FINAL TRANSCRIPT

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PRESENTATION

Operator

Welcome to the Royal Philips Electronics first quarter results 2008 conference call on Monday April 14, 2008. For the introduction by Mr. Pierre-Jean Sivignon, Chief Financial Officer, all participants will be in a listen-only mode. After the introduction there will be an opportunity to ask questions. (OPERATOR INSTRUCTIONS). Please note that this call will be recorded and is available by webcast on the website of Royal Philips Electronics.

I will now hand the conference over to Mr. Pierre-Jean Sivignon. Please go ahead sir.

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

Thank you. Ladies and gentlemen let me first welcome you to this conference call on the first quarter results of 2008 for Royal Philips Electronics. I will make a few introductory remarks and then we will open up the call to your questions.

Overall we had essentially a good start to the year. We were pleased to see continuing strong sales in both emerging markets and in green lighting as well as solid growth of both sales and orders at Healthcare. While headline EBITA was below last year, due to comparatively lower license income and lower results in our Television business, our other businesses within Healthcare, Lighting and Consumer Lifestyle performed well and look forward to an encouraging second quarter.

We also announced major steps to improve the results of our TV business firstly by transferring all North American TV operations to Funai under a license agreement starting in September and secondly, through the further optimization of our TV supply base.

Comparable sales growth for the company for the first quarter was 1%. Growth at Healthcare and Lighting was tempered by flat year-on-year sales at Consumer Lifestyles which show comparable sales at Connected Display fall by 2%.

In Healthcare the comparable growth of 5% was driven by Clinical Care, the new name for our Ultrasound and Defibrillator businesses, and by our Patient Monitoring and Customer Services businesses. Sales at Imaging Systems were flat year-on-year. Healthcare order intake in the quarter was strong at 9%, driven by North American orders, notably for imaging systems. While it's too early to talk of a recovery in the US imaging systems market, we were pleased with our intake in the quarter. Orders for patient monitoring and healthcare informatics also grew well.

The EBITA margin for Healthcare was broadly flat year-on-year, impacted to a degree by the acquisition of Respironics and acquisition related charges. Excluding Respironics, year-on-year Healthcare EBITA margins grew by 40 basis points, to 8.7 percentage points, driven by Clinical Care, Patient Monitoring and Customer Services.

At Lighting, sales grew 3% in the quarter. Strong growth continued in emerging markets, and for Green Lighting products this growth was somewhat upset by lower sales of UHP lamps, the market that continues to contract, and lower sales at Lumileds, which had a produce recall early in the quarter. Additionally, the first quarter of last year included sales of LCD backlighting products, the category which we have meanwhile exited. EBITA at Lighting reached EUR200 million in the quarter, some EUR 14 million above last year. Comparable sales at Customer Lifestyle were flat, year-over-year, on a comparable basis.

Good sales growth at Domestic Appliances and Shaving and Beauty, was offset by lower sales of optical licenses and particularly Connected Display. As I have already said, we have announced several decisive steps this quarter to improve the future profitability of our TV business, most importantly, the licensing agreement with Funai in the USA.

The EBITA margin of Consumer Lifestyle was at 2.9% in the quarter. The sectors' overall profitability was heavily impacted by the result of Connected Displays and EUR30 million lower optical license income compared to the first quarter of 2007. Last year, the amount was higher, due to the collection of past-use licenses. The EBITA of Consumer Lifestyles, excluding television and the effect of last year higher license income increased from 10.6% to 12%. This tells us that we are making progress in the other businesses.

EBITA at Innovation and Emerging Businesses included a EUR 13 million loss on the disposal of a non-core business as well lower IP license income. We now expect Emerging and Innovation businesses to report an average negative EBITA of around EUR40 million per quarter for the remainder of 2008, with results improving in the latter part of the year.

The results for Group Management and Services included higher costs for both pension and a number of corporate projects, aimed at future cost reduction. The full year EBITA for the total GMS sector will improve, compared to 2007, with about half of the improvement coming from the lower brand campaign spend.

As expected, our net cash positions at the end of 2007 turned to be a net debt position at the end of the first quarter, due mainly to the payment for Respironics at Genlyte, as well as continuation of our share buyback program. We required more cash from operations than in the same period last year, which included a EUR182 million positive impact from the sale of TSMC dividend stock last year.

This quarter saw higher inventory levels at Televisions and lower receivable collections in Healthcare, due to the implementation of a new IT system in North America at Philips Healthcare. Both these effects are temporary and will come back into line in the month ahead.

Our net income was broadly in line with the first quarter of 2007, after allowing for the EUR650 million, lower gain on the sale of stakes which, in Q1 last year, included the first tranche of our TSMC sales. Lower EBIT was largely offset by improved operational results at LG Displays. Note that we have seized equity accounting income from LG Displays as from the end of February this year.

Looking beyond 2008, I would like to draw your attention to our additional guidance on Vision 2010. Following the successful reallocation of the majority of our capital, we are now in a position to give further details on our sales and profitability targets for the year 2010, and our objective to more than double our EBITA per share by 2010. Additionally, we have reintroduced guidance on our return on invested capital, which we expect to reach a level 12% to 1 3% by 2010.

For the remainder of this year, there are many parts of our portfolio where we remain confident. First of all, we will continue to make good progress on our commitments to improve the margin of our TV business. Second, given order growth in the recent quarters, and particularly the last two, we expect to see ongoing improvements in the results of our Healthcare sector. Thirdly, we will intensify our already close focus on cost levels throughout the businesses. Fourthly, we will continue to work on cash flow and expect cash from operation to significantly improve in the quarters ahead. And fifth, we expect ongoing good growth in emerging markets.

These are the points on which we base our confidence that 2008 will be a year in which we will make further progress towards our Vision 2010 objectives. Let me now open your the line to your questions.

QUESTIONS AND ANSWERS

Operator

Thank you sir. (OPERATOR INSTRUCTIONS) Would you please limit yourself to one question, with a maximum of one follow up? This will give more people the opportunity to ask questions. (OPERATOR INSTRUCTIONS). There will be a short pause whilst participants register for questions. The first question comes from Mr. Nicolas Gaudois from UBS. Please state your question sir.

Nicolas Gaudois - *UBS - Analyst*

Yes, hi, good morning. First question will be on the Connected Display performance. Could you give us a little bit more color on what is happening outside the US TV business? Are we looking at an EBITA margin there being close to breakeven, or slightly negative? And maybe if you could comment on general trends you're seeing [within that] in Europe and emerging markets?

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

Yes, I think -- Nicolas, good morning. On Television, there was actually pricing pressure all across; I think it was a tough quarter all across. In the particular case of North America -- no, we lost money in North America in Q1, and if you look at the kind of margin, as you know we don't disclose margin, but in percentage margin, America, US, I would say, remains, certainly in terms of percentage, the black spot. But we looked at the quarter which was tough all across.

