FINAL TRANSCRIPT

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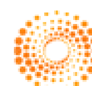

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PRESENTATION

Operator

Welcome to the Royal Philips Electronics second quarter results 2011 conference call on Monday, July 18, 2011. During the introduction, hosted by Mr. Frans van Houten, President and CEO, and Mr. Ron Wirahadiraksa, CFO, all participants will be in a

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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 will now hand the conference to Mr. Abhijit Bhattacharya, Head of Investor Relations. Please go ahead, sir.

Abhijit Bhattacharya - *Royal Philips Electronics - Head of IR*

Good morning, ladies and gentlemen. Welcome to this conference call on the second quarter results for 2011 for Royal Philips Electronics. I am here with Philips' CEO, Frans van Houten, and our CFO, Ron Wirahadiraksa.

In a moment, Frans will take you through his introductory remarks and provide an update on our performance. Ron will then shed more light on the details of the financial performance during the quarter.

Frans will then return to provide an important insight into our actions to improve our performance and share with you the mid-term targets that Philips will aim to deliver by 2013. After this, both Frans and Ron will be happy to take your questions.

As usual, our press release and the accompanying information slide decks were published at 7am CET this morning. Both documents are now available for download from our Investor Relations website. We will also make available a full transcript of this conference call on the investor relations website by tomorrow at the latest.

With that, let me hand you over to Frans to start proceedings for the day.

Frans van Houten - *Royal Philips Electronics - CEO*

Thanks, Abhijit. Good morning to you all, and welcome. There has been a quite eventful three months since assuming the CEO position of Philips. I've been working with my team on improving execution and performance across our sectors. We have gone actually deep and been hands on in our approach.

In spite of operational challenges we see in some of our businesses, I'm confident that Philips has the potential for profitable growth. We have initiated already several concrete actions to improve our performance, particularly in our Consumer Lifestyle and Lighting businesses. Healthcare is on a good performance path already.

Taken together, our actions will put us on a solid growth trajectory over the next two years.

Today, we also announced new mid-term targets that we aim to achieve by 2013, as we are determined to hold ourselves accountable to improve execution and get results quickly. We had originally planned to announce these targets in October this year, but we have accelerated our review process and are ready to make these announcements now.

The mid-term targets for the Group are 4% to 6% comparable growth, assuming a real GDP growth of 3% to 4%; 10% to 12% EBITA margins; and 12% to 14% return on invested capital. I'm convinced that Philips has the potential to deliver on these targets.

As I am sure you have seen in our press release issued earlier this morning, Philips delivered 4% sales growth for the Group and earnings before interest, tax and amortization of EUR370 million. This was impacted by investments for growth, operational issues, weak market conditions and, of course, a significant impairment.

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Still, our sector performance in the second quarter demonstrates the underlying strength of our businesses. Healthcare achieved robust growth of 8%, exceeding expectations.

While sales at Consumer Lifestyle declined 2% on a comparable basis, in fact, all businesses, except Lifestyle Entertainment, grew in aggregate at a low double-digit rate.

Lighting grew 4% over the previous year, with LED-based sales up a strong 21%, while traditional lighting was impacted by a shifting mix, raw material price increases and weaker consumer demand.

We posted a loss of EUR1.3 billion in Q2 as a result of a goodwill impairment charge of EUR1.4 billion, which we took following our annual impairment review. We had to take into account a realistic assessment of the future cash flows of our past acquisitions in a sluggish post-crisis environment.

Also, in the second quarter, we launched a comprehensive performance improvement and change management program called Accelerate, which we are implementing to speed our trajectory to more profitable growth. One of the key components of this program is a EUR500 million cost reduction, aimed at cutting overhead costs and making our organization faster and more agile.

Overall, we see uncertainty in the near-term economic environment. And while we are dealing with performance issues in some of our businesses, our portfolio remains strong.

The large majority of our businesses have the right fundamentals for long-term profitable organic growth. We are well positioned in highly attractive markets and geographies, with the right business mix to capitalize on global trends.

And in our businesses that are facing difficult markets or operational challenges, we are taking immediate action to improve performance and put ourselves on a better trajectory.

Already in the second quarter, we have taken concrete actions to improve performance. I'll get into more detail on these actions later in the presentation. But we are rolling out now the new Philips Business System, which includes granular performance management, a leaner operating model, and a strengthened executive leadership team.

We are launching a share buyback program, and have to deliver our inventory reduction programs to address the efficiency of our balance sheet and use our capital in a disciplined way.

We have largely mitigated the impact of the Japan tragedy, neutralizing the supply availability and revenue impacts.

We are working hard on executing our TV plan, progressing on a tight schedule for signing the deal by the end of Q3 and closing in Q4.

We have also stepped up targeted investments in market penetration and innovation in the second quarter to accelerate growth, with about half of the investments included now in the run rate.

We have developed a focused plan for increasing value delivery from each acquisition. We launched a specific program to weed out complexity in our organization and take out the EUR500 million of unnecessary costs; 50% of those savings coming in 2011/'12, and the rest in the timeframe 2013/2014.

We are taking the necessary steps to improve performance at Lighting and Consumer Lifestyle in the short term, which includes passing on increases in raw material cost to the market, developing a turnaround plan for Consumer Luminaires and Lifestyle Entertainment, and adjusting spending in line with market response.

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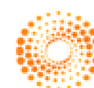

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Now I know I covered just now a lot of ground relatively quickly, so before I hand you over to Ron, I just want to underline that we know that there are operational issues in some of our businesses. We have a good handle on these now, and we know exactly what we need to do in order to correct them.

As you can see, we have taken a comprehensive approach to improving performance, and I'm looking forward to giving you more detail on some of these initiatives after Ron talks through our financial performance in the second quarter.

And with that, Ron, I'll turn it over to you.

Ron Wirahadiraksa - *Royal Philips Electronics - 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.

Let me start with Healthcare where, in the US, we see a continued strong drive from hospitals to reduce operating expenses and become more efficient, a trend we are now seeing in Europe as well. We see the patient monitoring markets capitalizing on this drive as hospitals strive for higher efficiency by investing in newer technologies.

Hospital construction in the US continues to rise, projected at 5% in 2011 and 9% in 2012, as administrators prepare for the influx of newly insured patients, and current low interest rates are fueling these infrastructure advancements.

With regard to healthcare reform, there is some concern among hospital CEOs on further reimbursement cuts. We also see that large strategic and multiyear deals continue to remain important as we see increasing interest. Furthermore, some pent up demand was visible in the quarter. But in general, uncertainty remains as to the future economic and market development in the US.

In Europe, markets in Southern Europe continue to be weak, given the economic situation prevalent in those geographies, as well as the recently announced austerity measures. The NHS reform plans, which are being revamped in the UK, are affecting short-term growth in the UK.

In our growth markets, we continue to see momentum as more investments continue to be directed at these markets, resulting in robust demand.

In the consumer lifestyle markets, Western Europe and the US demonstrate continued cautious consumer sentiment. In the areas where we invested for growth, we saw markets responding well. Personal care, health and wellness, and domestic appliances markets grew appreciably. Our growth markets showed robust demand in the quarter. The home audio and DVD market continued to shrink.

The lighting market was flat, compared to the Q2 last year, although it declined compared to the first quarter of 2011. Growth was strongest in LED product categories and growth markets.

Despite a slowing non-residential construction market, in North America in particular, the professional luminaries market continues to show positive growth on the back of home building stabilization in the US. Further, we see moderate growth in DACH and LatAm, slight recovery in France, and increasing activity in retail and office segments in China and India.

The supporting trend for positive mid-term lighting market development from energy efficiency was further reinforced by the post-Japan nuclear sentiment driving accelerated LED adoption, particularly in Japan.

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The Consumer business globally continues to be subdued, due to some decline in consumer confidence in the US, and weakened economic sentiment in EMEA. However, green energy efficient lighting product categories are still growing fastest, especially in growth markets.

