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PHIA.AS - Q3 2013 Koninklijke Philips NV Earnings Conference Call

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OVERVIEW:

Co. reported 3Q13 comparable sales growth (adjusting for currency and portfolio changes) of 3% and net income of EUR281m.

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PRESENTATION

Operator

Welcome to the Royal Philips third quarter results 2013 conference call on Monday October 21, 2013.

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

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

Abhijit Bhattacharya *- Koninklijke Philips NV - Head of IR*

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

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

As usual, our press release and the accompanying information slide deck were published at 7 am 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 available on the investor relations website by tomorrow.

And with that, let me hand the call over to Frans.

Frans van Houten - *Koninklijke Philips NV - CEO*

Thanks, Abhijit. Welcome and thank you all for joining us today on this call. This was another quarter of solid progress for Philips. Despite challenging economic conditions, I am particularly pleased that our operational results improved by 33% compared to the third quarter of last year. All sectors achieved a year-on-year improvement in operational results thanks to our Accelerate! program.

Our focus on operational excellence has led to a better operational gross margin which are up by 240 basis points compared to a year ago. The global economy, however, continues to impact our business. As we communicated to you at the beginning of the year, we expected a slow start of 2013, and that was indeed the case.

We originally expected conditions in North America and Europe to improve as the year would progress, leading to a stronger second half of the year. Unfortunately, this was not the case as we saw ongoing headwinds in the global economy which affected growth in the third quarter.

Despite this, I would like to reiterate that Philips is a story of self-help as we continue to improve our business on the journey to unlock our full potential.

Moving to the performance. In our three businesses, Healthcare order intake declined in the quarter, which was disappointing, though there are two factors impacting the comparable order intake trend this quarter. The first factor was the September launch of our new ultrasound system range called EPIQ. This impacted order intake in July and August as our customers waited for the launch of the new product family.

The second factor is, as we noted last year, we booked last year two large and multiyear deals in Europe during the third quarter of 2012. Excluding the impact of these two factors, order intake actually grew by low single digit, which on the back of the 7% growth in Q2, put us in a reasonable position to grow our top line in the next quarter.

Sales in Healthcare were flat in the quarter, as sales increases in the growth geographies were offset by a decline in North America.

Consumer Lifestyle maintained its very strong growth momentum, growing by over 9% after four consecutive quarters of double-digit growth. In the current economic climate, these are indeed excellent results and demonstrate our ability to execute on our strategy to more rapidly introduce innovative products that are locally relevant at competitive prices.

In Lighting, growth improved to 3% in the quarter after 2% comparable sales growth in the second quarter. This was driven by the strong 33% growth in LED-based sales. Sales from LED-based products and solutions are now 30% of overall Lighting sales.

Our transformation and performance improvement program, Accelerate!, continues to drive improvements across the organization. Our strategic focus on innovation and new business models that deliver superior value are resulting in encouraging successes with our customers. I'd love to give you a couple of examples.

In Healthcare, we have introduced innovations that span the entire continuum of care, from diagnosis to treatment to after care, for the deployment of advanced diagnostics, clinical informatics, and advanced interventional imaging, to guide minimally invasive therapies.

Building on our strong position in ultrasound, as I mentioned, Philips launched its premium EPIQ ultrasound system in Europe, parts of Asia, and in the US in September. As a world first, the EPIQ ultrasound family features superb image quality, enabled by clinical decision support, with anatomical intelligence for automatic image segmentation, quantification and reporting. This will make ultrasound procedures easier to perform and replicate and will deliver new levels of clinical information for enhanced patient care.

Philips has installed an advanced hybrid operating room, or hybrid OR, at a federal Russian cardiology research and production complex, a renowned medical institute in Moscow.

This hybrid OR is the first of its kind in Russia and is equipped with the latest live real time imaging solution to meet the needs of both open surgery and minimally invasive procedures. The use of the state-of-the-art hybrid operating room has enhanced station care of the institute and will serve as an example for other hospitals in Russia.

To this end, the first minimally invasive hard valve replacements performed in the new hybrid OR were actually webcasted live in both Russian and English.

Robotic systems have great potential to further improve current image-guided minimally invasive procedures. And to further build on our value propositions, we have teamed up with partners with complementary and unique strengths such as Hansen Medical in the US.

We have recently secured the seamless integration of Hansen Medical Magellan Robotic System with Philips' most advanced live image-guided systems, enabling healthcare professionals greater access to ground-breaking innovation.

Philips Healthcare was awarded the imaging company of the year 2013 in India by Frost and Sullivan at their Fifth Annual Healthcare Excellence Awards presentation in Mumbai. The imaging company of the year award follows Philips' market leadership in India across all key verticals of healthcare technology, radiology, cardiology, critical care and respiratory care. This is recognition of our investments in India over the years to build a strong end-to-end ecosystem for our Philips innovation campus in Bangalore, to our green field manufacturing center of excellence in Pune, to our customer care solutions center in Chennai, and our strong commercial presence across India and South East Asia.

We have also made important steps in the development of future innovations. In collaboration with Accenture, we have created a proof of concept that uses a Google Glass head-mounted display for researching new ways to improve the effectiveness and efficiency of performing real time surgical procedures.

The demonstration connects Google Glass to the Philips IntelliVue Solutions enabling seamless transfer of patient vital signs into the Google Glass display, providing clinicians with hand-free access to critical clinical information. This development builds on our leadership in patient monitoring solutions, as well as clinical decision support tools and mobile applications to provide immediate access to centrally held patient data.

With the aim to merge precision radiation therapy with MR imaging in a single MRI guided radiation therapy system, the Froedtert & The Medical College of Wisconsin Clinical Cancer Center have joined the Elekta and Philips' research consortium to develop a novel targeted treatment for cancer.

The other clinical members of the Group, if I can remind you, include the University Medical Center of Utrecht in the Netherlands, the University of Texas, Anderson Cancer Centre, the Netherlands Cancer Institute-Antoni van Leeuwenhoek, and the Sunnybrook Health Sciences Center in Canada, all leading innovators in oncology.

It is expected that this will enable doctors to achieve exceptional soft tissue imaging during radiation therapy and to adapt treatment delivery in real time for extremely precise cancer treatments.

Finally, Philips is developing a new portable ultrasound technology. By incorporating our differentiated imaging technology and intelligent software into the actual ultrasound transducer, that is the part of the ultrasound that touches the patient, that the technician holds in thehand, Philips has turned a powerful scanner into a portable ultrasound system with a tablet form factor. This development will further reinforce our technology leadership enabling wider access to care in the fast-growing ultrasound market.

These are all great examples of how we are creating a sustainable future of Healthcare together with our partners and customers that will enable access to care for the growing population of people at more affordable cost.

As the global leader -- if I then switch -- move to Lighting where we continue to lead the rapid transformation to energy efficient lighting solutions.