And as far as looking forward, I think that as far as America is concerned, we had pretty much given you the tone for the year to come, which is really focus on the channels where we have better position in terms of pricing, and that will be our attitude between now and the time we transfer the business to Funai. And I think as far as Europe is concerned, where the situation is difficult as well, there we will absolutely pull the triggers that we've had normally in that particular business, which is to continue to focus on our costs, and bring as much efficiency in the value chain, into the supply chain as we've done in the past.

Nicolas Gaudois - *UBS - Analyst*

So just to wrap up on that one, excluding North America the TV business, was it breakeven or slightly better or still loss-making as well?

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

No, no, excluding North America the TV business was loss-making.

Nicolas Gaudois - *UBS - Analyst*

Loss-making, okay, great. And just staying on Consumer [Lifestyle], if I look at licensing, you mentioned past-use went down EUR30 million year-over-year; obviously a very volatile number in itself. Does this imply that licensing overall for Consumer Electronics went down by a factor of half or more? And if we look forward are there any reasons to see this number increasing with recent [hybrid regeneration] whereas obviously the royalties to come from Funai?

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

Yes. I think in the -- you're asking two points there. On the IP so-called optical license IP of Q1, when you compare to the Q1 of last year, the Q1 of last year did include one of these. As you know, Nicolas, at the end of '06 we decided not to disclose IP any more because the business of Philips now is not IP centered any more. It was at some point and we made a very conscious decision to stop talking IP starting at '06. The reason why we basically disclose it this particular quarter is twofold. First of all because even the one-off nature of one deal in Q1 last year, it makes the comparables almost needing to make that disclosure.

And the second reason why we did it is, since you have in the release the drop of license income combined with the drop in Connected Display result you are capable of calculating backward the rest of the portfolio of Consumer Lifestyle and you can see that that rate is actually making progress. So those were the two reasons why we decided to disclose optical license for this first quarter.

Now looking forward, we expect the optical license, which is part of Consumer Lifestyle, to be somewhat south of what it was in '07. But I will be prudent on that because that income stream is made of regular income stream as well as one-off deals. We had one-off deals last year; we are counting on a few one-off deals this year. So I would say a general trend down, but included in our guidance, but certainly with a bit of a lumpy profile given the nature of those one-offs. I think that's as much as I can tell you, Nicolas.

Nicolas Gaudois - *UBS - Analyst*

That's [good enough], thank you, Pierre-Jean.

Operator

Your next question comes from Mr. Simon Smith from Citigroup. Please go ahead, sir.

Simon Smith - *Citigroup - Analyst*

Hi, thank you. My question is with regard to Healthcare. Obviously we had, I think, versus an expectation, a very good set of numbers coming out of your business showing, as you say, strength in orders, strength in North America. But it is obviously completely opposed to the news that we got out of GE on Friday. And clearly it is very difficult, I suspect, for you to comment on your performance relative to a competitor. But I don't know if you could give me any feel as to what you think may have happened in terms of market share gain in North America. And maybe going on from that, explain why you feel that maybe these gains are sustainable and won't ultimately lead to a pricing war.

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

Yes, I won't comment on competition, we never do, and I won't do it on the call. I think we try to give as much disclosure as we can and that's for you guys to reach conclusions.

What I can say, that if you look back at our Q2 -- excuse me, at our Q4 last year, Q4 was already a rather strong quarter in terms of incoming orders. We tempered the enthusiasm by saying that there were two points of growth in that Q4 which was related to -- sorry, four points of growth outside the total amount which was actually linked to multiyear contracts, right? So we tempered a little bit Q4. But still if you look back at Q4 last year our incoming orders was actually a robust quarter and ended up enabling us to finish the year at 6% growth last year.

Now if you look at this quarter, which is up 9%, I will make two additional comments. One, and again, to temper the enthusiasm, because I think it's a very good number, but just to be absolutely transparent, you have to realize that last year in Q1 '07 we reorganized our sales force in the US. You probably remember that. We trimmed down our cost at Medical last year. We focused at that time on our commercial structure in North America and certainly polluted the quality of our work at the time.

So the double-digit growth we've seen Imaging System North America in Q1 certainly comes partly from that. But I would say only partly because when you really scrutinize it, it is robust. It is actually covering a number of modalities. It's covering for instance MR, it's covering as well X-ray, and it's covering Nuc Med, it's covering Cardiovascular. So it is double-digit growth Imaging in North America and that is without a multiyear agreement. So I would say there is some clear robustness in our Imaging orders in Q1. So I'm telling you the two things. It's robust; comparables are made somewhat easier by the weak Q1.

Can we draw a conclusion now for the future, which is your next question. As I've said in the introduction, I would wait until end of Q2 because this is when the various constituencies will give us the decision on further DRA cuts. But certainly this Q1 was, in our book, something that brings us a little bit of confidence, as far as Imaging System North America is concerned, which is of course was where the heart of the issue last year.

Simon Smith - *Citigroup - Analyst*

Okay. Could I ask a follow-up to that then, that clearly there's been comments in the market of pricing becoming more aggressive within this market And also that community hospitals have maybe found their CapEx budget squeezed, partly in response to the credit crunch. Could you say if you've seen any of those impacts coming through within your business?

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

Yes, absolutely I will. As far as community hospital is concerned, which is a question comes for a reason, I've looked at that very carefully. And the answer is, it's a very small part of our portfolio in North America. So I can't comment much more, because not so much that we're not exposed, but it's a very, very, very slim part of our exposure. So I can't comment much more. It's not a market on which we are very present.

Now your next question is the price war. I think the number we've used consistently in terms of pricing pressure has been 3% to 4% per year. I said on the previous call, at probably the last quarter that that number might have gone to 4% to 5%. Does that mean price war? I don't think so. I think the important thing for us is to continue to come up with innovation to absolutely address that issue. And if I had to give one modality which I find still in difficulty, it is certainly CT, computer tomography. And there the issue in terms of both volume as well as margin will be addressed by the 256 slash -- excuse me, the 256 slices scanner which is very much targeting, in particular, cardiac care and which is meant to be in full swing production in the fourth quarter.

So pricing pressure there has been, there will be, is it much more, okay, maybe 3% to 4% going to 4% to 5%, and answer being innovation. And I would say best example computer tomography. I think this is probably the best way to answer you at this point.

Simon Smith - *Citigroup - Analyst*

Sorry, and just finally, it's been suggested that the North American imaging market was down 13%. Would you say that's a fair representation to put in the context of you're up over 10%?

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

No, I think in terms of orders we were double digit; we were solidly double digit. But again I'm not bragging about it. I think it's quite robust, but I am obviously well aware that it compares to a Q1 last year which was made easier for the reason I just mentioned.