Automotive production was flat as growth in EMEA, the US, and LatAm was offset by the decline in the Japanese automotive industry.

Let me now move to the Philips' Group results for the second quarter of 2011. At the outset, let me clarify that as from last quarter onwards, post the announcement regarding our Television activity, we report the results of the TV business under discontinued operations, and the net operating capital in the balance sheet on the line, assets held for sale.

The cash flow of the TV 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 television-related information.

Comparable sales in the quarter grew by 4% when adjusted for currency and portfolio changes. On a geographical basis, comparable sales in our growth geographies grew by 9% in the second quarter.

Excluding the effect of a decline of packaged LED sales to these markets, the comparable growth for the quarter is actually 12%. The packaged LED business is an OEM business, and the products are shipped to destinations depending on the production plan of our customers, and hence, this clarification.

As mentioned during the first quarter conference call, our growth markets are defined as all markets excluding the US, Canada, Western Europe, Australia, New Zealand, South Korea, and Japan. Sales from these growth geographies increased to 33% of Group revenues, compared to 32% for Q2 last year.

In other mature markets, we also saw a strong comparable sales growth of 12% in the quarter, led by growth in the Healthcare business in Japan of 22%. Sales in North America grew by 4% in the quarter on a comparable basis.

Western Europe saw a decline in comparable sales of 4% in the quarter, mainly due to the market-related weakness I spoke about earlier, which affected all of our businesses.

Reported EBITA was EUR370 million, or 7.1% of sales, which is lower than the EUR506 million, or 9.5% of sales, reported for Q2 last year.

The restructuring and acquisition-related charges for the second quarter for this year were lower than the second quarter of last year by EUR66 million. Therefore, adjusted EBITA, which is EBITA excluding restructuring and acquisition-related costs, was EUR394 million, or 7.6%, in the quarter, compared to EUR596 million, or 11.2%, for Q2 2010.

The decline in the adjusted EBITA was due to strong declines in Consumer Lifestyle and Lighting, partly compensated by higher earnings in Healthcare.

Our annual impairment review led to adjustments of pre-recession business cases as the post-recession recovery has been slower than anticipated, along with an adjustment in the discount rate for some businesses, leading to a EUR1.4 billion impairment charge in the quarter.

Including discontinued operations, which had a negative impact of EUR119 million compared to Q2 of last year, the net loss for the quarter was EUR1.3 billion, compared to a net income of EUR262 million in Q2 last year.

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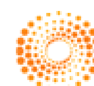

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Our cash flow from operating activities for the quarter was an outflow of EUR39 million, compared to an inflow of EUR497 million in Q2 of 2010, resulting in a difference of EUR536 million. The year-on-year decrease was largely due to a higher working capital outflow of EUR310 million related to higher vendor payments, higher CapEx of EUR50 million, and lower earnings.

With that summary, let me now take a closer look at the performance of each of our businesses during Q2, starting with Healthcare. Currency comparable equipment order intake grew 4% in Q2 2011, compared to Q2 2010. Order intake was led by a very strong performance in the US, where we registered a 10% increase in the order intake on a year-on-year currency comparable basis.

Our growth markets saw a good increase, where equipment order intake grew by 5%. This was led by India, which saw a 30% currency comparable growth in order intake, and China, of 23%, which was tempered by declines in Latin America due to low order intake from the public sector.

Russia and Ukraine saw some tenders moving from Q2 to subsequent quarters, consequent to a new procurement process announced as part of its modernization program.

On a currency and portfolio comparable basis, our Healthcare business grew strongly with a year-on-year sales increase of 8%, significantly above the 4% growth registered in Q2 2010.

Looking at the business, Home Healthcare showed an uptick in growth by registering a high single-digit growth for the quarter, and the Patient Monitor and Clinical Informatics business continued its strong performance delivering high single-digit growth as well.

The Imaging Systems business grew a strong 9% for the quarter. Customer Services had a mid single-digit growth, completing a strong growth performance across the sector.

North America saw promising growth of 8% in Q2 2011, while the growth geographies delivered strong sales growth of 22%. This was tempered by a decline in Europe.

Healthcare reported a solid growth in earnings with a second quarter EBITA of EUR276 million, or 13.3% of sales, compared to EUR216 million, or 10.5% of sales, in the same period of 2010.

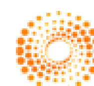
Excluding restructuring and acquisition-related charges, EBITA was EUR275 million, or 13.2% of sales, which is above the EUR262 million, or the 12.7%, in the same period of last year.

Consumer Lifestyle sales, when adjusted for currency and portfolio changes, declined by 2% compared to Q2 of last year. This was mainly due to a decline in license revenues, as well as a decline in the Audio, Video, Multimedia and Accessories business, which is now called Lifestyle Entertainment.

The decline in Lifestyle Entertainment was largely due to declining markets, portfolio choices for profitability, as well as the impact of the reorganization of our sales force in preparation for the disentanglement of the Television activity. We have seen such an impact when we implemented license deals for the Television activity in China, and India as well, and expect it to normalize in the near term.

Excluding the impact of the decline in license revenues, the comparable sales for Consumer Lifestyle registered a year-on-year growth of 1%.

We are pleased with the continuing momentum of sales growth in Q2 2011 for the Personal Care and Health & Wellness businesses, which have demonstrated double-digit growth, and the Domestic Appliances business, which has registered a high single-digit comparable sales growth.



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From a geographic perspective, sales in our growth geographies grew by 7%. This was, however, offset by declines in the mature markets, mainly due to the reduced license income and weak consumer markets.

The reported EBITA at Consumer Lifestyle declined to EUR60 million from EUR168 million in the second quarter of 2010.

Due to the lower license income in the quarter, compared to last year, investments in advertising and promotion to drive growth, and the strong decline in the Lifestyle Entertainment business, excluding restructuring and acquisition-related charges, the adjusted EBITA of this sector was 5.6% in the quarter.

I would like to spend a couple of minutes to talk about the performance of the Television business, which, as explained earlier, is reported as part of discontinued operations.

The operating loss for the second quarter was EUR74 million; a significant deterioration compared to Q2 of 2010, when the operating loss was EUR7 million. However, compared to Q1 of 2011, when we had an operating loss of EUR106 million, the loss for the quarter has decreased. This was mainly due to the launch of certain new models, which have helped to raise the margins.

On page 15 of the press release we have provided a simple reconciliation to the net income of discontinued operations of a loss of EUR97 million.

Lighting comparable sales grew by 4% in the quarter, compared to Q2 of last year. The increase in sales was led by our growth markets, where sales grew on a comparable basis by over 11%, excluding the impact of the sales of packaged LEDs, as I have explained earlier.

On a more granular basis, sales in China, ASEAN, and the Middle East, Central Europe and Turkey, continued the good momentum, with strong double-digit growth. Sales in North America continued to recover, with a mid single-digit growth in the quarter.

After a weak Q4 2010, Europe saw a healthy return to growth registering a mid single-digit in comparable sales growth.

When taking a deeper look into each business, we continue to see strong sales for our LED products with growth of 21% compared to the same quarter in the previous year.

Sales of Professional Luminaires, despite a weak construction market, showed growth for the fourth consecutive quarter, and registered a double-digit growth, although pricing remained under pressure.

Lighting Systems and Controls had a robust quarter, with comparable sales growth of double digits.

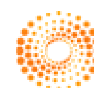
The Lamps business registered mid single-digit growth, while Automotive grew around 6% in the quarter, hindered mainly by lower automotive production in Japan.

Sales in Consumer Luminaires continued to remain weak, registering a low single-digit decline. The consumer markets in Western Europe, in particular, impacted sales in the quarter.

The reported EBITA at Lighting declined to EUR101 million from EUR210 million in Q2 2010. It was mainly caused by a drop in gross margins, due to lower loading in the factories to control inventories, adverse product mix, additional investments in selling expenses, and research and development expenses to drive growth.

