FINAL TRANSCRIPT

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PHG - Q4 2006 Royal Philips Electronics Earnings Conference Call

Event Date/Time: Jan. 22. 2007 / 3:15AM ET

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PRESENTATION

Operator

Thank you for holding, ladies and gentlemen and welcome to the Royal Philips Electronics fourth quarter results 2006 call on Monday January 22, 2007. For the introduction by Mr. Pierre-jean Sivignon, CFO of Royal Philips Electronics all participants will be in a listen-only mode. After the presentation 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 over to Mr. Pierre-Jean Sivignon. Please go ahead sir.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Ladies and gentlemen, let me first welcome you to the conference call for the fourth quarter results of 2006 for Royal Philips Electronics. I will make a few introductory remarks then, together with Gerard Kleisterlee who is with me, we will open up the call for your questions.

The completion of the fourth quarter allows us to look at our achievements against the targets we set for ourselves, the main conclusions that we can draw out of followings. We successfully achieved our average annual comparable sales growth target with 6%. We achieved our annual growth target in Medical, Lighting and DAP and CE was 5%. We are achieving our margin targets in Medical. We did achieve our margin targets in DAP. The underlying Lighting results in the quarter were higher than last year and we virtually achieved our annual margin target. We are very pleased with Consumer Electronics being within a whisker of achieving its margin target in what was a very difficult year. We have almost completed the cleaning up of the activities in Corporate Investments and we are well set to achieve our '07 EBITA target of above 7.5%. And as a consequence of all this and the increasingly changing nature of the Company we are substantially increasing our dividend from EUR0.44 a share to EUR0.60 a share.

The fourth quarter was another successful step towards becoming a more profitable, higher growth Company. Let me be more specific. The comparable growth for the Company was 2% with most divisions achieving their targets. In fact, Medical was up 7%, DAP was up 13% and Lighting up 7%. Those are our higher margin divisions. This means that we are growing in the right areas. This growth level supports our average annual target of 5 to 6%. Consumer Electronics declined by 4% but grew in the areas of connected displays and peripherals and accessories.

The EBIT in the quarter was EUR665m or 8.2% of sales. EBITA was 9.1% of sales and on a recurring basis was 1% of sales higher than one year ago.

In Medical Systems the comparable growth was 7% which gives a growth of 7% for the whole year. The equipment order intake excluding Belfast order as well as some cleaning-up of the order book was practically flat in the quarter and achieved a 6% growth for the year. The margin in the quarter compared to one year ago increased in both absolute terms and percentage as we had forecast. The record underlying performance is mainly due to all improvement action that we had set in motion some time ago.

In DAP, the excellent quarter has given us a 13% comparable growth which again more than supports our target of 7%. This very strong growth came in all product groups and specifically in oral healthcare and domestic appliances. Avent's profitability was higher than expected due some early action that we took. The underlying development of the margin was strong and allows us to reach 16% EBIT margin for the year excluding CHS which was at the top end of our target range. In fact the DAP annual EBIT was an all-time record. During the quarter we did make substantial investments in advertising and publicity which should benefit the growth beyond this fourth quarter.

Sales in Consumer Electronics on a comparable basis declined by 4%. However there was continuing growth in connected display and peripheral and accessories. The margin in the quarter was 7.9% at Consumer Electronics which gives an annual EBIT of 3.9% which is an excellent performance in a difficult year. We are expecting to achieve our EBITA for 2007 but expect the year to have a difficult start.

The Lighting sales growth was 7% driving by luminaires specifically and lamps as well. luminaires' growth was higher than the predicted 25%. The Lighting margin in virtually all product groups was strong, the exception was back-lighting solutions where there was an inventory write-down and a larger than expected ramp-up.

The main thing to say about Other Activities is that the cleaning-up process is virtually complete with few activities still to be disposed off. As we mentioned at the end of '05 we expect to complete this process by the middle of 2007.

In unallocated we continued to have costs to become SOx compliant but these costs will be substantially lower in 2007. Also in the quarter there was substantial investments in the brand campaign as we had forecasted.

I draw your attention to two charges in financial income and expenses totaling EUR125m for the impairment of our TPO shares and marking to market the TPV shares.

The net cash for the quarter was EUR2.2b compared to EUR3.4b at the end of the third quarter. This change was due to the payment of EUR993m for Intermagnetics and EUR1.590b for the buyback program. During this quarter the continued implementation of the share buyback reduced the share count by 51.2m shares. The result of this is a much lower level of issued shares which is now 1,142.8m out of which 35.9m are held in the treasury to ensure no dilution from the option program.

The inventory percentage of 10.7% is 20 basis points lower than one year ago including a reduction for Lighting. And we consider this an excellent performance for the whole Company. There are still one or two areas where the inventory to sales ratio can be improved and we are continuing to work on this.

The results from non-consolidated companies reflects the lower results of LG Philips LCD where we anticipated that and again on the sale of the FEI shares. The segmental results have been substantially cleaned-up and will be virtually only LG Philips in the coming quarters.

We are very pleased to announce that we will propose to our shareholders to increase the dividend from EUR0.44 a share to EUR0.60. This increase reflects the fact that we are now becoming a higher margin, more predictable Company and it is our intention to increase the dividend further in the future.