In terms of revenue growth, actually the Imaging Systems was basically -- I think I'm looking at North America, if Imaging North America was I think flat. So good incoming orders in terms of revenue growth. So to your question about 13% or you mentioned 17% decline, I think that's what you said, no we didn't see that in neither in our revenue nor in our incoming orders.

Operator

Thank you. Your next question comes from Mr. Janardan Menon from Dresdner Kleinwort. Please limit yourself to one question with a maximum of one follow up. Please go ahead.

Janardan Menon - *Dresdner Kleinwort - Analyst*

Hi, good morning. I just want to first explore the Consumer Lifestyle business, ex-Connected Displays. When you calculate the revenue trend there ex-Connected Displays, and even if you set of the EUR30 million of licensing income, you get to a very modest comparable growth. And you made a comment that the traditional DAP business saw very strong growth. So I'm just wondering what's happening to the rest of the business, which came from Consumer Electronics, is there any weakness there? Is that profitable? How should we model that business going forward? Will that be declining etc?

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

Right, yes, I think it's a very valid question. If you -- you can't quite do that, well you can do it to some extent, because we've given you all the elements to do that. If you actually, because you have a disclosure of CD now and you have very clearly, in terms of revenue as well as in terms of EBITA and we've been quite clear about the drop in license income, so you can make that calculation actually.

If you make those math, you will find that the rest of the portfolio has grown about 3%. And that's all across the ex-DAP, ex-Consumer Electronics, non-Connected Display parameter. And obviously this compare to Q2 last year, which was, as you probably remember, extremely robust. So that's the answer in terms of growth.

In terms of geographic mix, I would say that strong in emerging market, robust in Europe, and in North America hybrid, you saw some upside on Shaving. Shaving was actually up in North America. Other categories maybe being a touch down. So that's pretty much the way to look at it.

If you want to get even more flavor, we add away from geography and focusing now on the particular business units, we had a, and I think that's in the press release, very strong, or continued very strong Appliance business, double-digit growth there. The other one which did well was Shaving and Beauty, which basically there was in solid single-digit growth, to give you a flavor of -- and as far as the one with negative beside Connected Display, which I mentioned separately, I think we have the audio portfolio of Consumer Electronics, which was in the somewhat negative -- the video portfolio was in somewhat negative territory. But all in all, 3% growth, strong emerging, robust Europe and mixed picture in the US for the reason I just mentioned.

Janardan Menon - *Dresdner Kleinwort - Analyst*

Okay, and just a quick follow up, you've raised your margin targets for your Vision 2010 to 10% to 11% and you have also seemed to have raised in some of the divisions, Healthcare, Lighting etc. So I was just wondering how much of the overall margin increase is from the Funai agreement and the results of that. And what else gives you confidence of getting to a higher margin in the next couple of years? Is it because of the acquisitions and the integration benefits you're getting or is that you have more significant cost reduction programs coming up in future year etc?

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

Well I will say first of all, essentially M&A. I think M&A, if you do the math, and you can do the math from what has been disclosed at the time of the announcement of those two acquisition, we assume that those two acquisitions have about 60 basis points of sweetener to the [10%] that we have announced and so that comes on top, right? And now vis-a-vis the [10%], which was the initial guidance, you're right, I think that the Funai deal, as well as the plan that we have announced, which you remember is not only Funai, we've actually announced EUR125 million of measures, which I would say probably about 50% of it is related to Funai.

The rest is the supply chain all across, including very much in Europe, where we need to trim our costs there as well and I believe that those measures, we expect to have a bit more than a year of payback. So certainly those measures and Funai are there to help to indeed update that guidance.

Janardan Menon - *Dresdner Kleinwort - Analyst*

Okay, thank you.

Operator

Your next question comes from Mr. Andreas Willi from JP Morgan. Please state your question sir.

Andreas Willi - *JP Morgan - Analyst*

Good morning, two questions please. The first one, you said you expect to make progress towards your 2010 Vision in 2008. Could you quantify that a bit, in terms of is that sale growth, EBIT margin? On EBIT margin, it looks like you're tracking below last year due to a number of specific issues. Does it mean you expect for the full year an EBIT margin ahead of last year when you say that you expect to make progress?

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

Okay, on the EBITA margin, basically to we expect before incidentals, because of course, the EBITA margin of this year, you have to look at it on an ongoing basis. We have some incidentals, which are essentially the one which have been announced which are the acquisition related charges, as well as now the EUR125 million on Television. But we expect, like every year, to have as well some positive one-offs.

So if you do it excluding the one-offs, the positive and the negative, we expect indeed our EBITA margin of '08 to be north of the one of '07. And if you include the one-offs, which is basically the one I just described, we hope that, as usual, we will have positive one-off on the other side, which will help to offset the one-offs which are negative, which I just mentioned, which is integration charges and the Connected Display related special charge. So we expect very much along those two lines to have a progress in the EBITA margin.

On terms of growth, we've not guided you on growth for this year, but we expect to have positive growth for 2008. The caveat I will put on that is obviously on Television, certainly because of Funai and because of our constant attention to keep this business managed until basically we have absolutely reached a satisfactory level of margin, we plan to manage this business with complete focus on the margin. Certainly, no obsession for the growth of the Connect Display business either.

Andreas Willi - *JP Morgan - Analyst*

My follow-up question is on another subject. As far as I am aware, you were not able to register the trademark Sense and Simplicity in the US as a small lighting company is already using it there. What are your plans for the use of this trademark in Lighting in the US, also in relationship to your newly acquired companies?

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

No I am not aware of this and I am not aware that this should have a significant impact on the communication of our brand promise in North America. That has not been communicated to me. I will follow up on it, but I am not aware of this. And certainly, it's not impacting the way we communicate Sense and Simplicity right now in North America, to my knowledge.

Andreas Willi - *JP Morgan - Analyst*

Thank you.

Operator

Your next question comes from Mr. Martin Wilkie from Deutsche Bank. Please go ahead sir.

Martin Wilkie - *Deutsche Bank - Analyst*

Hi, good morning, it's Martin Wilkie from Deutsche Bank. Just some questions on your Lighting business; you mentioned you had some product issues at Lumileds which dragged the growth number. Could you let us know what the growth number would have been excluding that effect?

And also, I know also you stepped away from some products in UHP and LCD backlighting, really just to get an understanding of what the growth would be also without that effect, just to see the like-for-like growth rate on an ongoing basis.

And separately to that also in Lighting, if you could just give us an update on Genlyte. Obviously Genlyte very US exposed and obviously very exposed to the commercial market in the US. If you could just let us know what you're seeing in that market, given what's happening to economic trends in the US.