Excluding restructuring and acquisition related charges, the adjusted EBITA profitability was EUR115 million, or 6.5% of sales.

Reported EBITA at GM&S was EUR67 million. The lower loss than guided for was due to slightly lower costs, formerly reported as part of TV costs, lower research expenses in the quarter, higher license revenues, and a gain on the sale of assets.



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Our actions to reduce inventories have shown modest results. The inventories, as a percentage of MAT sales for the Group at the end of the second quarter, are in line with the position at the end of the second quarter of 2010.

The working capital, as a percentage of MAT sales for the Group at the end of the second quarter, is slightly below the position at the end of the second quarter of 2010.

Given our confidence in the portfolio, and its potential to accelerate profitable growth, we have launched a share buyback program of EUR2 billion. This was done after thoroughly assessing the capital structure under various economic scenarios, and addressing the financial needs for organic growth, bolt-on acquisitions, and risk mitigation. This decision is consistent with our capital allocation policy, driven by the disciplined use of capital.

As Frans has mentioned earlier, our teams in Japan have been able to significantly mitigate the sales and supply risk that had been anticipated earlier. And although we could see some impact in the second half of the year, we do not expect it to be material.

Ladies and gentlemen, let me now sum up where we stand at this point of time.

Our performance in Q2 2011 has seen a decline in our earnings. Apart from the investments we have made to stimulate growth, we have had some operational issues, as well as weak markets in certain key geographies.

It is our priority to improve execution and improve the results of our operations, as well as to accelerate our mid-term growth and profitability trajectory.

I will now hand you over to Frans to talk you through the various actions we are taking to realize our ambitions.

Frans van Houten - *Royal Philips Electronics - CEO*

Thanks, Ron. As I said earlier, we launched a comprehensive performance improvement and change program called Accelerate, to unlock our full potential and deliver our strategy faster. We are implementing a number of initiatives in several areas.

We are rolling out the Philips Business System, which includes granular performance management, a leaner operating model, and a strengthened executive leadership team.

We are also taking steps to ensure that our growth initiatives are properly resourced, which are critical to achieving our performance goals. We are focusing on execution, and will be streamlining the way we deliver value to customers over the next three years, simplifying our complex ways of working, improving customer service levels to over 95%, significantly reducing inventory levels, and speeding up the time to market for new product introductions by 20% to 40%.

At the same time, we are also stepping up targeted investments in innovation and market penetration by EUR200 million to achieve market leadership in the majority of our businesses.

Finally, we are instilling a more entrepreneurial and accountable culture with a reward system that is aligned to achieve results.

The aim of our performance improvement initiatives is to get Philips onto a better growth trajectory, and achieve the mid-term targets that we have announced today.

In Healthcare, we will continue to accelerate our strategy and performance, driving to a co-leadership position in Imaging Systems, investing in growth markets, expanding our Home Healthcare business internationally, and focusing on operational excellence to increase margin and time to market, thereby to achieve EBITA of 15% to 17% in 2013.

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As mentioned during our capital markets day in Boston, in the markets we operate we expect Healthcare to grow by 4% to 5%, and we aim to grow faster than the market.

In Consumer Lifestyle we are targeting 8% to 10% EBITA in 2013, reflecting our continued efforts to reshape our portfolio for growth, particularly in growth markets where we will also leverage fill-in acquisitions to drive regional business.

It is important to note that the target for Consumer Lifestyle is excluding the income on license revenues. Overall, we are targeting low to mid single-digit growth in Consumer Lifestyle, given our exposure to Lifestyle Entertainment which we will manage for cash.

In Lighting, we have reduced our target range in the midterm since we will need to make investments to ensure that we maintain our position as global leaders of lighting. We also believe that the growth rate of the illumination market will be lower, at [5%] (company corrected after the call) to 7% per annum, compared to the 7% to 9% per annum which we had assumed earlier.

We will continue to address our cost base and drive operational improvement across the business to deliver EBITA of 8% to 10%.

For the overall Philips Group, we are on track to achieve 4% to 6% sales growth, and EBITA 10% to 12%, supported by our Accelerate initiatives and the singular focus of management on executing our strategy at a more granular level. This will lead us to deliver a return on invested capital in a range of 12% to 14%.

An essential component of Accelerate is a necessary cost reduction program aimed at cutting EUR0.5 billion in overhead and infrastructure costs between now and 2014. This is necessary for us to generate the headroom to allow us to invest in our growth initiatives, and improve margin.

In the short term, 2011/2012, we will go after the easier to get costs, including IT, real estate and organizational costs, including addressing the stranded cost for Television.

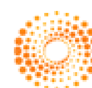
In the medium term we will dig deeper to reengineer our business processes, simplify and streamline our operating model, which will free up resources to invest in growth initiatives. We will remove unnecessary bureaucracy and improve end-to-end execution to become a faster and more agile organization. The results of this savings program are included in our mid-term targets.

At the same time, we have strengthened our management team over the last few months, at the top, by transforming our Board to a new Executive Committee, adding experienced leaders to our senior team. This will get us closer to the market, and empower execution of our strategy from the highest to the more granular level.

We have also added imported diversity to our team, which now includes five nationalities, and the first woman ever, in the Philips top leadership team. Moreover, China is now directly represented at this highest management level, which reflects our ambition to make China another home market for Philips.

This brings us to our portfolio. Since 2005 we have made great progress reshaping our portfolio in areas of high-growth opportunities, underpinned by strong global trends. With ageing demographics there's a rising need for all kinds of healthcare; healthcare now accounts for 40% of our portfolio. We are a leader in home healthcare, patient monitoring and cardiovascular x-ray.

We are the global leader in lighting, and we will be able to answer demand for greater sustainability and environmental concerns with our LED solutions and applications.



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In Consumer Lifestyle, we are expanding rapidly in growth markets. About 40% of our sales in the second quarter came from those growth markets.

We are a leader in personal care and kitchen appliances, and we see great opportunities to expand our leadership consistently across the globe.

With Accelerate we are taking actions to improve our performance and speed to higher growth and better earnings, as outlined in our midterm targets.

While we know, and we realize, that we have operational issues, and I've spent a good deal of time talking about how we are addressing them in this presentation, it is important to remember that a large majority of our businesses actually have the right fundamentals for profitable organic growth.

Strong assets underpin our portfolio. Innovation is central to our business, and new products generated 52% of total sales in 2010, up from 48% in 2009.

We have a competitive advantage in technology and know-how, and an extremely strong IP position with 48,000 registered patents.

Our brand is one of the world's most valuable and really means something to our customers.

In terms of customer focus and access, we are consistently ranked among the top global players, and in the top 10% in India, China and Brazil, which speaks to the strong brand equity we have in our growth markets.

Our employees are engaged, which is critical, given the work we have cut out for us, putting ourselves on a better growth and profit trajectory.

We are tapping into that asset through Accelerate, empowering our employees to own their business targets and deliverables, and reinforcing a culture of entrepreneurship and accountability across the organization.

We have deep expertise in our sectors as the global leader in lighting, a top 3 player in healthcare, and a leader in personal care and kitchen appliances, with major consumer lifestyle brands around the world.

We also have a solid balance sheet, which is well rated by the rating agencies. Our share buyback underlines the confidence in the organic growth potential of our business and our future.

We have unique leadership positions across our sectors, in highly attractive markets and geographies. As you can see, we clearly have the right business mix to capitalize on global trends and deliver profitable growth.

That brings me to our path to value.

With all the actions we are taking to improve performance, exiting TV, buying back our shares, strengthening our executive team, stepping up investments in growth, and managing performance at a granular level, we expect to move from our current performance box to a higher performing box, with sales growth of 4% to 6%, and return on invested capital of 12% to 14% by 2013.

For the Group, our reported EBITA margins in the midterm performance box will be 10% to 12%, supported by our cost reduction program and Accelerate activities.

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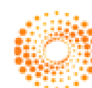

In Healthcare we are targeting margins of 15% to 17%, which we think is achievable, due to the acceleration of our portfolio and strategy execution.