Underlining our leadership in LED, we signed a memorandum of understanding earlier this month with the Dubai Municipality to support a transformation of the municipality's 262 buildings from conventional lighting infrastructure to energy efficient LED-based solutions. The LED transformation project in Dubai will help the municipality reduce its electricity consumption by more than 50%, leading to lower energy costs and a reduction in its carbon footprint.

We've also been selected by the Government of the City of Buenos Aires to renew its streetlights with LED technology. Philips will replace 91,000 streetlights out of the total of 125,000 in the city with new connected LED lighting systems with a three-year term.

Philips LED-based lighting will enable electricity savings of over 50% for the city and a significant reduction in CO2 emissions every year, and offers a lifetime that is 5 times longer than conventional lighting. This will significantly reduce the environmental impact of the lighting system and reduce maintenance costs for the city of Buenos Aires.

In addition, the white light of LED Lighting enables better facial recognition and adequate color perception, not only by the human eye but also by security cameras, strengthening crime prevention.

We've also further built on the Philips Hue platform. The Hue platform is our connected lighting system for the home. In August, we launched the friends of Hue, which brings together any product or app created by Philips or an independent developer. With friends of Hue, Philips is extending the possibilities to feel and experience light from extending your immersive TV experience to the whole of the living room, or to bringing children story to life with light.

In Consumer Lifestyle, we are further building on our digital innovations as consumers are increasingly looking for smart personalized solutions that help them to be healthy, live well and enjoy life. At the IFA trade show in Berlin, we unveiled a range of digitally connected consumer innovations that span male grooming, kitchen appliances, coffee, mother and childcare and air purification.

For example, the Philips Smart Air Purifier provides families with the confidence and reassurance that they are breathing clean air, providing a real time overview of the -- and control of indoor air quality via their smartphone, and the Internet, of course. Good air quality is important for healthy living, and consumers are increasingly aware of the need to ensure clean air in their home. Philips air purifiers help to improve the lives of those suffering from allergies or respiratory problems.

Another good example is the Philips Smart Baby Monitor designed for today's digital parents as our new baby monitor can be connected to and operated by a smartphone with seamless switching between multiple connections, including Wi-Fi and 3G.

Supporting parents in building a routine for their baby, the monitor also connects to the Philips Hue lighting system for adjustable nursery ambience to aid bedroom soothing and feeding.

Beyond innovation, we continue to remain focused on operational improvements driven by the various work streams of our Accelerate program. Our End2End programs are delivering strong results. The leaning out of the supply chain has led to the reduction of inventory by 40 basis points compared to last year.

In addition, our overhead cost reduction program is ahead of plan, and our gross total savings through the end of Q3 2013 was already EUR856 million. We expect to end the year with gross total savings of around EUR1 billion.

Our Design for Excellence, DfX program, is building a strong funnel of opportunities to lower the cost of goods sold in the coming years in a significant manner.

We have launched our new share buyback program of EUR1.5 billion today based on our capital allocation policy, as also outlined during the Capital Markets Day in September. We believe that the share buyback underlines our belief in our ability to improve people's -- Philips' performance and cash-generation ability.

With that, I will conclude by reiterating that we are pleased with the progress we have made to date in challenging economic conditions. We see strong positive engagement from our employees driving our performance improvements, creating a new culture, and making us a more agile and entrepreneurial company.

Looking ahead, we remain committed to reaching our financial targets this year. However, as I noted earlier, ongoing headwinds in the global economy are expected to continue to affect sales growth in the coming quarters.

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

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

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

Let me start with Healthcare, where the US Government shutdown further added to the uncertain environment which is likely to cause delays in purchasing decisions.

We expect the related market uncertainties to continue into the next months. Healthcare construction is forecasted to decline by 2% in 2013, and patient procedure volume growth expectations remain unchanged in the low-single digit range.

In Europe, the healthcare market remains soft in most countries, including in larger markets such as Germany and France. We expect that this trend will not significantly change for the remainder of the year.

In the growth geographies, the ASEAN region is expected to come in at a mid-single digit growth rate, and China continued to show a solid growth during the third quarter of 2013. On the other hand, Middle East and Turkey is expected to come in at the same level as last year. Russia continued to have low tender activity, which resulted in low market momentum in the third quarter.

Overall, we estimate the healthcare market growth to be in the low-single digit range for the whole year.

The consumer markets in Q3 continued to follow the fluctuating patterns seen in the overall economy. Eurozone real GDP growth continues to show a weak trend. Unemployment remains high at 12%, with Spain and Greece's unemployment rates still over 26%.

The EU Consumer Confidence Index has been improving since January 2013, with Germany poised for modest economic growth. Total retail sales volume shows an increasing year-over-year trend since the beginning of 2013.

The US picture for consumer markets improved during Q3, with the August unemployment rate falling slightly to 7.3%, and improved August retail sales. That excludes motor vehicles and parts dealers. The August US Consumer Confidence Index was positive.

In China, year over year, the growth rate for retail sales has improved since the beginning of the year. In Brazil, the increase in Consumer Price Index, which led to an erosion of consumer confidence, has stabilized in the last 12 months -- sorry, in the last two months.

Across geographies, the lighting market in Q3 2013 was driven by the increased adoption of LED-based lighting and remains on track for low-single digit growth in 2013.

In Western Europe, ongoing LEDification and weak but improving macroeconomic fundamentals were the main drivers of the lighting market.

The eurozone consensus GDP growth forecast for 2013 was raised slightly, although still pointing to negative growth. The economy remains fragile and is likely to be slow going into 2014.

This is also reflected in growth expectations for the construction market, where a very modest level of growth is foreseen for 2014.

In Q3 2013, consensus forecasts now estimate 1.6% year-on-year GDP growth for the US, rising to 2.3% for Q4 2013. Driven by new builds of residential properties, growth in the US construction market in Q3 2013 picked up slightly compared to Q2 2013.

The Architecture Billings Index in August reflected the strongest growth in activity in the last six months.

Following two quarters of weaker-than-expected growth, the Chinese economy is showing signs of stabilization, as indicated by recent data releases, as well as stabilizing consensus GDP forecasts for 2013.

In absolute terms, growth rates remain healthy, which is reflected in the lighting market growth. The lighting market remains driven by the migration to LED, both in lamps and luminaires.

Notwithstanding a year-on-year decline in the EMEA region, global light vehicle production showed continued year-on-year growth in Q3 2013, and is still trending towards low single-digit growth in 2013.

Let me now move to the Philips Group results for the third quarter of 2013.

As of the first quarter of this year, we reported profit and loss on the audio, video, multimedia and accessories business under discontinued operations, and the net assets for the business in the balance sheet on the line assets held for sale. The cash flow of the audio, video, multimedia and accessories business is reported under cash flow from discontinued operations.

Therefore, all commentary that will follow, in terms of sales earnings at Philips' Group level and Consumer Lifestyle sector level does not include audio, video, multimedia and accessories related information.

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

Comparable sales in the third quarter grew by 3% when adjusted for currency and portfolio changes. Comparable sales in our growth geographies increased double digits in the third quarter. Our growth geographies are defined as all markets, excluding the US, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel.