With Gerard Kleisterlee I will now open the call for your questions.

QUESTIONS AND ANSWERS

Operator

Thank you sir. [OPERATOR INSTRUCTIONS]. The first question comes from Mr. Nicolas Gaudois from Deutsche Bank. Please state your question, sir.

Nicolas Gaudois - *Deutsche Bank - Analyst*

Hi there. The first question would be on Consumer Electronics. Could you give us some idea of what were licensing revenues in the quarter and what is your view for 2007, whether we should expect some -- maybe you will gain momentum with potentially Blu-ray coming through or essentially a more flattish environment? Thank you.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Good morning Nicolas. Nicolas as we said in November looking forward we would like to stop giving that split. First of all I think it's less and less relevant. I think we would like to guide looking forward in an EBITA manner, for that objective of 3% that we have given ourselves. The full answer is that amount is not very substantially different from what it was last year but I think we would like pretty much, Nicolas, to go away from that and really group and consider CE as one package for next year.

Nicolas Gaudois - *Deutsche Bank - Analyst*

Okay, fair enough. And could you also comment a bit on the backlog adjustments you saw in Medical, whether this was basically one specific project or more widespread? And if it was more widespread maybe give us some color in terms of the regions or the type of modalities concerned? Thank you.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Well as far as the backlog, you are referring to the specific backlog adjustments of the Medical, yes?

Nicolas Gaudois - *Deutsche Bank - Analyst*

Correct. Why you had flat orders net versus 6% year-over-year.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

The backlog we have two things there. One was indeed, the fact that you remember that last year the fourth quarter we had a very strong push coming from the Belfast order and that's why we eliminated that in the comparables. Then we had in fourth quarter a little bit of clean-up of the portfolio but that was less than, I would say it was about a percent impact. So all in when you actually include all that our incoming orders were slightly positive actually for the quarter like-for-like comparing Q406 to Q405. That adjustment was, I would say, small.

Nicolas Gaudois - *Deutsche Bank - Analyst*

Okay. But if I remember when last year you excluding from the order comparisons this large NHS from your orders so I'm struggling to see how this is impacting you having slightly positive or flat net comparisons for orders Q over --

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Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

If -- we can take the specific numbers off line Nicolas. But if you indeed exclude the Belfast order from last year and if you take order like-for-like correcting for currency for this year, you will find that we are a touch up in reality year-on-year for the fourth quarter. And up 6% for the year incoming orders like-for-like, again correcting for currency for Medical.

Nicolas Gaudois - *Deutsche Bank - Analyst*

Okay, that's great. Thank you very much.

Operator

Thank you. The next question comes from Mr. Ben Uglow from Morgan Stanley. Please state your question, sir.

Ben Uglow - *Morgan Stanley - Analyst*

Morning, a couple of questions. The first one is just on the Medical business. In the last six months we've seen some very sizable transactions go through in Medical, Siemens buying Bayer Diagnostics and GE buying out Abbott's Laboratories last week. You haven't participated in these transactions in in-vitro diagnostics. I guess my question there is are you passing-up on these opportunities because you're not interested in in-vitro diagnostics or is it because the prices being paid are too full for Philips at the moment.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

I think a couple of comments. I think you will find that this industry is still heavily fragmented so it's hard to reach conclusion on what's going to happen. It is fragmented which means that there are still some decisions to be made and still some opportunities remaining.

Now, to the second part of your question, which is, is it too rich for Philips at that the moment, I would say we've been always very clear in the past, and we've illustrated that our acquisition. We have a disciplined approach to acquisitions and when the price isn't right, when we can't see the value for shareholders, we are absolutely capable of staying away from those projects. So I think won't comment on the particular transaction that GE just did and you are referring to but certainly if we don't feel the numbers work we would stay away from it.

Ben Uglow - *Morgan Stanley - Analyst*

And follow-up. Obviously the fact that you haven't done a major acquisition does improve your cash part and your firepower in 2007. Could you just give us a sense, if we continue not to find a decent acquisition or something that fits your criteria in Medical and given the possibility of raising funds through the TSMC stake or indeed LG Philips later in the year, would you consider a further increase in this EUR1.6b remaining share buyback amount?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Well, I think before we say we haven't made any major acquisitions in Medical I think I would like to temper that a little bit. I think in 2006 we have actually announced or closed seven acquisitions. If you look back at the last 18 months we have actually reallocated to acquisitions north of EUR4b and in that particularly group there were four acquisitions which relate to medical or healthcare. So, the fact we haven't done a very large one, whatever that might mean, I just want to make sure we keep in mind we've gone a long way in last 18 months down that path.

Now looking forward in terms of immediate cash outflow we will have indeed the remaining of the EUR4b that we announced on the back of the Semi transaction and that is going to take place in the coming weeks. We will have as well to pay for dividends and we will have to pay for the recently announced acquisitions which is called the Partners in Lighting, which we announced a couple of weeks ago and which will close in the early part of the year. So this will use some of our cash. Now if I push it forward, if we were to have some additional capital to reallocate, it's nothing new, we will use our three avenues which you know well, which are acquisitions in medical or health, by the way, in buyback as well as in dividends. I think it's nothing new there, that's exactly what we've been doing for the last couple of years.