In Consumer Lifestyle, we are aiming for 8% to 10% EBITA margins as we continue to reshape our portfolio.

And in Lighting, we are targeting 8% to 10% EBITA margins on the restoration of our profits.

We have launched our share buyback program of EUR2 billion, based on the strength of our organic growth potential and cash generating ability. This was done after thoroughly assessing the capital structure under various economic scenarios, addressing the financial needs for organic growth, bolt-on acquisitions, and risk mitigation, as well as being consistent with our capital allocation policy, driven by the disciplined use of capital. This will also result in a more efficient balance sheet.

So, in summing up, you may ask what is different this time. Well, let me be clear, there are significant differences in our approach to improving performance this time around.

While it is not new that we have a strong portfolio, we are continuing to strengthen our position in growth and mature markets, focusing on our core mission of bringing timely innovation to customers around the world.

We have identified the operational issues we are facing. We have put in place a granular management system to deal with them effectively and hold people accountable. At the same time, our strengthened management team will continue to make necessary investments in people, systems and markets, to succeed and leverage a culture of entrepreneurship and accountability, to own our targets, and to ensure that we remain firmly on our path to value in the midterm.

And with that, let me now open the line to your questions, which Ron and myself will be happy to answer. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you, sir. (Operator Instructions). Andreas Willi, JPMorgan.

Andreas Willi - *JPMorgan - Analyst*

My main question is on Lighting. Maybe you could give us some more indications of, if you compared a new margin target to the old one, which areas were cut? Or where do you see particularly these lower margins due to higher investments?

Also, on the revised growth target in Lighting, is that because of a change on the view on how quickly LED gets adopted, or is that more about on maybe price declines you expect? Maybe you could just give us a bit further breakdown within Lighting, and how you come up with the new targets. Thank you.

Frans van Houten - *Royal Philips Electronics - CEO*

Let me first make a correction, because I realize that I mis-spoke; I guided that the lighting market originally was slated for growth between 7% and 9%, and currently we see that to be 5% to 7%. And I think I inadvertently mentioned 2%, so it should be 5% to 7%.

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The lower market outlook on Lighting has to do with the more conservative situation in the global construction markets and consumer sentiment. It doesn't change the underlying fundamentals of Lighting, but it does make us more cautious about growth opportunities.

The margin target we have set at 8% to 10% EBITA reflects the more turbulent near-term environment where we are keen to be the leader in the new LED Lighting; and in the solution space where we will make the necessary investments in innovation and customer facing activities to solidify our leadership position, and not let any competitors come in, so to speak.

Let me underline again that this is a midterm target of 2013, and that we will not stop after that.

Andreas Willi - *JPMorgan - Analyst*

My follow-up question is on Healthcare where we have heard from some competitors that price pressure has increased, but you showed a good result in the quarter. But maybe you could comment on that, what you also expect, going forward, given that you and others talk about more larger orders, more bundled orders, government purchasing in China.

What have you assumed in your 15% to 17% margin target from the competitive side also now that Samsung seems to want to enter the imaging industry?

Frans van Houten - *Royal Philips Electronics - CEO*

Yes, Andreas, the margin target of 15% to 17% by 2013 I dare say is in line with what we have flagged before, and we should hold that in the frame of mind that we come from being behind in margin. So we have a lot of room to improve profitability in Healthcare, and the team in Healthcare is doing that by working on value engineering, bringing new products out faster, by shifting activities to China.

All of these measures improve our profitability and make us more competitive and, as such, we are confident about our midterm targets to be achieved.

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

Yes, Frans, let me add to that, that specifically price erosion we see this moment about 3% to 4%. That's our near-term outlook. And actually, Andreas, if you look at the gross margin of Healthcare improved by 1 percent point Q-on-Q for the year. So that we find very encouraging.

Operator

Simon Smith, Credit Suisse.

Simon Smith - *Credit Suisse - Analyst*

My main question was really again around Lighting. I guess two points to it; one, in terms of the bridge between profitability, I guess the main element you've talked there about is investment. And you've had an R&D spend in this area which has oscillated at round about 5% of sales. I just wondered, given the very big movement, should we be looking at 3 points to be added to that to clear that gap? Or when you talk about investment, is there maybe another side to it which you could expand on?

The second point on the Lighting was that I think, I may have completely misunderstood this, but when you were talking about the emerging market growth I think you implied you lost 3 percentage points of growth related to packaged LED sales.

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So you've lost 3% of growth from a third of your business, which still feels like that 3% of the Lighting business where LED currently accounts for 15%. So given that that grew at 21%, I just couldn't quite understand how you seemingly seem to have lost about 20% of LED sales. But those are the two points on Lighting.

And then finally, the follow-up is just in terms of cost. I think you're suggesting that half of the run rate of the cost step up is in this quarter, and I'd gained the impression that we'd already seen probably EUR50 million of costs pushed into this quarter which implied that you'd maybe had 100% of it. I wonder if you could just clarify that point?

Frans van Houten - *Royal Philips Electronics - CEO*

Okay, well, let me start with the Lighting bridge that you talked to, Simon. In the near term we do see mix changes happening, as well as the step ups in investments and continued pressure on pricing while, at the same time, we see also raw materials, of course, up.

Now we have, in the meantime, issued price changes in the market which will start filtering in, in the latter part of this year. Nevertheless, over the next two years, given where we are today with much lower profitability of Lighting, the improvement to 8% to 10% is what we are confident that we can achieve. And then, of course, from there on we have more work to do to improve that further.

The packaged LED case in China, that is indeed a little bit confusing. We are actually growing well in China in the domestic market. The LED sales refers to what Lumiled sells to direct OEM accounts, and there we ship where our customers want to. And in this case, it was less in China, which offset the actually strong domestic growth that we had in the emerging economies.

Ron, is there anything else to be added to that?

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

No, that's correct.

Frans van Houten - *Royal Philips Electronics - CEO*

Right. Then I think, Simon, the third question relates to the step ups in innovation and customer-facing activities. You're right in pointing out that our cost has gone up in the second quarter, but I do not classify all that cost increase as the rewarding cost in innovation and customer-facing activities.

And, therefore, we flag that we see about half of that step up to be in our run rate. We will be very careful, of course, when it comes to further step ups, but nevertheless, only half is in.

We have now announced the EUR500 million cost reduction, and we are also tackling discretionary spending to make sure that some of the less rewarding areas of cost are being handled quickly.

Operator

Martin Wilkie, Deutsche Bank.

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Martin Wilkie - *Deutsche Bank - Analyst*

A couple of questions on the Consumer margin target. Obviously, there's been some changes of perimeter with TV coming out, and also now the target excluding licensing. Doing some quick back of the envelope math, am I right in thinking that the margin, ex-TV, ex-license, over the last couple of years has been in the 8% to 9% range?

So explicitly, this target is saying that, once you've recovered the stranded overhead costs and things like that, you're essentially back to the same level of profitability that you've seen over the last couple of years. That was question number one.

And then secondly, if we look at the Consumer ex-license and we split it into the old DAP business and the Electronics business, DAP historically was a 15% or so margin business, and that's about 60% of the business, excluding licensing.

So if I look at your new target, it's almost saying that the Entertainment business will be break-even, or only just slightly above that level. Is that the right way to think about that margin target inside Consumer? Thanks.

Frans van Houten - *Royal Philips Electronics - CEO*

Yes, Martin, the CL portfolio has some very strong businesses like personal care, shavers, oral care, kitchen appliances, coffee. What we see in those portfolio is that we are strong in some parts of the world and not strong in other parts of the world. We have, internally, started to call that spottiness in our core business, and we are quite keen to refocus Lifestyle on those strong core businesses, but also then address that spottiness, and make sure that we are global leaders.

In that light, you can see the acquisition of Preethi in India and Povos in China so that we can build out global leadership positions. In the near-term targets to 2013, we do see increased investments in R&D and advertising promotion as we realize that global leadership. As we do that, the profitability of those categories need to edge closer to historically good targets. Again, this is a midterm target and we are very confident that we can do this.