Sales from these growth geographies increased to 37% of Group revenues compared to 35% for Q3 last year. On a comparable basis, sales in North America declined by low single digit in the quarter.

Healthcare was impacted by lower order intake in the previous quarters as sentiment was affected by the uncertain environment that I have referred to earlier.

Consumer Lifestyle sales remained strong and grew high single digit, while Lighting sales declined mainly due to lower sales for professional lighting solutions.

Group sales in Western Europe saw a decline in comparable sales of 1% in the quarter mainly due to Lighting.

In the other mature geographies, the Group saw a 1% decrease in comparable sales mainly due to Lighting in Japan.

Reported EBITA was EUR562 million, or 10% of sales, which is EUR196 million higher than the EUR366 million or 6.3% of sales reported for Q3 last year.

The EBITA for Q3 2013 included a pension settlement loss of EUR31 million. This loss is related to a lump sum offering to former employees enrolled in our US pension plan and was caused by an increase in discount rates between the offering and the settlement date.

Restructuring and acquisition related charges in Q3 2013 were EUR35 million lower than Q3 2012.

Adjusted EBITA was EUR634 million or 11.3% of sales in the quarter compared to EUR476 million or 8.2% for Q3 2012. The 33% improvement in the adjusted EBITA was driven by improved operational performance in all sectors. I will elaborate on this a bit later as I go through the details on the sectors.

Net income amounted to EUR281 million, a year-on-year increase of EUR176 million.

Free cash flow in the quarter was lower than Q3 2012 by EUR293 million, despite higher earnings in the quarter. There were four main contributing factors.

About one-third was due to a lower improvement in the quarter of inventory compared to last year, although overall inventories were lower than last year.

The rest was mainly due to a reduction in provisions primarily due to payment of restructuring costs in Q3 which were provided for earlier, a higher payout of taxes compared to last year, and timing differences in receivables in the quarter.

With that summary, let me now walk you through the performance of each of our businesses during Q3, starting with our Healthcare businesses.

Currency-comparable equipment order intake decreased 2% in Q3 2013 compared to Q3 2012. Order intake in North America declined by 2%. As Frans mentioned, we launched our new ultrasound system range, EPIQ, in September, which did impact order intake in North America as our customers waited for the launch of the new product family. Excluding ultrasound, order intake in North America was up by 2%.

Europe order intake declined by 7% in the quarter. We had mentioned in Q3 last year that we then had two large and multiyear deals. Excluding those deals, comparable order intake in Europe is actually up by mid single digits.

China and India recorded strong double-digit growth in order intake in the quarter. However, we saw declines in Russia, Central Asia and the ASEAN region, which led to a low single digit decline in order intake for the growth geographies.

The decline in Russia was caused primarily due to lower tender activity. In the other mature geographies, order intake grew in the quarter by high single digits led by Japan and Korea.

Excluding the large deals in Europe, overall order intake for Healthcare is flat for the quarter.

Imaging systems order intake increased low single digit, while patient care and clinical informatics decreased by 7%. Patient care and clinical informatics had a 15% increase last year due to the large deals.

On a currency and portfolio comparable basis, Healthcare's year-on-year sales were flat in Q3 2013. Growth in consumer services from healthcare and patient care and clinical informatics was offset by a decline in imaging systems.

Comparable sales in the growth geographies increased 3% in the quarter. Comparable sales in China grew by double digits in the third quarter of 2013, while sales in LatAm grew high single digit.

Double-digit declines in Russia, the Middle East and Turkey impacted growth in the quarter. Comparable sales in Europe were flat, with Southern Europe declining by mid single digits and the rest of the Europe growing by low single digits.

Sales in North America declined low single digit in the quarter. Healthcare reported a third-quarter EBITA of EUR329 million, which is 14.6% of sales. The adjusted EBITA amounted to EUR330 million, or 14.6% of sales, which is 200 basis points higher than the adjusted EBITA in the same period of last year.

Accelerate! driven productivity improvements to the overall cost base, as well as the reduced bill of materials leading to higher gross margins, resulted in the improved earnings for the quarter, despite a flat top line.

Consumer Lifestyle comparable sales grew by 9% compared to Q3 of last year, this especially impressive as it is on the back of 10% comparable growth in Q3 of last year.

The growth geographies had a comparable sales increase of 16% in the quarter led by Russia, China, the Middle East, Turkey, Central and Eastern Europe, India, and the LatAm region.

Sales in North America grew high single digit, driven by double-digit growth in health and wellness, while comparable sales in Europe were flat.

Other mature markets recorded a 15% growth in the quarter, with very strong growth in Japan.

EBITA for the quarter was EUR116 million, or 10.6% of sales. Adjusted EBITA for the sector for Q3 2013 was EUR121 million in the quarter, or 11.1% of sales, compared to EUR85 million or 8.1% of sales for the third quarter of 2012.

The improvement in adjusted EBITA was driven by operating leverage through higher sales, gross margin improvement, as well as the elimination of stranded costs related to the television business, which were part of the Q3 2012 results.

For the audio, video, multimedia and accessories business, which as explained earlier, is reported in discontinued operations, the net income amounted to EUR10 million in Q3 2013, which is the same as Q3 2012. On page 17 of the press release, we have provided a simple reconciliation of the results of this business.

In Lighting, comparable sales were up 3% in the quarter compared to Q3 of last year. In our growth geographies, sales increased on a comparable basis by double digits. On a more granular basis, sales in the LatAm region, India, the Middle East, Turkey and the ASEAN region all grew double digits. Europe sales were down 2%, while North America recorded low single-digit sales decline in the quarter, which is in part related to the transformation taking place in our organization there.

We continue to see strong sales of our LED products with growth of 33% compared to the same quarter in the previous year. Light sources and electronics, Lumileds, and automotive, all recorded year-on-year growth, while professional lighting solutions and consumer luminaires declined low single digit.

The reported EBITA for Lighting was EUR177 million, or 8.5% of sales, which is a significant improvement compared to the EUR32 million, or 1.5% of sales, in the third quarter of 2012.

The EBITA for Q3 2013 included EUR66 million less restructuring and other charges compared to Q3 2012. Adjusted EBITA was EUR213 million, or 10.2% of sales, a significant increase compared to the EUR134 million in the third quarter of 2012. The improvement was driven by improved gross margins, including reductions in the bill of materials, overhead cost savings, as well as an improved mix.

The mix improved in lumileds with sales of the newly designed products now positively impacting margins, leading to improved operational results. The mix in professional lighting solutions also improved, with the growth of LED-based products resulting in a better operational performance in the quarter.

Reported EBITA for innovation, group and services, amounted to a net cost of EUR60 million compared to a net cost of EUR49 million in Q3 2012. As I have indicated, during the earnings' call of Q2 this year, and in the Capital Markets Day in September, the EBITA for Q3 2013 included a pension settlement loss of EUR31 million.