Ben Uglow - *Morgan Stanley - Analyst*

Okay. Thank you.

Operator

Thank you. The next question comes from Mr. Jonathan Crossfield from Merrill Lynch. Please state your question, sir.

Jonathan Crossfield - *Merrill Lynch - Analyst*

Yes, good morning. I just had a question on the Lighting division where there seems to be some issue around the back-lighting application. Can you talk about what the size of that opportunity is and when can you expect it to ramp?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Okay. I think the size of the opportunity is bit hard to read at the moment, it's a new technology. I think decisions are being made by manufacturers, so I think it's a little bit hard. It's one of the technologies that which are new in lighting. The other one, as you know, is LED. LED is actually -- high end LED is actually growing, if anything, probably faster than we thought. We mentioned to you that luminaires is actually growing faster than the 25% guidance we have given to you. LCD is probably a bit hard to read at the moment. As far as the particular quarter is concerned we had and we disclosed it an adjustment on the inventory and we are probably right now facing a slower ramp-up than what we had initially anticipated. Don't change the fundamentals of Lighting but that is what I can tell you today on LCD.

Jonathan Crossfield - *Merrill Lynch - Analyst*

Okay. And then just a quick follow-up on Medical. Your flat orders, can you comment at all about regional variations there, were there any stronger or weaker areas?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Well what I can say, yes, I think in substance, if you remember historically this year we certainly have a strong history of a strong growth in Asia. I would say this year Asia was in fourth quarter a bit lighter but still making Asia growth strong on the back of the first three quarters. And I think the U.S. did well in that fourth quarter and maybe were a touch lighter in Europe. That would be in essence, I would say, the temperature of the orders of Medical in Q4.

Jonathan Crossfield - *Merrill Lynch - Analyst*

Okay, thank you very much.

Operator

Thank you. The next question comes from Mr. Simon Schafer from Goldman Sachs. Please state your question sir.

Simon Schafer - *Goldman Sachs - Analyst*

Thank you and good morning. Yes, a follow-up question, I think you commented that Avent was maybe going a little bit better than expected. Could you elaborate on that a little bit and is there anything else with respect to Lifeline that you can update us on? I think Pierre that you communicated that CHS was a little bit better than before.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Yes, I think on Avent is always a bit difficult to give numbers because we are talking weeks, barely months, since we add Avent. I think we -- I think you cannot -- when we talk to shareholders it is certainly is relevant as well. You want an update on those acquisitions and that's what we're doing. And that's why very early on in the game we are telling you that Avent did better and the better means better than what we had given ourselves as an objective when we acquired Avent. So that better means better profitability in that particular case. And we'll continue to update on Avent. So it's more relative signal that we are actually ahead of the objective we have given ourselves.

On Lifeline I think we've been somewhat explicit in the press release. Lifeline is making progress and is, as well, exceeding its numbers in terms of revenue. The number of people subscribing to Lifeline has continued to increase in the fourth quarter and we made some progress there as well compared to the objective that we had given to ourselves. So I think these particular two are going better than what we had anticipated and we will continue to update you on that.

Your last question was related to Consumer Healthcare Solutions. This is a group, as you know, which will be taking out of DAP and re-classed into a new emerging category as early as Q107 and we'll update you on that. And in that particular one we are investing in in order to create some businesses around the Lifeline, so nothing there to report in particular. We are growing in that category in both new products as well as the potential acquisitions.

Simon Schafer - *Goldman Sachs - Analyst*

Understood. And maybe as a basic financial follow-up question on the tax rate, unusually low this quarter. And is there any change to your learn operating targets for taxation then?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Yes, that's an excellent and important question. You will have seen basically a little bit of action, quote, unquote, in our tax line in Q4. I think you can talk to Alan offline to get more detail. In essence, three things taking place. One being the impact of the lower statutory rate in Netherlands which, of course, is having an impact on our deferred tax asset, that's one. We had couple of negotiations completed as well in that fourth quarter with a couple of tax authorities. And thirdly, there was some tax [inaudible] related to the second tranche of the booking of the result of the Semiconductor transaction. So those three elements created a little bit of noise on that line for the fourth quarter and it was a very low, I would say, on the look of it, effective tax rate.

Looking forward, we had guided you in '06 on something north of 30%. I think we had said 31%, 32%. In 2007 I would want to say probably between 25 and 30%. We will have to fine tune it. We will get more precise, I would say, later down the year. But I would say between 25 and 30% is a good number. So, definitely below 30% '07 onwards.

Simon Schafer - *Goldman Sachs - Analyst*

Right. Thanks very much.

Operator

Thank you. The next question comes from Mr. Didier Scemama from ABN AMRO. Please state your question sir.