With regard to the total, the Lifestyle Entertainment category is a turnaround situation right now. We are not happy with the performance there. We are shifting the unit, as said before, to Hong Kong. We are merging Audio, Video and Accessories. That will also see us take cost out. We are exiting some unprofitable portfolios there and, therefore, over the near term, that unit will become smaller, but back to profit.

Ron, is there anything that I have forgotten there?

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

No, I think, very good. The growth in domestic appliances will require some investments, so we have somewhat of a lower margin; it's not that much, but that will drive the growth strategy.

Frans van Houten - *Royal Philips Electronics - CEO*

And of course, historically, license income was included. And I think as we have flagged before, license income has come down over the last year, and that reduces, let's say, the overall target versus previously announced targets.

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

And on top of that, the guidance for Lifestyle Entertainment for this year, for the whole year, is profitable. That's our expectation.

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Martin Wilkie - *Deutsche Bank - Analyst*

Thank you. And on the license point, given that the target will be excluding license income, will you be able to give us explicitly license income by quarter from now on, just so that we can measure the reported numbers against the same perimeter that the target has been set?

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

Yes. We'll come back to that. We've always guided for license, as you know, for the second half, we have said flat compared to last year. This for 2011, first half, was 2 times 50, each quarter down, but we'll come back to that.

Martin Wilkie - *Deutsche Bank - Analyst*

Thank you.

Operator

Ben Uglow, Morgan Stanley.

Ben Uglow - *Morgan Stanley - Analyst*

A follow-up to Martin's question. If licensing income is roughly EUR50-odd-million down in the quarter, then the underlying margin at the moment is close to 3%. My question is, what is the margin performance at the moment like in Domestic Appliances, Health and Wellness, and Personal Care? Can you just give us a range or an idea of how those have done in the quarter, year on year? That was question number one.

Question number two was, in your presentation, on slide 49 you give a nice trajectory of Healthcare orders, with North America obviously very strong, up 10%, but the blend of the other regions now trending down. Could you give us a sense of what you expect from North America, and let's call it rest of the world, i.e., Europe, plus growth markets, in the second half of the year?

Frans van Houten - *Royal Philips Electronics - CEO*

Okay. Ron, will you take the license question, please?

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

Yes. On the license question, we'll have to come back to you on that. As you know, the license income of Lifestyle, we said it's recorded in the top line, and the fall through to the bottom line is about 80%.

Ben Uglow - *Morgan Stanley - Analyst*

So if it's EUR250 million for the year, then at around 80%, we're looking at EUR50 million per quarter, or thereabouts?

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

Yes, that's right.

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Ben Uglow - *Morgan Stanley - Analyst*

So if we back that out, then the underlying margin is what, around 3%, in Consumer Lifestyle?

Frans van Houten - *Royal Philips Electronics - CEO*

Yes. That is good math, so it does reflect that we have work to do to bring Lifestyle into the trajectory of 8% to 10%, that we have set for our midterm; that's only actually 2.5 years away, so we will hurry up and do that. That lower margin in the core of CL reflects a couple of things.

First of all, our push for growth and geographic expansion, higher advertising and promotion and R&D expenses, in the near term. And we see, in the Entertainment side of the business, quite some turmoil in the retail channels as we disentangle our sales force from the Television side of the business. And that unrest reflects a bit also in near-term pressure on sales and margin.

Ben Uglow - *Morgan Stanley - Analyst*

Okay. Frans, what I was generally trying to get at is, is that 3% a blend of a very big loss in Lifestyle Entertainment, and the rest of the business okay, or have we seen a big downshift in margin in DAP, Health and Wellness, and Personal Care as well?

Frans van Houten - *Royal Philips Electronics - CEO*

Of course, it's a blend; however, we are making quite some investments in building out our global leader position in the core businesses of lifestyle, and we have the stranded cost that we are dealing with. So there's really multiple factors that, in the near term, affect the profitability of Lifestyle, but we are confident that we can bring it to the 8% to 10% in the next two years.

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

Maybe, can I just a little bit your math. So the way we see it, we're talking more about mid single-digit on your question. So close to 5%.

Ben Uglow - *Morgan Stanley - Analyst*

Your licensing income, the precise figure, is closer to 5%, right?

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

Yes. And this is for the full year, the number that I just said, okay?

Ben Uglow - *Morgan Stanley - Analyst*

Okay.

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Frans van Houten - *Royal Philips Electronics - CEO*

And then on your Healthcare question, Ben, indeed the quarter saw a little bit lower order intake, but we are not directly concerned by it. We see lumpiness in the order intake. We are aware of some orders that were just pushed over the quarter end, for example, in Russia and the Ukraine.

Actually, the good news that I'd like to underline is that we see strength in the United States. We now see the fruits of that new product range that we talked about already several times that was launched last year at the RSNA, and that is now being ordered and shipped. We got the FDA approvals in the first half of the year in the United States, and those are shipping, and we think that we will gain market share in the United States on the back of that strong Healthcare range.

Now, when coming to speak about Europe, the Southern European market is weak. The United Kingdom has literally stopped activities with the NHS putting investments on hold. And in the emerging economies, in the growth markets, we saw some very strong performance in India and China, and that gives us confidence. So it is a mixed picture, but overall, Healthcare looks good. We are on a strong trajectory, and we are confident about that 15% to 17% in the midterm.

Ben Uglow - *Morgan Stanley - Analyst*

So there's no reason for us to expect the kind of blended, mid single-digit order growth for North America and the rest of the world? That shouldn't be decelerating in the second half of the year. Is that a fair assumption?

Frans van Houten - *Royal Philips Electronics - CEO*

Yes, right. Thank you.

Operator

Gael de Bray, Societe Generale.

Gael de Bray - *Societe Generale - Analyst*

My first question relates to the restructuring you thought you need to achieve to get to the EUR500 million cost savings, and actually when you intend to step up the level of charges. I noticed that you're guiding for EUR50 million of charges in Q3, so is it a good base to use as a new quarterly run rate, i.e., is EUR200 million annual charges, in terms of restructuring a good estimate, going forward, for the next couple of years?

Also, looking at the GM&S division, what's the new underlying run rate for GM&S EBITA, because it seems that the Q2 performance was much better than expected?

And the final question would be on Lighting. Do you have any update on the replacement of Rudy Provoost?

Frans van Houten - *Royal Philips Electronics - CEO*

Okay, Gael, I'll let Ron answer the first two questions, and I'll come back on the third.

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Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

Yes, so, on the EUR500 million, of course, the plans for that are being detailed out. Every major operation of that magnitude will, of course, involve employment job loss, which we are addressing. And as I said, more details we will get after the coming three months.

You asked about a number of EUR15 million. Did you say that, that we guided for?

Gael de Bray - *Societe Generale - Analyst*

I think you're guiding for EUR50 million in Q3, if I'm not wrong?

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

No, I think that's maybe the stranded cost that you mentioned, for TV?

Gael de Bray - *Societe Generale - Analyst*

Five zero, I said.

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

That's part of the Lifestyle restructuring, that's related with the TV business. So of course, that is part of restructuring that's already ongoing as we're executing on this deal, and doing the disentanglement, and we're on track with that. But the EUR500 million is a much larger program which encompasses also the TV disentanglement cost.

Frans van Houten - *Royal Philips Electronics - CEO*

So we have not yet given any guidance on the restructuring charges related to the EUR500 million cost savings, but it is likely that the majority will fall in 2012 and 2013, and not yet -- only a modest part this year, Gael.

Then the second question was about the EBITA run rate in GM&S. Ron, can you say something about that?

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

Yes. Well, I've explained the GM&S results. We had earlier guided for EUR90 million, so I would keep that as the base. We had a few incidentals in this quarter, but by and large, EUR90 million is the right number, in which is included EUR20 million for the stranded cost of TV.