This loss, as said earlier, related to a lump sum offering to former employees enrolled in our US pension plan, and was caused by an increase in the discount rate between the offering and the settlement date.

Excluding this item, the lower net cost improved by EUR21 million, mainly from lower litigation costs and higher IP royalties.

Inventory as a percentage of sales improved by 40 basis points to 16.5% at the end of Q3 2013 compared to 16.9% in Q3 2012. There was a significant reduction in Healthcare, where inventory as a percentage of sales declined by 120 basis points compared to the end of Q3 2012.

Customer services decreased inventory by 280 basis points, while imaging systems, patient care and clinical informatics and home healthcare solutions reduced inventory by 40 basis, 70 basis points, and 60 basis points respectively.

Consumer Lifestyle increased its inventories as a percentage of sales by 30 points at the end of Q3 2013.

In Lighting, inventory as a percentage of sales improved by 20 basis points compared to the end of Q3 2012, with lumileds down by 130 basis points, and professional lighting solutions and light source and electronics' inventory down by 40 basis points each.

Return on invested capital at the end of Q3 2013 improved to 7.7% from 6.1% in the previous quarter. Excluding the European Commission fine in Q4 2012, the return on invested capital increased from 9.2% in Q2 2013 to 10.7% at the end of Q3 2013.

The discount rate for the Group is 9%. The increase in ROIC was largely due to effects of higher earnings and improved working capital management.

As far as capital allocation is concerned, we have commenced our EUR1.5 billion share buyback program. As you are aware, we have completed the earlier program at the end of Q2 2013.

Ladies and gentlemen, let me briefly summarize before opening the line to questions. The improved results for the third quarter of 2013 demonstrate further progress on our path towards our 2013 financial targets, though various headwinds in the form of economic uncertainties, interest changes affecting our pension costs, changes in pension accounting, for example IAS 19R impacting our EBITA, as well as the recent volatility in the foreign-exchange markets, are impacting our business. However, through our Accelerate! program, we continue to take the necessary steps to become a more agile and entrepreneurial company.

Frans has highlighted a number of really good examples illustrating that the changes we are making with the Accelerate! program are being appreciated by our customers.

In addition, we are improving our gross margins, and our overhead cost reduction program is on track to reach EUR1 billion for this year, well ahead of our EUR900 million target.

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

Thank you.

QUESTIONS AND ANSWERS

Operator

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

Andreas Willi - *JPMorgan - Analyst*

My two questions are, the first one, you mentioned in your comments just now that you expect low single-digit growth for your Healthcare business for this year. I just wanted to clarify that is this an underlying sales number; and, if so, it implies quite a strong Q4 given that year to date you're slightly negative.

Second question on restructuring. You spent a bit less in Q3. Also, the guidance for Q4 is a bit below what I had in the model. Is it that you can do more with less money? Is it a timing difference with more charges next year? Or are you just needing less restructuring which will be surprising given that the top line outlook hasn't improved?

Thank you.

Frans van Houten - *Koninklijke Philips NV - CEO*

Thank you, Andreas. Actually, I don't think in the text that we talked about the sales' growth in Q4. But obviously, Q4 is always a big quarter for us. We have reiterated that we intend to make our 2013 mid-term targets for the whole Group, which if you do the math, also implies that we intend to grow for the Group again sales on the comparable basis in Q4 in order to reach that target.

I think that's about as much as we can say about it, Andreas, as we don't give specific guidance by sector, and certainly not for the coming quarter.

Maybe I can ask Ron to take the second point on the cost side.

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

Yes. So indeed, Andreas, we needed somewhat less of restructuring. As you know, we always have to take restructuring provisions including everything, and as we sometimes move towards better solutions, people find employment elsewhere or through other methods. We seldom use the whole restructuring provision. So there's some of an effect in there.

It doesn't mean that we have slowed down the restructuring efforts that we need to make. And this particularly pertains, of course, also to the industrial footprint in Lighting for which we have taken main provisions last year. It's more that we're now dispersing on those provisions in this year, in other words paying out on monies taken to the P&L last year.

So there is no backlog. We simply need a little less. But it's fully in line with the plans that we're having and we're executing on.

Your previous point on Q4, yes, the assumption is indeed that Q4 for Healthcare will be a better quarter than we have seen year to date. And that is always, as Frans said, in the seasoning of the Healthcare sales. So that is correct.

Andreas Willi - *JPMorgan - Analyst*

Thank you.

Operator

Martin Wilkie, Deutsche Bank.

Martin Wilkie - *Deutsche Bank Research - Analyst*

A couple of questions, firstly on Lighting. A very strong margin improvement there. You have called out two or three areas that drove that, but in particular I think lumileds was one area where you always talked about improvement going in to the end of the year. Was that the largest part of that margin effect? Or perhaps you could just give me a little bit more detail on the margin uplift in Lighting.

And the second question was on corporate costs. It's tracking lower than I'd expect, and I think lower than your guidance rate. Just to let us know what are you expecting for the corporate cost outlook for the remainder of the year and into next year.

Thank you.

Frans van Houten - *Koninklijke Philips NV - CEO*

Martin, thanks for the questions. Yes, as I said earlier, Lighting is really a mix improvement story. We have grown in Lighting. We're very pleased by that; the 3% comparable sales' growth. It's mainly that lumileds and PLS have improved. Particularly for PLS in Q3, the situation in Europe has improved and we have reaped the benefits of that.

This is, of course, a mix that is not a mix on a constant cost basis. This is mix improvement that also has in it the improvement that we're making in Accelerate!. So we're driving better bill of material costs and keep taking overhead costs out while keep on investing in growth for Lighting.

Your second question was on the corporate costs. So we had somewhat lower litigation costs, as I said, but somewhat higher royalty income than anticipated. These things sometimes go in a little bit lumpy; or chunky, maybe that's the right word.

For the full year, we're staying very close to the guidance that I gave earlier. I would put it at EUR290 million for the year, Martin.

Martin Wilkie - *Deutsche Bank Research - Analyst*

Okay. Thank you.

Operator

Ben Uglow, Morgan Stanley.

Ben Uglow - *Morgan Stanley - Analyst*

I had a couple of questions I guess mainly about the Healthcare business. First of all, could we just step back a little bit and ask, given the events in Washington over the recent weeks, how does this generally impact your business? When you look forward and you think about reimbursement rates, taxes, etc., could we be moving into a slightly better environment early next year? How are you interpreting things in the US market right now?

Specifically, when we also look at order rates for the fourth quarter, should we assume that there's going to be a catch-up effect from the EPIQ ultrasound business; i.e., should that dampening effect in the third quarter reverse a little bit in the fourth quarter?

And finally, just to confirm, on the patient care business which was down 7%, that sounds to me like that's all just the comparable order effect; that there's no significant changes in market share in patient care.

So those were my questions.

Frans van Houten - *Koninklijke Philips NV - CEO*

All right, Ben. A great set of questions. Let's take them in stride and one by one.