Didier Scemama - *ABN AMRO - Analyst*

Hi there, it's Didier from ABN. Just wanted to ask you a couple of questions starting with the Other Activities. We did have an improvement as you wind down the Corporate Investment line. I was just wondering, I know you're changing accounting and you're going to move some parts in here. But essentially for the equivalent line in '07 what would be your best guess in terms of loss?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Well I think we guided you -- it's hard. I think -- two things Didier. First I suggest you go back to the rather exhaustive presentation we made back in November, I think we took you down to the great details on what are the moving parts in and out of that category which, as you know, not only is changing but on top of that is being re-christened. That's one, if you need more details I would prefer to take that offline because it's quite, I would say, specific and would say again most of the elements are in that presentation and in the slides attached to it.

In terms of guidance for next year, which as I said again will be re-christened, as you remember Other will be called now a different name, the guidance we gave to you was EUR80m for the year. And if you look at the press release I think we went as far as telling you that that EUR80m will be more skewed to the early part of the year so then you can more or less do kind of a tuning which will be progressive from Q1 to Q4.

Didier Scemama - *ABN AMRO - Analyst*

Okay, thanks. And maybe you could comment on the reasons why the DAP margins were really lower this quarter when it is traditionally your best quarter. Thanks.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Yes, I think Didier, let me first -- I will -- let me first react on the numbers for the year. 15.9% that's actually very strong. You always -- we've always been extremely clear on the model of DAP, we've always said 15 to 16% and there is a reason for that. And I would say the fourth quarter is exactly the illustration of why we have to stick to our model. We basically invested in, I would say, advertising and brand. You could say why. Well the answer is that in the growth of the year, 11%, growth on the quarter 13%, the guidance for next year 7%, and all that with a profitability 15 to 16%. So, I think, Didier, the trick there is I don't think it's a bad quarter. I think it's a quarter where we are using absolutely our model.

You know, there is something to push it up, I think. Now, don't forget another part of the element which is CHS. When we comment on DAP on the face of things until fourth quarter we add CHS which is part of the back numbers. Then if you go to the nitty-gritty of the release you have all the elements to exclude CHS, we've given you the numbers there. And basically if you do your exact map DAP for the year excluding CHS is actually at 16%. So we have a very high end of that EBIT guidance that we have given to you.

Didier Scemama - *ABN AMRO - Analyst*

Okay maybe a final one. You've got about EUR10b shy of cash locked in with TSM and LPL and so on. And in addition to that you probably have got enough room to add some debt so your firepower is going to be probably in the region of EUR15b or more. Given that the additional buyback maybe limited going forward and that you already intended or announced your intention not to maybe go after very expensive acquisitions, what are you going to do with all that money essentially on the balance sheet?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Okay. Well, you talk about EUR10b to EUR15b looking forward. If you again look back at what we've done in the last 18 months we have reallocated slightly shy of EUR10b between acquisition and buyback. So those numbers can go as you've seen in the last 18 months pretty fast. I think in terms of buyback we have launched the last tranche which is part of the EUR4b. That tranche is specific because we are still trying to be absolutely tax efficient. We don't know what will be the capacity of that vehicle. I mean, we are testing it and we've made a very detailed press release a couple of weeks ago giving you the details of how this will function and will update the market of course on the progress we've made there. So the capacity using that vehicle, if we were to decide to do more share buyback, the capacity on that vehicle is a question mark.

As far as dividends is concerned, which is the second avenue, I think there we've said that it was in principle more expensive avenue in terms of tax costs. At the same time I think we've made a very large move on the proposal we will make to our shareholders. I think at EUR0.60 that's a big sign. I'll let calculate the resulting [yields] and you will find that there is a coherence with the kind of stock we want to become now and with a whole history of the last couple of years in terms of portfolio management.

And lastly as far as acquisitions are concerned, well I think we are capable of making moves. We've been explicit on the strategic direction that we would want to go to. And we will be continuing to watch and obviously do it if that makes sense. I think I can't be much more explicit Didier.

Didier Scemama - *ABN AMRO - Analyst*

Okay, thanks very much.

Operator

Thank you. The next question comes from Mr. Jonathan Dutton from UBS. Please state your question sir.

Jonathan Dutton - *UBS - Analyst*

Thanks very much. Just a couple of questions from me. I wondered if you give us an update on Medquest and also the outlook for Medquist in 2007.

Secondly, on the LCD TV front when you think the current inventories will be normalized. Also whether we might expect some slightly disappointing Lighting margins with continued inventories on back-lighting in Q1 of this year.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Okay, I think Medquist, not much to say at this point. We're working hard to make the accounts current so we are part -- we're making progress there and still working hard on that. On the numbers basically I think close to breakeven. So nothing specific to report to you there in terms of the activities.

Your second question was on the LCD back-lighting. The only thing I can say is we have no -- I guess your question relates to lighting there, correct?

Jonathan Dutton - *UBS - Analyst*

Yes.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Okay. No, we have no inventory exposure there on '07 moving forward. So I think we've taken care of our inventory exposure in the fourth quarter. I missed what was your last question.

