

Well, to understand the Healthcare business it's important that you understand that if you have new products your new products don't really sell at better prices than if you have products that are relatively immature in the market.

Our product innovation rate is extremely high in PMS at this moment. We are increasing from about 60% last year to over 60% and close to almost 64 or 65% of our products are introduced during the last 2 years. So, we have a very new, very fresh product line.

And in particular our products that we have introduced in CT and MR and Ultrasound are really state of the art and patient monitoring are state of the art and are not really susceptible to price erosion. And I think that is probably 1 of the main features

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

that we see in our business. So, we -- yes there is competition. Of course, there is competition but by having a very fresh product mix you can avoid some of the heavy competition.

**Ben Adler** - Morgan Stanley - Analyst

And so on the new products you're comfortable that you're margins are obviously very high but on the remainder of the portfolio are the margins actually going down at the moment?

**Jan Hommen** - Royal Philips Electronics - Vice Chairman & CFO

No, not really down but you have always if you have, let's say, all the products that you keep in the market for too long, yes you are susceptible there for price erosion. But as I said we are keeping our product very fresh and very innovative and we are not really seeing that much price pressure there.

**Ben Adler** - Morgan Stanley - Analyst

And in terms of your full year expectation how much of the margin growth that you see is coming from the service business versus the product business?

**Jan Hommen** - Royal Philips Electronics - Vice Chairman & CFO

Service makes up about 28% of our total revenues.

**Ben Adler** - Morgan Stanley - Analyst

And how much -- how much in terms of your margin improvement is coming from that 28% roughly?

**Jan Hommen** - Royal Philips Electronics - Vice Chairman & CFO

I would say we -- we split it 50/50 more or less.

**Ben Adler** - Morgan Stanley - Analyst

Thank you.

**Jan Hommen** - Royal Philips Electronics - Vice Chairman & CFO

Yes.

**Operator**

Thank you. The next question is from Mr. Sean Murphy of Nomura. Please go ahead with your question.

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Sean Murphy** - *Nomura - Analyst*

Good morning guys. Looking at your distribution of sales by region could you comment on why revenues rose strongly in the cyclical divisions in the U.S. market and yet seem to have fallen in the European market? Is it a different market share gains or just different market held?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes, we did significantly well in the U.S. in Consumer Electronics. Our gains in sale were driven by, as I said earlier, by much better products, product designs. And -- but also by better placement, by opening up new channels for us. And our business model was really working there. So, I think our better sales organization, better coverage is helping us here to sell more of our products. We gained some market share here too.

The other markets in the U.S. we did -- the other activities we did pretty well. I think we had, let me take a look at it. The Medical improved. Domestic Appliances has had a significant digit increase. And Lighting was flat in the U.S. Semiconductors was a negative. But other activities was also the high single digit positive. So, also our Consumer side in Domestic Appliances did quite well

**Sean Murphy** - *Nomura - Analyst*

But are -- what's different? Are the European markets simply much weaker in Consumer Electronics, for example?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes, I think at this moment we see the European market in Consumer, Consumer Electronics but also in Domestic Appliances, we see some weakness there. And that clearly has shown up already earlier. But we see it in a number of countries, not just 1 country but a number of countries.

**Sean Murphy** - *Nomura - Analyst*

Okay. Thank you.

**Operator**

Thank you. The next question is from Luc Mouzon of BNP Paribas. Please go ahead sir.

**Luc Mouzon** - *BNP Paribas - Analyst*

Yes, hello, good morning. It's Luc Mouzon from Exane BNP Paribas. Just a couple of question to maybe confirm some of the answers you've been giving so far.

Should we understand from the positive guidance you gave on Semiconductor that there will be no -- no more restructuring action needed for second quarter and the rest of 2005 and that this [ business] is now quite okay with the guiding assets base within this division while excluding the MDS operation?