The first one is not easy. The recent events in Washington are not the complete story. It is the whole healthcare reform that is affecting the US healthcare business. We see on a large scale hospitals merge into larger IDNs and accountable care organizations with an expectation that eventually there will be maybe 400 large systems.

The consolidation of the US healthcare providers will -- is distracting, so to speak, healthcare CEOs. They're focused on that consolidation and also to understand the changes in reimbursement that are happening, and it takes the urgency away from investing in new equipment. Now -- and I think that uncertainty will still continue for a while. So we cannot expect that just in one or two quarters it's solved.

It is a somewhat longer trend, although the silver lining is -- and I'd like to underline that -- is that once this consolidation is more done, that the focus will come back on driving productivity through the healthcare system.

We already see with leading institutions a very strong interest in, for example, treating patients at home. We have a new business that is called Hospital to Home that partners, for example, with Banner Health, and where we see massive savings in taking multi-immobility patients faster out of the hospital into the home setting and allowing hospitals to save significant money.

We also see that hospitals are interested to sign different contracts rather than just buying a box. This is, of course, goes right to the heart of our strategy, where we would like to become the technology solutions partner to hospitals rather than just selling another CT scanner.

The Georgia Regent deal that we made in June is a great example of how we've become a technology partner and signing a contract for a period of 15 years. We see similar deals also emerging in Europe and in Asia.

So somewhat down the pike, we expect that the nature of the Healthcare business will change but the demand for clinical informatics, patient monitoring, Hospital to Home, ways to drive productivity for healthcare professionals, will be strong. And therefore, maybe this will take half a year to a year, but over time, this will improve.

Sorry for the somewhat long answer, but I thought it was very important to give you this context.

On the ultrasound, indeed, the launch being so late in the quarter, we expect our customer base to come with orders in the course of Q4; and then some of that we will ship in Q4, some we will ship in Q1. But that certainly will come back. The launch resulted in very positive reactions from all the leading luminaries that are judging the system.

Then finally on patient care, yes, comparing this year to last year is a comparable order effect. We had very strong order growth last year in Q3, and that caused a somewhat less favorable comparison. We have not lost market share in that business.

Ben Uglow - *Morgan Stanley - Analyst*

That was very clear. Thank you very much.

Frans van Houten - *Koninklijke Philips NV - CEO*

Welcome.

Operator

Gael de Bray, Societe Generale.

Gael de Bray - *Societe Generale - Analyst*

My question actually related to your marketing and selling strategy. What's driving the 9% decline in selling expenses in Q3 this year versus last year? Maybe which divisions have seen the biggest decline in terms of selling expense during the quarter?

And a question related to that is, is it really sustainable? Will you need at some stage to increase selling expenses again so as to reignite growth maybe in some of your businesses that are not growing that much so far, like Healthcare and part of Lighting?

Frans van Houten - *Koninklijke Philips NV - CEO*

I think -- Ron, will you take this one?

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

Okay. So a part of that is, of course, currency. As we -- you have seen that we have communicated the 600 basis swing in the top line, minus 3 nominal, -- 3 on a comparable basis. An offsetting effect of course takes place in the cost, but it's definitely also productivity. And of course, through lower nominal sales, we are ongoing our -- driving our costs to the right levels of sales.

We're very pleased in doing that, so that's why compared with gross margin improvement also through DfX, as Frans mentioned earlier, we've also been able to manage our cost.

So some ForEx, some productivity, and where there's lower top line growth, we simply adjust our cost base.

Frans van Houten - *Koninklijke Philips NV - CEO*

Maybe Gael then, reflecting your second part of the question, which was more longer-term forward-looking, of course, there I'd like to take you back to the Capital Markets Day in London where we outlined that for the next three-year period 'til 2016, we expect to drive 300 basis points to 400 basis points of productivity improvement, building on what Ron just said. But at the same time, we will invest approximately 200 basis points, some of which will go to additional innovation, and also unlocking further growth.

All in all, we will on a very granular level drive operational leverage, driving better return on sellex; but in some markets where we see massive growth opportunities, such as for example Africa, South East Asia, Mexico, net-net we will probably increase selling expenses.

So this whole granular approach that we introduced already in 2011 is now paying us dividends where it's much -- becomes much more a surgical instrument and not an across-the-board investment decision.

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

So maybe I can add a little data point to this, because we keep reading that we make our results through cutting cost. Well, Accelerate!, as you know, it's a much larger program than just cutting costs. It's a transformational program with the five key work streams that I won't elaborate on in this question.

What I do want to say is that if you look at our currency-comparable developments of our sellex and our R&D, so I go to my innovation, we can safely say that for the year-to-date number, we had a close to 6% CAGR in those costs, and R&D is even higher, 9%.

So it's certainly not so that we are holding back on investing in strategic growth initiatives in our go-to-market infrastructure. I just wanted to share that with you.

Gael de Bray - *Societe Generale - Analyst*

Okay. Thank you very much. Very clear.

Operator

Olivier Esnou, Exane.

Olivier Esnou - *Exane BNP Paribas - Analyst*

The first question would be on the objective to grow 4% top line over the three-year period. If we go back to the incentives system, I just want to make sure I get the math right. Will you just take the organic growth as reported by the Group over the period, or will you deconsolidate AVM for the three years? How does that work? Implicitly, what I'm just trying to get is what you need in Q4 according to your own estimate.

Second question is on foreign exchange. Can you remind us of the sensitivity of margin to FX? And I know you hedged so you may not have the impact this quarter, but is there any sort of implied impact now due to currency that will materialize over the coming quarters?

And lastly on inventories, they were going up a little bit. I just wanted to know what's driving that going into Q4. You're confident with the level you have right now?

Thanks.

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

Okay. On your last point, I don't think our inventories went up, neither nominally or as a percentage of MAT sales. So 40 basis points down.

If you look at page 20 of the press release, you can see there is a percentage and there's a nominal amount. They both went down; EUR3,877 million in January - September 2012 to EUR3,832 million. So that is that point.

On the incentive, we have a comparable sales growth CAGR, as you know, as we always report, from 2011. So the 4% to 6% comparable sales growth for the Accelerate! incentive is on a comparable sales growth CAGR. And we do believe that, as we also said, that we will be able despite all these headwinds to make this target.

Frans van Houten - *Koninklijke Philips NV - CEO*

That excludes AV in the comparison.

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

Yes, right. So comparable is excluding ForEx and portfolio changes.

Olivier Esnou - *Exane BNP Paribas - Analyst*

Sorry. It excludes AVM for the three years, or just for this year?

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

No, for the whole period. We make the financials comparable. So what we now report on, as I said, is with the audio video multimedia in discontinued operations, so they're out.

Olivier Esnou - *Exane BNP Paribas - Analyst*

So it's fair to say you don't really need organic growth, even in Q4, to make it now?

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

Oh, we do need organic growth in Q4. I wish I could agree with you, but no. There is still a lot of effort needed to make the target. It's my no means a walk in the park.

Olivier Esnou - *Exane BNP Paribas - Analyst*

Okay. And the last one?