Maybe getting back to the number now, I'm sorry, I was myself apparently confused a bit. I know now what you're referring to. It's in the restructuring part, in the miscellaneous of the sectors, we indeed talk about some restructuring charges, which are EUR20 million for Lifestyle, and for Lighting, EUR30 million. That's the total EUR50million that you are referring to?

Gael de Bray - *Societe Generale - Analyst*

Yes.

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Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

Yes, okay.

Frans van Houten - *Royal Philips Electronics - CEO*

Okay, and then the third question relates to my interim job as the CEO of Lighting. So both Ron and I have stepped into the Lighting division. I think it gives us an opportunity to really get to know the management team there and to get a handle on some of the operational issues that are affecting performance in the near term.

So we have prepared ourselves to do this for a couple of months, and in that period, we are both assessing the internal as well as external candidates available to us for the CEO role. So you cannot yet, in the near term, expect an update on that.

Gael de Bray - *Societe Generale - Analyst*

Okay. Thank you very much

Operator

Ilan Chaitowitz, Redburn Partners.

Ilan Chaitowitz - *Redburn Partners - Analyst*

Just a couple of questions on your EU order book growth in the Healthcare division. You gave quite a benign outlook at your Healthcare investor day for this year in terms of EU growth, and I was wondering if that had changed.

The second question relates to the margin guidance, and that's clearly tied into how GDP growth plays out. And I was wondering, does your margin guidance hold, or the bottom end of that, would that hold if GDP growth over the period was more like 1% to 2%?

And finally, can you give us some sort of indication how working capital, and in particular I guess DSOs and DSIs will improve, if at all, as a result of the restructuring?

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

Okay. Starting with your first question; so as I reported earlier, markets in Europe somewhat weakened. Of course, the second quarter last year, Healthcare was very upbeat in comparable sales growth, so the order portfolio is somewhat slower due to Europe. And going forward we, as Frans said, don't expect this to be a major change on the go forward. So the order intake will be in relation to the European market development situation, whereby I note that Southern Europe is more weakened than North Europe.

Of course, if the GDP growth comes down, we're not insulated from that. We will at that time, of course, immediately take the appropriate measures to compensate, but if that would happen, then you would have to expect a slight margin dip as a result of lower GDP growth. And thereby, what you're suggesting is also weaker markets.

On the working capital, we are on working capital. Apologies that we have not been able to demonstrate to you yet the improvement that we are working on. This has to do with the somewhat weaker market and lower sales than expected. Our

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working capital, however, was slightly better than last year, but on the inventory part, there is some more work to be done in the supply chain and the end to end, which is, incidentally, part of our Accelerate program. So we expect to make progress there; this quarter, that didn't show up yet.

Ilan Chaitowitz - *Redburn Partners - Analyst*

Thank you very much.

Operator

Olivier Esnou, Exane BNP Paribas.

Olivier Esnou - *Exane BNP Paribas - Analyst*

I wanted to come back to the reinvestment into the business. You said so half of it is into the numbers. Is it all cash in the P&L? I'm asking that because in Healthcare, for example, there's a significant step up in capitalized R&D, and I was wondering if this is something which is part of it, or if it's something which comes on top.

And if only half of the reinvestment is into the numbers now, does it mean that there's another step down in margin sequentially as you ramp up towards 100% of it? Thanks.

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

Okay. So you are alluding to the capitalization of R&D. As you know, we had quite an elaborate, dynamic and exciting, and well marketed product suite at the RSNA. Those products have been introduced, so as these products come off and are being distributed we, of course, match expenses. And that was in the first half still some more capitalization of R&D than in the previous year for Healthcare, so that will come off. We have no policy changes in our capitalization policy. Okay?

Olivier Esnou - *Exane BNP Paribas - Analyst*

And is that part of the EUR200 million, or it's something on top or different?

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

No. That is something different, so we said half. Frans has also explained that not all the step ups, or not all the increase you see are the rewarded step ups that we would like to see. So go forward, we will continue to step up, but we'll gear that, of course, to the actual development of the profitability situation, the results.

However, we are very cautious not to now fall in the old behavior of cutting down on strategic growth initiatives, but will gear it to the actual development of markets and results that we are driving.

Olivier Esnou - *Exane BNP Paribas - Analyst*

Okay; maybe one follow-up. Is it just possible to have the actual sales and EBIT contribution of AVM in the quarter, please?

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Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

Well, we gave guidance just that AVM, or Lifestyle Entertainment, is profitable for the year, so I hope that gives you some of an inkling.

Olivier Esnou - *Exane BNP Paribas - Analyst*

And for the quarter, is it loss making?

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

No, we're not disclosing that. For the year, it will be profitable.

Operator

Sjoerd Ummels, ING.

Sjoerd Ummels - *ING - Analyst*

Two questions, please, from my side. One question actually relates to the cost cutting program. I appreciate that it's early days and that you may not be able to give much detail around the plan, but could you please, wherever possible, add any further info into where you expect to cut costs, which amount of one-off restructuring costs could be entailed; anything else that may help us in terms of understanding the measures being taken?

The second question relates to the turnaround plan that you've announced for Consumer Luminaires. I think, if memory serves me correct, the head of Consumer Luminaires has already been replaced and, at the same time, you mention a turnaround plan for Lifestyle Entertainment. Are these new measures and, if so, what kind of measures are you, or will you be, taking in these two areas, please?

Frans van Houten - *Royal Philips Electronics - CEO*

Okay. First question about the overhead cost reduction program. I'd be happy to give a little bit more color on that. We are very careful there to go to the fundamentals of what we call complexity in Philips, so this is not addressed at innovation and customer-facing activities, but rather at overhead and infrastructure.

Now what falls under overhead? Well, actually, things like IT, HR, finance, real estate, and shared services, these are all areas where we see opportunities to become more efficient, but also more agile as we take out some layers empowering the people in the field and in the businesses more to do what they need to do and hold them accountable for that.

We will take three months to make the detailing of the cost program. Of course, it affects people in several countries, and then we need to discuss that with our social partners. I don't think it is, therefore, appropriate to go too deep today. Of course, there will be some one-off restructuring costs associated with it. These will fall primarily in 2012 and 2013, and I'm now looking at Ron whether we have a number for that or not.

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

I think maybe this year a few tens of millions, not that much. As a general rule, I would apply 80% to 100% max of the savings amount as a one-off as we move along.

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Frans van Houten - *Royal Philips Electronics - CEO*

And some of -- we in the presentation also allude to the fact that we will have some business process reengineering to do, and that takes some changes in our IT systems. And that's then also in the second bucket of the savings and not in the first one, because it's a bit more complex to do that.

Now then your second question relating to the Consumer Luminaires. In fact, this is a turnaround that was already started somewhat earlier. And, yes, we have a new manager there since early part of this year. I visited the Consumer Luminaires activities and gone through the entire program. I think they are well on their way to fix things like supply chain.

And the product lineup is now LED-based. It looks good. But now we need to restore also the confidence with our customer base; and a customer base that is somewhat depressed also by a slow economy. Customers in do-it-yourself markets and other channels typically refresh their range twice a year and, therefore, it is not at our will to immediately to demand the turnaround to have a success, so this will take a little bit of time. Nevertheless, I think Consumer Luminaires is getting a handle on its issues.

The Lifestyle Entertainment turnaround; I think we talked about that in April already that we are unhappy with the performance there, and that we lost also a customer in the United States in Accessories. So we have moved Accessories and AVMA to Hong Kong close to the supply chain. It is a by and large outsourced business model. The merger between the two into Lifestyle Entertainment allows us to take significant cost of operations out and management and, therefore, we are confident that over the year, over this year, as Ron, said, Lifestyle Entertainment will be profitable. And I would like to leave it at that, short.

Sjoerd Ummels - *ING - Analyst*

Okay, thanks very much.

Operator

Ludovic Debailleux, Natixis Securities.