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Jan Hommen** - Royal Philips Electronics - Vice Chairman & CFO

I think at this moment our restructuring outlook for the Semiconductor business is quite modest. There will be some adjustments that are relatively -- relatively small in Q2. And there will be relatively small. Maybe -- let's see, yes, just a few million and I think that will continue in all the quarters Q3 and Q4, just a few million. And in all cases less than 10m.

**Luc Mouzon** - BNP Paribas - Analyst

Okay and my second question is regarding to the ownership relationship on SSMC. Could you update us a bit on the level of shareholder -- shareholding that you got from this company and if you still have a call option for buying out, I think, the Singapore Government authority right there?

**Jan Hommen** - Royal Philips Electronics - Vice Chairman & CFO

Yes, we still do. We have -- our ownership right now is 48%. And the Singapore Government has a position in SSMC. And if we will both exercise the option that we have then we will go into 60/40 relationship here.

**Luc Mouzon** - BNP Paribas - Analyst

Okay and when is the end of this option call?

**Jan Hommen** - Royal Philips Electronics - Vice Chairman & CFO

I don't think it is really that -- that close. There is the -- the period I think has just extended.

**Luc Mouzon** - BNP Paribas - Analyst

Okay. Last question is about MedQuist well we see that it's started to have some negative impact on margin as of the first quarter this year. Could we anticipate further impact in coming quarters?

And I know it's pretty difficult to talk about this issue but do you have an idea about the timeframe in which the situation could be solved as far as accounting issues and legal issues are concerned for this -- this Company?

**Jan Hommen** - Royal Philips Electronics - Vice Chairman & CFO

Yes. It's difficult for me to speak on this because I am told by the lawyers in the U.S. that any information that I provide beyond what is already provided could basically hamper the case. And lawyers, as you know, in the U.S. you don't -- you don't argue with.

But the problem I have is the same that you do. I -- I would like to see this resolved quicker. We are putting a lot of effort in this from a Board level but also we have asked the management to resolve this. We like to know where we stand on this issue. As you can see it has an impact on numbers, about 6m - 7m because of legal expense. And we'd like to see that behind us as quickly as we can.

**Luc Mouzon** - BNP Paribas - Analyst

Okay. And just about MDS, did you give any indication about sales and EBIT contribution to values on the first quarter?



Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

No, I did not. But the numbers are -- they have negative numbers around the -- let's look, of about low double digit numbers.

**Luc Mouzon** - *BNP Paribas - Analyst*

Okay. Thank you very much.

**Operator**

Thank you. The next question comes from Jerome Ramel of IXIS Securities. Please go ahead with the question sir.

**Jerome Ramel** - *IXIS Securities - Analyst*

Hello, good morning. I've got a question. Could you tell us what you are planning to do with your stake in TSMC and also a LG. Philips because if you look at your asset allocation through this stake you are still involved in the Semiconductor or semi related sector. So, should we expect a decreasing case in this stake?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes, I think we have mentioned for some time now that basically all our financial or all our positions in unconsolidated companies in the end are financial positions.

TSMC may be a bit more strategic than anyone else but it's still a financial position. And we are planning to reduce our financial positions in most companies, in all of them over time in a gradual way and liquefy them to put them back into activities where we can grow the business that we control 100% or if we don't have advantage to do so to at least have strategic options where we can consider. But that's the -- that is the intention.

**Jerome Ramel** - *IXIS Securities - Analyst*

Okay, thank you.

**Operator**

Thank you. The next question is a follow up question of Mr. Didier Scemama of ABN AMRO. Please go ahead with the question sir.

**Didier Scemama** - *ABN AMRO - Analyst*

Sure. I ask a few questions with -- on the internal divisions looking into the dynamics of the quarter.

Can you just, Jan, go back to Semis and talk to us about what you saw in terms of handsets, Consumer Electronics demand, level of inventories, the inter-channel and also if you've seen any increase or any decrease in order trends, in particular in the [discrete] and multi-market sector?

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

And second, I'd just like to confirm what I heard. Are you talking about 5% growth for PMS for the full year? I guess it's not ex-currencies?

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes, that's correct.

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**Didier Scemama** - *ABN AMRO - Analyst*

Okay.