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

Yes, okay, first of all on your question, if I understand correctly, your question is what would have been the growth of Lighting if we were to put aside, if I understand correctly, UHP, the final quarter of LCD backlighting last year and the impact of the product recall at Lumileds.

Martin Wilkie - *Deutsche Bank - Analyst*

That's right.

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

We've made that calculation and then the growth would have been around 4%. I think that would have been all-in-all the growth of the Lighting business excluding that.

And if you zoom down, and there you have to make a clear split between the so-called green products, and I will send you to the definition of green products which I think has been communicated separately, which, in our vocabulary, are all the products which are essentially enabling the user to consume less energy and be, you could say, a bit more green. That now is almost 50% of the base. Actually it is almost exactly 50%. And that particular part of the portfolio has grown at the tune of 12%.

So there is a bit of a macro trend currently taking place in Lighting where the green portfolio is starting to get traction. And you can now definitely, in this particular quarter, see a real difference of pace of growth between the two types of portfolio.

On your second question which is Genlyte, what I can say? So Genlyte has been with us for February and March. And the Genlyte contribution has been actually slightly north of what we were expecting. So, so far, Genlyte has actually contributed more than in the business case that we have taken to our bottom line.

Operator

Thank you sir. Your next question comes from Mr. Timm Schulze-Melander from Bear Stearns. Please go ahead sir.

Timm Schulze-Melander - *Bear Stearns - Analyst*

Morning. Congratulations on a good set of results. Just one clarification and then a question. So the first was on the Connected Display. I just want to make sure that I understand this correctly, including the USA divestment, this will not be enough to restore Connected Displays to profitability for the year. Is that a correct conclusion?

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

Yes, I think this year will be a year of transition on Connected Displays. Yes, I think this will be a year where we'll probably lose money, but we, as I have said, with a strong action plan to address the heart of those losses on the basis of last year where the heart of our losses last year was actually in the US.

And, as you've seen, this should be addressed starting September 1, because of the transfer of that business. And, to an earlier question, we should be able to get a license, actually income on the back of that business versus losses we had in 2006 -- excuse me, versus 2007.

In 2008 first quarter we had losses (inaudible) in Europe. And there, I want to make it clear that we are addressing that as well. And that is why we took more than the strict cost of the Funai transaction. We took some cost in order to basically address the efficiency of our Europe business as well in the course of this year.

And in terms of the way that money is being spent, you could say that about 50% of the money relates to the Funai transaction. And, as I mentioned earlier on, the other 50% will be the overall supply chain of our business with all those costs looking at something like a one year payback.

Timm Schulze-Melander - *Bear Stearns - Analyst*

Okay. The follow-up I just again wanted to draw down into Healthcare, because obviously, I think judging from GE, a lot of concern that maybe things developed very quickly in that business. You talked about the orders being up solidly double digit in Diagnostic Imaging in North America. I understand the caveat you made about here the comparable period. But if you add back then the 4% to 5% pricing pressure, if you're solidly double digit, that really sounds like you're sort of high teens in terms of value of order intake. How comfortable are you that that's not going to decelerate materially?

And the second part of that question, just for modeling purposes, can you talk a little bit about Respironics? Obviously next quarter we're going to have a full contribution from Respironics. What should we be thinking in terms of how that's going to impact the revenue and the order bookings line?

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

Yes. First of all on the incoming orders of Imaging Systems, because I understand that's your specific question for North America, no, I think it's absolutely like-for-like. So the numbers are absolutely comparable. So what is not comparable is indeed the fact that our Q1 of last year, for the reason I mentioned, was actually quite modest. So this is why I'm saying I enjoy having those numbers, but I want to put them into the right context. They are solid numbers clearly because they do not include multiyear type of agreements. So this is what I call robust. It's easier comparables, right?

Now the follow-up in your question was, can I say that will continue? No. I am saying I don't know. I'm saying that we are not changing our guidance for Healthcare, the one we had given earlier on, which was to say that we see a flat Imaging Systems North America market for the first six months.

We certainly enjoy those orders. Some of them, by the way, are absolutely deliverable in the first half. But before we say that this is there to stay, we've always said, for now two quarters, and we'll continue to say that we wait for June 2008, which is when we will have an update on the DRA.

I think that's why I'm saying robust on Q1, please, tempered by easy, or easier comparables. And as far as Q2 and the year is concerned, I'm saying, before we say that the DRA issue is taken care of, let's wait until the end of June. I think there is absolutely no change in that story there.

Timm Schulze-Melander - *Bear Stearns - Analyst*

Okay, great. And then just that second half of that question in terms of the overall order activity in Medical. Can you just make a comment on Respironics and what kind of influence it will have in the second quarter?

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

I think Respironics in terms of numbers I can tell you that -- and I will give you the numbers for the first quarter because you don't want obviously -- I don't have the exact number for the few weeks that Respironics was into our perimeter. So I will give you the number for Respironics on Q1. They grew 16.3% basically.

And in terms of margin, I think the margin was slightly north of the margin that we had given in the particular guidance. So I don't have the margin number here, but I think it was slightly north of 15%. So that's Respironics. And we expect Respironics to continue at that level.

Operator

Thank you sir. Your next question comes from Mr. William Mackie from MainFirst Bank. Please go ahead sir.

William Mackie - *MainFirstBank - Analyst*

Yes, good morning, thank you. A couple of questions. First of all, could we just go back to the incidental charges? Could you try and, at least, quantify the expected level of incidental charges in total for the year as you look at it, which are linked to Respironics and Genlyte and other deals, obviously excluding any potential gains where the timing may be difficult to predict?

And then the follow-up would be on Lighting. In your commentary you discussed temporary softness in Western Europe, which is obviously around 50% of the divisional sales. Perhaps you could throw a little color on where you're seeing that softness and why exactly is it temporary? Thank you.

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

Okay. We are basically referring to two type of incidentals. The one was related to the integration charges which are impacting the EBITA, and one is basically on the overall Healthcare business. And I think we've disclosed that in the press release which was earlier on this quarter. And we've talked about EUR100 million for basically the inclusion of our medical acquisitions, essentially Respironics, VISICU and Emergin. So there, there is about EUR100 million.

And on Lighting we have about EUR40 million for the same reason which relates to the acquisition of Genlyte. So there that is EUR140 million. And we had actually disclosed to you what would impact the first quarter and those numbers are, I think, pretty much in line with what we have told you in the press release.

The other incidentals I am talking about is the one which was communicated earlier on last week where we talked about EUR125 million, and there I give you little bit more details. One is that about 50% of that EUR125 million is related to the project with Funai, the rest is related to the overall supply chain. And the other element I will give to you, to help you in your models, is that out of that out of that EUR125 million I would say 20% to 30% will be in the second quarter and the balance of the amount being evenly split between more or less Q3 and Q4. I might have to come back to you on that, but that's probably the way we see it right now. And in terms of helping you to model next year we expect, as I mention, those one-offs in the case of the EUR125 million to have one year plus payback.