Jonathan Dutton - *UBS - Analyst*

Well, actually that question encompassed it but I wondered if I might add one follow-up question. In terms of the Medical order intake, which was flat year-on-year, I'm just wondering if you could give us a bit of color on that? And whether there was any split between services and equipment orders during the quarter?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

No, as you know, we -- that's where we are the different from some of our competitors. We've always been very clear we only comment on the hard portion, which is hardware. So this is actually the numbers we're giving to you, which is that 6% growth for the year, and flattish up for the quarter, corrected for currency. This is strictly for hardware/Informatics backlog. So I think those are the numbers. We don't give any more numbers.

And the comment by region, I think I answered it in an earlier question.

Jonathan Dutton - *UBS - Analyst*

Great. Okay, thank you.

Operator

Thank you. The next question comes from Mr. Sean Murphy from Nomura. Please state your question, sir.

Sean Murphy - *Nomura - Analyst*

Good morning. It's a question on Lighting. There's a comment in detail that the sales growth in luminaires appears much higher than the sales growth in lamps, and I'm wondering what -- what more detail on this is, what's going on in this marketplace?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

No, there -- I think this, in Lighting, both lamps and luminaires went well actually in Q4 and, if anything, had a good year. I wouldn't draw any particular conclusions there. I think the important things on luminaires is, and maybe I should dwell on that, the important thing on luminaires is the fact that, with the acquisition of Partners in Lighting, which is the Belgian company, which is, as you know, very much present in the domain of consumer luminaires, this is certainly a particular domain in which we would focus more, both in terms of disclosure and in terms of related weight in the complete portfolio of Lighting in the quarter to come. But, beside that, I would say both Lamps and luminaires did well in the fourth quarter.

Sean Murphy - *Nomura - Analyst*

Okay, thank you.

Operator

Thank you. The next question comes from Mr. Andreas Willi from JP Morgan. Please state your question, sir.

Andreas Willi - *JP Morgan - Analyst*

Good morning. My question is on cash flow. You mention in the Press Release that you had some reclassifications there, but, overall, the cash flow in Q4 looks weaker than I had expected. If you maybe could go a bit in detail on that and what you expect, Q1 and going forward.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Okay. I think on cash flow, it is true that our cash flow is a bit difficult to read and it's, essentially, for two reasons. We had a -- one reclassification which is on the back of the Semiconductor transaction. So I think if you, basically, take it off-line with Alan, Alan will guide you there because I hate to be too specific on the phone.

But I would say, in essence, there were two elements which need to be disclosed around the phone right now. One was a re-class, which is related to Semiconductor taking some of the inflow from our operating cash flow of this quarter, and reclassifying to actually a discontinued operation. And the other element was an increase of our working capital, which was a, I would say on the back of one, our growth, and B, our pre-paid balances in our balance sheet. So I would say, all in all, if you correct for those two elements, our operating cash flow for the year and for the quarter was, I would say, pretty much in line with what you were expecting and what we had guided you on.

Looking forward, I think the profile of our cash flow with a new perimeter will be, should be, in line, corrected of the incidentals and corrected of the Semiconductor obviously re-class, which have impacted us in '06, should be pretty much in line with what we've seen in 2006.

Andreas Willi - *JP Morgan - Analyst*

Thank you. Maybe a quick follow-up question on the regional growth. You touched on that in a few previous comments, but I was surprised to see much weaker growth in developing countries than in developed countries, particularly Asia down 10%, Latin America only 1% growth. Maybe you could give us some more details there or whether that has prompted you to look also at your emerging markets strategy or whether that's just a weak quarter?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

No, I think, there, the situation is a bit blurred by Consumer Electronics. I think if you were to see the numbers with the three -- the three other product divisions consolidated, you would see that the picture is quite different. If -- let me take one example, which would be Domestic Appliances, Domestic Appliances on the back of its 13% growth in the fourth quarter grew in every single region. So, I think just to give you an idea, Medical as well had strong growth in Q -- in the fourth quarter. So this, I would say, perception of a slower [all in] Asia growth in the fourth quarter was, essentially, on the back of Consumer Electronics.

Andreas Willi - *JP Morgan - Analyst*

Thank you.

Operator

Thank you. The next question comes from Mr. Luc Mouzon from BNP Paribas. Please state your question, sir.

Luc Mouzon - *BNP Paribas - Analyst*

Yes, hello. Good morning. Just to come back on your comments about the difficult start in full-year 2007 in -- for Consumer Electronics, so I just wanted to get a bit more flavor right here. And do you stick with your 3% EBITA guidance for the full year? And is there any opportunity or any action that you'd be implementing in the first half to guarantee or to get, let's say, some kind of risk being pulled down a bit on that case?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Yes. Yes, I think on CE, as you know, CE is obviously, as perceived by you, always the riskiest part of the portfolio. If you remember, before we talk about '07, a word on '06, I think we, you remember, if you look at CE backward, we had actually a year where the tough quarter was actually Q2, and that's when we told you we will be slightly shy of 4%, which was our guidance. And -- but we told you at the same time the action on CE is really taking place in the fourth quarter. And if you look back at 2006, that's exactly what has happened. We've just closed for you '06, we ended up with a strong fourth quarter and actually made 3.9%, which is, I think, indeed, slightly shy of the 4% we had guided you on.