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes, Semis we have seen our book to grow going up in Q1. We have seen an improvement in certain markets, mainly the handset market where we have a longer position and where we can see because we have designed in and are being designed in a number of programs. We have a longer term visibility on this market.

The -- most other markets the visibility is very short and in particular the screen market has very low visibility because people are living hand to mouth. And that's -- still the impression we get when we look at the market there.

The inventory position as we see it in the industry has come down. That has worked. But people are still very cautious and very careful.

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**Didier Scemama** - *ABN AMRO - Analyst*

Okay. But in terms of Consumer Electronics we've seen 1 of your competitor saying basically that they were really affected by the decline in CRT T.V. chip set and the flat panel chip set business basically didn't make that up. I imagine that your portfolio in Semis is similar. So, did we see this -- did you see the same dynamics then?

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes, I think a little bit of that. We have seen that the CRT related type of business is not -- it's clearly not growing and that has, of course, whether it's being replaced or substituted by the LCD business. And that has certain type of repercussions for different type of suppliers of Semis. But it clearly at this moment has an impact on the market and has an impact on us.

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**Didier Scemama** - *ABN AMRO - Analyst*

Right. And my final question on Semiconductors now that MDS is not part of the division is Nokia still an important customer for your business or is Samsung a bigger customer now in wireless?

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Well, I think all our customers are important customers not 1 exception here. Nokia is still 1 of our important customers.

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Didier Scemama** - ABN AMRO - Analyst

Alright. Thanks.

**Operator**

Thank you. The next question is from Mr. Jean Danjou of CSFB. Please go ahead with your question sir.

**Jean Danjou** - CSFB - Analyst

Good morning Jan. I have a simple question on the working capital outflow this quarter for around 800m quarter on quarter. It was 400m payables and I think you have addressed this question, but inventories was also rising 400m quarter on quarter. Does that make you less comfortable on cash flow generation for the full year or you wouldn't change any of your internal targets regarding the potential for internal free cash flow generation for the full year?

**Jan Hommen** - Royal Philips Electronics - Vice Chairman & CFO

No, Jean. I think we see this more or less as a normal type of phenomena. We see it every year that your inventory starts running up. In fact, our inventories in percent of sales came down compared with the previous quarters.

So, I don't think there's anything unusual here. The most unusual sum was the payables but that had more to do with accruals on -- and -- and month end closing and I think that will correct itself. So, our forecast will not change.

**Jean Danjou** - CSFB - Analyst

Okay, thanks.

**Operator**

Thank you. The next question comes from Mr. Ulrich Pelzer of Lehman Brothers. Please go ahead with your question sir.

**Ulrich Pelzer** - Lehman Brothers - Analyst

Yes, hello there. Good morning. Just a quick 1 on Consumer Electronics in the business renewal program you're saying you're on track for more than 400m cost saving until the end of '05. How much of that was realized until the end of Q1? And then I have a follow up please.

**Jan Hommen** - Royal Philips Electronics - Vice Chairman & CFO

I think the last time that we were -- we said that we had done about 150m by the end of last year. So, it's a little bit higher. Let me check that number, yes, so it should be a little bit higher. But we are very, very confident that that will be secured really by the end of this year.

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Ulrich Pelzer** - *Lehman Brothers - Analyst*

Okay. So, then given the relatively strong margins in Q1, given say another 250m or so in cost savings coming through until the end of '05, do I imagine that as relatively new products per day age flat televisions, DVD recorders, that the margin is going to come under fairly significant pressure towards the end of the year, so you need a bit of a buffer? Or should I imagine 2 to 2.5% at least for '05 would be a conservative target?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

The figure 2.5% is a target that we have our run rate base by the end of the year, yes? So, going forward in 2006 we plan to maintain that 2 to 2.5% as a number for the whole year.

**Ulrich Pelzer** - *Lehman Brothers - Analyst*

Okay. So, if I interpret that it could be that run rate wise you're above that target as you go into the year. And then you run down towards 2 to 2.5% margins towards the end of '06.