Now the second part of your question, the softness in Lighting in Europe. I think it's fair to say that, even though we were in positive growth territory we did see some softness in particular, I think essentially in Western Europe, I have to say because the rest emerging market did extremely well as far as Lighting is concerned. But we did some softness in a couple of countries in Western Europe on Professional Luminaires.

How do I read that moving forward? I think it's a bit early to tell. We had inventory adjustments because we could clearly see that in the channels the people were a bit more cautious and reduced as they normally do at that stage of the year, their inventory.

So I would say that on the Consumer Luminaire -- excuse me on the Professional Luminaire side in Europe where the softness was, it's hard to say if it is essentially a temporary adjustment of those inventory or there is something a bit more profound there. Too early to say, I think we need one more quarter to answer that question.

William Mackie - *MainFirstBank - Analyst*

Okay, and just a tiny bit more color on the trading in Healthcare. Obviously we've discussed on this call price pressure and supply demand changes in the US, you comment on a rise in the receivables level in your Healthcare business. Are you changing the terms of trade with any of your customers to provide incentives for sale?

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

No. I want to give you total clarity. It's actually what has happened, and I will give you details, we have changed our software in North America in Q1 on the Healthcare side which has had the impact of delaying our billing essentially for two months. So the vast majority of the billing of North American took place in March and we very much expect those receivables and the DSO as well to come back to normal essentially by the end of Q2. So we have absolutely no change the elements of the selling conditions in North America in the course of Q1.

Operator

Your next question comes from Mr. Didier Scemama from ABN Amro. Please go ahead sir.

Didier Scemama - *ABN Amro - Analyst*

Good morning, just two questions. First of all, can you give us a sense of the performance in DAP? In Q1 '07 you had an exceptionally strong quarter because you had very few product returns in January which led to, I think, about 17% EBIT margin. So I was wondering where if you could give us a sense of the EBITA margin perhaps in DAP at least directionally versus last year? First question.

And second of all in basically the Corporate Reconciliation division, especially in Innovation and Emerging businesses you're talking about increasing investments in the corporate R&D cluster. And I was wondering why that would be case given the substantial losses that this division has reported historically?

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

Sorry Didier, I got the first one, could you just repeat the second one? The line was not too good on the second, could you just repeat the second question?

Didier Scemama - *ABN Amro - Analyst*

Sure, apologies about that. I'm saying I think in the press release you mention some increased R&D investments or increased investments in the corporate R&D cluster and I was wondering why you wanted to invest more in corporate R&D?

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

Okay, understood. Okay to your question on DAP, Didier, I think the best way to answer you is to say that if you exclude Connected Display, the growth was about 3%. It's hard for me to zoom on the ex-DAP portfolio, but let me give you a bit more color. We had a very strong performer, a good performer and, I would say, an average performer. And since you really corner me on the DAP portfolio, I would say we had a double-digit performer, and I'm talking growth here, a double-digit performer which was again Appliances, continuing to do extremely well. We had a very robust performer, and that would be Shaving and Beauty, and we had an okay performer which was Health and Wellness. So this is to give you the flavor on the ex-DAP portfolio.

In terms of margin I think that they were at level or above, maybe with one caveat which was on Health and Wellness where there was a notch down. The rest of the portfolio was at level or above last year. So I think you have pretty much the elements on the DAP part of the portfolio Didier, okay?

On the Innovation and Imaging what we are saying in there, of course, visually you have the feeling that the costs are going up, but the reality of it is that there we are absolutely focusing R&D on our incubators. We have basically three incubators; one incubator which is Healthcare; one incubator which is Lifestyle; and one incubator which is Technology. And the money we are spending there is completely focused on this incubator as well as on particular project which are feeding growth, in particular special projects which are relevant for the emerging markets.

So the EUR40 million for the next three quarter guidance is not in reality an increase of that spending. It looks like it is the case visually because of, I would say, elements related to the non-research part of the portfolio, in particular one business which is still in there which is still losing a little bit of money and which we have to sell this year. We still have in Corporate Investment one business which is still bleeding and which we need to address.

Operator

Thank you. Your next question comes from Mr. Olubunmi Asaolu from Lehman Brothers. Please go ahead sir.

Olubunmi Asaolu - *Lehman Brothers - Analyst*

Hi, good morning. I have a quick question on the rest of your Consumer Lifestyle business, particularly the CD business outside North America. It was good to see what you did this quarter in terms of the transfer to Funai. I was wondering whether you would be prepared to do something similar to the TV business in other regions outside the US, or will you just stick to restructuring them going forward?

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

I think if you go back, because those questions really came hard on the table at the end of last year. What we said last year is that we would take decisive actions. We made those statements in mid-January, they were included in our management agenda. And you can see that literally weeks later we came up with a deal which is a deal which essentially by Q3 the business of North America will be a loss-making business, will be replaced by a business which will be generating some royalties for us.

Now as far as the rest of the portfolio is concerned we will continue, as we've done in the past, to improve it. We'll continue relentlessly to manage a net operating capital, we will continue to update the value chain, which is why we've decided to take extra measures. There is no decision made a la Funai for the rest of the portfolio; there the brand is much stronger; the market shares are stronger.

But we've said, as well, that as portfolio managers we, in principle, keep all options open. That's what Gerard Kleisterlee said at the end of Q4. So the options are open, but there is no plan right now to basically do Funai type of deal in the rest of the Connected Display portfolio.

Olubunmi Asaolu - *Lehman Brothers - Analyst*

Thanks, understood. And then quickly a follow-up on your cash return to shareholders. Should we expect you to basically complete all of the ongoing buyback in 2008, or will there be some left over for 2009?

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

Well I think I will totally stick to what we said at the end of Q4. I think we would like the vast majority of it to be done in '08. Of course parameters are the stock price and right now certainly, the current stock price gives ample reason to do it in '08. And if you look -- by the way, we were at EUR1 billion more or less at the end of Q1, and if you look at the extra buybacks which have been done in the last two weeks, you will see that we are almost now at the mode where we are on the quasi EUR5 billion trend for the year. So you could say that right now we are on that trend.

Operator

Thank you. Your next question comes from Mr. Francois Meunier from Cazenove. Please go ahead sir.

Francois Meunier - *Cazenove - Analyst*

Hello yes, it's Francois at Cazenove. Just a quick question about inventories in TVs again. Could you please explain what happened in Q1 and when you think inventories should be at a better level, and if you will have to take a charge before transfer to Funai related to those, what appears to be excess inventories in the retail or in your own inventories?