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

Yes. On ForEx sensitivity, well, we have said, as I just also outlined, it's about 600 basis points impact in the top line. We don't give out how much it has impacted the bottom line. So with that, you can also -- you don't see -- it's not been a devastating impact but there is, of course, quite an impact that we have been able to offset through our normal hedging policies but also through more active management and proactive management of pricing and taking costs out.

So with hedging and let's say the normal operational management that you do with the ForEx exposure, we are structurally long in dollars. And almost all currencies, as you know, have been depreciating versus the euro, and that is not a good thing for us.

So we don't want to also, let's say, make an excuse for headwind. It has -- of course, in the second half, as we said, the ForEx headwinds would increase also for Q4, but that we expect with current information to be able to withstand.

Olivier Esnou - *Exane BNP Paribas - Analyst*

Okay. Thank you.

Operator

Simon Toennessen, Credit Suisse.

Simon Toennessen - *Credit Suisse - Analyst*

Two questions from my side. The first one is on the Healthcare business, and particularly imaging systems. You had high single-digit decline in terms of sales growth in the first half, and now you're flagging mid single-digit declines in the Q3.

Obviously, you know your order pretty well. When do you think is the earliest when you expect the imaging systems business to return to growth? Obviously, you're still seeing declines in the order book now, but are we talking if it doesn't get worse from Q4 on to Q2/Q3 next year, or what are your expectations there?

And the second question is on Lighting. You've flagged, Ron, a bit about the geographical performance already, but could you just maybe give us growth rates of your European and the US business and also what you're seeing in Asia?

Thank you.

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

I'll start with the last part. Did you mean for the Group or for Healthcare?

Simon Toennessen - *Credit Suisse - Analyst*

Lighting. Lighting growth.

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

Okay. We'll get to that. Do you want to comment on it?

Frans van Houten - *Koninklijke Philips NV - CEO*

Yes. Well, maybe while you look up the Lighting growth rates, Ron, then on imaging, we can be relatively short. It is an uncertain market. We are working hard with very competitive products to improve our position but at this time, the outlook remains uncertain. So we cannot yet give you a strong prediction when that growth rate is back into the positive territory.

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

Okay. Then the comparable sales growth for Lighting for Q3. As you know, the overall sales growth was 3%, Western Europe, minus 2%, North America minus 3%, other mature minus 16%, and the growth geographies 12%.

Simon Toennessen - *Credit Suisse - Analyst*

Right. Thank you.

Operator

Fredric Stahl, UBS.

Fredric Stahl - *UBS - Analyst*

Could I ask you on the Healthcare side in emerging markets? Obviously, the orders were a bit weaker there in the quarter. Is that just due to the normal lumpiness of the business, or do you see signs that the emerging markets, the volatility we've seen in currencies, for example, are impacting confidence amongst your customers?

And then I had two questions on Lighting as well. I was wondering if you could give us an update on the gross margin performance, the difference between LED and the traditional Lighting margins, so product margins?

And then finally, do you think that your performance, the mid single-digit decline that you're seeing in mature geographies, do you think that's in line with the market, and do you think it's driven by destocking still partly?

Thank you.

Frans van Houten - *Koninklijke Philips NV - CEO*

Okay. I think what we see happening in the mature markets and in Europe is in line with the markets, so no specific destocking that we're currently aware of. We've been really very positive about, particularly towards the end of the quarter, where the sales resumed at a better pace than we had earlier experienced, so that is very good.

Healthcare in emerging markets. That is mostly China grew, but Russia tender activity was very low. And in ASEAN, you've experienced a push-out of some of the orders. And if you look at the order intake, the Indian sub-continent was strong double digit, China was strong double digit. And then, as I said, Russia and some of the ASEAN, as I also mentioned in my speech, were lower, so that caused that.

On Lighting, the gross margin improvement, yes, our DfX program, although not very stellar in results contribution because we're building a funnel for the coming three years to deliver the target we have communicated of EUR1 billion additional savings, but it does lead to people already doing today in the normal ongoing, let's say, concept savings in our products, paying more attention and driving costs further down.

We have some benefit of the phosphor decline, that is also fair to say. But overall, we are very pleased with the good improvement in the cost of goods, particularly with raw material for our Lighting business.

Also on your question on LED, the gross margin for LED overall is very close, as we also in our Capital Markets Day communicated, very close to the conventional business.

Fredric Stahl - *UBS - Analyst*

Very good. Thank you very much.

Operator

Aaron Ibbotson, Goldman Sachs.

Aaron Ibbotson - *Goldman Sachs & Co. - Analyst*

I had two quick questions. The first question relates just to how much remaining cash outflow we should expect from current restructuring charges already taken. I appreciate that there will be more coming from new restructuring. Just if we can get taking stock of the current situation.

And then secondly, I was just hoping, just a quick follow-up on the question in FX and hedging there; and I appreciate you don't want to go into too much detail on the EBIT bridge. But did you have negative transaction rather than translation impact in the third quarter? And if not, should we expect it to be concentrated in Q4/Q1, or roughly where from -- when will we see these hedges roll over to the new FX reality, if I put it that way?

Thank you.

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

On your first question, not very specific, but we have said also at the beginning of the year that probably the disbursement for restructuring would be to the tune of EUR250 million for the full year; around that number. It always goes a little bit lumpy, so if we bear that mind, but that is the order of magnitude.

On the ForEx, yes, a very good question. Let me also say that in our hedging policy, we hedge transaction results. We do not hedge translation results. So most of the impact actually that we find back in the P&L is from translation. That is a matter of fact.

And then as I said, we nevertheless have been able to offset that with other measures, price increases where we can and taking out cost. And furthermore, the self-help story Accelerate.

In Q4, we do expect that the ForEx impact will be slightly bigger than in Q3, but I said also we remain committed to deliver our targets.

Aaron Ibbotson - *Goldman Sachs & Co. - Analyst*

Okay. Thank you very much. But just to clarify then, so if I look at -- are you're hedging generally three/six months, or is it further? Should we expect the peak impact to be in the first quarter of next year, or is it likely assuming that FX stays flat from here-ish, the peak impact should be in the fourth quarter? If -- I'm only talking about a transaction here obviously?

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

Yes. So we hedge our committed exposure 100%, and on a 12-month rolling basis, we hedge our anticipated exposure. That is to a level of 30% to 40% depending on forecastability of the business. So, yes, at the certain point, of course, we will run out of hedges. That is fair to say.

Aaron Ibbotson - *Goldman Sachs & Co. - Analyst*

Okay. Thank you.

Frans van Houten - *Koninklijke Philips NV - CEO*

And of course, it depends very much what the dollar will do, right?

Aaron Ibbotson - *Goldman Sachs & Co. - Analyst*

But it sounds then that we should expect the biggest impact to be in the first half of 2014, assuming flat rates from here, basically?

Frans van Houten - *Koninklijke Philips NV - CEO*

That is correct. That's right.

Aaron Ibbotson - *Goldman Sachs & Co. - Analyst*

Thank you.