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

No, no, no. For the full year 2006 we plan to be at 2 to 2.5% but we will get through that level of -- we will reach the 2 to 2.5% somewhere in the, let's say, second half probably in Q4. But we first will -- will reach this level.

And then from there on because Q4 is always our best quarter, there you will see that Q1 will probably be low -- lower again. But then when you smooth that over the whole year next year should be -- the full year should have 2 to 2.5%. You need to build in the seasonality in these numbers as well.

**Ulrich Pelzer** - *Lehman Brothers - Analyst*

Okay, thank you.

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes.

**Operator**

Thank you. The next question comes from Mr. Jan-Willem Berghuis of Kempen & Co. Please go ahead with your question sir.

**Jan-Willem Berghuis** - *Kempen & Co - Analyst*

Yes, good morning. I have a question on the unallocated line. You mentioned increased marketing spend in Q2. Can you give an absolute guidance on unallocated in Q2?

And maybe a second question on the -- we've seen some big companies reporting a different trend in the beginning of the quarter versus the end. Particularly the month of March, which is, for some companies, very weak. Did you experience any substantial deterioration in trend as you mentioned in Europe during the quarter, or is it evenly spread over the month? Thank you.

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Okay. Unallocated will be at the same level as Q1, except it will include a 50m charge for the [ brand] campaign. That is, I think, your question, the first 1.

And the second 1, we saw a better March than we saw February. But I don't want to say that that is a trend we always see. We see it month by month. Normally the last month of the quarter is a little bit better, because our Medical friends always do better in the last month than they do in the first 2 months.

**Jan-Willem Berghuis** - *Kempen & Co - Analyst*

Okay. And a question on unallocated - the marketing expenses, are they expected to continue in Q3 or Q4, or would the unallocated line return to 100m in the last quarter of the year?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

That decision has not been made. We will take a look at the -- evaluate the results of the campaign after the spending in Q1 and Q2. And then a decision will be made sometime next year, whether that will be extended to the rest of the year or not.

**Jan-Willem Berghuis** - *Kempen & Co - Analyst*

So the -- to be precise, Q2 guidance is around 150m?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes, that's correct.

**Jan-Willem Berghuis** - *Kempen & Co - Analyst*

Okay, thank you.

**Operator**

Thank you. The next question comes from Francois Meunier of Cazenove. Please go ahead with your question, sir.

**Francois Meunier** - *Cazenove - Analyst*

Yes, just 1 simple question on tax rate. The tax rate for Q1 was 30%. Shall we expect the same tax rate for the year, or will it be closer to the 27% that you said at the Q4 results?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

We are planning, at this moment, at 30%. But we always seem to do better at the end of the year than our plans. The potential is there again this year. But we only will know at the end of the year fully, when you have done all your transactions and all the

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

bookings are made, what exactly the number will be. So it's a planning number, still, at 30%. But there is a potential to be a little bit lower than 30% at the end of the year.

**Francois Meunier** - *Cazenove - Analyst*

Thank you very much.

**Operator**

Thank you. The next question comes from Mr. [indiscernible] de Vries (ph) of Oddo Securities. Please go ahead with your question, sir.

**Mr. de Vries** - *Analyst*

Yes, good morning. I have a question related to Consumer Electronics. First of all, can you say something about the margins of the activities which will be transferred to TPV in the beginning of Q3? So on the monitor business and low-end flat TV business. And also, can you say something about the profitability of the CE activities in the U.S.A. and perhaps say something about the margins in Q1? Thank you.

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Okay. Well, TPV, I think we have indicated last time we announced the deal, that we will be transferring about 1b in sales. There's almost no margin. Just a very small margin. So the overall margins will be helped by that transaction. We're not disclosing whether CE in the U.S. or CE in Europe or anywhere else is profitable or not. I can only tell you that that has -- CE in the U.S. have done very well and they have delivered their plan. And that's exactly what they should do.

**Mr. de Vries** - *Analyst*

Thank you.