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

Yes, I think the inventory was high all over really. There was high inventory, or higher inventory in North America, and there we might, as part of the 50% of the cost which relates to the Funai transaction some of those, some of that money is on the expected, indeed, provision we might have to take; your question is well taken on the inventory we transferred to Funai. As far as now, so that's a fair point, so some of that money might go there, not of use yet because you realize that we've just signed the pre-agreement with Funai and we will finalize between now and September 1 the details. So it's a bit early to tell how much inventory we might have to write-off there.

As far as Europe is concerned, we had a high inventory as well. So there it's not a question of taking provision, it's a question of making sure that, in the course of the second quarter, we are extremely disciplined to take care of that inventory and that we come with the end of Q2 with an inventory balance in Europe at Television which has been taken care of. And that will be absolute point of attention in the course of Q2.

Francois Meunier - *Cazenove - Analyst*

But usually inventories go up after the Olympic Games so these are already quite high going into the Olympic Games for TVs, that's quite worrying.

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

Well the selling season will start now basically on two events. One is the Olympic Games, but the other one is the World, excuse me, the European Championship of Soccer which I think it is in June, July. So the time to manage inventory is actually now because this is when -- this is right now that the selling season is starting.

Operator

Your next question comes from Mr. Alex Surla from Merrill Lynch. Please go ahead.

Alex Surla - *Merrill Lynch - Analyst*

Good morning I have a follow-up question, I think, on Healthcare and the outlook for the second half. Obviously with the equipment growth of 9% it looks good for the second half. We also have hopefully a little bit of less of an impact from the DRA in the second half of this year. But then we have some other potentially negative things that I wanted to see what your stance is on. Firstly, the impact of GE coming back onstream with their CT arm, what do you feel is impact on your business, is it half a percentage point, a percentage point off the growth?

And then in terms of this June deadline for potentially discussing the DRA, could you just give us a little bit more flavor how you think about that deadline, especially because I feel maybe there's a lot of noise, but in fact the Congress will probably not be able to decide on doing anything in the year of elections, and likely this will be postponed to 2008 timeframe?

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

Yes I wish I knew, and since I don't know I am cautious. You could be correct because it is true that that industry was very hardly hit in December '06, as you probably know. I think the last statistics I have was that those decisions has put belly up I think 13% to 14% of the private imaging centers, which was of course quite significant. I'm not aware that the number of examinations has actually come down and, as a result, obviously a lot of the workload has moved to hospitals.

We are doing obviously our job with intense lobbying with our peers in order to make sure that the right decisions are being made at the end of June, but I certainly am not in a position to say anything. I don't know, I hope you are correct, but until I know I will remain cautious. Of course we have a very encouraging start to the year, but I will remain cautious on the second half. I think it is too important a decision just to basically take a position on the Imaging business for North America for the second half.

Now for the rest of the world, what we've said all along, which is 3% to 4% for Imaging out of North America, 3% to 4% for the rest of the portfolio beside, of course, Respironics worldwide. Those numbers we maintain and we believe that we are all-in-all gaining share, so we expect to do a touch better than that in terms of revenue growth. And Respironics I think the kind of growth we talked about was in the 15%. So the combination of all that with I accept it a question mark at this point, despite an encouraging start, but still a question point at this moment on Imaging System North America. I'm sorry I just can't be more specific on that one; I need one more quarter to answer that.

Alex Surla - *Merrill Lynch - Analyst*

How about the impact of GE coming back on-stream?

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

Sorry yes, excuse me, well this is the surgery arm part of their -- yes, I think it's impacting our business to some extent, but it's not a major, I would say, breaker in trend. It does help us last year, it has certainly helped us in Q1 this year, but I don't think that it should make me change any of what I've just told you.

Alex Surla - *Merrill Lynch - Analyst*

And the follow-up question is in Consumer Lifestyle, we've seen obviously a little bit of a slowdown due to the economy in Q1. Two questions, can you clarify, you mentioned it's 3% like-for-like growth excluding Connected Displays, but in the press release it says it's flat excluding CDs. And regardless of whether it's flat or 3% it's obviously slowing. So the question is, how fast can you reduce your operating costs in Consumer Lifestyle division if we see continued weaker economy?

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

Okay now I think the difference between the 0% and 3% is important. I think the bulk of the difference come from the lower license income, because the license income actually impacts the bottom line, but it impacts as well the revenue. Because in Philips historically we've always treated the license as a source of revenue. So it's impact bottom line, but it impacts as well revenue growth comparable. So if you exclude license and Connected Displays then you come to the 3% that we have mentioned earlier on in this call.

Now to your specific questions which is, is it slowing down compared to last year? Yes I think Q2 -- excuse me, Q1 last year was a very, very strong quarter. We see in terms of geography we see continuous strong growth in emerging markets, we see growth in Europe, we see a slowdown if not a reduction with one exception which is Shaving and Beauty in North America. So we will have to see how that evolves.

In terms of expenses, yes, in there, especially in the ex-DAP territory, we have a very high level of selling expenses which is, to some extent, discretionary. And we have some flex that we can play there if indeed the lack of growth were to evidence in the coming quarters in the non-Connected Display part of Consumer Lifestyle portfolio.

Operator

Thank you, sir. Your next question comes from Mr. Gael de Bray from Societe Generale. Please go ahead, sir.

Gael de Bray - *Societe Generale - Analyst*

Yes, thank you. In the press release you mention that you would certainly take additional measures to deal with the effect of softening economies, if need be. It seems quite the case now that western economies will increasingly slow down. So could you maybe share with us the kind of measures, for example, you could take to keep your margins where you want them to be?

My second question is related to Connected Display again. For Consumer Lifestyle you do expect an 8% to 10% margin for the business overall, which is obviously well above your current profitability. Could you maybe just give us a rough idea about the contribution you expect from the Connected Display segment to the margin target? Would you be happy with breakeven or do you see something closer to 5%?

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

Okay, first question the kind of measures. I think this is not alluding to any extra measures taken that we would not have already announced. So the measures we've taken, we've announced them. And if there are costs coming with them we've told you. I think this sentence is to say that if, and I think Q2 there will be important because I think Q1 is the first quarter we have good news at some places. We have adjustment of inventory in the retail channel [that] other places. I think Q2 will be a good indication if more things need to be done. Right now we don't see it, but this sentence there is to say that if it were to be needed we would need it and we wouldn't wait for too long to make those decision.

Your next question is where is it we can do it? Certainly I think corporate control, basically in terms of costs. Secondly, brand campaign. You saw us already going down from EUR100 million to EUR70 million. And certainly we could take a look as well at research and development.

The fourth element I've looked at or I've touched on earlier on in this conversation would be the discretionary selling expenses which is part of the business model of Consumer Lifestyle. Those are four territories on which we have current plans right now, but certainly that we could take even more drastic measure on an as needed basis.