Now, looking forward, '07, same kind of situation. When you enter the year, always with a bit of, obviously, anxiety in CE. But our model is there. We count on it to confirm the guidance of 3% EBITA, and we explained to you how those two things are linked.

Now, to be even more specific on the beginning of the year, the specific actions we have to do, I would say one would be to, basically, take care of the Phone transaction. I think that is something that we need to address. That's a very important element. We announced that we were working on it. We said in the press release that we can't announce that the deal is closed, but we are working on it, and it's important to close that transaction for our numbers.

And I think the other thing which is crucial is, certainly, absolute discipline with our model and our inventory, in particular in the domain of connected displays. We did well there in Q4. The pressure will be certainly there, as usual, at the beginning of the year in Q1 on the back of the selling season, and I think it will be all about model and discipline in that first quarter.

Luc Mouzon - *BNP Paribas - Analyst*

Yes. Just a brief follow up. Could you guide us for the CapEx for the Group in full-year '07? And would you expect the free cash from operation to be higher in '07 than in '06 basically?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Yes. CapEx, I think we had said in earlier conversations, EUR 650 m. I think we would like to stand by that number. In terms of free cash flow, I think the free cash flow should be a touch stronger, basically, in 2007 versus 2006, on the back of, obviously, this extra profitability that we need to deliver to you in order to make the 7.5% EBITA.

Luc Mouzon - *BNP Paribas - Analyst*

Thank you.

Operator

Thank you. The next question comes from Mr. Antoine Badel from Credit Suisse. Please state your question.

Antoine Badel - *Credit Suisse - Analyst*

Yes, good morning. Where do you see opportunities for further value creation in the next year or two? Because your divisions are now executing very well, you're nearing the end of your divestiture program, you've got a buyback, you've upped the dividend. What more should investors look forward to?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Well, I think it's not a static game. I mean before I talk about cash reallocation, let's talk about, first, the existing businesses. First, if I talk about revenue, I mean if you, indeed, grow a portfolio which has the kind of profitability we have guided you on, and if that actually grows at 5 to 6%, which is our guidance, you will see that you absolutely right there create value.

The second element is in terms of EBIT margin, I think we've guided you, at least for Medical, even though Medical has progressed between 1 and 2 full points in 2006, as we had promised to you, we've guided you, basically, on a continued improvement of Medical in 2007 versus '06. So I would say the second element of the answer is continued improvements at, basically, Medical.

The further element is the mix. Obviously, we are guiding you on growth at three of the divisions. We're not guiding you on growth at CE. CE grew at 5% in 2006, but you saw that the overall number was 6%, which means that the stronger growth division grew faster than CE. That's another element of value creation.

And, lastly, you have the acquisition. We've acquired -- we've announced or acquired seven businesses in 2006 and we certainly expect that those particular businesses will deliver some value.

Finally, I will say a word about cost control. We've announced that we would, obviously, cut our expenses at the tune of EUR75m, basically on a full-year basis at corporate and geography, and we expect that to deliver value as well.

Antoine Badel - *Credit Suisse - Analyst*

Thank you.

Operator

Thank you. The next question comes from Mr. Olubunmi Asaolu from Lehman Brothers. Please state your question.

Olubunmi Asaolu - *Lehman Brothers - Analyst*

Good morning. I just had a quick question on inflation, sort of a macro level of a question. Your guidance for 2007 in DAP in particular, with concerns around [inaudible] regarding inflation in some of the developed countries, how has this been factored into your guidance for '07, in particular in the DAPM, maybe on the Consumer Electronics as well?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Yes. I think it's hard for me to comment on inflation because the situation in the world right now is quite hybrid and, if anything, right now the trend in a number of countries on the back of lower energy price and the utilities price and commodities price, if anything, there seems to be a bit of a cool down. So it's hard for me to comment and you are probably a better judge than I am.

As far as we are concerned, I think our best protection in terms of inflation is A, our global presence. I think you talk about DAP. Let me say that the good news about the DAP is not only that it made its numbers in terms of model. I was saying that it did do the 16% EBIT, excluding CHS, looking at the clean DAP numbers. But I would say the almost equally important point of this quarter is that DAP grew in every single part of the world. And I think, in terms of hedging, your best protection is to be present everywhere in order not to be over-exposed to a part of the world where you could indeed have some inflation risk.

So it's hard for me to be much more explicit, but I think probably DAP is a better naturally hedged portfolio at the end of '06 than it was at the end of '05, having grown everywhere during that particular year.

Olubunmi Asaolu - *Lehman Brothers - Analyst*

Thanks for that. And then, secondly, in terms of acquisitions going forward, should we expect a somewhat quieter period in [DAPO], say, in particular, as you work on fully integrating the businesses that you've acquired in 2006?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

No, I don't think you should do that. I think we've done -- we've done seven. I mean in an earlier question I was asked have you done, will you do anything massive, and I was saying we haven't done anything massive, whatever massive means. We've done actually seven of, I would say, human size. Are we going to be less active? No, I think we need to continue to grow Philips. You know the territories where we will be looking at and if there are opportunities we will be looking at that in a disciplined manner.