**Operator**

Thank you. The next question comes from Mr. Johannes Ries of Cominvest. Please go ahead with your question.

**Johannes Ries** - *Cominvest - Analyst*

Good morning. 1 question regarding potential acquisitions. You have definitely move on with your divestment strategy, for example, with NAVTEQ . And you also mentioned, in the Q4 numbers, that you'll definitely target acquisitions in Medical and also DAP and Light. Could we expect, for the remainder of the year, some activities there? And is still Medical your most important, then DAP and maybe third Light?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes. I think we are working diligently on our program, together with our M&A [folks and others] on potential acquisitions. They have done a very extensive study, in particular for Medical opportunities here, have identified the targets and have, in some cases, discussions. I cannot make any predictions here, because M&A is not always predictable. But I would expect that it may

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

lead to some transactions in this year. We have talked to you earlier, we're not looking for [ blockbuster type of activities here. They're relatively small but fit in our portfolio quite well. We're still looking at rounding out that portfolio and strengthening our core business, and that's what we will focus on. Potential acquisitions in Domestic Appliances and Lighting, yes, potential as well. Again, here, I'm not looking for very sizeable ones. But we are evaluating a few options here.

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**Johannes Ries** - *Cominvest - Analyst*

If I may come back to Medical, again, with a short follow on. Do you feel, after the CPI deal of Siemens, you have to do a little bit more, especially in MI side?

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

No, I think we are well positioned in the scanning business. We have a number of activities going on with molecular imaging with about 20 different types of institutions. We think there is plenty of time to get into that business, because it will take a long time, for instance, to do the clinical testing. Normally, that takes 4 or 5 years before you have clinical results being tested completely. So there's a lot of time, a lot of opportunity still left. And we don't feel, in any way that we are behind because of that move.

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**Johannes Ries** - *Cominvest - Analyst*

Okay, thanks a lot.

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**Operator**

Thank you. We have a follow up question from Mr. Nicholas Gaudois of Deutsche Bank. Please go ahead, sir.

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**Nicholas Gaudois** - *Deutsche Bank - Analyst*

Yes, hi. A very quick question in Semis some new design wins in wireless. Could you tell us if you started to get some design wins for your wedge solution that you announced at Cannes earlier. Because so far, from my understanding, your only UMCS activity has been through Ericsson mobile platform [indiscernible]. Thank you.

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

You overask me, Nicholas. I don't know the answer to that 1.

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**Nicholas Gaudois** - *Deutsche Bank - Analyst*

Okay.

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

I need to check that. But we'll get back to you.

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Nicholas Gaudois** - Deutsche Bank - Analyst

Okay, thank you.

**Operator**

Thank you. We have another follow up question from Uche Orji. Please go ahead, sir.

**Uche Orji** - J P Morgan - Analyst

Just very quickly on Consumer Electronics in the U.S. [indiscernible] Consumer Electronics, Q4 was good and now we also see Q1. Do you think -- first of all, can you [indiscernible] for us what your market share position is, now, and how will you explain this [indiscernible] U.S.? I know you alluded to the business plan - what is that business plan? [indiscernible] can you just explain and give some more color on what's happening in CE?

**Jan Hommen** - Royal Philips Electronics - Vice Chairman & CFO

You were not very clear, Uche, in the message came out -- through very clearly. But what I picked up is what we are doing in CE in the U.S. And I think our strategy has been -- we needed to add to the products we had before. Well, we have done that. They're very well designed. We have 2 strategies, basically, for products. A low cost and a high image strategy with Magnavox and Philips. Those strategies are working well. We have seen a dramatic improvement in our placement capability and we have a better sales organization. We have reduced our costs sizably. I think, all in all, this is a much more powerful organization than it used to be. And the fact that Consumer Electronics was positive in Q1, which it hasn't been since -- you need to go back until 1998 - I think was really helped by the performance in the U.S., to a big degree.