To your second question which relates to the 8% to 10% guidance for Consumer Lifestyle as part of Vision 2010, no, we're not guiding. I think we are disclosing, as I am sure you will appreciate, Television as part of our numbers on a quarterly basis. We're not planning to guide. Now if you were to ask me what is it that I would wish, I would wish for something in Television which is north of 5%. Yes, I think 5% EBITA for Television would be a good number to be shooting for. But I prefer to give it to you as a wish, not as a guidance. We're not guiding you on Television, we're guiding you on Consumer Lifestyle. But we are disclosing Television though.

Operator

Thank you sir. Your next question comes from Mr. Johannes Ries from Cominvest. Please go ahead, sir.

Johannes Ries - *Cominvest - Analyst*

Yes, okay, this is Johannes Ries, Cominvest. Maybe three clarification questions on your guidance for this year, maybe first on the guidance that Television will be negative for the full year? Is that to my understand it's excluding the restructuring, the EUR125 million you mentioned? Does it also mean that Europe stays negative for the remainder of the year or will it stay negative the whole business because of US?

Second question, your full year guidance that you're operating margin should be above last year, is that how much you have included potential risk from the Healthcare in the US? You mentioned you have to wait till the end of Q2, maybe you have potential risk from the Lighting business in Europe. How much buffers maybe you have built in for this guidance?

And finally on cash flow, will the operative cash flow in the full year above last year's too?

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

Okay, let me take those points. On Television for the guidance, which we haven't given, but for the trend on Television for the year, excluding the EUR125 million which is related to the Funai and supply chain measures, I think it's a bit early to tell you. I would like to come back to you at the end of Q2 to do that. But the plan would be of course, excluding that EUR125 million, to improve year-on-year, but I would wait because -- and you see those numbers because now they are disclosed to you. But I would like to wait until the end of Q2 once we have totally gone through the details of the agreement with Funai, as well as obviously absolutely timed and fully measured the impact of the extra measures beyond the Funai transaction that we are currently detailing, as we speak.

So on Connected Display expected guidance for the year I think I would like to discuss that after Q2 when we have got a bit more work on the particular subject I just mentioned.

Your second question is related to the guidance on EBITA. Well, the guidance on EBITA, as I just mentioned, I have excluded the one-offs. I have said that there is a fair chance because we usually have in Philips positive one-offs offsetting the negative ones so we'll see how the rest of the year comes out because we still have some businesses to sell and we expect some capital gains on that. So we'll see where that goes. But basically excluding those one-offs, yes, I am expecting the EBITA margin of '08 to be in percentage north of the one of 2007. And that's I way I see it today.

Johannes Ries - *Cominvest - Analyst*

Even including maybe some challenges you see from the US in the Healthcare business, maybe some challenges in the Lighting business in Europe, is that included already in this (multiple speakers)?

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

It is including the challenges that I currently see.

Johannes Ries - *Cominvest - Analyst*

Super.

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

I think I'm just like you, I have one quarter, I have my backlogs, I have the forecast given to me by the sectors. That's the way I see it right now, yes.

Now to your question on cash flow, yes, I would expect the cash flow of this year to be north of the cash flow of last year, yes.

Johannes Ries - *Cominvest - Analyst*

Super, thanks.

Operator

(OPERATOR INSTRUCTIONS) You have a follow-up question from Mr. Didier Scemama from ABN Amro. Please go ahead, sir.

Didier Scemama - *ABN Amro - Analyst*

Yes, thanks. Just to go back to Connected Displays and the whole Consumer Lifestyle division. I remember even after the fourth quarter results when we had dinner with Gerard Kleisterlee and yourself that Gerard was saying basically the TV business is not a very profitable business. We understand that, but we need it in the context of our relationship with major retailers; Wal-Mart, Carrefour and so on.

So obviously you've changed your mind to an extent being more pragmatic on profitability and now you seem to also hint that should things get worse in '08 and '09 on the European side that could also be subject to some decisive action. So I think the question I've got in mind is, to what extent does your relationship with retailers deteriorate or remain the same as you would exit first of all the US marketplace and second, potentially the European marketplace?

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

Yes, I think, Didier, what you are saying, yes, it's a fair representation of the conversation of a couple of months ago. I think what we said at the time was what we don't like is our low margins. I think it's a business which, as you know very well, don't have much capital if at all invested, but it's low margin and it is perceived as volatile. And we've come to the conclusion we needed to address those low margin business. So you saw that in the Funai deal it was a matter of weeks actually between the time we talked about those decisive actions and coming up, indeed, with a plan.

But your question is even more precise. You are asking, what does that mean in terms of the quality of the relationship with the retail chain? Well, what I can tell you is that in the case of the Funai deal, which we are finalizing as we speak, we spent quite a bit of time making sure in the terms of the agreement that, since all these products will continue to be sold in the US under the Philips brand, it's as transparent as possible for the retailers. So we are going a long way in the side clauses of that agreement to make sure that it doesn't hurt the Philips image.

And as far as the retailers are concerned, even though they will know that it's coming from Funai, that the business is now being carried by Funai, it is still, vis-a-vis their own customers, very much a Philips business because it will be branded Philips for the year to come. And this agreement is a five year agreement. So you shouldn't see too much of a change of approach in our view on the quality of the relationship with the retailers because we are spending a huge amount of time on that Funai deal just to make sure that, from that perspective, it is neutral for the retailers.

Didier Scemama - *ABN Amro - Analyst*

Right thanks. And just a quick follow up. On the European TV business, you're saying the situation is different, you've got big market share, the brand recognition is obviously much higher. Isn't it actually an indication that you should be selling now before things get worse? Potentially the European marketplace could open up to Chinese imports and that's ruined really the profitability of the US business for everybody really. So I was just wondering if it's not an indication that things could deteriorate further and therefore it's time to move on quite quickly.

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

Well, Didier, I think on Europe, I was quite clear in the call that the results of Europe in Q2 were not good either. We lost money there as well, and we've taken measures.

I think the situation there is different from one perspective which is the amount of money we have to invest in the channels in order to sell is obviously different from what it is in the US. Because, on the consumer side, the brand awareness of Philips, certainly in Europe and probably in Asia as well and in emerging markets, that includes Latin America, is significantly stronger.

So clearly, I would say, there the situation is different. And we are going to work hard on, obviously, improving the numbers of Europe.

But longer term, Didier, I think we've been quite explicit. We have said very explicitly, probably in that same dinner you are mentioning, that as portfolio managers we will continue to look at it with all options open. But at this point of time I will repeat that there is no decision made to do anything, and no plan at this particular point, to make any decision a la Funai for the rest of the portfolio. But looking forward, we keep all the options open. I think that's as clear as I can be, Didier.

Operator

Your next question comes from Victor Bareno from SNS Securities. Please limit yourself to one question. Thank you.