Operator

Daniel Cunliffe, Nomura.

Daniel Cunliffe - *Nomura - Analyst*

Just really a follow-up on Lighting. We saw obviously a reported 3% growth; LED up 33%; so the conventional's down approximately 10%. That's quite a drag for most of this year. But given the comp situation, just annualizing the current last six months gets you to a decline. Instead of minus 10%, it's more like minus 3% to minus 5%.

But that's just mathematics. I just really wanted to check that with what's really going on. And in other words, would you expect conventional Lighting to continue at this pace, or is the slowdown decelerating and we can think more logically about a continued 3% to 5% decline now going forward?

Thank you.

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

So as said in the Capital Markets Day, we see around mid single digit decline; also year to date, if you look at 2013, it is really mid single digit. It has been somewhat higher in the first and second -- no, in the second quarter particularly it was a little bit higher. But, yes, then sometimes this goes a bit chunky also, depending on how the development of sales goes within an otherwise stellarly growing LED business.

So Q3 in itself was really mid single digit, not -- we don't recognize the 10% that you mentioned there unfortunately.

Daniel Cunliffe - *Nomura - Analyst*

Okay. All right. Thank you very much.

Operator

Phil Wilson, Redburn.

Phil Wilson - *Redburn Partners - Analyst*

Two questions, please; firstly, a question really on price. Can you comment on price realization across the three sectors; how that's developed in the third quarter and how you anticipate that moving into 2014?

That's the first question.

And secondly on Lighting, you said PLS was obviously an important contributor to the operational performance, but you highlighted Europe as the contributor here rather than I imagine Genlyte. Genlyte was, of course, a big focus in the Capital Markets Day. I believe you said it was back on track. Can you comment on the margin dynamics you saw in Genlyte in 3Q, and again how you see that progressing into 2014?

Thanks.

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

Yes, so you are correct. I said that it was an improvement in PLS mainly in Europe. We are working very hard on turning around the former Genlyte business, and that goes as planned. But real contribution to the results we'll see from the beginning of next year. That's the expectation. Also, there's so much fundamental work that needs to be done.

So the situation in North America is we feel is as expected to start improving from that time onwards. This mix impact of PLS really came from our European business.

In the Healthcare, on price realization, we didn't see a real price erosion outside the 3% to 4% range, at least not what we have in our order book. And that's said to me by the CFO for Healthcare, Abhijit Bhattacharya, by the way.

And in CL and Lighting, there's nothing extraordinary on price decrease that we have seen now this quarter that we hadn't already seen before.

So at this moment, no real step-up, let's say, in price erosion movements to a negative effect.

Phil Wilson - *Redburn Partners - Analyst*

Just to get back to your Genlyte answer, and clearly it had around EUR1.2 billion of sales when you acquired it. Can you try and scale the potential here as it does start to improve into 2014 in the context of the Lighting margins?

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

So honestly, it's really a big job to turn it around. We're keenly aware of the necessity and need to do it. We have a very structured plan. Bruno has updated you. And let's say that when we close the year, I can give you a better update on how we see the business progressing. But that it will progress and improve, that is of course very clear, but it's very hard to quantify that right now.

Phil Wilson - *Redburn Partners - Analyst*

And quickly, just to go back on your comment on the pricing, in Lighting, are you seeing an improvement in LED utilization? Is that not driving any improvement in LED pricing there?

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

Yes, we see improvement in LED utilization or uptake. Of course, you have to realize that the consumer uptake of LED is still quite low, and for that, price points need to come further down. We talked about that also in Capital Markets Day, lower price points that we feel we can make and have roadmaps to drive economic profit out of it.

The biggest contributor to the LED business development still remains professional. So then the margins are really driven by mix improvement, in solutions. As we have these larger projects that we do, definitely there is an undercurrent of improvement.

I also really do believe, and we see that that the eyes on LED, have changed already significantly from it is not going to be an industry where everybody can step in to now seeing what quality requirements there are around LED and this whole thing turning into what we call connected lighting. And I think we gave great examples at the Capital Markets Day on how that works in the home, and also professionally. But maybe not go too much into this, but just wanted to make that point.

Phil Wilson - *Redburn Partners - Analyst*

Okay. Thank you.

Operator

William Mackie, Berenberg.

William Mackie - *Berenberg - Analyst*

About three questions. First of all, you've reduced the IG&S guidance by approximately 10% for 2013. I think it was EUR330 million down to EUR290 million. Could you help us think, given there's a number of exceptionals this year, on what the ongoing IG&S charge or run rate should be as we roll into 2014 and onwards?

Secondly, you upped the target. I think you mentioned for Accelerate!, you're looking for EUR1 billion of savings this year as opposed to the EUR900 million which I think had been set out. Should we roll that forward through to your 2016 thinking, in which case the EUR1.6 billion I think you'd laid out previously rises arithmetically to the EUR1.7 billion?

And then coming back to Lighting, maybe I'll phrase the question a different way, which I think came earlier. Within PLS, you obviously saw peak margins probably close to 2007/2008. How would you characterize the returns that you're generating within PLS currently, and what sort of potential should we expect from that business group within Lighting?

Thanks a lot.

Frans van Houten - *Koninklijke Philips NV - CEO*

Maybe I can start with the latter question, William. We expect over time as we deal with Genlyte and we are firmly into the solutions territory where we would like to be, and gradually moving more and more towards a direct sales model for the larger projects, and as you recall we have been investing strongly in sellex in order to set up this large project sales force. Over time, the PLS business needs to get back into double-digit territory, and we think that's possible.

It may take some time, but certainly, I have the belief that that business has that potential.

The profit pool really will gradually shift from the light source to the lighting application, and we see that we are able to build good control points also in IT in designing these solutions. And I also may want to point out that the LED licensing program is part of the PLS business.

On the second one, I can be short. The Accelerate! program savings rate, yes, it's going well. We'll hit the EUR1 billion. But of course, Ron and I already knew that during the Capital Markets Day and it was part of our plan. It's included in the EUR1.6 billion timeline to be achieved by 2015. So we will continue to work diligently in driving cost productivity in all the overhead functions.

And then we go to the first point, which I am going to lean on Ron. That's the reduced IG&S guidance for this year. But then again, what is it for next year?

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

Yes. So we said in Q2 EUR330 million. So since that time, we had the pension cost; inside there, we had some of the IP&S more royalties gains. So the guidance has changed to, let's say, EUR290 million for this year. For next year, it's very difficult to guide right now, but tentatively, I would say that we guide it in Q4, as we always do. Difficult to quantify that right now.

William Mackie - *Berenberg - Analyst*

Okay. Thank you very much. Can I just quickly follow up on Lighting then with regard to the restructuring? Again, I think you've guided now for a EUR20 million charge in Q4, which would be substantially below the implied run rate for Lighting of approximately 1.6% of sales for this year.

When you look across the whole of the Lighting division, should we now think that the majority of your major restructuring has been completed so we're stepping down to a lower level of ongoing repositioning? Or is it just a temporal factor where you'll be back to more activity in 2014?