**Uche Orji** - J P Morgan - Analyst

Right. 1 last question on Medical. I mean, GE, on their conference call, also say they're gaining market share in CT and MRI. You also say you're gaining market share. Is it -- is the [indiscernible] general market is doing well and everyone feels to be gaining market share, or -- Could you tell us specifically why you feel you've gained market share?

And then, finally, Lighting. If I look at your lighting business compared to GE's, you're flat and GE was up. Can you give us an idea of what's happening with Lighting in the U.S.? There's a rumor that you're probably losing the [indiscernible] contract back to GE. Do you have any comments to make around that?

**Jan Hommen** - Royal Philips Electronics - Vice Chairman & CFO

Okay. Well, that is all I can say that we will no longer be sole supplier to Home Depot. And that will probably have some impact in Q2. But at the same time, we are looking for other opportunities there.

Our margins or -- our market share in CT and MR, it's difficult. We measure that against orders and bookings that we do. We have significant increases in CT - in fact, the CT business was up 41% in bookings, compared with a year ago. We have fantastic CT scanners in 64 slices, 40 slices, FDA approved - the only 1 that has that. MR, we are the only 1 that has an open MR, so people that have -- that suffer from claustrophobia, I think, in our equipment feel much more comfortable. Again, here, we can see that we are gaining market share, I think our business was up by more than 20% in this quarter. Our bookings were up by more than 20%. So we clearly can see that we have gained market share in these 2 areas.



Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Uche Orji** - *JP Morgan - Analyst*

Thank you very much.

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**Operator**

Thank you. The next follow up question comes from Mr. Matthew Gehl of Goldman Sachs. Please go ahead, sir.

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**Matthew Gehl** - *Goldman Sachs - Analyst*

Just two follow ups on the other activities operating line. For –MDS , and I apologize if I missed this, but what are you looking for in Q2, as far as revenue progression and margin progression, after the significant fallout in Q1?

And then a similar question on optical storage. I think you noted that revenues were up around 5% year over year in Q1. What are you expecting in Q2? And can you confirm if the business was profitable?

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

The optical storage business is doing quite well. They are profitable. MDS, I would say I would not see much improvement until later this year. I would expect that basically at the same level in Q2 and no improvement until late in Q3.

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**Matthew Gehl** - *Goldman Sachs - Analyst*

That's for sales and IFO?

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

IFO I think we will see improvement already in Q3.

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**Matthew Gehl** - *Goldman Sachs - Analyst*

For the optical storage, can you give some sense of what the operating margin currently is?

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Optical storage. They make margins of about 5, 6%. But most of the time they are a little bit higher than that.

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**Matthew Gehl** - *Goldman Sachs - Analyst*

Thank you.

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**Operator**

Thank you. We have another question -- another follow up question from Mr. Janardan Menon. Please go ahead, sir.

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Janardan Menon** - *Dresdner Kleinwort Wasserstein - Analyst*

Yes, I think I missed the comment on the brand campaign 50m. Will that continue post second quarter, or will it be only in the second quarter?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

It will only be in the second quarter, so far. We have not made a decision for later this year. Can you still hear us?

**Janardan Menon** - *Dresdner Kleinwort Wasserstein - Analyst*

Yes, we can. There's a hum in the background, but we can --

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

That's because our curtains are coming down, for whatever reason, so we are now in the dark. Let me go back to your question. The marketing campaign will run in Q1, Q2. And then we will make up our minds, after we see the results, later, whether we will continue later this year with a follow up or not. But that has not been decided yet.

**Janardan Menon** - *Dresdner Kleinwort Wasserstein - Analyst*

And you're confirming that you won't hit the 2 to 2.5% margin in mainstream Consumer this year? It is only going to be next year?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

No, no. We will reach it on a run rate basis by the end of this year. But for the full year, we do not see that until next year, 2006.

**Janardan Menon** - *Dresdner Kleinwort Wasserstein - Analyst*

Okay. And in your Q4 results, I think you said that you'd done 250m of the cost in 2004 and it's 150m left for this year. [indiscernible] I think you have said 150m last year and --

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Maybe I misunderstood you. What we still have to do, I think it was 150m.