Victor Bareno - *SNS Securities - Analyst*

Yes, hello. With the Funai deal in place and the effect of the additional efficiency measures, do you expect Connected Displays to be profitable again in 2009?

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

Absolutely.

Victor Bareno - *SNS Securities - Analyst*

Okay, thank you.

Operator

You have a follow-up question from Nicolas Gaudois from UBS. Please go ahead, sir.

Nicolas Gaudois - *UBS - Analyst*

Yes, just a bit more color maybe on Lighting. You commented on having seen some weakness in Professional Luminaires in Europe. Could you comment a bit more broadly on the overall Lighting business, Luminaires and Lamps, related to [UBLs] both home and commercial, both in Europe and the US. Thank you.

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

Yes, I think basically as far as Lighting is concerned, we saw all-in-all, worldwide strong lamps. I think we had a good growth in lamps, with a bit of a caveat for North America, which we've mentioned.

Luminaires was actually a bit less strong; Luminaires grew 3% and there that was essentially because of the Europe situations. And, as I've said earlier on the call, we'll have to see how that evolves in the course of Q2 because there was certainly careful adjustment of inventory in the channels. And we'll see what the sell out does in the coming weeks and months.

Lighting Electronics did actually very well, so that was quite robust. And Automotive was the one which was probably the toughest with the US situation I mentioned on lamps. Automotive had a slow start of the year, so that is the other one which we will see. That one has been a little bit cyclical, so it will be interesting to see how Automotive reacts in the following quarters. I think the rest we've mentioned. We've talked about UHP; we've talked about the other categories.

In terms of geography, Lighting actually had a very strong growth in basically emerging markets. Actually key emerging markets were up 15%; other emerging markets were up 10%; Europe was up 5%, and we were down in North America.

Operator

Your next question comes from Mr. William Mackie. Please state your follow-up question sir.

William Mackie - *MainFirstBank - Analyst*

Thank you, a couple of follow-up questions. First of all, earlier in the call you gave some guidance on GMS. I think you mentioned that the cut in expenditure in brand spend would account for 50% of the reduction in the GMS costs for the year. Can you just confirm effectively what you're saying is you're looking for about a EUR40 million drop in the corporate and regional expense for the division, or for the division as a whole EUR80 million change year-on-year?

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

Yes, I think on this particular one we expect -- because this is one on which -- well, first of all the Group management, what we call the headquarter cost, yes will be down. You will not necessarily see it as obviously because as usual on that line we have some one-offs which are not necessarily big, which relate to various elements. But all-in-all, yes, I think, including those one-offs which probably won't be all disclosed, you should see a 50%/50% reduction, 50% coming from brand and 50% coming from the combination of the impact of the one-off and of the reduction of the headquarter expenses. I think that's probably a fair way to look at it for your model.

Operator

Your next question comes from Mr. Timm Schulze-Melander from Bear Stearns. Please go ahead sir.

Timm Schulze-Melander - *Bear Stearns - Analyst*

Hi, just one quick follow-up. With respect to the increase in inventory, you mentioned that in part it's related to essentially your Healthcare Service business. Can you talk a little bit about how that works and why has that inventory uplift? Thanks.

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

Yes, I think we are still -- our Service business, especially as a result of the growth in emerging markets, our Service business is increasingly having to face a worldwide presence. We now start seeing these maintenance contracts, which are following on the installation of the units in emerging markets, needing some local maintenance and spare parts inventory. And until such time, obviously, our service business matures in terms of growth, and quite frankly, given the profitability of that business, that's not something we are particularly anxious to see, we will have some pressure on the increase of the inventory of service in Philips.

But I think this is something which -- this is probably the part of the increase of the inventory I feel the least bad about because this is indeed backing a faultless execution on a service business on Healthcare which is high margin and which is having a good growth.

There is a portion of the inventory of Healthcare which we need to bring down, which is in the domain of Imaging Systems where we had finished Q4 with a higher inventory. We've corrected that to some extent, but not quite. So the portion of the inventory of Healthcare which we will have to address in those coming quarters is more on the Imaging side of the Healthcare portfolio.

Operator

Your next question comes from Mr. Andreas Willi from JP Morgan. Please go ahead sir.

Andreas Willi - *JP Morgan - Analyst*

Yes, I just have one follow-up question on your regional growth. You showed 4% underlying sales growth in Asia Pacific. Could you give a bit more information in terms of which countries pulled down the overall growth rate?

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

Yes. I think it's basically we are double-digit China, India, I think Russia and the whole of LatAm; that's all double-digit. The one country which is basically bringing down the Asia number which you see in the press release is Japan, essentially because of Healthcare, where Japan last year was quite strong, especially in one modality, which is MR. And it's down as well for Automotive Lighting, for the reason I just mentioned before.

Other element is that some of the licensing revenue that we've talked about comes via Asia. This is why Asia is the geographic area which is the most impacted by the drop of the optical license income that we have alluded to earlier on in this call. But to give you a bit more, China was up 21%, India was up 22%. I think those are the larger countries, so I would say the key countries are up; the one which kind of ruined the party a little bit was Japan.

Operator

Your next question and final question comes from Mr. Martin Wilkie from Deutche Bank. Please go ahead sir.

Martin Wilkie - *Deutsche Bank - Analyst*

Hi, it's one final question on Europe, capital deployment. Could you let us know just how close you think you are to getting your double EBITA per share by 2010 with your existing portfolio? And if there is some more capital to be deployed there, are you thinking of further acquisitions and if so, are there particular divisions, particularly between Healthcare and Lighting, that you still think need some acquisitions and are more likely to be a focus?

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

Yes, no, I think the doubling of the EBITA per share, we plan to achieve it with the portfolio as we speak, so that's the first answer. The second answer, could we need more acquisitions? I think that this year should be a quiet year. I'm not saying we won't do any M&A; we might do a small M&A. You've seen us doing some M&A in emerging markets. You particularly saw a very important transaction for us in China where we have acquired a monitor company in China, which for us is a very, very important tactical acquisition. You might see one or two small moves of that nature in the emerging markets, which are essential for our Healthcare portfolio. Beside that, we might do, as I say, small things. At worse, small, medium, but not much all-in-all, this year. That's certainly the plan for this year.

The last part of your question, do we need a few more things in our portfolio? We don't need more things to double the EBITA per share. Do we need more things strategically in the years to come? Yes, I think there will be a couple of things which would be of interest to us to expand in emerging markets, as well as complement the portfolio in our businesses. But it's nothing major and it's not going to be for this year.

Operator

Thank you Mr. Sivignon, that completes the question and answer session.

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

Thank you very much for your time and your questions. Goodbye.

Operator

This concludes the Royal Philips Electronics first quarter results 2008 conference call on Monday April 14, 2008. Thank you for participating, you may now disconnect.