Ludovic Debailleux - *Natixis Securities - Analyst*

I have two quick questions. First of all, could you give us an indication on the free cash flow generation expected for 2013 by using, for example, a free cash flow to sales ratio? And are we going to keep the same kind of seasonality in terms of free cash flow generation? That was my first question.

Second question, could you let us know if the share buyback program will be done or will be tax free as well? Thanks.

Frans van Houten - *Royal Philips Electronics - CEO*

Okay, I'm going to look for Ron for both questions.

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

So free cash flow expectations for 2013. We haven't made that explicit but, as said, we drive the free cash flow by growth and return on invested capital and all the math that goes with that.

So, generally speaking, we have always had about a mid single-digit free cash flow to sales as an indication for that. Okay?

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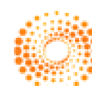

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Ludovic Debailleux - *Natixis Securities - Analyst*

Okay, thank you.

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

On the share buyback, you asked tax free, about EUR0.3 billion of the EUR1.7 billion will be taxed, so that means EUR1.7 billion of the share buyback is not taxed.

Frans van Houten - *Royal Philips Electronics - CEO*

EUR0.3 billion of the EUR2 billion.

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

Yes, EUR0.3 billion of the EUR2 billion is taxed, EUR1.7 billion of the EUR2 billion is not taxed.

Ludovic Debailleux - *Natixis Securities - Analyst*

Okay, thank you.

Operator

Christel Monot, UBS.

Christel Monot - *UBS - Analyst*

One question to come back to the organic growth that we are seeing in the quarter, 4% for the Group. That's actually what I was looking for ahead of the warning. And based on the warning you made on June 22, it looked like May was weaker than you were expecting, and June was not improving. So can you try to give us some color about how June developed of basically in terms -- not in terms of we, but just give us some understanding on how you come finally with 4% growth? Any division or any businesses which finally surprised you on the upside?

Frans van Houten - *Royal Philips Electronics - CEO*

Yes, actually, thanks for asking that, Christel. April and May were, indeed, pretty weak, and June came out stronger than we thought in the beginning of the months. So the last couple of weeks of June were good.

Christel Monot - *UBS - Analyst*

And in terms of businesses, do you have any color? Was it Lighting in particular?

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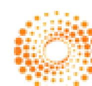

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Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

Yes, I think in the Lighting business, the last weeks, as Frans said, we saw some uptick in the sales beyond expectation, so that was very encouraging.

Christel Monot - *UBS - Analyst*

Right. And if you can give us any indication on July, do you think that's likely to continue in Q3 and you've been reassured in terms of outlook, even though you're still flagging for an uncertain economic environment?

Frans van Houten - *Royal Philips Electronics - CEO*

Yes, exactly, and I think that's what we should leave it at. We don't go into the near-term guidance.

Christel Monot - *UBS - Analyst*

Okay. Thanks very much. And can I come back quickly on Lumiled? You mentioned 11% growth ex-Lumiled, were you referring to emerging market? I'm sorry, I completely missed that.

And then could you give us some kind of color for the growth in Lumiled itself, and what's happening there, because it looks like it's completely stalled compared to its previous half record?

Frans van Houten - *Royal Philips Electronics - CEO*

You're right in connecting those two things; that's absolutely well understood. So the packaged LEDs is, indeed, the product of Lumileds, so it did influence the China or the emerging market sales growth. It's an OEM business, as I said.

Now in Lumileds, in the quarterly report, we also mentioned that the sales are actually down. Then to dissect that and give you more color on that, Lumileds serves multiple application segments; let me just name three. We serve the display market, we serve the flash market for taking photos, and we serve the general illumination market. And then finally automotive, so four segments.

So the display market was very disappointing to us where we saw significant lower shipments, and that affects the overall Lumiled performance. At the same time, our illumination market was actually growing very strongly and, of course, that is the strategic intent behind the reason why we have Lumileds in the first place. We put all our R&D efforts on having a very strong product range in general illumination and in automotive.

And therefore, although we are disappointed that we are performing less in the display market, it does not concern us from a strategic point of view, and we don't see it as structural either. So it is not a good quarter, but, let's say, structurally, strategically it doesn't change the picture.

Christel Monot - *UBS - Analyst*

Right. And just to give us some indication in terms of the decline you saw in Lumiled, if you can comment on that?

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Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

Well, we don't guide on Lumileds, but what we have seen in the quarter is that there was one customer who now is doing some double sourcing, so second sourcing. And as you know, we were way ahead in the technology, so we have enjoyed that for a good while. And there's been some inventory correction. That's all I would like to say on Lumiled.

Operator

Marcel Achterberg, Petercam.

Marcel Achterberg - *Petercam - Analyst*

Most of my questions have already been answered. Just one thing to be sure; the new 2013 targets that you gave, does that imply that the old 2015 targets which you gave in September are now completely replaced, or is this still something you're aiming for, for 2015?

Frans van Houten - *Royal Philips Electronics - CEO*

The midterm targets of 2013 do indeed replace the Vision 2015.

Marcel Achterberg - *Petercam - Analyst*

Okay, thank you.

Operator

Martin Prozesky, Bernstein.

Martin Prozesky - *Sanford C Bernstein - Analyst*

Just two questions, please. I'd like to get back to Healthcare orders. You mentioned, obviously, that the US was pretty strong; I think growth markets were slightly weak at 5%. Europe being down, how confident are you that that is not structural and that we won't see this continuing, given what's going on in lots of the Southern European countries, the UK, as you mentioned. Or are you confident that this is just going to be a cyclical short-term effect?

And then the second question is on Lighting, Consumer Luminaire's been weak in Europe, again, what gives you confidence there that the market isn't more structurally challenged than you seem to be implying in your comments today?

Frans van Houten - *Royal Philips Electronics - CEO*

Okay, maybe Ron, you can start with Healthcare and then I will take the Lighting one.

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

Yes. So on Healthcare, that's within the guidance that we have given of 4% to 5%, on the order intake growth, so we don't see anything outside that range at the moment.

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As I said earlier, yes, the US was indeed strong; we have some weakening in Europe, particularly in Southern Europe as we indicated.

Martin Prozesky - *Sanford C Bernstein - Analyst*

In your restructuring plan announced today, do you have any provision made for addressing growth in Southern Europe declining?

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

No, we haven't. As I said, we haven't detailed out the plans. As Frans indicated, that will be done after three months; we'll give you an update for that. So nothing is provided for in here?

Frans van Houten - *Royal Philips Electronics - CEO*

In any case the EUR500 million program is not specifically related to weakness in Southern Europe, but much more overall at tackling the complexity and overhead cost reduction that we want achieve in Philips.

Your second question related to Lighting. There are several things going on in Lighting; we talked about consumer weakness affecting Lamps and Consumer Luminaires. That market we do not immediately see strengthening.

But then your specific question relates to Consumer Luminaires, and Consumer Luminaires, the issue there is, in my view, one largely to our own doing. And the turnaround that we are making there should help us regain market share, even in a weak market. And I dare say that the targets that we have set now take into account a certain degree of certain market weakness. We have taken down the overall growth numbers of Lighting from 7% to 9% to 5% to 7% bandwidth reflecting a weaker aftermarket.

Martin Prozesky - *Sanford C Bernstein - Analyst*

Thanks. One follow-up on Professional Luminaire, can you just give us some color why that was growing well without seeing a construction recovery in the US? What was driving the improvement in Prof Lum in the US?

Frans van Houten - *Royal Philips Electronics - CEO*

Well, we have, in Prof Lum, shifted some of our attention to renovation projects, and the total cost of ownership of energy efficient lighting makes it quite attractive for some of the larger customers, B2B customers, to upgrade from traditional lighting to LED lighting. So we have adapted our business model and go-to-market, and this helps us find new growth in a what's otherwise a very weak construction market.

Martin Prozesky - *Sanford C Bernstein - Analyst*

Thank you.

Operator

William Mackie, Berenberg Bank.