**Janardan Menon** - *Dresdner Kleinwort Wasserstein - Analyst*

You have to do 150m more, yes?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes, 150m more. That was at the end of last year.

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Janardan Menon** - *Dresdner Kleinwort Wasserstein - Analyst*

Okay. Thanks a lot.

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**Operator**

Thank you. We have another question from Mr. Ben Rosen (ph) of [indiscernible]. Please go ahead, sir.

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**Ben Rosen** - *Analyst*

Good morning, Mr. Hommen. I hope you're doing well. For radio broadcasting reasons, I would like to put my question in Dutch and I would like you to answer in Dutch simply as well. [Indiscernible - question in Dutch].

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

[Indiscernible - answer in Dutch].

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**Ben Rosen** - *Analyst*

[Indiscernible - question in Dutch].

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

[Indiscernible - answer in Dutch].

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**Ben Rosen** - *Analyst*

[Indiscernible - question in Dutch].

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

[Indiscernible - answer in Dutch].

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**Ben Rosen** - *Analyst*

[Indiscernible - question in Dutch].

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**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

[Indiscernible - answer in Dutch].

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**Ben Rosen** - *Analyst*

[Indiscernible - question in Dutch].

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

[Indiscernible - answer in Dutch].

**Ben Rosen** - *Analyst*

[Indiscernible - comment in Dutch].

**Operator**

Thank you. We have a follow up question from Mr. Ulrich Pelzer of Lehman Brothers. Please go ahead, sir.

**Ulrich Pelzer** - *Lehman Brothers - Analyst*

Yes, really sorry to be going on about this again, but did you say there was 150m in cost savings in Consumer Electronics still to come or taken by the end of '04?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Still to come. The 250m is done, the 150m is still to come.

**Ulrich Pelzer** - *Lehman Brothers - Analyst*

Great [indiscernible] thank you.

**Operator**

Thank you. We have another question from Mr. [indiscernible] of [indiscernible] [Financial News]. Please go ahead with your question.

**Unidentified participant**

[indiscernible - comment in Dutch].

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

[indiscernible - comment in Dutch].

**Unidentified participant**

[indiscernible - comment in Dutch]. Do you expect to reach the organic sales growth target of 5 to 6% in 2005? And, if so, can we assume that Philips will reach total sales, in 2005, of more than 30b? Thank you.

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Yes, I think we are looking - and Mr. Kleisterlee has confirmed this during the Annual Meeting - we are looking to grow our business by 5 to 6%. And that should be possible. That is excluding the impact that currencies might have, because we cannot forecast them very well. But if I look at the business we are in, and of course we like to see the semiconductor market a little bit stronger, that certainly will be possible. And also possible this year.

**Unidentified participant**

Okay. I've got a question on MDS also. What are the future plans for the MDS activities? Are they within Philips or outside of Philips?

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Well, we need to -- First things first. We need to make sure that we get MDS now under separate management. We are focusing that way. What the options are that we have with MDS and what the issues are that we have with MDS and how we can improve on them, that is going to be looked at very quickly. I don't want to speculate on what the next phase will be. First things first, and that's what we are going to do now.

**Unidentified participant**

Okay, thank you. I'm not sure whether you answered my question about reaching more than 30b in sales in 2005.

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

I think if we reach 5 to 6% growth, then we will do more than 30b this year.

**Unidentified participant**

Okay, thank you very much.

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Thank you.

**Operator**

Thank you, Mr. Hommen. We have no further questions.

**Jan Hommen** - *Royal Philips Electronics - Vice Chairman & CFO*

Okay. Thank you very much for your patience. And we will see some of you, probably, during our trip that [indiscernible] and I are going to make after this call. Thank you. Bye bye.

Apr. 18. 2005 / 4:00AM, PHG - Q1 2005 Royal Philips Electronics Earnings Conference Call

**Operator**

Thank you. This concludes the Royal Philips Electronics first quarter results 2005 conference call, on Monday April 18, 2005. Thank you for participating. You may now disconnect.

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