Thank you.

Frans van Houten - *Koninklijke Philips NV - CEO*

Thanks. On Lighting, you need to continue to expect a further rationalization of the installed base of factories. There's more work to be done. And I believe, Ron, we have always given a guidance on the run rate of restructuring in Lighting of approximately 1% to 1.5% on an ongoing basis for the next few years.

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

Yes, that's correct. So last year was incidentally high because we had to pull up our plans of rationalizing the conventional footprint, so that's not a real representative year. As Frans said, 1% to 1.5%.

William Mackie - *Berenberg - Analyst*

Thank you very much. Have a great day.

Operator

Andrew Carter, Royal Bank of Canada.

Andrew Carter - *RBC Capital Markets - Analyst*

Most of my questions have actually been answered, but perhaps if I could just ask one on restructuring again. It does look as though the restructuring this year is going to be in the region of about EUR120 million, and I was wondering whether that's a little bit lower than I think we were talking about previously. Do you think going into 2014 we should be looking at low restructuring charges going forward?

And the second one was just a quick supplemental just on Healthcare. I wondered if you could talk a little bit about what's going on in Japan with currency movements there. I think one of your competitors on Friday was talking about the Japanese markets having been a bit more difficult for them, and I was wondering what Philips was seeing.

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

Yes. So we just said the 1.5% for Lighting is in order. In Consumer Lifestyle,there's not a lot, but we always have some ongoing restructuring. The same holds true for Healthcare.

Of course, and you've seen that also in the materials that we have distributed. It's in the deck. Let me see, Abhijit; towards the right page here. On page 31 of the deck, we have basically given an outline of how we see the restructuring related to the overhead cost savings progress as well as the investments that we are making in improving our IT and process and data landscape to enable the End2End business models to manifest themselves. So that I would leave it for next year today.

Andrew Carter - *RBC Capital Markets - Analyst*

And on Japan?

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

Sorry. Japan order intake is plus 9% and sales growth is 4%. So even though in a tough environment and, yes, with everything that we are doing, we're able to drive this. The sales growth, of course, is as always on a comparable basis, comparable sales growth.

So OIT comparable 9%; sales growth comparable 4% in Japan, which is an achievement.

Andrew Carter - *RBC Capital Markets - Analyst*

Thanks.

Operator

Mark Davies Jones, Agency Partners.

Mark Davies Jones - *Agency Partners - Analyst*

Can I just get back to the IG&S guidance? And within that, there's quite a big swing in the IP royalty line. Obviously, there are lots of things that go through that divisional reporting. In the statement, it says a reduction in patent filing costs. Ron, I think you said higher patent income. I'm not sure if that comes to quite the same thing. But is that just the element that you were pointing to as being volatile and probably likely to normalize a little?

So that's question 1.

And then secondly, a slightly more long-term question on Healthcare. Siemens are starting to talk about the need for some strategic reappraisal of their position in that market given the growing importance of things like biomedicine and data analytics underlying changes in the nature of the healthcare market.

Obviously, you have a different profile to them, but are you happy with your positioning for the evolution of those market trends currently, or is there anything you need to do to broaden your capability within Healthcare on a medium-term view?

Frans van Houten - *Koninklijke Philips NV - CEO*

Let me start with Healthcare and the answer is yes and yes. I explain that. We are happy with the positioning of our Healthcare sector. Let me remind you that we have three legs already. We are in diagnostics, we are in patient monitoring, and we are in home healthcare.

Now we are also broadening our activities. In diagnostics, we are moving strongly into image-guided minimal intervention, which is the future of surgery. That's a much more higher added value area where software applications and new ways to look inside of the body without ripping open the chest is going to revolutionize surgery. That already happens of course for cardiology, but it will also apply to oncology. And we think that that's one way to make the hospital/Philips' relationship very sticky versus just selling a box.

In the area of clinical informatics, we believe that informatics is the next frontier in driving productivity in the hospital. Clinical decisions support big data. Collaboration between healthcare professionals will drive productivity much faster.

In a way, introducing an industrialization concept and a lean concept in the hospital, Philips is very strong in this area already with our patient monitoring and clinical informatics business, but it's certainly an area where we would like to expand in.

And taking that same concept home, Philips is uniquely positioned, both in the B2B and in the B2C, and we have a strategic desire to connect our consumer health and our professional health business.

It's very clear that healthy living, healthy aging, active aging is the next frontier of dealing with an aging population that cannot go to the hospital for all their chronic disease. We have several trials going on in the Hospital to Home frame, and we think that this is a very exciting area, so we want to broaden that also.

So somewhat long answer, but then again, you gave me the opportunity to talk about it.

Mark Davies Jones - *Agency Partners - Analyst*

I guess the question is how much of that is doable organically or whether that's something that requires more --

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Frans van Houten - *Koninklijke Philips NV - CEO*

Good question. Take you back to the Capital Markets Day guidance that we said that most of our growth is organic. We are reserving more investment money; on the one hand saving 300 basis points to 400 basis points in productivity, and on the other hand taking 200 basis points of investments. That of course also helps to a degree Healthcare. And we don't exclude smaller bolt-on acquisitions.

With regard to the IG&S guidance, Ron, do you want to come back on that?

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

Yes, a small comment only. So the difference is mainly because of lower patent filing costs and lower legal costs and litigation costs. So we consider this normal in the chunkiness. So it's not so much on the income side but more on the cost side that it's better. Okay?

Mark Davies Jones - *Agency Partners - Analyst*

Thank you very much.

Frans van Houten - *Koninklijke Philips NV - CEO*

And then maybe my final point, if I may, before we close the meeting. I'd like to give some recognition to Abhijit Bhattacharya who sits here doing the last meeting of IR. Then, of course, he's going to be full time the Healthcare CFO.

Abhijit, you've done a wonderful job and helped all the people on the phone with all their questions. And maybe I can speak on behalf of all the analysts and investors on the phone, thank you very much.

Abhijit Bhattacharya - *Koninklijke Philips NV - Head of IR*

Thank you very much, Frans, and thank you to all of you on the call. It's been a great ride and which would not have been possible, of course, without my team that I have here, although small, but very active. And I want to thank each one of them as well and I'm sure we will be in touch on various other matters going forward.

So thank you very much for that, Frans. Much appreciated.

Frans van Houten - *Koninklijke Philips NV - CEO*

That's good. Thanks, Abhijit. And, of course, as Abhijit moves on, I'm happy to introduce to you, or announce to you Robin Jansen. Robin will be Investor Relations as of November 1. He comes to us from DE Master Blenders, and we are very happy to have in him a great replacement. And I'm sure you will all be in touch with him in due course.

Thank you.

Ron Wirahadiraksa - *Koninklijke Philips NV - CFO*

Thank you.

Operator

This concludes the Royal Philips third quarter results 2013 conference call on Monday, October 21, 2013. Thank you for participating. You may now disconnect.