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William Mackie - *Berenberg Bank - Analyst*

First of all, with regard to capital structure and returns. Against your objective of an A3/A- credit rating, and a stable dividend, and the investment returns you've highlighted in the restructuring programs and other areas to grow the business, what do you see within your plans in terms of flexibility for M&A or acquisition-related spend?

And also, related to that, I notice you've changed the discount rate on a number of the previous acquisitions. Are you also in the process of changing the implied hurdle rates that you will put to future acquisitions as they're considered?

And then my second question is probably more related again to the detail in Lighting. And it comes back to the fact that you've highlighted the impact of raw material price increases across the Lighting business, and your efforts to improve pricing through the back part of this year.

We've seen some very big step ups in input prices across parts of the Lighting portfolio. Can you, in any way, quantify how much of that input price effect is compressing operating margins? And how you should be able to offset that with pricing in the second half? Thanks.

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

Okay, thank you for the questions. To begin with, what you asked about the flexibility we have; we feel that we have adequate flexibility to do the bolt-on acquisitions that we have said we would do. So there is nothing really big on the horizon other than that. So bolt-on acquisitions, yes, a lot of flexibility for that.

In terms of the discount rate, yes, we're now for the Company of 8.7% and that will also, as we apply due scrutiny on hurdle rates and criteria in the M&A processes, this will go also up. So there will be higher hurdles applied to that.

Do want to go on to Lighting or --?

Frans van Houten - *Royal Philips Electronics - CEO*

Yes, for Lighting, we have seen the raw material prices creeping up. To some extent, we were insulated for that in the first half, due to forward contract and hedging. We see those material prices go up further in the second half-year.

Since taking on the role in Lighting, we have put a lot of effort in deploying price raises throughout the world. Those price rises are different per category; the highest in fluorescent TL. We did a first launch of price increases in June, and we have stepped it up in July.

There are typical price increases in the United States of up to 25%. In Europe, it differs by country, depending on the competitive situation. But we see broadly, across the competitors, everybody doing this. Thereby, we hope to offset any impact on the margins.

Nevertheless, I did flag in my introduction that we do not see a major improvement in the results in Lighting for the remainder of the year.

William Mackie - *Berenberg Bank - Analyst*

Great, thank you. Could I follow up with a quick question?

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First of all, can you categorize what you describe in terms of size as a bolt-on acquisition? I think that varies considerably, depending on the company we speak to.

And secondly, on Lighting, in Lumileds, can you characterize perhaps, with regard to the decline in revenues, how much of that was volume versus price? And what sort of capacity utilization rates look like at Lumileds today?

Frans van Houten - *Royal Philips Electronics - CEO*

Okay bolt-on, I think the best examples are just if you look at our last half-year, you see them vary in range from small to a couple of hundred million. I think those are good indications by any standard. Bolt-on acquisitions will likely be less than EUR0.5 billion, but we are not tying ourselves down to an exact amount.

With regard to Lighting and your bolt-on question; well, we do see that factory utilization in some of our Lamps businesses and also in Lumileds are less than desirable.

In Lumileds, we are actually moving to 6 inch wafer size. 6 inch wafer size will make us far more competitive in the future. In the near term that means, however, that we are upgrading our facilities from 4 inch to 6 inch. That also explains a little bit why we are having a lower load at the moment. But overall, we are confident about the future there.

William Mackie - *Berenberg Bank - Analyst*

Thank you.

Operator

Andrew Carter, RBC.

Andrew Carter - *RBC Capital Markets - Analyst*

Most of my questions have been answered, but I wonder if I could have just a couple of follow-ons?

Firstly, could you talk a little bit about how you see license revenues developing over the next couple of years? Is there a concern that license revenues are likely to fall year on year next year?

The second one was just in terms of another longer term question. You made the point that, in Home Healthcare, one of the reasons for the write down was a lower growth rate assumed. Could you talk to us a little bit about what the new growth rate assumption is and what was previously in there?

And I guess just a final one on a clarification; we have seen some signs of deterioration in the television market. Is there any risk that the terms of the deal with TPV change on the back of that?

Frans van Houten - *Royal Philips Electronics - CEO*

Let me take them in reverse order, giving Ron some time to think about the license revenue question.

(Laughter)

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So first the TV deal. In April, we have announced that we aim for a definitive signing in Q3 and a closing in Q4. In the meantime, the teams have progressed well on the due diligence side and are working now to that definitive agreement, also taking into account all sorts of other stakeholder interests that we need to consider.

Both parties remain very strongly committed to wanting to do the joint venture and, therefore, we remain confident that this will happen.

The deal will also see some disentanglement cost besides the stranded cost resolution, and we will update you whenever we can. At this moment, as I said, we remain confident about progress.

In the Home Healthcare area, yes, we have, in our annual impairment test, looked at the business cases for the future.

We continue to see these acquisitions as good businesses, businesses that will see strong growth, at least high single-digit growth in most cases. And, therefore, they are continuing to be good businesses, but the economic environment has deteriorated versus the pre-crisis assumptions in the business cases, and this has led to the cut of the goodwill.

Then your first question related to the license revenue development, Ron?

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

Yes, what we have said earlier that is about the decline of about EUR15 million over the next few years. So that will be, if you map it out, about EUR15 million per year.

Andrew Carter - *RBC Capital Markets - Analyst*

Thank you.

Operator

Andreas Willi, JPMorgan.

Andreas Willi - *JPMorgan - Analyst*

I just wanted to follow up on the answer on the licensing income, to make sure I understand it correctly. So you only say it's declining EUR15 million, 1, 5 million per year, from the roughly EUR200 million run rate today?

And the second question, a follow-up on acquisitions; your Povos acquisition in China, in the press it said that you paid 2.3 times sales, which looked quite a high multiple. Is that correct? Thank you.

Frans van Houten - *Royal Philips Electronics - CEO*

Well, Ron, first, another question on license revenues?

Ron Wirahadiraksa - *Royal Philips Electronics - CFO*

So this is not an exact science. We have quite a strong IP infrastructure, able to drive a lot of license income. But inherently, in the Lifestyle portfolio, the optical storage part, the video storage part, is declining. So we need to find other license income for

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that, which we are confident that we can produce, but still we guide for lower license income, going forward. Again, it's not an exact science, I would say.

Frans van Houten - *Royal Philips Electronics - CEO*

Then with regard to the Povos acquisition that we announced, this is subject to confirmatory due diligence and, therefore, all that works still needs to be done.

We do not disclose the acquisition price, but I can explain the strategic intent behind it.

Several of our domestic appliances businesses are too European. And we also feel that we have been too reliant on external sourcing, where we cannot put enough of our own innovation in.

So the Povos acquisition gives us, actually, two things. First, it gives us a strong base in China for regional product creation. We have such a strong brand. By plugging in more products under the Philips brand in China, we can penetrate the market much deeper and, therefore, leveraging Povos at a growth rate that Povos would never have been able to do on their own.

Secondly, the Povos development and manufacturing environment will help us improve the economics of some of our domestic appliances business outside of China as well, thereby making the business case even stronger.

Now all of this is early days. As I said, we need to do the confirmatory due diligence, but we think that we are on to something there.

Andreas Willi - *JPMorgan - Analyst*

Thank you.

Operator

Thank you, Mr. van Houten and Mr. Wirahadiraksa. There are no further questions, please continue.

Frans van Houten - *Royal Philips Electronics - CEO*

All right, well, I really appreciate all your good and intense questions. And I hope that, with today, we have portrayed you a Philips that is with the hands on the steering wheel, dealing with all our operational issues.

We are confident that we can bring Philips on an improved trajectory of growth and, more importantly also, profitability and getting the right returns to the market.

And, as we go forward, I'm sure that we will meet many of you over the next few days during the road show to answer any remaining questions that you may have. For now, thank you very much for your confidence.

Operator

This concludes the Royal Philips Electronics second quarter results 2011 conference call on Monday, July 18, 2011. Thank you for participating, you may now disconnect.

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