So, but it's always hard to give numbers, because the one thing, the one domain where you don't want to give budgets and certitude is certainly in the domain of acquisitions. So I think you have to be practical and delivers when, indeed, it makes sense. But those things are very hard to anticipate. Are we working hard on it? Definitely.

Olubunmi Asaolu - *Lehman Brothers - Analyst*

Alright. Thanks very much.

Operator

Thank you. The next question comes from Francois Meunier from Cazenove. Please state your question, sir.

Francois Meunier - *Cazenove - Analyst*

Yes, hello. Just a follow-up on Consumer Electronics in Q1. You said your inventories were controlled, but what about the inventories in the retail channels?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

I think on the LCD stock, our inventory, as we've told you, is actually the lowest ever at the Consumer Electronics in general, and including at LCD television. I think that we -- what we hear is that, indeed, there is a bit of pricing pressure, but as far as the channels are concerned on inventory, what we hear is that they are clean.

Francois Meunier - *Cazenove - Analyst*

Okay, so but in terms of maybe the mix will be worse than in Q4? Because I understand that Ambilight was quite strong and that it was the margins in Ambilight are twice higher than for normal LCD TV's it's what is going to hurt in Q1?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Well, I think in Q4, we had two -- we had two stronger engines and the rest was weaker. The strong engines were, indeed, were Connected Display, which includes Ambilight. And the other territory which worked and supported us was peripheral and accessories. In the fourth quarter -- sorry, the first quarter next year, we would hope that the other territories would start helping us. But, again, basically, it's hard to comment I think. The beauty is to have four engines and to be, overall, with a situation, which, with that, combined to our model, enables us to have a year delivering on the 3% EBITA. That's why I'm always a little bit uncomfortable to comment on the revenue. I prefer to really comment on the margin for the year, because that's really our mantra in that activity.

Francois Meunier - *Cazenove - Analyst*

But for Q1 you expect, basically, to have something worse than Q1 last year?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Well, it's hard to say. It's really hard to say at the moment. The year just started. I think what we -- what we felt we had to tell you is in -- is in the press release. I can't tell you much more than what we have put in the press release. I think you know as much as I do at this point.

Francois Meunier - *Cazenove - Analyst*

Okay. Thank you very much.

Operator

Thank you. The next question comes from Mr. Thomas Brenier from Societe Generale. Please state your question, sir.

Thomas Brenier - *Societe Generale - Analyst*

Yes. Good morning. Maybe I'd like to come back a little bit on the Medical Systems division and this order intake. Just as a follow-up to the very first question of this call, I think you mentioned the number 6% growth. Is that for the backlog corrected for currency and excluding special items, I would say?

And then my question would be we've seen the growth of the backlog, or the order intake, accelerating in the past two, three quarters. How does it help supporting the guidance for growth that you have in 2007? That's kind of the back-up question.

What's the average delivery date that you have in your backlog?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Okay, let me take them one by one. First of all, the 6%, your definition of the 6%, is correct. To do the 6%, you have to exclude the Belfast order of -- which was booked in the fourth quarter of '05. So if you correct for that and for the impact of currency, the growth of incoming orders, year-on-year, was, indeed 6%. So I think that's your first question.

Your second question was how do you, basically, reconcile the deceleration of the incoming orders with the guidance on revenue growth for next year? I think the answer is, if you look back at -- our growth of incoming orders per quarter and take not only this year but take the last three years, you will see that there is a lot of volatility quarter to quarter. So, to look at the growth of revenue for '07 from now, I think you look at, you need to look at, how strong is our existing backlog entering in this year, '07. And there, having looked at it in detail, we feel good about the guidance on the 6% growth that we gave to you on the back of that backlog at the end of the year.

And as far as your last question, which is what is the delivery, I would say how many months of backlog per modality do we have. I think that's what -- the way I understand your question. The answer is it's very difficult to answer that because it varies tremendously between modalities. You have modalities where it's almost being delivered out of inventory, and you would have modalities where it's much longer lead time for the more complex modalities, like, for instance, MR or Nucl. Med. So it's very difficult to give you an average number. I actually don't have it.

Thomas Brenier - *Societe Generale - Analyst*

What would be the maximum number? [Just the month's really] average.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

I would say it could go up to three years.

Thomas Brenier - *Societe Generale - Analyst*

Okay.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Some of the -- some of these budgets which are being given on some of those hospitals are really mid-term plan. So it could -- it's really -- it's really, really -- I think what you need to keep in your mind is that we have a strong backlog.

Let me just add one thing. We have very often got the reverse questions in the previous quarters. How can you actually reconcile the very strong growth of your incoming orders with the fact that your revenue only grows by 6%? And I think we are, in a way, on this particular quarter, a bit on the other side of that question, which is why we are comfortable in telling you that we have the backlog to go into -- into Q1 and Q2.

Thomas Brenier - *Societe Generale - Analyst*

That's very helpful, thank you. And just a very, very last one, the 6% growth for 2007, how would you split that between market trends and market share gains. if possible.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

So I can't -- you're in Medical?

Thomas Brenier - *Societe Generale - Analyst*

Yes, Medical, sorry.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Yes, I think on Medical, I can only give you two numbers, and I will stick to them because I think they're, if anything, they are confirmed by what we've -- what we hear recently. The guidance on the revenue growth for Philips I have given to you, and no change there. What we know and what we understand is that the growth of the equipment market, this so-called imaging market, is, we say, still 4 to 5%. I think we -- that number gets confirmed time after time. That's what we would like to stick to. So the balance between the two is actually IT and, hopefully, us continuing to take a little bit of market share.

Thomas Brenier - *Societe Generale - Analyst*

Very good. Thank you very much.

Operator

Thank you. The next question comes from Mr. Jan-Willem Berghuis from Kempen. Please state your question, sir.

Jan-Willem Berghuis - *Kempen - Analyst*

Yes, a small question on the amortization line for 2007. Can you give guidance on it and whether that's changed over the last quarters, given all the acquisitions?

And maybe slightly on Medical, I think a lot of the questions are about the growth rate and orders. I think last year you grew 15%, excluding this Belfast order in terms of order intakes, so isn't the comparison base extremely strong?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Okay. I think on the last question, I think I answered it. I think the -- what you're saying is exactly correct. I think which is in line with what I had just mentioned in the previous answer. So I think your point is totally correct.

On the amortization I think it's -- the amortization of next year you can probably, I would say, annualize what has happened in the fourth quarter. I think that will give you a pretty good proxy approximation of what will be next year. Sorry, what will be 2007. We are already in '07.

Jan-Willem Berghuis - *Kempen - Analyst*

Okay, thank you.

Operator

Thank you. The next question comes from Mr. Niels de Zwart from Rabo Securities. Please state your question, sir.

Niels de Zwart - *Rabo Securities - Analyst*

Good morning. My questions were on pensions. Your press release mentions that your pension costs for continuing operations will decline by some EUR15m. Does that mean that your overall pension charges are decreases by that amount, or is there something else to read in that for discontinued operations?

And, secondly, could you maybe updated -- update us on the funded status of your pension fund, which was some minus EUR304m at the end of last year?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Okay. I think the guidance on pension is exactly what you said. It's an overall reduction on the cost of pension for next year. So that is something which, basically, is to be taken care of. But we had already more or less included the number in our guidance, in our EBITA guidance for the year. We have not disclosed the amount to you back in November, because it's a calculation which only can be finalized on the very last day of the year, as you know, for a number of reasons. But I would say that that element is already factored in our 7.5% EBITA guidance for next year.

In terms of the impact of funding, it's hard for me to say. I think if you give us a couple of more weeks we will be a bit more explicit on the back of the annual report, because we have just done with actuaries' calculation, which are still taking place at the moment. So I would prefer to give you a fully educated answer in a couple of weeks on the back of the annual report.

Niels de Zwart - *Rabo Securities - Analyst*

And I have a short follow-up, if I may. On the target capital structure, you also always mention to be for a maximum gearing your balance sheet of some 30%. Now your portfolio has changed after the sale of Semiconductors, would you feel comfortable by potentially leveraging up your balance sheet a bit more?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Okay, I think 30% was something we said some time ago. I think what I've mentioned in later calls I've related it to our rating, right? Which, and our rating, as you know today, that it's A, and I said that we would have some comfort in --- on an ideal basis, to go down one notch. So then, based on the cash flows, because, as you know, all this, in terms of ultimate leverage capability, has to be, basically, you have to factor the recurring cash flow to make that calculation. But, based on the cash flow that we foresee and the kind of rating constraint that I just mentioned to you, yes, we would absolutely be prepared and ready to leverage our balance sheet, which we do consider as not fully efficient today.

Niels de Zwart - *Rabo Securities - Analyst*

And [so] -- yes, that's all my questions. Thank you very much.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Thank you.

Operator

Thank you. The last question is a follow-up question from Mr. Didier Scemama from ABN AMRO. Please state your question, sir.

Didier Scemama - *ABN AMRO - Analyst*

Yes. Thanks for taking my question. Regarding the TSMC stake, I believe the lock-up has now expired. There's been some sort of speculations in Asia that TSMC might be prepared to acquire at least a portion of that stake. Maybe would you mind commenting on that?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

No, I mean, Didier, I think you, as a professional you are, as you know, I would never comment on that. We will never, we have never, and we'll never comment on rumors. I think the only thing I can say is that we are absolutely standing to what we said. We talked about disposal of stakes. We talked about responsible and efficient way of doing it, and the only way to do that is by precisely non-commenting on rumors and doing what we have to do. I think the lock-up is expired and we are working on those things, but I really can't comment on any of that.

Didier Scemama - *ABN AMRO - Analyst*

No, but, essentially, the nature of the question would be would you be prepared to sell that to a third party?

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

We are prepared to look at any way which is efficient and responsible, Didier, as far as TSMC is concerned.

Didier Scemama - *ABN AMRO - Analyst*

Brilliant.

Pierre-Jean Sivignon - *Royal Philips Electronics - EVP and CFO*

Okay? Alright.

Operator

That was the last question, sir. There are no further questions. Please continue. This concludes the Royal Philips Electronics Fourth Quarter Results 2006 call on Monday, January 22, 2007. Thank you for participating. You may now disconnect.